



## Media Release

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### **RAM Ratings: Indonesia's ASEAN-scale rating outlook revised to positive**

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RAM Ratings has revised from stable to positive the outlook on Indonesia's respective  ${}_{\text{sea}}\text{AA}_3(\text{pi})/{}_{\text{sea}}\text{P1}(\text{pi})$  and  $\text{AA}_3(\text{pi})/\text{P1}(\text{pi})$  ASEAN and Malaysia national-scale sovereign ratings. The revision is premised on expected granular improvements in the country's growth and fiscal performance arising from previous business-friendly reforms. Meanwhile, Indonesia's global sovereign rating of  ${}_{\text{g}}\text{BBB}_2(\text{pi})/\text{stable}/{}_{\text{g}}\text{P2}(\text{pi})$  has been reaffirmed to reflect the country's resilient economic fundamentals which are backed by largely contained inflation and a low government debt level. These factors are balanced by Indonesia's sensitivity to external shocks, in view of the economy's concentration in primary sector activities and dependence on foreign capital.

Various reforms implemented since 2015 are seen to have improved the country's growth profile over the long term. These measures had increased investments in the resource-based manufacturing sector and accelerated the rollout of much-needed infrastructure. Further, an improvement in monetary policy had kept the inflation rate low and stable despite external volatility and intermittent domestic agricultural supply shocks.

The ratings are also supported by Indonesia's budgetary track record, given that its fiscal deficit remains under 3.0% of GDP while the government debt level as at end-2017 is manageable at 29.2%. This ratio is low relative to its ratings and regional peers and affords the government considerable fiscal space.

Nevertheless, low fiscal earnings are a rating concern. Government revenue, at an estimated 12.2% of GDP as at end-2017, is still low when compared to that of Indonesia's ASEAN peers (17.8% of GDP) and is a constraint on public spending as the country's fiscal deficit is capped at 3.0% of GDP by law. Fiscal revenues are, however, expected to gradually improve following a recent expansion of tax capacity – by virtue of an increased number of tax personnel and the deployment of micro tax offices – and surveillance subsequent to the completion of a tax amnesty programme in 2017 and the rollout of the Automatic Exchange of Information infrastructure.

Fiscal contingency risk, in the form of debt of state-owned entities, is anticipated to increase in line with infrastructure development. While government-guaranteed debt for infrastructure is limited to 6.0% of GDP until 2021, the implicit risk to the country's

fiscal position is uncertain and can be significant due to annual publicly funded equity injections.

Indonesia's global-scale ratings may be upgraded if economic growth and fiscal revenues sustainably outperform their current trend. An upward revision of the country's ASEAN and Malaysia national-scale ratings would be considered if there is clear evidence of a greater contribution from investment growth – derived from earlier-mentioned reforms – to overall economic activity.

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