

FIXED INCOME

Moody's downgrades Indonesia's rating outlook

- Moody's Ratings revised Indonesia's sovereign rating outlook to 'negative' from 'stable', citing reduced predictability in policymaking that potentially undermines policy credibility and institutional strength.
- The last outlook downgrade by S&P in Apr 2020 increased risk premia and widened spreads (2s10s to 165bps vs. 131bps currently). We reiterate our 10Y IndoGB yield forecast of 6.4-6.6% in 2026.
- USDIDR may re-test 17,000, though we expect active BI intervention. Monetary policy refocuses on stability, underscoring our view of an extended BI Rate pause at 4.75% in 2026.

Moody's assigns a negative outlook to Indonesia's Baa2 rating

- Moody's Ratings affirmed Indonesia's sovereign rating at Baa2, but revised the outlook to 'negative' from 'stable', citing rising uncertainty in the policymaking process that could weaken policy effectiveness and governance, potentially eroding Indonesia's long-established policy credibility.
- The affirmation of the Baa2 sovereign rating was underpinned by
 - Continued economic resilience, with GDP growth expected to remain around 5% over the near to medium term
 - Only a modest weakening in fiscal metrics, with the fiscal deficit projected to remain below 3% of GDP
 - BI's monetary policy framework remains focused on anchoring price stability
- Moody's highlighted three factors that could trigger a rating downgrade:
 - A sustained expansionary fiscal policy without corresponding revenue reforms
 - A deterioration in the external position, such as from prolonged FX depreciation or persistent capital outflows, with negative implications for debt affordability and FX reserve adequacy
 - A weakening in SOE financial health, and poor return on SOE investments stemming from insufficient governance at Danantara

Higher risk premium to weigh on bonds and FX in near term

- Indonesia has not carried a negative sovereign rating outlook since achieving at least one investment grade (IG) rating in late-2011, with the exception of Apr 2020 (Figure 1), when S&P revised the rating outlook to 'negative' amid Covid-19 shock. At that time, the 2s10s spread hovered around 165bps. Outside periods of acute economic stress, the 2s10s spread widened to as much as 179bps in 2012, when the 10Y IndoGB yield traded around 6.57%.
- Any change in sovereign rating itself typically comes one year following the adjustment in the rating outlook (Figure 1), although the shortest interval has been as brief as three months—as seen when Moody's upgraded Indonesia's sovereign rating in Sep 2011 following an outlook upgrade in Jun 2011.
- Concerns over fiscal risks and central bank policy credibility have been among the drivers of increased volatility in IDR and capital flows. Moody's rating outlook downgrade could prompt knee-jerk weakness in market sentiment, as seen after MSCI's review of Indonesia equities, which pushed USDIDR near the 17,000 level. Risk premium could stay elevated in the near term, bringing the 10Y IndoGB yield closer to our forecast range of 6.4-6.6% in 2026.
- That said, Moody's action may encourage a rethink of recent policy progress and institutional developments. Moody's highlighted the risk of exceeding the 3% fiscal deficit ceiling as well as the lack of revenue reforms to go with more expansionary fiscal policy as a key challenge. Removing or tempering the revision of 2023 state finance law (which includes deficit and debt ceiling) from the priority legislative list could send a signal on fiscal prudence and address sovereign rating concerns.
- The latest development constrains BI's ability to loosen monetary policy as macro and FX stability return as a higher priority. We reiterate our non-consensus BI-Rate view of 4.75%, implying no further rate cuts this year.

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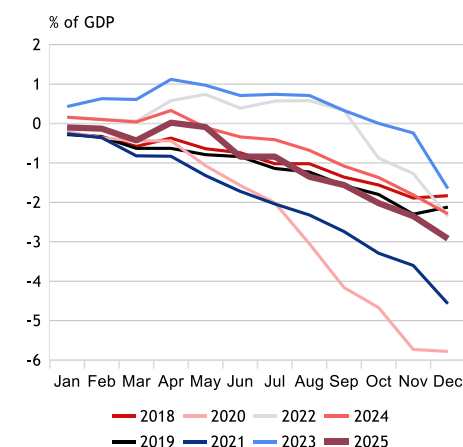
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CIMB forecasts

	2022	2023	2024	2025	2026F
GDP growth	5.3	5.0	5.0	5.1	5.3
Inflation (avg)	4.2	3.7	2.3	1.9	3.0
	Current	1Q26F	2Q26F	3Q26F	4Q26F
BI-Rate	4.75	4.75	4.75	4.75	4.75
IndoGB 2Y	5.00	5.10	5.10	5.15	5.15
IndoGB 10Y	6.31	6.40	6.45	6.50	6.60

SOURCE: CIMB TREASURY AND MARKETS RESEARCH

Indonesia's cumulative fiscal balance



SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 1: Changes in Indonesia's sovereign rating and rating outlook

Moody's	S&P	Fitch
18-Oct-07 Ba3 (stable)	26-Jul-06 BB- (stable)	26-Jan-05 BB- (positive)
11-Jun-09 Ba3 (positive)	23-Oct-09 BB- (positive)	13-Feb-06 BB- (stable)
16-Sep-09 Ba2 (stable)	12-Mar-10 BB (positive)	28-Jan-07 BB- (positive)
21-Jun-10 Ba2 (positive)	8-Apr-11 BB+ (positive)	14-Feb-08 BB (stable)
17-Jan-11 Ba1 (stable)	2-May-13 BB+ (stable)	25-Jan-10 BB+ (stable)
18-Jan-12 Baa3 (stable)	21-May-15 BB+ (positive)	24-Feb-11 BB+ (positive)
8-Feb-17 Baa3 (positive)	19-May-17 BBB- (stable)	15-Dec-11 BBB- (stable)
13-Apr-18 Baa2 (stable)	31-May-19 BBB (stable)	21-Dec-16 BBB- (positive)
5-Feb-26 Baa2 (negative)	17-Apr-20 BBB (negative)	20-Dec-17 BBB (stable)
	27-Apr-22 BBB (stable)	
Rating upgrade		
Non-IG		
IG		

SOURCE: COUNTRYECONOMY.COM, CIMB TREASURY AND MARKETS RESEARCH

Figure 2: Rationale for affirming Indonesia's sovereign rating at Baa2

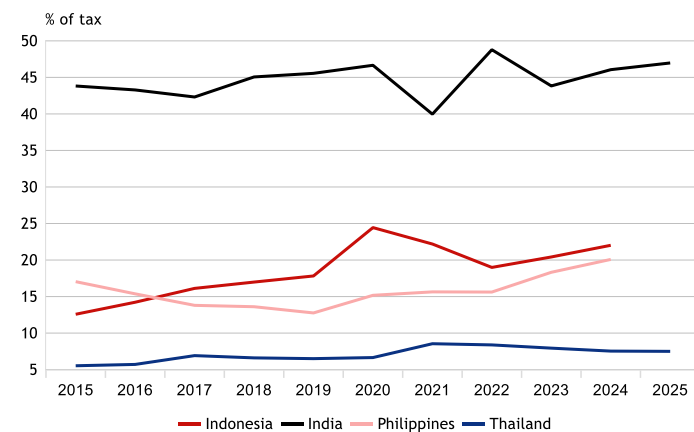
Rationale for the affirmation of Indonesia's Baa2 ratings
<ul style="list-style-type: none"> Continued resilience in economic strength Economic growth is expected to remain around 5% over the near to medium term Only modest weakening in fiscal metrics Fiscal deficit stays below 3% of GDP Monetary policy to continue supporting price stability Pressure from exchange rate depreciation could increase if policy predictability and credibility were to weaken General government debt burden to remain below the median of Baa-rated peers on a debt-to-GDP basis (contingent on continued fiscal policy prudence) The very weak revenue base remains a credit constraint on the authorities' ability to support higher growth through fiscal spending while preserving macroeconomic and financial stability

SOURCE: MOODY'S RATING

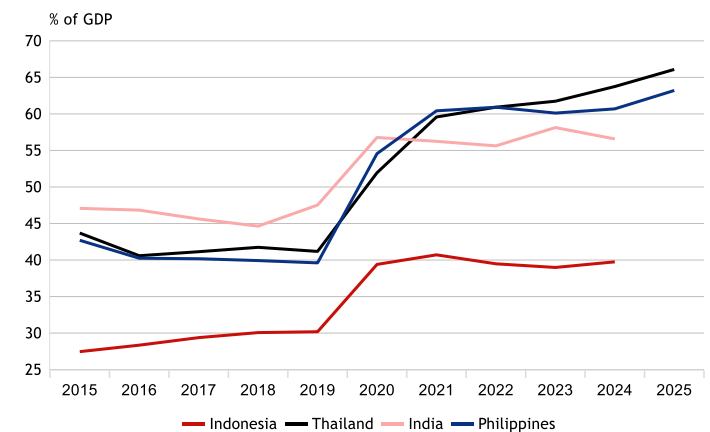
Figure 3: Factors that could lead to a downgrade or an upgrade, highlighted by Moody's Rating

Factors that could lead to a downgrade	Factors that could lead to an upgrade (An upgrade is unlikely given the negative outlook on the rating)
<ul style="list-style-type: none"> A sustained shift to a more expansionary fiscal policy without accompanying revenue reform, reflecting weaker policy cohesion and coordination A significant deterioration in the external position, such as from prolonged currency depreciation or capital outflows, with ramifications for debt affordability and, over time, foreign exchange reserve adequacy A material weakening in SOEs financial health and poor returns on SOE investments related to insufficiently strong governance of Danantara 	<ul style="list-style-type: none"> The outlook could go back to stable if policy credibility remains buttressed by enhanced clarity and consistency of policy and demonstrated commitment to reform and policies conducive to macroeconomic and financial stability. Fiscal policy measures can durably and significantly raise government revenue. Higher revenue would enhance fiscal flexibility and provide the financial means for the government to support its growth policies and large social and physical infrastructure spending needs Indonesia's growth potential was sustainably strengthening commensurate with the country's population growth and income levels, including through a deepening of financial markets and improved competitiveness

SOURCE: MOODY'S RATING

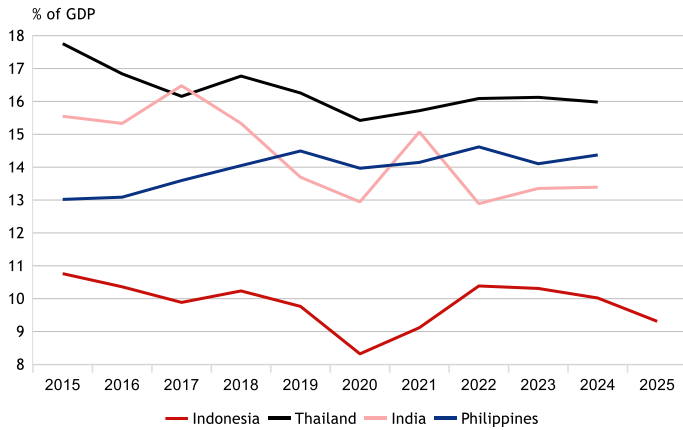
Figure 4: Interest payments as a % of tax revenues


SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 5: Government debt as a share of GDP


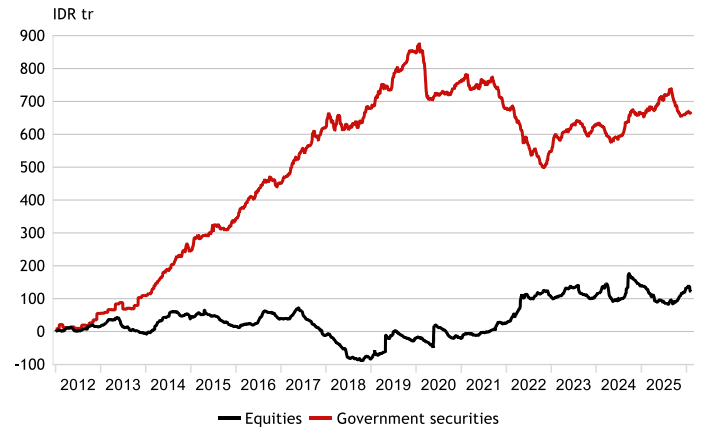
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 6: Tax as a share of GDP



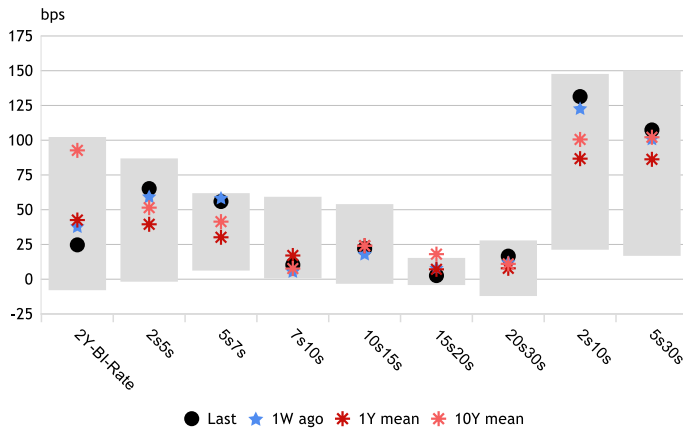
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 7: Cumulative non-resident flows in equities and government securities



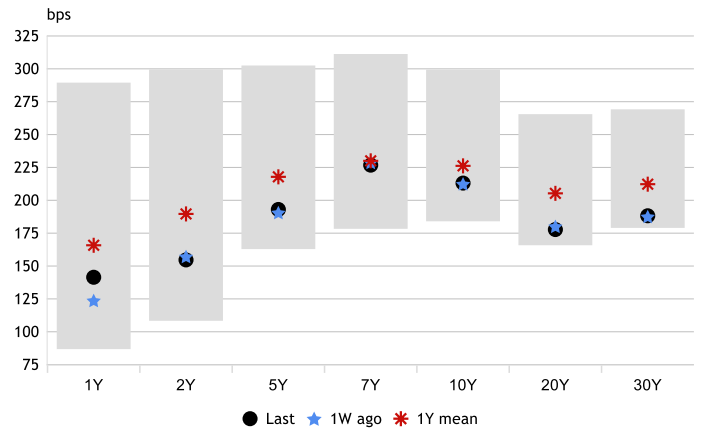
SOURCE: MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 8: IndoGB yield spread



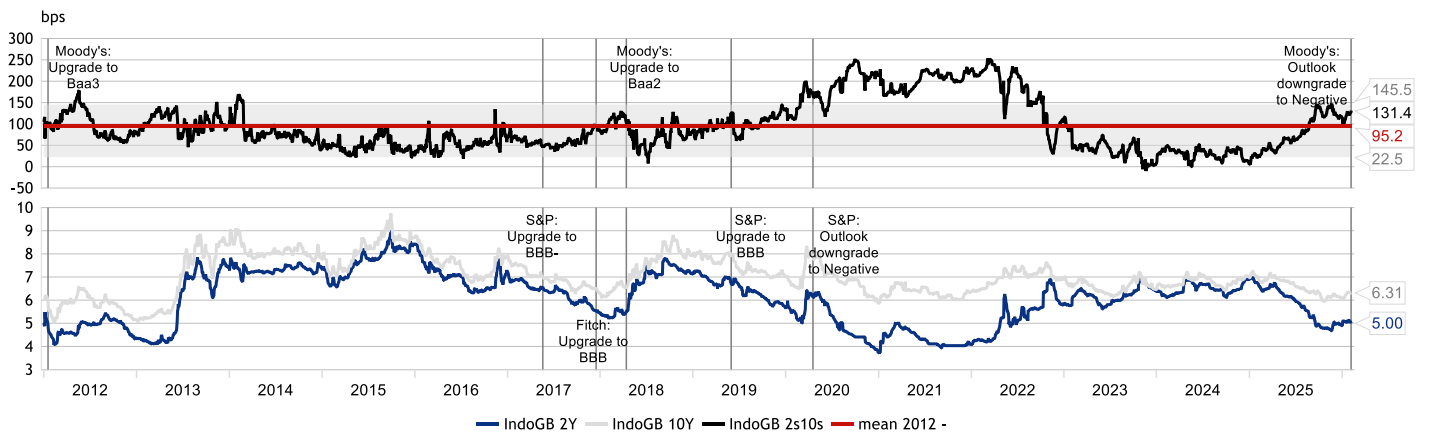
SOURCE: BLOOMBERG, MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 9: IndoGB-UST yield spread



SOURCE: BLOOMBERG, MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

Figure 10: Indonesia's 2s10s yield spread (background highlight when Indonesia's rating outlook change)



SOURCE: BLOOMBERG, MACROBOND, CIMB TREASURY AND MARKETS RESEARCH

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