Economic Alert iQ

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Prepared by: Trevis Gangaya, Analyst I (Research and Analytics)
Trevis.Gangaya@firstcitizenstt.com

Moody's: Indonesia's credit profile balances stable growth with exposure to fluctuations in global financing conditions

- Today, Moody's has expressed that Indonesia's credit profile is supported by narrow fiscal deficits, low government debt, a large economy and healthy GDP growth prospects.
- However, credit challenges include low revenue mobilization and a reliance on external funding, factors which expose the economy and government finances to fluctuations in global financing conditions.
- Moody's believes growth in Indonesia remains stable, with real GDP likely to hover around 5.2%-5.3% year-on-year, supported by steady private consumption and a pick-up in export growth.
- The gradual streamlining of the country's complex regulatory environment for investment has translated in improvements in investor perceptions and a pick-up in fixed capital formation, although investment growth is still below peaks.
- Moody's also points out that the government's strong adherence to limiting fiscal deficits has kept the debt burden at modest levels. However, a narrow revenue base constrains debt affordability.
- Commodity prices that are higher than troughs and the continued stability in growth and investment inflows have resulted in a build-up in external buffers. However, Indonesia's reliance on foreign currency funding exposes it to shifts in global financing conditions, although external buffers are stronger than in 2008.
- The agency further stated that it would consider upgrading the Baa3 sovereign rating, if Indonesia showed further progress in sustainably reducing external vulnerabilities, while at the same time demonstrating enhanced institutional strength. One positive indication of this development would be a reduction in the government's reliance on external debt.
- Currently, Indonesia also is rated by S&P with a BBB- (Stable) whilst Fitch has a BBB (Stable) credit rating assigned.

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