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Economic Alert: Moody's revises credit outlook on Indonesia's rating to "Positive" from "Stable"

- Moody's Investors Service has today revised the credit outlook on Indonesia's government ratings to "Positive" from "Stable" whilst affirming its Baa3 issuer rating on foreign senior unsecured bond rating.
- The rating agency cited encouraging signs of a reduction in structural constraints on Indonesia's rating, including its level of external vulnerability and the strength of its institutions namely:
 - 1) *Indonesia's vulnerability to external shocks is declining somewhat and is expected to continue to do so, as a result of measures fostering narrower current account deficits, higher foreign exchange reserves, and a slower rise in private sector external debt; and*
 - 2) *Indonesia's lengthening track record of macroeconomic stability and fiscal discipline, together with its measured but ongoing progress on structural economic, fiscal and regulatory reforms, suggest that policy effectiveness is improving.*
- The government has demonstrated within the last two years fiscal discipline against the backdrop of continued revenue pressure from lower oil and gas prices. Most recently, through the first six months of 2016, it recorded a historically wide fiscal deficit that tested its commitment to its

full-year deficit cap of 3% of GDP; overall revenue had declined by around 5% year-on-year, while expenditure had risen 15.1% on account of improved disbursements due to administrative reforms.

- In response, the government implemented a tax amnesty program that contributed an additional 0.9% of GDP in revenue, while curtailing spending, such that overall expenditure declined 5.7% year-on-year through the second half of the year.
- Overall, Moody's estimates that the budget deficit will be kept at 2.5% of GDP, thereby preserving some scope for fiscal support to the economy in the event of negative shocks.
- Moreover, the agency notes the country's central bank, Bank Indonesia and the government have better coordinated the proper sequencing and implementation of measures that could affect price stability and the external accounts, including the revision of electricity tariffs and the indexation of wages.
- Along with healthy foreign direct investment (FDI) inflows, policies like these have overtime contributed to a build-up of gross international reserves to USD116.4 billion as of end-2016—up from USD105.9 billion y-o-y, which provides a large buffer against volatility in capital flows.
- Indonesia is rated BB+ (Positive) by S&P and BBB- (Positive) by Fitch.



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