

## Indonesia Credit Rating Update

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### Finally Upgraded by S&P to BBB

Indonesia's credit rating is finally upgraded from BBB- to BBB by Standard & Poor's Global Ratings (S&P) on 31 May-19. The rating outlook is stable. This rating upgrade is following previous actions by Fitch Ratings and Moody's Investors Service on 20 Dec-17 and 13 Apr-18, respectively. Regarding to recent rating upgrade by S&P, it gave more confidences for investors on further investment prospect in Indonesia. After the rating announcement, Indonesia's financial markets directly strengthened, while the local currency also appreciated before long holiday season begun. Jakarta Composite Index increased by 105.01 points to 6,209.12 today. Foreign investors booked US\$99.50 million of net buying position in local equity market today. Meanwhile, Indonesia's government bonds, especially several series of medium and long tenors, strengthened. It indicated stronger investors' confidences on Indonesia's economic prospect in the longer periods. The yield of 10Y government bonds dropped from 8.05% on 29 May-19 to 7.96% today amidst thin trading transaction. Total volume of trading values dropped from Rp90.89 trillion on 29 May-19 to Rp21.33 trillion today. On the currency side, USDIDR dropped by 141 points to 14,269 today. Several key factors that became S&P's consideration to upgrade Indonesian credit rating are 1.) robust economic growth performances in recent years & its further prospects and 2.) stable & prudent fiscal policy performances. Stable outlook on the rating reflected current confidences on Indonesia's sustainability to maintain robust economic growth and healthy external position.

On its statement, the upgraded rating from BBB- to BBB reflected Indonesia's strong economic growth prospects and supportive policy dynamics. It's also supported by the government's relatively low debt and its moderate fiscal performance. Those strength factors offset the country's weaknesses due its status on lower-middle-income economy and modest current account receipts (CAR). S&P welcomes to recent Indonesia's election result with incumbent winner. The sustainability development programs, especially in the infrastructure and human capital sides, will be maintained further. The credit rating agency also didn't worry with the country's political condition although the tension intensified on 21-22 May-19 after the announcement of General Election. S&P also foresee the fiscal deficit to remain around 2.0% further. S&P believes some remaining subsidies may either be rolled back or reduced, supporting the government's fiscal consolidation. It should increase budgetary allocation to the president's stated aims of human capital and infrastructure investment in his second term. S&P also projects that net general government debt to remain comfortably below 30% of GDP, given a contained fiscal deficit and consistent nominal GDP growth. On top of this relatively moderate debt burden, the rating agency expects contingent liabilities facing the government to remain limited. S&P expects Indonesia's current account deficit to shrink in the next few years, reflecting steady global demand and a recovery in its terms of trade. Although Indonesia's terms of trade and overall current account position worsened in 2018, S&P didn't believe this trend is structural in nature. Then, S&P expects total external debt--net of liquid assets held by the public and financial sectors--to fall to approximately 87% of CAR in the next three to four years. S&P assumed that Indonesia's external debt burden has risen over the past five years. Gross external debt amounted to more than one-third of GDP at the end of 2018. S&P urged that CAR will need to grow faster in order to materially improve the ratio of external debt to GDP. Furthermore, S&P also didn't believe Indonesia faces extraordinary risk of a marked deterioration in the cost of external financing, based on its sustained strong access to the markets and foreign direct investment over the recent years, even during periods of acute external volatility.

Going forward, we believe that recent upgraded credit rating by S&P to sustain money inflow in the financial markets during Jun-19 amidst various persisting external sentiments due to the trade war saga and further Fed's policy prospect. Moreover, Indonesia's investment yields are attractive enough, compared recent inverted yield curve on the U.S. government securities. The investment's portfolio duration is expected to lengthen given current upgraded of credit rating by S&P. Rupiah is expected to keep stable although total domestic demand for US\$ will increase in June for fulfilling routine payments to overseas, such as dividend, debt & interest, and imported goods. Those conditions will give more rooms for Bank Indonesia to make a loosening policy on its policy rate in the next monetary meeting for supporting economic growth. For the national economic overall, we expect it will give more confidences for foreign investors to put their investment funds, both in the form of portfolio and direct investment in the real sector, during second half of this year. Indonesia's economic growth is expected to keep maintaining growth above 5% in 2019.

## Macro Economic Indicators

INDICATORS	2014	2015	2016	2017	2018	2019F	2020F
<b>Inflation (% YoY)</b>	8.36	3.35	3.02	3.61	3.13	3.70	3.35
<b>Inflation (% avg)</b>	6.42	6.38	3.53	3.81	3.20	3.25	3.58
<b>Core Inflation (% YoY)</b>	4.93	3.95	3.07	2.95	3.07	3.10	3.04
<b>Core Inflation (% avg)</b>	4.53	4.89	3.35	3.15	2.81	3.08	3.00
<b>Exchange Rate Eop (Rp/US\$)</b>	12440	13795	13436	13548	14481	14600	14800
<b>Exchange Rate Avg (Rp/US\$)</b>	11885	13458	13330	13397	14267	14301	14720
<b>Current Account (% GDP)</b>	-3.09	-2.03	-1.82	-1.60	-2.98	-2.70	-2.40
<b>Fiscal Balance (% GDP)</b>	-2.20	-2.80	-2.46	-2.46	-1.76	-1.90	-1.80
<b>Interest Rate</b>							
BI 7-Day (Reverse) Repo Rate (% p.a)	5.86	6.25	4.75	4.25	6.00	6.00	6.00
Time Deposit 3 month (% p.a)	8.95	7.99	6.69	6.11	6.84	6.95	6.95
Lending rate working capital (% p.a)	12.81	12.46	11.36	10.68	10.34	10.58	10.58
<b>Credit</b>							
<b>Growth (% YoY)</b>							
Property Credit	17.29	11.86	14.98	13.05	16.33	14.54	14.16
Consumer credit	11.51	9.09	8.76	11.04	10.35	11.14	11.04
Working Capital Credit	10.83	9.04	6.93	8.48	13.03	11.39	10.97
Investment Credit	13.16	14.69	8.65	4.82	10.94	8.11	9.84
<b>Total Credit</b>	11.58	10.44	7.87	8.24	11.75	10.51	10.72
<b>Deposit</b>	12.29	7.26	9.60	9.36	6.45	8.64	9.37
<b>NPL Commercial Banks (%)</b>	2.16	2.49	2.93	2.59	2.37	2.52	2.42
<b>Car Sales (1000 Units)</b>	1208	1013	1062	1080	1151	1184	1223
<b>Car Sales Growth (%)</b>	-1.78	-16.12	4.79	1.70	6.62	2.85	3.29
<b>Motorcycle Sales (1000 Units)</b>	7867	6480	5931	5886	6383	6680	7079
<b>Motorcycle Sales Growth (%)</b>	1.59	-17.63	-8.47	-0.76	8.44	4.65	5.98
<b>Unemployment Rate (%)</b>	5.94	6.18	5.61	5.50	5.34	5.10	5.00
<b>International Reserve (US\$ bn)</b>	111.9	105.9	116.4	130.2	120.7	129.4	134.2
<b>GDP Growth (%)</b>	5.01	4.88	5.03	5.07	5.17	5.14	5.30

Note : the red numbers are forecast

Source : Maybank Indonesia Economic Research

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