

Indonesia Economic Briefing

S&P: Aligned at Last



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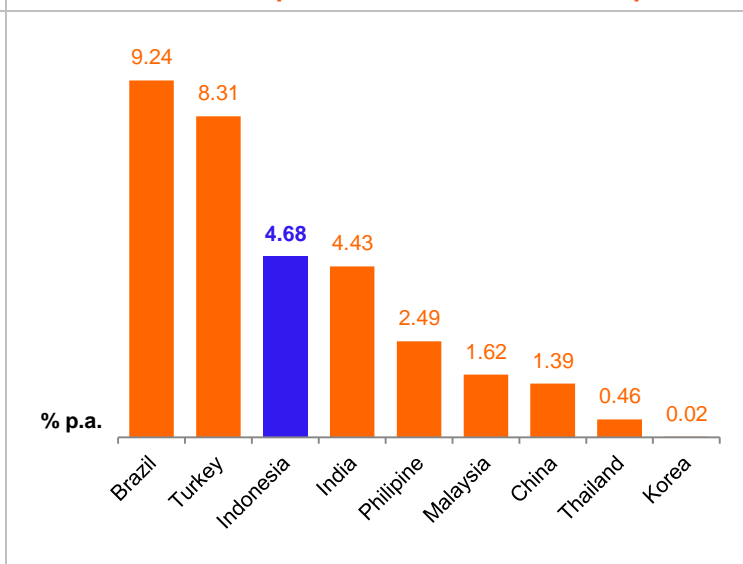
- International ratings agency **Standard & Poor's** had just raised Indonesia's credit profile to **investment grade (BBB-) with stable outlook**, after they decommissioned the status 20 years ago. Rationale behind the upgrade was reduced risks on fiscal metrics, given high discipline in fiscal assumption and spending, along with potentially lower debt burden. The call is persistent with their concern last year that included quality spending, widening budget deficit and government debt. Market reacted positively to the news last Friday as the equity index surged by 2.6%, bond yields dropped by 15-20bps on average, and Rupiah appreciated by 0.8%.
- On their official report, S&P stated that **the stable outlook warranted a similar condition over the next two years**. Significant improvement on the external and fiscal balances may open room for another upgrade, while deterioration in trade and fiscal balances could trigger for downgrade revision -i.e. indicated by central government debt surpassing 30% of GDP and budget deficit higher than 3% of GDP-. Please note that of the top 3 international rating agencies; S&P was the only one that downgraded the country by 2 notches in 2001, after they had just awarded a one-notch upgrade a year earlier.
- Following the sovereign rating upgrade, several SOEs and blue-chip names were also lifted in-line. We think **it's a good time for corporate to either leverage for growth or refinance its interest payment burden**. Depending on demand and need of the country, a key sector that could benefit from this is electricity, which proves to be pivotal in the development of industrial sectors going forward.
- We are revising down our YE17 forecast for 10Y IDR government bond yield from 8.17% to 7.60%**. In the short run, we are expecting some foreign inflow to help push down yields to 6.74% on better risk premium and lower CDS. Yield spread to 10Y US Treasury also showed that there may still be room to narrow even further (*please see Chart 2*). However, our concern lies on the fact that global volatility still lingers throughout the remaining of the year and that traditional investors have already been in fully invested position. This explains why Bank Indonesia is still in the market at IDR 13,290/USD level to accumulate FX reserve.

Chart 1. The 15 Years Journey Back to IG Status

Year	S&P	Fitch	Moody's	R&I	JCRA
2002	CCC+	B	B3	B-	B
2003	B-	B+	B2	B-	B
2004	B+	B+	B2	B	B+
2005	B+	BB-	B2	BB-	B+
2007	BB-	BB-	Ba3	BB+	BB-
2008	BB-	BB	Ba3	BB+	BB-
2009	BB-	BB	Ba2	BB+	BB+
2010	BB	BB+	Ba2	BB+	BBB-
2011	BB+	BBB-	Ba1	BB+	BBB-
2012	BB+	BBB-	Baa3	BBB-	BBB-
2013	BB+	BBB-	Baa3	BBB-	BBB-
2014	BB+	BBB-	Baa3	BBB-	BBB-
2015	BB+	BBB-	Baa3	BBB-	BBB-
2016	BB+	BBB-	Baa3	BBB-	BBB-
2017	BBB-	BBB-	Baa3	BBB-	BBB-

Source: Rating Agencies

Chart 2. LCY Yield Spread to 10Y UST – EM Comparison



Source: Bloomberg, 22 May 2017

Indonesia: Selected Economic Indicators

	2013	2014	2015	2016	2017E
National Accounts					
Real GDP (% y-o-y)	5.6	5.0	4.9	5.0	5.0
Domestic demand ex. inventory (% y-o-y)	5.0	5.4	3.9	5.0	4.9
Real Consumption: Private (% y-o-y)	5.4	5.2	5.0	5.0	4.9
Real Gross Fixed Capital Formation (% y-o-y)	5.0	4.6	5.0	4.5	5.2
GDP (USD bn) — nominal	915	890	862	923	925
GDP per capita (USD) — nominal	3,668	3,530	3,374	3,569	3,577
Open Unemployment Rate (%)	6.3	5.9	6.2	5.6	5.5
External Sector					
Exports (% y-o-y, BoP Basis)	-2.8	-3.7	-15.4	-3.1	7.0
Imports (% y-o-y, BoP Basis)	-1.3	-4.5	-19.7	-4.5	6.6
Trade balance (USD bn, BoP Basis)	5.8	6.9	13.3	15.4	15.2
Current account (% of GDP)	-3.7	-3.2	-2.1	-1.8	-1.8
Central government debt (% of GDP)	21.3	23.5	26.6	27.7	30.2
International Reserves –IRFCL (USD bn)	99.4	111.9	105.9	116.4	114.0
Reserve Cover (Months of imports & ext. debt)	5.4	6.5	7.4	8.4	8.4
Currency/US\$ (Year-end)	12,189	12,440	13,795	13,436	13,555
Currency/US\$ (Average)	10,428	11,900	13,392	13,308	13,504
Other					
BI policy rate (% year end)	7.50	7.75	7.50	6.50*	N/A
BI 7-Day Reverse Repo rate (% year end)	N/A	N/A	6.25	4.75	5.00
Consumer prices (% year end)	8.08	8.36	3.35	3.02	4.57
Fiscal balance (% of GDP; FY)	-2.24	-2.26	-2.70	-2.46	-2.60
S&P's Rating – FCY	BB+	BB+	BB+	BB+	BBB-

Source: CEIC, E = Danamon Estimates, *) Up to August 2016

Economic and Market Research

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