

Indonesia: S&P raises credit rating a notch to BBB

S&P grants Indonesia a rating upgrade after President Jokowi secures a fresh term



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S&P lifts Indonesia's rating after Jokowi secures fresh mandate

S&P raised the nation's foreign currency rating to BBB on the back of positive growth prospects and given the relatively stable policy environment. With the elections out of the way and Jokowi looking to prime the economy for faster growth, the rating agency believes that economic expansion in Indonesia will outpace that of its peers. Jokowi is reported to be reconstituting his cabinet with an eye to driving growth forward via investment while relatively low inflation will help boost household spending in 2019. Robust momentum, coupled with likely improved capacity through infrastructure investment, will likely help Indonesia attract more capital flows in the medium term.

Upgrade to provide a boost but trade war persists

The S&P upgrade has helped to provide a nice lift to the 10-year Indonesian bond (+0.35 of a point) while the currency enjoyed a quick 0.78 appreciation versus pre-upgrade levels of 14380. But while growth prospects remain favourable given Jokowi's fresh impetus for investment, concerns about the external position remain given Indonesia's perceived susceptibility to the US-China trade war. With lingering concerns about the current account deficit, pressure on the Indonesian

rupiah may remain, albeit at a less pronounced pace, which should keep Bank Indonesia (BI) on its toes and the central bank likely on hold for the time being.

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