Corporate Top Trends Update

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This report does not constitute a rating action

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Indonesia

Funding At Home Eases Risks From Abroad

Key Takeaways

- Low U.S. exports limit direct risks, but indirect effects may hit Indonesia’s large export sector and raise dumping risks for steel and chemical sectors.
- Risks from subdued revenue and profit growth and elevated investments to be moderated by lower refinancing needs and healthy funding conditions.
- Government policies will support the housing market and reshape the credit dynamics of the country's SOEs.

Indonesian corporates face moderate tariff risk but material indirect exposure. Indonesia's trade surplus with the U.S. doubled since 2010 to about US$19 billion in 2024 (see chart 1). However, the country may be a less prominent target for U.S. tariffs, as its surplus is much smaller than that of major Asian exporters--Vietnam's is 6.7x larger, and Japan's and Korea's are 3x-4x bigger.

Chart 1

Indonesia's low U.S. exposure may limit direct tariff impact

Indonesia's trade with the U.S.

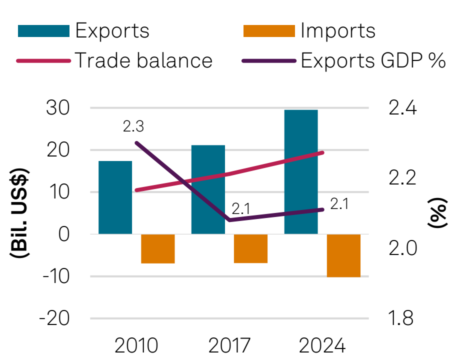
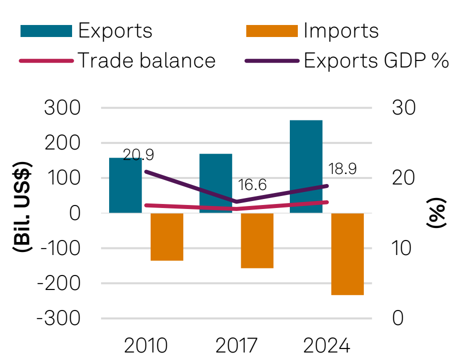


Chart 2

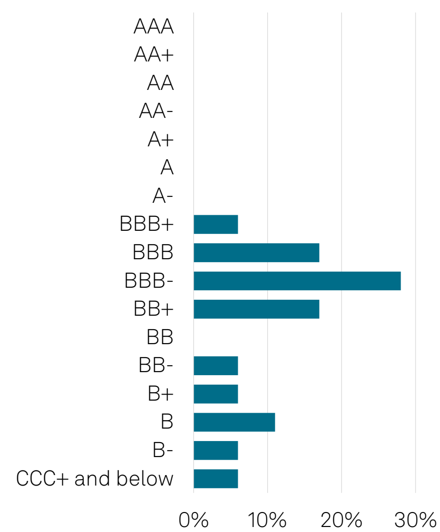
Indonesia's large export sector could be hit by indirect tariff effects

Indonesia's total trade

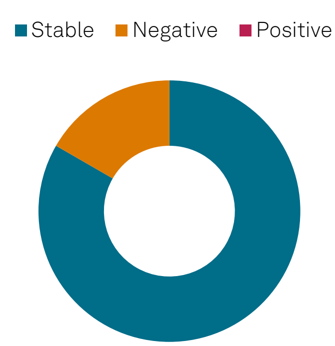


Sources: UN Comtrade, International Trade Centre, IMF, S&P Global Ratings.

Ratings distribution



Outlook distribution



Data as March 10, 2025. Source: S&P Global Ratings.

Indonesia's exports to the U.S. also total to a relatively small 2% of the size of its GDP, one-third of the Asia-Pacific average. The U.S. is an important market for only a few sectors. For example, 60% of Indonesia's textile and apparel exports are sold to the U.S. Rubber, palm oil, and tires sectors also rely on the U.S. market.

The more material risk for Indonesia is the indirect effect of U.S. tariffs. Slowing global growth, for example, could hit the country's large export sector, which amounts to one-fifth the size of its GDP. Diminished demand from the country's biggest trading partners in Asia-Pacific could hit their demand for Indonesian minerals and intermediate metals. Steel, textile, apparel, and chemical sectors may also be squeezed if regional firms attempt to mitigate slowing sales at home by dumping their excess production abroad.

2025 is likely to be another year of subdued revenue and profit growth. Our economists forecast Indonesia's GDP will grow 4.9% in 2025, with no near-term catalyst from the new administration's economic policies. Strains are likely to persist throughout the year for exporters amid tepid growth in Europe and slowing growth in China as the effects of new U.S. tariffs play out globally and regionally.

The macro, employment and inflation settings in Indonesia will be somewhat supportive of domestically focused sectors. These include consumer goods, retail, telecom, and light manufacturing. However, significant competition will likely persist with limited catalysts for meaningful margin or volume growth.

Investments to stay elevated, marginally eroding cash flows. Capital spending on energy transition and business model diversification will stay elevated, we assume, after a significant step-up in 2023 and 2024. Similar to last year, about half of the firms we rate are likely to post negative discretionary cash flows in 2025. However, we expect earnings will grow in line with debt incurred to fund growth. For this reason, about 80% of our ratings on Indonesian firms carry stable outlooks.

Domestic funding conditions will remain constructive. We expect moderately tightening bank liquidity to slow loan growth from nearly 15% last year to 10%-12% in 2025. This level is still above the average over the last five years, reflecting less selective lending by capital providers compared to the past. Like 2024, issuance in overseas capital markets will likely be limited to larger private firms or state-owned enterprises (SOEs) and their subsidiaries. The cost of raising domestic capital for smaller firms is now below that of U.S. dollar funding, all things being equal.

Corporates can absorb a modest depreciation in the rupiah. The Indonesia rupiah has weakened over recent months and now hovers near all-time lows against the U.S. dollar. So far, the resulting impact on margins, interest servicing and investor sentiment has been modest. Currency hedging is more frequent, and rated issuers are increasingly raising domestic funding to repay foreign-currency debt.

Most of about US$15 billion in dollar-denominated debt due between 2025 and 2027 are borne by commodity producers and large SOEs that often have a natural hedge. Residual pockets of currency mismatch remain in the real estate, animal feed, tire manufacturing, telecoms and unregulated power sectors. Recent asset-liability management transactions by real estate firms have reduced near-term refinancing risk in that sector.

Danantara will shape the credit dynamics of Indonesian SOEs. Daya Anagata Nusantara Investment Management Agency (Danantara) is a vehicle that will take ownership of some of Indonesia's largest SOEs. The Indonesian parliament approved the bill creating the fund in February 2025. As we gain clarity on the new vehicle over the next few months, our analytical focus on affected SOEs will be:

- Mechanisms in place in the new structure for the government to provide financial support to the SOEs,
- Danantara's powers, oversight quality, and support responsibilities to the weaker SOEs; and
- Danantara's financial strategy, capital allocation and leverage and how the factors will shape policies and capital spending of SOEs the fund holds.

Indonesia Property Sector Outlook 2025: Reduced Refinancing Risks

Credit profiles of most Indonesian property developers are stabilizing. Refinancing risks in 2025 are significantly lower thanks to liability management exercises in 2024, including full repayments as well as tender offers below par. We anticipate modest deleveraging among developers this year, driven by an increase in earnings from improving sales.

Marketing sales will grow modestly by about 5% in 2025, supported by government policies. The government extended a phased reduction on value-added tax (VAT) until the end of 2025, instead of the end of 2024 as originally scheduled. This extension, coupled with moderating mortgage rates and easing inflationary pressure, will bolster demand for affordable housing. Homebuyers will save up to 11% on VAT for residential units priced below IDR5 billion, provided the units are handed over to the buyer before the end of 2025.

Most developers' cash position will remain thin despite improving earnings. We expect developers to reinvest most extra cash flow into property construction and opportunistic land acquisitions. Furthermore, as most developers refinanced their U.S. dollar offshore notes with domestic bank loans in 2024, annual amortization of these loans will further reduce their surplus cash.

Related Research

Indonesia

- Full Analysis: Indonesia, Jan. 30, 2025

Editor's note: S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

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