Indonesia 10-Year Bonds *(SUN 10-Years)*

Darkest Before Dawn

We forecast Indonesia's 10-Year Bonds Yield to remain resilient at 6.5-6.6% by the end of 2026. While Moody's has downgraded Indonesia's outlook from stable to negative, we are of the opinion that the Indonesian government will implement reforms to self-correct itself for higher prudency and maintaining predictability throughout the current administration.

PART I : Second Stress Test To The Indonesian Capital Markets

Moody's Raises Concerns On New Administration's Prudency

- **Indonesia's First Negative Outlook From Moody's.** While Moody's has kept their rating for Indonesia at Baa2 for both the foreign currency senior unsecured Medium-Term Notes (MTNs); senior unsecured shelf program ratings; as well as local and foreign currency senior unsecured ratings, Moody's has downgraded the *outlook* for the Government of Indonesia's rating to negative from stable. This is the first negative outlook Moody's has given on the government.
- **Pointing To Unpredictability.** Moody's has cited that the current Baa2 rating is supported by Indonesia's long-standing prudential fiscal policies helmed by the previous Ministry of Finance Sri Mulyani Indrawati. Under the current Finance Minister Purbaya, Moody's stated the policies of less predictability and coherence in policy making has the potential of diminishing Indonesia's investment attractiveness and increasing borrowing.

Anticipated Government Response, But May Not Stop Other Agencies From Following

- **Assuming Aggressive Fiscal Reforms.** As with the government's response after MSCI announced a potential downgrade of the Indonesian Equity Market from Emerging to Frontiers (potentially causing a USD 6-9 billion foreign outflow from the country), we view a similar swift government response in reforming and in restructuring fiscal policies to upgrade Moody's Outlook in Indonesia to stable. Previous debates between the Presidential cabinet and House of Representatives (DPR) regarding the increase of the state budget deficit beyond 3% to accommodate Indonesia's GDP growth through government spending may be withheld for the time being.
- **Other Credit Ratings May Follow Behind.** This is the first instance since the 1990s that Moody's has placed a 'Negative' Outlook to the Indonesian Government. On the other hand, S&P has given 11 'Negative/Negative Watch' Outlooks since 1998 Asian Financial Crisis. Therefore, a 'negative' tilt by S&P based on their historical pattern on Indonesia's Outlook. Our government bonds were also kept at "Junk" bond ratings by S&P between 1998—2016. By comparison, Moody's placed Indonesian bonds as "Junk" for a shorter span between 1998—2007.

PART II : Cases Of Aftermath In Downgrade Of Outlook

- **AMERICA (2011—2023) :** The U.S. has repeatedly faced negative outlooks despite retaining high ratings, reflecting governance risk rather than solvency risk. In 2011, S&P placed the U.S. on negative outlook amid escalating debt-ceiling brinkmanship, explicitly warning that political polarization threatened fiscal credibility. The message was clear: default risk was political, not economic. More recently, in 2023–2024, agencies highlighted worsening debt dynamics, rising interest costs, and repeated budget standoffs as justification for negative or cautious outlook language.
- **GREECE (2009—2012) :** In Greece's case, negative outlooks were effectively countdown timers to disaster. As early as late 2009, agencies revised Greece's outlook to negative after fiscal data revisions revealed massive deficits. These outlook changes triggered rapid increases in bond yields and CDS spreads even before formal downgrades occurred. Once outlooks turned negative, market access deteriorated almost immediately. Greece demonstrates that when fundamentals are already fragile, outlooks can move markets more violently than downgrades, because they signal inevitability.
- **JAPAN (2001—2015) :** Japan offers the inverse case: even when ratings were cut, outlooks often remained stable. Agencies acknowledged extreme debt levels but emphasized strong domestic funding, policy continuity, and central bank support.

PART III : Impact On Indonesia's Investor Confidence

Indonesia's Visible Prudency In Metrics

- **Declining Debt-To-GDP.** While state expenses did outpace state revenues in 2025, Debt-To-GDP managed to continue its downward trajectory to 38.65% of GDP from 38.8% of GDP in 2024. This indicates that the current Indonesian MoF Purbaya adhered to the consistency with his predecessor in keeping state borrowing costs at a manageable rate.
- **Debt Service-To-GNI.** Indonesia's Debt Service-to-GNI has been kept at a range of 4—8% since 2005.
- **Added Measures To Prevent Slip-Up In Expenses.** Aiming for a cooler 2.68% deficit to GDP in 2026, MoF Purbaya announced incentives in the form of higher regional fund transfers *(Transfer Ke Daerah/TKD)* may be agreed upon by President Prabowo if regional governments have exhibited spending discipline and weeded out corruption.

Forecasting Indonesia's 10-Year Bonds Yields Holding Steady At 6.5-6.6%

We forecast Indonesia's 10-Year Bonds Yield to remain resilient at 6.5-6.6% by the end of 2026. While Moody's has downgraded Indonesia's outlook from stable to negative, we are of the opinion that the Indonesian government will implement reforms to self-correct itself for higher prudency and maintaining predictability throughout the current administration. Our assumption is evidenced by the government's recent quick compliance to MSCI's demands in order to keep foreign and local investors' confidence with Indonesia's climate sunny.

Please consider the rating criteria & important disclaimer

Update | 6th February 2026

10-Yr SUN

End Of Year Target	**6.5-6.6%**
% Deviation To Target	3.0-4.5%
Rating	Neutral

10-Year Gov. Bond Data

Last Yield (%)	6.317%
Point date as of	6th Feb 2026

Bond Issuer

Government of the Republic of Indonesia

Indonesia Composite Bond Index (ICBI)

SUN Yield Curve

Tenor	1 Yr	3 Yr	5 Yr	15 Yr
Yield	4.78%	5.35%	5.76%	6.56%

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Graceline Melinda (Associate)

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PART I :

Second Stress Test To The Indonesian Capital Markets

Foreign Rating Agencies Having Cold Feet In Indonesia

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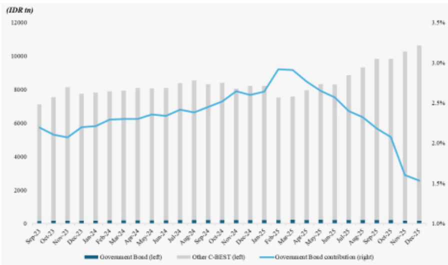


Source : KSEI, NHKSI Research

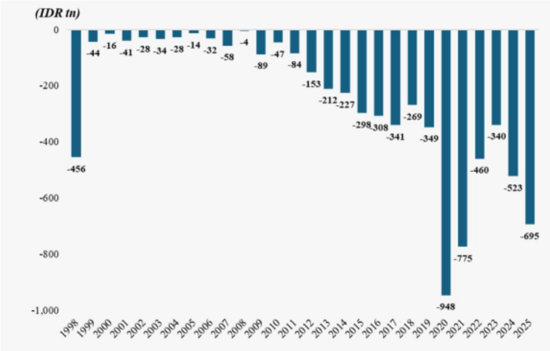
Exhibit 2. Foreign Ownership Of SBN, Oct-2023 to Dec-2025

Source : KSEI, NHKSI Research

Moody's Doubts Indonesian Government's Current Plan

- **Criticizing Broadening Public Spending With Weak Revenue Base.** The credit rating agency has stated that government spending aimed for growth may be counterproductive due to the lagging Government revenue base. Previous efforts that the government has done to enhance revenue base has not been performing as the government planned. The re-allocation of funds via *efficiency efforts* at the start of 2025 to prioritize nation-wide social programs. The agency views further increase in resource allocation on the programs will "strain" the government's remaining budget for other usages.
- **Viewing Danantara As A Start-Up.** Moody's remain conflicted with Danantara as a massive Sovereign Wealth Fund holding USD 900 bn in AUM (~60% of Indonesia's Nominal GDP), but shows hesitancy to its potential due to unclear priorities in investments; risk management; and regulatory relationship framework. On the lighter side, the ratings agency has noticed that Danantara has begun improving SOE efficiency.

Exhibit 3. Indonesia State Budget Deficit (IDR tn), 1998—2025

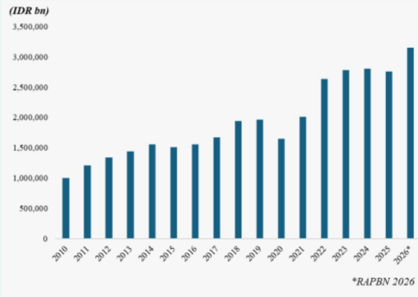


Source : BPS, NHKSI Research

Moody's Recommendation For A Return To Stable Outlook

- **Bring Back Credibility To Policy.** Moody's has recommended the current administration to potentially climb back up to a stable outlook by administrating discipline in coherence of policies that mitigate risk of unpredictability. Additionally, the credit ratings agency listed commitment to reform as an attribute to be upgraded.
- **Raise Government Revenue Through Effective Fiscal Policy.** Because the ratings agency has yet seen significant improvement to Indonesia's revenue base as demonstrated by increase in budget deficit close to the 3% threshold in 2025, an enhancement in its revenue stream will allow breathing room for the government to fund its social programs that are aimed at achieving sustainably higher economic growth.

Exhibit 4. Indonesian Government Revenue, 2010—2026



Source : Kemenkeu, BPS, NHKSI Research

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Foreign Rating Agencies Having Cold Feet In Indonesia

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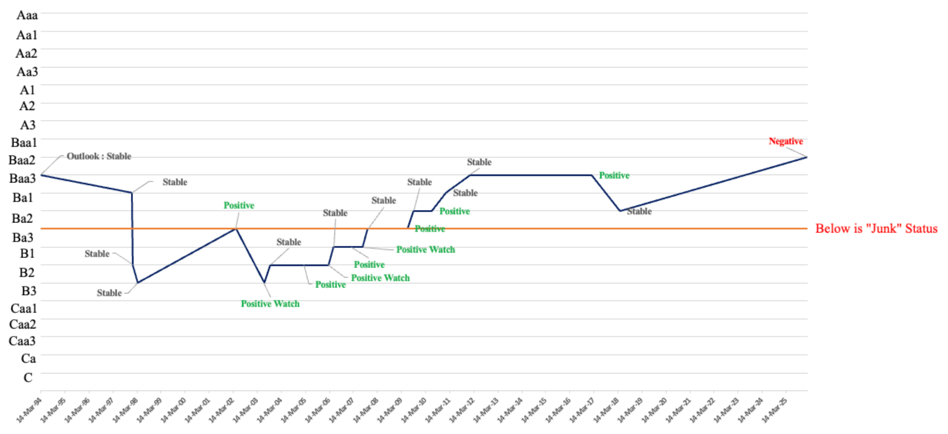

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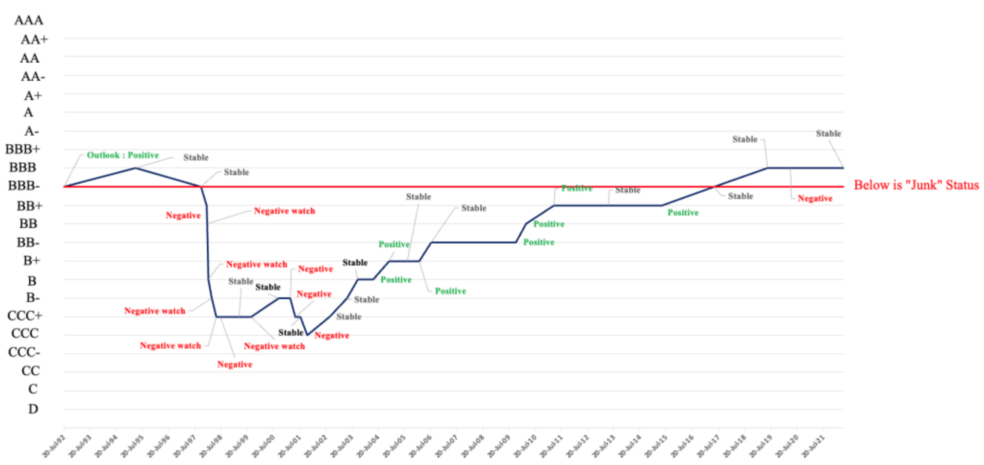
Exhibit 6. S&P Rating On Indonesian Bonds And Its Outlook, 1992—2021



Source : Tradingeconomics, NHKSI Research

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PART II :

Cases Of Aftermath
In Downgrade Of Outlook

CASE #1 : The United States Of America

The United States has experienced negative outlooks on multiple occasions while maintaining high ratings, signaling concerns over governance rather than solvency. In 2011, S&P assigned a negative outlook to the U.S. amid intensifying debt-ceiling brinkmanship, explicitly cautioning that rising political polarization posed a threat to fiscal credibility. The implication was clear: the risk of default risk was political, not economic. More recently, during 2023–2024, rating agencies pointed to deteriorating debt trajectories, increasing interest costs, and recurring budget confrontations as reasons for adopting negative or cautious outlooks. Markets interpreted these outlooks as medium-term risk indicators — not catalysts for panic, but as grounds for higher term premia and upward pressure on long-end yields. What happened in the U.S. illustrates that outlooks serve as institutional stress tests rather than signals of crisis.

Exhibit 7. US 10-Year Bond Yield, 2010—2026

Source : Tradingview, NHKSI Research

Exhibit 8. Dow Jones Industrial Average, 2021—2026

Source : Tradingview, NHKSI Research

Please consider the rating criteria & important disclaimer

CASE #2 : Greece

In Greece's experience, negative outlooks functioned as countdown signals toward crisis. As early as late 2009, rating agencies revised Greece's outlook to negative after revisions to fiscal data exposed exceptionally large deficits. These outlook revisions led to sharp increases in bond yields and CDS spreads even before any formal rating downgrades occured. Once the outlooks turned negative, Greece's access to markets deteriorated almost immediately. The Greek case illustrates that when underlying fundamentals are already weak, outlooks can have a more disruptive market impact than downgrades, as they convey a sense of inevitability.

Exhibit 9. Greece 10-Year Bond Yield, 1999-2026

Source : Tradingview, NHKSI Research

Exhibit 10. Athex Composite Index, 2002—2006

Source : Tradingview, NHKSI Research

Please consider the rating criteria & important disclaimer

CASE #3 : Japan

Japan presents the opposite case: even when credit ratings were downgraded, outlooks often remained stable. Rating agencies recognized Japan's exceptionally high debt levels but underscored the strength of domestic funding, policy continuity, and central bank support. The maintenance of stable outlooks reassured markets that additional deterioration was unlikely in the near term. Consequently, JGB yields showed little reaction. Japan demonstrates that outlooks carry greater significance than headline ratings — a stable outlook can offset what would otherwise appear to be concerning fundamentals.

Exhibit 11. Japan 10-Year Bonds, 2009—2026

Source : Tradingview, NHKSI Research

Exhibit 12. Nikkei 225, 2021—2026

Source : Tradingview, NHKSI Research

Please consider the rating criteria & important disclaimer

PART III :

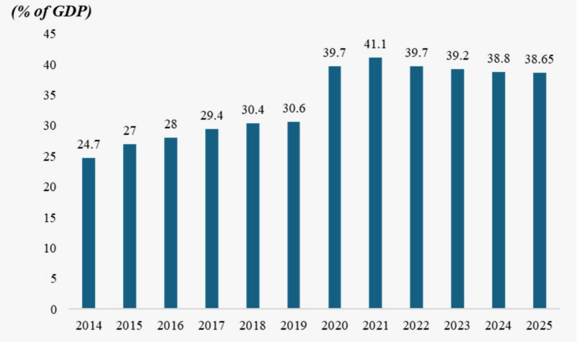
Impact On Indonesia's Investor Confidence

Tripping Up But Expected To Get Back Up Stronger

Short-Term Selling Pressure

- **Continued Selling Pressure After MSCI Debacle.** After MSCI announced its halt on the Feb-2026 rebalancing and a possible consideration into Frontiers Market, JCI drawdown reached -16.68% racking up three (3) trading halts in the process before stabilizing in the range 8,000-8,200. As per 6-Feb-2026, iShare MSCI Indonesia ETF (EIDO) dropped by -1.43% in response to Moody's announcement of outlook downgrade. We forecast JCI to correct by -3.30 to -4.60% when market re-opens.
- **Bond Yield Potential Spike.** We view bond yields may begin to rally after Moody's 'Negative' Outlook announcement. 10-Year SUN Yields may be pushed up by market fears to 6.605—6.660% based on its technical resistance.

Exhibit 13. Indonesia's Debt-To-GDP, 2014—2025



Source : Tradingeconomics, NHKSI Research

Rupiah Depreciation Continues, Stabilization Around The Corner

- **Rupiah Weakens As Dollar Strengthens.** On 20-Jan-2026, the Indonesian Rupiah almost breached IDR 17,000 / USD – marking need of structural policy adjustments in retaining capital within the country. It quickly landed on IDR 16,712 / USD before being picked up again by a strengthening dollar.
- **Currency Calms While Asset Classes Plunge.** USD/IDR rate has stabilized at the range of IDR 16,700-16,800 despite domestic financial instruments underperforming due to foreign agencies considering to lighten their exposure in Indonesia unless there are bolder fiscal reforms towards higher prudency.

Exhibit 14. USD/IDR, 2021—2025

Source : Tradingview, NHKSI Research

Indonesia's Visible Prudency In Metrics

- **Declining Debt-To-GDP.** While state expenses did outpace state revenues in 2025, Debt-To-GDP managed to continue its downward trajectory to 38.65% of GDP from 38.8% of GDP in 2024. This indicates that the current Indonesian MoF Purbaya adhered to the consistency with his predecessor in keeping state borrowing costs at a manageable rate.
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Exhibit 15. Debt Service To GNI of China, Indonesia, Viet Nam, Thailand, Philippines, 2005—2024

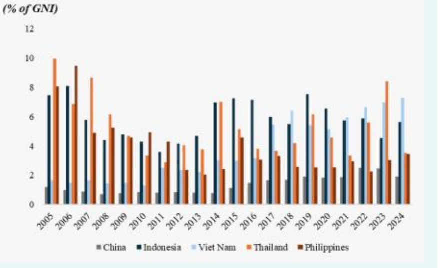

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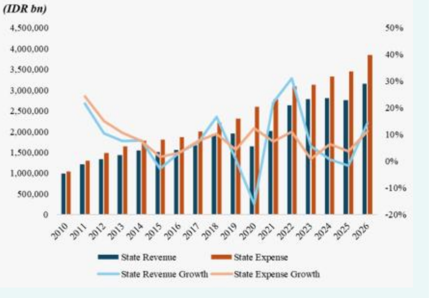
Exhibit 16. Indonesia State Revenue & Expense, and Their Respective Growths, 2010—2026



Source : Kemenkeu, BPS, NHKSI Research

Exhibit 17. Indonesia 10-Year Government Bond Yield with Resistance Range 6.605—6.660%

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Exhibit 18. iShares MSCI Indonesia ETF

Source : Investing.com, NHKSI Research

Appendix

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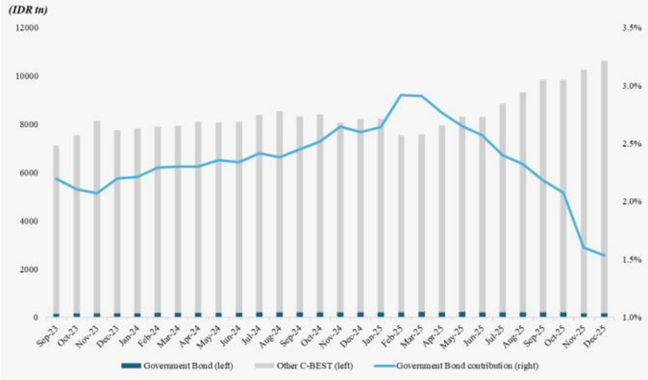

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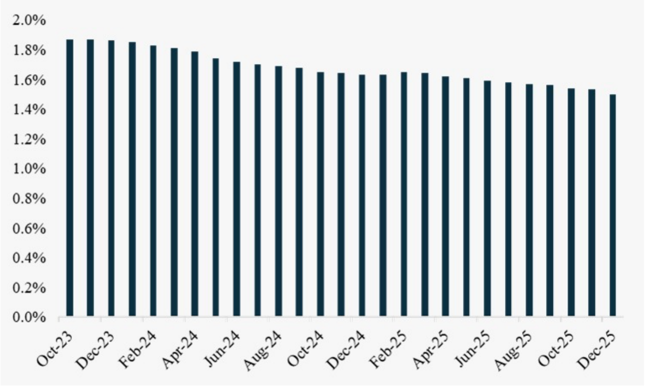

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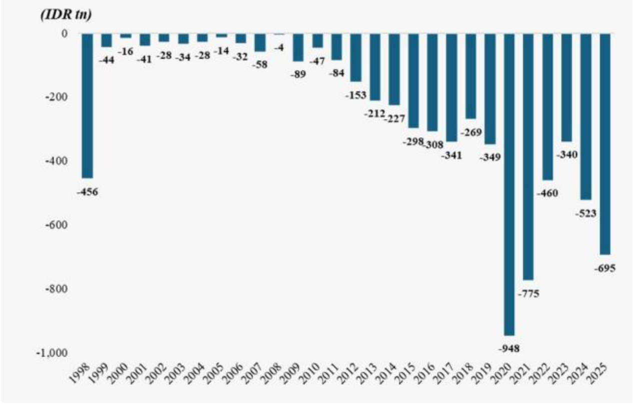

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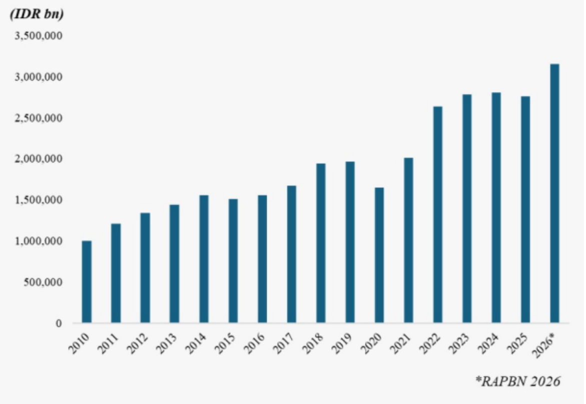

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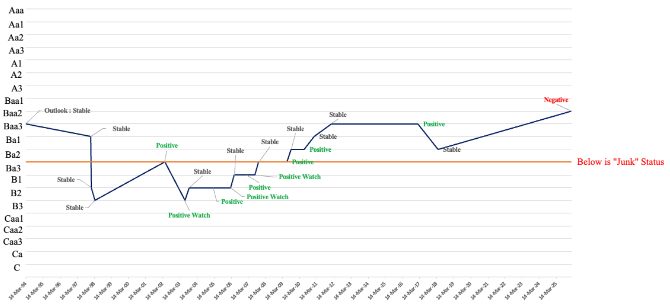

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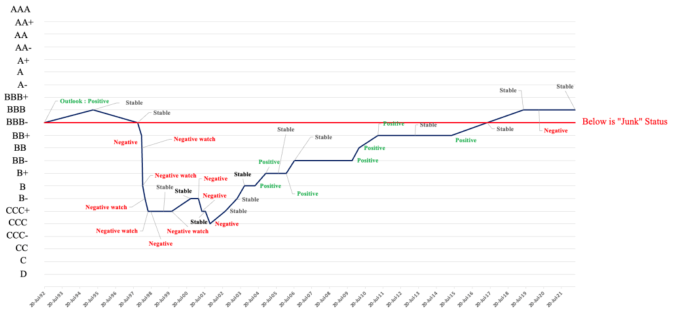

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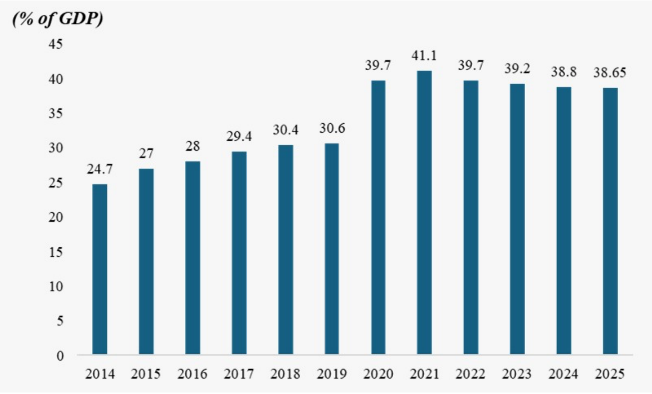

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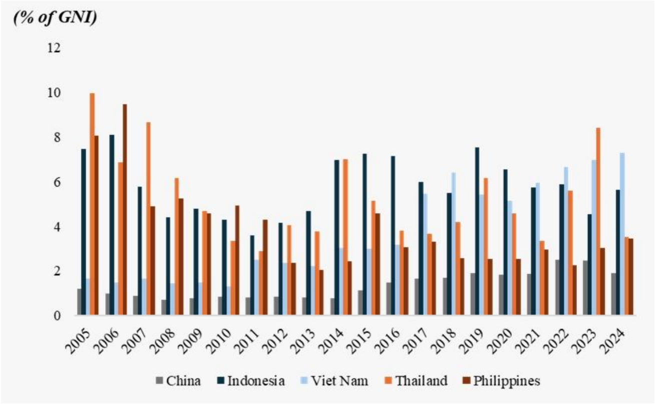

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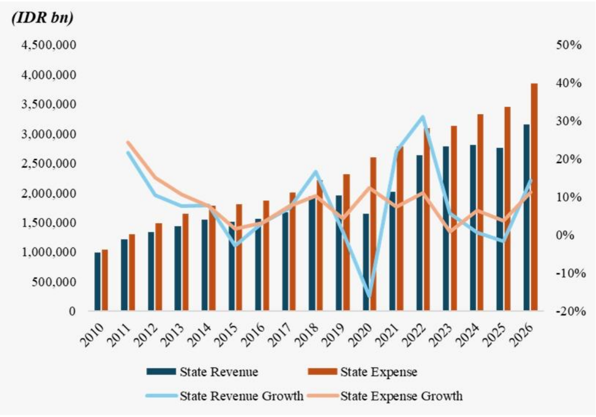

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NH Korindo Sekuritas Indonesia (NHKSI) Stock Ratings

1. Based on a stock's forecasted absolute return over a period of 12 months from the date of publication
2. Rating system based on a stock's potential upside from the date of publication

- Buy : Greater than 15%
- Overweight : +5% to 15%
- Hold : -5% to +5%
- Underweight : -5% to -15%
- Sell : Less than -15%

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