Mizuho Flash: Indonesia

Economics & Strategy | Asia ex-Japan

09 September 2025 |
Vishnu Varathan | Head Macro Research, Asia ex-Japan

Indonesia's Mounting Risks

In a Nutshell: The abrupt r**emoval of Finance Minister Sri Mulyani Indrawati risks dangerously eroding fiscal-monetary policy credibility**. Especially given the *optics of political expedience* to side-step binding fiscal constraints. And **Bank Indonesia's "burden sharing" amplifies risks** as the *threat of monetary policy subordination to fiscal dominance* further compromise macro-stability. **Wider credit spreads** *exacerbated by rising global term premium* suggest **higher cost of capital**. **Rupiah debasement risks** also mount as investor assess debt monetization. And in any case, *Bank Indonesia's easing may impose sharper IDR stability trade-offs.*

- **Risks to Indonesian assets are mounting as fiscal** and **monetary policy threats conspire to undermine credibility**. The *latest assault on confidence* stems from abrupt **removal of internationally respected Finance Minister (FinMin) Sri Mulyani Indrawati**.
- To be sure, her replacement **Purbaya Yudhi Sadewa is accomplished** in both finance and public service.
- So, this is not about suitability or qualifications. He is amply qualified and **would ordinarily feature very favourably as a successor**. ***But these are not ordinary times***. In fact, the **timing and abruptness** of the move is **extraordinary** and **very inconvenient**.
- An abrupt and presumably unplanned removal **creates optics of political expedience** *at the expense of fiscal/macro stability.*Especially given FinMin Indrawati's pushback to overly-aggressive/unrealistic fiscal plans/projections put forward by the President.
- Upshot being, given *President Prabowo's aggressive populist policies that sometimes bend fiscal feasibility it is* **critical to project fiscal credibility** to temper risks and assure investors.
- And (ex-)**FinMin Indrawati did precisely that**. As an independent figure with **a track record of objectivity,** *and when required,* **objections**. Whereas the onus may be on in-coming FinMin Prubaya to reassure investors that fiscal integrity will not be compromised.
- *Making matters worse,* that this **follows hot on the heels of Bank Indonesia's "burden sharing" arrangement,** which we warned* was problematic of policy/macro stability even with FinMin Indrawati's backing. Specifically, "burden sharing" **undermines monetary policy** by *potentially subordinating it to fiscal objectives.*
- Consequently, the worse-case iterations **threaten to subject rupiah to debasement** from *debt monetization risks* (perceived or real).
- This **feeds off, and into, mounting risks of wider credit spreads** *exacerbated by rising global term premium* to d**rive up Indonesia's yields** (pressuring bond prices).
- That will inevitably present itself as a **higher effective cost of capital** burdening growth. And more so as "crowding out" pressures also rise.For now, Bank Indonesia will have to watch macro/FX-stability closely and lean against capital outflows risks. As a corollary, this might **compromise scope to ease** as the ***trade-off with rupiah stability sharpens***.