



# **DEFAULT STUDY REPORT**

2019 - 2025

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## I. GLOBAL AND DOMESTIC MACROECONOMIC CONDITION

The global macroeconomic landscape in 2025 has been defined by “tenuous resilience” – the ability of the global economy to withstand significant trade policy shifts and geopolitical friction. As we move into 2026, the narrative is shifting toward a steady but divergent normalization, where technology investment (Artificial Intelligence – AI) and easing financial conditions are balancing out structural headwinds.

### **I.1. 2025 Analysis: The Year of “The Pivot”**

In 2025, the global economy performed better than many analysts feared, with growth estimated at approximately 3.2% – 3.3%:

- **Trade Volatility and Front-Loading:** The year was dominated by shifts in U.S. trade policy. Anticipation of higher tariffs led to a massive “front-loading” of shipments early in the year which artificially boosted trade figures but created a cooling effect in late 2025.
- **Inflation’s Stubborn Tail:** While global headline inflation continued to fall, the U.S. saw a “tariff-related spike” in the second half of 2025, with core PCE lingering around 3.4%. In contrast, the Eurozone and China faced disinflationary pressures, with the latter struggling against Price Purchasing Index (PPI) deflation.
- **The AI Investment Wave:** A massive surge in capital expenditure toward AI infrastructure acted as a crucial counterweight to high interest rates, particularly in North America and East Asia.

### **I.2. Inflation and Interest Rates: A Uneven Descent**

The “last mile” of disinflation proved difficult in 2025, with major central banks following divergent paths:

- **The U.S. Inflation Spike:** Unlike other regions, U.S. core inflation (PCE) remained “uncomfortably firm” at 3.4% in the second half of the year, driven by the pass-through effect of higher tariffs on consumer goods.
- **Monetary Policy Pivot:** The Fed executed a “cautious pivot”, cutting rates by approximately 75 basis points by October 2025, but pausing later in the year due to tariff induced price pressures.
  - **The ECB and BoE:** Both moved toward more accommodative territory as Eurozone inflation stabilized near 2%, through the U.K. saw a late-year peak of 4% due to service sector wage stickiness.
  - **Emerging Markets:** Countries like India and Brazil maintained robust frameworks, though they faced currency volatility as the U.S. Dollar remained stronger for longer than expected.

### **I.3. Key Themes of 2025**

- **The Shift to Industrial Policy**

2025 marked a definitive move away from traditional globalization toward “strategic autonomy”. Governments increasingly used industrial policies to jump-start domestic manufacturing in green energy and semiconductors. While boosting short-term domestic activity, this has led to:

  - Suboptimal resource allocation.
  - Higher consumer prices for onshored goods.
  - Increased fiscal deficits at a time of elevated debt.
- **Labor Market Softening**

While unemployment remained low by historical standards, signs of cooling emerged. Job openings fell below 2019 levels in several OECD countries, and net international migration flows into North America plunged, creating labor supply constraints in construction and healthcare.

- **Financial Market Volatility**  
The “AI Boom” of 2025 has been compared to the late 90s dot-com era. Stretched asset valuations and high optimism around tech earnings created “fragility”, with any missed earnings or regulatory hurdles causing sharp, short-term market corrections throughout the year.

**Table 1: GDP Growth (%) and Primary Driver and Risk**

Region	2025 GDP Growth (Est.)	Primary Driver and Risk
United States	2.0% – 2.1%	Driver: AI Investment; Risk : Tariff-driven inflation
Euro Zone	1.2% – 1.4%	Driver: Domestic demand; Risk: Industrial sector weakness
China	4.5% – 5.0%	Driver: Fiscal stimulus; Risk: Property sector and trade wars
India	6.5% – 6.8%	Driver: Public investment and young demographics
Global	3.2%	Overall: Resilient but fragile

Source: IMF

#### I.4. Global Macroeconomic Outlook in 2026

The 2026 global macroeconomic environment is characterized by “Sturdy Resilience” – a state where the world economy has adapted to the high-interest rate shocks of the early 2020s and the trade volatility of 2025. While growth is stable at around 3.1% to 3.3%, the “divergence” between regions is the defining feature of the year.

##### I.4.1. Growth and Inflation: The “Soft Landing” Solidifies

The global economy is successfully navigating a transition from post-pandemic recovery to a new structural norm. The global GDP growth is projected at 3.3% (IMF) to 2.8% (Goldman Sachs). The variance depends on how much credit analysts give to AI-driven productivity. Global headline inflation is falling toward 3.1% – 3.8%. In advanced economies, it is hitting the 2% target, though the U.S. is seeing a “stubborn tail” (likely 2.7% – 3.0% in early 2026) due to the pass-through of 2025 tariffs. And, for the first time, AI is moving the “macro needle”. AI-related capital expenditure (CapEx) is acting as a shock absorber against trade tensions, contributing roughly 0.1 to 0.5 percentage points to annual GDP in tech-heavy nations.

##### I.4.2. Regional Deep-Dive: Winners and Laggards

The “Great Divergence” is widening as countries respond differently to technological shifts and trade fragmentation.

**Table 2: Forecast of GDP Growth in 2026 (%) and Primary Driver and Risk**

Region	2026 GDP Growth (Est.)	Primary Driver and Risk
United States	2.4% – 2.6%	Fiscal Tailwind: Bill Act and AI CapEx
China	4.5% – 4.8%	Manufacturing Pivot: Moving toward high-tech exports to bypass tariffs.
India	6.5% – 6.8%	Demographic dividend: Overtaking Japan as the world’s 4 <sup>th</sup> largest economy
Eurozone	1.1% – 1.3%	Stagnation: Energy costs and lack of AI investment growth “lacklustre”.
U.K.	-1.0%	Tightrope: Struggling with low productivity and structural trade barriers.

### **I.4.3. Monetary Policy: The Return to “Neutral”**

2026 is the year of the Policy Normalization. The era of emergency hikes is over and central banks are seeking the “neutral rate” – the rate that neither stimulates nor restricts the economy.

- Federal Reserve: Expected to cut rates to 3.0% – 3.25% by year-end. A new Fed Chair (following Jerome Powell’s term ending in May 2026) will be the market primary focus.
- ECB: Rates are settling near 2.0%. With inflation potentially undershooting 2% in early 2026 due to energy base effects, the ECB may remain more dovish than the Fed.
- Bank of Japan: In a rare reversal, Japan is hiking (targeting 1.0%) as it finally escapes its decades-long deflationary gap.

### **I.4.4. Key Risks: The “Three Fragilities”**

Despite the sturdy growth, three major systemic risks loom over 2026.

- The USMCA Renegotiation: Trade relations in North America are under the microscope. This is cited as the most important trade event of the year, with the potential to disrupt integrated supply chains.
- The AI Bubble Risk: Markets are highly concentrated in the “Magnificent Seven”. If the massive infrastructure spending on data centers does not translate into broad-based corporate earnings by second half of 2026, a “Dotcom-style” correction is possible.
- Fiscal Exhaustion: Governments have spent their “buffers”. With high debt-to-GDP ratios globally, there is very little “dry powder” left if a new geopolitical shock (e.g. Middle East or South China Sea) occurs.

## **I.5. Indonesia Macroeconomic Condition in 2025**

In 2025, Indonesia’s economy proved resilient, navigating a significant political transition while maintaining a steady growth near 5%. The year was defined by the first full year of President Prabowo Subianto’s administration, characterized by “continuity with a twist” – maintaining the previous decade’s infrastructure focus while introducing massive social programs.

### **I.5.1. Growth Performance: The “Steady 5%”**

Despite global volatility and trade tensions, Indonesia’s GDP growth remained remarkably stable, supported by domestic consumption and late-year recovery in investment.

- Real GDP Growth: Final figures for 2025 averaged 5.0% to 5.1%.
- Key Growth Quarters:
  - Q1: 4.87% (transition period caution)
  - Q2: 5.12% (boosted by religious holidays and early government spending)
  - Q3: 5.04% (sustained by service sector strength)
- Sector Winners: Other services (education, health) and transportation were the standout performers, growing by over 10% YoY. Manufacturing remained steady but faced pressure from global demand shifts.

### **I.5.2. Inflation and Monetary Policy**

Inflation was a primary concern in early 2025 due to a planned (and later modified) VAT hike and currency pressure, but it ended the year well-contained.

- Headline Inflation: Ended the year at 2.9% YoY.
- The VAT Story: The government originally planned to raise VAT to 12% on January 1, 2025. To protect purchasing power, it eventually adopted a “selective increase”, keeping rates steady for general goods while targeting luxury items.
- Interest Rates (BI Rate): Bank Indonesia (BI) maintained a cautious stance. After holding rates early in the year to support the Rupiah, BI began a cutting cycle in the second half of 2025 as the Fed eased, ending the year with the BI Rate around 5.0% – 5.25%.

### I.5.3. Fiscal Policy: The “Prabowo Programs”

2025 marked the debut of significant new fiscal commitments that tested Indonesia’s 3% budget deficit gap.

- Free Nutritious Meals: The flagship program for students was officially launched, requiring significant budget reallocation.
- Danantara: The establishment of the Danantara sovereign wealth fund began to consolidate state assets to leverage private investment.
- Fiscal Deficit: The deficit widened to approximately 2.7% – 2.8% of GDP, nearing the legal limit of 3% but remaining within it to preserve investor confidence.

### I.5.4. External Policy and Currency

The Rupiah faced a “rollercoaster” year in 2025, driven by the U.S. Dollar’s strength and geopolitical trade concerns. The Rupiah averaged around IDR 15,800 – 16,200 per USD. Indonesia maintained a trade surplus, though it narrowed compared to the “commodity boom” years as coal and palm oil prices stabilized at lower levels. The foreign reserves stayed robust at over USD 150 billion, providing a strong buffer against capital outflows.

### I.5.5. Structural Challenges Noted in 2025

- Middle-Class Squeeze: Reports from the World Bank highlighted that while the poor were supported by social safety nets, the “aspiring middle class” faced stagnant wage growth and rising costs.
- Labor Market: Layoffs in labor-intensive sectors (textile and footwear) reached high levels, prompting calls for more aggressive industrial reforms.

### I.6. Indonesia Macroeconomic Forecast Condition in 2026

As of late January 2026, Indonesia’s macroeconomic outlook is characterized by “Resilient Acceleration”. Following a steady 2025, the economy is entering 2026 with stronger momentum, driven by a combination of aggressive domestic social spending, a stabilizing Rupiah, and the continued “downstreaming” of natural resources.

On January 21, 2026, the IMF upgraded its growth forecast for Indonesia, signalling international confidence in the country’s fiscal management under the President Prabowo Subianto administration. The Indonesian government and international institutions remained largely aligned, though the government remain more optimistic about breaking “the 5% trap”.

**Table 3: Indonesia’s Key Macroeconomic Targets in 2026**

Indicator	Projection range	Notes
GDP Growth	5.1% – 5.4%	IMF projects 5.1%; Government targets up to 5.4%
Inflation	2.0% – 3.0%	Remains within Bank Indonesia’s target range
Exchange Rate	IDR 16,400 – 16,900	IDR per USD; under pressure from global interest rates
Fiscal Deficit	-2.5% – 2.9%	Kept below the 3% legal cap to maintain discipline
BI Rate	4.0% – 4.75%	Potential for easing if global conditions permit

### **I.6.1. Major Growth Drivers**

- Domestic Consumption: Continues to be the bedrock of the economy, contributing over 50% of GDP. Government social programs (including the “free meals” initiative) are intended to support this.
- Downstream Industrialization: The government is doubling down on “*hilirisasi*” (processing raw minerals like nickel and copper locally) to boost export value and attract foreign direct investment (FDI).
- Infrastructure and Digitalization: Continued spending on the new capital city (IKN) and a push to leverage AI and the digital economy are key components of the 2026 State Budget.

### **I.6.2. Emerging Risks and Challenges**

Despite the stable outlook, several factors are causing concern among economists:

- Purchasing Power: While inflation is low, real wage growth has been stagnant. This is creating a “stability paradox” where the economy grows but the middle class feels squeezed.
- Global Trade Tensions: Potential tariff wars (especially between the U.S. and China) continued to threaten Indonesian export demand and create volatility in capital flows.
- Labor Market: High youth unemployment and a cooling manufacturing sector (PMI hovering near 50) suggest that growth is not creating enough high quality jobs.
- Debt Servicing: Increased government spending on social and defense programs has led to higher debt issuance, which may keep bond yields elevated.

### **I.6.3. Summary Sentiment**

The consensus for 2026 is “Resilient, but Acceleration Elusive”. Indonesia is successfully maintaining its 5% growth floor, but reaching the 8% target set by President Prabowo Subianto for the end of the decade remains a significant upward climb that will require deeper structural reforms beyond just government spending.

## II. BACKGROUND

PT Kredit Rating Indonesia (KRI) maintains that the Indonesian economy remains resilient, with GDP growth projected at approximately 5% for 2025—consistent with the 5.02% growth recorded in 2024. This stability is driven largely by the education sector, bolstered by the "*Makan Bergizi Gratis*" (Free Nutritious Meals) program. Additionally, the government's "Free Medical Check-up" initiative serves as a primary catalyst for growth within the healthcare sector. Meanwhile, inflation remains steady at 2.9% YoY in 2025, aided by the government's decision to postpone the VAT increase to 12% to preserve consumer purchasing power.

Although the Indonesia's macroeconomic depicts a steady and positive conditions in 2025, but we see some risks continue to linger in 2026. Those risks are:

- Global economic uncertainty placed significant pressure on the Indonesian Rupiah throughout 2025. The currency depreciated from IDR 16,237/USD on January 1 to IDR 16,872/USD by year-end. This decline was primarily triggered by new U.S. trade tariffs on Indonesian goods, which heightened investor risk aversion toward domestic assets. Furthermore, elevated U.S. bond yields and substantial foreign debt obligations intensified the downward pressure on the Rupiah.
- Indonesia is witnessing a significant erosion of disposable income, particularly among the middle class—the nation's largest demographic. Despite rising nominal wages, escalating living costs have effectively weakened consumer purchasing power. If this trend persists, the resulting contraction in domestic consumption is expected to dampen Indonesia's long-term GDP growth.

Given the above and to test our credit rating methodology, KRI has analysed all of the companies as well as debt notes that have been rated by KRI related to their default events that takes place after the ratings have been issued. Such events, especially in 2025, may have a high degree of relationship to the conditions occurred in domestic as well as global economic conditions.

### III. Definition

#### **III.1. Population:**

KRI uses two types of data population for this default study research report:

- Company rated: The cumulative number of companies rated by KRI. We do not recount one company that already being rated by KRI, if this company resubmit a company rating mandate.
- Debt instrument rated: We refer this as the sum of all debt instruments value rated by KRI. We count not only the cumulative amount of debt instruments that have been successfully rated and issued by the companies, but also debt instruments that have been rated but not successfully issued.

#### **III.2. Observation Period:**

KRI uses the latest ratings for the companies or the debt instruments each year during the 2019 – 2024 periods. Therefore, if a company or debt instrument rating has an upgrade or downgrade rating during this periods, then we use the latest rating at the year when the rating changed.

Example: If Company A had “*ir*BBB+” rating in 2019, and KRI upgraded its rating to “*ir*A-” in 2024, then we use “*ir*BBB+” rating in 2019 and “*ir*A-” in 2024. If this Company defaulted its financial obligations in 2021, then we count this event as a default for “*ir*A-” rating only.

#### **III.3. Rating Classifications:**

KRI diversifies its rating classification with letters and plus (+) or negative (-) signs. The rating classifications as well as their definitions are as follows:

Rating	Definition
<i>ir</i> AAA	Obligor with <i>ir</i> AAA rating has the highest level of certainty to honor its financial obligations. <i>ir</i> AAA rating is the highest rating for Obligor given by KRI.
<i>ir</i> AA	Obligor with <i>ir</i> AA rating has the a very high level of certainty to honor its financial obligations. There is, however, a slight difference in the rating scale with the highest qualification level of Obligor.
<i>ir</i> A	Obligor with <i>ir</i> A rating has a high level of certainty to honor its financial obligations, but it can be affected by adverse changes in business and economic conditions, relative to Obligor with a higher rating.
<i>ir</i> BBB	Obligor with <i>ir</i> BBB rating has an adequate level of certainty to honor its financial obligations. However, this certainty is more likely to diminish in the future than with the higher rating categories.
<i>ir</i> BB	Obligor with <i>ir</i> BB rating, although the Obligor's capacity to meet its financial obligations has not been declared problematic, the Obligor is vulnerable to uncertainty and adverse changes in business, financial or economic conditions, which can cause the Obligor to be unable to meet its financial obligations.
<i>ir</i> B	Obligor with <i>ir</i> B rating has a lower capability level to meet its financial obligations than an Obligor with a credit rating scale above it, even though currently the Obligor is still able to meet its financial obligations. However, adverse changes in business, financial and economic conditions will be able to reduce the Obligor's ability and willingness to fulfill its financial obligations as promised.
<i>ir</i> CCC	Obligor with <i>ir</i> CCC rating has several uncertainties about the Obligor in fulfilling its financial obligations, and is highly dependent on changes in business, financial and economic conditions that can support its capability to meet its financial obligations, so there is a possibility of default.
<i>ir</i> SD	Obligor with <i>ir</i> SD rating has defaulted on certain financial obligations that have been agreed and promised to be paid, but the Obligor is still able to meet other financial obligations in a timely manner.

<i>ir</i> <b>D</b>	Obligor with <i>ir</i> <b>D</b> rating has defaulted on all of its financial obligations, or the Obligor is not expected to be able to meet all or most of its financial obligations when they fall due.
<b>+</b>	The plus sign (+) indicates that the rating given is closer to the rating scale above it.
<b>-</b>	The minus sign (-) indicates that the rating is still higher than the rating category below, although it is closer to the lower rating than it is to the higher rating category.

However, for this default study report we do not divide the rating classification with the plus or minus sign. We classify the rating based only on its rating signs, which are AAA, AA, A, BBB, BB, B, CCC, SD, and D.

#### **III.4. Terminology of Default:**

- Debt instrument default: At the due date, the issuer of the debt instrument failed to pay the interest as well as the principal of the specific debt instrument issued and rated by KRI.
- Company default: A condition where a company failed to pay the debt instruments issued or other financial obligations.

## IV. Default Rate Analysis

### IV.1. Default Rate Based on Observation Period

To calculate the default rate based on observation period, or during 2019 – 2025, first we have to determine the definition of debt instruments default rate and company default rate. The terminology of debt instrument default rate uses in this report is the percentage of total cumulative value of defaulted debt instruments that have been rated by KRI up to time t, divided by the total cumulative value of debt instruments that have been rated by KRI up to time t. The formulation is as follows:

$$DIDR_t = \frac{\sum_{n=1}^t TDI_n}{\sum_{n=1}^t VIR_n}$$

Where:

$DIDR_t$  = Debt instrument default rate at time t

$TDI_n$  = Total value of default instrument from 2019 – 2025

$VIR_n$  = Total value of instrument rated from 2019 – 2025

n = Observation period, or from 2019 – 2025

t = Cut of observation period or at the end of 2025

The terminology of company default rate is the cumulative number of companies that have been rated by KRI and evidently failed to pay its debt instruments principal or coupons payment punctually, or other financial obligations. The calculation formula for this company default rate is as follows:

$$CDR_t = \frac{\sum_{n=1}^t CD_n}{\sum_{n=1}^t CR_n}$$

$CDR_t$  = Company default rate at time t

$CD_n$  = Cumulative number of defaulted companies from 2019 – 2025

$CR_n$  = Cumulative number of companies rated by KRI in 2019 – 2025

n = Observation period, or from 2019 – 2025

t = Cut of observation period or at the end of 2025

The cumulative number of companies and cumulative amount of instruments rated by KRI during 2019 – 2025 periods is as follows:

Year	Cumulative Number of Companies Rated by KRI	Cumulative Value of Instrument Rated by KRI (IDR, trillion)
2019	15	12.76
2020	35	29.58
2021	49	47.67
2022	78	63.22
2023	100	76.05
2024	114	109.24
2025	125	119.07

Based on the above cumulative number of companies rated by KRI and cumulative value of instruments rated by KRI during 2019 – 2025, the cumulative number of companies that failed to pay its financial obligations were four companies which happened in 2020, 2024, and 2025. The cumulative amount of defaulted debt instruments rated by KRI were IDR 3,350,000,000,000.00.

Given these, the company default rate and debt instrument default rate were 3.20% and 3.28%, as calculated below:

$$CDR_{2025} = \frac{4}{125} = 3.20\%;$$

$$DIDR_{2025} = \frac{IDR\ 3.910,000,000,000,-}{IDR\ 119.065,310,000,000,-} = 3.28\%$$

#### **IV.2. Default Rate Based on Rating Classification**

To calculate the default rate based on rating classification during 2019 – 2025, first we calculate the total rating mandate and completed by KRI for each rating classification. And, during such period, KRI has received and rated 115 companies as well as debt instruments. From this cumulative mandates and completed rating, we have calculated the default rate for each rating classification as shown in the table below:

<b>Rating</b>	<b>Number of default case</b>
<i>ir</i> AAA	-
<i>ir</i> AA	-
<i>ir</i> A	1
<i>ir</i> BBB	2
<i>ir</i> BB	-
<i>ir</i> B	-
<i>ir</i> CCC	1

Based on the gathered data, we notice that two debt and company rating assignments that had *ir*A and *ir*CCC ratings have defaulted, and two company rating assignments that had *ir*BBB, ratings have defaulted during 2019 – 2025 periods.

#### **IV.3. Default Rate Based on Sector**

To calculate the default rate based on sector during 2019 – 2025, first we divide our sector classifications into three categories, namely CORPORATES for non-financial institutions companies, and FINACIAL INSTITUTIONS for financial institutions companies, and OTHER for other types of debt instruments besides bond and medium-term notes rated by KRI, such as asset-backed securities, DIRE, etc. From the cumulative mandates and completed, we calculated the default rate for each sector based on the following formula:

$$DRS_{rc} = \frac{\sum_{n=1}^t Sec_n}{\sum_{n=1}^t MR_n}$$

DRS<sub>rc</sub>= Default rate based on each sector during 2019 – 2025

Sec<sub>n</sub> = Default rate based on each sector in 2019 – 2025

MR<sub>n</sub> = Cumulative mandates received and completely rated in 2019 – 2025

n = Observation period, or from 2019 – 2025

t = Cut of observation period or at the end of 2025

Based on the data gathered, we noticed that only three assignments from Corporates that have defaulted in 2019 – 2025 period. As such, the default rate for CORPORATES was 3.20%.

$$DRS_{CORPORATES} = \frac{4}{125} = 3.20\%$$