

Indonesia: MSCI reclassification proposal

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Key takeaways

- MSCI's proposed reclassification of Indonesia would exclude it from Emerging and Frontier indices, triggering passive outflows.
- Material progress this year on market reforms calls into question the case for a market-wide downgrade.
- Depressed valuations contrast with resilient economic fundamentals and long-term growth prospects.
- The Redwheel Next Generation Emerging Markets Equity strategy has 4% exposure to Indonesia across five mining and e-commerce holdings, including two listed overseas.

On 15 October 2026, MSCI opened a consultation on a proposal to reclassify Indonesia from Emerging Market to Standalone Market status. No final decision has been made and the consultation runs until 30 April 2027, with a decision expected on or before 30 June 2027¹. Standalone status was not mentioned until this month and would place Indonesia outside MSCI's Emerging and Frontier indices. Such an exclusion would lead to forced selling by index-tracker funds but the market would remain open to active investors.

This move follows a review process initiated in January 2026 as MSCI assessed the Indonesian authorities' reform response and the results were expected in November. The initial review process arose from concerns over opaque ownership, limited genuinely tradeable shares and suspected coordinated trading, which called into question the reliability of free-float estimates and market pricing. It sought improvements in ownership disclosure and market functioning, with MSCI subsequently emphasising the need for consistent implementation and meaningful enforcement. The review was intended to encourage market reforms or consider reclassification to Frontier Market status.

The timing of this month's consultation and the lack of clearly defined criteria underpinning the proposal have surprised the investment community. MSCI stated: "Market participants have indicated that, to date, sufficient progress has not been observed consistently across the Indonesian equity market. Significant concerns remain around market dysfunction, including continued suspected coordinated trading behaviour and lack of evidence of meaningful enforcement."¹

Reform progress and the case for reclassification

Over the last few years, we have made our concerns about the opacity and quirks of the capital market known to the Indonesian Stock Exchange. This has led us to reduce exposure to Indonesia in recent years, despite the attractive bottom-up opportunities in this fast-growing and exciting economy. Indeed, we had originally welcomed MSCI's initial consultation and were encouraged to see the Indonesian authorities respond with material reforms.

We have observed healthy progress since the April 2026 review, with many of MSCI's initial demands regarding disclosure and free float requirements having been met or being addressed. MSCI acknowledges that the Indonesian Stock Exchange, IDX, has made significant progress in providing enhanced disclosure of ownership of shareholdings above 1%, including high shareholder concentration (HSC) lists on a regular basis. MSCI also acknowledges that IDX has provided a roadmap for a minimum free float of 15%¹; our conversations with companies with free float below 15% have revealed that many have

¹ MSCI, 15 October 2026

already started to work with bankers to float additional shares to satisfy the IDX requirement. For companies with a market capitalisation above Rp 5 trillion (approximately \$275 million), the minimum free float must reach 12.5% by March 2027 and 15% by March 2028². Since May 2026, MSCI removed five companies from the MSCI Indonesia index after they failed to meet free float and trading requirements.³

Interestingly, other index providers have taken a different approach. As recently as 6 October 2026, FTSE Russell acknowledged progress by regulators and listed companies and retained Indonesia’s Secondary Emerging Market classification.⁴

Historically, MSCI’s decisions to downgrade markets from Emerging Market to either Frontier Market or Standalone Market status have been based on three objective criteria: capital controls, lack of liquidity or an insufficient number of securities. None of these grounds for a downgrade applies to Indonesia, which has consistently met the corresponding requirements since attaining Emerging Market status.

In contrast, a downgrade for “market dysfunction” is subjective and raises questions about how such concerns are assessed and what would constitute sufficient evidence of improvement. If MSCI proceeds with downgrading Indonesia, it could set a concerning precedent for more subjective classification decisions - a concern also raised by the prospect of Turkey’s reclassification under a similar review process. In our view, any reclassification should be based on clear, measurable and consistently applied criteria; otherwise, confidence in the reliability of MSCI’s indices could be undermined. Excluding companies that fail investability standards and restricting new index additions pending reform would be more proportionate than the proposed market-wide reclassification.

We understand from our conversations with other EM investors that MSCI’s proposal comes as a surprise. Few of the investors that we have spoken to felt that their views had been properly considered during earlier reviews. MSCI’s reference to “market participants” is unclear and we have yet to see any single investment firm publicly supporting MSCI’s announcement and acknowledging themselves to be one of said “market participants”.

Market reaction and potential outflows

The consultation is open until 30 April 2027, with a final decision expected by 30 June. Many well-known investment banks estimate that a downgrade to Standalone Market status would result in passive outflows of approximately \$4.5bn from the equity market⁵, which would depress valuations. However, we believe local domestic institutions have in excess of \$100bn liquidity which could easily absorb even 100% of both active and passive international outflows of approximately \$15bn in total. We intend to engage with MSCI during the consultation to make our views understood.

Nevertheless, the market has already begun to recover from what we believe was an overreaction to MSCI’s proposal. Indonesian equities rebounded sharply on 20 October, recovering a substantial portion of the initial sell-off: the MSCI Indonesia Index’s month-to-date loss narrowed from 19.1% to 11.0% in USD terms.

Table 1: Performance of the five largest companies in MSCI Indonesia by market capitalisation

Company / index	MTD to Market Lows (19 Oct)	Rebound (19-20 Oct)	YTD to 20 Oct
Bank Central Asia	-21.3%	8.3%	-37.1%
Bank Rakyat Indonesia	-19.8%	10.2%	-24.6%
Bank Mandiri	-16.9%	10.2%	-24.1%
Telkom Indonesia	-23.3%	16.8%	-40.6%
Astra International	-9.1%	9.3%	-33.1%
MSCI Indonesia Index	-19.1%	10.0%	-45.8%

Source: Redwheel, Bloomberg, MSCI, as of 20 October 2026. Total returns in USD. MTD measured from 30 September 2026, YTD from 30 December 2025. The information shown above is for illustrative purposes. Past performance is not a guide to the future.

² PWC, April 2026

³ Bloomberg, 20 October 2026

⁴ FTSE Russell, October 2026

⁵ Bloomberg News, 20 October 2026

Valuations and portfolio positioning

We have materially reduced exposure to Indonesia since 2024 in response to uncertainty surrounding Indonesia's MSCI index status. However, in our assessment, valuations are beginning to look dislocated from fundamentals. With the index trading on 7.6x forward earnings⁶ - more than two standard deviations below its long-run historical average - Indonesia is beginning to present what could be a compelling entry point into a structurally attractive economy. We believe that credible implementation of ownership-transparency and free-float reforms could restore international investor confidence and unlock meaningful re-rating potential. As an index-agnostic strategy, we retain the flexibility to increase our allocation materially as evidence of reform progress accumulates.

As of 20 October 2026, the Redwheel Next Gen EM Equity strategy has 4.0% exposure in Indonesia, comprising holdings in three mining companies and two e-commerce companies. Three holdings are listed in Indonesia, one is listed in the US and another in Australia. The latter two companies should be unaffected by an index reclassification.

Table 2: Portfolio exposure to Indonesia

Holding	Weight in strategy (%)	Description	Country of Listing	Revenue Currency
Amman Mineral International	1.6	Copper & Gold Miner	Indonesia	USD
Grab Holdings	0.9	Multiservice platform	US	USD
Nickel Industries	0.8	Nickel Producer	Australia	USD
GoTo Gojek Tokopedia	0.5	Multiservice Platform	Indonesia	IDR
Trimegah Bangun Persada	0.3	Nickel Miner	Indonesia	IDR
Total	4.0*			

Source: Redwheel, 20 October 2026 *Figures may not sum due to rounding. Portfolio holdings are subject to change at any time without notice. This information should not be construed as a recommendation to purchase or sell any security.

Indonesia’s underlying fundamentals

Real GDP Growth Forecast: (Redwheel economist estimates)
2026: 4.8%
2027: 5.2%

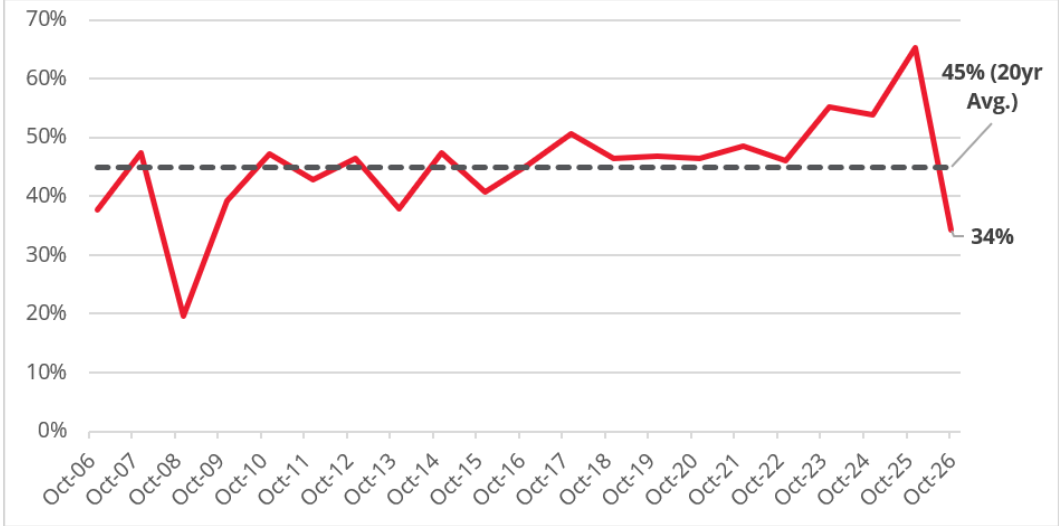
Our conviction in Indonesia rests on its demographic scale, abundant natural resources - including coal, palm oil, nickel and copper - industrial transformation and tourism industry. With 286 million people, the world’s fourth most populous nation offers substantial opportunities across consumer goods, financial services and digital products. Economic growth of 5.4% in the first half of 2026 reinforces the case. Supplying roughly two-thirds of global mined nickel, Indonesia is investing in downstream processing to capture greater value across industrial and battery supply chains. Tourism offers a further growth avenue, with foreign arrivals expected to surpass pre-pandemic levels for the first time in 2026, and rising foreign-exchange earnings providing a source of support for the rupiah.⁶

Macroeconomic buffers provide additional support, with foreign reserves of \$146.3bn and public debt of approximately 40% of GDP. Inflation of 3.3% remains within Bank Indonesia’s target range, while the fiscal deficit in the year-to-date through September was 1.2% of GDP.⁶ Notably, the recent equity sell-off likely reflects uncertainty over MSCI’s proposed reclassification rather than a deterioration in economic fundamentals.

Indonesia’s equity market capitalisation to GDP ratio is now well below its long-run average.

⁶ Bloomberg, 20 October 2026

Chart 1: Indonesia: Equity market cap to GDP ratio



Source: Redwheel, Bloomberg, 20 October 2026. The information shown above is for illustrative purposes. Past performance is not a guide to the future.

In the early 2000s, Asian equities were booming and global investors began treating ASEAN as an asset class of its own. The case rested on a large and young population, resilient domestic spending and healthier balance sheets. The table below compares each argument for Indonesia today.

Table 3: Indonesia’s investment case: then and now

Metric	Original thesis twenty years ago	Current thesis	Our assessment
Market Valuation	Forward P/E around 14x, divi yield around 2.5%	Forward P/E of around 7.5x and divi yield around 8.5%	Much more attractively valued
Market depth	Approximately US\$0.2tn, with around 380 listed companies	Approximately US\$0.6tn, with 834–956 listed companies and 8.6m equity investors	Substantially deeper
Economy	Approximately US\$0.4tn, expanding at around 6%	Approximately US\$1.4tn, with growth around 5% (5.29% in Q2 2026)	Larger, with steady growth
Currency	Approximately Rp 9,400 per US dollar	Approximately Rp 17,600 per US dollar; around 46% weaker in dollar terms	Weaker exchange rate, supportive for dollar-earning miners
Fiscal	Government debt declining	Low debt; fiscal deficit approaching the 3% legal ceiling (2.7% target; OECD estimate around 3.0%)	Sound, but warrants monitoring
Consumer Spending	Household consumption underpins growth	Still accounts for more than half of GDP, although credit growth and purchasing power remain subdued	Still supportive, but softer
Credit quality	Sub-investment-grade ratings	Investment rating	Improved, with greater uncertainty
Foreign participation	Limited access	MSCI identifies “no issues” with foreign ownership limits	Improved access

Demographics	World's fourth-largest population, with a young workforce	Around 285m people; investors under 40 hold 79% of accounts	Remains supportive
Ownership structures, free float	Not a central consideration	Minimum free float of 7.5% until 2026, now rising to 15% through a phased transition to 2029; ownership transparency remains limited	The focus point today

Sources: Redwheel, Bank Indonesia, OECD, 20 October 2026. The information shown above is for illustrative purposes. Past performance is not a guide to the future.

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