

External debt:

Lower debt in the face of uncertainty

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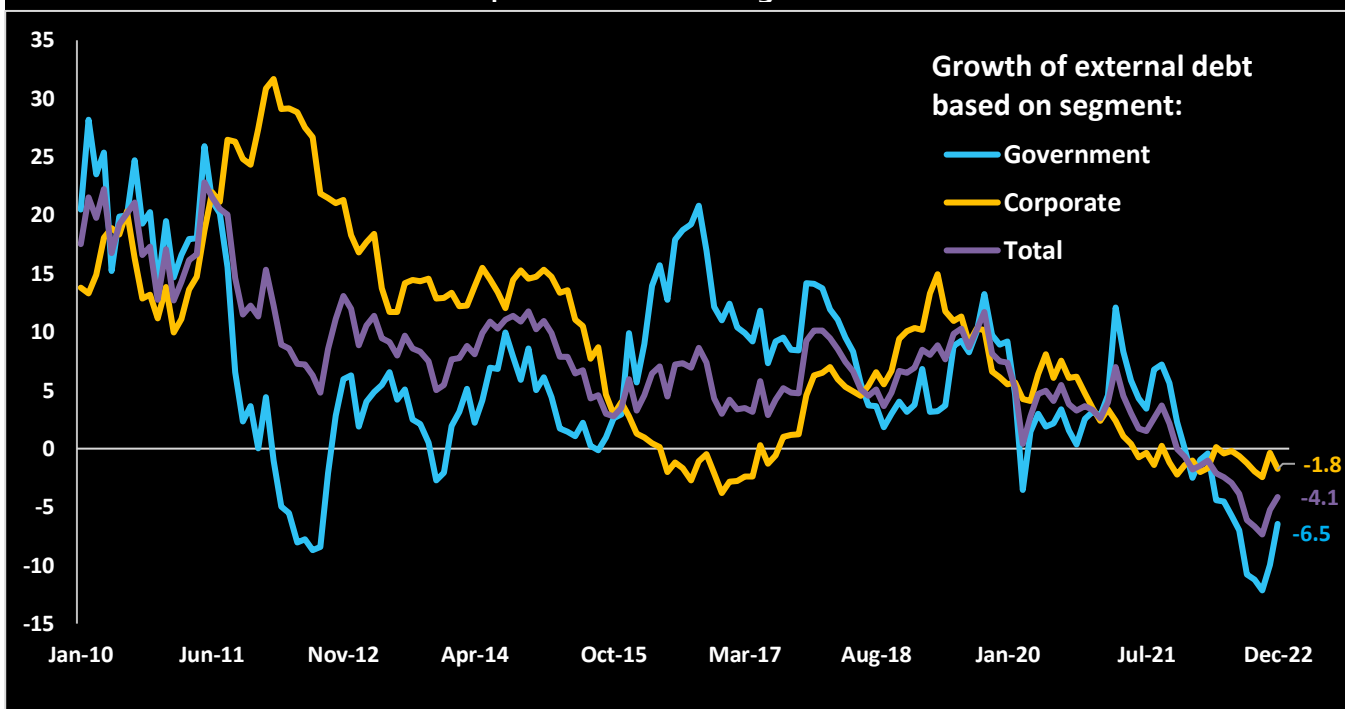
Executive Summary

- Indonesia's external debt stands at USD 396.8 Bn as of the end of Q4-22, a decline of 4.1% YoY, with the decline of external debt within the government sector (-6.8% YoY) outpacing that of the corporate sector (-1.8% YoY).
- The government's weaker external debt growth is likely related to an increase in revenue. This trend would likely continue due to the government's commitment to keep the budget deficit under 3%.
- Decline of external debt within the corporate sector is driven by SOEs, likely related to Pertamina's fuel hike in Sep-22. However, Pertamina's financing needs could still flare up in the near-term, both due to the gap between global and retail fuel prices, as well as the need to service maturing FX bonds.
- With the government and corporations more circumspect about taking on external debt, the main risk, then, boils down to SOEs – especially those facing a currency mismatch between revenue (in IDR) and expenses (in USD). However, Rupiah's resilience would mean that this risk should remain manageable.

- Indonesia's external debt stands at USD 396.8 Bn as of the end of Q4-22, a decline of 4.1% YoY. The decline of external debt within the government sector (-6.8% YoY) far outpaced that of the corporate sector (-1.8% YoY) (**Panel 1**).
- The government's weaker external debt growth is likely related to an increase in revenue, both taxes and non-taxes, which has boosted its cash reserves. Moreover, the government has pledged to keep the budget deficit to under 3%, which could mean that this trend might continue. There may be an uptick of external debt in early 2023, as the MoF frontloads bond issuance (especially FX) to take advantage of still-quite-favorable global liquidity, but overall government debt growth is likely to be on a downtrend for the next few years.
- On the corporate side, a large proportion of the decline was driven by state-owned enterprises (SOE), likely led by Pertamina. The fuel price hike in Sep-22, coupled with an injection of fuel compensation funds by the government, has reduced some of the financing pressures that Pertamina had been facing due to high global oil prices. However, SOE financing needs could still flare up in the near-term, both due to the gap between global and retail fuel prices, as well as the need to service maturing FX bonds.

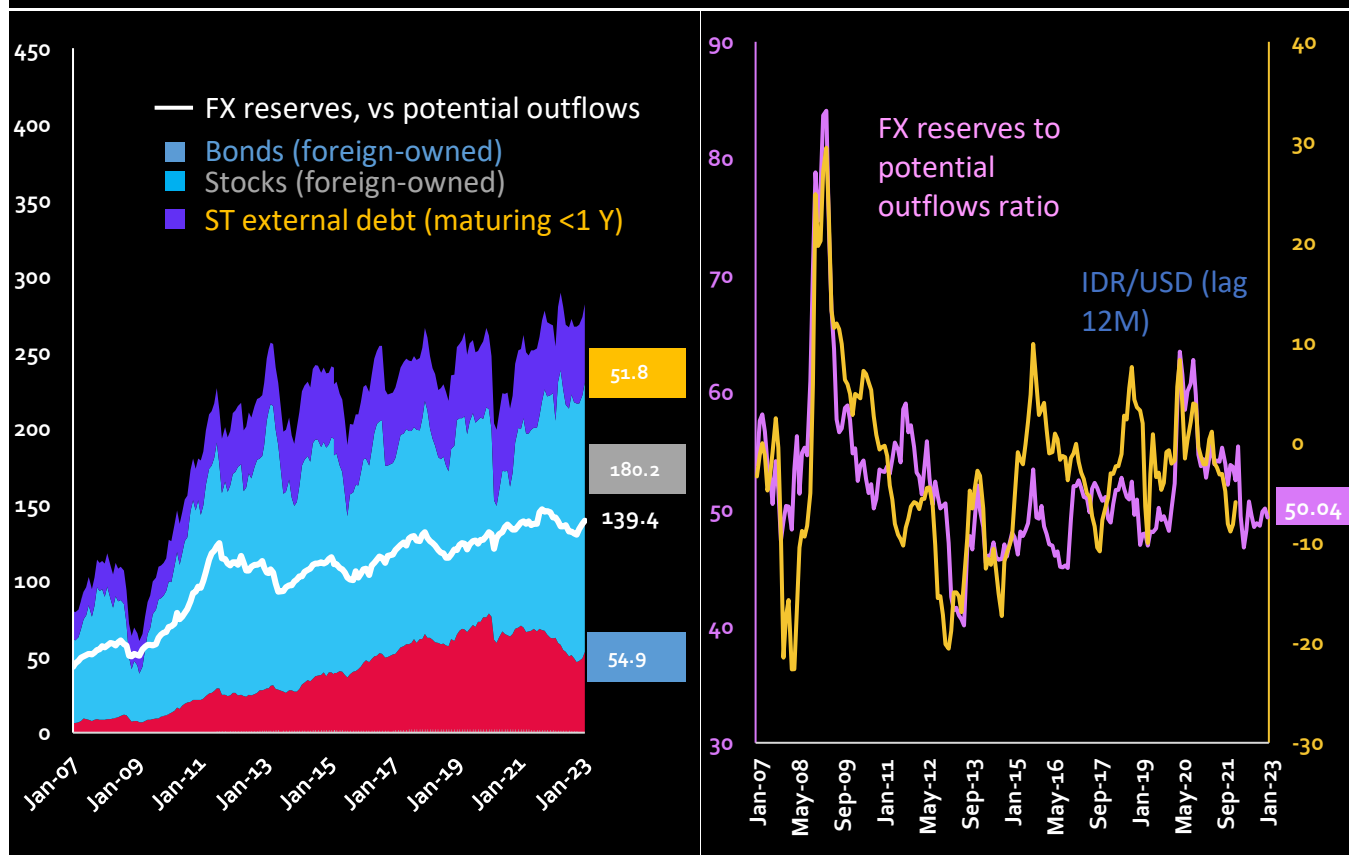
- Meanwhile, the decline in external debt uptake by financial institution (-2.8% YoY) surpasses that of non-financial corporations (-1.5% YoY), which is likely driven by the improving domestic FX liquidity. In 2022, state-owned banks were one of the biggest issuer of external foreign debt, in part due to limited FX liquidity as export proceeds (DHE, devisa hasil ekspor) were often not repatriated back to the country. With foreign inflows returning (especially for bonds) and BI adopting its new and stricter DHE framework, there should be more FX liquidity available for banks, thus reducing the urgency to issue new foreign debt.
- When broken down by sectors, sectors with the largest decline in external debt include (1) real estate; (2) construction; (3) agriculture, farming, forestry, and fishing; and (4) trade. It is possible that a decline in external borrowing in industries such as real estate and construction could be attributed to the potential decline or delay in demand for properties due to higher rates and slowing domestic growth. At the same time, the agro-industries seem to be more conservative due to uncertain global outlook, especially with last year's bumper prices proving to be short-lived.
- With the government and corporations more circumspect about taking on external debt, the main risk, then, boils down to SOEs – especially those facing a currency mismatch between revenue (in IDR) and expenses (in USD). Rupiah's resilience amid incessant speculations about global rate outlook and commodity prices means that this risk should remain manageable. In fact, the recent increase in FX reserves has meant that our main external debt risk indicator (FX reserves divided by short-term external debt) is starting to improve, after reaching a low point in mid-2022 (**Panel 2**).

Panel 1. The decline of external debt within the government sector has outpaced that of the corporate sector throughout 2022



Source: BI, calculation by BCA Economic Research

Panel 2. Indonesia's main external debt risk indicator (FX reserves divided by short-term external debt) is starting to show signs of improvement



Source: BI, KSEI, MoE, calculation by BCA Economic Research

Table 1. External Debt Position of Indonesia (USD Million)

		2019	2020	2021	2022	Dec-21	Dec-22
Short Term Debt ≤ 1 year	<i>Government and Central Bank</i>	918	136	130	969	284	969
	1.1 <i>Government</i>	661	118	107	336	162	336
	1.2 <i>Central Bank</i>	258	18	23	633	122	633
	<i>Private</i>	44,066	43,209	47,799	49,404	51,230	49,404
	Total	44,984	43,345	47,930	50,374	51,514	50,374
Long Term Debt > 1 year	<i>Government and Central Bank</i>	201,954	209,109	209,075	194,703	189,874	194,703
	1.1 <i>Government</i>	199,216	206,257	200,067	186,138	181,415	186,138
	1.2 <i>Central Bank</i>	2,739	2,852	9,007	8,565	8,458	8,565
	<i>Private</i>	157,377	164,481	159,237	151,767	152,433	151,767
	Total	359,331	373,590	368,311	346,470	342,306	346,470
TOTAL (1 + 2)	<i>Government and Central Bank</i>	202,872	209,246	209,205	195,673	190,157	195,673
	1.1 <i>Government</i>	199,876	206,375	200,175	186,474	181,577	186,474
	1.2 <i>Central Bank</i>	2,996	2,871	9,030	9,198	8,580	9,198
	<i>Private</i>	201,442	207,689	207,036	201,172	203,663	201,172
	TOTAL	404,315	416,935	416,241	396,844	393,820	396,844
Foreign Exchange Reserves		129,183	135,897	144,905	137,233	144,905	137,233
Vulnerability Indicators		2.9	3.1	3.0	2.7	2.8	2.7

Source: Bank Indonesia

Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	4.7
GDP per Capita (US\$)	3927	4175	3912	4350	4784	5011
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	4.3
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.00
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,647
Trade Balance (US\$ billion)	-8.5	-3.2	21.7	35.3	54.5	43.2
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	0.9*	-0.2

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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