External debt:
An early indicator of risk aversion

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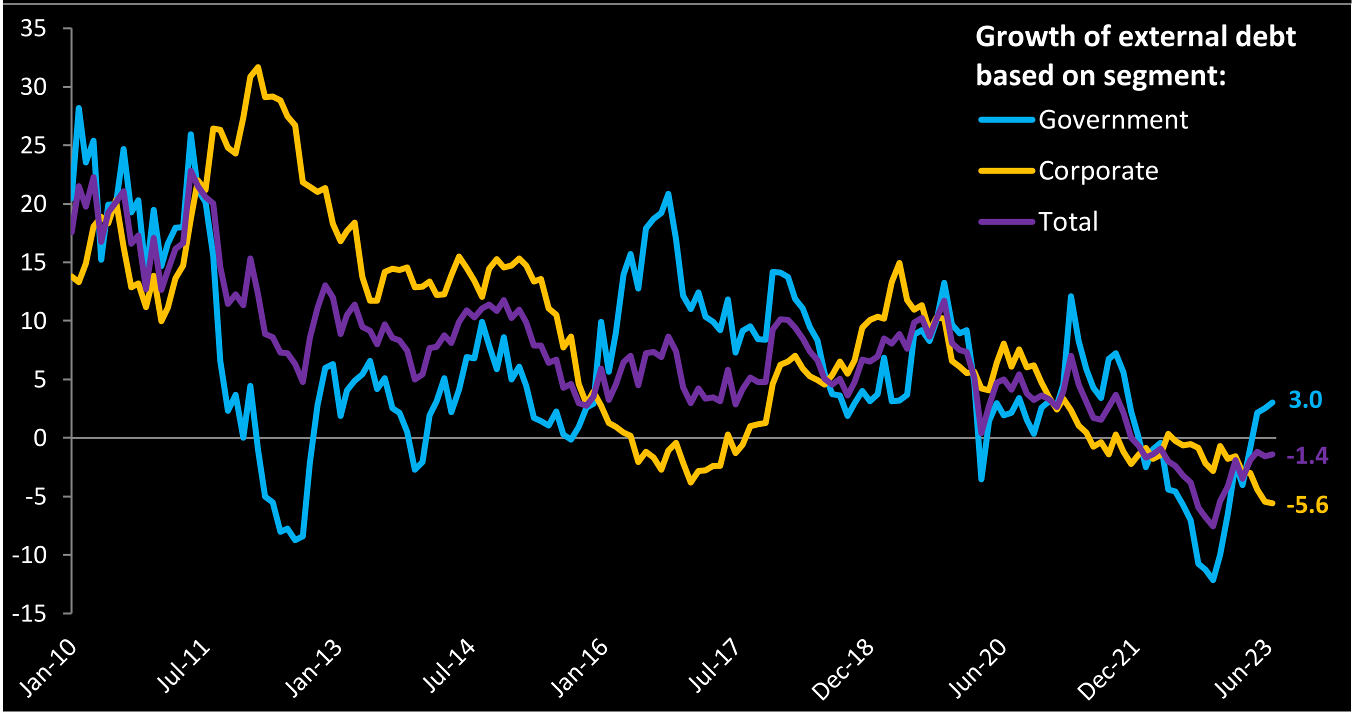
Executive Summary

- Indonesia's external debt declined to USD 396.3 Bn (-1.4% YoY) at the end of Q2-23, with the corporate sector debt declining 5.6% YoY, while the government's increased 3.0% YoY (but -0.77% QoQ).
- The apparent increase in government's external debt is mainly due to low-base effect from the previous year, while the corporate sector seems to shun external debt as it is typically seen as a riskier way to raise financing.
- The decline in exports could heighten the risk in debt repayment, even though the likely shift to current account deficit could increase the need for external borrowing.

- Indonesia's external debt sustained a decline in Q2-23, contracting by 1.4% YoY to USD 396.3 Bn. The corporate sector exhibited a more notable downturn, plummeting by 5.6% YoY to USD 194.4 Bn. In contrast, the government's external debt registered a modest increase of 3.0% YoY, albeit a marginal 0.77% decline in QoQ terms, for a total outstanding debt of USD 201.8 Bn.
- The uptick in the government's external debt should not be misconstrued as stemming from a surge in financing needs, as the government coffers actually reached unprecedented heights during H1-23 – courtesy of robust tax revenues and the bond issuance frontloading strategy. This apparent increase is mainly due to low-base effect from the previous year, when global investors were more cautious toward emerging markets. The investment climate has since shifted in favor of Indonesia, buoyed by its perception as one of the most resilient economies amid the global uncertainty.
- Meanwhile, the private sector's more persistent decline can be attributed, in part, to a more cautious approach by corporations. While certain industries might retain the ambition to expand despite dwindling revenues, they are focusing on 'safer' financing strategies. Private external debt, which is heavily denominated in USD, is seen as a riskier way to raise fresh financing compared to borrowing from local banks or issuing domestic bonds/equities – and consequently they are the first to decline under present circumstances.
- The downturn extends most clearly across the primary (mining and agriculture) industry, which has exhibited a pronounced shift in trajectory since the beginning of the year along with the decline in commodity prices. Even during last year's bumper prices, these sectors were quite reluctant to borrow from abroad, preferring to use its retained earnings instead to finance its investments.

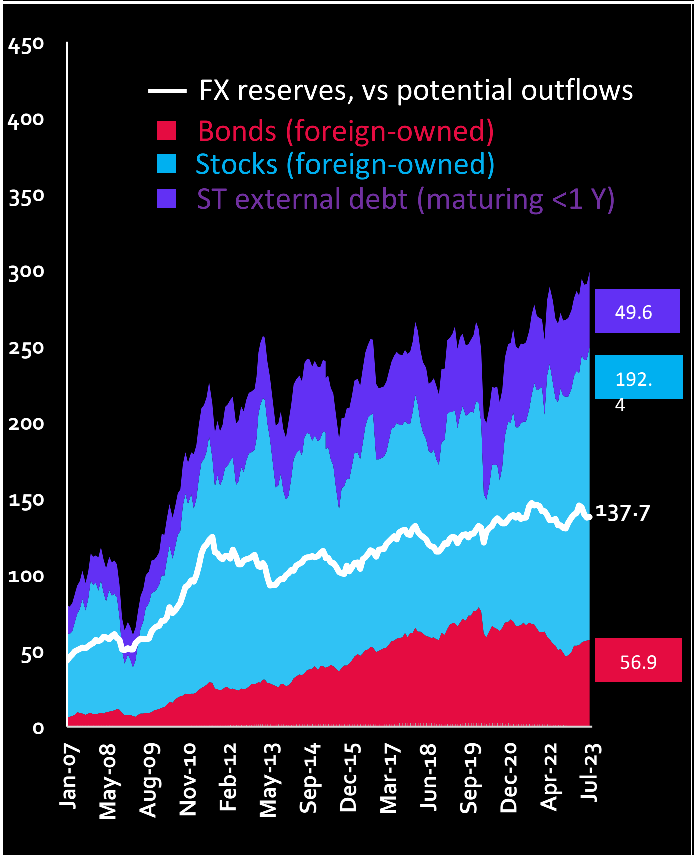
- A few areas, such as logistics and manufacturing, remains stable. The prominently emphasized “downstreaming” policy is perhaps the driving force for the latter, given its substantial project requirements that necessitate accelerated financing. Some of the resurgence in the construction and service industries, meanwhile, is concentrated in the public sector, and is therefore tied to government projects rather than private initiatives.
- The reduction in external borrowing does not materially affect our risk perception, however, since it coincides with the decline in Indonesian exports and a consequent ‘flippening’ to a current account (CA) deficit. As exports decline, the debt service ratio (DSR) jumped from 16.0 to 21.6 on a quarterly basis – meaning that debt repayment is getting slightly trickier due to a relative decline in FX inflows. This rising risk is nonetheless only an academic one for now, considering that Indonesia sustained (much) higher DSR between 2014 and 2020.
- The CA deficit might be of more interest in the short-term, as it implies a change in status from net capital exporter to net capital importer. Without more external borrowing, the CA deficit needs to be plugged by either portfolio inflows or FDI. Given the capricious nature of the former, Indonesia is lucky that it seems to be attracting much more of the latter recently. Nonetheless, as we often remarked, the excellent FDI growth has barely translated to net FX inflows. On the whole, then, despite being the best-performing currency among Asian EMs, the Rupiah’s risk level is not at the point that would allow BI to rest easy nor cut rates for now.

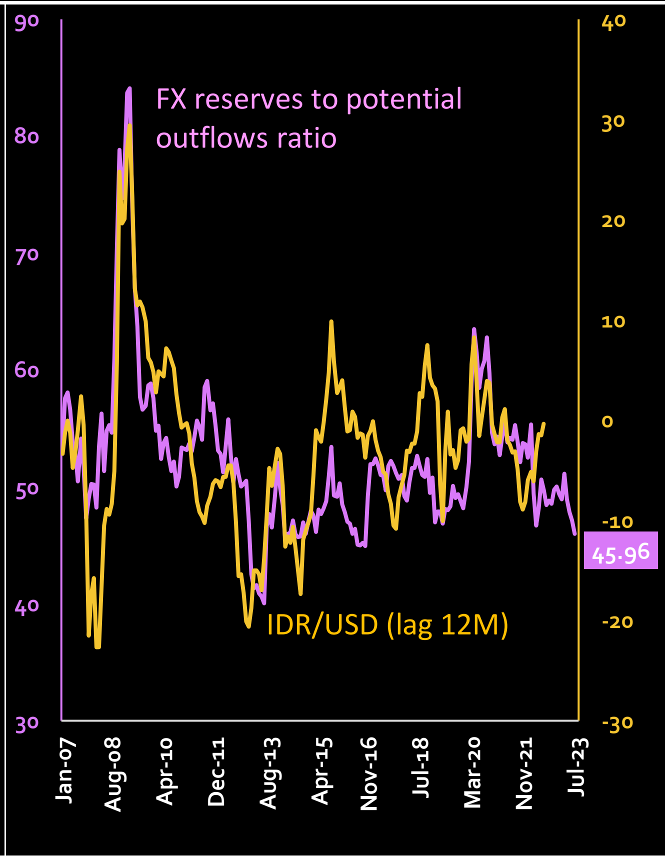
Panel 1. **The corporate sector's debt keep declining as it is typically seen as a riskier way to raise financing**



Source: BI, calculation by BCA Economic Research

Panel 2. **Indonesia's main external debt risk indicator (FX reserves divided by short-term external debt) showed a decline but still in safe level**





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

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

		2019	2020	2021	2022	Jun-22	Jun-23
Short Term Debt ≤ 1 year	*Government and Central Bank*	918	136	130	969	623	1,005
	1.1 *Government*	661	118	107	336	613	304
	1.2 *Central Bank*	258	18	23	633	10	701
	Private	43,144	43,209	47,199	47,834	51,976	47,868
	Total	**44,062**	**43,345**	**47,329**	**48,803**	**52,599**	**48,873**
Long Term Debt > 1 year	*Government and Central Bank*	201,954	209,109	209,075	194,703	195,315	200,832
	1.1 *Government*	199,216	206,257	200,067	186,138	186,737	192,244
	1.2 *Central Bank*	2,739	2,852	9,007	8,565	8,578	8,588
	Private	157,546	164,481	157,569	153,252	153,957	146,560
	Total	**359,501**	**373,590**	**366,643**	**347,955**	**349,272**	**347,392**
TOTAL (1 + 2)	*Government and Central Bank*	202,872	209,246	209,205	195,673	195,938	201,837
	1.1 *Government*	199,876	206,375	200,175	186,474	187,350	192,548
	1.2 *Central Bank*	2,996	2,871	9,030	9,198	8,588	9,289
	Private	200,690	207,689	204,767	201,085	205,933	194,428
	TOTAL	**403,563**	**416,935**	**413,972**	**396,758**	**401,871**	**396,265**
Foreign Exchange Reserves		**129,183**	**135,897**	**144,905**	**137,233**	**136,379**	**137,541**
Vulnerability Indicators		**2.9**	**3.1**	**3.1**	**2.8**	**2.6**	**2.8**

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	5.2
GDP per Capita (US$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.7
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	5.75
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,173
Trade Balance (US$ billion)	-8.5	-3.2	21.7	35.3	54.5	35.3
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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