

## External debt:

## The sea is becalmed

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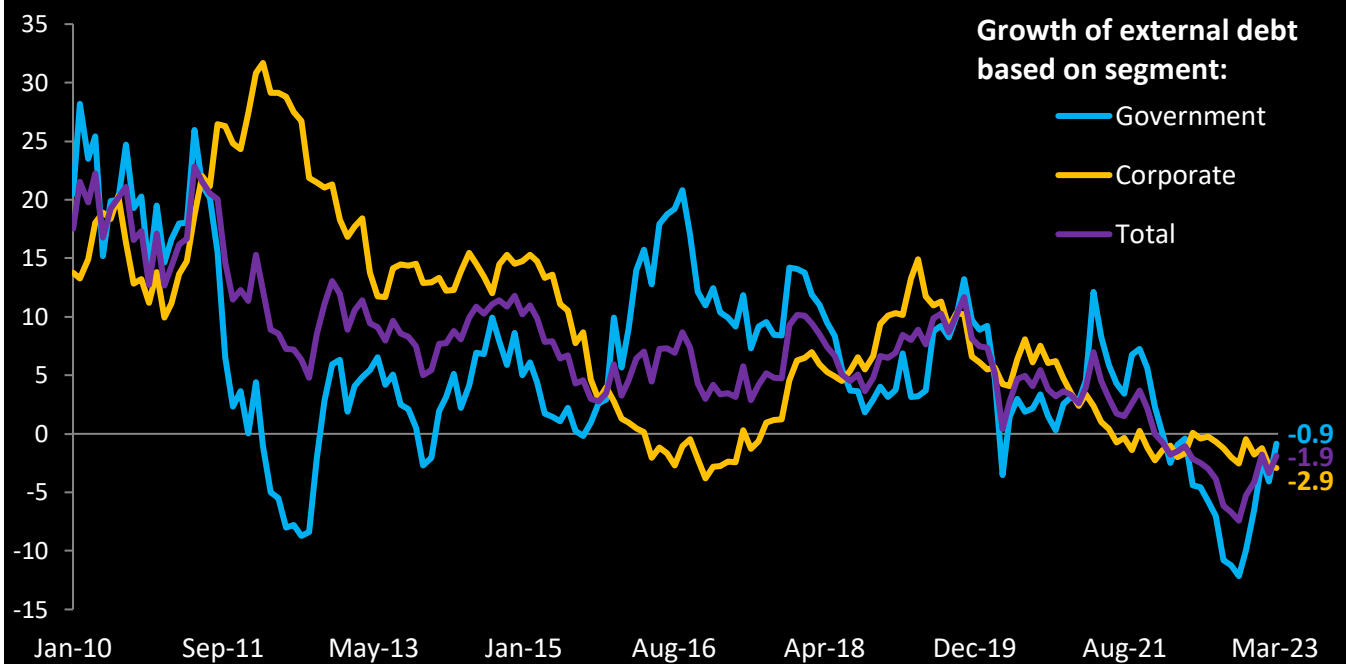
### Executive Summary

- Indonesia's external debt declined to USD 402.8 Bn (-1.9% YoY) at the end of Q1-23, as the government's external debt slightly declined 0.9% YoY but increased by 4% QoQ, while the corporate sector showed a steady but modest decline of -1.9% YoY (-0.9% QoQ).
  - The increase in government's external debt, despite the government coffers being at an all-time high, is the result of frontloading of bond issuance at the start of the year and the return of foreign investors to Indonesian sovereign bonds.
  - Strong Rupiah and low currency hedging costs may encourage external borrowing by the corporate sector, but this prospect is constrained by the uncertain global outlook.
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- Indonesia's external debt was recorded at USD 402.8 Bn at the end of Q1-23, a decline of 1.9% YoY. The government's external debt declined 0.9% in YoY terms but increased 4.0% in QoQ terms, while the corporate sector continued its steady but modest decline at -1.9% YoY (-0.9% QoQ).
  - The increase in the government's external debt was not caused by a sudden rise in financing needs, as the government coffers are actually at an all-time high during Q1-23, thanks to the strong influx in tax and natural resources revenues from last year. So the external debt is really the product of two developments: (1) the frontloading of bond issuance, to capitalize on the more favorable global liquidity conditions at the start of the year; and (2) the return of foreign investors to Indonesian sovereign bonds. The latter reflects a general positive outlook on the Indonesian economy – one of the fastest-growing among emerging markets during a tough year – as well as the government's success in exiting the emergency fiscal regime of the pandemic.
  - The decline in external debt was more pronounced within the corporate sector, partly due to the easing of cash flow pressures for Pertamina and PLN, the two giant SOEs in the energy sector. The former was especially hard-pressed by high oil prices last year, and they had to take bridging loans from domestic banks – which in turn had to borrow FX from abroad. This problem is mostly resolved for now, thanks to the strong Rupiah, declining oil prices, as well as the government's change in its energy compensation schedule from semi-annual to quarterly payouts.
  - Certain industries like real estate and construction showed continued decline in external debt, which aligned with the decline in FAI into structures (i.e. buildings or infrastructures). But

there is a slight increase in the government's external debt for construction, likely driven by ongoing projects such as the new capital city (IKN) project. A rebound in this sector may have to await the 2024 Elections, since large-scale, multiyear government projects tend to be more affected by potential changes at the top.

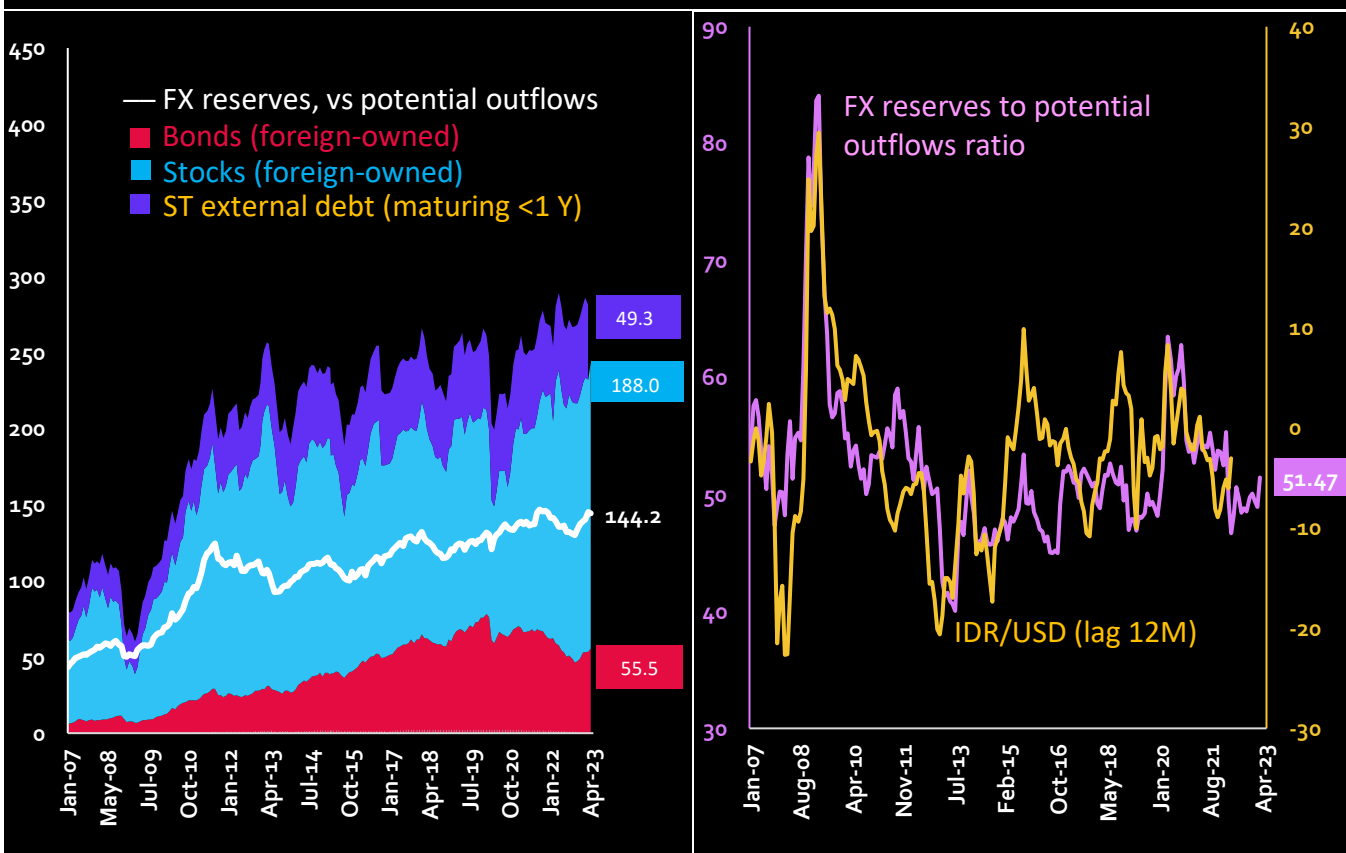
- The primary sectors i.e. agriculture and mining are also in a downtrend, as falling commodity prices dampen the appetite for expansion. However, it is worth noting that these industries have also accumulated sufficient retained earnings thanks to last year's lucrative prices, reducing the need for outside financing. As such, manufacturing remains the only sector where corporate external debt is rising at the moment.
- A strong Rupiah and lower hedging costs (narrower spread between forward and spot exchange rates) may make it more attractive for domestic firms to borrow from abroad, but the uncertain global outlook will likely prevent exuberant growth as in the early 2010's. There is nonetheless a possible increase in FX liquidity needs, as the current account (CA) shifts into deficit (perhaps around 0.8% of GDP) due to narrowing trade surplus. All in all, the low external debt level (30.1% of GDP) and strong FX reserves position implies very limited risk on this front.

**Panel 1.** The Government's external debt declined slower than corporate sector due to the frontloading of bond issuance and the return of foreign investors to Indonesian sovereign bonds



Source: BI, calculation by BCA Economic Research

**Panel 2.** Indonesia's main external debt risk indicator (FX reserves divided by short-term external debt) keeps improving



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

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

		2019	2020	2021	2022	Mar-22	Mar-23
Short Term Debt ≤ 1 year	<i>Government and Central Bank</i>	918	136	130	969	295	959
	1.1 <i>Government</i>	661	118	107	336	285	223
	1.2 <i>Central Bank</i>	258	18	23	633	10	736
	<i>Private</i>	43,144	43,209	47,199	48,454	48,772	49,087
	<b>Total</b>	<b>44,062</b>	<b>43,345</b>	<b>47,329</b>	<b>49,424</b>	<b>49,067</b>	<b>50,046</b>
Long Term Debt > 1 year	<i>Government and Central Bank</i>	201,954	209,109	209,075	194,703	204,865	202,453
	1.1 <i>Government</i>	199,216	206,257	200,067	186,138	195,962	193,793
	1.2 <i>Central Bank</i>	2,739	2,852	9,007	8,565	8,902	8,661
	<i>Private</i>	157,546	164,481	157,569	152,878	156,829	150,302
	<b>Total</b>	<b>359,501</b>	<b>373,590</b>	<b>366,643</b>	<b>347,582</b>	<b>361,694</b>	<b>352,756</b>
<b>TOTAL (1 + 2)</b>	<i>Government and Central Bank</i>	202,872	209,246	209,205	195,673	205,160	203,412
	1.1 <i>Government</i>	199,876	206,375	200,175	186,474	196,247	194,016
	1.2 <i>Central Bank</i>	2,996	2,871	9,030	9,198	8,913	9,396
	<i>Private</i>	200,690	207,689	204,767	201,333	205,601	199,389
	<b>TOTAL</b>	<b>403,563</b>	<b>416,935</b>	<b>413,972</b>	<b>397,005</b>	<b>410,761</b>	<b>402,801</b>
Foreign Exchange Reserves		129,183	135,897	144,905	137,233	139,129	145,189
Vulnerability Indicators		2.9	3.1	3.1	2.8	2.8	2.9

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	5.0
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	3.4
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	28.4
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-1.02

\*Estimated number

\*\* Estimation of Rupiah's fundamental exchange rate

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