External debt:
A prudent course

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Executive Summary

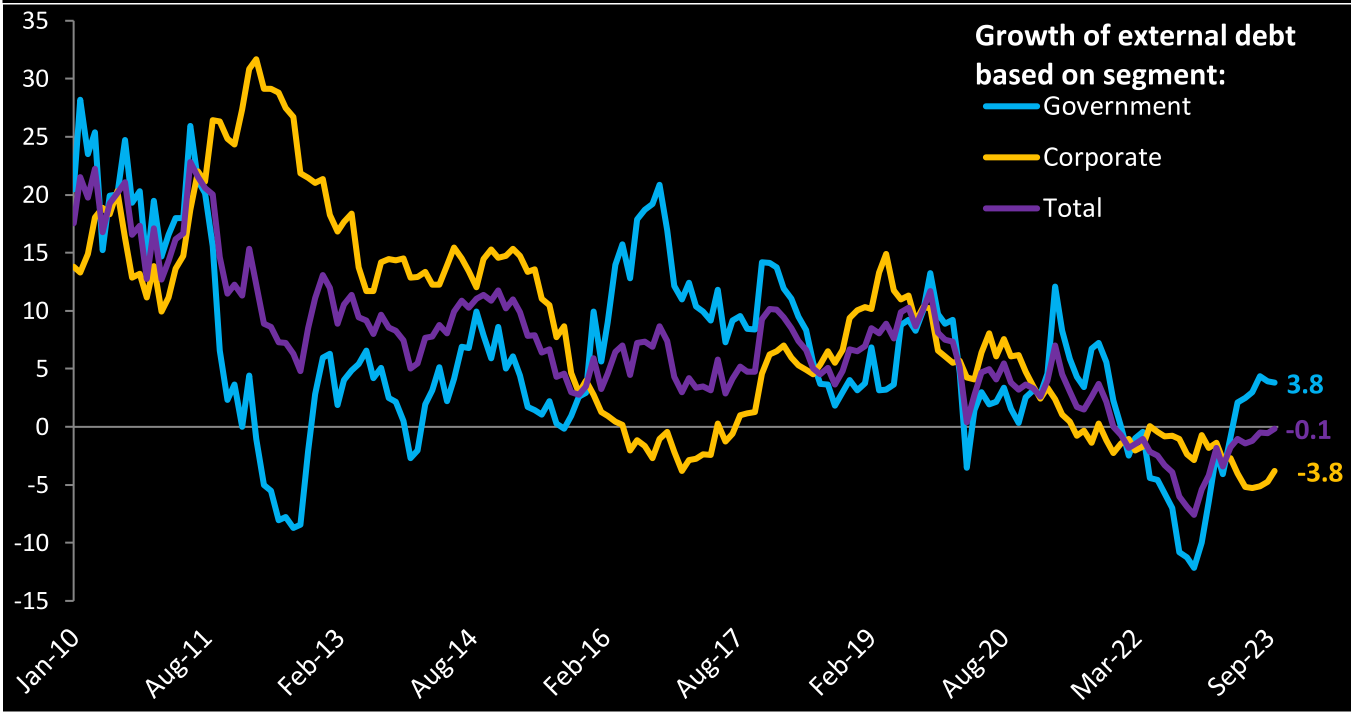
- Indonesia's external debt continued to decline, contracting by -0.1% YoY in Q3-23. Private sector experienced a significant decline of -3.8% YoY. In contrast, government debt registered a 3.3% YoY increase but, on a QoQ basis, displayed a notable decrease of -2.2%.
- Outflows ensued as foreign investors withdrew from sovereign bonds due to past Fed rate expectations, compounded by back-loaded IDR bond issuance in Q4.
- Amid uncertainties, the government halves its net bond issuance to IDR 438 Tn and utilizes accumulated savings (SAL), but they still has to deal with refinancing of maturing debt.
- Private sector external debt is generally declining, except for the manufacturing sector experiencing robust CAPEX. Overall, external debt remains a manageable concern for Indonesia.

- Indonesia's external debt continued to decline, contracting by -0.1% YoY in Q3-23 to USD 393.7 Bn. Thanks to base effect, the YoY and QoQ changes had rather confusingly different signs. Private sector debt saw a significant decline of -3.8% YoY, but it rose slightly by 0.69% in QoQ terms. In contrast, government debt registered a 3.3% YoY increase but, on a QoQ basis, displayed a decrease of -2.2% to USD 188.3 Bn.
- On the government side, there were no issuance of FX bonds in Q3, with global bonds having been frontloaded in January (and JPY bonds in May). The quarterly decline, then, was caused by an outflow of foreign investors from our sovereign bond instruments (SBN), driven by erstwhile expectations that the Fed will keep a "higher for longer" stance.
- As we noted in recent reports, these outflows were compounded by a large, "back-loaded" issuance of IDR bonds in Q4. Unlike the customary frontloading, this back-loading is quite peculiar, and it might reflect the authorities' belief that global rates would have fallen by the end of 2023. When this did not materialize, it led instead to twin pressures on Indonesian yields and currency, which only subsided recently as "pivot" hopes return.
- It is in response to these uncertainties that the government tweaked its plan for next year. Under Presidential Regulation No. 75/2023, the target for net government bond issuance is nearly halved from IDR 713 Tn to 438 Tn, with the government aiming to use its accumulated savings (SAL) instead.
- This is a more prudent course of action, but note that the government also has to refinance maturing debt securities to the tune of IDR 479 Tn and USD 4.4 Bn during 2024 (almost half of which will mature in Q1). Obviously, if current market sentiment persists – and the Fed is forced to pivot quite early – these would not pose any issue in the markets.
- On the private side, external debt by and large remains on a consistent downward trend, with the manufacturing sector being a notable exception. Here, we continue to see a robust appetite for CAPEX, in line with numbers from the FDI/DDI and filings by public companies.

Since the beneficiaries tend to be capital-intensive industries, especially metal processing, this boom goes hand in hand with a greater need for FX financing.

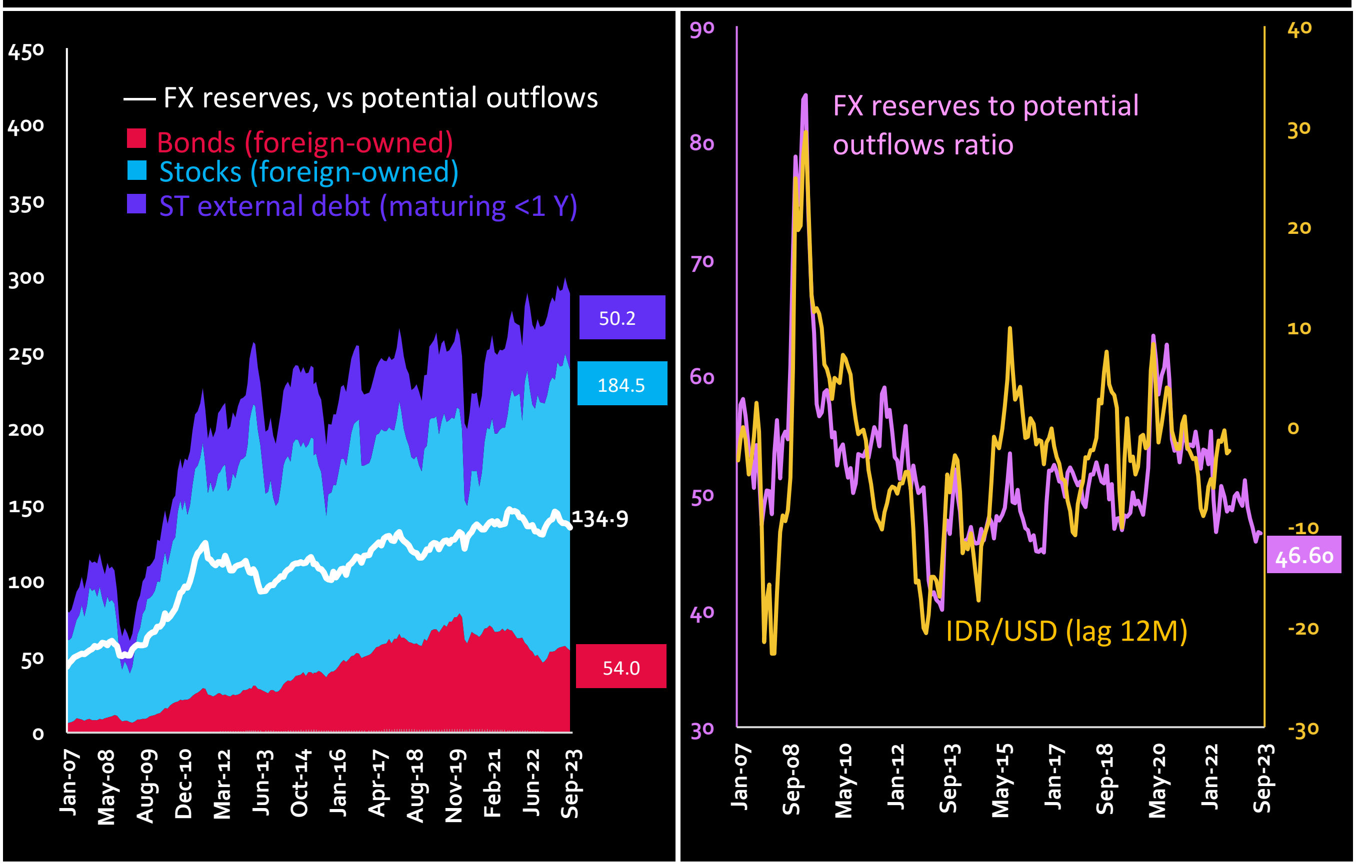
- On the other hand, external debt in the mining and power generation sectors – which, after manufacturing and services, are the two main (non-financial) external borrowers – continues to decline. Each of these industries has their own headwinds to contend with: declining commodity prices for the former, and a shift away from coal-fired power plants for the latter.
- We maintain our view that external debt, especially by the private sector, are unlikely to be a major source of risk for Indonesia. Indonesia's tier I debt-service ratio (DSR) fell back to 15.8 in Q3 as export values began to recover, and – as we mentioned previously – Indonesia had sustained much higher DSR before.
- Indeed, a whole host of factors have made external borrowing (via bank loans or bonds) less attractive for Indonesian corporates. These include the reforms in the mid-2010's, which banned the use of foreign currencies to settle domestic transactions and made it obligatory for borrowers to hedge their FX risk. And then in recent years, the glut of FDI and IPOs, as well as high commodity prices which enabled commodity exporters to finance their CAPEX from retained earnings, have also reduced the need for external debt. This is a far cry from the situation in the late 1990's, when excessive external borrowing sent the Indonesian economy crashing down.

Panel 1. **The corporate sector's debt increased as the manufacture downstreaming demand a substantial need of financing**



Source: BI, calculation by BCA Economic Research

Panel 2. **Declining FX reserves relative to potential outflows (including short term external debt) may present a risk for IDR in medium term**



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

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

		2019	2020	2021	2022	Sep-22	Sep-23
Short Term Debt ≤ 1 year	*Government and Central Bank*	918	136	130	969	192	1,164
	1.1 *Government*	661	118	107	336	182	155
	1.2 *Central Bank*	258	18	23	633	10	1,009
	Private	43,144	43,209	47,199	47,834	48,737	47,677
	Total	**44,062**	**43,345**	**47,329**	**48,803**	**48,929**	**48,840**
Long Term Debt > 1 year	*Government and Central Bank*	201,954	209,109	209,075	194,703	190,319	196,570
	1.1 *Government*	199,216	206,257	200,067	186,138	182,107	188,131
	1.2 *Central Bank*	2,739	2,852	9,007	8,565	8,211	8,439
	Private	157,546	164,481	157,569	153,252	155,030	148,330
	Total	**359,501**	**373,590**	**366,643**	**347,955**	**345,348**	**344,900**
TOTAL (1 + 2)	*Government and Central Bank*	202,872	209,246	209,205	195,673	190,511	197,733
	1.1 *Government*	199,876	206,375	200,175	186,474	182,289	188,286
	1.2 *Central Bank*	2,996	2,871	9,030	9,198	8,222	9,448
	Private	200,690	207,689	204,767	201,085	203,767	196,007
	TOTAL	**403,563**	**416,935**	**413,972**	**396,758**	**394,277**	**393,740**
Foreign Exchange Reserves		**129,183**	**135,897**	**144,905**	**137,233**	**130,782**	**134,856**
Vulnerability Indicators		**2.9**	**3.1**	**3.1**	**2.8**	**2.7**	**2.8**

Source: Bank Indonesia

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Indonesia – Economic Indicators Projection

	2018	2019	2020	2021	2022	2023E
Gross Domestic Product (% YoY)	5.2	5.0	-2.1	3.7	5.3	5.1
GDP per Capita (US$)	3927	4175	3912	4350	4784	5285
Consumer Price Index Inflation (% YoY)	3.1	2.7	1.7	1.9	5.5	2.8
BI 7 day Repo Rate (%)	6.00	5.00	3.75	3.50	5.50	6.00
USD/IDR Exchange Rate (end of year)**	14,390	13,866	14,050	14,262	15,568	15,728
Trade Balance (US$ Bn)	-8.5	-3.2	21.7	35.3	54.5	34.9
Current Account Balance (% GDP)	-3.0	-2.7	-0.4	0.3	1.0	-0.4

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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