External debt:
On an upswing again

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16 Feb 2024

Executive Summary

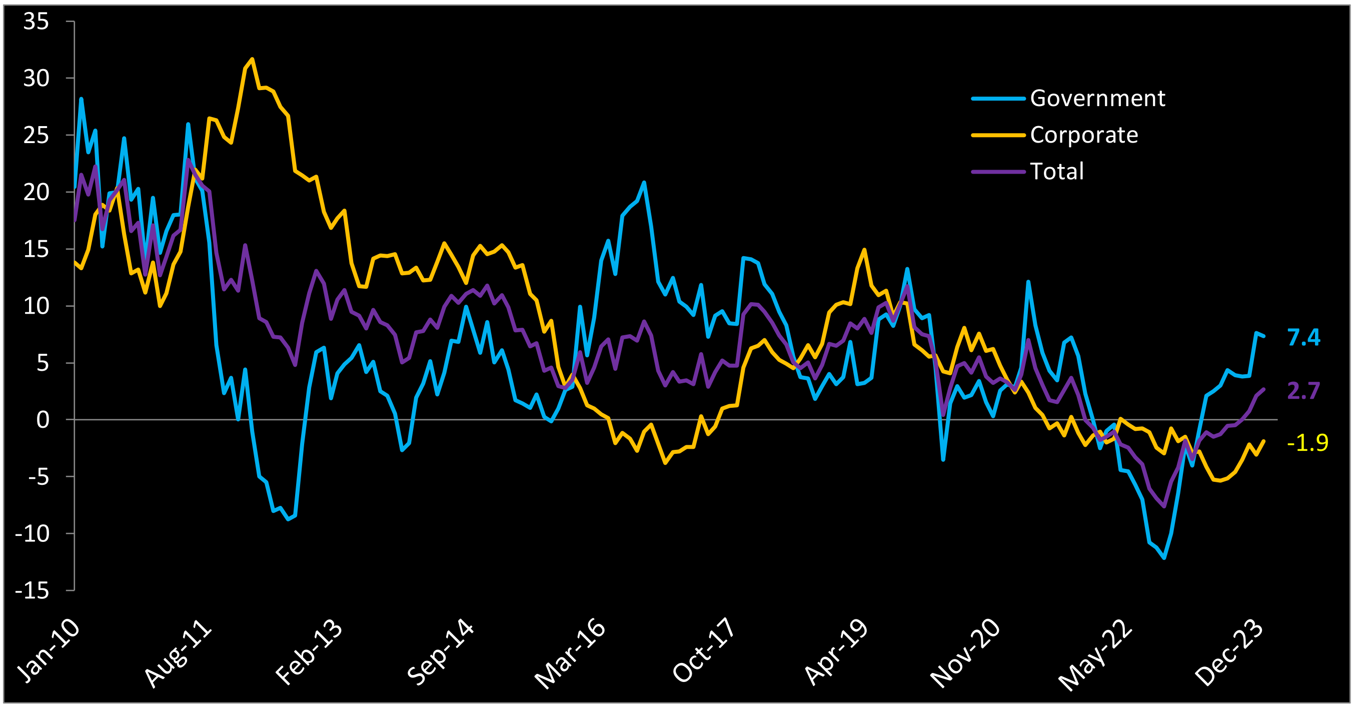
- Indonesia's external debt increased 2.67% YoY, amounting to USD 407.1 Bn, with a 7.36% YoY increase on the government side and -1.9% YoY on the corporate side.
- The government's external debt increased due to net bond issuance and drawing of the government's external loans, combined with inflows amid strong sentiment in the market.
- On the other hand, corporations, both SOEs and private, are also in need of more financing as they are still on the expansion trend while revenues from commodities decline.
- We expect greater FX needs and therefore stronger external debt growth going forward, but relatively prudent external debt growth in previous years means little immediate risks.

- Indonesia's external debt stood at USD 407.1 Bn in Q4-23, gaining 2.67% YoY, for the first time after a 2-year decline. The increase mainly came from the government side, a 7.36% YoY increase, with a lesser pressure from the corporate side (-1.9% YoY, compared to -3.5% YoY in the previous quarter). On a QoQ basis, there was an addition of USD 12.9 Bn (3.26% QoQ), with increases in both the government and corporate sides.
- The increase in the government's external debt paralleled the increase in FX reserves in the last two months of the year (USD 11.5 Bn QoQ). One of the biggest factors was the drawing of the government's external loans, which amounted to around USD 4 Bn USD just on Dec-23. In addition, there was also a net issuance of USD 1.3 Bn in global bonds.
- Besides the active role of the government, the global market also helped by snapping up Indonesia's sovereign debt instrument. Foreign ownership of IDR bonds increased IDR 134.8 Tn QoQ (around USD 0.9 Bn). Two global events that drove these inflows were the shift of Fed policy expectations and the US Treasury's Quarterly Refunding Announcement (QRA), both at the start of Nov-23. Recall that BI hiked its rate in Oct-23 because of the pressures towards the Rupiah and the bond market, which soon ended with the big shift in market sentiment from those two events. Inflows into BI's new money market instruments, the SRBI and SVBI – which were also introduced in part to manage the market pressures – also counted towards the increase in external debt.
- The financial sector did not see much change in its external debt trend, but the nonfinancial sector was a different story. Although in YoY terms the latter's external debt still recorded negative growth, it went up compared to the previous quarter (USD 0.8 Bn QoQ), thanks to an increase by SOEs and foreign companies.
- Both SOEs and private corporations, of course, are in greater need of FX liquidity, given their still-relatively robust investment appetite amid declining commodity revenues. Of course, this

FX needs must be weighed against several factors. For one, the narrowing interest rate spread between borrowing in USD and IDR tends to shift the lending trend somewhat towards the latter. Meanwhile, a few SOEs are also seeing improved FX deposits, although this may be different SOEs compared to the ones that needs FX borrowing. In particular, we think that a large part of the improvement in SOEs' FX liquidity might have come from Pertamina, which benefited from fuel price hike in late 2022 and a decline in global oil prices in the months after.

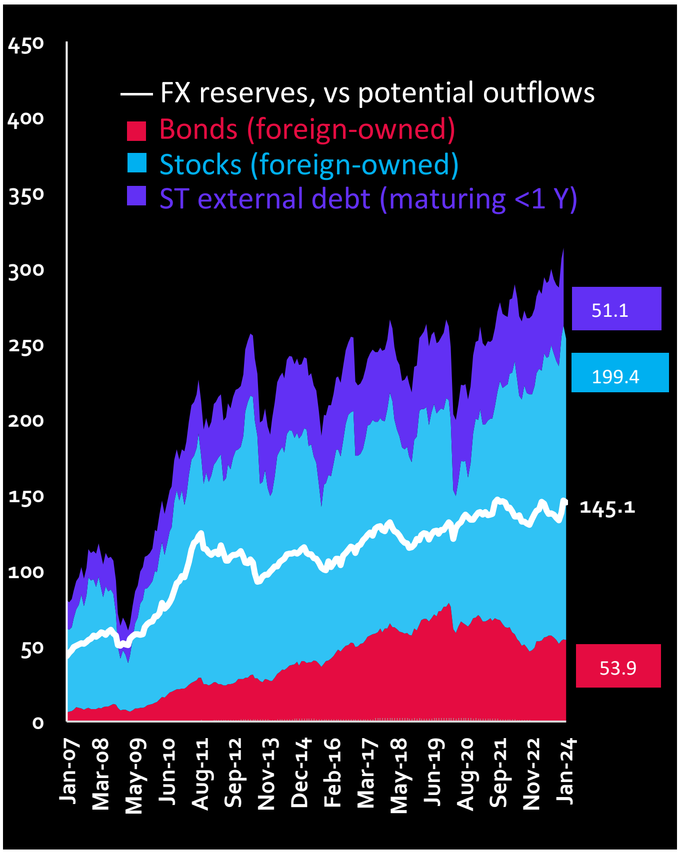
- One sector of note that continues a strong expansion trend is manufacturing, possibly as part of the "downstreaming" drive. Going forward, we think that Indonesia's FX needs could be increasing, due partly to worsening terms of trade while appetite for investment – especially in the public sector – remains strong. Still, given the comparative prudence of recent years, the potential rise in external debt should not pose an immediate risk, considering the declining Indonesia Tier 1 Debt to Service Ratio (DSR) (14.51 in Q4-23). The main risk in the short-term, arising from the maturing USD 2 Bn bonds in Q1-24, has already passed after the issuance of global bonds in Jan-24.

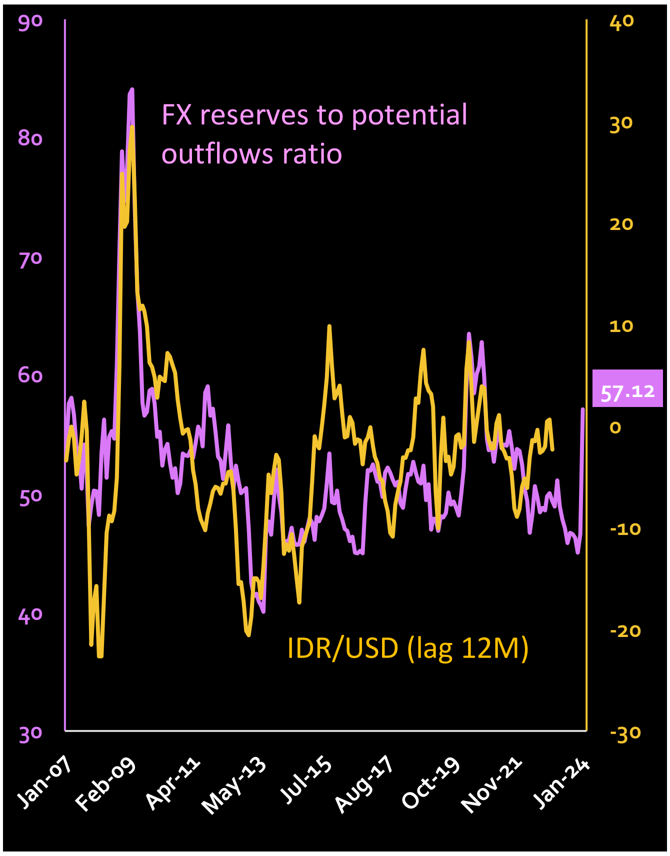
Panel 1. The government's external debt continue to increase with positive net bond issuance, while corporate external debt is also bottoming out



Source: BI, calculation by BCA Economic Research

Panel 2. The growing FX reserves may put IDR in a better place in the medium-term, but pressures may remain in the short-term





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

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

		2019	2020	2021	2022	2023
Short Term Debt ≤ 1 year	*Government and Central Bank*	918	136	130	969	5,172
	1.1 *Government*	661	118	107	336	372
	1.2 *Central Bank*	258	18	23	633	4,800
	Private	43,144	43,209	47,199	47,834	49,433
	Total	**44,062**	**43,345**	**47,329**	**48,803**	**54,605**
Long Term Debt > 1 year	*Government and Central Bank*	201,954	209,109	209,075	194,703	204,898
	1.1 *Government*	199,216	206,257	200,067	186,138	196,264
	1.2 *Central Bank*	2,739	2,852	9,007	8,565	8,635
	Private	157,546	164,481	157,569	153,252	147,604
	Total	**359,501**	**373,590**	**366,643**	**347,955**	**352,502**
TOTAL (1 + 2)	*Government and Central Bank*	202,872	209,246	209,205	195,673	210,070
	1.1 *Government*	199,876	206,375	200,175	186,474	196,636
	1.2 *Central Bank*	2,996	2,871	9,030	9,198	13,434
	Private	200,690	207,689	204,767	201,085	197,036
	TOTAL	**403,563**	**416,935**	**413,972**	**396,758**	**407,107**
Foreign Exchange Reserves		**129,183**	**135,897**	**144,905**	**137,233**	**146,384**
Vulnerability Indicators		**2.9**	**3.1**	**3.1**	**2.8**	**2.7**

Source: Bank Indonesia

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Indonesia – Economic Indicators Projection

	2019	2020	2021	2022	2023	2024E
Gross Domestic Product (% YoY)	5.0	-2.1	3.7	5.3	5.0	5.0
GDP per Capita (US$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16.037
Trade Balance (US$ Bn)	-3.2	21.7	35.3	54.5	37.0	32.6
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	0.1*	-0.5

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

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