External debt:
Not the whole story

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Executive Summary

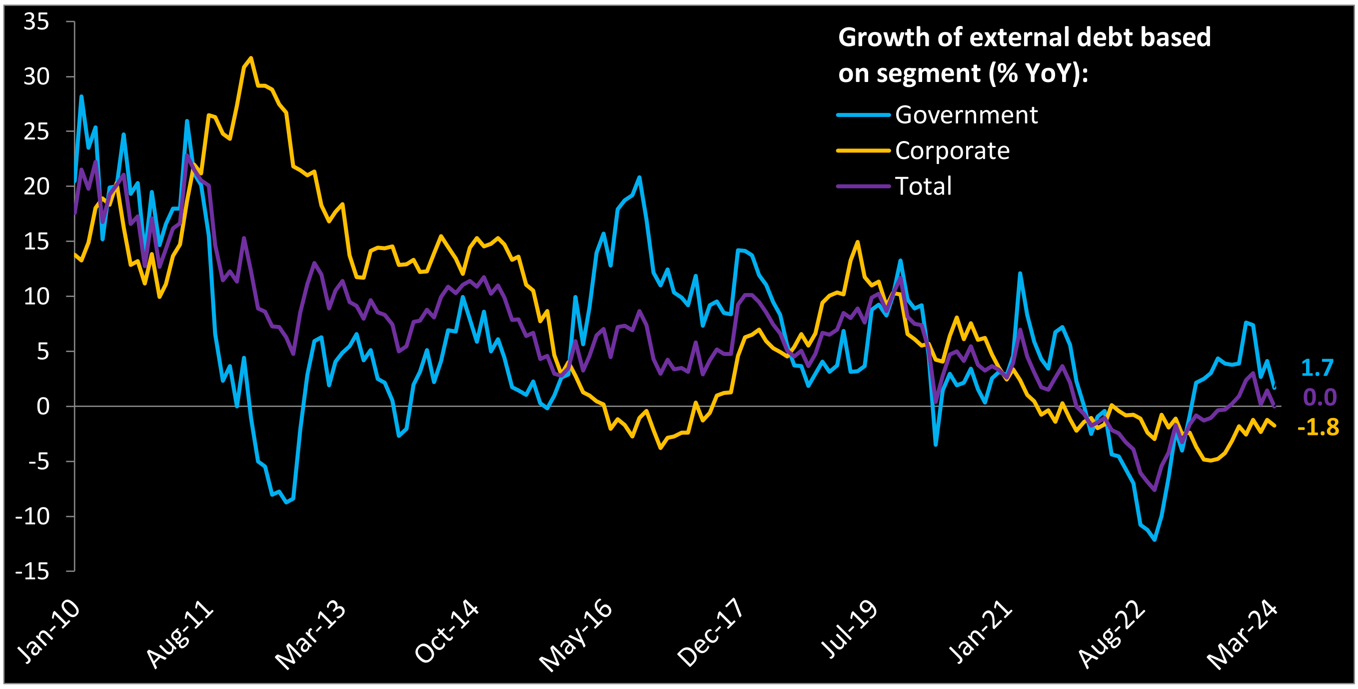
- Indonesia's external debt slightly declined to USD 403.9 Bn in Q1-24, with a greater decline in the government side (USD 4.4 Bn) compared to the private sector (USD 1.4 Bn).
- The government's weaker external debt position could be attributed to the sell-off in IDR government bonds by foreign investors, while the government are also choosing to reduce bond issuance.
- The decline in the external debt of the private sector diverges from the trend in FX lending at home. Private sector's external debt via banks could increase in the coming months if demand for FX from domestic companies remain strong.

- Indonesia's external debt slightly declined (-0.02% YoY/ -1.13% QoQ) to USD 403.9 Bn in Q1-24. On a QoQ basis, the decline was mainly attributed to the government side, which declined by USD 4.4 Bn, while the private sector experienced a more limited decline of USD 1.4 Bn.
- The decline in government external debt reflects volatility in global markets, where foreign investors reduced their ownership of IDR bonds by IDR 31.4 Tn QoQ (approximately USD 2 Bn) in Q1-24. The government's substantial excess budget balance (saldo anggaran lebih / SAL) also allowed it to reduce bond issuance amid decreased global demand. Indeed, the government issued only around IDR 77.3 Tn worth of bonds in Q1-24, which pales in comparison to the IDR 186 Tn in maturing debt securities during the same period.
- On the private side, the decrease in external debt contrasts with the trend we see in FX loan growth from domestic banks, which reached 16.9% YoY in Mar-24. The high demand for FX loans from domestic banks is unsurprising given the decline in FX liquidity inflows (from exports and portfolio inflows), while the need for FX to cover imports remains high.
- This preference for domestic borrowing over foreign sources is expected to eventually increase external debt for banking institutions. However, there was minimal change in banks' external debt position in Q1-24.
- The future increase in banks' external debt, then, will depend on the sustained demand for FX from domestic companies in the coming months. While private corporations' FX borrowing at home has risen sharply over the past few months due to their still relatively strong investment appetite, this momentum could come to a halt if domestic activities continue to soften.
- The outlook for SOE borrowing, meanwhile, would depend on the priorities of the next government, as most strategic projects of the current administration are being finalized while others – such as the new capital city (IKN) uses a mix of public-private financing. Nevertheless,

we anticipate that SOEs financing needs, particularly Pertamina, could flare up again due to rising global oil prices.

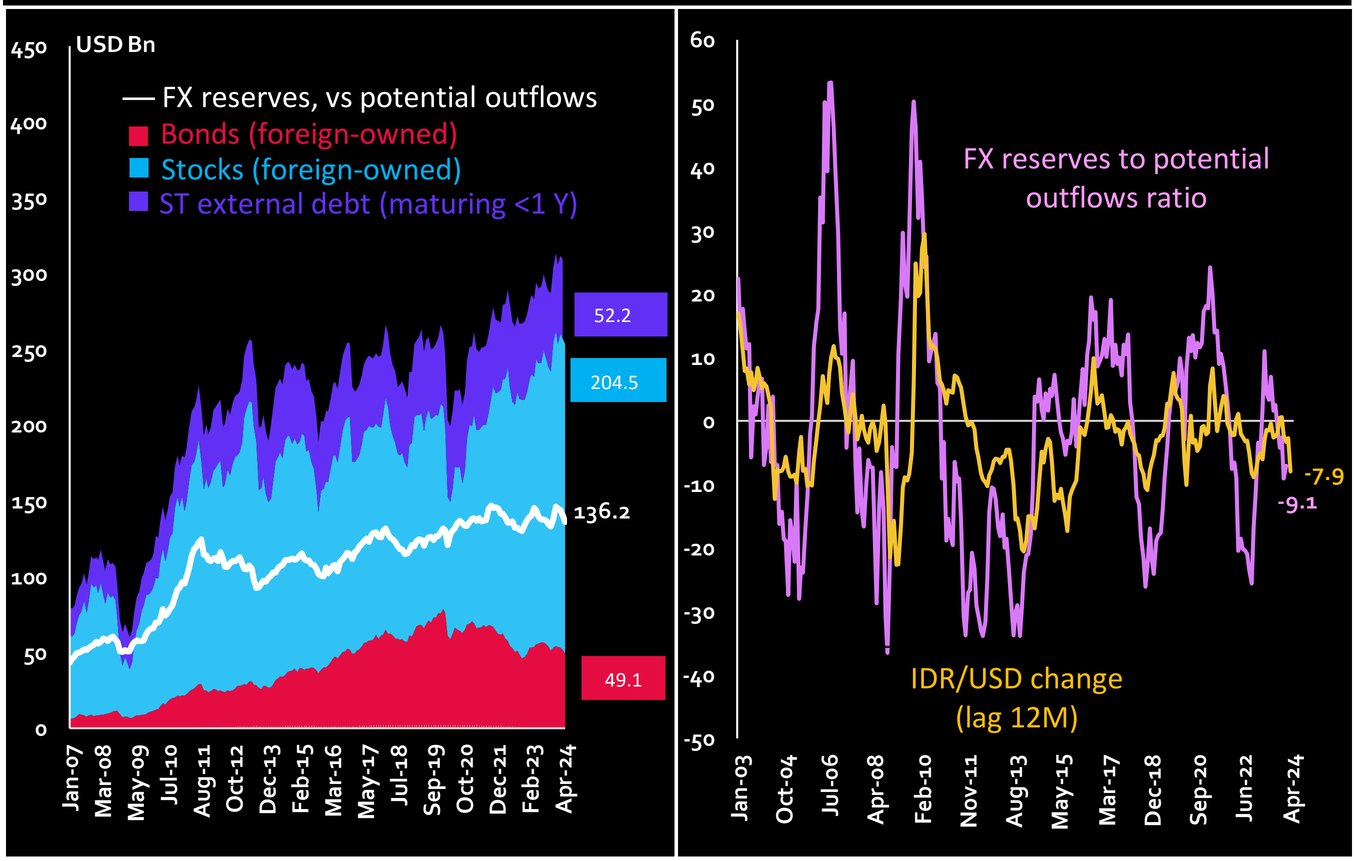
- Overall, we believe that external debt is unlikely to pose a major risk for Indonesia, given the still relatively stable Tier 1 Debt to Service Ratio (DSR) of 17.3% in Q1-24. However, it is worth noting the slight increase in the ratio of short-term debt to total debt over recent months, aligning with global trends, amid expectations of lower yields on long-term bonds.
- Another risk arises from the strong demand for FX loans from certain domestic non-bank financial institutions (NBFIs), which (interestingly) did not go to finance new investment assets but are mostly kept in cash in the past few months. Since we have long voiced concern over NBFIs outsized role in absorbing government bonds in the past two years, this might indicate underlying issues – one that warrant further investigation in the future.

Panel 1. **The decline of Indonesia's external debt position in Q1-24 is mainly attributed to the government sector**



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)

		2020	2021	2022	2023	Mar-24	Mar-23
Short Term Debt ≤ 1 year	*Government and Central Bank*	136	130	969	5,172	6,122	959
	1.1 *Government*	118	107	336	372	32	223
	1.2 *Central Bank*	18	23	633	4,800	6,090	736
	Private	43,209	47,199	47,834	47,521	47,095	47,447
	Total	**43,345**	**47,329**	**48,803**	**52,693**	**53,217**	**48,406**
Long Term Debt > 1 year	*Government and Central Bank*	209,109	209,075	194,703	204,898	200,739	202,453
	1.1 *Government*	206,257	200,067	186,138	196,264	192,211	193,793
	1.2 *Central Bank*	2,852	9,007	8,565	8,635	8,528	8,661
	Private	164,481	157,569	153,252	150,873	149,897	153,076
	Total	**373,590**	**366,643**	**347,955**	**355,771**	**350,635**	**355,530**
TOTAL (1 + 2)	*Government and Central Bank*	209,246	209,205	195,673	210,070	206,861	203,412
	1.1 *Government*	206,375	200,175	186,474	196,636	192,244	194,016
	1.2 *Central Bank*	2,871	9,030	9,198	13,434	14,618	9,396
	Private	207,689	204,767	201,085	198,394	196,991	200,523
	TOTAL	**416,935**	**413,972**	**396,758**	**408,464**	**403,852**	**403,936**
Foreign Exchange Reserves		**135,897**	**144,905**	**137,233**	**146,384**	**140,390**	**131,019**
Vulnerability Indicators		**3.1**	**3.1**	**2.8**	**2.8**	**2.6**	**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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	3.2
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.50
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,119
Trade Balance (US$ 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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