External debt:
A riptide beneath calm waves

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Executive Summary

- Indonesia's external loans increased by 2.75% YoY in Q2-2024, primarily driven by Bank Indonesia due to higher SRBI issuance aimed at stabilising the Rupiah during the quarter.
- Despite limited growth in debt issuance, the government continues to take more loans from international lenders, with some of this debt being assumed by SOEs.
- Beyond SOEs, the private sector's demand for external loans is primarily concentrated among foreign companies, indicating a continued investment cycle despite the slowing CAPEX realisation in the domestic corporate sector.

- Indonesia's external debt snapped its downward trend in Q2-2024, albeit only rising by a slim 2.75% YoY (0.80% QoQ) which pushes the outstanding external debt to USD 408.62 Bn. **Much of the increase is attributed to the public sector**, adding USD 10.26 Bn of new loans (5.08% YoY, 1.70% YoY in Q1-2024) throughout the quarter while many in the private sector (apart from SOEs and a small subset of government-backed and foreign-owned companies, to be discussed later) continue to limit their sights on the global debt market (0.34% YoY).
- The rising external loans in the public sector may fit the prevailing popular narrative, but one must be cautious in prematurely attributing these new loans to a specific regulatory (or an executive) institution. In this case, **much of the new external loans attributed to the public sector has been driven by Bank Indonesia (127.28% YoY, accelerating from 55.57% YoY in Q1-2024)**, who's sizable SRBI issuance in Q2-2024 (particularly between May and June 2024) played a crucial role in defending the Rupiah's value amidst rising volatility during the period.
- As such, we can expect this channel of external lending to start moderating in H2-2024, given that the strengthening Rupiah may allow BI to shift SRBI issuance to a relatively lower gear, both in terms of volume and yield. However, the significant amount of SRBI maturing in the next couple of quarters (amounting to around USD 20.43 Bn spread throughout the rest of the year) and the high SRBI ownership by foreign investors may compel BI to maintain SRBI outstanding in gross terms, lest the risk of capital outflows may undo the Rupiah's gain in recent times.
- On the other hand, the government may not seem to have added many new external loans in Q2-2024 (-0.81% YoY in Q2-2024). For instance, Indonesian sovereign bond issuance has been lacking throughout H1-2024, with the slim USD 0.71 Bn in new foreign-denominated bond issuance unable to match the USD

7.17 Bn decline in Rupiah-denominated IoUs due to persistent foreign outflows from the SBN market during the quarter.

- However, this does not mean that the government has thoroughly cut its exposure to the global debt market. **Instead of dealing primarily with the bond market, the Indonesian government has been turning to the less-turbulent world of international lenders**, with bilateral and multilateral loans growing at 8.84% YoY in Q2-2024 (7.90% YoY in Q1-2024).
- This financing approach seems to have yielded a promising result for the Indonesian government. Despite the high-for-longer global interest rate environment in Q2-2024, the growth in government debt burden slowed to 13.08% YoY in Q2-2024, down from 17.12% YoY in the previous quarter. It is not surprising, then, that **the government have signalled for this trend to continue for the rest of the year**, as the government is now looking for more international loans (along with utilising its excess budget/SAL balance) to lower its need of returning to the more expensive and volatile bond market.

"The shift from SBN to international loans have shown a promising result in helping the government to limit the growth in its interest burden"

- The government's decision to shift its financing strategy from bonds to loans allows us to better predict the types of spending the government aims to support with these borrowed funds. **Programme-based loan growth has decelerated to 3.00% YoY in Q2-2024 (3.05% YoY previously), while project-based loan growth has accelerated from 11.30% YoY to 17.66% YoY.** This reading, of course, is not too surprising; the government's commitment to advancing its legacy projects and other national strategic projects is well-known, and the plan to push the 2024 fiscal deficit beyond 2.29% of GDP (with estimates ranging from 2.7-2.8% of GDP) has also been floated for some time.
- A more intriguing discussion might revolve around which entities the Indonesian government has approached to secure these funds. The US (along with US-led international entities) has not seemed to be too active in helping Indonesia with its financing situation in recent quarters, meaning that, apart from its spillover effect to the global bond market, the Indonesian government may have little to worry about the ongoing political and foreign policy uncertainty in the US.
- It is to its Asian neighbour, then, that the Indonesian government turns to fill its financing gap. Indeed, external loans from China or China-backed entities rose by 32.97% (0.81% YoY in Q1-2024), accounting for 43.11% of new external loans recorded in Q2-2024. **China's more lenient lending approach, along with its seemingly renewed commitment to supporting investments in Indonesia and the Southeast Asia region, means that the government may be able to continue with this financing pattern in periods to come.**
- The Indonesian government's strategy of utilising China (or China-backed) loan facilities extends beyond what is reflected in the government and BI sector external loan data. Chinese loans to the Indonesian SOEs have grown by 15.59% YoY in Q2-2024, accelerating from 9.70% YoY in the previous quarter. The high-speed railway project comes to mind, given the upticks in external loan growth attributed to the transportation sector.

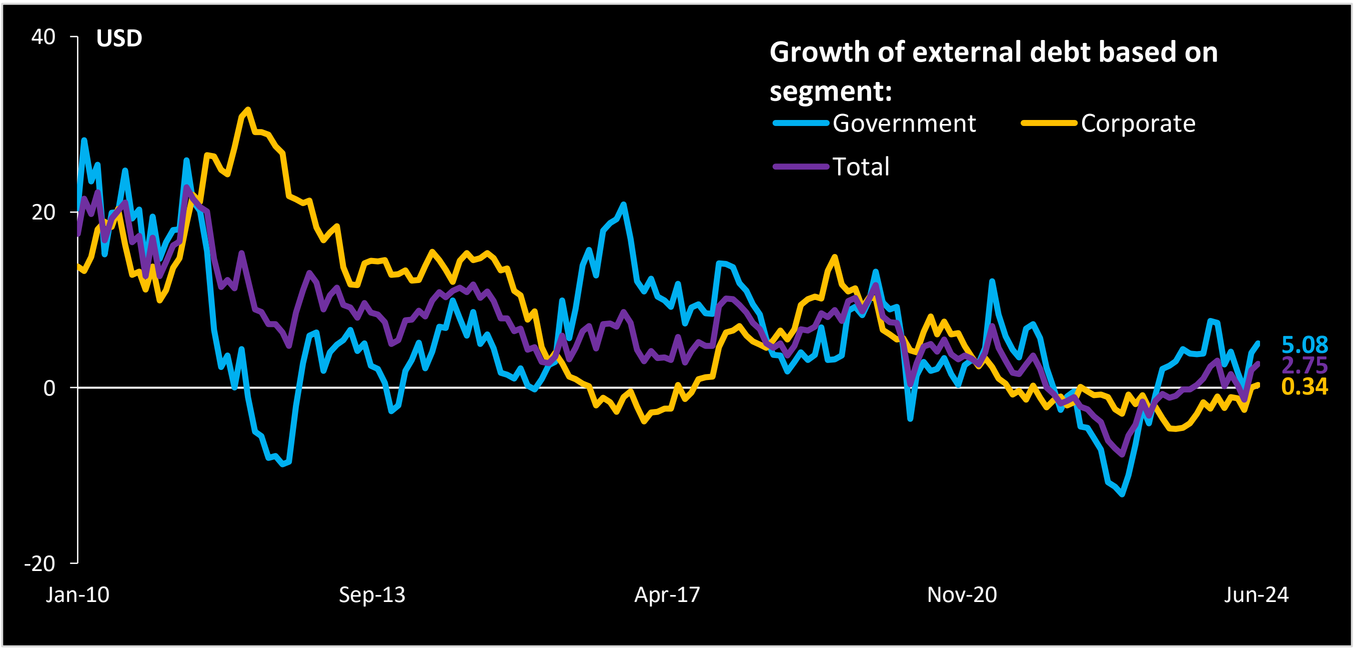
- Meanwhile, the demand for external loans from the usual suspect of energy related SOEs seems to be relatively muted, given the lower variance (albeit still volatile) global energy prices throughout the quarter. However, this does not mean that transportation SOEs are alone in driving up Indonesia's external loans. Indeed, **multinational, and joint-owned companies present another subset that has taken on more external loans in Q2-2024 (6.16% YoY)**. This data helps explain the gap between our recent observations of the slowing CAPEX cycle in the domestic corporate sector and the still-accelerating capital goods imports, as foreign-owned companies continue to expand their footprint in the Indonesian economy.

- While we have covered Indonesia's most recent external loan posture in some detail, no discussion of Indonesia's external debt would be complete without some speculation about the country's external debt position post-transition. The incoming government, as we know, has floated the idea of pushing the debt-to-GDP ratio to 50% by the end of its term, raising questions from the market about the sustainability of this approach. Additionally, the merits of capping the fiscal deficit at 3.0% of GDP have also been questioned, with debates centring around whether such a cap is desirable in the context of the upcoming government's twin fiscal targets (completing the current government's infrastructure projects while also enlarging the budget for social spending).

> ***"The corporate sector's demand for external loans is limited to foreign companies, which may portends continued investments"***

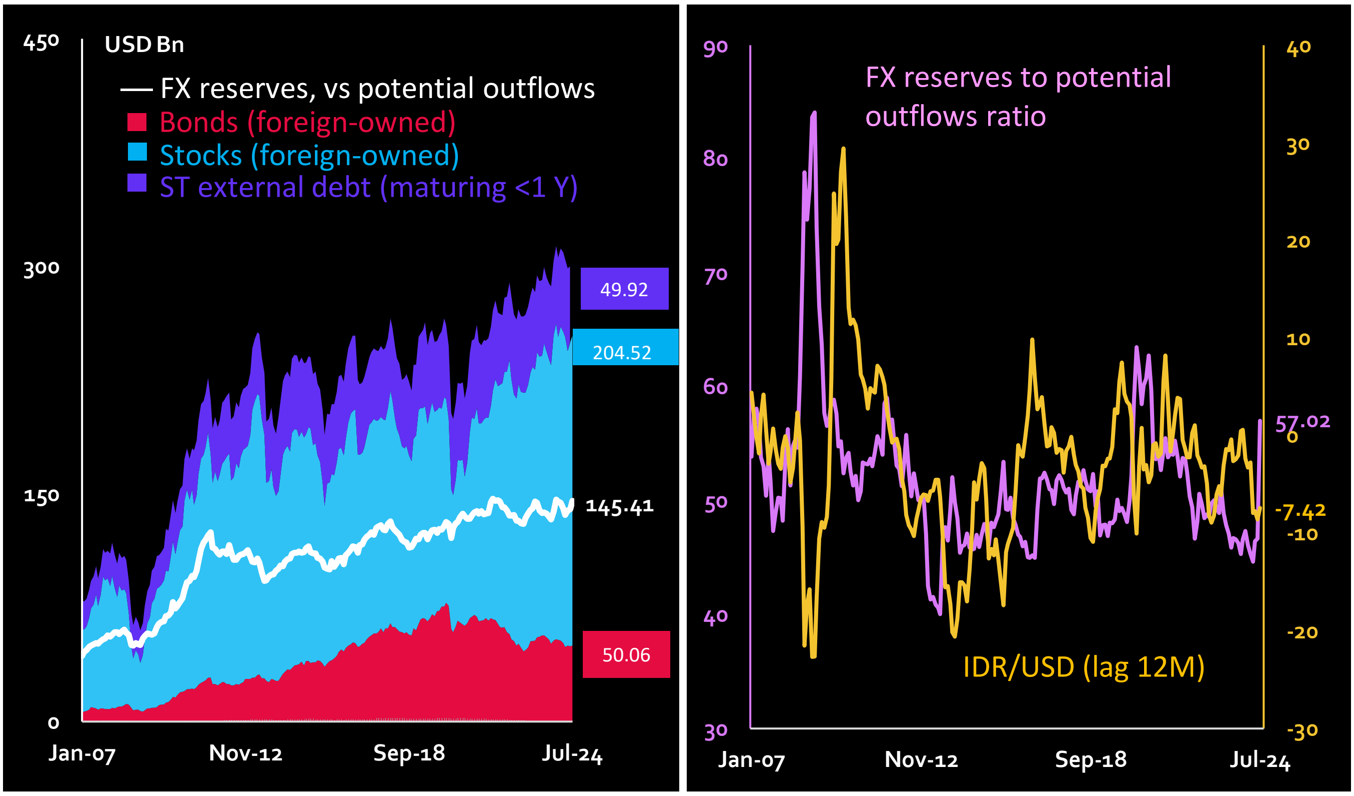
- In this context, history offers the best lesson, as economic realities may compel the upcoming administration to scale back its fiscal ambitions, much like what transpired in the early days of the current administration. Like in politics, pragmatic adjustments often become necessary to align with prevailing economic constraints, and the proposed 2.53% fiscal deficit budget for 2025, announced today, provides an acceptable template for the market and the upcoming government to build its future budget.

***Panel 1.* The higher external debt growth in Q2-2024 is primarily driven by BI, while the government shifted its debt exposure from the bond market to international lenders**



Source: BI, calculation by BCA Economic Research

Panel 2. **The sizable amount of maturing bonds in the short term (including SRBI) may threaten the Rupiah's recent strengthening despite the increase in BI's FX reserves position.**



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

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

		2020	2021	2022	2023	Q1-2024	Q2-2024
Short Term Debt ≤ 1 year	*Government and Central Bank*	136	130	969	5,172	6,122	12,663
	1.1 Government	118	107	336	372	32	14
	1.2 Central Bank	18	23	633	4,800	6,090	12,649
	Private	43,209	47,199	47,047	47,167	46,872	45,887
	Total	**43,345**	**47,329**	**48,016**	**52,339**	**52,995**	**58,550**
Long Term Debt > 1 year	*Government and Central Bank*	209,109	209,075	194,703	204,898	200,739	199,433
	1.1 Government	206,257	200,067	186,138	196,264	192,211	190,970
	1.2 Central Bank	2,852	9,007	8,565	8,635	8,528	8,463
	Private	164,481	157,569	153,810	151,655	151,640	150,637
	Total	**373,590**	**366,643**	**348,513**	**356,553**	**352,378**	**350,070**
TOTAL (1 + 2)	*Government and Central Bank*	209,246	209,205	195,673	210,070	206,861	212,097
	1.1 Government	206,375	200,175	186,474	196,636	192,244	190,985
	1.2 Central Bank	2,871	9,030	9,198	13,434	14,618	21,112
	Private	207,689	204,767	200,857	198,821	198,512	196,524
	TOTAL	**416,935**	**413,972**	**396,529**	**408,892**	**405,373**	**408,620**
Foreign Exchange Reserves		**135,897**	**144,905**	**137,233**	**146,384**	**140,390**	**140,177**
Vulnerability Indicators		**3.1**	**3.1**	**2.9**	**2.8**	**2.6**	**2.4**

Source: Bank Indonesia. Vulnerability indicators: FX reserves divided by total short term debt position.

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	2.87
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	6.00
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	16,172
Trade Balance (US$ 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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