External debt:
New directions

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Samuel Theophilus Artha
Economist/Analyst

Barra Kukuh Mamia
Head of Macroeconomic Research

Executive Summary

- Indonesia's external debt increased in Q3-24 to USD 427.8 Bn, a growth of 4.7% QoQ and 8.7% YoY. The increase is entirely caused by the public sector which grew 17.2% YoY, while corporate sector declined by 0.6%.
- BI has increasingly relied on SRBI in its monetary policy, in parallel with the increasing use of external loans to fulfill the government's financing needs, amid continued turbulence in the global capital market.
- The bulk of external loans in the corporate sector has stemmed from China's efforts to internalize their supply chains, particularly in the manufacturing and trade sectors, while external debt by domestic companies declines in line with the weakening CAPEX cycle.

- Indonesia's external debt totaled USD 427.8 Bn in Q3-24, a growth of 4.7% QoQ (8.7% YoY). The increase could be attributed entirely to the government sector (17.2% YoY), both from the government and the central bank, whereas external debt by the corporate sector (SOE and private) declined by 0.6%.

- The central bank liabilities, of course, refers to SRBI, which has been BI's front-line weapon in its defense of the exchange rate. Despite Q3 being kinder overall to the Rupiah, virtually an equal amount of SRBI was purchased in Q3 (USD 6.54 Bn) as it did in Q2 (USD 6.49 Bn). We could expect a similar trend to continue in Q4, given the need to counteract outflows from equities and government bonds (SBN).

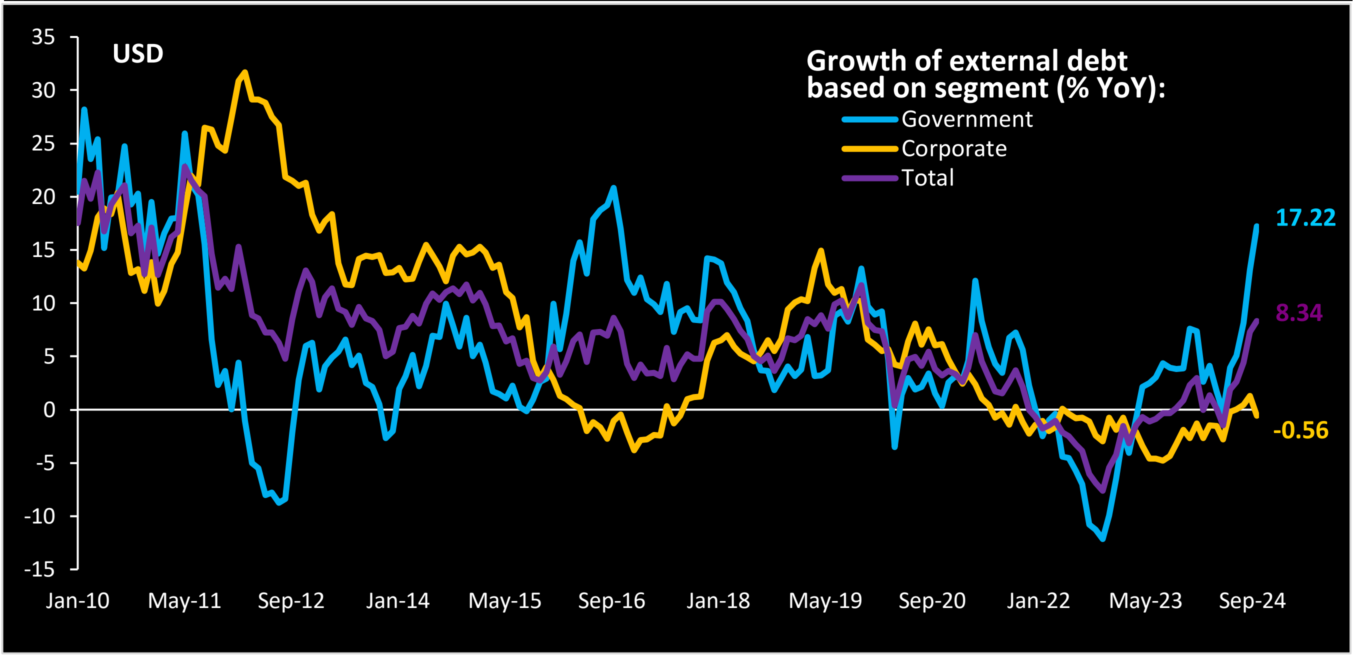
- This concurs with our thesis that BI's exit from SRBI—which was intended as a temporary expedient—is becoming much harder, and it may effectively become the *de facto* benchmark rate going forward. The 25 bps cut in BI Rate in September, as such, has been neutralized by the 29 bps rise in 12M SRBI yield since that cut.

- Meanwhile, it is interesting that the rise in government debt has been fueled rather equally by loans and bonds, especially in YoY terms—with loans rising by USD 7.58 Bn (13.7% YoY) and bonds by USD 8.27 Bn (6.2% YoY). This is a notable shift in strategy, given that loans (bilateral, multilateral, or commercial) had been stagnant or declining between 2010.

- Why the increase in loans? Broadly speaking, the government has been wary of being overly reliant on the bond market, given its volatility in recent quarters. Loans, then, offer a ready and relatively cheap alternative source of liquidity. Notably, the sharp increase in external loans happened in Q4-23 and Q3-24—both times after a "higher-for-longer" shock that led to higher yields globally.

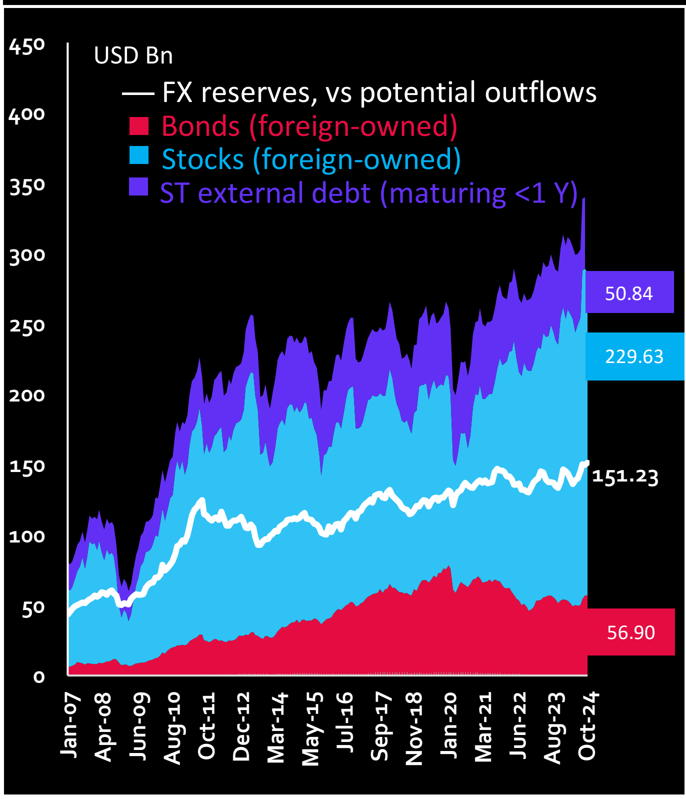
- Luckily, foreign capital returned in a big way in August and September as the market amped itself up for the Fed's first rate cut, buying up to USD 5.2 Bn in SBN (according to BoP data). Indonesia thus enjoyed the best of both worlds, obtaining liquidity from both loans and the capital market.
- But even if loans are intended as a short-term, tactical tool to deal with temporary volatility, the rising frequency and intensity of such volatile episodes might force the government to resort to it more often—in a parallel development to SRBI. Indeed, recent post-US Election outflows have been substantial, and the need for debt issuance next year (which we estimate at IDR 1,400 Tn) may crash into still-unfavorable market conditions.
- Meanwhile on the corporate sector, the decline in new external debt reflects waning CAPEX cycle as we have seen in the last two quarters. The only exception, it seems, is borrowing by non-financial foreign companies which grew by 18.3% YoY (versus 0.2% for SOEs and -7.6% for local companies).
- While there are no detailed crosstabs, we can guess the kind of foreign companies these are from the sectoral and country breakdowns. We can see that there has been a sharp rise in loans for manufacturing (11.3% YoY) and trade sectors (19.5%), and in loans from China (8.1%) and Hong Kong (5.9%). A reasonable guess, then, is that it is these manufacturing and importing companies from China that are now driving Indonesia's CAPEX cycle, whereas local companies have been retreating.
- These ever-growing ties with China seem to be driven by the efforts by Chinese companies to secure raw/intermediate goods from Indonesia and thereby internalize their supply chains. Indeed, given China's massive current account surplus, declining profits at home, and its own geopolitical strategy, we can expect investment from China to further ramp up in the future. This would also match, hand in glove, with the Indonesian government's massive need for liquidity to finance its ambitious programs.
- Of course, this closeness with China may also put Indonesia in Pres. Trump's crosshairs, if it has not already by the mere virtue of its trade surplus vis-à-vis the US. In general, we see Indonesia as having much downside but little upside in the event of a full-blown trade war between the US and China, for two reasons: (1) it is not (yet) a desirable target for industrial relocation; and (2) its position in the supply chain is largely **upstream** of China.
- Most of China's FDI boom to Indonesia in recent years have gone to the metal processing sector, where the goal is to export back to China. In that case, a slowdown in the Chinese economy (exacerbated by Trump's tariff) could have more drastic effect on Indonesia—due to the "bullwhip effect". Hopefully, then, the future crop of Chinese FDI would be more diversified, to mitigate this vulnerability.

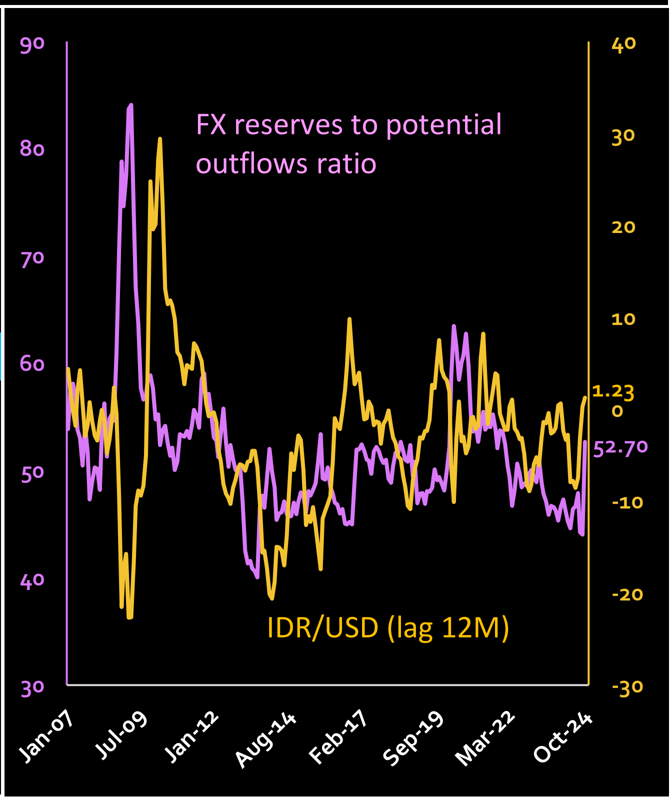
Panel 1. External debt by the government/BI soared in Q3-24 as foreign investors anticipated Fed rate cuts and acquired more SBN



Source: BI, calculation by BCA Economic Research

Panel 2. FX reserves have somewhat kept up with recent foreign inflows and external debt, slightly improving the coverage ratio to potential short-term outflows





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

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

		2020	2021	2022	2023	Q2-2024	Q3-2024
Short Term Debt ≤ 1 year	*Government and Central Bank*	136	130	969	5,172	12,663	19,063
	1.1 Government	118	107	336	372	14	134
	1.2 Central Bank	18	23	633	4,800	12,649	18,929
	Private	43,209	47,199	47,047	47,167	45,887	48,356
	Total	**43,345**	**47,329**	**48,016**	**52,339**	**58,550**	**67,419**
Long Term Debt > 1 year	*Government and Central Bank*	209,109	209,075	194,703	204,898	199,433	212,727
	1.1 Government	206,257	200,067	186,138	196,264	190,970	204,006
	1.2 Central Bank	2,852	9,007	8,565	8,635	8,463	8,720
	Private	164,481	157,569	153,810	151,655	150,637	147,633
	Total	**373,590**	**366,643**	**348,513**	**356,553**	**350,070**	**360,360**
TOTAL (1 + 2)	*Government and Central Bank*	209,246	209,205	195,673	210,070	212,097	231,789
	1.1 Government	206,375	200,175	186,474	196,636	190,985	204,140
	1.2 Central Bank	2,871	9,030	9,198	13,434	21,112	27,649
	Private	207,689	204,767	200,857	198,821	196,524	195,989
	TOTAL	**416,935**	**413,972**	**396,529**	**408,892**	**408,620**	**427,778**
Foreign Exchange Reserves		**135,897**	**144,905**	**137,233**	**146,384**	**140,177**	**149,922**
Vulnerability Indicators		**3.1**	**3.1**	**2.9**	**2.8**	**2.4**	**2.2**

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$)	4175	3912	4350	4784	4920	5149
Consumer Price Index Inflation (% YoY)	2.7	1.7	1.9	5.5	2.6	1.9
BI 7 day Repo Rate (%)	5.00	3.75	3.50	5.50	6.00	5.75
USD/IDR Exchange Rate (end of year)**	13,866	14,050	14,262	15,568	15,397	15,947
Trade Balance (US$ Bn)	-3.2	21.7	35.3	54.5	37.0	29.3
Current Account Balance (% GDP)	-2.7	-0.4	0.3	1.0	-0.1	-0.7

*Estimated number

** Estimation of Rupiah's fundamental exchange rate

Economic, Banking & Industry Research Team

David E.Sumual
Chief Economist
david_sumual@bca.co.id
+6221 2358 8000 Ext:1051352

Agus Salim Hardjodinoto
Head of Industry and Regional Research
agus_lim@bca.co.id
+6221 2358 8000 Ext: 1005314

Barra Kukuh Mamia
Head of Macroeconomic Research
barra_mamia@bca.co.id
+6221 2358 8000 Ext: 1053819

Victor George Petrus Matindas
Senior Economist
victor_matindas@bca.co.id
+6221 2358 8000 Ext: 1058408

Gabriella Yolivia
Industry Analyst
gabriella_yolivia@bca.co.id
+6221 2358 8000 Ext: 1063933

Lazuardin Thariq Hamzah
Economist / Analyst
lazuardin_hamzah@bca.co.id
+6221 2358 8000 Ext: 1071724

Keely Julia Hasim
Economist / Analyst
keely_hasim@bca.co.id
+6221 2358 8000 Ext: 1071535

Elbert Timothy Lasiman
Economist / Analyst
Elbert_lasiman@bca.co.id
+6221 2358 8000 Ext: 1007431

Thierris Nora Kusuma
Economist / Analyst
thierris_kusuma@bca.co.id
+6221 2358 8000 Ext: 1071930

Nicholas Husni
Economist / Analyst
nicholas_husni@bca.co.id
+6221 2358 8000 Ext: 1079839

Samuel Theophilus Artha
Economist / Analyst
samuel_artha@bca.co.id
+6221 2358 8000 Ext: 1080373

PT Bank Central Asia Tbk

Economic, Banking & Industry Research of BCA Group

20th Grand Indonesia, Menara BCA

Jl. M.H Thamrin No. 1, Jakarta 10310, Indonesia

Ph : (62-21) 2358-8000 Fax : (62-21) 2358-8343