

Default Study 2019 – 2024 Report is a portrait of default rate of debt notes or companies rated by PT Kredit Rating Indonesia in the year of 2019 – 2024

# Default study

2019 – 2024

Made by: PT Kredit Rating Indonesia

---

## I. GLOBAL AND DOMESTIC ECONOMIC CONDITION

The global economy is holding steady, although the degree of grip varies widely across countries. Slowing down of consumption and delayed stabilization in the China’s property market and persistently low consumer confidence has halted China’s economic growth to just 4.7% YoY. Deceleration in industrial activity in India has slowed growth in India more than expected. Growth continued to be subdued in the euro area (with Germany’s performance lagging that of other euro area countries), largely reflecting continued weakness in manufacturing and goods exports even as consumption picked up in line with the recovery in real incomes. In Japan, output contracted mildly owing to temporary supply disruptions. By contrast, momentum in the United States remained robust, with the economy expanding at a rate of 2.7% YoY in the third quarter, powered by strong consumption.

Global inflation is proving stickier, with central banks are moving more cautiously in the easing cycle while keeping a close eye on activity and labour market indicators as well as exchange rate movements. A few central banks are raising rates, marking a point of divergence in monetary policy.

**Global Economic Outlook:** In the medium term, the balance of risks to the outlook is tilted to the downside, with global growth poised to be lower than projected. An intensification of protectionist policies in the form of a new wave of tariffs, could exacerbate trade tensions, lower investment, reduce market efficiency, distort trade flows, and again disrupt supply chains. Growth could suffer in both the near and medium term, but at varying degrees across economies.

**Table 1: World Economic Growth**

Countries	2023 (%YoY)	Estimation 2024	Estimation 2025	Estimation 2026
World Output	3.3	3.2	3.3	3.3
United States	2.9	2.8	2.7	2.1
Euro Area	0.4	0.8	1.0	1.4
Japan	1.5	-0.2	1.1	0.8
China	5.2	4.8	4.6	4.5
India	8.2	6.5	6.5	6.5

Source: IMF

Domestic wise, GDP growth is projected at 5.1% in 2024, 5.2% in 2025, and 5.1% in 2026. Domestic demand continues to be driven by private consumption, and investment growth will strengthen over the next two years. Headline inflation is expected to be 2.3% in 2024 and remain around that value in 2025 and 2026, which inside the central bank’s target corridor (1.5% - 3.5%). The current account deficit is expected to widen, but Foreign Direct Investment (FDI) inflows are strong and international reserves remain high. An additional softening of global demand for commodities could widen the current account deficit and reduce fiscal revenues.

Risks to Indonesia’s economy is expected to come from the increasing imported goods tariff imposed by America, which could result to a lower export value in 2025. Mitigating this risk will require Indonesia to diversify its economic partnerships, strengthen local manufacturing, and build trade ties with other major economies to lessen reliance on any single market. Moreover, Indonesia must explore new sources of FDI, potentially increasing investment from China, Japan, South Korea, and the Middle East to compensate for any declines from the US.

---

## **II. BACKGROUND**

PT Kredit Rating Indonesia is of the view that the Indonesia's economy continues to show its resiliency and recovery with GDP grew by 5.31%, 5.05% (2023), and 5.1% (expected in 2024). Despite continuously posting a stable-positive growth of GDP, Indonesia's economy indicated ongoing structural problems, with a growth mostly supported by seasonal factors. Around 45% of Indonesia's economy was attributed to only three sectors, namely manufacturing, wholesale and retail trade, and agriculture. These three biggest sectors in the economy continued to grow below overall economic growth. Persistent stagnation of manufacturing sector growth substantiates any indication of premature deindustrialization in Indonesia. Furthermore, below 5% growth wholesale and retail sector suggest that another worrying potential of weakening purchasing power of general population, especially the middle class group. On the other hand, agriculture sector growth performance was rather depressing, driven by low productivity issue due to various factors, ranging from low skills of labour, low quality of input materials, to lack of insurance scheme for farmers.

Meanwhile, weak global demand, particularly from Indonesia's main trading partners, could negatively impact export growth. Economic slowdowns or reduced purchasing power in these regions might lead to decreased demand for Indonesian goods, offsetting some of the gains from higher commodity prices. On the other hand, The Fed has consistently held its policy rate between 5.25% and 5.75% over its last seven meetings, including those in the April to June quarter. This stance has influenced the Indonesian financial market, mostly through the exchange rate movement, as Rupiah depreciated against the US Dollar. These has affected some of the companies in Indonesia, both exporters – particularly to China, as well as Indonesian companies that imported most of its raw materials as in their ability to punctually pay their financial obligations, including loan from banks and debt notes issued.

Given the above and to test our credit rating methodology, KRI has analysed all of the companies as well as debt notes that have been rated by KRI related to their default events that takes place after the ratings have been issued. Such events, especially in 2024, may have a high degree of relationship to the conditions occurred in domestic as well as global economic conditions.

### III. Definition

#### **III. 1. Population:**

KRI uses two types of data population for this default study research report:

- Company rated: The cumulative number of companies rated by KRI. We do not recount one company that already being rated by KRI, if this company resubmit a company rating mandate.
- Debt instrument rated: We refer this as the sum of all debt instruments value rated by KRI. We count not only the cumulative amount of debt instruments that have been successfully rated and issued by the companies, but also debt instruments that have been rated but not successfully issued.

#### **III. 2. Observation Period:**

KRI uses the latest ratings for the companies or the debt instruments each year during the 2019 – 2024 periods. Therefore, if a company or debt instrument rating has an upgrade or downgrade rating during this periods, then we use the latest rating at the year when the rating changed.

Example: If Company A had “irBBB+” rating in 2019, and KRI upgraded its rating to “irA-” in 2024, then we use “irBBB+” rating in 2019 and “irA-” in 2024. If this Company defaulted its financial obligations in 2021, then we count this event as a default for “irA-” rating only.

#### **III. 3. Rating Classification:**

KRI diversifies its rating classification with letters and plus (+) or negative (-) signs. The rating classifications as well as their definitions are as follow:

Rating	Definition
<i>irAAA</i>	Obligor classified in the <i>irAAA</i> rating has the highest level of certainty to honor its financial obligations.
<i>irAA</i>	Obligor classified in the <i>irAA+</i> rating has the a very high level of certainty to honor its financial obligations. There is, however, a slight difference in the rating scale with the highest qualification level of obligor.
<i>irA</i>	Obligor with <i>irA</i> rating has a high level of certainty to honor its financial obligations, but it can be affected by adverse changes in business and economic conditions, relative to Obligor with a higher rating."
<i>irBBB</i>	Obligor with <i>irBBB</i> rating have an adequate level of certainty to honor its financial obligations. However, this certainty is more likely to diminish in the future than with the higher rating categories.
<i>irBB</i>	Obligor with <i>irBB</i> rating, although the Obligor's capacity to meet its financial obligations has not been declared problematic, the Obligor is vulnerable to uncertainty and adverse changes in business, financial or economic conditions, which can cause the Obligor to be unable to meet its financial obligations.
<i>irB</i>	Obligor with <i>irB</i> rating has a lower capability level to meet its financial obligations than an Obligor with a credit rating scale above it, even though currently the Obligor is still able to meet its financial obligations. However, adverse changes in business, financial and economic conditions will be able to reduce the Obligor's ability and willingness to fulfill its financial obligations as promised
<i>irCCC</i>	Obligor with <i>irCCC</i> rating has several uncertainties about the Obligor in fulfilling its financial obligations, and is highly dependent on changes in business, financial and economic conditions that can support its capability to meet its financial obligations, so there is a possibility of default
+	The plus sign (+) indicates that the rating given is closer to the rating scale above it.
-	The minus sign (-) indicates that the rating is still higher than the rating category below, although it is closer to the lower rating than it is to the higher rating category.

However, for this default study report we do not divide the rating classification with the plus or minus sign. We classify the rating based only on its rating signs, which are AAA, AA, A, BBB, BB, and CCC.

**III. 4 Terminology of default:**

- Debt instrument default: At the due date, the issuer of the debt instrument failed to pay the interest as well as the principal of the specific debt instrument issued and rated by KRI.
- Company default: A condition where a company failed to pay the debt instruments issued or other financial obligations.

## IV. Default Rate Analysis

### IV. 1. Default Rate Based on Observation Period

To calculate the default rate based on observation period, or during 2019 – 2024, first we have to determine the definition of debt instruments default rate and company default rate. The terminology of debt instrument default rate uses in this report is the percentage of total cumulative value of defaulted debt instruments that have been rated by KRI up to time t, divided by the total cumulative value of debt instruments that have been rated by KRI up to time t. The formulation is as follows:

$$DIDR_t = \frac{\sum_{n=1}^t TDI_n}{\sum_{n=1}^t VIR_n}$$

Where:

$DIDR_t$  = Debt instrument default rate at time t

$TDI_n$  = Total value of default instrument from 2019 – 2024

$VIR_n$  = Total value of instrument rated from 2019 – 2024

n = Observation period, or from 2019 – 2024

t = Cut of observation period or at the end of 2024.

The terminology of company default rate is the cumulative number of companies that have been rated by KRI and evidently failed to pay its debt instruments principal or coupons payment punctually, or other financial obligations. The calculation formula for this company default rate is as follows:

$$CDR_t = \frac{\sum_{n=1}^t CD_n}{\sum_{n=1}^t CR_n}$$

$CDR_t$  = Company default rate at time t

$CD_n$  = Cumulative number of defaulted companies from 2019 – 2024

$CR_n$  = Cumulative number of companies rated by KRI in 2019 – 2024

n = Observation period, or from 2019 – 2024

t = Cut of observation period or at the end of 2024.

The cumulative number of companies and cumulative amount of instruments rated by KRI during 2019 – 2024 periods is as follows:

Year	Cumulative Number of Companies Rated by KRI	Cumulative Value of Instrument Rated by KRI (IDR, trillion)
2019	15	12.76
2020	33	23.78
2021	45	35.11
2022	102	40.20
2023	164	75.58
2024	229	123.09

Based on the above cumulative number of companies rated by KRI and cumulative value of instruments rated by KRI during 2022 – 2024, the cumulative number of companies that failed to pay its financial obligations were only three companies which happened in 2021 and 2023. The cumulative amount of defaulted debt instruments rated by KRI were IDR 2,340,000,000,000,-. Given these, the company default rate and debt instrument default rate were 1.7% and 1.9%, as calculated below:

$$CDR_{2024} = \frac{3}{183} = 1.7\%$$

$$DIDR_{2024} = \frac{IDR\ 1,160,000,000,000, -}{IDR\ 123,090,000,000,000, -} = 1.9\%$$

#### **IV. 2. Default Rate Based on Rating Classification**

To calculate the default rate based on rating classification during 2019 – 2024, first we calculate the total rating mandate and completed by KRI for each rating classification. And, during such period, KRI has received and rated 260 companies as well as debt instruments. From this cumulative mandates and completed rating, we have calculated the default rate for each rating classification as shown in the table below:

Rating	Number of default case
<i>ir</i> AAA	-
<i>ir</i> AA	-
<i>ir</i> A	-
<i>ir</i> BBB	3
<i>ir</i> BB	-
<i>ir</i> B	-
<i>ir</i> CCC	-

Based on the gathered data, we notice three rating assignments that had *ir*BBB, have defaulted during 2019 – 2024 periods.

#### **IV. 3. Default Rate Based on Sector**

To calculate the default rate based on sector during 2022 – 2024, first we divide our sector classifications into three categories, namely CORPORATES for non-financial institutions companies, FINACIAL INSTITUTIONS for financial institutions companies, and OTHER for other types of debt instruments besides bond and medium-term notes rated by KRI, such as asset-backed securities, DIRE, etc. From the cumulative 183 mandates and completed, we calculated the default rate for each sector based on the following formula:

$$DRS_{rc} = \frac{\sum_{n=1}^t Sec_n}{\sum_{n=1}^t MR_n}$$

$DRS_{rc}$  = Default rate based on each sector during 2022 - 2024

$Sec_n$  = Default rate based on each sector in 2022 - 2024

$MR_n$  = Cumulative mandates received and completely rated in 2022 - 2024

$n$  = Observation period, or from 2012 – 2024

$t$  = Cut of observation period or at the end of 2024.

Based on the data gathered, we noticed only two assignments from Corporates that have defaulted in 2019 – 2024 periods, and one assignment from Other sector that has defaulted in 2019 – 2024 periods. As such, the default rate for CORPORATES was 1.1%, and for OTHER sector was 0.5%.

$$DRS_{CORPORATES} = \frac{2}{183} = 1.1\%$$

$$DRS_{OTHER} = \frac{1}{183} = 0.5\%$$