

# **Indonesia's Debt Management**



**Directorate General of Debt Management  
Ministry of Finance of The Republic of Indonesia**

**March 2007**

# State Budget

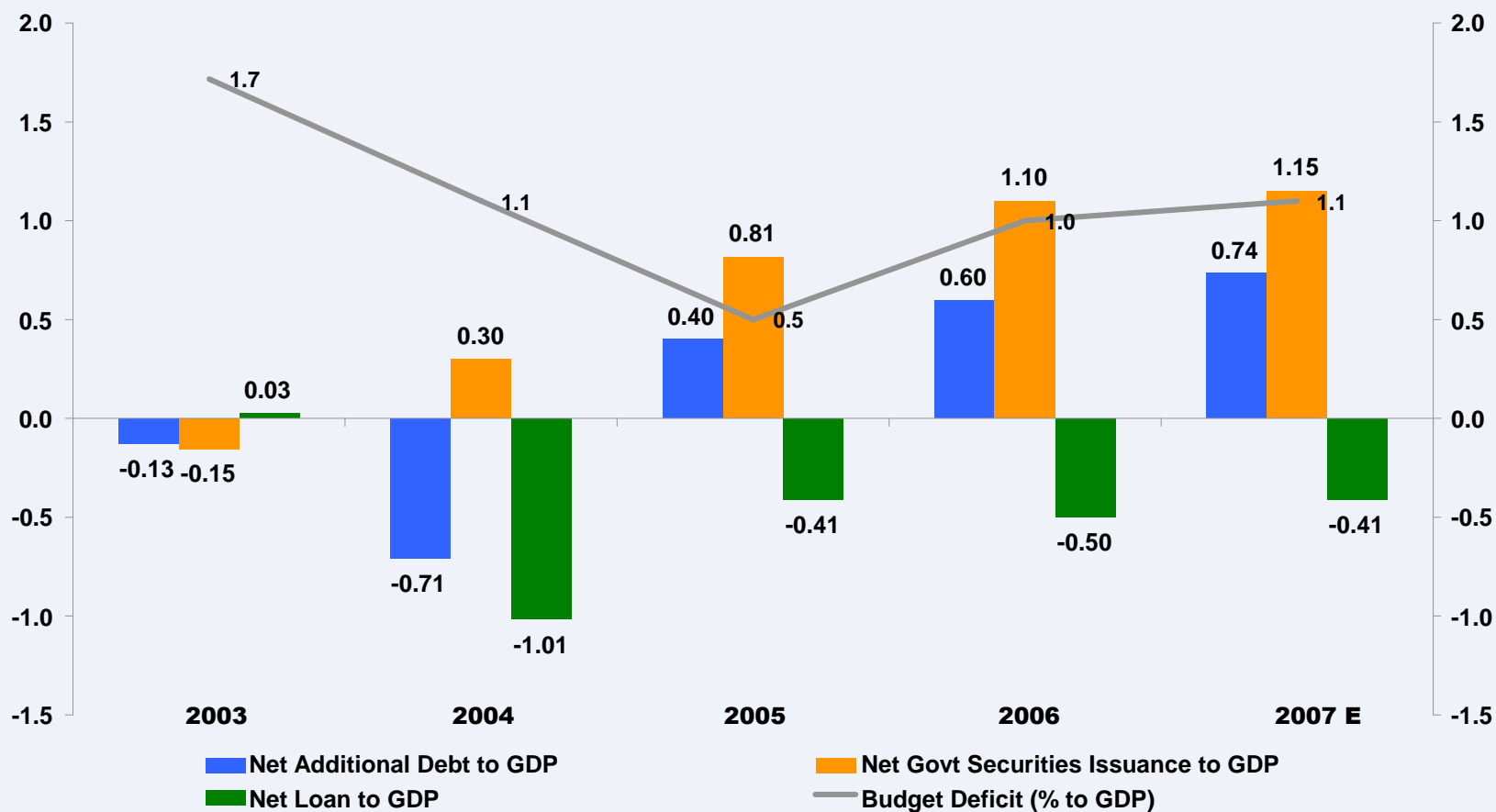
	2006-Revised		2006-Realization		2007-Budget	
<b>Total Revenue (trillion)</b>	<b>659.1</b>	<b>21.1%</b>	<b>637.8</b>	<b>20.7%</b>	<b>723.1</b>	<b>20.5%</b>
of which Tax Revenue	425.1	13.6%	409.1	13.3%	509.5	14.4%
Oil Revenue	159.8	5.1%	158.1	5.1%	139.9	4.0%
<b>Expenditure</b>	<b>699.1</b>	<b>22.4%</b>	<b>670.6</b>	<b>21.8%</b>	<b>763.6</b>	<b>21.6%</b>
of which Interest payment	82.5	2.6%	79.0	2.6%	85.1	2.4%
Domestic	58.2	1.9%	54.9	1.8%	58.4	1.7%
Foreign	24.3	0.8%	24.1	0.8%	26.7	0.8%
Capital	69.8	2.2%	58.9	1.9%	76.9	2.2%
<b>Primary Balance</b>	<b>42.5</b>	<b>1.4%</b>	<b>46.2</b>	<b>1.5%</b>	<b>44.6</b>	<b>1.3%</b>
<b>Overall Balance</b>	<b>(40.0)</b>	<b>-1.3%</b>	<b>(32.8)</b>	<b>-1.1%</b>	<b>(40.5)</b>	<b>-1.1%</b>
<b>Financing</b>	<b>40.0</b>	<b>1.3%</b>	<b>32.8</b>	<b>1.1%</b>	<b>40.5</b>	<b>1.1%</b>
Non Debt	19.5	0.6%	16.2	0.5%	14.5	0.4%
Debt	20.5	0.7%	16.6	0.5%	26.1	0.7%
Govt Securities (Net)	35.8	1.1%	35.9	1.2%	40.6	1.1%
Official Borrowing	(15.3)	-0.5%	(19.3)	-0.6%	(14.6)	-0.4%
Disbursement	37.6	1.2%	33.4	1.1%	40.3	1.1%
Repayment	(52.8)	-1.7%	(52.7)	-1.7%	(54.8)	-1.6%
<b>Assumptions:</b>						
GDP (trillion)	3,119.1		3,078.6		3,531.1	
Growth (%)	5.8		5.6		6.3	
Inflation (%)	8.0		6.8		6.5	
3-mo SBI (% avg)	12.0		11.8		8.5	
Rp / USD (avg)	9,300.0		9,200.0		9,300.0	
Oil Price (USD/barrel)	64.0		64.0		63.0	
Oil Lifting (MBCD)	1,000.0		0.959		1,000.0	

## Notes :

Figures are in trillion IDR

- Aggressive target of GDP growth of 6.3%
- Based on conservative oil price assumption
- Target deficit at 1.1% of GDP and Debt to GDP ratio at 37%
- Deficit financing post CGI relies more on domestic sources, primary government debt market issuance
- Increase expenditures for the regions
- Provide risk sharing scheme for PPP project

# Budget Financing Trend



- More reliance on debt securities (positive net additional debt securities)
- Reduction in external financial (negative net additional loans)
- Net additional domestic debt less than 1% of GDP

# Outstanding Debts of Central Government 2001 - 2006

(in billion USD)	2000	2001	2002	2003	2004	2005	2006 P
<b>a. Loan</b>	<b>60.80</b>	<b>58.82</b>	<b>63.79</b>	<b>68.94</b>	<b>68.60</b>	<b>63.12</b>	<b>61.33</b>
Bilateral *)	36.25	35.07	40.42	46.25	46.51	42.18	40.98
Multilateral **)	20.64	20.69	20.61	19.95	19.46	18.77	18.24
Commercial Banks ***)	0.69	0.48	0.39	0.37	0.29	0.17	0.11
Suppliers ***)	3.06	2.41	2.21	2.20	2.18	1.83	2.01
Bonds and Notes ***)	0.16	0.17	0.17	0.17	0.17	0.17	-
<b>b. Government Securities</b>	<b>67.92</b>	<b>63.52</b>	<b>73.30</b>	<b>76.64</b>	<b>71.29</b>	<b>70.51</b>	<b>82.34</b>
USD Denominated	-	-	-	-	1.00	3.50	5.50
Rupiah Denominated	67.92	63.52	73.30	76.64	70.29	67.01	76.84
<b>TOTAL GOVERNMENT DEBT</b>	<b>128.71</b>	<b>122.34</b>	<b>137.09</b>	<b>145.58</b>	<b>139.89</b>	<b>133.62</b>	<b>143.67</b>

**Notes:**

P = Preliminary

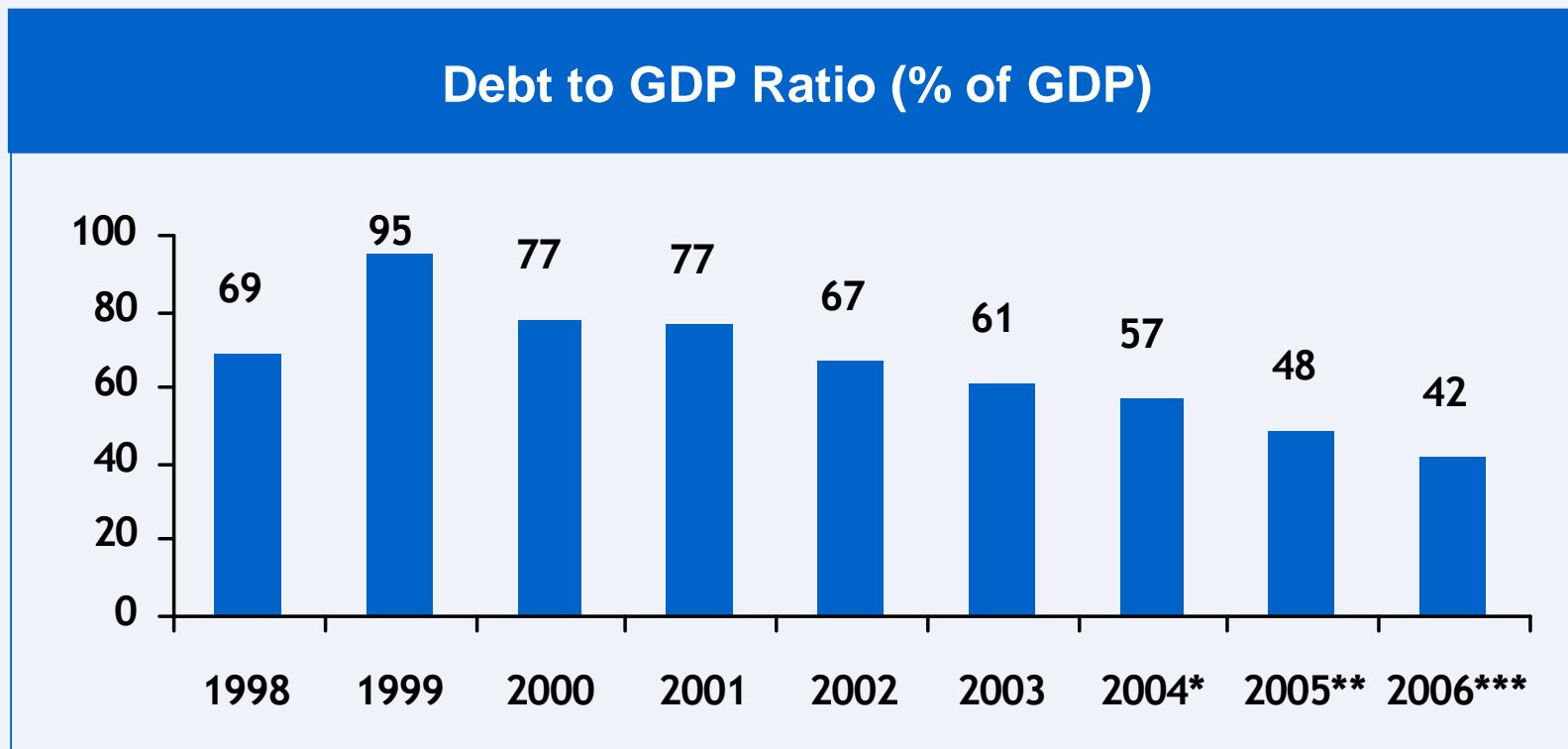
\*) Some of them are Semi Commercial

\*\*\*) Most of them are Semi Concessional

\*\*\*\*) Non-Concessional

Source: Ministry of Finance

# Background



Source: Ministry of Finance

**Notes:**

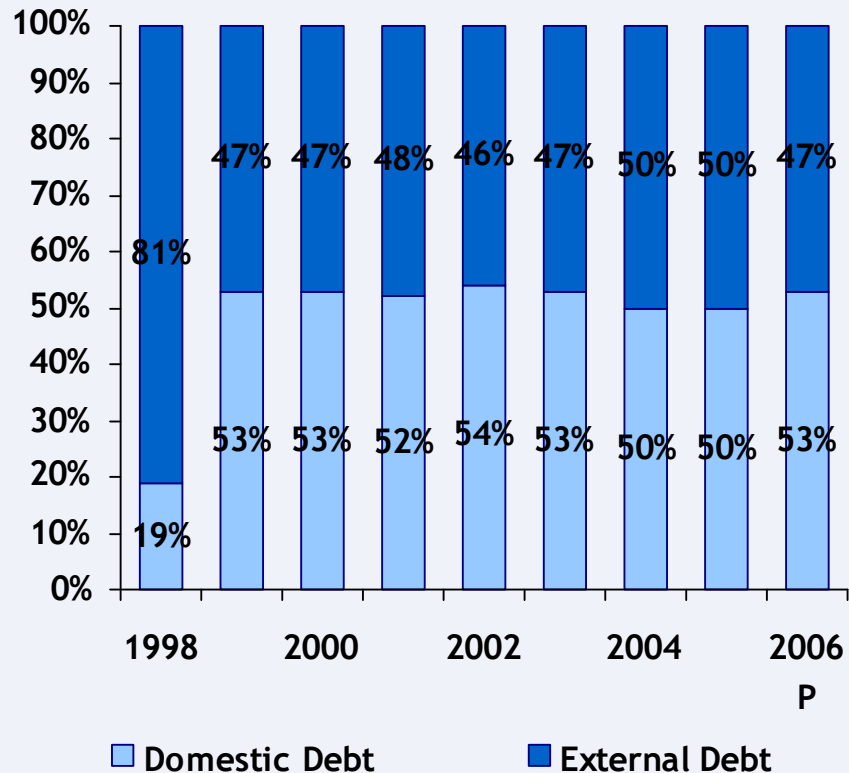
\* = Preliminary

\*\* = Very Preliminary

\*\*\* = Very Very Preliminary

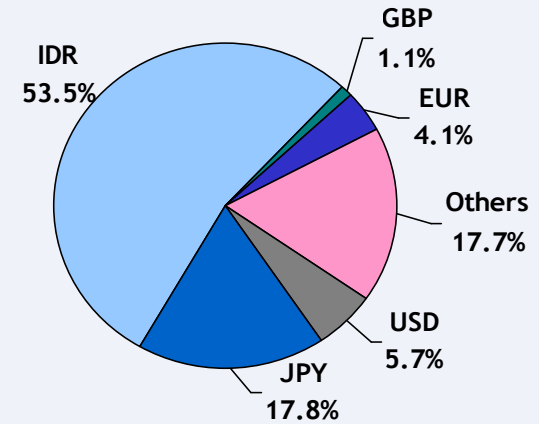
# Debt Structure

## DEBT COMPOSITION.....

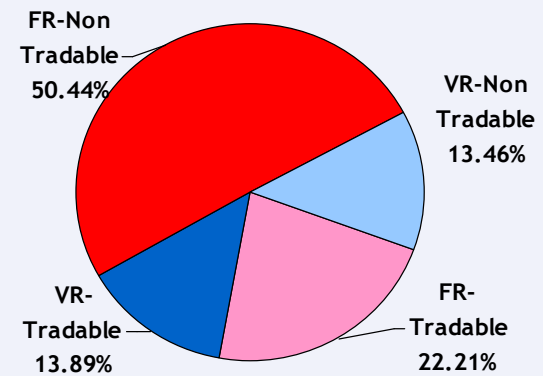


Source: Ministry of Finance

## .....BY CURRENCY TYPE

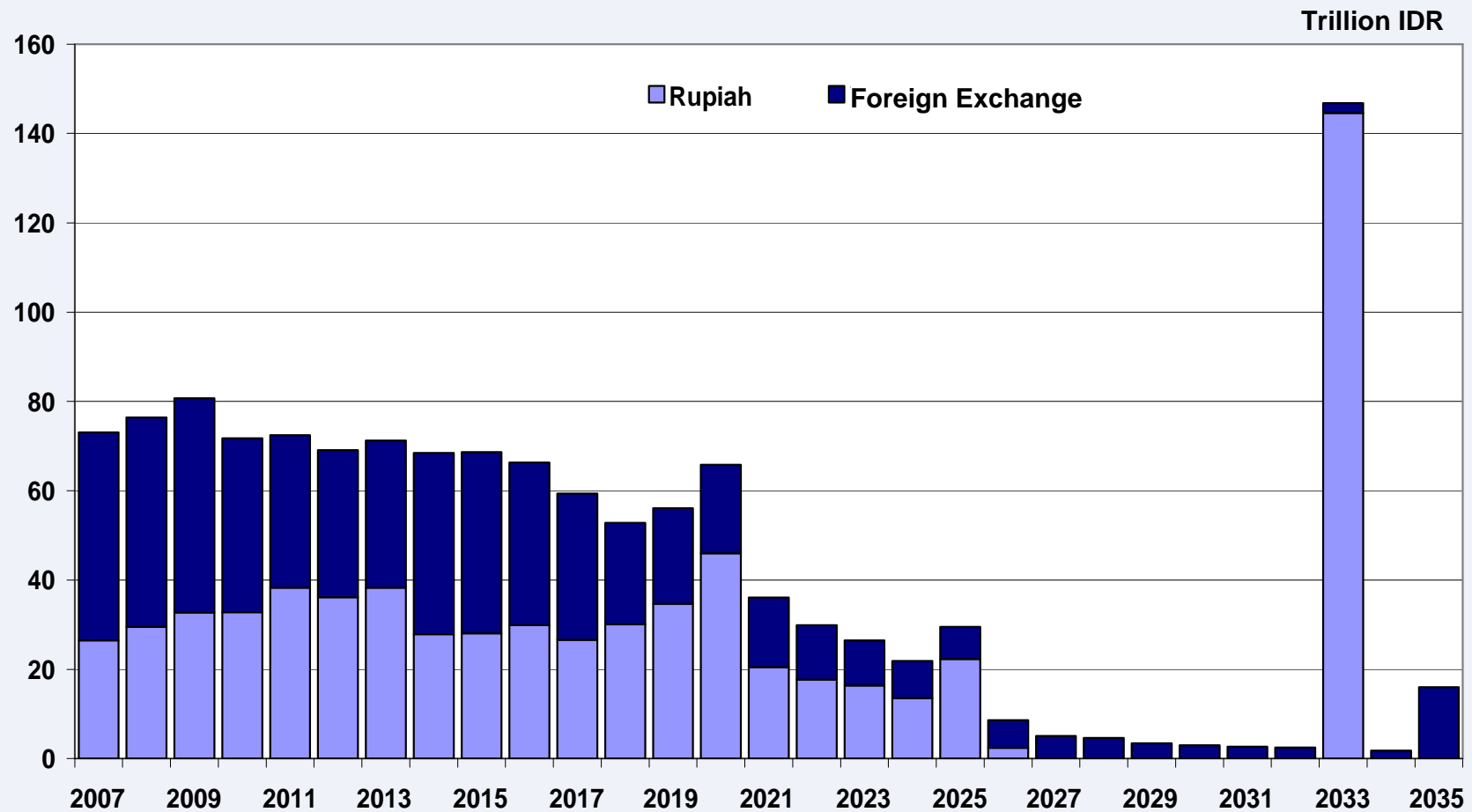


## .....BY INTEREST TYPE & TRADABILITY



# Government Debt Profile

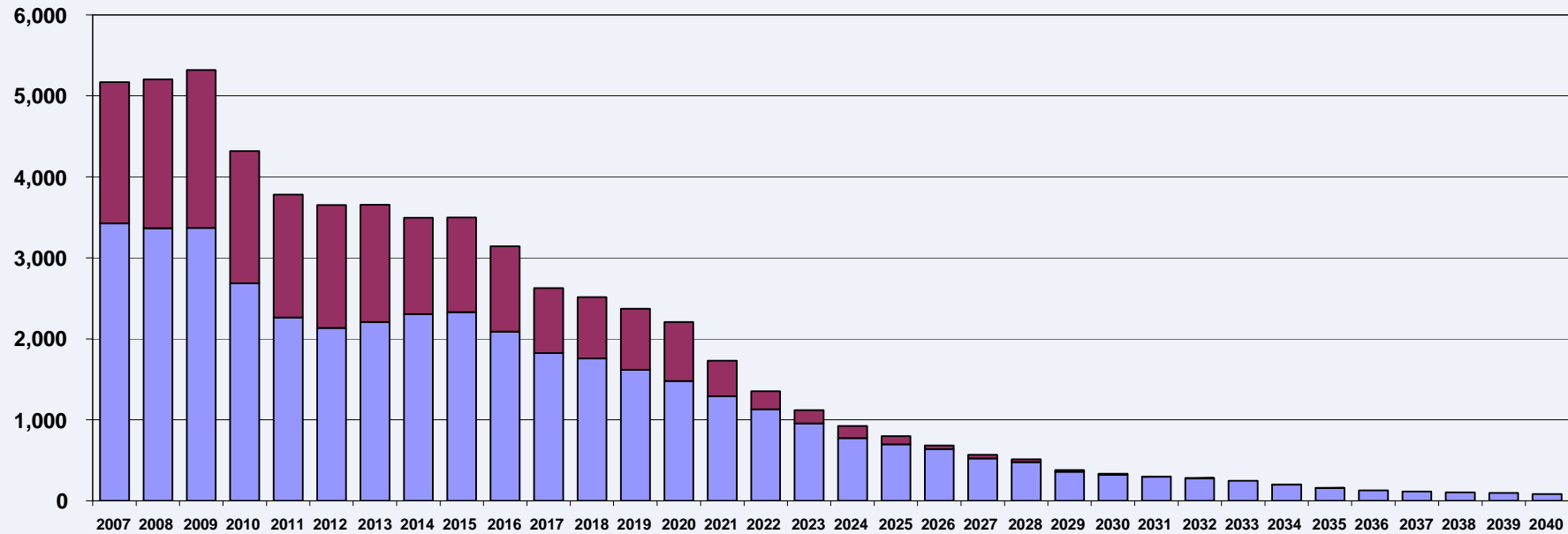
## As of 31 December 2006



Source: Ministry of Finance

# Maturity Profile of External Loan by Interest Rate Type, 31 December 2006

[ million USD ]



Source: Ministry of Finance

- In 2007-2009, there are USD 6-7 million of external loan redemption. Most of them are concessional/semi commercial loans;
- GoI is facing refinancing risk during that period that may give pressures to the fiscal and balance of payment

# Outstanding of Government Debt Securities and Maturity Profile of Tradable Government Bonds as of 31 December 2006

GOVERNMENT DEBT SECURITIES	Dec '05	Mar '06	Jun '06	Sep'06	Dec'06
<b>Government Domestic Bonds</b>					
1. Fixed Rate *) +)	IDR 189,156	IDR 197,870	IDR 210,421	IDR 233,472	IDR 238,565
2. Variable Rate *)	IDR 210,683	IDR 201,748	IDR 196,872	IDR 191,255	IDR 180,187
<b>Sub Total</b>	<b>IDR 399,839</b>	<b>IDR 399,618</b>	<b>IDR 407,293</b>	<b>IDR 424,727</b>	<b>IDR 418,751</b>
3. Promissory Notes to Bank Indonesia **) ***)	IDR 220,899	IDR 221,027	IDR 221,027	IDR 221,027	IDR 274,367
<b>Sub Total</b>	<b>IDR 220,899</b>	<b>IDR 221,027</b>	<b>IDR 221,027</b>	<b>IDR 221,027</b>	<b>IDR 274,367</b>
<b>Total Government Domestic Bonds</b>	<b>IDR 620,738</b>	<b>IDR 620,645</b>	<b>IDR 628,320</b>	<b>IDR 645,754</b>	<b>IDR 693,118</b>
<b>Total Government International Bonds *)</b>	<b>USD 3,500</b>	<b>USD 5,500</b>	<b>USD 5,500</b>	<b>USD 5,500</b>	<b>USD 5,500</b>
<b>TOTAL GOV'T DEBT SECURITIES</b>	<b>IDR 655,143</b>	<b>IDR 670,558</b>	<b>IDR 679,470</b>	<b>IDR 696,546</b>	<b>IDR 742,728</b>

**Notes:**

- Nominal in billion rupiah (domestic bonds) and million USD (international bonds)

- \*) Tradable

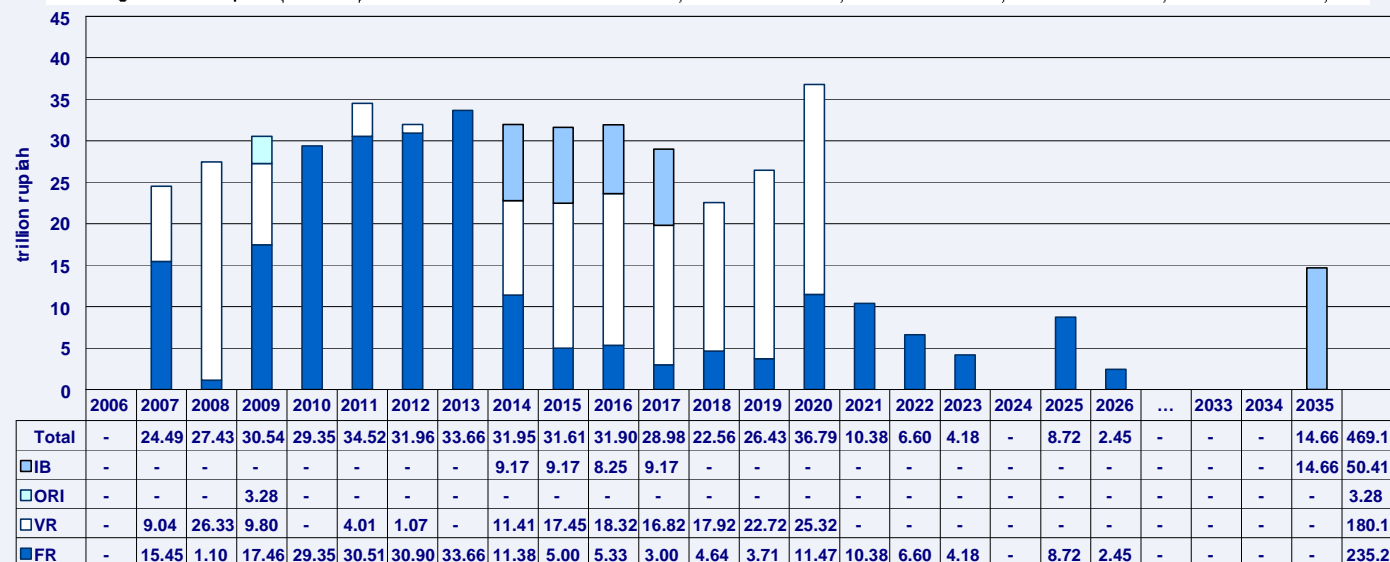
- \*\*) Non-Tradable

- \*\*\*) Indexation Value

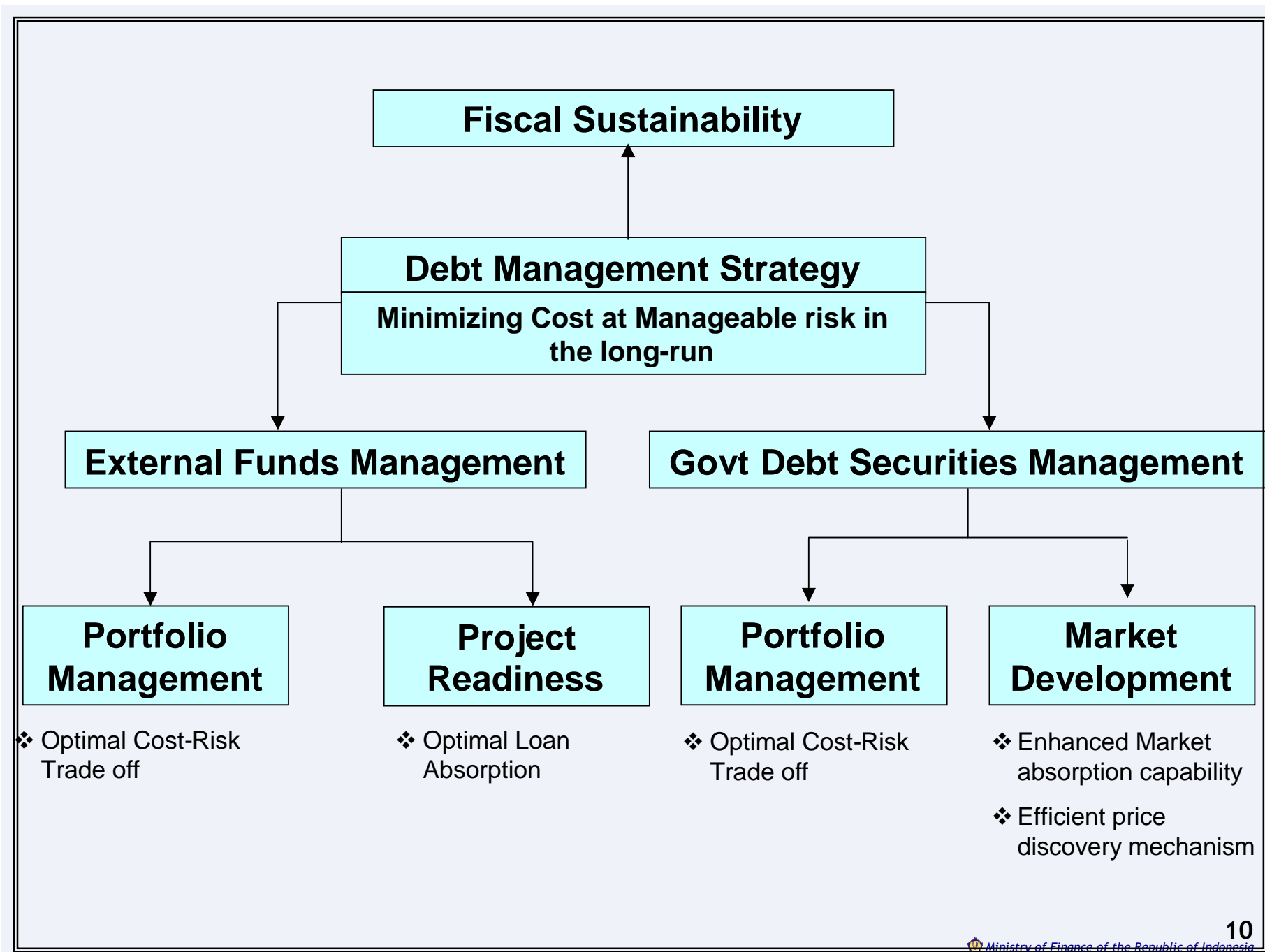
- +) Including Retail Bond

- Exchange Rate Assumption (IDR/USD1)

- ***) Indexation Value	IDR 258,832	IDR 278,079	IDR 278,079	IDR 278,079	
- +) Including Retail Bond					
- Exchange Rate Assumption (IDR/USD1)	IDR 9,830	IDR 9,075	IDR 9,300	IDR 9,235	IDR 9,020



Source: Ministry of Finance



# Main Objective of Debt Management is to minimize long-term cost within manageable and tolerable risks

## External Fund Management

- **Portfolio and Risk Management**
  - ❑ Prioritizing soft loan and financing cost recovery project;
  - ❑ Prioritizing national development's financing program including MDGs;
  - ❑ Increasing proportion of fixed rate debt;
  - ❑ Conducting hedging to minimize market risks;
  - ❑ Reducing proportion of commercial loan, including export credits;
- **Project Readiness**
  - ❑ Enhancing coordination within involved parties which are responsible/involved in project planning, implementation, monitoring, and evaluation.

## Government Debt Securities Management

- **Portfolio and Risk Management**
  - ❑ Maintaining maximum net additional issuance within 1% of GDP in 2007-2010;
  - ❑ Prioritizing long term IDR fixed rate bond's issuances in domestic market;
  - ❑ Increasing portfolio duration by restructuring maturity profile / through maturity profile restructuring;
  - ❑ Issuing international bonds only to refinance foreign exchange liabilities, to strengthen/increase foreign reserve, to create benchmark bonds, and to avoid crowding out in domestic bond market.
- **Development of Domestic Government Debt Securities**
  - ❑ Conducting regular IDR bond issuances (regular calendar of issuance);
  - ❑ Issuing diversified products such as: retail bond, sukuk, SPN (T-Bills);
  - ❑ Establishing primary-dealership system, to support market making;
  - ❑ Developing/enhancing REPO market;
  - ❑ Increasing market transparency, to support price discovery.

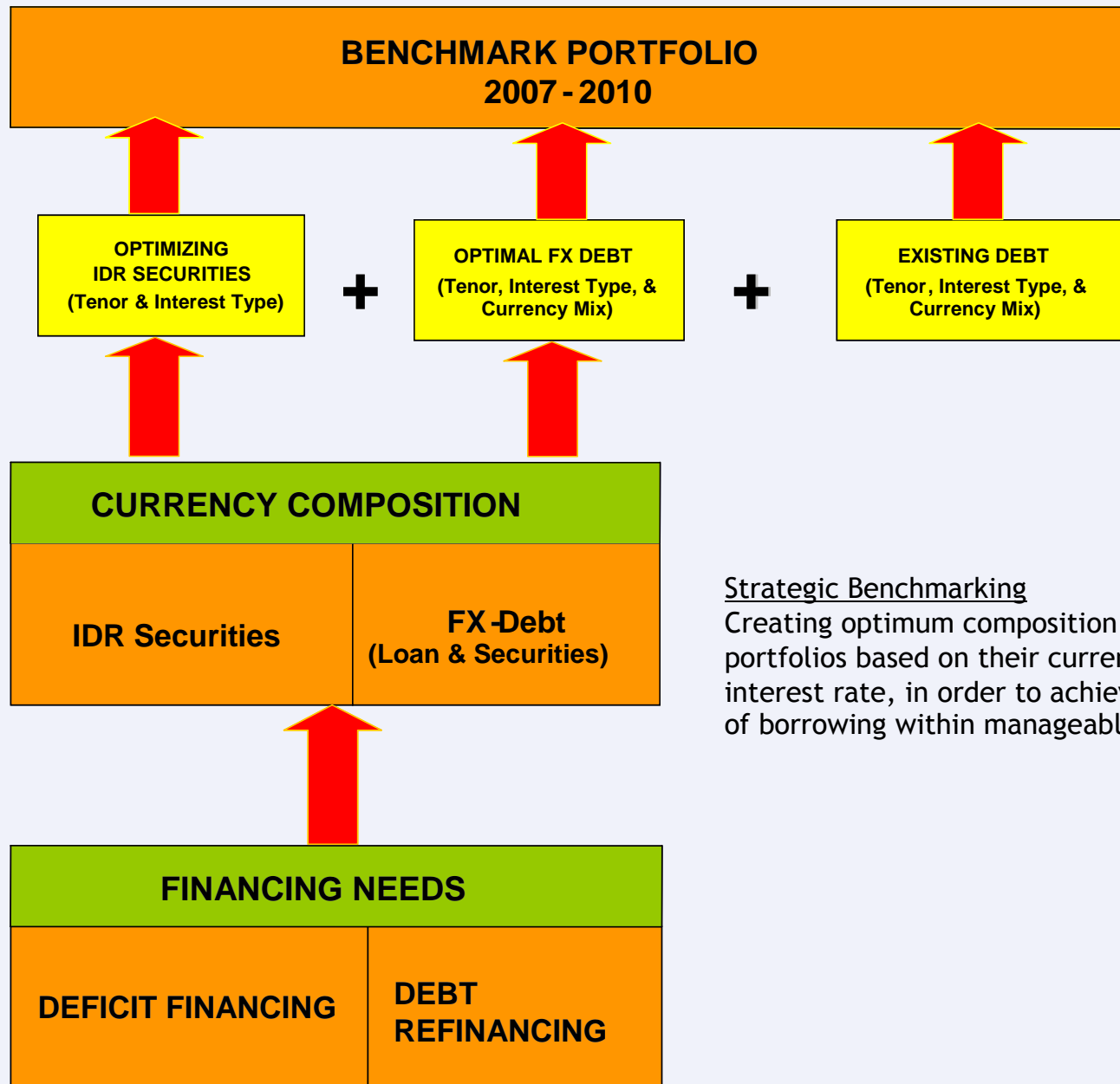
# Debt Management Strategy

## Objective

To minimize cost of debts at manageable risk

Prudent rules	Domestic bond market development	External loan financing	Portfolio Management
<ul style="list-style-type: none"><li>■ To target maximum net additional total debts (loan &amp; debt securities) &lt;1% of GDP</li><li>■ To prioritize debt securities issuance in domestic market for deficit financing &amp; debt refinancing</li></ul>	<ul style="list-style-type: none"><li>■ To diversify debt instruments as to widen investors base</li><li>■ To develop market infrastructure as to support efficient price discovery mechanism</li></ul>	<ul style="list-style-type: none"><li>■ To meet Millenium Development Goals (MDGs), (E.g. poverty reduction)</li><li>■ To finance cost recovery projects</li><li>■ To enhance project readiness criteria</li></ul>	<ul style="list-style-type: none"><li>■ To issue benchmark bonds on regular basis (E.g. 5, 7, 10 and 20 years)</li><li>■ To aggressively conduct debt switching to extend duration</li><li>■ To buybacks bonds to reduce outstanding debt and stabilize market</li></ul>

Effective Coordination Fiscal, Monetary and Capital Market Authority



Strategic Benchmarking

Creating optimum composition of debt portfolios based on their currency, tenor, and interest rate, in order to achieve minimum cost of borrowing within manageable risks

# Debt Management Principals

- Principals of Government Debt Management's Operation (Ministry Decree number 447/MK.06/2005):
  - ▣ Protection to Government Financial Position
    - + Cost effectiveness
    - + Prudent management
    - + Product diversification
    - + Transparency and accountability
    - + Free from political intervention
    - + To guarantee fiscal sustainability
    - + Budget mechanism
    - + To support economic growth
  - ▣ Market Development
    - + Indiscriminative
    - + Predictable
    - + Smooth communication between investors and creditors
  - ▣ Strengthening Performance of Debt Management Office
    - + Independency
    - + Measured performance
    - + Transparency and accountability
    - + Professionalism
    - + Responsibility
    - + Well coordination with related institutions

# Debt Management's Main Agendas in 2007

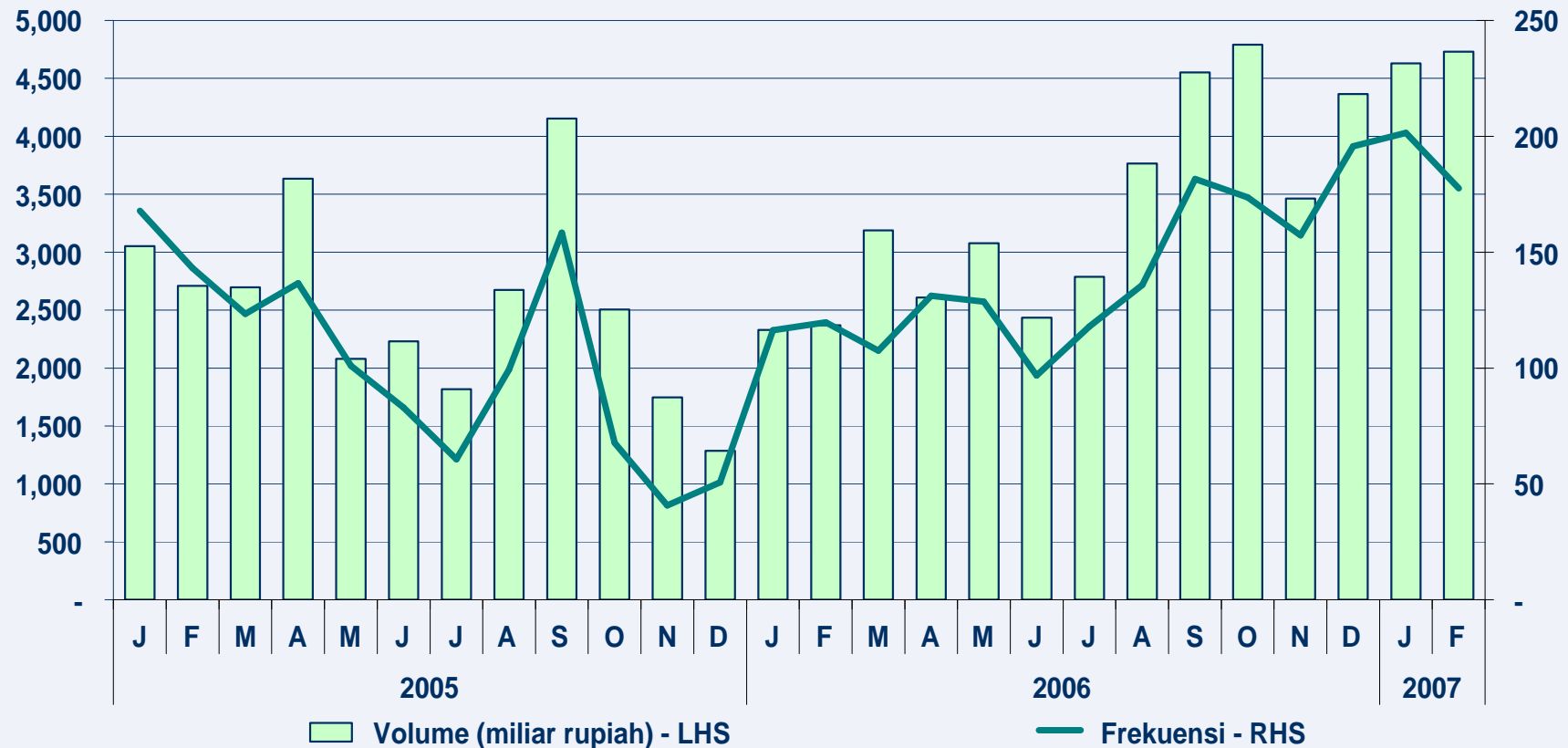
## ■ Debt Capital Market Operation

- ❑ Conducting measurable debt switching (government securities) to manage refinancing risk and maintain liquidity;
- ❑ Maintaining benchmark issuance to facilitate primary dealership system;
- ❑ Increasing market absorption, through product diversification (retail and Islamic) and market maker;
- ❑ Enhancing market infrastructure.

## ■ Loan Management

- ❑ Converting currency pool loan (CPL) and single currency pool debt (SCPD) into LIBOR based/fixed rate loan;
- ❑ Focusing on fixed spread loan/FSL (for the Worldbank loan) with an option conversion into IDR loan;
- ❑ Identifying expensive loan (commercial credit) and exchange it with lower cost debt;
- ❑ Conducting debt swap;
- ❑ Determining credit exports allocation for year 2007 selectively based on their projects and sources.

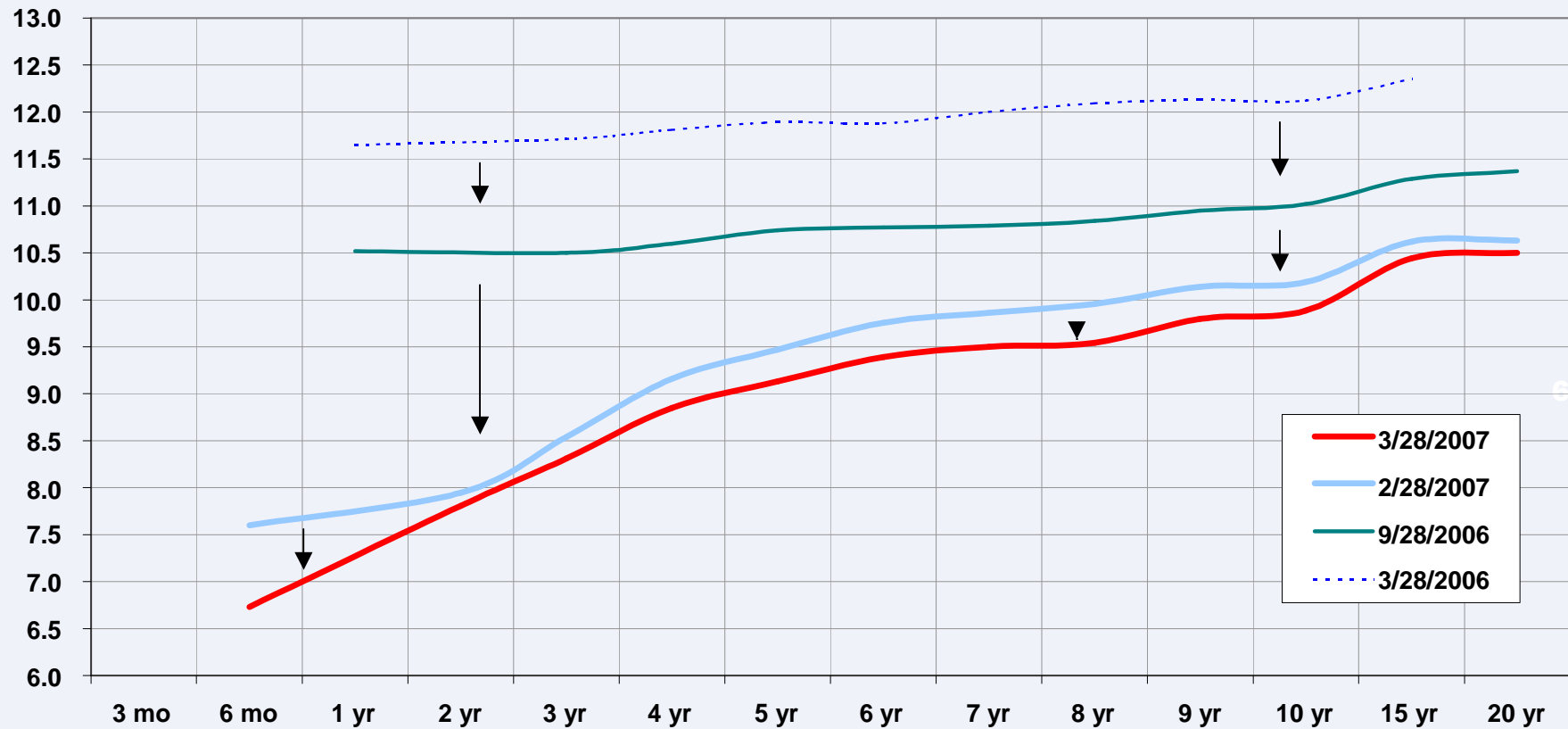
# IDR Gov't Bonds : Average Daily Trading in Secondary Market January 2005 – February 2007



Source: Ministry of Finance

- Average daily trading of Govt bonds at Rp3.3 trillion in average volume and 138 in average frequency;
- Liquidity in long-end sector is dominant. Foreign investors tended to increase their portfolio in long-end sector, due to attractive yield and market stability.

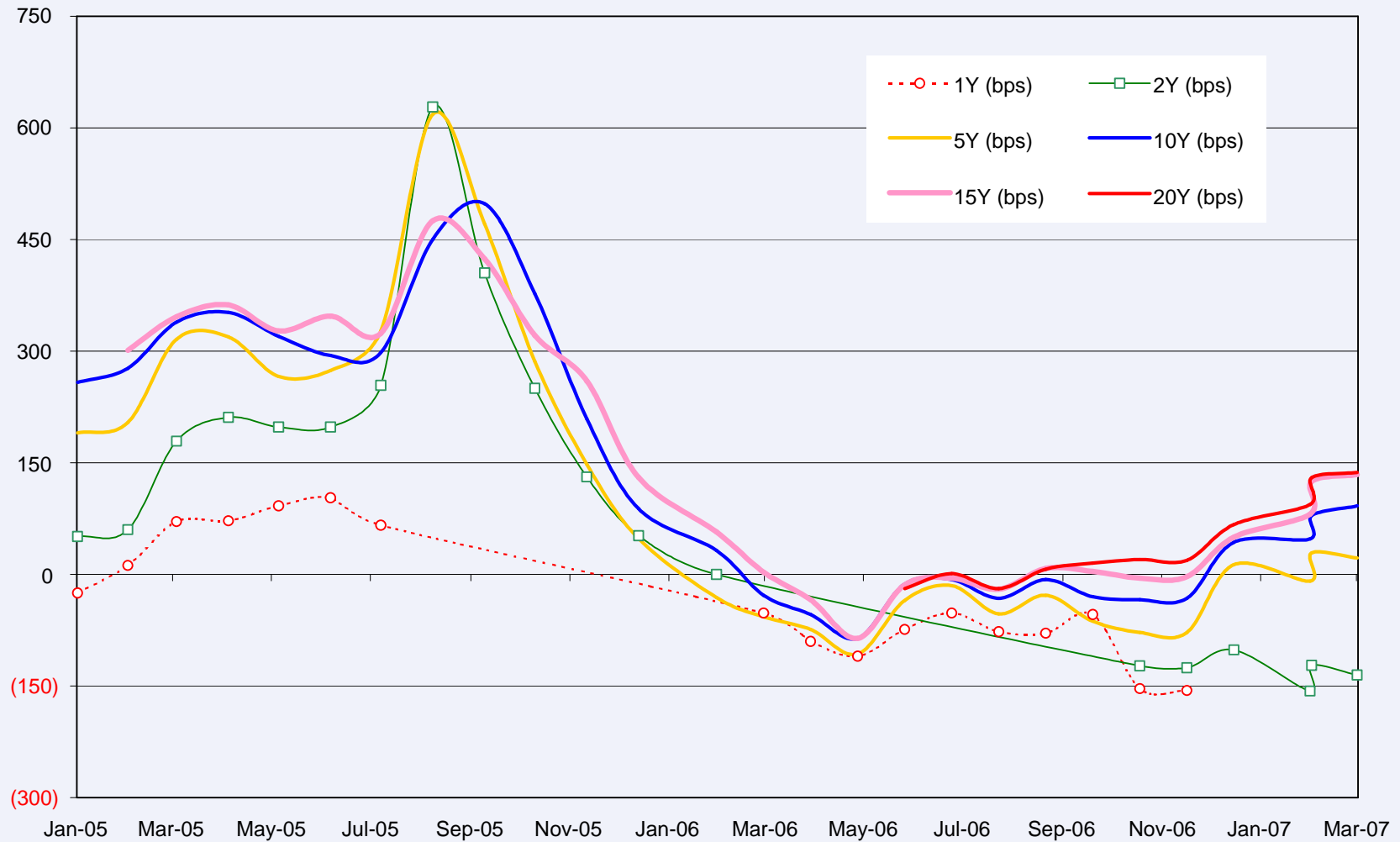
# IDR Government Bonds : Yield Curve (IDMA) As of 28 March 2007



Source: IDMA Bloomberg

- Shifting down curve means lower cost of borrowing in domestic market.

# Yield Spread of Govt Bonds over SBI 1 Month



Source: IDMA Bloomberg

# Ownership of IDR Tradable Government Securities

	Dec'02	Dec'03	Dec'04	Dec'05	Mar'06	Jun'06	Sep'06	Dec'06	Jan'07	Feb'07
<b>BANKS</b>	<b>88.41%</b>	<b>82.34%</b>	<b>72.02%</b>	<b>72.44%</b>	<b>69.62%</b>	<b>68.03%</b>	<b>65.84%</b>	<b>64.27%</b>	<b>63.89%</b>	<b>62.63%</b>
State Banks - Recap	57.90%	49.93%	39.78%	38.64%	38.34%	37.73%	36.34%	36.48%	36.35%	36.10%
Private Banks - Recap	26.69%	24.89%	23.83%	21.35%	20.85%	20.07%	19.08%	19.29%	18.46%	17.82%
Non Recap Banks	3.51%	6.99%	8.12%	11.45%	9.81%	9.54%	9.56%	7.83%	8.31%	7.55%
Regional Banks	0.31%	0.53%	0.30%	0.99%	0.62%	0.70%	0.86%	0.66%	0.77%	1.17%
<b>Gov't Institutions</b>	<b>0.22%</b>	<b>-</b>	<b>-</b>	<b>2.63%</b>	<b>1.87%</b>	<b>1.83%</b>	<b>1.78%</b>	<b>1.80%</b>	<b>1.78%</b>	<b>2.15%</b>
Bank Indonesia	-	-	-	2.63%	1.87%	1.83%	1.78%	1.80%	1.78%	2.15%
Ministry of Finance	0.22%	-	-	-	-	-	-	-	-	-
<b>NON-BANKS</b>	<b>11.36%</b>	<b>17.66%</b>	<b>27.98%</b>	<b>24.93%</b>	<b>28.51%</b>	<b>30.13%</b>	<b>32.39%</b>	<b>33.93%</b>	<b>34.33%</b>	<b>35.22%</b>
Mutual Funds	9.06%	10.60%	13.52%	2.28%	2.17%	3.40%	4.44%	5.12%	5.44%	5.24%
Insurance Company	1.65%	4.27%	6.78%	8.08%	8.12%	8.12%	8.05%	8.37%	8.42%	8.47%
Foreign Holders	0.48%	1.55%	2.69%	7.78%	11.49%	11.88%	12.94%	13.11%	12.94%	13.71%
Pension Fund	0.09%	0.98%	4.11%	5.51%	5.50%	5.56%	5.36%	5.51%	5.52%	5.60%
Securities Company	0.03%	0.07%	0.11%	0.12%	0.09%	0.08%	0.08%	0.24%	0.28%	0.26%
Others	0.04%	0.19%	0.77%	1.17%	1.14%	1.09%	1.51%	1.58%	1.72%	1.94%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total in trillion rupiah</b>	<b>394.06</b>	<b>390.48</b>	<b>399.30</b>	<b>399.84</b>	<b>399.62</b>	<b>407.29</b>	<b>424.73</b>	<b>418.75</b>	<b>423.55</b>	<b>423.39</b>

- Banks are still dominant
- Increasing buy-and-hold investors
- Foreign investors (offshore) share tends to increase

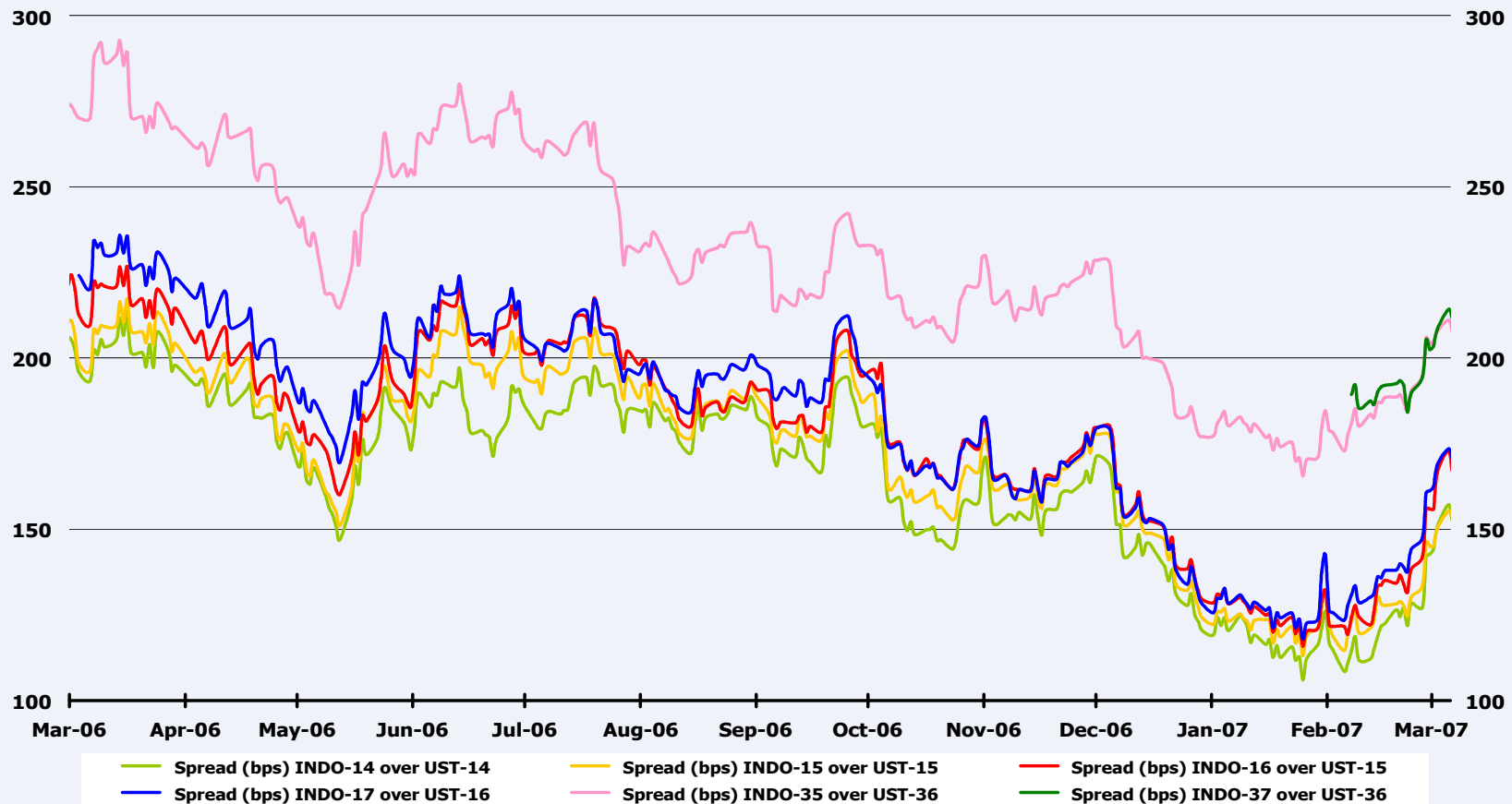
## Notes:

- Foreign Holders (offshore) are non-resident Private Banking, Fund/Asset Mgmt, Securities Co, Insurance, Pension Fund, etc
- Others are Corporate, Individuals, Foundations, etc.
- Private Banks - Recap and Non Recap Banks include foreign banks branches and subsidiaries

Source: Ministry of Finance

# Yield Spread of Indonesian USD Bonds to US-Treasury

## March 2006 – March 2007



Source: Bloomberg, modified

- Indonesian USD bonds perform better yield spread compare to peer group countries.
- The tight spread benefits GOI to choose its financing sources.

# Thank You



# Reserve Slides



# Landasan Hukum Pengelolaan Utang

- **Pasal 2 UU No.17 tahun 2003 tentang Keuangan Negara**
  - ❑ hak negara, antara lain, melakukan pinjaman
- **Pasal 38 ayat 1 UU No.1 tahun 2004 tentang Perbendaharaan Negara**
  - ❑ Menteri Keuangan dapat menunjuk pejabat untuk mengadakan utang negara atau menerima hibah;
- **Undang-undang Nomor 24 tahun 2002 tentang Surat Utang Negara**
  - ❑ Menteri Keuangan sebagai otoritas pengelola SUN
- **Peraturan Pemerintah No.2 tahun 2006 tentang Tatacara Pengadaan Pinjaman dan/atau Hibah Luar Negeri dan Tatacara Penerusan Pinjaman dan/atau Hibah Luar Negeri**
  - ❑ Tujuan pinjaman dan hibah luar negeri untuk pembiayaan defisit anggaran, dan pengelolaan utang negara
- **Keputusan Menteri Keuangan Nomor 447/KMK.06/2005 tentang Strategi Pengelolaan Utang Negara Republik Indonesia Tahun 2005 - 2009**

# Strategi Pengelolaan Pinjaman Luar Negeri

## Optimalisasi Struktur Portofolio (1)

### ■ Cost Minimization

- ❑ Meminjam dengan persyaratan lunak dengan tingkat bunga dibawah tingkat bunga komersial dan dengan jangka waktu yang panjang;
- ❑ Mengurangi porsi kredit komersial dan kredit ekspor dan hanya dilakukan secara selektif;
- ❑ Optimalisasi sumber sumber pinjaman luar negeri yang berasal dari CGI melalui peningkatkan kualitas kesiapan proyek (*project readiness*).
- ❑ Meningkatkan kualitas negosiasi loan agreement, dengan mempertimbangkan:
  - + Analisis struktur biaya dan risiko portofolio utang
  - + Pilihan negotiable loan yang tersedia

# Strategi Pengelolaan Pinjaman Luar Negeri

## Optimalisasi Struktur Portofolio (2)

### ■ Risk Management

- Mengkaji dan mengusahakan kemungkinan melakukan *hedging*:
  - + *currency swap* utk mengurangi konsentrasi pada satu jenis mata uang.
  - + *interest rate swap* mengurangi risiko pasar dari pengelolaan utang.
- Mengurangi Stok Pinjaman Luar Negeri melalui Debt Swap → memerlukan SOP, legal framework, political will & commitment
- Memperpanjang durasi portofolio pinjaman luar negeri melalui:
  - + Refinancing loan jatuh tempo dengan loan baru yang memberikan fresh cash (seperti DPL), namun tidak perlu di-disclose kepada lender;
  - + Mencari alternatif instrumen pembiayaan lain, yang sesuai dengan struktur portofolio utang pemerintah;
  - + Dalam environment tingkat bunga jangka panjang yang rendah (flat yield curve) mengutamakan fixed rate loan untuk loan baru;
  - + Refinancing loan jatuh tempo dengan SUN jangka panjang, dengan tetap mempertimbangkan selisih cost of borrowings, market impact, dll.
- Restrukturisasi utang dilakukan dengan memperhatikan profil utang dari berbagai perspektif

# Strategi Pengelolaan Pinjaman Luar Negeri

## Pemanfaatan Pinjaman

- **Koordinasi Antar Unit pengelola Utang**
  - ▣ Terutama project loan untuk menghindari pinjaman yang tidak tepat sasaran
  - ▣ Khusus untuk penerusan pinjaman, diupayakan meminimalkan lag antara loan agreement Menteri Keuangan dengan lender, dan perjanjian penerusan pinjaman antara Menteri Keuangan dengan borrower.
- **Peningkatan Kapasitas & Sarana Prasarana**
  - ▣ Meningkatkan capacity building untuk project implementation sesuai dengan best practice, membangun sistem akuntansi yang kredibel untuk mending kesungguhan donor menggunakan country system dan mendorong perubahan dari pendekatan donor driven menjadi pendekatan demand driven
- **Monitoring dan Evaluasi**
  - ▣ Membatalkan/mengalihkan pinjaman yang tidak terserap karena keterlambatan proyek ke proyek lainnya yang membutuhkan pendanaan
  - ▣ Pengukuran kinerja proyek

## Government Securities Program in 2007 (1)

- Optimizing domestic issuance of government securities (SUN regular, retail bonds, Sukuk and Sukuk retail bond) and issue in international market for complementary purpose;
- Creating regular calendar of issuance for a full year;
- Conducting *debt switching* regularly;
- Conducting more frequently retail bond;
- Preparing for T-bills issuance
  - ▣ infrastructures that already done are *trading platform* (BI-SSSS, ministerial decree on T-bills issuance, Gov't Act about Tax on T-bills);
- Developing *Primary Dealers System* to enhance *market making* and help government in managing *liquidity/cash management*;
- Realizing Sukuk issuance in near future with preparing legal basis on Islamic government securities.

## Government Securities Program in 2007 (2)

- Developing policies with others regulator to manage stability of government securities ownership, with:
  - ▣ *Encourage enhancement gov't securities portfolio in Pension fund, Insurance company and Mutual fund.*
- Encouraging government securities trading through bourse or with STP (*Straight through Processing*) for improvement market players;
- Enhancement the frequent and quality communication with market players and rating agencies.

# Debt Management Unit - Strategy

