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# Indonesia Economic Briefing

## A More Efficient Approach on the Auction Strategy


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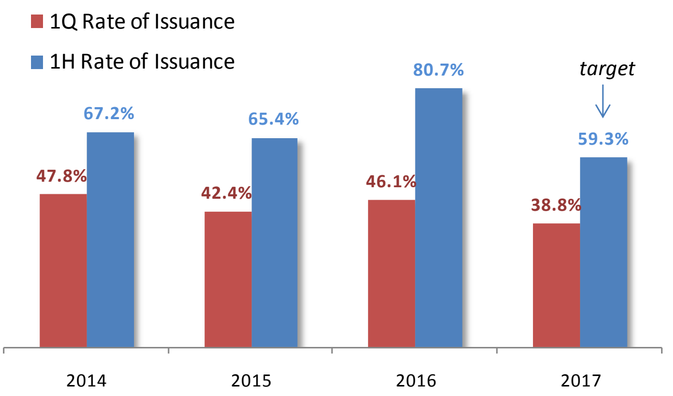
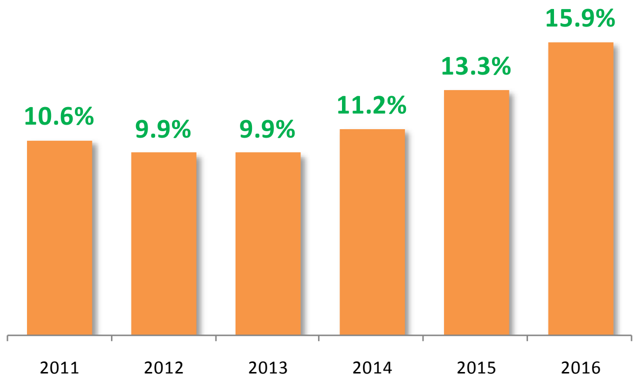
- In the last few years, the government's strategy in issuing bonds for the state budget financing has been to front load issuance. This year, we sense that **the front loading strategy has not been as fast or as intensive as it used to be.**
- **This is reflected in the recent issuance that is below the average rate of absorption in the last 3 years.** Up to end of March, total issuance (incl. retail, global bonds) amounted to Rp 265.6tn, about 39% of the total gross issuance target this year at Rp684.8tn. This rate is still below the average rate of absorption in Q1 in the last 3 years, which was around 45%.
- Incoming bids have been large, averaging at Rp39tn for the period 2016-2017. This comes amid declining market yields as the improving global risk appetite brought inflows to the bonds market. Nonetheless, the government does not hastily rush in to absorb funds despite the relatively low cost of fund. They seemed to be more cautious and opt to accept bids that are in line or close to the secondary market rate.
- This year the government officially targeted 59.3% of gross issuance in the first half, which is also lower than the average first half's rate of absorption in the last three years at the range of 68%.
- **Some logical explanations in mind. The government may expect less pressure on the financial market**; thus it is still feasible not to rush in the bonds issuance and rather have it more spread out throughout the year. So far, market condition proved to be quite conducive. Expectation on faster Fed's rate hike seems limited, while domestic factors remain positive. Inflation stay contained while the Rupiah volatility looks to be lower.
- **Efficiencies on the spending side may add financing for infrastructure.** The President has been pushing for more efficiencies in the state budget (particularly on goods and operational spending), whereby the funds resulted can be redirected to better use, i.e. capital spending.
- **Other sources of financing outside the state budget were considered.** A non-state budget infrastructure funding called the PINA scheme involves funding between private/SoEs (financial) entities. The PINA program has successfully funded the initial phase of nine toll road sections, five of which are part of the trans-Java toll road.
- **There are other alternative financing on the pipeline (i.e. foreign loans).** Currently, ADB is the second largest multilateral creditors channeling loans of around USD9.3bn to Indonesia. ADB recently announced plans to issue Rupiah bonds onshore or IDR-linked notes offshore to fund infrastructure development (which has to be approved by the government). This is a good move since ADB rated triple A which should mean a less costly financing for infrastructure.
- **Government seeks to better manage the debt ratios.** Central government debt ratios continued to climb in the past 5 years, from 21.3% (2013) to currently at 27.7% (2016). Portion of interest payment to revenue and expenditure also grew larger. The ratio of interest payment to central government expenditure climbed from 10.6% in 2011, to 16% in 2015.
- We think this is a more efficient approach in managing the liability/financing side. If funds absorption runs more efficiently it may reduce the overall cost of financing (interest payment) for the government. Even so, there should be risk mitigation in place to prepare for any risk of a sudden turn in the global sentiment to avoid higher cost of financing. However **efforts of improving the structure of financing is positive as it will reduce the burden on the state budget, a move toward a more sustainable state budget.**

| Chart 1. Historical Rate of Issuance | Chart 2. Ratio of Interest Payment to Central Government Expenditure |
|---|---|
|  |  |
| Source: CEIC, MoF, Danamon Calculation | Source: CEIC, MoF, Danamon Calculation |

## Indonesia: Selected Economic Indicators

| | 2013 | 2014 | 2015 | 2016 | 2017E |
|---|---|---|---|---|---|
| **National Accounts** | | | | | |
| Real GDP (% y-o-y) | 5.6 | 5.0 | 4.9 | 5.0 | 5.0 |
| Domestic demand ex. inventory (% y-o-y) | 5.0 | 5.4 | 3.9 | 5.0 | 4.9 |
| Real Consumption: Private (% y-o-y) | 5.4 | 5.2 | 5.0 | 5.0 | 4.9 |
| Real Gross Fixed Capital Formation (% y-o-y) | 5.0 | 4.6 | 5.0 | 4.5 | 5.2 |
| GDP (USD bn) — nominal | 915 | 890 | 862 | 923 | 925 |
| GDP per capita (USD) — nominal | 3,668 | 3,530 | 3,374 | 3,569 | 3,577 |
| Open Unemployment Rate (%) | 6.3 | 5.9 | 6.2 | 5.6 | 5.5 |
| | | | | | |
| **External Sector** | | | | | |
| Exports (% y-o-y, BoP Basis) | -2.8 | -3.7 | -15.4 | -3.1 | 7.0 |
| Imports (% y-o-y, BoP Basis) | -1.3 | -4.5 | -19.7 | -4.5 | 6.6 |
| Trade balance (USD bn, BoP Basis) | 5.8 | 6.9 | 13.3 | 15.4 | 15.2 |
| Current account (% of GDP) | -3.7 | -3.2 | -2.1 | -1.8 | -1.8 |
| Central government debt (% of GDP) | 21.3 | 23.5 | 26.6 | 27.7 | 30.2 |
| | | | | | |
| International Reserves –IRFCL (USD bn) | 99.4 | 111.9 | 105.9 | 116.4 | 114.0 |
| Reserve Cover (Months of imports & ext. debt) | 5.4 | 6.5 | 7.4 | 8.4 | 8.4 |
| Currency/US$ (Year-end) | 12,189 | 12,440 | 13,795 | 13,436 | 13,555 |
| Currency/US$ (Average) | 10,428 | 11,900 | 13,392 | 13.308 | 13,504 |
| | | | | | |
| **Other** | | | | | |
| BI policy rate (% year end) | 7.50 | 7.75 | 7.50 | 6.50* | N/A |
| BI 7-Day Reverse Repo rate (% year end) | N/A | N/A | 6.25 | 4.75 | 5.00 |
| Consumer prices (% year end) | 8.08 | 8.36 | 3.35 | 3.02 | 4.57 |
| Fiscal balance (% of GDP; FY) | -2.24 | -2.26 | -2.70 | -2.46 | -2.60 |
| S&P's Rating – FCY | BB+ | BB+ | BB+ | BB+ | BBB- |

Source: CEIC, E = Danamon Estimates

## Economic and Market Research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