



MINISTRY OF FINANCE
REPUBLIC OF INDONESIA

KMK 253/KMK.08/2021

Medium Term Debt Management Strategy 2022-2025

July 2021

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MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS) 2022-2025

Scope

- 01-Management of State Budget financing through debt, comprising of Government Securities (SBN) and Loans; and
- 02-Management of Government Guarantee.

Content

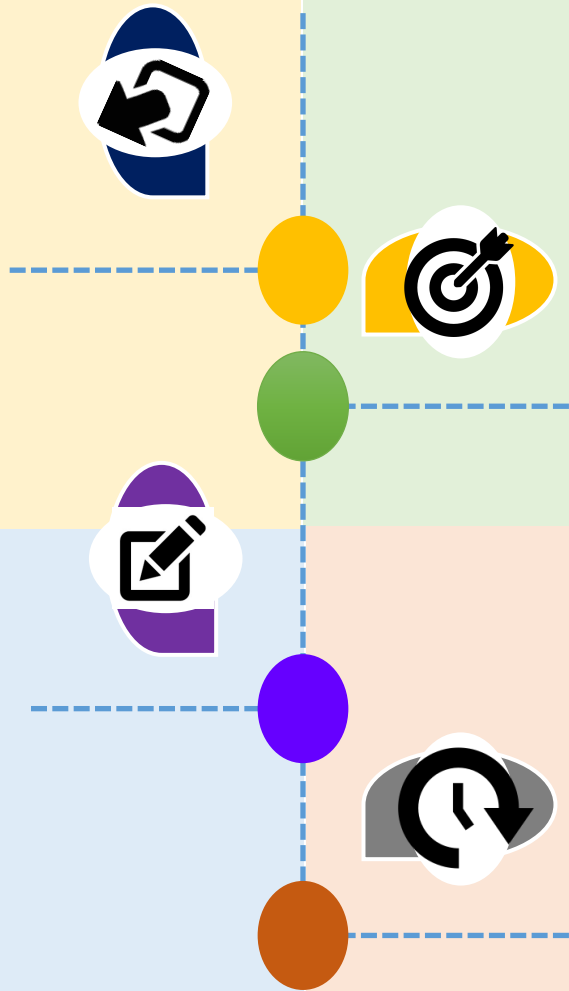
- 01-Debt management objectives
- 02-Principles
- 03-Assumptions
- 04-Debt management policies
- 05-Composition of new debt financing
- 06-Targeted risk indicators
- 07-Monitored cost indicators
- 08-Guarantee ceiling

Debt Management Objectives

- 01-To meet the State Budget financing needs by raising debt at minimum cost and controlled risk level.
>> including: to provide funding for infrastructure developments by improving creative and innovative financing while taking into account fiscal sustainability.
- 02-To support the development of deep, active, and liquid domestic markets for Government securities (SBN).

Evaluation

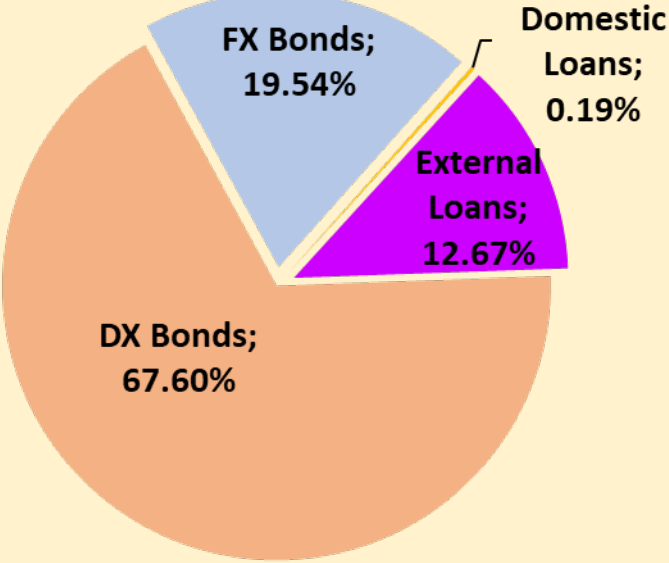
Periodically conducted to monitor its consistency and/or provide updates in the event of policy changes, improving economic, fiscal, and financial market conditions



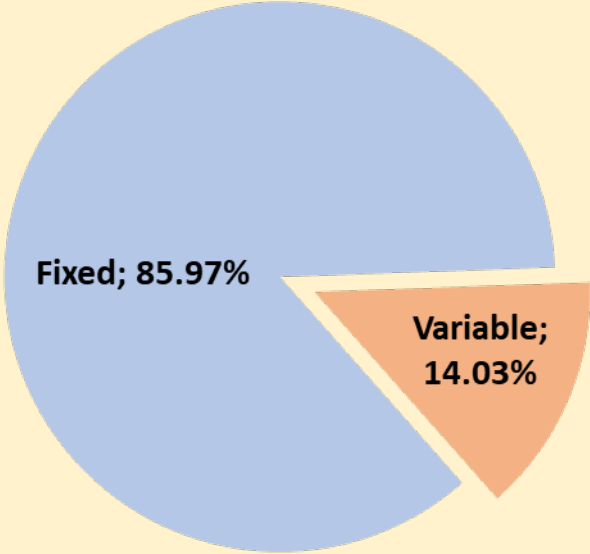
CENTRAL GOVERNMENT DEBT PORTFOLIO^{*)}



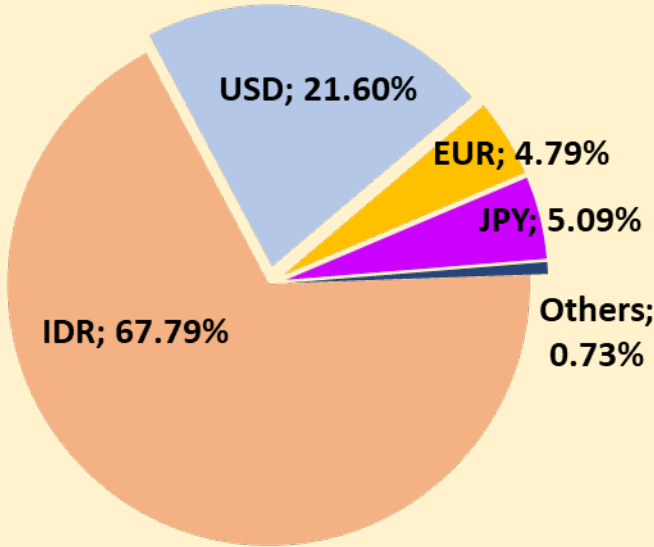
By Instruments



By Interest Rate Type



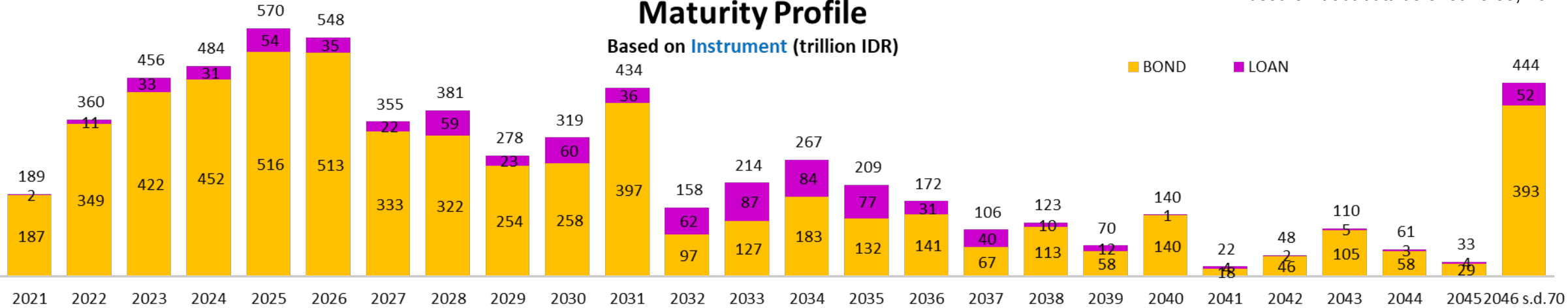
By Currency



^{*)} Based on debt data as of June 30, 2021

Maturity Profile

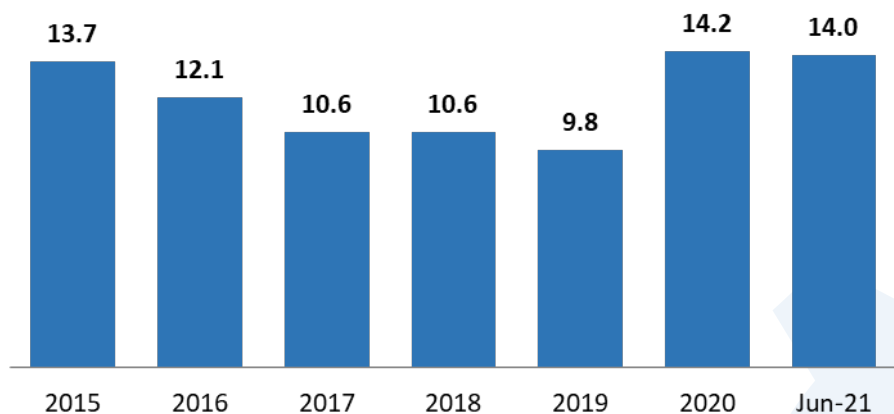
Based on **Instrument** (trillion IDR)



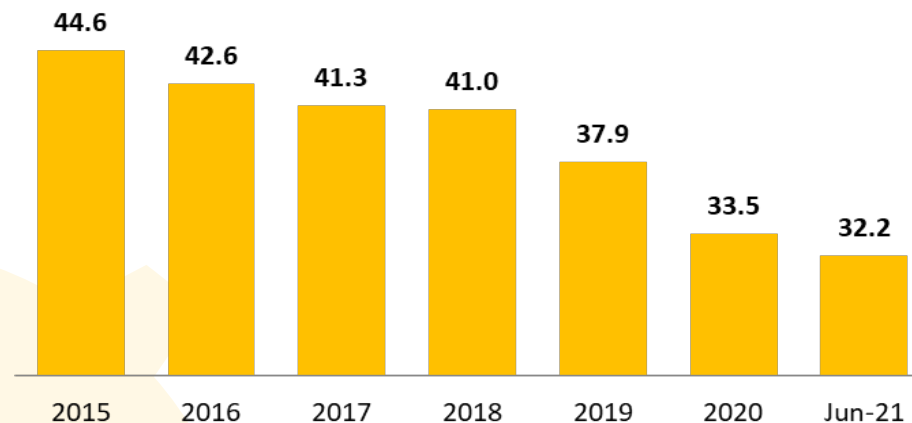


DEVELOPMENT OF RISK INDICATORS^{*)}

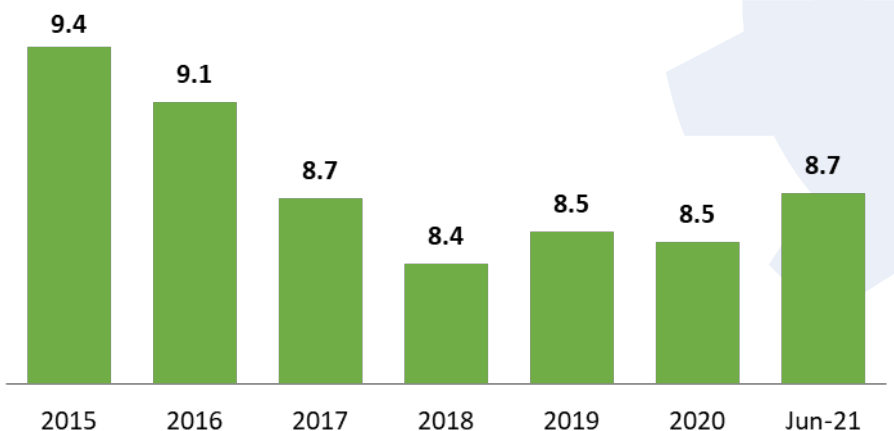
Interest Rate Risk (%)



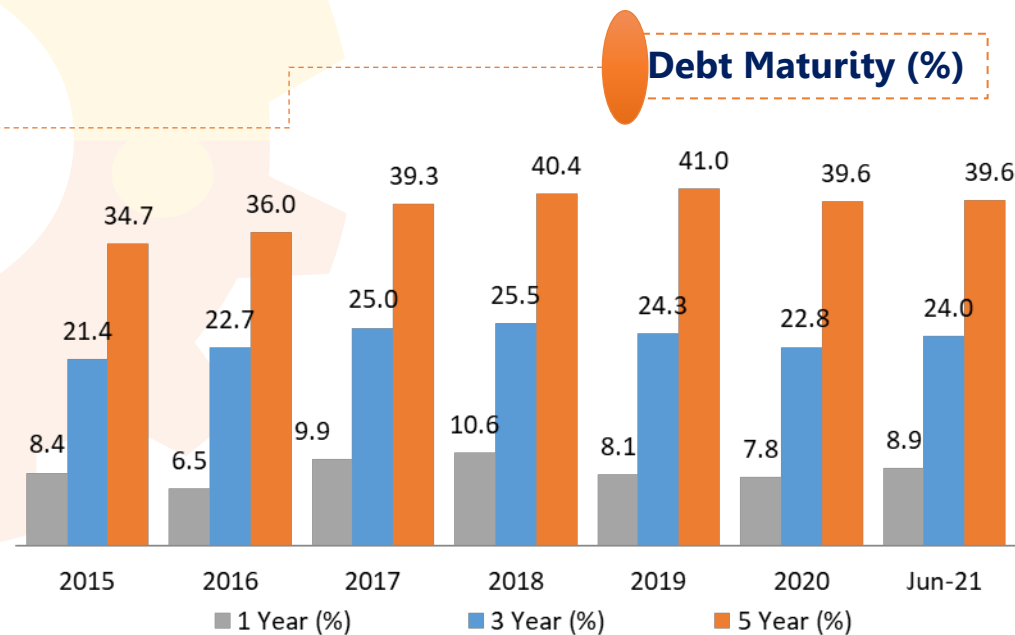
Exchange Rate Risk (%)



Average Time to Maturity (ATM - Years)



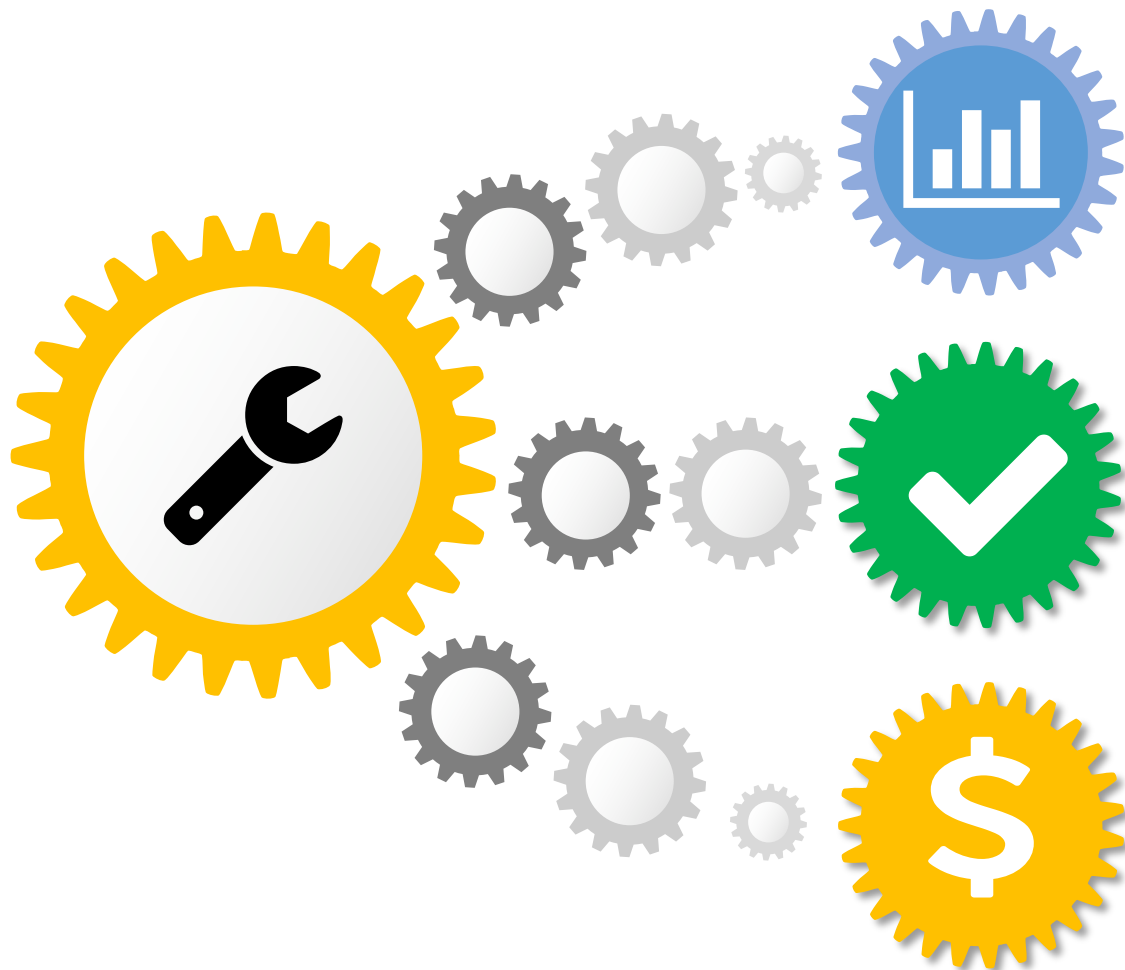
Debt Maturity (%)



^{*)} Based on debt data as of June 30, 2021



ASSUMPTIONS: MEDIUM TERM PROJECTION ON MARKET RATES



Variable interest rates for loans

Projected rates for LIBOR (USD, JPY), EURIBOR, and JIBOR using **Cox-Ingersoll-Ross (CIR) models**

Fixed interest rate for government securities

Using **Diebold-Li model**

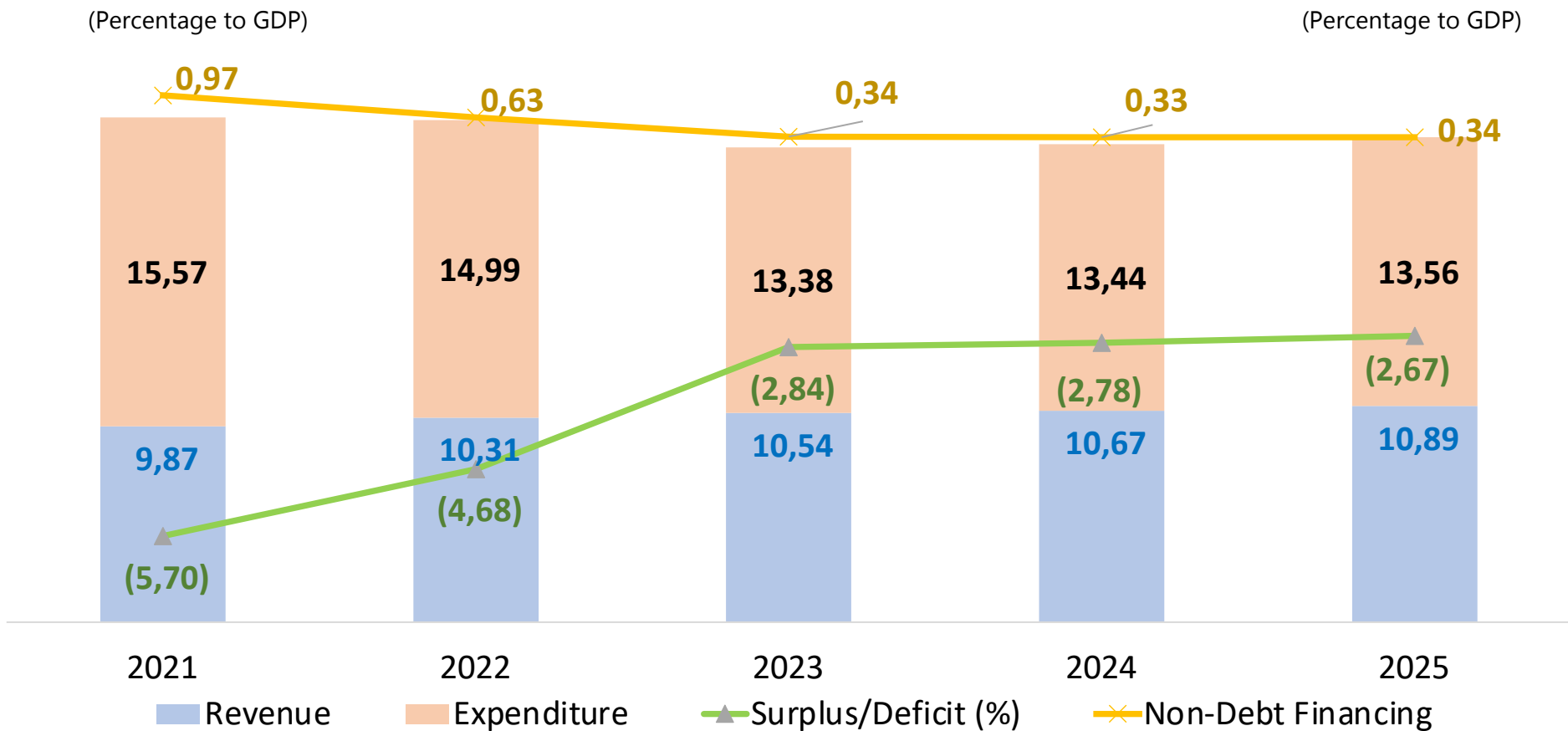
Exchange rates

USD projection refers to the MTFF 2022-2025



MEDIUM TERM FISCAL FRAMEWORK *)

... AS REFERENCE TO CALCULATE FINANCING NEEDS



*) Source: Ministry of Finance (May 18, 2021)

Non-Debt Financing consists of Lending, Investment Financing, Guarantee Liabilities, and Other Financing

For the period 2022-2025, fiscal policy is still expansive with the budget deficits within safe limits. Government aims at fiscal consolidation in 2023, to maintain deficit level below 3% of GDP

GENERAL FINANCING POLICIES 2022-2025



01 – DEBT TO GDP RATIO

to manage debt-to-GDP ratio at a safe level while considering economic and financial market condition post Covid-19 pandemic through prudent debt management



02 – DOMESTIC SOURCES

to optimize potential of domestic financing sources and to utilize the external debt sources as complement



03 – INSTRUMENT DIVERSIFICATION

to diversify debt instruments by taking into account level of cost and risk & market demand in order to expand long-term financing sources and support national financial sector development



04 – CREATIVE FINANCING

to develop creative financing through (i) blended financing (combination of several financing instrument) & (ii) non-debt financing, to support national development & deficit financing



05 - ALM

to coordinate debt and risk management under the framework of assets and liabilities management



06 – HEDGING & LIABILITIES MANAGEMENT

To utilize hedging instrument (derivative instrument, liability management scheme) as means to control fluctuation of debt payments and to achieve optimum debt portfolio



07 – GUARANTEES

to support the infrastructure development through guarantee mechanisms



08 – INVESTOR BASE EXPANSION

to expand investor base through investor database management



09 - TRANSPARENCY

to improve the transparency of debt and guarantee liabilities management by (i) publishing periodical publicity to the stakeholders and societies and (ii) active communication strategy.

DEBT FINANCING POLICIES BY INSTRUMENTS



Government Securities (SBN)

Supply Side

1. Optimizing domestic market issuance
2. Conducting FX bond issuance as a complement
3. Managing active and scheduled liability management (debt switch & buyback);
4. Diversifying SBN instruments (diaspora, amortized, thematic SBN, municipal bonds, social-based instruments, derivative obligation)

Demand Side

1. Utilizing investor database to analyze investor behavior
2. Building synergy with academics and other stakeholders
3. Intensifying coordination with regulators to optimize the function of financial institutions in SBN market development

Infrastructure Side

1. Optimizing Primary Dealers' role
2. Actively participating in the development of ETP and government role on market surveillance
3. Continuing the development of Crisis Management Protocol (CMP) and Bond Stabilization Framework (BSF)
4. Improving Securities Lending Facility policies to create more active & liquid SBN market
5. Developing infrastructure for social-based instrument's online transaction.

Loans

Improving Project Performance (Funded by Loans)

- Intensive & active coordination between Ministry of Finance, Bappenas and Line Ministries to improve project preparations quality
- Optimizing the use of loan instruments
- Strengthening monitoring and evaluation & implementation of reward and punishment
- Cancelling project with poor performance

Expanding scope of project loan's utilization

- a. which supports national development
- b. which constitutes physical infrastructure, energy, and defense security
- c. which covers technological products that have not been domestically produced
- d. which promotes the utilization of domestic goods and services, by taking into account the quality and technological availability

Program Loan as Financing Flexibility Instrument

Optimizing program loans to allow for financing flexibility by taking into account lenders' capacity, availability of policy matrix, currency needs for cash management , and cost-risk trade-offs

Loan Conversion

Executing loan conversion by considering target composition of FX loan portfolios, interest rates, and lenders' offer.



GOVERNMENT GUARANTEE POLICIES



The limit for government guarantees for the period 2022-2025 is set at 6.0% of GDP by the end of 2025

The total cumulative value of new projects guaranteed by Government during 2022 to 2025 is estimated at IDR 1,374.09 trillion

Minister of Finance's Decree Number 222/KMK.08/2016



The objectives of managing government guarantee:

1. To set the maximum limit of government guarantee;
2. To assess the magnitude of the risk of government guarantee to State Budget;
3. To monitor the potential risk of government guarantee; and
4. To ensure the accuracy and completeness of data for the purpose of reporting and risk mitigation over guarantee.



The scope of government guarantee issuance is infrastructure projects assigned by the legislation.

QUANTITATIVE TARGETS 2022-2025



Composition of New Debt <i>(averagely accounted in medium term horizon)</i>			
2022	2023	2024	2025
IDR: Minimum 75.0%			
Fixed Rate: Minimum 80.0%			
Medium-Long term (> 3y): Minimum 65.0%			
Targeted Risk Indicator*)			
Foreign Currency to Total Outstanding (%)			
Variable Debt to Total Outstanding (%)			
Debt Maturity in 1 Year to Total Outstanding (%)			
Average Time to Maturity/ATM (year)			
Monitored Cost Indicator*)			
Debt to GDP (%)			
Interest Payment to GDP (%)			

*) set at the same trajectory for each year and have been accommodated to the possibility of exchange rate shock

The composition of debt issuance is allowed to exceed the target, when there is:

- Deficit widening,
- Auction failure,
- CMP status set to (Normal Alert) and (Crisis),
- Default on guarantee, or
- Emergency conditions which may potentially disrupt financing plan

2022	2023	2024	2025
Maximum 35.0%			
Maximum 20.0%			
Maximum 12.5%			
Minimum 7.0 years			
2022	2023	2024	2025
Around 40%			
Around 2%			



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