Managing Fiscal Financing during COVID-19 and Beyond: Indonesia Experiences

6 April 2022
Maintaining Consistency of Fiscal Policy Responses During the Pandemic
Focused on saving people, recovery and reform to strengthen the foundation of the economy

**EXTRAORDINARY POLICY**

**IMMEDIATE RESPONSE:**
- Emergency Law approved by Parliament (Law No.2/2020)
- Budget deficit is allowed to be above 3% GDP, yet only for 3 years
- Central Bank is allowed to purchase long tenor Government Securities in primary market

**PROVISION OF STIMULUS: REOPENING**
Expansion of stimulus and program reconstruction to expedite economic recovery

**REOPENING POLICY**

**RECOVERY & REFORM POLICY**

**RECOVERY & REFORM ACCELERATION**
- Pandemic Handling and Vaccination Programs
- Acceleration of recovery through continuous National Recovery Program (PEN)
- Economic transformation through structural reform

**The Changes of Budget Deficit during the COVID-19 Pandemic (% of GDP)**

<table>
<thead>
<tr>
<th>Initial Budget</th>
<th>Budget Revision I</th>
<th>Budget Revision II</th>
<th>Realization</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1.76%</td>
<td>-5.07%</td>
<td>-6.34%</td>
<td>-6.14%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pre-Budget</th>
<th>Budget Proposal</th>
<th>Budget 2021</th>
<th>Realization</th>
<th>Budget 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.7%</td>
<td>-5.5%</td>
<td>-5.7%</td>
<td>-4.65%</td>
<td>-4.85%</td>
</tr>
</tbody>
</table>

The Budget moves very dynamically to support the handling of Covid-19 and economic recovery
Government Budget is Flexible to Respond to the Uncertainty

National Recovery Program (PEN) was initiated to respond to the COVID-19 pandemic as well as to stabilize and stimulate the economy.

2020: Extraordinary Policy

- Initial Budget
- 1st adjustment in early stage of pandemic
- 2nd adjustment due to development of pandemic

2021: Pandemic Handling & Recovery

- Realization for 2020
- Budget 2021
- Realization for 2021
- Budget 2022

2022: Accelerating Economic Recovery & Reforms

- Realization for 2021
- Financial deficit (% GDP)

Covid-19 timeline

- Initial measures to mitigate pandemic risk
- Formalized PEN through PP23/2020
- Reallocating and refocusing budget.
- PEN continue in 2021
- The amount increased due to surging cases and vaccination program.
- PEN is strengthened due to the new wave, for social protection expansion and hospital costs
- PEN will continue and adjusted to pandemic development, which focused on health, social protection and strengthening economic recovery

Initial Budget:
- FEB-APR: IDR 405.1 T
- APR: IDR 695.24 T
- JUN: IDR 575.2 T

1st adjustment in early stage of pandemic:
- JUL-DEC: IDR 403.94T
- DEC: IDR 699.43T

2nd adjustment due to development of pandemic:
- JAN: IDR 744.75 T
- FEB-MAR: IDR 658.6 T
- JUL: IDR 455.6 T

Realization for 2021:
- IDR 744.75 T
- IDR 658.6 T
- IDR 455.6 T

National Economic Recovery (PEN)

1st case covid-19 confirmed in Indonesia

100,000 cases confirmed

Covid-19 as pandemic & Large social restriction was declared

Several region loosened the mobility restriction

1st stage of vaccination rolled out and PPKM was imposed

Emergency PPKM was imposed

'Delta Variant' confirmed in Indonesia

'Omicron Variant' confirmed in Indonesia

Fiscal Deficit (% GDP)
## 2022 Debt Policy & Strategy

### 1. OPPORTUNISTIC
- Prioritizing the issuance of Government Securities in the domestic market, while foreign debt as a complementary source.
- Coordination between fiscal, monetary, and financial sectors, including synergy with Bank Indonesia for financing
- Market development and deepening (expanding investor base, and encouraging issuance of municipal bonds/Sukuk)

### 2. FLEXIBLE
- Optimizing non-debt resources
- Utilizing cash loans amidst uncertainty

### 3. PRUDENT
- Controlling debt risk and managing debt carefully, to support fiscal consolidation and sustainability of the Budget

## 2022 Financing Needs

### Financing Needs

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget Deficit 2022</th>
<th>IDR 868T (4.85% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>239,8</td>
<td>55,1</td>
</tr>
<tr>
<td>2018</td>
<td>252,5</td>
<td>55,9</td>
</tr>
<tr>
<td>2019</td>
<td>288,8</td>
<td>55,5</td>
</tr>
<tr>
<td>2020</td>
<td>370,2</td>
<td>60,8</td>
</tr>
<tr>
<td>2021</td>
<td>426,7</td>
<td>40,7%</td>
</tr>
<tr>
<td>Feb-22</td>
<td>428,9</td>
<td>40,2%</td>
</tr>
</tbody>
</table>

### Financing Sources

- **Foreign Currency** (18%-20%)
  - Foreign Loan
  - Global/Int'l GS
- **Rupiah** (80%-82%)
  - Domestic Loan
  - Domestic GS
- **Gross GS** (Auction & Non-Auction)
  - Govt Debt Securities 69%-72%
  - Sukuk 28%-31%
- **Matured Bonds in 2022**

### Stable Debt-to-GDP Ratio (USD Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>Feb-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>29,4%</td>
<td>29,8%</td>
<td>30,3%</td>
<td>39,4%</td>
<td>40,7%</td>
<td>40,2%</td>
</tr>
<tr>
<td>Loans</td>
<td>55,1</td>
<td>55,9</td>
<td>55,5</td>
<td>60,8</td>
<td>426,7</td>
<td>428,9</td>
</tr>
<tr>
<td>Debt-to-GDP Ratio</td>
<td>12,1</td>
<td>12,5</td>
<td>11,5</td>
<td>12,7</td>
<td>12,2</td>
<td>12,0</td>
</tr>
</tbody>
</table>

### Foreign Debt Ratio (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021*</th>
<th>Feb-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>FX Debt to GDP Ratio (%)</td>
<td>12,1</td>
<td>12,5</td>
<td>11,5</td>
<td>12,7</td>
<td>12,2</td>
<td>12,0</td>
</tr>
<tr>
<td>FX Debt to Total Debt Ratio (%)</td>
<td>29,4%</td>
<td>29,8%</td>
<td>30,3%</td>
<td>39,4%</td>
<td>40,7%</td>
<td>40,2%</td>
</tr>
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</table>

Source: Ministry of Finance

1. Converted from rupiah into USD as the applicable BI middle exchange rate as of the respected dates indicated

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* Preliminary number
External Loan Management During Covid-19 Pandemic
Continuous support from Multilateral and Bilateral Developments Partners through Program Loans as responses to Covid Pandemic and National Economic Recovery

The World Bank and ADB had approved loans to support Indonesia’s disaster resilience by providing emergency financing.

**DISASTER RESILIENCE LOANS**

**ADB**
- USD 500 million
- **Disaster Resilience Improvement Program**
  - To strengthen disaster resilience of institutions, communities, and government response to pandemic.

**World Bank**
- USD 500 million
- **Indonesian Disaster Risk Finance and Insurance**
  - To strengthen the financial and fiscal resilience of the borrower to natural disaster and health-related shock.

Development Partners provide support through program loans during 2020 and 2021 with bigger size and favourable terms, such as quick loan process, fast track disbursement, and waiver for commitment fees.

**Loan Conversions**
- to have a more balanced debt portfolio & to reduce cost of borrowing
- ADB (2019-2020): USD LIBOR 6M + 20-50 bps p.a. into 0% and near 0% of EUR/JPY fixed rate.
- World Bank (2021): USD LIBOR based floating rate loans to EUR fixed rate.

**Total conversion USD6.9 billion (2019-2021)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget</th>
<th>Revision I</th>
<th>Revision II</th>
<th>Realization</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>1.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>6</td>
<td>3.3</td>
<td>2.9</td>
<td></td>
</tr>
</tbody>
</table>

**Budget system allows for flexibility along with good coordination between the Government and Development Partners.**

**COVID-19 Response Loans for 2020**
- **USD 4.35 billion**
- **USD 1 billion and EUR 200 million (2021)**
- **specific programs**
  - **Australia**
    - **COVID 19 Active Response and Expenditure Support Program (CARES)**
    - USD 500 million (2020)
  - **Indonesia**
    - **Emergency Response to COVID-19**
    - USD 500 million (2020)
  - **World Bank**
    - **Disaster Resilience Improvement Program**
    - USD 500 million (2020)
  - **ADB**
    - **Indonesian Disaster Risk Finance and Insurance**
    - USD 500 million (2020)

**Program Loans – Budget, Revision & Realization**
Global Bond Issuances During Pandemic
Demand for Global Bonds was sufficiently high in the midst of volatile market conditions & limited issuance window

**2020**
- **Global Bonds Issuance USD4.3 Bio**
  - The first USD bonds from an Asian Sovereign focusing on the pandemic
  - The largest global offering by ROI and demonstrates ability to respond swiftly to markets and capture favourable issuance windows
  - The debut 50-yr offering on strong demand in the long end
- **2020 Sukuk USD1.75 Bio & Green Sukuk USD750 Mio**
  - The first-ever 30-yr Sukuk issued ROI
  - The lowest ever 5-yr & 10-yr coupon achieved by ROI across conventional and Sukuk
  - The lowest ever coupon for a 30-yr sukuk issuance globally
- **2020 Sukuk USD1.25 Bio**
  - The largest 30-yr Sukuk issued out of Asia

**2021**
- **2021 Dual-Currency Bonds Issuance USD4.65 Bio & EUR1.5 Bio**
  - Historical lowest yields across all tranches & biggest yield compression from Initial Price Guidance
  - The lowest yield for 50-yr of USD tenor
  - Negative new issue concession for issuance of EUR tenor
  - The first-ever 30-yr Green Sukuk issuance globally
- **2021 Sukuk USD2.25 Bio & Green Sukuk USD750 Mio**
  - The lowest ever 5-yr, 10-yr and 30-yr yield, spread over UST & coupon achieved by ROI for global sukuk issuance
  - The lowest yield of the ROI 5-yr issuance across global USD Sukuk and Conventional
  - The first-ever 30-yr Green Sukuk issuance in the world
- **2021 Liabilities Management USD1.25 Bio**
  - The first ROI’s Liabilities Management transaction in the global market
  - Lower price than the secondary market
  - Extend the average maturity by 24.2 years
- **2021 SDG Bonds EUR500 Mio**
  - Debut issuance of SDG Bonds by the Government
  - The lowest mid-swap spread over 12-yr EUR denominated Government Securities
  - Issued without New Issue Concession
Strengthened Synergy between Monetary and Fiscal Policy
Policy Synergy Between Bank Indonesia and the Government Contributes to the Acceleration of Economic Recovery

The Government and Bank Indonesia (BI) are working closely, with BI actively involved in the Covid-19 pandemic responses as well as health and humanitarian financing while maintaining fiscal and monetary authorities' credibility.

The enactment of Emergency Law No.1 / 2020 (Approved to be Law No.2 / 2020) allows BI to purchase government securities in the primary market for a period of three years (2020-2022) by taking into account BI's balance sheet capacity.

**1st Joint Decree (SKB I)**
- Allows Bank Indonesia to act as backstop buyer of Government Securities in the primary market from 2020 to 2022

**2nd Joint Decree (SKB II)**
- Puts in place the burden sharing scheme between Government and Bank Indonesia in 2020

**3rd Joint Decree (SKB III)**
- Finances healthcare and humanitarian handling for 2021 and 2022 as a response to the current condition of the COVID-19 pandemic

**Cluster A**
- **Bank Indonesia** contributes all interest costs on the financing for vaccination and healthcare with a maximum amount of IDR 58tn in 2021 and IDR 40tn in 2022, taking into account BI's balance sheet capacity and capability.
- Covers healthcare and Covid-19 pandemic-related items which includes vaccination programs and other healthcare-related financing.

**Cluster B**
- **The Government** will cover the remaining interest costs for financing other healthcare-related segments as well as humanitarian handling.

- Issuance specifically to BI through private placement which will reduce SBN auction target
- All SBN issued on variable rate using BI 3M-Reverse Repo (not commercial market rate)
- Tradable and marketable

Source: Ministry of Finance, Bank Indonesia
Indonesia's Fiscal Policy Responses are Quite Effective

Economic growth and fiscal deficit are in a good shape with moderate debt ratio

Indonesia is one of the countries whose GDP level has returned to the pre-pandemic conditions

The economic growth achievement was supported by a relatively controlled fiscal deficit compared to other countries

Indonesia's debt can also be maintained at a moderate level compared to other EMs.

Sources: IMF & MoF, as of 15 March
Recover Together, Recover Stronger

G20 Finance track is working on issue related to debt under IFAWG (International Financial Architecture Working Group). IFAWG key objective including continuing the support to the economy vulnerable countries impacted by debt.

- Policy-related issues linked to the implementation of the Common Framework after DSSI
- Enhancing debt transparency and sustainability both for lending and borrowing countries as well as private creditors
- Improving debt architecture for sovereign debt restructuring

Following-up on the IMF’s general SDR allocation

- How SDRs have been used since the August 2021 allocation, including its impact on liquidity needs of the low-incomes countries, Voluntary Trading Arrangements (VTAs) market for SDRs and prescribed holders
- Assessing the progress made towards the USD 100 billion ambition, including of voluntary SDR channelling
- Discussing the design and implementation details of the Resilience and Sustainability Trust (RST)

Development finance and coordination among International Financial Institutions

- Exploring ways to maximise MDBs’ development impact
- Exploring further the work initiated in 2020 on policy-based lending
Thank you