OCBC TREASURY RESEARCH

Dots & Plots

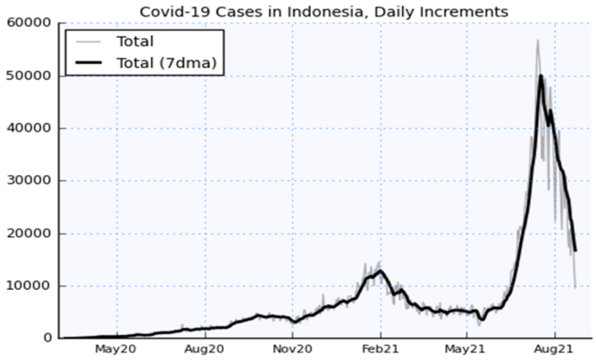
24 August 2021

Wellian Wiranto
+65 6530 6818
WellianWiranto@ocbc.com

Options Rollover

Bank Indonesia to extend its "burden sharing" program to 2022

- Just last week, we noted that BI might have started to lay the groundwork for a potential extension of its bond purchase agreement with the government. As it turned out, our hunch turned out to be true, with the central bank announcing overnight that the so-called burden sharing agreement that was first put in place last year – and due to lapse at the end of this year – would now be expanded and extended into 2022.
- Rather than just being limited to stepping in as a last-resort buyer in primary bond auctions, BI would engage in direct debt monetization once more to the tune of IDR439tn ($30.5bn) over the next two years. Similar to last year's scheme, nearly IDR100tn will come at 0% interest rate, while the rest will be 'sold' to BI on a discounted rate equivalent to 3m reverse repo rate of ~3.3%.
- The nominal trigger for this is the uptick in Covid-19-related fiscal costs as the country battled months of resurgence of late. While the situation appears to have come under better control – indeed cases have come below 10k per day, prompting a relaxation of the PPKM restriction measures just last night – the finance minister said in an analyst call last night that the healthcare and social costs went up by 22-24% in June and July alone. As BI governor noted, the rollover is to provide such "health and humanity" needs.
- The unspoken reason for the timing might have been to pre-empt any overt market jitters ahead of Fed tapering too. While the Jackson Hole meeting this week may not trigger market volatility due to tapering concerns –and BI had said it is ready for tapering anyway – why take the chances? It may be BI's way of rolling over 'the option of intervention' when the 'vol is still low'.
- Overall, concerns about inflation from further expansion of the balance sheet will be there, especially because BI already owns ~23% of government bonds, compared to 10% before the pandemic. But that is for later. The key risk remains whether market will be convinced that the second one-off will be the final one-off. However, by being as transparent as they can be about the reasons behind, the policymakers have reduced such risk somewhat.



Source: OCBC, Bloomberg.

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand & Commodities
HowieLee@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com