



## **Australian Government**

### **National Interest Statement:**

**Extension of the Loan Agreement between the  
Commonwealth of Australia and the Republic of Indonesia**

**AUGUST 2015**

## **NATIONAL INTEREST STATEMENT**

### **Loan Agreement between the Australian Government and the Republic of Indonesia for a standby loan for A\$1 billion**

#### **Summary**

This document is a national interest statement for the recent extension of the expiry date of the Loan Agreement between the Commonwealth of Australia and the Republic of Indonesia for a standby loan facility of A\$1 billion, signed on 19 July 2013. It is tabled in compliance with the requirements of the *International Monetary Agreements Act 1947 (Cth.)* (IMA Act).

On 19 July 2013, Australia entered into a standby loan agreement with Indonesia to provide A\$1 billion in contingent financing. This agreement is part of a multilateral action to support Indonesia led by the World Bank and includes the Asian Development Bank (ADB) and Japan. The agreement was due to expire on 30 June 2015, but this has been extended to 31 December 2015 at the request of the Indonesian Government.

This is a precautionary facility designed to safeguard Indonesia's economy, and in particular key development expenditures, from the potential impact of increased global and regional financial market volatility, such as that arising from tightening monetary policy in the United States or unconventional monetary policy settings in the Euro area or Japan. Reflecting the purpose of this facility as a financing source of last resort, Australia's portion of the loan can only be drawn down if Indonesia becomes unable to fund its budget through sales of Indonesian Government securities without paying excessively high financing costs.

Australia provided Indonesia access to a similar World Bank-led loan facility to the value of US\$1 billion in 2009 to assist during the global financial crisis. This facility was never drawn down by Indonesia, and expired on 31 December 2010.

Providing this facility to Indonesia enhances Australia's national interests by supporting the economic stability of Indonesia and the region.

#### **Legislative requirements**

This National Interest Statement relating to the Loan Agreement is tabled pursuant to the requirements of sections 8CA-8F of the IMA Act. The IMA Act requires the Treasurer to table a statement as soon as practicable after entering into such an agreement, indicating the reasons why the loan agreement is in Australia's national interest, along with a description of its nature and terms.

The IMA Act also prescribes that Australia can enter into an agreement for a loan that provides financial assistance in support of World Bank programs to another country if: the World Bank requests Australia's assistance; and the Treasurer is satisfied that at least one other government or organisation will be providing similar assistance.

These requirements have been fulfilled. The World Bank has formally requested Australia's participation in conjunction with its US\$2 billion deferred drawdown option loan provided under the World Bank Program for Economic Resilience, Investment and Social Assistance in Indonesia. Japan and the ADB have also announced similar contingent financing arrangements in conjunction with this program to the value of ¥120 billion and US\$500 million respectively.

## **National Interest Assessment**

The standby loan supports the long-term economic stability and prosperity of Indonesia and the Asian region. This is in Australia's national interests, as our prosperity is closely tied to that of our neighbours.

Australia has significant trade and investment links to Indonesia. In 2014, two-way trade (goods and services) totalled approximately A\$15.7 billion, making it Australia's 12<sup>th</sup> largest bilateral trading relationship, while two-way investment in 2014 totalled A\$9.6 billion. With Indonesia expected to experience continued strong growth over the medium term, this trade and investment will likely develop substantially in the years ahead.

The extension of the Loan Agreement expiry date responds directly to a request from the Director-General of Indonesia's Debt Management Office, Robert Pakapahan on 26 March 2015 for Australia to extend this date to 31 December 2015. The Director-General of the Debt Management Office has full delegated authority for all matters pertaining to the standby loan.

The extension was sought in light of continued uncertainty surrounding the outlook for global financial markets, due to prospects for an increase in US interest rates and unconventional monetary policy settings in the Euro area and Japan. Should conditions deteriorate, Indonesia may have difficulties financing its budget deficit as a result of heightened financing costs.

However, the Indonesian Government has proactively taken a number of steps to reduce the risk of the loan being drawn down. These steps include: reducing expensive fuel subsidies; keeping total government debt low; and by front-loading its debt issuance program.

Australia previously contributed to a standby loan facility to Indonesia in 2009. While this standby loan facility was never drawn down, it was considered by Indonesia and the World Bank to have played a role in boosting market confidence in Indonesia's economic prospects.

## **Nature and terms of the Loan Agreement**

On 3 July 2012, then Prime Minister Julia Gillard announced that Australia would provide a contingent loan facility of up to A\$1 billion to Indonesia, to ensure the Government of Indonesia can access finance at a reasonable cost even if financial markets begin to charge very high interest rates.

The subsequent Loan Agreement was entered into by the Commonwealth of Australia and the Republic of Indonesia on 19 July 2013. The availability of the loan facility was limited to 30 June 2014, unless both parties agreed to a new termination date. In May 2014, Indonesia requested an extension to 30 June 2015. Australia initially agreed to extend its commitment to 31 December 2014 and subsequently to 30 June 2015. In March 2015, Indonesia requested a further 6-month extension to 31 December 2015, to which Australia has agreed.

The loan agreement currently relates to the Government of Indonesia's revised 2015 Financing Plan, which outlines how the Indonesian Government expects to finance its spending needs for the year. The Financing Plan also specifies the terms and circumstances under which the Indonesian Government would draw on the financing support being made available.

Quarterly meetings (and extraordinary meetings if required) will be held between the loan partners to monitor the arrangement. At these meetings Indonesia will report on progress in meeting its financing target, and whether the terms and circumstances for drawing on financial support have been met. The amount of each loan instalment by each development partner, if any, will be agreed at these meetings.

In the event the loan is drawn down, the interest rate on the loan would be set with regard to the Australian Government's borrowing rate, appropriate for the term of the loan. This would ensure Australia's underlying cash balance is not negatively impacted if the facility is called upon.

Repayments of each loan instalment would be made over ten years on the basis of 20 equal, semi-annual payments with no interest free grace period.