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The Policy on Use of Debt Instruments to Cover Deficit in Indonesian State Budget Law

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ABSTRACT

This article discusses Government Bonds, which are generally better known as Government Bonds (Surat Utang Negara/SUN). SUN is an instrument used to cover the deficit of the State Budget (Anggaran Pendapatan dan Belanja Negara/APBN). Debt can be in the form of foreign debt or domestic debt. In its implementation, domestic debt is preferred because it has a smaller risk. Dependence on SUN has caused nominal SUN to rise steadily, which if not managed properly can lead to a financial crisis. A strategy is needed to anticipate, namely the first to reduce the debt stock of the State that will be due by way of cash repurchase (cash buy back) SUN before maturity, debt switching (exchange) of old bonds with new ones, and price discovery or determination of value fair market. Besides it, in the short term it is also necessary to anticipated if any oversold (SUN issued is not sold / not absorbed by the market) by finding cash loans through banks. In the long term, it would be better to replace the budget deficit regime with a balanced budget regime so that the State is truly independent in the welfare of its people. Besides continuing to eradicate corruption.

Keywords: Bonds, Debt, Deficit, Strategy.

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1. Introduction

1.1 Background

There are three types of budget management regimes, which are adopted by various countries in the world in compiling and managing the State Budget (APBN), namely the surplus budget regime, the balanced budget regime and the deficit budget regime. The surplus budget regime is a government policy to make income more than the expenditure. The policies of the surplus budget is well implemented when the economy is in an expansionary condition which is starting to heat up (*overheating*) to reduce demand pressure. The balanced budget regime is a policy that requires / wants a balance between state income and state expenditure. Balanced budget policies are better done on the economic conditions of state has stabilized where expenditure must be in accordance with capability. The budget deficit regime is a policy that requires / wants the position of state expenditure to be greater than the revenue position in a fiscal year. Because expenditure is greater

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than revenue, the state experiences a lack of (deficit) budget. This policies is best implemented when the state wants to pursue the level of economic growth at a certain desired point as long as the level of corruption is low. Apart from the weaknesses and strengths of each of these regimes, Indonesia adheres to a budget deficit regime.

Law Number 17 of 2003 concerning State Finance Article 12 paragraph (3) states that in the event that the budget is estimated to be deficit, funding sources are determined to cover the deficit in the law on the state budget. "In the explanation of article 12 paragraph (3) it is stated that the intended budget deficit is limited to a maximum of 3 (three) percent of Gross Domestic Product (GDP). In this policy, government debt will continue to increase from year to year because the debt can be increased every year by a maximum of three percent. On the other hand the payment time is lengthy (at least more than one year). Plus the amount of interest, commitment fees, administrative costs and others. Even worse if the debt is not used for productive development efforts and in corruption. This situation can cause the State to default.

1.2 Objektif

The Budget Deficit Policy is closed through the Privatization of State-Owned Enterprises (Badan Usaha Milik Negara/BUMN), Foreign Loans and the issuance of Government Bonds or commonly referred to as Government Securities (SUN). This article does not discuss how privatization of SOEs is carried out. Likewise with Loans, but it is more focused on analyzing and discussing the Role of SUN by analyzing the legislation regarding the SUN and the reality in practice.

1.3 Contributions to the field

The results of the analysis to the deficit closing policy are theoretically expected to add insight in to knowledge and enlightenment. Practically it can be an input for the government in taking management policies of SUN for the future.

2. Research method

This research is a normative legal research that prioritizes legal interpretation. The approach method used is normative juridical, which is intended to examine the legal requirements that apply to the object under study including conceptual and case approaches. The research phase begins with library research and followed by field research. Furthermore, regarding the nature of research is analytical descriptive, which is trying to explain descriptively in the form of critical and analytical descriptions around the Role and Problems of SUN in the Indonesian Budget Law system.

3. Literatur review

Law Number 24 of 2002 concerning State Debt Securities that SUNs are securities in the form of debt statement denominated in the rupiahs and foreign currencies which are guaranteed interest and its principal payments by the State of the Republic of Indonesia. The purpose of the publication is to finance the state budget deficit; and closing short-term cash shortages due to incompatibility of cash flows between receipts and expenditures from the State Treasury Account in one fiscal year;

The word of the bonds actually comes from Dutch, namely "*Obligatie*" or *Verplichting* "or" *Obligaat*" (Algra, 1983) which means liabilities that can not be abandoned, or company debt with fixed interest for the holder. So the bonds are an agreement (*verbintenis*), or written evidence of a loan acknowledgment (Heru Suprptomo, 2004) that tradable, or evidence of participating as an Investor in a loan issued by the Government or a private company. The term is more than one year (Simanjuntak, 1993). The legal basis for its issuance is Article 1756 of the code of Civil Law (Subekti 2009) which states that the debt occurs because borrowing money only consists of the amount of money mentioned in the agreement. If before repayment occurs a price increase or decline or there is a change regarding the validity of the currency, then the return on the borrowed amount must be made in the currency at the time of repayment, calculated according to the price prevailing at that time.

Meanwhile the government bonds is negotiable long-term debt securities issued by a government to raise a capital (Coyle, 2002), representing that debt is a long-term promise by the borrower (bond issuer) to the lender (bondholder) to pay the bond's face amount (or par value) at a define maturity date (Mikesell, 1995). SUN can be divided into tradable and non-tradable

The tradable SUN, its trade is carried out through the stock exchange. The money obtained from the issuance of these bonds is actually not pure to cover the budget deficit in the related fiscal year. Likewise the current bond value and the yield that can up and down depend on the market situation. After going through the issuance process, the SUN it can be traded either in the primary, secondary, third market (over the counter market) or fourth market. Meanwhile non tradable bonds are divided into two, *first*, are bonds as a form of recognition of government debt to the Central Bank (Bank Indonesia) in the form of Bonds Recapitulation. For example, to replace the bailout in the form of Bank Indonesia liquidity assistance (BLBI) given to operational banks to overcome the difficulties of liquidity when exposed to the monetary crisis of 1998 - 1999. *Second*, saving bonds are state bonds sold to individuals or legal entities through selling agents on the primary market and can not be traded on the secondary market.

Even though it non tradable the holder is given an early redemption facility, which is a facility where investors can withdraw part of their ownership in the specified period. Sales proceeds of saving bonds pure used to cover the budget deficit and financing.

4. Result and discussion

4.1 Budgeting regime

4.1.1 Choice of deficit regime

Even though there are three budget regimes, in its history, from the beginning, Indonesia has not escaped debt. At present almost all countries in the world adopt a budget deficit regime. Because there is an understanding that the deficits budget can encourage faster economic growth (Basri 2002, 301). To close the deficit one of the option is through a debt scheme. Desires to debt have been around since the beginning of the Old Order Government (*the beginning of independence*). The Soekarno government once ever owed US \$ 6.3 billion which consisted of US \$ 4 billion in inheritance from the Netherlands Indies debt and US \$ 2.3 billion new debt. Although President Soekarno's attitude was very firm anti-debt with the reason can be reduce the sovereignty of the people and the state. But the pattern of development the "mercusuar (lighthouse)" of Soekarno was inevitable from the anti-debt attitude (Ragimun, beritasatu.com September 15, 2017).

In the New Order Era when the regime of President Soeharto came to power the state budget was inseparable from debt. The choice continued in the reform era of President BJ Habibie, Abdurrachman Wahid (Gus Dur), Megawati, Susilo Bambang Yudoyono (SBY), even the era of President Jokowi who was in power at this time. Indeed for developing countries the right solution to cover the budget deficit when the state needs money to accelerate infrastructure growth which aims to encourage economic growth true through debt (Sri Mulyani, Liputan6.com November 30, 2016). But it must take into account fiscal risks. No problem, the important thing is that the debt can be managed and utilized as well as possible.

4.1.2 Deficit maximum ratio

In the Indonesian State Practice initially un known the maximum limit of the Budget deficit or debt ratio to Gross Domestic Product (GDP). But after the reform based on the explanation of Article 12 paragraph 3 of Law No. 17 of 2003 as mentioned above, a maximum limit of three percent deficit and 60 percent of the total loan originated from the *Maastricht* agreement (formally the European Union agreement) dated December 9-10 1991 signed on February 7, 1992 concerning the Establishment of the European Union (EU) and single European currency (EURO). Maastricht's agreement sets out the criteria for Maastricht and the EU's single market which guarantees freedom of movement of goods, capital, people and services. The Maastricht Criteria (also known as the shifting criteria) is a criterion for EU member states to enter the third phase of the European Economic and Monetary Union (EMU) and adopt EURO as its currency. The four main criteria are based on Article 121 (1) European Community Agreement.

1. Inflation rate: It should not be more than 1.5 points per cent higher than the average of the three member countries with the lowest inflation in the EU.

2. Government finance:

- a. Annual government deficit:

The annual government deficit ratio with GDP should not exceed 3% at the end of the next fiscal year. If not, that country must required to reach a level close to 3%. Only excess exceptions and temporary allowances are excluded.

b. Government debt:

Gross government debt ratio with GDP should not exceed 60% at the end of the next fiscal year. Even if this target is not achieved due to certain conditions, the ratio which mentioned must be at least reduced and close to the reference value with satisfactory progress. At the end of 2010, only two EU countries member , Poland and the Czech Republic reached this target.

3. Exchange Rates: Countries register must undergo exchange rate mechanisms under the European Monetary System (EMS) for two consecutive years and should not devalue their currencies during that period.

4. Long-term interest rates: The nominal long-term interest rates should not be more than 2 (two) percentage points higher than in the three member countries that experience the lowest inflation.

This criterion was used as a reference by Indonesia to determine the maximum deficit ratio of loan amount. As an illustration of the debt ratio to GDP.

Tabel 1: The debt ratio to gross domestic product

No.	Government era	Year	Ratio
1.	Soeharto	1998	57,7%
2	BJ Habibie	1999	85,4%
3	Abdurrachman Wahid (Gus Dur)	2001	77,2%
4	Megawati	2002	67,2%
5	Susilo Bambang Yudoyono (SBY)	2014	24,7%
6.	Joko Widodo	2017	27,4%

Source: Ministry of Finance, processed

From the table it appears that the debt ratios in 1999, 2001 and 2002 exceeded 60%. But at that time Law No. 17 of 2003 does not yet exist.

The debt ratio will actually continue to decline if the government's commitment to reduce debt gradually and continuously by sweeping the efficiency of spending. But each regime has different policies. The current regime passionate to add large amounts of debt to finance national strategic projects.

4.1.3 Cover options of the budget deficit

The choice to close the state budget deficit in the implementation of state governance can be done through privatization (selling state-owned assets and conducting loans (debt). The choice of privatization, the legal basis is Law No. 19 of 2003 concerning BUMN. The method is to sell BUMN shares, both partially and wholly to other parties in order to improve the performance and value of the company, increase the benefits for the state and society, and expand share ownership by the community (Law No.19 of 2003 Article 1 point 12). The result of sales are used to cover the short fall in the state budget. BUMNs are sold are have no potential to gain profits, on the contrary continue to lose money so that add to the burden of the state budget if it is maintained. If the SOE shares sold, all or at least 51%, are legally owned by another party, then this is categorized as privatization (Rahayu Hartini 2017, 32-33).

The choice of debt policy is based on Law No. 24 of 2002 concerning SUN which is followed up by Government Regulation No. 23 of 2003. Regarding the Control of the Cumulative Amount of the State Income and Expenditure Budget Deficit, and the Regional Revenue and Expenditure Budget (APBD), and the Cumulative Amount of Loans from the Central Government and Regional Government.

The regulation stipulates that the cumulative amount of the APBN and APBD deficits is limited not to exceed 3% (three percent) of the GDP of the year and the cumulative amount of loans from the Central Government and Regional Governments is not exceeding 60% (sixty percent) of the year GDP. In the case of the cumulative amount of the APBN and APBD deficits not exceeding 3% (three percent) of GDP and / or the cumulative amount of loans of the Central Government and Regional Governments not exceeding 60% (sixty percent) of GDP, the Central Government can make loans both domestically

and abroad. Debt can come from abroad and domestic loans. Foreign loans are made by making loan agreements with overseas institutions, both government and other international institutions. While domestic loans are carried out by issuing state bonds. The policy taken is prioritizing domestic debt because it has a smaller risk.

Each regime has its own choice of policies to cover deficits and debt. Post-Independence has a very diverse philosophy, perception, and paradigm for debt. The Old Order Regime President Soekarno viewed debt, especially foreign debt as a form of humiliation to the dignity of the nation. Therefore Indonesia's development is oriented to the priority of national autonomy. In that era of course independence euphoria was an absolute price that was not negotiable. As a result, government debt, especially foreign debt, can be minimized. Conversely, the government is more likely to use a development financing mechanism that is oriented to the construction of lighthouses, one of which is the money printing mechanism, which then triggers inflation. Thus, the Old Order government regime collapsed with hyper inflation (Ragimun, <http://www.fiskal.kemenkeu.go.id/>).

In the New Order era the term of debt was finely connoted into aid. However, the debt at that time was positioned as a complement to development because in the structure of the State Budget at that time debt was still considered as revenue. This era is very confident that bringing in foreign investors is absolute as a stimulant stretching development, and the debt is dominated by foreign debt, both loans, soft loans, grants and program assistance. Some dominant agencies or countries donor such as Japan, ADB, IMF, World Bank, including Inter-Governmental Group on Indonesia (IGGI), which is chaired by the Netherlands. Which later changed to CGI (Consultative Group on Indonesia) without the Netherlands. But the paradigm is the same. At that time, the reason was that debt would be very useful if managed properly. Including other reasons as an alibi, namely that Indonesia's foreign debt, because of its function as a complement, in percentage terms is decreasing compared to GDP. The government continues to add to the debt coffers. Unfortunately, it was not realized that Indonesia's economic base was not too strong and that debt management was not effective. Therefore, once the rupiahs depreciates against the dollar or the economic crisis hits the regime. Then came the order of reform.

The Reform Order changed the pattern of the APBN that debt is not a complement or acceptance of development, but as financing for the budget deficit. Therefore bureaucrats in this era then explore sources of financing or conduct financial engineering to reduce the size of the deficit. One of them by explore domestic debts such as issuance of SUN, Syariah bonds, asset sales, privatization and others.

However foreign debt is still a mainstay to cover the budget deficit. Although Indonesia's debt has shifted its composition, namely domestic debt to around 56 percent and foreign debt to 44 percent, the essence of independence must be a concern of the government. Debt must be managed carefully so that the state does not become collapsed for the second time. The policy has been taken by President SBY and has even succeeded in paying off debts to the International Monetary Fund (IMF) so that Indonesia is no longer depend on the IMF which indeed interferes too far in the Indonesian economy.

In the Jokowi era, which was in power today it was trying to accelerate economic growth by building strategic projects that were very massive. So this regime is trying to find sources of funding, *first* by inviting foreign investors to invest in Indonesia with various facilities through economic policies. The second utilizes cooperation, and foreign loan facilities remain an alternative choice. However, Jokowi more makes domestic loans by issuing various tradable SUNs and saving bonds. The logic of domestic debt is less risky because it borrows from its own citizens rather than borrowing to the abroad.

4.2 The role of SUN

4.2.1 To closing the state budget deficit

Government debt is the accumulated value of what the government borrows to finance past deficits. Government debt has a simple relationship with the government deficit (Samuelson & Nordhaus 1996, 353). An increase in government debt over a certain period of time is the same as a budget deficit.

SUN is one type of state loan as the main source of budget financing originating from debt when there is an APBN deficit. Meanwhile financing sources originating from foreign loans are set as complementary, in line with the policy of withdrawing foreign loans which must be negative net flow

set in the previous budget period. Budget financing needs to cover the deficit mentioned, both in nominal and its ratio terms to GDP, tend to increase from year to year. SUNs are issued as state loans originating from investors both from within and outside the country. Fund mobilization through the financial market is an effort to increase community participation optimally in national development financing programs through the mechanism of managing the National Budget. Issuance of SUN to the public is one of the potential financing to reduce burden and financial risk for the country in the future.

In the context of national independence, the potential available in the country must be optimized to carry out economic activities and finance development activities. In this regard, the Government needs to be given the opportunity to increase access which can explore the potential sources of development funding and strengthen the domestic investor base. The financing mentioned will safety guaranteed if the mobilization of public funds is accompanied by the efficient operation of the financial system, including the banking system, money market and capital market. The diversity creation in fund mobilization can produce a strong financial system and provide an alternative for investors. In activities in the financial market, the role of the SUN market is very strategic. That is, the level of yield of SUN, as a risk-free financial instrument, is used by market participants as a reference in determining the level of profit of an investment or other financial asset.

Thus, regular and planned issuance of SUN is needed to form a benchmark that can be used to assess the fairness of the price of a financial asset or securities. Fund mobilization through the financial market is an effort to increase community participation optimally in national development financing programs through the mechanism of managing the National Budget.

The issuance of SUN to the public is one of the potential financing to reduce financial and burden risk for the country in the future. Sun more acts as a source of closed the APBN deficit when compared to other financing sources. This can be seen from the following table:

Tabel 2: The position of central government debt outstanding 2012 – 2017 (in Billion)

	2012 ^{#)}	2013 ^{#)}	2014 ^{#)}	2015 ^{#)}	2016 ^{#)}	2017		###)	
						August	September		
Amount in trillion IDR								Nominal	%
Central Government Debt	1,977.71	2,375.50	2,608.78	3,165.13	3,515.46	3,825.79	3,866.45	100.0%	
a. Loans	616.61	714.44	677.56	755.12	734.85	737.85	737.99	19.1%	
1). External Loan	614.81	712.17	674.33	751.04	729.71	732.37	732.46	18.9%	
Bilateral *)	359.80	383.53	334.62	340.63	315.07	315.07	311.86	8.1%	
Multilateral **)	230.23	288.29	292.33	360.04	368.92	371.68	375.00	9.7%	
Commercial ***)	24.37	40.00	47.15	50.20	45.61	44.66	44.65	1.2%	
Suppliers ***)	0.41	0.35	0.24	0.17	0.10	0.96	0.96	0.0%	
2). Domestic Loan	1.80	2.27	3.22	4.08	5.13	5.48	5.53	0.1%	
b. Securities	1,361.10	1,661.05	1,931.22	2,410.01	2,780.61	3,087.95	3,128.46	80.9%	
Foreign Currency ###)	264.91	399.40	456.62	658.92	766.58	841.79	848.81	22.0%	
Local Currency	1,096.19	1,261.65	1,474.60	1,751.09	2,014.03	2,246.16	2,279.65	59.0%	
Amount in Billion USD									
Central Government Debt	204.52	194.89	209.71	229.44	261.64	286.55	286.57	100.0%	
a. Loans	63.76	58.61	54.47	54.74	54.69	55.27	54.70	19.1%	
1). External Loan	63.58	58.43	54.21	54.44	54.31	54.85	54.29	18.9%	
Bilateral *)	37.21	31.47	26.90	24.69	23.45	23.60	23.11	8.1%	
Multilateral **)	23.81	23.65	23.50	26.10	27.46	27.84	27.79	9.7%	
Commercial ***)	2.52	3.28	3.79	3.64	3.39	3.35	3.31	1.2%	
Suppliers ***)	0.04	0.03	0.02	0.01	0.01	0.07	0.07	0.0%	
2). Domestic Loan	0.19	0.19	0.26	0.30	0.38	0.41	0.41	0.1%	
b. Securities	140.76	136.27	155.24	174.70	206.95	231.29	231.88	80.9%	
Foreign Currency ###)	27.39	32.77	36.71	47.76	57.05	63.05	62.91	22.0%	
Local Currency	113.36	103.51	118.54	126.94	149.90	168.24	168.96	59.0%	
Exchange Rate (IDR to US\$1)	9,670	12,189	12,440	13,795	13,436	13,351	13,492		

Source : Directorate General of Budget Financing and Risk Management Ministry of Finance

Thus the importance of the role of SUN, based on Government Regulation No.76 of 2005 Article 12 requires the Minister to periodically publish information on SUN management. These publication include such the follow : Debt management policies and SUN issuance plans which cover the estimated amount and time schedule of issuance.

The amounting of SUN outstanding and its composition, including type of currency, maturity structure and interest rate. Estimated and realized payment of SUN and principal. Amount and type of SUN that have been buy back and or have been exchanged before maturity.

4.2.2 Legal basic

As an important instrument in the management of the State Budget, the existence of SUN must have a strong legal basis so that it is lawful. SUN management is regulated in Law Number 24 of 2002 concerning SUN. This law provides certainty that; *first*, issuance of SUN is only for certain purposes; *second*, the Government is obliged to pay the interest and principal of the maturing SUN; *third*, the amount of SUN that will be issued every fiscal year must obtain the approval of the DPR and be consulted in advance with Bank Indonesia; *fourth*, SUN Trading is regulated and supervised by authorized institutions; and *fifth*, provide severe and clear legal sanctions for issuance by unauthorized parties and / or forgery of SUN.

In addition to Law Number 24 of 2002, various implementing regulations have also been issued to support the management of SUN, including:

1. The Minister of Finance Regulation Number 66/KMK.01/2003 concerning Appointment of Bank Indonesia as a Agent to Implement SUN Auction on the Primary Market.
2. The Minister of Finance Regulation Number 83 / KMK.01 / 2003 dated March 4, 2003 concerning the sale of SUN in the Prime market, which has been updated through the Minister of Finance Regulation No. 36 / PMK.06 / 2006, and several times experienced changes, most recently No. 86 / PMK.08 / 2011 concerning the third Amendment to the Regulation of the Minister of Finance Number. 36 / PMK.06 / 2006 concerning the sale of SUN at the Primary market, which appoints Bank Indonesia (BI) as the Executor
3. The Minister of Finance Regulation Number 209 / PMK.08 / 2009 concerning SUN Buyback Auction.
4. Minister of Finance Regulation Number 50 / PMK.08 / 2008 concerning SUN Auction on the Primary Market.
5. Minister of Finance Regulation Number 217 / PMK.08 / 2008 concerning SUN Sales in foreign currencies at the International Primary Market, as last time amended by Minister of Finance Regulation Number 170 / PMK.08 / 2009.
6. Bank of Indonesia Regulation No.10 / 13 // PBI / 2008 that has been updated through PBI No. 17/19 / PBI / 2015 dated 12 November 2015 concerning Government Securities Auction and Administration, and other related Regulations.

4.2.3 Impact of SUN issuance

SUN is the right solution to cover the state budget deficit rapidly when needed. The issuance and sale of SUN to the general public can help increase the growth of the investment climate in Indonesia. The community also became more aware of improving their standard of living and diversifying sources of income through SUN investments. The choice of SUN as a source of various other funding sources must be based on careful calculations that can minimize the cost of debt in the state budget.

The issuance of SUN that is carried out regularly and continuously by the government has a *positive impact*, which has an impact on the government as a policy maker in issuer of SUN, namely closing the budget deficit. SUN has been recognized by the government as one source of state revenue, where funds obtained from sales are used for the needs of the country. SUN is considered as a productive debt because the funds be obtained can be returned or channeled to obtain greater results.

Another benefit of issuing and selling SUN by the government is; *first*, mobilizing public funds absorbed through the state budget mechanism. This means the automatic implementation of direct supervision by the public of the utilization of these funds; *second*, strengthen financial system stability and become a benchmark for determining the value of other financial instruments; *third*, reducing dependence on foreign financing which is very vulnerable to fluctuations in currency exchange rates; *fourth*, as a SUN fiscal instrument it can explore the potential sources of funding for the state budget

that are greater than capital market investors; *fifth*, as a SUN investment instrument provides investment alternatives that are relatively risk-free of default, providing opportunities for investors and market players to diversify their portfolios to minimize investment risks.

Even though it has a positive thing, the issuance of SUN by the government also has a *negative impact*. The impact is, *first*, "increasing the amount of state debt". SUN, however, is government-owned debt that must be paid within a certain period of time. The increase in SUN issuance that means the government has increased debt which will have an effect on the budget deficit.

In addition, the yield given by the Indonesian government in the sale of SUN which is greater than other countries in Asia even though it will attract the public to invest in buying SUN, but for the government meaning there is a greater amount of payment return. As an illustration can be seen in the table below:

Tabel 3: Comparison of government bond yields tenor 10 years in the Asian region

No.	Country	Yield Percentage
1.	Indonesia	8.61
2.	Singapore	2.55
3.	Malaysia	4.14
4.	Thailand	2.79
5.	Philippines	8
6.	China	3.54
7.	Japan	0.13
8.	India	7.87
9.	Taiwan	0.96

Source : CNBC Indonesia Position November 1, 2018 (www.cnbcindonesia.com)

The *second* negative impact is "Dependence on SUN". The deficit policy causes the government to always make SUN as an instrument to meet the country's budget and financial needs. The government too relies on SUN as state income.

Although SUN is a productive debt, but still debt status and ultimately the burden of the country itself. The accumulation of SUN issuance continuously can endanger the country's finances. Which can cause a crisis. (Enny Sri Hartati, <https://www.bbc.com/indonesia/indonesia-43373257> March 13, 2018).

The *third* negative impact, "foreign domination". The large portion of foreign ownership in the domestic market will cause problems if foreigners immediately leave Indonesia because they see that yields abroad tend to be better. This will affect business people, especially investors who hold bonds in the country. The its solution the government must to enlarge domestic investors to invest in bonds.

The *next* negative impact, is "overbought". The significant increase in SUN due to the acceleration of infrastructure development in order to spur economic growth at one point can lead to overbought, so that the planned issuance and sale of SUN by the government is can not sold or not absorbed by the market.

4.3 The risk of state debt portfolio

In addition to the positive and negative impacts above, in the long term SUN also contains various risks. Risk referred to:

1. Fiscal Sustainability Risk

The greater the debt, the more potential to endanger fiscal sustainability because the amount of principal and interest will increase. Indicators: debt to export ratio, debt service ratio, and debt to GDP ratio. The risks posed can have an impact on the inability of state finances to pay the country's debt at maturity, and even be able to sacrifice other government programs that really need funds.

2. Exchange Rates Risk

The risk of increasing the country's debt burden due to the weakening of the Rupiah exchange rate against foreign exchange. Based on the position as of 30 June 2017, each rupiah depreciation against the overall 1% (average) of foreign exchange will increase interest expenditure by USD equivalent. 660.5 million. Efforts which can be made by prioritizing the issuance of new debt in Rupiah and prioritizing repayment of debt in foreign currency.

3. Interest Rate Risk

The risk of increasing the country's debt burden due to changes in market interest rates. The effort that has been and will continue to be carried out is to prioritize repayment debt with floating interest.

4. Refinancing Risk

This risk arises when the amount of debt due is large in the adjacent time, causing pressure if the market conditions or the economy are not conducive. This results in the emergence of the debts risk of maturing that must be refinanced with more expensive debts, or absolutely cannot be refinanced. To measure refinancing risk is done by looking at the maturity profile (debt maturity structure) and the average time maturity of the debt.

5. Operational Risk

The achievement of debt management targets has the risk of failure if the daily debt management operations are not managed properly, both from the Human Resources and institutional side (Standard Operating Procedure, Risk Management System, Management Information System) remembering debt management requires working operating standards in high.

5. Limitations and suggestions

5.1 Limits

This article does not discuss in depth the definition, type and function of the sun and the impact of its publication on the economy of the country or society. This article only discusses limited, on benefits and impacts of the budget and state finances.

5.2. Suggestions

To overcome the risk of SUN issuance and the negative impact of government dependence on SUN, a precise strategy is needed to overcome it so that the portfolio for the country can be controlled properly and safely for the management of state finances. The best strategy is; *first* reduce the Government Debt by seeking to reduce the debt stock that will be due by repurchasing it in cash (*cash by back*), which is to buy back sun in cash (Government Bonds) before maturity. Buy Back Government Bonds are bonds repurchase that experience under value in the market so that the government will benefit because it pays below the nominal price when issued first. The *second* strategy is debt swiching (exchanging) old bonds with new ones. This strategy is an active strategy for managing government bonds (Rahmany 2004, 380). Debt swiching will give an effect in the form of an extension of the maturity date of a bond. This extension of the maturity time also at once reschedule of the maturity structure of the state bonds so that they do not accumulate at any given time. Next is to review to the price discovery or mechanism for determining fair market value.

6. Conclusion

The choice of a deficit regime has caused the government's dependence on SUN. This is not a problem as long as the SUN can be managed properly. But in the future for the short term within the framework of financing flexibility and anticipating the risk of debt instrument unavailability, it will be better if the government optimizes the use of cash loans as an alternative to issuing state securities (SBN). Cash loans are loans given by commercial banks that are not associated with a program or project. This matter felt easier because many banks its will offer the loans which are their business instincts.

In the long term its far better to change the choice of deficit budget regime with the balanced budget regime so that the State is truly independent in to prosperity of its people. This policy must be accompanied by the implementation of a good government free from corruption, collusion and nepotism. Therefore corruption eradication activities must be carried out continuously.

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