PRUDENTIAL PRINCIPLES IN MANAGING FOREIGN LOANS

Bank Indonesia on 28 October 2014 issued Regulation of Bank Indonesia No. 16/20/PBI/2014 on Implementation of Prudential Principles in Managing Foreign Loans for Non-Bank Corporations (PBI 16/2014), which came into force on 1 January 2015. One of the considerations is that the foreign loans for non-bank corporations must be well-managed to contribute to national economic stability and to prevent foreign loans from creating disturbances to macro-economic stability. PBI 16/2014 requires that non-bank corporations who have foreign loans implement principles of prudence. This is done through maintaining certain hedging ratio, liquidity ratio, and credit rating.

For non-bank corporations having foreign loans, PBI 16/2014 requires that these companies maintain a minimum hedging ratio through hedging the foreign currencies against Rupiah. This is done by entering into a foreign currency derivative transaction in the form of forward, swap or option transactions. The minimum hedging ratio under PBI 16/2014 is 25% of:

1. the negative balance of foreign currency assets against the foreign currency liabilities which will become due within three months after the end of the current quarter; and
2. the negative balance of foreign currency assets against the foreign currency liabilities which will become due more than three months until six months after the end of the current quarter.

The minimum liquidity ratio required under PBI 16/2014 is 70% based on the ratio of the foreign currency assets and the foreign currency liabilities which will become due three months after the end of the current quarter.

The end date for each quarter is 31 March, 30 June, 30 September and 31 December. PBI 16/2014 also specifies that until 31 December 2015, the minimum hedging ratio should be 20% of:

1. the negative balance of foreign currency assets against the foreign currency liabilities which will become due within three months after the end of the current quarter; and
2. the negative balance of foreign currency assets against the foreign currency liabilities which will become due more than three months until six months after the end of the current quarter, until 31 December 2015;

while the minimum liquidity ratio is 50%.

In addition to the hedging and liquidity ratios, PBI 16/2014 also requires “BB” minimum credit rating, as issued by the rating agencies acknowledged by the authority. This rating applies to foreign loans executed or issued as of 1 January 2016.

PBI 16/2014 requires non-bank corporations that have foreign loan to submit a report (including the supporting documents) in accordance with the provisions relating to report for foreign exchange activities and report on the implementation of prudent principles. The report will be utilized by Bank Indonesia to observe a company’s compliance to these principles. Bank Indonesia can issue a written reprimand to these companies for non-compliance with the principles, a sanction of which will become effective after third quarter report in 2015.