International Journal of Early Childhood Special Education (INT-JECSE)
DOI:10.9756/INTJECSE/V14I5.89 ISSN: 1308-5581 Vol 14, Issue 05 2022

ANALYSIS DEBT TRAP AND STEP UP ON DEBT STATE OWNED ENTERPRISE BANK (BUMN) IN INDONESIA

Khairun Mansyah, Listicia Brigita Sinaga & Iskandar Muda
Master of Accounting, Universitas Sumatera Utara, Medan, Indonesia
khaimansyah@gmail.com

Abstract:

Unsound fiscal policy overburdens central banks. The limited fiscal space observed in many economies in the aftermath of the crisis was in part due to high debt levels accumulated before the crisis. When an economy faces the prospect of being caught in a debt trap, the consequences of central bank policies on debt dynamics become particularly important. Monetary policy and fiscal dynamics are inexorably linked. Debt monetization through high inflation may be feared. The challenge for an independent central bank is to identify the extent to which it can adopt policies that allay debt concerns without compromising price stability. One option is financial repression. Despite associated distortions, financial repression can create fiscal space while preserving price stability. Step-up bonds are usually issued by high-quality corporations and government agencies, which helps to reduce the risk of default, which is the failure to repay the principal and interest.

Keywords: Dept Trap an Step Up on Debt

1. Introduction

Economic development carried out by developing countries often creates big problems in funding. The great desire to spur national development to catch up with the national development of other countries is often hit by a strong wall of limitations in capital formation, either from government revenues or public savings. The low state revenue is due to low exports and taxes, while the public's weak saving capacity stems from low public revenues. Foreign debt by the Government and Indonesian SOEs has been carried out for three decades, namely since 1969. The huge potential of Indonesia's natural resources makes the demand for debt from the Government and Indonesian SOEs to foreign donors (either bilaterally or multilaterally) almost non-existent obstacle The inflow of foreign debt can be felt at the beginning of the implementation of national development.

In current global scenario, the subject of public debt always remains a matter of debate because of its significant role towards the economy of the country. It is worth pondering to note that the level or size of public debt is linked with the levels of surplus or deficit in the national account that further depends on the objectives of the policy makers of the country (Sitorus et al., 2022). Usually, a certain level of debt always exists in public debt portfolio as in most of the cases the old debt is replaced with the new debt (Musgrave, 1984). A benevolent or a politically motivated government is more inclined towards the expansionary fiscal policy that leads to create deficit in the national budget. The government under such circumstances prefers to go for debt financing instead of any innovation in tax therefore the demand of debt (domestic/foreign) remains higher (Alam, 2012). In developing countries the government usually confronts with domestic resource crunch problem and faces budget deficit therefore the foreign borrowing is a routine feature.

2. Literature Review

2.1. Debt Trap

Debt-trap diplomacy is a term in international finance which describes a creditor country or institution extending debt to a borrowing nation partially, or solely, to increase the lender's political leverage. The term was coined by Indian academic Brahma Chellaney. The creditor country is said

DOI:10.9756/INTJECSE/V14I5.89 ISSN: 1308-5581 Vol 14, Issue 05 2022
to extend excessive credit to a debtor country with the intention of extracting economic or political concessions when the debtor country becomes unable to meet its repayment obligations.The conditions of the loans are often not publicized, and benefit the lender. The borrowed money commonly pays for contractors and materials sourced from the creditor country. Although the term is most commonly associated with China, it has also been applied to the International Monetary Fund (IMF); both allegations, however, are disputed. The term "debt-trap diplomacy" began to be used in United States government documents during the Trump administration. A number of U.S. government documents refer to it, including the 2020 Department of State report "The Elements of the China Challenge". In general condition, The debt trap is a situation where someone are forced to over consume loans to repay existing debts. Over time, they get stuck in a situation where the debt spirals out of control, exceeding repayment capacity, making them fall into a debt trap (Wardhani et al., 2022). Two elements come into force the first is the principal loan amount and the second is the interest (the amount the lender charges on the principal loan amount).

2.1.2. Step Up on Debt

Step-Up term is related to the Bank Indonesia regulation regarding 'Minimum Capital Adequacy Requirement for Commercial Banks'. What is meant by the step-up feature is a feature that promises an increase in the interest rate if the call option is not exercised within the specified timeframe. There are several step up features based on a step up agreement, namely:

1. Step-up on fixed interest rates
2. Step-up on floating interest rates
3. Step-up with a change from a fixed rate to a floating interest rate.

A step-up bond is a bond that pays a lower initial interest rate but includes a feature that allows for rate increases at periodic intervals. The number and extent of the rate increase, as well as the timing, depends on the terms of the bond. A step-up bond provides investors with the benefits of fixed-income securities while keeping up with rising interest rates. However, the initial rate offered on a step-up bond could be lower than the rates offered in other fixed-income investments. Although there are many benefits to step-up bonds, investors should also be aware of the inherent risks associated with these debt securities.

Pros

- A step-up bond's interest payments increase over the life of the bond.
- The SEC regulates step-up bonds.
- Step-up bonds tend to have a low risk of default.
- The step-up feature reduces exposure to market rate and price volatility.
- Step-up bonds are very liquid.

Cons

- Higher rates are not guaranteed as some step-up bonds are callable.
- Interest rate risk exists: Market rates can rise faster than the step-up rates.
- Noncallable step-ups pay lower coupon rates since there's no risk of early redemption.
- Step-ups sold early could incur a loss if the sale price is less than the purchase price.

2.1.3. BUMN Bank in Indonesia

In Indonesia, state-owned banks still install a higher basic loan interest rate than conventional banks or other regional banks, as shown in the data in Table 1.

Table 1. The Basic Loan Interest Rate (SBDK) Bank in Indonesia

International Journal of Early Childhood Special Education (INT-JECSE)
DOI:10.9756/INTJECSE/V14I5.89 ISSN: 1308-5581 Vol 14, Issue 05 2022

March 2022 In Percent (%)

No.	Name of Bank	Corporation Credit	Retail Credit	Micro Credit	Consumption Credit	
					KPR	Non KPR
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	**PT BANK RAKYAT INDONESIA (PERSERO), Tbk**	**8,00**	**8,25**	**14,00**	**7,25**	**8,75**
2	**PT BANK MANDIRI (PERSERO), Tbk**	**8,00**	**8,25**	**11,25**	**7,25**	**8,75**
3	**PT BANK NEGARA INDONESIA (PERSERO), Tbk**	**8,00**	**8,25**	**-**	**7,25**	**8,75**
4	**PT BANK TABUNGAN NEGARA (PERSERO), Tbk**	**8,00**	**8,25**	**-**	**7,25**	**8,75**
5	PT BANK CENTRAL ASIA, Tbk	7,95	8,20	-	7,20	5,96
6	PT BANK MAYBANK INDONESIA, Tbk	7,75	8,75	-	8,25	8,75
7	PT BANK PAN INDONESIA, Tbk	8,51	8,25	14,90	7,75	8,12
8	PT BANK CIMB NIAGA, Tbk	8,00	8,75	-	7,25	8,50
9	PT BANK UOB INDONESIA	8,50	9,00	-	8,20	-
10	PT BANK OCBC NISP, Tbk	8,25	8,50	-	8,00	9,25
11	CITIBANK, N.A.	4,75	-	-	-	-
12	PT BANK DANAMON INDONESIA, Tbk	8,25	9,00	-	8,00	9,25
13	BANK OF AMERICA, N.A	5,75	-	-	-	-
14	PT BANK CHINA CONSTRUCTION BANK INDONESIA Tbk	7,26	7,26	-	7,26	7,26
15	THE BANK OF TOKYO-MITSUBISHI UFJ LTD.	6,06	-	-	-	-
16	PT BANK DBS INDONESIA	4,63	7,08	-	7,37	-
17	PT BANK RESONA PERDANIA	6,72	-	-	-	-
18	PT BPD JAWA BARAT DAN BANTEN, Tbk	6,00	8,17	11,60	7,99	7,83
19	PT BPD DKI	9,00	9,25	10,50	8,50	9,25
20	PT BPD DAERAH ISTIMEWA YOGYAKARTA	5,49	5,55	5,39	5,21	6,23
21	PT BPD JAWA TENGAH	7,42	8,16	8,33	7,99	8,54
22	PT BPD JAWA TIMUR, Tbk	5,78	6,75	11,04	6,75	8,45
23	PT BPD JAMBI	8,85	8,17	8,00	8,04	8,29
24	PT BPD SUMATERA UTARA	8,89	9,49	11,00	9,36	10,79
25	PT BPD RIAU KEPRI	5,01	5,35	5,29	4,60	5,04

DOI:10.9756/INTJECSE/V14I5.89 ISSN: 1308-5581 Vol 14, Issue 05 2022

Data source : https://www.ojk.go.id/id/kanal/perbankan/Pages/Suku-Bunga-dasar (Presenting 25 of 95 data)

The Basic Loan Interest Rate (SBDK) is used as the basis for determining the loan interest rate that will be charged by banks to customers (Bakar et al., 2021). The SBDK has not taken into account the components of the estimated risk premium, the amount of which depends on the bank's assessment of the risk of each debtor or group of debtors. Thus, the loan interest rate charged to debtors is not necessarily the same as the SBDK.

3. Methods

This article uses literature reviews to explain about the essence and the importance of the analysis debt trap and step up on debt Bank BUMN in Indonesia.

4. Result and Discussion

4.1. Result

What can push an economy to the debt trap? First, policies that kill growth. Persistent periods of low or negative growth can create debt problems even if a government is not maintaining primary deficits. Second, for any given level of nominal interest rates, policies that deliver too low inflation or deflation. By raising the real interest rate a government faces to refinance its debt, deflation can render debt dynamics unsustainable. Third, for any given level of risk-free real interest rates, policies that raise the perceived risk characteristics and thus the cost of refinancing the debt. For example, policies that induce fear that a government might be forced to default on its debt obligations in the future raise the risk premium investors demand as compensation for such fears. Such policies therefore raise the real interest rate a government faces to refinance its debt and can render the debt unsustainable. This channel also illustrates how fears of default can be self-fulfilling, reflecting situations where default fears render a given level of debt unsustainable when in their absence debt would be sustainable.

The structure of step-up bonds can have either single or multiple rate increases. Single step-up bonds, also known as one-step bonds, have one increase in the coupon rate during the life of the bond. Conversely, the multi-step-up bond can adjust the coupon upward several times within the life of the security. The coupon increases follow a predetermined schedule.

Step-up bonds are similar to Treasury Inflation-Protected Securities (TIPS). The principal of a TIPS increases with inflation and decreases with deflation. Inflation is the rate of price increases in the U.S. economy and is measured by the Consumer Price Index. TIPS pay interest semiannually, at a fixed rate, which is applied to the adjusted principal amount. As a result, the interest payment amounts rise with inflation and fall with deflation.

4.2. Discussion

In general, state-owned banks are less competitive in terms of overhead costs. The high prime lending rate for state-owned banks from the point of view of the Government's intermediation interests and the status of state-owned banks are state-owned, so this condition can be said that state-owned banks do not support the interests of the government who wish to encourage economic growth through lower interest costs

5. Conclusion

The citizens of debt trap countries (DTC) bear burdens of debt and face their welfare loss even under no innovation in tax. Our analysis showed that the shifting of resources from development to debt servicing sector negatively affected the economy of DTC that decreased their per capita income and signaled for welfare loss of their citizens indicating a unique debt burden shifting in

DOI:10.9756/INTJECSE/V14I5.89 ISSN: 1308-5581 Vol 14, Issue 05 2022

DTC. The analysis shows that the government spending on development sector plays significant role towards economic performance of the country that improves welfare of its citizens. It provides guidelines to the policy makers on choice between debt and tax that should not be compromised on political grounds. The policy makers must be cautious enough in handling public debt management especially in servicing the debt that should be made without shifting of resources from development to debt servicing sector.

To support efforts to recover the national economy, especially related to debt, the government needs to strengthen the policy of transparency in the basic lending rate (SBDK) with an emphasis on increasing the interest rate for new loans, the factors that cause it (increased perceptions of risk and profit margins), as well as analysis of individual bank lending rates. The banking risk premium tends to increase, indicating that there is still a high perception of banking risk in the business world. The government through Bank Indonesia needs to continue to make adjustments to credit interest rates as part of a joint effort to encourage credit or debt.

Reference

Alam, Noor & Taib, Fauzia Md. (2005). Debt Burden Shifting and Welfare Loss In Countries Under Debt Trap. *European Scientific Journal*. 8(22). 105-117.

Alam, Noor & Taib, Fauzia Md. (2013). An Investigation of The Relationship of External Public Debt With Budget Deficit, Current Account Deficit, and Exchange Rate Depreciation in Debt Trap and Non-Debt Trap Countries. *European Scientific Journal*. 9(22). 76-92.

Bakar, E. A., Nedelea, A., & Wardhani, M. M. (2021). The Influence of Using SAP CRM On Increasing Customer Satisfaction Index at Pt. Bank X In Medan, Indonesia. The *USV Annals of Economics and Public Administration*, *21*(1).33-44. http://annals.seap.usv.ro/index.php/annals/index

Feriyanto, Nur. (2001). The Indonesian Government and BUMN's Foreign Debt Snare. *UNISIA* No. 43

Financial Services Authority. 2022. https://www.ojk.go.id/id/kanal/perbankan/Pages/Suku-Bunga-dasar

Nasir, Mohamad. (2015). Feasibility of Equity Stimulus in State Owned Bank. *Economics and Finance Studies*. 19(2). 161-179

Orphanides, A. (2017). Central Bank Policies and The Debt Trap. *Cato Journal*. 37(2). 76-92.

Sitorus, E. V. B., Sormin, G. C., & Muda, I. (2022). The role of home ownership credit in the concept of time value for money and the effect of banking credit costs in pandemic era. *International Journal of Health Sciences*, *6*(S1), 2685–2692. https://doi.org/10.53730/ijhs.v6nS1.5192 or https://sciencescholar.us/journal/index.php/ijhs/article/view/5192/1326.

Sriyana, J. (2005). Fiscal Resilience: Case Studies of Malaysia and Indonesia. *Journal of Development Economics*. 10(2). 45-62.

Wardhani, M. M., Padang, N.N & Nedelea, A. M. (2022). Indicators of Giving Interest Rates to Customers and Debtors at PT. Bank X in Medan, Indonesia. *Ecoforum Journal*, 11(1). 1-6. http://www.ecoforumjournal.ro/index.php/eco/article/view/1284/789.