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Managing Indonesia's Debt

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Managing Indonesia's Debt

Tubagus Feridhanusetyawan

Mari Pangestu

Abstract

This paper investigates how Indonesia should manage its massive debt burden arising from the Asian financial crisis, which led to increased external debt and, more significantly, increased domestic debt related to the country's bank restructuring program. Indonesia's enormous outstanding debt puts pressure on the balance of payments, causes severe budget constraints, and creates a huge future debt burden that brings with it the risks of illiquidity and default. The following measures are recommended for an effective debt management program: encourage rapid growth and ensure macroeconomic stability; minimize future contingent liability; increase domestic revenues by broadening the tax base and intensifying tax collection; seek better Paris Club rescheduling terms, obtain more concessional terms for new borrowing, and explore debt swaps; develop and regulate the government bond market; create a well-managed coordinated unit for debt management; and create the necessary legal foundations to protect investors.

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