

1 Q: What is the extension of the SBI maturity profile?

A: The extension of SBI maturity profile is part of Bank Indonesia's enhancement of monetary operation, which extends the Bank Indonesia Certificate (SBI) maturity profile from weekly to monthly dues. Enhancement of monetary operation is an ongoing progress began in 2005, when BI launched the Inflation Targeting Framework and implementing the BI Rate as the signal of monetary policy.

2 Q: What is the background and objective of the extension of the SBI maturity profile?

A: Market players tend to place excess liquidity in money market in SBI, to be rolled over constantly in the weekly auctions. This tendency makes the money market underdeveloped, reflected in smaller volume of money market transactions compared to supply of liquidity.

Constant roll over in SBI weekly auction has not been a motivation for banks to manage liquidity in a longer time horizon. In addition, structural excess liquidity has lead to a not-well-functioning money market, correcting monetary operation efficacy in supporting monetary policy transmission.

The objectives of the extension of the SBI maturity profile are:

- The change from weekly to monthly auctions is expected to motivate banks to manage liquidity over a longer time horizon.
- Focusing absorption of excess liquidity using the 3 and 6 month SBI is to promote money market transactions and to improve the efficacy of monetary operation for a more effective liquidity management.
- A well-functioning money market supports effective monetary operations and monetary policy transmission.

The extension SBI maturity profile in its turn will promote financial market deepening and improve the efficacy of monetary operation.

3 Q: How to move towards full implementation of the extension of SBI maturity profile?

A: The mechanism is as follow:

1. Reducing the frequency of SBI auction from weekly to monthly (every second week of each month).
2. Absorbing excess liquidity mainly with 3 and 6 month SBI.

4 Q: When will this program be effective? Will there be a transition period?

A: The program will be fully implemented in June 2010, following a 3-month transition period starting on March 10, 2010.

During the transition, BI will manage tenures of liquidity absorption in a way that brings maturities into the second week of each month where the auction will take place. Consequently:

- SBI auctions may consist of unusual tenures.
- SBI auctions may have larger indicative targets than usual.
- Frequency of SBI auction will be changed gradually, from weekly to bi-weekly and eventually to monthly.

Focusing absorption using the 3 and 6 month SBI will have been started in the transition period.

In light of transparency and guidance to banks' liquidity management during the transition period, BI will publish calendar of SBI auction in the website.

5 Q: Will this improvement result in changes of monetary operation instruments?

A: The extension of the SBI maturity profile will not result in changes of monetary operation instruments.

6 Q: What anticipatory measures will BI take if there is significant liquidity injection in money market between the SBI auctions or if banks experience liquidity mismatch as a result of fund-placing in long-term SBI?

A: In order to maintain sufficient levels of liquidity and thus interest rates stability, BI will more actively monitor the market and optimally use monetary instruments as follows:

- a. Standing facility instruments: Overnight repo (ceiling rate) for individual banks experiencing liquidity shortage and overnight short-term deposit facility (FASBI, floor rate) for banks carrying excess liquidity.
- b. Other instruments for temporary absorption (Fine Tune Contraction/FTK, Reverse Repo of Government Securities and Buying Swaps) and temporary injection (Fine Tune Expansion/FTE and Selling Swaps).

7 Q: What are unusual tenures in SBI auctions during the transition period? Will BI announce these tenures in advance?

A: Usually SBI issuance is for 1, 3 and 6-month tenures. During the transition, BI will manage tenures of liquidity absorption in a way that brings maturities into the second week of each month where the auction will take place. SBI auctions may therefore consist of tenures other than 1 month (28 days), 3 months (91 days) and 6 months (182 days). For example, there will be tenures of 43 days, 77 days and 175 days.

In light of transparency and guidance to banks' liquidity management during the transition period, BI will publish calendar of SBI auction in the website.

8 Q: Is the extension of SBI maturity profile related to BI policy stance for tightening liquidity?

A: The extension of SBI maturity profile is part of enhancement of monetary operations with the objective of improving the efficacy of liquidity management and promoting financial deepening. Therefore, it is not related to any change of BI monetary policy. The monetary policy will always be represented by the BI Rate decided in the monthly Board of Governors Meeting.

Large volume of liquidity absorption in later monthly auctions is not related to BI's monetary policy for tightening liquidity. Instead, it is a logical consequence of liquidity accumulation because of the change in SBI auction frequency from weekly to monthly.

9 Q: Could this programme constrain lending to the real sector, considering that banking funds will be locked into longer term SBI?

A: The extension of SBI maturity profile will not constrain lending to the real sector. Issues in lending are more about problems posed by various risks faced by banks. Excess liquidity placed in BI monetary instruments, including SBI, are in most cases designated for short-term liquidity portfolios. Historical data does not point to any strong linkage between OMO positions and lending growth.

10 Q: Will the extension of SBI maturity profile also be the case in Sharia SBI (SBIS)?

A: After full implementation of this program, SBIS auctions will be held monthly issuing 1 month SBIS. The program will therefore not result in changes of the frequency and tenure of the SBIS auctions. However, during the transition period, frequency and tenure for SBIS will follow the action frequency and shortest tenure of SBI.

11 Q: How will the extension of SBI maturity profile affect liquidity management in Islamic banks?

A: Returns on SBIS represent weighted average of SBI with the same tenure resulted in the auction. Therefore, the extension of SBI maturity profile will also be followed by extension of SBIS maturity profile, which will affect liquidity management in Islamic banks. Nevertheless, BI has standing facilities instruments: FASBIS as a deposit facility (FASBIS) and Repo of SBIS or Sharia Government Securities as a lending facility.