Jurnal Riset Pendidikan Ekonomi (JRPE)
e-ISSN: 2540-9247. Volume: 9, Nomor: 2

JRPE

The Role of Foreign Loans in the Implementation of the Precautionary Principle

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ABSTRACT : Every country requires financing for its development from both domestic and foreign sources. Many countries take on foreign loans to offset their development financing deficits. However, these foreign loans carry a default risk, necessitating prudent management. This research was performed to evaluate the contributions and management of foreign loans based on the principle of prudence using a normative method. This research regarded primary data, secondary data, and other forms of data to arrive at conclusions. The results showed that foreign loans primarily serve to cover a country's development balance deficit and must be managed with caution. One practical measure is requiring recipients of foreign loans to have their debt independently rated by a rating agency. Moreover, the usage of foreign debt should be critically assessed to ensure it fosters economic growth, and authorities should avoid deploying these funds for consumer purposes.

Keywords – Country; Debt Rating; Precautionary principle; Sources of financing; Foreign debt

PENDAHULUAN

Bank Indonesia has reported an increase in Indonesia's foreign debt, reaching USD 400.9 billion or approximately IDR 6,231.58 trillion as of November 2023. This figure represents a 0.7% rise from October 2023, primarily driven by transactions within the public sector (CNN Indonesia, Team, 2024). By the close of 2023, Indonesia's foreign debt stood at IDR 6,350 trillion, marking a modest year-on-year growth of 0.02%. The uptick in debt levels has been attributed to heightened investments in both domestic and international government securities.

Every loan wants to be returned in the form of principal and interest. Loans originating from foreign parties are also the same.. The management of foreign debt adheres strictly to precautionary principles (Arini, 2024).

The issue of foreign debt remains a contentious topic in Indonesia, particularly concerning its role in covering the APBN deficit. Opinions are divided; some view the level of foreign debt as concerning, while others believe it remains manageable within the nation's capacities. Notably, since March 2022, the foreign debt levels have shown a consistent decline (Putri, 2023).

Additionally, while the banking sector adheres to a principle of prudence in its operations as mandated by Banking Law Number 10 of 1998 (Ratnaningrum & S, 2023), gaps remain that can lead to issues like corruption. This principle is intended to mitigate risks such as problematic loans, which can necessitate credit restructuring (Midu, Akbar, & Rumimpunu, 2006).

Indonesia's economic growth is significantly influenced by foreign debt, particularly in industries that are major recipients of these funds. Additionally, domestic savings play a crucial role in bolstering the economy (Gilang Ramadani, Amanda Eka Saputri, & Muhammad Yasin, 2023). External loans have been identified as catalysts for economic expansion in sectors capable of effectively utilizing these resources (Darmawan, 2022).

The precautionary principle in financial dealings primarily focuses on ensuring the reliability of borrowers, assessed through their background, personal characteristics, and environment (Simamora, Siregar, Nasution, & Agung, 2022). The essence of credit or financing lies in the borrower's ability to repay the loan within the agreed timeframe. Banks, as key financial institutions, offer various forms of credit and financing (Tektona & Risma, 2020). They employ a strict prudential approach when analyzing collateral provided as security for credit agreements, ensuring that the collateral can secure repayment through auction if necessary (Mulyati & Dwiputri, 2018).

The success of national development is a reflection of a country's quality (Almagtome, Khaghaany, & Önce, 2020; Ramoniene & Lanskoronskis, 2011) . In Indonesia, the government relies on foreign loans to support development initiatives across various regions. These loans are critical to the State Development and Expenditure Budget (APBN), covering budget deficits and addressing capital shortages in development financing (Ussa'diya, Vidriza, & Sua'idy, 2022). A robust synergy between Bank Indonesia and the government is essential to minimize risks that could jeopardize economic stability. Nevertheless, Indonesia's debt-to-GDP ratio remains within safe limits, suggesting manageable debt levels (Sari, Andriani, Nabilla, & Putri, 2023).

In response to the complexities of managing foreign debt, Bank Indonesia issued Regulation No. 16/21/PBI/2014, which governs the application of the precautionary principle in managing the foreign debt of Indonesian non-bank corporations. This regulation mandates adherence to specific hedging ratios, liquidity ratios, and debt ratings. Subsequently, PBI No. 18/4/PBI/2016 was issued, amending the earlier regulation to address emerging financial challenges (Bank Indonesia, 2014; Bank Indonesia, 2014).).

This research aims to explore the impact of foreign loans and financing on Indonesia's development, a subject that has received scant attention in academic studies. It will specifically examine the interconnections between foreign loans and the relevant legal frameworks enforced by the authorities. This approach is novel, considering the limited discussion on the regulatory aspects of foreign debt.

METODE

This research utilized normative juridical research methods. The choice of method was based on the background, observed phenomena, and the questions under investigation. The normative juridical method focused on examining library materials or secondary research materials as a foundation for addressing research problems. This type of research, often referred to as literary law research or normative law, involved studying legal norms and principles, and included analyses of legal systematics and the vertical and horizontal synchronization between laws and regulations relevant to creditor and debtor agreements (Johan, 2021).

The legal materials for this research comprised primary, secondary, and other relevant sources. Secondary source materials included literature reviews of various publications. Other sources were materials that elucidated primary and secondary sources (Johan, 2023). Data were collected from a variety of sources, including relevant laws and regulations, data on loans with collateral, and collateral execution, supplemented by interviews with business actors.

The statutory regulations approach used in this research entailed a comprehensive review of all relevant statutory regulations to examine, identify, and adapt to related laws and regulations (Marzuki, 2017). Normative research incorporated primary legal materials, such as the 1945 Constitution of the Republic of Indonesia and other relevant regulations, and secondary legal materials, which included legal journals, scientific books, legal theories, symposium/seminar proceedings, and scientific articles. Materials that explained both primary and secondary legal materials were categorized as other legal materials (Johan, 2022). In this qualitative research, various aspects of the role of debt collectors within financial institutions were explored.

PEMBAHASAN

The role of foreign loans in a country's development

Foreign funds are one of the main sources of development for developing countries. Development of a country requires funds. So funds are very necessary for the development of a country.

Foreign loans serve as one form of financing for development. Developing nations require capital to fully finance their development projects. Such loans or financing act as a supplement to the domestic sources of funding within these countries. These external funds integrate into the national financial system and can significantly speed up development, potentially creating a multiplier effect.

The influence of debt ratings on the ability to repay foreign loans

The process of assessing debt often misapplies the precautionary principle, involving an evaluation based on the 5C principles as outlined by Johan (2018). Through this framework, individuals or entities are evaluated and assigned a debt rating.

One of the credit assessments is the 5 C concept o principles, namely Character, Capital, Collateral, Conditions and Capacity. Character shows the character of the borrower. Capital shows the borrower's capital, Collateral shows the loan collateral, Conditions shows the borrower's conditions such as macroeconomic conditions, Capacity shows the borrower's capacity.

This rating is subject to periodic review, especially in response to significant events that impact an industry or the national economy. Consequently, debt ratings are not fixed over the long term; they may rise or fall based on factors such as the company’s performance, industry health, and broader economic conditions in the country. Thus, while multiple factors influence debt ratings, they still serve as a crucial benchmark for creditors.

Debt ratings indicate a borrower's repayment ability. A financial ratio rating with an AAA rating will indicate good debt repayment capacity. However, grades C and D indicate poor financial repayment capabilities. This ranking is based on financial ratios.

Anticipatory steps required for the principle of prudence in foreign loans

Debt ratings, which are subject to change, do not guarantee the quality of credit or loans. Therefore, lenders must conduct regular reviews, either semi-annually, annually, or on an as-needed basis. Such reviews help provide insights into the financial health of the borrowing company or individual. The financial status of a company or borrower is influenced by the economic conditions of the location they operate in. For example, many businesses that were thriving prior to the onset of Covid-19 faced significant performance challenges, including drops in sales and financial stability, once the pandemic began.

This demonstrates that a company's fortunes are closely tied to the broader economic environment. While the precautionary principle can be effectively applied to individual companies, its application becomes more complex at the broader economic level. Conflicts like those between Iran and Israel or Russia and Ukraine, for instance, can unpredictably affect global markets, such as gold and wheat prices, illustrating the difficulty of applying such principles globally. Precautionary measures are more feasible at the company level.

The requirement to report debt ratings for companies holding foreign debt does not necessarily adhere to the prudential principle (Bank Indonesia, 2014). This reporting shows that a borrower met certain criteria at the time of loan issuance, based on the creditor’s assessment. However, these ratings reflect the company's condition only at that specific time. In the event of economic turmoil, the ratings of companies or debtors will likely need to be adjusted to reflect new realities.

Debtors need to maintain financial ratios including the ability to pay debts and expenses that are balanced with economic growth or the borrower's company. In this way, the borrower's ability to pay debts will be well maintained. Apart from that, taxation ratios and sources of state revenue also need to be sources of debt repayment that need to maintain a level of liquidity.

KESIMPULAN

Foreign loans are crucial for supplementing a country's development financing needs, essential for government operations and evaluated through debt ratings to assess a borrower's capacity to repay. These ratings, based on the financial ratios of the debtor company, must be periodically reviewed to ensure they accurately reflect the current financial status and consider the macroeconomic conditions of the region. This research, while focused on quantitative analysis, could be enriched by incorporating qualitative methods and conducting interviews with economic stakeholders, especially business leaders who secure international funding, to gain deeper insights into the dynamics of foreign loans and debt ratings.

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