

A 2016 update on the Indonesian government's Sukuk



INDONESIA

By Farouk Abdullah Alwyni

Since the enactment of the Law No. 19/2008 relating to government Sukuk, the government of Indonesia through the Ministry of Finance (MoF) has been active in issuing Sukuk. Currently, there are seven types of the government Sukuk with tenors ranging from six months to over 10 years. There are tradable and non-tradable Sukuk through private placement. There are also retail Sukuk and global Sukuk, both issued since 2009, and have been regularly issued since then.

According to data from the MoF, the total government Sukuk issued till the 16th November 2016 stood at IDR565.74 trillion (US\$42.5 billion), with US dollar-denominated global Sukuk accounting for 21.3%. In 2016, the government issued dual tranche global Sukuk

totaling US\$2.5 billion, with one issuance amounting to US\$1.75 billion with a 10-year tenor and 4.55% coupon and the other a US\$750 million five-year facility carrying a 3.4% coupon.

By now, Indonesia is the largest sovereign Sukuk issuer globally in terms of total issuance and total outstanding. Other major sovereign issuers include Dubai, Malaysia, Turkey, and Qatar. Considering the sizable amount of infrastructure financing required by the government, it is most likely that Indonesia will continue to be major sovereign Sukuk player in the near future.

Domestically, the government has also been the biggest player in the Islamic finance sector. The issuance of Shariah securities has surpassed total Islamic banking assets since 2015. With the slowdown in the growth of Islamic

banking assets, it is most likely that government Sukuk will continue leading the growth of Islamic banking sector. It is important to note that the share of government Islamic securities has been steadily increasing over the time.

As of November 2016 (Table 1), the share of government Islamic securities accounted for 18.7% of the total outstanding of government securities, a significant rise compared to around 11.5% and 11.6% in its previous three years (2012, 2013, and 2014). The MoF has also targeted that in 2016 the gross issuance of Islamic securities will account for 27.5% of total gross issuance of government securities.

It is also possible for the government to use Sukuk to finance many possible public-private partnership to fund the infrastructure needs of the country. It will then drive more innovation in the area of both infrastructure financing and the Islamic capital market. (2)

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Table 1: Outstanding government securities (IDR trillions)

| | 2008 | 2011 | 2012 | 2013 | 2014 | 2015 | November 2016 |
|------------------------------|---------------|----------------|-----------------|------------------|------------------|----------------|----------------|
| Debt securities | 521 | 684.6 | 757.2 | 908.1 | 1,101.6 | 1,327.4 | 1,528.2 |
| Islamic securities | 4.7 (0.9%) | 62.8 (8.4%) | 98.8 (11.5%) | 118.7 (11.6%) | 143.9 (11.6%) | 201 (15.1%) | 286 (18.7%) |
| Total outstanding securities | 525.7 | 747.4 | 856 | 1,026.8 | 1,245.5 | 1,528.4 | 1,814.2 |

Source: Bank Indonesia

The start of the much-awaited end of the year



QATAR

By Amjad Hussain

A rather long and turbulent year is slowly drawing to an end, with perhaps more uncertainty about what lies ahead in 2017. Whilst a deal was struck between the OPEC producing nations recently (which may be for the benefit of international securities markets, including Qatar) it is unclear what the impact of this deal will be on the oil prices and how the markets will behave in the coming year.

Two major deals were concluded recently that leave more answers than questions. Firstly, the decision of Qatar Petroleum (the national oil company) to merge its two gas subsidiaries (Qatar Gas and Ras Gas) into one entity by the

end of 2017 has raised the issue of cost-cutting by state-owned entities.

On the other hand, the recent announcement of the acquisition of the State of Qatar and Glencore of a 19.5% shareholding in Rosneft (the second-largest Russian oil company) for US\$11 billion is a sign of the solid state of the Qatar market and its sovereign wealth fund.

The banking sector has been relatively quiet last month, predominantly because of the upcoming end of the year and most institutions within Qatar have effectively closed shop and are finalizing their records and planning and budgeting for the next financial year. However, a number of banks have been recognized for their achievements and growth.



It's fair to say that 2016 has been a challenging year for Qatari financial institutions and most will be keen to see it come to a close. The hope is that next year will see better fortunes for hydrocarbons and therefore economies which depend upon hydrocarbons for their main source of revenue. Time will tell. (3)

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