The Effect of SBI Interest Rate and Inflation on The Value of The Bond Issuance in Indonesia Stock Exchange

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Abstract: The emission obligation in Indonesia Stock Exchange is influenced by SBI interest rate and inflation. SBI is a certificate of Bank Indonesia that denominated in Rupiah which was published by Bank Indonesia as a short timed debt recognition. Inflation is the increase in the price of goods and services in general where such goods and services is a basic requirement of society or the decline of the selling power of a country's currency. The sample used in this research are SBI interest rate, inflation and the emission obligations in 2009-2013. Types of data used are secondary quantitative data monthly period of 2009-2013 which is obtained from the official website of Bank Indonesia and SEKI. Data analysis technique used is multiple linear regressions. The results of this study are: (1) there is a negative and significant relationship of SBI interest rate on the emission obligations, (2) there is a positive and significant relationship of inflation on the value of emissions obligations, (3) there is a simultaneous relationship of SBI interest rate and inflation on the emission obligation.

Keywords: SBI interest rate, inflation, value of the bond issuance

The state budget deficit condition which happen every year let Indonesia thought hard in strengthening its national budget. One of solutions is done through the Indonesian government issued securities such as bonds. Bonds are debt securities medium-long term transferable deposits which contain a promise from the issuing party to pay compensation in the form of interest on a particular period and repayment of the principal debt at a predetermined time to the buyers of these bonds (BEI, accessed on February 10, 2014).

According to IBPA (Indonesia Bond Pricing Agency) Indonesia among the top five countries with the growth of the bond market denominated in the local currency of the most rapidly developing countries in East Asia in 2012. In a quarterly, the top five countries with the fastest growth in a row is Vietnam, Thailand, Indonesia, Singapore and the Philippines. However, the rate of growth of this market in year-on-year inflation fell to 8.6% in the second quarter of 2012 compared to 9.3% in the first quarter government bond market grew 5.5% in the second quarter of 2012 in year-on-year, down compared to 5.8% in the first quarter growth of the corporate bond market also fell to 15.2% in the second quarter compared to 16.7% in the first quarter.

Along with the improving market transactions in stocks and bonds, not as good as the growth of the BI Rate. As said by the Vice President of Indonesia, Boediono, Monday, November 25, 2013, stated that the government together with the central bank has no reason to raise the level of the benchmark interest rate or BI Rate (vivanews.com). If the Fed imposed a tightening of monetary stimulus, according to Boediono, liquidity withdrawal will occur in developing countries over the years, including Indonesia. Thus the benchmark rate should be increased in order to maintain the broader national interest. BI as the monetary sector managers will issue a policy to secure the position of Indonesia.

Based on Bank Indonesia Circular Letter No. 10/28 / DPM Bank Indonesia Certificate through an auction, it is mentioned that the SBI are securities in rupiah currency issued by Bank Indonesia in recognition of short-term debt. SBI offered through auction, the sale of SBI conducted by Bank Indonesia in the implementation of monetary policy. In doing so, Bank Indonesia conducts monetary control in various ways and one of them is with the SBI. When the amount of money circulating in the market is too high that is feared to increase inflation, Bank Indonesia SBI issuance with the purpose of absorbing the excess money in the market (contraction). Conversely, if the amount of money circulating in the market is very small, then Bank Indonesia to expand by lowering the interest rate and buy letters - securities to increase the amount of money in the market.

When Bank Indonesia uses interest rates as a monetary policy variable, control is straightforward. BI can affect the interest rate by open market operations. Open market operations such as those set forth in Bank Indonesia Circular Letter No. 10/28 / DPM issuance of Certificate of Bank Indonesia, the transaction activity in the money market conducted by Bank Indonesia with Banks and other parties for the purpose of monetary control. If Bank Indonesia raised interest rates, means the central bank to withdraw money from the market. So that bond prices will fall. Conversely, if Bank Indonesia lowered interest rates, means that BI offers money on the market. So, that bond prices will rise.

Rising interest rates lead to saving more attractive because it provides a higher interest rate. From the investor will sell the debt, they will transfer the results into savings bonds with a higher interest rate. As a result, the bond offering increased. Since bidding increases, the bonds will be offered at a discount so that bond prices will decline (Hartono, 2009). In contrast to the declining interest rate savings, investors will shift their savings into bonds with a higher interest rate. This resulted in increased demand for bonds. Because interest rates on bonds more attractive, the bonds will be offered at a premium so that bond prices will rise (Hartono, 2009).

In theory, it can be concluded that the bond price is negatively related to the interest rate (Hartono, 2009). This theory is consistent with the results of research Ichsan (2013) which stated that the SBI interest rate hikes adversely affect issuers because it will lower the price of the bonds in the market, and vice versa. Puspita (2011) also stated that the SBI interest rate has a negative influence on the price of the bond issuance. Decrease the amount of bond issuance would lead to lower emission values of bonds in the capital market. On the other hand, rising interest rates SBI will encourage investors to prefer to invest in a savings product. Therefore, the SBI interest rate hikes would lead to lower emission values of bonds in the capital market.

Inflation became one of the most feared risk of financial market participants because of the high inflation will depress investment returns. Inflation year-on-year in January 2014 at 8.22 percent so far from the expectations of market participants, even well above the interest rate. CPM released the inflation rate of 1.07 percent in January, 2014 (vivanews.com). It is caused by natural disasters, increase in LPG, extreme weather and transportation problems. The annual inflation rate in January 2014 against January last year of 8.22 percent. Inflation is a core component of the calendar year of 0.56 percent in January 2014.

The definition of inflation according to the Central Statistics Agency is the rising prices of goods and services in general in which goods and services are basic needs of society or a decline in purchasing power of a country's currency. Simply put, Bank Indonesia said inflation as rising prices - the prices in general and continuously. The price increase of one or two items alone cannot be called inflation unless the increase was widespread (or result in higher prices) on other goods. Indicators are often used to measure the rate of inflation is the Consumer Price Index (CPI). CPI changes over time shows the price movement of a package of goods and services consumed by society. Since July 2008, a package of goods and services in the CPI basket has been done on the basis of Cost of Living Survey (SBH) 2007 conducted by the

Central Statistics Agency (BPS). Then, the BPS will monitor the development of prices of goods and services on a monthly basis in several cities, in traditional and modern markets to some types of goods / services in each city.

Inflation as measured by the CPI in Indonesia are classified into seven groups of expenditure (based on the Classification of Individual Consumption by Purpose - COICOP), namely: (1) Foodstuffs Group; (2) Food, Beverages and Tobacco Group; (3) Real Estate Group; (4) Clothing Group; (5) Health Group; (6) Education and Sport Group; (7) Transportation and Communications Group.

Bank Indonesia explaining inflation arises because of the pressure from the supply side (cost push inflation), on the demand side (demand pull inflation), and from inflation expectations. Factors occurrence of cost push inflation can be caused by the depreciation of the exchange rate, the impact of inflation abroad, especially countries trading partners, increased commodity prices are regulated by the government (administered price), and going negative supply shocks caused by natural disasters and disruption of distribution.

In addition, Bank Indonesia also explain the causes of demand pull inflation occurs is high demand for goods and services relative to availability. In the macroeconomic context, this condition is illustrated by real output exceeds potential output or total demand (aggregate demand) is greater than the capacity of the economy. Meanwhile, the factor of inflation expectations are influenced by the behavior of the people and economic players using the inflation rate expectations in the decision of economic activities. The inflation expectations are more likely to be adaptive or forward looking. This is reflected in the behavior of price formation at the level of producers and traders, especially on the eve of the religious holidays (Eid, Christmas and New Year) and the national minimum wage (UMR). Despite the availability of goods in general is estimated to be sufficient in support of the increase in demand, but the price of goods and services at times of religious festivals increases higher than the supply-demand conditions. Similarly, when deciding on the minimum wage, traders were also increases the price of goods despite the wage increase is not very significant in driving increased demand.

In addition to issuing securities in the form of bonds to strengthen budgetary funds, Indonesia also received cash funds derived from emerging markets. Emerging markets consist of countries - countries which have the potential for rapid economic growth. Banks and institutions - US financial institutions who got the flow of funds from the Fed released them to gain an advantage by channeling funds to the emerging market countries. The Fed's policy of so-called quantitative easing (QE), the monetary policy used by central banks to stimulate the economy by buying bonds or other assets amount set from financial institutions without reference to interest rates (forum.kompas.com). It aims to increase the money supply to stimulate economic growth. The Fed is doing QE for the US financial crisis in 2008 due to subprime mortgage which is a term for a housing loan (mortgage) given to borrowers with poor credit history or do not have credit history at all, so it is classified as a credit at high risk (finance.detik.com).

QE I was held in late November 2008 to begin buying $ 600 billion to US $ 2.1 trillion in June 2010 consisting of bank debt, government bonds, and so forth. In November 2010 the Fed announced QE II by purchasing $ 600 billion of government bonds in the second quarter of 2011. QE III was announced on 13 September 2012, with purchases reaching US $ 85 billion per month. However, on December 18, 2013 The Fed formally made the decision to reduce the stimulus for the US economy has improved (fokus.kontan.co.id). In February 2014 stimulus original amount of US $ 85 billion down to US $ 65 billion per month (tempo.com). But the impact of tapering off has been felt by Indonesia since the beginning of 2014. According to the

Directorate General of Debt Management at the Finance Ministry of foreign capital outflow amounting to Rp1.45 trillion per January 28, 2014 (bisnis.com).

LITERATURE REVIEW

SBI Interest Rate

According to Bank Indonesia Circular Letter No. 10/28 / DPM on Bank Indonesia Certificate through an auction, it is mentioned that the SBI interest rate is securities in rupiah currency issued by Bank Indonesia in recognition of short-term debt. SBI interest rate is offered through auction, the sale of SBI interest rate is conducted by Bank Indonesia in the implementation of monetary policy.

When Bank Indonesia uses interest rates as a monetary policy variable, control is straightforward. BI can affect the interest rate by open market operations. Open market operations such as those set forth in Bank Indonesia Circular Letter No. 10/28 / DPM issuance of Certificate of Bank Indonesia, the transaction activity in the money market conducted by Bank Indonesia with Banks and other parties for the purpose of monetary control. If Bank Indonesia raised interest rates, means the central bank to withdraw money from the market. So that Value bonds prices will fall. Conversely, if Bank Indonesia lowered interest rates, means that BI offers money on the market. So that Value bonds prices will rise.

SBI interest rate is one of the mechanisms used by Bank Indonesia to control the stability of the Rupiah. By selling the SBI interest rate, Bank Indonesia can absorb excess money supply. The interest rate applicable on each sale of SBI interest rate is determined by market forces based on an auction system. Since its inception in July 2005, BI using Bank Indonesia interest rate mechanism, which announced the desired target of SBI interest rate interest rate for auction during the given period. BI rate is then used as a reference for market participants in the auctions.

Inflation

The definition of inflation according to the Central Statistics Agency is the rising prices of goods and services in general in which goods and services are basic needs of society or a decline in purchasing power of a country's currency. Simply put, Bank Indonesia stated that inflation as rising prices - the prices in general and continuously. Bank Indonesia explains that inflation arises because of the pressure from the supply side (cost push inflation), on the demand side (demand pull inflation), and from inflation expectations. Factors occurrence of cost push inflation can be caused by the depreciation of the exchange rate, the impact of inflation abroad, especially countries trading partners, increased commodity prices are regulated by the government (administered price), and going negative supply shocks caused by natural disasters and disruption of distribution.

In addition, Bank Indonesia also explains the causes of demand pull inflation occurs is high demand for goods and services relative to availability. In the macroeconomic context, this condition is illustrated by real output exceeds potential output or total demand (aggregate demand) is greater than the capacity of the economy. Meanwhile, the factor of inflation expectations are influenced by the behavior of the people and economic players using the inflation rate expectations in the decision of economic activities. The inflation expectations are more likely to be adaptive or forward looking. This is reflected in the behavior of price formation at the level of producers and traders, especially on the eve of the religious holidays (Eid, Christmas and New Year) and the national minimum wage (UMR). Despite the availability of goods in general is estimated to be sufficient in support of the increase in demand, but the price of goods and services at times of religious festivals increases higher than the supply-demand conditions. Similarly, when deciding on the minimum wage, traders were also increases the price of goods despite the wage increase is not very significant in driving increased demand.

Value Bonds

According to the Indonesia Stock Exchange, Value bonds is medium-term securities debt or long-transferable deposits which contain a promise from the issuing party to pay compensation in the form of interest on a particular period and repayment of the principal debt at a predetermined time to the purchaser of the Value bondss. Value bonds issuance value itself is the amount of funds needed or borrowed by the company. According to Tandelilin (2010: 245) Value bondss are securities issued by a company that promises the holder a payment of money remains at a maturity date in the future along with periodic interest payments.

METHOD

The method used in this research is a quantitative method. The data used as a sample in this research is quantitative data secondary in the form of time series (time series) that is data SBI interest rates, inflation rates and the value of bonds issuance is restricted to the data end of every month during the observation period was between January 2009 until December 2013. The data is accessed through the official website and SEKI Bank Indonesia (The Indonesian Financial Statistics). Once data is collected, the data were analyzed using analysis techniques linear with SPSS for Windows 16.0. The researcher also test the hypothesis with T-test and F-test and then test the classical assumption.

RESULTS AND DISCUSSION

SBI Interest Rate

Based on the data obtained, the value of SBI interest rate fluctuated sharply in the period 2009 - 2013. In the year 2009 decreased every month. This can be seen in January SBI rate is in the highest position of 9.5% and continued to fall until the position of 6.46% in December. In 2010 the SBI interest rate does not fluctuate sharply. In the first half of 2011 the interest rate increased from 6.08% to 7.36%. However, in the second half of 2011 the interest rate decreased from 7.27% to 5.04%.

SBI interest rate reached the lowest value in February and March 2012 which is valued at 3.82%. After experiencing the lowest value, Bank Indonesia gradually raising interest rates SBI. In December 2013, SBI interest rate increased again to reach 7.22%.

Table 1: SBI Interest Rate Period 2009 – 2013

Month	SBI Interest Rate (%)				
	2009	2010	2011	2012	2013
January	9,50	6,45	6,08	4,88	4,84
February	8,74	6,40	6,70	3,82	4,86
March	8,31	6,27	6,72	3,82	4,87
April	7,59	6,20	7,18	3,92	4,89
May	7,25	6,30	7,36	4,24	5,02

June	6,95	6,20	7,36	4,32	5,27
July	6,71	6,34	7,27	4,46	5,52
August	6,58	6,63	6,77	4,54	5,86
September	6,48	6,64	6,28	4,67	6,95
October	6,49	6,37	5,77	4,75	6,97
November	6,47	6,42	5,22	4,77	7,22
December	6,46	6,26	5,04	4,80	7,22

Source: Financial Statistics Indonesia 2014

Based on Figure 2 can be seen that the SBI interest rate fluctuated sharply. From January 2009 to January 2011 there occurred a continuous decline. However, in April 2011, Bank Indonesia began to fix the interest rate of SBI and only lasted four months. After that the SBI interest rate has been going down until it reaches the lowest number in March 2012 in the amount of 3.82%. Post to decline, Bank Indonesia decided to fix by raising interest rates SBI little by little until the end of 2013 reached 7.22%.

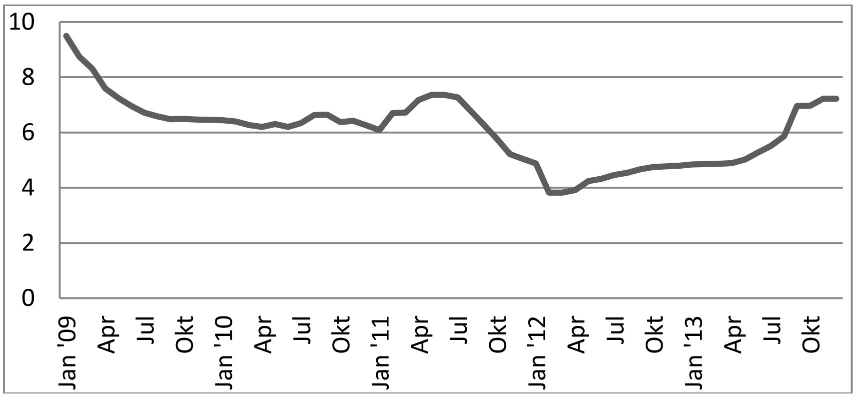

Figure 1: Graph SBI Interest Rate Period 2009 – 2013 (%)
Source: SEKI Data 2014 that have been processed

Inflation

The inflation data showed that the rate of inflation from the year 2009 - 2013 is a significant change. The highest inflation was in January 2009 amounted to 9.17%, while the lowest was in November 2009 by 2.41%. Year 2009 was a year in which there is a reduction enormous. In 2010 inflation began to rise again slowly until the month of December 2010 inflation rate of 6.96%. However, in 2011 inflation back down which occurred in February 2011 was 6.84%.

In February 2012, inflation is at 3.56%. This is because of the 66 CPI cities, 40 cities experienced inflation and 26 cities experienced deflation. Deflation caused abundant supply of red peppers and tomatoes that experienced price declines of up to 47% in some cities. Many cities experiencing deflation resulting in low levels of inflation in the month of February 2012.

Table 2: Inflation Period 2009 – 2013 (%)

Month	Inflation (%)				
	2009	2010	2011	2012	2013
January	9,17	3,72	7,02	3,65	4,57
February	8,60	3,81	6,84	3,56	5,31
March	7,92	3,83	6,65	3,97	5,90

April	7,31	3,91	6,16	4,50	5,57
May	6,04	4,16	5,98	4,45	5,47
Juny	3,65	5,65	5,54	4,53	5,90
July	2,71	6,22	4,61	4,56	8,61
August	2,75	6,44	4,79	4,58	8,79
September	2,83	5,80	4,61	4,31	8,40
October	2,57	5,67	4,42	4,61	8,32
November	2,41	6,33	4,15	4,32	8,37
December	2,78	6,96	3,79	4,30	8,38

Source : Bank Indonesia 2014

In the following month inflation experienced ups and downs until rebounded by 8.61% in July 2013. This is because the impact of rising fuel oil (BBM) in June 2013. When fuel went up in June inflation is only 5, 9%. However, in July increased to reach 8.61%. The increase in fuel causes the price - the price of food rises so that the community needed more money to meet their needs. Thus, the amount of money circulating in the community is increasing and causing high inflation.

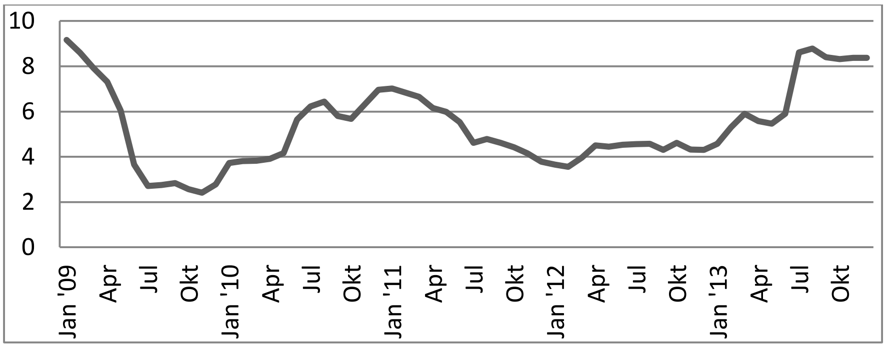

Figure 2: Graph Inflation Period 2009-2013 (%)
Source: BI Data 2014 that have been processed

Based on Figure 4, it can be seen that inflation has increased quite dramatically in the period 2009 - 2013. The sharp drop in inflation that occurred in 2009. The inflation rate at the beginning of 2009 amounted to 9.17% and decreased at the end of the year by 2.41%. Then begins to rise to a peak of 7.02% in January 2011. But inflation back down to the lowest point is 3.56% in February 2012. In the month - next month, the inflation rate has increased continuously until the month of December 2013 the rate of inflation amounted to 8.38%.

Value Bonds

Table 3: Value Issuance Period 2009-2013 (Trillion Rupiah)

Month	Value Bonds (Rp)				
	2009	2010	2011	2012	2013
January	148	179	216	262	329
February	148	179	221	269	336
March	149	183	222	269	348
April	150	183	226	273	348
May	154	186	228	287	355
Juny	162	187	242	302	372

July	163	187	242	303	372
August	163	187	243	305	372
September	165	187	245	307	374
October	165	201	246	314	376
November	165	208	248	315	380
December	175	215	261	329	385

Source: Financial Statistics Indonesia 2014

Based on the data obtained, the value of the bond issuance does not change significantly in the period 2009 - 2013. However, the value of the bond issuance shows the tendency is increasing from year to year. The highest emission values occurred in December 2013 amounting to Rp 385 trillion and the lowest in January 2009 amounted to Rp 148 trillion.

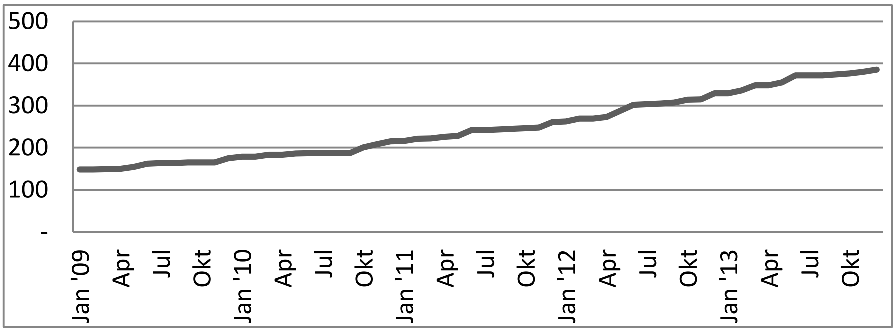

Figure 3: Graph Value Bonds Graph in Period 2009-2013
Source: Data SEKI 2014 that have been processed

During 2009 bond issuance value increased. This is evident from the increase in the rate of emissions at the beginning of the year amounted to Rp 148 trillion by year-end amounted to Rp 175 trillion. This increase was again the case in 2010 in which at the beginning of the emission value of Rp 179 trillion by year-end amounted to Rp 215 trillion. A similar increase occurred in 2011 where in January 2011 issuance value of Rp 216 trillion, up until December 2011 amounting to Rp 261 trillion. At year - next year emission values always rise up in December 2013 reach Rp 385 trillion.

Figure 6 shows graphically that in the period 2009-2013 bond issuance value was always increasing. Starting from the beginning of 2009 the value of Rp 148 trillion emissions continue to rise until the end of 2013 amounted to Rp 385 trillion. Increasing the amount of emissions per month is not high but is always increasing and not decreasing.

Effect of Interest Rates and Inflation to Value Bonds

Based on the results of analysis show that large regression coefficient SBI rate amounted to -51.051. This means SBI interest rate has a negative influence on the value of the bond issuance. If the interest rate of SBI rose 1%, then the value of the bond emission will decrease by 51.051 trillion rupiah. The analysis also shows the probability value Sig SBI rate is smaller than $\alpha = 0.05$. That is, the SBI interest rate has a significant effect on the value of the bond issuance. Based on the analysis, the SBI interest rate a significant negative effect on the value of the bond issuance in Indonesia Stock Exchange period 2009-2013.

The increase in the value of the bond issuance during the period 2009 - 2013 due to the SBI rate has decreased drastically. The weakening of the SBI interest rate resulted in investors tend to buy products that bond interest rates are higher than deposit rates. The number of people who invest in bonds will increase the number of bond issues so that the value of the bond issuance will tend to rise. However, interest rates fell drastically SBI is not directly followed by a rise in the value of the bond issuance. Bond issuance value continues to increase but not as much as the decline in SBI rates. Despite the SBI interest rate hikes but issuers are still able to compete in providing a higher coupon, so the growth of the bond emissions continue to increase slowly. This suggests that the rise in SBI rates have a negative impact because it will lower the value of the bond issuance, and vice versa SBI interest rate cut will lead to increased bond issuance value.

The results of this study are consistent with the results of the study Edward (2007) which states that bond prices tend to be stable despite an increase in interest rates of SBI. This happens because the issuers - issuers that issued the bonds provide coupon rate is relatively large compared with the level of market interest rates prevailing at the time of emission.

Based on the results of analysis show that large regression coefficient inflation at 27.856. This means that inflation has a positive influence on the value of the bond issuance. If inflation rose by 1%, then the value of the bond issuance will be increased by 27.856 trillion rupiah. The analysis also showed inflation Sig probability value smaller than $\alpha = 0.05$. That is, inflation has a significant effect on the value of the bond issuance. Based on the analysis, inflation is positive and significant impact on the value of the bond issuance in Indonesia Stock Exchange period 2009-2013.

Inflation positive and significant impact on the value of the bond issuance because when interest rates and inflation reached the highest peak, the bond price is estimated to reach its lowest point, which would certainly be an opportunity for investors to invest mainly in bonds with long term with expectations of higher yields , After reaching the peak point, the interest rate will tend to fall, and a positive impact on the movement of bond prices, so investors are advised to maximize these conditions by investing in long term bonds.

The results of this study are consistent with the results of research Ichsan (2013) which states that inflation is positive and significant impact on the value of bonds. At current interest rates and inflation in the highest position, the investor expects that the movement of the bonds will increase in line with the decline in interest rates.

Based on the analysis, it can be seen that simultaneously the SBI interest rate and inflation significantly influence the value of the bond issuance in Indonesia Stock Exchange period 2009 - 2013. In terms of monetary policy, investment is more influenced by real interest rates and real interest rates are influenced by SBI rate. When the SBI interest rate higher then real interest rates will be high so that the public chose to save their money in banks rather than investing in bonds, and vice versa. So the relationship between the SBI rates indirectly affect the value of the bond issuance. So that when the SBI interest rate rise / fall, the value of the bond issuance does not respond directly increase or decrease it.

In this study, the result is that inflation is a significant effect on the value of the bond issuance. The inflation rate that occurred during the period 2009 - 2013 fluctuated sharply. But the value of the bond issuance remains elevated as investors expects that when inflation reached its highest point, then the interest rate will decrease. So the growth of the bond will be improved. The increase in inflation continues to rise in interest rates will affect the coupon will be given. How big rise in inflation and the impact of rising inflation on interest rates will be a concern for the company.

In the long-term effects, in addition to the SBI interest rate and inflation, there are other macroeconomic factors that are not mentioned in this study, but also affected investor to invest in the capital markets, especially bonds. Before buying a bond, an investor typically perform the analysis by comparing the market price and the intrinsic value of the bonds. Intrinsic price of a bond can be calculated by knowing the inherent characteristics of these bonds as the coupon rate, residual maturity / maturity, the bond rating and the level of expected profit.

Besides, considering the intrinsic value of bonds, changes in macroeconomic factors are also important to consider. But these factors will not affect the bond immediately but slowly over the long term. When changes in economic factors that happens, investors will calculate their impact both positive and negative, and then make a decision to buy or sell the bonds in question. Estimates or forecasts future price of a bond can be done by knowing the amount - the amount of macroeconomic variables and trends in changes in the future as the value of the rupiah against the dollar, GDP (Gross Domestic Product), as well as other government policies.

CONCLUSION AND RECOMMENDATION

Based on the findings of research and discussion, the results can be summarized as follows: (1) there is a negative and significant impact among the SBI interest rate on the bond issuance value, (2) there is positive and significant correlation between inflation on the value of the bond issuance, (3) there is a simultaneous effect between the SBI interest rate and inflation on the value of the bond issuance.

Based on the above conclusions, the recommendation can be given in this study are as follows: (1) the issuer should pay attention to the SBI interest rate and inflation set by the government as a reference for the provision of interest on bonds that issuers and investors do not feel disadvantaged, (2) investor SBI should consider the interest rate set by the government and the inflation that occurred at the time when it will make investments in bonds.

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