

## Indonesia

### Yield Movements

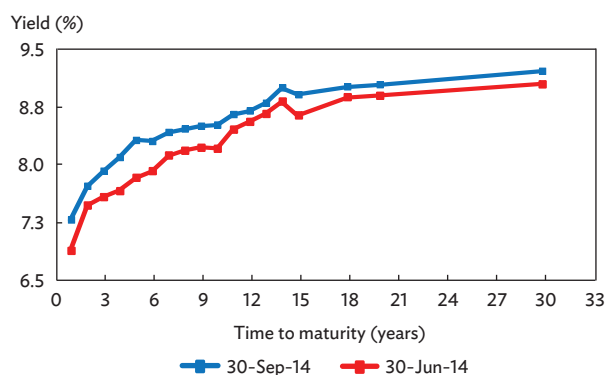
Between end-June and end-September, local currency (LCY) government bond yields in Indonesia rose across all tenors, resulting in the shifting of the entire curve upward (**Figure 1**). Yields climbed the most for medium-dated tenors (4–9 years), gaining between 28 basis points (bps) and 49 bps. The yield at the very short-end of the curve also rose 40 bps at end-September. Yields at the long-end (10- to 30-year maturities) climbed between 14 bps and 31 bps. The yield spread between the 2- and 10-year maturities widened to 80 bps at end-September from 74 bps at end-June.

Domestic factors continued to weigh on Indonesia's bond market with negative sentiments arising from political issues as legislation scrapping direct regional elections was passed. Also, the annual inflation rate picked up in September on higher liquefied petroleum gas (LPG) prices and adjustments in electricity costs. Inflation had eased to 4.5% year-on-year (y-o-y) in July and 4.0% in August before accelerating again to 4.5% in September. Between January and September, the average annual inflation rate stood at 3.7%, well within Bank Indonesia's 2014 target range of 3.5%–5.5%.

Bank Indonesia maintained a tightening bias in its monetary policy, keeping the benchmark interest rate steady at 7.50% in a meeting held on 7 October. (The benchmark rate has been 7.50% since November 2013.) Bank Indonesia also held the lending facility rate at 7.50% and the deposit facility rate at 5.75%. Bank Indonesia deemed that, current levels, these rates are consistent with efforts to keep inflation within its target range and lower the current account deficit to a more sustainable level.

Meanwhile, Bank Indonesia estimates economic growth in 2014 will come in at the lower-end of its projection of 5.1%–5.5%. In 2Q14, gross domestic product (GDP) growth in Indonesia slowed to 5.1% y-o-y compared with revised 5.2% growth in 1Q14. The slower growth was due mainly to weak exports, a decline in imports, and a slowdown in government spending. Domestic consumption and investments continued to drive economic growth in 2Q14, albeit at a much slower pace than in 1Q14, expanding 5.6% and 4.5% y-o-y,

**Figure 1: Indonesia's Benchmark Yield Curve—LCY Government Bonds**



LCY = local currency.  
Source: Bloomberg LP.

respectively. On a quarter-on-quarter (q-o-q) basis, the economy grew 2.5% in 2Q14.

### Size and Composition

The LCY bond market in Indonesia continued to expand at end-September to reach IDR1,505.3 trillion (US\$124 billion) for growth of 2.7% q-o-q and 22.7% y-o-y (**Table 1**). The LCY bond market in Indonesia is still dominated by conventional issues, with *sukuk* (Islamic bonds) accounting for only a small share. At end-September, outstanding *sukuk* totaled IDR122.9 trillion, or 8.2% of the total bond stock.

The outstanding stock of LCY government bonds climbed to IDR1,285.1 trillion at end-September, rising 2.9% q-o-q and 27.1% y-o-y. Growth was driven by an increase in the stock of central government bonds, which comprised treasury instruments issued by the Ministry of Finance. On the other hand, central bank bills, which are known as *Sertifikat Bank Indonesia* (SBI), registered a 26.6% q-o-q decline and a 24.9% y-o-y increase.

**Central Government Bonds.** At end-September, the outstanding size of central government bonds climbed 6.0% q-o-q and 27.2% y-o-y to reach IDR1,199.4 trillion. Growth was largely driven by increases in the stock of conventional fixed-rate bonds and Islamic Treasury

**Table 1: Size and Composition of the LCY Bond Market in Indonesia**

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q13		2Q14		3Q14		3Q13		3Q14	
	IDR	US\$	IDR	US\$	IDR	US\$	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	1,226,334	108	1,465,790	123	1,505,260	124	3.9	16.3	2.7	22.7
Government	1,011,443	89	1,248,379	105	1,285,059	105	3.7	14.5	2.9	27.1
Central Govt. Bonds	942,859	83	1,131,630	95	1,199,395	98	6.1	16.0	6.0	27.2
of which: <i>Sukuk</i>	87,690	8	101,329	9	109,444	9	10.0	41.4	8.0	24.8
Central Bank Bills	68,584	6	116,749	10	85,664	7	(20.8)	(3.0)	(26.6)	24.9
of which: <i>Sukuk</i>	3,610	0.3	6,792	0.6	6,490	0.5	(21.9)	44.7	(4.4)	79.8
Corporate	214,891	19	217,412	18	220,202	18	4.6	25.4	1.3	2.5
of which: <i>Sukuk</i>	6,974	0.6	6,958	0.6	6,958	0.6	(7.5)	6.0	0.0	(0.2)

(-) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.

2. Bloomberg LP end-of-period LCY-US\$ rates are used.

3. Growth rates are calculated from LCY base and do not include currency effects.

4. The total stock of nontradable bonds as of end-September stood at IDR268.2 trillion.

Sources: Bank Indonesia, Indonesia Debt Management Office, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

instruments, including Islamic Treasury bills and project-based *sukuk*.

In 3Q14, the government raised a total of IDR95.7 trillion worth of Treasury bills and bonds, in line with its quarterly target. A total of 13 auctions were conducted in 3Q14, of which seven were auctions of conventional bonds and the remaining six were auctions of Islamic instruments.

The government had to issue more bonds in 3Q14 to help fund a projected budget deficit in 2014 that was recently increased to 2.4% of GDP from 1.7%. New issuance by the central government was higher on both a q-o-q and y-o-y basis. As of 26 September, the government had raised nearly 97% of its net government securities issuance target for the year, which includes foreign-currency-denominated bonds.

**Central Bank Bills.** At end-September, the stock of central bank bills (SBI) reached IDR85.7 trillion, down 26.6% q-o-q, but up 24.9% y-o-y. Bank Indonesia issues SBI as one of its monetary tools for liquidity management. In 3Q14, new issuance of SBI and *shari'a*-compliant SBI with 9-month tenors totaled IDR25.0 trillion. Auctions of SBI are held on a monthly basis.

**Corporate Bonds.** The outstanding stock of LCY corporate bonds in Indonesia totaled IDR220.2 trillion at end-September on growth of 1.3% q-o-q and 2.5% y-o-y. Only 3.2% of total LCY corporate bonds outstanding in 3Q14 were *sukuk*.

At end-September, the aggregate of outstanding bonds of the top 30 LCY corporate issuers in Indonesia totaled IDR163.6 trillion, or 74.3% of total LCY corporate bonds outstanding (**Table 2**). By industry type, 20 out of the 30 firms on the list were banks or financial institutions.

The composition of the top three issuers remained the same as in the previous quarter. Leading the list was state power firm PLN with outstanding LCY bonds valued at IDR15.6 trillion. PLN was followed by another state-owned entity, Indonesia Eximbank, with outstanding bonds of IDR13.1 trillion. In the third spot was Astra Sedaya Finance with an outstanding bond stock of IDR11.7 trillion.

In 3Q14, new corporate bond issuance reached only IDR6.8 trillion, compared with IDR16.8 trillion in 2Q14 and IDR11.9 trillion in 3Q13. A total of seven corporate firms raised funds from the bond market during 3Q14. Some firms delayed their planned issues due to uncertainties relating to the results of the presidential election.

A total of 12 new corporate bond series were issued in 3Q14, all of which were conventional except for one issue of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or a partnership). In terms of maturity, two bond series had 370-day maturities, nine bond series had maturities of 3–5 years, and one bond series had a 7-year tenor. Some of the largest corporate bonds issued in 3Q14 are presented in **Table 3**.

Table 2: Top 30 Issuers of LCY Corporate Bonds in Indonesia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (US\$ billion)			
1.	PLN	15,573	1.28	Yes	No	Energy
2.	Indonesia Eximbank	13,108	1.08	Yes	No	Banking
3.	Astra Sedaya Finance	11,691	0.96	No	No	Finance
4.	Adira Dinamika Multi Finance	11,612	0.95	No	Yes	Finance
5.	Bank Internasional Indonesia	8,800	0.72	No	Yes	Banking
6.	Bank Tabungan Negara	7,950	0.65	Yes	Yes	Banking
7.	Bank CIMB Niaga	7,930	0.65	No	Yes	Banking
8.	Bank Pan Indonesia	6,800	0.56	No	Yes	Banking
9.	Jasa Marga	6,600	0.54	Yes	Yes	Toll Roads, Airports, and Harbors
10.	Bank Permata	6,478	0.53	No	Yes	Banking
11.	Indosat	6,190	0.51	No	Yes	Telecommunications
12.	Perum Pegadaian	5,819	0.48	Yes	No	Finance
13.	Federal International Finance	4,875	0.40	No	No	Finance
14.	Bank Tabungan Pensiunan Nasional	4,820	0.40	No	Yes	Banking
15.	Agung Podomoro Land	4,025	0.33	No	Yes	Property, Real Estate, and Building Construction
16.	Sarana Multigriya Finansial	4,011	0.33	Yes	No	Finance
17.	Indofood Sukses Makmur	4,000	0.33	No	Yes	Food and Beverages
18.	Bank Mandiri	3,500	0.29	Yes	Yes	Banking
19.	Medco-Energi International	3,500	0.29	No	Yes	Petroleum and Natural Gas
20.	Antam	3,000	0.25	Yes	Yes	Petroleum and Natural Gas
21.	Telekomunikasi Indonesia	3,000	0.25	Yes	Yes	Telecommunications
22.	Bank OCBC NISP	2,907	0.24	No	Yes	Banking
23.	Bumi Serpong Damai	2,750	0.23	No	Yes	Property, Real Estate, and Building Construction
24.	Indomobil Finance Indonesia	2,659	0.22	No	No	Finance
25.	Toyota Astra Financial Services	2,311	0.19	No	No	Finance
26.	BCA Finance	2,100	0.17	No	No	Finance
27.	Bank Rakyat Indonesia	2,000	0.16	Yes	Yes	Banking
28.	Garuda Indonesia	2,000	0.16	Yes	Yes	Infrastructure, Utilities, and Transportation
29.	BII Finance	1,824	0.15	No	No	Finance
30.	Bank Jabar Banten	1,724	0.14	No	Yes	Banking
<b>Total Top 30 LCY Corporate Issuers</b>		<b>163,556</b>	<b>13.42</b>			
<b>Total LCY Corporate Bonds</b>		<b>220,202</b>	<b>18.07</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>74.3%</b>	<b>74.3%</b>			

LCY = local currency.

Notes:

1. Data as of end-September 2014.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: AsianBondsOnline calculations based on Indonesia Stock Exchange data.

**Table 3: Notable LCY Corporate Bond Issuance in 3Q14**

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Internasional Indonesia		
3-year <i>Sukuk Mudharabah</i>	9.49	300
7-year bond	11.35	1,500
Pupuk Indonesia		
3-year bond	9.63	568
5-year bond	9.95	1,131
Jasa Marga		
5-year bond	9.85	1,000
Perum Pegadaian		
370-day bond	8.65	360
3-year bond	9.35	202
5-year bond	9.75	398
Indonesia Eximbank		
3-year bond	9.25	500
Sarana Multigriya Finansial		
370-day bond	9.13	500

LCY = local currency.

Note: *Sukuk Mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or a partnership.

Source: Indonesia Stock Exchange.

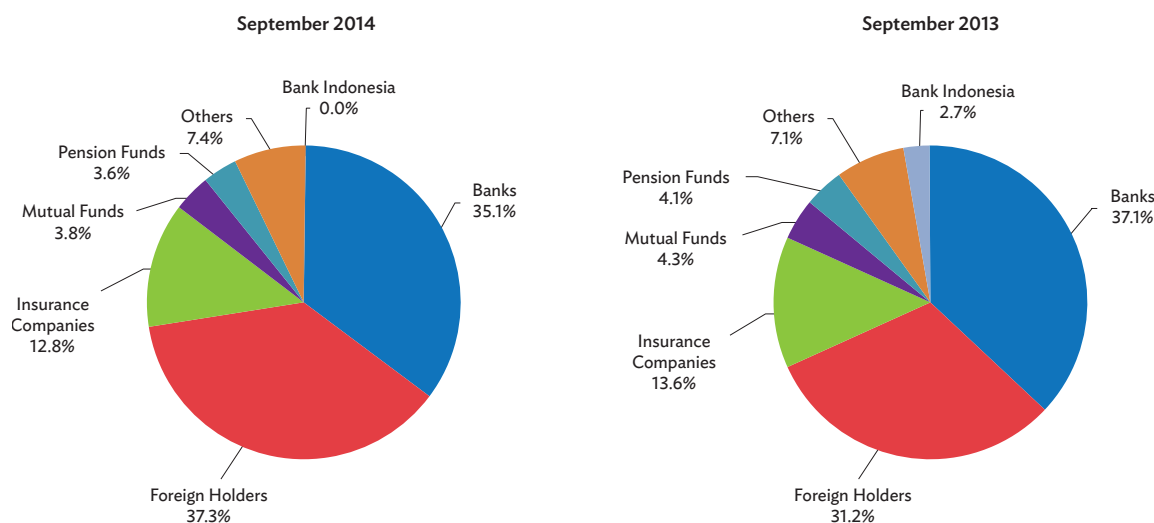
earlier (**Figure 2**). In absolute terms, outstanding bonds held by foreign investors reached IDR447 trillion at end-September. Demand from foreign investors continued to be strong as foreign holdings hit all-time highs in recent months. Indonesian LCY government bonds offer the highest yields among emerging East Asian markets.

At end-September, holdings of government bonds by foreign investors were mostly in long-term maturities. About 42% of government bonds held by foreign investors carried maturities of more than 10 years. This, however, was slightly lower compared with a share of 44% at end-December 2013 (**Figure 3**). On the other hand, foreign holdings of medium-term bonds (maturities of more than 5 years and up to 10 years) rose to a share of 34% in 3Q14 from 32% at end-December 2013. Foreign ownership of bonds with maturities of more than 2 years and up to 5 years also rose to a share of 15% at end-September from 13% at end-December 2013. Meanwhile, foreign holdings of bonds with maturities of less than 1 year were steady at 5%.

Banking institutions were the second-largest investor group in 3Q14, albeit their share of LCY government bonds has steadily declined from 82.0% of the total at end-2003. At end-September, banks held 35.1% of central government bonds, down from a 37.1% share in the same period a year earlier. Banking institutions comprise state recap banks, private recap banks, non-recap banks, regional banks, and *shari'a* banks.

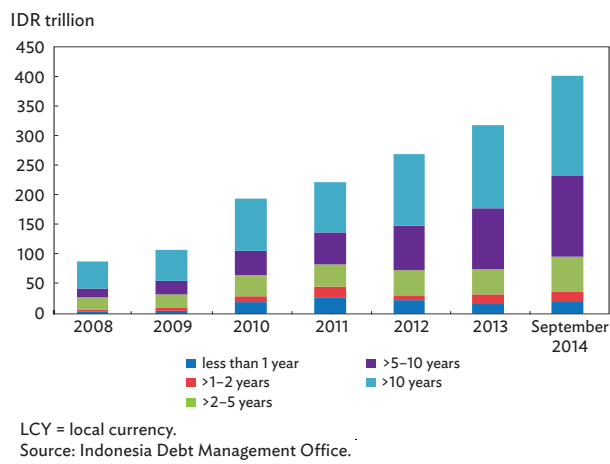
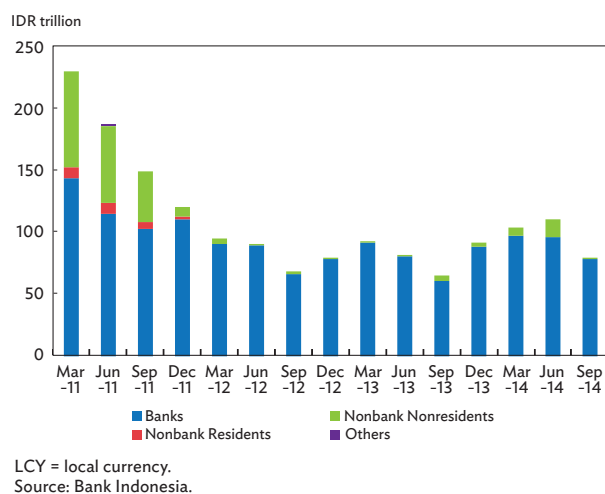
## Investor Profiles

**Central Government Bonds.** Foreign investors continued to increase their holdings of Indonesia's LCY central government bonds at end-September, making them the largest participant in Indonesia's bond market. At end-September, the share of LCY central government bonds held by foreign investors rose to 37.3% from 31.2% a year

**Figure 2: LCY Central Government Bonds Investor Profile**

LCY = local currency.

Source: Indonesia Debt Management Office.

**Figure 3: Foreign Holdings of LCY Central Government Bonds by Maturity****Figure 4: LCY Central Bank Bills Investor Profile**

Central government bond holdings of all domestic investors recorded declines in 3Q14 compared with the same period a year earlier. The only exceptions were other investors, whose share rose to 7.4% at end-September from 7.1% in the previous year.

**Central Bank Bills.** At end-September, banking institutions were the dominant holders of central bank bills (**Figure 4**). Bank holdings of SBI accounted for 98.6% of the total at end-September, up from 86.9% in the previous quarter. The remaining 1.4% share of SBI holdings were held by foreign nonbank investors.

## Policy, Institutional, and Regulatory Developments

### Bank Indonesia Issues Guidelines for State-Owned Companies on FX Hedging Transactions

On 17 September, Bank Indonesia issued guidelines for state-owned firms to engage in foreign exchange (FX) hedging transactions. Bank Indonesia noted that hedging transactions serve as an important measure to strengthen

exchange rate stability and ease pressure in the domestic FX market. Through the issuance of the guidelines, Bank Indonesia expects the volume of FX hedging transactions by state-owned companies to increase, and for the perception to diminish that losses incurred from such activities are considered state losses. Bank Indonesia has been encouraging state-owned companies to undertake hedging transactions for foreign currency borrowings to cover FX risks.

### Government Approves 2015 State Budget

On 29 September, the House of Representatives approved the 2015 state budget, which projects a deficit equivalent to 2.2% of GDP. The 2015 budget deficit was up from the deficit projection of 1.7% made in the original 2014 state budget, but down from the projection of 2.4% in the revised 2014 state budget. The underlying macroeconomic assumptions for the 2015 state budget include (i) GDP growth of 5.8% y-o-y, (ii) annual inflation of 4.4% y-o-y, (iii) an exchange rate of IDR11,900 per US\$1, (iv) a 3-month Treasury bill rate of 6.0%, and (v) an Indonesian crude oil price of US\$105 per barrel.