

## Indonesia

### Yield Movements

Between 1 June and 14 August, the local currency (LCY) government bond yield curve in Indonesia rose for all tenors except those at the very short-end (**Figure 1**). Yields rose between 22 basis points (bps) and 68 bps from the 2-year maturity through the long-end of the curve. At the short-end, yields fell 10 bps for the 1-year maturity. The spread between the 2-year and 10-year maturities widened to 70 bps in mid-August from 38 bps in early June.

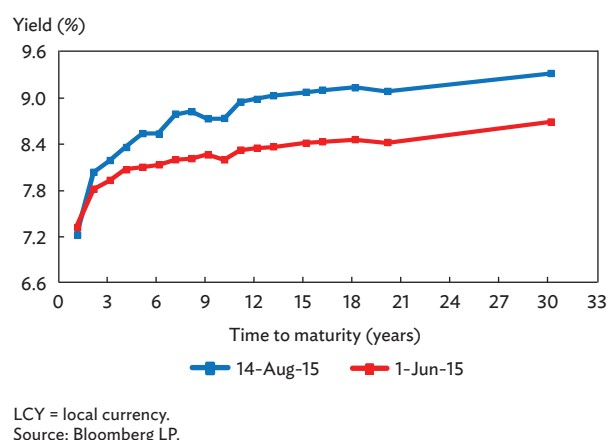
The uptick in yields was reflective of increasing expectations of an imminent rate hike by the United States (US) Federal Reserve. Overall sentiment in Indonesia's LCY bond market was further dragged down by higher inflationary expectations and the rupiah's depreciation. The unexpected devaluation of the Chinese renminbi in August also contributed to the yield uptick.

Inflation has remained elevated, largely due to the government's removal of fuel subsidies at the beginning of the year. Consumer prices were up 6.8% year-on-year (y-o-y) in April and 7.2% y-o-y in May. Inflation accelerated to 7.3% y-o-y in June and remained at that level in July, driven by a seasonal increase in consumer spending related to the Muslim celebration of Ramadan and Idul Fitri.

The continued weakness of the Indonesian rupiah vis-à-vis the US dollar has weighed down investor sentiment in the bond market. As of 14 August, the Indonesian rupiah had fallen 11.3% year-to-date. Much of this weakness stemmed from the lingering uncertainty over the timing of US monetary tightening, and more recently, the devaluation of the Chinese renminbi in August.

Given these developments, Bank Indonesia continued to hold to its tight monetary policy stance and has kept the benchmark interest rate steady at 7.50% since February. Bank Indonesia deems its policy supportive of steering inflation toward its target range of 3.0%–5.0%. The central bank also remains committed in ensuring rupiah stability by optimizing monetary operations. To boost growth, Bank Indonesia has instead chosen to relax macroprudential measures to promote credit growth.

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



(See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.)

While foreign investors continued to chase Indonesia's high yields, negative externalities have exposed its bond market to increasing risk of capital flight. At end-June, the share of foreign holdings in Indonesia's LCY bond market had risen to 39.6% from 38.6% at end-March. By end-July, however, foreign investor interest had weakened and the foreign holdings share dipped to 39.0%.

Economic growth in Indonesia slowed to 4.67% y-o-y in 2Q15 from 4.72% y-o-y in 1Q15. The slower economic growth was brought about by weak investment growth and moderating increases in both government consumption and household consumption. Bank Indonesia, however, expects the economy to recover in the second half of the year amid accelerated spending by the government on infrastructure projects. On a quarter-on-quarter (q-o-q) and nonseasonally adjusted basis, economic growth climbed to 3.78% in 2Q15 from -0.17% in 1Q15.

### Size and Composition

The LCY bond market in Indonesia continued to grow in 2Q15, reaching a size of IDR1,668.2 trillion (US\$125 billion) at end-June (**Table 1**). Growth rates, however, moderated to 2.4% q-o-q and 13.8% y-o-y from 6.5% q-o-q and 16.5% y-o-y in 1Q15. Indonesia's LCY bond market was still dominated by conventional bonds,

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

|                        | Outstanding Amount (billion) |            |                  |            |                  |            | Growth Rate (%) |             |            |             |
|------------------------|------------------------------|------------|------------------|------------|------------------|------------|-----------------|-------------|------------|-------------|
|                        | 2Q14                         |            | 1Q15             |            | 2Q15             |            | 2Q14            |             | 2Q15       |             |
|                        | IDR                          | US\$       | IDR              | US\$       | IDR              | US\$       | q-o-q           | y-o-y       | q-o-q      | y-o-y       |
| <b>Total</b>           | <b>1,465,790</b>             | <b>123</b> | <b>1,629,143</b> | <b>125</b> | <b>1,668,177</b> | <b>125</b> | <b>4.8</b>      | <b>24.2</b> | <b>2.4</b> | <b>13.8</b> |
| Government             | 1,248,379                    | 105        | 1,401,586        | 107        | 1,429,181        | 107        | 5.6             | 28.0        | 2.0        | 14.5        |
| Central Govt. Bonds    | 1,131,630                    | 95         | 1,305,486        | 100        | 1,356,434        | 102        | 5.5             | 27.4        | 3.9        | 19.9        |
| of which: <i>Sukuk</i> | 101,329                      | 9          | 145,229          | 11         | 156,209          | 12         | 4.7             | 27.1        | 7.6        | 54.2        |
| Central Bank Bills     | 116,749                      | 10         | 96,100           | 7          | 72,748           | 5          | 7.2             | 34.9        | (24.3)     | (37.7)      |
| of which: <i>Sukuk</i> | 6,792                        | 0.6        | 8,810            | 0.7        | 8,458            | 0.6        | 26.3            | 46.9        | (4.0)      | 24.5        |
| Corporate              | 217,412                      | 18         | 227,557          | 17         | 238,996          | 18         | 0.02            | 5.9         | 5.0        | 9.9         |
| of which: <i>Sukuk</i> | 7,105                        | 0.6        | 7,078            | 0.5        | 7,944            | 0.6        | (1.2)           | (4.2)       | 12.2       | 11.8        |

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

Notes:

1. Calculated using data from national sources. 2Q15 *sukuk* data taken from Indonesia Stock Exchange.

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-June stood at IDR261.5 trillion.

Sources: Bank Indonesia, Directorate General of Budget Financing and Risk Management Ministry of Finance, Indonesia Stock Exchange, Otoritas Jasa Keuangan, and Bloomberg LP.

which represented 89.7% of the total bond stock at end-June. The remaining 10.3% were accounted for by *sukuk* (Islamic bonds).

**Government Bonds.** At end-June, the outstanding stock of government bonds climbed to IDR1,429.2 trillion on growth of 2.0% q-o-q and 14.5% y-o-y. Growth was mainly driven by an increase in the stock of central government bonds, which comprised conventional and Islamic Treasury bills and bonds issued by the Ministry of Finance. On the other hand, the outstanding amount of central bank bills, which are known as *Sertifikat Bank Indonesia* (SBI), continued to decline in 2Q15.

**Central Government Bonds.** The outstanding amount of central government bonds reached IDR1,356.4 trillion at end-June, up 3.9% q-o-q and 19.9% y-o-y. Growth came mainly from increases in the stock of conventional fixed-rate bonds and Treasury bills, and Islamic Treasury instruments, particularly Islamic Treasury bills, and project-based *sukuk*.

The government continued its frontloading policy in 2Q15, targeting 59% of gross LCY bond issuance to be completed within the first 6 months of the year. In 2Q15, a total of IDR89.0 trillion worth of Treasury bills and bonds were issued by the government through weekly auctions. Central government bond issuance volume, however, was lower on a q-o-q basis, but higher compared with the previous year. A few of the auctions fell below target as some auctions were met with weak demand.

**Central Bank Bills.** The outstanding size of central bank bills, or SBI, slipped to IDR72.7 trillion at end-June, down significantly on a q-o-q and y-o-y basis. Bank Indonesia issues SBI as one of its tools for liquidity management in the banking system. In 2Q15, Bank Indonesia temporarily ceased issuance of conventional SBI and instead only issued *shari'a*-compliant SBI carrying a 9-month maturity. Gross issuance volume of *shari'a*-compliant SBI reached IDR2.2 trillion in 2Q15, markedly lower on both a q-o-q and y-o-y basis.

**Corporate Bonds.** The outstanding stock of LCY corporate bonds in Indonesia climbed to IDR239.0 trillion at end-June, expanding by 5.0% q-o-q and 9.9% y-o-y. Indonesia's corporate bond sector only accounted for 14.3% of the aggregate LCY bond stock. This sector is mostly dominated by conventional bonds, with corporate *sukuk* comprising only a 3.3% share of the total corporate bond stock.

At end-June, the top 30 LCY corporate bond issuers in Indonesia accounted for total bonds outstanding of IDR179.2 trillion, representing a 75.0% share of the total LCY corporate bond market (**Table 2**). More than half of the firms on the list were from the banking and financing sectors, with the rest coming from capital-intensive industries such as energy; telecommunications; and property, real estate, and building construction. A total of 11 state-owned firms were included among the top 30, five of which ranked within the top 10.

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.  | Indonesia Eximbank               | 20,909                  | 1.57                     | Yes         | No             | Banking  |
| 2.  | PLN                              | 14,073                  | 1.06                     | Yes         | No             | Energy   |
| 3.  | Indosat                          | 10,742                  | 0.81                     | No          | Yes            | Telecommunications                               |
| 4.  | Telekomunikasi Indonesia         | 10,000                  | 0.75                     | Yes         | Yes            | Telecommunications                               |
| 5.  | Astra Sedaya Finance             | 8,890                   | 0.67                     | No          | No             | Finance  |
| 6.  | Bank Internasional Indonesia     | 8,360                   | 0.63                     | No          | Yes            | Banking  |
| 7.  | Perum Pegadaian                  | 8,319                   | 0.62                     | Yes         | No             | Finance  |
| 8.  | Adira Dinamika Multifinance      | 8,293                   | 0.62                     | No          | Yes            | Finance  |
| 9.  | Bank Tabungan Negara             | 7,950                   | 0.60                     | Yes         | Yes            | Banking  |
| 10.   | Bank CIMB Niaga                  | 7,750                   | 0.58                     | No          | Yes            | Banking  |
| 11.   | Bank Permata                     | 6,482                   | 0.49                     | No          | Yes            | Banking  |
| 12.   | Bank Pan Indonesia               | 6,000                   | 0.45                     | No          | Yes            | Banking  |
| 13.   | Jasa Marga                       | 5,900                   | 0.44                     | Yes         | Yes            | Toll Roads                                       |
| 14.   | Federal International Finance    | 5,435                   | 0.41                     | No          | No             | Finance  |
| 15.   | Bank OCBC NISP                   | 5,378                   | 0.40                     | No          | Yes            | Banking  |
| 16.   | Sarana Multigriya Finansial      | 4,738                   | 0.36                     | Yes         | No             | Finance  |
| 17.   | Agung Podomoro Land              | 4,575                   | 0.34                     | No          | Yes            | Property, Real Estate, and Building Construction |
| 18.   | Indofood Sukses Makmur           | 4,000                   | 0.30                     | No          | Yes            | Food and Beverages                               |
| 19.   | Bank Tabungan Pensiunan Nasional | 3,835                   | 0.29                     | No          | Yes            | Banking  |
| 20.   | Bank Mandiri                     | 3,500                   | 0.26                     | Yes         | Yes            | Banking  |
| 21.   | Medco-Energi International       | 3,500                   | 0.26                     | No          | Yes            | Petroleum and Natural Gas                        |
| 22.   | Antam                            | 3,000                   | 0.22                     | Yes         | Yes            | Petroleum and Natural Gas                        |
| 23.   | Bumi Serpong Damai               | 2,750                   | 0.21                     | No          | Yes            | Property, Real Estate, and Building Construction |
| 24.   | BCA Finance                      | 2,425                   | 0.18                     | No          | No             | Finance  |
| 25.   | Wahana Ottomitra Multiartha      | 2,400                   | 0.18                     | No          | Yes            | Finance  |
| 26.   | Garuda Indonesia                 | 2,000                   | 0.15                     | Yes         | Yes            | Transportation                                   |
| 27.   | Permodalan Nasional Madani       | 2,000                   | 0.15                     | Yes         | No             | Finance  |
| 28.   | Sumber Alfaria Trijaya           | 2,000                   | 0.15                     | No          | Yes            | Retail   |
| 29.   | Summarecon Agung                 | 2,000                   | 0.15                     | No          | Yes            | Property, Real Estate, and Building Construction |
| 30.   | Indomobil Finance Indonesia      | 1,969                   | 0.15                     | No          | No             | Finance  |
| <b>Total Top 30 LCY Corporate Issuers</b>       |                                  | <b>179,173</b>          | <b>13.43</b>             |             |                |  |
| <b>Total LCY Corporate Bonds</b>                |                                  | <b>238,996</b>          | <b>17.92</b>             |             |                |  |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |                                  | <b>75.0%</b>            | <b>75.0%</b>             |             |                |  |

LCY = local currency.

Notes:

1. Data as of end-June 2015.

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.

State-owned Indonesia Eximbank was the largest corporate bond issuer in Indonesia with an outstanding bond stock of IDR20.9 trillion at end-June. Taking the second spot was another state-owned firm, PLN, with outstanding LCY bonds valued at IDR14.1 trillion. Climbing to the third spot was telecommunications firm Indosat, with an outstanding bond stock of IDR10.7 trillion.

In 2Q15, the volume of new corporate debt issues nearly doubled to IDR23.6 trillion from IDR12.3 trillion in the previous quarter. A total of 15 corporate firms raised funds through the bond market in 2Q15, most of which were from the banking and financial sectors. There were 40 new corporate bond series issued during the quarter, including seven *sukuk* bond series.

In terms of maturity structure, 26 bond series carried maturities of more than 1 year to 3 years, six bond series had maturities of more than 3 years to 5 years, and six bond series carried maturities of more than 5 years to 10 years. Two new bond series extended the maturity profile of Indonesia's corporate bonds beyond 10 years: Telekomunikasi Indonesia's 15-year and 30-year bonds.

The largest corporate bond issuance in 2Q15 came from telecommunications companies, including Telekomunikasi Indonesia's issuance worth IDR7.0 trillion in four tranches, and Indosat's issuance worth IDR3.1 trillion in five tranches each of conventional bonds and *sukuk*. The largest corporate bond issuances in 2Q15 are presented in **Table 3**.

**Foreign Currency Bonds.** The government continued to frontload its G3 issuance in 2015 in anticipation of a possible interest rate hike by the Federal Reserve. Following its issuance of US\$4.0 billion via a dual-tranche sale in January and US\$2.0 billion worth of *sukuk* in May, the Indonesian government returned to the G3 market with the sale of EUR-denominated and JPY-denominated bonds in July and August, respectively.

In July, the government priced EUR1.25 billion of 10-year bonds, marking Indonesia's second EUR-denominated bond issue. The bond carried a coupon rate of 3.375% and was priced to yield 3.555%. The bond sale was oversubscribed, with the order book reaching EUR2.4 billion. In terms of investor allocation, 37% went to investors from the US, 13% was allocated to Asian investors (excluding Indonesia), and 7% went to investors in Indonesia. Investors based in Europe were allocated an

**Table 3: Notable LCY Corporate Bond Issuance in 2Q15**

| Corporate Issuers               | Coupon Rate (%) | Issued Amount (IDR billion) |
|---------------------------------|-----------------|-----------------------------|
| Telekomunikasi Indonesia        |                 |                             |
| 7-year bond                     | 9.925           | 2,200                       |
| 10-year bond                    | 10.25           | 2,100                       |
| 15-year bond                    | 10.60           | 1,200                       |
| 30-year bond                    | 11.00           | 1,500                       |
| Indosat                         |                 |                             |
| 370-day bond                    | 8.55            | 554                         |
| 370-day <i>sukuk ijarah</i>     | 8.55            | 55                          |
| 3-year bond                     | 9.25            | 782                         |
| 3-year <i>sukuk ijarah</i>      | 9.25            | 76                          |
| 5-year bond                     | 10.00           | 584                         |
| 5-year <i>sukuk ijarah</i>      | 10.00           | 67                          |
| 7-year bond                     | 10.25           | 337                         |
| 7-year <i>sukuk ijarah</i>      | 10.25           | 43                          |
| 10-year bond                    | 10.40           | 427                         |
| 10-year <i>sukuk ijarah</i>     | 10.40           | 175                         |
| Federal International Finance   |                 |                             |
| 370-day bond                    | 8.50            | 939                         |
| 3-year bond                     | 9.25            | 2,061                       |
| Toyota Astra Financial Services |                 |                             |
| 370-day bond                    | 8.50            | 698                         |
| 3-year bond                     | 9.25            | 811                         |
| Bank UOB Indonesia              |                 |                             |
| 370-day bond                    | 8.60            | 400                         |
| 3-year bond                     | 9.40            | 600                         |
| 5-year bond                     | 9.60            | 500                         |
| Sumber Alfaria Trijaya          |                 |                             |
| 3-year bond                     | 9.70            | 600                         |
| 5-year bond                     | 10.00           | 400                         |
| Wahana Ottomitra Multiartha     |                 |                             |
| 370-day bond                    | 9.25            | 140                         |
| 3-year bond                     | 10.25           | 860                         |

LCY = local currency, *sukuk ijarah* = Islamic bonds backed by a leasing agreement.  
Source: Indonesia Stock Exchange.

aggregate share of 43%. The bond was listed on both the Singapore Exchange and the Frankfurt Stock Exchange.

In August, the government sold a total of JPY100 billion of samurai bonds in three tranches. The bonds consisted of a JPY22.5 billion 3-year bond priced at a coupon rate of 1.08%, a JPY22.5 billion 5-year bond priced at a coupon rate of 1.38%, and a JPY55.0 billion 10-year bond priced at a coupon rate of 0.91%. Neither the 3-year nor 5-year bond has a guarantee, marking the first issuance of unguaranteed Indonesian bonds in Japan. On the other hand, the 10-year bond carries a guarantee from the Japan Bank for International Cooperation. The bonds were offered through private placement targeted for Japan-based qualified institutional investors.

## Investor Profiles

**Central Government Bonds.** Foreign investors remained the largest investor group in Indonesia’s LCY government bond market in 2Q15. Foreign holdings’ share of government bonds rose to 39.6% at end-June from 35.7% a year earlier (**Figure 2**). In absolute terms, outstanding bonds held by foreign investors amounted to IDR537.5 trillion at end-June. Foreign investors remained attracted to Indonesia’s LCY government bonds as they offer the highest yields among emerging East Asian markets.

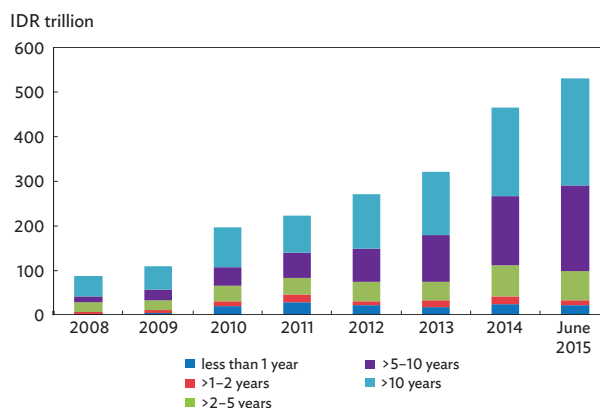
In terms of maturity structure, foreign investors shored up their holdings of long-term maturities in the first half of 2015, with bonds with maturities of more than 10 years inching up to 45% of total foreign holdings by the end of June (**Figure 3**). At the same time, foreign holdings of medium-dated bonds (more than 5 years to 10 years) rose to 36% of foreign investors’ total holdings. In contrast, foreign holdings of bonds with maturities of 5 years or less declined as a share of total foreign holdings between end-December 2014 and end-June 2015.

At end-June, banking institutions comprised the second largest investor group in the central government bond market with a share of 27.2%. However, this was down from a share of 31.4% a year earlier. Insurance companies recorded a decline in its share of holdings of central

government bonds at end-June compared with a year earlier.

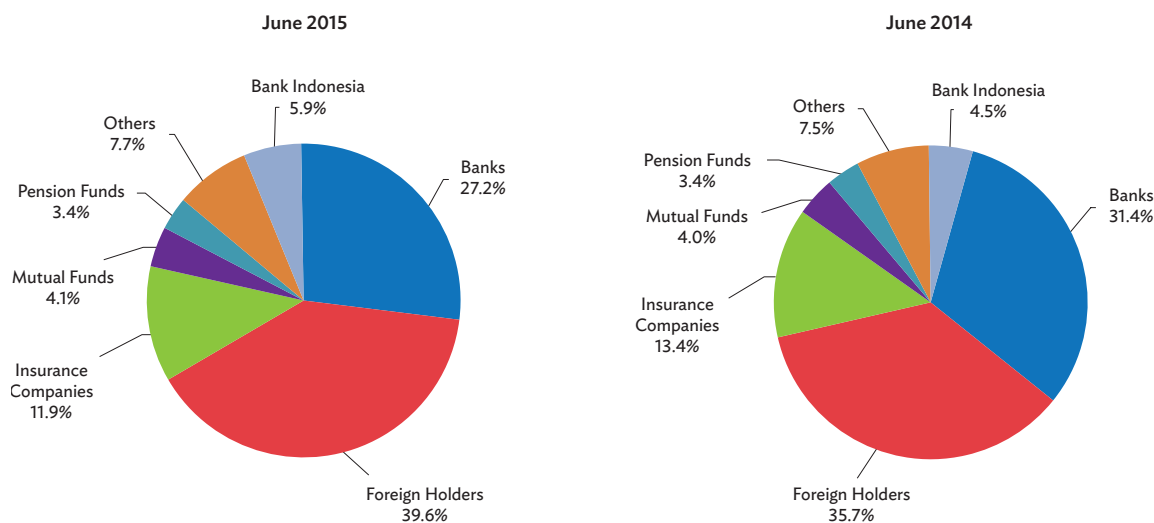
All other domestic investor groups recorded slight y-o-y increases in their share of holdings of central government bonds at end-June. Bank Indonesia increased its share to 5.9% as it intervened in the market to help stabilize bond prices. The share of holdings held by other investors increased to 7.7% at end-June, due mainly to purchases by individual (retail) investors. Mutual fund holdings of central government bonds

**Figure 3: Foreign Holdings of LCY Central Government Bonds by Maturity**



LCY = local currency.  
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

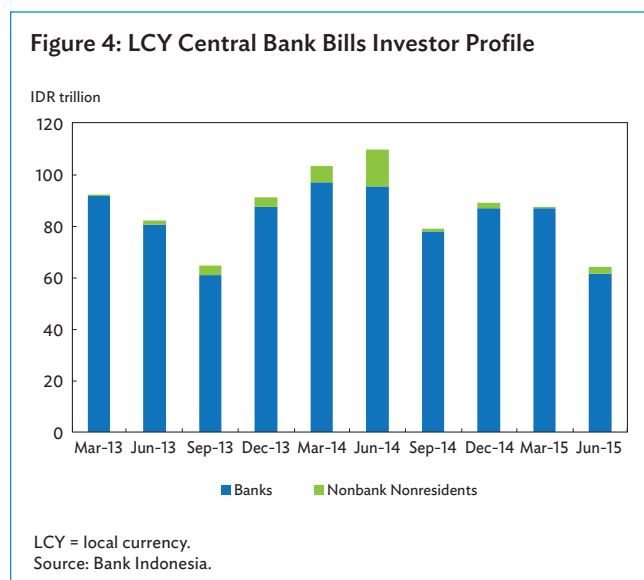
**Figure 2: LCY Central Government Bonds Investor Profile**



LCY = local currency.  
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

rose marginally to a 4.1% share at end-June from 4.0% a year earlier.

**Central Bank Bills.** Banking institutions were the dominant holders of central bank bills, or SBI, in 2Q15 (**Figure 4**). At end-June, bank holdings of SBI climbed to a share of 95.9% of the total from 86.9% a year earlier. The remaining 4.1% share of SBI holdings was accounted for by foreign nonbank investors, whose share of SBI holdings rose from end-March but fell when compared with a year earlier.



## Policy, Institutional, and Regulatory Developments

### Bank Indonesia Eases Macroprudential Measures to Spur Growth

In June, Bank Indonesia eased macroprudential measures by revising its policies for loan-to-value and financing-to-value ratios for property loans, and for automotive loan down payments. Bank Indonesia increased by 10 percentage points the loan-to-value ratio for

property loans and the financing-to-value ratio for *shari'ah*-compliant property credit, which raised the maximum loanable amount for home buyers. Also, Bank Indonesia reduced by 5 percentage points the down payment requirement for automotive loans, bringing the new minimum down payment for two-wheelers to 20% and for passenger cars to 25%. The relaxation of these macroprudential policies aimed to support economic growth.

### Mandatory Use of Rupiah for Domestic Transactions

In July, Bank Indonesia implemented a policy dictating the mandatory use of the Indonesian rupiah for domestic transactions. The ban on the use of foreign currencies for onshore transactions seeks to help ease the demand for foreign currency and manage the stability of the Indonesian rupiah. Certain exceptions to the regulation were granted, including transactions related to implementation of the state budget, international trade, international funding by parties where one party is located overseas, foreign currency transactions involving banks as allowed by the laws on banks and *shari'a*-compliant banks, transactions involving securities issued by the government in foreign currencies in the primary and secondary markets, and other foreign currency transactions as may be allowed by Bank Indonesia.

### Bank Indonesia Revises Auction Process for Monetary Instruments and Expands Tenors for Reverse Repos

In August, Bank Indonesia revised its auction process for reverse repurchase agreements (reverse repo) for government bonds and SBI, as part of efforts to stabilize the rupiah. The central bank said that it will offer a fixed rate on the two instruments instead of a variable rate. Also, Bank Indonesia will offer longer tenors such as 3-month reverse repos, and increase issuances of 9-month and 12-month SBIs. The frequency of foreign exchange swaps was also reduced to a weekly basis.