

Indonesia

Yield Movements

Between 1 September and 15 October, local currency (LCY) government bond yields in Indonesia fell for all tenors except maturities of 3 years or less, which rose between 7 basis points (bps) and 11 bps (**Figure 1**). Yields dropped the most at the very long-end of the curve, shedding between 8 bps and 29 bps for maturities of 15 years or more. As a result, the spread between the 2-year and 10-year tenors narrowed to 46 bps in mid-October from 63 bps in 1 September.

Investor sentiment in the Indonesian bond market turned positive after the United States (US) Federal Reserve delayed raising interest rates during its Federal Open Market Committee meeting in September. In addition, concerns arising from domestic issues—particularly inflation, the exchange rate, and economic growth—have moderated, resulting in an overall decline in yields.

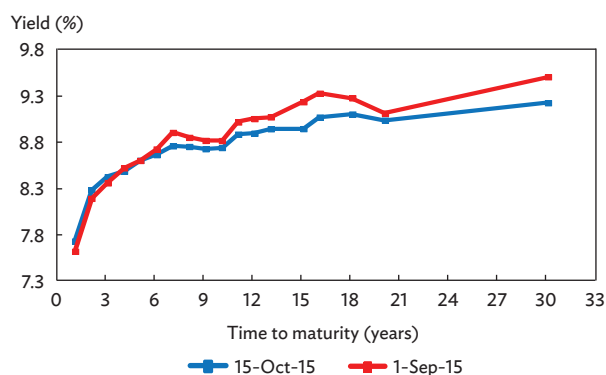
Inflationary pressures have also moderated in recent months on the back of lower food prices. Consumer prices were up 7.3% year-on-year (y-o-y) in July before easing to 7.2% y-o-y in August and 6.8% y-o-y in September. Bank Indonesia expects inflation for full-year 2015 to fall within its target range of 3.0%–5.0%.

A dovish monetary stance by the Federal Reserve has allowed the Indonesian rupiah to appreciate against the US dollar, with the exchange rate strengthening in October to below the IDR14,000 per US\$1 level. The year-to-date depreciation of the Indonesian rupiah fell to 8.3% on 15 October from 18.3% at the end of September.

Bank Indonesia has maintained a tight bias in its monetary policy by keeping the benchmark interest rate at 7.5% since February. Bank Indonesia deems its policy to be supportive of stability in the economy and notes that full-year inflation will come in at the lower-end of its 2015 target level. The central bank also expects a smaller annual current account deficit than previously projected.

Economic growth in Indonesia rose marginally to 4.73% y-o-y in 3Q15 from 4.67% y-o-y growth in 2Q15. On an expenditure basis, the fastest rising component of gross domestic product was government spending, which rose 6.6% y-o-y. Domestic consumption rose 5.0% y-o-y and

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



LCY = local currency.
Source: Bloomberg LP.

investments rose 4.6% y-o-y. By industry, the fastest growing sector was the information and communications sector, which grew 10.8% y-o-y, followed by financial services, which rose 10.4% y-o-y.

Size and Composition

Indonesia's LCY bond market continued to expand in 3Q15 to reach a size of IDR1,692.4 trillion (US\$115 billion) at the end of September (**Table 1**). However, growth moderated to 1.5% quarter-on-quarter (q-o-q) and 12.4% y-o-y in 3Q15. Conventional bonds continued to account for a dominant share of the market at 90.2% of the total bond stock at the end of September. *Sukuk* (Islamic bonds) accounted for the remaining 9.8% share.

Government Bonds. The outstanding stock of government bonds rose to IDR1,442.8 trillion at the end of September on growth rates of 0.9% q-o-q and 12.3% y-o-y. Growth came largely from an increase in the stock of central government bonds, which comprise Treasury bills and bonds issued by the Ministry of Finance. The outstanding stock of central bank bills, known as *Sertifikat Bank Indonesia* (SBI), continued to decline in 3Q15.

Central Government Bonds. Central government bonds reached a size of IDR1,392.4 trillion at the end of September on growth of 2.7% q-o-q and 16.1% y-o-y. Growth was driven mainly by increases in the stock of conventional fixed-rate bonds and Treasury bills. While

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
Total	1,505,261	124	1,668,177	125	1,692,373	115	2.7	22.7	1.5	12.4
Government	1,285,060	105	1,429,181	107	1,442,758	98	2.9	27.1	0.9	12.3
Central Govt. Bonds	1,199,395	98	1,356,434	102	1,392,407	95	6.0	27.2	2.7	16.1
of which: <i>Sukuk</i>	109,444	9	156,209	12	150,433	10	8.0	24.8	(3.7)	37.5
Central Bank Bills	85,665	7	72,748	5	50,351	3	(26.6)	24.9	(30.8)	(41.2)
of which: <i>Sukuk</i>	6,490	0.5	8,458	0.6	7,720	0.5	(4.4)	79.8	(8.7)	19.0
Corporate	220,202	18	238,996	18	249,615	17	1.3	2.5	4.4	13.4
of which: <i>Sukuk</i>	6,958	0.6	7,944	0.6	8,444	0.6	0.0	(0.2)	6.3	21.4

(-) = 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* outstanding 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 at the end of September stood at IDR261.9 trillion.

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

the stock of Islamic Treasury bills and project-based *sukuk* declined 3.7% q-o-q, it expanded 37.5% y-o-y.

In 3Q15, a total of IDR73.4 trillion worth of Treasury bills and bonds were issued by the government through weekly auctions that comprised both conventional and Islamic bills and bonds. The central government's issuance volume was lower on both a q-o-q and y-o-y basis, with two of the auctions falling short of the target in 3Q15.

Central Bank Bills. The outstanding stock of central bank bills, or SBI, declined to IDR50.4 trillion at the end of September, down significantly on both a q-o-q and y-o-y basis. Bank Indonesia issues SBI as one of its monetary policy tools for liquidity management. Between April and July, Bank Indonesia opted to only issue *shari'ah*-compliant SBI carrying a 9-month maturity, choosing to use other monetary tools, such as *Sertifikat Deposito* Bank Indonesia and reverse repurchases, for its open market operations. Issuance of conventional SBI only resumed in August.

In 3Q15, issuance of SBI totaled IDR20.9 trillion, higher on a q-o-q basis but lower on a y-o-y basis. Beginning in August, Bank Indonesia started offering 12-month conventional and *shari'ah*-compliant SBI.

Corporate Bonds. The LCY corporate bond stock in Indonesia rose to IDR249.6 trillion at the end of September on growth rates of 4.4% q-o-q and 13.4% y-o-y. The corporate bond segment only accounted

for 14.7% of the total LCY bond market at the end of September. Conventional corporate bonds dominated the corporate bond stock in 3Q15, accounting for a 96.6% share of the total, while the remaining 3.4% was accounted for by corporate *sukuk*.

The top 31 LCY corporate bond issuers in Indonesia had aggregate outstanding bonds of IDR190.0 trillion at the end of September (**Table 2**). This accounted for a 76.1% share of the total LCY corporate bond stock. Nearly two-thirds of the firms on the list were from the banking and financial sectors. The rest were from capital-intensive industries such as energy, telecommunications, airline, property, real estate, and building construction. There were 12 state-owned firms on the top 31 list, of which five were ranked in the top 10.

At the end of September, the three largest corporate bond issuers in Indonesia were all state-owned firms. The largest corporate bond issuer was Indonesia Eximbank with outstanding bonds valued at IDR22.6 trillion. In the second spot was an energy firm, PLN, with an outstanding bond stock of IDR13.3 trillion. Bank Tabungan Negara moved up to the third spot (from the ninth spot in 2Q15) with an outstanding bond stock of IDR11.0 trillion at the end of September.

New issuance of corporate debt totaled IDR16.1 trillion in 3Q15, down from IDR23.6 trillion in 2Q15. A total of 10 firms raised capital in the bond market, of which eight were from the banking and financial sectors. A total of

Table 2: Top 31 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	22,638	1.54	Yes	No	Banking
2.	PLN	13,268	0.91	Yes	No	Energy
3.	Bank Tabungan Negara	10,950	0.75	Yes	Yes	Banking
4.	Indosat	10,742	0.73	No	Yes	Telecommunications
5.	Adira Dinamika Multifinance	10,631	0.73	No	Yes	Finance
6.	Astra Sedaya Finance	10,465	0.71	No	No	Finance
7.	Telekomunikasi Indonesia	8,995	0.61	Yes	Yes	Telecommunications
8.	Bank Internasional Indonesia	8,360	0.57	No	Yes	Banking
9.	Perum Pegadaian	7,959	0.54	Yes	No	Finance
10.	Bank CIMB Niaga	7,750	0.53	No	Yes	Banking
11.	Federal International Finance	6,935	0.47	No	No	Finance
12.	Bank Permata	6,482	0.44	No	Yes	Banking
13.	Bank Pan Indonesia	6,000	0.41	No	Yes	Banking
14.	Jasa Marga	5,900	0.40	Yes	Yes	Toll Roads
15.	Bank OCBC NISP	5,378	0.37	No	Yes	Banking
16.	Sarana Multigriya Finansial	4,738	0.32	Yes	No	Finance
17.	Agung Podomoro Land	4,575	0.31	No	Yes	Property, Real Estate, and Building Construction
18.	Indofood Sukses Makmur	4,000	0.27	No	Yes	Food and Beverages
19.	Bank Mandiri	3,500	0.24	Yes	Yes	Banking
20.	Medco-Energi International	3,500	0.24	No	Yes	Petroleum and Natural Gas
21.	Bank Tabungan Pensiunan Nasional	3,310	0.23	No	Yes	Banking
22.	Antam	3,000	0.20	Yes	Yes	Petroleum and Natural Gas
23.	Bank Rakyat Indonesia	3,000	0.20	Yes	Yes	Banking
24.	Toyota Astra Financial Services	2,821	0.19	No	No	Finance
25.	Bumi Serpong Damai	2,665	0.18	No	Yes	Property, Real Estate, and Building Construction
26.	BCA Finance	2,425	0.17	No	No	Finance
27.	Wahana Ottomitra Multiartha	2,003	0.14	No	Yes	Finance
28.	Garuda Indonesia	2,000	0.14	Yes	Yes	Transportation
29.	Permodalan Nasional Madani	2,000	0.14	Yes	No	Finance
30.	Sumber Alfaria Trijaya	2,000	0.14	No	Yes	Retail
31.	Summarecon Agung	2,000	0.14	No	Yes	Property, Real Estate, and Building Construction
Total Top 31 LCY Corporate Issuers		189,990	12.97			
Total LCY Corporate Bonds		249,615	17.04			
Top 31 as % of Total LCY Corporate Bonds		76.1%	76.1%			

LCY = local currency.

Notes:

1. Data as of end-September 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.

27 new bond series were issued in 3Q15, including two series of *sukuk mudharabah* (profit-sharing bonds). The largest corporate issuers in 3Q15 were Bank Rakyat Indonesia and Bank Tabungan Negara with each raising IDR3.0 trillion from a multitranche bond sale. The largest corporate bond issuances in 3Q15 are provided in **Table 3**.

In terms of maturity structure, 18 bond series carried maturities of more than 1 year to 3 years, six bond series had maturities of 5 years, one series carried maturities of 7 years, and two bond series carried maturities of 10 years.

Investor Profiles

Central Government Bonds. At the end of September, foreign investors were still the largest holders of Indonesian LCY government bonds, representing a share of 37.6% of the total market (**Figure 2**). This was broadly comparable to their share of 37.3% in the same period a year earlier, but lower compared with a share of 39.6% at the end of June. In absolute terms, foreign investors held a total of IDR523.4 trillion at the end of September. Investors continued to chase the high yields of Indonesian LCY bonds, which are the highest among emerging East Asian markets. A number of sovereign wealth funds and central banks are invested in Indonesian LCY bonds, representing a share of about 8% of the total government bond stock.

Table 3: Notable LCY Corporate Bond Issuance in 3Q15

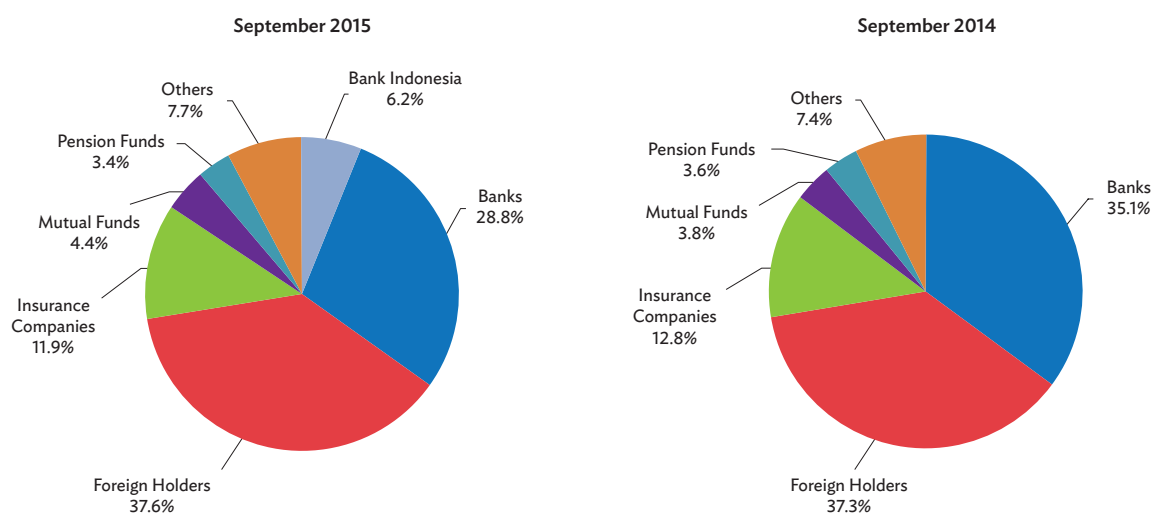
Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Rakyat Indonesia		
370-day bond	8.40	655
3-year bond	9.20	925
5-year bond	9.50	1,420
Bank Tabungan Negara		
3-year bond	9.625	900
5-year bond	9.875	500
7-year bond	10.00	800
10-year bond	10.50	800
Adira Dinamika Multifinance		
370-day <i>sukuk mudharabah</i>	8.75	441
370-day bond	8.75	492
3-year bond	9.50	741
3-year <i>sukuk mudharabah</i>	9.50	59
3-year bond	9.50	668
5-year bond	10.25	238
5-year bond	10.25	277
Indonesia Eximbank		
370-day bond	8.40	757
3-year bond	9.20	309
5-year bond	9.50	913
Astra Sedaya Finance		
370-day bond	8.50	750
3-year bond	9.25	825
Federal International Finance		
370-day bond	8.50	913
3-year bond	9.25	587

LCY = local currency.

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

Source: Indonesia Stock Exchange.

Figure 2: LCY Central Government Bonds Investor Profile

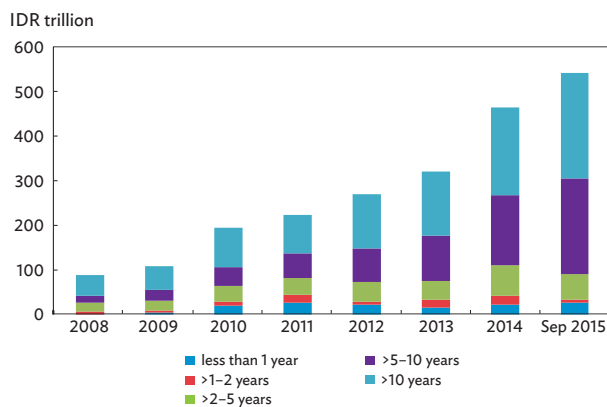


LCY = local currency.

Note: For September 2014, Bank Indonesia had no holdings of government bonds.

Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

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



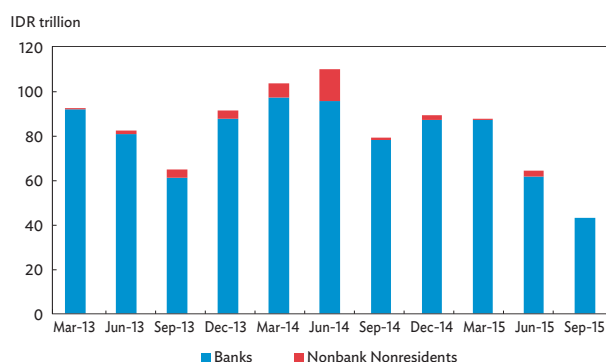
LCY = local currency.
Source: Directorate General of Debt Management Ministry of Finance.

Most foreign investors are positioned at the long-end of the curve, with about 44% of their holdings at the end of September in maturities of 10 years or more (**Figure 3**). Foreign holdings of medium-dated tenors (maturities of 5 years to 10 years) accounted for 40% of their total holdings. On the other hand, foreign holdings of bonds with maturities of 5 years or less declined, except for those with a maturity of less than 1 year, whose share of the total remained at 5%.

Banking institutions were the second largest investor group in the Indonesian central government bond market in 3Q15, accounting for a 28.8% share. Banks' share declined from 35.1% in the same period a year earlier. Insurance companies and mutual funds also recorded declines in their respective shares of holdings of central government bonds between 3Q14 and 3Q15.

Bond holdings of other domestic investor groups mostly recorded marginal annual increases. The only significant increase was Bank Indonesia's holdings of central government bonds, which climbed to a share of 6.2% at the end of September from zero a year earlier as the result of active intervention in the market in recent months.

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Note: In September 2015, nonbank nonresidents had no holdings of *Sertifikat Bank Indonesia*.
Source: Bank Indonesia.

Central Bank Bills. At the end of September, the entire stock of central bank bills, or SBI, was held solely by banking institutions (**Figure 4**).

Policy, Institutional, and Regulatory Developments

Bank Indonesia Announces Additional Rupiah Exchange Rate Stabilization Measures

On 30 September, Bank Indonesia announced additional policy measures to stabilize the rupiah exchange rate. In addition to maintaining rupiah exchange rate stability, the new policy package strengthens rupiah liquidity management. The new measures include Bank Indonesia's intervention in the forward market and the offering of 3-month Bank Indonesia certificates of deposit and 2-week reverse repurchase tradable government securities. Policy measures were also announced to help manage the supply and demand of foreign exchange, including, among others, issuing foreign-currency-denominated Bank Indonesia certificates, reducing the holding period for SBI to 1 week, and tax incentives on term deposits for exporters depositing their foreign exchange earnings with Indonesian banks or converting proceeds into rupiah.