

## Indonesia

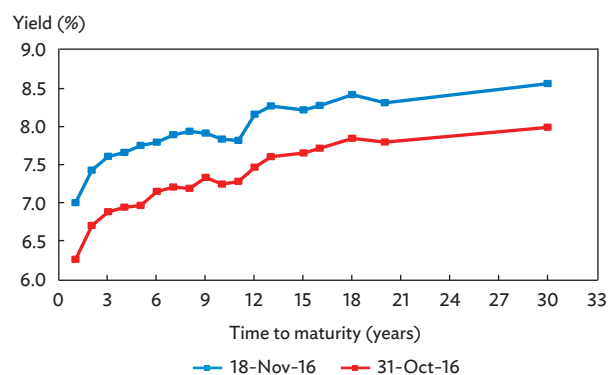
### Yield Movements

Local currency (LCY) government bond yields in Indonesia rose for all tenors between 31 October and 18 November, leading the entire yield curve to shift upward (**Figure 1**). All tenors across the curve gained an average of 64 basis points (bps). Yields rose faster at the shorter end than the longer end, resulting in an overall flattening of the yield curve. The spread between the 2-year and 10-year tenors declined from 54 bps on 31 October to 41 bps on 18 November.

Bond yields initially climbed in October following the release of the minutes of the September meeting of the United States (US) Federal Reserve. The September minutes, along with the release of data showing stronger third quarter (Q3) economic growth in the US, increased the likelihood of a rate hike by the Federal Reserve in December. Indonesian government bond yields rose further following the results of the US presidential election. Uncertainty over the direction of US economic policy contributed to negative sentiments surrounding emerging market assets, resulting in yield increases and prompting a sell-off in the Indonesian government bond market. As of 11 November, the share of foreign holdings in the government bond market had slipped to 38.1% from 38.4% at the end of October, and from 39.2% at the end of September.

In its meeting on 16–17 November, Bank Indonesia decided to hold steady its 7-day reverse repurchase rate at 4.75% after cuts of 25 bps in both the September and October meetings. The deposit facility rate and lending facility rate were also kept unchanged at 4.00% and 5.50%, respectively. The decision to keep the policy rate steady was made in response to ongoing volatility in global financial markets following the US presidential election. The central bank has reduced the 7-day reverse repurchase rate by a cumulative 50 bps since it shifted to using this rate as its policy rate on 19 August. Bank Indonesia had lowered its previous benchmark interest rate by a cumulative 100 bps between January and June. Bank Indonesia's monetary easing move is expected to stimulate domestic demand and credit expansion to help boost economic growth. The various policy reforms initiated by the Government of Indonesia

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



Source: Based on data from Bloomberg LP.

are expected to provide additional support to the economy amid prevailing volatilities in the market.

Inflation has remained subdued and is expected to come in at the lower end of Bank Indonesia's full-year target of 3.0%–5.0%. Consumer price inflation eased to 3.2% year-on-year (y-o-y) in July and 2.8% y-o-y in August, before rising to 3.1% y-o-y in September and 3.3% y-o-y in October.

For full-year 2016, Bank Indonesia projects the domestic economy will grow at the lower end of its forecast of 4.9%–5.3%. Real gross domestic product (GDP) growth eased to 5.0% y-o-y in Q3 2016 from 5.2% y-o-y in the second quarter (Q2) of 2016. The slower growth in Q3 2016 stemmed from a slowdown in government spending and continued weakness in exports.

### Size and Composition

The size of Indonesia's LCY bond market climbed to IDR2,153.0 trillion (USD165 billion) at the end of September, up 7.5% q-o-q and 27.2% y-o-y in Q3 2016 (**Table 1**). Both the government and corporate bond segments contributed to the growth during the review period. The Indonesian bond market is dominated by government bonds, which accounted for an 86.7% share of the aggregate LCY bond stock at the end of September. Corporate bonds accounted for the remaining 13.3%.

Table 1: Size and Composition of the Local Currency Bond Market in Indonesia

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2015		Q2 2016		Q3 2016		Q3 2015		Q3 2016	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>1,692,373</b>	<b>115</b>	<b>2,003,006</b>	<b>152</b>	<b>2,153,035</b>	<b>165</b>	<b>1.5</b>	<b>12.4</b>	<b>7.5</b>	<b>27.2</b>
Government	1,442,758	98	1,732,935	131	1,866,325	143	0.9	12.3	7.7	29.4
Central Govt. Bonds	1,392,407	95	1,646,846	125	1,749,384	134	2.7	16.1	6.2	25.6
of which: <i>Sukuk</i>	150,433	10	218,948	17	239,868	18	(3.7)	37.5	9.6	59.5
Central Bank Bills	50,351	3	86,089	7	116,941	9	(30.8)	(41.2)	35.8	132.3
of which: <i>Sukuk</i>	7,720	0.5	7,470	0.6	9,442	0.7	(8.7)	19.0	26.4	22.3
Corporate	249,615	17	270,071	20	286,710	22	4.4	13.4	6.2	14.9
of which: <i>Sukuk</i>	8,284	0.6	9,561	0.7	10,744	0.8	4.3	19.1	12.4	29.7

(-) = negative, IDR = Indonesian rupiah, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Calculated using data from national sources.
2. Bloomberg LP end-of-period local currency-USD rates are used.
3. Growth rates are calculated from local currency base and do not include currency effects.
4. The total stock of nontradable bonds as of end-September stood at IDR242.6 trillion.

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

Conventional bonds still dominated the market with a share of 87.9% of total LCY bonds outstanding at the end of September. While *sukuk* (Islamic bonds) comprised a smaller share of only 12.1%, both the government and corporate bond segments recorded positive gains during the review period. Indonesia's LCY bond market performed strongly in Q3 2016 relative to its regional peers, leading the region in terms of growth on both a q-o-q and y-o-y basis.

**Government Bonds.** At the end of September, government bonds outstanding reached IDR1,866.3 trillion on gains of 7.7% q-o-q and 29.4% y-o-y. Growth was driven by central government bonds, which comprise Treasury instruments issued by the Ministry of Finance. Central bank bills, or *Sertifikat Bank Indonesia* (SBI), contributed to the growth to a lesser extent.

**Central Government Bonds.** At the end of September, the stock of central government bonds expanded to IDR1,749.4 trillion, climbing 6.2% q-o-q and 25.6% y-o-y. Declining borrowing costs and increased demand for government bonds provided leeway for the government to accept bids exceeding the targeted amount as it sought to fund a widened budget deficit.

The revised state budget for 2016 estimated a deficit of IDR296.7 trillion, or the equivalent of 2.4% of GDP. The Government of Indonesia had to raise its gross issuance target to IDR654.4 trillion to help fund its financing requirements. However, recent estimates indicate a wider

budget deficit equivalent to 2.7% of GDP due to weaker-than-expected tax revenues. While part of the deficit is expected to be funded by revenue collection from the Tax Amnesty Law, its overall impact has yet to be assessed as the program is still ongoing.

Gross issuance of central government bonds totaled IDR118.9 trillion in Q3 2016, broadly comparable with their issuance volume in Q2 2016. A total of 11 auctions were held during the quarter comprising a mix of conventional and Islamic Treasury securities, and all were awarded in full or above target, including *sukuk* auctions.

Aside from regular Treasury auctions, the government also issued savings *sukuk* in September, further diversifying its debt instruments and investor base. The savings *sukuk* carry a maturity of 2 years and were sold only to Indonesian retail investors. The government raised IDR2.59 trillion from its first sale of Islamic savings bonds. This type of bond, however, is nontradable and does not form part of the *AsianBondsOnline* database.

**Central Bank Bills.** At the end of September, the stock of central bills, or SBI, soared to IDR116.9 trillion on 35.8% q-o-q and 132.3% y-o-y growth. SBI are issued by the central bank as one of its monetary instruments to manage liquidity. Monthly auctions are held for both conventional and *shariah*-compliant SBI with maturities of 9 months and 1 year. In Q3 2016, issuance of SBI rose to IDR46.6 trillion, up by 61.4% q-o-q and 123.0% y-o-y.

**Corporate Bonds.** At the end of September, LCY corporate bonds outstanding rose to IDR286.7 trillion, expanding 6.2% q-o-q and 14.9% y-o-y. The relative size of Indonesia's corporate bond market remains small compared with that of the government bond market as corporates generally opt to take bank loans due to issuance hurdles such as lengthy procedures and credit-quality issues. Based on the results of the *AsianBondsOnline* 2016 bond market liquidity survey, higher-rated corporates and those with familiar names—such as banks, state-owned enterprises, and large firms—can command liquidity in the market.

The top 30 issuers of LCY corporate bonds in Indonesia were the same in Q3 2016 as in Q2 2016 with only the order of rankings changing among firms. The outstanding bond stock of the top 30 LCY corporate issuers totaled IDR217.2 trillion at the end of September, representing 75.7% of aggregate corporate bonds outstanding (**Table 2**). As in past quarters, banks and nonbank financial institutions dominated the list of the top 30 issuers. Other corporate names on the list came from highly capitalized industries such as telecommunications, energy, and property and real estate, among others.

The composition of the top three issuers of corporate bonds changed during Q3 2016. State-owned lender Indonesia Eximbank maintained the top post, further increasing its bond stock to IDR29.1 trillion, or the equivalent of 10.2% of the entire corporate bond segment. The next-largest issuer was Indosat, which ranked fourth at the end of June, with IDR14.5 trillion worth of outstanding bonds. In the third spot was another state-owned lender, Bank Tabungan Negara with outstanding bonds amounting to IDR13.0 trillion. State-owned firms Bank Rakyat Indonesia and PLN, which were ranked second and third at the end of June, respectively, dropped to the fifth and fourth places at the end of September.

In Q3 2016, new corporate debt issues amounted to IDR27.3 trillion, which were lower by 17.1% q-o-q. On a y-o-y basis, however, the volume of new corporate debt issuance climbed 69.4%. A total of 18 companies raised funds from the debt market in Q3 2016. There were 45 new debt series issued, including five issues of *sukuk ijarah* (bonds backed by lease agreements) and four issues of *sukuk mudharabah* (profit-sharing bonds).

Some of the largest new corporate bonds issued in Q3 2016 are presented in **Table 3**. State-owned lender Indonesia Eximbank led the list, with aggregate issuance

of IDR4.3 trillion worth of bonds that comprised a dual-tranche sale in August and a single-tranche sale in September. Telecommunications firm Indosat followed with a multitranche issuance of conventional bonds and *sukuk ijarah* in September valued at IDR3.5 trillion, while state-owned Bank Tabungan Negara was third with a total of IDR3.0 trillion in new issuance from a dual-tranche sale in August.

Most of the new corporate bonds (22 out of 45 bond series) issued during Q3 2016 had medium-term maturities (5–7 years). On other hand, 20 bond series carried maturities of between 1 year and 3 years, while three bond series had maturities of 10 years.

## Investor Profiles

**Central Government Bonds.** At the end of September, foreign investors were still the largest investor group in Indonesia's LCY government bond market with aggregate holdings of IDR685.0 trillion, which accounted for a 39.2% share of the total stock (**Figure 2**). Foreign investor holdings were up slightly from a 39.1% share at the end of June and from a 37.6% share at the end of September 2015. Yields on Indonesian government bonds remained the highest among all emerging East Asian markets and continued to attract foreign investor interest. Included among foreign investors are foreign governments and central banks, which together held a 6.8% share of LCY government bonds outstanding at the end of September.

Foreign holdings are mostly concentrated in long-term maturities (more than 10 years), which accounted for a 38.2% share of foreign investor holdings at the end of September (**Figure 3**). Nonresident holdings of bonds with maturities of more than 5 years to 10 years were also substantial, representing a 37.9% share at the end of September. On the other hand, bonds with maturities of 2 years or less only accounted for 5.6% of nonresident holdings.

While banking institutions were the largest domestic investor in Indonesian government bonds, it was the only investor group which recorded a decline in holdings in Q3 2016 from Q3 2015. Bank holdings have been declining since Q3 2014 and now account for only 21.1% of the total LCY central government bond stock.

In contrast, insurance firms and pension funds have been beefing up their holdings of central government

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Indonesia

	Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
		LCY Bonds (IDR billion)	LCY Bonds (USD billion)			
1.	Indonesia Eximbank	29,113	2.23	Yes	No	Banking
2.	Indosat	14,493	1.11	No	Yes	Telecommunications
3.	Bank Tabungan Negara	12,950	0.99	Yes	Yes	Banking
4.	PLN	11,733	0.90	Yes	No	Energy
5.	Bank Rakyat Indonesia	11,345	0.87	Yes	Yes	Banking
6.	Adira Dinamika Multifinance	11,051	0.85	No	Yes	Finance
7.	Telekomunikasi Indonesia	8,995	0.69	Yes	Yes	Telecommunications
8.	Federal International Finance	8,893	0.68	No	No	Finance
9.	Bank Internasional Indonesia	8,880	0.68	No	Yes	Banking
10.	Astra Sedaya Finance	8,645	0.66	No	No	Finance
11.	Bank Pan Indonesia	7,560	0.58	No	Yes	Banking
12.	Perum Pegadaian	7,042	0.54	Yes	No	Finance
13.	Sarana Multigriya Finansial	7,002	0.54	Yes	No	Finance
14.	Bank CIMB Niaga	6,865	0.53	No	Yes	Banking
15.	Bank Permata	6,482	0.50	No	Yes	Banking
16.	Waskita Karya	5,575	0.43	Yes	Yes	Building Construction
17.	Bank OCBC NISP	4,785	0.37	No	Yes	Banking
18.	Medco-Energi International	4,750	0.36	No	Yes	Petroleum and Natural Gas
19.	Toyota Astra Financial Services	4,591	0.35	No	No	Finance
20.	Jasa Marga	4,500	0.35	Yes	Yes	Toll Roads, Airports, and Harbors
21.	Indofood Sukses Makmur	4,000	0.31	No	Yes	Food and Beverages
22.	Agung Podomoro Land	3,700	0.28	No	Yes	Property and Real Estate
23.	Bank Mandiri	3,500	0.27	Yes	Yes	Banking
24.	Bumi Serpong Damai	3,315	0.25	No	Yes	Property and Real Estate
25.	Surya Artha Nusantara Finance	3,150	0.24	No	No	Finance
26.	Indomobil Finance Indonesia	3,114	0.24	No	No	Finance
27.	Antam	3,000	0.23	Yes	Yes	Mining
28.	Wahana Ottomitra Multiartha	2,828	0.22	No	Yes	Finance
29.	Mandiri Tunas Finance	2,825	0.22	No	No	Finance
30.	Summarecon Agung	2,500	0.19	No	Yes	Property and Real Estate
<b>Total Top 30 LCY Corporate Issuers</b>		<b>217,182</b>	<b>16.65</b>			
<b>Total LCY Corporate Bonds</b>		<b>286,710</b>	<b>21.98</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>75.7%</b>	<b>75.7%</b>			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.

Notes:

1. Data as of end-September 2016.

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 Local Currency Corporate Bond Issuance in Q3 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
<b>Indonesia Eximbank</b>			<b>Federal International Finance</b>		
370-day bond	7.25	1,793	370-day bond	7.25	868
3-year bond	7.95	956	3-year bond	7.95	1,257
5-year bond	8.35	1,582	<b>Angkasa Pura</b>		
<b>Indosat</b>			5-year bond	8.60	1,000
370-day bond	7.50	1,075	7-year bond	8.80	100
370-day sukuk ijarah	7.50	163	10-year bond	9.00	900
3-year bond	8.00	1,047	<b>Adira Dinamika Multifinance</b>		
3-year sukuk ijarah	8.00	61	370-day bond	7.90	835
5-year bond	8.60	734	370-day sukuk mudharabah	7.90	30
5-year sukuk ijarah	8.60	10	3-year bond	8.75	434
7-year bond	9.00	115	3-year sukuk mudharabah	8.75	42
10-year bond	9.15	201	5-year bond	9.25	431
10-year sukuk ijarah	9.15	54	5-year sukuk mudharabah	9.25	14
<b>Bank Tabungan Negara</b>			<b>Indonesia Infrastructure Finance</b>		
3-year bond	8.20	1,347	3-year bond	8.25	825
5-year bond	8.75	1,653	5-year bond	8.70	250
			7-year bond	9.00	425

IDR = Indonesian rupiah, Q3 = third quarter.

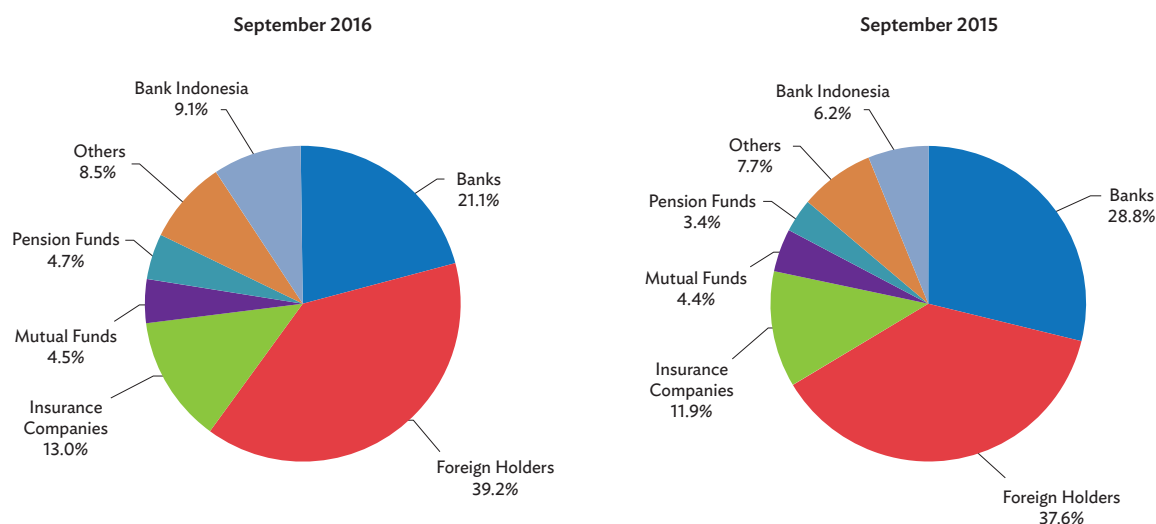
Notes:

1. *Sukuk ijarah* are Islamic bonds backed by a lease agreement

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

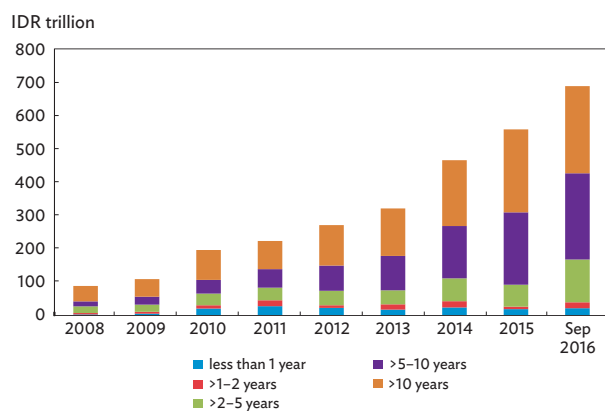
Source: Indonesia Stock Exchange.

Figure 2: Local Currency Central Government Bonds Investor Profile



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

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



IDR = Indonesian rupiah.

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

bonds in compliance with regulatory requirement to hold 20% of their assets in government bonds by the end of 2016, and to 30% by 2017. Mutual fund holdings of central government bonds also saw an increase, with their share rising to 4.5% at the end of September, which was broadly comparable with pension funds 4.7% share. Other investors, comprising securities companies and individuals, likewise increased their holdings of central government bonds to a share of 8.5% from 7.7% a year earlier. Bank Indonesia's holdings climbed to a 9.1% share at the end of September.

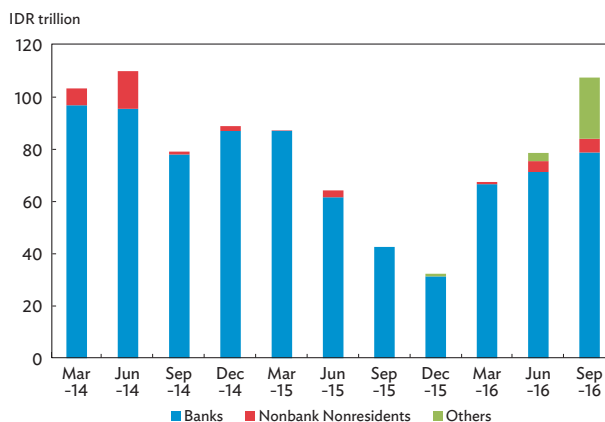
**Central Bank Bills.** At the end of September, banking institutions remained the dominant holders of SBI. Bank holdings declined to a share of 73.3% of the total at the end of September from 90.7% at the end of June (Figure 4). About 5.0% of SBI outstanding were held by nonbank nonresident investors, while the remaining 21.8% were accounted for by other investors.

## Policy, Institutional, and Regulatory Developments

### Bank Indonesia Issues Regulation on Foreign Exchange Call Spread Options

In September, Bank Indonesia announced a new regulation that allows banking institutions to engage in call spread option contracts on foreign exchange transactions.

**Figure 4: Local Currency Central Bank Bills Investor Profile**



IDR = Indonesian rupiah.

Notes:

1. In September and December 2015, nonbank nonresidents had no holdings of Sertifikat Bank Indonesia.
2. In March 2016, nonbank nonresidents held IDR0.9 trillion of Sertifikat Bank Indonesia.

Source: Bank Indonesia.

Only banks with capitalization of IDR5 trillion or more are allowed to participate in this hedging product. The regulation also requires an underlying transaction.

### Indonesia and Japan Extend Bilateral Currency Swap Arrangement

In October, Indonesia and Japan agreed to extend an existing bilateral currency swap arrangement signed in 2013. The size of the swap facility between the two markets amounts to USD22.8 billion.

### Parliament Approves 2017 State Budget

In October, the Indonesian Parliament approved the government's 2017 state budget, which estimated a deficit equivalent to 2.4% of GDP. The 2017 budget projects revenues of IDR1,750.3 trillion versus spending of IDR2,080.5 trillion. The budget includes a hike in the cigarette excise tax and cuts in certain electricity subsidies. The underlying macroeconomic assumptions for the 2017 budget include (i) annual GDP growth of 5.1%, (ii) annual inflation of 4.0%, (iii) an exchange rate of IDR13,300 per USD1, (iv) a 3-month Treasury bill rate of 5.3%, and (v) an Indonesian crude oil price of USD45 per barrel.