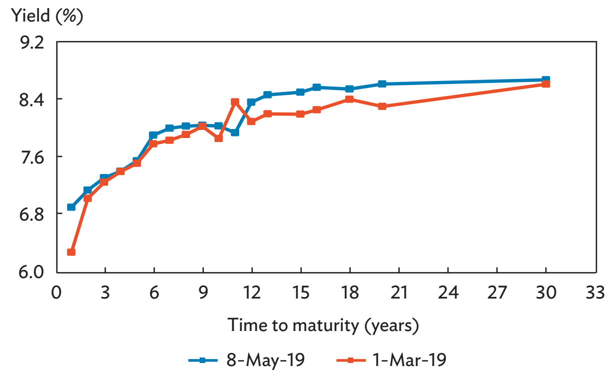
Indonesia

Yield Movements

Between 1 March and 8 May, local currency (LCY) government bond yields in Indonesia edged higher for nearly all maturities (**Figure 1**). Yields gained the most for the 1-year maturity, which rose 63 basis points (bps). Yield upticks for 2-year through 10-year maturities averaged 9 bps, while gains for 12-year through 30-year tenors averaged 24 bps. The yield spread between the 2-year and 10-year maturities widened from 83 bps on 1 March to 89 bps on 8 May.

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



Source: Based on data from Bloomberg LP.

The overall trend of rising yields in Indonesia stemmed from the resurgence of uncertainties in global financial markets as well as concerns over trade tensions between the People's Republic of China (PRC) and the United States (US). In addition, concerns over the current account deficit weighed on investor sentiment. A trade deficit of USD2.5 billion was recorded in April, the widest since 2013, which may further worsen the current account deficit.

The Indonesian rupiah came under pressure in the middle of April as some investors locked in profits and adopted a wait-and-see attitude. Indonesia's LCY government bond market benefitted from strong foreign fund inflows of USD5.2 billion in the first quarter (Q1) of 2019. The trend of monthly inflows reversed in April when the bond market saw net outflows of USD0.5 billion. Indonesia's LCY government bond market remains highly sensitive to developments in the global market, with foreign investors still holding the single-largest share of its LCY government bonds among all investor groups. As such, Bank Indonesia engaged in market intervention to maintain the stability of the Indonesian rupiah and the US dollar exchange rate. In addition, it intervened in the government bond market through bond buybacks as well as in the domestic nondeliverable forward market.

In a meeting held on 24–25 April, Bank Indonesia held steady the 7-day reverse repurchase (repo) rate at 6.00%, the deposit facility rate at 5.25%, and the lending facility rate at 6.75%. The central bank deemed that at their current levels these rates are supportive of efforts to narrow the current account deficit and keep inflation within its full-year 2019 target range of 2.5%–4.5%.

Economic growth in Indonesia, as measured by gross domestic product (GDP), slipped to 5.1% year-on-year (y-o-y) in the first quarter (Q1) of 2019 from 5.2% y-o-y in the fourth quarter (Q4) of 2018. According to Bank Indonesia, seasonal factors and the slowdown in global economic growth contributed to the slower GDP growth. Private consumption, which is the largest contributor to GDP, grew 5.0% y-o-y in Q1 2019, buoyed by tame inflation, rising incomes, and improving consumer confidence. The Q1 2019 y-o-y growth in domestic consumption was weaker than the 5.1% y-o-y growth posted in Q4 2018. Exports and imports of goods and services contracted on a y-o-y basis in Q1 2019, influenced by a slowdown in global demand and softer commodity prices. Gross fixed capital formation also moderated, with growth easing to 5.0% y-o-y in Q1 2019 from 6.0% y-o-y in Q4 2018. On a quarter-on-quarter (q-o-q) basis, the economy contracted 0.5% in Q1 2019.

Size and Composition

Indonesia LCY bonds outstanding expanded to reach IDR3,083.7 trillion (USD216.5 billion) at the end of March, with growth accelerating to 8.7% q-o-q in Q1 2019 from 2.7% q-o-q in Q4 2018 (**Table 1**). Annual growth in bonds outstanding also quickened to 18.7% y-o-y from 13.7% y-o-y during the same period. All bond segments posted positive growth during the review period, with much of the growth driven by government bonds.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**2,598,075**	**189**	**2,838,177**	**197**	**3,083,746**	**217**	**4.0**	**13.4**	**8.7**	**18.7**
Government	2,197,585	160	2,426,320	169	2,659,664	187	4.2	11.5	9.6	21.0
Central Govt. Bonds	2,184,588	159	2,368,451	165	2,527,993	177	4.0	15.5	6.7	15.7
of which: *Sukuk*	329,204	24	392,985	27	427,277	30	(4.0)	19.9	8.7	29.8
Central Bank Bonds	12,997	0.9	57,869	4	131,671	9	29.7	(83.6)	127.5	913.1
of which: *Sukuk*	12,997	0.9	10,043	0.7	24,915	2	29.7	5.9	148.1	91.7
Corporate	400,490	29	411,857	29	424,082	30	3.4	24.8	3.0	5.9
of which: *Sukuk*	16,449	1	21,298	1	24,606	2	6.9	39.0	15.5	49.6

( ) = negative, IDR = Indonesian rupiah, LCY = local currency, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth 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 LCY–USD rates are used.
3. Growth rates are calculated from an LCY base and do not include currency effects.
4. The total stock of nontradable bonds as of 31 March 2019 stood at IDR234.0 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

Indonesia's bond market remains dominated by government bonds, with its share rising to 86.2% of the aggregate bond stock at the end of March from 85.5% at the end of December and from 84.6% at the end of March 2018. The majority of LCY bonds in Indonesia are conventional bonds, which accounted an 84.5% share of the total at the end of Q1 2019. The share of *sukuk* (Islamic bonds), while relatively much smaller at 15.5%, rose from 15.0% at the end of December 2018 and 13.8% at the end of March 2018.

Government bonds. Total outstanding LCY government bonds stood at IDR2,659.7 trillion at the end of March on growth of 9.6% q-o-q and 21.0% y-o-y. Treasury instruments issued by the Ministry of Finance, which are used mainly for budget financing, accounted for a larger share of the total government bond stock at the end of Q1 2019. While the stock of central bank instruments accounted for a smaller share, central bank instruments posted the fastest growth rate among all bond market segments during the review period.

Central government bonds. The outstanding amount of central government bonds expanded to IDR2,528.0 trillion at the end of Q1 2019 on growth of 6.7% q-o-q and 15.7% y-o-y. As in past years, the Ministry of Finance has adopted a frontloading issuance policy in 2019 and plans to conduct the majority of its annual issuance during the first half of the year. The first quarter of the year is generally a slow period for revenue collection; thus, the government opted to issue higher volumes in Q1 2019 to support its budget spending.

The government took advantage of hefty demand from investors as market sentiments toward Indonesian government bonds attracted strong interest following the Federal Reserve's announcement of a dovish outlook for its monetary policy. The total volume of newly issued Treasury bills and Treasury bonds amounted to IDR244.6 trillion at the end of March, with growth rebounding to 106.5% q-o-q and 11.5% y-o-y in Q1 2019 after contracting 25.0% q-o-q and posting a marginal 0.7% y-o-y hike in the preceding quarter. The government issued in higher volumes in Q1 2019, accepting bids over its targeted amount for 12 of 13 scheduled conventional and Islamic Treasury auctions. In addition, the government raised IDR21.1 trillion from the sale of retail *sukuk* in March, more than double its target of IDR10.0 trillion. An additional auction for Islamic Treasury bills and the private placement of a project-based *sukuk* were conducted in January and February, respectively.

Central bank bonds. The outstanding size of central bank bonds, comprising central bank certificates known as Sertifikat Bank Indonesia (SBI) and Sukuk Bank Indonesia (SukBI), climbed more than two-fold during the quarter to reach IDR131.7 trillion at the end of March. The rapid growth was the result of expanding from a low base as Bank Indonesia had only resumed the issuance of conventional SBI in July 2018.

(Bank Indonesia had ceased issuance of conventional SBI beginning in January 2017.) Similar with the trends of Treasury instruments, conventional SBI are issued in much larger volumes than their *sukuk* counterparts. In addition, beginning in December 2018, the central bank commenced the issuance of Bank Indonesia *sukuk* as a tool in guiding monetary policy.

In Q1 2019, total issuance by the central bank surged to IDR106.5 trillion from IDR24.1 trillion in Q4 2018 and IDR4.3 trillion in Q1 2018. Of this amount, IDR35.8 trillion comprised conventional SBI and IDR9.7 trillion were shariah-compliant SBI. The largest issuance share comprised IDR61.0 trillion of SukBI. While the issuance volume for SukBI was quite large, the instrument's overall impact on LCY bonds outstanding was not significant owing to the short-term nature of this type of bond: Bank Indonesia *sukuk* carry short-term maturities of 7, 14, and 28 days.

Corporate bonds. The total corporate bond stock stood at IDR424.1 trillion at the end of March, with growth expanding 3.0% q-o-q and 5.9% y-o-y. Good market conditions allowed corporates to tap the bond market for their funding needs in Q1 2019. A smaller volume of maturities was also observed than in the preceding quarter, resulting in an overall increase in the corporate bond stock.

At the end of March, a total of 117 corporate entities comprised the Indonesian corporate bond market. By type of industry, banks and financial institutions had the most bonds outstanding, accounting for a 61.0% share of the total. The banking and financial sector was followed by the infrastructure, utilities, and transportation sector, whose outstanding bond stock represented 20.5% of the corporate total at the end of March. All other sectors had a share of 6.8% or less at the end of the review period.

The 30 largest corporate bond issuers had aggregate bonds outstanding of IDR315.4 trillion, representing nearly three-fourths of the corporate total during the review period (**Table 2**). Of the 30 firms on the list, 21 came from the banking and financial sector. Nearly half of the firms were state-owned entities, of which seven firms landed in the list's top 10.

The top 30 list was led by three state-owned firms; the ranking of each was unchanged from the previous quarter. In the top spot was Indonesia Eximbank with outstanding bonds valued at IDR33.5 trillion at the end of March. It was followed by Bank Rakyat Indonesia (IDR23.4 trillion) and Perusahaan Listrik Negara (IDR22.8 trillion). Moving up one ranking to the fourth spot was Indosat, with its outstanding bond total pulled up by a multitranche issuance during the quarter. Bank Tabungan Negara dropped from the fourth to fifth spot during the quarter.

In Q1 2019, new corporate bond issuance totaled IDR22.0 trillion, with growth accelerating 61.8% q-o-q but falling 6.9% y-o-y. This compares with contractions of 59.3% q-o-q and 73.3% y-o-y in Q4 2018. A total of 64 new corporate bond series were added to the corporate bond stock during the quarter, including 22 series of *sukuk*. In January, Adira Dinamika Multi Finance issued three series of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership). Also, in March, two series of *sukuk mudharabah* were issued by Sarana Multi Infrastruktur. Multitranche issuances of *sukuk ijarah* (Islamic bonds backed by a lease agreement) came from XL Axiata, Perusahaan Listrik Negara, and Indosat during the quarter. Also, a *sukuk ijarah* was issued by Aneka Gas Industri in March.

The five largest corporate bond issuers and their respective bond issuances in Q1 2019 are provided in **Table 3**. In the top spot was state-owned Sarana Multigriya Finansial, which tapped the bond market twice during the quarter, in February and again in March, for an aggregate issuance total of IDR4.4 trillion. State-owned energy firm Perusahaan Listrik Negara followed with an issuance of IDR3.3 trillion via a multitranche deal in February. Next on the list was Federal International Finance with a dual-tranche issuance worth IDR2.4 trillion in March.

Foreign currency bonds. In February, the Government of Indonesia raised USD2.0 billion from a dual-tranche sale of global *sukuk*. The sale comprised (i) a USD750 million 5.5-year global green *sukuk* with a profit rate of 3.9%, and (ii) a USD1.25 billion of 10-year global *sukuk* with a profit rate of 4.45%. The proceeds from the 5.5-year global green *sukuk* were targeted for funding or refinancing eligible green projects as outlined in the government's Green Bond and Green Sukuk Framework, while the proceeds from the 10-year global *sukuk* were to be used to meet general financing requirements. The *sukuk* were structured following the *wakalah* principle (an Islamic bond backed by an agreement nominating another entity to act on its behalf).

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	33,504.9	2.4	Yes	No	Banking
2.	Bank Rakyat Indonesia	23,426.5	1.6	Yes	Yes	Banking
3.	Perusahaan Listrik Negara	22,783.0	1.6	Yes	No	Energy
4.	Indosat	18,081.0	1.3	No	Yes	Telecommunications
5.	Bank Tabungan Negara	17,050.0	1.2	Yes	Yes	Banking
6.	Bank Pan Indonesia	15,427.0	1.1	No	Yes	Banking
7.	Sarana Multi Infrastruktur	15,245.3	1.1	Yes	No	Finance
8.	Bank Mandiri	14,000.0	1.0	Yes	Yes	Banking
9.	Waskita Karya	13,861.3	1.0	Yes	Yes	Building Construction
10.	Federal International Finance	13,471.8	0.9	No	No	Finance
11.	Sarana Multigriya Finansial	12,797.0	0.9	Yes	No	Finance
12.	Adira Dinamika Multifinance	10,708.5	0.8	No	Yes	Finance
13.	Pupuk Indonesia	9,076.0	0.6	Yes	No	Chemical Manufacturing
14.	Telekomunikasi Indonesia	8,995.0	0.6	Yes	Yes	Telecommunications
15.	Astra Sedaya Finance	8,250.0	0.6	No	No	Finance
16.	Perum Pegadaian	7,649.0	0.5	Yes	No	Finance
17.	Bank CIMB Niaga	7,037.0	0.5	No	Yes	Banking
18.	Hutama Karya	6,825.0	0.5	Yes	No	Nonbuilding Construction
19.	Bank Maybank Indonesia	6,766.0	0.5	No	Yes	Banking
20.	Medco-Energi Internasional	6,454.2	0.5	No	Yes	Petroleum and Natural Gas
21.	Permodalan Nasional Madani	5,746.0	0.4	Yes	No	Finance
22.	XL Axiata	5,103.0	0.4	No	Yes	Telecommunications
23.	BFI Finance Indonesia	4,602.0	0.3	No	Yes	Finance
24.	Bank OCBC NISP	4,381.0	0.3	No	Yes	Banking
25.	Bank Pembangunan Daerah Jawa Barat Dan Banten	4,252.0	0.3	Yes	Yes	Banking
26.	Maybank Indonesia Finance	4,100.0	0.3	No	No	Finance
27.	Bank Permata	4,060.0	0.3	No	Yes	Banking
28.	Indofood Sukses Makmur	4,000.0	0.3	No	Yes	Food and Beverages
29.	Bank UOB Buana	3,900.0	0.3	No	No	Banking
30.	Mandiri Tunas Finance	3,850.0	0.3	No	No	Finance
Total Top 30 LCY Corporate Issuers		**315,402.3**	**22.1**			
Total LCY Corporate Bonds		**424,081.7**	**29.8**			
Top 30 as % of Total LCY Corporate Bonds		**74.4%**	**74.4%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2019.
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 the First Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Sarana Multigriya Finansial		
370-day bond	8.00	677.00
370-day bond	7.75	522.00
3-year bond	8.80	748.50
3-year bond	8.45	1,989.00
5-year bond	9.25	425.00
Perusahaan Listrik Negara		
3-year bond	8.50	369.00
3-year *sukuk ijarah*	8.50	263.00
5-year bond	9.10	1,212.00
5-year *sukuk ijarah*	9.10	263.00
7-year bond	9.35	183.00
7-year *sukuk ijarah*	9.35	204.00
10-year bond	9.60	211.00
10-year *sukuk ijarah*	9.60	45.00
15-year bond	9.80	263.00
15-year *sukuk ijarah*	9.80	60.00
20-year bond	9.95	155.00
20-year *sukuk ijarah*	9.95	28.00
Federal International Finance		
370-day bond	8.00	990.85
3-year bond	8.80	1,369.47
Astra Sedaya Finance		
370-day bond	8.00	932.00
3-year bond	8.80	670.00
5-year bond	9.20	623.00
Indosat		
370-day bond	8.25	815.00
370-day *sukuk ijarah*	8.25	348.00
3-year bond	9.25	408.00
3-year *sukuk ijarah*	9.25	91.00
5-year bond	9.75	185.00
5-year *sukuk ijarah*	9.75	29.00
7-year bond	10.10	45.00
7-year *sukuk ijarah*	10.10	11.00
10-year bond	10.35	47.00
10-year *sukuk ijarah*	10.35	21.00

IDR = Indonesian rupiah.
Note: *Sukuk ijarah* are Islamic bonds backed by lease agreements.
Source: Indonesia Stock Exchange.

Investor Profiles

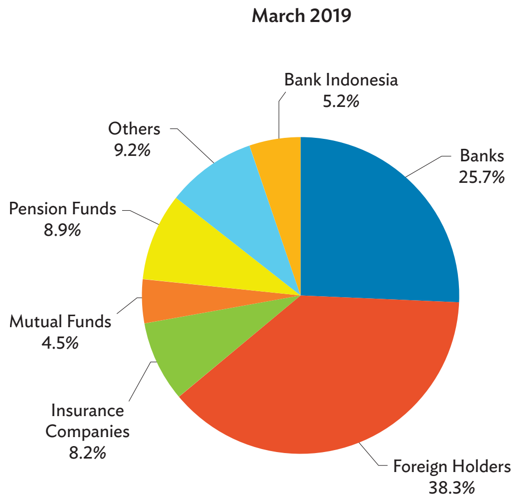
Central government bonds. As an investor group, foreign investors remained the largest holder of LCY government bonds in Indonesia with a 38.3% share of the total at the end of March (**Figure 2**). While the foreign holdings' share was down from 39.3% at the end of March 2018, it rose steadily throughout Q1 2019. Improved sentiments in the bond market led foreign investors to shore up their holdings of central government bonds, influenced by the Federal Reserve's shift to a dovish policy stance.

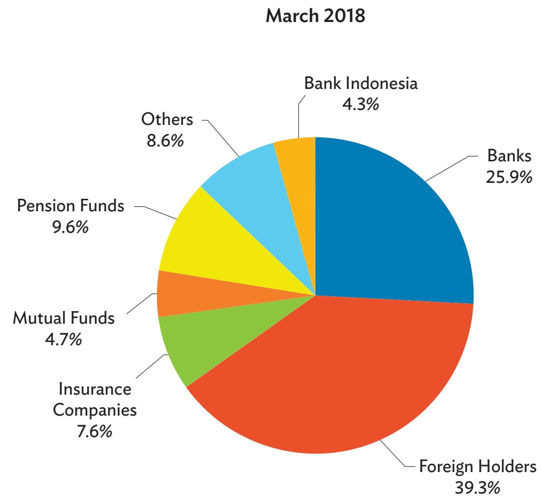
At the end of March, foreign investors held a total of IDR967.1 trillion worth of LCY central government bonds, which was higher than the IDR858.8 trillion at the end of March 2018. Foreign investor holdings also include bonds held by foreign governments and central banks, whose holdings climbed to IDR182.0 trillion at the end of March from IDR143.8 trillion in the same period a year earlier. This reflects the confidence of other governments and central banks in Indonesia's economy and its resilience to market shocks, particularly following the market sell-off in 2018.

Nonresident investors largely placed their holdings in long-dated maturities. At the end of March, foreign bond holdings in maturities of more than 5 years to 10 years and of more than 10 years accounted for 33.9% and 35.5% of the foreign holdings total, respectively (**Figure 3**). Bonds with maturities of more than 2 years to 5 years accounted for a 25.6% share, while bonds with maturities of 2 years or less accounted for a 5.0% share.

Among domestic investors, the largest holders of LCY government bonds were banking institutions. As a percentage of the total, however, bank holdings were slightly lower at 25.7% at the end of March versus 25.9% a year earlier. During the same period, bond holdings of mutual funds and pension funds slipped to shares of 4.5% and 8.9%, respectively, from 4.7% and 9.6%.
On the other hand, Bank Indonesia increased its bond holdings by nearly 1 percentage point to 5.2% at the end of March from 4.3% a year earlier, as the central bank engaged in bond buybacks as part of its market intervention to support the Indonesian rupiah. Insurance companies also increased their bond holdings to an 8.2% share from 7.6% during the same period.

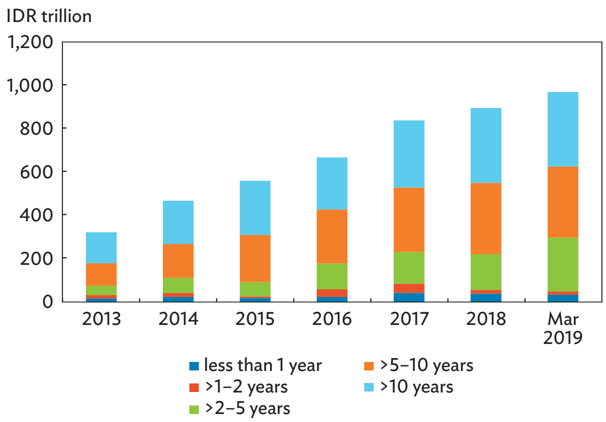
Figure 2: Local Currency Central Government Bonds Investor Profile





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.

Ratings Update

On 14 March, Fitch Ratings (Fitch) affirmed Indonesia's sovereign credit rating at BBB with a stable outlook. In making its decision, Fitch cited Indonesia's favorable GDP growth outlook and low government debt burden, while also noting risks in the global environment. Fitch expects inflation to average 3.4% in full-year 2019 and for policy rates to remain stable.

On 26 April, Ratings and Investment Information (R&I) affirmed Indonesia's sovereign credit rating at BBB with a stable outlook. In its decision, R&I noted Indonesia's solid economic growth performance, narrow fiscal deficit-to-GDP ratio in 2018, and low government debt-to-GDP ratio. R&I also cited Indonesia's resilience to external shocks on the back of government and central bank efforts to maintain macroeconomic stability.

On 26 April, the Japan Credit Rating Agency (JCR) affirmed Indonesia's foreign currency long-term issuer rating at BBB and LCY long-term issuer rating at BBB+. The outlook for the ratings was revised from stable to positive. According to JCR, the ratings were based on Indonesia's solid economic growth, restrained budget deficit and levels of public debt, and resilience to external shocks. With regard to the change in the outlook, JCR cited (i) Indonesia's large-scale infrastructure development program, which is proceeding faster than planned; (ii) expanded infrastructure and human capital expenditures amid budget deficit reductions; and (iii) the possibility of enhanced economic growth supported by the government's policy reforms and initiatives.

Policy, Institutional, and Regulatory Developments

Indonesia Plans to Raise IDR129 Trillion in Q2 2019

The Government of Indonesia plans to raise IDR129 trillion from the sale of Treasury bills and bonds in the second quarter (Q2) of 2019. Scheduled auctions for the quarter comprise five conventional bond auctions and six *sukuk* auctions. (The Q2 2019 auction schedule will be cut short due to holidays relating to Ramadan.) For the conventional bond auctions, the following maturities will be offered: 3 months, 9 months, 12 months, 5 years, 10 years, 15 years, 20 years, and 30 years. *Sukuk* auctions will comprise the following tenors: 6 months, 2 years, 4 years, 7 years, 15 years, and 30 years.

Bank Indonesia Announces Policy to Help Boost Domestic Demand

In April, Bank Indonesia expanded its accommodative policy to boost domestic demand by (i) increasing liquidity through monetary operations, (ii) enhancing retail payment efficiency, (iii) increasing the supply of nondeliverable forwards, (iv) improving regulation in the money market and foreign exchange market, (v) developing the commercial paper market, and (vi) expanding electronification of social programs.

Indonesia Launches Shariah Economy Masterplan, 2019–2024

In May, the Government of Indonesia launched the Shariah Economy Masterplan, 2019–2014, which highlights strategies to strengthen shariah finance; support micro, small, and medium-sized enterprises; and optimize the digital economy.