

Indonesia

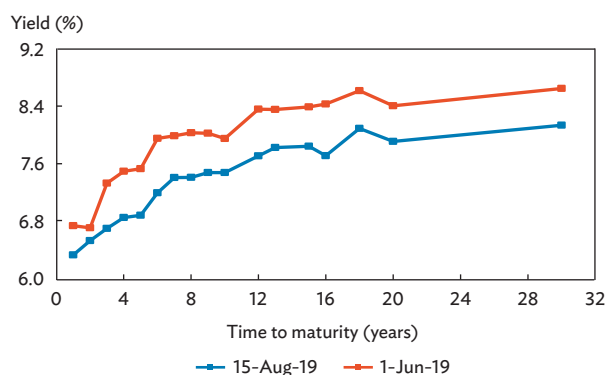
Yield Movements

Local currency (LCY) government bond yields in Indonesia declined between 1 June and 15 August, shifting the entire yield curve downward (**Figure 1**). Yields shed an average of 29 basis points (bps) for maturities of 2 years or less and an average of 59 bps for maturities of 3 years or more. As a result of the downward movement in the yield curve, the spread between the 2-year and 10-year bond yields narrowed from 124 bps on 1 June to 95 bps on 15 August.

The downward trend in bond yields was largely influenced by the 25-bps policy rate cut by Bank Indonesia announced on 18 July and the sovereign ratings upgrade by S&P Global Ratings (S&P) on 31 May (see section on Ratings Update). It was the first policy rate cut of the year and came after Bank Indonesia had raised its policy rate six times in 2018 for a cumulative 175 bps. Another 25-bps cut was announced by the central bank on 22 August, which brought the 7-day reverse repurchase rate to 5.50%, the deposit facility rate to 4.75%, and the lending facility rate to 6.25%. The decision to ease monetary policy was taken on the back of low inflation expectations and efforts to boost economic growth as the global economic outlook remained weak. Bank Indonesia noted that lingering trade tensions between the People's Republic of China and the United States (US) has contributed to the slump in global trade performance and dragged down global economic growth.

Dovish stances by central banks in major advanced economies likewise contributed to the decline in bond yields. Amid global growth moderation and low inflation, the European Central Bank and the Bank of Japan hinted at easing measures, and the US Federal Reserve undertook a 25-bps cut of the federal funds target rate on 31 July. This, in turn, fueled investor interest in higher-yielding emerging market assets such as Indonesian bonds. Foreign fund inflows into Indonesia's LCY government bond market rebounded strongly in June and July after 2 consecutive months of outflows in April and May. The foreign holdings share in the LCY government bond market climbed to 39.1% at the end of June, a level last observed in March 2018.

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



Source: Based on data from Bloomberg LP.

Macroeconomic indicators in Indonesia have been relatively stable thus far in 2019. Consumer price inflation has been subdued, remaining within Bank Indonesia's target range of 2.5%–4.5% for full-year 2019. Consumer prices rose 3.3% year-on-year (y-o-y) in July, roughly the same level as in May and June. Real gross domestic product growth was also stable, rising 5.05% y-o-y in the second quarter (Q2) of 2019, broadly at par with the 5.07% y-o-y expansion in the first quarter (Q1). Domestic demand buoyed growth as household consumption rose 5.2% y-o-y, up from 5.0% y-o-y in Q1 2019. During the same period, growth in government consumption picked up to 8.2% y-o-y from 5.2% y-o-y, while investment growth was likewise stable at 5.0% y-o-y. On a quarter-on-quarter (q-o-q) basis, the economy grew 4.2% in Q2 2019, rebounding from a 0.5% contraction in Q1 2019. Bank Indonesia projects full-year 2019 economic growth to come in below the midpoint of its forecast range of 5.0%–5.4%.

The Indonesian rupiah strengthened vis-à-vis the US dollar during most of the review period, particularly from June through early August. However, following the sharp depreciation of the Argentine peso on 13 August, the Indonesian rupiah, along with other currencies in emerging East Asian markets, weakened against the greenback. Concerns over spillover effects in other emerging markets contributed to the overall weakness of

the Indonesian rupiah versus the US dollar, albeit while posting the smallest depreciation among the region's currencies during the review period. Bank Indonesia announced that it stands ready to intervene to ensure stability in financial markets.

Size and Composition

Indonesia's LCY bond market reached a size of IDR3,069.9 trillion (USD217.3 billion) at the end of June, as growth contracted a marginal 0.5% q-o-q in Q2 2019 following an 8.7% q-o-q expansion in Q1 2019 (**Table 1**). The q-o-q decline came from contractions in both central bank bonds and corporate bonds. On a y-o-y basis, overall bond market growth moderated to 17.6% in Q2 2019 from 18.7% in Q1 2019.

Government bonds continued to account for a dominant share of Indonesia's LCY bond market at 86.4% of the total at the end of June, up from 86.2% at the end of March and 84.6% at the end of June 2018. Conventional bonds also increased their share of the total to 84.8% at the end of June from 84.5% at the end of March. The share of *sukuk* (Islamic bonds) slipped to 15.2% as all *sukuk* segments posted contractions during the review period.

Government bonds. The stock of LCY government bonds at the end of June totaled IDR2,652.6 trillion, with growth falling 0.3% q-o-q but rising 20.1% y-o-y. Central government bonds, comprising Treasury bills and Treasury

bonds, which are issued by the Ministry of Finance for budget financing, posted marginal growth that was more than offset by contractions in the stock of central bank bonds.

Central government bonds. The stock of central government bonds posted a marginal gain of 0.1% q-o-q in Q2 2019 but rose at a much faster y-o-y pace of 15.2%. The slowdown in q-o-q growth was due largely to a decline in issuance volume during the quarter.

New issuance of Treasury bills and bonds tumbled 39.4% q-o-q to IDR150.4 trillion in Q2 2019. There were fewer scheduled auctions during the quarter due to the Muslim celebration of Eid al-Fitr. In addition, four auctions fell short of their respective target in May as liquidity tightened ahead of the holiday and concerns grew over the resurgence of trade tensions between the People's Republic of China and the US. The government, however, was not compelled to accept bids at a higher rate as it had mostly fulfilled its frontloading issuance plan and tapped the foreign currency bond market as a complement to its LCY issuance. Issuances of bonds denominated in Japanese yen, US dollars, and euros were concluded in the first semester of the year. After the holiday break in June, the government once again awarded bids over its targeted amount, taking advantage of hefty demand for Indonesian government bonds, buoyed by the S&P ratings upgrade and signals of easing monetary policy from major advanced economies.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2018		Q1 2019		Q2 2019		Q2 2018		Q2 2019	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	2,611,428	182	3,083,746	217	3,069,867	217	0.5	12.0	(0.5)	17.6
Government	2,208,882	154	2,659,664	187	2,652,610	188	0.5	10.5	(0.3)	20.1
Central Govt. Bonds	2,196,915	153	2,527,993	177	2,531,039	179	0.6	12.5	0.1	15.2
of which: <i>Sukuk</i>	354,277	25	427,277	30	420,064	30	7.6	19.1	(1.7)	18.6
Central Bank Bonds	11,967	0.8	131,671	9	121,571	9	(7.9)	(74.2)	(7.7)	915.9
of which: <i>Sukuk</i>	11,967	0.8	24,915	2	21,938	2	(7.9)	27.0	(11.9)	83.3
Corporate	402,546	28	424,082	30	417,257	30	0.5	21.0	(1.6)	3.7
of which: <i>Sukuk</i>	14,692	1	24,606	2	24,133	2	(10.7)	9.8	(1.9)	64.3

() = negative, IDR = Indonesian rupiah, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second 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 30 June 2019 stood at IDR205.5 trillion.

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

Aside from the weekly Treasury auctions, the government also conducted private placements of some series of conventional Treasury bonds, project-based *sukuk*, and Islamic Treasury bills during the quarter

Central bank bonds. At the end of June, the outstanding stock of central bank bonds, comprising conventional and shari'ah-compliant Sertifikat Bank Indonesia (SBI) and Sukuk Bank Indonesia (SukBI), reached a size of IDR121.6 trillion. Growth declined 7.7% q-o-q but jumped more than ten-fold on a y-o-y basis from a small base in the earlier period. The stock of central bank bonds was dragged down by lower issuance volume of SBI during the quarter, an indication that the central bank is injecting money into the banking system. SBI have relatively longer maturities of 6, 9, and 12 months versus those of SukBI, which are issued in maturities of 7, 14, and 28 days.

In Q2 2019, central bank issuance slid to IDR59.0 trillion, down 44.6% q-o-q from IDR106.5 trillion in Q1 2019. Issuance of SBI dropped significantly as the central bank only had one offering of conventional SBI during the quarter. The issuance volume of conventional instruments is normally larger compared with their Islamic counterparts, a trend similarly observed for Treasury instruments. Issuance of SBI plummeted to IDR3.1 trillion in Q2 2019 from IDR45.5 trillion in the prior quarter. The issuance of SukBI also declined to IDR55.9 trillion in Q2 2019 from IDR61.0 trillion in Q1 2019.

Corporate bonds. At the end of June, corporate bonds outstanding stood at IDR417.3 trillion, down 1.6% q-o-q but up 3.7% y-o-y. The decline in the outstanding stock of bonds was due to a large volume of maturities that exceeded new issuance by corporates during the quarter.

A total of 117 firms comprised Indonesia's corporate bond market at the end of June. The issuers were dominated by banks and financial institutions, which accounted for a 60.6% share of the corporate bond total during the review period. Next were firms coming from infrastructure, utilities, and the transport sector, whose outstanding bond stock accounted for a 20.5% share of the total. Corporate issuers from the property, real estate, and construction sector had a share of 6.8%. All other sectors had a share of 6.0% or less.

The 30 largest corporate bond issuers presented in **Table 2** had an aggregate bond size of IDR311.6 trillion, accounting for 74.7% of the total corporate bond stock at

the end of June. Of which, 19 firms were from the banking and financial sector, and the remaining were mostly from sectors requiring large amounts of capital such as energy, telecommunications, and manufacturing. The top 30 list also included 16 state-owned firms, 8 of which were ranked in the top 10.

Leading the list were five state-owned institutions, with the top spot taken by Indonesia Eximbank with outstanding bonds amounting to IDR35.1 trillion at the end of June. Energy firm Perusahaan Listrik Negara moved up to the second spot with outstanding bonds of IDR22.8 trillion. Bank Rakyat Indonesia (IDR21.0 trillion) dropped to the third spot as its outstanding bond total fell due to the maturity of a 3-year bond in May. Sarana Multi Infrastruktur moved up to the fourth spot from seventh in the prior quarter, following a triple-tranche issuance in June that lifted its bond stock to IDR17.3 trillion. Bank Tabungan Negara kept the fifth spot with a bond total of IDR17.1 trillion.

During the quarter, new bonds issued by corporates reached IDR28.8 trillion, up 30.9% q-o-q from IDR22.0 trillion in Q1 2019. On a y-o-y basis, corporate bond issuance saw a marginal decline of 0.6%.

A total of 17 firms tapped the bond market for funding during the quarter, which added 47 new series to the total corporate bond stock through the end of June. Issuance during the quarter comprised 38 new series of conventional bonds and nine of *sukuk*. Three series each of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) were issued by Adira Dnamika Multi Finance and Indonesia Eximbank in April. Another three series of *sukuk wakalah* (Islamic bonds backed by an agreement nominating another entity to act on its behalf) were added by Medco Power Indonesia in May. In terms of maturity, 17 bond series carried a maturity of 3 years, and 12 series each had maturities of 370 days and 5 years. The longest-dated bond issued during the quarter was the 15-year bond of Indonesia Eximbank.

The largest corporate bond issuers and their respective new bond issues in Q2 2019 are presented in **Table 3**. The largest corporate bond issuance during the quarter came from Indonesia Eximbank with total issuance worth IDR4.3 trillion from a multitranches bond deal in April. It was followed by Semen Indonesia with issuance of a dual-tranche bond amounting to IDR4.1 trillion in May and

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	35,139	2.49	Yes	No	Banking
2.	Perusahaan Listrik Negara	22,783	1.61	Yes	No	Energy
3.	Bank Rakyat Indonesia	20,990	1.49	Yes	Yes	Banking
4.	Sarana Multi Infrastruktur	17,345	1.23	Yes	No	Finance
5.	Bank Tabungan Negara	17,050	1.21	Yes	Yes	Banking
6.	Bank Pan Indonesia	15,427	1.09	No	Yes	Banking
7.	Indosat	15,372	1.09	No	Yes	Telecommunications
8.	Bank Mandiri	14,000	0.99	Yes	Yes	Banking
9.	Waskita Karya	13,707	0.97	Yes	Yes	Building Construction
10.	Sarana Multigriya Finansial	11,585	0.82	Yes	No	Finance
11.	Adira Dinamika Multifinance	11,120	0.79	No	Yes	Finance
12.	Federal International Finance	10,873	0.77	No	No	Finance
13.	Pupuk Indonesia	9,076	0.64	Yes	No	Chemical Manufacturing
14.	Telekomunikasi Indonesia	8,995	0.64	Yes	Yes	Telecommunications
15.	Permodalan Nasional Madani	7,746	0.55	Yes	No	Finance
16.	Perum Pegadaian	7,649	0.54	Yes	No	Finance
17.	Semen Indonesia	7,078	0.50	Yes	Yes	Cement Manufacturing
18.	Bank CIMB Niaga	7,037	0.50	No	Yes	Banking
19.	Hutama Karya	6,825	0.48	Yes	No	Nonbuilding Construction
20.	Medco-Energi Internasional	6,454	0.46	No	Yes	Petroleum and Natural Gas
21.	Astra Sedaya Finance	6,125	0.43	No	No	Finance
22.	Bank Maybank Indonesia	6,066	0.43	No	Yes	Banking
23.	XL Axiata	5,103	0.36	No	Yes	Telecommunications
24.	ADHI Karya	4,777	0.34	Yes	Yes	Building Construction
25.	BFI Finance Indonesia	4,602	0.33	No	Yes	Finance
26.	Maybank Indonesia Finance	4,350	0.31	No	No	Finance
27.	Bank Pembangunan Daerah Jawa Barat Dan Banten	4,252	0.30	Yes	Yes	Banking
28.	Tower Bersama Infrastructure	3,616	0.26	No	Yes	Telecommunications Infrastructure Provider
29.	Bank Permata	3,360	0.24	No	Yes	Banking
30.	Mandiri Tunas Finance	3,130	0.22	No	No	Finance
Total Top 30 LCY Corporate Issuers		311,631	22.06			
Total LCY Corporate Bonds		417,257	29.54			
Top 30 as % of Total LCY Corporate Bonds		74.7%	74.7%			

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

Notes:

1. Data as of 30 June 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 Second Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Indonesia Eximbank		
370-day bond	7.35	147.00
370-day <i>sukuk mudharabah</i>	7.35	230.00
3-year bond	8.40	935.00
3-year <i>sukuk mudharabah</i>	8.40	145.00
5-year bond	8.90	1,523.00
5-year <i>sukuk mudharabah</i>	8.90	66.00
7-year bond	9.25	278.00
10-year bond	9.50	349.00
15-year bond	9.80	625.00
Semen Indonesia		
5-year bond	9.00	3,364.00
7-year bond	9.10	714.00
Sarana Multi Infrastruktur		
370-day bond	7.50	224.00
3-year bond	8.50	1,224.00
5-year bond	8.75	1,552.00
Adira Dinamika Multifinance		
370-day bond	7.75	1,105.00
370-day <i>sukuk mudharabah</i>	7.75	72.00
3-year bond	8.60	287.25
3-year <i>sukuk mudharabah</i>	8.60	10.00
5-year bond	9.15	607.75
5-year <i>sukuk mudharabah</i>	9.15	14.00
Permodalan Nasional Madani		
3-year bond	9.50	1,401.00
5-year bond	9.85	599.00
Bank Danamon		
370-day bond	7.55	1,148.00
3-year bond	8.55	852.00

IDR = Indonesian rupiah.

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

Source: Indonesia Stock Exchange.

by Sarana Multi Infrastruktur with a triple-tranche bond worth IDR3.0 trillion in June.

Foreign currency bonds. In May, the Government of Indonesia raised JPY177.0 billion worth of samurai bonds in multiple tranches. The issuance marked the largest ever public samurai bond issuance in Asia and the longest-maturity samurai bonds (15 years and 20 years) from an Asian issuer. The issuance comprised the following tranches: (i) a JPY75.7 billion 3-year bond with a coupon rate of 0.54%, (ii) a JPY80.2 billion 5-year bond with a coupon rate of 0.83%, (iii) a JPY4.5 billion 7-year bond with a coupon rate of 0.96%, (iv) a JPY7.6 billion 10-year

bond with a coupon rate of 1.17%, (v) a JPY4.0 billion 15-year bond with a coupon rate of 1.55%, and (vi) a JPY5.0 billion 20-year bond with a coupon rate of 1.79%.

In June, the Government of Indonesia priced its third issuance of dual-currency bonds. The bond sale comprised a EUR750 million 7-year bond with a coupon rate of 1.45% and a USD750 million 10-year bond with a coupon rate of 3.40%. The sale marked Indonesia's sixth issuance of EUR-denominated bonds and its second in a format registered with the US Securities and Exchange Commission. The USD-denominated bond was the government's third issuance under the Securities and Exchange Commission's registered shelf.

Investor Profiles

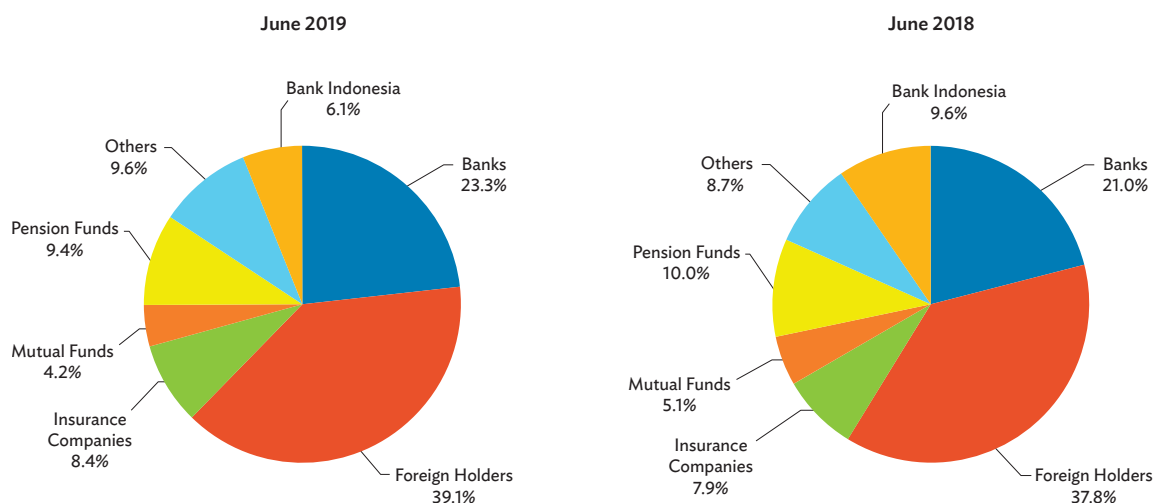
Central government bonds. Foreign investors in Indonesia's LCY government bond market maintained the single-largest share of holdings at the end of June. Nonresident holdings of central government bonds climbed to a 39.1% share of the total from 37.8% in the same period a year earlier (**Figure 2**). Offshore investors shored up their holdings of Indonesian government bonds in June following the rating upgrade from S&P.

Total holdings by nonresidents stood at IDR988.8 trillion at the end of June, up from IDR830.2 trillion at the end of June 2018. Of this amount, IDR162.6 trillion was held by foreign governments and central banks, representing a 6.4% share of the total central government bond stock in June. By type of bonds, the foreign holdings share for conventional bonds at the end of June was much higher at 46.0% than for Islamic bonds with a share of 4.0%.

Much of the LCY government bond holdings of nonresidents are in long-dated maturities. Foreign investor holdings in bonds with maturities of more than 5 years to 10 years accounted for a 35.4% share of the total (**Figure 3**). Their holdings of bonds with maturities of more than 10 years was also substantial at 32.0%. Maturities of more than 2 years to 5 years accounted for a 28.4% share and maturities of 2 years or less accounted for a 4.6% share.

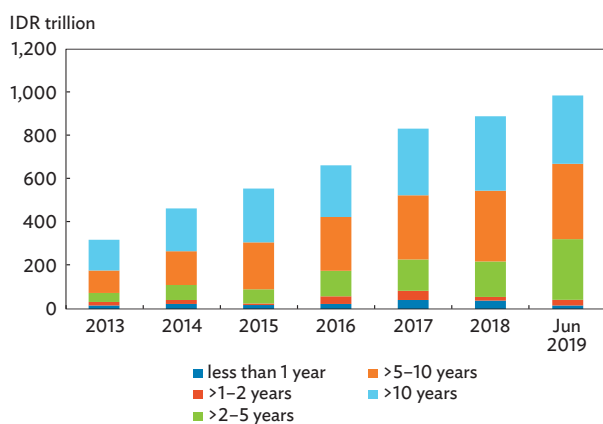
The next largest holders of LCY government bonds were banking institutions. Their holdings gained the most across all investor types, rising 2.3 percentage points to a 23.3% share at the end of June from a 21.0% share a year earlier. During the same period, insurance companies

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.

increased their holdings share by 0.5 percentage points to 8.4% from 7.9%.

In contrast, Bank Indonesia posted the largest decline in bond holdings, shedding 3.5 percentage points to a 6.1% share at the end of June from 9.6% a year earlier. The decrease reflected improved market conditions in 2019, as the central bank was not compelled to intervene

heavily to stabilize bond prices. Also, bond holdings of mutual funds and pension funds edged lower to shares of 4.2% and 9.4%, respectively, from 5.1% and 10.0% a year earlier.

Ratings Update

On 31 May, S&P raised Indonesia's sovereign credit rating from BBB- to BBB. The rating was given a stable outlook. According to S&P, the rating upgrade was based on Indonesia's strong economic growth prospects and supportive policy dynamics. In addition, S&P also noted the relatively low debt level of the government and its moderate fiscal performance.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Lowers Reserve Requirement Ratio

In June, Bank Indonesia announced cuts in the reserve requirement ratio for banks, which came into effect on 1 July, to help boost lending activities. The reserve requirement ratio was reduced by 50 bps to 6.0% for conventional banks and 4.5% for Islamic banks. The average reserve requirement ratio was held steady at 3.0%.

Government Plans to Issue IDR185 Trillion Worth of Bonds in the Third Quarter of 2019

In June, the Government of Indonesia announced its plan to raise IDR185 trillion from the sale of Treasury instruments during the third quarter of 2019. The issuance plan includes the sale of conventional Treasury bills and bonds, and *sukuk*. For full-year 2019, the net issuance target was placed at IDR389 trillion with a gross issuance target of IDR825.7 trillion

Government Announces Macroeconomic Assumptions for 2020 Draft State Budget

In August, the President of Indonesia announced the macroeconomic assumptions for the draft 2020 state budget. Among the assumptions were (i) economic growth of 5.3% to be driven by consumption and investments, (ii) an inflation target of 3.1% to support purchasing power, (iii) an exchange rate of IDR14,400 per US dollar, (iv) a 3-month Treasury bill rate of 5.4%, and (v) an Indonesian crude oil price of USD65 per barrel. The government is looking at a 2020 budget deficit equivalent to 1.76% of gross domestic product.