

Indonesia

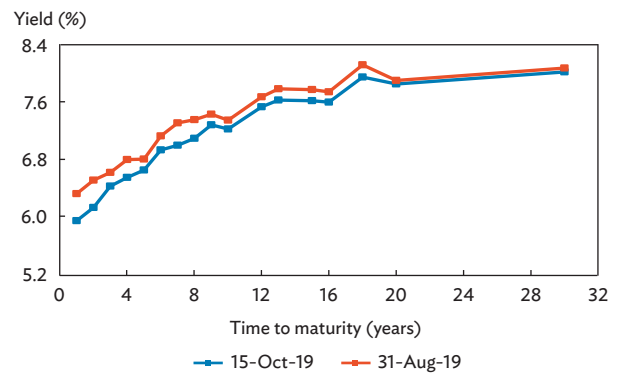
Local currency (LCY) government bond yields in Indonesia continued to decline between 31 August and 15 October (**Figure 1**). Yields declined the most at the shorter end of the curve (2 years and below), with declines averaging 38 basis points (bps), and fell the least at the longer end (20 years and 30 years). For maturities of 3 years to 18 years, bond yields shed an average of 18 bps. Due to the faster decline at the shorter end than the longer end, the spread between the 2-year and 10-year tenors widened to 109 bps on 15 October from 84 bps on 31 August.

The overall decline in Indonesia's LCY government bond yields was largely driven by the accommodative monetary policy stance of Bank Indonesia. The central bank lowered the policy rate four times, by 25 bps each, during the monthly Board of Governors meetings from July to October. The policy rate has now been reduced by a cumulative 100 bps year-to-date. (In 2018, Bank Indonesia raised its policy rate six times by a cumulative 175 bps.) The decisions to lower rates were taken to bolster economic growth and boost lending activities as the global economic outlook weakened.

In the Board of Governors meeting held on 23–24 October, the rate cut brought the 7-day reverse repurchase rate to 5.00%, the deposit facility rate to 4.25%, and the lending facility rate to 5.75%. At these levels, the policy rates remain supportive of keeping inflation within the target range, ensuring the attractiveness of the domestic financial assets, and boosting economic growth. Respondents to the *AsianBondsOnline* annual bond market liquidity survey noted that there remains space for further monetary policy easing. Market participants expect one more rate cut by the end of the year. Survey respondents, however, cited that policy rate cuts had been mostly priced in by investors, thus the absence of a significant rally in the bond market.

The decline in bond yields was also influenced by the accommodative monetary stance of central banks in advanced economies. Both the United States (US) Federal Reserve and the European Central Bank lowered their respective policy rates this year. In the case of the

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



Source: Based on data from Bloomberg LP.

European Central Bank, it also announced the resumption of its bond purchase program beginning 1 November. As a low-interest-rate environment prevailed, foreign funds shifted toward higher-yielding emerging market assets. Relative to its emerging East Asian peers, bond yields in Indonesia remain high, making it a favored destination of foreign funds. The foreign holdings share rose to 38.6% at the end of September, up from 36.9% from the same period a year earlier but slightly down from a share of 39.1% at the end of June.

During the review period, the Indonesian rupiah was stable and credit default swap spreads slightly declined. The equity market however was slightly down.

Consumer price inflation has been relatively tame thus far this year. Bank Indonesia expects inflation to come in below the midpoint of its 2.5%–4.5% target range for 2019. Economic growth hovered at about 5.0% year-on-year (y-o-y) in the first (Q1) and second (Q2) quarters of 2019, with domestic demand as the main driver for growth. Bank Indonesia estimates economic growth for 2019 will come in at the lower end of the forecasted 5.0%–5.4% range. Indonesia's trade performance remained weak, as monthly exports continued to contract. For the first 9 months of the year, a trade deficit of USD1.9 billion was recorded.

Size and Composition

At the end of September, the LCY bond market in Indonesia expanded to a size of IDR3,229.9 trillion (USD227.5 billion), as growth rebounded strongly to 5.2% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2019 after contracting 0.5% q-o-q in Q2 2019 (**Table 1**). The robust growth during the quarter largely stemmed from growth in central government bonds and, to a lesser extent, central bank bonds and corporate bonds. On an annual basis, the bond market grew 16.8% y-o-y in Q3 2019, slipping from 17.6% y-o-y growth in the preceding quarter. Indonesia was the region's fastest-growing bond market in Q3 2019 on both a q-o-q and y-o-y basis.

The LCY bond market in Indonesia remains dominated by government bonds, which represented an 86.5% share of the aggregate bond stock at the end of September. The corporate bond market accounted for the remaining 13.5% share. The LCY bond market is also largely dominated by conventional bonds, which accounted for an 84.1% share of the bond total at the end of September. *Sukuk* (Islamic bonds) increased their share from 15.1% in Q2 2019 to 15.9% in Q3 2019. All bond segments posted positive growth during the review period.

Government bonds. At the end of September, total governments outstanding climbed to IDR2,792.3 trillion on growth of 5.3% q-o-q and 19.1% y-o-y. Much of the growth was contributed by central government bonds,

comprising Treasury bills and Treasury bonds issued by the Ministry of Finance, to fund the budget gap. Central bank bonds also posted positive growth, although their contribution to the overall growth was relatively smaller.

Central government bonds. The outstanding size of central government bonds climbed to IDR2,664.3 trillion at the end of September, gaining 5.3% q-o-q and 15.5% y-o-y. The faster q-o-q growth came about as a result of hefty issuance of Treasury bills and bonds during the quarter.

In Q3 2019, aggregate central government bond issuance totaled IDR185.3 trillion, rising 23.2% q-o-q and 17.3% y-o-y. The government accepted bids exceeding its targeted amount during its weekly auctions, as it took advantage of increased demand for IDR-denominated bonds. After issuing a relatively lower volume in Q2 2019, the government sought to raise more funds to help finance its budget deficit. The government expects a wider budget deficit due to a shortfall in tax collection. The government plans to fund the budget gap by tapping both the LCY and foreign currency bond markets. During the quarter, central government bond issuance came from the auction of Treasury bills and bonds.

Central bank bonds. Total outstanding central bank bonds, which comprise conventional and shari'ah-compliant Sertifikat Bank Indonesia (SBI) and Sukuk Bank Indonesia (SuKBI), climbed to IDR128.0 trillion at the end of September. On a q-o-q basis, central bank bonds

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2018		Q2 2019		Q3 2019		Q3 2018		Q3 2019	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	2,764,341	185	3,069,867	217	3,229,879	228	5.9	13.9	5.2	16.8
Government	2,345,354	157	2,652,610	188	2,792,335	197	6.2	13.5	5.3	19.1
Central Govt. Bonds	2,306,641	155	2,531,039	179	2,664,332	188	5.0	12.7	5.3	15.5
of which: <i>Sukuk</i>	378,115	25	420,064	30	456,844	32	6.7	14.9	8.8	20.8
Central Bank Bonds	38,713	3	121,571	9	128,003	9	223.5	99.9	5.3	230.6
of which: <i>Sukuk</i>	10,642	0.7	21,938	2	25,674	2	(11.1)	(15.7)	17.0	141.3
Corporate	418,987	28	417,257	30	437,544	31	4.1	16.5	4.9	4.4
of which: <i>Sukuk</i>	16,982	1	22,683	2	30,654	2	15.6	21.7	35.1	80.5

(-) = 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 30 September 2019 stood at IDR210.5 trillion.

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

grew 5.3% q-o-q in Q3 2019, reversing the 7.7% q-o-q contraction posted in Q2 2019. On a y-o-y basis, the stock of central bank bonds surged more than three-fold from a low base in Q3 2018. (Bank Indonesia only resumed issuance of conventional SBI beginning in July 2018 to attract foreign portfolio investments.) In Q3 2019, central bank bond issuance surged 96.4% q-o-q after declining 44.6% q-o-q in the preceding quarter. Issuance of both SBI and SuKBI accelerated during the quarter.

Corporate bonds. The outstanding size of corporate bonds reached IDR437.5 trillion at the end of September, posting growth of 4.9% q-o-q and 4.4% y-o-y. Corporate bond issuance was quite active during the quarter, leading to an expansion in the corporate bond stock during the review period.

At the end of September, the 30 leading corporate bond issuers had aggregate bonds outstanding of IDR329.4 trillion, up from IDR311.6 trillion at the end of June (**Table 2**). The 30 largest corporate bond issuers accounted for 75.3% of the corporate total during the review period. Most firms on the list came from the banking and financial sector, while the rest were from highly capitalized sectors such as energy, telecommunications, and building construction. More than half of the firms in the top 30 list also tapped the equity market for funding. Some 16 state-owned firms were included in the list, 8 of which landed in the top 10.

Five state-owned institutions landed at the top of the list, led by Indonesia Eximbank with an outstanding bond stock of IDR36.6 trillion. Next was energy firm Perusahaan Listrik Negara with outstanding bonds of IDR27.0 trillion. Rising to the third spot was financing firm Sarana Multi Infrastruktur (IDR22.4 trillion), bumping Bank Rakyat Indonesia (IDR21.0 trillion) to the fourth place. Bank Tabungan Negara held on to the fifth spot with its bond stock of IDR19.8 trillion.

New corporate bond issues tallied IDR44.2 trillion in Q3 2019, up from IDR28.8 trillion in the previous quarter. Corporate bond issuance growth surged 53.7% q-o-q and 32.6% y-o-y in Q3 2019. There were 23 firms that borrowed via the debt market in Q3 2019 versus 17 corporates in Q2 2019. Aside from conventional bonds, which accounted for a larger share of issuance during the quarter, new corporate bond issues also included bonds structured as *sukuk mudharabah* (Islamic

bonds backed by a profit-sharing scheme from a business venture or partnership) and *sukuk ijarah* (Islamic bonds backed by lease agreements).

State-owned firms topped the list of new corporate bond issuers during the quarter (**Table 3**). Financing firm Sarana Multi Infrastruktur raised a total of IDR5.1 trillion from the issuance of multitranches in August. Next on the list was another financing firm, Sarana Multigriya Finansial, with issuance worth IDR4.3 trillion also in multiple tranches in July and August. Both Sarana Multi Infrastruktur and Sarana Multigriya Finansial issued conventional bonds and *sukuk mudharabah*. Perusahaan Listrik Negara sold a total of IDR4.2 trillion in multiple tranches of conventional bonds and *sukuk ijarah* in August.

Investor Profiles

Offshore investors continued to account for the largest investor share in Indonesia's LCY government bond market. The foreign holdings share rose to 38.6% of the total at the end of September from 36.9% a year earlier (**Figure 2**). Offshore investors remained attracted to Indonesian government bonds due to their relatively high yields.

In nominal terms, foreign holdings in LCY government bonds totaled IDR1,029.4 trillion at the end of September versus IDR850.9 trillion a year earlier. Of this amount, foreign governments and central banks accounted for IDR184.3 trillion, or 17.9% of the aggregate holdings of foreign investors. The share of foreign ownership in conventional bonds (45.7%) was higher than for Islamic bonds (4.4%).

In terms of maturities, foreign holders were largely positioned in longer-dated maturities. Bonds with maturities of 5 years to 10 years accounted for a 34.6% share of offshore holdings and those with maturities of 10 years or more represented 33.8% (**Figure 3**). Maturities of more than 2 years to 5 years had a 22.7% share of the foreign holdings total. The smallest foreign ownership share was observed for bonds with maturities of 2 years or less, which accounted for a share of 8.8% of the foreign total.

Among domestic investors, banking institutions continued to have the largest bond holdings, although

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	36,627	2.58	Yes	No	Banking
2.	Perusahaan Listrik Negara	26,987	1.90	Yes	No	Energy
3.	Sarana Multi Infrastruktur	22,441	1.58	Yes	No	Finance
4.	Bank Rakyat Indonesia	20,990	1.48	Yes	Yes	Banking
5.	Bank Tabungan Negara	19,847	1.40	Yes	Yes	Banking
6.	Indosat	17,645	1.24	No	Yes	Telecommunications
7.	Bank Pan Indonesia	15,427	1.09	No	Yes	Banking
8.	Sarana Multigriya Finansial	14,923	1.05	Yes	No	Finance
9.	Bank Mandiri	14,000	0.99	Yes	Yes	Banking
10.	Waskita Karya	13,707	0.97	Yes	Yes	Building Construction
11.	Adira Dinamika Multifinance	9,947	0.70	No	Yes	Finance
12.	Federal International Finance	9,616	0.68	No	No	Finance
13.	Telekomunikasi Indonesia	8,995	0.63	Yes	Yes	Telecommunications
14.	Bank CIMB Niaga	8,271	0.58	No	Yes	Banking
15.	Pupuk Indonesia	7,945	0.56	Yes	No	Chemical Manufacturing
16.	Permodalan Nasional Madani	7,746	0.55	Yes	No	Finance
17.	Semen Indonesia	7,078	0.50	Yes	Yes	Cement Manufacturing
18.	Bank Maybank Indonesia	7,066	0.50	No	Yes	Banking
19.	Perum Pegadaian	6,851	0.48	Yes	No	Finance
20.	Hutama Karya	6,825	0.48	Yes	No	Nonbuilding Construction
21.	Astra Sedaya Finance	6,125	0.43	No	No	Finance
22.	Medco-Energi Internasional	5,578	0.39	No	Yes	Petroleum and Natural Gas
23.	XL Axiata	5,162	0.36	No	Yes	Telecommunications
24.	Mandiri Tunas Finance	5,130	0.36	No	No	Finance
25.	Adhi Karya	4,527	0.32	Yes	Yes	Building Construction
26.	BFI Finance Indonesia	4,414	0.31	No	Yes	Finance
27.	Maybank Indonesia Finance	4,350	0.31	No	No	Finance
28.	Bank Pembangunan Daerah Jawa Barat Dan Banten	4,252	0.30	Yes	Yes	Banking
29.	Tower Bersama Infrastructure	3,616	0.25	No	Yes	Telecommunications Infrastructure Provider
30.	Bank Permata	3,360	0.24	No	Yes	Banking
Total Top 30 LCY Corporate Issuers		329,448	23.21			
Total LCY Corporate Bonds		437,544	30.82			
Top 30 as % of Total LCY Corporate Bonds		75.3%	75.3%			

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

Notes:

1. Data as of 30 September 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 Third Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Sarana Multi Infrastruktur			Perusahaan Listrik Negara		
370-day bond	7.00	463.00	5-year bond	8.00	637.00
370-day <i>sukuk mudharabah</i>	7.00	423.00	5-year <i>sukuk ijarah</i>	8.00	274.00
3-year bond	7.80	1,308.00	7-year bond	8.50	315.25
3-year <i>sukuk mudharabah</i>	7.80	417.00	7-year <i>sukuk ijarah</i>	8.50	368.00
5-year bond	8.10	1,033.00	10-year bond	8.70	549.00
5-year <i>sukuk mudharabah</i>	8.10	84.00	10-year <i>sukuk ijarah</i>	8.70	20.00
7-year bond	8.50	1,292.00	15-year bond	9.50	395.00
7-year <i>sukuk mudharabah</i>	8.50	76.00	15-year <i>sukuk ijarah</i>	9.50	49.00
Sarana Multigriya Finansial			20-year bond	9.98	1,057.37
370-day bond	7.50	428.00	20-year <i>sukuk ijarah</i>	9.98	539.00
370-day <i>sukuk mudharabah</i>	7.50	100.00			
3-year bond	8.50	640.00			
3-year bond	7.80	1,423.00			
5-year bond	8.75	932.00			
5-year bond	8.10	780.00			

IDR = Indonesian rupiah.

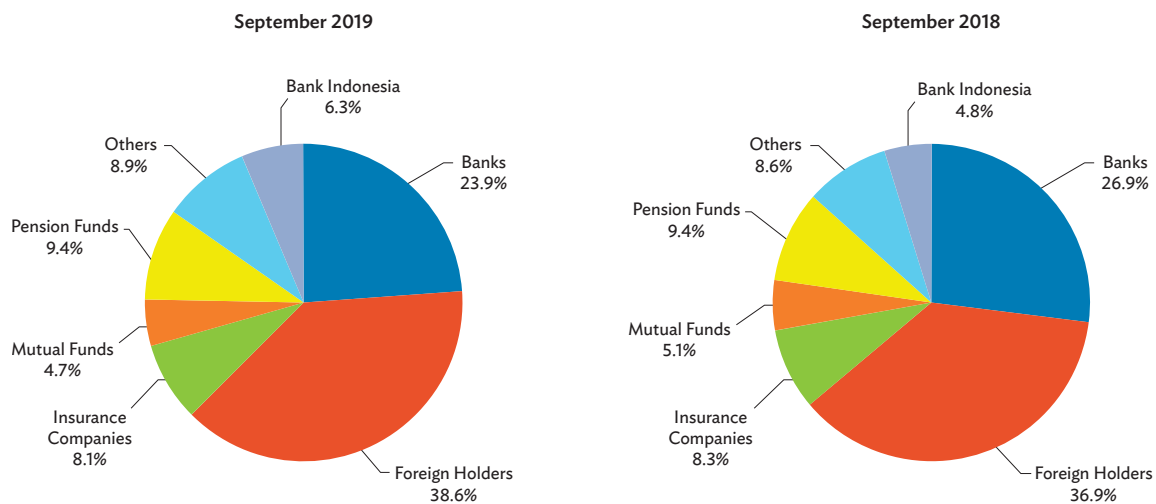
Notes:

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

2. *Sukuk ijarah* are Islamic bonds backed by lease agreements.

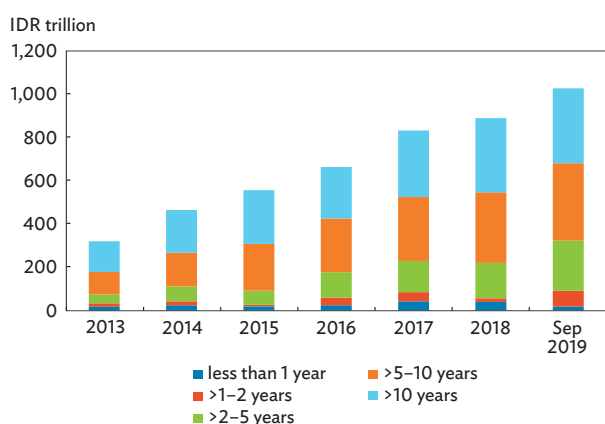
Source: Indonesia Stock Exchange.

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.

their holdings declined to 23.9% of the total at the end of September from a 26.9% share a year earlier. Marginal declines in the holdings of insurance companies (8.1%) and mutual funds (4.7%) were also noted during the review period.

Bank Indonesia posted the largest increase in bond holdings among domestic investors, gaining 1.5 percentage points to climb to a 6.3% share at the end of September from 4.8% a year earlier.

Policy, Institutional, and Regulatory Developments

Government Reduces Tax on Interest Income from Bonds

In August, the Government of Indonesia signed a new regulation that will lower the tax on interest income from bond investments to 5.0% from 15.0% for infrastructure investment funds, real estate investment funds, and asset-backed securities. The reduction in taxes will take effect in 2020 and be adjusted to 10.0% by 2021, making the applicable tax rates for these financial products at par with those of mutual funds.

Bank Indonesia and Bank Negara Malaysia Sign Local Currency Bilateral Agreement

In September, Bank Indonesia and Bank Negara Malaysia signed a bilateral agreement to strengthen monetary and financial cooperation. The two central banks agreed on an LCY bilateral agreement of up to USD2.0 billion (or the equivalent of MYR8.0 billion or IDR28.0 trillion). The LCY bilateral agreement will remain effective for 3 years and is subject to extension. Also, the two central banks signed a memorandum of understanding for the development of payment systems and digital financial innovation.

Bank Indonesia and Monetary Authority of Singapore Extends Bilateral Financial Cooperation

In November, Bank Indonesia and Monetary Authority of Singapore extended their bilateral financial cooperation agreement for another year. The arrangement was established in November 2018, which allows access for foreign currency liquidity between the two parties. The bilateral financial cooperation comprises an LCY bilateral swap arrangement of up to USD7.0 billion (SGD9.5 billion or IDR100 trillion) and a bilateral repo line worth USD3.0 billion (SGD4.1 billion or IDR43 trillion).