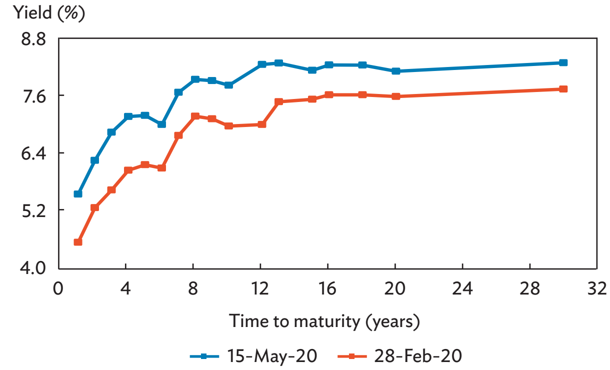
Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia climbed across all tenors, leading the yield curve to shift upward between 28 February and 15 May (**Figure 1**). Bond yields rose an average of 95 basis points (bps) for the 1-year maturity through the 13-year maturity. Yields climbed the most for the 3-year, 4-year, 5-year, and 12-year tenors, with upticks of over 100 bps for each during the review period. For maturities of 15 years and longer, bond yields climbed an average of 57 bps. The spread between the 2-year and 10-year maturities narrowed to 154 bps on 15 May from 167 bps on 28 February.

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



Source: Based on data from Bloomberg LP.

The overall rise in yields was largely driven by a market sell-off as investor sentiments soured amid heightened global market uncertainty. As the coronavirus disease (COVID-19) pandemic spread globally, rising risk aversion led investors to shift toward safe-haven assets. This resulted in the steep decline in Indonesia's foreign holdings share from 38.6% at the end of December to 32.7% at the end of March, and further to 30.3% on 15 May. Record-level foreign capital outflows from Indonesia's bond market were also recorded in March.

Further contributing to the risk-off sentiment was S&P Global's downward revision of the sovereign rating outlook of Indonesia from stable to negative in April. The rise in yields was also reflective of the government's need for a wider budget deficit to fund COVID-19-related stimulus measures and recovery efforts, as well as of Bank Indonesia's less aggressive monetary policy stance compared with regional peers.

While there is room for monetary easing amid tame inflation and given the need to bolster economic growth, Bank Indonesia had only lowered policy rates by a cumulative 50 bps year-to-date through the end of May. The central bank opted to support the Indonesian rupiah, whose value once again weakened to its 1997/98 Asian financial crisis level of IDR16,000 per USD1, which was last seen in 2018 when the United States (US) Federal Reserve tightened monetary policy. To maintain financial market stability, Bank Indonesia has opted to inject liquidity in the money market and banking system through interventions and bond buy-backs, repurchase transactions, foreign currency swaps, and a reduction in the rupiah reserve requirement ratio.

The Indonesian rupiah fell to its lowest level year-to-date on 23 March at IDR16,575 per USD1, before recovering after Bank Indonesia signed a deal with the Federal Reserve for a repo facility worth USD60 billion. Between 28 February and 15 May, the Indonesian rupiah depreciated the most among all emerging East Asian currencies, weakening 3.6% versus the US dollar.

Indonesia was among three markets in the region that posted positive economic growth in the first quarter (Q1) of 2020. Real gross domestic product growth moderated to 3.0% year-on-year (y-o-y) in Q1 2020 from 5.0% y-o-y in the fourth quarter (Q4) of 2019. Gross domestic product growth slowed as all expenditure components posted weaker growth. Domestic consumption rose 2.8% y-o-y in Q1 2020 versus 5.0% y-o-y in Q4 2019, while investment growth slowed to 1.7% y-o-y from 5.0% y-o-y during the same period. Bank Indonesia expects economic growth to slow further during the rest of 2020 due to the COVID-19 pandemic.

Size and Composition

The LCY bond market in Indonesia reached a size of IDR3,324.7 trillion (USD203.8 billion) at the end of March on marginal growth of 0.4% quarter-on-quarter (q-o-q) in Q1 2020, down from 2.5% q-o-q in Q4 2019 (**Table 1**). Growth came largely from an expansion in the stock of central government bonds, comprising Treasury bills and Treasury bonds. The stocks of both central bank bills and corporate bonds contracted during the quarter in review. On a y-o-y basis, overall growth of the bond market moderated to 7.8% in Q1 2020 from 16.6% in Q4 2019.

The LCY bond market in Indonesia largely comprises government bonds, with a share of 86.7% of the aggregate bond total at the end of March. The remaining 13.3% share was accounted for by corporate bonds. Similarly, conventional bonds accounted for a larger share of the aggregate bond total, representing an 83.6% share during the period. At the end of March, *sukuk* (Islamic bonds) had a share of 16.4%.

Government bonds. The outstanding size of government bonds reached IDR2,881.8 trillion at the end of March, up 0.6% q-o-q and 8.4% y-o-y. Growth was solely contributed by central government bonds, particularly conventional bonds. The stock of central government *sukuk* declined during the review period. The stock of central bank bonds also contracted, but with declines coming from conventional central bank instruments rather than *sukuk*.

Central government bonds. The outstanding stock of central government bonds stood at IDR2,833.4 trillion at the end of March on growth of 2.9% q-o-q and 12.1% y-o-y. While positive, growth in Q1 2020 moderated from that of Q4 2019. Despite strong issuance volume in Q1 2020 due to the Ministry of Finance's adoption of a frontloading policy as in past years, a high volume of maturities during the quarter capped the outstanding size of central government bonds.

The issuance of Treasury bills and Treasury bonds climbed to IDR199.0 trillion, up 38.2% q-o-q but down 19.8% y-o-y. The government accepted bids higher than its targeted amount in 9 out of 13 Treasury auctions, in line with its frontloading policy. Two Treasury auctions were under-awarded while two were awarded at par with the target. The government also raised funds from the private placement of select Treasury bonds during the quarter. An Islamic retail bond was offered via bookbuilding in March, with the government raising IDR12.1 trillion from the sale. A higher volume of Treasury issuance is expected during the rest of the year as the government aims for a wider budget deficit to fund its stimulus measures and recovery efforts to combat the impact of the COVID-19 pandemic.

Central bank bonds. At the end of March, the outstanding amount of central bank instruments, comprising Sertifikat Bank Indonesia and Sukuk Bank Indonesia, reached IDR48.4 trillion. The stock of central bank bonds was down 57.1% q-o-q and 63.2% y-o-y in Q1 2020 as maturities greatly exceeded issuance during the quarter. Total issuance of central bank instruments in Q1 2020 was broadly at par with the preceding quarter as the central bank opted to boost financial market liquidity.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**3,083,746**	**217**	**3,310,632**	**239**	**3,324,692**	**204**	**8.7**	**18.7**	**0.4**	**7.8**
Government	2,659,664	187	2,865,531	207	2,881,782	177	9.6	21.0	0.6	8.4
Central Govt. Bonds	2,527,993	177	2,752,741	199	2,833,359	174	6.7	15.7	2.9	12.1
of which: *Sukuk*	427,277	30	485,534	35	478,152	29	8.7	29.8	(1.5)	11.9
Central Bank Bonds	131,671	9	112,790	8	48,423	3	127.5	913.1	(57.1)	(63.2)
of which: *Sukuk*	24,915	2	31,174	2	36,173	2	148.1	91.7	16.0	45.2
Corporate	424,082	30	445,101	32	442,909	27	3.0	5.9	(0.5)	4.4
of which: *Sukuk*	24,606	2	28,673	2	30,200	2	15.5	49.6	5.3	22.7

( ) = negative, IDR = Indonesian rupiah, 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 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 31 March 2020 stood at IDR204.9 trillion.
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; Indonesia Stock Exchange; and Bloomberg LP.

Corporate bonds. Total corporate bonds outstanding stood at IDR442.9 trillion at the end of March, down 0.5% q-o-q but up 4.4% y-o-y. The stock of corporate bonds declined as issuance during the quarter was reduced by nearly half to IDR18.8 trillion from IDR34.2 trillion in the previous quarter. Corporates reconsidered their issuance plans due to the slowdown in the economy and falling consumption demand. Also, some corporates opted to delay issuing bonds in line with current market conditions as borrowing costs remained high following the uptick in government bond yields.

The 30 largest corporate bond issuers in Indonesia had an aggregate outstanding bond stock of IDR330.3 trillion at the end of March, down from IDR332.1 trillion at the end of December (**Table 2**). The top 30 corporate issuers accounted for 74.6% of the aggregate corporate bond stock during the review period. Firms from the banking and financial sectors continued to dominate the list. Other firms on the list were from the energy, telecommunications, construction, and transportation sectors, among others. A total of 17 institutions on the list were state-owned firms, eight of which were also among the top 10 in Q1 2020. A total of 17 of the top issuers were listed on the Indonesia Stock Exchange.

Leading the list of top 30 corporate issuers were six state-owned entities, with the top spot occupied by energy firm Perusahaan Listrik Negara (PLN). Indonesia Eximbank was bumped to the second spot during the quarter, while Bank Rakyat Indonesia rose to the third spot. Sarana Multi Infrastruktur slid to fourth place, and Bank Tabungan kept the fifth spot.

In Q1 2020, new issuance of corporate bonds declined to IDR18.8 trillion from IDR34.2 trillion in the preceding quarter. Issuance volume fell 44.9% q-o-q and 14.3% y-o-y, dragged down by uncertainties in the economy due to the COVID-19 outbreak. A total of 13 firms tapped the bond market for funding during the quarter, compared with 24 firms in Q4 2019. Most of the new bond issues were conventional bonds. Two firms also issued *sukuk ijarah* (Islamic bonds backed by lease agreements) and one bank issued *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership).

The largest issuance during the quarter came from PLN, which issued an IDR4.9 trillion multi-tranche bond in February (**Table 3**). PLN issued both conventional bonds and *sukuk ijarah*. Financing firm Sarana Multigriya Finansial raised IDR4.0 trillion. This was followed by Astra Sedaya Finance with issuance of IDR2.2 trillion. Medco Energi Internasional and Tower Bersama Infrastructure each issued bonds worth IDR1.5 trillion during the quarter.

Investor Profile

Foreign investors continued to comprise the largest investor group in the LCY central government bond market segment. This was despite a decrease in their holdings to a share of 32.7% at the end of March from 38.3% a year earlier (**Figure 2**). A market sell-off in Q1 2020 resulted in investors dumping Indonesian bonds in favor of safe-haven assets amid heightened uncertainties due to the COVID-19 pandemic. Government bonds held by foreign investors dropped to IDR926.9 trillion at the end of March from IDR927.1 trillion a year earlier.

Long-term government bonds remained the favorite among foreign bond holders. Bonds with remaining maturities of at least 10 years and from over 5 years to 10 years accounted for 35.0% and 31.6%, respectively, of total central government bond holdings among nonresident investors (**Figure 3**). Bonds maturing in more than 2 years to 5 years accounted for a 23.1% share, and bonds maturing in more than a year to 2 years had a 7.9% share. The remaining 2.4% of the government bonds held by foreign investors will mature in less than a year.

Banking institutions continued to hold the biggest share of central government bonds among local investors, increasing their share from 25.7% at the end of March 2019 to 26.9% at the end of March 2020. Bank Indonesia nearly doubled its government bond holdings to IDR255.1 trillion at the end of March from IDR132.0 trillion in March 2019, growing its share of government bonds outstanding to 9.0% from 5.2% a year earlier.

Other domestic investors that posted increases in their holdings of central government bonds were pension funds and mutual funds. Pension fund holdings of central government bonds rose to 9.6% in March from 8.9% a year earlier, and mutual fund holdings inched up to 4.6% from 4.5% in the same period. In contrast, the holdings of insurance providers declined to a share of 8.0% from 8.2% at the end of March 2019.

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.	Perusahaan Listrik Negara	32,675	2.00	Yes	No	Energy
2.	Indonesia Eximbank	32,487	1.99	Yes	No	Banking
3.	Bank Rakyat Indonesia	25,026	1.53	Yes	Yes	Banking
4.	Sarana Multi Infrastruktur	21,866	1.34	Yes	No	Finance
5.	Bank Tabungan Negara	19,847	1.22	Yes	Yes	Banking
6.	Sarana Multigriya Finansial	16,422	1.01	Yes	No	Finance
7.	Indosat	15,716	0.96	No	Yes	Telecommunications
8.	Bank Mandiri	14,000	0.86	Yes	Yes	Banking
9.	Bank Pan Indonesia	13,427	0.82	No	Yes	Banking
10.	Waskita Karya	12,960	0.79	Yes	Yes	Building Construction
11.	Bank CIMB Niaga	10,350	0.63	No	Yes	Banking
12.	Adira Dinamika Multifinance	9,647	0.59	No	Yes	Finance
13.	Telekomunikasi Indonesia	8,995	0.55	Yes	Yes	Telecommunications
14.	Permodalan Nasional Madani	8,189	0.50	Yes	No	Finance
15.	Federal International Finance	7,986	0.49	No	No	Finance
16.	Pupuk Indonesia	7,945	0.49	Yes	No	Chemical Manufacturing
17.	Semen Indonesia	7,078	0.43	Yes	Yes	Cement Manufacturing
18.	Astra Sedaya Finance	6,958	0.43	No	No	Finance
19.	Perum Pegadaian	6,851	0.42	Yes	No	Finance
20.	Hutama Karya	6,825	0.42	Yes	No	Nonbuilding Construction
21.	Medco Energi Internasional	6,452	0.40	No	Yes	Petroleum and Natural Gas
22.	Bank Maybank Indonesia	5,831	0.36	No	Yes	Banking
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,000	0.31	Yes	Yes	Banking
24.	Mandiri Tunas Finance	4,730	0.29	No	No	Finance
25.	Tower Bersama Infrastructure	4,488	0.28	No	Yes	Telecommunications Infrrastructure Provider
26.	Adhi Karya	4,027	0.25	Yes	Yes	Building Construction
27.	Kereta Api	4,000	0.25	Yes	No	Transportation
28.	XL Axiata	3,815	0.23	No	Yes	Telecommunications
29.	Maybank Indonesia Finance	3,550	0.22	No	No	Finance
30.	Chandra Asri Petrochemicals	3,139	0.19	No	Yes	Petrochemicals
Total Top 30 LCY Corporate Issuers		**330,279**	**20.25**			
Total LCY Corporate Bonds		**442,909**	**27.16**			
Top 30 as % of Total LCY Corporate Bonds		**74.6%**	**74.6%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 31 March 2020.
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.

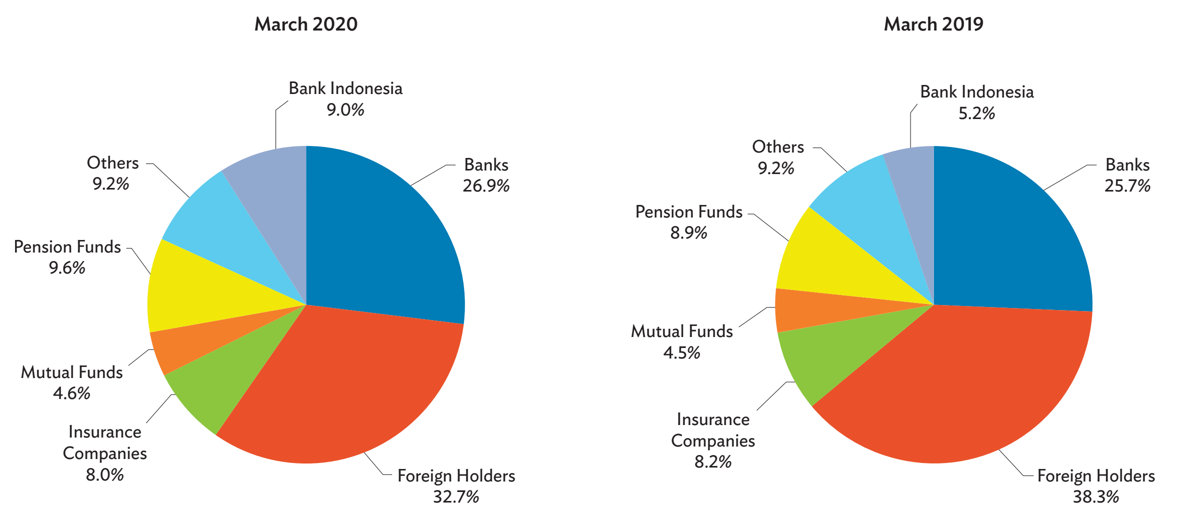
Table 3: Notable Local Currency Corporate Bond Issuance in the First Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Perusahaan Listrik Negara		
5-year bond	7.70	540.63
7-year bond	7.40	672.50
7-year *sukuk ijarah*	7.40	40.50
10-year bond	8.00	544.25
10-year *sukuk ijarah*	8.00	3.50
15-year bond	8.70	1,459.00
15-year *sukuk ijarah*	8.70	9.00
20-year bond	9.05	1,596.05
20-year *sukuk ijarah*	9.05	62.50

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Sarana Multigriya Finansial		
370-day bond	6.00	1,460.00
5-year bond	7.00	2,541.00
Astra Sedaya Finance		
370-day bond	5.80	882.00
5-year bond	7.00	1,301.05
Medco Energi Internasional		
3-year bond	8.90	1,023.70
5-year bond	9.30	476.30
Tower Bersama Infrastructure		
370-day bond	6.25	633.00
3-year bond	7.75	867.00

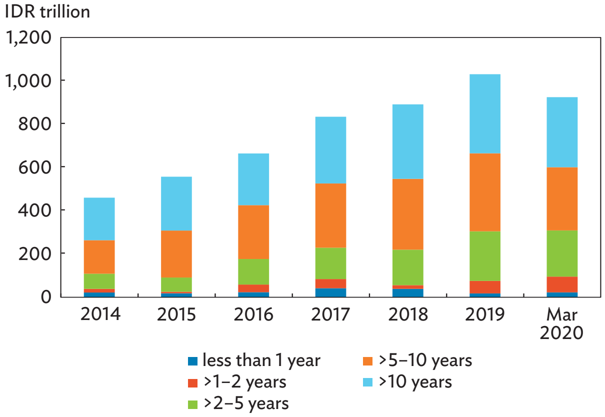
IDR = Indonesian rupiah.
Note: *Sukuk ijarah* are Islamic bonds backed by lease agreements.
Source: Indonesia Stock Exchange.

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.

Ratings Update

On 17 April, S&P Global affirmed the sovereign credit rating of Indonesia at BBB. The outlook on the rating was revised downward to negative from stable. S&P Global cited Indonesia's stable institutional settings, strong growth prospects, and historically prudent fiscal policy as the factors for the rating affirmation. On the other hand, the negative outlook was based on S&P Global's expectation of increased fiscal and external risks underpinned by higher government borrowing amid the COVID-19 pandemic.

Policy, Institutional, and Regulatory Developments

Otoritas Jasa Keuangan Issues Regulations for the Issuance of Debt Securities Through Private Placements

In March, Otoritas Jasa Keuangan (OJK) issued regulations for the issuance of debt instruments, including *sukuk*, through private placements. The regulations, which are set to became effective in June, placed the legality of instruments issued through private placements similar to that of bonds and provide investor protections. Under the regulations, firms that undertake issuance of debt securities—in particular, medium-term notes or *sukuk*—through a private placement will be required to (i) file for registration with OJK, (ii) obtain an investment grade from an OJK-certified credit rating agency for persons outside the scope of public companies, (iii) avail the services of an arranger and monitoring agent, and (iv) limit the buying of medium-term notes to professional investors.

Bank Indonesia Lowers Reserve Requirement Ratios

In April, Bank Indonesia announced a 200-bps reduction in the rupiah reserve requirement ratio for conventional commercial banks and a 50-bps cut for Islamic banks and Islamic business units. The adjustment in reserve requirement ratios took effect in May and formed part of Bank Indonesia's accommodative macroprudential policy stance to stimulate bank intermediation and mitigate the economic impact of COVID-19.

Bank Indonesia and the Federal Reserve Agree to a USD60 Billion Repo Facility

In April, Bank Indonesia reached a deal with the Federal Reserve for a USD60 billion repurchase agreement (repo) facility. According to Bank Indonesia, the repo facility is intended as a second line of defense aside from the bilateral swap agreements it has signed with other markets to boost US dollar liquidity. Bank Indonesia has been engaging in interventions to help stabilize the Indonesian rupiah since February.

Bank Indonesia to Purchase Government Bonds in the Primary Market

In April, Bank Indonesia commenced its participation in the weekly auctions of the government to purchase Treasury instruments. Previously, Bank Indonesia was only allowed to purchase bonds from the secondary market. The regulation in lieu of Law 1/2020 that was passed in March, allows the central bank to participate in the weekly auctions as a noncompetitive bidder. Bank Indonesia and the Ministry of Finance set a limit on the central bank's bond purchases at 30% for Shari'ah Treasury auctions and 25% for conventional Treasury auctions. Bank Indonesia's purchase of government bonds in the primary market is only allowed when the market is unable to absorb the offers.