

## Indonesia

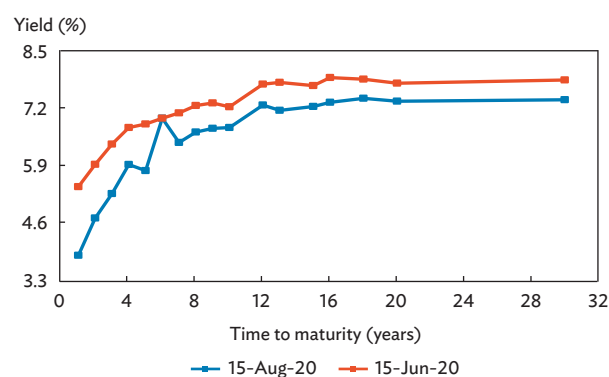
### Yield Movements

Between 15 June and 15 August, local currency (LCY) government bond yields in Indonesia fell for all tenors except the 6-year maturity, which was unchanged (**Figure 1**). Bond yields declined more at the shorter-end of the curve than at the longer-end. Yields shed an average of 116 basis points (bps) for maturities of 1 year to 5 years, while they fell an average of 52 bps for maturities of 7 years to 30 years. The spread between the 2-year and 10-year tenors widened from 130 bps on 15 June to 205 bps on 15 August.

The overall decline in yields was largely influenced by Bank Indonesia's accommodative monetary stance. During the review period, Bank Indonesia reduced its key policy rate by 25 bps once in June and again in July, which brought the 7-day reverse repurchase rate to a 4-year low of 4.0%. Bank Indonesia said that the moves were in line with efforts to preserve economic stability and support economic growth. The central bank had reduced its policy rate by a cumulative 100 bps since the start of the year through the middle of August. Bank Indonesia was among emerging East Asia's central banks that have reduced policy rates substantially this year. In its Board of Governors meeting held on 18–19 August, the central bank decided to leave the 7-day reverse repurchase rate at its current level. It also left unchanged the deposit facility rate at 3.25% and the lending facility rate at 4.75%. Bank Indonesia noted that the current level was appropriate and that it would work on other measures to promote economic recovery by improving liquidity conditions.

The drop in bond yields was also driven by the bleak economic outlook amid the coronavirus disease (COVID-19) outbreak. Economic activities were halted due to lockdowns and social restrictions to curb the transmission of the virus. As a result, the Indonesian economy recorded a contraction in the second quarter (Q2) of 2020, with real gross domestic product (GDP) growth falling 5.3% year-on-year (y-o-y) after rising 3.0% y-o-y in the first quarter (Q1) of 2020. In August, the Ministry of Finance revised downward its economic growth projection for 2020 to a range of between -1.1% to 0.2% from an earlier estimate of -0.4% to 2.3%.

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



Source: Based on data from Bloomberg LP.

Investment sentiment remained weak over concerns of an increased debt supply as well as debt monetization. A wider budget deficit set at a ceiling of 6.34% of GDP is expected to help fund the government's large-scale stimulus and recovery measures. Regulations allowing the central bank to purchase bonds directly from the government also raised investor concerns. Since April, the government has allowed Bank Indonesia to purchase government bonds during weekly Treasury auctions.

These factors also contributed to the overall weakness in the Indonesian rupiah during the review period. The rupiah recorded the fastest depreciation among emerging East Asian currencies. Despite the overall weakness of the United States dollar since May of this year, the Indonesian rupiah weakened by 4.6% versus the dollar between 15 June and 15 August.

### Size and Composition

Indonesia's LCY bond market surged to a size of IDR3,585.2 trillion (USD251.3 billion) at the end of June, with growth accelerating to 7.8% quarter-on-quarter (q-o-q) from only 0.4% q-o-q in Q1 2020 (**Table 1**). Indonesia posted the fastest q-o-q growth among emerging East Asian LCY bond markets at the end of June. Growth was largely driven by increases in the stock of government bonds, particularly Treasury bills and Treasury bonds. Central bank instruments also

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2019		Q1 2020		Q2 2020		Q2 2019		Q2 2020	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>3,069,867</b>	<b>217</b>	<b>3,324,692</b>	<b>204</b>	<b>3,585,233</b>	<b>251</b>	<b>(0.5)</b>	<b>17.6</b>	<b>7.8</b>	<b>16.8</b>
Government	2,652,610	188	2,881,782	177	3,155,519	221	(0.3)	20.1	9.5	19.0
Central Govt. Bonds	2,531,039	179	2,833,359	174	3,105,895	218	0.1	15.2	9.6	22.7
of which: <i>Sukuk</i>	420,064	30	478,152	29	579,263	41	(1.7)	18.6	21.1	37.9
Central Bank Bonds	121,571	9	48,423	3	49,624	3	(7.7)	915.9	2.5	(59.2)
of which: <i>Sukuk</i>	21,938	2	36,173	2	38,874	3	(11.9)	83.3	7.5	77.2
Corporate	417,257	30	442,909	27	429,715	30	(1.6)	3.7	(3.0)	3.0
of which: <i>Sukuk</i>	24,133	2	30,200	2	29,382	2	(1.9)	64.3	(2.7)	21.8

( ) = 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 2020 stood at IDR176.1 trillion.

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

contributed to overall growth but to a lesser extent, while corporate bonds posted contractions during the quarter. On an annual basis, LCY bond market growth accelerated to 16.8% y-o-y in Q2 2020 from 7.8% y-o-y in Q1.

The LCY bond market in Indonesia is dominated by government bonds, which accounted for a share of 88.0% of the aggregate bond total at the end of June. Corporate bonds accounted for the remaining 12.0% share. Conventional bonds accounted for a majority share of the total bond stock, representing 81.9% of the total bond stock at the end of June. The share of *sukuk* (Islamic bonds) inched up to 18.1% in the same period.

**Government bonds.** The total stock of government bonds at the end of June stood at IDR3,155.5 trillion on growth of 9.5% q-o-q and 19.0% y-o-y. Much of the growth stemmed from expansions in the stock of central government bonds during the review period.

**Central government bonds.** At the end of June, the size of central government bonds reached IDR3,105.9 trillion, as growth quickened to 9.6% q-o-q and 22.7% y-o-y in Q2 2020 from 2.9% q-o-q and 12.1% y-o-y in Q1 2020. The Ministry of Finance issued Treasury instruments during the quarter at an increased pace to help fund the government's wider budget deficit.

In Q2 2020, issuance of Treasury bills and Treasury bonds totaled IDR326.2 trillion, higher by 84.5% q-o-q and 116.9% y-o-y. The government accepted more bids than

its targeted amount in most of its Treasury auctions during the quarter. In addition to the weekly Treasury auctions, the government undertook private placements of select conventional bonds and *sukuk* during the quarter.

**Central bank bonds.** Central bank bonds outstanding, which comprised Sertifikat Bank Indonesia and Sukuk Bank Indonesia, tallied IDR49.6 trillion at the end of June. This represented a hike of 2.5% q-o-q but was down by 59.2% y-o-y. Issuance of central bank instruments during Q2 2020 totaled IDR113 trillion, slightly down from IDR115 trillion in Q1 2020.

**Corporate bonds.** At the end of June, the total corporate bond stock reached IDR429.7 trillion on a decline of 3.0% q-o-q but an increase of 3.0% y-o-y. The amount of corporate bonds outstanding declined on weak issuance since the start of this year.

The aggregate bond stock of Indonesia's 30 largest corporate bond issuers slipped to IDR318.7 trillion at the end of June (Table 2). This was down from IDR330.3 trillion recorded at the end of March. Together, the top 30 issuers represented a 74.2% share of the total bond stock at the end of June. Out of the 30 firms on the list, 17 institutions were from the banking and financial industry. Other corporates on the list were from the telecommunications, construction, and transportation sectors. Similar to Q1 2020, 17 firms from the top 30 list were state-owned companies, and 17 institutions were listed on the Indonesia Stock Exchange.

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	34,412	2.41	Yes	No	Energy
2.	Indonesia Eximbank	32,110	2.25	Yes	No	Banking
3.	Bank Rakyat Indonesia	23,282	1.63	Yes	Yes	Banking
4.	Sarana Multi Infrastruktur	21,866	1.53	Yes	No	Finance
5.	Bank Tabungan Negara	18,197	1.28	Yes	Yes	Banking
6.	Sarana Multigriya Finansial	15,596	1.09	Yes	No	Finance
7.	Indosat	14,437	1.01	No	Yes	Telecommunications
8.	Bank Mandiri	14,000	0.98	Yes	Yes	Banking
9.	Bank Pan Indonesia	13,427	0.94	No	Yes	Banking
10.	Waskita Karya	12,960	0.91	Yes	Yes	Building Construction
11.	Bank CIMB Niaga	10,350	0.73	No	Yes	Banking
12.	Telekomunikasi Indonesia	8,995	0.63	Yes	Yes	Telecommunications
13.	Permodalan Nasional Madani	8,439	0.59	Yes	No	Finance
14.	Adira Dinamika Multifinance	8,232	0.58	No	Yes	Finance
15.	Pupuk Indonesia	7,945	0.56	Yes	No	Chemical Manufacturing
16.	Semen Indonesia	7,078	0.50	Yes	Yes	Cement Manufacturing
17.	Astra Sedaya Finance	6,958	0.49	No	No	Finance
18.	Hutama Karya	6,500	0.46	Yes	No	Nonbuilding Construction
19.	Medco-Energi Internasional	6,183	0.43	No	Yes	Petroleum and Natural Gas
20.	Perum Pegadaian	6,151	0.43	Yes	No	Finance
21.	Federal International Finance	5,910	0.41	No	No	Finance
22.	Bank Maybank Indonesia	5,423	0.38	No	Yes	Banking
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,000	0.35	Yes	Yes	Banking
24.	Mandiri Tunas Finance	4,120	0.29	No	No	Finance
25.	Adhi Karya	4,027	0.28	Yes	Yes	Building Construction
26.	Kereta Api	4,000	0.28	Yes	No	Transportation
27.	Maybank Indonesia Finance	3,550	0.25	No	No	Finance
28.	XL Axiata	3,413	0.24	No	Yes	Telecommunications
29.	Chandra Asri Petrochemicals	3,139	0.22	No	Yes	Petrochemicals
30.	Tower Bersama Infrastructure	3,038	0.21	No	Yes	Telecommunications Infrastructure Provider
<b>Total Top 30 LCY Corporate Issuers</b>		<b>318,735</b>	<b>22.34</b>			
<b>Total LCY Corporate Bonds</b>		<b>429,715</b>	<b>30.12</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>74.2%</b>	<b>74.2%</b>			

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

Notes:

1. Data as of 30 June 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.

The composition of the top five firms on the list was unchanged from that at the end of March. State-owned energy firm Perusahaan Listrik Negara (PLN) remained in the top spot with outstanding bonds of IDR34.4 trillion. The second through fifth spots were occupied by state-owned firms from the banking and financial sector: Indonesia Eximbank (IDR32.1 trillion), Bank Rakyat Indonesia (IDR23.3 trillion), Sarana Multi Infrastruktur (IDR21.9 trillion), and Bank Tabungan Negara (IDR18.2 trillion).

Total corporate bond issuance reached IDR8.6 trillion in Q2 2020, down by 54.6% q-o-q and 70.2% y-o-y. Some companies reconsidered their issuance plans given the economic slowdown resulting from the COVID-19 outbreak. In addition, market conditions were not yet conducive for issuing bonds due to higher costs. While Bank Indonesia has reduced policy rates, government bond yields, which are used as benchmark reference pricing, remain elevated.

During the quarter, 15 firms raised funds from the bond market, adding 29 new bond series to the corporate bond stock. Of the new bond series, only two were *sukuk*, both of which were issued by state-owned Perum Pegadaian and structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership). The longest-dated new corporate bond issue in Q2 2020 was PLN's 10-year bond issue.

Leading the list of new corporate issuance during the quarter was PLN, with issuance valued at IDR1,737.1 billion in four tranches (**Table 3**). It was followed by Indah Kiat Pulp and Paper, with issuance totaling IDR1,391.1 billion in three tranches. Taking the third spot was Bank Mandiri's aggregate issuance worth IDR1,000 billion in two tranches.

## Investor Profile

Heightened risk aversion brought about by the COVID-19 outbreak led to net outflows of foreign funds from the LCY government bond market in the first half of 2020; however, net inflows were noted in May and June. As a result, the foreign investors' share, which used to comprise the largest share of government bonds, fell to 30.2% at the end of June from 39.1% a year earlier (**Figure 2**). The total amount of bonds held by foreign investors fell to IDR937.0 trillion from IDR988.8 trillion at the end of June 2019.

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

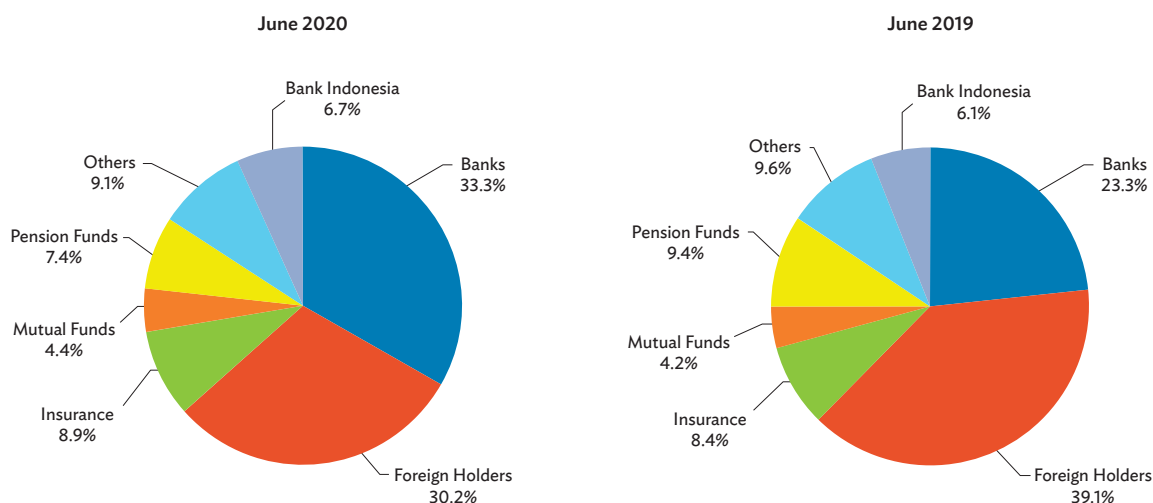
Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Perusahaan Listrik Negara		
3-year bond	7.92	316.70
5-year bond	8.25	99.16
7-year bond	8.55	312.18
10-year bond	9.10	1,009.10
Indah Kiat Pulp & Paper		
370-day bond	9.00	495.50
3-year bond	10.25	883.48
5-year bond	11.00	12.10
Bank Mandiri		
5-year bond	7.75	350.00
7-year bond	8.30	650.00
SMART		
3-year bond	8.50	608.50
5-year bond	9.00	166.50
Toyota Astra Financial		
370-day bond	7.10	206.00
3-year bond	8.25	539.05

IDR = Indonesian rupiah.  
Source: Indonesia Stock Exchange.

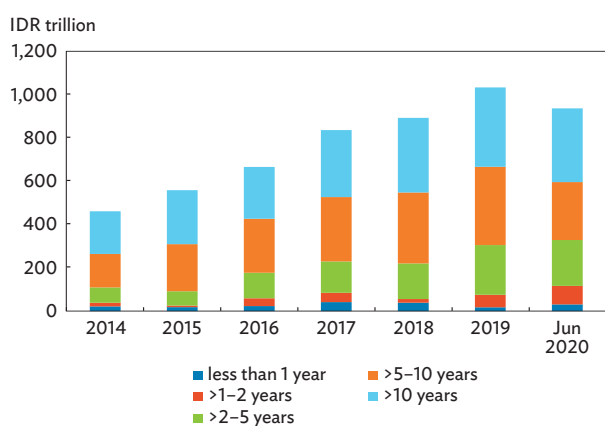
A relatively larger share of foreign investor holdings of government bonds is in longer-term maturities (**Figure 3**). Among foreign investor holdings, the share of bonds with maturities longer than 10 years stood at 36.4% at the end of June 2020. Bonds with maturities of between 5 years and 10 years were the second most popular, comprising 28.6% of foreign holdings. Only 3.3% of bonds held by foreign investors carried a maturity of less than a year.

As a result of the foreign investor outflows, banks became the dominant holder of government bonds, with their share rising from 23.3% at the end of June 2019 to 33.3% at the end of June 2020. Banks were aggressive buyers, with the total amount of government bonds held rising to IDR1,034.3 trillion at the end of June 2020 from IDR588.8 trillion a year earlier.

Other domestic investors that posted increases in their holdings of government bonds during the review period were insurance firms, mutual funds, and Bank Indonesia. The government bond holdings of insurance firms inched up to a share of 8.9% of the total at the end of June 2020 from 8.4% in the same period a year earlier. Mutual fund holdings of government bonds rose to a share of 4.4% from 4.2% in the same period, while Bank Indonesia's share rose to 6.7% from 6.1%.

**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.

The share of other investors fell to 9.1% at the end of June 2020 from 9.6% at the end of June 2019. The share of pension funds declined, falling to 7.4% from 9.4% in the same review period as pension funds reduced their holdings of government bonds to IDR230.2 trillion from IDR237.0 trillion.

## Ratings Update

On 10 August, Fitch Ratings (Fitch) affirmed the sovereign credit rating of Indonesia at BBB. The rating was given a stable outlook. Fitch cited the sovereign's favorable growth outlook in the medium term and low debt-to-GDP ratio as the factors for the rating affirmation. The rating agency also noted the challenges faced by Indonesia including (i) high dependence on external financing, (ii) low government revenue, and (iii) lagging structural features compared with other similarly-rated sovereigns.

## Policy, Institutional, and Regulatory Developments

### 2020 State Budget Deficit Estimated to Reach 6.34% of Gross Domestic Product

In June, a second revision to the 2020 state budget was signed into law, which called for increased spending and a wider budget deficit to support the economy amid the COVID-19 outbreak. The second revision to the 2020 state budget estimates a deficit amounting to IDR1.03 quadrillion, which is equivalent to 6.34% of GDP, up from an earlier revision announced in April of a deficit equivalent to 5.07% of GDP. The government expects state spending to hit IDR2.73 quadrillion in 2020, while state revenue is projected to be IDR1.69 quadrillion.

## Bank Indonesia and the Ministry of Finance of Japan Establish Framework for Cooperation

On 31 August, Bank Indonesia and the Ministry of Finance of Japan launched a framework for cooperation on the use of the Indonesian rupiah and the Japanese yen in the settlement of bilateral trade and direct investment. The establishment of the framework was part of the memorandum of cooperation between the two parties, which was signed on 5 December 2019. Under the framework, direct quotation between the Indonesian rupiah and the Japanese yen will be made available, and certain regulations will be relaxed, to encourage the use of the two currencies. Certain banks were also selected to serve as the appointed cross-currency dealers.