

Indonesia

Yield Movements

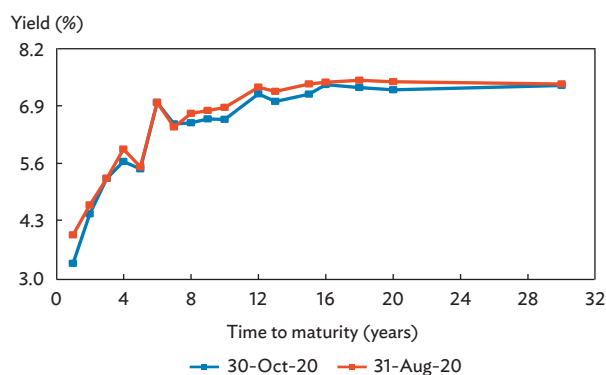
Local currency (LCY) government bond yields in Indonesia declined for most maturities between 31 August and 30 October (**Figure 1**). Yields for bonds with maturities of 4 years or less fell an average of 37 basis points (bps), while yields shed an average of 16 bps for maturities of 5 years or more. The exceptions to the declining trend in yields were the 7-year maturity, which gained by 7 bps, and the 3-year and 6-year bonds, which were unchanged during the review period. The 2-year versus 10-year spread narrowed from 219 bps on 31 August to 213 bps on 30 October.

The overall trend of declining yields was driven by expectations that Bank Indonesia would continue to maintain an easy monetary policy stance amid low inflation and a weak economic outlook. Bank Indonesia has kept its 7-day reverse repurchase rate steady at 4.00% since July. The policy rate had been lowered by a cumulative 100 bps year-to-date through the end of October. While there was still room to cut rates further, the central bank opted to utilize other monetary policy tools and macroprudential measures to ensure the stability of the Indonesian rupiah. In its meeting held on 12–13 October, Bank Indonesia's Board of Governors decided to hold its policy rate steady, while also keeping unchanged the deposit facility rate at 3.25% and the lending facility rate at 4.75%. At their current levels, the rates were deemed appropriate to ensure the rupiah's stability.

The coronavirus disease (COVID-19) outbreak in Indonesia has taken a toll on economic growth. A resurgence in the number of cases led the government to re-enforce social restrictions in September, further dampening investor sentiment in the bond market. This has led foreign investor holdings in the LCY government bond market to drop from 30.2% at the end of June to 27.0% at the end of September. In October however, investor interest picked up, leading to capital inflows for the first time since July, buoyed by the passage of the Omnibus Bill on Job Creation that is expected to improve investment climate in Indonesia.

Real gross domestic product (GDP) growth in the second quarter (Q2) of 2020 contracted 5.3% year-on-year

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



Source: Based on data from Bloomberg LP.

(y-o-y) after a 3.0% y-o-y expansion in the first quarter. While economic recovery has slowly taken ground, gross domestic product growth in the third quarter (Q3) of 2020 weakened but at a slower pace. GDP declined 3.5% y-o-y in Q3 2020 compared with -5.3% y-o-y in Q2 2020. For full-year 2020, the Ministry of Finance revised downward its economic growth projection in September to between -0.6% and -1.7% from its previous estimate of between -0.2% and -1.1% in August.

Among emerging East Asian currencies, the Indonesian rupiah depreciated the most year-to-date through 30 October, falling 5.2% vis-à-vis the United States dollar.

Size and Composition

The LCY bond market in Indonesia continued to expand to reach a size of IDR3,940.6 trillion (USD264.8 billion) at the end of September (**Table 1**). Overall growth accelerated to 9.9% quarter-on-quarter (q-o-q) in Q3 2020 after rising 7.8% q-o-q in Q2 2020. The faster growth stemmed largely from the expansion in government bonds, particularly Treasury bills and bonds, due to the government's increased borrowing needs to support its stimulus measures and recovery efforts amid the COVID-19 pandemic. Corporate bonds also contributed to growth, albeit to a lesser extent. On the other hand, the stock of central bank bills and bonds contracted during the review period. On a y-o-y basis,

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2019		Q2 2020		Q3 2020		Q3 2019		Q3 2020	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	3,218,485	227	3,585,233	251	3,940,551	265	4.8	16.4	9.9	22.4
Government	2,780,941	196	3,155,519	221	3,499,812	235	4.8	18.6	10.9	25.8
Central Govt. Bonds	2,664,332	188	3,105,895	218	3,461,396	233	5.3	15.5	11.4	29.9
of which: <i>Sukuk</i>	456,844	32	579,263	41	617,771	42	8.8	20.8	6.6	35.2
Central Bank Bonds	116,609	8	49,624	3	38,416	3	(4.1)	201.2	(22.6)	(67.1)
of which: <i>Sukuk</i>	25,674	2	38,874	3	38,416	3	17.0	141.3	(1.2)	49.6
Corporate	437,544	31	429,715	30	440,739	30	4.9	4.4	2.6	0.7
of which: <i>Sukuk</i>	30,654	2	29,382	2	30,915	2	27.0	80.5	5.2	0.9

(-) = 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. *Sukuk* refers to Islamic bonds.
5. The total stock of nontradable bonds as of 30 September 2020 stood at IDR166.8 trillion.

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

growth in the LCY bond market of Indonesia quickened to 22.4% in Q3 2020 from 16.8% in the previous quarter, making it the fastest-growing bond market in the region.

Government bonds continued to dominate the bond market, constituting nearly 90% of the entire stock of the Indonesian bond market at the end of September. About 11% of total bonds was accounted for by corporate bonds. The bulk of the aggregate bond stock comprised conventional bonds with a share of 82.6%. *Sukuk* (Islamic bonds) had a share of 17.4% at the end of the review period.

Government bonds. At the end of September, the stock of government bonds had expanded to a size of USD3,499.8 trillion. Growth accelerated to 10.9% q-o-q and 25.8% y-o-y amid increased issuance by the government. Driving growth was the increase in the stock of central government bonds, similar with the first 2 quarters of 2020.

Central government bonds. The outstanding stock of central government bonds totaled IDR3,461.4 trillion on double-digit growth of 11.4% q-o-q and 29.9% y-o-y in Q3 2020. This was up from the 9.6% q-o-q and 22.7% y-o-y expansions in Q2 2020. The uptick in size was due to active issuance by the government to fund stimulus and relief measures in its bid to shield the economy from further fallout due to the COVID-19 outbreak.

Total issuance of Treasury bills and Treasury bonds reached IDR445.5 trillion during the quarter. Issuance volume rose 45.7% q-o-q and 140.4% y-o-y. In addition to issuing in large sizes during the weekly Treasury auctions, the government also sold bonds through private placements of select government bonds. Issuance during the period also included government bond sales directly to Bank Indonesia, as part of their debt monetization agreement for this year. Also, the government sold conventional retail bonds and retail *sukuk* during the quarter, raising IDR18.3 trillion and IDR25.7 trillion, respectively. More active borrowing was necessitated by the need to fund large-scale stimulus and relief measures by the government.

Central bank bonds. At the end of September, the outstanding size of central bank bills and bonds reached IDR38.4 trillion. This represented a decline of 22.6% q-o-q in Q3 2020 following a 2.5% q-o-q hike in Q2 2020. On a y-o-y basis, the central bank bond stock declined 67.1% y-o-y in Q3 2020 after contracting 59.2% y-o-y in the preceding quarter. In Q3 2020, issuance of central bank bills and bonds summed to IDR133.2 trillion, up 17.9% q-o-q and 15.0% y-o-y.

Corporate bonds. The outstanding stock of corporate bonds totaled IDR440.7 trillion at the end of September, up 2.6% q-o-q in Q3 2020 following a decline of 3.0% q-o-q in the prior quarter. In the same period, corporate bonds grew a marginal 0.7% y-o-y after rising

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	35,986	2.42	Yes	No	Energy
2.	Indonesia Eximbank	29,600	1.99	Yes	No	Banking
3.	Sarana Multi Infrastruktur	22,292	1.50	Yes	No	Finance
4.	Bank Rakyat Indonesia	20,882	1.40	Yes	Yes	Banking
5.	Sarana Multigriya Finansial	17,524	1.18	Yes	No	Finance
6.	Bank Tabungan Negara	15,975	1.07	Yes	Yes	Banking
7.	Bank Mandiri	14,000	0.94	Yes	Yes	Banking
8.	Bank Pan Indonesia	13,427	0.90	No	Yes	Banking
9.	Waskita Karya	13,096	0.88	Yes	Yes	Building Construction
10.	Indosat	13,013	0.87	No	Yes	Telecommunications
11.	Pegadaian	10,805	0.73	Yes	No	Finance
12.	Bank CIMB Niaga	9,339	0.63	No	Yes	Banking
13.	Pupuk Indonesia	8,897	0.60	Yes	No	Chemical Manufacturing
14.	Adira Dinamika Multi Finance	8,886	0.60	No	Yes	Finance
15.	Astra Sedaya Finance	8,458	0.57	No	No	Finance
16.	Permodalan Nasional Madani	7,689	0.52	Yes	No	Finance
17.	Semen Indonesia	7,078	0.48	Yes	Yes	Cement Manufacturing
18.	Telekomunikasi Indonesia	7,000	0.47	Yes	Yes	Telecommunications
19.	Hutama Karya	6,500	0.44	Yes	No	Nonbuilding Construction
20.	Medco-Energi Internasional	6,183	0.42	No	Yes	Petroleum and Natural Gas
21.	Federal International Finance	5,452	0.37	No	No	Finance
22.	Angkasa Pura II	5,000	0.34	Yes	No	Airport Management Services
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,000	0.34	Yes	Yes	Banking
24.	Mandiri Tunas Finance	4,978	0.33	No	No	Finance
25.	Bank Maybank Indonesia	4,849	0.33	No	yes	Banking
26.	Chandra Asri Petrochemical	4,139	0.28	No	Yes	Petrochemicals
27.	Adhi Karya	4,027	0.27	Yes	Yes	Building Construction
28.	Kereta Api Indonesia	4,000	0.27	Yes	No	Transportation
29.	Maybank Indonesia Finance	3,550	0.24	No	No	Finance
30.	XL Axiata	3,413	0.23	No	Yes	Telecommunications
Total Top 30 LCY Corporate Issuers		321,038	21.58			
Total LCY Corporate Bonds		429,715	28.88			
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 September 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.

3.0% y-o-y. While issuance rebounded strongly in Q3 2020, maturities capped the overall bond total.

The 30 largest issuers of corporate bonds in Indonesia had aggregate bonds of IDR321.0 trillion at the end of September, up from IDR318.7 trillion at the end of June (**Table 2**). Collectively, the top 30 issuers accounted for a 74.7% share of the aggregate corporate bond stock at the end of the review period. Firms from the banking and financing industry continued to dominate the list of top 30 issuers. Other institutions were from highly capitalized industries such as energy, telecommunications, construction, and transportation. Out of the 30 firms on the list, 18 were state-owned firms and 16 institutions had their shares listed on the Indonesia Stock Exchange.

Remaining in the top spot was state-owned energy firm Perusahaan Listrik Negara, whose outstanding bonds climbed to IDR36.0 trillion due to a multitranches issuance in September. Keeping its ranking from the previous quarter in the second spot was Indonesia Eximbank, with its bond stock rising to IDR29.6 trillion following a new bond issuance in July. Sarana Multi Infrastruktur rose to the third spot at the end of

September from the fifth spot at the end of June, following its issuance of a triple-tranche bond in July. Dropping to the fourth spot was Bank Rakyat Indonesia (IDR20.9 trillion), while Sarana Multigriya Finansial (IDR17.5 trillion) rose to the fifth spot via its issuance of a triple-tranche bond in July.

In Q3 2020, new issuance of corporate bonds totaled IDR37.7 trillion, a more than four-fold hike from issuance in Q2 2020. Corporates accelerated their issuance of new bonds amid the low-interest-rate environment, which made it conducive to borrow. A total of 38 firms borrowed funds via the debt market and added 116 new bond series to the corporate bond total during Q3 2020. There were 23 new series of *sukuk* that were issued, 14 series of which were structured as *sukuk ijarah* (Islamic bonds backed by lease agreements). The remaining nine series were structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership). New bonds issued during the quarter had maturities ranging from 367 days to 15 years.

Among the new corporate debt issues in Q3 2020, the largest was state-owned pawnshop Pegadaian with total issuance amounting to IDR5,255 billion (**Table 3**). Its

Table 3: Notable Local Currency Corporate Bond Issuances in the Third Quarter of 2020

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Pegadaian			Sarana Multigriya Finansial		
370-day bond	6.75	1,055.00	370-day bond	6.75	1,686.00
370-day bond	5.50	1,295.00	370-day bond <i>sukuk mudharabah</i>	6.75	346.00
370-day bond <i>sukuk mudharabah</i>	6.75	316.50	5-year bond	8.10	424.00
370-day bond <i>sukuk mudharabah</i>	5.50	704.00	Pupuk Indonesia		
3-year bond	7.60	303.00	3-year bond	7.00	1,146.83
3-year bond	6.45	1,125.00	5-year bond	7.70	857.84
3-year <i>sukuk mudharabah</i>	7.60	103.00	7-year bond	8.30	431.85
3-year <i>sukuk mudharabah</i>	6.45	131.00	Angkasa Pura II		
5-year bond	7.95	142.00	3-year bond	7.80	32.00
5-year <i>sukuk mudharabah</i>	7.95	80.50	5-year bond	8.50	159.00
Global Mediacom			7-year bond	9.10	1,602
370-day bond	10.75	331.43	10-year bond	9.25	457.00
370-day bond <i>sukuk ijarah</i>	10.75	297.97	Jasa Marga		
3-year bond	11.25	367.50	3-year bond	7.90	1,100.35
3-year <i>sukuk ijarah</i>	11.25	1.60	5-year bond	8.25	286.00
5-year bond	12.00	1,075.00	7-year bond	8.60	90.05
5-year <i>sukuk ijarah</i>	12.00	430.00	10-year bond	9.00	523.60

IDR = Indonesian rupiah.

Notes:

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

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

Source: Indonesia Stock Exchange.

issuance comprised both conventional bonds and *sukuk mudharabah*, which were issued as multitranche bonds in July and September. Next was Global Mediacom’s multitranche issuance of conventional bonds and *sukuk ijarah* totaling IDR2,503.5 billion. It was followed by Sarana Multigriya Finansial with a triple-tranche issuance amounting to IDR2,456.0 billion.

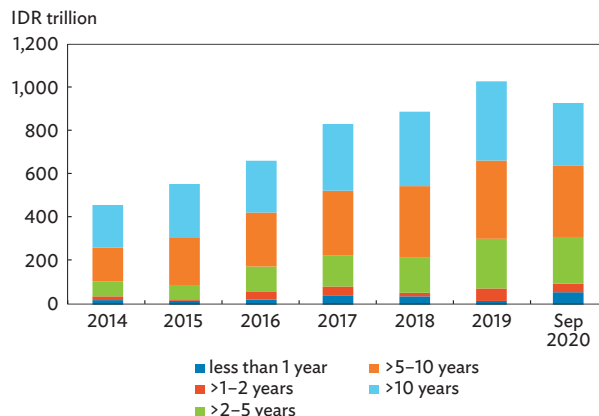
Investor Profiles

Net bond outflows in Indonesia totaled USD0.3 billion during Q3 2020. July was the only month during the quarter that experienced net bond inflows, which amounted to USD0.6 billion. However, bond outflows were recorded in August and September, with the largest outflows observed in September at USD0.6 billion.

As a result, the share of foreign holdings to bonds outstanding declined to 27.0% in Q3 2020 from 38.6% in Q3 2019 (Figure 2). The amount held by foreigners fell to IDR933.1 trillion from IDR1,029.4 trillion during the same review period. The share of foreign investors fell much more dramatically as government bonds outstanding growth accelerated as Indonesia issued more to fund its COVID-19 stimulus programs. The exodus of foreign investors was largely due to concerns regarding Indonesia’s rising debt levels, debt monetization policy, and economic slowdown.

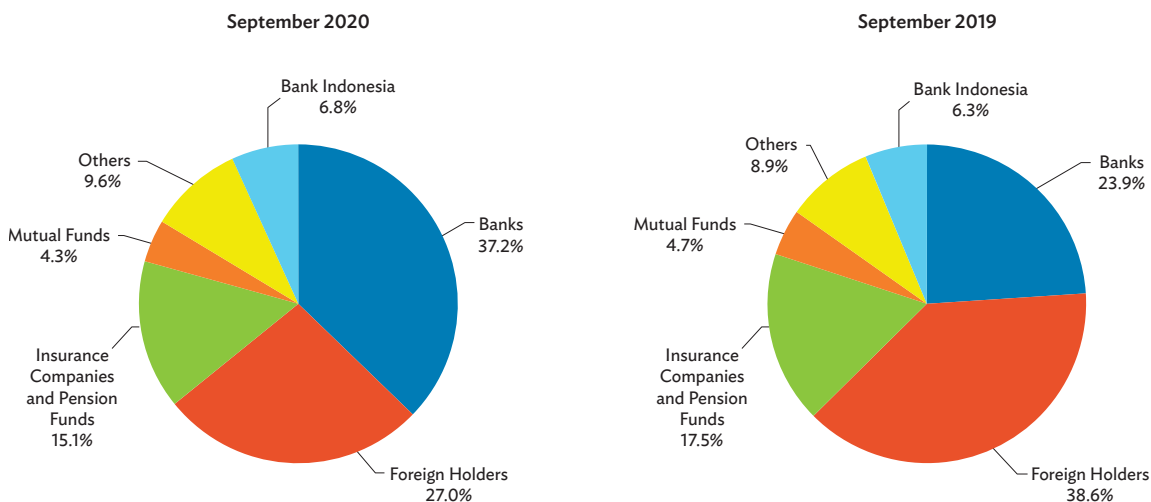
At the end of Q3 2020, foreign investor bond holdings were largely focused in tenors with maturities of between more than 5 years to 10 years, with a share of 35.3% (Figure 3). Bonds with maturities greater than 10 years were the next largest target of foreign investment, with a share of 31.2%. The share of bonds held by foreign investors with tenors of less than 1 year was 6.2%.

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.

Figure 2: Local Currency Central Government Bonds Investor Profile



Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

With the share of foreign holders declining in Q3 2020, Indonesian banks took up the slack as their share of total holdings shot up to 37.2% at the end of September from 23.9% a year earlier. Banks also bought significantly more government bonds in 2020 than in the previous year, with the amount held by banks rising to IDR1,289 trillion at the end of September from IDR637 trillion a year earlier.

The share of other institutional investors declined slightly on a y-o-y basis. The share of insurance companies fell to 15.1% from 17.5% during the review period, while the share of mutual funds dipped slightly to 4.3% from 4.7%. The share of Bank Indonesia rose to 6.8% at the end of Q3 2020 from 6.3% at the end of Q3 2019. The share of other investors also rose to 9.6% from 8.9%.

Policy, Institutional, and Regulatory Developments

Bank Indonesia and the People's Bank of China Establish Framework on the Use of Local Currencies

In September, Bank Indonesia and the People's Bank of China signed a memorandum of understanding to promote the use of the Indonesian rupiah and the Chinese yuan for the settlement of trade and direct investment. The agreement calls for the availability of direct quotation and interbank trading of the two currencies. In addition, information sharing and periodic discussions will be initiated by the respective central banks.

Indonesia's Parliament Approves 2021 State Budget

In September, the Indonesian Parliament approved the 2021 state budget, which calls for a deficit equivalent to 5.7% of GDP. The 2021 state budget estimates revenue will reach IDR1,743.7 trillion, while state spending is expected to total IDR2,750.0 trillion. The underlying macroeconomic assumptions for the 2021 state budget include (i) economic growth of 5.0%, (ii) average inflation of 3.0%, (iii) an exchange rate of IDR14,600 per USD1, (iv) an average 10-year bond yield of 7.29%, and (v) Indonesian crude oil price of USD45 per barrel.