

Indonesia

Yield Movements

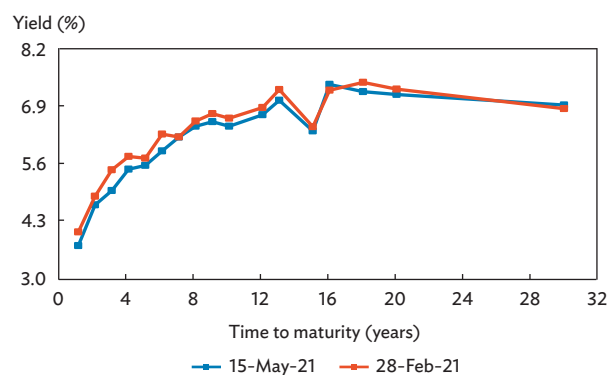
Between 28 February and 15 May, local currency (LCY) government bond yields in Indonesia fell for most tenors (**Figure 1**). Bond yields across the curve declined an average of 21 basis points (bps), while yields for the 16-year and 30-year maturities gained 13 bps and 8 bps, respectively. Yields fell the most for the 3-year tenor, shedding 47 bps during the review period. The spread between the 2-year and 10-year maturities slightly widened from 175 bps on 28 February to 177 bps on 15 May.

The decline in yields across the curve was influenced by the 25-bps rate cut by Bank Indonesia on 18 February, which brought the 7-day reverse repo rate to 3.50%, the deposit facility rate to 2.75%, and the lending facility rate to 4.25%. From January to May, Bank Indonesia was the sole central bank in emerging East Asia to ease policy rates. The policy rate has been held steady since then. In its latest meeting on 24–25 May, Bank Indonesia left rates unchanged at their current levels to support growth and manage the stability of the Indonesian rupiah amid the absence of inflationary pressure.

Contributing to the decline in yields during the review period, particularly at the shorter-end of the curve, was Indonesia's low and managed inflation rate. Consumer price inflation rose slightly to 1.7% year-on-year (y-o-y) in May from 1.4% y-o-y in April. The rise was due to the Muslim holidays of Ramadan and Idul Fitri, but the gain was considered manageable compared to the 2.2% y-o-y rise in May 2020. The government noted that an adequate supply of food products from the harvest season more than offset increased demand for goods during the Ramadan festivities. The uptick in May inflation was also capped as consumer sentiment was affected by some restrictions limiting travel and social gatherings during the Muslim holidays. The inflation rate also remained below Bank Indonesia's full-year 2021 inflation rate target of 2.0%–4.0%.

The drop in yields was also fueled by the recovery in foreign fund inflows from 1 April through 15 May. In February and March, the bond market was struck by a market sell-off over concerns that the United States (US) Federal Reserve would tighten monetary policy sooner than expected due to rising inflation. Market conditions normalized somewhat

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



Source: Based on data from Bloomberg LP.

beginning in April as the Federal Reserve noted that the inflation spike was likely to be transitory.

Economic performance remained muted, with GDP declining for 4 quarters in a row. The pace of contraction slowed, however, indicating the economic activity was slowly picking up. GDP declined 0.7% y-o-y in the first quarter (Q1) of 2021, following contractions of 2.2% y-o-y in the fourth quarter (Q4) of 2020, 3.5% y-o-y in the third quarter of 2020, and 5.3% y-o-y in the second quarter of 2020. The Finance Ministry expects full-year GDP growth for 2021 of between 4.5% and 5.3%.

During the review period, the Indonesian rupiah was broadly stable, rising a marginal 0.3% versus the US dollar. The slight uptick was fueled by the recovery in foreign fund inflows in April.

Size and Composition

The outstanding size of Indonesia's LCY bond market expanded to IDR4,799.4 trillion (USD330.4 billion) at the end of March (**Table 1**). Bond market growth moderated to 6.2% quarter-on-quarter (q-o-q) in Q1 2021 from 10.0% q-o-q in Q4 2020. Government bonds continued to drive much of the growth, stemming largely from increases in the stock of central government bonds, which comprised both Treasury bills and bonds. The stocks of central bank bonds and nontradable bonds declined at the end of March. Corporate bonds also contributed

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2020		Q4 2020		Q1 2021		Q1 2020		Q1 2021	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	3,528,670	216	4,517,251	322	4,799,432	330	0.6	6.4	6.2	36.0
Government	3,085,761	189	4,091,542	291	4,366,500	301	0.7	6.7	6.7	41.5
Central Govt. Bonds	2,833,359	174	3,870,757	275	4,155,596	286	2.9	12.1	7.4	46.7
of which: <i>Sukuk</i>	478,152	29	686,561	49	765,420	53	(1.5)	11.9	11.5	60.1
Central Bank Bonds	48,423	3	55,421	4	54,927	4	(52.7)	(63.2)	(0.9)	13.4
of which: <i>Sukuk</i>	36,173	2	55,421	4	54,927	4	16.0	45.2	(0.9)	51.8
Nontradable Bonds	203,978	13	165,365	12	155,977	11	(2.2)	(12.5)	(5.7)	(23.5)
of which: <i>Sukuk</i>	38,805	2	38,778	3	35,684	2	(11.4)	0.1	(8.0)	(8.0)
Corporate	442,909	27	425,709	30	432,931	30	(0.5)	4.4	1.7	(2.3)
of which: <i>Sukuk</i>	30,200	2	30,341	2	31,172	2	0.3	22.7	2.7	3.2

() = 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. *Sukuk* refers to Islamic bonds.

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

to the growth but to a lesser extent. Compared with the same period a year earlier, the LCY bond market of Indonesia expanded 36.0% y-o-y in Q1 2021, up from 28.7% y-o-y in Q4 2020.

Government bonds continued to account for a majority share of Indonesia's LCY bond market, representing 91.0% of the aggregate bond stock at the end of March. Indonesia has the largest share of government bonds to total bonds among its emerging East Asian peers. This reflects the importance of LCY bond financing to Indonesia's economy, as it supports capital-intensive infrastructure and economic development. The bond market has also helped to raise funds for COVID-19 stimulus measures and recovery efforts.

At the end of March, conventional bonds accounted for over 80.0% of Indonesia's LCY bond market. While smaller, the share of *sukuk* (Islamic bonds) inched up to 18.5% of total bonds outstanding at the end of March from 18.0% at the end of December 2020 and 16.5% at the end of March 2020.

Government bonds. The outstanding stock of government bonds reached IDR4,366.5 trillion at the end of March. Growth, however, eased to 6.7% q-o-q in Q1 2021 following an 11.6% uptick in Q4 2020. On a y-o-y basis, government bond market growth accelerated to 41.5% in Q1 2021 from 33.6% in Q4 2020.

Central government bonds. At the end of March, the outstanding amount of central government bonds stood at IDR4,155.6 trillion, representing 95.2% of the aggregate government bond total. While positive, overall growth slowed amid a sharp decline in the issuance of Treasury bills and bonds during the quarter. Growth decelerated to 7.4% q-o-q in Q1 2021 from 11.8% q-o-q in Q4 2020. The stock of central government bonds posted strong growth of 46.7% y-o-y in Q1 2021 versus a 40.6% y-o-y uptick in the previous quarter.

The stock of central government bonds continued to expand in Q1 2021 despite a slowdown in issuance caused by a rise in market volatility, especially in February and March. During the period, investors sought higher interest rates during the weekly government bond auctions. However, the government still had ample reserves from previous fundraising efforts.

In Q1 2021, new issuance of Treasury bills and Treasury bonds tallied IDR307.0 trillion, down from IDR444.4 trillion in the preceding quarter. More borrowing in the prior quarter led to a high base effect, resulting in a q-o-q decline in Q1 2021. However, issuance activities in Q1 2021 were still above pre-COVID-19 levels, indicating the government's need for ongoing stimulus measures. The government continued to issue in relatively large volumes during its weekly auctions in Q1 2021, making use of the "green shoe

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	2.48	Yes	No	Energy
2.	Indonesia Eximbank	26,657	1.84	Yes	No	Banking
3.	Sarana Multi Infrastruktur	20,513	1.41	Yes	No	Finance
4.	Bank Rakyat Indonesia	17,320	1.19	Yes	Yes	Banking
5.	Sarana Multigriya Finansial	16,592	1.14	Yes	No	Finance
6.	Bank Tabungan Negara	15,975	1.10	Yes	Yes	Banking
7.	Bank Mandiri	14,000	0.96	Yes	Yes	Banking
8.	Bank Pan Indonesia	13,427	0.92	No	Yes	Banking
9.	Indosat	11,779	0.81	No	Yes	Telecommunications
10.	Permodalan Nasional Madani	10,089	0.69	Yes	No	Finance
11.	Indah Kiat Pulp & Paper	10,000	0.69	No	Yes	Pulp and Paper
12.	Waskita Karya	9,402	0.65	Yes	Yes	Building Construction
13.	Pegadaian	9,255	0.64	Yes	No	Finance
14.	Pupuk Indonesia	9,046	0.62	Yes	No	Chemical Manufacturing
15.	Astra Sedaya Finance	7,313	0.50	No	No	Finance
16.	Semen Indonesia	7,078	0.49	Yes	Yes	Cement Manufacturing
17.	Telekomunikasi Indonesia	7,000	0.48	Yes	Yes	Telecommunications
18.	Bank CIMB Niaga	6,806	0.47	No	Yes	Banking
19.	Tower Bersama Infrastructure	6,703	0.46	No	Yes	Telecommunications Infrastructure Provider
20.	Hutama Karya	6,500	0.45	Yes	No	Nonbuilding Construction
21.	Adira Dinamika Multi Finance	6,328	0.44	No	Yes	Finance
22.	Federal International Finance	5,981	0.41	No	No	Finance
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,248	0.36	Yes	Yes	Banking
24.	Angkasa Pura II	5,000	0.34	Yes	No	Airport Management Services
25.	Wijaya Karya	5,000	0.34	Yes	Yes	Building Construction
26.	Mandiri Tunas Finance	4,878	0.34	No	No	Finance
27.	Bank Maybank Indonesia	4,849	0.33	No	Yes	Banking
28.	Chandra Asri Petrochemical	4,489	0.31	No	Yes	Petrochemicals
29.	Adhi Karya	4,316	0.30	Yes	Yes	Building Construction
30.	Kereta Api Indonesia	4,000	0.28	Yes	No	Transportation
Total Top 30 LCY Corporate Issuers		311,528	21.45			
Total LCY Corporate Bonds		432,931	29.81			
Top 30 as % of Total LCY Corporate Bonds		72.0%	72.0%			

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

Notes:

1. Data as of 31 March 2021.

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.

option” as a strategy when investor bids were above its acceptable rate. Aside from the weekly Treasury auctions, the government also raised IDR26.0 trillion from the sale of retail Treasury bonds in February.

Central bank bonds. The stock of central bank bills and bonds slipped to IDR54.9 trillion at the end of March, contracting 0.9% q-o-q but rising 13.4% y-o-y. Issuance of central bank instruments totaled IDR172.2 trillion in Q1 2021, representing a 12.4% q-o-q decline. The reduced issuance stemmed from efforts to boost liquidity amid the market sell-off in February and March.

Corporate bonds. The stock of corporate bonds inched up to IDR432.9 trillion on growth of 1.7% q-o-q in Q1 2021, rebounding from a decline of 3.4% q-o-q in Q4 2020. On a y-o-y basis, a contraction of 2.3% was recorded in Q1 2021 versus a decline of 4.4% in the prior quarter. The weak growth in Q1 2021 was influenced by uncertainties in the trajectory of economic recovery.

Table 2 presents the 30 largest issuers of corporate bonds in Indonesia at the end of March. Collectively, their bonds outstanding summed to IDR311.5 trillion, slightly higher than the IDR309.7 trillion recorded at the end of December. However, their share of total corporate bonds slightly dipped to 72.0% at the end of March from 72.7% in the preceding quarter.

Among the 30 firms on the list, 16 came from the banking and financial sectors. Some firms from capital-intensive sectors—such as energy, telecommunications, and building and construction—also made the list. Nearly two-thirds of the firms on the list were state-owned entities, with eight

of them ranking in the top 10. A majority (17) of the issuers are listed on the Indonesia Stock Exchange.

State-owned energy firm Perusahaan Listrik Negara continued to lead the list of top 30 issuers at the end of March, with outstanding bonds amounting to IDR36.0 trillion and representing 8.3% of the aggregate corporate bond total during the period. In the second spot was Indonesia Eximbank (IDR26.7 trillion), followed by Sarana Multi Infrastruktur (IDR20.5 trillion), Bank Rakyat Indonesia (IDR17.3 trillion), and Sarana Multigriya (IDR16.6 trillion). The composition of top five firms was the same as in the previous quarter.

New corporate bond issuance tallied IDR20.6 trillion in Q1 2021, representing a decline of 4.4% q-o-q. This, however, was an improvement over the 42.5% q-o-q contraction recorded in Q4 2020. Despite the low-interest-rate environment and the fiscal stimulus measures of the government, some corporates remained reluctant to issue and have reconsidered their borrowing plans in light of uncertainties brought about by the COVID-19 pandemic.

Only 16 firms tapped the bond market for funding during the quarter, adding 41 bond series to the corporate bond stock. Of the 41 new bond series issued, four were structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) and two were structured as *sukuk ijarah* (Islamic bonds backed by lease agreements).

The largest new corporate bonds issued in Q1 2021 are presented in **Table 3**. Leading the list was Indah

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2021

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Indah Kiat Pulp & Paper			Tower Bersama Infrastruktur		
370-day bond	7.25	1,081	370-day bond	5.50	1,898
3-year bond	9.50	1,895	3-year bond	6.75	1,017
5-year bond	10.50	277	Pupuk Indonesia		
Wijaya Karya			3-year bond	5.60	350
3-year bond	8.50	495	5-year bond	6.20	1,600
3-year <i>sukuk mudharabah</i>	8.50	134	7-year bond	7.20	800
5-year bond	9.10	746	Sarana Multigriya Finansial		
5-year <i>sukuk mudharabah</i>	9.10	212	370-day bond	4.75	1,500
7-year bond	9.75	1,260	370 day <i>sukuk mudharabah</i>	4.75	100
7-year <i>sukuk mudharabah</i>	9.75	154	3-year bond	5.75	401

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.

Kiat Pulp & Paper, which issued three tranches of bonds in March totaling IDR3,253.1 billion. Next was state-owned Wijaya Karya with issuance amounting to IDR3,000 billion in both conventional bonds and *sukuk*. In the third spot was Tower Bersama Infrastructure with total bond issuance of IDR2,915.0 billion via a dual-tranche issuance.

Investor Profile

The Indonesian bond market saw net foreign bond outflows of USD1.6 billion in Q1 2021, reversing the USD2.8 billion of inflows posted in Q4 2020. Outflows were recorded in February and March following a rise in US Treasury rates, leading foreign investors to reallocate funds to safe-haven assets. This resulted in the further decline of the foreign holdings share in the Indonesian LCY government bond market.

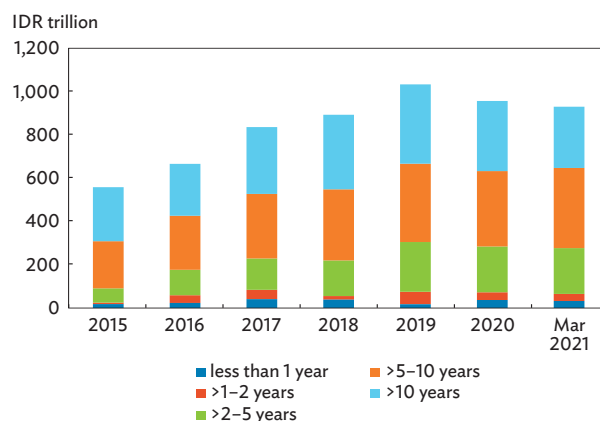
At the end of March, the holdings of offshore investors shrank to 22.9% from 25.2% at the end of December 2020 and from 32.7% at the end of March 2020 (Figure 2). The accelerated decline in the foreign holdings share was also fueled by the rapid growth of government bonds since last year to support stimulus and relief measures.

Most foreign investors that stayed in the bond market remained invested in longer-dated maturities, reflecting their confidence in Indonesia’s growth potential and

sound fundamentals (Figure 3). About 70% of foreign funds were placed in bonds with maturities of more than 5 years, while only 7.0% were invested in bonds with maturities of 2 years or less.

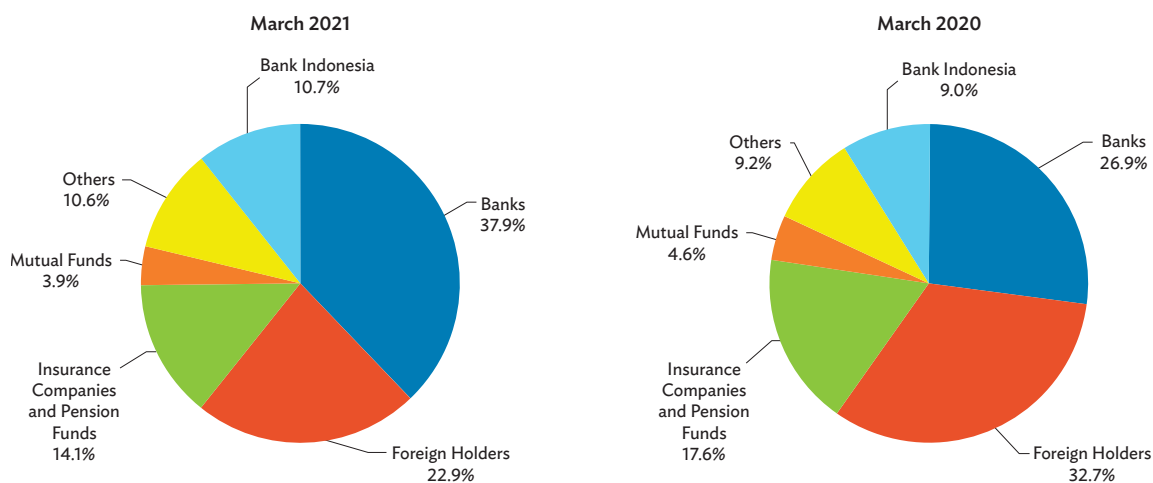
At the end of March, banking institutions were the largest investor group in Indonesia’s government bond market. Ample market liquidity, brought about by the series of policy rate cuts since 2020, and the slowdown in economic activity led banks to allocate more funds to the

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.

government bond market. Bank holdings of government bonds climbed to a 37.9% share at the end of March from 26.9% a year earlier.

Bank Indonesia also increased its holdings of government bonds as it continued to support the bond market. The central bank's holdings of government bonds rose from a share of 9.0% at the end of March 2020 to 10.7% at the end of March 2021. Other investors, comprising individuals and securities firms among others, also increased their holdings share of government bonds during the review period.

On the other hand, institutional investors, especially insurance companies and pension funds, reduced holdings of government bonds. Their holdings slipped from 17.6% in March 2020 to 14.1% in March 2021. Similarly, mutual funds saw a slight drop in their share of holdings of government bonds.

Ratings Update

On 22 March, Fitch Ratings affirmed Indonesia's BBB sovereign credit rating. The rating was given a stable outlook. In its decision, Fitch Ratings cited Indonesia's positive economic outlook over the medium-term and a low (but rising) government-debt-to-GDP ratio. The rating agency, however, raised concerns over Indonesia's external borrowing, weak government revenues, and lagging structural reforms (as evidenced by low governance indicators and GDP per capita relative to other BBB-rated sovereigns).

On 22 April, Rating and Investment Information, Inc. affirmed Indonesia's BBB+ investment grade rating. The rating was given a stable outlook. In its assessment, the rating agency took note of the following: (i) an expected rebound to pre-COVID-19 levels in 1–2 years for Indonesia's economy, (ii) a low government debt ratio, and (iii) an economic resilience to external shocks.

Also on 22 April, S&P Global Ratings (S&P) affirmed Indonesia's sovereign credit rating at BBB. In contrast to other rating agencies, it gave a negative outlook, citing sustained fiscal and external pressures in the next 12 to 24 months. According to S&P, the ratings affirmation reflected solid economic growth prospects and judicious policies. S&P expects Indonesia's economy to gain traction in 2022 amid its vaccination rollout and as economic activities gradually normalize.

Policy, Institutional, and Regulatory Developments

Indonesia Expands Economic Stimulus Program

In January, Indonesia raised its National Economic Recovery budget to IDR553 trillion from the previously approved IDR372 trillion budget. The program includes programs for health spending and social support.

Bank Indonesia Revises Regulation for Monitoring Foreign Exchange Transactions

In June, a new Bank Indonesia regulation came into effect to strengthen the monitoring of foreign exchange transactions. Under the new regulation, banks must include in the foreign exchange transaction monitoring system those client transactions with a transaction value of at least USD250,000 and derivative transactions with a minimum value of USD1 million.