

Indonesia

Yield Movements

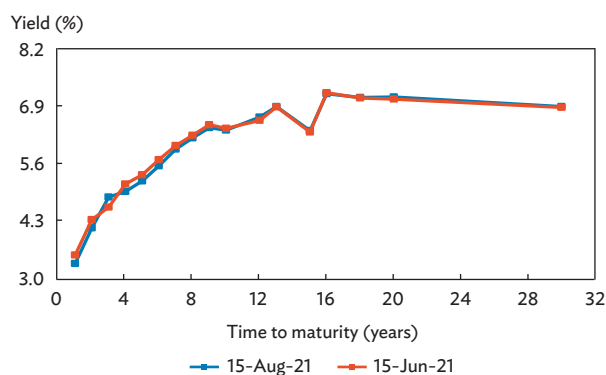
Local currency (LCY) government bond yield movements in Indonesia diverged across tenors between 15 June and 15 August. Excluding the 3-year tenor, bond yields fell from the 1-year through the 10-year maturities, shedding an average of 12 basis points (bps) (**Figure 1**). The largest decline was seen in the 1-year and 2-year tenors, which slipped by 19 bps each during the review period. In contrast, yields edged up marginally by an average of 3 bps for all maturities of 12 years or more except for the 16-year, which slipped 2 bps. The biggest yield uptick was recorded for the 12-year bond, which rose 7 bps. The 2-year and 10-year yield spread widened from 204 bps on 15 June to 219 bps on 15 August.

The decline in yields for maturities of 10 years or less largely reflected the weakening economic outlook as economic activities were once again halted by the reintroduction of mobility restrictions in July. The spike in COVID-19 cases due to the emergence of virus variants, particularly the more contagious delta variant, dampened economic recovery and dragged down investor sentiment. The ongoing uncertainties associated with the pandemic also led the Ministry of Finance to revise downward its economic growth projections for 2021 from a range of 4.5%–5.3% in February to 3.7%–4.5% in July.

Bank Indonesia has continued to maintain an accommodative monetary policy stance, similar with other central banks in emerging East Asia, to help propel economic growth. In its meeting on 18–19 August, Bank Indonesia's Board of Governors held steady the 7-day reverse repurchase rate at 3.50%, the deposit facility rate at 2.75%, and the lending facility rate at 4.25%. The central bank also continued to purchase government bonds during primary auctions as well as participate in green shoe options as part of burden-sharing agreement with the government to help fund the state budget. As of 16 August, Bank Indonesia's bond purchases had reached IDR132.0 trillion this year.

In August, Bank Indonesia announced that it will continue with its bond purchases this year, targeting to buy up to

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



Source: Based on data from Bloomberg LP.

IDR215 trillion of tradable government bonds directly from the government. The burden-sharing agreement will also be extended until 2022 with planned bond purchases of up to IDR224 trillion.

Consumer sentiment has weakened, with inflation falling short of Bank Indonesia's target range of 2.0%–4.0% for 2021. Consumer prices rose 1.5% year-on-year (y-o-y) in July, up from 1.3% y-o-y in June.

Economic performance rebounded in the second quarter (Q2) of 2021, with gross domestic product (GDP) expanding for the first time since the outbreak of the pandemic after contracting for 4 quarters in a row. GDP growth climbed to 7.1% y-o-y in Q2 2021, following a 0.7% y-o-y decline in the first quarter (Q1) of 2021. Growth was buoyed by a recovery in private consumption (5.9% y-o-y) and investments (7.5% y-o-y), as well as faster expansions in government spending (8.1% y-o-y), exports (31.8% y-o-y), and imports (31.2% y-o-y). All industry sectors posted positive y-o-y growth in Q2 2021. The faster growth in Q2 2021 was fueled by the easing of mobility restrictions, which allowed for the opening of the economy as well as increased consumer spending related to Muslim religious festivities. However, the economic recovery was disrupted by the reimposition of mobility restrictions in July amid a surge in COVID-19 cases owing to delta variant infections.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2020		Q1 2021		Q2 2021		Q2 2020		Q2 2021	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	3,761,356	264	4,799,432	330	4,912,250	339	6.6	14.9	2.4	30.6
Government	3,331,641	234	4,366,500	301	4,489,539	310	8.0	16.6	2.8	34.8
Central Govt. Bonds	3,105,895	218	4,155,596	286	4,282,623	295	9.6	22.7	3.1	37.9
of which: <i>Sukuk</i>	579,263	41	765,420	53	740,172	51	21.1	37.9	(3.3)	27.8
Central Bank Bonds	49,624	3	54,927	4	58,670	4	2.5	(59.2)	6.8	18.2
of which: <i>Sukuk</i>	38,874	3	54,927	4	58,670	4	7.5	77.2	6.8	50.9
Nontradable Bonds	176,122	12	155,977	11	148,246	10	(13.7)	(14.0)	(5.0)	(15.8)
of which: <i>Sukuk</i>	37,274	3	35,684	2	33,106	2	(3.9)	(7.7)	(7.2)	(11.2)
Corporate	429,715	30	432,931	30	422,711	29	(3.0)	3.0	(2.4)	(1.6)
of which: <i>Sukuk</i>	29,382	2	31,172	2	31,672	2	(2.7)	21.8	1.6	7.8

(-) = 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. *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.

Size and Composition

Indonesia's LCY bond market growth decelerated to 2.4% quarter-on-quarter (q-o-q) in Q2 2021 from 6.2% q-o-q in Q1 2021 to reach a size of IDR4,912.3 trillion (USD338.8 billion) (Table 1). Central government bonds, comprising both Treasury bills and Treasury bonds, continued to drive growth, as the government issued additional bonds to help fund the budget deficit. Central bank bonds also contributed to the growth but to a smaller extent. In contrast, the stocks of nontradable bonds and corporate bonds posted q-o-q declines in Q2 2021. On a y-o-y basis, Indonesia accounted for the fastest LCY bond market growth in emerging East Asia in Q2 2021, albeit at a moderated pace of expansion of 30.6% versus 36.0% in the preceding quarter.

Among emerging East Asian peers, Indonesia's government bond segment continued to comprise the largest share of total bonds outstanding. At the end of June, government bonds represented a 91.4% share of the LCY bond market of Indonesia. This outsized government bond share vis-à-vis corporate bonds reflects how LCY bond financing remains an important funding source for the government in terms of economic development, infrastructure projects, and COVID-19-related stimulus and relief measures.

Conventional bonds continued to dominate Indonesia's LCY bond market, accounting for an 82.4% share of bonds outstanding at the end of June. While Indonesia remained home to the second-largest *sukuk* (Islamic bond) market in the region in Q2 2021, the share of *sukuk* to total bonds was only 17.6% at the end of June, down from 18.5% at the end of March and 18.2% at the end of June 2020.

Government bonds. At the end of June, total government bonds outstanding reached IDR4,489.5 trillion. Government bond market growth, however, moderated to 2.8% q-o-q in Q2 2021 from 6.7% q-o-q in Q1 2021. In the same period, growth also eased on a y-o-y basis to 34.8% from 41.5%.

Central government bonds. Central government bonds outstanding in Indonesia totaled IDR4,282.6 trillion at the end of June. This accounted for 95.4% of the total government bond stock. Growth of central government bonds eased to 3.1% q-o-q in Q2 2021 from 7.4% q-o-q in Q1 2021. Slower growth in bonds outstanding stemmed from the continued decline in issuance since Q1 2021, despite the government's adoption of a frontloading policy as in previous years. Compared with the same period in the previous year, central government bonds outstanding rose 37.9% y-o-y in Q2 2021, down from 46.7% y-o-y in Q1 2021.

Total issuance of Treasury bills and Treasury bonds reached IDR231.4 trillion in Q2 2021, down from IDR307.0 trillion in the preceding quarter. New issuance of central government bonds contracted 24.6% q-o-q in Q2 2021 following a 30.9% q-o-q decline in Q1 2021. The government has tapered its issuance due to excess funds from borrowing in 2020 and improved revenue collection in the first half of 2021. State revenue increased 9.1% y-o-y to IDR886.9 trillion in the first half of 2021, which was equivalent to 50.9% of the target indicated in the state budget.⁷ In contrast, state spending totaled IDR1,170.1 trillion in the first half of the year, which was equivalent to 42.5% of the annual state budget. This resulted in a deficit of IDR283.2 trillion, or 1.7% of GDP, compared with the full-year budget deficit target for 2021 of 5.7%.

In August, however, the government revised upward its bond issuance plan for 2021 to support a wider budget deficit. The government estimated debt issuance for the year to reach IDR1,020.0 trillion compared with IDR958.1 trillion projected in July.

Central bank bonds. The outstanding amount of central bank bills and bonds rose to IDR58.7 trillion at the end of June. Growth rebounded to 6.8% q-o-q in Q2 2021, reversing the 0.9% q-o-q contraction in the previous quarter. Total central bank issuance rose to IDR309.5 trillion on growth of 79.7% q-o-q. Issuances during the quarter solely comprised Sukuk Bank Indonesia, as there has been no issuance of Sertifikat Bank Indonesia since April.

Corporate bonds. The outstanding amount of LCY corporate bonds fell to IDR422.7 trillion at the end of June, on contractions of 2.4% q-o-q and 1.6% y-o-y. The decline in the corporate bond stock in Q2 2021 stemmed from the continued slowdown in issuance and a higher volume of maturities during the quarter.

The 31 largest corporate bond issuers in Indonesia at the end of June are provided in **Table 2**.⁸ The aggregate bonds outstanding of these 31 corporate entities reached IDR308.7 trillion, down from IDR311.5 trillion issued by the top 30 issuers at the end of March. As a share of total corporate bonds, the largest corporate bond issuers

accounted for 73.0% at the end of June, up from 72.0% at the end of March.

Leading the 31 firms on the list were corporates from the banking and financial industry. Other leading issuers included firms from the energy, telecommunications, construction, and manufacturing industries. Also included in the list are 19 state-owned institutions, of which 8 firms are ranked in the top 10, and 18 firms whose shares are listed in the Indonesia Stock Exchange.

At the end of June, the composition of the five-largest corporate bond issuers was similar with the list at the end of March. All five firms were state-owned institutions. Leading the list was energy firm Perusahaan Listrik Negara with bonds outstanding of IDR35.1 trillion, accounting for 8.3% of the total corporate bond stock at the end of June. In the second spot was Indonesia Eximbank with bonds outstanding of IDR23.1 trillion and a 5.5% share of the total. Next was Sarana Multi Infrastruktur with outstanding bonds of IDR20.5 trillion and a 4.9% share of the total. Rounding out the top five firms on the list were Bank Rakyat Indonesia and Sarana Multigriya Finansial.

Corporate bond sales in Q2 2021 totaled IDR18.8 trillion, down 8.5% q-o-q but up 108.3% y-o-y. Due to lingering uncertainties resulting from the COVID-19 pandemic, corporates opted to stay on the sidelines and reconsidered their borrowing plans. A total of 14 firms raised funds from the bond market in Q2 2021, a tad lower than the 16 firms in the prior quarter. This added 32 bond series to the corporate bond total at the end of June. Of this new series, four issues 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 maturity distribution of the new corporate issues was concentrated in 3-year maturities (15 out of 32 new series) and 370-day bonds (11 out of 32 new series). The longest-dated corporate bond issued during the quarter was 7 years.

Two new corporate names also joined the list of bond issuers in Q2 2021. These were Integra Indocabinet and Adhi Commuter Properti. Both issues were priced

⁷ *Antaraneews.com*. 2021. Indonesia's Budget Deficit Reaches 1.72% of GDP in First Half: Govt. 5 July. <https://en.antaraneews.com/news/178338/indonesias-budget-deficit-reaches-172-of-gdp-in-first-half-govt>.

⁸ Two firms tied for the number 30 spot on the list.

Table 2: Top 31 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	35,121	2.42	Yes	No	Energy
2.	Indonesia Eximbank	23,102	1.59	Yes	No	Banking
3.	Sarana Multi Infrastruktur	20,513	1.41	Yes	No	Finance
4.	Bank Rakyat Indonesia	16,619	1.15	Yes	Yes	Banking
5.	Sarana Multigriya Finansial	16,184	1.12	Yes	No	Finance
6.	Bank Tabungan Negara	14,675	1.01	Yes	Yes	Banking
7.	Bank Mandiri	14,000	0.97	Yes	Yes	Banking
8.	Pegadaian	12,919	0.89	Yes	No	Finance
9.	Indosat	11,149	0.77	No	Yes	Telecommunications
10.	Bank Pan Indonesia	9,927	0.68	No	Yes	Banking
11.	Indah Kiat Pulp & Paper	9,505	0.66	No	Yes	Pulp and Paper
12.	Waskita Karya	9,402	0.65	Yes	Yes	Building Construction
13.	Pupuk Indonesia	9,046	0.62	Yes	No	Chemical Manufacturing
14.	Permodalan Nasional Madani	8,835	0.61	Yes	No	Finance
15.	Astra Sedaya Finance	8,206	0.57	No	No	Finance
16.	Semen Indonesia	7,078	0.49	Yes	Yes	Cement Manufacturing
17.	Tower Bersama Infrastructure	7,040	0.49	No	Yes	Telecommunications Infrastructure Provider
18.	Telkom Indonesia	7,000	0.48	Yes	Yes	Telecommunications
19.	Hutama Karya	6,500	0.45	Yes	No	Nonbuilding Construction
20.	Bank CIMB Niaga	6,484	0.45	No	Yes	Banking
21.	Adira Dinamika Multi Finance	6,328	0.44	No	Yes	Finance
22.	Federal International Finance	6,073	0.42	No	No	Finance
23.	Mandiri Tunas Finance	5,599	0.39	No	No	Finance
24.	Chandra Asri Petrochemical	5,489	0.38	No	Yes	Petrochemicals
25.	Bank Pembangunan Daerah Jawa Barat Dan Banten	5,248	0.36	Yes	Yes	Banking
26.	Wijaya Karya	5,000	0.34	Yes	Yes	Building Construction
27.	Bank Maybank Indonesia	4,849	0.33	No	Yes	Banking
28.	Sinar Mas Agro Resources and Technology	4,500	0.31	No	Yes	Food
29.	Adhi Karya	4,316	0.30	Yes	Yes	Building Construction
30.	Angkasa Pura II	4,000	0.28	Yes	No	Airport Management Services
31.	Kereta Api Indonesia	4,000	0.28	Yes	No	Transportation
Total Top 31 LCY Corporate Issuers		308,707	21.29			
Total LCY Corporate Bonds		422,711	29.15			
Top 31 as % of Total LCY Corporate Bonds		73.0%	73.0%			

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

Notes:

1. Data as of 30 June 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.

at the tightest range, with their respective 3-year bonds each having a coupon rate of over 10.0%. Local rating agency Pemeringkatan Efek Indonesia rated the bond by Integra Indocabinet as idA- and that of Adhi Commuter Properti as idBBB. Most other 3-year bonds issued during the quarter had coupon rates of between 6.25% and 8.75%.

Table 3 lists the largest corporate bonds issued in Indonesia in Q2 2021. State-owned pawnshop Perum Pegadaian had the largest total issuance at IDR4.0 trillion issued in four tranches, including two issues of *sukuk mudharabah*. In the second spot was Astra Sedaya Finance with aggregate issuance of IDR2.5 trillion from a dual-tranche bond sale in April. Next was Bank Mandiri Taspen, which raised a total of IDR2.0 trillion from a dual-tranche bond sold in April.

Investor Profile

Foreign flows into the Indonesian bond market turned positive in Q2 2021, with net inflows reaching USD1.8 billion to reverse outflows of USD1.6 billion in Q1 2021. Net inflows were also recorded in April and June, which far exceeded the USD0.5 billion in net outflows posted in May. Foreign investor holdings of LCY government bonds fell to a share of 22.8% of the total market at the end of June from 22.9% at the end of March and from 30.2% at the end of June 2020 (**Figure 2**). In nominal terms, foreign holdings have been largely volatile this year.

Foreign investor appetite for long-term bonds has waned in 2021 due to uncertainty in the trajectory of economic recovery and volatility in financial markets. Bonds with maturities of more than 10 years accounted for only 26.6% of nonresident bond holdings at the end

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

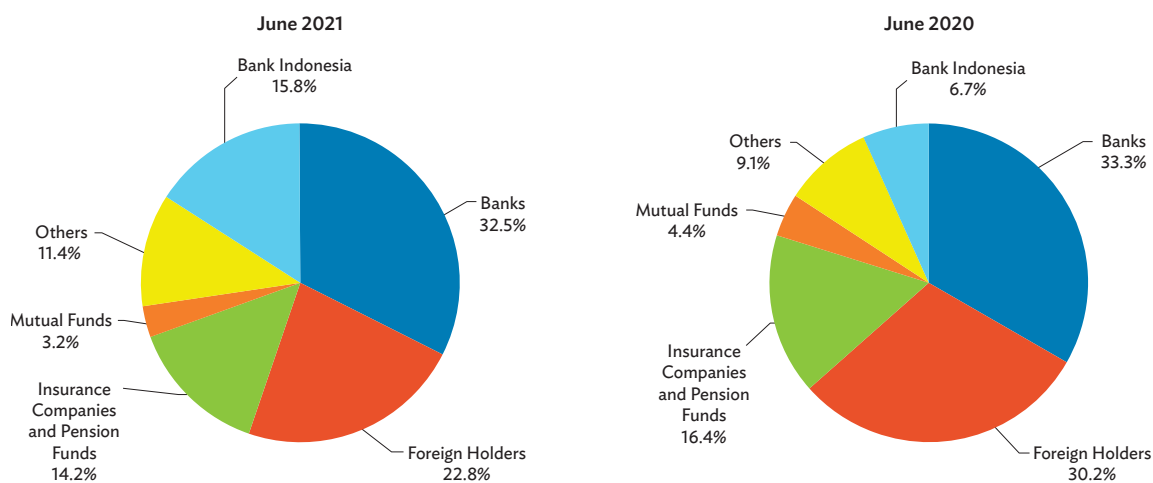
Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Perum Pegadaian		
370-day bond	4.85	2,173
370-day <i>sukuk mudharabah</i>	4.85	599
3-year bond	6.20	1,108
3-year <i>sukuk mudharabah</i>	6.20	166
Astra Sedaya Finance		
370-day bond	4.85	892
3-year bond	6.35	1,608
Bank Mandiri Taspen		
3-year bond	6.50	800
5-year bond	7.25	1,200
Federal International Finance		
370-day bond	4.60	628
3-year bond	6.25	872
Sinar Mas Agro Resources and Technology		
370-day bond	6.75	600
3-year bond	8.75	600
5-year bond	9.25	300

IDR = Indonesian rupiah.

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

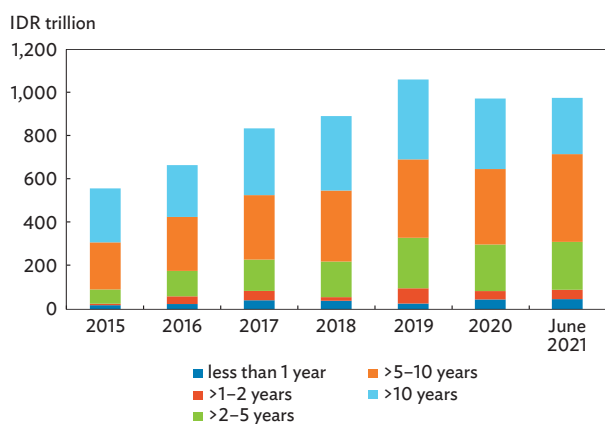
Source: Indonesia Stock Exchange.

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.

of June (**Figure 3**). A steady decline in their holdings has been noted since January, at which time the maturity bucket of more than 10 years accounted for 34.1% of foreign holdings. In contrast, the share of bonds with maturities of more than 5 years to 10 years steadily rose to 41.6% at the end of June from only 35.4% at the end of January. This reflects the shift in foreign investor risk appetite for medium-dated tenors. Nonetheless, bonds with maturities of 1 year or less only accounted for 4.7% of total nonresident holdings at the end of June.

Among domestic investors, banking institutions had the largest holdings of government bonds. However, their holdings share slipped to 32.5% at the end of June from 33.3% a year earlier. Insurance companies and mutual funds also reduced their holdings of government bonds with their shares of outstanding bonds falling to 14.2% and 3.2%, respectively, at the end of June from 16.4% and 4.4% at the end of June 2020.

Bank Indonesia increased its holdings of government bonds during the review period. The central bank continued to purchase government bonds as part of a burden-sharing agreement with the government to help fund the state budget. Aside from bond purchases, Bank Indonesia also injected liquidity into the banking sector by lowering the reserve requirement ratio and engaging in monetary expansion. Central bank holdings of government bonds surged to 15.8% of the total at the end of June from 6.7% in the same period from a year earlier.

The only other investor group aside from Bank Indonesia that saw an increase in their holdings share of government bonds during the review period were individuals and other investors not elsewhere classified. Collectively, their holdings rose by 2.4 percentage points to 11.4% at the end of June from 9.1% a year earlier.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Broadens Local Currency Settlement Framework with Bank Negara Malaysia and the Ministry of Finance, Japan

Effective 2 August, Bank Indonesia and Bank Negara Malaysia expanded their LCY settlement framework to encourage the use of Indonesian rupiah and Malaysian ringgit for the settlement of trade and direct investment transactions between Indonesia and Malaysia. The new policies in the expanded settlement framework are as follows: (i) inclusion of direct investments, income, and transfers as eligible transactions; (ii) inclusion of individuals as eligible participants; and (iii) simplified documentary requirements for tapping the framework. Both central banks also appointed additional banks to facilitate the LCY settlement framework.

Effective 5 August, Bank Indonesia and the Ministry of Finance, Japan relaxed some policies related to their existing Indonesian rupiah and Japanese yen settlement framework. This move was made to further support trade and investment activities between Indonesia and Japan. The policies that were relaxed include the (i) use of cross-currency swap and domestic nondeliverable forward transactions as hedging tools, (ii) removal of underlying documents for transactions of up to USD500,000 from the previous USD25,000, and (iii) expansion of eligible criteria for hedging transactions and extension of hedging maturities to more than 1 year.