

Indonesia

Yield Movements

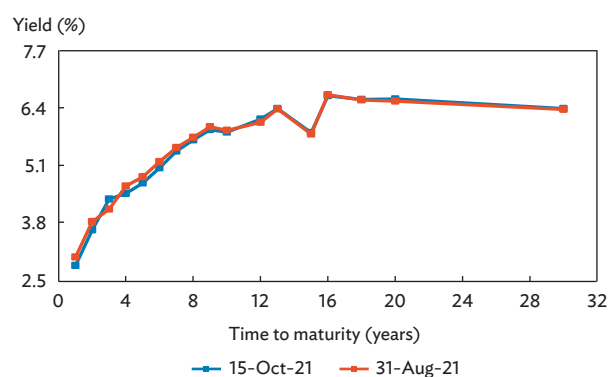
Local currency (LCY) government bond yield curve in Indonesia shifted upward between 31 August and 15 October. Yields for all maturities that gained rose an average of 7 basis points (bps), while the 3-year, 4-year, 6-year, and 9-year bonds shed 38 bps, 17 bps, 8 bps, and 6 bps, respectively (**Figure 1**). Bond yields gained the most for the 13-year (24 bps) and 18-year (21 bps) tenors during the review period. The yield spread between the 2-year and 10-year maturities was barely changed at 203 bps on 15 October from 204 bps on 31 August.

Rising yields across the curve largely tracked movements in yields in advanced and regional markets amid rising inflationary concerns and an earlier-than-expected unwinding of asset purchases by the United States (US) Federal Reserve. A shift in monetary stance by the Federal Reserve caused an exodus of funds from the Indonesian government bond market, leading to a continued decline in the foreign holdings share. At the end of September, offshore holdings of government bonds comprised 21.6% of the government bond stock, a decline from 22.8% at the end of June and 27.0% from the same period a year earlier.

The increase in yields was also buoyed by a slew of positive developments pointing to a much improved economic outlook after mobility restrictions were eased in September. Indonesia is expected to log a narrower budget deficit this year as the finance minister estimates the budget gap will be the equivalent of 5.3%–5.4% of gross domestic product (GDP) in 2021 versus an earlier estimate of 5.8%.¹¹ The budget deficit forecast is fueled by optimism in the economic recovery and rising commodity prices. In addition, a strong export performance is expected to lead to an improvement in the current account balance for the year. Indonesia has enjoyed strong global demand for coal and palm oil amid rising energy prices.

Further fueling the growth outlook is the new tax law passed in October, which is expected to boost tax

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



Source: Based on data from Bloomberg LP.

collection by about 9%–18% from 2022 to 2025.¹² This will provide additional fiscal space for the economy.

To bolster the economic recovery, Bank Indonesia, in its meeting held on 18–19 October, left its 7-day reverse repurchase rate unchanged at 3.50%, the deposit facility rate at 2.75%, and the lending facility rate at 4.25%. Bank Indonesia also continues to work with the government to propel economic recovery. As of 15 October, the central bank purchased a total of IDR142.5 trillion of government bonds and injected liquidity through quantitative easing into the banking industry.

Despite improving optimism in the economic recovery, inflation has remained low. Consumer prices rose 1.6% year-on-year (y-o-y) in September and 1.7% y-o-y in October, both lower than the inflation target of between 2.0% and 4.0% for full-year 2020. Bank Indonesia estimates inflation for 2021 to fall below the midpoint of its target range for the year.

Mobility restrictions imposed from July through August dragged down the economic performance for the third quarter (Q3) of 2021, with real GDP growth moderating to 3.5% y-o-y from 7.1% y-o-y in the second quarter

¹¹ Bloomberg. 2021. "Indonesia's Indrawati Sees Smaller-Than-Expected Budget Deficit." <https://www.bloomberg.com/news/articles/2021-10-17/indonesia-s-indrawati-sees-smaller-than-expected-budget-deficit>.

¹² The Jakarta Post. 2021. "New Tax Law Expected To Raise Tax Revenue by at Least 9%." <https://www.thejakartapost.com/news/2021/10/11/new-tax-law-hoped-to-raise-tax-revenue-by-at-least-9.html>.

(Q2) 2021. Domestic consumption, which accounts for a large share of GDP, eased to growth of 1.0% y-o-y after rising 6.0% y-o-y in Q2 2021. Growth in government spending also decelerated to 0.7% y-o-y in Q3 2021 from 8.0% y-o-y in Q2 2021, while growth in investments fell to 3.7% y-o-y from 7.5% y-o-y in the same period. Exports contributed the majority of Q3 2021 GDP growth, expanding 29.2% y-o-y, although this was slightly down from the 32.0% y-o-y hike in the prior quarter.

Size and Composition

The size of Indonesia's LCY bond market reached IDR5,089.5 trillion (USD355.6 billion) at the end of September (**Table 1**). Overall growth inched up to 3.6% quarter-on-quarter (q-o-q) in the third quarter (Q3) of 2021 from 2.4% q-o-q in Q2 2021. The higher growth was largely driven by government bonds, particularly Treasury bills and bonds, following increased issuance during the quarter. The stock of central bank bills also contributed to the growth but only to a minimal extent. On the other hand, both the stocks of nontradable bonds and corporate bonds continued to post q-o-q contractions in Q3 2021. Compared with the same period a year earlier, LCY bond market growth in Indonesia rose 23.9% y-o-y, moderating from a 30.6% y-o-y hike in Q2 2021. Indonesia remained the fastest-growing LCY bond market in emerging East Asia on a y-o-y basis.

Government bonds continued to dominate Indonesia's LCY bond stock at the end of September, accounting for 91.7% of its bond total. Compared with other emerging East Asian markets, the share of government bonds to total bonds outstanding is the largest in Indonesia. The Indonesian bond market also has the region's smallest share of corporate bonds relative to total bonds outstanding at 8.3%. This highlights the importance of LCY borrowing for the government in supporting economic development. It also reflects the vast potential of the corporate bond segment to further develop.

In the same period, Indonesia's bond market largely comprised conventional bonds, representing a share of 81.1% of the total bonds outstanding at the end of September. *Sukuk* (Islamic bonds) only accounted for 18.9% of the total bond stock at the end of September, representing an increase from a share of 17.6% at the end of June and 17.7% in the same period a year earlier.

Government bonds. Total government bonds outstanding climbed to IDR4,667.5 trillion at the end of September from IDR4,489.5 trillion at the end of June. Growth in the government bond segment quickened to 4.0% q-o-q in Q3 2021 from 2.8% q-o-q in Q2 2021. On a y-o-y basis, however, growth moderated to 27.3% from 34.8% in Q2 2021.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2020		Q2 2021		Q3 2021		Q3 2020		Q3 2021	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	4,108,191	276	4,912,250	339	5,089,510	356	9.2	19.8	3.6	23.9
Government	3,667,452	246	4,489,539	310	4,667,501	326	10.1	22.6	4.0	27.3
Central Govt. Bonds	3,461,396	233	4,282,623	295	4,460,456	312	11.4	29.9	4.2	28.9
of which: <i>Sukuk</i>	617,771	42	740,172	51	834,323	58	6.6	35.2	12.7	35.1
Central Bank Bonds	38,416	3	58,670	4	60,712	4	(22.6)	(67.1)	3.5	58.0
of which: <i>Sukuk</i>	38,416	3	58,670	4	60,712	4	(22.6)	(67.1)	3.5	58.0
Nontradable Bonds	167,640	11	148,246	10	146,334	10	(4.8)	(20.1)	(1.3)	(12.7)
of which: <i>Sukuk</i>	38,256	3	33,106	2	31,161	2	2.6	(9.7)	(5.9)	(18.5)
Corporate	440,739	30	422,711	29	422,008	29	2.6	0.7	(0.2)	(4.2)
of which: <i>Sukuk</i>	30,915	2	31,672	2	36,143	3	5.2	0.9	14.1	16.9

(-) = 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.

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

Central government bonds. At the end of September, the outstanding size of central government bonds reached IDR4,460.5 trillion, representing 95.6% of the government bond total. Growth in central government bonds inched up to 4.2% q-o-q in Q3 2021 from 3.1% q-o-q in Q2 2021, buoyed by strong issuance of Treasury instruments during the quarter. On an annual basis, the growth in the stock of central government bonds eased to 28.9% y-o-y in Q3 2021 from 37.9% y-o-y in the preceding quarter.

In Q3 2021, issuance of Treasury bills and Treasury bonds tallied IDR262.2 trillion, up from IDR231.4 trillion in the prior quarter. Growth in central government bond issuance rebounded during the quarter, expanding 13.3% q-o-q after contracting 24.6% q-o-q in Q2 2021. The government issued more bonds during the quarter to support the economy and provide relief measures as mobility restrictions were reimposed in July.

Central bank bonds. The outstanding stock of central bank bills and bonds totaled IDR60.7 trillion at the end of September. Growth rose a modest 3.5% q-o-q following a 6.8% q-o-q expansion in Q2 2021. While issuance climbed 26.2% q-o-q in Q3 2021, the outstanding stock of central bank bonds barely changed, owing to the short-term maturities of central bank instruments. In Q3 2021, only Sukuk Bank Indonesia were issued with maturities of 7 days, 14 days, 28 days, 3 months, 9 months, and 12 months.

Corporate bonds. At the end of September, the outstanding size of LCY corporate bonds had declined 0.2% q-o-q in Q3 2021 after contracting 2.4% q-o-q in Q2 2021. The total corporate bond stock reached IDR422.0 trillion at the end of September, down from IDR422.7 trillion at the end of June. The smaller corporate bond stock at the end of September stemmed from a high volume of maturities that exceeded new issuance during the quarter.

Table 2 presents the 32 largest corporate bond issuers in Indonesia at the end of September.¹³ The total aggregate bond stock of the leading issuers tallied IDR304.7 trillion, down from IDR308.7 trillion (aggregate of 31 firms) at the end of June. The outstanding bonds of the 32 largest corporate issuers accounted for 72.2% of the total corporate bond stock at the end of September.

The largest corporate bond issuers in Indonesia were dominated by firms from the banking and financial industry. Firms from large capitalized industries were also included in the list, particularly those coming from energy, telecommunications, construction, and manufacturing. A total of 20 state-owned firms were included in the list, of which nine firms were ranked in the top 10. There were 17 firms who also tapped the equity market for funding, with their shares listed in the Indonesia Stock Exchange.

The five largest corporate bond issuers at the end of September maintained their position since the end of March. At the top spot was energy firm Perusahaan Listrik Negara with total bonds outstanding of IDR35.1 trillion, whose share of the total corporate bond stock during Q3 2021 was steady at 8.3%. Next was financing firm Indonesia Eximbank with outstanding bonds of IDR21.2 trillion and a 5.0% share of the corporate bond total at the end of September. At the third spot was finance company Sarana Multi Infrastruktur with bonds outstanding of IDR18.5 trillion and a 4.4% share of the corporate bond stock. Completing the top five largest corporate bond issuers were Bank Rakyat Indonesia and Sarana Multigriya Finansial with respective shares of 3.9% and 3.3% of the corporate bonds outstanding at the end of the period in review.

In Q3 2021, corporate bond issuance climbed to IDR32.7 trillion, rebounding strongly by 73.3% q-o-q after contracting 8.5% q-o-q in Q2 2021. Corporates tapped the bond market to take advantage of low borrowing costs and to refinance maturing debt obligations. There were 29 corporates that raised funds from the bond market in Q3 2021 compared with only 14 firms in Q2 2021. Some of those who issued bonds during the quarter also had maturing bonds.

A total of 90 bond series were added to the total corporate bond stock at the end of September, of which 31 series were structured as *sukuk*. Both *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership) and *sukuk ijarah* (Islamic bonds backed by lease agreements) were issued during the quarter. Among the new bonds issued during the quarter were one series of convertible bond issued by transport firm Adi Sarana Armada and two series of subordinated bonds issued by Bank KB Bukopin.

¹³ Three firms tied for the number 30 spot on the list.

Table 2: Top 32 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	2.45	Yes	No	Energy
2.	Indonesia Eximbank	21,230	1.48	Yes	No	Finance
3.	Sarana Multi Infrastruktur	18,542	1.30	Yes	No	Finance
4.	Bank Rakyat Indonesia	16,619	1.16	Yes	Yes	Banking
5.	Sarana Multigriya Finansial	13,741	0.96	Yes	No	Finance
6.	Bank Mandiri	12,900	0.90	Yes	Yes	Banking
7.	Bank Tabungan Negara	12,445	0.87	Yes	Yes	Banking
8.	Pegadaian	11,548	0.81	Yes	No	Finance
9.	Permodalan Nasional Madani	10,835	0.76	Yes	No	Finance
10.	Indosat	10,405	0.73	No	Yes	Telecommunications
11.	Bank Pan Indonesia	9,927	0.69	No	Yes	Banking
12.	Waskita Karya	9,514	0.66	Yes	Yes	Building Construction
13.	Pupuk Indonesia	9,046	0.63	Yes	No	Chemical Manufacturing
14.	Indah Kiat Pulp & Paper	8,579	0.60	No	Yes	Pulp and Paper
15.	Hutama Karya	8,000	0.56	Yes	No	Nonbuilding Construction
16.	Wijaya Karya	7,500	0.52	Yes	Yes	Building Construction
17.	Astra Sedaya Finance	7,179	0.50	No	No	Finance
18.	Tower Bersama Infrastructure	7,171	0.50	No	Yes	Telecommunications Infrastructure Provider
19.	Semen Indonesia	7,078	0.49	Yes	Yes	Cement Manufacturing
20.	Telkom Indonesia	7,000	0.49	Yes	Yes	Telecommunications
21.	Bank CIMB Niaga	6,347	0.44	No	Yes	Banking
22.	Adira Dinamika Multi Finance	5,983	0.42	No	Yes	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	5,413	0.38	Yes	Yes	Banking
26.	Federal International Finance	5,412	0.38	No	No	Finance
27.	Adhi Karya	4,990	0.35	Yes	Yes	Building Construction
28.	Angkasa Pura I	4,612	0.32	Yes	No	Airport Management Services
29.	Sinar Mas Agro Resources and Technology	4,500	0.31	No	Yes	Food
30.	Angkasa Pura II	4,000	0.28	Yes	No	Airport Management Services
31.	Kereta Api Indonesia	4,000	0.28	Yes	No	Transportation
32.	OKI Pulp & Paper Mills	4,000	0.28	No	No	Pulp and Paper Manufacturing
Total Top 32 LCY Corporate Issuers		304,725	21.29			
Total LCY Corporate Bonds		422,008	29.48			
Top 31 as % of Total LCY Corporate Bonds		72.2%	72.2%			

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

Notes:

1. Data as of 30 September 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.

Most corporate bonds issued during the quarter carried maturities of 3 years (31 out of 90 new series), 5 years (24 out of 90 series), and 370 days (20 out of 90 series). The longest-dated bonds issued in Q3 2021 were 7 years with nine series and 10 years with two series.

The largest corporate bond issuers during the quarter are presented in **Table 3**. Leading the list was paper manufacturing firm OKI Pulp & Paper Mills, which issued a combined IDR4.0 trillion comprising three tranches of conventional bonds and three tranches of *sukuk mudharabah*. Next was state-owned building and construction firm Wijaya Karya with total issuance of IDR2.5 trillion in six tranches, including three tranches of *sukuk mudharabah*. The next largest issuances came from PT PP, Permodalan Nasional Madani, and Bank KB Bukopin, with aggregate issuance of IDR2.0 trillion each.

Investor Profile

Foreign funds flowed out of Indonesia's bond market in Q3 2021, driven by a shift in monetary stance by the US Federal Reserve. Foreign fund outflows were seen in July and September for a combined amount of USD1.1 billion, which more than exceeded the USD1.0 billion of inflows posted in August. As a result, the foreign holdings share of LCY government bonds further slipped to 21.6% at the end of September, down from 22.8% at the end of June and 27.0% at the end of September 2020 (**Figure 2**). In nominal terms, offshore

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

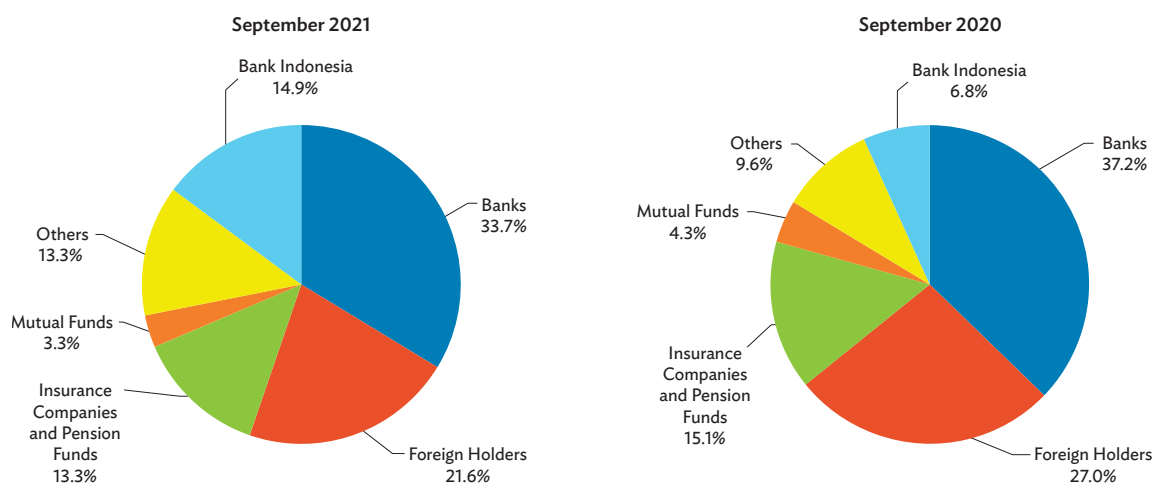
Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
OKI Pulp & Paper Mills		
370-day bond	7.25	1,315
370-day <i>sukuk mudharabah</i>	7.25	1,348
3-year bond	9.50	336
3-year <i>sukuk mudharabah</i>	9.50	700
5-year bond	10.25	235
5-year <i>sukuk mudharabah</i>	10.25	65
Wijaya Karya		
3-year bond	8.25	571
3-year <i>sukuk mudharabah</i>	8.25	197
5-year bond	8.55	982
5-year <i>sukuk mudharabah</i>	8.55	326
7-year bond	9.25	92
7-year <i>sukuk mudharabah</i>	9.25	333
PT PP		
3-year bond	8.50	850
3-year <i>sukuk mudharabah</i>	8.50	650
5-year bond	9.10	400
5-year <i>sukuk mudharabah</i>	9.10	100
Permodalan Nasional Madani		
370-day <i>sukuk mudharabah</i>	6.00	1,158
3-year <i>sukuk mudharabah</i>	7.00	515
5-year <i>sukuk mudharabah</i>	8.00	327
Bank KB Bukopin		
3-year bonds	6.25	1,000
5-year subordinated bonds	8.00	315
7-year subordinated bonds	8.90	685

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.

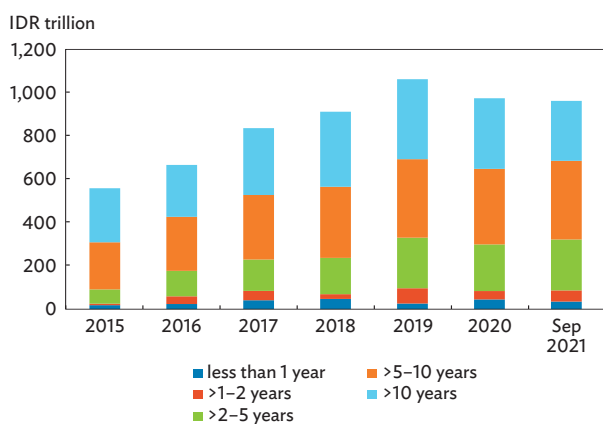
investor holdings of LCY government bonds totaled USD961.8 trillion at the end of September, up from USD933.1 trillion a year earlier.

Offshore investors holdings of bonds with maturities of 10 years or more stood at 28.8% of their total bond holdings at the end of September. However, this was lower compared with their 33.5% share at the end of December 2020 (**Figure 3**). The bond holdings of nonresidents for maturities of more than 1 year to 2 years, more than 2 years to 5 years, and more than 5 years to 10 years increased from the beginning of the year through the end of September. In contrast, bonds with maturities of less than 1 year accounted for 3.6% of total foreign holdings, down from 4.6% at the end of December.

Banking institutions remained the largest investor group in Indonesia's LCY government bond market at the end of September. However, their holdings declined to 33.7% at the end of September from 37.2% in the previous year. Insurance companies and pension funds and mutual funds also saw declines in their respective holdings of government bonds during the review period.

In contrast, only two investor groups recorded increases in their respective holdings of government bonds at the end of September, Bank Indonesia and other investors not elsewhere classified.

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.

Bank Indonesia continued to shore up its holdings of government bonds as part of synergistic endeavors with the government to support economic growth and recovery efforts. Holdings of government bonds more than doubled to a 14.9% share at the end of September from only 6.8% a year earlier. The central bank participated in primary auctions of government bonds and purchased bonds through green shoe options, in line with its burden-sharing agreement with the government. As of 15 October, Bank Indonesia had purchased a total of IDR142.5 trillion of government bonds.

Aggregate holdings of LCY government bonds by other investor group, which includes individuals, rose by 3.7 percentage points to 13.3% at the end of September from 9.6% in the same period a year earlier.

Policy, Institutional, and Regulatory Developments

Tax Cuts on Bond Investments for Domestic Investors

On 30 August, the Government of Indonesia reduced the tax on interest income on bond investments for domestic investors. The tax rate was lowered to 10% from the previous 15% to align the tax rate with that of foreign investors. (In February, the government reduced the tax on interest income for foreign bond investors from 20% to 10%.) The move is expected to further deepen the LCY bond market, encourage greater participation from domestic investors, and enhance liquidity. The tax cut applies to investments in both government bonds and corporate bonds, including *sukuk*.

Parliament Approves 2022 State Budget

In September, the Indonesian Parliament approved the 2022 state budget, which programs a lower budget deficit equivalent to 4.9% of GDP versus 5.8% in the 2021 state budget. The 2022 state budget sets the state revenue at IDR1,846.1 trillion, while state spending is estimated at IDR2,714.2 trillion. Macroeconomic assumptions used for the 2022 state budget include (i) economic growth of 5.2%, (ii) average consumer price inflation of 3.0%, (iii) an exchange rate of IDR14,350.0 per USD1.0, (iv) an average 10-year bond yield of 6.8%, and (v) an Indonesian crude oil price of USD63.0 per barrel.