

Indonesia

Yield Movements

Between 28 February and 15 May, the local currency (LCY) government bond yield curve in Indonesia shifted upward (**Figure 1**). Yields gained an average of 110 basis points (bps) across the curve, posting the steepest rise among all emerging East Asian markets. During the review period, bond yields gained the most for the 2-year maturity (197 bps) and the least for the 8-year maturity (13 bps). Yields rose much faster at the shorter-end of the curve than at the longer-end, leading to the narrowing of the spread between the 2-year and 10-year maturities from 227 bps on 28 February to 117 bps on 15 May.

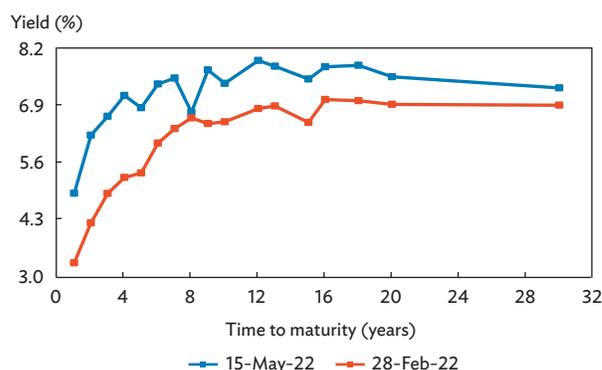
Higher yields in advanced economies, due to persistent global inflationary pressure and the faster pace of monetary policy normalization by the United States (US) Federal Reserve, drove regional bond yields, including Indonesia's, to rise during the review period. The upward shift in Indonesia's yield curve also reflected rising domestic inflationary pressure, expectations of an earlier-than-planned policy rate hike, and the resulting capital outflows from the bond market due to the Federal Reserve's aggressive monetary tightening stance.

On the domestic front, consumer price inflation reached a 3-year high in April, rising to 3.5% year-on-year (y-o-y), and is approaching the upper-end of Bank Indonesia's target range of between 2.0% and 4.0% for full-year 2022. In May, consumer prices rose 3.6% y-o-y. Persistent inflation is expected to continue due to rising global commodity prices.

Further fueling the uptick in yields was the faster-than-expected pace of monetary normalization in advanced economies and some regional markets. With interest rates rising, Bank Indonesia is expected to raise rates earlier than previously expected to arrest the pull-back of foreign funds from its financial markets. In March and April, Indonesia recorded cumulative net foreign bond outflows of USD4.7 billion. This resulted in the further decline of the foreign holdings share to 17.0% at the end of April from 19.0% at the end of January.

Economic growth in the first quarter (Q1) of 2022 was marginally changed from the fourth quarter (Q4) of 2021 at 5.0% y-o-y. The sustained economic performance was fueled by the reopening of the economy and

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



Source: Based on data from Bloomberg LP.

greater mobility as coronavirus disease (COVID-19) restrictions were gradually lifted. Growth in Q1 2022 was largely fueled by domestic consumption (4.3% y-o-y), investments (4.1% y-o-y), and exports (16.2% y-o-y).

However, the economic recovery remains fragile, dragged down by uncertainties over slowing global growth due to rising commodity prices and supply chain disruptions caused by the Russian invasion of Ukraine and COVID-19 lockdowns in the People's Republic of China. Amid expectations of weakening global growth and a slowdown in exports, Bank Indonesia slightly downgraded its gross domestic product (GDP) forecast for full-year 2022 to a range of 4.5%–5.3% in April, down from a 4.7%–5.5% projection at the start of the year.

To bolster economic recovery, Bank Indonesia continued to maintain an accommodative monetary stance. In its meeting held on 23–24 May, the Board of Governors of Bank Indonesia left unchanged 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 decision was made to support economic growth amid uncertainties stemming from the Russian invasion of Ukraine and the quickening pace of monetary policy normalization from several central banks and monetary authorities globally. Meanwhile, Bank Indonesia opted to adjust the reserve requirement ratio at a much faster pace than previously announced in January (see Policy, Institutional, and Regulatory Developments section).

Size and Composition

The LCY bond market of Indonesia continued to post modest growth in Q1 2022, expanding to a size of IDR5,478.4 trillion (USD381.4 billion) at the end of March (**Table 1**). Growth, however, moderated to 3.1% quarter-on-quarter (q-o-q) in Q1 2022 from 4.4% q-o-q in the preceding quarter. Government bonds continued to drive growth, in particular Treasury bills and bonds, which comprised 88.1% of the total bond stock at the end of March. Also contributing to the overall growth were the central bank and corporate bond segments, both of which posted q-o-q expansions in Q1 2022. In contrast, the outstanding stock of nontradable bonds continued to decline at the end of March. On a y-o-y basis, Indonesia's LCY bond market grew 14.1% in Q1 2022, down from 17.7% in Q4 2021.

A majority of Indonesia's LCY bonds are structured as conventional bonds, which accounted for 82.5% of the total bond stock at the end of March. The share of Islamic bonds (*sukuk*) slipped to 17.5% of the outstanding bond total in the same period. Indonesia remains home to the second-largest *sukuk* market in emerging East Asia after Malaysia.

Government bonds. The total government bond stock rose to IDR5,028.8 trillion at the end of March from IDR4,884.2 trillion at the end of December 2021.

Growth in government bonds eased to 3.0% q-o-q in Q1 2022 from 4.6% q-o-q in Q4 2021. On a y-o-y basis, growth in the government bond segment moderated to 15.2% from 19.4% over the same period. Indonesia's LCY bond stock remained dominated by government bonds, which represented a share of 91.8% of the total bond size at the end of March. Indonesia has the largest share of government bonds to total bonds among its regional peers.

Central government bonds. The total stock of central government bonds, which comprise Treasury bills and bonds, climbed to IDR4,828.6 trillion at the end of March. The q-o-q growth eased to 3.2% in Q1 2022 from the 4.9% recorded in the preceding quarter. Despite a slowdown in issuance, the stock of central government bonds rose due to a lower volume of maturities during the quarter. Compared with the same period a year earlier, the growth in the stock of Treasury bills and bonds moderated to 16.2% y-o-y in Q1 2022 from 20.9% y-o-y in Q4 2021.

New issuance of central government bonds totaled IDR239.6 trillion in Q1 2022, down by 9.6% from IDR265.0 trillion in Q4 2021. The decline in issuance was due to the government's fiscal consolidation strategy for debt management. The government aims to bring the budget deficit below the estimate of 4.85% of GDP as set in the 2022 state budget, thus the need for less issuance

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|------------------------|------------------------------|-----|-----------|-----|-----------|-----|-----------------|--------|---------|--------|
| | Q1 2021 | | Q4 2021 | | Q1 2022 | | Q1 2021 | | Q1 2022 | |
| | IDR | USD | IDR | USD | IDR | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| Total | 4,799,432 | 330 | 5,314,547 | 373 | 5,478,441 | 381 | 6.2 | 36.0 | 3.1 | 14.1 |
| Government | 4,366,500 | 301 | 4,884,206 | 342 | 5,028,837 | 350 | 6.7 | 41.5 | 3.0 | 15.2 |
| Central Govt. Bonds | 4,155,596 | 286 | 4,678,977 | 328 | 4,828,648 | 336 | 7.4 | 46.7 | 3.2 | 16.2 |
| of which: <i>Sukuk</i> | 765,420 | 53 | 841,973 | 59 | 831,636 | 58 | 11.5 | 60.1 | (1.2) | 8.7 |
| Nontradable Bonds | 155,977 | 11 | 143,892 | 10 | 133,687 | 9 | (5.7) | (23.5) | (7.1) | (14.3) |
| of which: <i>Sukuk</i> | 35,684 | 2 | 31,666 | 2 | 26,324 | 2 | (8.0) | (8.0) | (16.9) | (26.2) |
| Central Bank Bonds | 54,927 | 4 | 61,337 | 4 | 66,501 | 5 | (0.9) | 13.4 | 8.4 | 21.1 |
| of which: <i>Sukuk</i> | 54,927 | 4 | 61,337 | 4 | 66,501 | 5 | (0.9) | 51.8 | 8.4 | 21.1 |
| Corporate | 432,931 | 30 | 430,341 | 30 | 449,604 | 31 | 1.7 | (2.3) | 4.5 | 3.9 |
| of which: <i>Sukuk</i> | 31,172 | 2 | 34,813 | 2 | 36,290 | 3 | 2.7 | 3.2 | 4.2 | 16.4 |

() = 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. Bloomberg LP end-of-period local currency-USD rates are used.
2. Growth rates are calculated from local currency base and do not include currency effects.
3. *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.

during the year. Aside from the regular weekly auctions of Treasury bills and Treasury bonds, the government also issued retail bonds in February amounting to IDR25.1 trillion.

Central bank bonds. At the end of March, the outstanding size of central bank bonds climbed to IDR66.5 trillion on growth of 8.4% q-o-q in Q1 2022. This was faster than the 1.0% q-o-q expansion recorded in Q4 2021. Issuance of Sukuk Bank Indonesia in Q1 2022 slowed to IDR379.4 trillion, down 4.8% q-o-q but up 120.3% y-o-y.

Corporate bonds. The stock of outstanding corporate bonds in Indonesia swelled to IDR449.6 trillion at the end of March, with growth rising to 4.5% q-o-q in Q1 2022 from 2.0% q-o-q in Q4 2021. The uptick in corporate bonds was due to a higher issuance volume that outpaced maturities during the quarter. Corporate bonds accounted for only 8.2% of Indonesia's LCY bond stock at the end of March, the smallest share in emerging East Asia.

The 30 largest corporate bond issuers in Indonesia had an aggregate bond stock of IDR315.6 trillion at the end of March (**Table 2**). Collectively, they represented a 70.2% share of the corporate bond total at the end of the review period. Out of the 30 firms on the list, 15 comprised firms from the banking and financial sector. All other corporate entities were from highly capitalized industries such as energy, telecommunications, construction, and manufacturing. The top 30 list included 17 state-owned firms and 18 Indonesia Stock Exchange-listed firms.

Energy firm Perusahaan Listrik Negara maintained the top spot, with bonds outstanding amounting to IDR34.5 trillion, representing 7.7% of the LCY corporate bond total, at the end of March. In the second spot was financing firm Indonesia Eximbank with outstanding bonds of IDR19.9 trillion and a 4.4% share of the corporate bond stock. Climbing to the third spot was Indah Kiat Pulp & Paper, which ranked sixth at the end of December, with bonds totaling IDR18.1 trillion and comprising a 4.0% share of the corporate total. Bank Rakyat maintained its hold of the fourth spot with bonds totaling IDR16.4 trillion and a 3.7% share. Dropping to the fifth spot (from the third spot at the end of December) was financing firm Sarana Multi Infrastruktur with bonds totaling IDR16.3 trillion and a share of 3.6% of the corporate bond stock at the end of March.

New corporate bonds issued reached IDR38.7 trillion in Q1 2022, rising 24.0% q-o-q after a decline of 4.4% q-o-q in Q4 2021. Several corporates took advantage of low borrowing costs ahead of expectations of an interest rate hike in the second half of the year. A total of 27 firms tapped the bond market in Q1 2022 versus 17 institutions in Q4 2021.

New corporate bonds issued during the quarter comprised 78 bond series including 16 series structured as *sukuk*. Of the 16 series of *sukuk*, 14 were structured as *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership), while 2 were structured as *sukuk ijarah* (Islamic bonds backed by lease agreements).

In terms of maturity, more than a third each of the corporate bonds issued during the quarter carried maturities of 3 years (28 series) and 5 years (24 series). The shortest-dated bond had a maturity of 367 days, which was issued by Merdeka Copper Gold, and the longest was 10 years, which was issued by Energi Mitra Investama and Chandra Asri Petrochemical.

Some of the largest corporate bond issuances in Q1 2022 are shown in **Table 3**. Paper manufacturing firm OKI Pulp & Paper Mills led the list with aggregate bond issuances of IDR3.5 trillion issued in three tranches in March. Next was another paper manufacturing firm, Indah Kiat Pulp & Paper, with new bond sales in February amounting to IDR3.2 trillion, of which three tranches were conventional bonds and three tranches were *sukuk mudharabah*. Financing firm Astra Sedaya Finance and mining firm Merdeka Copper Gold raised IDR3.0 trillion worth of bonds each in March, while state-owned construction firm Wijaya Karya issued IDR2.5 trillion of bonds in February.

Investor Profiles

Foreign selling from Indonesia's bond market continued in Q1 2022, albeit at a slower pace as net outflows totaled USD3.0 billion compared with USD4.9 billion recorded in Q4 2021. The faster-than-expected monetary policy tightening by the Federal Reserve led to a foreign sell-off, with outflows continuing into April that amounted to USD1.4 billion. This led the foreign holdings share in Indonesia's LCY government bond market to further decline to 17.6% at the end of March from 19.0%

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 | 34,489 | 2.40 | Yes | No | Energy |
| 2. | Indonesia Eximbank | 19,869 | 1.38 | Yes | No | Finance |
| 3. | Indah Kiat Pulp & Paper | 18,074 | 1.26 | No | Yes | Pulp and Paper |
| 4. | Bank Rakyat Indonesia | 16,426 | 1.14 | Yes | Yes | Banking |
| 5. | Sarana Multi Infrastruktur | 16,255 | 1.13 | 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. | Permodalan Nasional Madani | 11,923 | 0.83 | Yes | No | Finance |
| 9. | Sarana Multigriya Finansial | 11,865 | 0.83 | Yes | No | Finance |
| 10. | Astra Sedaya Finance | 11,134 | 0.78 | No | No | Finance |
| 11. | Wijaya Karya | 10,000 | 0.70 | Yes | Yes | Building Construction |
| 12. | Indosat | 9,546 | 0.66 | No | Yes | Telecommunications |
| 13. | Hutama Karya | 9,313 | 0.65 | Yes | No | Nonbuilding Construction |
| 14. | Pegadaian | 9,049 | 0.63 | Yes | No | Finance |
| 15. | Pupuk Indonesia | 9,046 | 0.63 | Yes | No | Chemical Manufacturing |
| 16. | Tower Bersama Infrastructure | 8,633 | 0.60 | No | Yes | Telecommunications Infrastructure Provider |
| 17. | Waskita Karya | 8,604 | 0.60 | Yes | Yes | Building Construction |
| 18. | Bank Pan Indonesia | 7,802 | 0.54 | No | Yes | Banking |
| 19. | Adira Dinamika Multi Finance | 7,622 | 0.53 | No | Yes | Finance |
| 20. | OKI Pulp & Paper Mills | 7,500 | 0.52 | No | No | Pulp and Paper Manufacturing |
| 21. | Chandra Asri Petrochemical | 7,250 | 0.50 | No | Yes | Petrochemicals |
| 22. | Sinar Mas Agro Resources and Technology | 7,203 | 0.50 | No | Yes | Food |
| 23. | Semen Indonesia | 7,078 | 0.49 | Yes | Yes | Cement Manufacturing |
| 24. | Telkom Indonesia | 7,000 | 0.49 | Yes | Yes | Telecommunications |
| 25. | Federal International Finance | 6,938 | 0.48 | No | No | Finance |
| 26. | Merdeka Copper Gold | 6,877 | 0.48 | No | Yes | Mining |
| 27. | Bank CIMB Niaga | 5,606 | 0.39 | No | Yes | Banking |
| 28. | Bank Pembangunan Daerah Jawa Barat Dan Banten | 5,413 | 0.38 | Yes | Yes | Banking |
| 29. | Adhi Karya | 4,990 | 0.35 | Yes | Yes | Building Construction |
| 30. | Bussan Auto Finance | 4,702 | 0.33 | No | No | Finance |
| Total Top 30 LCY Corporate Issuers | | 315,552 | 21.97 | | | |
| Total LCY Corporate Bonds | | 449,604 | 31.30 | | | |
| Top 30 as % of Total LCY Corporate Bonds | | 70.2% | 70.2% | | | |

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

Notes:

1. Data as of 31 March 2022.

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.

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2022

| Corporate Issuers | Coupon Rate (%) | Issued Amount (IDR billion) |
|------------------------------------|-----------------|-----------------------------|
| OKI Pulp & Paper Mills | | |
| 370-day bond | 5.75 | 1,319 |
| 3-year bond | 9.00 | 1,801 |
| 5-year bond | 9.75 | 381 |
| Indah Kiat Pulp & Paper | | |
| 370-day bond | 6.00 | 708 |
| 370-day <i>sukuk mudharabah</i> | 6.00 | 702 |
| 3-year bond | 8.75 | 1,077 |
| 3-year <i>sukuk mudharabah</i> | 8.75 | 451 |
| 5-year bond | 9.25 | 204 |
| 5-year <i>sukuk mudharabah</i> | 9.25 | 108 |
| Astra Sedaya Finance | | |
| 370-day bond | 3.50 | 1,028 |
| 3-year bond | 5.70 | 1,972 |
| Merdeka Copper Gold | | |
| 367-day bond | 5.00 | 959 |
| 3-year bond | 7.80 | 2,041 |
| Wijaya Karya | | |
| 3-year bond | 6.50 | 594 |
| 3-year <i>sukuk mudharabah</i> | 6.50 | 413 |
| 5-year bond | 7.75 | 425 |
| 5-year <i>sukuk mudharabah</i> | 7.75 | 176 |
| 7-year bond | 8.30 | 731 |
| 7-year <i>sukuk mudharabah</i> | 8.30 | 161 |

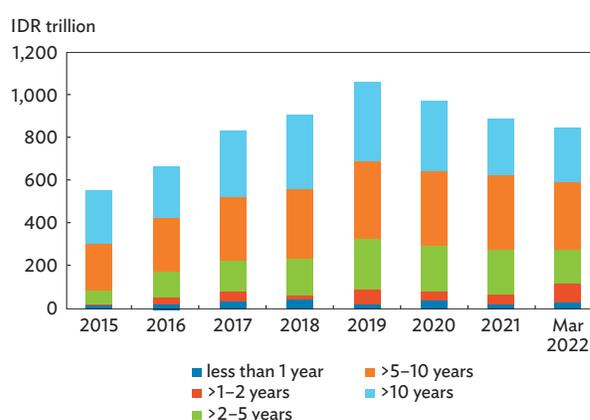
IDR = Indonesian rupiah.

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

Source: Indonesia Stock Exchange.

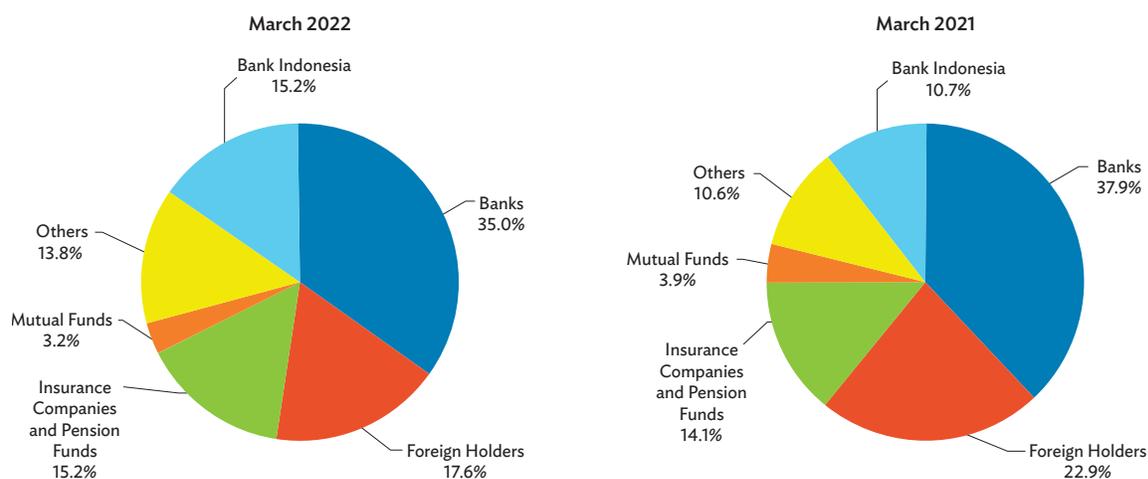
at the end of December and from 22.9% at the end of March 2021 (**Figure 2**). Total holdings by offshore investors declined 10.8% y-o-y to IDR848.3 trillion at the end of Q1 2022 from IDR951.4 trillion a year earlier.

A majority of bonds held by foreign investors carried maturities of over 5 years to 10 years, representing 36.9% of their total holdings at the end of March (**Figure 3**). The share of foreign holdings with maturities of over

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.

5 years to 10 years, however, fell from 39.0% at the end of December 2021. A similar declining trend was noted for bonds with maturities of more than 2 years to 5 years, which accounted for 18.7% of total offshore holdings at the end of March, down from 23.8% at the end of December. All other maturity buckets—less than 1 year, more than 1 year to 2 years, and over 10 years—experienced an increase in its respective share of the total in March compared with December.

Domestic investors picked up the slack in foreign investor holdings. Banking institutions accounted for the largest share of bond holdings at 35.0% at the end of March. This, however, represented a decline from a share of 37.9% in the same period a year earlier. Mutual fund holdings of LCY government bonds slipped to 3.2% from 3.9% over the same period.

At the end of March, bond holdings of Bank Indonesia gained the most among all domestic investors with its share rising to 15.2% from 10.7% a year earlier. Bank Indonesia remains committed to supporting the bond market in line with its burden-sharing agreement with the government. The central bank participates in the purchase of bonds through primary auctions, greenshoe options, and private placements. Year-to-date through 23 May, Bank Indonesia's government bond purchases totaled IDR30.2 trillion.

The other investors group, which includes individuals, also increased its holdings at the end of March, possibly a result of the issuance of retail Treasury bonds in February. The bond holdings of other investors inched up to a 13.8% share at the end of March from 10.6% a year earlier. Insurance and pension funds also increased their holdings of government bonds, accounting for a 15.2% share versus 14.1% over the same period.

Ratings Update

On 27 April, S&P Global Ratings (S&P) affirmed Indonesia's BBB investment grade sovereign rating, citing strong growth prospects and prudent policy dynamics. The outlook for the ratings was also revised to stable from negative on the back of improvements in its external position, fiscal consolidation measures, and growth prospects for the next 2 years. The rating agency estimates Indonesia's GDP growth will quicken to 5.1% in 2022 from 3.7% in 2021. Risks remain, however, including the ongoing impact of the Russian invasion of Ukraine, among others.

Policy, Institutional, and Regulatory Developments

Bank Indonesia to Accelerate Adjustments to Bank Reserve Requirement Ratios

On 24 May, Bank Indonesia announced that it would quicken the pace of reserve requirement ratio adjustments from its earlier announcement made in January. The move is part of the central bank's liquidity normalization policy. The first adjustment to the reserve requirement ratio proceeded as planned on 1 March. Subsequent adjustments will now take effect on 1 June, 1 July, and 1 September, bringing the rupiah reserve requirement ratio for conventional commercial banks to 6.0%, 7.5%, and 9.0%, respectively. The corresponding adjustments for Shariah banks and business units will be 4.5%, 6.0%, and 7.5%, respectively.