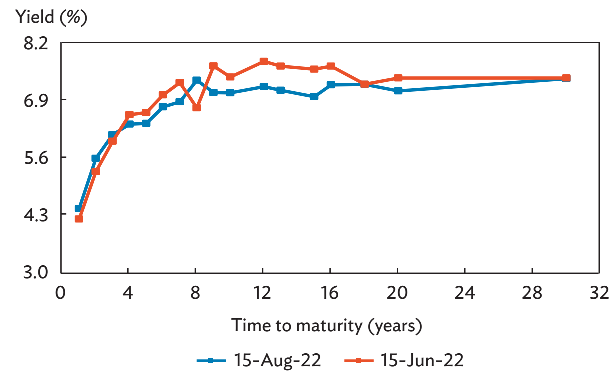
Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia edged down for most maturities from 15 June to 15 August (**Figure 1**). Bond yields declined an average of 35 basis points (bps) for all maturities of 4 years and longer except for the 8-year tenor. On the other hand, bond yields for maturities of 3 years or less rose an average of 23 bps during the review period, while the 8-year maturity gained the most at 63 bps. As the yield curve flattened, the spread between the 10-year and 2-year maturities narrowed from 215 bps on 15 June to 149 bps on 15 August.

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



Source: Based on data from Bloomberg LP.

Bond yields declined overall, influenced by improved sentiment as the market widely expected the United States (US) Federal Reserve to slow the aggressive pace of its rate hikes amid a weakening economic recovery and seemingly peaking inflation. Tracking movements in US yields, Indonesian government bond yields mostly trended down.

The decline in yields was also reflective of expectations the government would incur a narrower budget deficit in 2022 equivalent to 3.9% of gross domestic product (GDP) versus an earlier projection of 4.5% of GDP. Higher-than-expected government revenues from tax receipts, strong exports, and rising commodity prices allowed the government to reduce its planned bond issuance for the year. For the first 7 months of 2022, the government posted a budget surplus of IDR106.1 trillion, equivalent to 0.6% of GDP. The government remains committed to returning the budget deficit to the legally allowed level of 3.0% of GDP by 2023.

While Bank Indonesia has continued to maintain an accommodative monetary policy stance as core inflation remains low, it is optimizing the use of other monetary tools to manage inflation and liquidity conditions. Bank Indonesia held steady the 7-day reverse repurchase rate at 3.50% from February 2021 to July 2022. The deposit facility rate (2.75%) and lending facility rate (4.25%) were also held unchanged during the central bank's Board of Governors meeting on 20–21 July. During the Board of Governors meeting on 22-23 August, however, the central bank raised by 25 bps its policy rate to 3.75%, the first time it has done so this year.

Yields at the shorter-end of the curve were pressured upwards by Bank Indonesia's pre-emptive and mitigating action to curb inflation by accelerating monetary policy normalization, as announced in the July Board of Governors meeting. This will be done through open market operations meant to lift rates for the 2-weeks to 1-year maturities. The central bank has also begun to offload government bonds with maturities of up to 5 years that it has accumulated under the burden-sharing agreement with the government. Also contributing to the rise in yields was the inflation spike in July to 4.9% year-on-year (y-o-y), the highest rate in 7 years, due to faster increase in food prices. In August, consumer price inflation eased to 4.7% y-o-y. Consumer price inflation has been inching up since the start of the year, albeit it is still modest compared with peers in the region.

Meanwhile, real GDP growth climbed to 5.4% y-o-y in the second quarter (Q2) of 2022 from 5.0% y-o-y in the first quarter (Q1). The improved economic performance was fueled by strong growth in household consumption, which rose to 5.5% y-o-y in Q2 2022 from 4.3% y-o-y in Q1 2022. A robust export performance also sustained the expansion, with export growth rising to 19.7% y-o-y in Q2 2022 from 16.7% y-o-y in Q1 2022. In the same period, growth in investments slowed to 3.1% y-o-y from 4.1% y-o-y, while government spending contracted by 5.2% y-o-y in Q2 2022 versus a 7.6% y-o-y decline in Q1 2022. Bank Indonesia expects GDP growth for full-year 2022 to lean toward the upper end of its forecast range of 4.5%–5.3%.

Size and Composition

Indonesia's LCY bond market grew marginally in Q2 2022 to reach a size of IDR5,497.2 trillion (USD369.0 billion) at the end of June (**Table 1**). Overall growth decelerated to 0.3% quarter-on-quarter (q-o-q) in Q2 2022 from 3.1% q-o-q in Q1 2022 due to a slowdown in issuance across all bond types. Indonesia's Q2 2022 q-o-q growth was the slowest in emerging East Asia. On a y-o-y basis, Indonesia's LCY bond market growth moderated to 11.9% in Q2 2022 from 14.1% in the preceding quarter.

Indonesia continued to account for the second-largest *sukuk* (Islamic bond) market in emerging East Asia after Malaysia. The amount of *sukuk* outstanding as a share of the total bond market remained relatively small but rose slightly to 18.2% at the end of June from 17.5% in the earlier quarter. Conventional bonds continued to account for a dominant share (81.8%) of Indonesia's LCY bond market at the end of Q2 2022.

Government bonds. The outstanding government bond stock reached IDR5,057.7 trillion at the end of June from IDR5,028.8 trillion at the end of March. Growth was marginal at 0.6% q-o-q in Q2 2022, moderating from 3.0% q-o-q in Q1 2022. On an annual basis, the government bond segment recorded slower growth of 12.7% y-o-y in Q2 2022 versus 15.2% y-o-y in Q1 2022. Government bonds continued to dominate Indonesia's LCY bond market, accounting for a 92.0% share of the total at the end of June and representing the largest share of government bonds to total bonds in emerging East Asia.

Central government bonds and nontradable bonds. At the end of June, the outstanding stock of central government bonds, which comprised tradable Treasury bills and bonds, rose a marginal 0.4% q-o-q in Q2 2022 compared with 7.4% q-o-q in Q1 2022. The slower growth stemmed from volumes of issuance and maturities being broadly at par during the quarter. On a y-o-y basis, growth in the central government bond stock eased to 13.2% in Q2 2022 from 16.2% in Q1 2022. In the same period, nontradable bonds outstanding climbed to IDR144.4 trillion on growth of 8.0% q-o-q. Growth on a y-o-y basis, however, contracted to 2.6% in Q2 2022 from 14.3% in Q1 2022.

In Q2 2022, issuance of central government bonds (including nontradable bonds) contracted substantially by 38.1% q-o-q as increased revenue collection in the first half of 2022 provided fiscal space for the government to reduce bond issuance. As a share of GDP, the government estimates the budget deficit will reach 3.9% this year, compared with an earlier forecast of 4.5%. The decline in issuance is also aligned with the government's commitment to bring the budget deficit back under its legal cap of 3.0% of GDP as allowed by

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2021		Q1 2022		Q2 2022		Q2 2021		Q2 2022	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**4,912,250**	**339**	**5,478,441**	**381**	**5,497,153**	**369**	**2.4**	**30.6**	**0.3**	**11.9**
Government	4,489,539	310	5,028,837	350	5,057,678	339	2.8	34.8	0.6	12.7
Central Govt. Bonds	4,282,623	295	4,828,648	336	4,848,083	325	3.1	37.9	0.4	13.2
of which: *Sukuk*	740,172	51	831,636	58	874,110	59	(3.3)	27.8	5.1	18.1
Nontradable Bonds	148,246	10	133,687	9	144,435	10	(5.0)	(15.8)	8.0	(2.6)
of which: *Sukuk*	33,106	2	26,324	2	26,374	2	(7.2)	(11.2)	0.2	(20.3)
Central Bank Bonds	58,670	4	66,501	5	65,160	4	6.8	18.2	(2.0)	11.1
of which: *Sukuk*	58,670	4	66,501	5	65,160	4	6.8	50.9	(2.0)	11.1
Corporate	422,711	29	449,604	31	439,474	29	(2.4)	(1.6)	(2.3)	4.0
of which: *Sukuk*	31,672	2	36,290	3	37,273	3	1.6	7.8	2.7	17.7

( ) = 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. 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.

Indonesian legislation. The limit was temporarily lifted during the pandemic due to the need for increased government spending to support the economy and provide for social relief and recovery measures.

Aside from Treasury bills and bonds, central government and nontradable bond issuances during the quarter included private placements and Savings Bond Ritel. The government raised a total of IDR13.9 trillion from the issuance of 2-year Savings Bond Ritel in June, which were sold to encourage individuals to invest in the bond market.

Central bank bonds. The stock of outstanding central bank bonds declined 2.0% q-o-q in Q2 2022, a turnaround from the 8.4% q-o-q growth in Q1 2022. The total amount of central bank bonds outstanding reached IDR65.2 trillion at the end of June, comprising solely Sukuk Bank Indonesia. Issuance of Sukuk Bank Indonesia totaled IDR331.9 trillion in Q2 2022, posting a contraction of 12.5% q-o-q.

Corporate bonds. At the end of June, the size of Indonesia's corporate bond market stood at IDR439.5 trillion, declining 2.3% q-o-q in Q2 2022 after posting a 4.5% q-o-q expansion in Q1 2022. The decline in the corporate bond stock stemmed from reduced issuance of corporate bonds in Q2 2022 amid uncertainties in the economic outlook. At only 8.0% of the total bond stock, Indonesia's LCY corporate bond market accounts for the smallest share of the overall market among emerging East Asian peers.

The aggregate bonds outstanding of the 30 largest corporate bond issuers in Indonesia amounted to IDR308.8 trillion at the end of June, representing 70.3% of the total corporate bond market (**Table 2**). The top 30 list includes 15 firms from the banking and financial sectors. The remaining 15 institutions are engaged in highly capitalized sectors such as energy, manufacturing, telecommunications, and construction. More than half of the top 30 list are state-owned entities (17 companies).

The top five corporate bond issuers in Indonesia, all of which are state-owned firms except for one, maintained their rankings in Q2 2022 from the preceding quarter. Leading the list was Perusahaan Listrik Negara with outstanding bonds of IDR34.5 trillion for a 7.8% share of the corporate bond total at the end of June.

Next was financing firm Indonesia Eximbank whose IDR18.8 trillion of bonds accounted for a 4.3% share of the corporate total. Third on the list was Indah Kiat Pulp and Paper with total outstanding bonds of IDR17.0 trillion and a 3.9% share. At the fourth and fifth spots were Bank Rakyat Indonesia and Sarana Multi Infrastruktur with market shares of 3.5% and 3.4%, respectively. All other firms on the list had a share of 3.1% or less of the total corporate bond stock.

Corporate bond sales during the quarter tallied IDR30.5 trillion, down by 21.4% q-o-q in Q2 2022 and a reversal from the 24.0% q-o-q hike in Q1 2022. Unfavorable market conditions caused by volatility in financial markets, which tends to result in higher borrowing costs, has led some corporates to delay planned bond issuances. Nonetheless, there were 16 firms who tapped the bond market in Q2 2022 for funding to support capital expenditures and refinance maturing obligations.

A total of 44 corporate bond series were added to the corporate bond stock in Q2 2022, eight of which were structured as *sukuk*. There were two series of *sukuk ijarah* (Islamic bonds backed by lease agreements) and six series of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership).

Among the new issuance during the quarter, the most common bond maturity was 3 years (16 series) and 5 years (15 series), which accounted for 36.4% and 34.1%, respectively, of the issuance total in Q2 2022. The shortest-dated bond issued in Q2 2022 was for 367 days, issued by Adhi Commuter Properti, while the longest was for a 7-year duration.

The five largest corporate bond issuances in Q2 2022 were all from state-owned institutions (**Table 3**). Bank Negara Indonesia was the largest issuer with total issuance of IDR5.0 trillion from a dual-tranche sale of conventional green bonds. It was followed by pawnshop firm Pegadaian, which raised an aggregate of IDR4.0 trillion from the sale of two series of conventional bonds and two series of *sukuk mudharabah*. At the third spot was Adhi Karya, which sold a total IDR3.8 trillion from three series of bonds. Next were Waskita Karya and Permodalan Nasional Madani, which raised IDR3.3 trillion and IDR3.0 trillion, respectively.

Table 2: Top 30 Issuers of Local Currency Corporate Bonds in Indonesia

	Issuers	Outstanding Amount LCY Bonds (IDR billion)	Outstanding Amount LCY Bonds (USD billion)	State-Owned	Listed Company	Type of Industry
1.	Perusahaan Listrik Negara	34,489	2.32	Yes	No	Energy
2.	Indonesia Eximbank	18,789	1.26	Yes	No	Finance
3.	Indah Kiat Pulp & Paper	16,993	1.14	No	Yes	Pulp and Paper
4.	Bank Rakyat Indonesia	15,501	1.04	Yes	Yes	Banking
5.	Sarana Multi Infrastruktur	15,031	1.01	Yes	No	Finance
6.	Permodalan Nasional Madani	13,522	0.91	Yes	No	Finance
7.	Bank Mandiri	11,900	0.80	Yes	Yes	Banking
8.	Sarana Multigriya Finansial	11,865	0.80	Yes	No	Finance
9.	Waskita Karya	11,395	0.76	Yes	Yes	Building Construction
10.	Pegadaian	10,297	0.69	Yes	No	Finance
11.	Bank Tabungan Negara	10,277	0.69	Yes	Yes	Banking
12.	Astra Sedaya Finance	10,242	0.69	No	No	Finance
13.	Wijaya Karya	10,000	0.67	Yes	Yes	Building Construction
14.	Hutama Karya	9,313	0.63	Yes	No	Nonbuilding Construction
15.	Pupuk Indonesia	9,046	0.61	Yes	No	Chemical Manufacturing
16.	Merdeka Copper Gold	8,318	0.56	No	Yes	Mining
17.	Bank Negara Indonesia	8,000	0.54	Yes	Yes	Banking
18.	Bank Pan Indonesia	7,802	0.52	No	Yes	Banking
19.	Tower Bersama Infrastructure	7,663	0.51	No	Yes	Telecommunications Infrastructure Provider
20.	OKI Pulp & Paper Mills	7,500	0.50	No	No	Pulp and Paper Manufacturing
21.	Adira Dinamika Multi Finance	7,325	0.49	No	Yes	Finance
22.	Indosat	7,194	0.48	No	Yes	Telecommunications
23.	Sinar Mas Agro Resources and Technology	6,603	0.44	No	Yes	Food
24.	Chandra Asri Petrochemical	6,500	0.44	No	Yes	Petrochemicals
25.	Bank Pembangunan Daerah Jawa Barat Dan Banten	6,413	0.43	Yes	Yes	Banking
26.	Lontar Papyrus Pulp & Paper Industry	6,000	0.40	No	No	Pulp and Paper Manufacturing
27.	Bank CIMB Niaga	5,606	0.38	No	Yes	Banking
28.	Federal International Finance	5,267	0.35	No	No	Finance
29.	Adhi Karya	5,187	0.35	Yes	Yes	Building Construction
30.	Telkom Indonesia	4,800	0.32	Yes	Yes	Telecommunications
Total Top 30 LCY Corporate Issuers		**308,838**	**20.73**			
Total LCY Corporate Bonds		**439,474**	**29.50**			
Top 30 as % of Total LCY Corporate Bonds		**70.3%**	**70.3%**			

IDR = Indonesian rupiah, LCY = local currency, USD = United States dollar.
Notes:
1. Data as of 30 June 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 Second Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Negara Indonesia		
3-year bond	6.35	4,000
5-year bond	6.85	1,000
Pegadaian		
370-day bond	3.60	2,431
370-day *sukuk mudharabah*	3.60	671
3-year bond	5.35	598
3-year *sukuk mudharabah*	5.35	320
Adhi Karya		
3-year bond	8.25	1,286
5-year bond	9.00	668
7-year bond	10.20	1,796
Waskita Karya		
5-year bond	6.65	658
5-year *sukuk mudharabah*	6.65	383
7-year bond	7.55	1,469
7-year *sukuk mudharabah*	7.55	765
Permodalan Nasional Madani		
370-day bond	3.75	2,374
3-year bond	5.30	626

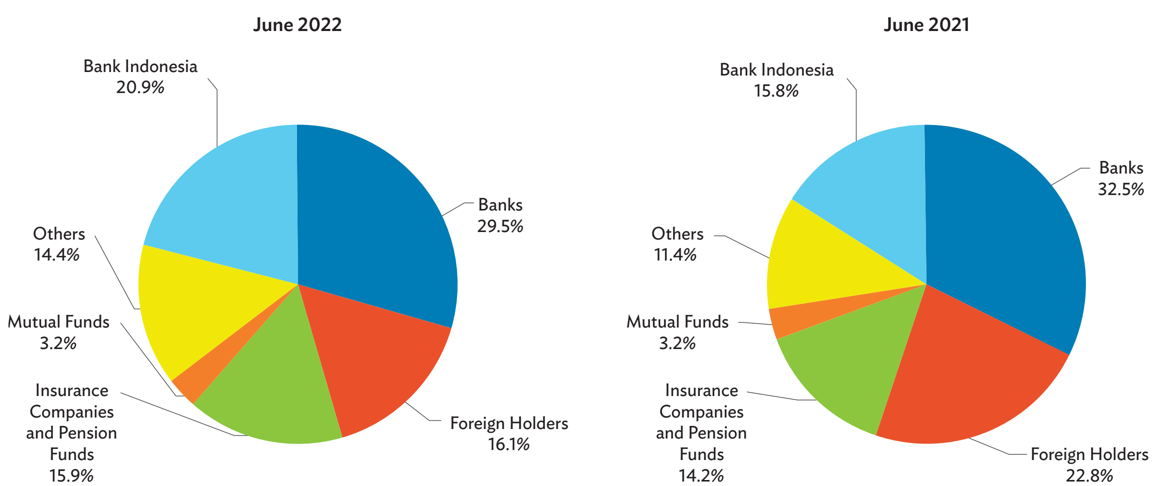
IDR = Indonesian rupiah.
Note: *Sukuk mudharabah* are Islamic bonds backed by a profit-sharing scheme from a business venture or partnership.
Source: Indonesia Stock Exchange.

Investor Profiles

The foreign sell-off continued in the Indonesian LCY bond market in Q2 2022, which recorded net outflows of USD4.6 billion versus USD2.9 billion in Q1 2022. Market volatility arising from aggressive rate hikes by the Federal Reserve and the broad strengthening of the US dollar led offshore investors to dump IDR-denominated bonds. The foreign holdings share dropped to 16.1% at the end of June from 17.6% at the end of March and from 22.8% at the end of June 2021 (**Figure 2**). In nominal terms, foreign bond holdings fell significantly by 20.2% y-o-y to IDR780.2 trillion at the end of June.

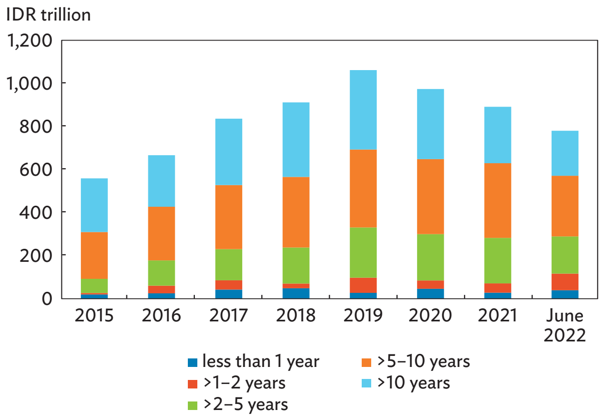
About 63.1% of bonds held by foreign investors carried maturities of over 5 years or longer (**Figure 3**). This share was down from 68.4% at the end of December. Bonds with maturities of more than 2 years to 5 years comprised 22.1% of the aggregate holdings of foreign investors, which also constituted a decline from a 23.8% share at the end of December. On the other hand, the share of bonds with maturities of 2 years or less increased from a 7.8% share at the end of December to 14.8% at the end of June. This indicated a shift in the risk preference of offshore holders toward shorter-term maturities amid heightened uncertainties over the global growth outlook and persistent inflation.

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.

As in previous quarters, domestic investors supported the bond market. Banks remained the largest investor group, accounting for 29.5% of total government bonds at the end of June. This, however, was down from banks' 32.5% share in the same period a year earlier.

All other investor groups recorded increases in their respective holdings of LCY government bonds at the end of June. Bank Indonesia recorded the biggest increase, as its holdings share rose 5.1 percentage points to 20.9% at the end of June. Amid volatile market conditions that resulted in the partial award of bonds during Q2 2022 Treasury auctions, Bank Indonesia purchased bonds as part of its burden-sharing agreement with the government to help stabilize financial markets and support fiscal measures. From 1 January to 22 August, the government bond purchases of Bank Indonesia amounted to IDR58.3 trillion.

The next largest expansion in shareholdings was seen for the "other investors" group, which includes individuals and corporations, among others. This group's shareholdings climbed 2.9 percentage points to reach 14.4% at the end of June. The bond holdings of insurance and pension funds rose 1.7 percentage points to a 15.9% share during the same period, while the holdings of mutual funds remained stable at 3.2%.

Ratings Update

On 27 July, Japan Credit Rating Agency affirmed Indonesia's sovereign credit rating at BBB+ with a stable outlook. The rating agency cited Indonesia's strong domestic-demand-led growth potential, restrained public debt, and resilience to external shocks as factors for the ratings affirmation. The rating agency views that economic recovery will be on track for GDP growth to exceed 5.0% in 2022, supported by expansions in private consumption, investments, and exports.

Policy, Institutional, and Regulatory Developments

Bank Indonesia Begins to Unwind Its Holdings of Government Bonds

In July, Bank Indonesia began to unwind its holdings of government bonds in the secondary market. The bonds that will be sold include government bonds with maturities of up to 5 years, which the central bank had accumulated under its burden-sharing agreement with the government during the pandemic. This move is part of the central bank's preemptive mitigation measures to combat inflationary pressure and strengthen the domestic currency.

State Budget 2023 Aims to Return Budget Deficit to Below 3.0% of Gross Domestic Product

In August, the President of Indonesia announced the government's commitment to reduce the budget deficit to within the legal cap of 3.0% of GDP in 2023. The government's proposed 2023 state budget sets state revenues at IDR2,443.6 trillion and state expenditures at IDR3,041.7 trillion. Debt financing is projected to decline to IDR696.3 trillion. The 2023 state budget is guided by the following macroeconomic assumptions: (i) economic growth of 5.3%, (ii) inflation of 3.3%, and (iii) an exchange rate of IDR14,750 per USD1.0.