

Indonesia

Yield Movements

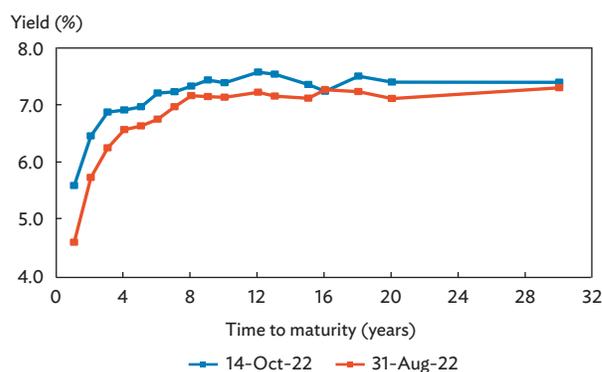
Between 31 August and 14 October, Indonesia's local currency (LCY) government bond yields edged up for all maturities except the 16-year maturity (**Figure 1**). Bond yields gained the most for maturities of 3 years or less, rising an average of 77 basis points (bps). Except for the 16-year bond, which shed a marginal 3 bps, yields for all tenors of 4 years or longer climbed an average of 29 bps during the review period. As yields rose much faster at the shorter-end than the longer-end of the curve, the spread between the 10-year and 2-year maturity narrowed from 139 bps on 31 August to 92 bps on 14 October.

The overall rise in yields was largely driven by the monetary policy tightening of Bank Indonesia. After keeping the policy rate steady at 3.50% since February 2021, the central bank raised the 7-day reverse repurchase rate by 25 bps on 23 August, which was followed by a 50 bps hike each on 22 September, 20 October, and 17 November. This lifted the 7-day reverse repurchase rate to 5.25%, the deposit facility rate to 4.50%, and the lending facility rate to 6.00%. Bank Indonesia had raised the policy rate by a cumulative 175 bps from August through November. The policy rate hikes were taken as a preemptive measure to help quell inflationary pressure and maintain the stability of the Indonesian rupiah amid uncertainties in global financial markets and the broad strengthening of the US dollar.

Consumer price inflation trended upward, rising to 6.0% year-on-year (y-o-y) in September from 4.7% y-o-y in August and 4.9% y-o-y in July, largely due to fuel price adjustments. While inflation moderated to 5.7% y-o-y in October, it remained above Bank Indonesia's target range of 2.0%–4.0% for 2022. Bank Indonesia expects inflation for the year to exceed the upper limit of its inflation target range.

Also contributing to the rise in yields was Indonesia's economic recovery, which continued to gain traction. Real gross domestic product (GDP) growth in the third quarter (Q3) of 2022 rose to 5.7% y-o-y from 5.4% y-o-y in the second quarter (Q2). Domestic consumption continued to support growth, expanding 5.4% y-o-y in Q3 2022, albeit slower than the 5.5% y-o-y growth in the earlier quarter. Gross fixed capital formation also grew

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



Source: Based on data from Bloomberg LP.

5.0% y-o-y in Q3 2022. Exports continued to perform strongly, rising 21.6% y-o-y on increased demand from trading partners, and imports climbed 23.0% y-o-y. For the year as a whole, Bank Indonesia estimates GDP growth to lean toward the upper end of its target range of 4.5%–5.3%.

Size and Composition

Indonesia's LCY bond market expanded to a size of IDR5,746.8 trillion (USD377.4 billion) at the end of September, buoyed by a rebound in issuance across all bond types during the quarter (**Table 1**). Growth of the bond market accelerated to 4.5% quarter-on-quarter (q-o-q) in Q3 2022, up from 0.3 q-o-q in Q2 2022. Indonesia was the second-fastest growing LCY bond market on a q-o-q basis in emerging East Asia in Q3 2022, next to Hong Kong, China (4.9% q-o-q). On an annual basis, the LCY bond market of Indonesia expanded 12.9% y-o-y in Q3 2022, up from 11.9% y-o-y in the prior quarter.

Indonesia's *sukuk* (Islamic bond) market remained the second-largest in emerging East Asia next to Malaysia's. The outstanding amount of *sukuk* climbed 7.1% q-o-q in Q3 2022, exceeding the 4.0% q-o-q growth of conventional bonds. This led to an increase in the share of *sukuk* in the total market to 18.7% at the end of September from 18.2% at the end of June. Conventional bonds continued to dominate the LCY bond market in Indonesia with a share of 81.3% at the end of Q3 2022.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2021		Q2 2022		Q3 2022		Q3 2021		Q3 2022	
	IDR	USD	IDR	USD	IDR	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	5,089,510	356	5,497,153	369	5,746,803	377	3.6	23.9	4.5	12.9
Government	4,667,501	326	5,057,678	339	5,289,292	347	4.0	27.3	4.6	13.3
Central Govt. Bonds	4,460,456	312	4,848,083	325	5,101,415	335	4.2	28.9	5.2	14.4
of which: <i>Sukuk</i>	834,323	58	874,110	59	961,562	63	12.7	35.1	10.0	15.3
Nontradable Bonds	146,334	10	144,435	10	141,668	9	(1.3)	(12.7)	(1.9)	(3.2)
of which: <i>Sukuk</i>	31,161	2	26,374	2	26,412	2	(5.9)	(18.5)	0.1	(15.2)
Central Bank Bonds	60,712	4	65,160	4	46,209	3	3.5	58.0	(29.1)	(23.9)
of which: <i>Sukuk</i>	60,712	4	65,160	4	46,209	3	3.5	58.0	(29.1)	(23.9)
Corporate	422,008	29	439,474	29	457,511	30	(0.2)	(4.2)	4.1	8.4
of which: <i>Sukuk</i>	36,143	3	37,273	3	39,660	3	14.1	16.9	6.4	9.7

(-) = 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. 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.

Government bonds. At the end of September, the LCY government bond market expanded to a size of IDR5,289.3 trillion. Growth accelerated to 4.6% q-o-q and 13.3% y-o-y in Q3 2022 from 0.6% q-o-q and 12.7% y-o-y in the preceding quarter. Government bonds account for a dominant share (92.0%) of Indonesia's LCY bond market. This marked the largest share of government bonds to total bonds among regional peers.

Central government bonds and nontradable bonds. A majority of government bonds are central government bonds, comprising tradable Treasury bills and bonds. The outstanding amount of central government bonds climbed to IDR5,101.4 trillion, as growth surged 5.2% q-o-q and 14.4% y-o-y in Q3 2022 from 0.4% q-o-q and 13.2% y-o-y in Q2 2022. In contrast, the nontradable bond stock contracted 1.9% q-o-q and 3.2% y-o-y to IDR141.7 trillion as maturities exceeded issuance.

In Q3 2022, issuance of central government bonds and nontradable bonds nearly doubled to reach IDR267.7 trillion on growth of 80.4% q-o-q. On an annual basis, central government and nontradable bond issuance growth moderated to 2.1% y-o-y. Issuances during the quarter were offered via regular Treasury bill and bond auctions (both for conventional and Islamic bonds), private placements, and bookbuilding. The greenshoe option was again tapped to raise funds in July as an auction fell short of the target amount. In addition, the government raised IDR27.0 trillion from the sale of *sukuk ritel* (Islamic retail bonds) in September.

Central bank bonds. The outstanding amount of central bank bonds contracted 29.1% q-o-q to reach IDR46.2 trillion at the end of September. In Q3 2022, issuance of *Sukuk* Bank Indonesia climbed 5.4% q-o-q, after contracting 12.5% q-o-q in Q2 2022, amid rising inflationary pressure. Issuances of *Sukuk* Bank Indonesia were concentrated in short-term maturities ranging from 7 days to 12 months.

Corporate bonds. The LCY corporate bond market of Indonesia expanded 4.1% q-o-q in Q3 2022 after contracting 2.3% q-o-q in the prior quarter. The total outstanding corporate bond stock rose to IDR457.5 trillion and accounted for 8.0% of the LCY bond total at the end of September, marking the lowest market share of corporate bonds in emerging East Asia.

The 30 largest corporate bond issuers in Indonesia accounted for an aggregate IDR315.0 trillion of outstanding bonds at the end of September, representing 68.9% of the corporate total (Table 2). The top 30 list comprised 16 state-owned firms, eight of which landed in the top 10. More than half of the firms on the list were also listed in the Indonesia Stock Exchange (17 firms). The top 30 list comprised firms from the banking and financial sectors and other highly capitalized industries such as energy, construction, telecommunications, and manufacturing.

Leading the list was state-owned energy firm Perusahaan Listrik Negara with outstanding bonds of

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	30,694	2.02	Yes	No	Energy
2.	Indah Kiat Pulp & Paper	19,993	1.31	No	Yes	Pulp and Paper Manufacturing
3.	Bank Rakyat Indonesia	18,849	1.24	Yes	Yes	Banking
4.	Indonesia Eximbank	17,717	1.16	Yes	No	Finance
5.	Sarana Multi Infrastruktur	14,806	0.97	Yes	No	Finance
6.	Pegadaian	13,297	0.87	Yes	No	Finance
7.	Sarana Multigriya Finansial	12,803	0.84	Yes	No	Finance
8.	Permodalan Nasional Madani	12,614	0.83	Yes	No	Finance
9.	Merdeka Copper Gold	12,318	0.81	No	Yes	Mining
10.	Bank Mandiri	11,900	0.78	Yes	Yes	Banking
11.	Waskita Karya	11,395	0.75	Yes	Yes	Building Construction
12.	Astra Sedaya Finance	11,142	0.73	No	No	Finance
13.	Wijaya Karya	10,000	0.66	Yes	Yes	Building Construction
14.	Pupuk Indonesia	9,046	0.59	Yes	No	Chemical Manufacturing
15.	Tower Bersama Infrastructure	8,663	0.57	No	Yes	Telecommunications Infrastructure Provider
16.	Chandra Asri Petrochemical	8,500	0.56	No	Yes	Petrochemicals
17.	Bank Tabungan Negara	8,182	0.54	Yes	Yes	Banking
18.	Hutama Karya	8,148	0.54	Yes	No	Nonbuilding Construction
19.	Sinar Mas Agro Resources and Technology	8,103	0.53	No	Yes	Food
20.	Bank Pan Indonesia	7,802	0.51	No	Yes	Banking
21.	Lontar Papyrus Pulp & Paper Industry	7,000	0.46	No	No	Pulp and Paper Manufacturing
22.	Medco Energi Internasional	6,795	0.45	No	Yes	Energy
23.	Bank Pembangunan Daerah Jawa Barat Dan Banten	6,413	0.42	Yes	Yes	Banking
24.	Adira Dinamika Multi Finance	6,296	0.41	No	Yes	Finance
25.	Kereta Api Indonesia	6,000	0.39	No	No	Transportation and Logistics
26.	Indosat	5,803	0.38	No	Yes	Telecommunications
27.	OKI Pulp & Paper Mills	5,485	0.36	No	No	Pulp and Paper Manufacturing
28.	Federal International Finance	5,267	0.35	No	No	Finance
29.	Bank Negara Indonesia	5,000	0.33	Yes	Yes	Banking
30.	Adhi Karya	4,987	0.33	Yes	Yes	Building Construction
Total Top 30 LCY Corporate Issuers		315,018	20.69			
Total LCY Corporate Bonds		457,511	30.04			
Top 30 as % of Total LCY Corporate Bonds		68.9%	68.9%			

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

Notes:

1. Data as of 30 September 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.

IDR30.7 trillion, which accounted for a 6.7% share of the total corporate bond stock at the end of September. Taking over the second spot was manufacturing firm Indah Kiat Pulp & Paper with IDR20.0 trillion of bonds for a 4.4% share. State-owned Bank Rakyat Indonesia climbed to the third spot with outstanding bonds of IDR18.8 trillion and a 4.1% share of the corporate total. State-owned financing firm Indonesia Eximbank dropped to the fourth spot (previously in the second spot) at a share of 3.9%, while state-owned financing firm Sarana Multi Infrastruktur held on to the fifth spot for a 3.2% share. All other corporate issuers accounted for a share of 2.9% or less of the corporate bond total at the end of September.

Indonesia's corporate bond segment saw robust issuance activities in Q3 2022, rebounding from the contraction in the prior quarter. Total corporate bond sales nearly doubled to IDR55.8 trillion in Q3 2022, rising 83.3% q-o-q and 71.0% y-o-y. Firms rushed to raise funds from the bond market while rates were still low. Indonesia was among the last few markets in the region to tighten its policy rate in August.

A total of 37 firms issued bonds during the quarter, adding 111 new corporate bond series to the outstanding corporate stock. Of these new bonds, 27 series were

structured as *sukuk* including two series of *sukuk wakalah* (Islamic bonds in which the bondholder nominates another party to act on the bondholder's behalf). A majority of the corporate *sukuk* (15 series) issued during the quarter were structured as *sukuk ijarah* (Islamic bonds backed by lease agreements), while there were 10 series of *sukuk mudharabah* (Islamic bonds backed by a profit-sharing scheme from a business venture or partnership).

In terms of maturity, corporate bonds issued during the quarter were largely concentrated in short- to medium-dated tenors. There were 39 series of 3-year bonds, 31 series of 367/370-day bonds, and 30 series of 5-year bonds. The longest dated bonds issued in Q3 2022 were for 10 years, issued by Chandra Asri Petrochemical in August and XL Axiata's conventional and *sukuk ijarah* issues in September.

Table 3 presents five of the largest corporate bond issuances during the quarter. The largest issuance for Q3 2022 came from state-owned Bank Rakyat Indonesia, which raised a total of IDR5.0 trillion from a triple-tranche offering of conventional bonds in July. Next was Merdeka Copper Gold with aggregate bond issuance of IDR4.0 trillion in September, also in three tranches of conventional bonds.

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

Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)	Corporate Issuers	Coupon Rate (%)	Issued Amount (IDR billion)
Bank Rakyat Indonesia			Pegadaian		
370-day bond	3.70	2,500	370-day bond	3.95	1,601
3-year bond	5.75	2,000	370-day <i>sukuk mudharabah</i>	3.95	878
5-year bond	6.45	500	3-year bond	5.75	276
Merdeka Copper Gold			3-year <i>sukuk mudharabah</i>	5.75	245
367-day bond	5.50	1,473	XL Axiata		
3-year bond	8.25	1,729	3-year bond	6.75	735
5-year bond	9.50	798	3-year <i>sukuk ijarah</i>	6.75	681
Medco Energi Internasional			5-year bond	7.40	412
2.5 year bond	7.00	1,892	5-year <i>sukuk ijarah</i>	7.40	421
5-year bond	8.10	521	7-year bond	7.90	178
7-year bond	9.00	586	7-year <i>sukuk ijarah</i>	7.90	135
			10-year bond	8.25	175
			10-year <i>sukuk ijarah</i>	8.25	263

IDR = Indonesian rupiah.

Notes:

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

2. *Sukuk ijarah* are Islamic bonds backed by lease agreement.

Source: Indonesia Stock Exchange.

Investor Profiles

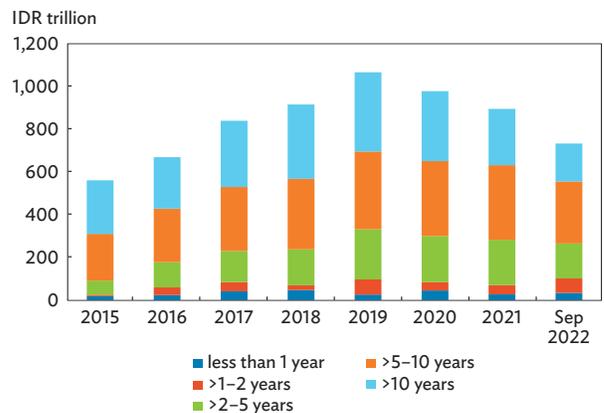
Amid a dimming economic outlook and weakening financial conditions that soured investment sentiments, Indonesia continued to experience net foreign outflows from its bond market in Q3 2022. Aggressive monetary policy tightening by the United States (US) Federal Reserve and the broad strengthening of the US dollar made emerging market assets less attractive. Offshore investors continued to shy away from the Indonesian bond market, with net foreign outflows reaching USD3.3 billion in Q3 2022. As a result, the foreign holdings share further declined to 14.3% at the end of September from 21.6% a year earlier (Figure 2). Foreign ownership of IDR-denominated bonds substantially declined by 24.1% y-o-y to IDR730.3 trillion at the end of September.

In terms of maturity, offshore investor holdings of bonds remained largely concentrated in longer-dated tenors. About 63.8% of nonresident investments in bonds were in maturities of over 5 years or longer at the end of September (Figure 3). This, however, was down from the 68.4% share recorded at the end of December 2021, but was slightly up from the 63.1% at the end of June 2022. Offshore holdings of bonds for maturities of over 2 years to 5 years slipped to a 22.3% share at the end of September from 23.8% at the end of December 2021. In contrast, foreign holdings of bonds with maturities of

2 years or less continued to rise, climbing to a 13.9% share of nonresident bond holdings at the end of September. This reflected investor preference for shorter-dated maturities amid uncertainties over the global and regional outlooks.

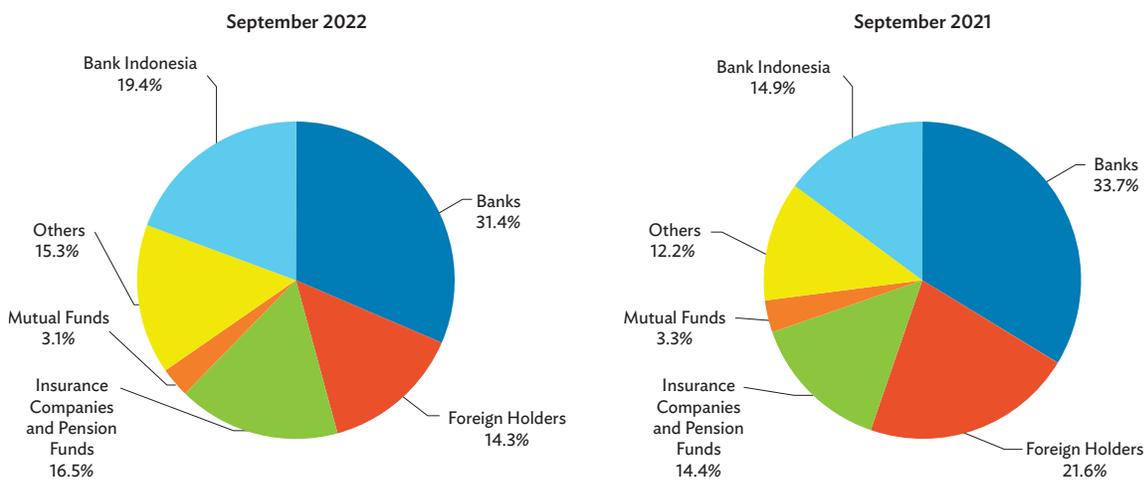
Domestic investors were active players in the Indonesian bond market, with banking institutions accounting for the largest holdings at a share of 31.4% at the end

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.

of September. This was slightly lower compared with their 33.7% share a year earlier. Next largest were the holdings of the central bank, as its burden-sharing agreement with the government that was set in place during the pandemic allowed it to purchase bonds to help stabilize bond prices and support government financing. Bank Indonesia's holdings of government bonds rose sharply to 19.4% from 14.9% a year earlier. For the period 1 January to 15 November, Bank Indonesia purchased a total of IDR142.4 trillion of government bonds. Insurance institutions also increased their holdings of government bonds, accounting for a 16.5% share in September, up from 14.4% a year earlier.

Other investor groups, largely comprising individuals and corporations, saw their bond holdings increase to 15.3% of government bond holdings at the end of September from 12.2% a year earlier. In contrast, mutual funds saw a slight dip in their holdings of governments bonds to a share of 3.1% in September from 3.3% a year earlier.

Policy, Institutional, and Regulatory Developments

Bank Indonesia and Bank Negara Malaysia Renew Local Currency Bilateral Swap Agreement

On 23 September, Bank Indonesia and Bank Negara Malaysia agreed to renew their LCY bilateral swap agreement, which both parties initially entered into in 2019. The bilateral agreement comprised up to an equivalent of MYR8.0 billion or IDR28.0 trillion in local currency that will be used for bilateral transactions between Indonesia and Malaysia. The new agreement will be effective for a period of 3 years.

Indonesian Parliament Approves the 2023 State Budget

In September, the Indonesian Parliament approved the government's proposed budget for 2023, setting the deficit at IDR598.2 trillion or the equivalent of 2.8% of GDP. The 2023 state budget estimates state revenues at IDR2,463.0 trillion and state expenditures at IDR3,061.2 trillion. Debt financing was projected to reach IDR696.3 trillion. The following macroeconomic assumptions, among others, were used as reference for the budget: (i) an economic growth of 5.3%, (ii) an inflation rate of 3.6%, (iii) a 10-year bond yield of 7.9%, (iv) an exchange rate of IDR14,800 per USD1.0, and (v) an Indonesia crude price per barrel of USD90.0.