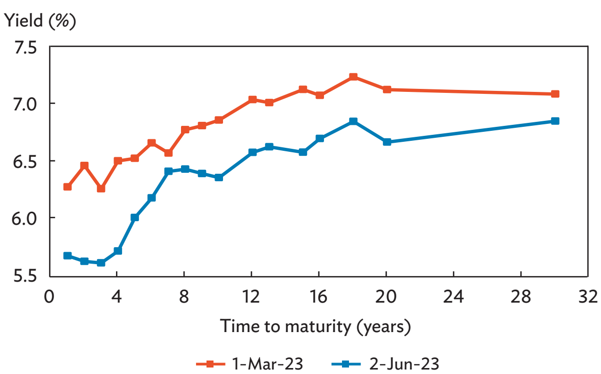
Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia declined for all maturities from 1 March to 2 June, resulting in the yield curve's shift downward (**Figure 1**)**.** Bond yields trended down as Bank Indonesia held steady its 7-day reverse repurchase rate at 5.75% for a fourth straight month in May after raising rates by a cumulative 225 basis points from August 2022 to January 2023, as inflation gradually declined. Consumer price inflation slipped to 4.0% year-on-year in May from 4.3% year-on-year in April, hitting the central bank's target range of 2.0%–4.0% for 2023 earlier than expected. The central bank had previously forecasted inflation to return to its target range by the third quarter of 2023. Declining yields were also fueled by expectations that the United States (US) Federal Reserve would hold rates steady in its June Federal Open Market Committee meeting. Investors were pricing a 74.7% chance of a pause in monetary tightening by the US Federal Reserve, based on the CME FedWatch Tool, as of 2 June.

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

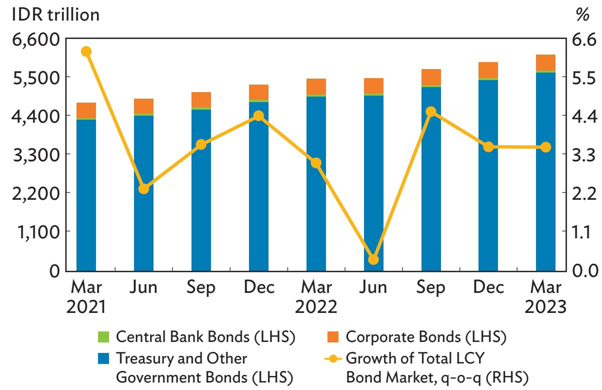


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

LCY bonds outstanding in Indonesia reached IDR6,161.1 trillion (USD410.9 billion) at the end of March. Overall bond market growth was steady at 3.5% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2023 (**Figure 2**). Growth was largely driven by Treasury and other government bonds as the government continued to adopt a frontloading policy for the issuance of Treasury bonds during the first half of the year. Treasury and other government bonds dominate Indonesia's LCY bond market, accounting for 91.8% of total bonds outstanding at the end of March, the highest share among its emerging East Asian peers. In contrast, Indonesia's corporate bonds account for only 7.3% of the total LCY bond market, the smallest LCY corporate bond market in the region by share of the overall market.

Figure 2: Composition of Local Currency Bonds Outstanding in Indonesia



IDR = Indonesian rupiah, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

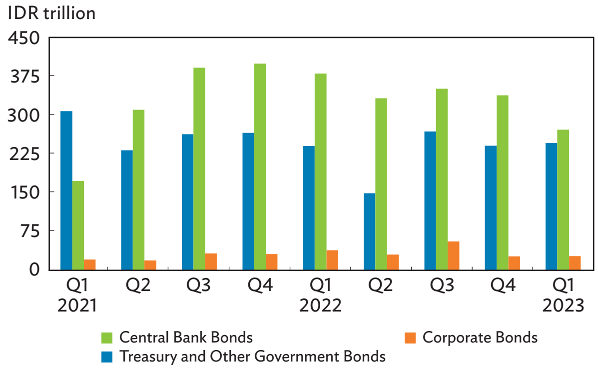
Note: Data includes *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprised of tradable and nontradable central government bonds.

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

Total LCY bond issuance reached IDR544.1 trillion in the first quarter (Q1) of 2023, as issuance of Treasury bonds rebounded. Issuance of Treasury bonds totaled IDR245.4 trillion on modest growth of 2.2% q-o-q, a reversal from the 10.3% q-o-q contraction in the fourth quarter of 2022 (**Figure 3**). In addition to weekly Treasury auctions, the government raised a total of IDR22.2 trillion from its offering of Savings Bond Ritel, a nontradable retail savings bond for Indonesian citizens. The bonds comprised a 2-year and a 4-year tranche and were structured to provide individuals with a short- to medium-term investment option. Meanwhile, corporate bond issuance tallied IDR27.5 trillion in Q1 2023, up by 1.8% q-o-q. The largest corporate bond issuers during the quarter were Federal International Finance and Professional Telekomunikasi Indonesia, with total issuances of IDR3.0 trillion and IDR2.9 trillion, respectively.

***Sukuk* (Islamic bonds) account for a relatively small share of Indonesia's LCY bond market.** The overall

Figure 3: Composition of Local Currency Bond Issuance in Indonesia



IDR = Indonesian rupiah, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Note: Data includes *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprise tradable and nontradable central government bonds.

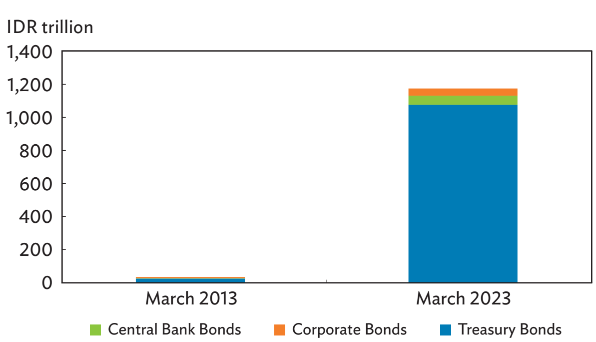
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange.

amount of *sukuk* outstanding in Indonesia reached IDR1,172.0 trillion at the end of March, which is equivalent to a 19.0% share of the total LCY bond market size (**Figure 4**). The *sukuk* market, however, saw substantial gains from a size of only IDR37.0 trillion in March 2013. By market segment, Treasury *sukuk* accounted for a 19.0% share of total Treasury bonds outstanding, while corporate *sukuk* comprised an even smaller share of 9.6% of the corporate bonds outstanding by the end of March 2023.

Investor Profile

Among domestic investors, central bank holdings gained the most, accounting for an 18.3% share of total central government bonds at the end of March. Since the pandemic, Bank Indonesia has beefed up its holdings of Treasury bonds to support bond market stability. In contrast, bank holdings of central government bonds declined, with its holdings' share falling to 31.9% at the end of March 2023 from 35.0% a year earlier. Nonetheless, banks remained the largest investor in both conventional and Islamic bonds at the end of Q1 2023 (**Figure 5**). The foreign holdings' share also dipped to 14.9% amid aggressive monetary rate hikes by the Federal Reserve, which led to capital outflows from the Indonesian bond market for most of 2022. While capital inflows were recorded in Q1 2023, they were more than offset by the capital outflows in the prior year. Holdings of offshore investors remained concentrated in medium- to longer-term tenors at the end of March (**Figure 6**). Bonds with maturities of over 5 years to 10 years accounted for a 45.9% share of foreign holdings, while bonds with tenors of over 10 years had a 23.7% share.

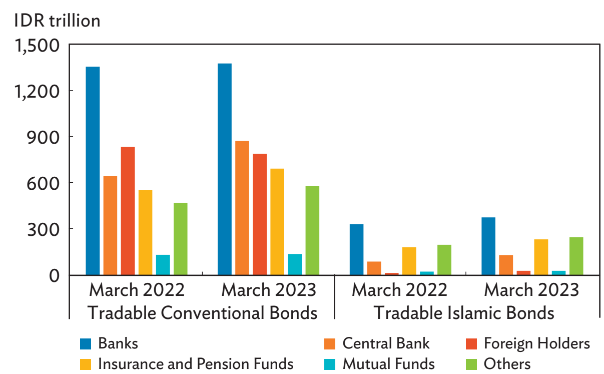
Figure 4: *Sukuk* Outstanding



IDR = Indonesian rupiah, *sukuk* = Islamic bonds.

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

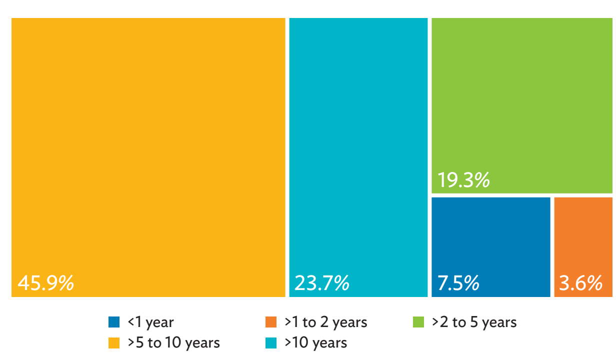
Figure 5: Investor Profile of Tradable Central Government Bonds



IDR = Indonesian rupiah.

Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Figure 6: Foreign Holdings of Local Currency Tradable Central Government Bonds by Maturity at the End of March 2023



IDR = Indonesian rupiah.

Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.