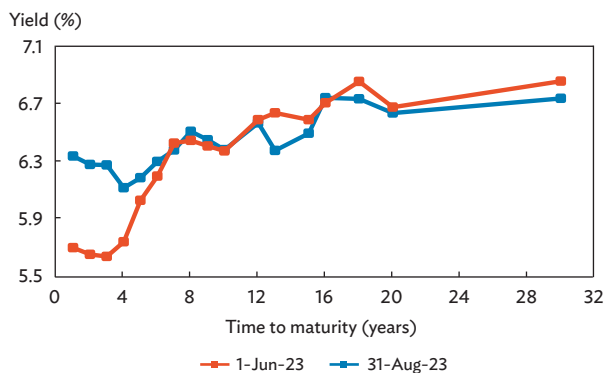


## Indonesia

### Yield Movements

Between 1 June and 31 August, local currency (LCY) government bond yields in Indonesia rose for most tenors. Bond yields climbed for most maturities of 10 years or less but fell for longer-end tenors (12 years or more) during the review period (Figure 1). The uptick in yields for most tenors was driven by the continued monetary tightening stance of the United States Federal Reserve. Also pressuring yields were expectations that Bank Indonesia would hold rates steady for the rest of the year. In contrast, yields declined at the long-end of the curve as inflation returned to within the central bank's target range of 2.0%–4.0% in May, which was earlier than previously projected. Bank Indonesia remains confident inflation will stay within the target range for the rest of the year.

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



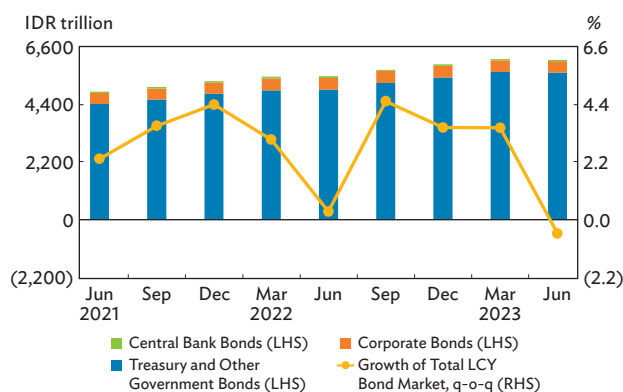
Source: Based on data from Bloomberg LP.

### Local Currency Bond Market Size and Issuance

The LCY bond market in Indonesia contracted in the second quarter (Q2) of 2023 due to a slowdown in both government and corporate bond issuances.

Indonesia's outstanding bonds dropped 0.5% quarter-on-quarter (q-o-q), amounting to IDR6,130.6 trillion compared with the previous quarter's total of IDR6,161.1 trillion (Figure 2). Outstanding government bonds dipped 0.5% q-o-q to IDR5,632.9 trillion as the government tapered its planned bond issuances for the year amid expected higher revenue collections. The government also plans to use excess cash generated from 2022 to partially fund fiscal spending for 2023. The stock of corporate bonds declined on a q-o-q basis as maturities exceeded issuances. Corporate bond issuance in Q2 2023 declined 41.3% q-o-q (IDR16.1 trillion) amid reduced refinancing needs by corporates as interest rates remained elevated.

**Figure 2: Composition of Local Currency Bonds Outstanding in Indonesia**



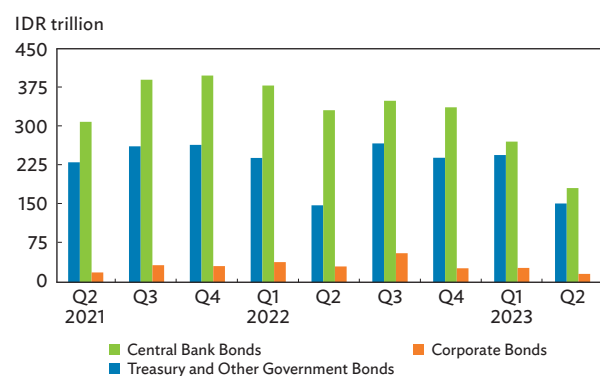
( ) = negative, IDR = Indonesian rupiah, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

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.

LCY bond issuance slowed in Q2 2023, posting q-o-q contractions across all bond types (Figure 3). Total bond issuance fell 35.7% q-o-q to IDR349.8 trillion. Treasury bond issuance, which accounted for 43.4% of total LCY bond issuance during the quarter, declined 38.1% q-o-q after the government had frontloaded funding in the prior quarter. Corporate bond issuance also slowed by 41.3% q-o-q, with only 12 firms tapping the bond market for fundraising versus 21 companies in the preceding quarter. Corporate bond issuance in Q2 2023 was dominated by financing companies, with the largest issuances coming from Sarana Multi Infrastruktur, BFI Finance Indonesia, and Pegadaian. Meanwhile, central bank bond issuance declined amid slowing inflation.

**Figure 3: Composition of Local Currency Bond Issuance in Indonesia**

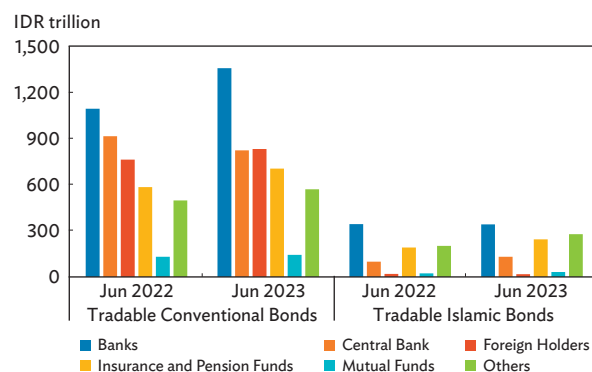


IDR = Indonesian rupiah, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.  
 Note: Data includes *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprise tradable and nontradable central government bonds.  
 Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange.

## Investor Profile

Domestic investors collectively accounted for 84.5% of the total tradable central government bonds at the end of June, up from 83.9% in the same period a year earlier. Similar with its emerging East Asian peers, banking institutions were the largest investor group in Indonesia’s LCY bond market, collectively adding IDR263.2 trillion worth of government bonds to their holdings in Q2 2023 from the prior year (Figure 4). However, unlike regional peers, central bank holdings of government bonds in Indonesia are quite substantial, making it the second-largest domestic investor group. Bank Indonesia’s holdings of government bonds significantly rose during the pandemic period as part of macroprudential measures to support bond market stability.

**Figure 4: Investor Profile of Tradable Central Government Bonds**



IDR = Indonesian rupiah.  
 Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.