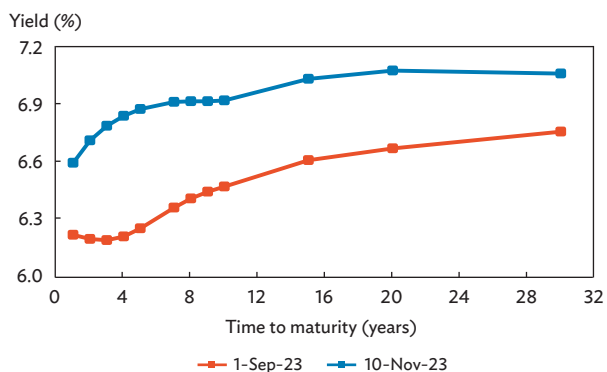


Indonesia

Yield Movements

Local currency (LCY) government bond yields in Indonesia rose for all maturities from 1 September to 10 November (Figure 1). Yields climbed an average of 48 basis points across the curve, largely driven by the United States Federal Reserve hinting that it would keep rates elevated for an extended period and the unexpected rate hike by Bank Indonesia on its 18–19 October Board of Governors meeting. Bank Indonesia raised the 7-day reverse repurchase rate by 25 basis points to support rupiah stability and avert further capital outflows from its financial market. In addition, the government programmed a higher bond issuance target in the fourth quarter of 2023 to support increased government spending in the latter part of the year.

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



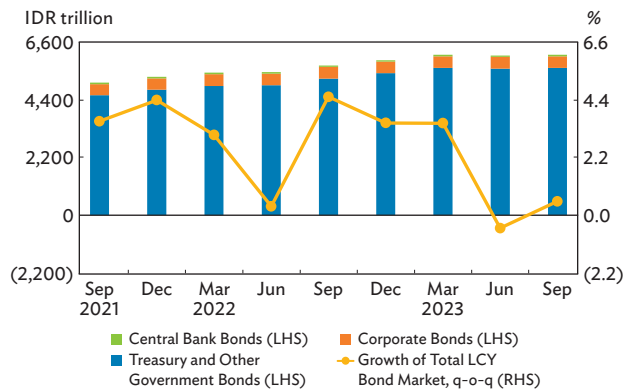
Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

LCY bond market growth in Indonesia rebounded in the third quarter (Q3) of 2023, buoyed by increased issuance of government bonds during the quarter.

The LCY bond market posted growth of 0.5% quarter-on-quarter (q-o-q), after a 0.5% q-o-q contraction in the second quarter, with the market's size reaching IDR6,163.4 trillion at the end of September (Figure 2). Growth was largely generated by an increase in the stock of outstanding government bonds due to higher issuance volume in Q3 2023. On the other hand, the outstanding stock of corporate bonds posted a marginal decline as the volume of issuance was more than offset by maturities during the quarter.

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.

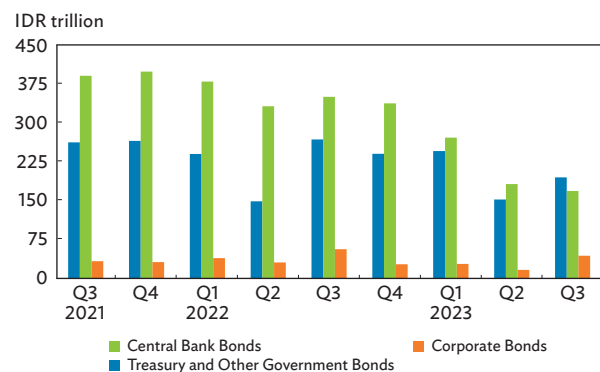
Note: Data includes *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprise tradable and nontradable central government bonds.

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

LCY bond issuance in Indonesia tallied IDR406.0 trillion in Q3 2023 on growth of 16.1% q-o-q amid still elevated interest rates (Figure 3).

Treasury bond issuance rose 27.9% q-o-q following tepid issuance in the previous quarter. However, some Treasury auctions during the quarter were not fully awarded as investors sought higher rates. Corporate bond issuance also grew more than two-fold during the quarter. The largest corporate bond issuances during the quarter came from Indah Kiat Pulp & Paper, Bank Mandiri, and Lontar Papyrus, which accounted for 14.9%, 11.6%, and 6.9%, respectively, of the Q3 2023 corporate issuance total.

Figure 3: Composition of Local Currency Bond Issuance in Indonesia

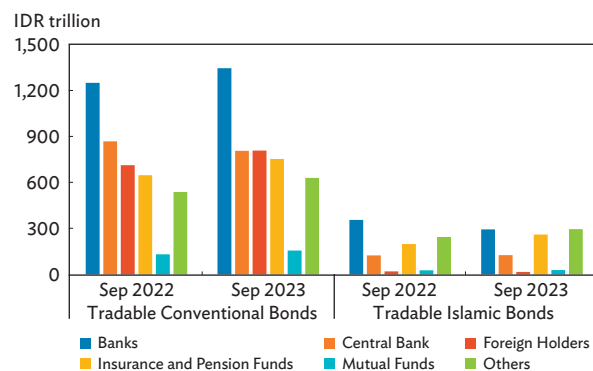


IDR = Indonesian rupiah, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
 Note: Data includes *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprise tradable and nontradable central government bonds.
 Sources: Bank Indonesia; Directorate General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

Investor Profile

Domestic investors remained the largest holder of tradable central government bonds in Indonesia. By the end of September, local investor holdings comprised 82.4% of conventional bonds and an even larger share of 98.2% for Islamic bonds (Figure 4). Overall, banking institutions were the largest holders of government bonds, accounting for about a third of the total tradable bonds at the end of September. All other investor groups accounted for an average holdings share of 16.7%, except for mutual funds (3.3%). Among regional peers, Indonesia had the most diverse investor holdings, as measured by its score on the Herfindahl–Hirschman Index.¹¹

Figure 4: Investor Profile of Tradable Central Government Bonds



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

¹¹ The Herfindahl–Hirschman Index is a common measure of market concentration. The index was used to measure the investor profile diversification of the local currency bond market and is calculated by summing the squared share of each investor group in the bond market.