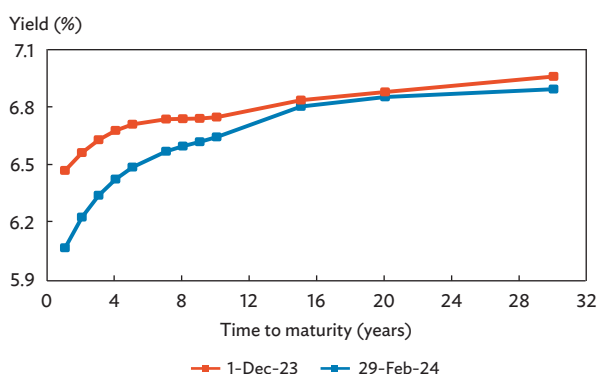


Indonesia

Yield Movements

Between 1 December 2023 and 29 February 2024, local currency (LCY) government bond yields in Indonesia edged down for all maturities (Figure 1). Bond yields declined an average of 18 basis points across the curve amid signals that the United States Federal Reserve would cut rates later this year. While the timing of the Federal Reserve rate cut remained uncertain, subdued inflation contributed to the overall decline in bond yields during the review period. This has led Bank Indonesia to keep its policy rate unchanged at 6.00% since October 2023. However, at its 20–21 February meeting, Bank Indonesia Governor [Perry Warjiyo](#) noted that a rate cut is likely in the second half of the year.

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

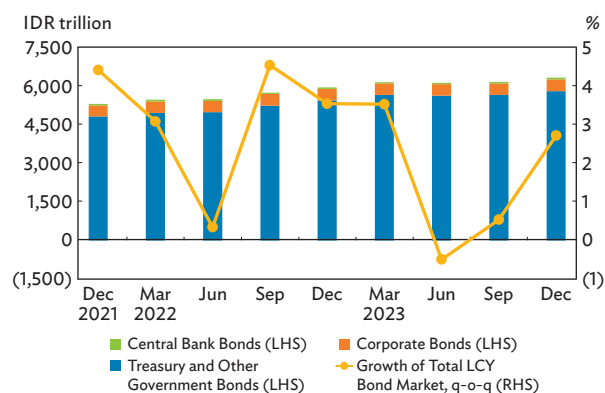


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Indonesia's LCY bond market growth picked up in the fourth quarter (Q4) of 2023, with bonds outstanding reaching a size of IDR6,331.0 trillion at the end of December. Despite a contraction in the issuance of government and corporate bonds, overall growth climbed to 2.7% quarter-on-quarter (q-o-q) in Q4 2023 from 0.5% q-o-q in the third quarter (Q3), due to a low volume of maturities in Q4 2023 (Figure 2). Government bonds outstanding, which account for a 91.7% share of Indonesia's total LCY bond market, recorded a 2.6% q-o-q hike, up from only 0.5% q-o-q growth in Q3 2023. Corporate bonds expanded 3.5% q-o-q, reversing the marginal 0.02% q-o-q contraction in Q3 2023.

Figure 2: Composition of Local Currency Bonds Outstanding in Indonesia



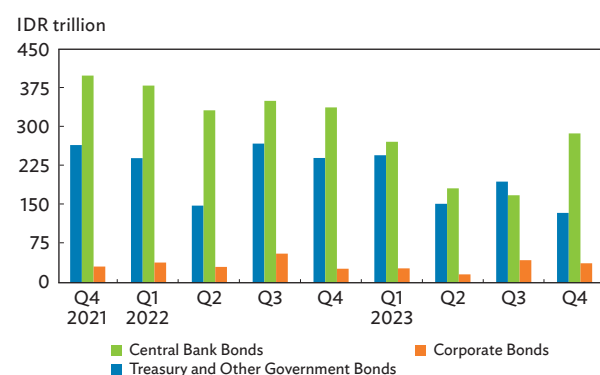
() = negative, IDR = Indonesian rupiah, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side.

Note: Data include *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 totaled IDR459.1 trillion in Q4 2023 on growth of 13.1% q-o-q that was largely driven by central bank issuance (Figure 3). Overall issuance growth in Q4 2023 was dragged down by declines in the issuance of government bonds and corporate bonds. Issuance of government bonds contracted as the government had mostly fulfilled its annual borrowing requirements in prior quarters. While corporate bond issuance was still substantial in Q4 2023, it was down 13.5% q-o-q following a high volume of issuance in Q3 2023 when the Federal Reserve halted its rate-hiking cycle. Among the largest corporate bond issuers during the quarter were Bank Rakyat Indonesia, OKI Pulp & Paper Mills, and Sarana Multigriya Finansial, representing 16.1%, 14.8%, and 7.4% of the Q4 2023 issuance total, respectively.

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.

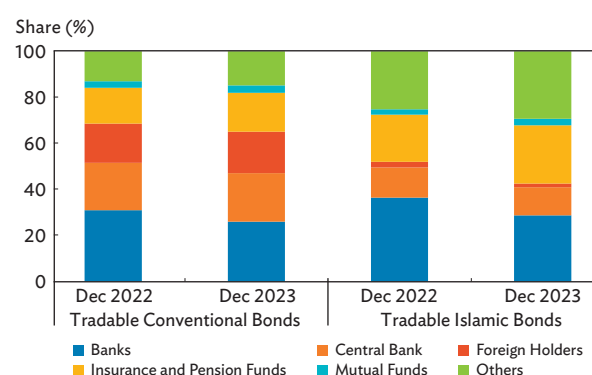
Note: Data include *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprise tradable and nontradable central government bonds.

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

Investor Profile

At the end of December 2023, domestic investors still dominated holdings of both conventional and Islamic tradable government bonds in Indonesia. However, the shareholdings of domestic investors in Islamic bonds (98.4%) remained higher compared with conventional bonds (82.0%). Collectively, domestic investors held an 85.1% share of tradable government bonds in Indonesia at the end of December 2023, slightly down from their 85.6% share a year earlier. While banks remained the largest holder of government bonds, their holdings share slipped to 26.5% from 32.0% in the previous year (Figure 4). The second-largest domestic investor group was the central bank with a 19.4% share, the highest among its regional peers. Meanwhile, foreign investors increased their holdings share of Indonesian government bonds to 14.9% at the end of December 2023 from 14.4% at the end of December 2022 on positive sentiment over expectations the Federal Reserve would begin easing its policy rate in 2024. Nonetheless, Indonesia continued to be the region's most diverse market in terms of investor holdings, as it scored the lowest in emerging East Asia in terms of the Herfindahl–Hirschman Index.⁹

Figure 4: Investor Profile of Tradable Central Government Bonds



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

⁹ The Herfindahl–Hirschman Index is a common measure of market concentration. The index is used to measure the investor profile diversification of the local currency bond market by summing the squared share of each investor group in the bond market.