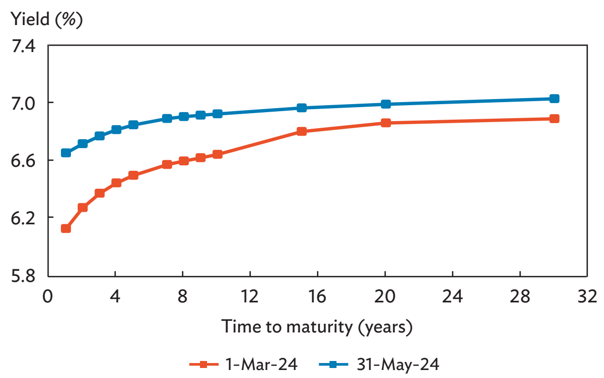
Indonesia

Yield Movements

Local currency (LCY) sovereign bond yields in Indonesia climbed an average of 31 basis points from 1 March to 31 May (**Figure 1**). The uptick in yields was largely driven by Bank Indonesia's 25 basis points policy rate hike to 6.25% on 24 April to safeguard the currency and ensure inflation remained within the target range of 1.5%–3.5% in 2024. Foreign bond outflows from Indonesia's bond market also pushed up yields amid a delay in the United States Federal Reserve's expected policy rate cut. In the first 4 months of the year, bond outflows reached USD3.2 billion, with March (USD1.6 billion) and April (USD1.3 billion) recording the largest outflows so far this year.

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

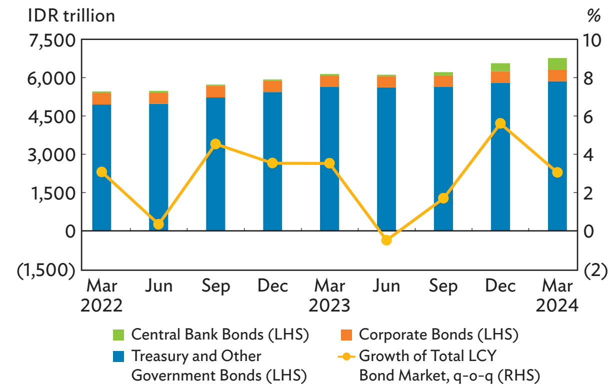


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Growth in Indonesia's LCY bond market was capped by a high volume of maturities in the first quarter (Q1) of 2024. The LCY bond market in Indonesia reached a size of IDR6,786.5 trillion at the end of March, representing 19.4% of ASEAN's LCY bond market (**Figure 2**). Overall growth moderated to 3.1% quarter-on-quarter (q-o-q) in Q1 2024 from 5.6% q-o-q in the previous quarter due to a high volume of maturities. Government bonds, which comprised 86.5% of Indonesia's LCY bond market, grew by only 1.1% q-o-q in Q1 2024 despite robust issuance during the quarter. On the other hand, corporate bonds, which accounted for 6.8% of total bonds at the end of March, posted a marginal contraction of 0.2% q-o-q due to a slowdown in issuance.

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.

Notes: 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 marginally contracted in Q1 2024 due to slower issuance by the central bank and corporates. Total issuance tallied IDR677.4 trillion in Q1 2024 for a 0.6% q-o-q contraction, reversing the 42.7% q-o-q hike in the preceding quarter (**Figure 3**). Government bond issuance surged 46.8% q-o-q as the government normally frontloads issuance in the first half of the year. In contrast, corporate bond issuance contracted amid still elevated interest rates. The three largest corporate bond issuers during the quarter were Tower Bersama Infrastructure, Sarana Multigriya Finansial, and Bank Rakyat Indonesia, which accounted for 10.6%, 10.4%, and 9.8%, respectively, of corporate bond issuance in Q1 2024.

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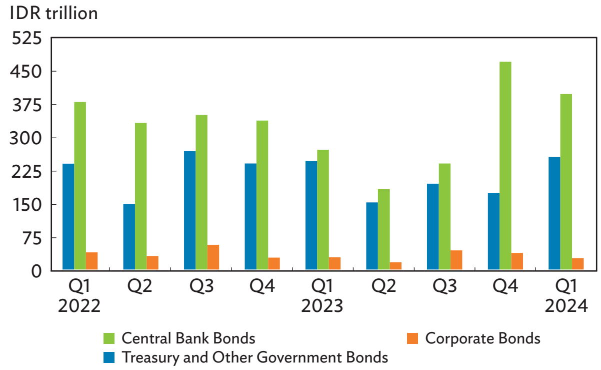
Figure 3: Composition of Local Currency Bond Issuance in Indonesia



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

Notes: 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.

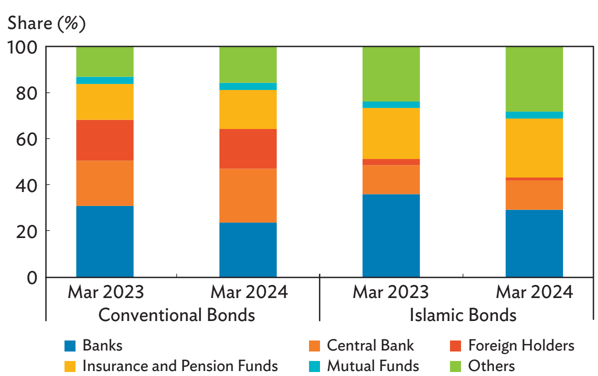
Investor Profile

The majority of LCY tradable government bonds in Indonesia were held by domestic investors, who accounted for a collective share of 85.8% at the end of March 2024. Domestic investors held 82.7% of conventional bonds outstanding, while their holdings share was much higher for Islamic bonds at 98.7% (**Figure 4**). Banking institutions remained the largest domestic investor group in both conventional and Islamic bonds, holding an overall share of 24.8%, albeit down from 31.9% a year earlier. The decline was partly driven by the expansion in the central bank's holdings share from 18.3% to 21.3% during the same period, reflecting Bank Indonesia's ongoing support for the LCY bond market amid market volatility and portfolio outflows. Foreign investors exited Indonesia's bond market over a strengthening United States dollar, leading to a decline in their shareholdings from 14.9% at the end of March 2023 to 14.2% at the end of March 2024.

Sustainable Bond Market

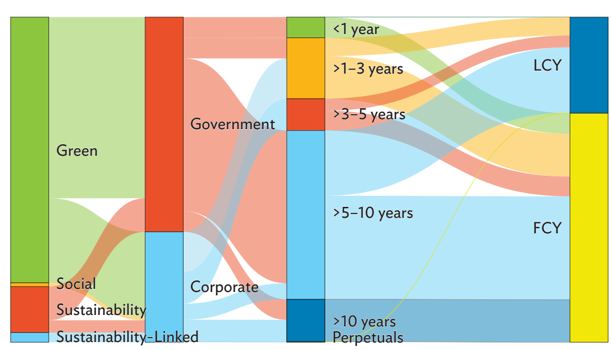
A majority of sustainable bonds in Indonesia were green bond instruments, issued by the public sector, and carried long-term tenors. Green bonds comprised 81.7% of Indonesia's USD11.8 billion sustainable bonds outstanding at the end of March (**Figure 5**). The size of sustainable bond market, however, contracted a marginal 1.3% q-o-q as issuance declined by three-fold to USD0.4 billion in Q1 2024. The public sector played a significant role in Indonesia's sustainable bond market, representing 66.0% of its total sustainable bonds outstanding, and its active participation has contributed toward a longer maturity structure for sustainable bonds in the market. About 80.7% of the public sector's sustainable bonds carried maturities of over 5 years, while the corresponding share was only 34.7% for the private sector. As a result, the size-weighted average tenor of Indonesia's outstanding sustainable bonds stood at 7.5 years versus a size-weighted average of 4.2 years for ASEAN+3 economies.[16]

Figure 4: Investor Profile of Tradable Central Government Bonds



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

Figure 5: Market Profile of Outstanding Sustainable Bonds in Indonesia at the End of March 2024



FCY = foreign currency, LCY = local currency.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

[16] ASEAN+3 is defined to include member states of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.