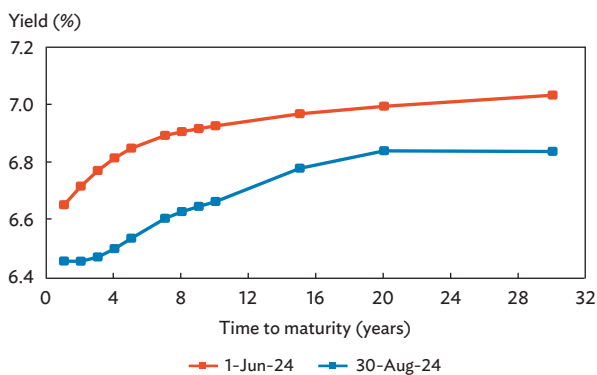


Indonesia

Yield Movements

Between 1 June and 30 August, local currency (LCY) sovereign bond yields in Indonesia fell an average of 25 basis points across the curve, leading the yield curve to shift downward (Figure 1). The decline in yields was largely supported by easing inflation and expectations of a policy rate cut by Bank Indonesia. Inflation has ticked down and stayed within the target range of 1.5%–3.5% thus far in 2024. The yield declines were also fueled by expectations of the end of monetary policy tightening by the United States Federal Reserve, which was hinted at the 30–31 July Federal Open Market Committee meeting. Since then, emerging East Asian currencies collectively appreciated against the United States dollar, with the Indonesian rupiah strengthening by 5.1% during the review period.¹⁴

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

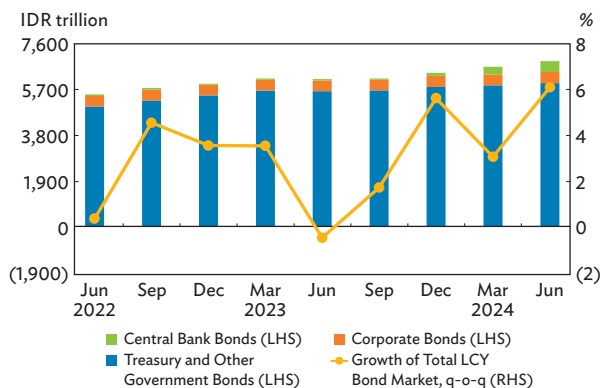


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The LCY bond market in Indonesia recorded a faster quarter-on-quarter (q-o-q) expansion in the second quarter (Q2) of 2024 with all bond types posting positive growth. The outstanding size of the market totaled IDR7,200.3 trillion at the end of June, with growth

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.

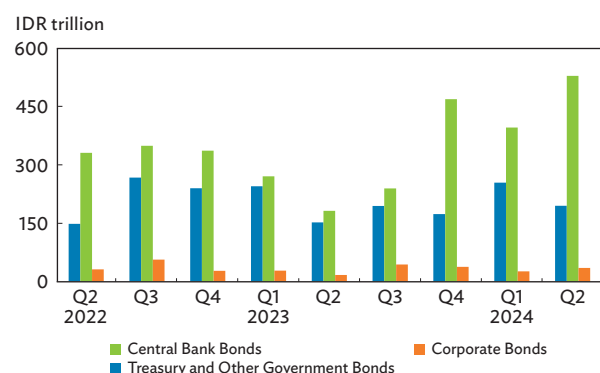
accelerating to 6.1% q-o-q in Q2 2024 from 3.1% q-o-q in the first quarter (Figure 2). Central government bonds, which comprised 82.9% of total LCY bonds, grew 1.6% q-o-q despite reduced issuance during the quarter. Corporate bonds accounted for 6.4% of the bond total at the end of Q2 2024, expanding 1.1% q-o-q as issuance picked up. Central bank bonds recorded the fastest q-o-q growth (69.1%) across all bond types. Bank Indonesia continued to optimize issuance of various central bank instruments as part of measures to strengthen monetary operations and attract capital inflows to help stabilize the rupiah.

LCY bond issuance rebounded in Q2 2024, buoyed by robust growth in central bank and corporate bonds. Aggregate issuance reached IDR760.3 trillion in Q2 2024 on growth of 12.3% q-o-q, reversing the 0.6% q-o-q contraction in the previous quarter (Figure 3). Central bank bond issuance grew 33.6% q-o-q in Q2 2024, as Bank Indonesia strengthened monetary operations to support the rupiah. Corporate bond issuance also rose 35.8% q-o-q amid declining funding costs, albeit its contribution to total issuance remained

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¹⁴ Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

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.

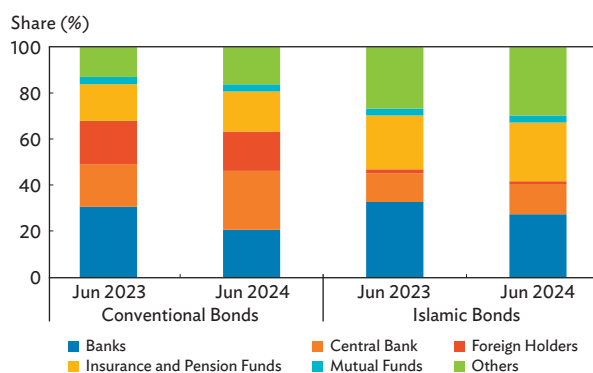
Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange.

relatively small (4.5% of the total). Manufacturing firm Indah Kiat Pulp & Paper Mills was the largest corporate bond issuer during the quarter, raising bonds worth IDR4.7 trillion and accounting for 13.5% of the corporate issuance total.

Investor Profile

Domestic investors continued to account for a majority of Indonesia’s LCY tradable government bonds with holdings share of 86.1% at the end of June. Among domestic investors, the largest investor group was

Figure 4: Investor Profile of Tradable Central Government Bonds



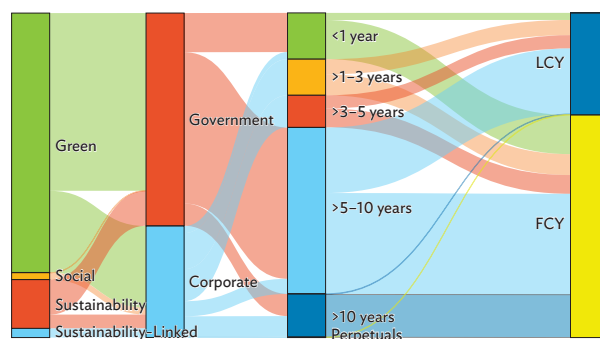
Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

the central bank, whose collective holdings climbed to 23.1% at the end of June from 17.4% a year earlier, largely due to Bank Indonesia’s continued support to ensure bond market stability, particularly during market selloffs when the holdings of foreign investors decline. The Indonesian bond market has the largest share of central bank holdings in emerging East Asia. Bank Indonesia’s holdings share of conventional bonds stood at 25.5%, while the corresponding share for Islamic bonds was much lower at 13.1% (Figure 4). Insurance and pension funds also increased their bond holdings to an aggregate share of 19.0% at the end of June, up from 17.3% a year earlier.

Sustainable Bond Market

The sustainable bond market of Indonesia is dominated by green bond instruments and long-term financing (Figure 5). Green bonds were the more prevalent sustainable bond type, accounting for 80.0% of the sustainable bond total at the end of June. About 65% of sustainable bond financing was in longer tenors (over 5 years), owing to the strong participation of the public sector. Long-term financing comprised 81.6% of public sector sustainable bonds, while short-term maturities (less than 5 years) were more common for the private sector at a 67.4% share. Indonesia’s sustainable bond market had a size-weighted average tenor of 7.3 years at the end of June. Meanwhile, outstanding sustainable bonds in the Indonesian market tallied USD12.4 billion on growth of 3.5% q-o-q in Q2 2024.

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



FCY = foreign currency, LCY = local currency.

Source: AsianBondsOnline calculations based on Bloomberg LP data.