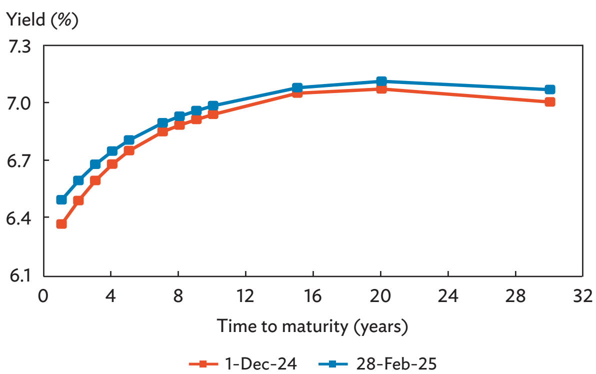
Indonesia

Yield Movements

Between 1 December 2024 and 28 February 2025, the local currency (LCY) government bond yield curve in Indonesia shifted downward. Bond yields declined an average of 6 basis points (bps) across the curve, with yields for maturities of 2 years or less declining the most at an average of 12 bps (**Figure 1**). The downward shift in the yield curve was largely driven by Bank Indonesia's 25 bps rate cut in January to support economic growth. The central bank also slightly lowered its economic growth forecast for 2025 to a range of 4.7%–5.5% from an estimate of 4.8%–5.6% in December. In its February and March meetings, Bank Indonesia left the policy rate unchanged at 5.75% to ensure the stability of the Indonesian rupiah and to guide inflation toward the target range of 1.50%–3.50% amid heightened global uncertainties.

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

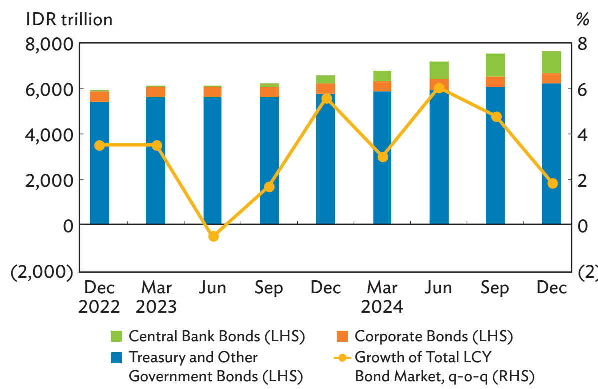


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The LCY bond stock in Indonesia rose to IDR7,688.0 trillion at the end of December. Overall growth, however, slowed to 1.9% quarter-on-quarter (q-o-q) in the fourth quarter (Q4) of 2024 from 4.8% q-o-q in the third quarter (Q3) (**Figure 2**). Government bonds, which accounted for 81.0% of the total LCY bond stock at the end of December, recorded slower growth of 2.0% q-o-q in Q4 2024 versus 2.3% q-o-q in Q3 2024, amid reduced issuance during the quarter. In contrast, the corporate bond segment posted a 3.4% q-o-q expansion in Q4 2024, reversing the 1.7% q-o-q contraction in the prior quarter, buoyed by robust issuance. Meanwhile, the stock of central bank securities was only marginally changed in Q4 2024 on growth of 0.3% q-o-q.

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.

In Q4 2024, LCY bond issuance fell 10.5% q-o-q to IDR693.5 trillion due to reduced issuance by the government. Treasury bond issuance declined 22.9% q-o-q in Q4 2024 as the government had already front-loaded issuance earlier in the year (**Figure 3**). On the other hand, corporate bond issuance posted strong growth of 62.2% q-o-q, buoyed by lower borrowing costs following the policy rate cut in September as well as refinancing needs of some companies due to bond maturities. The largest corporate bond issuance during the quarter came from Indah Kiat Pulp & Paper, which raised an aggregate IDR8.3 trillion via multiple tranches of conventional bonds and *sukuk* (Islamic bonds), accounting for 16.3% of the Q4 2024 corporate issuance total.

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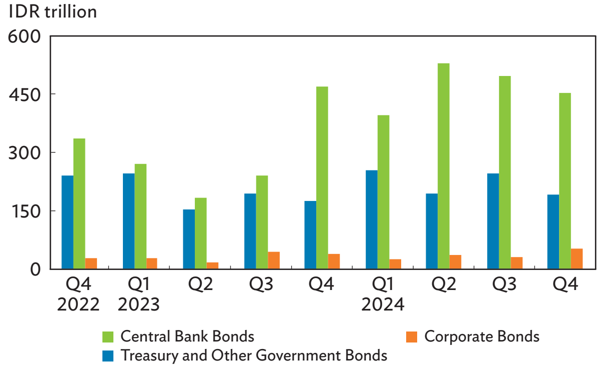
Figure 3: Composition of Local Currency Bond Issuance in Indonesia



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

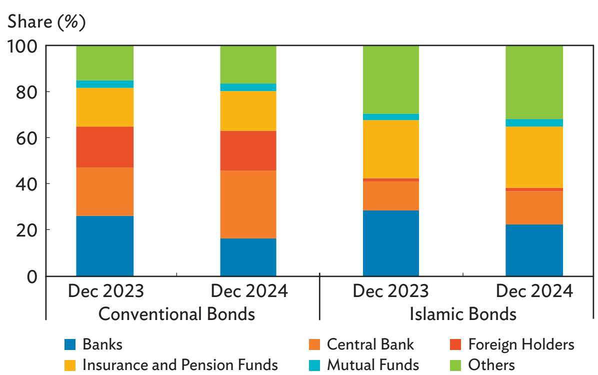
Notes: Data include *sukuk* (Islamic bonds). Data for Treasury and other government bonds comprise tradable and nontradable central government bonds.

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

Investor Profile

Indonesia continued to have the most diverse investor ownership structure among all LCY bond markets in emerging East Asia.[14] At the end of December, domestic investors held 85.5% of tradable sovereign bonds, while foreign investors accounted for a 14.5% share. Among domestic investors, the largest holder was the central bank with an overall holdings share of 26.8% at the end of December. Central bank holdings comprised a significant 29.6% of the conventional bond stock, compared with only a 14.8% share of all *sukuk* holdings (**Figure 4**). Since 2020, Bank Indonesia has ramped up its holdings of government bonds as part of its monetary operations. Institutional investors such as banks and insurance and pension funds, which typically account for the largest bond holdings share among emerging East Asian peers, accounted for a much smaller holdings share of only 17.4% and 19.0%, respectively, in Indonesia. Within the region, Indonesia had the most diversified investor base, reflected by its low Herfindahl–Hirschman Index score.[15]

Figure 4: Investor Profile of Tradable Central Government Bonds

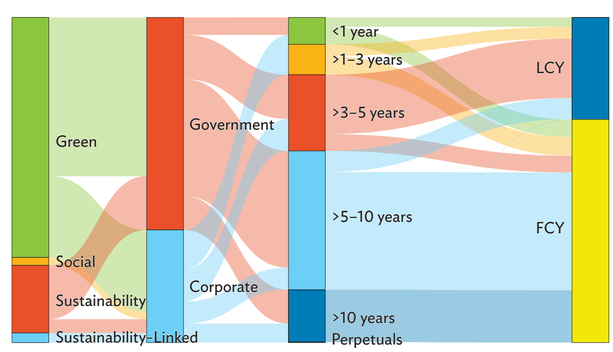


Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Sustainable Bond Market

At the end of December, Indonesia's sustainable bond market comprised predominantly green bond instruments, public sector issuances, and bonds denominated in foreign currency. The outstanding size of sustainable bonds tallied USD13.9 billion, with growth decelerating to 1.8% q-o-q in Q4 2024 from 10.2% q-o-q in Q3 2024, driven in part by a contraction in issuance. Green bonds were still the prevalent bond type, accounting for 73.8% of the outstanding sustainable bond stock at the end of December, followed by sustainability bonds at a smaller share of 20.8% (**Figure 5**). The public sector is an active issuer of sustainable bonds, accounting for 65.4% of the sustainable bond stock. This contributes to the longer maturity profile in Indonesia and an average size-weighted tenor of 8.1 years. Similar with other emerging East Asian markets, sustainable bond financing in Indonesia was mostly denominated in foreign currency (68.6%).

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



FCY = foreign currency, LCY = local currency.

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

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.

15 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.