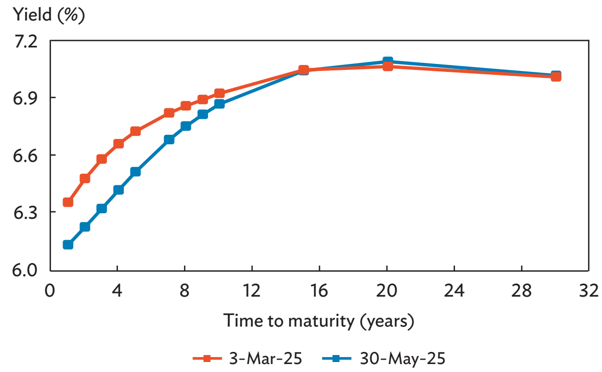
Indonesia

Yield Movements

Between 3 March and 30 May, local currency (LCY) government bond yields fell for most maturities in Indonesia as heightened global market uncertainty clouded the economic outlook. Bond yields edged down an average of 16 basis points for maturities of 15 years or less, while they gained an average of 2 basis points for 20 years or more (**Figure 1**). The decline in yields was largely influenced by continued monetary policy easing and a weakening growth outlook. On 20–21 May, Bank Indonesia lowered its policy rate for a second time this year to 5.50% to support economic growth amid a stable domestic currency and low inflation. During its meeting, however, the central bank revised down its 2025 economic growth forecast to 4.6%–5.4% from estimates made in January of 4.7%–5.5%. Real gross domestic product growth ticked down to 4.9% year-on-year in the first quarter (Q1) of 2025 from 5.0% year-on-year in the prior quarter due to a contraction in government expenditures and moderating growth in domestic consumption and fixed investments.

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

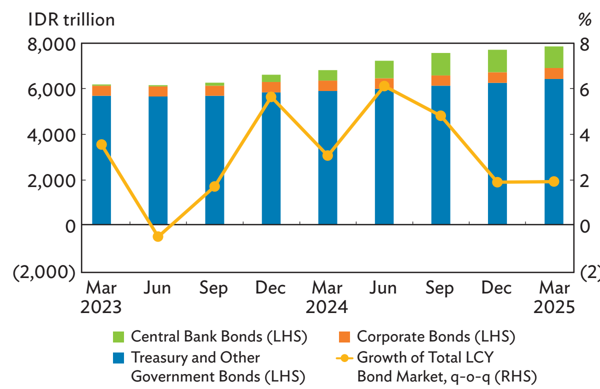


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Indonesia's LCY bond market reached a size of IDR7,835.3 trillion at the end of March, largely supported by growth in government bonds. The LCY bond market rose 1.9% quarter-on-quarter (q-o-q) in Q1 2025, the same pace as in the fourth quarter (Q4) of 2024. Government bond market growth quickened to 2.7% q-o-q from 2.0% q-o-q, buoyed by increased issuance due to the front-loading strategy of the government (**Figure 2**). As of March, the government said that it had already issued 40.6% of its 2025 debt financing target. Corporate bonds also contributed to the overall growth, albeit to a lesser extent, on moderated growth of 2.2% q-o-q in Q1 2025 from 3.4% q-o-q in the prior quarter. In contrast, central bank securities contracted (–3.4% q-o-q) as maturities exceeded issuance as part of the central bank's move to free up funds for corporate loans.

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:
1. Data include *sukuk* (Islamic bonds).
2. For end-March 2025, data for treasury and other government bonds are based on *AsianBondsOnline* estimates.

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

LCY bond issuance continued to contract in Q1 2025 amid escalating global uncertainties. Total LCY bond issuance tallied IDR638.2 trillion in Q1 2025 on a contraction of 13.2% q-o-q that followed a decline of 5.1% q-o-q in Q4 2024 (**Figure 3**). Issuance of Treasury bonds, however, remained active on growth of 11.8% q-o-q in Q1 2025, reversing the 5.8% q-o-q contraction in the prior quarter, as the government front-loaded its borrowing during the quarter. In contrast, central bank securities shrank 26.4% q-o-q as Bank Indonesia opted to utilize other policy tools for its monetary operations. Corporate bond issuance

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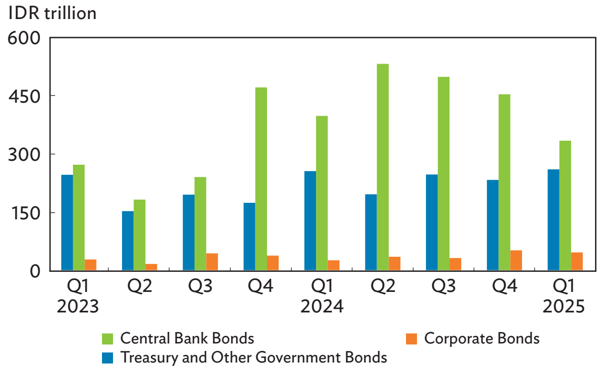
Figure 3: Composition of Local Currency Bond Issuance in Indonesia



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.

also declined (–10.5% q-o-q) after gaining 62.2% q-o-q in Q4 2024. During the quarter, corporate bond issuances were led by Tower Bersama Infrastructure and Bank Mandiri, whose respective issuances accounted for 12.0% and 11.0% of the quarterly corporate issuance total.

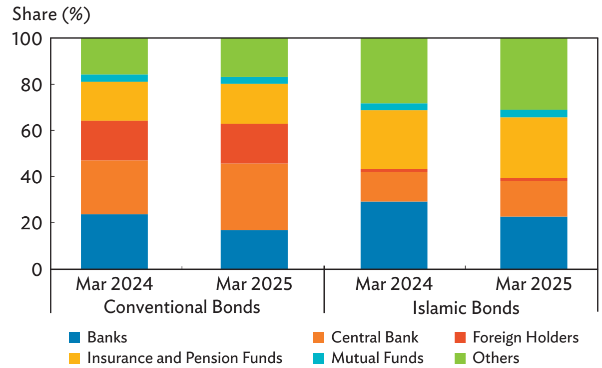
Investor Profile

At the end of March, the central bank remained the largest holder of Treasury bonds in Indonesia. Around 26.4% of tradable sovereign bonds were held by Bank Indonesia at the end of March, up from its 21.3% holdings share a year earlier. The central bank held 28.9% of all conventional Treasury bonds outstanding, while it held a smaller 15.4% share of *sukuk* (Islamic bonds) (**Figure 4**). The central bank continued to pile up its holdings of Treasury bonds to support its monetary operations.[11] Meanwhile, the holdings shares of all other investor groups have shown marginal change since March 2024, except for banks, which dipped to 18.0% at the end of March 2025 from 24.8% a year earlier.

Sustainable Bond Market

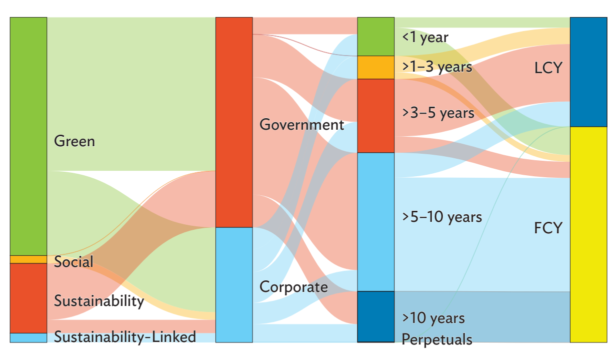
The sustainable bond market of Indonesia is dominated by green bond instruments, public sector financing, and foreign currency issuances. By the end of March, Indonesia's sustainable bond stock reached USD14.4 billion, expanding by a slower pace of 1.9% q-o-q in Q1 2025 from 3.3% in Q4 2024, dragged down by a contraction in issuance. Green bonds remained the predominant sustainable bond instrument, representing 73.3% of the total, while sustainability bonds accounted for 21.5% (**Figure 5**). About 58.4% of the sustainable bond stock had tenors of over 5 years at the end of March, partly due to the active participation of the government, which accounted for 79.1% of total bonds carrying tenors of more than 5 years. As a result, sustainable bonds in Indonesia had a size-weighted average tenor of 7.7 years at the end of March. Most sustainable bonds outstanding (66.3%) were denominated in a foreign currency—primarily euros, Japanese yen, and US dollars.

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 2025



FCY = foreign currency, LCY = local currency.

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

[11] From 1 January to 20 May, Bank Indonesia purchased an aggregate of about IDR96.4 trillion worth of Treasury bonds, of which about IDR65.0 trillion were purchased from the secondary market and IDR31.4 trillion from the primary market.