Credit Guarantee & Investment Facility

An Asian Bond Markets Initiative

CORPORATE BOND MARKET REPORT

INDONESIA

Contents

1. Overview of Indonesia's Corporate Bond Market 6
   1.1. Overall Characteristics 6
   1.2. Corporate Bond Market Size 6
2. Characteristics of Indonesia's Corporate Bonds 8
   2.1. Issue Size 8
   2.2. Maturity Distribution 8
   2.3. Maturity Type 9
   2.4. Coupon Type 10
   2.5. Payment Rank 10
   2.6. Credit Ratings 11
3. Investors 12
   3.1. Mutual Funds 15
   3.2. Pension Funds 17
   3.3. Insurance Companies 19
   3.4. Commercial Banks 22
   3.5. Other Investors 23
4. Other Market Participants 24
   4.1. Issuers 24
   4.2. Credit Rating Agencies 25
   4.3. Bond Pricing Agency 25
   4.4. Regulatory Authorities 26
5. Credit Spreads 26
6. Komodo Bonds 27
7. Guaranteed Corporate Bonds 28
   7.1. IDR Guaranteed Bonds 29
   7.2. Foreign Currency Guaranteed Bonds 31
8. Further Developments in Indonesia's Corporate Bond Market 32

List of Tables

Table 1.1: Corporate Bond Markets, Market Capitalizations and Gross Domestic Products of ASEAN Countries, 2021 6
Table 1.2: Corporate Bond Markets, Government Bond Markets, and Corporate Loan Markets of ASEAN, 2021 7
Table 2.1: Issue Size of Outstanding Corporate Bonds in ASEAN (in USD millions), 2021 8
Table 2.2: Corporate Bonds in Terms of Maturity Distribution in ASEAN, 2021 9
Table 2.3: IDR Corporate Bonds in Terms of Maturity Distribution per Sector, 2021 9
Table 2.4: Comparison of Maturity Types of Corporate Bonds in ASEAN, 2021 10
Table 2.5: Comparison of Coupon Type of Corporate Bonds in ASEAN, 2021 10
Table 2.6: Comparison of Payment Ranks of Corporate Bonds in ASEAN, 2021 11
Table 2.7: Ratio of Rated Corporate Bonds in ASEAN, 2021 11
Table 2.8: Comparison of Distribution of Credit Ratings of Corporate Bonds in ASEAN, 2021 12
Table 3.1: Ownership of IDR Corporate Bonds Listed at KSEI, 2013-2021 (in IDR trillion) 13
Table 3.2: Investor Groups' Appetite for Corporate Bond Investments 14
Table 3.3: Investment Restrictions and Limitations for Mutual Funds in KIK Form, based on OJK Rule No. 2/POJK.04/2020 16
Table 3.4: Pension Funds in Indonesia, December 2021 17
Table 3.5: Investment Restrictions and Limitations for Pension Funds 17
Table 3.6: Investment Restrictions and Limitations for Private Insurance Companies 19
Table 3.7: General Investment Criteria for Corporate Bonds 22
Table 3.8: Commercial Banks Securities Investments (in IDR trillion) 23
Table 3.9: Foreign Ownership of IDR Corporate Bonds, 2013–2021 (in IDR trillion) 24
Table 5.1: IDR Yield Matrix, 28 April 2022 (%) 26
Table 5.2: IDR Credit Spread Matrix, 28 April 2022 (%) 27
Table 5.3: Comparison of IDR, MYR and THB 3-year Credit Spread (%) 27
Table 6.1: Komodo Bonds from Indonesian Companies 28
Table 7.1: Local Currency Guaranteed Corporate Bonds in ASEAN Countries 28
Table 7.2: Outstanding IDR-Denominated Guaranteed Corporate Bonds in Indonesia as of December 2021 29
Table 7.3: PT Ciputra Residence's Guaranteed Bonds 30
Table 7.4: Outstanding Foreign Currency Guaranteed Bonds Issued by Indonesian Companies, as of December 2021 31

List of Figures

Figure 3.1: Ownership of IDR Corporate Bonds by Broad Investor Group, as Recorded in KSEI as of December 2021 12

Figure 3.2: Securities Composition of Mutual Funds (30 December 2021) 15

Figure 3.3: Investment Portfolio of Pension Funds, December 2021 (IDR trillion) 18

Figure 3.4: Investment Portfolio of the Insurance Industry of Indonesia, 2021 (IDR trillion) 21

Figure 4.1: Issuers According to Sector, as of 2021 24

Abbreviations

Technical Terms

ABS	asset-backed securities
ACRAA	Association of Credit Rating Agencies in Asia
AFCRA	ASEAN Forum of Credit Rating Agencies
ASEAN	Association of Southeast Asian Nations
BI	Bank Indonesia
BNI	PT Bank Negara Indonesia
BPJS	Badan Penyelenggara Jaminan Sosial (National Social Security Agency)
CDS	credit default swap
CGIF	Credit Guarantee and Investment Facility
CLN	credit-linked note
CPF	capital-protected fund
CRA	credit rating agency
DBPF	defined benefit pension fund
DCPF	defined contribution pension fund
EBA-SP	Asset-backed Securities–Letter of Participation
EPF	employer pension fund
FCY	foreign currency
FIPF	financial institution pension fund
GDP	gross domestic product
IDX	Indonesia Stock Exchange
IFC	International Finance Corporation
IIGF	Indonesia Infrastructure Guarantee Fund
ILIP	investment-linked insurance product
KIK	Kontrak Investasi Kolektif
KIK-EBA	Asset-backed Securities Collective Investment Contract
KRI	Kredit Rating Indonesia
KSEI	PT Kustodian Sentral Efek Indonesia (Central Securities Depository)
LCY	local currency
LIBOR	London Interbank Offered Rate
MTN	medium-term note
NAV	net asset value
NCD	negotiable certificate of deposit
OJK	Otoritas Jasa Keuangan (Financial Services Authority)
PEFINDO PT	Pemeringkat Efek Indonesia
PHEI	PT Penilai Harga Efek Indonesia
REIT	real estate investment trust
RIM	Rasio Intermediasi Makroprudensial (Macroprudential Intermediation Ratio)
SNP	PT Sunprima Nusantara Pembiayaan
SOE	state-owned enterprise

Currencies

EUR	Euro
IDR	Indonesian rupiah
JPY	Japanese yen
KHR	Khmer riel
MYR	Malaysian ringgit
PHP	Philippine peso
SGD	Singapore dollar
THB	Thailand baht
USD	United States dollar
VND	Vietnamese dong

Summary

Chapter 1: Overview of Indonesia's Corporate Bond Market

1) Based on available data from Asian Bonds Online, Indonesia's corporate bond market reached approximately USD30.17 billion as of December 2021, which was approximately 3% of its gross domestic product (GDP). Indonesia's corporate bond market as a percent of GDP was well behind those of Thailand (~25% of GDP), Singapore (~37% of GDP) and Malaysia (~57% of GDP).

Chapter 2: Characteristics of Indonesia's Corporate Bond Market

2) Based on data from Bloomberg, Indonesia's corporate bond market leans heavily toward a plain vanilla structure, where straight and fixed coupon-type bonds dominate.
3) About 70% of Indonesia's outstanding corporate bonds had maturities of five years or less, which is the second highest percentage among the Association of Southeast Asian Nations (ASEAN) countries surveyed in this research.
4) Indonesia's corporate bond market has the highest percentage of rated corporate bonds among the ASEAN countries. About 82% of outstanding IDR corporate bonds in Indonesia had credit ratings as of December 2021. Among the outstanding IDR corporate bonds with ratings from PT Pemeringkat Efek Indonesia (PEFINDO), 65% were AA-rated or higher, and 97% were A-rated or higher, suggesting that lower-rated companies may have difficulty raising funds from the bond market in Indonesia.

Chapter 3: Investors

5) In 2021, about 95% of IDR corporate bonds were held by domestic investors, while the remaining 5% were held by foreign investors. Major domestic investor groups in Indonesia are mutual funds, pension funds, domestic banks, and insurance companies. Mutual funds, the top domestic investor group, held 25% of all IDR corporate bonds in 2021, in part because of the favorable tax rate on interest gained from investments in mutual funds. Before 2021, the tax rate for mutual funds was only 5%, which was significantly lower than the 15% for investments in pension funds and insurance companies. In 2021, the tax rate became 10% across all investor groups, indicating that mutual funds no longer have an advantageous position compared to other investor groups.
6) Domestic investors lean toward shorter-term corporate bonds (usually five years or less) because they are cautious about investing in longer-term corporate bonds. Investors invest in government bonds when they need to invest longer-term bonds.
7) Domestic investors are comfortable investing in bonds that are at least A-rated, although current regulations allow them to invest in bonds as low as the minimum investment grade (which market participants consider to be BBB-).

Chapter 4: Other Market Participants

8) Based on available data, as of December 2021, about 44% of outstanding IDR corporate bonds were issued by financial institutions, including banks, followed by companies in industrial and material sectors, both of which occupy 14% of investments in outstanding IDR corporate bonds.
9) Indonesia has three credit rating agencies: PEFINDO, Fitch National Rating, and Kredit Ratings Indonesia, a new domestic credit rating agency that received its business permit from the OJK in July 2019. As of June 2021, PEFINDO took up 84.02% of Indonesia's domestic credit ratings market.

10) In addition, Indonesia has one bond pricing agency, the PT Penilai Harga Efek Indonesia (PHEI) (previously known as the Indonesia Bond Pricing Agency). In 2018, PHEI priced 98.45% of publicly offered corporate bonds.

Chapter 5: Credit Spreads

11) IDR credit spreads corresponding to any tenors and any credit ratings are available daily, as they are provided by PHEI.
12) Two implications are observed from the analysis of IDR credit spreads. First, more credit spreads are required as maturities become longer. Second, additional spreads from AA to A are significant, which may signal that investors in Indonesia require significant compensation for their investments in A-rated bonds.

Chapter 6: Komodo Bonds

13) Komodo bonds, which are defined as offshore IDR bonds issued by Indonesian entities for infrastructure projects in Indonesia, were introduced in December 2017. Despite successful issuances of two Komodo bonds, no Komodo bonds have been issued since January 2018.

Chapter 7: Guaranteed Corporate Bonds

14) Credit guarantees for corporate bonds have yet to become popular in Indonesia. Guaranteed IDR corporate bonds make up 2% of total IDR corporate bonds, the second-lowest ratio (next to the Philippines) among the ASEAN countries that have outstanding corporate bonds in their domestic markets. Out of 18 IDR guaranteed corporate bonds, 6 are guaranteed by Credit Guarantee and Investment Facility (CGIF).
15) Indonesian entities had issued 13 foreign currency guaranteed corporate bonds as of December 2021. Among these, one is the SGD bond that is guaranteed by CGIF.

Chapter 8: Further Developments in Indonesia's Corporate Bond Market

16) Indonesia's corporate bond market is keen to welcome green and sustainability bonds. The Government of Indonesia issued the first sovereign green sukuk in 2018, suggesting its initiative to foster new bonds in the market. Bank Mandiri issued its first sustainability bond from the private sector in 2021, and Bank Negara Indonesia issued a green bond in June 2022, which was the second green bond issued by a financial institution in Indonesia.

1. Overview of Indonesia's Corporate Bond Market

1.1. Overall Characteristics

Indonesia's corporate bond market is one of the smallest markets among the ASEAN countries[1], which is unexpected because Indonesia is the largest of the ASEAN countries in terms of its GDP and government bond market. Companies in Indonesia also rely more on bank loans when they consider debt financing than companies in other ASEAN countries do. Most corporate bonds in Indonesia are issued with maturities of up to five years. In addition, the Indonesian market prefers bonds with plain vanilla structures. Coupons are mostly fixed, and callable or other option-embedded bonds are rare. Sukuk[2] are issued in Indonesia but not as actively as they are in Malaysia; in Indonesia, sukuk accounts for less than 10% of capital market debt outstanding in the private sector, while it accounts for most of the private sector debt in Malaysia.[3]

1.2. Corporate Bond Market Size

Table 1.1 compares LCY corporate bond markets in ASEAN. Indonesia is the third smallest of the ASEAN countries that have outstanding corporate bonds in their domestic bond markets, followed only by Cambodia and the Philippines. However, Indonesia is second smallest, followed only by Cambodia, in relative corporate bond market size that takes the countries' economic scales into account.

Table 1.1: Corporate Bond Markets, Market Capitalizations and Gross Domestic Products of ASEAN Countries, 2021

Country	LCY Corporate Bond Market (A)	Market Capitalization (B)	GDP (C)	A/B	A/C
Cambodia	0.16	1.76	26.97	9%	0.6%
Indonesia	**30.17**	**575.32**	**1,189.85**	**5%**	**3%**
Malaysia	188.84	411.63	332.65	46%	57%
Philippines	27.87	274.72	380.20	10%	7%
Singapore	144.43	445.06	395.37	32%	37%
Thailand	120.78	579.41	487.18	21%	25%
Viet Nam	66.97	339.78	367.94	20%	18%

ASEAN = Association of Southeast Asian Nations; LCY = local currency, GDP = gross domestic product

Note: Values are in USD billions.

Sources:

1) For Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam: Asian Bonds Online for LCY corporate bond market size and GDP (as of December 2021); Market capitalization in domestic exchanges (in current values, as of 2021) from Bloomberg. Data for Viet Nam's LCY bond market reflects the data collected from the Ministry of Finance Viet Nam through the Asian Bonds Online platform.

2) For Cambodia: data on corporate bond market size came from Cambodia Stock Exchange, while data on GDP came from the World Bank.

3) Brunei Darussalam, Lao PDR and Myanmar are excluded from the list since these countries have no LCY corporate bonds.

[1] Data on the size of Indonesia's corporate bond market does not include medium-term notes (MTNs), which is one form of private placement. See section 1.3 *(Specific Characteristics)* for details on MTN.

[2] Sukuk is a Shariah-compliant instrument in Islamic finance, which is similar to bonds.

[3] See the special report published by Fitch rating on 1 September 2021, "Indonesia domestic corporate sukuk market" at https://www.fitchratings.com/research/corporate-finance/indonesian-domestic-corporate-sukuk-market-01-09-2021

Table 1.2 compares the relative sizes of the corporate bond markets in ASEAN with the sizes of their respective government bond markets and corporate loan markets. Comparing the sizes of a country's corporate bond market with government bond market shows the degree to which investors consider corporate bonds as fixed income assets in comparison with government bonds. The total value of the outstanding corporate bonds in Indonesia is only 9% of that of outstanding government bonds, which is the lowest ratio among the ASEAN countries. This ratio implies that the bond market in Indonesia is dominated by government bonds. On the other hand, comparing the size of a country's corporate bond market with that of its corporate loan market shows the degree to which companies in each country rely on bond issuances for their funding compared to bank loans. Table 1.2 shows that Indonesia has the lowest ratio of LCY corporate bond market size to corporate loan market size among the ASEAN countries (where these ratios are available). The lowest ratio implies that companies in Indonesia are more dependent on bank loans for their funding needs than are companies in other ASEAN countries.

Table 1.2: Corporate Bond Markets, Government Bond Markets, and Corporate Loan Markets of ASEAN, 2021

Country	LCY Corporate Bond Market (A)	Government Bond Market (B)	Corporate Loan Market (C)	A/B (%)	A/C (%)
Cambodia	0.16	0	n/a	*	n/a
Indonesia	**30.17**	**338.14**	**238.08**	**9%**	**13%**
Malaysia	188.84	227.87	188.46	83%	100%
Philippines	27.87	158.95	178.63	18%	16%
Singapore	144.43	158.86	370.30	91%	39%
Thailand	120.78	235.43	350.64	51%	34%
Viet Nam	66.97	89.26	n/a	75%	n/a

LCY = local currency; n/a = data not available

Note: Values are in USD billions.

* The ratio is not computed since Cambodia has no local currency government bond market.

Sources:

1) For Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam: Asian Bonds Online for LCY corporate bond market and government bond market (as of December 2021); the central bank of each country for corporate loan market (as of December 2021). For Viet Nam: the Ministry of Finance Viet Nam through the Asian Bonds Online platform for LCY bond market. For Cambodia: the Cambodia Stock Exchange.

2) Brunei Darussalam, Lao PDR and Myanmar are excluded from the list since these countries have no outstanding local-currency corporate bonds.

3) Exchange rates used are as of end of December 2021, reported by Bloomberg.

Aside from corporate bonds, other debt instruments in Indonesia include medium-term notes (MTN), negotiable certificates of deposit (NCD), and promissory notes. Among these debt instruments, MTNs provide an alternative to a public offering of a bond[4] and may provide an avenue through which issuers with lower credit ratings can tap the Indonesian debt market.

As the depository institution in Indonesia, PT Kustodian Sentral Efek Indonesia (KSEI, Central Securities Depository) has data on publicly offered debt instruments and, to some extent, privately offered debt instruments. Registration of debt securities is mandatory for public offerings.

[4] The Law on Capital Market of Indonesia states that public offers refer to offering of securities to more than 100 persons that result in sales to more than 50 persons.

2. Characteristics of Indonesia's Corporate Bonds

This chapter compares the characteristics of Indonesia's corporate bonds with those of other ASEAN countries in terms of such aspects as maturity distribution, coupon type, and credit rating distribution. Brunei, Lao PDR and Myanmar are excluded from the comparisons in this chapter, as these countries have no domestic corporate bonds.

2.1. Issue Size

The average issue size of outstanding IDR corporate bonds as of December 2021 was equivalent to USD32.73 million, the second smallest average size (next to Cambodia) among the ASEAN countries. Small average issue size does not always indicate an undeveloped market, because companies can tap bond markets even if the issue amount is small. However, a small average issue size in a domestic corporate bond market may lead companies to tap offshore bond markets when their funding amounts are too big for their domestic market to accommodate.

Table 2.1: Issue Size of Outstanding Corporate Bonds in ASEAN (in USD millions), 2021

Country	Average	Minimum	Maximum
Cambodia	16.32	6.48	31.22
Indonesia	**32.73**	**< 0.01**	**592.94**
Malaysia	50.26	< 0.01	3,443.56
Philippines	127.27	1.96	786.40
Singapore	184.29	0.07	4,593.62
Thailand	67.74	0.15	1,321.70
Viet Nam	56.28	0.05	175.24

Notes:
Exchange rates to USD1 as of 31 December 2021: IDR14,263; KHR 4,074.2; MYR4.17; PHP50.99; SGD1.35; THB33.21; VND22,826.
Source: Bloomberg; Author's calculations.

2.2. Maturity Distribution

The investigation of bonds' maturity distribution used the original maturities of all the outstanding corporate bonds as of the end of 2021 to compare the maturity distribution of Indonesia's corporate bonds with those of other countries. Table 2.2 shows that about 70% of Indonesia's corporate bonds were issued with maturities of five years or shorter. The share of the corporate bonds with maturities of shorter than or equal to five years is the highest in Indonesia among ASEAN countries with the exception of Cambodia, whose corporate bond market was recently introduced with only nine bonds.[5] Only 5% of corporate bonds were issued with maturities longer than ten years.

[5] The first LCY corporate bond in Cambodia was issued by Hattha Kaksekar Limited (HKL) in 2018. HKL is one of the leading microfinance institutions in Cambodia.

Table 2.2: Corporate Bonds in Terms of Maturity Distribution in ASEAN, 2021

Country	Up to 3 years	>3 to 5 years	>5 to 10 years	>10 years	Perpetual
Cambodia	70%	30%	-	-	-
Indonesia	**38%**	**32%**	**25%**	**5%**	**-**
Malaysia	7%	11%	40%	38%	4%
Philippines	28%	14%	52%	6%	-
Singapore	3%	14%	46%	15%	22%
Thailand	24%	28%	34%	11%	3%
Viet Nam	25%	29%	42%	4%	-

Notes:
1. Data refers to original maturity.
2. Numbers may not add to 100% because of rounding.
Source: Bloomberg; Author's calculations.

The bonds issued by companies from the Financials (44%), Industrials (14%), and Materials (14%) industries collectively occupy 72% of the corporate bonds in Indonesia. As Table 2.3 shows, the maturities of the bonds from these sectors are relatively short, which characterizes the maturity distribution of corporate bonds in Indonesia with their high shares. An exception to this is the Utilities sector, where 76% of bonds have maturities longer than five years.

Table 2.3: IDR Corporate Bonds in Terms of Maturity Distribution per Sector, 2021

Sector	Up to 3Y	>3 to 5Y	>5 to 10Y	Over 10Y	Total
Financials	41%	35%	24%	0%	100%
Industrials	34%	34%	31%	1%	100%
Materials	55%	35%	10%	0%	100%
Utilities	5%	19%	33%	43%	100%
Others	34%	30%	29%	7%	100%

Note: Figures may not add to total because of rounding.
Source: Bloomberg; Author's calculations.

2.3. Maturity Type

Maturity type refers to classification of bonds into straight bonds, callable bonds, sinkable bonds, convertible bonds, and others. Straight bonds have the plain vanilla structure, which pays principal only at maturity and has no option for early redemption or extension. Callable bonds allow the issuer of the bond to have the option of redeeming the bond before maturity. Convertible bonds allow investors to exchange the bond for a predetermined number of shares of the issuer. Sinkable bonds pay principal based on their amortization schedules. Although straight bonds are the most common type of corporate bonds in most countries, callable bonds also occupy a significant share. Table 2.4 shows that straight bonds are dominant in Indonesia.

Table 2.4: Comparison of Maturity Types of Corporate Bonds in ASEAN, 2021

Country	Straight	Callable	Sinkable	Convertible	Others
Cambodia	70%	-	30%	-	-
Indonesia	**96%**	**1%**	**-**	**3%**	**-**
Malaysia	85%	9%	-	1%	5%
Philippines	49%	48%	-	-	3%
Singapore	57%	8%	-	2%	33%
Thailand	82%	13%	-	-	4%
Viet Nam	87%	10%	2%	2%	-

Note: Numbers may not add to 100% because of rounding.
Source: Bloomberg; Author's calculations.

2.4. Coupon Type

Coupon type classifies bonds into fixed, floating, step-up, variable, zero, and other coupon bonds. Table 2.5 shows that fixed coupon bonds are dominant in ASEAN countries, with Indonesia having the highest ratio of fixed coupon bonds to total bonds other than Cambodia. (Cambodia has only nine corporate bonds, all of which have been issued with fixed coupons.) Given the dominance of straight bonds and fixed coupon bonds in Indonesia, it is clear that participants in Indonesia's corporate bond market prefer a plain vanilla structure.

Table 2.5: Comparison of Coupon Type of Corporate Bonds in ASEAN, 2021

Country	Fixed	Floating	Step-Up	Variable	Zero	Others
Cambodia	100%	-	-	-	-	-
Indonesia	**99%**	**-**	**-**	**-**	**1%**	**-**
Malaysia	81%	6%	1%	3%	8%	1%
Philippines	97%	-	-	2%	-	-
Singapore	63%	-	1%	25%	11%	-
Thailand	93%	-	1%	3%	2%	-
Viet Nam	52%	48%	-	-	-	-

Note: Numbers may not add to 100% because of rounding off.
Source: Bloomberg; Author's calculations.

2.5. Payment Rank

Corporate bonds can also be classified as secured bonds, unsecured bonds, or subordinated bonds, depending on their payment rank. As "unsecured" is one of the differentiators between bonds and bank loans, an unsecured bond is the most common of the corporate bonds. Secured bonds are bonds that are secured by one or more of the owner's assets. A guaranteed bond may not be classified as a secured bond, unless it meets the conditions of a secured bond. Subordinated bonds are paid after the payment of bonds with higher priority. Secured bonds were once popular in Indonesia, as non-bank financial institutions tended to provide their assets to investors as collateral. In 2021, secured bonds accounted for only 9% of Indonesia's corporate bond market, down from the 16% they represented in 2018.

Table 2.6: Comparison of Payment Ranks of Corporate Bonds in ASEAN, 2021

Country	Secured	Unsecured	Subordinated
Cambodia	-	100%	-
Indonesia	**9%**	**86%**	**4%**
Malaysia	26%	62%	12%
Philippines	1%	94%	5%
Singapore	2%	73%	26%
Thailand	3%	89%	8%
Viet Nam	13%	87%	-

Note: Numbers may not add to 100% because of rounding.
Source: Bloomberg; Author's calculations.

2.6. Credit Ratings

Table 2.7 shows the ratio of rated corporate bonds to total outstanding corporate bonds across the ASEAN countries that had rated corporate bonds in their domestic bond markets and that were available for this analysis.[6] Bonds with at least one credit rating were included, while bonds with only short-term ratings or whose ratings had been withdrawn were excluded. As Table 2.7 shows, Indonesia's corporate bond market has the highest ratio of rated corporate bonds in ASEAN mainly because of the country's regulatory requirements.

Table 2.7: Ratio of Rated Corporate Bonds in ASEAN, 2021

	Indonesia	Malaysia	Philippines	Singapore	Thailand
Ratio of Rated Corporate Bonds to Outstanding Corporate Bonds	82%	54%	26%	30%	65%

Source: Bloomberg; Author's calculations.

Among the outstanding IDR corporate bonds with ratings from PEFINDO, the most widely used rating agency in Indonesia, 65% were rated AA or higher, and 97% were rated A or higher, which suggests that companies rated BBB or lower may have difficulty raising funds from the bond market in Indonesia. Although Indonesia is strict in terms of low-rated companies' accessibility to its bond market, as Table 2.8 shows, Indonesia was at least more generous than the Philippines where AAA-rated bonds dominate and Malaysia where bonds rated AA and higher occupy almost 90% of the corporate bond market.

[6] Cambodia and Viet Nam are excluded in this analysis, as Cambodia's domestic corporate bond market has only one rated bond, and Viet Nam has no rated corporate bonds.

Table 2.8: Comparison of Distribution of Credit Ratings of Corporate Bonds in ASEAN, 2021

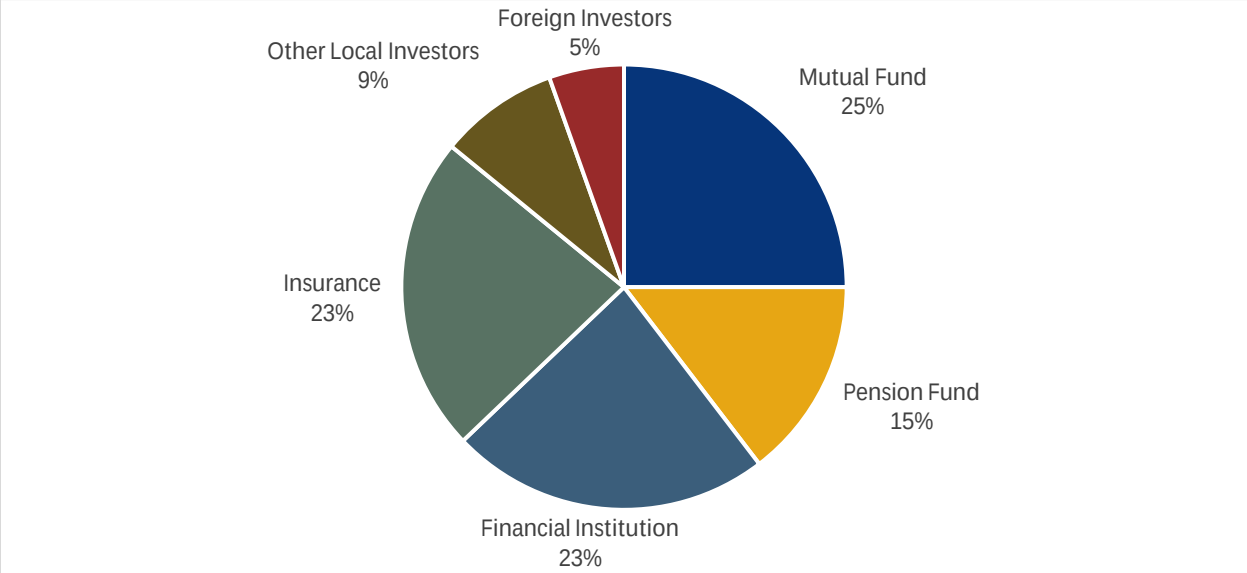
Country	AAA	AA	A	BBB	BB and below
Indonesia	**48%**	**17%**	**32%**	**2%**	**1%**
Malaysia	48%	42%	9%	< 1%	1%
Philippines	100%	-	-	-	-
Singapore	39%	5%	26%	29%	-
Thailand	4%	20%	55%	19%	1%

Notes:
1. The distributions of credit ratings are based on the bonds' credit ratings updated as of the end of 2021, and not on the ratings on their issuance dates.
2. Bonds whose credit ratings were not available or were withdrawn were excluded from the calculations.
3. The rating agencies used for each market are PEFINDO for Indonesia, RAM for Malaysia, PhilRatings for the Philippines, Moody's for Singapore, and TRIS Ratings for Thailand. The table reflects the equivalent rating scales of each domestic credit rating agency. Short-term ratings are excluded from the computations.
4. No available data for Cambodia and Viet Nam.
Source: Bloomberg; Author's calculations.

3. Investors

In 2021, mutual funds owned 25% of Indonesia's corporate bonds and were the largest domestic investor group in Indonesia, followed by 23% by domestic financial institutions, 23% by domestic insurance companies, and 15% by domestic pension funds. Foreign investors owned only 5% of IDR corporate bonds. Figure 3.1 shows the ownership of IDR corporate bonds by investor group as of December 2021.

Figure 3.1: Ownership of IDR Corporate Bonds by Broad Investor Group, as Recorded in KSEI as of December 2021



Source: KSEI Securities Ownership as of 30 December 2021, https://www.ksei.co.id/archive_download/holding_composition; OJK Monthly Statistics (4th Week, December 2021)

Table 3.1 shows that mutual funds have been significant investors of corporate bonds in Indonesia. In 2021, mutual funds owned about 25% of total corporate bonds listed on the KSEI, perhaps because of the favorable tax rate that mutual funds enjoyed at the time. Mutual funds had enjoyed a 5% tax rate on gains from investments, which was lower than that for other investor groups, who paid a 15% tax rate on gains from investments, until 2021, when the tax rate was unified to 10% regardless of investor groups or investors' residence in Indonesia.[7]

Table 3.1: Ownership of IDR Corporate Bonds Listed at KSEI, 2013-2021 (in IDR trillion)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Mutual Fund	38	41	53	78	105	103	110	97	101
Pension Fund	62	61	69	71	84	82	86	62	59
Financial Institution	41	41	46	59	72	81	91	87	94
Insurance Company	34	34	37	54	65	73	73	94	93
Other Domestic Investor	23	20	19	21	25	33	33	35	35
Foreign Investor	14	21	19	19	31	29	32	30	22
Total	212	217	243	302	382	401	425	405	404

Source: OJK (as compiled through Capital Market Monthly Statistics, every last week of December 2013–2021). https://www.ojk.go.id/id/kanal/pasar-modal/data-dan-statistik/statistik-pasar-modal/Default.aspx

Table 3.2 summarizes investor groups' investment appetites for corporate bonds.[8] Previously, investors regarded bonds issued by SOEs (SOE bonds) as safer than bonds issued by private companies because of the impression that SOE bonds are guaranteed by the government. However, investors have become more cautious about SOE bonds since a default occurred.[9]

Investors often commented that an A rating is the minimum investable credit rating, even though OJK allows them to invest in bonds rated as low as BBB-. This view may indicate that investors want buffers that will absorb downgrades of the bonds they hold because of the market's illiquidity. The preferred maturity of corporate bonds is not long. Although insurance companies and pension funds show an appetite for longer-term maturities than other investor groups do, they tend to achieve duration from government bonds as they are cautious about long-term corporate bonds. As for Indonesian investors, none of the investors interviewed mentioned that they invested in USD bonds to achieve duration or higher IDR yields after swap, although some invest in USD bonds because they have sold USD products to their clients. However, the USD bonds they have tend to be negligible in terms of their total portfolios. More details on each investor group's investment appetite are explained in the sub-chapters.

[7] Two important regulations dictate the income tax rates for interest earned on bond investments. Government Regulation No. 9 of 2021, which took effect on 3 August 2021, reduced non-resident taxpayers' income tax rate for interest received or earned on bond investments from 20% to 10%. Government Regulation No. 91 of 2021 aligned resident taxpayers' and permanent establishments' tax rates on interest income received or earned on bond investments at 10 %.

[8] Information was gathered through market interviews.

[9] One example is the default of Waskita Beton Precast (WSBP), a subsidiary of Waskita Karya (Persero) Tbk. WSBP was put into suspension of debt payment obligation status by a court decision that prohibited WBSP from making debt payments to any of its creditors.

Table 3.2: Investor Groups' Appetite for Corporate Bond Investments

	Mutual Funds	Pension Funds	Domestic Banks	Life Insurance	General Insurance
Tenor	1-3 years	3-5 years	1-3 years	3-5 years	3-5 years
Currencies [1]	IDR and USD	IDR	IDR and USD	IDR and USD	IDR and USD
Minimum Credit Rating	A	A	A	A	A

IDR = Indonesian rupiah,

[1] Mutual funds, life insurance companies, and general insurance companies have small investments in USD bonds. Mutual funds' and life insurance companies' USD investments are used for their USD bond funds and USD investment-linked insurance products, respectively.

Source: Interviews with institutional investors (November 2018).

In 2017, OJK passed POJK No. 56/2017,[10] which requires non-bank financial institutions to allocate part of their investments in corporate bonds issued by SOEs and SOE subsidiaries to finance infrastructure. These bonds should be offered publicly and rated investment grade. OJK aims to make Indonesia's corporate bond market more active, and this regulation contributes to investors' appetite on publicly offered investment grade corporate bonds for infrastructure financing.

The OJK also passed POJK No. 11/2018, *Tentang Penawaran Umum Efek Bersifat Utang Dan/Atau Sukuk Kepada Pemodal Profesional* [Regulation on the Public Offer of Bonds and Sukuk Securities to Professional Investors].[7] This regulation has two objectives: to simplify the issuance process so as to reduce issuers' costs, and to define professional investors. This regulation reduces the number of documents issuers must submit to OJK if they want to issue bonds to professional investors. If issuers have outstanding bonds, they are exempt from the requirement to submit audited financial statements and legal opinions to OJK.

The regulation narrows the definition of professional investors to three investor groups:

- Financial services institutions, such as banks (commercial banks, Shariah banks, and branch offices of foreign banks), pension funds, insurance companies and reinsurance companies (both conventional and Syariah), investment managers, and securities companies
- Any legal entity, joint venture, association, or organized group that meets the following: has the ability to analyze investment risks, has one year of investment experience, and has net assets of IDR20 billion, or an average investment portfolio in the capital market of IDR6 billion within one year prior to the public offering
- High-net-worth individuals

[10] OJK. 2017. Perubahan Kedua Atas Peraturan Otoritas Jasa Keuangan Nomor 1/Pojk.05/2016 Tentang Investasi Surat Berharga Negara Bagi Lembaga Jasa Keuangan Non-Bank. https://www.ojk.go.id/id/kanal/iknb/regulasi/asuransi/peraturan-ojk/Documents/Pages/POJK-Nomor-56-POJK.05-2017/SAL%20POJK%2056%20-%20Perubahan%20kedua%20SBN%20LJK%20non%20bank.pdf

[7] OJK. 2018. *Salinan Peraturan Otoritas Jasa Keuangan Nomor 11/POJK.04/2018 Tentang Penawaran Umum Efek Bersifat Utang Dan/Atau Sukuk Kepada Pemodal Profesional* [OJK Regulation No. 11/POJK.04/2018: Regulation on the Public Offer of Bonds and Sukuk Securities to Professional Investors] https://www.ojk.go.id/id/regulasi/Documents/Pages/Penawaran-Umum-Efek-Bersifat-Utang-dan-atau-Sukuk-kepada-Pemodal-Profesional/pojk%2011-2018.pdf

3.1. Mutual Funds

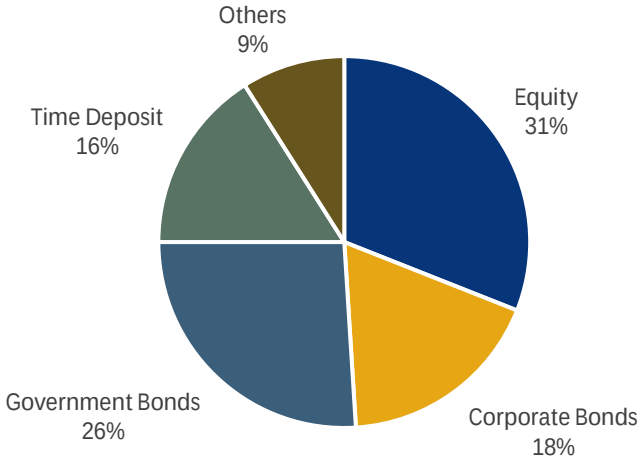
Industry Description

Mutual funds can be classified as closed-ended or open-ended. The Capital Protected Fund (CPF) is the most popular product that represents closed-ended mutual funds in Indonesia. CPF protects capital by holding bonds until their maturities. It prefers corporate bonds or MTNs over government bonds as underlying assets to achieve higher yields.[11] However, to protect CFP's investors, OJK disallowed MTN as an underlying asset after May 2018, when PT Sunprima Nusantara Pembiayaan (SNP) failed to repay its coupon obligation from the MTN it issued in 2017. SNP is a financing company that focuses primarily on electronics, furniture, and automotive financing.[12]

Open-ended mutual funds, or KIK (Kontrak Investasi Kolektif), have four basic product classes: stock mutual funds, fixed income mutual funds, mixed mutual funds, and money market mutual funds. Each of the product classes has a Shariah variant. PEFINDO's 2016 mutual fund industry report states that stock funds make up 35% of the mutual fund industry in Indonesia, while fixed income funds make up 21%.[13]

As of 30 December 2021, mutual funds' investments reached IDR574.64 trillion, with the top investments in equities (31%), government bonds (26%), corporate bonds (18%) and time deposits (16%).[14] Other investments included MTNs, promissory notes, cash, asset-backed securities (ABS), and sukuk.

Figure 3.2: Securities Composition of Mutual Funds (30 December 2021)



Source: OJK. https://reksadana.ojk.go.id/Public/StatistikEfekReksadanaPublic.aspx

Regulations on Investments

The OJK provided investment guidelines for mutual funds in the form of collective investment contracts (KIK), as written in OJK Rule No. 23/POJK.04/2016. This rule was amended by OJK Rule No. 2/POJK.04/2020. The regulation stipulates that 85% of a mutual fund's net asset value (NAV) be invested in securities offered in Indonesia or

[11] No published data is available for CPF because of the paucity of data on MTNs. In addition, private mutual funds tend to invest in one type of asset (e.g., in one MTN issuance).
[12] SNP is under the Columbia Group (Columbia Cash and Credit), a retail chain with installment options for Indonesian customers. Columbia has around 300 stores in Indonesia.
[13] PEFINDO. 2016. *Asset Management Industry in Rating Perspective*. http://www.pefindo.com/index.php/fileman/file/611 (Accessed on 08 November 2018).
[14] Government bonds are defined as those issued by the Ministry of Finance Indonesia and by SOEs for infrastructure projects in Indonesia (at least 51% owned by the government).

securities offered by overseas entities but issued by Indonesian entities.[13] The remaining 15% is the allowable ratio for investments in securities offered and traded in foreign stock exchanges. Mutual funds can also invest in various types of securities subject to the fund's NAV, as shown in Table 3.3.

Table 3.3: Investment Restrictions and Limitations for Mutual Funds in KIK Form, based on OJK Rule No. 2/POJK.04/2020

Type of Investment	Restrictions or Limitations
Equities	Mutual funds may not own equity securities of more than 5% of a company's paid-up capital if the company is listed in the IDX.
Derivatives	Mutual funds may not own derivatives that are not transacted at IDX and have an exposure value of more than 10% of the mutual fund's NAV and may not own derivatives with a net global exposure of 20% of the mutual fund's value.
ABS	Mutual funds may not own ABS that have been offered through a public offering for more than 20% of the NAV of the mutual fund. Each series of ABS must not be more than 10% of the NAV of the mutual fund.
Bonds, fixed income Shariah, REIT participation units that are not offered through a public offering*	Mutual funds may not own bonds, fixed income Shariah, REIT participation units of more than 5% of the mutual fund's NAV for each issuer or an aggregate amount of more than 15% of the mutual fund's NAV.
REIT participation units offered through a public offering	Mutual funds may not own REIT participation units that are, in aggregate, more than 20% of the mutual fund's NAV; each REIT may not be 10% or more of the mutual fund's NAV at any time.
Securities issued by affiliated parties	Mutual funds may not own securities of more than 20% of the mutual fund's NAV that are issued by the investment manager's affiliated parties unless the affiliation results from capital participation of the Indonesian government.

ABS = asset-backed securities, IDX = Indonesia Stock Exchange, NAV = net asset value, REIT = Real Estate Investment Trust
* This includes medium-term notes.
Source: OJK.

Investment Practices

Asset management companies emphasize the type of issuer of corporate bond investments. SOEs are preferred because of their market performance and the implicit guarantee from the government. Private companies may be considered based on the asset management companies' internal investment regulations.

Mutual funds tend to invest in bonds with maturities of only up to three years since these are the bonds with the most common term currently in the market. Mutual funds tend to hold the corporate bonds until maturity.

Asset management companies usually demand IDR bonds but invest in USD bonds when they offer USD bond funds. However, fewer USD bond funds are offered in the market than IDR bond funds.

For mutual funds, asset management companies invest in corporate bonds with credit ratings of A and above. The OJK requires bond holdings to have at least the minimum investment grade (BBB-, as accepted in the market). An A credit rating provides some buffer if the bonds held are downgraded.

[13] The regulation includes both public issues and private placements. For private placements, a credit rating on the issue is required.

3.2. Pension Funds

Industry Description

Pension funds can be employer pension funds (EPFs) or financial institution pension funds (FIPFs). EPFs can be further categorized as defined benefit pension funds (DBPFs) or defined contribution pension funds (DCPFs). FIPFs can only have a defined contribution. The main regulation on pension funds is Law No. 11 of 1992 (Law on Pension Funds), which states that a pension fund shall be a legal entity that manages a program for pension benefits and should be established apart from any employer or financial institution. As Table 3.4 shows, EPF-DBPFs had the largest asset and investment size among the types of pension funds in December 2021.

Table 3.4: Pension Funds in Indonesia, December 2021

Type of Pension Fund	Number of Pension Funds	Total Assets (in IDR trillions)	Total Investments (in IDR trillions)	Establisher	Investment Manager
EPF-DBPF	141	172.63	165.66	Employers	Asset Management Company
EPF-DCPF	42	40.69	39.90	Employers	Asset Management Company
FIPF	25	114.08	111.42	Bank Life Insurance	Bank Life Insurance
Total	208	327.40	316.98		

EPF-DBPF = Employee Pension Fund-Defined Benefit Pension Fund, EPF-DCPF = Employee Pension Fund-Defined Contribution Pension Fund, FIPF = Financial Institution Pension Fund
Source: OJK.

Regulations on Investments

The OJK's Regulation No. 3 POJK.05/2015 states what pension funds can invest in and their respective limits, as shown in Table 3.5.[15]

Table 3.5: Investment Restrictions and Limitations for Pension Funds

Type of Investment	Restrictions/Limitations
Bank deposits and securities issued by Bank Indonesia	Up to 20% of the pension fund's total investment per bank and/or party.
Listed stocks	Up to 20% of the pension fund's total investment per company.
Government bonds	Up to 100% of the pension fund's total investment.
MTNs	10% of the pension fund's total investment of pension fund. The total investment in MTNs should not exceed 10% of outstanding MTNs. (MTNs should be registered in KSEI, have a monitoring agent, and have at least an investment grade rating by IBPA.)
Direct investments in unlisted limited liability companies	Up to 15% of the pension fund's total investment.

[15] OJK. 2015. *Salinan Peraturan Otoritas Jasa Keuangan Nomor 3/POJK.05/2015 Tentang Investasi Dana Pensiun* [OJK Rule No. 3/POJK.05/2015: Regulations on Pension Fund Investment] https://www.ojk.go.id/id/regulasi/Documents/Pages/POJK-tentang-Investasi-Dana-Pensiun/POJK%203.%20Investasi%20Dana%20Pensiun.pdf

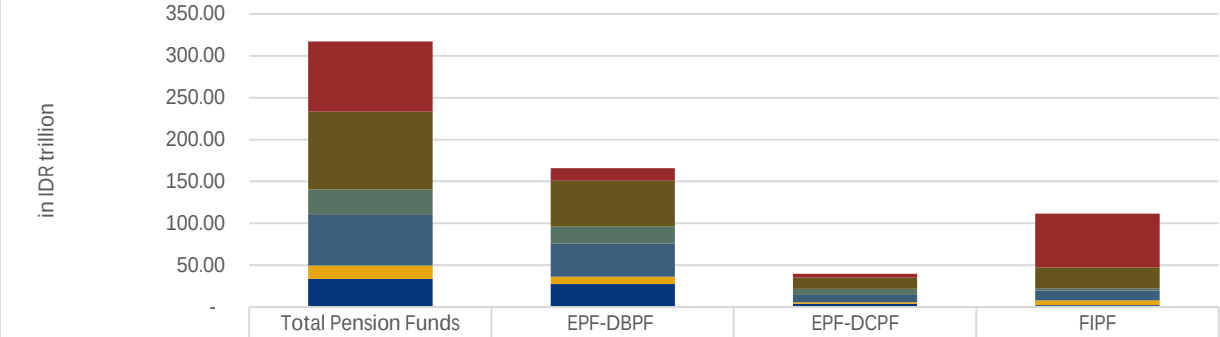
Corporate bonds	Up to 20% of the pension fund's total investment per issuer. (Corporate bonds should be listed at IDX and should be of investment grade, as rated by a securities rating agency licensed by the OJK.)
Mutual funds – KIK	Up to 20% of the pension fund's total investment per mutual fund.
Mutual funds – limited participation	Up to 10% of the pension fund's total investment.
ABS in the form of KIK	Up to 20% of the pension fund's total investment per issuer. (ABS should be listed at IDX and should have an investment grade from a securities rating agency licensed by the OJK.)
REPO	Up to 2% of the pension fund's total investment for each counterparty and not exceeding 5% of the pension fund's total investment amount.
REIT in the form of KIK	Up to 20% of pension fund's total investment amount. (REIT-KIK should be issued via public offering.)
Land/buildings	Up to 20% of the pension fund's total investment amount.

ABS = asset-backed securities, IBPA = Indonesia Bond Pricing Agency, IDX = Indonesia Stock Exchange, KIK = Kontrak Investasi Kolektif, KSEI = PT Kustodian Sentral Efek Indonesia (Central Securities Depository), MTN = medium-term note(s), OJK = Otoritas Jasa Keaungan, REIT = Real Estate Investment Trust, REPO = repurchase agreement
Source: OJK.

Investment practices

Generally, time deposits, government bonds and corporate bonds are pension funds' key investments (collectively, 75% of the total investment portfolio). The FIPF has more investments in time deposits (57% of FIPF's total investments) than it does in all other investments combined, and EPF-DBPF has significant investments in government bonds and corporate bonds (57% of EPF-DBPF's total investments). Figure 3.3 shows the investment portfolios of pension funds in Indonesia.

Figure 3.3: Investment Portfolio of Pension Funds, December 2021 (IDR trillion)



	Total Pension Funds	EPF-DBPF	EPF-DCPF	FIPF
Time Deposit	83.59	14.78	4.94	63.87
Government Bonds	92.61	54.50	13.07	25.04
Stocks	30.69	20.43	7.50	2.76
Corporate Bonds	60.41	39.75	8.85	11.81
Mutual Funds	16.03	8.62	1.56	5.85
Others	33.64	27.58	3.97	2.09

EPF-DBPF = Employee Pension Fund-Defined Benefit Pension Fund, EPF-DCPF = Employee Pension Fund-Defined Contribution Pension Fund, FIPF = Financial Institution Pension Fund
Source: OJK

EPFs outsource their investments to asset management companies to manage their portfolios, as many pension funds have no expertise in managing their assets. Depending on the pension fund's direction, asset management companies may invest in various asset classes in various ratios, although they usually invest in equities, government bonds, time deposits, and corporate bonds.

3.3. Insurance Companies

Industry Description

Insurance industry of Indonesia is composed of life insurance, general insurance, social insurance, reinsurance and other insurances. Social insurance has the largest investment size, followed by life insurance. General insurance is third, but it is significantly distant from the top two. Investment-linked insurance products (ILIP), a combination of insurance and mutual funds, are popular life insurance products in Indonesia. While most mutual funds in ILIP are equity-type funds, bonds, time deposits, mixed, and even USD bonds typed mutual funds are also common.

Regulations on Investments

In Indonesia, social insurance is under the direction of the National Social Security Agency, or Badan Penyelenggara Jaminan Sosial (BPJS). Social insurance in Indonesia covers both health insurance (BPJS Kesehatan) and social security (BPJS Ketenagakerjaan). BPJS Kesehatan covers all residents, including foreigners who have resided in Indonesia for at least six months. BPJS Ketenagakerjaan is social security for individuals who are employed in Indonesia.

Social insurance companies follow the regulations set in Government Regulations of Indonesia (PP55/2015) on Asset Management of the Social Security Fund.[16] According to the regulation, 100% of social insurance's investment fund can be placed in time deposits and government bonds, but the maximum placement for corporate bonds, equities, mutual funds, and municipal bonds is 50% of the total investment fund. The same regulation also states that up to 20% of the total investment fund can be placed in KIK-EBA and REITs, 5% in REPOs and direct investments, and 10% in property investments.

Private insurance companies follow OJK Regulation No. 71 POJK.05/2016 for their investments.[17] Investment limits are stated in Table 3.6.

Table 3.6: Investment Restrictions and Limitations for Private Insurance Companies

Type of Investment	Restrictions and Limitations
Bank deposits (≤ to 1 month)	20% of total investment.
Time deposits	1% of total investment per rural bank or rural Shariah bank; maximum of 5% of total investment
NCD	50% of total investment

[16] MOF Indonesia. *Jaringan Dokumentasi dan Informasi Hukum Kementerian Keuangan Republik Indonesia*. (Ministry of Finance Indonesia Legal Documentation and Information Network) https://jdih.kemenkeu.go.id/fullText/2015/55TAHUN2015PP.pdf

[17] OJK. 2016. *Salinan Peraturan Otoritas Jasa Keuangan Nomor 71/POJK.05/2016 Tentang Kesehatan Keuangan Perusahaan Asuransi Dan Perusahaan Reasuransi* [OJK Regulation No. 71 POJK.05/2016: Insurance Companies and Reinsurance Companies] https://www.ojk.go.id/id/kanal/iknb/regulasi/asuransi/peraturan-ojk/Documents/Pages/POJK-tentang-Kesehatan-Keuangan-Perusahaan-Asuransi-dan-Perusahaan-Reasuransi/SAL%20-%20POJK%20Kesehatan%20Keu%20PA%20PR%20-.pdf

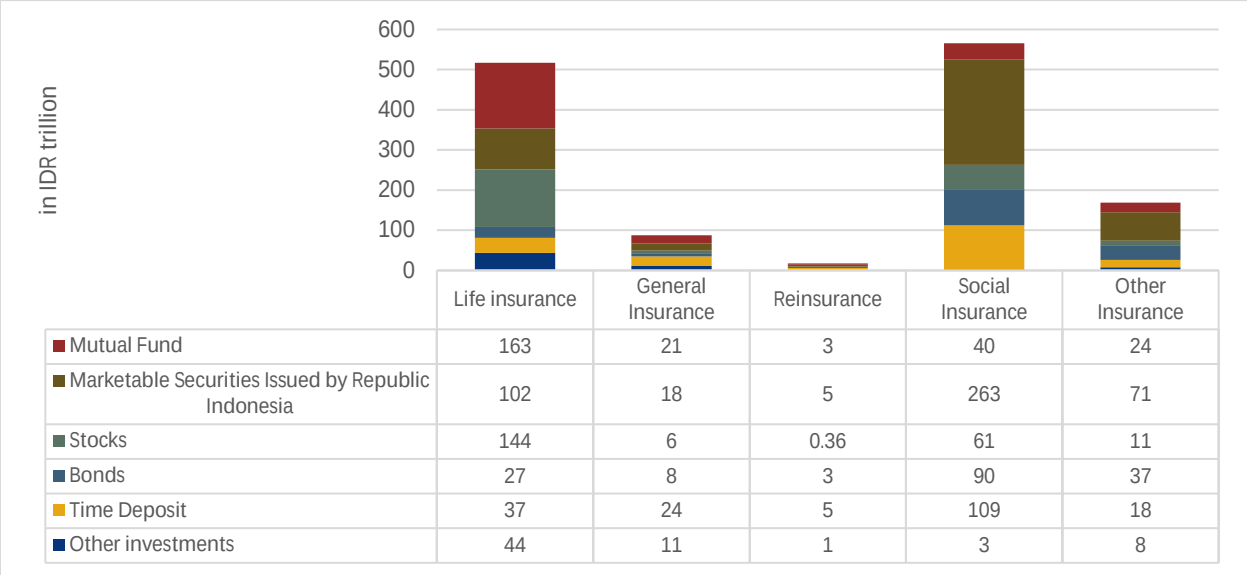
Stocks listed at stock exchange	10% of total investment per company; maximum of 40% of total investment
Corporate bonds listed at stock exchange	20% of total investment per issuer; maximum of 50% of total investment
MTN	20% of total investment per issuer; maximum of 50% of total investment
Mutual funds	20% of total investment per investment manager; maximum of 50% of total investment
ABS	10% of total investment per investment manager; maximum of 20% of total investment
KIK	10% of total investment per investment manager; maximum of 20% of total investment
REPO	2% of total investment per counterparty; maximum of 10% of total investments
Direct participation on shares not listed at stock exchange	10% of total investment
Land, property	20% of total investment
Gold	10% of total investment
Investment in the form of loans guaranteed by mortgage	10% of total investment
Investment in the form of policy loans	80% of the policy's cash value
Bonds issued by other sovereigns	10% of total investment

ABS = asset-backed securities, KIK = Kontrak Investasi Kolektif, MTN = medium-term note(s), NCD = negotiable certificate of deposit, REPO = repurchase agreement
Source: OJK.

Investment practices

Figure 3.4 shows the distribution of investments among types of insurance companies in Indonesia as of December 2021. The compositions of investments differ significantly depending on whether the investment is in life, general, or social insurance.

Figure 3.4: Investment Portfolio of the Insurance Industry of Indonesia, 2021 (IDR trillion)



	Life insurance	General Insurance	Reinsurance	Social Insurance	Other Insurance
Mutual Fund	163	21	3	40	24
Marketable Securities Issued by Republic Indonesia	102	18	5	263	71
Stocks	144	6	0.36	61	11
Bonds	27	8	3	90	37
Time Deposit	37	24	5	109	18
Other investments	44	11	1	3	8

Notes:
1) "Other Insurance" pertains to the Insurance Program for Civil Servants, Armed Forced/Police, and Public Transportation Passenger and Road Traffic Accident
2) Bond investments of "Other Insurance" include Shariah bonds.
Source: OJK. https://www.ojk.go.id/id/kanal/iknb/data-dan-statistik/asuransi/Default.aspx

That mutual funds and stocks occupy significant shares of the investments of life insurance companies in Indonesia differs from other markets, where life insurers invest primarily in long-term bonds to match the long duration of their liabilities. Indonesia's life insurance industry's heavy investment in shares of mutual funds and stocks is attributed to the popularity of ILIP. As most ILIPs use the performance of the equity index as a benchmark, life insurance companies tend to invest in equities and/or mutual funds.

On the other hand, social insurance's investment portfolio is composed primarily of fixed income products like government securities, bonds, and time deposits. It invests government bonds with maturities of more than 10 years. General insurance companies invest in time deposits more than any other assets, as general insurers' liabilities are relatively short term.

Table 3.7 shows the investment appetites for corporate bonds by type of insurer, based on interviews with market players. While life insurers in Indonesia do invest in 10-year corporate bonds, they invest primarily in three-year corporate bonds, as the maturities of corporate bonds invested for ILIP tend to be three years. As social insurance achieves duration by investing in long-term government bonds, it does not have a strong appetite for corporate bonds with maturities longer than five years. Table 3.7 also shows that life insurance companies and general insurance companies invest in USD bonds. Life insurance companies invest in USD bonds only if they offer USD-ILIP in the market, while general insurance companies invest in USD bonds to support their clients with USD insurance policies (e.g., aviation and marine insurance). However, compared to IDR bonds, USD bonds are only a small fraction of their general insurance companies' investments.

Table 3.7: General Investment Criteria for Corporate Bonds

	Life Insurance	General Insurance	Social Insurance
Tenor	3–10 years	2–5 years	3–5 years
Currency	IDR and USD	IDR and USD	IDR
Credit Rating	A	A	A-

IDR = Indonesian rupiah, USD = United States dollar
Source: Interviews from companies in each insurance segment.

3.4. Commercial Banks

Industry description

Indonesia's banking industry has only two categories. According to Indonesia's Amended Banking Act of 1998 (Law No. 10 in 1998), banks can be classified as rural banks or commercial banks. The operations of rural banks are limited to four areas: deposit-taking activities, where deposits include time deposits, savings, and other equivalent forms of deposit; extending credit; providing financing and placing funds based on Shariah principles according to the regulations of Bank Indonesia (BI); and placing funds in BI certificates, time deposits, or certificates of deposit, and/or in savings in other banks.

Commercial banks have many more functions than rural banks do. Commercial banks can do deposit-taking activities; provide loans and credit; buy and sell bills of exchange, promissory notes and other commercial papers with periods of validity that are not longer than related customary trading notes, treasury bills and government insurance notes, bonds, BI certificates, commercial paper with periods of validity up to one year, and other securities instruments with periods of validity up to one year; and participate in other functions.

Banks can also be classified into conventional banks and Shariah banks. Conventional banks perform traditional banking services that are priced based on the interest rate issued by BI. Shariah banks conduct business activities based on Shariah principles in accordance with Law No. 21 of 2008 on Islamic Banking.

Regulations on Investments

In April 2018, BI issued a new regulation regarding the Macroprudential Intermediation Ratio (RIM), PBI No. 20/4/2018 ("Rasio Intermediasi Makroprudensial/RIM").[18] Under this regulation, the securities component of a domestic bank is incorporated into its financing and funding ratio. Corporate bonds should be of investment grade to be included in the computation of RIM. This regulation is expected to increase domestic banks' demand for corporate bonds.

Investment practices

The OJK Banking Statistics 2021 report states that commercial banks' investments in securities are categorized into BI certificates, treasury bills, bonds, and other securities.[19] Bonds were 84% of total investments by the end of 2021, but the report offers no breakdown of the types of bonds in which domestic commercial banks were investing. A summary of the statistics is shown in Table 3.8.

[18] Bank Indonesia. https://www.bi.go.id/id/peraturan/ssk/Pages/PBI_200418.aspx
[19] OJK. https://www.ojk.go.id/en/kanal/perbankan/data-dan-statistik/statistik-perbankan-indonesia/default.aspx

Table 3.8: Commercial Banks Securities Investments (in IDR trillion)

	2015	2016	2017	2018	2019	2020	2021
BI certificates	40.02	96.10	19.90	39.44	68.97	18.79	12.42
Treasury bills	26.44	31.35	53.30	61.17	38.21	55.92	45.17
Bonds	485.24	561.96	637.77	616.06	712.17	1,209.09	1,539.99
Others	109.13	171.10	324.36	225.26	193.34	183.10	233.81
Total	660.83	860.52	1,035.39	941.94	1,012.70	1,466.90	1,830.96

BI = Bank Indonesia
Source: OJK.

Each bank follows its own criteria in making investments. One interviewee from a domestic bank mentioned that its minimum credit rating criterion for corporate bonds is AA, but interviewees from brokerage firms stated that some banks can invest in corporate bonds as low as investment grade. Although risk appetites differ from one bank to another, banks' average credit appetite is similar to those of other investor groups whose minimum credit rating criteria for corporate bonds is A. Preferences related to the maturity level are diverse: Banks can invest in corporate bonds with tenor of up to five years, but they are trading bonds with terms of three years and less in response to the market's current demand. This preference correlates with Indonesia's current corporate bond market, where the liquidity tends toward short-term maturities (up to three years).

3.5. Other Investors

Individuals

Although not shown in Table 3.1, individual domestic investors held 5% of the IDR corporate bonds in 2021. Interviews with market participants suggest that these individual investors have high net worth and participate in the corporate bond market through mutual funds and ILIP.

Based on OJK Regulation POJK No. 11/2018, an individual is considered a "professional investor" if he or she:

- can analyze the risk of investment in securities and has at least one year of investment experience;
- has net assets of at least IDR10 billion (~USD685,000), excluding land, buildings, and intangible assets; and
- has an average investment portfolio in the capital market of at least IDR3 billion (~USD205,000) in the year before the public offering of bonds and/or sukuk.

This regulation encourages those who have high net worth to have more active and direct participation in the bond market than ordinary retail investors do.

Foreign Investors

Foreign investors participate marginally in Indonesia's corporate bond market, as Figure 3.1 shows. These investors own only 5% of IDR corporate bonds. Among the foreign investor groups, insurance companies and pension funds rarely invest in IDR corporate bonds, as shown in Table 3.9.

Table 3.9: Foreign Ownership of IDR Corporate Bonds, 2013–2021 (in IDR trillion)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Mutual funds	3	2	1	2	2	2	1	0.6	3
Pension funds	0	0	0	0.1	0.09	0.1	0.03	0.02	0
Financial institutions	5	7	8	7	8	6	6	5	7
Insurance companies	0.02	0.01	0.09	0.09	0.08	0.09	0.05	0	0.1
Others	6	12	9	11	21	21	25	34	12
Total	14	21	19	19	31	29	32	30	22

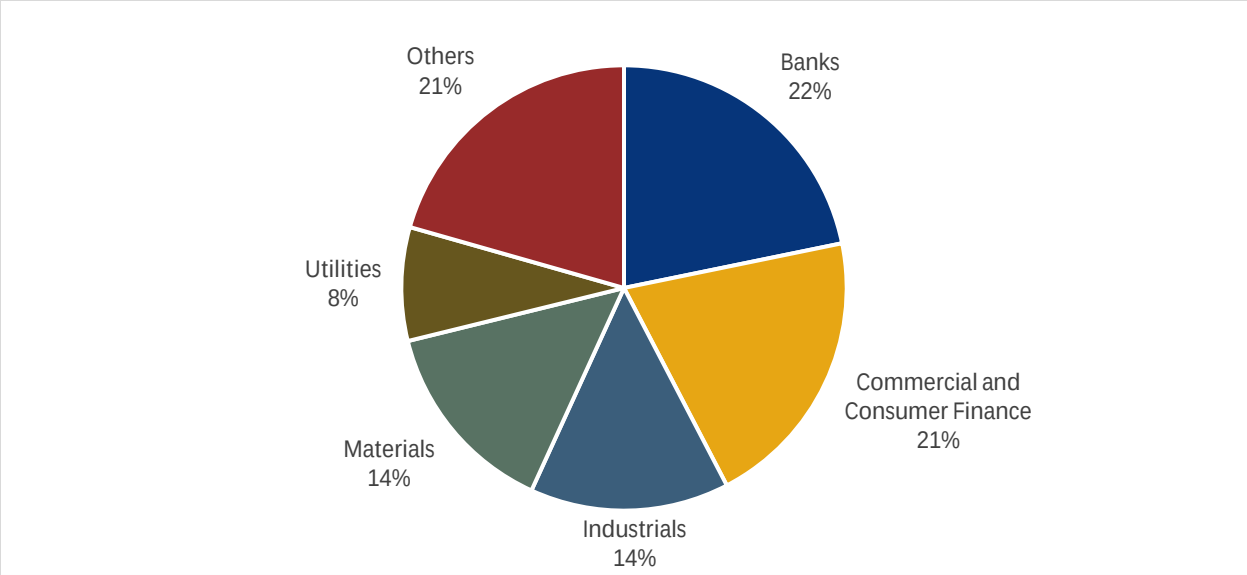
Note: Figures may not add to total because of rounding.
Source: OJK Monthly Statistics (every 4th Week, December 2013-2021).

4. Other Market Participants

4.1. Issuers

According to data from Bloomberg, as of December 2021, 22% of outstanding IDR corporate bonds were issued by banks, followed by 21% issued by companies in the commercial and consumer finance sector, which makes about 43% of IDR corporate bonds issued by financial institutions. Companies in the industrials, materials and utilities industries issued 36% of outstanding bonds. Figure 4.1 shows the share of issuers by sector.

Figure 4.1: Issuers According to Sector, as of 2021



Source: Bloomberg.

Non-SOEs find it challenging to tap corporate bonds as a way of financing. Interviewees noted that even non-SOEs with A ratings may find it difficult to sell corporate bonds, so their corporate bonds' terms should be no longer than three years; otherwise, marketing these bonds to investors will be challenging.

4.2. Credit Rating Agencies

Various OJK's regulations advise that investors invest in publicly offered corporate bonds, MTNs, and ABS with credit ratings from a credit rating agency (CRA) licensed by OJK. At present, the three OJK-licensed CRAs in Indonesia are PEFINDO, PT. Fitch National Ratings Indonesia (Fitch National Rating) and Kredit Rating Indonesia.

PEFINDO

A domestically owned CRA, PEFINDO was established in 1993 under an initiative by OJK and BI. Since then, PEFINDO has rated more than 1,000 companies and regional governments. PEFINDO also rates MTNs, KIK-EBA, and mutual funds. To match its rating methodology with international standards, PEFINDO undertook a strategic alliance with Standard & Poor's (S&P), a leading global credit rating agency, in 1996. PEFINDO is a member of the Association of Credit Rating Agencies in Asia (ACRAA), which was an expansion of the ASEAN Forum of Credit Rating Agencies (AFCRA) in September 2002. Currently, ACRAA's membership consists of 19 rating agencies from 11 Asian economies. ACRAA's functions and activities have become more strategic, rather than being limited to developing and improving its members' rating quality, as it expects to establish standards that could provide a bridge to cross-border investments in Asia.[20]

PT. Fitch Ratings Indonesia

PT. Fitch Ratings Indonesia was established in 2005 and is the only international rating agency with a presence in Indonesia. Based on its published profile, it covers 95 companies in Indonesia and has offered 79 national ratings, 39 international ratings, and 23 dual ratings (i.e., both national and international ratings).[21]

Kredit Rating Indonesia

Kredit Rating Indonesia (KRI) received its business permit from the OJK to conduct credit rating services in Indonesia in July 2019. KRI provides credit ratings for securities and corporate ratings, including for micro, small, and medium-sized enterprises in Indonesia.

4.3. Bond Pricing Agency

PT Penilai Harga Efek Indonesia

PT Penilai Harga Efek Indonesia (PHEI), formerly known as Indonesia Bond Pricing Agency, is Indonesia's licensed securities-pricing agency. PHEI provides fair market prices, market research, and other information related to bonds, sukuk, and other securities issued in Indonesia. The PHEI was established under the BAPEPAM-LK (then named OJK) Number VC3 on securities-pricing agency. In 2009, the PHEI acquired a license from BAPEPAM-LK as the first securities-pricing agency in Indonesia. As the sole bond pricing agency in the country, PHEI's main function is to determine daily fair market prices for debt securities in Indonesia.

[20] PEFINDO credit rating agency. http://pefindo.com
[21] Fitch Ratings Indonesia. https://www.fitchratings.com/site/indonesia

4.4. Regulatory Authorities

Otoritas Jasa Keuangan (Financial Services Authority)

The Otoritas Jasa Keuangan (OJK) is the lead government agency that regulates and supervises the financial services sector in Indonesia, including banks, securities companies, insurance companies, mutual funds, pension funds, microfinance institutions, and the Shariah capital market. The OJK also oversees the licensing and supervision of capital market-supporting institutions and professionals.

Bank Indonesia (BI)

The objective of BI, the central bank of Indonesia, is to achieve and maintain the rupiah's stability based on its stability against goods and services and stability in its exchange rate with other currencies. Thus, the role of BI in the bond market lies in foreign exchange regulations. Two regulations that affect cross-border issuances are:

- PBI No. 16/22/PBI/2014, which requires Indonesian companies that have foreign debt to report their external debt position to BI[22], and
- PBI No. 16/10/PBI/2014, which requires proceeds from foreign debt (including from Komodo Bond Issuance) to be accepted by Indonesian debtors through a domestic bank.[23]

5. Credit Spreads

A credit spread refers to the price of the credit risk. As government bonds are considered to be free of credit risk in each country, the additional yield over a government bond with the same maturity is the price of a credit-bearing bond's credit risk. Table 5.1 shows the IDR yield matrix with data from PHEI as of 28 April 2022. The yield matrix indicates the yields that correspond to each maturity and each sector or credit rating.

Table 5.1: IDR Yield Matrix, 28 April 2022 (%)

Credit Rating	1Y	3Y	5Y	7Y	10Y
Government	4.17	5.71	6.38	6.79	7.12
AAA	4.50	6.18	7.01	7.55	8.00
AA	5.25	7.00	7.82	8.32	8.73
A	7.32	8.93	9.64	10.24	11.04
BBB	9.50	11.20	12.07	12.62	13.03

Y = year
Source: PHEI.

The PHEI provides the yield matrix every day as the basis for bond trading in Indonesia. Table 5.1 shows that the 3-year government bond yield and 3-year A-rated bond yield are 5.71% and 8.93%, respectively, leaving a credit spread for the 3-year A-rated bond of 3.22%.

Once the yield matrix is provided, a credit spread matrix of the credit spreads that correspond to each maturity and each credit rating can be determined. Table 5.2 shows the credit spread matrix calculated from the yield matrix shown in Table 5.1.

[22] Bank Indonesia. https://www.bi.go.id/id/peraturan/moneter/Pages/PBI_162214.aspx
[23] Bank Indonesia. https://www.bi.go.id/id/peraturan/moneter/Pages/PBI_16102014.aspx

Table 5.2: IDR Credit Spread Matrix, 28 April 2022 (%)

Credit Rating	1Y	3Y	5Y	7Y	10Y
AAA	0.33	0.47	0.63	0.76	0.88
AA	1.08	1.29	1.44	1.53	1.61
A	3.15	3.22	3.26	3.45	3.92
BBB	5.33	5.49	5.69	5.83	5.91

Y = year
Source: PHEI.

In addition to the general trend that lower credit ratings lead to higher credit spreads under the same maturity, Table 5.2 shows that wider credit spreads are required as maturities become longer, regardless of credit ratings. It also shows that the additional spreads from AA to A are significant. In the case of a 3-year bond, which is the most common maturity of corporate bonds in Indonesia, the additional spread from AA to A is 1.93%, which is larger than the 0.82% additional spread from AAA to AA. It implies that investors in Indonesia require significant compensation for their investments in A-rated bonds, even though they are eligible for investments by most investors.

Absolute credit spreads in Indonesia are wider than those in Malaysia and Thailand, as Table 5.3 shows. The spread of AA-rated 3-year corporate bonds in Indonesia is 1.29%, which is wider than the 0.37% in Malaysia and 0.63% spread in Thailand. However, the wider absolute spread in Indonesia is attributed to the absolute yield level in Indonesia being higher than that in Malaysia and Thailand. Given that Malaysia's 0.37% and Thailand's 0.63% are 10% and 33% of the government bond rates in the respective countries, 1.29% in Indonesia—23% of the government bond rate—does not look like too much.

Table 5.3: Comparison of IDR, MYR and THB 3-year Credit Spread (%)

		IDR	MYR	THB
Government bond rate		5.71	3.54	1.90
Credit spread	AAA	0.47 (0.08)	0.16 (0.05)	0.42 (0.22)
	AA	1.29 (0.23)	0.37 (0.10)	0.63 (0.33)
	A	3.22 (0.56)	1.28 (0.36)	0.88 (0.46)
	BBB	5.49 (0.96)	2.65 (0.75)	2.70 (1.42)

IDR = Indonesian Rupiah, MYR = Malaysian ringgit, THB = Thailand baht
Note: Numbers in parentheses are the ratios of credit spreads to government bond rates
Source: PHEI for IDR data as of 28 April 2022 and Bloomberg for MYR and THB data as of 3 May 2022.

6. Komodo Bonds

Komodo bonds are offshore IDR bonds issued for infrastructure projects in Indonesia, per the description from Indonesian regulators. Broadly defined, Komodo bonds include offshore IDR bonds issued by foreign entities[24] for infrastructure, but this report refers only to offshore IDR bonds issued by Indonesian entities. Like other offshore IDR bonds, the coupons and principal of Komodo bonds are fixed in terms of IDR value but paid in USD.[25]

Two notable Komodo bonds were issued in 2017 and 2018, as shown in Table 6.1. Proceeds from the Jasa Marga and Wijaya Karya Komodo bonds were used for infrastructure projects in Indonesia.

[24] The "Green Komodo bond" issued by IFC is one example. It was issued in 2018 to fund climate-related projects in Indonesia that are in accordance with green bond principles.
[25] Information on the description of Komodo bonds came from inquiries and meetings with regulators in Indonesia.

Table 6.1: Komodo Bonds from Indonesian Companies

Issuer	Issue Amount (USD million)	Issue Date	Maturity Date	Coupon Rate	Listing
Jasa Marga Persero Tbk PT	295.37	11 Dec 2017	11 Dec 2020	7.5%	LSE, SGX
Wijaya Karya Persero Tbk PT	405.53	1 Jan 2018	31 Jan 2021	7.74%	LSE, SGX

LSE = London Stock Exchange, SGX = Singapore Stock Exchange
Source: Bloomberg.

Based on information from BI, requirements for issuing a Komodo bond include:[26]

- Komodo bonds should be in plain, vanilla form.
- The minimum tenor is three years.
- The exchange rate should be the spot rate at the time of settlement; pre-fixing the exchange rate is not allowed.
- From the liquidity and leverage perspectives, issuers of Komodo bonds are subject to liquidity requirements related to the net open position of foreign and onshore IDR debt, according to BI regulation PBI No.16/22/PBI/20.
- No issuer rating is required if any of three conditions are met: (i) the Komodo bond is for a government-sponsored infrastructure project, (ii) the bond is for a non-government infrastructure project and the investors are international multilaterals, or (iii) the bond is guaranteed by an international organization.

Jasa Marga issued the first Komodo bond with the objective of tapping foreign investors. As Jasa Marga wanted its Komodo bond to be fairly priced, the company decided on a three-year term, assuming that, because of their unfamiliarity with the Komodo bond, investors might require more spread if the term were longer. This Komodo bond was oversubscribed and a success. The total demand from investors was IDR15.8 trillion, whereas the amount issued by Jasa Marga was only IDR4 trillion. No other Komodo bonds have been issued since January 2018, when Wijaya Karya issued another Komodo bond.

7. Guaranteed Corporate Bonds

Table 7.1 shows that the ratio of guaranteed bonds to total LCY corporate bonds in terms of value is only 2% in Indonesia, which is the second lowest, next to the Philippines, among ASEAN countries with active corporate bond markets.

Table 7.1: Local Currency Guaranteed Corporate Bonds in ASEAN Countries

Country (Currency)	LCY Corporate Bonds		LCY Guaranteed Bonds		Ratio of Value of Guaranteed Bonds	Ratio of Number of Guaranteed Bonds
	Value (in LCY billions) (A)	Number of Bonds (B)	Value (in LCY billions) (C)	Number of Bonds (D)	(C/A)	(D/B)
Cambodia (KHR)	532	8	207.20	2	39%	25%
Indonesia (IDR)	**421,513**	**903**	**8,840**	**18**	**2%**	**2%**

[26] Information gathered on April 2018.

Malaysia (MYR)	728	3,478	281	1,353	39%	39%
Philippines (PHP)	1,467	226	4	4	0%	2%
Singapore (SGD)	87	349	32	162	37%	46%
Thailand (THB)	3,640	1,618	262	112	7%	7%
Viet Nam (VND)	68,086	53	14,929	13	22%	25%

LCY = local currency; KHR = Khmer riel; IDR = Indonesia rupiah; MYR = Malaysian ringgit; PHP = Philippine peso; SGD = Singapore dollar; THB = Thai Baht; VND = Vietnamese dong
Source: Bloomberg.

7.1. IDR Guaranteed Bonds

Indonesia has 18 outstanding IDR guaranteed bonds issued by four domestic issuers. Table 7.2 summarizes these issuances. Hutama Karya Persero PT, a state-owned construction company, has four outstanding bonds fully guaranteed by the national government. While the issuer is rated A by PEFINDO rating, the issues are rated AAA because of the guarantee from Indonesia's government. J Resources AP, an Indonesia-based holding company listed on the IDX, is operating in the gold mining sector through its subsidiary, J Resources Nusantara. As the only third-party guarantor on the list, CGIF provided a total of IDR1,063 billion in credit guarantees for the issuances of two Indonesian companies, Polytama Propindo PT (Polytama) and Ketrosden Triasmitra, total of six issuances. Polytama issued both conventional bonds and sukuk, and its sukuk tranche is the first sukuk guaranteed by CGIF. The bond that Ketrosden Triasmitra issued is the first CGIF-guaranteed, publicly offered IDR bonds.

Table 7.2: Outstanding IDR-Denominated Guaranteed Corporate Bonds in Indonesia as of December 2021

Issuer (Industry)	Guarantor	Guarantor Type	No. of Issues	Total Amount (In IDR billions)	Average Maturity (Y)	Issuer Rating	Issue Rating
Hutama Karya Persero PT (Industrial)	Republic of Indonesia	Parent	4	6,500	8.75	A[1]	AAA
J Resources AP (Materials)	J Resources Nusantara PT	Subsidiary	7	1,840	2.73	BBB[2]	BBB[2]
	Multiple entities	All Subsidiaries	1	500	3.00	BBB[2]	BBB[2]
Polytama Propindo PT (Materials)	CGIF	Third party	4	480	4.00	BBB+	AAA
Ketrosden Triasmitra (Materials)	CGIF	Third party	2	583	4.00	None	AAA

[1] The issuer had been rated A until May 2022, when it was upgraded to AA-.
[2] BBB is the rating at the end of 2021 for both issuer and issues. On 23 September 2019, both the issuer and its bond were rated A. This was downgraded to BBB on 7 September 2021. The credit rating increased by one notch (BBB+) on 7 January 2022.

Ratings are all from PEFINDO.
CGIF = Credit Guarantee and Investment Facility
Source: Bloomberg; CGIF.

PT Ciputra Residence, a subsidiary of PT Ciputra Development Tbk, issued bonds guaranteed by the International Finance Corporation (IFC) in April 2014 in three tranches: 3-year, 5-year and 7-year bonds.[27] These bonds have already matured, but they were the first partially guaranteed bonds in Indonesia with a 20% guarantee rate. The IFC's partial guarantee elevated the bond rating from A- to A, which resulted in pension funds' being able to participate in the offering. Aside from pension funds, the bond was also offered to insurance companies, banks, foundations, and asset managers. Details on the bonds are shown in Table 7.3.

Table 7.3: PT Ciputra Residence's Guaranteed Bonds

Issuer	PT Ciputra Residence
Issuer Description	Indonesian real estate company
Issue Date	2 April 2014
Amount	IDR500 billion
Tranches	3 years (IDR200 billion), 5 years (IDR220 billion), 7 years (IDR80 billion)
Guarantor	International Finance Corporation
Guarantee Rate	20%
Issuer Rating	A- (Fitch National)
Issue Rating	A (Fitch National)
Rational behind partial guarantee	Single A is the minimum required rating for Indonesian pension funds to invest in corporate bonds (at the time of issuance)
Security	Fixed assets valued at 120% of issuance amount
Specialty	First Partial Guarantee-enhanced bond in Indonesian capital market

Source: Bloomberg, IFC and Fitch Ratings

Although they are not shown in Table 7.2, PT Bali Towerindo Sentra issued bonds worth IDR 2.4 trillion in January 2020 with a 50% partial guarantee from the Indonesia Infrastructure Guarantee Fund (IIGF), a locally AAA-rated guarantor. At issuance, Fitch Ratings Indonesia rated the issuer BBB+ and rated the bonds A. In 2021, Fitch Ratings upgraded PT Bali Towerindo Sentra's credit rating from BBB+ to A- and upgraded the credit rating of the partially guaranteed bond from A to A+ accordingly.

The government of Indonesia has supported SOEs for the economic recovery. Under Indonesia's 2021 Economic Recovery Program, the government provides assistance to SOEs that are negatively affected by the Covid-19 pandemic. For example, PT Waskita Karya (Persero) issued a sukuk worth IDR1.1 trillion in May 2022 that was guaranteed by the Indonesia Infrastructure Guarantee Fund (IIGF). This sukuk was oversubscribed.[28]

In 2022, PT Sarana Multi Infrastruktur (Persero) also provided credit enhancement to the structured financing of PT Tamaris Hidro, an investment holding company for hydro and mini-hydro power plant projects, by way of a

[27] More information is available at Disclosure - PT Ciputra Residence (ifc.org) and Fitch Publishes Ciputra Residence's 'A-(idn)' Rating (fitchratings.com).

[28] PwC. 2022. *PII guarantees Waskita Karya's Rp1.1 trillion sukuk issuance*. https://www.pwc.com/id/en/media-centre/infrastructure-news/may-2022/pii-guarantees-waskita-karyas-rp11-trillion-sukuk-issuance.html
In 2021, PT Waskita Karya (Persero) also secured a guarantee from the Ministry of Finance through the IIGF for its syndicated loan worth IDR8.07 trillion. This government guarantee was in support of SOEs' economic recovery. For additional information, see https://www.pwc.com/id/en/media-centre/infrastructure-news/november-2021/govt-all-out-in-supporting-waskita-recovery.html

subordination credit facility. PEFINDO gave a final rating of AAA for this bond because of its strong structure and PT Sarana Multi Infrastruktur (Persero)'s financial strength. While this bond is introduced in this section, it is classified as a structured financing, not a guaranteed bond, in Indonesia's corporate bond market.[29]

7.2. Foreign Currency Guaranteed Bonds

Based on data from Bloomberg, 13 FCY guaranteed bonds were issued by 11 corporate issuers, as summarized in Table 7.4. Of the 13 bonds, 12 are USD bonds and one is SGD bond. The 12 USD bonds were guaranteed by the issuers' parents or subsidiaries, and the one SGD bond was guaranteed by a third-party guarantor, CGIF. A total of USD822.4 million was issued from real estate, accounting for about 21% of outstanding FCY guaranteed bonds in Indonesia. The largest issuer of outstanding FCY guaranteed corporate bonds is PT Adaro Indonesia, a coal-mining company in Indonesia.

Table 7.4: Outstanding Foreign Currency Guaranteed Bonds Issued by Indonesian Companies, as of December 2021

Issuer	Industry	Guarantor	Number of Issues	Currency	Total Amount (millions)	Average Maturity (in years)
ABM Investama Tbk, Pt.	Materials	Subsidiaries	1	USD	200	5
Alam Sutera Realty Tbk.	Real Estate	Subsidiaries	2	USD	422.4	4.25
Delta Merlin Dunia Textile	Apparel and Textile Products	Subsidiaries	2	USD	300	9.35
Gajah Tunggal	Auto Parts Manufacturing	Subsidiaries	1	USD	175	5
Hutama Karya Persero PT	Industrial	Republic of Indonesia (Parent)	1	USD	600	10
Hyundai Motor Manufacturing	Automobile Manufacturing	Hyundai Motor Co. (Parent)	1	USD	300	5
Japfa Comfeed Tbk. Pt.	Food and Beverage	Subsidiaries	1	USD	350	5
Profesional Telekomunika	Industrial	CGIF	1	SGD	180	10
PT Adaro Indonesia	Coal Energy	Adaro Energy Tbk Pt (Parent)	1	USD	750	5
PT Pakuwon Jati	Real Estate	Subsidiaries	1	USD	400	7
PT Sri Rejeki Isman Tbk	Apparel and Textile Products	Subsidiaries	1	USD	225	5.25

CGIF = Credit Guarantee and Investment Facility, SGD = Singapore dollar, USD = United States dollar, Y = year
Source: Bloomberg.

[29] PEFINDO. 2022. *Press Release PT Tamaris Hidro.* https://pefindo.com/fileman/file?file=PressRelease/2022-02-15-TMHD.pdf

8. Further Developments in Indonesia's Corporate Bond Market

One key development in Indonesia's corporate bond market is its welcoming of green and sustainability bonds. The Government of Indonesia led this initiative through the first issuance of a sovereign green sukuk in 2018, which is aligned with the ICMA green bond principles. In fact, this sukuk was the first sovereign green sukuk in the world.

Indonesian corporations have been exploring sustainability bonds as well. In 2019, Bank Rakyat Indonesia issued its first sustainability bond, which was followed by Bank Mandiri's issuance of its first sustainability bond in 2021. Both banks aligned their sustainability frameworks with ASEAN standards. In June 2022, Bank Negara Indonesia (BNI) issued a green bond, the second green bond issued by a financial institution in Indonesia. BNI's green bond was reported to be four times oversubscribed[30], indicating investors' openness to the country's green bonds.

In support of all these initiatives, the OJK drafted the Indonesia Green Taxonomy in 2022. OJK defines the green taxonomy as "an economic activity classification that supports environmental protection and management efforts, as well as mitigation and adaptation to climate change."[31] Aside from the development of standard definitions on green criteria from various economic sector activities, a critical objective of the green taxonomy is to encourage growth in the financial sector's funding and financing of green activities.

[30] The Jakarta Post. 2022. *BNI green bonds oversubscribe four times.* https://www.thejakartapost.com/adv/2022/06/15/bni-green-bonds-oversubscribe-four-times.html

[31] OJK. 2022. *Indonesia Green Taxonomy.* https://www.ojk.go.id/keuanganberkelanjutan/Uploads/Content/Regulasi/Regulasi_22012011321251.pdf

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PT Penilai Harga Efek Indonesia. https://www.phei.co.id/

Credit Guarantee and Investment Facility
Asian Development Bank Building
6 ADB Avenue, Mandaluyong, 1550, Manila, Philippines
Tel: +632 683 1340
Fax: +632 683 1377
www.cgif-abmi.org