



Development of Indonesian Debt Markets

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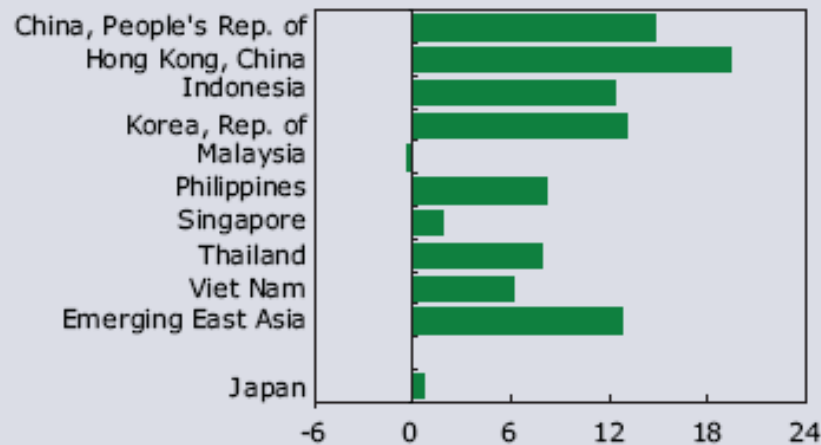
Outline

1. Recent Development of Indonesian Debt Market
2. Repo Debt Market and Settlement system
3. Future enhancement and Challenges

East Asian debt Market

Overview

Figure 1: Growth of Emerging East Asian LCY Bond Markets in 1H09 (y-o-y %)



y-o-y = year-on-year.

Note:

1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Total emerging East Asia growth figure is based on end-June 2009 currency exchange rates and do not include currency effects.

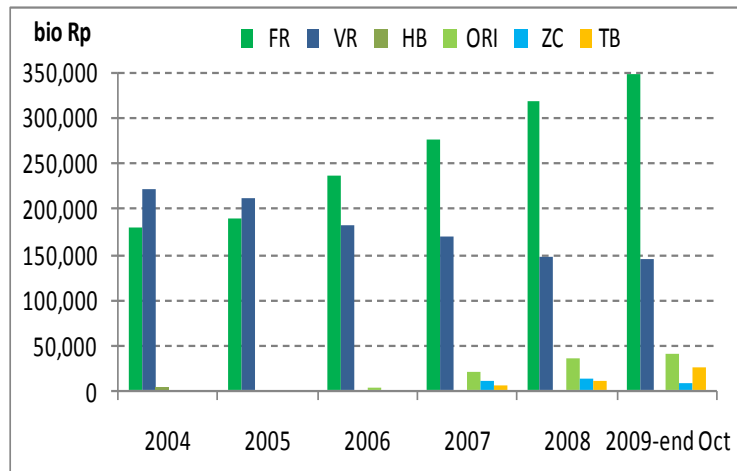
- Emerging East Asia has stepped up from the worst of economic recession and financial market instability
- Asia's local currency bonds outstanding grew significantly in the first half of 2009

Source: ADB

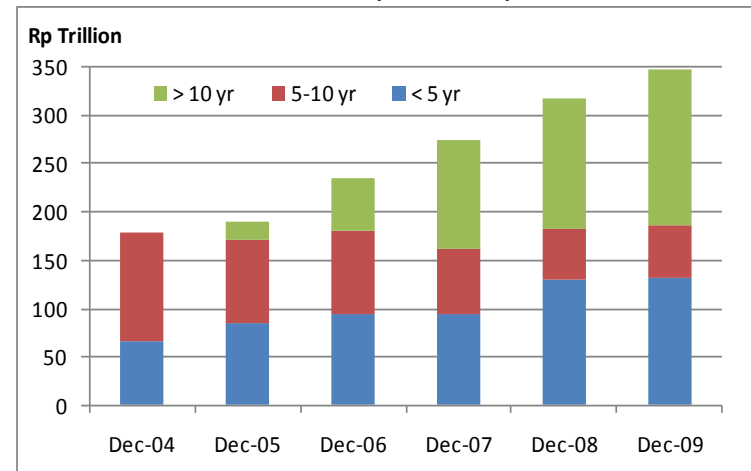
Indonesian Debt Market

Indonesian Gov't Bond (SUN) Market

The Outstanding of Government Bond and Treasury Bills



The Outstanding of Government Bond and Treasury Bills by maturity

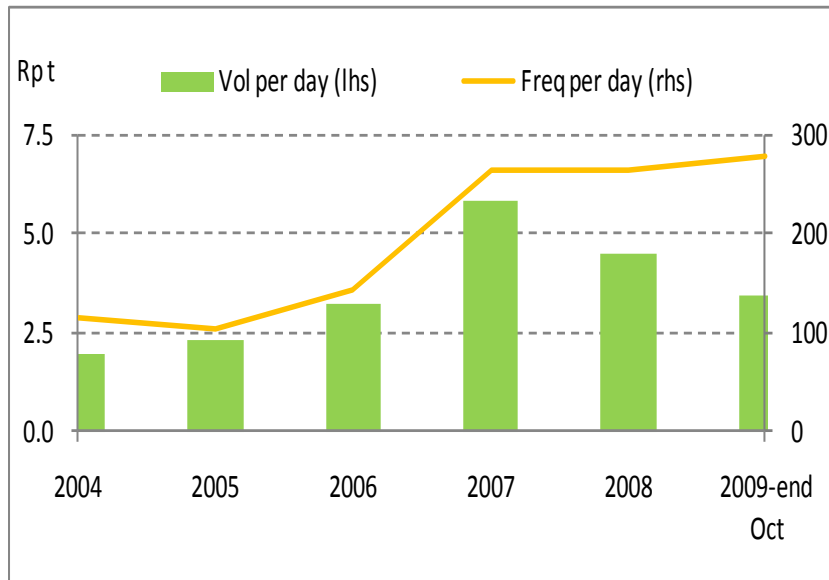


Indonesian government bond market has grown very rapidly. As of the end of October 2009, the outstanding of government bond is Rp539.81 trillion and of treasury bills is Rp24.7 trillion.

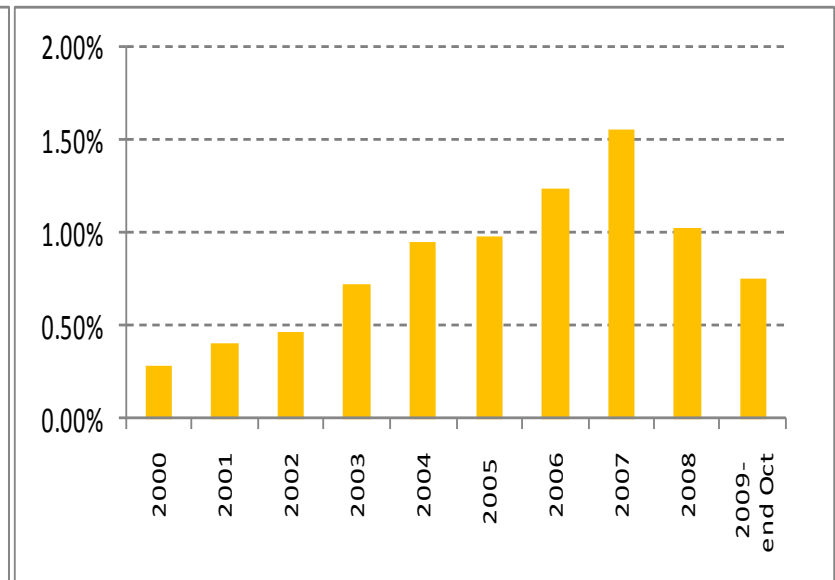
Indonesian Gov't Bond (SUN) Market

Secondary Market & Turn Over Ratio

Indonesian Government Bond Secondary Market



Turn Over Ratio

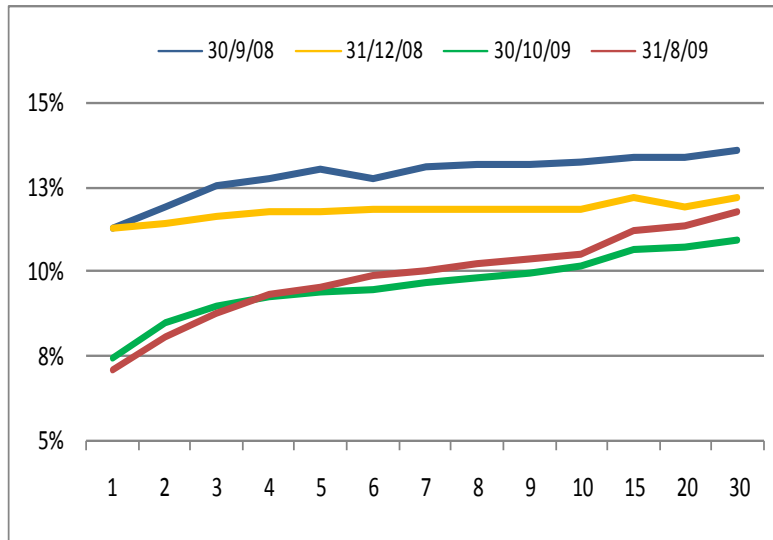


- Total volume of government bonds traded in the secondary market has reached the highest in 2007 of Rp1,468.40 trillion in 65.966 transactions.
- Turnover ratio of Indonesian Government Bond has increased from 0.29% in 2000 to 1.56% in 2007.

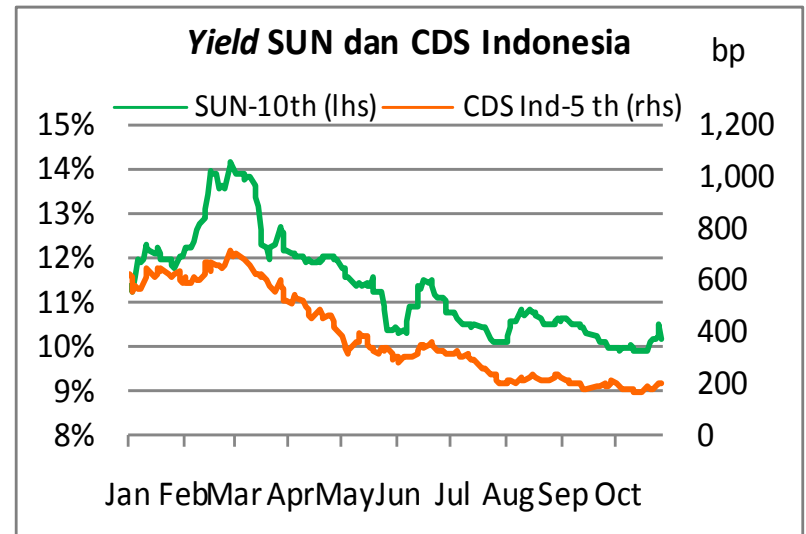
Indonesian Gov't Bond (SUN) Market

Yield & CDS Index

Indonesian Government Bond Yield



Indonesian Government Bond Yield and CDS Index



- The yield curve shifted downwards in October 2009 from December 2008 level, for all maturities.
- Indonesia's CDS index has decreased to 193 in October 2009 from 638 bps in December 2008.

Indonesian Gov't Bond (SUN) Market Ownership

The Ownership of Indonesian Government Bonds and Treasury Bills (in Trillion Rp)

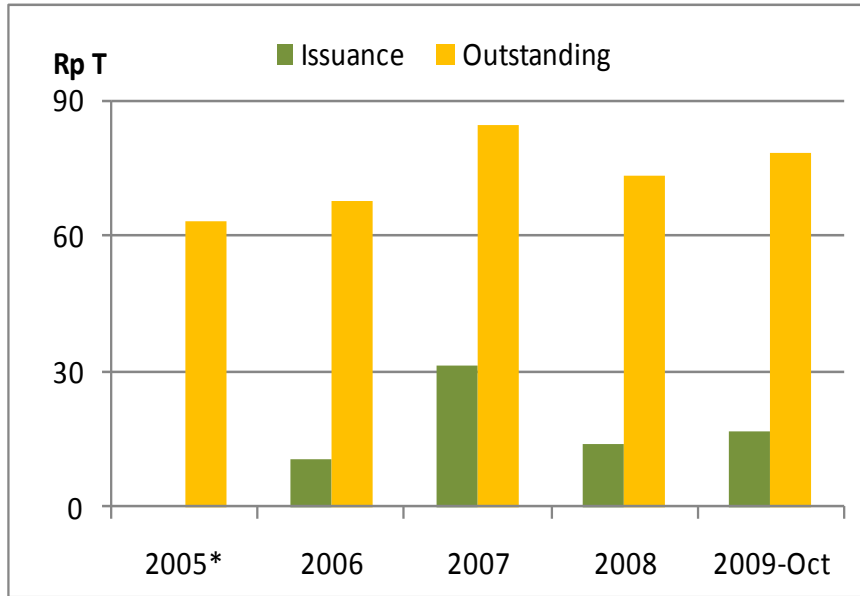
Players	GB	TB	Total	%
Non-Resident	100.60	0.73	101.33	17
Banks	240.95	13.03	253.98	42
Insurance	66.68	0.66	67.33	11
Pension Fund	35.88	0.95	36.83	6
Mutual Fund	42.41	44.00	86.41	14
Bank Indonesia	16.28	7.88	24.15	4
Others	37.02	1.42	38.44	6
Total	539.81	68.66	608.47	100

Indonesian government bonds and treasury bills are owned mainly by banks. As of the end of Oct, banks' ownership reached 42% while the others' were between 4%-17%.

Indonesian Corporate Bond Market

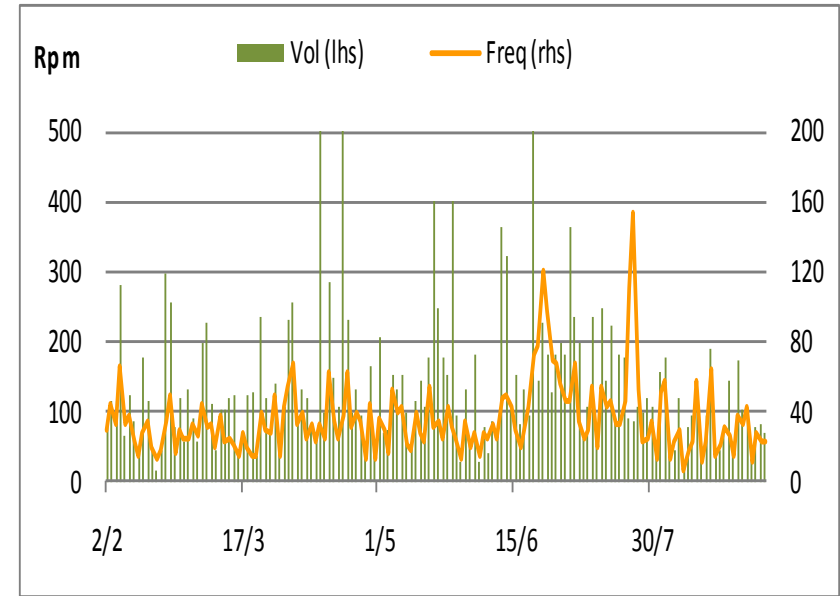
Outstanding & Secondary Market

The Issuance & Outstanding of LCY Corporate Bond



*No issuance data

Indonesian Corporate Bond Secondary Market

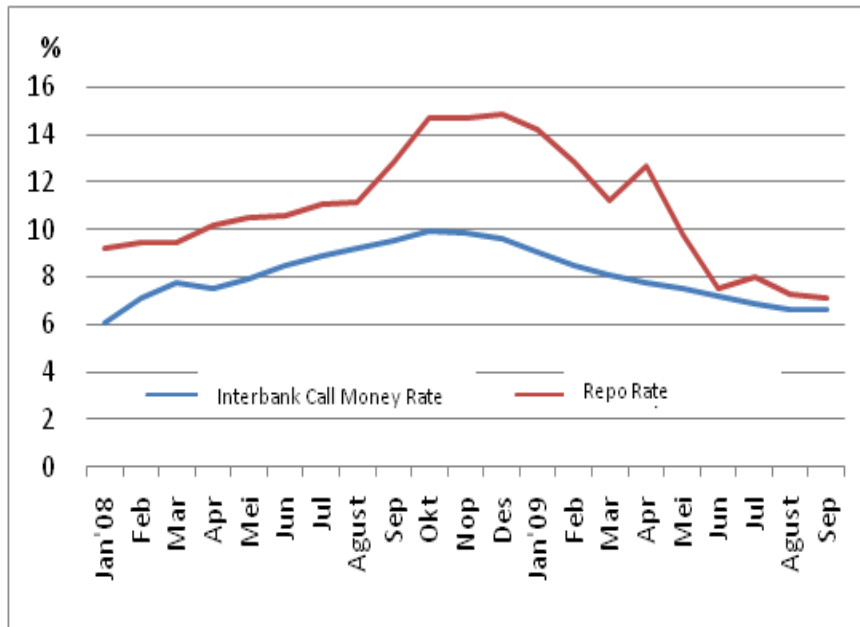


Corporate bond market has shown significant improvement in 2009, due to the trend of decreasing interest rate and conducive economy after global financial crisis.

Indonesian Repo Market

Development

Interbank Call Money and Repo Rate



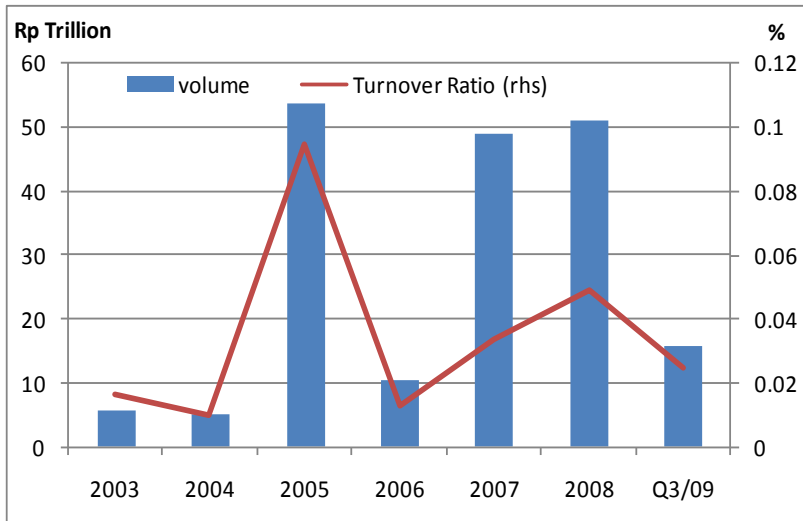
- Asymmetric information in the market drives market's perception not well-developed, which is reflected from the pricing.
- In Indonesia, repo rate is higher than the interbank money market rate for the same maturity.

Indonesian Repo Market

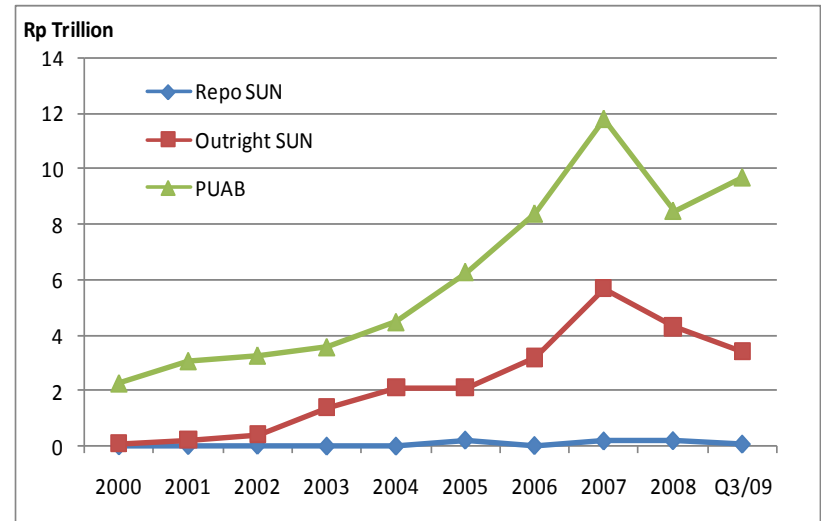
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Development

Volume and Turnover Ratio of Repo SUN



Daily Average of Repo SUN, *Outright* SUN, PUAB



- Since the implementation of MRA in 2005, volume and turnover ratio of government bond (SUN) repo transaction have relatively increased.
- In money market, short term liquidity needs are majorly fulfilled in the interbank money market (PUAB) rather than in the SUN repo market.

Settlement System

Development

- Since Feb'2004, Bank Indonesia has been putting into operation *Bank Indonesia Scripless Securities Settlement System* (BI-SSSS) to facilitate online settlement of book-entry government securities and SBI (Central Bank Certificate)
- Benefits of using BI-SSSS among others are :
 - Reduce the time, cost and human resources
 - Reduce settlement risk
 - Increases the volume of secondary market securities trading
 - Facilitate securities transactions between market players and Bank Indonesia in the open market operation

Monetary Operation

Gov't Bond as Underlying Asset

Bank Indonesia Monetary Operation Instruments

Item	Note
SBI	
- Auction system	VRT for all auctions of SBI
- Maturity	1, 3, 6 and 9 months
- Incremental Bidding	0,01% or 1 bp
- Pricing FMV	FMV
FINE TUNE OPERATION (FTK & FTE)	
- Auction system	VRT
- Frequency	Active: up to twice a day , morning and afternoon session
- Collateral for FTE	SBI & SUN, plafond 100%
- Maturity	Up to 3 mo
- FX Swap	Available up to 1 yr
STANDING FACILITY	
- Window Time	FA SBI : 16:00 – 17:00 WIB Repo : 16:00 – 17:00 WIB
- Collateral for Repo	SBI & SUN, plafond 100%
HAIR CUT	
- For FTE and Repo:	SBI 0% ; SUN 5%
RR SUN	
Auction system	VRT
-Maturity	o/n – 1 yr (now 3wk & 2 mo)
-Frequency	Weekly
-Pricing	FMV

In part of developing the market, Bank Indonesia has been implementing monetary operation using government bond.

Future Enhancement

Infrastructure, eligible asset and participant

- Develop infrastructure of Repo market
 - General Master Repo Agreement (GMRA), Indonesian annex
- Intensive socialization to the debt market participants as well as related parties
- Enhanced eligible assets and market participant in the monetary operation of the central bank

Future Enhancement

Enhanced Settlement System

- Upgrade the settlement system to so called “BI-RTGS/SSSS 2nd Generation”.
- Main objectives of this enhancement are:
 - To increase performance and robustness of BI-RTGS (Real Time Gross Settlement) and BI-SSSS in connection with increasingly growth of volume of transactions processed in BI-RTGS and BI-SSSS
 - To standardize infrastructures and harmonize operation of the both funds and securities transfer systems

Future Enhancement Cont'd

Enhanced Settlement System

- To improve compliance of system operation with international standards (e.g. BIS CP SIPS and IOSCO Recommendations) and practices;
 - To facilitate and increase efficiency of cross-border financial markets transactions following growth of financial globalization, including development of single market in a region such as ASEAN economic community (AEC) in 2015
 - To facilitate the development of domestic integrated financial market infrastructures
- To anticipate changes in policy with regard to securities transactions and product development in financial (securities) markets.

Future Enhancement Cont'd

Some challenges

- Ample excess liquidity in the money market
 - » Less incentive to develop debt market
 - » Market segmentation, prefer transaction with central bank to other market participants
 - » Outstanding SBI (Central Bank Certificate) jumped to more than Rp.300 trillions (USD 30 billions)
- Limited number of investor as well as issuer of debt securities
 - » Most of investors prefer to deposit their money in the banks
 - » Bank loan still as main source of corporate financing
- Limited debt market instrumen
 - » Currently heavily rely on govt.bond. Others debt instrument (such as CPs, PNs and MTNs) not yet developed.

Thank You