**Understanding the Foreign Outflow Risk & Domestic Absorption Capacity**

Indonesia's bond market has entered a new regime in 2025. Despite continued foreign selling, yields have remained stable or even declined, driven by a deeper domestic investor base and structural changes in market microstructure.

1. **Foreign ownership is no longer the main driver of yields**
   - Foreign share has fallen from ~39% (2015) to ~14% (2025).
   - Historical patterns where outflows → higher yields have broken down.
   - 2025 correlation flips positive, meaning foreign outflows now occur when yields are falling.

   Conclusion: Foreign investors are no longer the marginal price-setter.

2. **Yield sensitivity to foreign selling is very small**

   Regression analysis across 2015–2025 shows:

   - Long-term beta: small negative sensitivity
   - Post-2020: sensitivity weakens
   - 2025 regime: ~0 beta → outflows ≈ no impact on yields

   Stress test: Even a full foreign liquidation (~Rp 878T) moves yields by 0–5 bps under current regime.

3. **Domestic investors can absorb foreign selling**

   Estimated available buffers (converted using USD/IDR ~16,700):

   - Banks (AL/DPK liquid assets): ~Rp 2,130T
   - Bank Indonesia reserves: ~Rp 2,505T
   - Insurance + pensions + mutual funds: ~Rp 3,475T (gross assets)
   - Even under conservative assumptions, mobilizable domestic capacity > Rp 1,155T, which already exceeds foreign holdings (~Rp 878T).

   Conclusion: Domestic system can absorb foreign selling without market disruption.

4. **Buy/Sell microstructure forms a strong yield anchor**

   All investor groups (foreign, banks, BI, non-bank) tend to buy within a similar yield band: Buy-zone: ~6.5% – 7.8%

   This overlapping demand creates a natural equilibrium/gravity zone around ~6.7–7.0%, limiting yield volatility.

5. **Bottom Line**
   - Foreign selling is no longer a structural risk for Indonesia's bond market.
   - The domestic investor base is now the primary stabilizer.
   - Yield spikes from foreign outflows are likely to be shallow and short-lived.
   - Current yields (6.2–6.3%) remain fundamentally supported by domestic demand and central bank capacity.

   Investment takeaway: Foreign outflows = buying opportunity, not a risk event.

# Thesis

**1. Realistic Scenario: Domestic Absorption Remains Active**

Key Finding

Even if foreign investors were to sell all their holdings, Indonesia's 10-year government bond yields would move by only 2–5 bps in normal conditions. Under the 2025 regime, foreign selling coincides with lower yields, reflecting stronger domestic absorption.

Table 1: Level Regression

| Period | β Coefficient | t-stat | $R^2$ | Interpretation |
|---|---|---|---|---|
| 2011–2025 | –4.30 | –15.1 | 0.14 | Every +1ppt foreign share ↓ yield by 4–5 bps (old regime) |
| 2015–2025 | –4.95 | –13.9 | 0.13 | Stronger effect |
| 2020–2025 | –0.80 | –2.3 | 0.01 | Relationship fading |
| 2025 | +12.50 | +9.1 | 0.63 | Foreign share now moves in opposite direction |

Table 2: Flow Betas

| Period | βΔ | t-stat | $R^2$ | Interpretation |
|---|---|---|---|---|
| 2011–2025 | –0.09 | –1.0 | 0.00 | No effect |
| 2015–2025 | –0.03 | –0.4 | 0.00 | No effect |
| 2020–2025 | +0.01 | +0.1 | 0.00 | No effect |
| 2025 | +0.25 | +2.2 | 0.04 | Only minor effect; domestic buyers offset foreign flows |

Mechanism:

- Banks hold cheap funding (1–2%) and capture >450 bps of positive carry
- Insurance & pension funds have structural duration mandates
- BI stabilizes via twist, outright purchase, and SBN support
- Fiscal credibility & debt trajectory reduce external dependence
- These domestic dynamics explain why the market behaves oppositely to the foreign outflow narrative: foreigner selling → domestic buying → yields stay stable or decline.

**2. Stress-Test Scenario: If Domestic Investors Do NOT Absorb Any Foreign Selling**

This scenario simulates the theoretical impact on Indonesia's 10Y yield if foreign investors liquidate their entire IDR 868 tn position and domestic buyers provide zero absorption.

This is intentionally unrealistic but useful as an upper-bound sensitivity test.

Across all regression specifications, the mechanical yield impact of a full foreign exit falls in the range of:

- +40 bps to +120 bps
- Low-end: +37 bps (full sample regression)
- Mid-range: +62–82 bps (post-2015, post-2020 sensitivities)
- Extreme upper-bound: +117 bps (12-month flow model)

Important:

These numbers do not reflect market reality in 2025, where foreign outflows have coincided with lower yields because domestic buyers (banks, non-banks, BI) actively absorb supply. The +40–120 bps range is therefore a theoretical ceiling, not a forecast.

**2.2. Method A – ΔYield ~ ΔForeign% Regression**

We apply daily regressions:

$$\Delta Y = \beta \times \Delta ForeignPct$$

A full foreign exit reduces foreign share by –0.134.

Table 3: Based on Foreign Percent

| Period | B | Implied Yield Move |
|---|---|---|
| 2011–2025 | –2.75 | +37 bps |
| 2015–2025 | –4.66 | +62 bps |
| 2020–2025 | –6.12 | +82 bps |

These represent mechanical sensitivities, assuming domestic absorption is zero.

**2.3. Method B - ΔYield ~ ΔFlow12 Regression**

We apply:

$$\Delta Y = \beta \times (-868 \text{ tn})$$

Given:

$$\beta \text{ (dFlow12)} = -1.35 \times 10^{-5}$$

The implied yield shock:

$$\Delta Y = +117 \text{ bps}$$

This is the maximum theoretical stress, interpreting the full exit as a concentrated 12-month net outflow.

### 2.4. Stress-Test Summary

With the 10Y current yield is 6.21% (as of 24 Nov 2025)

Table 4: All Scenarios of Stress Test

| Method | Beta Used | Implied Yield Move | Effective Yield Move | Interpretation |
|---|---|---|---|---|
| A1. dYield ~ dForeignPct (2011–2025) | –2.75 | +37 bps | 6.58% | Low-end stress |
| A2. dYield ~ dForeignPct (2015–2025) | –4.66 | +62 bps | 6.83% | Mid stress |
| A3. dYield ~ dForeignPct (2020–2025) | –6.12 | +82 bps | 7.03% | High stress (share regression) |
| B. dYield ~ dFlow12 | –1.35e–05 | +117 bps | 7.38% | Extreme worst-case (flow shock) |

Interpretation:

- These stress estimates assume no domestic absorption, which contradicts the actual market structure.
- In 2025, foreign selling has coincided with yield declines, driven by:
    - banks' cheap funding and appetite for SBN carry,
    - insurance/pension duration mandates,
    - BI's stabilisation tools (twist, purchases, liquidity support).
- Therefore, the +40–120 bps range should be viewed strictly as an upper-bound mechanical sensitivity, not a realistic projection.

**3. Can Domestic Absorb?**

A central question for stress testing is not just whether 10Y yields would rise, but whether domestic balance sheets are capable of absorbing an IDR 800–870 tn foreign liquidation. The empirical answer based solely on historical balance sheet behavior is yes, almost entirely.

Table 5: Historical Maximum Ownership (IDR tn)

| Sector | Current Holding | Historical Max | Date | Implied Headroom |
|---|---|---|---|---|
| Bank Indonesia | ~1,525.6 | 1,754.7 | 20 May 25 | + 229.0 |
| Banks | ~1,442.4 | 1,930.8 | 6 Jan 2023 | + 488.5 |
| Non-Banks | ~3,529.5 | 3,576.3 | 14 Aug 2025 | + 46.8 |

Interpretation:
Even without policy changes, simply returning to their previous peak levels gives BI + banks + non-bank institutions ~764 tn of additional absorption capacity.

Table 6: Historical Maximum-Minimum Ownership %

| Sector | Current % | Max % | Date | Min % | Date | Remaining Capacity | Equivalent Absorption (approx) |
|---|---|---|---|---|---|---|---|
| BI | ~18% | 27.8% | 20 May 2025 | 0.0% | 11 Jan 2013 | ~9.8% of SBN | ≈ IDR 350–400T |
| Banks | ~34% | 40.2% | 20 Nov 2020 | 16.6% | 20 May 2025 | ~6% of SBN | ≈ IDR 250T |
| Non-bank | ~48% | 71.8% | 6 Feb 2018 | 48.8% | 29 Dec 2022 | ~23% of SBN | ≈ IDR 900T (but not realistic due to constraints) |

Reference values:

- Foreign holdings today: ~IDR 868 tn
- Stress shock assumption: ~IDR 800 tn

Implications

- Domestic “historical headroom” (~764 tn) covers ~95% of an 800 tn liquidation.
- For the full 868 tn foreign stock, domestic peaks cover ~88%.
- The remaining ~100 tn could be absorbed by:
- Other domestic holders (SOEs, households, mutual funds not included in above categories),
- Or BI/Banks temporarily exceeding historical peaks (common in stress episodes).

Conclusion (Capacity Perspective)

Yes. The domestic system has empirically demonstrated the ability to absorb nearly the entire foreign position based solely on previously observed balance-sheet highs.

**3.1. Qualitative Assessment: Who Absorbs, and What Are the Trade-offs?**

a) Bank Indonesia
   Pros
   - Immediate yield stabilization, BI can step in quickly, capping yields and preventing disorderly moves.
   - Signalling effect, A clear BI presence reassures markets that there is a backstop, compressing risk premia.
   - FX & macro coordination, In episodes of FX stress, BI buying bonds can be paired with FX measures to stabilize overall financial conditions.

   Cons / Risks
   - Balance sheet expansion & “quasi-monetization” narrative, A large BI SBN position increase can raise concerns about:
     - fiscal dominance,
     - monetary financing of deficits,
     - future inflation if not sterilized properly.

- Duration risk on BI's own balance sheet, If BI holds more long-duration SBN and global rates jump later, it can face valuation losses. Not critical for solvency, but relevant for credibility and communication.
- Exit problem, The larger BI's bond book, the more complicated future normalization (selling or letting bonds roll off without destabilizing yields).

b) Banks

Pros

- Carry & earnings boost, Banks funding at ~1–2% and buying 10Y at 6.5–7.0% lock in very attractive carry. This can support NII and profitability.
- Safe asset accumulation, Government bonds are 0% risk-weighted, supporting capital ratios while deploying liquidity.
- Market deepening, Higher bank participation deepens the local investor base and reduces reliance on foreign investors further.

Cons

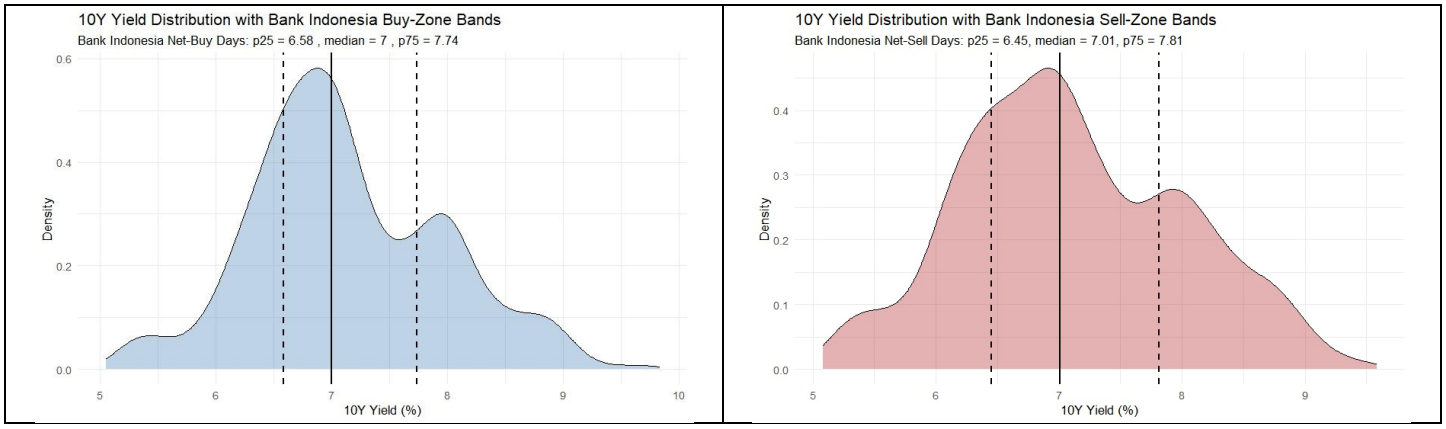
- Interest rate risk & duration concentration, If banks load up too much duration:
    - They become more sensitive to a future rate shock.
    - Mark-to-market losses (for AFS/FVTPL books) can hit capital or earnings.
- Crowding out of private credit (in extreme cases), If a very large share of bank assets goes into SBN:
    - Less balance sheet room for loans,
    - Especially if loan growth picks up strongly in the next cycle.
- Regulatory / supervisory concerns, Regulators may not love a situation where banks become "too long" duration-wise, even if credit risk is low.

**4. When Domestic Buying the Bonds?**

The Indonesian bond market is now defined by domestic liquidity. Commercial banks provide the core buy-zone for the 10-year yield at 6.55–6.70%, absorbing foreign selling and issuance dynamics. When yields move beyond 6.7%, banks accelerate their accumulation due to compelling carry and regulatory incentives. Bank Indonesia forms the second domestic anchor, stepping in more forcefully when yields approach its buy-zone around 7.0% and providing strong stabilization above 7.7%. This two-layer domestic demand structure makes the IndoGB curve highly resilient, explaining why foreign outflows in 2025 have coincided with stable or falling yields. The long end of the curve is now set by domestic balance sheets, not foreign participation.

| Investor | Buy p25 | Buy median | Buy p75 | Sell p25 | Sell median | Sell p75 | Interpretation |
|---|---|---|---|---|---|---|---|
| Bank Indonesia | ~6.58 | ~7.00 | ~7.74 | ~6.45 | ~7.01 | ~7.81 | BI stabilises between ~6.5–7.8 |
| Banks | ~6.45 | ~6.97 | ~7.78 | ~6.58 | ~7.02 | ~7.76 | Banks anchor the market around ~7% |
| Non-Bank | ~6.53 | ~7.01 | ~7.78 | ~6.49 | ~6.97 | ~7.76 | Similar to banks — large domestic cushion |
| Foreign | ~6.52 | ~7.03 | ~7.82 | ~6.51 | ~6.96 | ~7.66 | Foreign flow flips behaviour in the same range |

a. Bank Indonesia



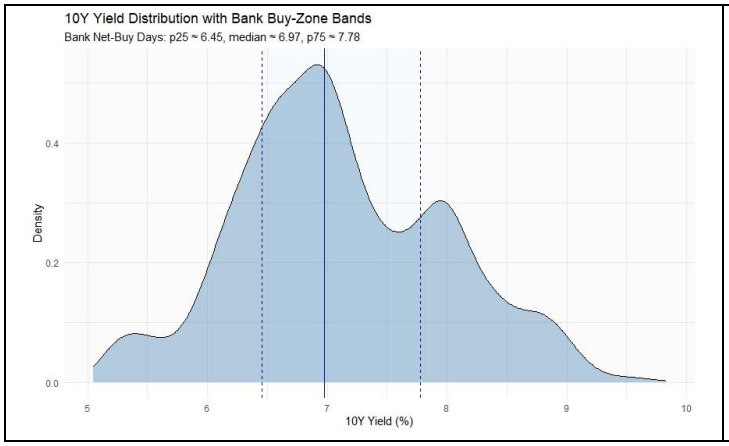

Buy-Zone (p25–p75 ≈ 6.58% – 7.74%)

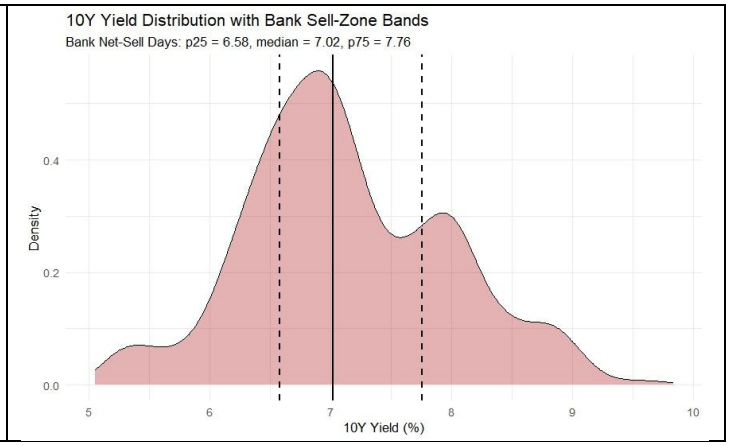
- BI tends to step in as a net buyer when yields enter the upper-6% to mid-7% range.
- This behaviour reflects policy smoothing — BI typically absorbs supply when yields push toward the top of its comfort band.
- BI buying often coincides with:
  - FX pressure
  - risk-off episodes
  - foreign selling
  - liquidity tightening

Sell-Zone (p25–p75 ≈ 6.45% – 7.81%)

- BI sells in roughly the same broad band, which reinforces that:
  - BI intervenes tactically, not directionally.
  - BI sells when markets are strong or yields drop below equilibrium levels.
- This indicates BI's role is stabilisation, not yield targeting.

b. Banks



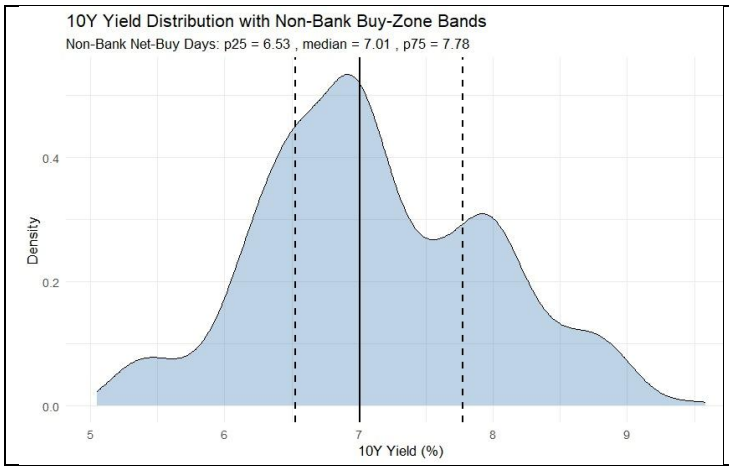

Buy-Zone (p25–p75 ≈ 6.45% – 7.78%)

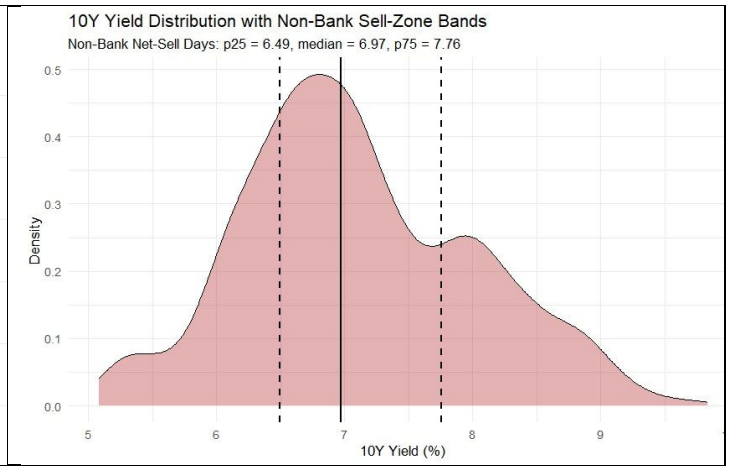
- Banks accumulate bonds when yields rise into mid-6s to high-7s.
- This behaviour is consistent with:
  - ALM strategies
  - banks' preference for carry at attractive yields
  - using SBN as HQLA

Sell-Zone (p25–p75 ≈ 6.58% – 7.76%)

- Banks sell in nearly the same band as they buy.
- This is typical of liquidity-driven entities:
  - They buy when liquidity is ample.
  - They sell when liquidity tightens or credit demand increases.

c. Non-Banks (Insurance, Pension Funds, Mutual Funds)




Buy-Zone (p25–p75 ≈ 6.53% – 7.78%)

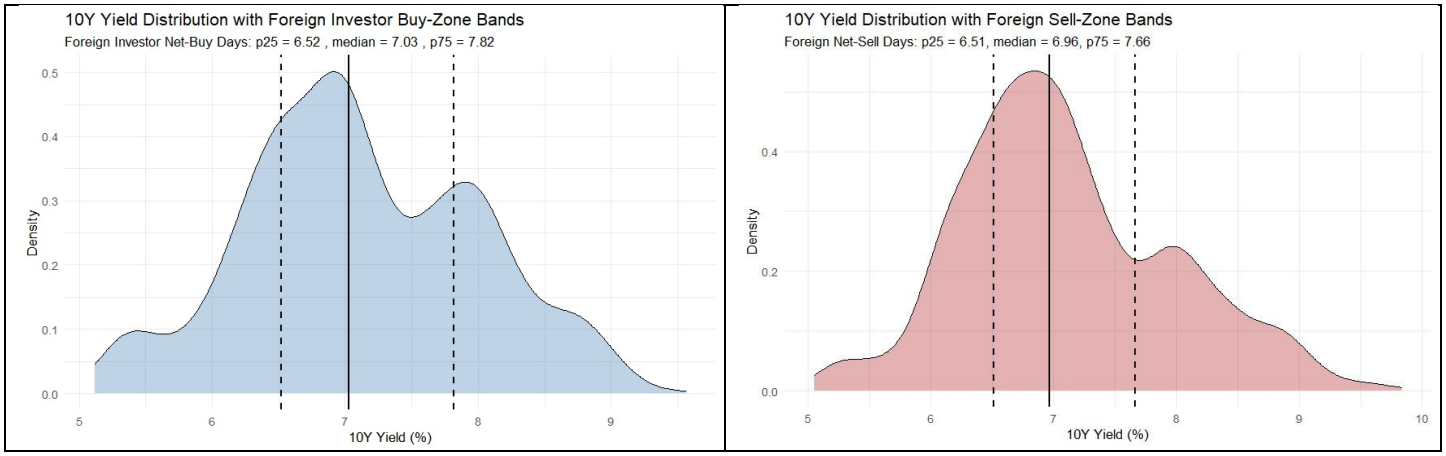
- Non-banks, as long-duration allocators, buy when yields rise into the mid-6s to high-7s.
- These sectors are:
  - slow-moving
  - liability-driven
  - attracted to higher long-term yields

Sell-Zone (p25–p75 ≈ 6.49% – 7.76%)

- Non-banks sell in a similar range, typically because of:

- rebalancing
- premium withdrawals
- redemptions in mutual funds

d. Foreign




Buy-Zone (p25–p75 ≈ 6.52% – 7.82%)

- Foreigners buy when yields hit similar levels as domestic investors (~6.5–7.8%).
- This reflects:
  - global search-for-yield
  - EM risk-on periods
  - stabilising USD/IDR environment

Sell-Zone (p25–p75 ≈ 6.51% – 7.66%)

- Foreigners sell mainly when yields spike through ~7.0%.
- This usually reflects:
  - USD strengthening
  - Fed repricing
  - rising risk-aversion
  - global EM outflows

# Appendix

## 1. Correlation Matrix — Yields vs Foreign Holdings & Flows

Table 1 — Level Correlations (Yield vs Foreign Ownership %)

| Period | Corr (Yield vs Foreign %) | Interpretation |
|---|---|---|
| 2011–2025 | –0.43 | Higher foreign share → lower yields (normal pre-2020 regime) |
| 2015–2025 | –0.48 | Still strongly negative |
| 2020–2025 | –0.12 | Relationship breaks after COVID |
| 2025 | 0.77 | Regime reversal — yields fall even when foreigners SELL |

Table 2 — Flow Correlations (ΔYield vs ΔForeign %)

| Period | Corr (ΔYield vs ΔForeign %) | Interpretation |
|---|---|---|
| 2011–2025 | –0.06 | Very weak; foreigners rarely move yields |
| 2015–2025 | –0.03 | No effect |
| 2020–2025 | 0.01 | Zero |
| 2025 | 0.17 | Slight opposite-direction movement |

## 2. Regression Results — Yield Sensitivity to Foreign %

Regression: Yield = $\alpha + \beta \cdot$ (Foreign%)

Table 3 — Level Regressions

| Period | β Coefficient | t-stat | $R^2$ | Interpretation |
|---|---|---|---|---|
| 2011–2025 | –4.30 | –15.1 | 0.14 | Every +1ppt foreign share ↓ yield by 4–5 bps (old regime) |
| 2015–2025 | –4.95 | –13.9 | 0.13 | Stronger effect |
| 2020–2025 | –0.80 | –2.3 | 0.01 | Relationship fading |
| 2025 | +12.50 | +9.1 | 0.63 | Foreign share now moves in opposite direction |

## 3. Flow Regressions — ΔYield vs ΔForeign %

Regression: $\Delta Y = \gamma + \beta\Delta \cdot$ (ΔForeign%)

Table 4 — Flow Betas

| Period | βΔ | t-stat | $R^2$ | Interpretation |
|---|---|---|---|---|
| 2011–2025 | –0.09 | –1.0 | 0.00 | No effect |
| 2015–2025 | –0.03 | –0.4 | 0.00 | No effect |
| 2020–2025 | +0.01 | +0.1 | 0.00 | No effect |
| 2025 | +0.25 | +2.2 | 0.04 | Only minor effect; domestic buyers offset foreign flows |