

Indonesia Plans Retail Sharia Bonds' Sales in H1 '09

September 24, 2008

Indonesia's finance ministry plans to issue sharia government bonds for retail investors in the first half of 2009, in a bid to expand domestic-based investors, a senior finance ministry official said on Wednesday.

Indonesia has fallen behind its neighbours such as Malaysia and Singapore in developing Islamic finance, which has seen buoyant growth in the past few years on the back of the petrodollar boom in the Middle East and growing wealth in Asia.

The most populous Muslim nation raised 4.7 trillion rupiah (\$504.3 million) from the sales of its first Islamic bond in late August, short of its 5 trillion rupiah target.

Analysts say although the sales were lower than targeted with domestic investors buying almost 90 percent of the bonds, it signalled strong growth potential for Islamic finance in the country of 226 million people where about 85 percent are Muslim.

'The retail sukuk will be issued in the first half, maybe in April before the election,' the treasury director general at the ministry, Rahmat Waluyanto, told reporters.

'We cannot elaborate the size of the bond yet as we still have to appoint the selling agent. They are the ones who can gauge the potential for the issue.'

Islamic law, or Sharia, bans the payment of interest and Islamic bonds replace coupons with income derived from assets such as rent from property or commercial transactions.

The development of Islamic finance has long been held up by tax and regulatory hurdles, but Indonesia's parliament in July passed a bill removing those barriers.

The government, which targets a budget deficit of 94.5 trillion rupiah or 2.1 percent of GDP this year, has been intensifying its efforts to broaden its financing options and expand its relatively small domestic debt market.

Source: Reuters