Endogenous market development in Indonesia

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Abstract

We use the survey method and turn off the survey results for causality analysis using regression. We take data from 200 local investors in Indonesia in 2021 and as a control variable, employ supplementary data in the form of market volume. The survey was conducted to understand the preferences of local investors or traders of government securities in Indonesia or buyers of government securities on trading volume in the market. Trading movements in the bond market are influenced by various endogenous variables such as investor perspective, G-sec average balance, percentage of average NDS-OM, daily trade average, percentage of average Bid-Ask spread. These things are the attention of investors in predicting the movement of trade in sovereign bonds in Indonesia.

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Introduction

Government bonds in developing countries have not yet given optimal impact. Even though the market for government securities is very massive and there are many enthusiasts, the impact on the economies of developing countries has not been optimal. In the secondary market, government bonds are also very liquid. However, policies in the form of tools that support the effectiveness of government bonds in managing the economy are still in the form of a dilemma (Gennaioli,Martin, & Rossi, 2018).

An alternative way to increase the optimization of endogenous factors from government bonds is the endogenous market policy. Endogenous policy development can be developed in stages to ensure the effectiveness of the policy and minimize errors. The fact that the effectiveness of endogenous policies made by the government is still a mystery in the endogenous market, requiring more in-depth research on government policies on the endogenous market for sovereign bonds (Endo,2021).

The implementation of government policies in endogenous markets also poses risks to the liquidity aspect, so caution is required (Deuskar & Johnson, 2021). It is necessary to develop a market infrastructure that is comprehensive and can reach the microdomain so that people's participation in development can be achieved. However, to achieve this further research is needed (Wilantari, Widarni, & Bawono, 2021).

The market must be designed in a transparent and fair manner and everyone, especially the people, must be able to access and participate so that premium payments and a number of benefits offered by the state can rotate within the country and are enjoyed by the people so that the economy can rise from two sides, namely increasing development from the existence of state debt securities and an increase in people's income which in turn encourages consumption (Peppel-Srebrny, 2021).

Information technology is one of the technologies that can be used to increase transparency and financial literacy in the community, including government bonds. This is important because when all the facilities and benefits provided by the state to the buyers of government securities are only controlled by a handful of people or perhaps foreign investors, the turnover of state debt repayment and premiums does not have a significant impact on the economy, especially in developing countries (Hong, Thakuriah, Mason, & Lido, 2020).

Research Method

We use the survey method and turn off the survey results for causality analysis using regression. We take data from 200 local investors in Indonesia in 2021 and as a control variable, employ supplementary data in the form of market volume. The survey was conducted to understand the preferences of local investors or traders of government securities in Indonesia or buyers of government securities on trading volume in the market. To understand the endogenous market we use the following equation:

$$Dtrade_t = \beta_0 + \beta_1 Gsec_{t1} + \beta_2 NDS_{t2} + \beta_3 Trd\ Size_{t3} + \beta_4 Bas_{t4} + e_t$$

where,
Dtrade = Daily Trade Volumes average
Gsec = G-sec average balance

NDS = percentage of average NDS-OM
Trd Size = daily trade average
Bas = percentage of average Bid-Ask spread

With the ARDL model as follows:
$yt = c0 + c1t + \sum p\ i=1\ \phi i\ yt- i + \sum q\ i=0\ \beta'\ i\ xt- i + \varepsilon t$ (1)
where p and q are optimal lag orders, xtis a k x 1 vector of variables in a time series, and its ARDL/EC model is:
$\Delta yt = c0 + c1t - \alpha(yt- 1 - \theta xt) + \sum p- 1\ i=1\ \psi yi \Delta yt- i + \sum q- 1\ i=0\ \psi'\ xi \Delta xt- i + ut$

Where
$\alpha = 1 - \sum j=$ the speed-of-adjustment coefficient is 1 p ϕi.
$\theta = \sum q\ j=0\ \beta j\ \alpha$ is the long-run coefficients.
ψ and ψ' are the short-run coefficients that cause the dependent variable to fluctuate in the short term, yt is dtrade or dependent variable.

Result and Discussion

Here are the results from ARDL :

Regressor	Dependent Variable AEG			
Long Run Estimation	Coef.	SE	t-Ratio	Prob
Dtrade	0.1172	0.0736	2.3584	0.0003
Gsec	0.1232	0.0423	2.4263	0.1728
NDS	0.1261	0.0818	2.2276	0.0005
Trd Size	0.1322	0.0916	1.6675	0.0007
Bas	0.1262	0.0932	1.7874	0.0011
Short Run Estimation	Coef.	SE	t-Ratio	Prob
Dtrade	0.1261	0.0487	2.2474	0.0902
Gsec	0.1821	0.0371	2.3626	0.1817
NDS	0.1762	0.0627	2.1178	0.0009
Trd Size	0.1624	0.0673	1.7742	0.0006
Bas	0.1353	0.0781	1.8742	0.0811

From the results in the table, it can be seen that each variable has a significant positive impact in the long and short term. This shows that the G-sec average balance, percentage of average NDS-OM, daily trade average, and percentage of average Bid-Ask spread has a significant positive impact on the Daily Trade Volumes average.

Conclusion

Trading movements in the bond market are influenced by various endogenous variables such as investor perspective, G-sec average balance, percentage of average NDS-OM, daily trade average, percentage of average Bid-Ask spread. These things are the attention of investors in predicting the movement of trade in sovereign bonds in Indonesia.

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