Keynote Speech
Seminar on
“Development of Productive Economy in order to Support
Minapolitan Program”

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Bismillahirrahmanirrahim,
Assalamu’alaikum warahmatullahi wabarakatuh,
Good morning and best wishes to us all.

1. First of all, please allow me to ask all attendees to praise the God Almighty for His grace and blessing, we can all gather here to attend a seminar on “The Development of Productive Economy in order to Support the Minapolitan Program”. May His blessing and consent always protect us in our work and dedication to our beloved country, Indonesia.

2. I strongly support the theme of this seminar as the development of productive economy is also in line with Bank Indonesia efforts in promoting Micro, Small and Medium Enterprises (MSME), which eventually will also contribute to the economic growth of Indonesia. I hope that the presence of various stakeholders, whether from the Ministry of Marine and Fisheries, banking and practitioners in this seminar can be beneficial in contributing ideas for the development of productive economy especially that supports the Minapolitan program.
3. To begin this presentation, please allow me to give some illustration on the current condition of the national economy and the efforts conducted by Bank Indonesia.

**Ladies and Gentlemen, < The Dynamics of National and Global Economy>**

4. *(Slide 3 dan 4)* **The National Economy still faces considerable tough challenges, both derived from global and domestic factors.** The global challenge is mainly due to the slowdown of global economic growth rate resulting in the deceleration of global demand and the decrease of commodity prices as well as uncertainties in global financial markets causing fluctuations in the exchange rate. Meanwhile, the domestic challenge is the declining export performance and the relatively high deficit of the current account.

5. *(Slide 5)* The current account deficit which has been going on for more than three years indicates the presence of a number of structural challenges. Half of the Indonesian exports are still in the form of primary products which are very vulnerable to the dynamics of global prices. Besides, the limited export destination countries cause the export performance also susceptible to the economic condition of a region. On the other hand, the dependence on import is still relatively high, both to produce export goods and to meet domestic needs. Besides, the still weak energy resilience amidst the increasing domestic demand for energy causes efforts to improve the deficit balance of oil and gas is not easy.

6. *(Slide 6)* Export growth is expected to decelerate resulting from the declining commodity prices and the weakening global demand, while from the side of non-oil and gas, the manufacturing sector as a whole,
experiences a slump due to the still weak economies of trading partners such as European countries and also China. Coal which is the primary non-oil and gas export commodity has experienced contraction in the month of January at 12.7% (yoy) with an export value of $1,519 million, whereas other non-oil and gas export such as Textile and Textile Products (TTP), machineries and chemical products (yoy) also experienced contraction at 7.5%, 23.6% and 31.1% respectively.

7. **(Slide 7)** In line with the weakening of export performance, the import performance also experienced contraction especially in the import of capital and consumption goods. Annually, import of consumption goods was down by 15.6% whereas import of capital goods down by 15.5%, while import of oil and gas decreases 18.7% which was mostly influenced by the decrease of oil price.

8. **(Slide 8)** Uncertainties in the global financial markets also provided a separate challenge because of their impact toward the fluctuation of various global currencies’ exchange rates including Rupiah against Dollar. Specifically for Rupiah, other than the influence of global factor, the weakening of Rupiah occurred in conjunction with the start of increasing foreign exchange purchases for the payment of Private Foreign Debt and dividend transfer to overseas, which based on its annual pattern/cycle has been increasing since March 2015. These phenomena of depreciated currencies against US Dollar occurred globally, where Turkey’s, Brazil’s and Euro Currencies experienced worse weakening compared to Rupiah.

9. In response to the current exchange rate developments, Bank Indonesia has consistently strived to maintain the stability of exchange and in
accordance with its fundamental condition. This was done through following measures (Slide 9):

First, conducted rupiah exchange stabilization in the market, by still considering the adequacy of reserves,

Second, made purchases of Government Securities ($SBN$) in secondary markets,

Third, anticipatively has issued policies on prudential principle in managing Foreign Debts ($ULN$) of non-bank corporations in order to encourage corporations to be able to enhance risk management in conducting ULN, especially exchange risk, liquidity risk and overleverage risk,

Fourth, conducted foreign exchange market deepening, to strengthen domestic financial market resilience, specifically, foreign exchange market against various global shocks.

10. Following the results of US central bank meeting which was expected to delay its interest rate normalization policy, Rupiah stabilization measure conducted by Bank Indonesia, as well as further measures conducted by the Government in implementing structural reformation in order to strengthen the balance of payments has shown progresses. In recent weeks, the pressure on rupiah exchange started to be under control and even on the third week of March 2015 rupiah recorded appreciation.

11. In the midst of the global challenge, thanks God gratefully, Indonesian economy in 2015 is expected to grow better compared to year 2014. (Slide 10) Onwards, Bank Indonesia is convinced that the stability of macro-economy can be maintained well. Economic growth in 2015 is predicted to be in the range of 5.4-5.8%,
supported mainly by the growth of investment increasing along with the realization of various infrastructure projects and improvement of investment climate, in addition to consumption that remain strong as well as export which will improve gradually. Meanwhile, inflation rate is expected to be more restrained toward the inflation target in 2015 at 4 ± 1% driven by the controlled volatile food price and the declining administered price specifically oil fuel. Meanwhile, the current account deficit is estimated to be in the range of -3% from GDP, although with more healthy composition as the import components will be dominated by capital goods.

12. From the regional perspective, the condition of national and global economy more or less will have influences to the regional economy. *(Slide 11)* Fluctuations of foreign exchange, weakening of commodity prices and also weakening of global demand can affect regional economic performances, especially the regions that has high dependency to natural resources in the form of commodities as happened in Kalimantan and Sumatra. Meanwhile, regions that have source of revenue from manufacturing exports such as Pekalongan, the impact of global economic conditions shall not be perceived too much.

13. *(Slide 12)* As one of the Cities of economic growth centers in the Province of Central Java, Pekalongan city has strategic position, both from the economic and geographical perspectives. The secondary sector has a very important role toward the economic wheel movement in Pekalongan City, i.e. the sectors of trade and processing industry, that have given contribution to the regional GDP of year 2012 at 27.23% and 20.13% respectively.
14. The presence of batik centers and also the biggest fishery port in the island of Java supported by fish processing industry in this city makes Pekalongan City one of the cities that contribute substantial foreign exchange as the exporter of TPT products and also processing products especially frozen fish. The latest data shows that the total exports of the two product groups had a tendency to increase up to over $25 million in 2013. Meanwhile, the Productive Economy grew well in Pekalongan with the number of MSME in Pekalongan City in 2012 amounted to 42,999 business units with the absorption of workforce as many as 101,183 people.

Ladies, Gentlemen and Attendees,

15. The considerable good growth of national economy cannot be separated from the role of productive economic activities including what have been conducted through MSME. The MSME sector is proven to be the backbone of Indonesia economy in maintaining a fairly high growth rate. Based on the data, MSME contributions to the national Gross Domestic Product (GDP) recorded at 59% while the rest was derived from big businesses. The MSME sector also dominated 99% of the total national business players where mostly or 98.82% of them were micro businesses with a maximum asset of Rp50 million and a turnover of Rp300 million/year.

16. Development of Productive Economic Business defined as activities in economic sector conducted by the communities to increase incomes, create employment and community food resilience based on local resources also has relevance and contribution in maintaining the stability of monetary condition and
macro-prudential, especially in controlling inflation and maintaining stability of the financial sector. (Slide 14)

17. Productive economic activities especially those engaged in the food sector significantly help maintaining food price stability, which is one of the forming components of inflation. The productive economic activities have a role in generating added value to food products, so as to generate processed food products which not overly dependent on the season which in turn can reduce fluctuations in food prices (volatile food).

18. In macro-prudential sector, productive economy especially in remote areas will encourage the success of financial inclusion program which is being promoted by the Government together with Bank Indonesia and the national banking. Organized productive economic activities can enhance financial access of the community to banking.

19. Seeing the huge benefits of productive economic activities to the economy, it is proper that the success and sustainability of this productive economic business become our common commitment which should not stop on the availability of work programs only. From the mapping, we are aware that access constraints to the source of financing constantly becomes the major complaint of productive economic activities by MSME, especially micro businesses in order to develop. (Slide 15) Up to end of 2014, the share of banking credit to MSME reached Rp731.8 trillion or 16% of the total bank lending of Rp3,706.5 trillion. The MSME loans consist of 93% commercial loans amounted to Rp681.5 trillion and credit scheme for people (KUR) of 7% or amounted to Rp50.3 trillion.
20. In regard to enhancing productive economic access to the source of financing, there are some strategies that can be conducted with the productive economic players, i.e. (Slide 16):

**First,** enhancement of productive economic financial access shall be conducted through the strategy of supporting financial infrastructure development, financial eligibility enhancement and promoting the function of productive economic intermediation. This strategy can be implemented by several work programs among others: credit rating, establishment of Regional Credit Guarantee companies, Financial Transaction Recording Program, Land Certificate Utilization, Financing for creative industry and issuance of regulation to support financing. In this strategy, Bank Indonesia has issued a Bank Indonesia Regulation (PBI) which requires banks to extend credit to MSME sector gradually until reaching a minimum of 20%\(^1\), and to provide incentives to banks which pro to MSME sector in case they will expand their office networks\(^2\).

**Second,** enhancement of productive economic capacity with a strategy to encourage capacity enhancement of Productive Economy in order to gain access to financial services through development of cluster, development of entrepreneurship and activities of training, education and mentoring.

**Third,** providing and enhancing access to information to productive economic players through the program of study provision on featured product, lending model and potential mapping as well as Development of MSME Microsite Info.

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\(^1\) PBI No. 14/22/PBI/2012 concerning Lending or Financing by Commercial Banks and Technical Assistance in the Context of Micro, Small and Medium Enterprise Development

\(^2\) PBI No. 14/26/PBI/2012 concerning Business Activities and Office Networks Based on Banks’ Core Capital
Fourth, increase cooperation and coordination with stakeholders through the program of Cooperation with Regional Governments, Central Government, institutions/BUMN (state-owned Enterprises) and International Agencies.

Attendees,

21. To enlarge its impact to public welfare, the development of Productive Economy in the fishery sector needs to be directed to support the concept of Minapolitan. (Slide 18) In this concept a synergy will occur over the entire potentials and resources covering raw materials production, processing and marketing within an area. This minapolitan concept also will increase the opportunity to reach a better market, improve production quality and quantity as well as trigger the local economic growth which based on fisheries.

22. These efforts naturally shall also face challenges. As the problems occur in the sector of MSME Productive Economy in general, the issue of funding becomes one of the major problems in the development of Productive Economy in fishery sector. Data in Bank Indonesia shows that out of the total credit extended in MSME sector in 2014 amounted to Rp731.8 trillion, the fishery sector only had a share of 0.6% or Rp4.5 trillion.

23. Bank Indonesia research result in 2012 also generated the same conclusion that the group of fishermen of capture fisheries/fish aquaculture still experience difficulties in gaining access to financing from banking institutions. In details, based on the research result it is concluded that the financing problem to the fishery sector are caused by:
From the Side of Fishermen

*(Slide 19):*

i. In general fishermen do not have additional collateral, both from the legal aspect and the adequacy of its value. Especially, if the additional collateral is required in the form of certified land or land and building, it is difficult for fishermen to fulfill it;

ii. Procedure of credit application to banks is complicated and its disbursement takes a long time;

iii. Accessibility of fishermen is still lacking, and also location and operating hours of banks is not compatible with the operating hours of fishermen;

iv. Dependency of fishermen on the pattern of patron-client, in which fishermen fulfill a part of their capital needs from the basket/skipper (*bakul/juragan*) so that they do not seek to find other sources of funding;

v. Assuredness of fishing efforts include: fluctuating catch season and boat that is not feasible anymore.

From the Side of Banking *(Slide 20):*

i. In general banks still consider that business of fisheries has high risk, especially in capture fisheries which is hunting in nature so that it has a high uncertainty factor;

ii. Limited human resources and banking services, among others due to incompatibility of bank operating hours, and limited range of banking services (networks);
iii. The failure of previous credit program, limited collateral owned by fishermen and business in the fishermen sector that is individual in nature;

Ladies and Gentlemen, <Closing>

24. Productive Economy is economy which is capable of prospering its players. The efforts to promote Productive Economy can only be achieved if those efforts are conducted continuously and with a strong willpower to utilize every potential by working hard in a partnership whether between ministries, institutions and governments, either in Central or Regional. Through Productive Economy, we believe that Indonesia has many opportunities to become a country that are able to make its people prosperous through productive efforts by utilizing its marine and land potentials.

25. It is our hope that what have been conveyed can become useful inputs for the our big job in guarding Indonesia towards the welfare state. In closing, we would like to express our gratitude to the Government of Pekalongan City for the opportunity given and to all attendees for their willingness to be present at this event. Hopefully this event can be beneficial to us all.

Wassalamu‘alaikum warahmatullahi wabarakatuh.