BANK INDONESIA
CENTRAL BANK OF THE REPUBLIC OF INDONESIA

POLICY SYNERGY TO MAINTAIN FINANCIAL SYSTEM RESILIENCE AND REVIVE INTERMEDIATION FOR ECONOMIC RECOVERY

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GLOSSARY

AL	Liquid Assets
APBN	State Revenue and Expenditure Budget
AS	United States of America
ATO	Asset Turnover
Bansos	Social Aid Program
BAPPEBTI	Commodity Futures Trading Regulatory Agency
BCBS	Basel Committee on Banking Supervision
BI	Bank Indonesia
BEI	Indonesia Stock Exchange
BI7DRR	BI 7-Day (Reverse) Repo Rate
BLT	Direct Cash Assistance
BNPB	Natural Disaster Management Board
BPPU	Money Market Development Blueprint
BPR	Rural Bank
Bps	Basis Point
BPS	Statistics Indonesia
BSPI	Indonesia Payment System Blueprint
BUK	Conventional Commercial Bank
BUMN	State-Owned Enterprise
BUS	Islamic Bank

CA	Current Assets
CAPEX	Capital Expenditure
CAR	Capital Adequacy Ratio
CCB	Countercyclical Capital Buffer
CCS	Cross Currency Swap
CCT	Crisis Communication Test
CDS	Credit Default Swap
CKPN	Provisions for Impairment Losses
CMS	Cash Management System
CMG	Crisis Management Group
CMRF	Crisis Management Resolution Framework
COVID-19	Coronavirus Disease 2019
CSD	Central Securities Depository
CPO	Crude Palm Oil
DAR	Debt at Risk
DF	Deposit Facility
DNDF	Domestic Non-Deliverable Forwards
DPK	Third-Party Deposits
DSR	Debt Service Ratio
DTI	Debt-to-Income Ratio
DTKS	Integrated Social Welfare Data

EKD	Digital Economy and Finance
ELA	Emergency Liquidity Assistance
EM	Emerging Market
EPU	Economic Policy Uncertainty
ETP	Electronic Trading Platform
FASBI	Financial Account and Balance Sheet Indonesia
FEKD	Indonesia Digital Economy and Finance Festival
FinTech	Financial Technology
FLiSBI	Sharia-Compliant Liquidity Facility
FSB	Financial Stability Board
FSSI	Financial System Stability Index
FTV	Financing-to-Value Ratio
GDP	Gross Domestic Product
Gernas BBI	National BBI Movement promoting pride in Indonesian-made products
GWM	Reserve Requirements
ICR	Interest Coverage Ratio
IHK	Consumer Price Index (CPI)
IHPR	Residential Property Price Index (RPPI)
IHSG	Jakarta Composite Index (JCI)
ILS	Lending Standards Index
IMF	International Monetary Fund
IPO	Initial Public Offering
IPT	Integrated Payment Interface (IPI)
IRS	Interest Rate Swap
ITO	Inventory Turnover
Jabodetabek	Jakarta, Bogor, Depok, Tangerang and Bekasi (Jakarta Metropolitan Area)
Kemendes, PDTT	Ministry of Villages, Development of Disadvantaged Regions and Transmigration
Kemenkop	Ministry of Cooperatives
Kemenkeu	Ministry of Finance
Kemenparekraf	Ministry of Tourism and Creative Economy
Kemnaker	Ministry of Manpower of the Republic of Indonesia
KI	Investment Loan
KITE	Ease of Imports for Export Purposes
KK	Consumer Loan
KKB	Automotive Loan
KKI	Karya Kreatif Indonesia (Indonesia Creative Works Exhibition)
KMK	Working Capital Loan
KPR	Housing Loan
KP/PP	Property Loan/Financing
KSEI	Indonesian Central Securities Depository
KSK	Financial Stability Review (FSR)
KSSK	Financial System Stability Committee
LaR	Loan at Risk
LCR	Liquidity Coverage Ratio

LCS	Local Currency Settlement
LDR	Loan-to-Deposit Ratio
LGA	Electricity, Gas and Water Supply
LoLR	Lender of Last Resort
LPEI	Indonesia Eximbank
LPS	Indonesia Deposit Insurance Corporation
LTV	Loan-to-Value Ratio
LU	Economic Sector
MDR	Merchant Discount Rate
Migas	Oil and Gas Sector
MIR	Macroprudential Intermediation Ratio
MMF	Money Market Funds
MPLB	Macroprudential Liquidity Buffer
mtm	Month-to-Month
MV	Venture Capital
NAB	Net Asset Value (NAV)
NBFI	Nonbank Financial Institution/Industry
NCG	Net Claims on Government
NIM	Net Interest Margin
NK	Memorandum of Understanding
NPF	Non-Performing Financing
NPI	Indonesia's Balance of Payments (BOP)
NPL	Non-Performing Loans
NSFR	Net Stable Funding Ratio
OJK	Indonesia Financial Services Authority
ORI	Indonesia Retail Bond
OPEC	Organisation of the Petroleum Exporting Countries
PaSBI	Sharia-Compliant Liquidity Management
PBI	Bank Indonesia Regulation
Perlinsos	Social Protection
Perppu	Government Regulation in Lieu of Law
PHK	Termination of Employment
PJSP	Payment System Service Provider
PKH	Family Hope Program
PLJP	Short-Term Liquidity Assistance
PLJPS	Sharia Short-Term Liquidity Assistance
PLR	Prime Lending Rate
PMTDB	Gross Domestic Fixed Capital Formation (GDFCF)
PoD	Probability of Default
POJK	OJK Regulation
PP	Finance Company
PPKM	Public Activity Restrictions
PSBB	Large-Scale Social Restrictions
ptp	point to point
PUAB	Interbank Money Market
QE	Quantitative Easing
QRIS	Quick Response Code Indonesia Standard

RCEP	Regional Comprehensive Economic Partnership
RIMS	Sharia Macroprudential Intermediation Ratio
ROA	Return on Assets
ROE	Return on Equity
RPIM	Macroprudential Inclusive Financing Ratio
RT	Household
RTGS-BI	Bank Indonesia – Real Time Gross Settlement System
RWA	Risk-Weighted Assets
Sakernas	National Labour Force Survey
SBC	Structured Bilateral Cooperation
SBK	Commercial Securities
SBN	Tradeable Government Securities
SBSN	Government Sharia Securities
SBT	Weighted Net Balance (WNB)
SDM	Human Resources
SHPR	Residential Property Price Survey
SID	Single Investor Identification
SKDU	Business Activity Survey
SKNBI	National Clearing System
SKSR	Special Real Sector Survey
SNEKI	National Economic and Financial Inclusion Strategy
SNRT	Household Balance Sheet Survey
SSBs	Standard Setting Bodies
SSK	Financial System Stability (FSS)
SSS	Securities Settlement System
Stranas	National Strategy
SUN	Government Debt Securities
SWF	Sovereign Wealth Fund
TD	Term Deposits
TKDD	Regional Transfers and Village Fund Disbursements
TMF	Capital and Financial Account
TPT	Textiles and Textile Products
TWP	Default Rate
ULN	External Debt
UMKM	Micro, Small and Medium Enterprises (MSMEs)
UP	Participation Unit
UUS	Sharia Business Unit
VIX	Volatility Index
WG	Working Group
WHO	World Health Organisation
yoy	year on year
WHO	World Health Organisation
yoy	year on year

Foreword

Accompanied by The Pleasure of Allah SWT, Bank Indonesia presents the 36th edition of the Financial Stability Review (FSR), March 2021, entitled "Policy Synergy to Maintain Financial System Resilience and Revive Intermediation for Economic Recovery". This publication provides an overview of financial system developments in Indonesia and the macroprudential policy response instituted by Bank Indonesia from the beginning of 2020 until March 2021. FSR also contains the macroprudential policy orientation moving forward as an integral part of policy synergy towards the national economic recovery as well as the Bank Indonesia policy mix. Bank Indonesia presents this publication for players and decision-makers in the national financial industry, government officials and other relevant authorities, academics, and the Indonesian public as well as Bank Indonesia's international partners. FSR also serves as a reference for stakeholders to solidify existing synergy moving forward in order to build optimism, maintain financial system stability and accelerate the national economic recovery.

One year has already passed since the Indonesian Government introduced large-scale social restrictions to break the domestic chain of COVID-19 transmission in Indonesia. Alhamdulillah, financial system resilience in Indonesia has been sustained despite the various exceptional challenges brought about by the COVID-19 pandemic. Resilience in Indonesia stems from an acute awareness that financial system stability is a shared responsibility, realised through solid synergy amongst all relevant authorities, including the Government, Indonesian Financial Services Authority (OJK), Deposit Insurance Corporation (LPS), and Bank Indonesia together with the business community and all elements of the public. Strong inter-authority synergy is facilitated by a solid legal foundation, in this case Act No. 2 of 2020. The collaborative efforts and commitments of all parties have ensured the economy and financial system in Indonesia can survive despite the unprecedented distress reaped by the pandemic, with a solid economic rebound and recovery projected moving forward.

Bank Indonesia maintained an accommodative policy mix during the reporting period, including the macroprudential policy stance. All strengthening efforts have been oriented towards maintaining financial system stability and accelerating the economic recovery by recalibrating the incentive parameters of: (i) rupiah reserve requirements; (ii) Macroprudential Intermediation Ratio (MIR); (iii) Macroprudential Liquidity Buffer (MPLB); (iv) countercyclical buffer (CCB); (v) Loan/Financing-to-Value (LTV/FTV) Ratio on property loans/financing; and (vi) minimum downpayment requirements on automotive loans. In addition, Bank Indonesia has honed short-term liquidity assistance regulations for conventional and sharia banks, strengthened policy rate transmission and urged the banking industry to lower lending rates by publishing an assessment of prime lending rates in the banking industry. Not resting on its laurels, Bank Indonesia has also maintained its burden sharing commitment to the Government in terms of funding the State Revenue and Expenditure Budget (APBN). During the pandemic, Bank Indonesia has injected liquidity totalling approximately Rp776.87 trillion (5.03% of GDP), with Rp726.57 trillion injected in 2020 and Rp50.29 trillion in 2021, as of 16th March 2021.

Entering 2021, financial system stability is forecast to remain strong, accompanied by an increasing bank intermediation function in response to the domestic economic recovery outlook. To that end, various regulatory measures will be continued as policy synergy within the Financial System Stability Committee (KSSK) framework, involving the banking industry and business community to maintain optimism and overcome the supply and demand-side constraints to lending/financing. Bank Indonesia will maintain an accommodative policy stance based on the latest data as part of its accommodative policy mix synergy and an integral part of integrated policy by authorities in the financial system and the Government to expedite the national economic recovery. In closing, may God Almighty always provide protection and bless us in our endeavours to maintain financial system stability and recover the national economy.

Jakarta, April 2021

Bank Indonesia Governor
Perry Warjiyo

Executive Summary

Financial system stability in Indonesia was maintained throughout 2020 despite the exceptional distress caused by the COVID-19 pandemic. Notwithstanding, the extraordinary economic impact of the pandemic was prevented from spilling over into the financial system. The synergic policy response instituted by the Government, Bank Indonesia and OJK effectively dampened the pandemic impact on the economy and financial system. The national economy, which experienced a deep second-quarter contraction, has gradually recovered since the third quarter of 2020. Financial stability has been maintained along with relatively stable financial markets and solid banking industry resilience in terms of capital, liquidity and profitability. The enduring challenge of the economic recovery process and maintaining financial system stability is how to restore the bank intermediation function and safeguard credit quality after the loan restructuring process has ended.

In the corporate sector, milder economic pressures have improved corporate resilience, as signalled by incrementally stronger corporate performance. Growing export demand has alleviated the sales contraction, particularly amongst large corporations. When conducting business, however, corporations are relying on internal sources of funds rather than seeking new loans, while also repaying obligations earlier. Improving corporate performance has bolstered repayment capacity, as confirmed by a recovery in the Interest Coverage Ratio (ICR), particularly amongst large corporations, despite an aggregate ratio below the 1.5 threshold. In addition, a lower Probability of Default (PoD), after peaking in the second quarter of 2020, is evidence of lower corporate vulnerability.

Mirroring the gradual corporate sector improvements, households are also gaining momentum. Such conditions are reflected in a restrained consumption recovery, limited to fulfilling primary needs, growing interest amongst retail investors and a paradigm shift in the workplace in an effort to survive. Declining economic activity in response to mobility restrictions and low income, accompanied by future uncertainty, have led to an increase of precautionary saving amongst households. Consequently, savings deposits in the banking industry have increased compared with pre-pandemic conditions. Nevertheless, comparatively low deposit rates have pushed households, particularly more affluent households, towards investing in financial assets such as shares, government bonds and mutual funds in search of higher returns. Household propensity to invest has been a contributing factor to the Jakarta Composite Index (JCI) recovery and increasing sales of tradeable government securities (SBN). In addition to financial assets, property investment, particularly large residences, has begun to increase with property sales slowly increasing yet remaining below pre-pandemic levels.

With early signs of optimism in the real sector, banking and nonbank financial industry (NBFI) resilience has been maintained. The synergic policy measures instituted by Bank Indonesia, the Government and other relevant authorities have strengthened credit and financing risk management. Nonetheless, compressed demand for loans amongst borrowers, coupled with the high-risk perception in the banking industry, has severely undermined the bank intermediation function. Fewer placement outlets have forced the banking industry to increase securities holdings. In anticipation of the cliff-edge effect, the banking industry has increased provisions for impairment losses despite fundamentally sound NPL ratios and solid capital. In addition, finance companies have maintained capital resilience, accompanied by a lower gearing ratio. Seeking to offset declining financing quality, finance companies have focused on maintaining financing amongst existing customers rather than disbursing new financing.

Financial sector resilience has been successfully maintained as the shared responsibility of the Government, Bank Indonesia and other relevant authorities. Extraordinary national economic recovery measures have been taken to mitigate the deleterious pandemic impact on the economy and financial system. Policy synergy is achieved under the auspices of the KSSK[1] through coordinated formulation of an Integrated Policy Package to Increase Corporate Sector Financing and Accelerate The Economic Recovery. The integrated policy package contains: (i) fiscal incentives as well as government spending and financial support; (ii) monetary, macroprudential and payment system policies; (iii) financial sector prudential policy (iv) deposit guarantee policy; and (v) structural strengthening policy. Such policies were formulated based on economic sector mapping in accordance with the specific sectoral challenges and prospects faced. Three priority sector categories were determined, namely resilient, growth drivers and slow starters. Through such mapping efforts, each element of the national policy mix is implemented by the respective member of the KSSK based on the bespoke needs of each sector.

Consistent with the Integrated Policy Package, Bank Indonesia implemented a measured policy mix. From a macroprudential policy perspective, Bank Indonesia published its Assessment of Prime Lending Rates, relaxed the Loan-to-Value (LTV) ratio on property loans and down payment requirements on automotive loans, and incrementally reactivated the Macroprudential Intermediation Ratio (MIR) to revive bank lending. Moving forward, incentives to catalyse lending to priority sectors and export activity will be launched in an effort to accelerate the economic recovery. Meanwhile, Bank Indonesia will also expand the scope of SME financing by issuing regulations concerning the Macroprudential Inclusive Financing Ratio to increase access to finance for micro, small and medium enterprises (MSME). The regulations will require each bank to allocate productive assets to an inclusive financing portfolio. Furthermore, Bank Indonesia will continue to formulate innovative, optimal and measured policies to expedite the national economic recovery while maintaining resilient financial system stability.

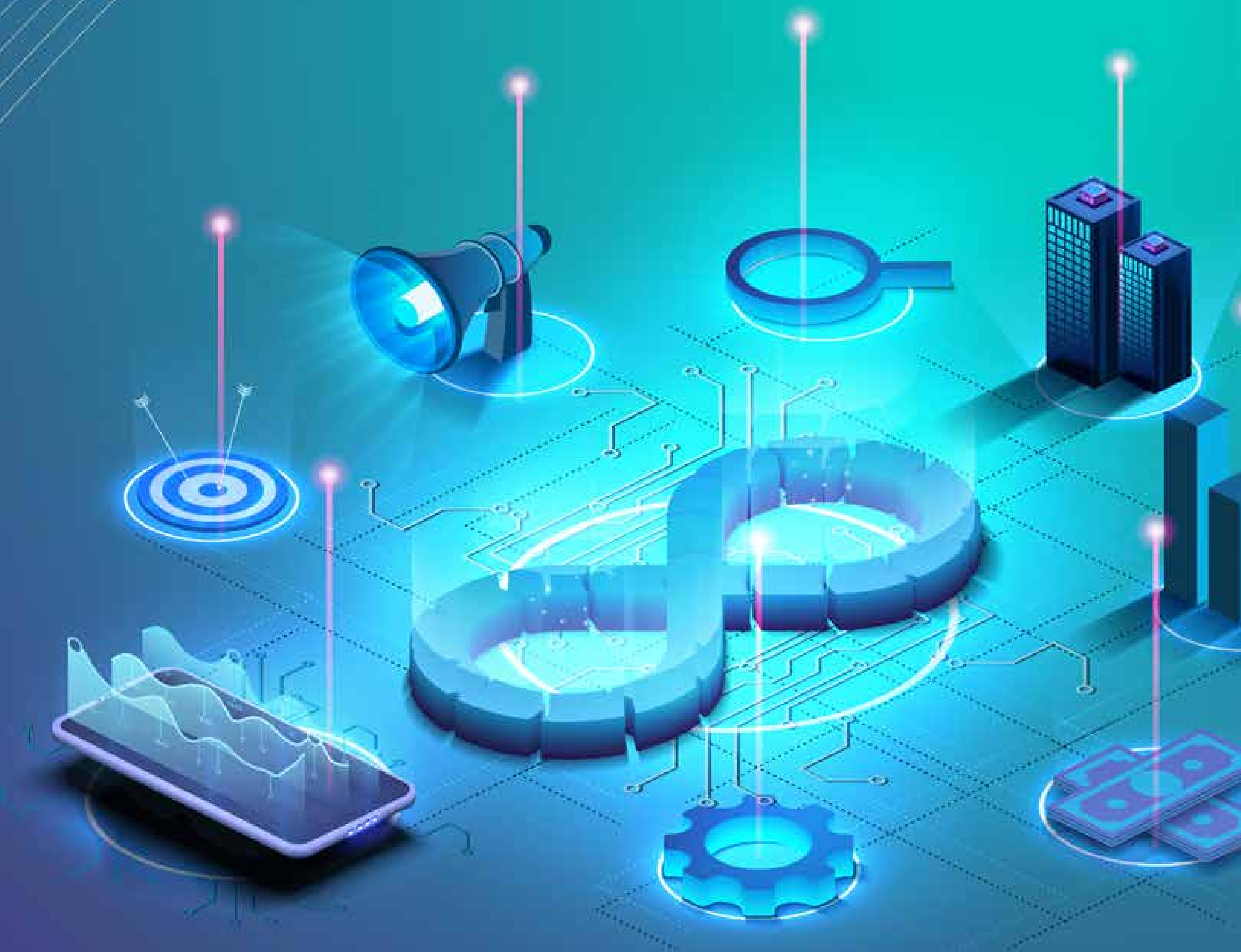
Moving forward, a successful vaccination program rollout is the main prerequisite to restore public mobility and, therefore, spur a stronger global and domestic economic outlook. Bank Indonesia expects to maintain financial system stability, accompanied by growth of the bank intermediation function in line with the national economic recovery. Corporate performance is predicted to improve and trigger demand for new loans. Consequently, the prospect of higher incomes, coupled with large liquidity reserves in the household sector, is expected to drive consumption and increase demand for new loans. In the banking sector, the accommodative macroprudential policy stance along with broader prime lending rate transparency will revive credit and financing growth. Supported by a surge of capital inflows and enthusiasm amongst domestic retail investors, the economic financing role of the capital market is expected to increase in line with the real sector recovery outlook. Learning from the successful experience of preventing a deeper crisis in 2020, Bank Indonesia will continue to accelerate the national economic recovery by prioritising strong collaboration and synergy amongst all relevant authorities when formulating and implementing the policy response.

1 The members of the KSSK are Bank Indonesia, Indonesia Financial Services Authority (OJK), Indonesia Deposit Insurance Corporation (LPS) and the Ministry of Finance.

BANK INDONESIA

Chapter 1

Macrofinancial Recovery Amidst COVID-19 Pandemic



The global economy in 2020 was characterised by the COVID-19 pandemic, which had an extraordinary impact on health, the economy and financial system stability. The global economy began to show early signs of recovery in the third and fourth quarters of 2020 after experiencing a deep second-quarter of 2020 contraction. In response to the incipient global economic recovery, world trade volume and international commodity prices began to rise, while global uncertainty started to ease yet remained elevated beyond pre-pandemic levels.

In the latter half of 2020, the global policy response instituted by governments and financial sector authorities around the world effectively maintained banking industry resilience in terms of capital, liquidity and credit risk. Ultra-accommodative financial system conditions, coupled with high market optimism stoked by the policy response, raised financial asset prices in several advanced economies and exacerbated vulnerabilities in the global financial system, which could impact economic growth moving forward. The multispeed global economic recovery outlook remains divergent between advanced economies and emerging markets, triggering a spillover effect, particularly in developing economies where the economic recovery process is lagging. Therefore, an accommodative policy stance will be maintained for the foreseeable future due to elevated global uncertainty fuelled by pandemic unpredictability from a health perspective.

At home, Indonesia's economy began to recover in the second semester of 2020 in line with close policy synergy and global economic improvements. The domestic economic gains came amidst stronger sectoral performance, driven by exports and greater mobility in particular. External stability was maintained given the domestic economic recovery, as reflected by a persistent Indonesia's Balance of Payments (BOP) surplus throughout 2020 and exchange rate appreciation in the second half of the year. Financial system stability was also maintained in the second semester of 2020. Fiscal, monetary, macroprudential and microprudential policy synergy was built amongst the financial sector authorities to accelerate the national economic recovery, targeting the real sector and financial sector. Forward-looking assessments regarding transmission of the COVID-19 pandemic to macroeconomic and financial system stability underlaid the policymaking process.

The array of policies instituted in 2020 to strengthen the financial sector effectively maintained financial system stability, as reflected by persistently low credit risk in the banking industry, loose bank liquidity conditions throughout 2020 and bank profitability that remained in positive territory. Notwithstanding, compressed domestic demand and a cautious banking industry reluctant to lend due to the high-risk perception looking forward undermined the bank intermediation function. Furthermore, economic moderation caused by the COVID-19 pandemic also fed through to weaker economic financing performance in the second semester of 2020.

1.1 Macrofinancial Recovery amidst COVID-19 Pandemic

The COVID-19 pandemic has had an extraordinary impact on health, the economy and financial system stability globally. In 2020, the pandemic infected more than 85 million people worldwide, with more than 1.8 million fatalities (Table 1.1.1). Various exceptional efforts were undertaken to break the chain of COVID-19 transmission, which restricted public mobility, thus exacerbating financial market uncertainty and triggering economic contractions globally, peaking in the second quarter of 2020.

Table 1.1.1 Total Positive COVID-19 Cases in Various Countries

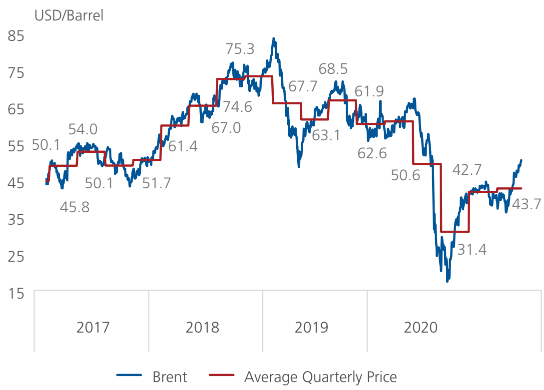
No	Country	Total Confirmed Cases	Total Fatalities	Fatality Rate	Total Recovered
1	United States	21,113,528	360,078	1.71	12,436,958
2	India	10,341,291	149,686	1.45	9,946,867
3	Brazil	7,733,746	196,018	2.53	6,813,008
4	Russia	3,236,787	58,506	1.81	2,618,882
5	France	2,655,728	65,037	2.45	195,174
6	UK	2,654,779	75,024	2.83	1,406,967
7	Turkey	2,241,912	21,488	0.96	2,136,534
8	Italy	2,155,446	75,332	3.49	1,503,900
9	Spain	1,936,718	50,837	2.62	150,376*
10	Germany	1,83,896	35,105	1.97	1,401,200
20	Indonesia	743,198	22,138	2.98	611,097**
	Other Impacted Countries	28,889,142	740,861	2.56	22,305,267
	Total	**85,486,171**	**1,850,110**	**2.16**	**59,968,887**

Notes: *Bloomberg data
**Natural Disaster Management Board (BNPB) data
Source: www.worldometers.info/coronavirus, as of 31st December 2020

Global economic conditions began to show incipient signs of recovery in the second semester of 2020. Economic conditions began to regain upward momentum in response to effective COVID-19 containment measures, increasing mobility and ongoing fiscal stimuli. The economic recovery was fastest in China, where positive economic growth was maintained throughout the latter half of 2020 on growing domestic demand driven by extraordinary fiscal stimuli and effective COVID-19 containment measures. Meanwhile, the United States economy also showed improvement as reflected in the reduced contraction in economic growth in Semester II 2020. The fiscal stimulus that has been disbursed to the economy has stimulated improvement in US consumption activity. In Europe, economic gains were supported by fiscal stimuli and stronger exports on growing demand from the main trading partners, namely the US and China. On the other hand, economic recoveries were more subdued in India and Latin America.

Early signs of increasing world trade volume, which fed through to higher international commodity prices, pointed to global economic improvements. Broad-based economic gains in many countries boosted global export and import activity, thus increasing world trade volume and international commodity prices. Gradual economic reopening in several jurisdictions, coupled with increasing market demand, edged up metal prices in the second semester of 2020 despite lower average prices for the year compared with conditions in 2019. The global oil price also increased yet remained below pre-pandemic levels in the previous year on compressed global demand. The average global oil price in 2020 stood at USD 41 per barrel, down from USD 65 per barrel in 2019 (Graph 1.1.1). Furthermore, prices of various agricultural commodities, such as crude palm oil (CPO) and coffee, continued to rise as a corollary of limited supply and inclement weather. Notwithstanding, coal prices in 2020 were weak in response to declining global demand given the impact of domestic-oriented production policy in China and India.

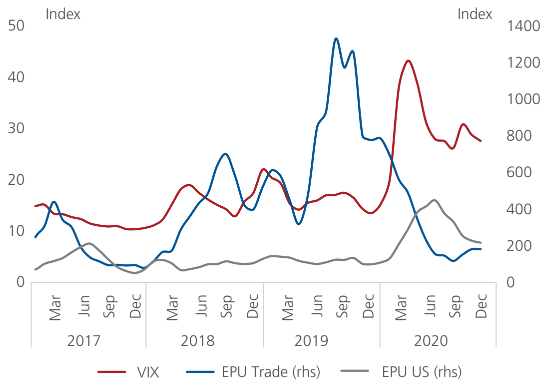
Graph 1.1.1 Global Oil Price



Source: Bloomberg, processed

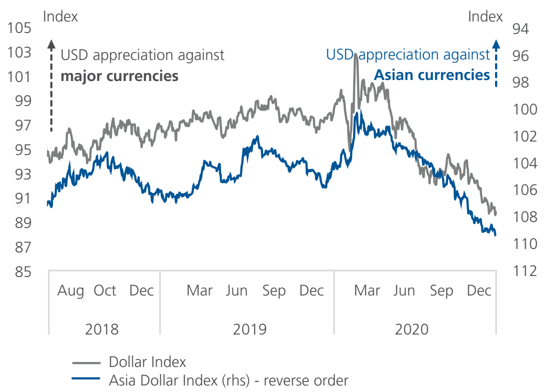
In the global financial markets, uncertainty began to ease in the second semester of 2020 yet remained elevated beyond pre-pandemic levels. Global financial market uncertainty was alleviated by effective COVID-19 containment measures and incremental economic improvements, yet the volatility of global uncertainty stayed high, stoked by concerns over subsequent COVID-19 waves and the emergence of new variants in several countries. Global uncertainty eased further after the orderly presidential election in the United States. In addition, positive expectations regarding the promising global economic outlook as vaccines became available, together with expansive monetary policy in advanced economies that led to loose global liquidity conditions, saw global financial market uncertainty decrease further (Graph 1.1.2). Given the latest economic developments, global capital flows gradually returned to developing economies, prompting currency appreciation in Asia against the US dollar, including Indonesia (Graph 1.1.3).

Graph 1.1.2 Global Financial Market Uncertainty



Source: Bloomberg, processed

Graph 1.1.3 US Dollar Exchange Rates

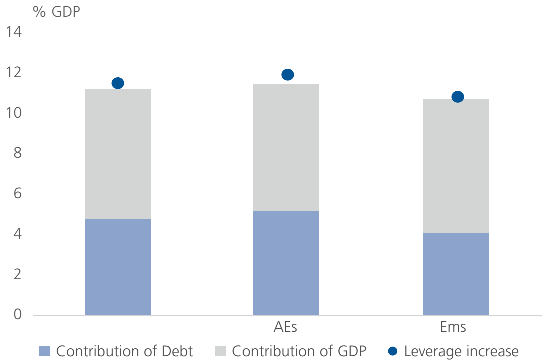


Source: Bloomberg, processed

During the latter half of 2020, the global policy response taken by governments and financial sector authorities effectively maintained banking industry resilience in terms of capital, liquidity and credit risk. This was also supported by high levels of capital and loose liquidity conditions in the banking industry after implementation of the G20/FSB global financial reforms spurred by the 2007/2008 global financial crisis. Such conditions maintained lending to the household and corporate sectors, while simultaneously containing the financial risks. Nevertheless, bank prudence due to potentially deteriorating credit quality, particularly amongst non-financial corporations, led to tighter lending standards. Furthermore, future expectations of unwinding measures also made the banking industry more selective when disbursing loans. Such caution could potentially undermine bank profitability moving forward and simultaneously restrain the global economic recovery.

Ultra-accommodative financial system conditions and high market optimism fuelled by the extraordinary policy response triggered a valuation stretch, namely higher prices of financial assets for investment, in several jurisdictions and increased vulnerabilities in the global financial system, which could impact future economic growth. Global stock markets rallied significantly beyond fundamental values, supported by stimulus policy and optimism concerning the pace of global economic recovery. The corporate bond market showed a tighter credit spread and significant spike in long-term interest rates, particularly in the United States. Notwithstanding, the rapid pace and ongoing nature of rising prices have left financial markets vulnerable to sudden price corrections, which could have an adverse impact on global financial stability. Moving forward, low policy rates and extended support measures could potentially trigger higher leverage and debt-overhang risk in the corporate sector (Graph 1.1.4). The results of IMF assessments show a disparate pandemic impact on corporate performance in different sectors and across different business scales, where the most intense liquidity pressures are affecting small enterprises (across different sectors and countries), while solvency pressures are concentrated in pandemic-impacted sectors (such as property and hotels) across all business scales.

Graph 1.1.4 Non-Financial Corporate Debt (% of GDP, Q4/2019 – Q3/2020)



Notes: AE = Advanced Economies, EMs = Emerging Markets
Source: Global Financial Stability Report (GSFR), International Monetary Fund (IMF), April 2021

A divergent, multispeed global economic recovery is expected between advanced and developing economies. Advanced economies, led by the United States, are expected to recover more quickly than developing economies. US Treasury yields are expected to rise on global economic recovery optimism, higher inflation expectations driven by fiscal stimuli, particularly in the United States, broader use of vaccines and accommodative global policies to maintain economic recovery momentum. Such conditions will have a spillover effect, predominantly in developing countries where an economic recovery lag is expected. In addition, global conditions will reintroduce tightness into financial markets in developing economies, accompanied by significant capital outflows, particularly from countries with a high dependence on external financing, weak economic fundamentals and limited access to COVID-19 vaccines.

Authorities are maintaining an accommodative policy stance with no end in sight due to elevated uncertainty regarding the success of pandemic containment measures on health.[1] The latest report published by the Financial Stability Board (FSB) stated that a premature end to supporting policies would create significantly more instability risk in the financial sector than a late unwinding. Such risks include increasing procyclicality, permanently lower growth potential, pressures on bank balance sheets and retreating public confidence. Nevertheless, a late unwinding would create inefficient resource allocation and exacerbate financial stability risk, thus increasing the fiscal burden, moral hazard and debt overhang. Therefore, the policy response must be calibrated and targeted. The IMF considers targeted macroprudential policy a critical aspect of overcoming increasing vulnerabilities in certain sectors, including the nonbank financial industry (NBFI) and corporate sector, as well as ensuring sufficient bank provisioning to absorb the higher credit risk. Meanwhile, the FSB emphasised the need for flexibility based on specific domestic conditions through a state-contingent approach rather than a time-contingent approach to mitigate the long-term risks as well as maintain fiscal resilience and a sustainable economic recovery process. A coordinated policy response is required, supported by clear and effective public communication to avoid adverse impacts during the transition period. International coordination is also an important element, specifically in terms of increasing information exchange because the policy response taken in advanced economies can impact other countries.

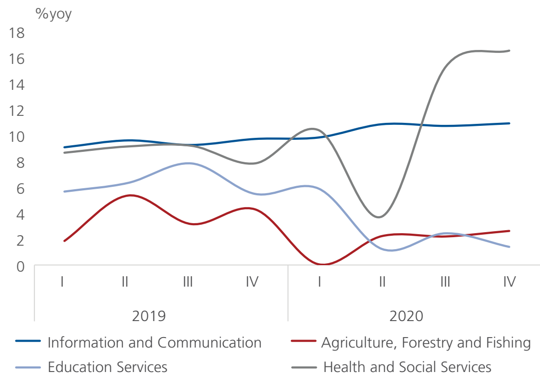
1 FSB, 2021, COVID-19 Support Measures: Extending, Amending and Ending, available from https://www.fsb.org/2021/04/COVID-19-support-measures-extending-amending-and-ending/

1.2 Nascent Domestic Economic Recovery

Indonesia's economy showed early signs of recovery in the second semester of 2020 in response to inter-authority policy synergy and global economic improvements. Economic growth in the third and fourth quarters of 2020 recorded shallower -3.49% (yoy) and -2.19% (yoy) contractions respectively compared with the deep -5.32% (yoy) decline in the second quarter of 2020 (Table 1.2.1). The incremental improvements were supported by various stimuli and an accommodative policy mix implemented by the Government, Bank Indonesia and other relevant authorities to recover the national economy. Meanwhile, global demand also began to recover in line with economic gains in Indonesia's trading partner countries, particularly the United States and China, which precipitated stronger export performance.

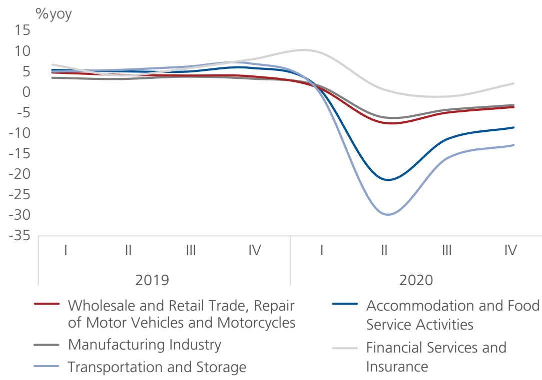
Economic gains were primarily reflected in export- and mobility-related sectors. On one hand, economic sectors that support new normal and COVID-19 containment activities have maintained positive growth, such as Information and Communications; Health and Social Services; Education Services; as well as Agriculture, Forestry and Fishing (Graph 1.2.1). On the other hand, however, other sectors remain in contraction yet have recovered significantly, including Transportation and Storage as well as Accommodation and Food Service Activities (Graph 1.2.2). These sectors were severely impacted by the large-scale social restrictions enforced in the second quarter of 2020, with recovery only possible after the restrictions were relaxed gradually in the third and fourth quarters of 2020. In addition, better COVID-19 containment protocols alleviated public concerns regarding visiting restaurants, shopping malls and tourist attractions. This also accelerated the manufacturing industry recovery as a supplier of goods. Moreover, manufacturing industry performance was also boosted by higher exports, particularly bound for the United States and China.

Graph 1.2.1 Sectoral Growth Drivers



Source: Statistics Indonesia

Graph 1.2.2 Sectoral Slow Starters



Source: Statistics Indonesia, processed

Table 1.2.1 Economic Growth on Expenditure Side

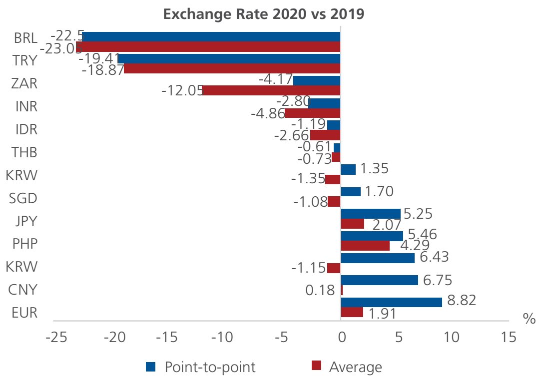
Component	2018				2018	2019				2019	2020				2020
	I	II	III	IV		I	II	III	IV		I	II	III	IV	
Household Consumption	4.96	5.17	5.00	5.08	**5.05**	5.02	5.18	5.01	4.97	**5.04**	2.83	-5.52	-4.05	-3.61	-2.63
Non-Profit Institutions Serving Households	8.12	8.77	8.61	10.82	**9.10**	16.96	15.29	7.41	3.53	**10.62**	-5.01	-7.82	-1.97	-2.14	-4.29
Government Consumption	2.71	5.21	6.26	4.56	**4.80**	5.22	8.23	0.98	0.48	**3.25**	3.77	-6.90	9.76	1.76	1.94
Investment (GDFCF)	7.92	5.81	6.92	6.01	**6.64**	5.03	4.55	4.21	4.06	**4.45**	1.70	-8.61	-6.48	-6.15	-4.95
Building Investment	6.12	4.96	5.60	5.02	**5.41**	5.48	5.46	5.03	5.53	**5.37**	2.76	-5.26	-5.60	-6.63	-3.78
Non-building Investment	13.56	8.33	10.73	8.96	**10.31**	3.69	1.96	1.95	-0.13	**1.80**	-1.46	-18.62	-8.99	-4.71	-8.38
Exports	5.84	7.48	8.34	4.59	**6.55**	-1.58	-1.73	0.10	-0.39	**-0.87**	0.36	-12.02	-11.66	-7.21	-7.70
Imports	12.46	14.94	13.77	7.11	**11.88**	-7.47	-6.84	-8.30	-8.05	**-7.69**	-3.62	-18.29	-23.00	-13.52	-14.71
GDP	**5.06**	**5.27**	**5.17**	**5.18**	**5.17**	**5.07**	**5.05**	**5.02**	**4.97**	**5.02**	**2.97**	**-5.32**	**-3.49**	**-2.19**	**-2.07**

Source: Statistics Indonesia, processed

External stability in Indonesia was maintained amidst the ongoing domestic economic recovery. In the fourth quarter of 2020, Indonesia's overall Balance of Payments (BOP) recorded a narrow USD0.2 billion deficit, supported by a USD0.8 billion, or 0.3% of GDP, current account surplus. The current account surplus was bolstered by a goods trade surplus due to increasing exports on growing global demand and rising international commodity prices amidst subdued import growth. Meanwhile, the capital and financial account recorded a low USD0.9 billion deficit, 0.3% of GDP, in the fourth quarter of 2020 (Table 1.2.2). Overall, Indonesia's BOP recorded a USD2.6 billion surplus in 2020, buoyed by a USD7.8 billion capital and financial account surplus and despite a USD4.7 billion goods trade deficit.

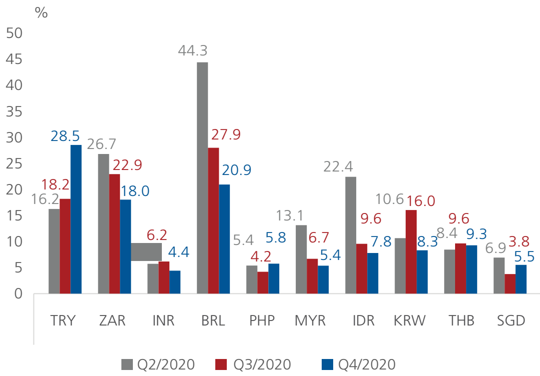
Capital and financial account performance prompted Rupiah appreciation in the latter half of 2020. The Rupiah appreciated 1.46% (ptp) in the second semester of 2020, accompanied by significantly lower volatility of 2.65% in December 2020 compared with 22% in June 2020. Consequently, the Rupiah depreciated by an average of 2.66% in 2020 to a level of Rp14,525 per US dollar from Rp14,139 per US dollar in 2019. Point-to-point, the Rupiah lost 1.19% of its value and closed at a level of Rp14,050 per US dollar at the end of 2020. On an annual basis, however, rupiah depreciation was lower than that recorded by currencies in other developing economies, such as the South African Rand, Turkish Lira, and Brazilian Real (Graph 1.2.3). Rupiah exchange rate volatility in 2020 increased to 15.9% from 7.0% in 2019, which is nevertheless lower than the average volatility of the South African Rand, Turkish Lira, and Brazilian Real (Graph 1.2.4).

Graph 1.2.3 Exchange Rate Fluctuations in Indonesia vs Peer Countries



Source: Bloomberg, processed, data as of 30th December 2020

Graph 1.2.4 Exchange Rate Volatility in Indonesia vs Peer Countries



Source: Bloomberg, processed, data as of 30th December 2020

Table 1.2.2 Indonesia's Balance of Payments (BOP)

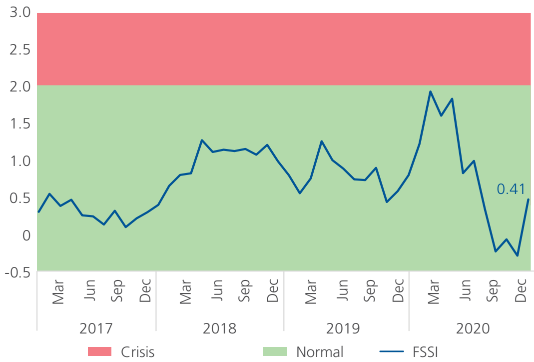
Component (USD, billions)	2018					2019*					2020				
	I	II	III	IV	Total	I	II	III	IV	Total	I*	II*	III*	IV**	Total**
Current Account	**-4.9**	**-7.8**	**-8.4**	**-9.5**	**-30.6**	**-6.6**	**-8.2**	**-7.5**	**-8.1**	**-30.3**	**-3.7**	**-2.9**	**1.0**	**0.8**	**-4.7**
A. Goods	2.3	0.3	-0.4	-2.5	-0.2	1.3	0.6	1.4	0.3	3.5	4.5	4.0	9.8	9.8	28.2
- Exports (fob)	44.4	43.7	47.7	44.9	180.7	41.2	40.2	43.7	43.4	168.5	41.7	34.6	40.8	46.2	163.3
- Imports (fob)	-42.1	-43.4	-48.1	-47.4	-181.0	-39.9	-39.6	-42.3	-43.1	-164.9	-37.3	-30.7	-31.0	-36.2	-135.2
a. Non-Oil and Gas	4.4	3.2	3.4	0.1	11.2	2.9	3.1	2.7	3.2	12.0	5.8	3.3	9.4	11.3	29.9
b. Oil and Gas	-2.4	-2.7	-3.5	-2.8	-11.4	-2.1	-2.9	-2.1	-3.2	-10.3	-2.7	-0.8	-0.7	-1.2	-5.4
B. Services	-1.3	-1.7	-1.8	-1.6	-6.5	-1.5	-1.9	-2.2	-2.0	-7.6	-1.9	-2.1	-2.7	-3.1	-9.8
C. Primary Income Account	-7.4	-8.0	-8.0	-7.4	-30.8	-8.1	-8.9	-8.4	-8.3	-33.8	-7.9	-6.2	-7.4	-7.5	-29.0
D. Secondary Income Account	1.4	1.6	1.8	2.0	6.9	1.8	2.0	1.8	2.0	7.6	1.7	1.4	1.4	1.4	5.9
Capital and Financial Account	2.2	3.1	4.0	15.9	25.2	9.9	6.8	7.4	12.5	36.6	-3.1	10.9	0.9	-0.9	7.8
1. Direct Investment	4.7	2.4	4.5	0.9	12.5	5.9	5.8	5.2	3.6	20.5	4.3	4.2	1.4	4.2	14.1
2. Portfolio Investment	-1.1	0.1	-0.1	10.5	9.3	5.5	4.6	4.6	6.9	22.0	-6.1	9.8	-1.9	2.2	3.9
3. Other Investment	-1.5	0.6	-0.5	4.7	3.3	-1.6	-3.6	-2.5	1.6	-6.1	-0.9	-3.2	1.5	-7.5	-10.2
Overall Balance	-3.9	-4.3	-4.4	5.4	-7.1	2.4	-2.0	0.0	4.3	4.7	-8.5	9.2	2.1	-0.2	2.6
Memorandum :															
Reserve Assets	126.0	119.8	114.8	120.7	120.7	124.5	123.8	124.3	129.2	129.2	121.0	131.7	135.2	135.9	135.9
In Months of Imports and Servicing Government External Debt	7.6	6.9	6.3	6.43	6.43	6.7	6.8	6.9	7.3	7.3	7.0	8.1	9.1	9.8	9.8
Current Account (% GDP)	-1.9	-3.0	-3.2	-3.7	-2.9	-2.5	-3.0	-2.6	-2.8	-2.7	-1.3	-1.3	0.4	0.3	-0.5

Notes: *Preliminary value **Projected value

Source: Bank Indonesia

Financial system stability was maintained amidst improving economic growth in the second semester of 2020. Such conditions were reflected in the Financial System Stability Index (FSSI), which remained below the threshold in the normal zone and closed at a level of 0.41 at the end of December 2020 (Graph 1.2.5). A lower FSSI in the second semester of 2020 compared with conditions in the first half of the year was primarily supported by resilient liquidity and banking industry efficiency. Pressures on the intermediation function remain elevated beyond pre-pandemic levels, however, as indicated by tighter lending standards in the banking industry.

Graph 1.2.5 Financial System Stability Index (FSSI)

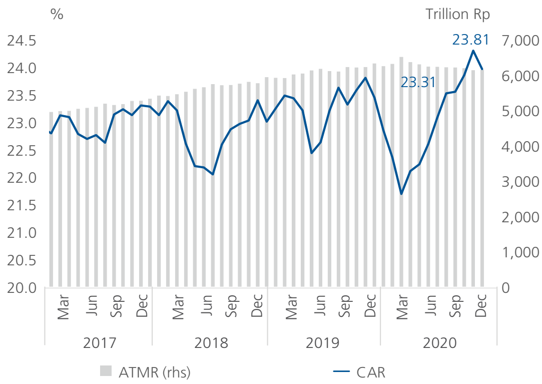


Source: Bank Indonesia, processed

Fiscal, monetary, macroprudential and microprudential policy synergy was maintained by the relevant authorities to accelerate the national economic recovery in the real sector and financial sector. Legally, policy synergy was implemented in accordance with Act Number 2 of 2020. The Government implemented expansive fiscal policy through various stimuli to overcome the crisis caused by COVID-19. By the end of 2020, the national economic recovery program had realised Rp579.8 trillion, or 83.4%, of the total budget allocation. Policy coordination was also used to maintain financial system stability through implementation of MSME and corporate restructuring programs together with various initiatives instituted by Bank Indonesia, the Indonesia Financial Services Authority (OJK) and Indonesia Deposit Insurance Corporation (LPS). In addition to funding the 2020 State Revenue and Expenditure Budget (APBN) through SBN purchases in the primary market via market mechanisms and private placement, Bank Indonesia also applied a monetary, macroprudential and payment system policy mix to accelerate the economic recovery. On the macroprudential side, Bank Indonesia maintained an accommodative policy stance to revive bank lending to priority sectors towards national economic recovery. This was achieved by setting the Macroprudential Intermediation Ratio (MIR) disincentive parameters at 0, raising the Macroprudential Liquidity Buffer (MPLB), relaxing the Loan/Financing-to-Value (LTV/FTV) ratio and downpayment requirements on automotive loans, as well as publishing prime lending rates to accelerate the transmission of lower interest rates.

The national policy response effectively maintained financial system stability throughout 2020 despite the distress caused by the COVID-19 pandemic. Financial system stability was reflected by loose liquidity conditions in the banking industry along with a solid capital base, supported by contained non-performing loans (NPL) and positive profitability ratios. The Capital Adequacy Ratio (CAR) in the banking industry as of December 2020 remained high at 23.81%, surpassing the 23.31% recorded in December 2019 (Graph 1.2.6). Nevertheless, the banking industry must remain vigilant regarding a potential deterioration of loan quality among previously restructured loans that could increase NPL and ultimately erode bank capital.

Graph 1.2.6 Bank Capital



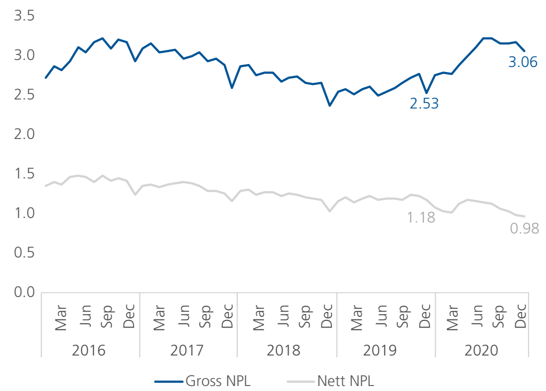
Source: OJK, processed

Although credit risk in the banking industry remains low, vigilance is required moving forward. NPL were recorded at 3.06% (gross) and 0.98% (nett) in December 2020 (Graph 1.2.7). The gross NPL ratio increased from 2.53% at the end of December 2019 as the pandemic undermined repayment capacity in the real sector. Notwithstanding, the gross NPL ratio remained below the threshold thanks to the loan restructuring program implemented by the OJK. Moving forward, credit risk in the banking industry will continue to demand attention, particularly in terms of anticipating a build-up of

Liquidity conditions in the banking industry remain loose, increasing throughout 2020. Abundant bank liquidity was reflected in the ratio of liquid assets to third-party funds, which increased to 31.64% (yoy) at the end of December 2020 from 20.85% at the end of December 2019 (Graph 1.2.8). The increase was supported by a funding surplus and banking industry propensity to place funds in liquid assets.

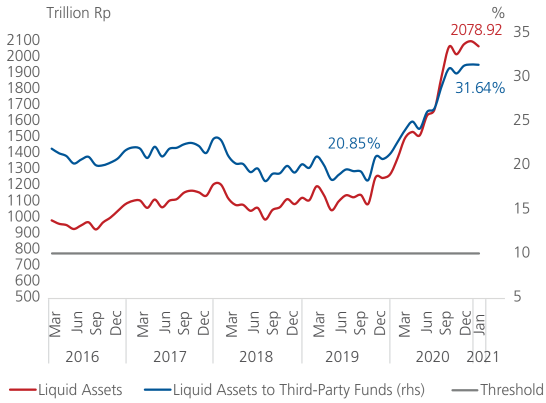
Despite decreasing, bank profitability remained in the positive zone. The return on assets (ROA) stood at 1.59% at the end of December 2020, down from 2.44% in December 2019. Lower profitability was caused by lower interest income, which was eroded by rising credit risk, as reflected by a dip in the net interest margin (NIM) from 4.80% at the end of December 2019 to 4.32% at the end of December 2020. Higher credit risk prompted an increase of provisions for impairment losses maintained by the banks. Efforts to increase the efficiency of overhead costs and the cost of funds have thus far been ineffective in terms of supporting profitability, as reflected by a higher BOPO efficiency ratio of 86.55% at the end of December 2020 compared with 79.58% at the end of December 2019 (Graph 1.2.9).

Graph 1.2.7 Bank Credit Risk



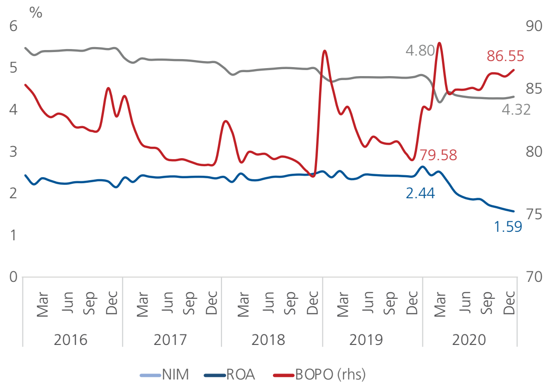
Source: Bank Indonesia

Graph 1.2.8 Bank Liquidity Ratio



Source: Bank Indonesia

Graph 1.2.9 Bank Liquidity Ratio

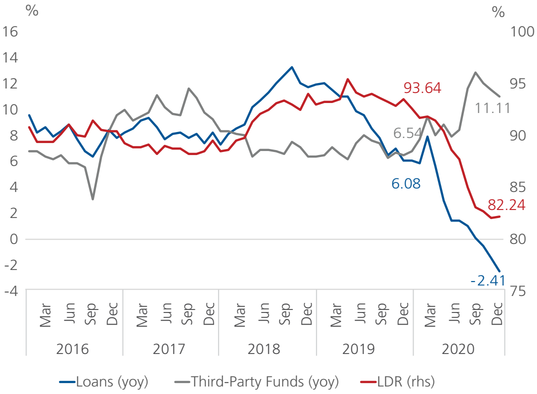


Source: OJK, processed

The bank intermediation function was subdued on compressed domestic demand and banking industry caution in response to higher risk perception looking forward. Bank intermediation was sluggish, with outstanding loans disbursed by the banking industry contracting 2.41% (yoy) at the end of December 2020, although growth of third-party funds accelerated to 11.11% (yoy) (Graph 1.2.10). The bank intermediation function was subdued on compressed domestic demand and banking industry caution in response to higher risk perception looking forward, as confirmed by tighter lending standards, particularly for sectors significantly impacted by the pandemic. Lower, albeit still elevated, global uncertainty led to the high-risk perception looking forward, with the ever-present potential of sudden capital outflows and exchange rate depreciation. Such conditions restricted financing from the banking industry to a corporate sector already indebted with high external debt.

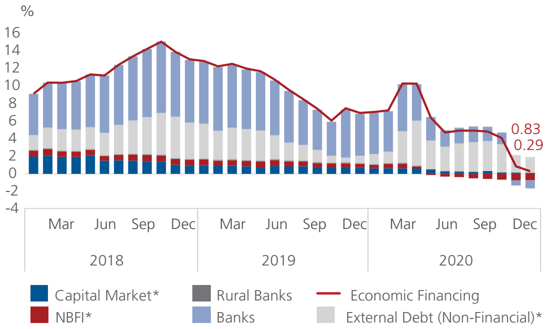
Economic financing moderated in the second semester of 2020 in line with economic weakness caused by the COVID-19 pandemic. Economic financing grew just 0.29% (yoy) at the end of December 2020, moderating significantly from 6.48% (yoy) at the end of December 2019. The largest declines affected commercial banks (excluding financing to the financial sector), contracting 1.5% (yoy), followed by the nonbank financial industry, where growth decelerated to 1.2% (yoy). In addition, financing through the capital market also declined, with the portion shrinking since 2019 (Graph 1.2.11). Weaker economic financing performance has been caused by a combination of weak demand in the real sector given the prevalent wait-and-see attitude, efforts to improve operational efficiency and sales of non-current assets to maintain corporate liquidity, as well as a prudent banking industry in terms of lending. Consequently, synergic efforts are required by the fiscal, monetary, macroprudential and microprudential authorities to revive demand in the real sector and intermediation in the financial sector.

Graph 1.2.10 Bank Intermediation Function



Source: Bank Indonesia

Graph 1.2.11 Economic Financing



*) Rural bank, NBFI and FinTech loans as well as external debt use a mtm growth proxy from the previous year
Source: OJK, KSEI, Bank Indonesia, processed

Box 1.1

Global Policy Response to Contain COVID-19

The Financial Stability Board (FSB) noted that the policy responses implemented by various authorities in advanced and developing economies to contain COVID-19 were relatively similar.[1] Nevertheless, differences were apparent in terms of the support measures rolled out by the government, averaging 5.5% of GDP in developing economies and 20% of GDP in advanced economies. Furthermore, developing economies took a more significant policy response in terms of increasing liquidity and facilitating digital payments. In general, the policy response was directed towards supporting real sector financing and financial intermediation, while maintaining global financial system stability as follows:[2]

1. **Government Guarantee and Financing Programs as well as Other Fiscal Support**

   Government guarantee programs aimed to dampen pressures in the credit market and maintain access to financing for small and medium enterprises (SMEs). There was some variation between different jurisdictions regarding the scope, value and percentage of loans guaranteed by the government, yet the guarantees were generally provided proportionally with full guarantees only available for loans to small enterprises (SMEs).

   Some countries also provided public financing directly to the corporate sector through special loan schemes or additional credit facilities via appointed financial institutions (such as state-owned financial institutions, institutions supporting exports and development banks).

   Most countries also introduced loan restructuring policy and provided direct assistance. Direct assistance or capital was allocated to small enterprises, entrepreneurs and specific professions in the most impacted sectors or based on business scale. In addition, the corporate sector also implemented the policy measures, such as tax relief and reducing other costs, to help mitigate the pandemic impact on unemployment.

2. **Central Bank Policy to Alleviate Financial Conditions and Maintain Financial Market Function**

   Central banks in major global countries implemented accommodative monetary policy by lowering policy rates as well as initiating or expanding quantitative easing (QE). Liquidity in the banking sector was increased through lower reserve requirements and greater availability of funding facilities with longer tenors from the central bank. In addition, several jurisdictions activated (or reactivated) facilities to support corporate access to short-term funds and the capital market. The policy design aimed to strike an optimal balance between the availability of alternative funding sources for the corporate sector and increasing transparency concerning the corporations receiving financial support.

   In several countries, central bank liquidity facilities were also used to alleviate liquidity pressures in financial markets due to the selling/redemption actions of global

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1 SB 2020b, "COVID-19 Pandemic: Financial Stability Impact and Policy Responses", Financial Stability Board, 17 November 2020.

2 FSB 2020a, "COVID-19 Pandemic: Financial Stability Implications and Policy Measures Taken", Financial Stability Board, 15 July 2020.

investors to rebalance their portfolios in a flight to quality. This was achieved by offering funding facilities to financial institutions purchasing financial assets with money market funds (MMF)[3] or including commercial papers in the scope of financial asset purchase programs. The US Federal Reserve expanded bilateral swap agreements and repurchase agreements (repo) with other central banks to ensure availability and alleviate liquidity pressures in the US dollar funding market

3. **Prudential Policy to Support Financing Sustainability**

   a. Several authorities relaxed capital buffer requirements[4], including the countercyclical buffer, systemic bank surcharge, capital conservation buffer and liquidity buffer (for instance by allowing banks to maintain a Liquidity Coverage Ratio (LCR) below the minimum requirements), to provide additional liquidity for the banking industry and increase financing capacity for the real sector. Financial institutions were expected to use the capital and liquidity buffers to disburse financing to the real sector.

   b. Several authorities adjusted leverage ratio regulations by excluding demand deposits or savings deposits held at the central bank from the leverage ratio. The policy also aimed to revive the bank intermediation function.

   c. Seeking to maintain adequate capital in the banking industry to absorb potential risks moving forward and revive financing to the real sector, several authorities introduced policies to suspend capital distribution in the form of dividend payments, share buybacks and bonuses for bank management.

   d. Authorities also published guidelines to assess asset quality in response to the clarification issued by standard-setting bodies (SSBs) concerning flexibility when estimating the expected credit loss, and a moratorium on loans and government guarantees when calculating non-performing loans and capital adequacy in the banking industry. The response aimed to ensure financial institutions used the flexibility available within accounting standards and the government's support measures to mitigate the adverse impact on the financial conditions of financial institutions.

   e. Authorities also temporarily relaxed various other prudential obligations. For example, authorities in the United States refined prudential regulations concerning capital to support the efficacy of liquidity programs targeting the asset management sector and postponed the mandatory revaluation of residential and commercial property. In several other countries, authorities relaxed macroprudential regulations, amongst others by foregoing the additional demand deposit requirements to meet the Macroprudential Intermediation Ratio (MIR) for a given period, increasing the loan-to-value (LTV) ratio on property loans or reducing the additional risk weighting on mortgage loans.

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3 During the period of financial market shocks in March 2020, the asset management sector, including MMF, experienced strong selling or redemption pressures from global investors.

4 Capital buffers are an obligation for banks under the Basel III framework issued by the Basel Committee on Banking Supervision (BCBS). Notwithstanding, BCBS temporarily relaxed the buffer requirements during the pandemic.

Ensuring the policy response taken by authorities to contain COVID-19 had no detrimental effect on fair competition or led to market fragmentation, the G20 agreed on the importance of adhering to five salient principles when designing and implementing the policy response as follows:

1. **Intensive monitoring and information sharing** through the FSB and other SSBs to identify and overcome the financial system stability risks associated with COVID-19 in a timely manner, while optimising the global policy response.

2. **Understanding and utilising the flexibility from implementation of financial standards, for instance through use of a macroprudential buffer**, to safeguard the availability of financing to the real sector, support financial market recovery and ensure the business continuity of financial institutions.

3. **In conjunction with SSB and other relevant authorities, FSB will strive to temporarily relieve the operational burden on authorities and the corporate sector** considering pandemic containment demands a high priority. To that end, FSB and SSB will explore possible workplan adjustments involving the authorities and corporations by delaying the reform agenda, adjusting the priorities and implementation targets of the reforms and providing flexibility when meeting the technical elements of the reforms.

4. **Maintaining consistency when implementing international standards**. The policy response taken by the authorities shall not reduce commitment to the global financial sector reforms, which have proven effective in terms of increasing resilience and maintaining financing to the real sector.

5. **Coordinating through FSB and SSB to carefully unwind policy support** in order to avoid a spillover effect, support a solid economic recovery and maintain financial system stability in the long-term.

Moving forward, a solid and stable financial system is required to maintain global economic recovery momentum from the COVID-19 pandemic. The government and relevant authorities are dynamically required to formulate effective COVID-19 containment policies based on prevailing conditions and their impact on economic activity. The FSB requested relevant authorities to consider the following factors to ensure an effective policy response: [5]

1. **Monitoring to measure the effectiveness of existing policy instruments**. Policy effectiveness is measured using various indicators or identifying the constraints as barriers to effective policymaking. Most authorities are monitoring policy effectiveness to support financing and overcome bankruptcies, as well as policies to support the orderly functioning of financial markets.

2. **Applying flexibility principles in policy design** to ensure that the policy response can effectively adapt to pandemic developments and the impacts that emerge.

3. **Paying due consideration to the trade-off between microprudential and macroprudential policies**. The Basel III framework contains mutually interacting microprudential and macroprudential policies. Under stress conditions, the goals of both policies can create potential friction because efforts to maintain capital resilience in terms of absorbing potential losses could trigger a credit crunch that severely impairs financing availability for the real sector.

5 FSB 2020b, "*COVID-19 Pandemic: Financial Stability Impact and Policy Responses*", Financial Stability Board, 17 November 2020.

4. **Utilising stress tests and scenario analysis in the policy response**. Amidst elevated economic uncertainty at the current time, stress testing and scenario analysis are proven tools underlying policymaking by the authorities to observe various possible scenarios and their impact on financial system stability. In addition, stress tests can also support an effective communication policy with financial institutions and the public to reduce uncertainty and restore public confidence.

5. **A clear communication policy** concerning the goals and expectations of each policy, thus facilitating clear planning for the corporate and household sectors, while increasing market and investor confidence.

6. **Increasing cross-border cooperation and coordination**, for instance by utilising various global or regional forums, such as the Crisis Management Group (CMG), to accommodate sharing amongst the members concerning resolution practices and the scope of resolution planning in response to stress tests and scenario analysis.

Chapter 2

Financial System Resilience Maintained

Financial system resilience in Indonesia has been maintained despite the ongoing COVID-19 pandemic. Globally, exceptional financial market shocks and distress at the onset of the pandemic in March 2020 began to ease in the latter half of the year. In response to COVID-19 transmission, global investors have rebalanced their portfolios by releasing higher risk assets in favour of safe-haven assets. Risk-off behaviour intensified domestic financial and capital market pressures, particular in March and April 2020. Entering the second semester of 2020, however, pressures in the domestic financial and capital markets began to subside due to investor optimism, which was gradually restored given the extraordinary global and domestic economic stimuli. Concerning the banking sector and NBFI, policy synergy built between Bank Indonesia, the Government and other relevant authorities effectively maintained resilience in terms of capital, liquidity and profitability. Nonetheless, compressed demand for new loans amongst borrowers and high-risk perception on the supply side mean that weak bank intermediation remains a challenge.

In the corporate sector, various policies have helped sustain corporate financial conditions. The global economic recovery, driven by China and several advanced economies, increased demand for export commodities and stimulated corporate sales in the second semester of 2020. Sales performance has improved primarily at large corporations, contrasting the ongoing sales contractions experienced by smaller enterprises. Shallower sales contractions are nevertheless expected to persist in the first quarter of 2021 in response to higher prices and growing export demand, particularly for crude palm oil (CPO) and coal. Limited corporate gains are increasing repayment capacity despite remaining below the threshold. In addition, the probability of default (PoD) has also decreased after peaking in the second quarter of 2020.

Mirroring corporate sector conditions, households have also started to feel milder pressures, albeit with a lag due to ongoing mobility restrictions. Household propensity to consume remains focused on fulfilling primary needs. Nevertheless, declines in the formal workforce and lower incomes in 2020 have not led to an aggregate dissaving. Growth of third-party funds has continued to accelerate, accompanied by increasing retail investment in financial assets amongst middle- and upper-class households. Consequently, SBN sales have exceeded all targets, accompanied by an expansion of the capital market investor base and stronger residential property sales. With the prevailing trend of urban inhabitants moving to rural areas as a corollary of the pandemic, the Social Protection Policy (Perlinsos) in 2021 must be oriented towards strengthening the contribution of villages to mitigate the COVID-19 impact on workers.

In the financial sector, resilience has been maintained amidst the economic distress caused by COVID-19, yet the main challenge is how to recover the bank intermediation function and support the economic recovery. The impact of deteriorating corporate and household performance on credit risk in the banking industry and financing risk in the nonbank financial industry has been contained with the support of various accommodative policies implemented by Bank Indonesia, the Government and other relevant authorities. The relaxation of several regulations has prevented an excessive build-up of credit risk. Stress tests have shown that risks stemming from the cliff-edge effect of the mature relaxation program remain under control. Nonetheless, the credit/financing contraction persisted into the first quarter of 2021 on the back of demand and supply-side constraints. Ongoing weaknesses in the corporate and household sectors have undermined demand for credit, while high-risk perception in the banking industry concerning borrower quality has led to tighter lending standards.

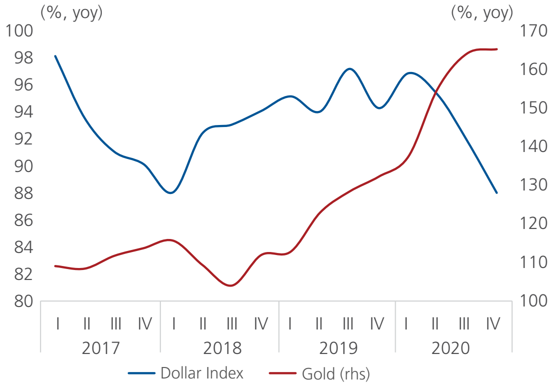
2.1 Domestic Financial Market Pressures Continue to Ease

Since experiencing deep distress at the beginning of the pandemic towards the end of the first quarter of 2020, domestic financial market pressures have continued to ease. In response to the rapid spread of COVID-19, global investors rebalanced their portfolios by releasing higher risk assets, such as shares and bonds in developing economies, in favour of safe-haven assets, such as US dollars and gold. Risk-off behaviour left investors with a passive wait-and-see attitude. Notwithstanding, investor confidence was gradually restored after the Government, Bank Indonesia, OJK and LPS issued stimulus policies, coupled with recovery optimism stoked by the discovery of viable vaccines. Such optimism caused risk perception in developing economies, such as Indonesia, Malaysia, Thailand and the Philippines, to gradually improve, as demonstrated by a decline in the CDS ratio after peaking in March 2020 (Graph 2.1.1). The prices of low-risk safe-haven assets increased, like gold, peaking in August 2020 before stabilising through to the end of the year (Graph 2.12). Similarly, the US dollar appreciated significantly in March 2020 before tracking a depreciatory trend thereafter (Graph 2.1.3).

Graph 2.1.1 CDS in Neighbouring Countries

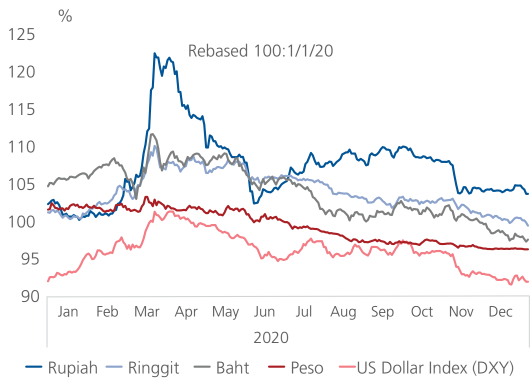
Source: Bloomberg, processed

Graph 2.1.2 Gold Price and US Dollar Developments



Source: Bloomberg, processed

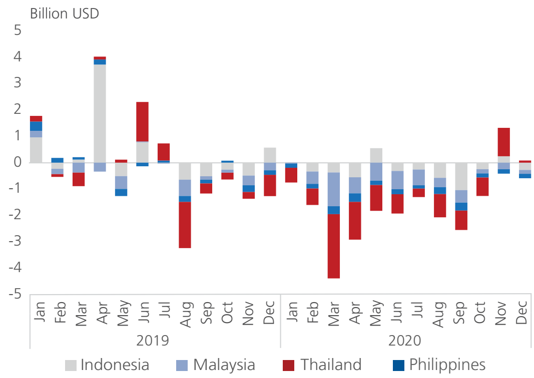
Graph 2.1.3 Regional Exchange Rates



Source: Bloomberg, processed

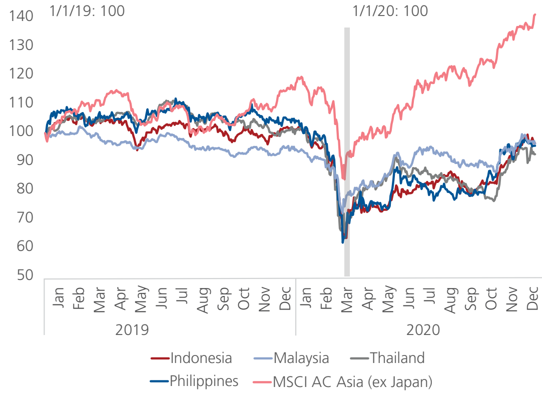
Buying actions by domestic investors, dominated by the banking industry, alleviated bond market pressures. Capital outflows from regional bourses (Graph 2.1.4) triggered stock market volatility, which peaked in March 2020 (Graph 2.1.5). The property sector was hardest hit by capital outflows (Graph 2.1.6). Nonetheless, such pressures gradually eased as capital inflows returned to the stock market in the latter half of 2020 (Graph 2.1.4). In the bond market, selling actions by foreign investors at the onset of the pandemic prompted a significant yield decline in March 2020 (Graph 2.1.8). Domestic investors, however, dominated by the banking industry (Table 2.1.1), purchased SBN released by foreign investors, with yield thus recovering. The banks' move to purchase SBN was driven by strong growth of third-party funds amidst compressed demand for new loans.

Graph 2.1.4 Net Flow in Regional Stock Exchanges



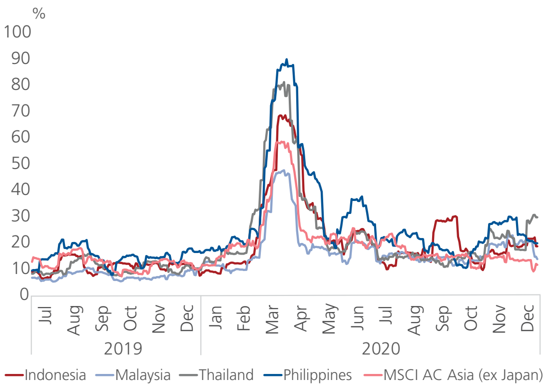
Source: Bloomberg, processed

Graph 2.1.7 Stock Market Conditions in Neighbouring Countries



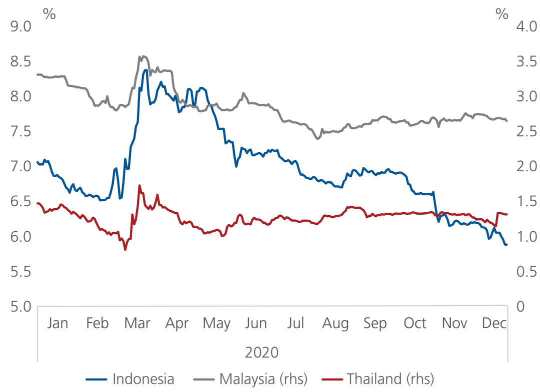
Source: Bloomberg, processed

Graph 2.1.5 Volatility in Regional Stock Exchanges



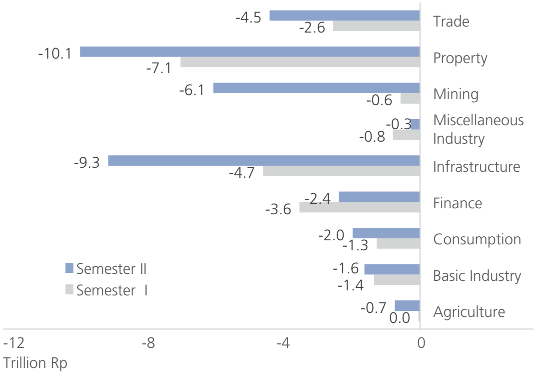
Source: Bloomberg, processed

Graph 2.1.8 Government Bond Yield Developments



Source: Bloomberg, processed

Graph 2.1.6 Sectoral Share Outflow



Source: Bloomberg, processed

Table 2.1.1 Holdings of Government Securities (SBN)

Institution (RpT)	Jun-19	Dec-19	Jun-20	Dec-20	Sem II'20	yoy	Share
Banking Industry	588,8	581,4	1.034,3	1.375,6	33,0%	136,6%	36%
Bank Indonesia	153,9	262,5	208,3	454,4	118,2%	73,1%	12%
NBFI	1.788,4	1.908,9	1.863,3	2.040,8	9,5%	6,9%	53%
Mutual Funds	106,8	130,9	136,1	161,3	18,5%	23,3%	4%
Insurance & Pension Funds	449,8	471,7	507,9	542,8	6,9%	15,1%	14%
Individual	77,2	81,2	92,9	131,2	41,3%	61,7%	3%
Others	165,8	163,3	189,4	231,5	22,3%	41,8%	6%
Foreign	988,8	1,061,9	937,0	973,9	3,9%	-8,3%	25%
Total	**2.531,0**	**2.752,7**	**3.105,9**	**3.870,8**	**24,6%**	**40,6%**	**100%**

Source: KSEI, processed

2.2 Stronger Corporate Performance and Resilience

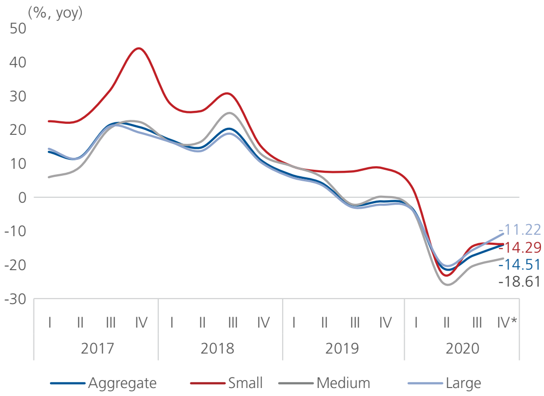
Increasing global trade in the second semester of 2020 spurred limited corporate sector gains. Early signs of a global trade recovery were primarily driven by increasing economic activity in East Asia and the United States. Nevertheless, improving global trade was limited to goods, with services languishing in stagnation. Consequently, demand for export commodities from Indonesia increased, thus boosting the performance of non-financial corporations (hereinafter referred to as corporations).

Stronger corporate sales performance in the second half of 2020 stemmed from growing demand for export commodities. As an aggregate, corporate sales experienced a shallower -14.51% (yoy) contraction in the fourth quarter of 2020 compared with -21.36% (yoy) in the second quarter of 2020. The limited sales gains were primarily occured in large corporations (-11.22% yoy) rather than small businesses (-14.29% yoy)[1] (Graph 2.2.1). The shallower sales contraction is expected to persist into the first quarter of 2021[2] in line with higher prices and demand for export commodities, dominated by CPO and coal.

1 The classification of large, medium and small enterprises is based on asset share as recorded in 2019. Corporations with assets larger than the 75th percentile are large corporations, 50-75th percentile are medium corporations and below the 50th percentile are small corporations.

2 Data analysis based on the financial reports of 77 public listed companies submitted in Q4/2020.

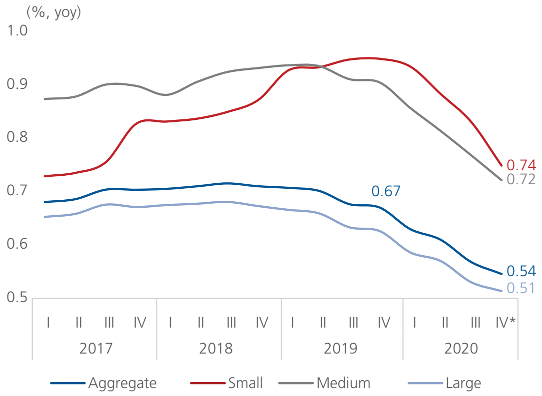
Graph 2.2.1 Corporate Sales by Asset Size



*Preliminary value
Source: Bloomberg

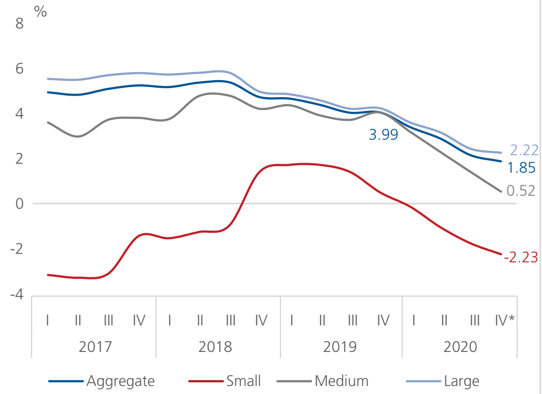
Corporations continue to face supply chain constraints. A Special Real Sector Survey (SKSR) conducted by Bank Indonesia in the third quarter of 2020 concluded that more than 50% of corporations continue to face constraints due to inactive raw material suppliers. Consequently, production activities were still restrained in the third quarter of 2020, as indicated by a decline in asset turnover (ATO) from 0.61 in the second quarter of 2020 to 0.54 in the fourth quarter of 2020 (Graph 2.2.2). Mirroring such trends, inventory turnover (ITO) also fell from 5.59 to a level of 5.21 over the same period (Graph 2.2.3). Corporate sales continue to rely on stock availability as production remains suboptimal.

Graph 2.2.2 Asset Turnover of Public Companies



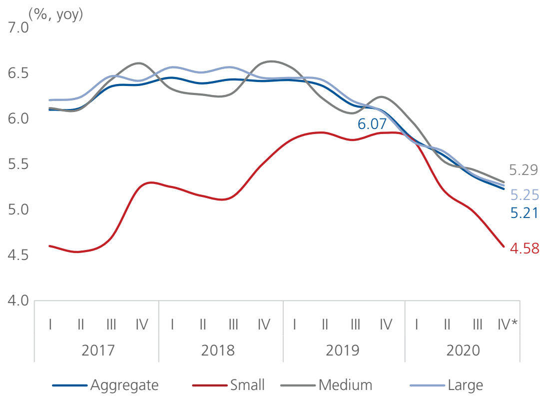
*Preliminary value
Source: Bloomberg

Graph 2.2.4 Return on Assets (ROA) of Public Companies



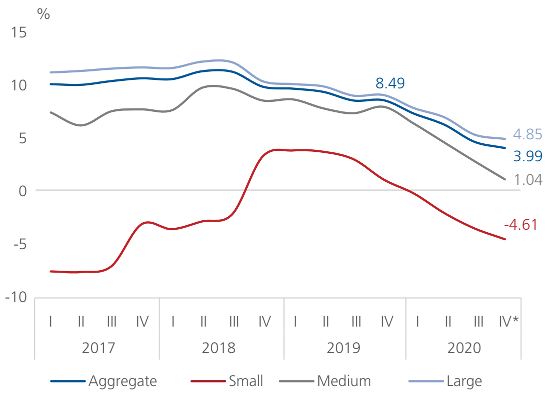
*Preliminary value
Source: Bloomberg

Graph 2.2.3 Inventory Turnover of Public Companies



*Preliminary value
Source: Bloomberg

Graph 2.2.5 Return on Equity (ROE) of Public Companies



*Preliminary value
Source: Bloomberg

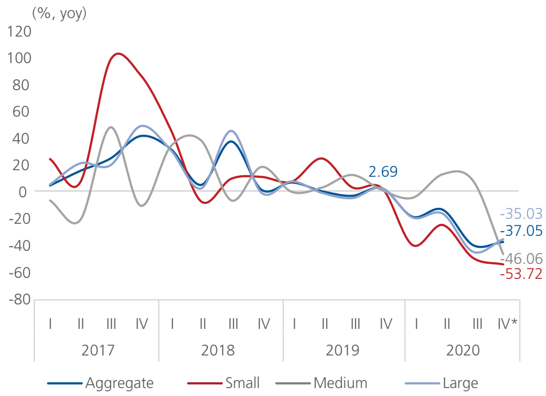
The lack of a sales recovery has impacted corporate profitability. As an aggregate, the return on assets (ROA) has tracked a downward trend from 2.84% in the second quarter of 2020 to 1.85% in the fourth quarter of 2020 (Graph 2.24). Consistent with the lower ROA, investors have had to accept a lower rate of return, falling from 6.19% in the second quarter of 2020 to 3.99% in the fourth quarter of 2020 (Graph 2.2.5). Pressures on profitability have been felt hardest by small businesses, contrasting medium and large enterprises where profitability pressures have been offset by the support of strong business groups, diversified business lines and large market share as market leaders.

Less opportunity to create income has forced the corporate sector to reconsider long-term investment decisions. In general, corporations have continued to reduce capital expenditure, reaching -37.05% (yoy) in the fourth quarter of 2020 from -13.13% (yoy) in the second quarter of 2020. As a consequence of more intense pressures on profitability, capital spending by small businesses in the fourth quarter of 2020 declined most significantly by -53.72% (yoy) (Graph 2.2.6).

Limited sales performance gains have improved corporate repayment capacity, which nevertheless remains below the threshold. Compared with the position in the second quarter of 2020, 50% of corporations recorded an increase in the interest coverage ratio (ICR) from 0.35 to 1.24 in the fourth quarter of 2020. Stronger repayment capacity is primarily supported by medium and large enterprises, where 50% have an ICR above the 1.5 threshold (Graph 2.2.7). By economic sector, four sectors have remained relatively resilient, where 50% of corporations have maintained an ICR above 1.0. The rising trend of corporate repayment capacity is expected to endure in line with stronger sales performance.

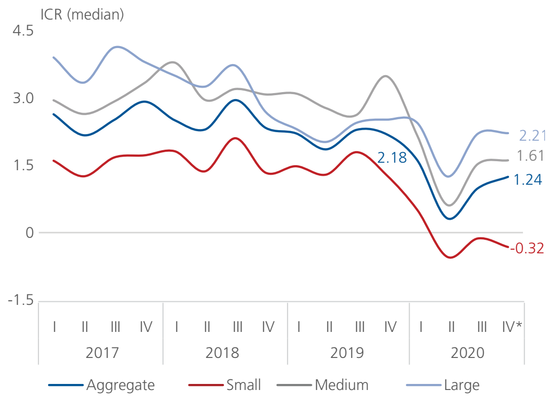
In general, a sectoral improvement was recorded in the second half of 2020 in terms of sales growth despite remaining in negative territory. By sector, only agriculture maintained positive sales performance, which nevertheless tracked a decreasing trend from 14.53% (yoy) in the second quarter of 2020 to 16.64% (yoy) in the fourth quarter of 2020 (Table 2.2.1). Positive sales performance in the agricultural sector was maintained on higher CPO prices and export volume, to India and Pakistan in particular. Sales pressures were most intense in the mining, transportation and corporate services sectors. Sales growth in the mining sector was primarily undermined by a coal price contraction, although coal exports from Indonesia to China are expected to increase on a temporary spike in demand, accompanied by deteriorating trade relations between China and Australia as the second largest supplier.

Graph 2.2.6 Capital Expenditure of Public Companies



*Preliminary value
Source: Bloomberg

Graph 2.2.7 Repayment Capacity of Public Companies



*Preliminary value
Source: Bloomberg

Table 2.2.1 Corporate Financial Performance by Economic Sector

No.	Sektor	Sales Growth (% yoy)								
		2019				2020				Tren
		I	II	III	IV	I	II	III	IV*	
1	Agriculture	5.75	(8.36)	(12.31)	1.02	7.88	14.53	2.69	16.64	
2	Mining	9.51	16.37	(6.72)	(4.43)	(2.92)	(22.32)	(24.73)	(19.72)	
3	Industry	6.68	4.20	(2.96)	(3.01)	(4.18)	(18.64)	(11.31)	(8.14)	
4	Electricity. Gas. Water	(1.26)	(1.97)	2.01	(0.21)	(0.82)	(29.47)	(29.10)	(29.17)	
5	Construction	(8.80)	(15.59)	(13.73)	(9.54)	(21.65)	(37.95)	(34.32)	(35.99)	
6	Trade	8.97	2.73	2.58	1.82	0.59	(27.10)	(22.59)	(16.30)	
7	Transportation	9.68	9.38	2.52	2.29	(4.00)	(22.02)	(23.41)	(16.51)	
8	Business Services	9.80	19.12	14.18	21.11	7.52	(17.07)	(23.12)	(39.15)	
9	Social Services	14.79	10.40	8.29	10.51	1.07	(17.70)	(3.26)	(7.87)	
	AGGREGAT	6.38	3.98	(2.52)	(1.54)	(3.66)	(21.35)	(17.76)	(14.51)	

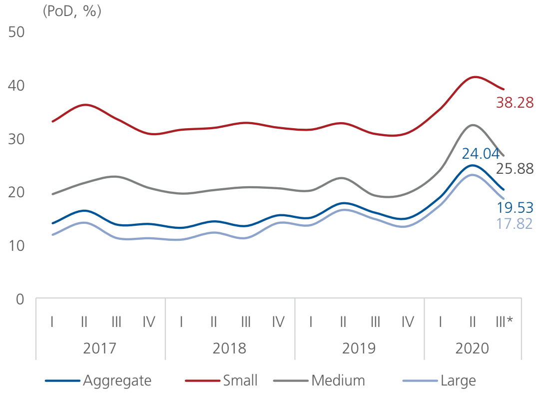
No.	Sektor	Capital Expenditure Growth (% yoy)								
		2019				2020				Tren
		I	II	III	IV	I	II	III	IV*	
1	Agriculture	20.00	14.64	(9.65)	27.44	(15.56)	(27.14)	(14.17)	(10.80)	
2	Mining	9.67	(6.50)	18.16	6.11	(26.31)	(32.62)	(61.48)	(45.91)	
3	Industry	11.29	10.11	(11.60)	(23.92)	(31.14)	(40.83)	(36.64)	(33.21)	
4	Electricity. Gas. Water	(36.94)	(41.42)	56.36	(62.46)	(37.14)	22.68	(50.74)	37.13	
5	Construction	(13.00)	(43.89)	48.12	(3.48)	14.86	128.93	(27.21)	(51.40)	
6	Trade	35.19	(1.99)	(22.47)	(32.57)	(37.23)	(28.18)	(23.58)	(47.78)	
7	Transportation	14.24	31.34	(12.62)	82.39	3.97	4.90	(42.34)	(36.82)	
8	Business Services	(10.09)	(27.99)	82.93	(65.33)	(47.44)	(9.74)	(53.91)	(38.57)	
9	Social Services	(24.50)	(42.45)	(23.44)	(21.43)	(35.52)	(46.67)	(18.57)	(19.76)	
	AGGREGAT	7.11	0.61	(2.79)	2.69	(18.33)	(13.13)	(39.35)	(37.05)	

No.	Sektor	ICR (Median)								
		2019				2020				Tren
		I	II	III	IV	I	II	III	IV*	
1	Agriculture	0.95	(0.65)	1.19	1.07	0.85	0.73	1.58	1.48	
2	Mining	2.24	3.01	3.28	1.94	2.95	1.83	1.23	1.27	
3	Industry	2.69	1.99	2.57	2.15	2.22	0.66	1.87	2.00	
4	Electricity. Gas. Water	5.17	5.44	1.14	(0.75)	3.12	(0.48)	0.98	(0.39)	
5	Construction	2.16	1.26	2.01	2.74	0.83	(0.05)	0.81	1.21	
6	Trade	1.59	1.63	2.72	2.77	0.76	(0.56)	0.12	(0.15)	
7	Transportation	1.79	2.18	2.28	1.46	1.32	0.73	0.68	0.63	
8	Business Services	2.52	2.49	1.49	3.71	1.94	(0.09)	0.19	0.37	
9	Social Services	2.40	4.36	6.71	4.89	2.90	0.38	2.62	4.45	
	AGGREGAT	2.21	1.85	2.28	2.18	1.61	0.32	0.99	1.24	

Based on financial reports of 524 corporate issuers.
*Projected value based on GDP realisation assumed by Statistics Indonesia
Source: Bloomberg, Indonesia Stock Exchange (IDX), processed

After peaking in the second quarter of 2020, the weighted average probability of default (PoD)[3] declined in the third quarter of 2020. The decrease was in line with early signs of increasing corporate repayment capacity and sales performance. Small and medium enterprises recorded a higher PoD than the aggregate and large corporations (Graph 2.2.8). As mentioned, the resilience of large corporations was primarily supported by diversified business lines and a larger market share as market leaders. A relatively stable weighted average PoD is predicted for the fourth quarter of 2020 based on limited performance gains.

Graph 2.2.8 Probability of Default of Non-Financial Corporations



*Preliminary value
Source: Bloomberg

3 The probability of distress is projected using machine learning based on a sample of 242 public corporations and 65 default events (loan principal or interest payment default, or loan restructuring). The weighted average is obtained from the estimated corporate PoD multiplied by total corporate assets as a ratio of total assets as an aggregate. A higher weighted average value implies greater corporate vulnerability to potential default.

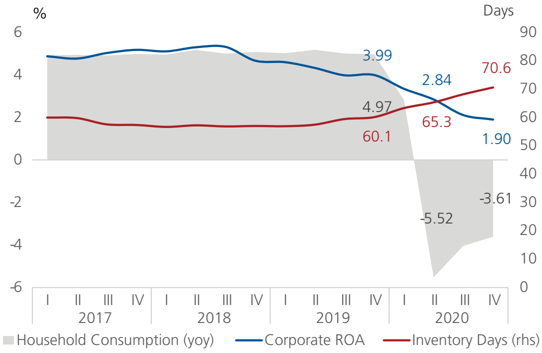
2.3 Stronger Household Performance and Resilience

Mirroring conditions in the corporate sector, pressures on household performance have begun to ease. Notwithstanding, household consumption improvements have been delayed by mobility restrictions. Conditions in the household sector are reflected by a shallower consumption contraction from -5.52% (yoy) in the second quarter of 2020 to -3.61% (yoy) in the fourth quarter of 2020 (Graph 2.3.1). Declining household consumption is also indicated by a lower ROA and higher inventory days outstanding in the corporate sector.

Household propensity to consume is dominated by meeting primary needs. Such conditions were confirmed by the spending habits of poor and aspiring middle-income households, which were dominated by food and household necessities, accounting for more than 70% (Graph 2.3.2). In contrast, spending by middle-upper income households was dominated by non-food consumption, including entertainment, vehicles, durable goods, clothing and so on, which has been eroded during the pandemic by mobility restrictions.

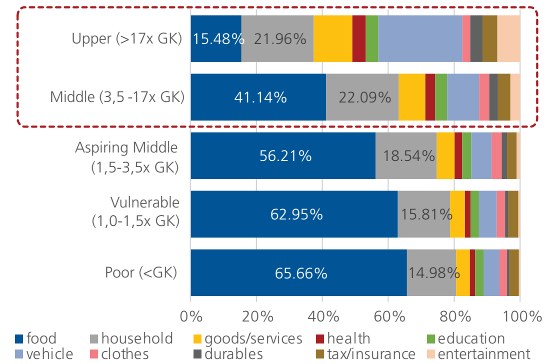
Migration to the informal sector and rural economy are the main coping strategies employed by lower-middle households impacted by staff rationalisation due to the pandemic. Departing from crisis conditions in 2008 when unemployment remained relatively stable, the pandemic in 2020 has had a massive impact on employment (Graph 2.3.3). This was confirmed by data from the National Labour Force Survey (SAKERNAS), which revealed a 4.59% increase in the share of the informal sector in 2020 compared with conditions in 2019. During the Global Financial Crisis, the share of the informal sector actually declined -0.23% in 2009 compared with 2008. Furthermore, growth of urban unemployment has accelerated from -2.08% in 2009 to 2.69% in 2020, exceeding rural unemployment that increased from -0.70% to 0.79% over the same period. Migration from the formal to informal sector as well as the rural economy has led to higher informal labour absorption and low wages in rural areas. In contrast, formal unemployment has tracked an upward trend in urban areas (Graph 2.3.4).

Graph 2.3.1 Household Consumption, Profitability and Corporate Inventory Cycle



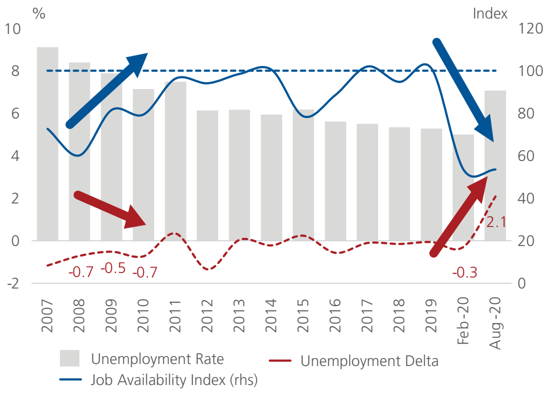
Notes: Corporate ROA and inventory days are based on data submitted by 524 non-financial corporations registered on the Indonesia Stock Exchange (IDX).
Source: Bloomberg, Statistics Indonesia, processed

Graph 2.3.2 Household Propensity to Spend by Income Group



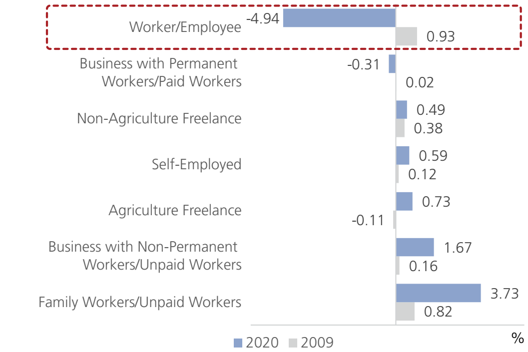
Notes: GK = Poverty Line
Source: National Socioeconomic Survey (March 2020), World Bank, processed

Graph 2.3.3 Unemployment and Job Availability Index



Source: Statistics Indonesia, Bank Indonesia, processed

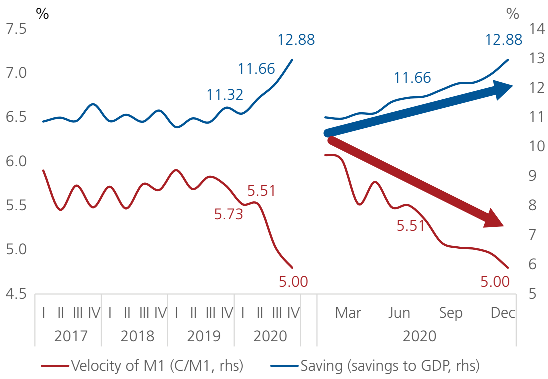
Graph 2.3.4 Formal and Informal Employment Delta



Source: National Labour Force Survey (SAKERNAS), Statistics Indonesia, processed

Despite the declining formal workforce and negative income shock experienced in 2020, dissaving did not occur. The dissaving phenomenon experienced during the Global Financial Crisis in 2008 was not apparent in 2020. In fact, personal savings actually increased in 2020 as a form of precautionary saving due to less economic activity and lower incomes in line with mobility restrictions to contain the pandemic. This phenomenon reflects the paradox of saving, where an increase in saving is a net drag on economic growth overall, as demonstrated by a lower velocity of M1 to consumption ratio and higher savings to GDP ratio as of yearend 2020 (Graph 2.3.5).

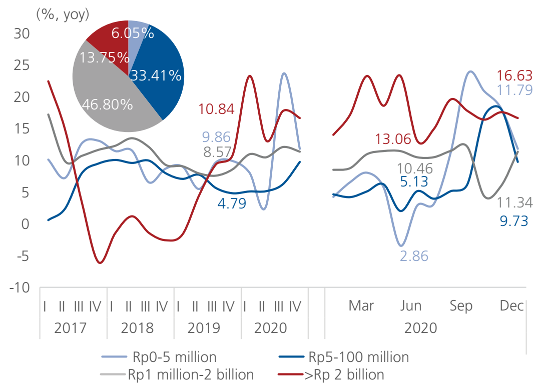
Graph 2.3.5 Ratio of Savings to GDP and Velocity of M1 to Consumption



Source: Statistics Indonesia, Commercial Bank Reports, Indonesian Economic and Financial Statistics (SEKI), processed

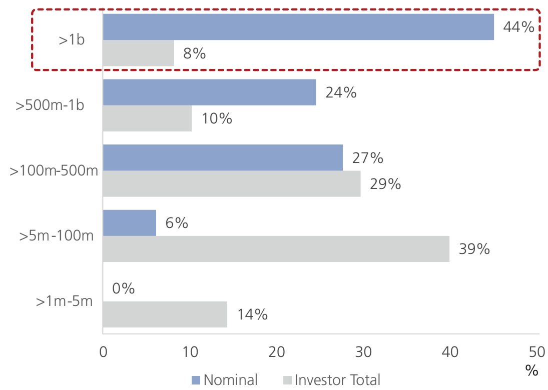
Upper-middle-class households have continued to invest in financial assets, as indicated by retail SBN sales exceeding target, stronger capital market growth and early signs of improving residential property sales. Lower interest rates have encouraged upper-middle-class households to diversify their investment portfolios, dominated by savings instruments and other financial assets for investment (Graph 2.3.6). Savings growth has been led by instruments with a value of >Rp 2 billion, accounting for 13.75% of total savings, while instruments with a value of Rp100 million-Rp2 billion dominated total savings with a share of 46.80%. Strong household interest in portfolio diversification precipitated retail SBN sales in 2020 totalling Rp76.78 trillion, thus exceeding the Rp55 trillion target, dominated by purchase transactions exceeding Rp1 billion (Graph 2.3.7). Retail SBN sales and the investor base in 2020 were the highest since online retail SBN began five years ago.

Graph 2.3.6 Individual Savings



Source: Commercial Bank Reports, processed

Graph 2.3.7 Investor Profit from Retail SBN (ORI-017)

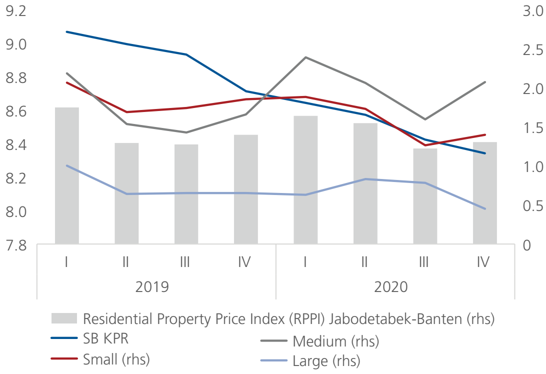


Source: Directorate General of Budget Financing and Risk Management (DJPPR)

In total, residential property sales have begun to recover yet not to pre-crisis levels, as confirmed by the results of the Residential Property Price Survey conducted by Bank Indonesia. The residential property sales recovery has been driven by large houses, contrasting limited gains in terms of medium and small residences. Consistent with stronger sales performance, prices in the primary market also improved in the fourth quarter of 2020, dominated by medium and small residential property (Graph 2.3.8) located primarily in the Greater Jakarta (Jabodetabek) area, Makassar, Bandung and Medan (Graph 2.3.9).

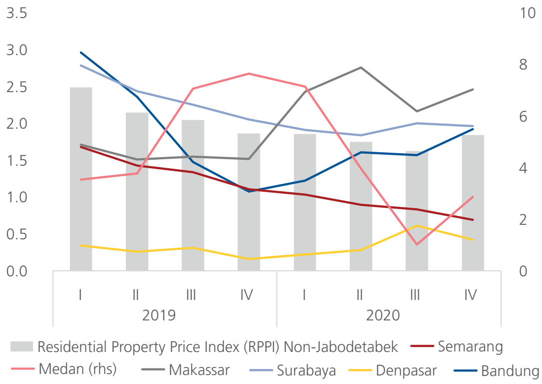
Social protection (*Perlinsos*) policy in 2021 must be directed towards strengthening the contribution of rural areas in terms of mitigating the impact of COVID-19 on the workforce. The *Perlinsos* program in the first half of 2021 was expected to mitigate the pandemic impact on unemployment and household income amongst the middle and working classes (Graph 2.3.10). The focus in 2021 on refining Integrated Social Welfare Data (DTKS) and improving the disbursement mechanisms, such as changing *sembako* (staple food packages) assistance into cash assistance, is expected to maintain the resilience of households as well as micro, small and medium enterprises (MSME). Strengthening the *Perlinsos* program in 2021 by reinforcing the contribution of rural areas to mitigate the impact of COVID-19 on the workforce is required due to the recent migration of urban workers to rural areas caused by the pandemic (Table 2.3.1).

Graph 2.3.8 Primary Residential Property Price Index (%, yoy)



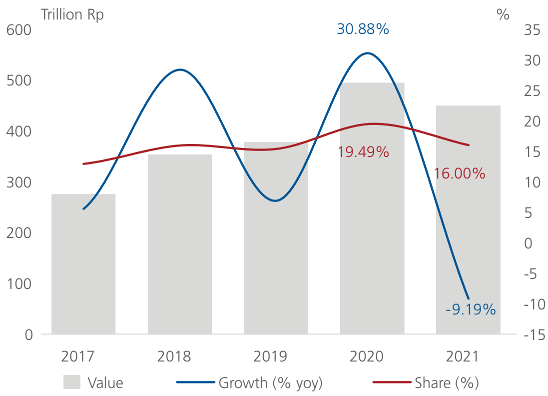
Source: Bank Indonesia

Graph 2.3.9 Residential Property Price Index by Region (%, yoy)



Source: Bank Indonesia

Graph 2.3.10 Social Protection Spending to Total State Revenue and Expenditure Budget (APBN)



Source: Ministry of Finance

Table 2.3.1 Social Protection Programs in 2020 and 2021

Social Assistance Type	Realisation in 2020 (Rp, trillions)	2021 (Rp, trillions)			
		APBN	Additional Proposal Jan 21	Adjustment Feb 21	Total
Family Hope Program (PKH)	36.71	28.71			28.71
PKH Rice Assistance	5.26				
Sembako Card	41.48	45.12			45.12
Non-PKH Cash Assistance	4.50				
Jabodetabek Social Aid Program	7.10				
Cash Social Assistance	32.84	12.00			12.00
Pre-Employment	19.98	10.00	10.00		20.00
Electricity Subsidies	11.45		5.64		5.64
Village Fund Direct Cash Assistance	22.78	14.40			14.40
Salary Subsidies (Ministry of Manpower)	29.81				
Honorarium Teacher Salary Assistance	4.08				
Internet Subsidies	4.05	10.09		(2.30)	7.79
Cash Social Aid Reserves			15.00	7.20	22.20
Employment Guarantee Contribution Plan				1.55	1.55
Total	**220.39**	**120.32**	**30.64**		**157.41**

Source: Ministry of Finance

Box 2.3.1

Role of Retail Investors in Reviving Financial Market Activity

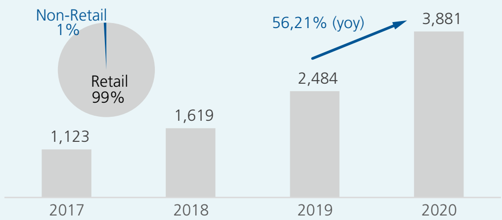
The Jakarta Composite Index (JCI) slumped to its lowest level since June 2012 at 3,937.63, recorded on 24th March 2020. Notwithstanding, the JCI quickly rebounded to exceed 5,000 at the beginning of June and 6,000 in the middle of December 2020. Despite experiencing a -5.09% (ytd) correction at the end of 2020, JCI growth reached 52% since the March nadir (Graph B2.3.1.1).

The rapid JCI recovery to pre-pandemic levels was inextricably linked to increasing retail (individual) investor activity in the capital market. The downward BI 7-Day Reverse Repo Rate (BI7DRR) trend, accompanied by lower deposit rates in the banking industry, pushed retail investors to seek alternative financial instruments for investment in the capital market. Such conditions were confirmed by a significant 56.21% (yoy) increase of capital market investors in 2020, primarily driven by a 78.95% (yoy) expansion of mutual fund investors (Graph B2.3.1.2). Such growth is the fastest on record in the past four years, bringing total capital market investors to 3.87 million at the end of 2020 (Graph B2.3.1.4). Based on the Single Investor Identification (SID) system at the Indonesian Central Securities Depository (KSEI), 99% of the new investors were identified as retail or individual investors.

Graph B2.3.1.1 Jakarta Composite Index (JCI)

Source: Indonesia Stock Exchange (IDX)

Graph B2.3.1.2 Total Investors in Capital Market (SID) (in millions)

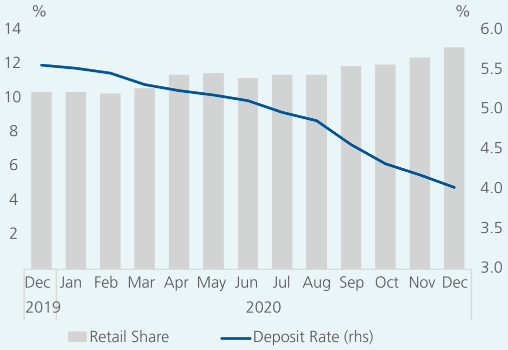


	Shares		Mutual Funds		Bonds	
2017	628		623		128	
2018	852	↑35.66%	996	↑59.9%	195	↑52.0%
2019	1.105	↑29.6%	1.774	↑78.2%	316	↑62.0%
2020	1.695	↑53.5%	3.175	↑78.9%	460	↑45.6%

Source: KSEI

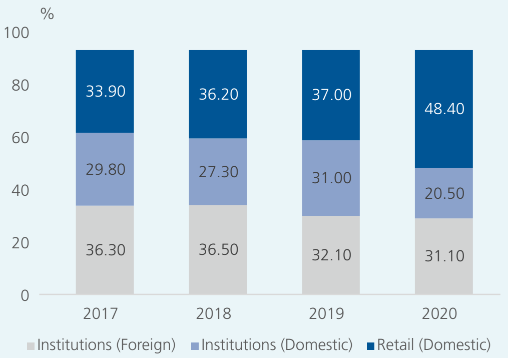
Retail investors held 13.01% of total shares in December 2020, up from 10.41% one year earlier. Domestic retail investors were also active share traders, playing an important role in terms of stock market prices through a net buying action to offset the net sell recorded by non-resident investors (Graph B2.2.1.3). With the growing contribution of domestic retail investors, the Indonesia Stock Exchange (IDX) recorded the highest daily transaction frequency in its history on 22nd December 2020, totalling 1,697,537 transactions. Therefore, 2020 can be considered as the year of retail investor awakening in Indonesia.

Graph B2.3.1.3 Total Investors in Shares, Mutual Funds and Bonds



Source: KSEI, Commercial Bank Reports

Graph B2.3.1.4 Composition of Retail Investors based on Share Trading Activity



Source: KSEI

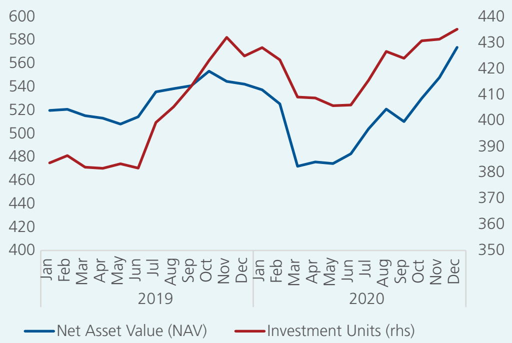
The contribution of retail investors is also evident in the bond and mutual fund markets. This is reflected by retail SBN sales in 2020 that exceeded the predetermined target (Table B2.3.1.1). Sales of SR013 were the largest since online retail SBN sales began, along with the most investors ever recorded. In addition, the net asset value (NAV) and investment units (IU) of mutual funds recovered quickly in 2020 in line with the financial market recovery (Graph B2.3.1.5). At the end of 2020, total NAV and IU grew 5.79% (yoy) and 2.44% (yoy) on their respective positions in 2019.

Table B2.3.1 Actual Retail SBN Sales in 2020

Retail SBN	Date of Issue in 2020	Target (Rp T)	Realisation (Rp T)	%
Retail SBN	27 Jan - 13 Feb	2	2,25	113%
Retail SBN	24 Feb - 18 Mar	8	12,14	152%
Retail SBN	15 June - 9 July	20	18,34	92%
Retail SBN	28 Aug - 23 Sep	10	25,66	257%
ORI018	1 - 21 Oct	10	12,97	130%
ST007	4 - 25 Nov	5	5,42	108%
Total		**55,00**	**76,78**	**140%**

Source: Directorate General of Budget Financing and Risk Management (DJPPR), Ministry of Finance

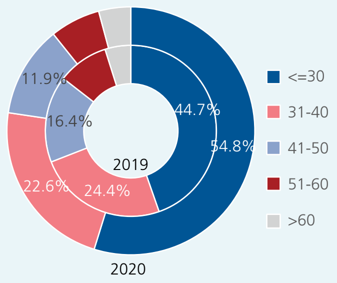
Graph B2.3.1.5 Mutual Fund Net Asset Value and Investment Units



Source: KSEI

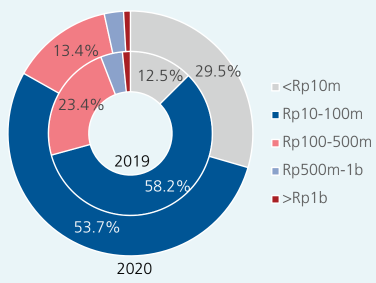
Based on demographics, retail investors in the capital market are dominated by Generation Y/Millennials and Generation Z, approximately 40 years old, accounting for 77.41% of the total (Graph B2.3.1.6). Consistent with the comparatively young age of capital market investors, investors earning less than Rp100 million per month are dominant, accounting for 83.16%, up from 70.75% one year earlier (Graph B2.3.1.7). The emergence of FinTech platforms facilitating capital market activity has also boosted the number of younger retail investors. Moving forward, the contribution of this generation is expected to increase as agents of economic financing.

Graph B2.3.1.6 Capital Market Investor Profile by Age



Source: KSEI

Graph B2.3.1.7 Capital Market Investor Profile by Income



Source: KSEI

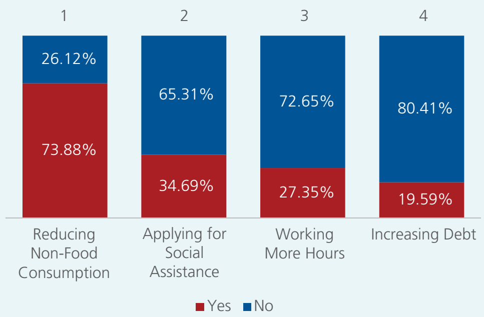
Box 2.3.2

Household Behaviour and Coping Strategies in Face of COVID-19 Pandemic

The COVID-19 pandemic has triggered a massive labour market shock in Indonesia. Statistics Indonesia has recorded 29.12 million (14.28%) working age citizens impacted by COVID-19, consisting of: (i) unemployed due to COVID-19 (2.56 million); (ii) non-labour force (BAK) due to COVID-19 (760,000); (iii) temporarily unemployed due to COVID-19 (1.77 million); and (iv) employed but experiencing a reduction in working hours due to COVID-19 (24.03 million). Consequently, unemployment in Indonesia has increased from 5.23% in August 2019 to 7.07% in August 2020, the highest level on record for the past nine years. The number of workers in the informal sector has also increased from 56% to 60.47% of the total workforce, indicating a higher level of vulnerability (Statistics Indonesia, 2020).

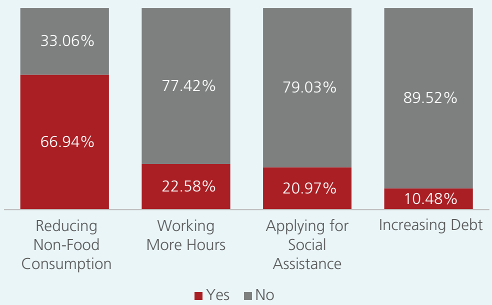
In general, households impacted by COVID-19 have reduced non-food consumption as a coping strategy. Based on the Household Balance Sheet Survey (SNRT) 2020, Bank Indonesia identified 11% of household respondents that have experienced low incomes due to COVID-19.[1] The most impacted households, namely those experiencing a reduction of income exceeding 50%, accounted for 7.5% of total respondents, while the least impacted households, namely those experiencing a reduction of income of less than 50%, accounted for 3.5% of total respondents. The survey revealed that impacted households reduced non-food consumption as the primary coping mechanism (Graph B2.3.2.1 and Graph B2.3.2.2). In addition to reducing

Graph B2.3.2.1 Coping Strategies of Households Most Impacted by COVID-19



Source: SNRT (2020), 6,000 respondents

Graph B2.3.2.2 Coping Strategies of Households Least Impacted by COVID-19



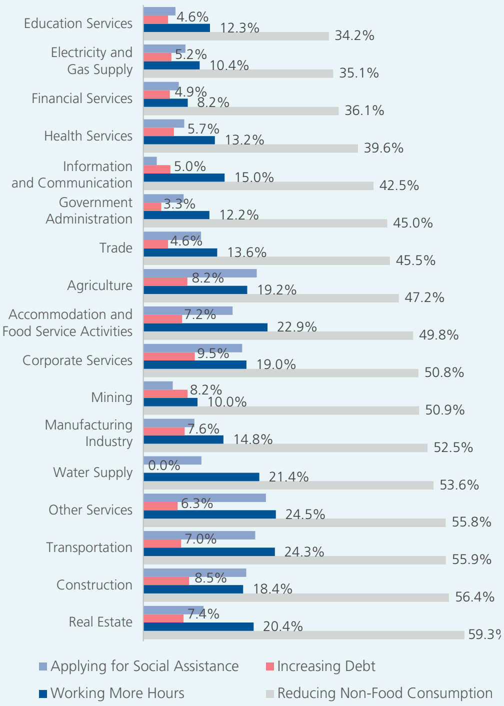
Source: SNRT (2020), 6,000 respondents

1 The Household Balance Sheet Survey (SNRT) was conducted in September and October 2020 with a sample of respondents totalling 6,000 domiciled in 21 Indonesian provinces, namely Aceh, North Sumatera, West Sumatera, Riau, South Sumatera, Lampung, Jakarta, West Java, Central Java, East Java, Banten, Bali, West Nusa Tenggara, East Nusa Tenggara, West Kalimantan, Central Kalimantan, South Kalimantan, East Kalimantan, North Sulawesi, South Sulawesi and Maluku.

non-food consumption, households also applied for social assistance, worked more hours and took on more debt (Graph B2.3.2.3).

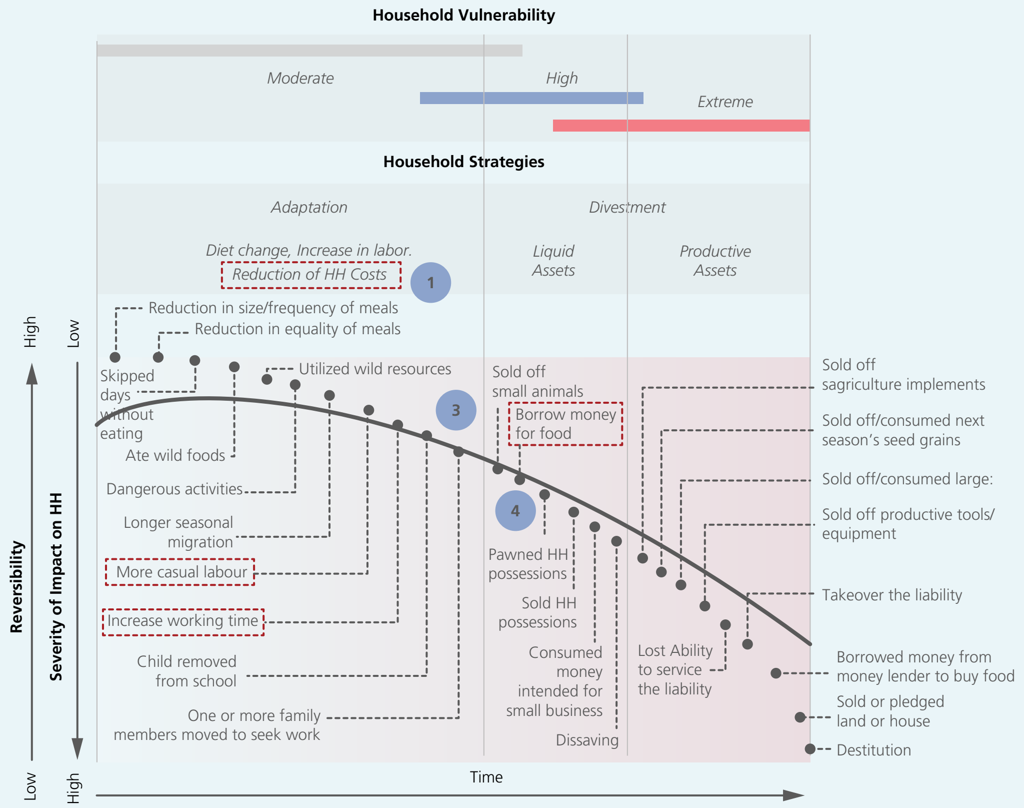
Based on a heatmap of coping strategies published by USAID, the main coping mechanisms employed by households during the pandemic demonstrated that, fundamentally, household vulnerability remains moderate (Figure B2.3.2.1). Nevertheless, the potential vulnerability of households taking on more debt to meet their daily needs demands vigilance. Therefore, government policy to continue rolling out the existing vaccination program is expected to boost household and corporate optimism, thus delivering a faster economic recovery.

Graph B2.3.2.3 Household Coping Strategies by Work Sector



Source: SNRT, 2020

Figure B2.3.2.1 Heatmap of Household Coping Strategies



Source: USAID, processed

2.4 Solid Banking Industry and NBFI Resilience Maintained Despite Declining Intermediation Function

2.4.1 Solid Banking Industry Resilience Maintained

Bank Indonesia and other relevant authorities have maintained accommodative policies to support the national economic recovery. On the monetary side, Bank Indonesia reduced the policy rate by 125 basis points in 2020 and extended the 50bps Rupiah reserve requirement incentive for banks allocating financing to export-import activities, SMEs and priority sectors until 30th June 2021. From a macroprudential perspective, Bank Indonesia held the Countercyclical Buffer (CCB) at 0% with the penalty for maintaining a (sharia) Macroprudential Intermediation Ratio (MIR) outside of the 84-94% target also set at 0%. Furthermore, Bank Indonesia reduced the down payment requirements on green automotive loans/financing to 0%. Similar measures were taken by the OJK and LPS to alleviate the impact of COVID-19 on the financial services industry, such as loan relaxation and restructuring policy as well as lower guarantee interest rates.

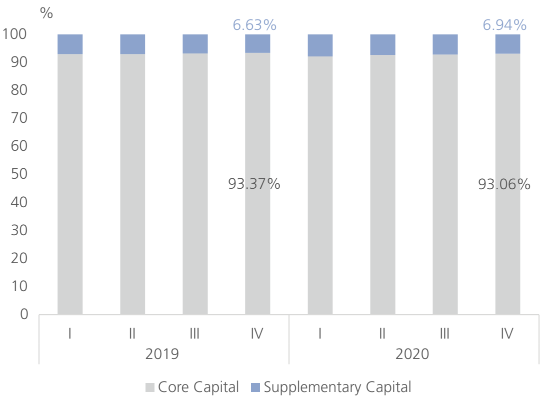
The various policy packages had a positive impact on banking industry resilience in 2020 despite the economic impact of COVID-19. Solid capital conditions in the national banking industry further reinforced banking resilience to economic shocks. CAR was high at 23.81% in December 2020, up from 23.31% at the end of 2019. The percentage of core capital to total capital at the end of 2020 was also high at 93.06% (Graph 2.4.1.1).

Currently, one of the main risks that could impact capital resilience in the banking industry is the cliff-edge effect of higher credit risk from the loans previously restructured under relaxed OJK regulations as moratoriums expire.[1] Based on the results of stress tests, bank CAR could decline in the 0.1-0.3% range under a baseline scenario at the end of 2021, with a relapse rate of 5-10%.[2] Under such a scenario, the CAR would remain well above the indicative 8% level despite decreasing. In addition, banks have also taken risk mitigation measures by increasing provisions for impairment losses in anticipation of a future cliff-edge effect (Graph 2.4.1.2).

1 OJK Regulation (POJK) No. 11/POJK.03/2020 concerning National Economic Stimuli as Countercyclical Policy to the Impact of Coronavirus Disease 2019 and OJK Regulation (POJK) No. 48/POJK.03/2020 as an amendment to OJK Regulation (POJK) No. 11/POJK.03/2020 concerning National Economic Stimuli as Countercyclical Policy to the Impact of Coronavirus Disease 2019.

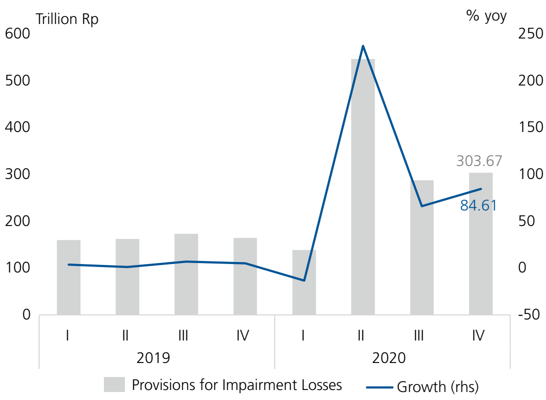
2 The relapse rate was estimated based on Focus Group Discussions (FGD) with several large banks between December 2020 and January 2021.

Graph 2.4.1.1 Composition of Bank Capital (%)



Source: Bloomberg

Graph 2.4.1.2 Provisions for Impairment Losses

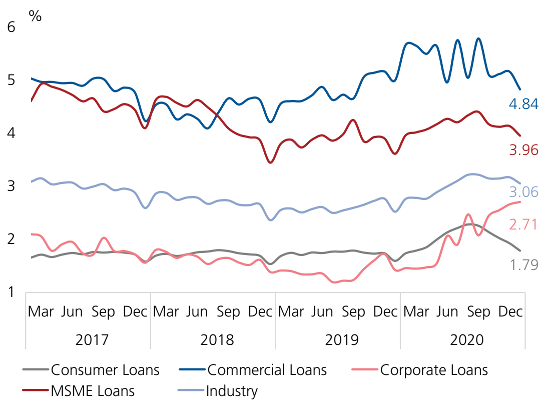


Source: Bloomberg

Despite promulgation of POJK No. 11/ POJK.03/2020 and POJK No. 48/POJK.03/2020, which facilitate loan restructuring in the banking industry, the gross NPL ratio continued to track an upward trend in 2020. At the end of 2020, the gross NPL ratio in the banking industry stood at 3.06%, increasing from 2.53% at the end of 2019 (Table 2.4.1.1). Fundamentally, however, the gross NPL ratio is still well below the psychological 5% threshold (Graph 2.4.1.3).

An increase of precautionary saving during the crisis, coupled with extraordinary government expansion, has triggered a surge of third-party funds in the banking industry. At yearend 2020, third-party funds in the banking industry grew 11.11% (yoy), up significantly from 6.54% one year earlier (Graph 2.4.1.4). The main drivers of annual growth were individual depositors (5.72%) and private corporations (3.78%) (Table 2.4.1.2).

Graph 2.4.1.3 Gross NPL Ratio by Credit Segment (%)



Source: Bank Indonesia. processed

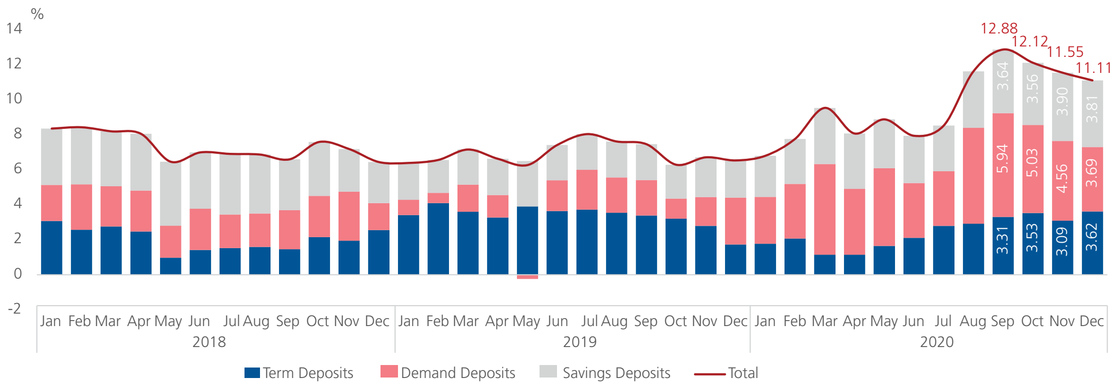
The Rp667 trillion inflow of third-party funds in 2020 (Graph 2.4.1.5) is the largest in recent years in response to a net fiscal expansion by the government to support the national economic recovery (Graph 2.4.1.6).

Table 2.4.1.1 Gross NPL Ratio by Economic Sector

Sector	NPL Gross (%)				NPL Value		
	2017	2018	2019	2020	Δ YOY (Rp T)		Share (%)
				Dec-20	Dec-19	Dec-20	
Trade	4.10	3.79	3.66	4.54	0.05	7.19	28.65
Others (Household Consumption)	1.59	1.55	1.60	1.80	2.10	2.79	16.59
Manufacturing	2.70	2.53	3.88	4.58	13.47	4.71	24.39
Transportation and Telecommunications	3.74	2.68	1.64	2.16	-1.78	1.69	3.42
Construction	3.67	3.14	3.55	3.45	2.94	0.11	7.74
Agriculture	1.41	1.33	1.66	2.08	1.50	1.97	4.99
Corporate Services	1.63	1.52	1.43	1.92	-0.03	1.70	5.45
Social Services	1.86	1.41	1.50	2.17	0.42	1.15	2.14
Mining	6.18	4.66	3.58	7.26	-1.61	4.24	5.40
Electricity Supply	1.08	1.33	0.89	1.24	-0.49	0.32	1.25
Total	**2.59**	**2.37**	**2.53**	**3.06**	**16.57**	**25.87**	**100**

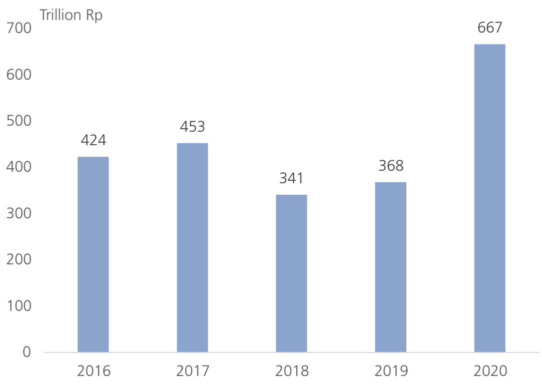
Source: Bank Indonesia, processed

Graph 2.4.1.4 Third-Party Funds



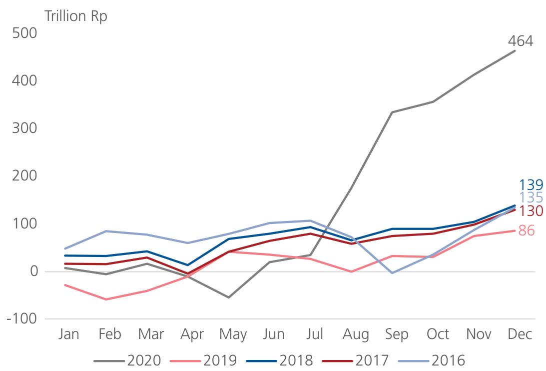
Source: Bank Indonesia, processed

Graph 2.4.1.5 Inflow of Third-Party Funds Over Past Five Years



Source: Bank Indonesia, processed

Graph 2.4.1.6 Net Claims on Government Over Past Five Years



Source: Bank Indonesia, processed

Table 2.4.1.2 Contribution of Third-Party Funds by Group

Group	Third Party Fund (%,yoy)				Contribution (%, yoy)		Delta (Rp T)		
	2019	Jun-20	Nov-20	Dec-20	Nov-20	Dec-20	Mar - Jun 2020	Jun - Sep 2020	Oct - Dec 2020
Non-Residents	11,57	3,99	23,07	19,69	0,16	0,14	0,42	5,75	-0,64
Government State-Owned Enterprises	4,82	17,40	14,21	12,93	0,86	0,80	43,57	65,70	9,28
Government Non-State-Owned Enterprises	11,49	3,37	3,17	1,09	0,28	0,07	28,01	72,84	-212,12
Individual	6,99	8,30	10,73	10,58	5,67	5,72	82,03	93,28	126,89
Private NBFI	10,18	2,04	16,61	14,31	0,68	0,61	-8,39	16,14	18,36
Private Non-NBFI	4,44	7,88	14,18	13,21	3,91	3,78	-99,48	136,71	103,74
Total	**6,54**	**7,95**	**11,55**	**11,11**	**11,55**	**11,11**	**46,16**	**390,41**	**45,51**

Source: Bank Indonesia, processed

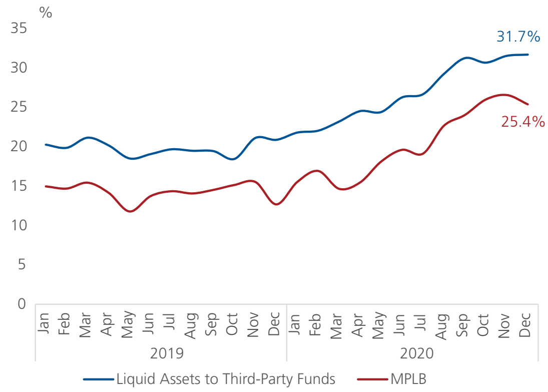
Solid growth of third-party funds amidst a credit contraction led to excess liquidity in the banking industry. The funding surplus recorded in the second semester of 2020 was the highest of recent years at Rp802 trillion by the end of 2020 (Graph 2.4.1.7). Risk-averse behaviour encouraged banks to place their excess liquidity in risk-free assets, such as government securities and placements at Bank Indonesia, thus raising the ratio of liquid assets[3] in the banking industry. The ratio of liquid assets to third-party funds stood at 31.7% at the end of 2020, up significantly from 20.86% at the end of the previous year (Graph 2.4.1.8), which is also well above the 10% threshold. The rising liquidity ratio was also reflected in the higher Macroprudential Liquidity Buffer (MPLB) during the pandemic, reaching 25.4% at the end of 2020. The resilience of short- and long-term liquidity also strengthened, as confirmed by a Liquidity Coverage Ratio (LCR)[4] of 262.8% and Net Stable Funding Ratio (NSFR)[5] of 138.3% at the end of 2020, far exceeding the 100% thresholds (Graph 2.4.1.9).

3 Liquid assets are calculated as follows: (Cash + Placements at BI + Government Securities) – (RR + MPLB + MIR).

4 The Liquidity Coverage Ratio (LCR) refers to OJK Regulation (POJK) No. 42/POJK.03/2015 concerning the Liquidity Coverage Ratio for Commercial Banks.

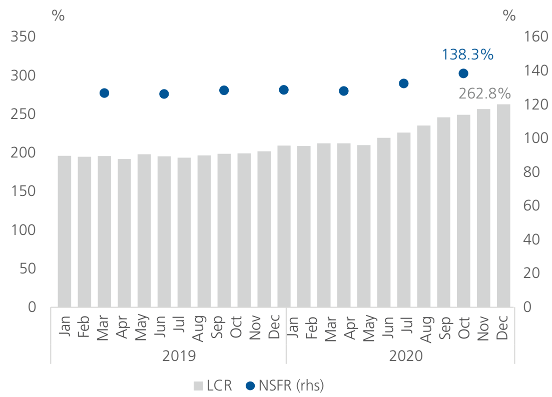
5 The Net Stable Funding Ratio (NSFR) refers to OJK Regulation (POJK) No. 50/POJK.03/2017 concerning the Net Stable Funding Ratio for Commercial Banks.

Graph 2.4.1.8 Liquid Assets to Third-Party Funds Ratio and Macroprudential Liquidity Buffer



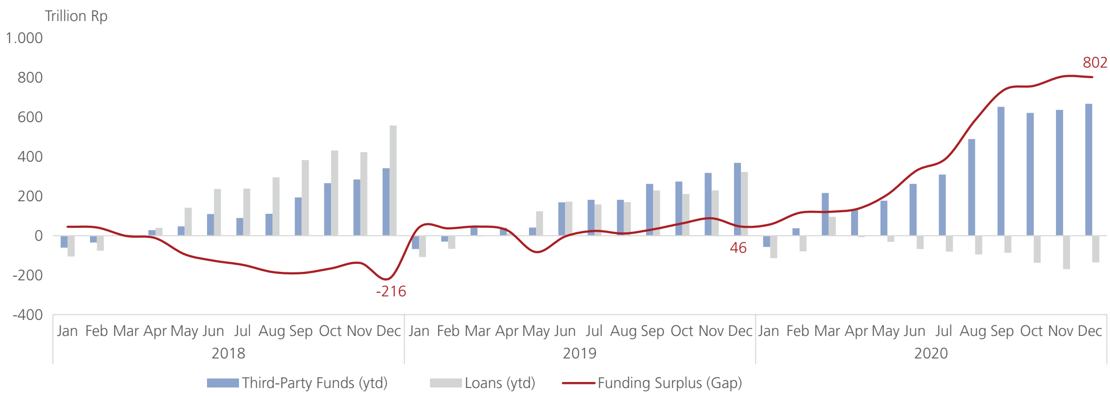
Source: Bank Indonesia, processed

Graph 2.4.1.9 Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)



Source: OJK, processed

Graph 2.4.1.7 Funding Surplus

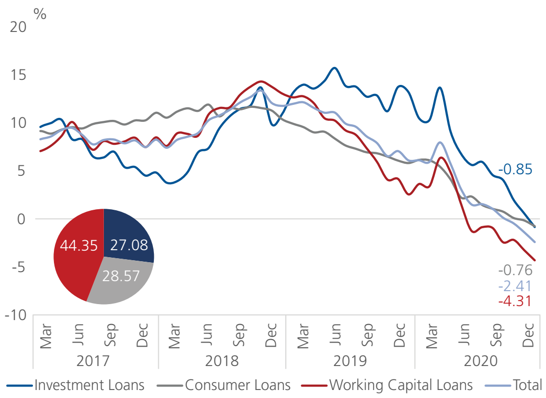


Source: Bank Indonesia, processed

Loose liquidity conditions in the banking industry provided adequate space for the bank intermediation function. Such conditions support a potential increase of intermediation moving forward, as indicated by the anticipated loosening of lending standards and expectations of stronger credit growth in 2021.

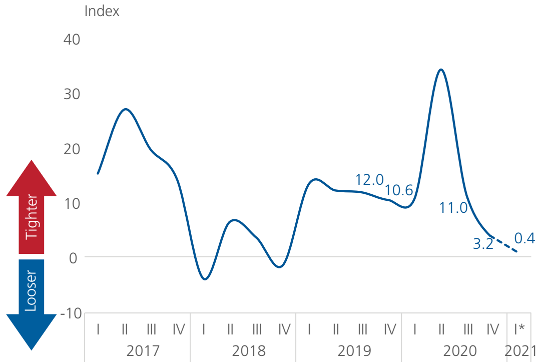
Notwithstanding, credit growth slumped to -2.41% (yoy) at the end of 2020, held back by supply and demand issues (Graph 2.4.1.10). On the supply-side, the banking industry was risk averse in response to higher perceived credit risk, while demand for new loans was compressed by the pandemic. Consequently, corporations tended towards deleveraging given the prevailing wait-and-see attitude (Graph 2.4.1.11). In addition to fewer disbursements, corporations also accelerated loan repayments to optimise idle funds amidst delayed projects and expansion plans during the pandemic (Graph 2.4.1.12). This led to further credit moderation in the fourth quarter of 2020 (Graph 2.4.1.13).

Graph 2.4.1.10 Outstanding Loans Disbursed by Banking Industry



Source: Bank Indonesia, processed

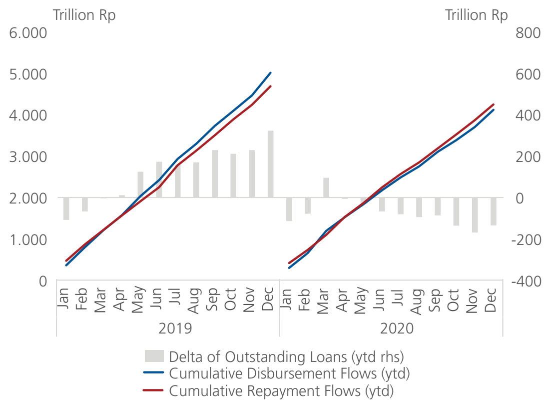
Graph 2.4.1.11 Bank Lending Standards



*) projection

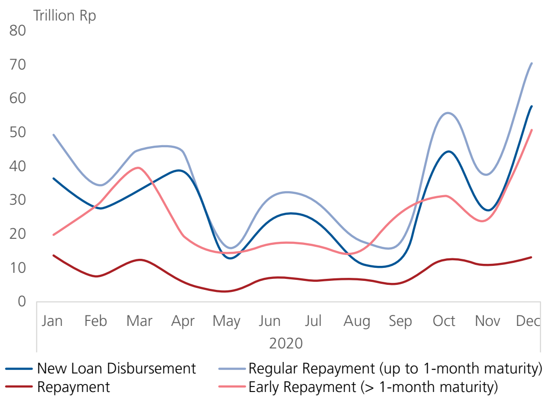
Source: Bank Indonesia, processed

Graph 2.4.1.12 Loan Disbursement vs Repayment



Source: Bank Indonesia, processed

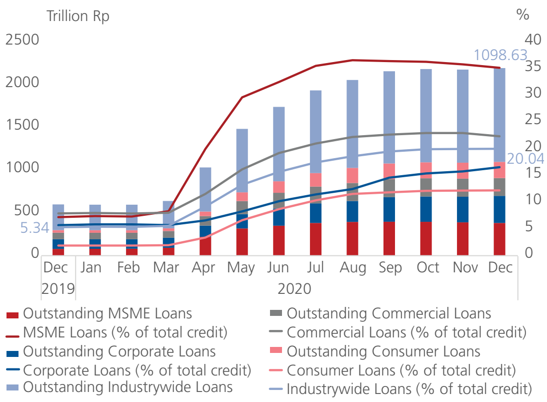
Graph 2.4.1.13 New Loan Disbursement vs Repayment



Source: Bank Indonesia, processed

In total, restructured loans in 2020 accounted for 20% of total outstanding credit, up significantly from just 5% in 2019. By segment, the surge of restructured loans triggered by the COVID-19 pandemic has been dominated by MSMEs and corporations, or trade, others and manufacturing by sector (Table 2.4.1.3). As of December 2020, restructured bank loans were recorded at Rp1,098.63 trillion (20.04% of total outstanding loans disbursed by the banking industry), with restructured loans from March to December 2020 totalling Rp778.29 trillion (Graph 2.4.1.14). The loan restructuring program provided relief for borrowers to manage their cashflow during the COVID-19 pandemic amidst efforts to restore sales and other operating activities.

Graph 2.4.1.14 Market Share of Restructured Credit to Total Outstanding Credit by Segment



Source: OJK, processed

Several subsectors maintained low credit risk, namely the Resilient Cluster of subsectors[6]. This group of subsectors, which includes horticulture as well as the food and beverages industry, maintained positive credit growth and contained the credit risk, and are expected to drive recoveries in other subsectors. On the other hand, Growth Drivers[7] and Slow Starters[8] tend to have higher credit risk, particularly the manufacturing industry as well

6 Priority economic sectors were categorised by KSSK.

7 *Ibid.*

8 *Ibid.*

Table 2.4.1.3 Bank Loan Restructuring by Economic Sector (Rp, trillions)

Economic Sector	Outstanding Restructured Loans (Rp, trillions)					Δ (Rp, trillions)
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar - Dec 2020
Agriculture	27,38	27,77	59,31	83,19	85,39	57,61
Mining	9,26	10,37	12,49	17,15	19,77	9,40
Manufacturing	79,25	84,08	152,69	180,97	172,99	88,91
Electricity, Gas and Water Supply	4,77	5,12	5,88	6,33	11,29	6,18
Construction	22,80	24,62	53,73	75,41	85,48	60,86
Trade	76,32	84,00	295,79	336,81	331,67	247,67
Transportation	16,41	18,39	42,62	57,20	57,22	38,83
Corporate Services	27,34	26,56	77,56	98,88	104,85	78,28
Social Services	6,60	8,36	36,82	40,98	40,11	31,76
Others	29,95	31,08	134,69	183,16	189,86	158,79
Total	**300,08**	**320,34**	**871,58**	**1080,08**	**1098,63**	**778,29**

Source: Bank Indonesia, processed

as accommodation and food service activities. Amongst the growth drivers, several subsectors have maintained comparatively low credit risk and positive credit growth during the pandemic, including the footwear and leather industry, information and telecommunications, livestock and fishing, real estate and food crops (Table 2.4.1.4).

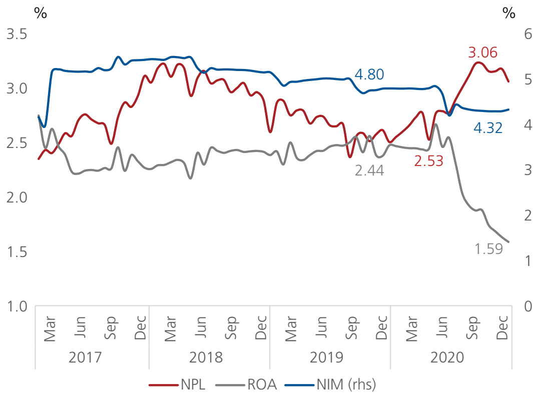
Table 2.4.1.4 Credit Growth and Credit Risk by Cluster

Cluster	Subsector	Credit Growth (% ytd)				NPL (%)				Credit (Rp, trillions)
		Mar-20	Jun-20	Sep-20	Dec-20	Mar-20	Jun-20	Sep-20	Dec-20	
P1 (Resilient)	Horticulture	6,07	8,05	17,46	33,21	1,72	1,40	1,14	0,90	8,06
	Chemicals and Pharmaceuticals	4,82	-4,35	-1,47	-8,82	1,42	1,60	1,51	1,60	98,34
	Food and Beverages	9,02	5,08	9,72	14,27	2,00	2,35	2,02	1,93	224,91
	Forestry and Logging	7,94	0,15	7,65	-0,21	1,39	3,93	3,90	1,31	5,67
	Metal Ore Mining	13,61	4,10	5,70	0,77	2,60	1,47	0,26	0,16	52,62
	Plantation Crops	2,49	1,82	2,95	1,57	1,13	1,56	1,90	1,88	277,20
	Total P1	**5,88**	**2,01**	**4,69**	**3,94**	**1,59**	**1,83**	**1,75**	**1,70**	**666,78**
P2 (Growth Drivers)	Non-Metal Mineral Products	-0,07	-4,26	-3,05	-8,10	2,06	2,31	2,33	2,39	61,13
	Metals and Electronics Industry	-3,24	-10,75	-15,44	-12,90	7,59	9,43	8,30	8,07	22,56
	Wood and Furniture Industry	6,19	-2,84	-2,07	-3,80	9,01	8,51	9,30	9,80	60,30
	Leather and Footwear Industry	19,91	7,14	7,13	1,81	1,50	2,26	3,79	3,50	13,30
	Basic Metals Industry	8,89	7,56	14,57	-2,52	3,52	5,41	5,03	5,49	68,37
	Machinery and Mechanical Appliances	11,52	12,79	14,24	6,26	6,91	14,82	14,83	12,04	23,90
	Textiles and Textile Products	9,33	2,14	2,83	-0,87	12,21	11,66	11,92	11,16	90,46
	Information and Telecommunication	0,03	7,57	2,67	7,03	0,99	1,05	1,34	1,95	92,18
	Agricultural Services	5,55	-35,34	-31,35	-31,80	1,14	2,05	1,88	4,24	6,97
	Water Supply	-0,51	-3,63	-7,46	-7,52	0,54	0,50	0,52	0,43	3,82
	Tobacco Processing	-63,24	-53,25	-77,49	-53,56	0,09	0,07	0,13	0,05	17,51
	Livestock and Fishing	4,15	4,90	6,11	9,21	3,40	3,44	3,46	3,50	44,34
	Real Estate	0,91	1,77	2,79	2,16	2,05	2,40	2,46	2,37	169,40
	Food Crops	6,34	9,69	16,20	25,74	4,28	3,51	3,32	2,92	23,92
	Total P2	**0,57**	**-0,96**	**-1,49**	**-2,45**	**4,56**	**4,97**	**5,16**	**4,98**	**698,14**
P3 (Slow Starters)	Government Administration	10,38	5,09	-25,96	-20,91	0,03	0,03	0,00	0,00	17,25
	Land Transportation	-0,76	-3,98	-3,12	-3,75	3,05	3,18	3,03	2,55	36,14
	Rail Transportation	1,58	11,86	34,73	48,42	0,18	0,13	0,11	0,09	16,23
	Insurance and Pension Funds	302,10	-10,91	170,96	-29,88	0,11	1,56	0,48	1,85	0,13
	Accommodation and Food Service Activities	3,08	2,10	6,00	5,77	5,05	5,89	6,32	5,39	116,18
	Transportation Equipment	-10,02	-6,75	-1,89	2,70	2,65	1,77	1,76	1,26	23,75
	Rubber and Plastics Industry	2,75	-4,93	-6,50	-8,60	4,47	4,29	3,73	7,29	55,49
	Health Services	-2,94	-3,32	-2,47	-5,45	1,26	1,52	1,44	1,37	26,92
	Education Services	-2,68	-1,85	-5,75	-4,23	1,05	1,23	1,90	1,80	13,59
	Supporting Financial Services	-12,83	-11,92	-19,19	-20,92	0,03	0,14	0,05	0,02	21,38
	Financial Intermediation Services	7,63	-2,37	-11,17	-12,48	0,65	0,52	0,58	0,56	194,79
	Construction	-2,48	0,39	2,38	3,92	3,83	3,84	3,69	3,45	376,47
	Logistics	-0,52	-3,69	-2,42	-5,23	1,34	1,57	1,59	1,44	18,31
	Wholesale and Retail Trade	-0,66	-5,81	-6,48	-6,35	4,01	4,59	4,58	4,43	942,19
	Coal and Lignite Mining	7,78	-3,82	-4,14	-4,78	1,30	9,89	14,29	13,60	40,88
	Air Transportation	15,07	10,53	13,07	10,03	0,15	0,16	0,15	0,09	18,02
	Total P3	**0,39**	**-3,43**	**-4,43**	**-4,28**	**3,32**	**3,84**	**3,96**	**3,85**	**1917,73**
P1+P2+P3		1,48	-1,87	-2,06	-2,32	3,24	3,68	3,77	3,65	3282,65
Others		2,01	-0,22	-0,76	-2,55	2,08	2,27	2,26	2,17	2198,91
Total		**1,69**	**-1,21**	**-1,54**	**-2,41**	**2,77**	**3,11**	**3,15**	**3,06**	**5481,56**

Source: Bank Indonesia, processed

In terms of profitability, ROA was observed to decline against a backdrop of higher credit risk, particularly during the COVID-19 pandemic. Bank ROA at the end of 2020 stood at 1.59%, down significantly from 2.44% one year earlier. Amidst the declining ROA, banks strived to maintain NIM, which also decreased from 4.80% in December 2019 to 4.32% in December 2020 (Graph 2.4.1.5). The lower NIM stemmed from lower interest income in line with fewer new loans disbursed by the banking industry throughout 2020.

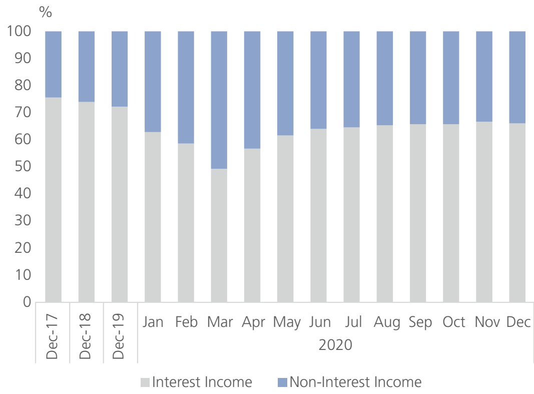
Graph 2.4.1.15 Return on Assets (ROA), Net Interest Margin (NIM) and Non-Performing Loans (NPL) of Banking Industry



Source: Bank Indonesia, processed

Striving to offset deeper profitability declines, the banking industry placed their excess liquidity in securities. Such behaviour is consistent with historical analyses, showing that banks tend to place funds in risk-free assets to obtain an expected return in the event of higher credit risk amidst loose liquidity conditions. Banks were inclined to purchase SBN in order to optimise liquid assets based on cash flow, risk appetite and underdeveloped liquid instruments in domestic financial markets. The composition of bank income in 2020 was dominated by interest income at 66.08%, with non-interest income accounting for the remaining 33.92% (Graph 2.4.1.16).

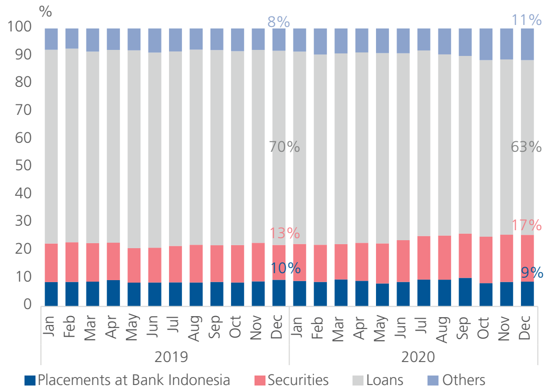
Graph 2.4.1.16 Composition of Bank Income



Source: Bank Indonesia, processed

Bank propensity to place excess liquidity in securities was also reflected in the composition of productive assets and the composition of income from securities in December 2020, which increased to 17% from 13% one year earlier (Graph 2.4.1.17).

Graph 2.4.1.17 Composition of Productive Assets in Banking Industry



Source: Bank Indonesia, processed

2.4.2 NBFI Resilience Maintained Despite Performance Pressures

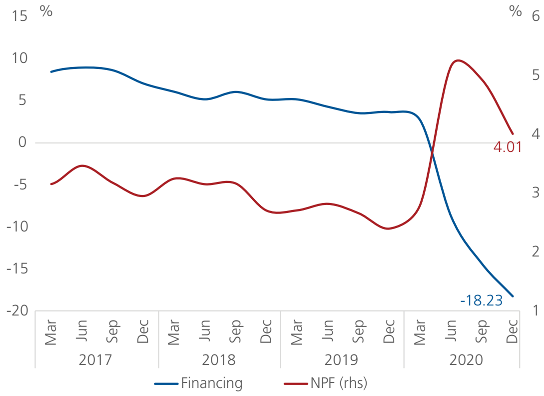
In general, disbursed financing by the NBFI declined throughout 2020. Financing risk in 2020 tended to increase in the NBFI on the previous year despite milder pressures in the second semester. The gearing ratio of finance companies, which remained above the regulatory threshold, indicated solid NBFI financing resilience in 2020 despite the economic pressures wreaked by COVID-19. Furthermore, the insurance and pension fund industries also maintained performance, as confirmed by a ratio of premiums to claims in excess of 100% as well as the risk-based capital (RBC) of the insurance industry well above the 120% threshold.

Financing disbursed by finance companies moderated in the reporting period, accompanied by higher risk. Economic moderation caused by the COVID-19 pandemic spurred a deep correction in terms of finance company financing, contracting -18.23% (yoy). Furthermore, non-performing financing (NPF) increased significantly in 2020, peaking at 5.60% in July 2020, before subsiding in the third and fourth quarters to a level below the 5% threshold at 4.01% in December 2020 (Graph 2.4.2.1). Declining financing, coupled with improving financing risk conditions, caused financing companies to focus on maintaining collectability rather than disbursing new financing. On the other hand, the restructuring program and special repayment options for debtors with financing close to maturity also affected finance company efforts to contain NPF.

Financing disbursed by finance companies was still dominated by multipurpose and investment financing, most of which was allocated to the manufacturing industry. In 2020, multipurpose financing dominated 60.17% of total financing, down slightly from 60.78% one year earlier. On the other hand, the share of investment financing to total financing increased slightly to 30.01% from 29.81% in 2019. By sector, Trade, Manufacturing as well as Leasing Services, Manpower and Travel were the main recipients of finance company financing despite all three sectors experiencing declines of -5.82%, -5.24% and -10.26% (yoy) on the previous year (Graph 2.4.2.2)

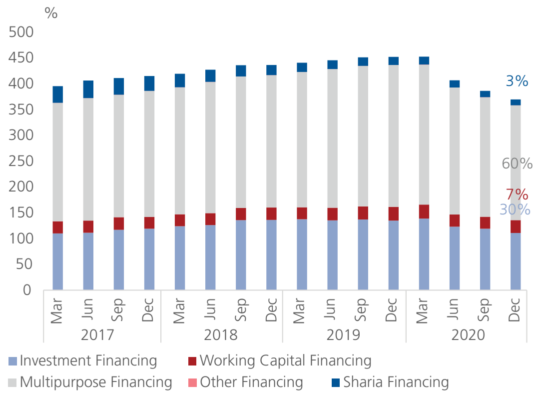
Finance companies successfully maintained capital despite performance pressures. A persistently lower gearing ratio pointed to stronger capital resilience, recorded at 2.15 in December 2020, which is well below the 10 threshold (Graph 2.4.2.3). A reduction of external financing received by financing companies was one of the affecting factors for the lower gearing ratio throughout 2020.

Graph 2.4.2.1 Financing Growth and NPF at Finance Companies



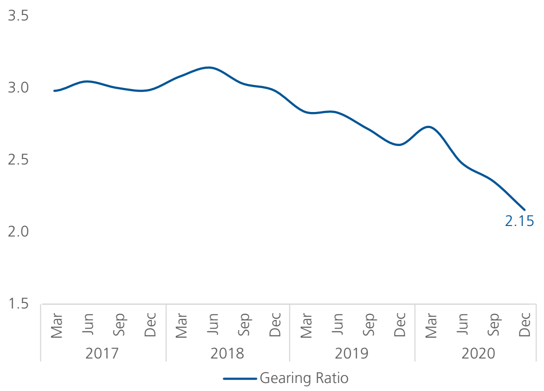
Source: OJK, processed

Graph 2.4.2.2 Finance Company Financing by Type



Source: OJK, processed

Graph 2.4.2.3 Gearing Ratio of Finance Companies



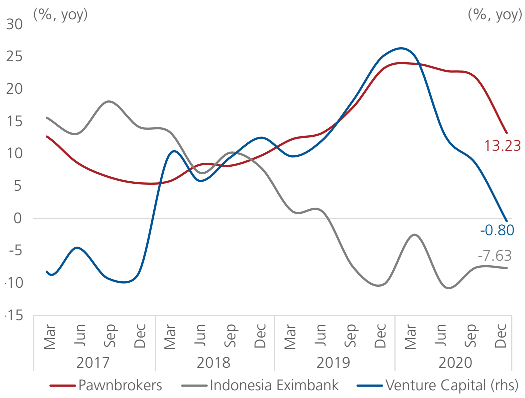
Source: OJK, processed

Financing disbursed by other non-bank financial institutions also experienced moderation. Indonesia Eximbank and venture capital firms recorded respective contractions of -13.23% and -0.80% (yoy) at the end of 2020. On the other hand, pawnbrokers and FinTech lending maintained positive albeit lower financing growth in 2020 at 13.23% and 16.43% (yoy) respectively (Graph 2.4.2.4). Positive financing growth was driven by individual borrowers seeking alternative financing to meet their needs by pawning possessions, as well as borrowing via FinTech lending which tends to have less stringent requirements and faster disbursement than bank loans.

Financing risk amongst other non-bank financial institutions began to improve after intensifying in the first half of 2020. Financing risk was highest at capital venture firms, recorded at 6.31% in September 2020 before decreasing to 5.60% in December 2020. On the other hand, the level of financing risk at the national pawnbrokers, PT Pegadaian, has continued to track a downward trend, with NPF recorded at just 1.01% in December 2020 (Graph 2.4.2.5). The low NPF ratio at Pegadaian was attributable to restructuring, repayments and new financing secured with goods previously auctioned, sold or redeemed.

Financing risk via FinTech lending also improved, as confirmed by a decrease in the TWP90 indicator of default risk from 8.88% in September 2020 to 4.78% at the end of the year (Graph 2.4.2.6). Despite higher financing risk, the share of FinTech lending against total NBFI financing was comparatively small at just 3% (Graph 2.4.2.7).

Graph 2.4.2.4 Disbursed Financing by Pawnbrokers, Indonesia Eximbank and Venture Capital Firms

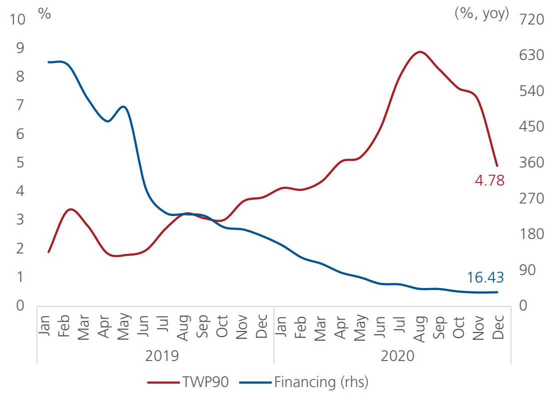


Source: OJK, processed

Graph 2.4.2.5 NPF of Pawnbrokers, Indonesia Eximbank and Venture Capital Firms

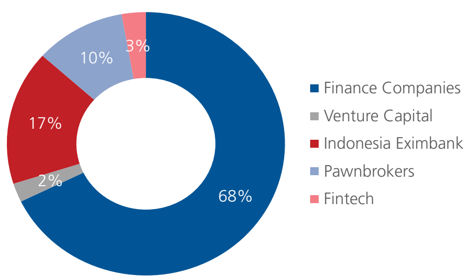
Source: OJK and PT Pegadaian, processed

Graph 2.4.2.6 Financing Growth and TWP90 FinTech Lending



Source: OJK, processed

Graph 2.4.2.7 Market Share of NBFI Financing



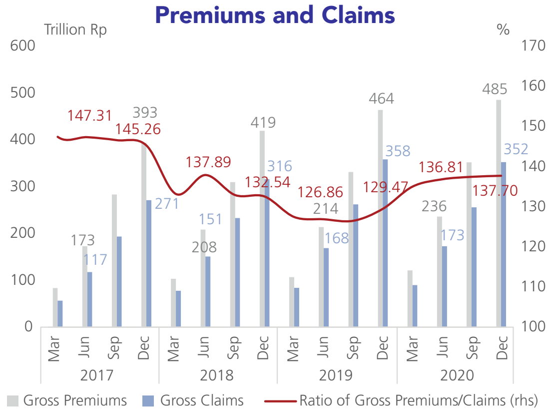
Source: OJK. processed

Indonesia Eximbank, venture capital firms and pawnbrokers are predicted to remain resilient to economic pressures moving forward after maintaining capital ratios throughout 2020. In 2020, the gearing ratio of Indonesia Eximbank and venture capital firms stood at 2.62 and 0.79 respectively, well below the 10 threshold. In terms of pawnbrokers, Pegadaian recorded a debt-to-equity ratio (DER) of 1.90 in December 2020, also well below the 10 threshold.

The insurance and pension funds industries also survived despite extraordinary economic pressures in 2020. In terms of assets, the insurance industry recorded a 6.07% (yoy) gain on the previous year, while the ratio of gross premiums to gross claims increased from 129.47% in 2019 to 137.70% in 2020 as premiums increased 4.64% (yoy) and claims decreased 1.61% (yoy) (Graph 2.4.2.8). Assets in the pension funds industry increased 7.12% (yoy) in December 2020 compared with conditions in the same period one year earlier. In addition, the pension funds industry collected more contributions than the increase recorded in terms of maturing benefits (Graph 2.4.2.9).

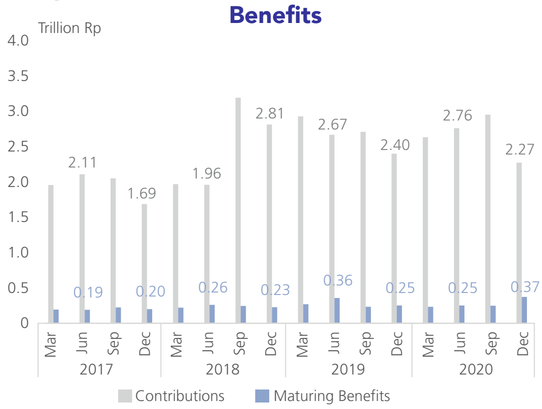
Capital in the insurance industry was also maintained. In 2020, RBC was recorded above the 120% threshold. The RBC of the general insurance and life insurance industries in 2020 stood at 354% and 540% respectively (Graph 2.4.2.10). Nevertheless, the RBC value in 2020 decreased compared with conditions in 2019.

Graph 2.4.2.8 Insurance Industry Gross Premiums and Claims



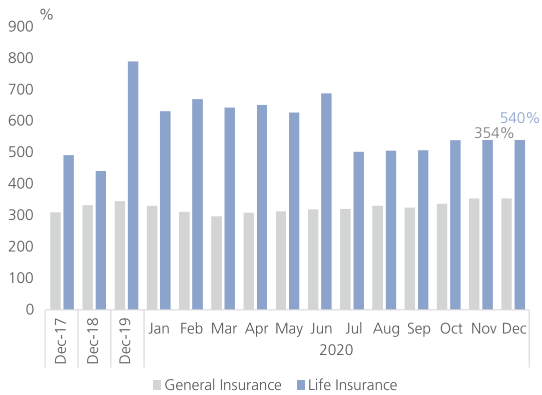
Source: OJK, processed

Graph 2.4.2.9 Pension Fund Contributions and Benefits



Source: OJK, processed

Graph 2.4.2.10 RBC of General Insurance and Life Insurance



Source: OJK, processed

Box 2.4

Strengthening and Innovating MSME Financing to Accelerate Economic Recovery

Micro, small and medium enterprises (MSME) play a strategic economic role, contributing 57.24% of GDP in Indonesia, equivalent to Rp5,721.14 trillion.[1] Nonetheless, conventional business models remain dominant, making it harder for MSMEs to adapt and survive, especially during pandemic conditions. The difficulties MSMEs face in terms of adapting to the challenges of change are shown by the fact that only 26.2% are actively utilising e-commerce for sales.[2] Beyond a lack of adaptability, MSMEs also face constraints in terms of access to finance, with 69.5% not taking bank loans and only 6.1% securing credit from FinTech or other nonbank financial institutions. Such limitations are partially due to business scale and institutional issues, with only 40.4% of MSMEs affiliated with a business group.[3] Therefore, Bank Indonesia strives to institute an optimal policy response to strengthen MSMEs moving forward, specifically to help survive the pandemic.

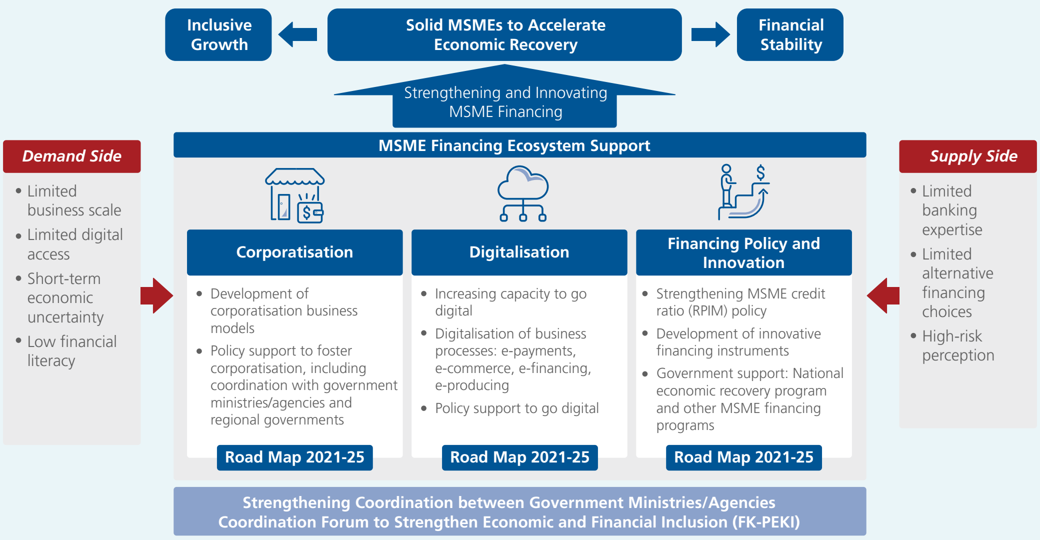
Formulating an appropriate policy response, Bank Indonesia has compiled a development policy framework for MSMEs. The framework focuses on three aspects, namely corporatisation, capacity building through digitalisation and innovative financing (Figure B2.4.1). Institutional strengthening is achieved by fostering corporatisation through horizontal and vertical business integration, which aims to increase economies of scale. Institutions can be established in the form of business groups/centres, cooperatives, limited liability companies (PT) and limited liability partnerships (CV). The various goals of corporatisation are as follows: (i) increasing market access, particularly

1 Ministry of Cooperatives and SMEs (2018).

2 Bank Indonesia Survey, October 2020, 2,970 total respondents, processed.

3 Bank Indonesia Survey, October 2020, 2,970 total respondents, processed.

Figure B2.4.1 SME Financing Innovation and Strengthening Framework



Source: Bank Indonesia

exports; (ii) increasing access to finance; (iii) HR capacity building, considering that the best human resources are typically attracted to business units with a business entity; (iv) transfer of ownership; and (v) limited liability.

Bank Indonesia has compiled a corporatisation development roadmap to monitor the institutional strengthening of MSMEs. The roadmap aims to monitor the number of MSMEs initiating corporatisation, with 1,000 programs targeted to support such efforts by 2025 (Table B2.4.1). The corporatisation programs are available to MSMEs producing food commodities, commodities with export potential, commodities supporting tourism, entrepreneurs and recipients of social aid program disbursements.

Strengthening MSME digitalisation, Bank Indonesia has also formulated a roadmap that aims to maximise the utilisation of digital technology by MSMEs. Bank Indonesia has created a MSME Digitalisation Index to monitor roadmap implementation, namely the growth ratio of BI-mentored MSMEs that have achieved digital success to total BI-mentored MSMEs. Digital success implies BI-mentored MSME 4.0, which have completed the e-commerce/digital payments/e-finance program. The short-term measures (2020-2021) of the digitisation program are focused on maintaining MSME resilience by increasing digital education and optimising the use of e-commerce and digital payments. Thereafter, in 2022-2023, the digitisation program focuses on capacity building in terms of payment, marketing and financing technologies. In addition, from 2024-2025, the digitalisation program will target the creation of MSME 4.0, which have successfully achieved business integration with digital technology utilisation in the aspects of payments, marketing, financing and production. At this stage, an integrated MSME database will be created that is connected to digital payments and e-commerce (Table B2.4.2).

Table B2.4.1 MSME Corporatisation Roadmap

	2020	2021	2022	2023	2024	2025
Total MSME Corporatisation*	N/A	100	150	200	250	300

*Indicators Monitored:
- Number of corporatisation programs by 2025, with 1,000 targeted
- Corporatisation programs implemented for food commodities, commodities with export potential, commodities supporting tourism, entrepreneurs and recipients of social aid program (bansos) disbursements

Source: Bank Indonesia

Table B2.4.2 MSME Digitalisation Roadmap

<table>
<tr><td></td><td colspan="6">MSMEs as New Source of National Economic Strength
Productive, Innovative, and Resilient MSMEs</td></tr>
<tr><td></td><td colspan="2">Maintain MSME Resilience</td><td colspan="2">Increase Economic Contribution of MSMEs</td><td colspan="2">MSMEs as New Source of National Economic Strength</td></tr>
<tr><td>Digital Economic and Financial Integration</td><td colspan="2">• Expand and increase the quality of digital education and literacy for MSMEs
• Optimise digital utilisation (e-commerce and e-payments) by MSMEs</td><td colspan="2">• Expand and increase digitalisation capacity building at MSMEs, including marketing, payments and financing
• Expanding digital utilisation, including e-commerce, e-finance and e-payments</td><td colspan="2">• Achivement of MSMEs 4.0 through digital technology utilisation in business integration in terms of payments, marketing, production and finance
• Integrated MSMEs database connected with digital payments and e-commerce</td></tr>
<tr><td></td><td>2020</td><td>2021</td><td>2022</td><td>2023</td><td>2024</td><td>2025</td></tr>
<tr><td>MSME Digitalisation Index</td><td>≥100,18</td><td>≥101,04</td><td>≥101,92</td><td>≥102,82</td><td>≥103,74</td><td>≥104,67</td></tr>
</table>

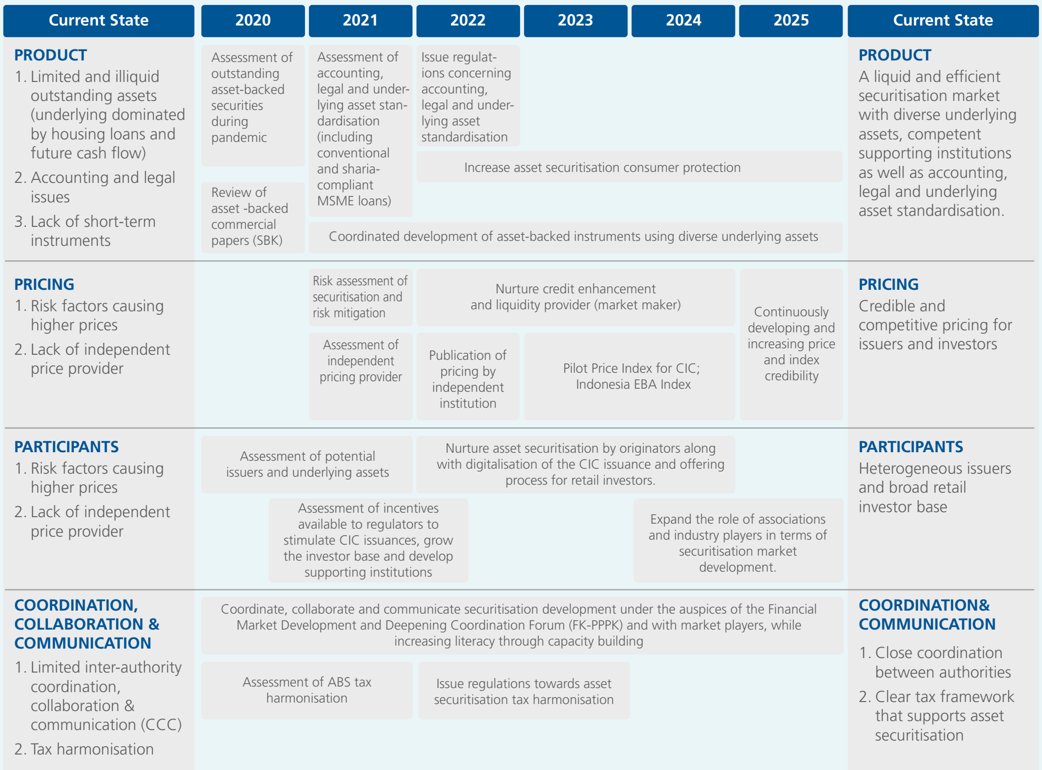
*Indicators Monitored:
Growth ratio of BI-mentored MSMEs that have achieved digital success to total BI-mentored MSMEs. Digital success means BI-mentored MSMEs 4.0, which have completed the e-commerce/digital payments/e-finance program

Source: Bank Indonesia

Bank Indonesia has also compiled a MSME loan securitisation roadmap as a form of innovative financing. The roadmap contains asset securitisation measures and a development strategy, including the securitisation of MSME loans. The goal of the roadmap is to create a liquid and efficient asset securitisation market for MSME loans at competitive prices serving a broad investor base. MSME loan securitisation is expected to help create an ecosystem for financial institutions with lending expertise, which can sell credit assets to other financial institutions without such expertise. The funds obtained through the sale of credit assets can subsequently be used to disburse new MSME loans. Securitisation is expected to facilitate MSMEs in terms of readily obtaining affordable funds, thus helping to establish MSMEs as a new strength of the national economy.

Bank Indonesia is currently designing an innovative policy instrument through inclusive macroprudential financing that will refine MSME financing policy. Bank Indonesia currently uses the MSME Loan Ratio in accordance with Bank Indonesia Regulation (PBI) No. 17/12/PBI/2015, which requires banks to allocate a portion of their loan assets to MSME and/or export-oriented non-MSMEs (for foreign bank branches and joint-venture banks). The 20% industrywide target has been met since 2018, yet a number of banks are still struggling to meet the ratio due to constraints caused by unsuitable business models, thus Bank Indonesia has refined the policy by issuing the Macroprudential Inclusive Financing Ratio (RPIM). The salient points of the refinement are as follows: (i) broadening the definition of MSME financing to inclusive financing in order to

Figure B2.4.2 Asset Securitisation Roadmap



Sumber: Bank Indonesia

capture broader subsistence economic groups; (ii) expanding partner banks to disburse MSME loans; (iii) innovating policy to allow banks without specific inclusive financing expertise to indirectly participate by buying inclusive securities; (iv) providing incentives for banks to accelerate corporatisation and priority sectors.

In addition to policy support, the development of financial market products would also help to expand MSME access to finance. Financial markets contribute to innovative MSME financing by providing alternative financial instruments, such as equity crowdfunding. Equity crowdfunding is a process whereby shares are offered by an issuer directly to investors through an online network. This instrument is a viable source of funds for MSMEs unable to afford interest rate payments by offering a profit-sharing scheme through dividend payments based on company profits. To access such funds, however, MSMEs must relinquish a portion of the company to investors/shareholders. Currently, three FinTech equity crowdfunding platforms have been licensed by OJK, namely Crowddana, Bizhare and Santara.

Chapter 3

Policy Synergy to Maintain Financial System Resilience and Revive Intermediation

The Government, Bank Indonesia and other relevant authorities have strengthened policy synergy as part of the extraordinary measures taken to overcome the COVID-19 impact on the domestic economy and financial system. Providing a solid legal foundation for the exceptional measures necessary, the Government issued Government Regulation in Lieu of Law (PERPPU) Number 1 of 2020, which was subsequently enacted as Act Number 2 of 2020 concerning State Financial and Financial System Stability Policies to Contain the COVID-19 Pandemic[1]. Based on that legal foundation, the Government instituted expansive fiscal policy stimuli through a national economic recovery program. Such policy complemented the massive loosening of monetary and fiscal policies to sustain the economy and public trust in the financial system. To that end, the Government and Bank Indonesia strengthened fiscal-monetary synergy through a burden sharing mechanism pursuant to the first and second joint decrees. Such measures were strengthened further through structural reforms in accordance with Act Number 11 of 2020, namely the Omnibus Law on Job Creation.

The scope of inter-authority policy synergy, as part of the shared responsibility to maintain financial system stability, was expanded in line with the unfolding economic and financial market dynamics impacted by the COVID-19 pandemic. In the context of shared responsibility in the financial sector, synergy amongst the financial authorities was strengthened to accelerate the national economic recovery through the KSSK. In practice, the Government supported financial system stability through interest rate subsidies, credit guarantees, fund placements in commercial banks, investment and regional loans. Meanwhile, the Indonesia OJK introduced loan restructuring policy to mitigate the COVID-19 risks in the financial services industry. LPS promulgated regulations concerning LPS fund placements to resolve financial system issues that could precipitate bank default. Furthermore, BI, OJK, and LPS policies are harmonized both bilaterally and tripartitely, and among others are realized in the form of an integrated policy package. National policy synergy was also supported by collaboration through international forums and cooperation.

As a form of synergy, Bank Indonesia maintained an accommodative monetary and macroprudential policy mix to accelerate the economic recovery, while maintaining financial system stability. Bank Indonesia loosened monetary policy in terms of prices and quantity. In terms of monetary management, a number of instruments are strengthened, both in rupiah and foreign exchange monetary operations, including sharia monetary instruments. Monetary policy was strengthened through accommodative macroprudential policy to maintain adequate liquidity and revive intermediation to overcome the credit crunch. To that end, Bank Indonesia encouraged the financing of priority sectors by extending and expanding the scope of lower rupiah reserve requirement incentives, while supporting the availability of liquidity by relaxing the (sharia) Macroprudential Intermediation Ratio (MIR). In addition, Bank Indonesia adjusted the Macroprudential Liquidity Buffer (MPLB) as a form of

1 Act Number 2 of 2020, dated 1st April 2020, concerning State Financial and Financial System Stability Policies to Contain the Coronavirus Disease 2019 (COVID-19) Pandemic and/or Confront Threats to the National Economy and/or Financial System Stability.

fiscal and macroprudential policy synergy to support the national economic recovery. Macroprudential policy was also oriented towards sustaining bank capital by holding the Countercyclical Buffer (CCB) at 0%. As an anticipatory measure to maintain financial system stability amidst the COVID-19 pandemic, Bank Indonesia also strengthened the lender of last resort (LoLR) function by refining short-term liquidity assistance for conventional commercial banks and sharia-compliant short-term liquidity assistance for sharia banks. Seeking to revive banking sector intermediation further, Bank Indonesia also relaxed the Loan/Financing-to-Value (LTV/FTV) Ratio for property loans/financing and the minimum downpayment requirements on automotive loans/financing.

Bank Indonesia accelerated SME development and payment system digitalisation to hasten the economic recovery. Bank Indonesia adopted a national two-sided supply and demand strategy to stimulate SMEs. Furthermore, Bank Indonesia also accelerated payment system digitalisation towards the realisation of a digital economy and finance through implementation of the Indonesia Payment System Blueprint (BSPI) 2025, and issued a new Bank Indonesia Regulation (PBI) concerning the Payment System as a regulatory reform to facilitate digital innovation and increase competitiveness to accelerate the national economic recovery. Finally, Bank Indonesia has expanded acceptance of the Quick Response Code Indonesia Standard (QRIS) to support digitalisation of the payments space, particularly targeting SMEs.

3.1 Inter-Authority Policy Synergy towards National Economic Recovery

The Government, Bank Indonesia and other relevant authorities have implemented extraordinary policy synergy to mitigate the economic risks associated with the COVID-19 pandemic. Policy synergy has been achieved in terms of the real sector and financial sector. Concerning the real sector, the focus of government policy remains the national economic recovery program and structural efforts to create job opportunities through greater ease of doing business, social protections, MSME empowerment, investment ecosystem development as well as efforts to accelerate national strategic projects through promulgation of the Job Creation Act (No. 11) of 2020.

Real sector policies are supported by financial sector policies. Seeking to provide a solid legal foundation for the authorities to implement extraordinary policy measures quickly and accountably, particularly in terms of state finances and financial system stability, the Government issued Act No. 2 of 20 concerning State Financial and Financial System Stability Policies to Contain the COVID-19 Pandemic. The law facilitates expansive fiscal policy through large-scale stimuli, thereby widening the state budget deficit and increasing deficit funding in 2020. Bank Indonesia is supporting such measures amidst mild inflationary pressures by maintaining an accommodative policy stance, which includes providing monetary stimuli through lower interest rates and large liquidity injections (quantitative easing). Such policy is also supported by Rupiah exchange rate stabilisation measures, accommodative macroprudential policy and payment system digitalisation.

Fiscal and monetary policy synergy was also strengthened regarding the timing, type and magnitude of each policy stimulus. Through Act No. 2 of 2020, Bank Indonesia was authorised to fund the 2020 State Revenue and Expenditure Budget (APBN) through purchases of long-term SBN from the Government in the primary market along with burden sharing. The purchases were regulated by a Joint Decree (KB) issued by the Finance Minister and Bank Indonesia Governor on 16th April 2020, which subsequently became known as KB I. The first joint decree stipulated four main principles as follows: (i) price setting to prioritise market mechanisms; (ii) total purchases to consider the measured impact on inflation; (iii) only tradable and marketable government debt securities (SUN) and/or Government Sharia Securities (SBSN) are eligible for purchase; and (iv) Bank Indonesia acts as a standby buyer if market capacity is unable to absorb the target orderbook. Based on those principles, purchases by Bank Indonesia were prioritised as follows: (i) SBN auctions with non-competitive bids; (ii) greenshoe options if SBN orderbook undersubscribed; (iii) private placement if target not met through initial auction and/or additional auction. The joint decree also stipulates that when issuing SBN, the Government must prioritise other financing sources based on the impact to state financial sustainability.

The Government and Bank Indonesia increased synergy through a burden sharing mechanism in accordance with a second KB between the Finance Minister and Bank Indonesia Governor issued on 7th July 2020 (known as KB II). The second joint decree regulated direct purchases of long-term SBN by Bank Indonesia in the primary market through market mechanisms. Private placement SUN/SBSN purchases were used to fund public goods in the health sector, social protections, government ministries/agencies and regional governments in terms of APBN. In 2020, Bank Indonesia purchased SBN totalling Rp473.42 trillion in the primary market. In 2021, Bank Indonesia has purchased SBN in the primary market worth Rp65.03 trillion, as of 16th March.

In the context of shared responsibility in the financial sector, synergy amongst financial authorities towards national economic recovery was also strengthened under the auspices of the KSSK. To that end, LPS issued regulations concerning LPS fund placements to resolve financial system stability issues that could lead to bank default. The regulations also detail Bank Indonesia's role as a source of funds for LPS in the event of a liquidity mismatch when resolving troubled banks during the pandemic era. As a follow-up action, Bank Indonesia and LPS signed a Memorandum of Understanding (MoU), dated 23rd July 2020, and a Cooperation Agreement (PKS), dated 14th September 2020, concerning sales/repurchase agreements of LPS-held SBN to Bank Indonesia. On 3rd December 2020, Bank Indonesia in conjunction with the other KSSK members took part in the Thematic Simulation 2020, which simulated the disbursement of short-term liquidity assistance to banks, placements of LPS funds at banks and SBN repurchase agreements (Repo) between LPS and Bank Indonesia to test inter-institutional implementation and coordination. The simulation was further strengthened by the inclusion of SBN repo transactions by LPS with Bank Indonesia, which aimed to test the coordination framework between both institutions in terms of the repurchase arrangements stipulated in MoU and PKS between Bank Indonesia and LPS. Therefore, a simulation action plan for SBN repo transactions by LPS with Bank Indonesia has been prepared to test the coordination framework between both institutions in terms of the repurchase arrangements stipulated in MoU and PKS between Bank Indonesia and LPS, and to evaluate the National Crisis Simulation (*Simkrisnas*) executed on 3rd December 2020. In addition, Bank Indonesia and LPS have maintained coordination efforts to finalise the implementation guidelines for bridge banks concerning the settlement of originating bank obligations to Bank Indonesia. In conjunction with OJK, Bank Indonesia signed a Joint Decree, dated 19th October 2020, concerning (sharia-compliant) short-term liquidity assistance (PLPJ/PLJPS) disbursements to banks as lender of last resort (LoLR). It was agreed that banks meeting the PLPJ/PLJPS requirements would need to complete a credit collateral verification and valuation process by a public accounting office (KAP) or office of public appraisal services (KJPP) to accelerate disbursements by Bank Indonesia as required.

Policy synergy for the national economic recovery program was supported by policy harmonisation between Bank Indonesia and OJK through the Macroprudential-Macroprudential Coordination Forum (MMCF). In 2020, MMCF discussed the substance of several policies, including payment system regulations, local currency settlement (LCS) in Indonesia, an integrated licensing front office, bank external debt, expanding the underlying assets for Domestic Non-Deliverable Forwards (DNDF), Rupiah money market deepening, multi-matching platform implementation, consumer protection, relaxing credit card regulations and adjusting the operational hours of public services during the COVID-19 pandemic.

Macroprudential and microprudential policy synergy was implemented through adjustments to several regulations and activities, including implementation guidelines for regional cooperation and coordination between Bank Indonesia and OJK, joint stress testing, updating the list of systemic banks, refining the methodology to determine systemic banks, sharing bank liquidity assessments as well as strengthening coordinated financial system oversight and inspections. This was also supported by regular data and information exchange between Bank Indonesia and OJK or as required to perform assessments and implement the duties of both authorities.

From OJK's perspective, microprudential policy was oriented towards strengthening integrated supervision and anticipating potential FSS risk. Throughout 2020, OJK issued forward-looking and countercyclical policies to dampen market volatility, provide adequate space for the real sector to survive as well as maintain financial system stability overall. Loan restructuring policy was issued to support risk management in the banking industry and nonbank financial industry impacted by the pandemic. Such policy was accompanied by incentives to increase loan loss provisions in anticipation of deteriorating financing quality. Other prudential policies were also relaxed temporarily, including RWA in several sectors and the legal lending limit (BMPK). In addition, the resilience and competitiveness of the financial services sector were strengthened through consolidation policy in the financial services industry to create a more resilient industry with adequate capacity to support the national economy.

In harmony with other financial authorities, LPS supports the economic recovery process and maintains financial system stability through bank guarantee and resolution policies. LPS lowered its guaranteed interest rate in line with the accommodative monetary policy stance. Moreover, the guarantee function was extended and now covers 99.91% of accounts, which exceeds the 90% target mandated by LPS Act. LPS was also accorded stronger authority to issue regulations concerning LPS fund placements to resolve financial system stability issues that could lead to bank default.

Beyond bilateral inter-authority synergy, tripartite cooperation and coordination between Bank Indonesia, OJK and LPS support the policy mix and regulatory harmony of all three institutions. Tripartite coordination is regularly implemented through the MMCF and Macroprudential-Macroprudential Coordination Resolution Forum (MMCRF) at the deputy level to discuss bank liquidity conditions and cross-cutting issues relating to all three institutions. Furthermore, tripartite cooperation and coordination were also strengthened through HR competency development training, joint research, discussions concerning a correspondence mechanism for fund placements by LPS at banks as well as discussions on solvency and liquidity indicators for the banking industry. On the tripartite reporting side, Bank Indonesia worked in cooperation with OJK and LPS to apply integrated reporting towards full implementation in July 2021 based on various aspects, including amendments to bank reporting regulations as an impact of the COVID-19 pandemic.

National policy synergy is also supported by strengthening international coordination and cooperation through various international forums. In this regard, the G20 has mandated the FSB with identifying and monitoring vulnerabilities in the financial sector caused by COVID-19, as well as coordinating regulatory and supervisory actions in member countries, international organisations and standard-setting bodies (SSBs). A recent FSB assessment found: (i) the importance of identifying potential vulnerabilities earlier; (ii) vulnerabilities in the nonbank financial sector that could potentially exacerbate pressures and increase financial stability risk; (iii) the importance of exchanging data and information between member authorities to ensure an effective policy response; and (v) the importance of carefully evaluating and gradually implementing exit policy or unwinding measures to mitigate a potential cliff-edge effect and cross-border spillovers.

International coordination and cooperation are also supported by synergy between financial authorities. A form of coordination at the national level is Indonesia's participation in the FSB Country Peer Review 2019/2020. The peer review aims to evaluate the implementation progress of global recommendations to strengthen the regulatory and supervisory regime in the financial sector. Such coordination is possible through synergy amongst the relevant authorities in Indonesia, namely Bank Indonesia, OJK, Ministry of Finance and the Commodity Futures Trading Regulatory Agency (BAPPEBTI). The previously agreed topic of the peer review is over-the-counter (OTC) derivatives market reform. The recommendations contained in the FSB Country Peer Review are valuable and constructive inputs for derivative market development as an integral element of the financial markets in Indonesia and consistent with efforts to constantly strengthen financial market infrastructure in Indonesia.

Moving forward, international policy and cooperation will be oriented towards strengthening sustainable finance and digital transformation to accelerate the global economic recovery. In terms of financial sustainability, the FSB will review the impact of climate change on financial system stability as part of the 2021 work program. The goal of this work program is to provide market players and financial authorities suitable information and frameworks to mitigate the impact of climate change. The FSB is focusing the program on data availability to monitor the impact of climate change on financial system stability. In this case, the FSB will coordinate with other standard-setting bodies to explore the impact of climate change on financial institutions through regulatory and supervisory approaches. Moreover, the G20 also stressed the importance of digital transformation as a critical instrument of increasing productivity during and after the pandemic. To that end, Bank Indonesia is playing an active role in terms of contributing to dynamic discussions via international forums to ensure effective and efficient information exchange and that the decisions made are aligned with the national interest.

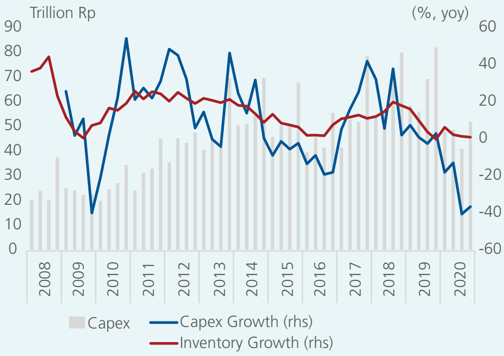
Box 3.1

Resolving Credit Crunch

The COVID-19 pandemic created an extraordinary real sector shock on the supply and demand sides. Not only a domestic issue, the COVID-19 impact on the real sector has been felt around the world. This is in line with compressed public demand for goods and services caused by social restrictions and raw material constraints owing to global supply chain disruptions (Global Value Chain) (Graph B3.1.1). Corporate performance has been squeezed by declining sales and production restrained by import constraints affecting capital goods. Such conditions spilled into the household sector in line with higher unemployment in the form of redundancies and temporary work from home (WFH) protocols. Real sector confidence in economic conditions retreated on exceptional financial market pressures and exchange rate depreciation at the onset of the pandemic (Graph B3.1.2).

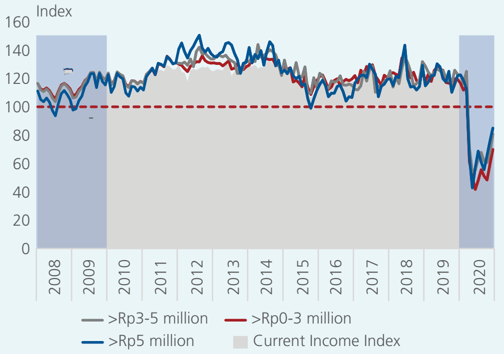
A build-up of risk in the real sector ultimately impacted supply and demand in the financial sector, banking in particular. On the supply side, the risk of default on bank loans increased (Graph B3.1.3). Although the NPL ratio was effectively contained due to bank loan restructuring policy issued by OJK, the banking industry must remain vigilant of the recent spike in Loans at Risk (LaR) (Table B3.1.1). In response, the banking industry beefed up provisions for impairment losses in anticipation of higher credit risk in order to maintain bank soundness. Furthermore, the banks tightened lending standards (index value above 0) (Graph B3.1.4). The banks became cautious and selective lenders when allocating loans to the real sector as a result of elevated uncertainty and a credit risk spike. Ultimately, the high-risk perception of the banking industry led to rigid lending rates despite aggressive reductions to the BI7DRR. On the demand side, fading demand for new loans throughout 2020 stemmed from

Graph B3.1.1 Corporate Sector Capital Expenditure and Inventory



Source: Bloomberg, processed

Graph B3.1.2 Current Income Index



Source: Bloomberg, processed

a corporate sector reluctant to borrow due to the unfavourable business outlook. In terms of investment, corporations adopted a wait-and-see attitude, preferring to optimise the inventory available. Furthermore, corporations also relied on internal funds for financing needs, thus reducing external financing to increase efficiency. The combination of demand- and supply-side pressures led to a sharp -2.41% (yoy) credit contraction in 2020 (Graph B3.1.5).

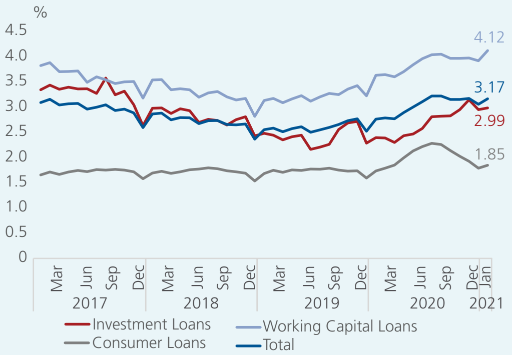
The current phenomenon is known as a credit crunch. Bernanke (1991) defined a credit crunch as a phenomenon where lending by the banking industry declines significantly despite constant lending rates and potential borrower quality.

Table B3.1.1 Bank Loan Restructuring

Segment	Restru	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
MSME Loans	O/S Rp T	80.11	81.21	81.48	93.25	220.34	319.02	351.48	384.09	396.17	397.58	396.72	391.08	383.29
	% to Credit	7.23	7.43	7.34	8.34	20.01	29.68	32.55	35.58	36.63	36.48	36.34	35.85	35.22
Corporate Loans	O/S Rp T	113.15	111.50	112.35	118.18	132.07	168.24	201.52	228.56	245.17	287.77	297.34	299.50	317.89
	% to Credit	5.72	5.87	5.88	5.74	6.62	8.30	10.21	11.48	12.48	14.62	15.42	15.79	16.59
Commercial Loans	O/S Rp T	77.00	76.30	75.34	77.95	111.37	153.10	184.43	196.50	210.52	212.12	212.48	211.37	208.14
	% to Credit	7.92	8.01	7.90	8.06	11.58	16.17	19.24	21.02	22.24	22.69	23.00	22.99	22.38
Consumer Loans	O/S Rp T	29.81	29.71	29.81	30.95	53.01	102.18	134.15	158.65	177.20	182.62	186.75	187.99	189.31
	% to Credit	1.91	1.91	1.91	1.97	3.41	6.65	8.72	10.37	11.58	11.87	12.15	12.20	12.23
Total Credit	**O/S Rp T**	**300.08**	**298.71**	**298.98**	**320.34**	**516.78**	**742.55**	**871.58**	**967.81**	**1029.06**	**1080.08**	**1093.28**	**1089.95**	**1098.63**
	% to Credit	**5.34**	**5.43**	**5.40**	**5.61**	**9.21**	**13.29**	**15.71**	**17.48**	**18.64**	**19.53**	**19.95**	**20.01**	**20.04**

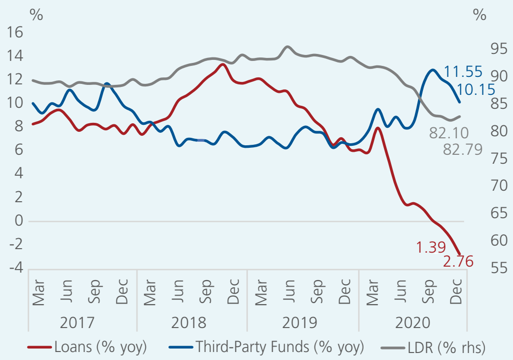
Source: OJK, processed

Graph B3.1.3 Non-Performing Loans in Banking Industry



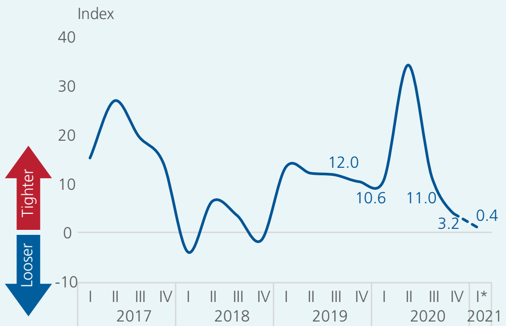
Source: Bank Indonesia, processed

Graph B3.1.5 Bank Credit Growth



Source: Bank Indonesia, processed

Graph B3.1.4 Lending Standards Index



*)Projected

Source: Bank Indonesia, processed

Firm-level data showed that the credit crunch in 2020 was caused by demand- and supply-side issues. A credit crunch must be anticipated due to the potential impact on risk in the economy and financial system stability. Therefore, Bank Indonesia has prepared measures to increase the bank intermediation function, known as resolving the credit crunch.

In-depth mapping of bank conditions and sectoral characteristics is required to resolve the credit crunch. This is critical considering the disparate impact of COVID-19 on each respective sector. For example, the telecommunications, pharmaceutical as well as food and beverages industries are more resilient to current conditions due to business models that favour public needs during a pandemic. Nonetheless, the tourism, accommodation and aviation industries are facing severe disruptions due to large-scale social restrictions. Mapping is also required in terms of sectoral financing needs, the multiplier effect of each sector on the economy as well as export capacity and business scale, while also considering the risks associated with COVID-19 transmission in each respective sector.

As part of the efforts to revive credit growth, Bank Indonesia has conducted a review combining the demand and supply sides by mapping financing supply and demand. Mapping divides the sectors into four quadrants as follows: (i) limited credit growth; (ii) avoided credit growth; (iii) lagging credit growth; and (iv) sustainable credit growth.

Quadrant I (limited credit growth) experienced growing demand for loans yet decreasing supply. This was explained by positive credit growth and negative undisbursed loans. In general, the subsectors located in this quadrant were impacted by the pandemic in 2020. To meet operational needs, most corporations in this quadrant optimised existing credit facilities. Nevertheless, the banks remained cautious when extending additional credit facilities to corporations in this quadrant, leading to negative undisbursed loan growth. The subsectors in Quadrant I include real estate, plantation crops and metal ore mining.

Quadrant II (avoided credit growth) experienced declining demand and supply of loans. The declines were reflected in credit growth and undisbursed loans. Quadrant II represents banks unwilling to lend and corporations unwilling to borrow. Livestock is a subsector that falls into the Quadrant II category.

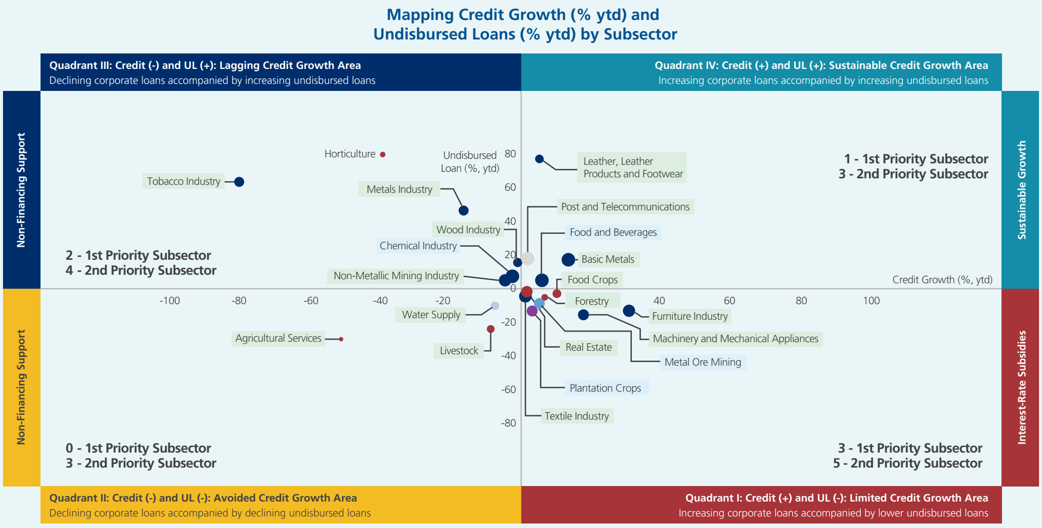
Quadrant III (lagging credit growth) experienced declining demand but increasing supply of loans. Such conditions were confirmed by a credit contraction, while undisbursed loans remained available. Banks are willing to lend to corporations in this quadrant but corporate demand for loans is low in terms of working capital loans and investment loans due to weaker demand for the products produced by subsectors in this quadrant. Quadrant III includes the chemicals industry, wood industry and metals industry. In general, corporations located in this quadrant have adequate internal liquidity.

Quadrant IV (sustainable credit growth) shows the greatest potential for matching credit demand and supply between the banking industry and corporate sector. This quadrant experienced higher demand and supply for loans in 2020, as reflected by positive credit growth and undisbursed loans. Corporations in this quadrant tend to perform well, with the potential for business expansion and business models applicable to pandemic conditions, thus the banks are willing to lend. Quadrant IV contains the telecommunications subsector, food and beverages industry, basic metals industry as well as leather, leather goods and footwear. Next, the mapping results were integrated with KSSK assessments and divided into two main categories, namely the most impacted sectors and the most resilient sectors.

The mapping results were used to underline policymaking and resolve the credit crunch. Through coordination with all member authorities under the auspices of KSSK, an Integrated Policy Package was formulated to increase financing to the corporate sector and accelerate the economic recovery, which is expected to help the most impacted sectors survive the pandemic, while providing incentives for resilient sectors to continue business expansion as the deleterious impact of COVID-19 fades in line with an orderly vaccination rollout. Several policies have been prepared for the most impacted sectors, including interest rate subsidies, loan guarantees and loan restructuring. Each quadrant requires a different policy approach. Reviving credit growth in Quadrant I requires loan guarantees and interest rate subsidies to give the banks more confidence when extending loans to subsectors in this quadrant. Meanwhile, Quadrants II and III require non-financing support in the form of tax relief or electricity subsidies to support operational activities in the corporate sector. Finally, policies targeting resilient subsectors must be oriented towards supporting the ease of doing business, including export activity.

Based on such a policy design, resilient sectors are expected to become a locomotive of economic growth, facilitating improvements in other sectors. Sectors impacted by the pandemic are also expected to improve in line with the gradual reopening of productive and safe sectors as well as the orderly vaccination rollout. Further assessments have shown that an orderly vaccination program rollout accompanied by fewer social restrictions will gradually restore corporate repayment capacity in the second semester of 2021. This will encourage banks to extend more loans and, therefore, accelerate the national economic recovery

Figure B3.1.1 Matching Corporate Supply and Demand with Bank Readiness



Source: Bank Indonesia, processed

3.2 Monetary Policy and Financial System Stability

Supporting policy effectiveness, Bank Indonesia is confident that the pace of economic recovery in Indonesia is contingent upon two main prerequisites, namely a successful vaccination rollout and public discipline in terms of applying COVID-19 protocols. Bank Indonesia has also noted five policy measures that must work in synergy to revive economic recovery as follows: (i) the reopening of productive and safe sectors; (ii) accelerating fiscal realisation; (iii) reviving bank lending on the supply and demand sides; (iv) maintaining monetary and macroprudential stimuli; and (v) accelerating economic and financial digitalisation, particularly in terms of SME development.

To that end, Bank Indonesia has maintained an accommodative monetary policy mix, while maintaining economic stability. In terms of prices, Bank Indonesia lowered the BI7DRR by a total of 125 basis points to the lowest level ever recorded at 3.75% in 2020. Incremental reductions were implemented in February, March, June, July and November 2020. In February 2021, Bank Indonesia lowered the policy rate further to 3.5% based on low inflation, stable Rupiah exchange rates, the minimal impact on financial asset competitiveness and maintained financial system resilience.

In addition, Bank Indonesia implemented a program of quantitative easing through large-scale liquidity injections and lower reserve requirements. Since 2020, Bank Indonesia has injected liquidity into the banking industry totalling Rp750.38 trillion or 4.86% of GDP, with Rp726.57 trillion injected in 2020 and Rp23.81 trillion in 2021 (as of 16th February 2021). In 2020, Bank Indonesia also purchased SBN totalling Rp73.42 trillion as a form of funding and burden sharing in the 2020 APBN to support the national economic recovery program, consisting of Rp75.86 trillion and Rp397.56 trillion tranches respectively in accordance with the KB issued by the Finance Minister and Bank Indonesia Governor on 16th April 2020 and 7th July 2020. Consequently, excess liquidity in the banking industry suppressed the average overnight interbank rate to 3.04% in December 2020 compared with 4.83% in December 2019.

Monetary policy management was oriented towards strengthening the full panopoly of policy mix instruments available in terms of Rupiah and foreign currency monetary operations to maintain Rupiah exchange rate stability, control inflation and support financial system stability in close synergy with the Government and KSSK. Monetary operations were refined on the liquidity absorption and injection sides. Furthermore, Bank Indonesia arranged daily repo auctions for tenors up to 12 months from 20th March 2020 to maintain adequate bank liquidity. Meanwhile, fine-tune open market operations were activated to dampen overnight interbank rate fluctuations. Honing the monetary operations strategy was expected to support implementation effectiveness and provide market assurance in terms of liquidity management.

Monetary operations were also strengthened in terms of sharia-compliant Rupiah instruments. This was facilitated through promulgation of Bank Indonesia Regulation (PBI) No. 22/14/PBI/2020 concerning Monetary Operations, effective from 1st October 2020. The regulation was issued primarily in relation to new sharia-compliant monetary instruments in the form of funding facilities available to sharia monetary operations participants secured using sharia-compliant securities in terms of open market operations (Sharia-Compliant Liquidity Management - PaSBI) or standing facilities (Sharia-Compliant Liquidity Facility - FLiSBI) as part of the efforts to strengthen monetary operations in line with conventional and sharia financial market dynamics.

In terms of foreign currency monetary operations, Bank Indonesia optimised triple intervention policy to maintain Rupiah exchange rate stability in line with the currency's fundamental value and market mechanisms. Triple intervention policy entailed spot and DNDF transactions as well as purchasing SBN in the secondary market to tackle persistently elevated global financial market uncertainty. MO also strengthened FX swaps, foreign currency term deposits and DNDF. The intensity of triple intervention policy peaked in the first semester of 2020 during high portfolio investment outflows, particularly SBN, which exacerbated pressures on the Rupiah. FX swaps were strengthened by increasing the auction frequency for tenors of 1 month, 3 months, 6 months and 12 months from three times per week to daily to ensure adequate liquidity. Foreign currency term deposits were oriented towards increasing liquidity management in the domestic foreign exchange market, while DNDF were strengthened by narrowing the window time from 15 to 5 minutes to increase price discovery and market mechanisms towards deepening the domestic foreign exchange market.

Bank Indonesia also strengthened bilateral swap agreements to reinforce Rupiah exchange rate stabilisation policy. Bilateral swaps are used to strengthen triple intervention policy through the spot and DNDF markets as well as SBN purchases in the secondary market. Bank Indonesia has arranged bilateral swap agreements with other financial authorities in China, Japan, Singapore and Malaysia and established repo lines with several other central banks and international organisations, including the Federal Reserve Bank of New York and BIS, to strengthen the second line of defence.

Bank Indonesia has also strengthened cooperation with several other neighbouring central banks to encourage use of LCS for trade and investment to reduce excessive dependence on hard currencies. LCS is based on two schemes, namely Appointed Cross Currency Dealers (ACCD) and Bilateral Currency Swap Arrangements (BCSA). ACCD is applied by the authorities in Japan, China, Malaysia and Thailand, while BCSA are favoured by China, South Korea and Australia. Bank Indonesia has also issued regulations to expand the scope of underlying transactions by including current account transactions and direct investment. In addition, Bank Indonesia also extended LCS cooperation to interested new trading partners, namely the Philippines, South Korea, India and Saudi Arabia, while offering public education and socialisation activities to increase understanding regarding LCS.

Institutional cooperation in the form of Structured Bilateral Cooperation (SBC) was implemented and expanded with several partner central banks, including South Korea, Japan, UK, Germany and Turkey, as well as international institutions, such as the BIS. In addition, Bank Indonesia also constantly engages in intensive communication with investors, rating agencies as well as domestic and international market players to build optimism and support exchange rate stabilisation policy. Such efforts have helped to maintain Indonesia's Sovereign Credit Rating at a time when the ratings of various other countries have been downgraded.

Box 3.2

KSSK Integrated Policy Package to Revive Corporate Financing and Accelerate Economic Recovery

The Government formulated and is implementing the national economic recovery (PEN) program to mitigate the economic impact of COVID-19. Based on Government Regulation No. 23 of 2020, the national economic recovery program aims to protect, maintain and increase the economic capacity of business players. The principles of the economic recovery were determined based on social equality, good governance and public prosperity. The program contains support for the health sector, social protections, business incentives, SME incentives, corporate financing and support for local government programs.

The national economic recovery program is oriented towards supporting the economy on the supply and demand sides. On the demand side, the Government has provided incentives in the form of social assistance disbursements and housing incentives for low-income earners. On the supply side, the Government has offered business incentives, including state capital investment (PMN) in several state-owned enterprises, government investment, government fund placements in the banking industry and credit guarantees as well as interest rate subsidies. Through the national economic recovery program, the Government strives to prevent any further decline of purchasing power and provide relief to businesses impacted by the COVID-19 pandemic.

PEN realisation in 2020 effectively prevented deeper economic decline throughout 2020. As of December 2020, national economic recovery program realisation stood at Rp579.78 trillion or 83.4% of the Rp695.2 trillion total[1]. Despite a high realisation level, several programs remained suboptimal, such as the guarantee program. At the end of 2020, SME guarantee program realisation, under the auspices of the national economic recovery, stood at just Rp30 trillion or 61% of the 2020 target. Meanwhile, corporate guarantee program realisation totalled Rp842.5 billion, or just 0.84% of the target. Such constraints demand attention to hone the national economic recovery program in 2021. Other PEN refinements include reviewing the magnitude of risk sharing borne by the Government, improving the guarantee information system and simplifying the guarantee scheme for lower value loans.

As part of the efforts to further refine the national economic recovery program, KSSK released an integrated policy package to revive corporate financing and accelerate the economic recovery in 2021. The policy package was issued due to persistently elevated uncertainty caused by COVID-19, thus necessitating stimuli in 2021 to help the business community survive and recover. When formulating the integrated policy package, KSSK organised a series of in-depth focus group discussions (FGD) with 25 associations (representing 20 subsectors) to obtain a detailed overview of sectoral developments, potentials and challenges.

On the fiscal side, economic recovery policy focused on tax relief, customs facilities and government expenditure support. The first tax policy related to tax expenditure as forgone

1 Net budget financing (SiLPA) totalling Rp50.94 trillion earmarked.

revenue in response to special regulations that differed from tax system benchmarks. In addition to tax expenditure, the Government also provided tax incentives to revive public purchasing power, meet demand for imported raw materials for production in sectors impacted by the pandemic, and strengthen corporate cash flows and restart activity. In general, the tax incentives available in 2021 are an extension of those available in 2020, namely tax relief on PPh 21 borne by the government, tax holiday on PPh 22 for imports, and tax relief on PPh 25 instalments. Meanwhile, to alleviate the production cost burden in the business sector, the Government also provided more competitive customs facilities, such as bonded zones and tax waivers for export-oriented goods (KITE). In addition, the Government will maintain credit guarantee support for the corporate sector.

From a monetary perspective, Bank Indonesia will continue to accelerate the national economic recovery while maintaining financial system stability. Therefore, low interest rates and loose liquidity conditions will be maintained until definitive signs of increasing inflationary pressures are evident. Meanwhile, Rupiah exchange rate stability policy will be oriented towards maintaining the currency's fundamental value and market mechanisms. Coordination between Bank Indonesia's monetary stimuli and the Government's fiscal stimuli will be strengthened by continuing the joint decree of the Finance Minister and Bank Indonesia Governor issued on 16th April 2020 concerning the Coordinated Schemes and Mechanisms to Purchase Government Debt Securities (SUN) and/or Government Sharia Securities (SBSN) in the Primary Market to Maintain State Financial Management Sustainability. In addition, Bank Indonesia also developed long-term derivative instruments in the form of cross currency swaps (CCS) and interest rate swaps (IRS), which aim to enhance risk management through hedging against exchange rate and interest rate exposures, thus supporting long-term economic and infrastructure financing flexibility. Bank Indonesia will also optimise foreign currency transactions through LCS schemes to support priority sector development.

Bank Indonesia will also maintain an accommodative macroprudential policy stance. In this case, Bank Indonesia will coordinate with OJK to lower lending rates by publishing bank interest rates transparently in order to strengthen monetary policy transmission. In addition, Bank Indonesia will hold its accommodative macroprudential policy stance by relaxing LTV/FTV policy on loans/financing, including greater liquidation flexibility, as well as downpayment requirements on automotive loans/financing. Bank Indonesia will also encourage the banking industry to increase disbursed financing to priority and export-oriented sectors by reactivating the MIR, and increase inclusive financing, including loans to SMEs, low-income earners and subsistence groups through the RPIM. Meanwhile, payment system policy will be oriented towards transaction efficiency, accelerating digitalisation and creating an inclusive economic and financial ecosystem.

Microprudential policy will be directed towards supporting national economic recovery efforts. To that end, OJK has issued microprudential policies through a temporary and measured relaxation of loan restructuring policy, lowering the RWA of property and automotive loans and financing, adjusting the legal lending limit (BMPK) and lowering the risk-weighted assets of loans extended to the healthcare sector, facilitating and expediting access to finance in the corporate sector, SMEs in particular, end-to-end expansion of the SME digitalisation ecosystem and establishing sovereign wealth funds (SWF). Meanwhile, LPS will continue to maintain depositor confidence by guaranteeing deposits across 99.91% of accounts as of December 2020. LPS will also increase liquidity in the banking industry through low guaranteed interest rates, while relaxing the deadline on premium payments until the second half of 2021.

Various structural strengthening policies will also be implemented by the Government and financial system authorities. From a real sector perspective, the Government will accelerate the implementation rules for the Omnibus Law on Job Creation to ensure a substantial improvement in the investment and business climates in Indonesia. This will be accompanied by improvements in the financial sector by refining regulations to develop and strengthen the sector. In terms of international trade, Bank Indonesia will continue to promote trade and investment in priority sectors, including Regional Comprehensive Economic Partnerships (RCEP), to reinforce the balance of payments. Such measures are expected to revive corporate sector financing and accelerate the economic recovery.

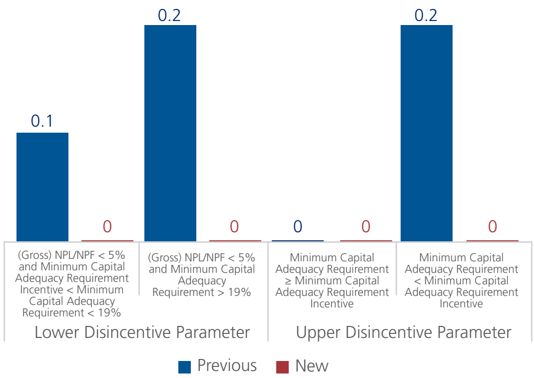
3.3 Macroprudential Policy Mix

Bank Indonesia has maintained an accommodative macroprudential policy stance to strengthen monetary policy transmission. Bank Indonesia is holding its macroprudential policy stance based on financial system stability and a financial cycle that is below the long-term trend. Such conditions have ensured adequate policy space for Bank Indonesia to support the economic recovery by strengthening intermediation without disrupting financial system stability. The focus of accommodative macroprudential policy is oriented towards measured efforts to revive the bank intermediation function while containing the associated risks. Furthermore, accommodative macroprudential policy will also overcome the cliff-edge effect and credit crunch.

Bank Indonesia extended and expanded the scope of 50bps lower Rupiah reserve requirement incentives to revive financing disbursed to priority sectors. The initial policy from 1st April 2020 – 31st December 2020 was extended until 30th June 2021 through promulgation of Bank Indonesia Regulation (PBI) No. 22/19/PBI/2020, accompanied by the implementation guidelines contained in Board of Governors Regulation (PADG) No. 22/35/PADG/2020. The criteria for banks to receive the incentive have also been expanded from banks disbursing financing for productive import and export activities as well as small and medium enterprises (SMEs) to also include banks with exposures to priority sectors as stipulated in the national economic recovery program, including accommodation and food service activities, automotive industry, textiles and textile products, footwear, electronics as well as processed wood, furniture and paper products.

Efforts to maintain adequate liquidity have also included loosening the (sharia) Macroprudential Intermediation Ratio (MIR). In 2020, Bank Indonesia issued Board of Governors Regulation (PADG) No. 22/11/PADG/2020 concerning the Macroprudential Intermediation Ratio (MIR) and Macroprudential Liquidity Buffer (MPLB). Through the regulation, Bank Indonesia maintained the (sharia) MIR, indicating the ratio between financing and funding in the banking industry, at 84% and 94% for the lower and upper bounds but removed the additional checking account requirements for banks failing to meet the MIR requirements (Figure 3.3.1). The upper and lower disincentive parameters were also reduced to 0. The new (sharia) MIR requirements are effective for one year until April 2021 in order to relieve the burden in the banking industry amidst low demand for new loans during the pandemic.

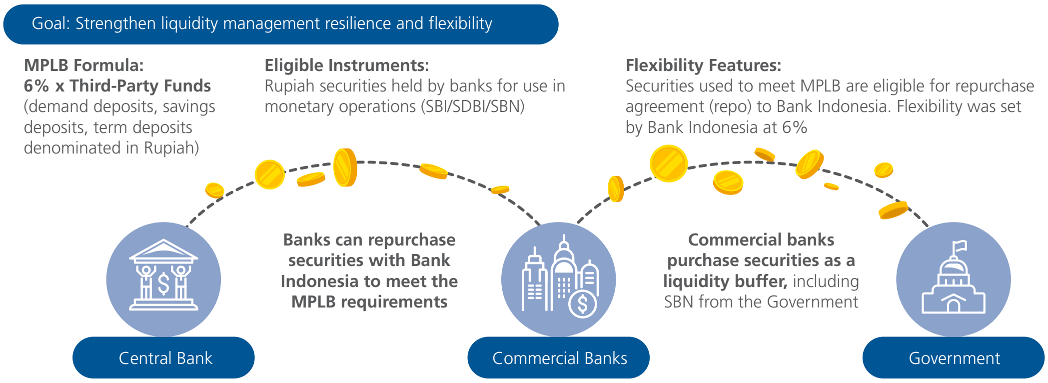
Figure 3.3.1 Refinements to (Sharia) Macroprudential Intermediation Ratio



Source: Bank Indonesia

The MPLB was adjusted as a form of fiscal, monetary and macroprudential policy synergy to support the national economic recovery program. Bank Indonesia raised at the (sharia) MPLB 200 basis points to 6% for conventional commercial banks and by 50bps to 4.5% for sharia banks/business units. Banks are required to meet the higher (sharia) MPLB by purchasing SUN/SBSN issued by the Government in the primary market, with all such securities eligible as underlying transactions for repurchase agreements from banks to Bank Indonesia (Figure 3.3.2). On one hand, the adjustment helped Bank Indonesia ensure adequate quality liquidity in the banking industry, while, on the other hand, the adjustment bolstered government finances to accommodate the economic recovery.

Figure 3.3.2 Macroprudential Liquidity Buffer Scheme

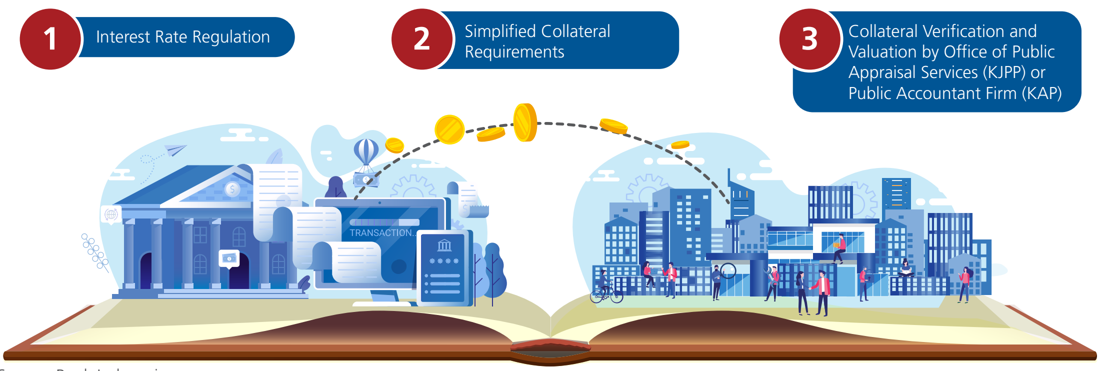


Source: Bank Indonesia

Bank Indonesia also held the Countercyclical Buffer (CCB) at 0% throughout 2020 to maintain resilient bank capital. The CCB is additional capital that functions as a buffer to anticipate losses in the event of excessive bank loan/financing growth that could potentially undermine financial system stability. A CCB of 0% implies that banks are not required to maintain additional capital as a buffer. Bank Indonesia determines the CCB level based on the primary indicator, namely the credit-to-GDP gap, which showed no indications of excessive intermediation. This was confirmed by other macro and banking indicators. Furthermore, Bank Indonesia evaluates the CCB level at least once every six months.

Bank Indonesia strengthened its lender of last resort (LoLR) function as an anticipatory measure to maintain financial system stability during the COVID-19 pandemic. Bank Indonesia refined its (sharia) short-term liquidity assistance facilities on 29th September 2020 as a follow-up action to Act No. 2 of 2020. The regulatory adjustment targeted interest rates, simplified collateral requirements and expedited the application process in line with prudential principles and good governance. The short-term liquidity assistance interest rate was adjusted to the Lending Facility (LF) +100 bps, while the profit-sharing ratio remained at 80%. Furthermore, the assets eligible as collateral were expanded to include loan/financing assets that are not secured by land and buildings and/or land, loan/financing assets to employees, restructured loan/financing assets due to COVID-19 as well as other collateral owned by banks and/or other parties. Finally, banks were required to evaluate and verify their collateral before applying to Bank Indonesia for (sharia) short-term liquidity assistance facilities based on an assessment by the Office of Public Appraisal Services (KJPP) or a Public Accountant Firm (KAP) (Figure 3.3.3).

Figure 3.3.3 Refinements to (Sharia) Short-Term Liquidity Assistance



Source: Bank Indonesia

Bank Indonesia has maintained an accommodative macroprudential policy stance to revive a balanced and quality bank intermediation function by relaxing the LTV/FTV Ratio on property financing and the minimum downpayment requirements on automotive loans/financing. Such policies were implemented in accordance with Bank Indonesia Regulation (PBI) No. 23/2/PBI/2021, where banks meeting the gross NPL/NPF requirements and net NPL/NPF requirements on automotive loan/financing of 5% could offer 0% downpayments. This was applicable to all types of commercial and non-commercial motor vehicle. In terms of property, Bank Indonesia removed the gradual liquidation requirements on property loans/financing for partially prepaid property. In addition, for banks meeting the NPL/NPF criteria, Bank Indonesia set the LTV ratio on property loans and FTV ratio on property financing at up to 100%. Notwithstanding, banks failing to meet the NPL/NPF criteria were also offered incentives (Table 3.3.1). When relaxing LTV policy, Bank Indonesia still required banks to maintain prudential principles and risk management. The move was in line with government policy to provide lower sales tax on luxury goods for specific motor vehicles and OJK policy to lower the RWA on secured property loans and automotive loans (Table 3.3.2).

Bank Indonesia is currently reviewing bank incentives to increase lending and thus the performance of priority sectors. Through coordination within KSSK, three broad classifications of priority sectors have been agreed as follows: (i) resilient; (ii) growth drivers; and (iii) slow starters. Authorities within KSSK, including Bank Indonesia, have since formulated synergic policies to accommodate the needs of such sectors.

Bank Indonesia has implemented a strategy focusing on the supply and demand sides to stimulate SME growth as contained in the national SME development strategy. On the supply side, Bank Indonesia continues to foster corporatisation, build capacity, primarily through SME digitalisation, and refine SME financial instruments. On the demand side, Bank Indonesia continues to support the SME market, including participation in the National BBI Movement promoting pride in Indonesian-made products. The National BBI Movement was initiated by the Government to create offtakers amongst government ministries and agencies as well as state-owned enterprises for SME products, particularly agricultural, fishing, culinary and household industries. The goals of the National BBI Movement are as follows: (i) accelerating SME digital transformation; (ii) strengthening business continuity and sustainability; (iii) accelerating the

Table 3.3.1 Comparison of Maximum LTV/FTV Ratio

	Meeting NPL/NPF Criteria				Not Meeting NPL/NPF Criteria					
	Property Credit and Property Financing based on Murabahah and Istishna Contracts		Property Financing based on MMQ and IMBT Contracts		Property Credit and Property Financing based on Murabahah and Istishna Contracts			Property Financing based on MMQ and IMBT Contracts		
Facility..	1	≥2	1	≥2	1	2	≥3	1	2	≥3
Landed House										
Tipe >70	-	85%	-	90%	85%	75%	65%	90%	80%	70%
Tipe >21 - 70	-	90%	-	95%	-	85%	75%	-	85%	75%
Tipe ≤21	-	-	-	-	-	-	-	-	-	-
Apartment										
Tipe >70	-	85%	-	90%	85%	75%	65%	90%	80%	70%
Tipe >21 - 70	-	90%	-	90%	95%	85%	75%	95%	85%	75%
Tipe ≤21	-	90%	-	90%	-	85%	75%	-	85%	75%
Shop House/ Office House	-	90%	-	90%	-	85%	75%	-	85%	75%

	Meeting NPL/NPF Criteria				Not Meeting NPL/NPF Criteria*					
	Property Credit and Property Financing based on Murabahah and Istishna Contracts		Property Financing based on MMQ and IMBT Contracts		Property Credit and Property Financing based on Murabahah and Istishna Contracts			Property Financing based on MMQ and IMBT Contracts		
Facility..	1	≥2	1	≥2	1	2	≥3	1	2	≥3
Landed House										
Tipe >70	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%
Tipe >21 - 70	100%	100%	100%	100%	95%	95%	95%	95%	95%	95%
Tipe ≤21	100%	100%	100%	100%	100%	95%	95%	100%	95%	95%
Apartment										
Tipe >70	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%
Tipe >21 - 70	100%	100%	100%	100%	95%	95%	95%	95%	95%	95%
Tipe ≤21	100%	100%	100%	100%	100%	95%	95%	100%	95%	95%
Shop House/ Office House	100%	100%	100%	100%	95%	90%	90%	95%	90%	90%

Source: Bank Indonesia

Table 3.3.2 Comparison of Minimum Downpayment Requirements

Vehicle Type	Non-Eco-Friendly Motor Vehicle		Eco-Friendly Motor Vehicle	
	Meeting NPL Requirements**	Not Meeting NPL Requirements**	Meeting NPL Requirements**	Not Meeting NPL Requirements**
Two-Wheeled	15%	20%	0%	15%
Three-Wheeled or More (Non-Commercial)	15%	25%	0%	20%
Three-Wheeled or More (Commercial)	10%	15%	0%	10%

Vehicle Type	New Proposal for Non-Eco-Friendly Motor Vehicle		New Proposal for Eco-Friendly Motor Vehicle	
	Meeting NPL Requirements **	Not Meeting NPL Requirements**	Meeting NPL Requirements**	Not Meeting NPL Requirements**
Two-Wheeled	0%	10%	0%	10%
Three-Wheeled or More (Non-Commercial)	0%	10%	0%	10%
Three-Wheeled or More (Commercial)	0%	5%	0%	5%

Source: Bank Indonesia

economic cycle; (iv) building pride in Indonesia made products; and (v) expanding national branding for local products with competitive advantage. In 2020, Bank Indonesia was appointed as a Movement Manager at the Art Market from 1st-15th September 2020.

Bank Indonesia's role as Movement Manager was aligned with the Karya Kreatif Indonesia (KKI) activities in 2020 as an annual event organised by Bank Indonesia for SMEs. The virtual KKI in 2020 facilitated business matching, business coaching and SME onboarding. Through such activities, Bank Indonesia has successfully implemented QRIS at 60 handicraft hubs and 1,948 partner SMEs in the creative sector. In addition, Bank Indonesia has also provided onboarding education for 70,000 SMEs, and business matching with the international market and financial institutions, including the banking industry and FinTech. In 2021, Bank Indonesia will continue to fully support the National BBI Movement to achieve the national target of 30 million SMEs for onboarding education by 2023. Support was provided in March 2021 by Bank Indonesia as a movement manager in West Nusa Tenggara under the hashtag #EKSOTISMELOMBOK, involving various activities, such as expanding QRIS, increasing the number of onboard SMEs and curating SME products with a broader target and scope.

3.4 Payment System Policy Mix

Several payment system policies have been relaxed during the pandemic. First, Bank Indonesia lowered the cap on fund transfer fees through the National Clearing System (SKNBI) from Rp3,500 to just Rp2,900. The policy aims to stimulate use of cashless transactions during the pandemic and increase transaction efficiency, effective from 1st April 2020 until 31st December 2020. Second, credit card policy was relaxed from 1st May 2020 until 31st December 2020 by lowering the maximum interest rate, minimum payment and late payment penalty, while supporting credit card issuers to extend the maturity date and provide relief to consumers impacted by the pandemic. In November 2020, Bank Indonesia extended the lower transfer fees in the National Clearing System until 31st June 2021. Lower interest rates on credit cards were also continued in 2021, with the lower minimum payment requirements extended until 31st December 2021 and the late payment penalty until 30th June 2021. In addition, Bank Indonesia also reduced the service fees for the Bank Indonesia – Real Time Gross Settlement (BI-RTGS) system, from 1st December 2020, to strengthen cost efficiency and the tariff structure, while stimulating economic activity during the pandemic.

Bank Indonesia also supported payment digitalisation by expanding acceptance of Quick Response Code Indonesia Standard (QRIS), particularly amongst MSME merchants. In April 2020, Bank Indonesia set the QRIS Merchant Discount Rate (MDR) at 0% for micro enterprises, effective from 1st April 2020 until 31st December 2020. Bank Indonesia then held the 0% MDR until 31st March 2021. In addition to fostering SME digitalisation, the special price policy offered to micro merchants was consistent with the National BBI Movement promoting pride in Indonesian-made products. Bank Indonesia continues to expand QRIS acceptance through innovative features and education. Contactless QRIS payments are being introduced, while QRIS education targeting merchants and consumers has been expanded. QRIS is expected to accelerate MSME digitalisation and boost economic and financial inclusion nationally, also by collecting MSME data which has always been a barrier to MSME development.

Bank Indonesia constantly strengthen synergy with the Government to expand use of cashless transactions in a number of strategic sectors through payment electronification programs. The electronification of cashless social aid program disbursements will lead to more accurate and timely disbursements, while supporting good governance during the COVID-19 pandemic. Transaction electronification through Electronic Trading Platforms (ETP) has been successfully implemented in 542 regional governments located in 34 provinces, 93 cities and 415 regencies. The scope of interregional payment electronification varies, from cash management systems (CMS) and online SP2D to QRIS, e-money and online banking. ETP has also been applied in the local government environment for tax and levy purposes, as well as procurement and expenditure. Through electronification, tax revenues are expected to increase, coupled with more efficient and optimal spending as well as stronger financial governance. Provincial Digitalisation Acceleration and Expansion Teams (TP2DD) chaired by the respective local governor have been established to accelerate ETP implementation, along with similar teams at the city/regency administrative level, chaired by the local regent/mayor.

BANK INDONESIA

Chapter 4 Building Financial Sector Optimism, Accelerating the National Economic Recovery Moving Forward

A successful vaccination program rollout is key to the economic recovery due to its favourable impact on the global and domestic economic outlook. Vaccinations are a prerequisite of greater mobility that will allow economic activity to return to normal. In addition, the prospect of a faster recovery is also influenced by public discipline in terms of applying COVID-19 protocols. Ongoing policy stimuli and stronger national economic policy synergy will also accelerate economic expansion.

Consistent with the national economic recovery outlook, financial system stability is expected to remain solid in line with efforts to revive the bank intermediation function. On the demand side, corporate performance is forecast to recover gradually on the back of various policy stimuli from Bank Indonesia, the Government and other relevant authorities, coupled with increasing public mobility. Households are also expected to recover, thus driving consumption. With strong capital support and adequate liquidity, the banking industry is disbursing loans selectively to the real sector on target and in line with contained credit risk. Financing from the capital market is anticipated to grow in response to potential corporate expansion. Notwithstanding, a stronger intermediation function in 2021 remains overshadowed by several risks associated with the successful vaccination program rollout, virus mutations and business model uncertainty after the COVID-19 pandemic.

Observing the economic dynamics and various challenges moving forward, Bank Indonesia will maintain an accommodative macroprudential policy stance throughout 2021 to increase credit and financing growth and accelerate the national economic recovery. Such policies include prime lending rate transparency in the banking industry, reactivating the Macroprudential Intermediation Ratio (MIR), providing incentives for loans extended to priority sectors and export activities, as well as the Macroprudential Inclusive Financing Ratio. Such accommodative macroprudential policies are part of the overall policy mix that encompasses monetary policy based on the latest data and payment system policies, including digitalisation. The ongoing digitalisation trend has strengthened Bank Indonesia's efforts to continue developing a digital economic and financial ecosystem in order to accelerate the national economic recovery.

Bank Indonesia strives to constantly strengthen collaboration and synergy amongst relevant authorities in Indonesia to accelerate the national economic recovery, which has proven successful in terms of preventing an economic crisis during the pandemic. Therefore, Bank Indonesia will continue to strengthen coordination under the auspices of the KSSK to formulate new policies and monitor implementation of the Integrated Policy Package launched recently. Inter-authority coordination will also be strengthened to maintain financial sector resilience during the economic recovery and revive intermediation to help accelerate the recovery.

4.1 Promising Global and Domestic Economic Outlook Forecast

The global economic recovery is expected to persist in 2021. That projection is based on an orderly COVID-19 vaccination rollout around the world, with vaccines available to 68% of the global population by the beginning of the second semester of 2021. This is expected to recover mobility amongst key economic drivers, while restoring consumer and business confidence. With the ongoing fiscal and monetary policy stimuli, Bank Indonesia projects global economic growth in 2021 to reach 5.1% (Table 4.1.1) in line with the projections published by several international institutions.

The global economic growth outlook has been upgraded compared with previous projections. Higher than previously projected growth was primarily driven by the US economy, which is now forecasted to expand by 4.7% in 2021 compared with 4.3% estimated previously. Growth projections have been revised upwards due to the expeditious vaccination rollout as a key policy agenda of the new administration, coupled with ongoing policy stimuli, particularly the American Rescue Plan worth USD1.9 trillion. In developing economies, China's economy is expected to expand beyond previous projections to reach 8.1%, supported by positive growth since 2020, through effective pandemic handling, fiscal stimuli and accommodative monetary policy. In contrast, the economic growth outlook for Europe has been downgraded to 4.5% as ongoing mobility restrictions continue to compress domestic demand despite policy stimuli.

The promising global economic recovery outlook will have a favourable impact on world trade and international commodity prices. World trade volume is expected to begin rebounding in 2021 supported by a recovery of industrial activity and global exports. The latest developments in January 2021 point to early signs of industrial recovery in advanced and developing economies, primarily to meet demand for raw materials for industry and the marketing of goods produced (Graph 4 .1 .1). Positive world trade performance is reflected in the upward trend of shipping freight costs amidst limited container availability. Global economic gains will also boost international commodity prices, metals and oil in particular (Table 4.1.2). Metal prices will be edged upwards by expansion of the global electronics industry and economic recovery in China, while the global oil price is also tracking an upward trend stoked by global economic recovery optimism coupled with low supply caused by high compliance amongst OPEC+ to the agreed oil production cuts.

Global financial market uncertainty is expected to ease in line with global economic recovery expectations. Lower global financial market uncertainty is reflected in the Economic Policy Uncertainty (EPU) Index and VIX Volatility Index, both of which are tracking downward trends. Risk indicators in many developing economies, including Indonesia, are also coming down, namely the Emerging Markets Bond Index (EMBI) Spread and CDS. Lower uncertainty has spurred capital inflows to developing economies, including nearly all countries in Emerging Asia (Graph 4.1.2). Such conditions have led to currency appreciation in various developing economies, including Indonesia.

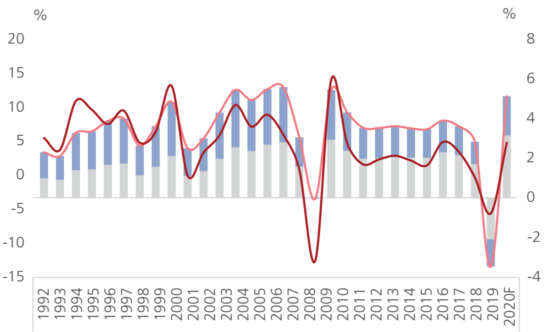
On the other hand, negative sentiment is brewing in global financial markets due to stronger growth in advanced economies than previously predicted. Concerns have emerged amongst market players regarding a potential global rebalancing as well as tapering policy in advanced economies. This could trigger negative spillover in the form of a foreign capital reversal from developing to advanced economies and, therefore, currency depreciation in developing economies.

Table 4.1.1 Global Economic Growth Projections

	2019	IMF WEO						WORLD BANK					CONCENSUS FORECAST					BANK INDONESIA		
		Okt-20			21-Jan			20-Jun		21-Jan			Des-20		21-Jan			Projections Feb-21		
		2020	2021	2022	2020	2021	2022	2020	2021	2020	2021	2022	2020	2021	2020	2021	2022	2020	2021	2022
Global	2.8	-4.4	5.2	4.2	-3.5	5.5	4.2	-4.1	4.3	-3.7	4.3	3.9	-3.9	5.5	-3.8	5.6	4.3	-3.5	5.1	3.9
Advanced Economies	1.6	-5.8	3.9	2.9	-4.9	4.4	3.1						-5.1	4.1	-5	4.1	3.6	-4.7	4.1	2.9
United States	2.2	-4.3	3.1	2.9	-3.4	5.1	2.5	-6.1	4	-3.6	3.5	3.3	-3.6	4	-3.5	4.4	3.4	-3.5	4.7	3
Eurozone	1.3	-8.3	5.3	3.1	-7.2	4.2	3.6	-9.2	4.5	-7.4	3.6	4	-7.3	4.7	-7.3	4.4	4.1	-6.8	4.5	3.2
Japan	0.3	-5.3	2.3	1.7	-5.1	3.1	2.4	-6.1	2.5	-5.3	2.5	2.3	-5.3	2.6	-5.3	2.4	2.2	-5.7	2.8	2.1
Developing Economies	3.6	-3.3	6	5.1	-2.4	6.3	5						-2.7	6.7	-2.6	6.9	5	-2.6	5.8	4.7
China	6	1.9	8.2	5.8	2.3	8.1	5.6	1	6.9	2	7.9	5.2	2.1	8	2.1	8.3	5.4	2.3	8.1	5.4
India (Fiscal Year for CF)	4.9	-8.6	6.8	6.7	-7.6	11	6.9	-3.2	3.1	-8.3	4	4.8	-8.6	10	-7.2	8.8	6.5	-8.4	9	7.4
ASEAN-5	4.9	-3.4	6.2	5.7	-3.7	5.2	6						-3.5	5.6	-3.8	5.8	6.2	-3.7	5.8	5.6
Latin America	0.2	-8.1	3.6	2.7	-7.4	4.1	2.9						-7.5	4	-7.2	4.2	2.8	-7.4	3.1	2.4
Developing Economies in Europe	2.2	-4.6	3.9	3.4	-2.8	4	3.9						-4	3.8	-3.4	3.8	3.4	-2.8	3.2	3.1
Middle East and Central Asia	1.4	-4.1	3	4	-3.2	3	4.2											-3.2	3.2	3.8

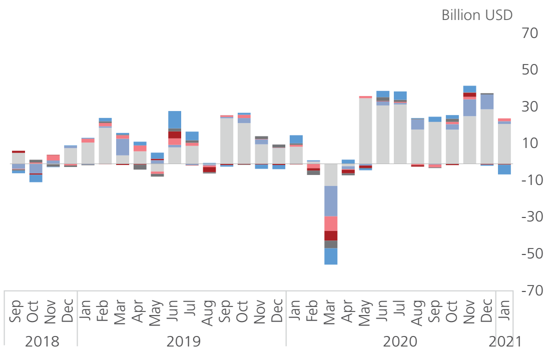
Source: IMF, World Bank, consensus forecast and Bank Indonesia projections

Graph 4.1.1 World Trade Volume



Source: CPB, IMF, Bank Indonesia, processed

Graph 4.1.2 Capital Flows in Developing Economies



Source: IIF, processed; Data as of January 2021

Table 4.1.2 Commodity Prices

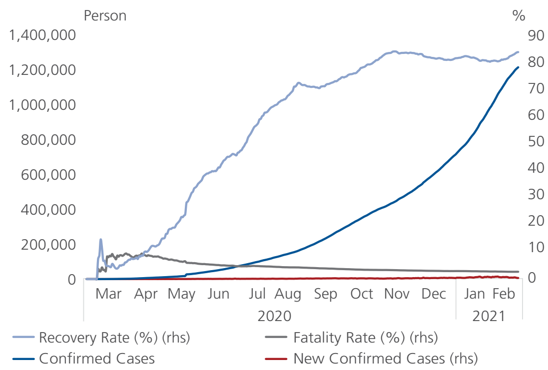
COMMODITY	2018	2019	2020					2021
			Q1	Q2	Q3	Q4	2020	YTD*
Copper	6.7	-7.8	-7.8	-12.3	11.8	21.6	3.3	29.6
Coal	2.5	-8.6	-8.0	-28.2	-27.9	-9.8	-18.5	50.2
CPO	-19.2	-2.3	33.3	14.0	35.5	34.9	29.4	37.1
Rubber	-16.8	12.4	-18.6	-22.7	3.8	36.4	-0.3	16.4
Nickel	27.8	7.0	3.8	0.0	-8.1	3.9	-0.1	30.2
Led	0.5	-7.5	-17.2	-20.4	3.1	12.6	-5.5	30.3
Aluminium	7.4	-14.1	-5.8	-15.9	-2.6	9.8	-3.7	16.6
Coffee	-15.4	-11.8	14.8	-2.8	2.9	-3.4	3.0	9.3
Others	1.2	-0.7	-2.1	-5.6	-4.9	-4.5	-4.3	3.8
Indonesia Commodity Prices Index	-2.8	-3.0	1.5	-10.4	-1.7	7.5	-0.8	27.9
Oil (Brent)**	71	64	51	31	43	45	42	57

Source: Bloomberg;
*YTD as of 16th February 2021
**Oil in US dollars per barrel, other commodities (% yoy)

Despite ongoing economic gains, public mobility has been eroded by restrictions on public activity. Consequently, Bank Indonesia projects national economic growth in Indonesia in the 4.3-5.3% range, down from 4.8-5.8% predicted previously. The downgrade stems from a surge of COVID-19 cases at the end of 2020 and beginning of 2021, although the recovery and fatality rates remain low (Graph 4.1.3). The increase in COVID-19 cases forced the Government to extend the localised public activity restrictions (PPKM) introduced in January 2021, particularly in Java and Bali at the end of February until beginning of March 2021. Micro public activity restrictions constrained public mobility in January and February 2021, as reflected by lower mobility in residential areas, parks and workplaces (Graph 4.1.4).

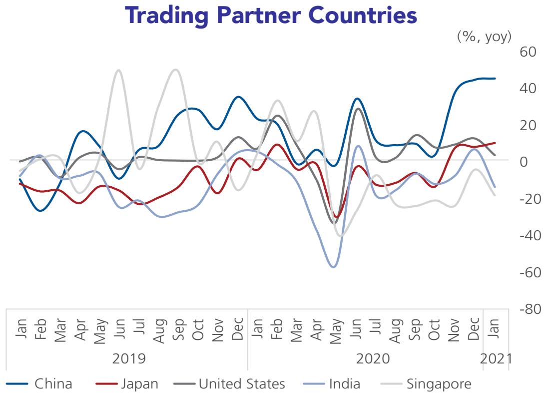
Domestic economic gains have been driven by stronger export performance and ongoing stimuli amidst compressed domestic demand. Exports of several commodities are improving, including CPO, coal as well as iron and steel, along with several manufacturing products, such as organic chemicals, motor vehicles and footwear, which are driving sectoral performance (Graph 4.1.5 and Graph 4.1.6). Regional exports are also improving, particularly in the Sulampua, Java and Sumatra regions. Recent export gains are supported by fiscal stimuli, which will persist in 2021, as reflected by a further increase in the COVID-19 containment and national economic recovery budgets compared with conditions in 2020. Nonetheless, consumption gains are not as strong as previously expected in

Graph 4.1.3 National Transmission of COVID-19 Pandemic



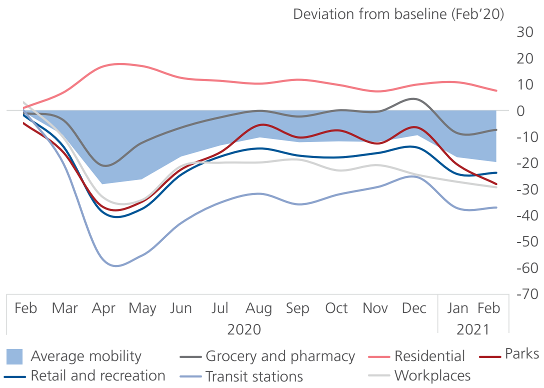
Source: WHO, COVID-19 Containment Task Force, processed
Data as of 15th February 2021

Graph 4.1.5 Non-Oil and Gas Exports to Main Trading Partner Countries



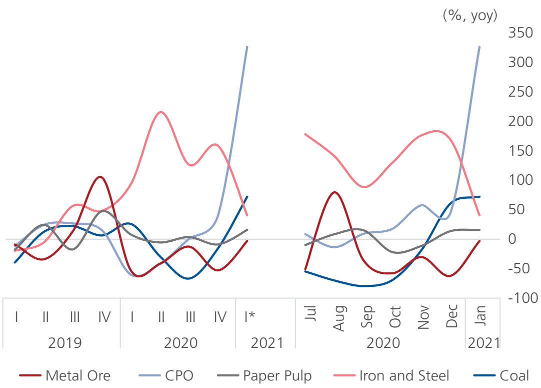
Sumber: Bank Indonesia

Graph 4.1.4 Public Mobility in Indonesia



Source: Google COVID-19 Community Mobility Reports

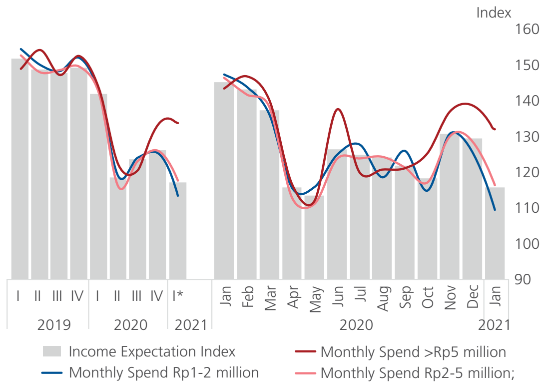
Graph 4.1.6 Export Commodities to China



Source: Bank Indonesia; * Data as of January 2021 response to PPKM introduced by the government. Restrained consumption was also confirmed by lower income and job availability expectations in January 2021 (Graph 4.1.7). A subdued investment recovery is also expected in line with disruptions to the completion of national strategic projects caused by COVID-19. Meanwhile, non-building investment gains have persisted on the back of manufacturing sector performance, as reflected by improvements observed in the Purchasing Managers Index (PMI), particularly in January 2021 (Graph 4.1.8).

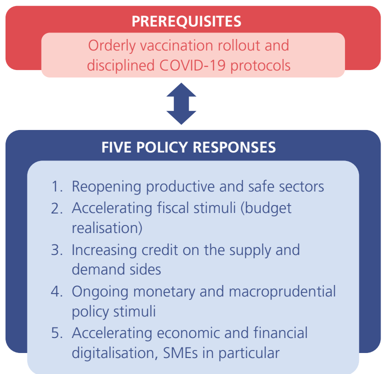
Moving forward, Bank Indonesia will strengthen efforts to stimulate domestic demand through national economic policy synergy in conjunction with the Government. Policy synergy covers five salient policy directions as follows: (i) reopening productive and safe sectors; (ii) accelerating fiscal stimuli; (iii) reviving bank lending on the supply and demand sides; (iv) maintaining monetary and macroprudential stimuli; and (v) accelerating economic and financial digitalisation, SMEs in particular (Figure 4.1.1).

Graph 4.1.7 Income Expectation Index



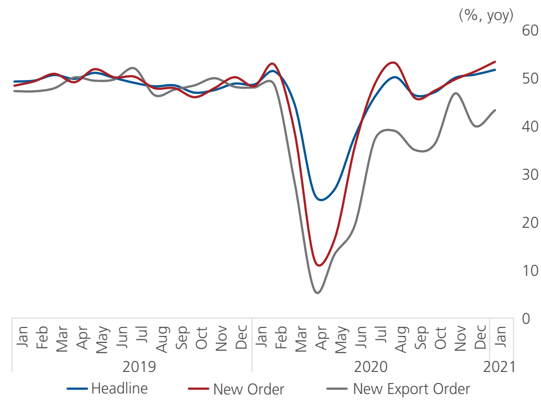
Source: Bank Indonesia; * Data as of January 2021

Figure 4.1.1 Prerequisites and Five Policy Responses



Source: Bank Indonesia

Graph 4.1.8 Manufacturing Purchasing Managers Index (PMI)



Source: Markit Economics

Box 4.1

Strengthening Prime Lending Rate Transparency in Banking Industry towards Effective Policy Rate Transmission

Bank Indonesia has maintained an accommodative monetary policy stance through policy rate reductions to support the national economic recovery. From June 2019 until December 2020, Bank Indonesia lowered the reference rate by a total of 225 bps, accompanied by loosening macroprudential policy to revive the bank intermediation function and maintain adequate liquidity in the financial system, while maintaining financial system stability amidst a build-up of various risks.

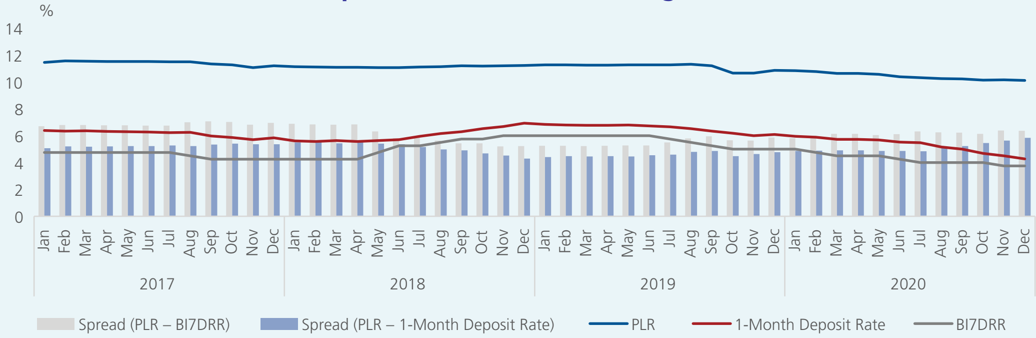
Although the policy rate has been lowered significantly, lending rates in the banking industry remain rigid. Such rigidity is reflected in the prime lending rates published by the banking industry in response to the lower policy rate. Prime lending rates (PLR) have responded to a 225bps reduction in the BI7DRR by declining just 116bps. Therefore, the spread between the PLR and BI7DRR widened from 5.27% in June 2019 to 6.36% in December 2020 (Graph B4.1.1). On the other hand, deposit rates in the banking industry have been more responsive, decreasing 245bps over the same period, thus contributing to a wider spread between the PLR and 1-month deposit rate.

By bank group, prime lending rates at state-owned banks have been the most rigid. In contrast, PLR at foreign bank branches have been the most responsive to policy rate reductions. Consequently, the PLR at state-owned banks is relatively high, averaging 10.79%, compared with other bank groups (Graph B4.1.2). Notwithstanding, state-owned banks began to lower lending rates significantly in the first quarter of 2021.

From a credit segment perspective, PLR rigidity affected nearly all loan segments, including consumer, corporate and retail loans. The PLR response in the non-KPR consumer loan segment has been just a 67bps decline and 57bps in terms of KPR consumer loans since June 2019 (Graph B4.1.3). Regarding KPR, rigidity stems from the medium-long tenors of housing loans.

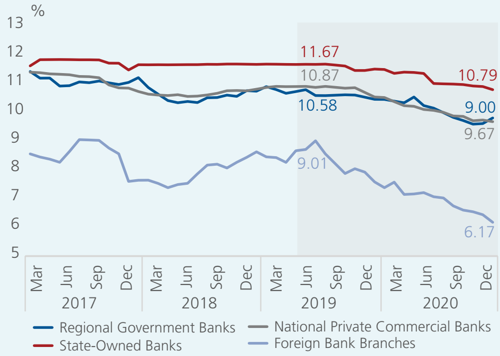
Bank Indonesia observed adequate policy space to bring about lower lending rates in the banking industry more in line with the policy rate. In February 2021, therefore, Bank Indonesia launched a publication entitled "Assessment of Policy Rate Transmission to Prime Lending Rates in the Banking Industry". The publication aims to increase interest rate

Graph B4.1.1 BI 7-Day Reverse Repo Rate, 1-Month Term Deposit Rate and Prime Lending Rate



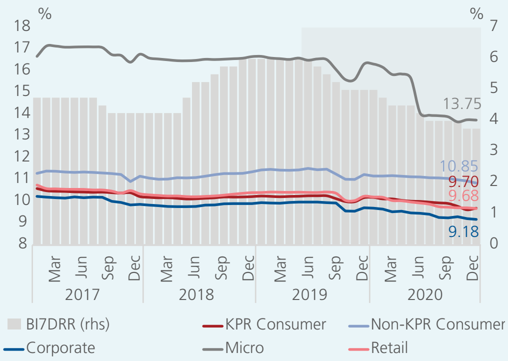
Source: Bank Indonesia

Graph B4.1.2 Prime Lending Rate by Bank Group



Source: Bloomberg, processed

Graph B4.1.3 Prime Lending Rate by a Loan Segment



Source: Bloomberg, processed

transparency, enabling the public and corporate sector to compare different lending rates offered by the banking industry. In addition, the publication also aims to increase governance, market discipline and healthy competition when setting prime lending rates in the banking industry, thus leading to more competitive prime lending rates and accelerating credit growth and economic recovery.

Similar publications are common international practices. Other central banks, such as in Malaysia, India and China, promote prime lending rate transparency through the External Benchmark Rate, Loan Prime Rate and Base Rate publications. The IMF also requests member countries to submit a reference lending rate and reference deposit rate, with the spread published as a Financial Soundness Indicator (FSI).

4.2 Solid Financial System Stability Expected to Increase Bank Intermediation Function

Bank Indonesia expects solid financial system stability to persist in 2021 and support the domestic economic recovery. Pressures in the financial system are expected to disperse, primarily supported by lower market risk as market volatility eases. In addition, banking industry resilience is underpinned by adequate capital capacity in the banking industry as well as loose liquidity conditions. The most binding constraint currently facing the financial system is sluggish bank intermediation caused by compressed demand despite recent efforts by state-owned banks to lower lending rates at the beginning of 2021.

Bank Indonesia expects the performance of public corporations to continue improving in 2021 in line with the global economic recovery and stronger export performance. Early signs of stronger corporate export performance were reflected in growing demand for new loans for export activity towards the end of 2020. Corporate performance amongst public companies has also improved in line with greater public mobility despite the enforcement of PPKM in several provinces. Various policy stimuli implemented since 2020 have also helped to improve the ICR in the corporate sector, with the gains predicted to persist in 2021.

Improvement in ICR are expected across all sectors, thus maintaining domestic corporate sector resilience in 2021. By sector, corporate performance in the coal mining sector is expected to start improving on nascent demand for coal to fuel the global economic recovery. Meanwhile, other mining companies, such as nickel and lead, are also improving to meet demand for higher electric vehicle production. Furthermore, corporate performance in the construction sector, which was severely impacted in 2020, is expected to improve on potential capital inflows for infrastructure development after the Indonesia Investment Authority (INA) was established. Corporate performance in other sectors, including the Manufacturing Industry; Electricity, Gas and Water Supply; Transportation; Corporate Services; and Social Services, is also expected to improve in line with the gradual reopening of markets, shopping malls, recreational spaces and other similar centres of economic activity.

A large liquidity buffer in the household sector is expected to catalyse consumption. Comparatively high growth of individual third-party funds throughout 2020 pointed to loose liquidity conditions in the household sector. Amidst restricted mobility in 2020 and household propensity to save, consumption was subdued in 2020 and savings increased. In line with the promising domestic economic outlook for 2021, however, household consumption is expected to gradually recover based on several indicators, including the value of retail shopping and the Consumption Expectation Index published in Bank Indonesia's Consumer Survey. Stronger household consumption is also expected to boost investment in the property sector, which has already shown early signs of improvement in the form of higher sales and prices at the beginning of 2021.

On the supply side, banks are ready to lend, supported by a strong capital base and loose liquidity conditions. At the beginning of 2021, a ratio of liquid assets to third-party funds well above the threshold indicated loose liquidity conditions in the banking industry, accompanied by solid capital resilience and a persistently low NPL ratio. In general, repayment capacity amongst borrowers taking advantage of loan restructuring facilities in 2020 continued to improve until the end of the year, while banks maintained provisions for impairment losses in anticipation of higher credit risk, particularly amongst restructured loans. Such conditions have alleviated the cliff-edge risk associated with non-performing loans when the government and other relevant authorities terminate the loan restructuring policy. OJK has issued policies to extend the loan restructuring program through POJK No. 48/POJK.03/2020 as an extension to POJK No. 11/POJK.03/2020 issue previously.

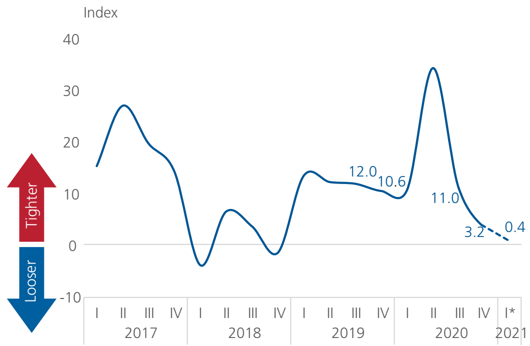
Credit growth at big banks in 2021 is expected to improve yet remain subdued. This is in line with the gradual economic recovery expected in 2021, when a nationwide vaccination rollout is expected to restore public activity (Table 4.2.1). Potential improvements on the supply side in 2021 are also reflected by improvements in terms of risk perception in the banking industry, as signalled by a lower Lending Standards Index, which is expected to continue tracking a downward trend in 2021 (Graph 4.2.1). In addition, from the first quarter of 2021, the banking industry, state-owned banks in particular, began lowering PLR to pique public interest in new loans.

Table 4.2.1 National Vaccination Program Plan

Schedule	Vaccine Recipients	Total (millions)
Wave 1 January-April 2021	Healthcare Workers	1.46
	Civil Servants	16.9
	Elderly	21.5
Wave 2 April 2021-March 2022	Vulnerable Groups (Demographically)	63.9
	Others (Public)	77.7
TOTAL		181.5

Source: Ministry of Health

Graph 4.2.1 Lending Standards Index



*) projected
Source: Bank Indonesia, processed

The outlook for financing from the capital market on the demand side is optimistic in 2021. Capital market characteristics in Indonesia were characterised in 2020 by rapid growth of retail investors, driven by loose liquidity conditions in the household sector and lower deposit rates. Nevertheless, investor interest was not accompanied by a commensurate increase in supply, particularly in terms of the value of IPO in 2020 which stood at just Rp6.1 trillion compared with Rp14.7 trillion in 2019. Consequently, many of the IPOs in 2020 were oversubscribed. Looking forward to 2021, public interest to invest in the capital market is expected to remain high.

Demand for financing from the capital market is expected to continue growing in line with a gradual corporate recovery, thereby requiring more financing to implement business activities or expand. In the bond market, the era of low interest rates may be a positive catalyst for corporations to issue securities due to lower coupon payments compared with bank loans. In the stock market, a larger domestic investor base has created demand for corporations to initiate IPOs. Simultaneously, milder pressures in the stock market are the result of improving economic conditions, leading to lower volatility and spurring investor interest to enter the stock market. Fund accumulation in the capital market in 2021 is expected to increase in line with the increasing IPO pipeline submitted to the capital market authority. Foreign investors are also predicted to return to Indonesia given the loose liquidity conditions in global markets, with foreign holdings therefore expected to increase from just 30% in 2020 to reach 70%.

A broad vaccination rollout will be a game changer for the real sector recovery. The pace of vaccinations in Indonesia and other trading partner countries will determine the economic recovery in terms of domestic demand and exports. At the current pace, Indonesia is expected to require more time to achieve herd immunity compared with the majority of trading partner countries (Table 4.2.2). Therefore, efforts are required to accelerate the vaccination rollout in Indonesia to ensure a speedy economic recovery process.

Ongoing virus transmission in Indonesia coupled with the discovery of several variants in other countries as well as vaccine effectiveness continue to pose the risk of delaying the economic recovery. In 2020, corporate performance was restrained by public mobility restrictions. Such conditions could potentially deteriorate in the event of spillover to the household sector that could undermine household demand. Meanwhile, from a household behaviour perspective, there is potential uncertainty in the form of household risk-taking preferences moving forward considering the income shock triggered by the COVID-19 pandemic that could leave households more risk averse.[1] In terms of the labour market, the risk factors that have emerged relate to future employability caused by the scarring effect[2] as well as future expansion of the capital labour ratio (influence of technological development).[3] Furthermore, there remains the possibility of further public mobility restrictions caused by a potential third wave, which would also severely impede the economic recovery process.

In addition, adaptation to the New Normal after the COVID-19 pandemic poses the threat of a shift in the behaviour of business players. There is a potential shift from labour-intensive to capital-intensive industries as well as a potential change in business processes from offline to online trade through e-commerce. Small enterprises could face financing constraints in 2021. The impact of the COVID-19 pandemic in 2020 was felt hardest by small enterprises amidst tighter corporate liquidity. Therefore, small enterprises and corporations experiencing restructuring are at risk of failing to secure financing in 2021.

1 Rishanty, A. et al. (2020). "Intertemporal Preference of Millennials in a Large Developing Economy: The Case of Indonesia". Bank Indonesia Strategic Research 2020, Bank Indonesia Institute.

2 Pritadradjati, D. et al. (2020). "A Non-Healing Wound: Lasting Consequences of Unemployment and Informal Self-Employment – Empirical Evidence from Indonesia". Bank Indonesia Strategic Research 2020, Bank Indonesia Institute.

3 Yusuf, A. A. et al. (2020). "Is There Job Polarisation in Developing Economies? Evidence from Indonesia", Bank Indonesia Strategic Research 2020, Bank Indonesia Institute.

Table 4.2.2 Expected Vaccination Rollout in Indonesia and Trading Partner Countries

Country	Vaccine Doses per Day	Estimated Vaccine Timeline (75% of Population) at Current Pace	Total Cases (in thousands)	Total Fatalities (in thousands)
UK	438,421	0.5 year / 6 months	3,903.71	110.46
US	1,339,525	0.92 year / 11 months	26,680.26	455.88
Singapore	80,000	0.14 year / 1.68 months	59.72	0.03
Finland	8,344	1.35 years / 16.24 months	47.97	0.69
Spain	100,000	0.96 year / 11.54 months	2,989.09	62.30
Italy	52,632	2.36 years / 28.32 months	2,644.71	91.58
France	86,822	±3 years	3,310.07	78.10
Netherlands	22,449	±3 years	1,021.97	14.54
Germany	111,777	±3 years	2,296.32	62.19
China	1,025,000	5.5 years / 66 months	100.31	4.82
Indonesia	59,800	>10 years	1,134.90	31.20
India	329,836	>10 years	10,802.60	154.80
Israel	103,874	0.17 year / 2 months	679.10	5.00
UAE	137,518	0.17 year / 2 months	320.10	0.90
Brazil	217,130	3.9 years / 46.8 months	9,396.30	228.80
Russia	40,000	>10 years	3,891.30	74.00
Global	**4,851,034**	**6.5 years**	**104,869.20**	**2,284.20**

Source: Bloomberg's COVID-19 Vaccine Tracker, Johns Hopkins University, Reuters, 9th February 2021. The vaccination timeframe for several countries was taken from the Ministry of Health's website in each respective country, February 2021.

Box 4.2

Accelerating and Expanding Electronification of Regional Government Transactions

As part of the Integrated Policy Package to increase corporate sector financing and accelerate the economic recovery, the electronification of regional government transactions is a payment system policy expected to help overcome the real issues faced by the business sector. The electronification of local government transactions aims to boost consumption by accelerating and expanding electronification as well as regional digitalisation. The policy is focused on innovation, accelerating and expanding the electronification of local government revenue and expenditure transactions, integrating regional financial management and supporting digital economic and financial integration through Regional Digitalisation Acceleration and Expansion Teams (TP2DD).

At the Central and Regional Government Coordination Meeting (Rakorpusda) with Bank Indonesia in 2019, it was agreed, amongst others, to strengthen the legal framework by issuing a Presidential Decree (Keppres) concerning the Electronification of Regional Government Financial Transactions. Prior to the Presidential Decree, the relevant stakeholders, namely the Coordinating Ministry for Economic Affairs, Bank Indonesia, Ministry of Home Affairs, Ministry of Finance and Ministry of Communication and Information Technology, agreed to sign a MoU as a quick win to support electronification synergy, particularly in terms of Regional Government Transaction Electronification (ETP) on 13th February 2020. The MoU aims to:

1. Foster digital transformation regionally and economic growth nationally, by accelerating and expanding ETP specifically and retail payments in general. This will be achieved by strengthening coordination and policy harmony amongst all parties to accelerate and expand ETP activities.

2. Issue guidelines concerning the establishment of TP2DD by regional governments through promulgation of Regional Decrees.

3. Issue guidelines to promulgate regulations, including regional heads, to accelerate and expand ETP implementation. In addition, the MoU on ETP also provides implementation guidelines to accelerate and expand ETP in the absence of regional laws and regulations concerning ETP.

At the Rakorpusda meeting, a cooperation agreement (PKS) was also signed concerning the National Working Group to Accelerate and Expand Local Digitalisation (Pokjanas P2DD) and TP2DD. Based on that agreement, Pokjanas P2DD was established as a central policy coordination and harmonisation forum for ETP implementation. Regionally, coordination will be facilitated by TP2DD established by regional governments at the provincial and regency/city administrative levels in cooperation with the local Bank Indonesia Representative Office. Operationally, provincial governments (Pemprov) will establish Provincial TP2DD, chaired by the local governor, through a gubernatorial decree. Meanwhile, regency/

city authorities (Pemkab/Pemkot) will establish TP2DD at the regency/city administrative level, chaired by the local regent/mayor, through a regent/mayoral decree.

A Task Force to Accelerate and Expand Local Digitalisation (Satgas P2DD), or Pokjanas P2DD, coordinated by the Coordinating Ministry for Economic Affairs has agreed several priority work programs to accelerate ETP acceleration as follows: (i) issue a presidential decree concerning Satgas P2DD, which is currently in the finalisation stage; (ii) issue Ministerial Regulations from the Coordinating Ministry of Economic Affairs (Permenko) and Ministry of Home Affairs (Permendagri) to complement the Presidential Decree; and (iii) develop an ETP Index and P2DD information system. In the subsequent stage, TP2DD will be established along with a corresponding championship in accordance with the EPT MoU. Satgas P2DD will also be formed to accelerate and expand regional digitalisation, focusing on ETP implementation. This will increase regional financial transparency, support governance and integrate regional financial management systems in order to optimise regional revenue. In addition, Satgas P2DD is expected to support the development of community-based digital payments, increase financial inclusion as well as expand national digital economic and financial integration.

Several webinars have been organised to stimulate ETP implementation and introduce P2DD. The webinars offer various sharing activities concerning regional ETP implementation, attended by local government representatives and industry players, which are expected to inspire further ETP implementation in each region. In practice, ETP expansion is driven by digitalisation, where most regions are oriented towards use of digital payment instruments, dominated by Quick Response Code Indonesia Standard (QRIS), for tax and levy payments. The use of digital payments increases efficiency and public convenience when transacting due to payments anytime anywhere. In addition, the hygiene demands of COVID-19 have established digital payments as a smart and wise choice due to the contactless nature.

4.3 Policy to Accelerate National Economic Recovery through Intermediation

Policy synergy amongst institutional members of KSSK since 2020 to overcome the COVID-19 pandemic impact has effectively built gradual national economic recovery momentum and maintained financial system stability. Notwithstanding, a faster economic recovery is necessary by stimulating several priority sectors as the primary locomotive of the national recovery. This is a critical measure to assist the economic sectors hardest hit by the COVID-19 pandemic in order to survive along with resilient sectors to quickly restart business expansion and grease the wheels of the economy.

Entering 2021, KSSK issued an Integrated Policy Package to increase financing to the corporate sector and accelerate the economic recovery, as announced through Press Release No. 01/KSSK/Pers/2021 issued on 1st February 2021. The policy package aims to maintain stronger economic momentum and accelerate the national economic recovery through policies focused on the corporate sector based on mapping the real issues and problems faced as a consequence of the COVID-19 pandemic. Through the integrated policy package, KSSK has formulated policy synergy as follows: (i) Fiscal incentive policies along with government expenditure support and financing; (ii) Monetary, macroprudential and payment system policies; (iii) Prudential financial sector policies; (iv) Deposit guarantee policies; and (v) Structural policies.

In terms of the Integrated Policy Package, Bank Indonesia plays a central role in applying the accommodative policy measures through various stimuli and a mix of monetary, macroprudential and payment system policies. Bank Indonesia has applied accommodative policies simultaneously and in synergy with microprudential and fiscal policies to optimise national economic recovery efforts and maintain macroeconomic and financial system stability. To that end, Bank Indonesia also strives to harmonise policy instruments with various structural policies issued by the Government and other relevant authorities as follows: (i) hastening completion of the implementation rules for the Job Creation Act (No. 11) of 2020 currently in progress by the government to guarantee a substantial improvement in the investment and business climate in Indonesia; and (ii) formulating a draft bill on financial sector development and strengthening (RUU P2SK), which aims to create and maintain a deep, innovative, efficient, inclusive, trusted, solid and stable financial sector.

Bank Indonesia constantly assesses the potential to further loosen existing macroprudential policy instruments or develop new instruments to revive the bank intermediation function. The policies include:

1. **Interest rate transparency in the banking industry to strengthen and accelerate monetary and macroprudential policy transmission**. Since June 2019, Bank Indonesia has lowered the BI7DRR reference rate by a total of 225 bps, while relaxing macroprudential policies. Nevertheless, interest rates in the banking industry are still rigid.Consequently, Bank Indonesia acknowledges sufficient space to lower lending rates further in line with the policy rate. Through greater transparency, the public and corporate sector can compare the interest rates offered by the banking industry. More effective policy rate transmission to lending rates in the form of commensurately lower prime lending rates is expected to boost demand for new loans and the economic recovery.

As a preliminary measure, Bank Indonesia began publishing the "Assessment of Policy Rate Transmission to Prime Lending Rates in the Banking Industry" in February 2021. Broad dissemination of the assessment is expected to accelerate monetary policy transmission and expand the information disseminated to individual and corporate consumers. This will increase governance, market discipline and competition in the banking industry. In general, the response of PLR to BI7DRR reductions has been subdued. PLR rigidity remains a concern across all credit segments, excluding microloans that tracked a downward interest rate trend in 2020.

2. **Bank Indonesia honed the MIR by maintaining the disincentive parameters at 0 as of April 2021 to revive balanced and quality bank intermediation**. MIR formulation and the disincentive parameters were refined to revive the bank intermediation function while maintaining banking industry resilience. Industrywide, however, MIR has remained below the lower bound since the second semester of 2020, recorded at 79.4% in December 2020.

   Bank Indonesia also decided to reactivate the MIR and expand the scope of financing components to catalyse exports. MIR policy was strengthened by including letters of credit (L/C) as a financing component, while gradually introducing disincentives in the form of a MIR demand deposit to revive bank lending to the corporate sector and exporters and accelerate the economic recovery. The focus of reactivating MIR will remain oriented towards striking an optimal balance between efforts to revive intermediation and maintain liquidity in the banking industry. Honing MIR policy is one aspect of the central bank policy mix in an effort to synergise with other policies and foster domestic economic growth.

3. **Bank Indonesia has reintroduced incentives for banks extending funds for export-import activity, SME activity and/or economic activity in other priority sectors designated by Bank Indonesia to contain the economic impact of the COVID-19 pandemic**. In addition, Bank Indonesia is reviewing the incentives offered to banks allocating funds to priority sectors and exporters to revive intermediation as part of the integrated policy package.

4. **Bank Indonesia will increase access to finance for MSMEs through the RPIM as a refinement of the previous MSME credit ratio**. Bank Indonesia will continue to expand access to finance for MSMEs, as the backbone of the national economy, to accelerate the national economic recovery. MSME financing reforms through application of RPIM is expected to encourage all banks to participate actively in inclusive sectors. Banks that have hitherto failed to finance MSMEs due to HR or office network limitations or unsuitable business models can now increase their contribution through partnerships or by purchasing inclusive securities.

Therefore, RPIM policy formulation is aligned with the scope of government programs and the National Economic and Financial Inclusion Strategy (SNEKI) as follows:

a. The scope of financing that previously only focused on MSMEs has been expanded to include subsistence groups and low-income earners as well as MSME cooperatives/collectives. This initiative is in line with government programs to level up all social strata through empowerment programs targeting marginalised populations and SME corporatisation.

b. Accelerating financing through partnerships between the banking industry, FinTech, microfinance institutions and government appointed institutions.

c. Banks are encouraged to actively disburse financing to priority sectors, MSME cooperatives/collectives and start-ups through RPIM incentives.

d. There is flexibility for banks to participate in inclusive finance through purchases of inclusive financing securities (SBPI).

Bank Indonesia's policy plan is in response to the supply-side challenges and to accelerate the national economic recovery. Operationally, the implementation of Bank Indonesia policy instruments in the real sector will be more effective if timed with efforts to overcome the demand-side constraints. The Government seeks to achieve this by cascading the Job Creation Act into various implementation rules that contain structural efforts to boost job availability through greater ease of doing business in Indonesia and corporate protections, MSME empowerment and an investment ecosystem as well as by accelerating national strategic projects.

Most implementation rules concerning the Job Creation Act, consisting of 47 Government Regulations and four Presidential Regulations, have been issued as planned within three months of enactment.[1] Nonetheless, implementation will require technical implementation guidelines in the form of ministerial regulations, non-ministerial government regulations and regional regulations.

Simultaneously, Bank Indonesia's policy plan will focus on two substantial aspects, namely resilience to maintain financial system stability and intermediation to accelerate the national economic recovery. Therefore, Bank Indonesia is actively participating and collaborating with other financial sector authorities to formulate a draft P2SK bill in conjunction with the Government. The draft P2SK bill will discuss various efforts to develop, strengthen and deepen the financial markets, including digitalisation to accelerate financial industry development. In addition, the draft P2SK bill also strengthens the mandate and jurisdiction of each respective financial sector authority to facilitate the optimal execution of duties based on experience of the ongoing COVID-19 pandemic.

Moving forward, Bank Indonesia will continue to cooperate in synergy with the KSSK to formulate various new policies and monitor implementation of the existing Integrated Policy Package. Coordinated monitoring of integrated policy package implementation between Bank Indonesia and the KSSK will be strengthened to facilitate inter-authority policy synergy, thus overcoming supply- and demand-side constraints affecting bank lending to priority sectors in support of the national economic recovery. In addition, synergy and collaboration in monitoring are crucial considering the various policy implementation challenges and changing market behaviour that can impact economic recovery effectiveness. In addition to a slower vaccination program rollout in Indonesia than previously expected, several implementation challenges facing social protections in 2021 demand attention, including the scope of recipients and speed of disbursement.

In addition, inter-authority synergy to accelerate the economic recovery and maintain financial system stability stretches beyond KSSK framework to include bilateral and tripartite coordination. Efforts to accelerate the economic recovery and maintain financial system stability will continue to be optimised through synergy between Bank Indonesia, the Government and other relevant authorities, OJK and LPS in particular. Inter-authority policy and regulatory harmony will also be intensified to revive intermediation and resolve issues in the banking industry amidst the economic challenges brought about by the COVID-19 pandemic, global dynamics and digital disruption.

Bilateral coordination between Bank Indonesia and OJK is constantly strengthened through the MMCF in accordance with joint implementation guidelines in the form of periodic and incidental technical meetings, work unit head meetings and high-level meetings (HLM). Bank Indonesia and OJK also cooperate and coordinate to execute follow-up actions and monitor the completion of commitments and agreements between leaders of both institutions covering the following aspects:

1. Cooperation and coordination to revive the economic recovery and maintain financial system stability in accordance with Act No.2 of 2020, encompassing: (i) policy coordination

1 Article 185 of the Job Creation Act stipulates that implementation regulations must be implemented within three months of enactment on 2nd November 2020.

to strengthen the bank intermediation function and support the national economic recovery; (ii) formulating PKS between Bank Indonesia and OJK concerning cooperation and coordination in terms of disbursing (sharia) short-term liquidity assistance; and (iii) updating the BS.

2. Other cooperation and coordination, including: (i) policy harmonisation between Bank Indonesia and OJK in relation to payment system licensing; (ii) coordinated bank inspections; (iii) sharing the results of bank liquidity assessments; and (iv) exchanging data and information.

Bilateral coordination between Bank Indonesia and LPS was also intensified through regular cooperation and coordination in accordance with the MoU between Bank Indonesia and LPS. BI and LPS work program implementation in the first quarter of 2021 included: (i) trialling Repo SBN between LPS and Bank Indonesia; (ii) enhancing HR competencies through LPS employee internships and BI employee assignments at LPS; and (iii) exchanging data information.

Tripartite coordination between Bank Indonesia, OJK and LPS will be further optimised through periodic discussions at the technical and deputy levels concerning liquidity at banks under surveillance, formulating a governance concept for the BI, OJK and LPS forum as well as other topics relating to the three institutions. Meanwhile, other coordination under a tripartite purview includes: (i) harmonising regulations and policies with cross-cutting issues between the three institutions; (ii) coordinating in terms of monitoring liquidity at certain banks; (iii) forming a working group on resolution and a working group on bank restructuring by LPS; (iv) joint research and HR competency building; and (v) implementing integrated reporting.

4.4 Faster Digitalisation to Accelerate Economic Recovery

The current digitalisation trend is expected to continue evolving rapidly, supported by the expansion of a more inclusive digital economic and financial ecosystem. That is what underlies Bank Indonesia's measures to accelerate payment system digitalisation policy to form an efficient and inclusive digital economic and financial ecosystem, while accelerating the national economic recovery.

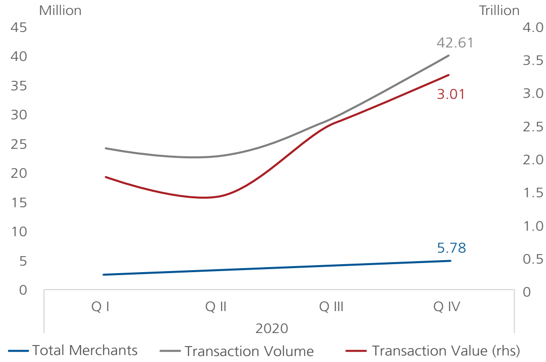
Bank Indonesia continues to strengthen the role of payment system policy and rupiah currency management to establish a digital economic and financial ecosystem and accelerate the economic recovery. Various payment system policies directly target corporations and households to effectively foster economic recovery on the demand side. Therefore, Bank Indonesia's payment system policy moving forward will be oriented as follows:

1. **Supporting development of an inclusive and efficient digital economic and financial ecosystem, SMEs in particular**. This initiative aims to catalyse the national economic recovery, including the National Movement promoting pride in Indonesian-made products (GBBI) and Indonesian Proud to Travel Movement (GBWI) through:

   a. An extension of the 0% Merchant Discount Rate (MDR) on QRIS transactions for micro enterprises until 31st December 2021 and setting the MDR on chip-based electronic money, effective from 1st March 2021.

      Bank Indonesia is collaborating to expand QRIS acceptance to 12 million merchants in an integrated way. In addition, Bank Indonesia has also developed transfer, withdrawal and deposit features for QRIS to increase public acceptance. A national QRIS campaign is being rolled out with a target of achieving 12 million MSME merchants in collaboration with payment system service providers, the central government and local government. Transactions via QRIS channels have maintained positive growth, reflecting high public QRIS uptake. QRIS transaction volume recently grew 35.96% (qtq) to 42.61 million transactions, while QRIS transaction value grew 27% (qtq) to Rp3.01 trillion, supported by 5.78 million merchants (Graph 4.4.1).

Graph 4.4.1 Total QRIS Transactions and Merchants



Source: Bloomberg

      The QRIS education and implementation strategy guidelines have been issued in conjunction with the Regional Department and 46 Bank Indonesia Domestic Representative Offices throughout Indonesia. Preparations for QRIS implementation amongst MSMEs and the tourism industry to support GBBI and GBWI are also progressing well. Simultaneously, Bank Indonesia is working in synergy with the Ministry of Tourism and Creative Economy (Kemenparekraf), Ministry of Small and Medium Enterprises (Kemenkop), Ministry of Villages, Development of Disadvantage Regions and Transmigration (Kemendesa, PDTT), payment system service providers and the e-commerce industry to expand QRIS acceptance and merchants.

2. **Implementation of the Indonesia Payment System Blueprint 2025 (BSPI 2025)**. Bank Indonesia continues to accelerate digital economic transformation, especially through payment system digitalisation, as an initiative to accelerate the economic recovery. This

is achieved by implementing the Indonesia Payment System Blueprint (BSPI) 2025. BSPI 2025 was launched by Bank Indonesia in May 2019 and has become even more relevant during the COVID-19 pandemic, which severely restricted public activity. BSPI 2025 is based on five salient visions to catalyse national digital economic and financial integration, namely digital banking, interlinkages between the banking and FinTech industries, innovation based on prudential principles, consumer protection and prioritising the national interest in cross-border payment system cooperation. The five visions have been translated into five initiatives for implementation as follows: (i) open banking; (ii) retail payment system; (iii) financial market infrastructure; (iv) data; and (v) regulatory, licensing and supervisory reforms. Bank Indonesia completed the conceptual design of various payment system infrastructures in 2020, including BI-FAST, IPT, data hub and payment ID.

As part of BSPI 2025 implementation, Bank Indonesia has refined payment system regulations through Bank Indonesia Regulation (PBI) No. 22/23/PBI/2020 concerning the Payment System (Payment System PBI), the purview of which covers industry restructuring, licence reclassification, ownership, technology innovation, data and information, strengthening supervision and cyber risk management. The Payment System PBI is expected to restructure the payment system industry and protect the payment system ecosystem holistically in line with development of the digital economy and finance. This aims to strike an optimal balance between optimising the opportunities afforded by innovation and maintaining financial system stability and payment system integrity. The Payment System PBI changes the regulatory approach for the payment system from an institutional approach to an approach based on the activities and risks. In addition, the Payment System PBI also strengthens access policy, maintenance (including funding sources and access to funding sources for payment), payment system technology innovation, infrastructure development and exit policy, supported by strengthening and harmonising bank Indonesia's function and authority concerning integrated licensing, supervision and data and/or innovation. Effective payment system regulation is also enhanced through a regulatory approach that prioritises principle-based regulation and optimises the role of self-regulatory organisations (SRO).

Consistent with the BSPI 2025 visions, banking industry collaboration at the individual bank level and with the FinTech industry is nurtured to expand and streamline retail financial services. This aims to facilitate digital economic transformation and realise SPI 2025 that guarantees interlinkages between the banking and FinTech industries and reduces the shadow banking risk.

As a follow-up measure to the launch of BSPI 2025, Bank Indonesia in November 2019 compiled the Open Application Programming Interface (API) Standards for Payments as the manifestation of Vision 2 and Vision 3 of BSPI 2025 to support digital banking transformation and facilitate interlinkages between the banking and FinTech industries. The process towards Open API Payment Standards started with a consultative paper published in 2020 to garner public feedback. The results of public consultation were subsequently used as inputs for Bank Indonesia to refine the design of Open API Payment Standards. After the consultative paper was published, Bank Indonesia worked in synergy throughout the second semester of 2020 with a National Working Group coordinated by the Indonesia Payment System Association (ASPI) to compile technical guidelines for the Open API Payment Standards, which contain the data specifications as well as technical and security aspects of each payments service based on Open API as the scope of the Open API Payment Standards.

Finalisation of the Open API Payment Standards is targeted for 2021 as the implementation foundation for Open API-based payment service providers. The application of Open API Payment Standards is expected to level the playing field between bank and nonbank payment system service providers. The standards will also facilitate interconnected and efficient payment services based on Open API, while maintaining a high level of security supported by innovation in the payments space through interlinkages between the banking and FinTech industries.

3. **Bank Indonesia will again arrange the Indonesia Digital Economy and Finance Festival (FEKDI) to strengthen synergy with the Government, relevant authorities and industry**. FEKDI activities kick-off with pre-events held from January until March 2021, peeking on 5-8th April 2021. Entitled "Accelerating Payment System Digitalisation to Support Digital Economy and Finance Ecosystem Development in Indonesia", FEKDI 2021 aims to achieve virtual collaboration between stakeholders, namely the regulator, industry and public at the central and regional levels. Through collaboration, all stakeholders are expected to reach a common understanding in terms of the future direction of the digital economy and Finance in Indonesia. In addition, FEKDI 2021 will help stimulate innovation in the digital economy and finance, support the national economic recovery and increase public understanding. The FEKDI event will feature Leaders' Insights, a showcase and talk shows covering various topics relating to digitalisation, with speakers from relevant government ministries and agencies, associations, industries and academia.

Box 4.4

Increasing Efficiency and Expanding Acceptance of Retail Investment through Fast, Simple, Affordable, Secure and Reliable (Cemumuah) Retail Payment System Infrastructure

The past year of 2020 has become synonymous with retail investors in the capital market. The moniker refers to the prolific growth of new capital market investors SID in 2020, soaring 48.82% to 1,212,930 investors. In addition, holdings of domestic retail investors expanded to the historically high level of 50.44%, dominating foreign holdings at 49.56%. Consequently, retail investors were the main drivers of daily transaction activity in the IDX.

Such developments have implications in terms of increasing transaction processing capacity. End-to-end anticipatory measures are required amongst the various parties involved in investment transaction activity, from the issuers of instruments, selling agents or distribution partners and banks or custodian institutions to the financial market infrastructure providers that provide recording/administration, clearing and settlement functions.

In addition, the business processes associated with retail investment transactions continue to face various challenges that must be overcome moving forward. One challenge relates to retail investor payment transaction mechanisms and regulations as follows: (i) Limited availability of alternative payment methods and channels; (ii) A protracted end-to-end transaction settlement process; (iii) Less efficient transaction costs relative to investment value; and (iv) Small value returns. Acknowledging the massive potential of retail investors to drive the national economic recovery, the various challenges have received the attention of financial sector authorities, including Bank Indonesia.

In response, Bank Indonesia launched the Money Market Development Blueprint (BPPU) 2025 at the end of 2020, with retail investor development as one of the key deliverables. The Blueprint contains an integrated retail investor development initiative on the supply and demand sides. From a demand perspective, retail investor development is based on a strategy to expand an increase the investor base, including synergy with other authorities to increase literacy and education concerning the financial markets and various instruments therein. On the supply side, initiatives include nurturing and accommodating instrument development with a focus on various risk profiles and investment costs commensurate with the characteristics of retail investors. Development of retail instruments will primarily target the comparatively underdeveloped or shallow money market compared with the greater variety of capital market instruments available through diverse share and mutual fund products, as well as the bond market with SBN.

The support of robust infrastructure, particularly the payment system, is a key to success of retail investor development. This will be achieved under the auspices of BPPU 2025 through Working Group (WG) III, the purview of which includes payment infrastructure and designing initiatives to develop interlinkages between the retail payment system and financial markets. Various programs within the initiative have been designed in response to the challenge of suboptimal regulations and payment mechanisms for retail investors in the financial markets. The development of interlinkages between the retail payment system and financial markets is a multi-year initiative for WG III, as contained in BPPU 2025, which is targeted for completion in 2025.

The various programs designed within the interlinkages initiative for the retail payment system and financial markets are expected to create fast, simple, affordable, secure and reliable (*Cemumuah*) payment services. The initiative encompasses the following programs: (i) Utilisation of QRIS Contribution and the Integrated Payment Interface (IPT) for retail transactions in the financial markets as an inherent part of expanding the digital payment ecosystem; (ii) Development of BI-FAST interlinked with financial market infrastructure, including Central Securities Depositories (CSD) and the Securities Settlement System (SSS) to accommodate real-time, secure and efficient retail investment transaction settlement available 24/7; (iii) Preparations for cross-border transaction access to settle investment instrument transactions denominated in foreign currencies and to target foreign retail investors; and (iv) Accommodating and facilitating FinTech investment towards the optimisation of retail investor-based financial market development. Program implementation through this initiative, in turn, aims to support retail investment development in the financial market towards economic financing and national economic recovery.

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