

RISE AND BE OPTIMISTIC:

**SYNERGY AND INNOVATION FOR
ECONOMIC RECOVERY**

**ECONOMIC
REPORT ON
INDONESIA
2021**





Water is a source of life that provides refreshment and resolve to rise forth with optimism for the struggle ahead. The light radiating from the digital ripples symbolizes rising forth with optimism. It is accompanied by digital rings that resemble waves of water in a vessel of light and the germinating shoot that portrays innovation. Local wisdom and synergy are depicted by the Batik Kawung motif, in which all points within it combine to create a cosmic force. In coming together as one, the strength derived will be greater, shaping an inclusive whole that will take Indonesia forward into a new and better era of civilization.







ECONOMIC
REPORT
ON INDONESIA

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The Economic Report on Indonesia has been written as a fulfillment of the Bank Indonesia obligations for transparency and accountability as prescribed in Article 58 of Act No. 23 of 1999 concerning Bank Indonesia, last amended by Act No. 6 of 2009.



VISION

To become the foremost digital central bank that creates tangible contribution to the national economy and be the best central bank amongst emerging market countries towards an Advanced Indonesia.

MISSION

1. To achieve and maintain rupiah stability through effective monetary policy and Bank Indonesia policy mix;
2. To engage in maintaining financial system stability through effective macroprudential policy in synergy with microprudential policy by the Financial Services Authority (OJK);
3. To engage in developing digital economy and finance through strengthening Bank Indonesia payment system policy in synergy with the Government and other strategic partners policies;
4. To support macroeconomic stability and sustainable economic growth through achieving synergy among Bank Indonesia's policy mix, Government's fiscal policies and structural reformation as well as other strategic partners policies;
5. To engage in enhancing financial market deepening in order to strengthen the effectiveness of Bank Indonesia policy and to support national economic financing;
6. To develop sharia economy and finance from the national level to the regional level;
7. To build a digital-based central bank in terms of the policies and institutional arrangements by strengthening the organisation, human resource, governance and reliable information system as well as proactive international role.

STRATEGIC VALUES

The strategic values of Bank Indonesia are: (i) trust and integrity; (ii) professionalism; (iii) excellence; (iv) public interest; and (v) coordination and teamwork, based on the nobility of religious values.

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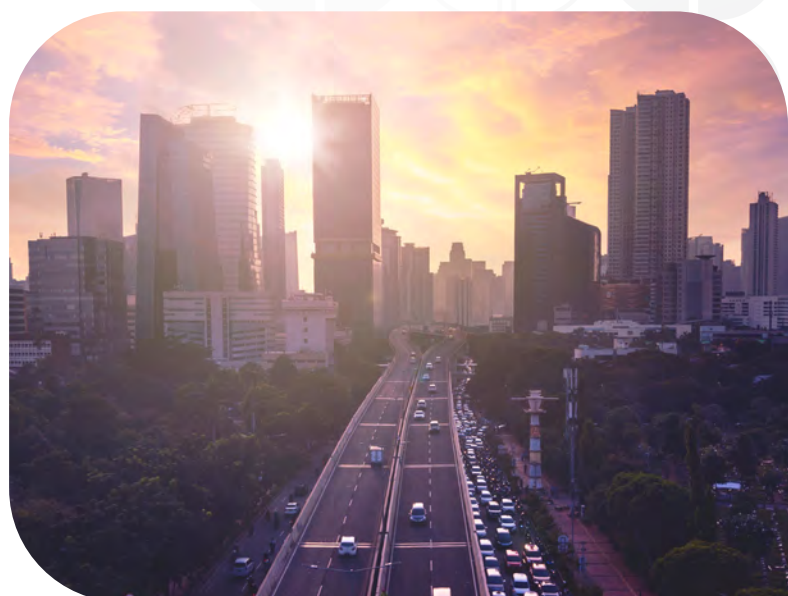
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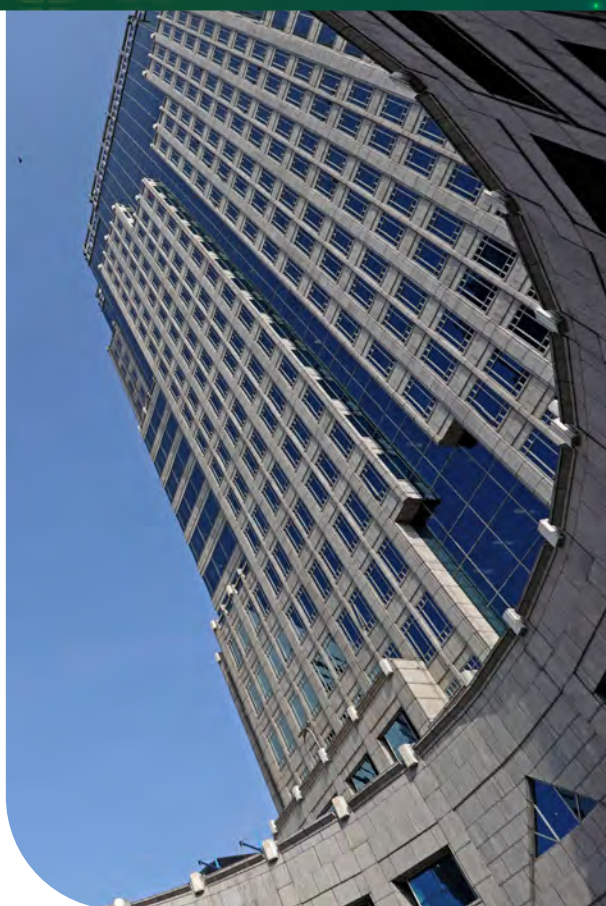
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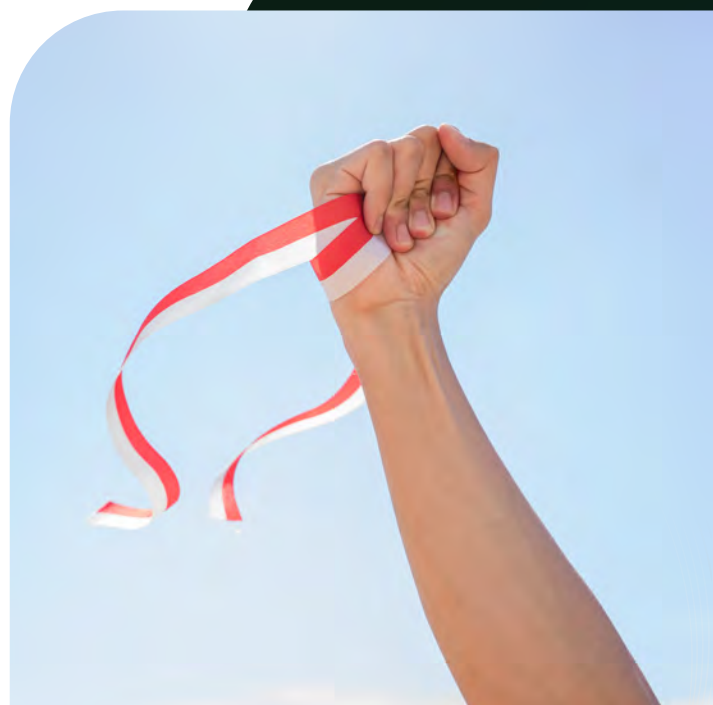
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Board of Governors



JUDA AGUNG
DEPUTY GOVERNOR

DODY B. WALUYO
DEPUTY GOVERNOR

PERRY WARJIYO
GOVERNOR



DESTRY DAMAYANTI
SENIOR DEPUTY GOVERNOR

DONI P. JOEWONO
DEPUTY GOVERNOR

AIDA S. BUDIMAN
DEPUTY GOVERNOR



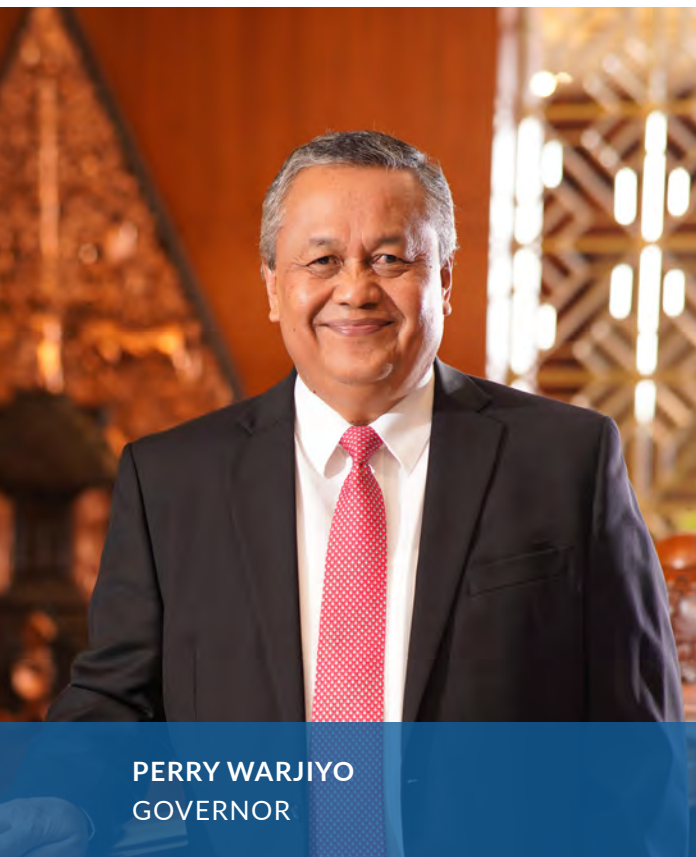
SUGENG
DEPUTY GOVERNOR
Until 5 January 2022



ROSMAYA HADI
DEPUTY GOVERNOR
Until 5 January 2022



Foreword



PERRY WARJIYO
GOVERNOR

Praise be to Allah. Let us give thanks before the Almighty God, for by His grace, Bank Indonesia has been able to continue the tradition of publication of reports for transparency and accountability at the start of the year, following the Bank Indonesia Annual Meeting. In January 2022, Bank Indonesia simultaneously published three reports in support of transparency and accountability: the Economic Report on Indonesia 2021; the Sharia Economy and Finance Report 2021; and the Bank Indonesia Annual Report 2021, following the Bank Indonesia Annual Meeting on 24 November 2021. The publication of these three reports represents a fulfilment of our steadfast commitment to strengthening the transparency and accountability of Bank Indonesia as mandated in the Bank Indonesia Act.

From our standpoint, despite inequity in the gains achieved, the global economy saw further improvement in 2021. Economic recovery progressed more rapidly in advanced economies than in emerging

"The close policy synergy and economic achievements in 2021 underpin the resolve to rise forth with optimism for more rapid economic recovery in Indonesia during 2022"

markets and developing economies due to differences between individual nations in vaccination rates and capacity for policy stimulus. In 2021, global economic recovery plateaued temporarily in response to the spread of the Covid-19 Delta variant in the second quarter. The Delta variant, which is extremely contagious and causes more severe illness than other variants, had a significant impact on public health, human lives and the world economy. Given the wider spread of the Covid-19 Delta variant, uncertainties persisted in global financial markets amid market anticipation of a tapering policy by the US Fed and fears of prolonged inflationary pressure.

The Covid-19 pandemic has highlighted at least seven important issues that call for careful monitoring and preventive actions. *First* is the lack of equitable provision of vaccinations for achieving herd immunity and the high risk that Covid-19 could become endemic. *Second* are disparities in the global economic recovery, which progressed more rapidly

in advanced economies and remained sluggish in emerging markets and developing economies. *Third* is the disruption to global supply chains and the looming threat of energy shortages. *Fourth* is the lack of synchronization between advanced economies and emerging markets and developing economies in exit policies involving the planning of monetary and fiscal policies for a return to the new normal, in addition to the impact of the ensuing uncertainties on global financial markets. *Fifth* is the scarring effect of the pandemic on corporations and the risks that may arise for the sustainability of economic recovery and safeguarding of financial system stability. *Sixth* is the rapid pace of digitalization of the economy and finance-dominated by a few world technology giants (BigTech), leading to the steady expansion in cross-border payment systems. *Seventh* is the increasingly vocal demands for a green economy and sustainable finance from advanced economies, requiring emerging markets and developing economies to prepare themselves well for this transition. Efforts have been made to coordinate international policies, including the agenda of Indonesia's G20 Presidency in 2022, to strengthen the ongoing global economic recovery further.

The Covid-19 pandemic that continued throughout 2021 did not set us back; on the contrary, it became a strong motivation to rebound with optimism. We give thanks for the steady improvement in the Indonesian economy since the third quarter of 2020 that led to robust and positive growth in the second quarter of 2021. However, this economic recovery was interrupted by the spread of the Covid-19 Delta variant in the third quarter. Mobility restriction policies introduced to curb the rising Covid-19 cases impacted the economy, especially domestic demand. However, the economy is predicted to record a better performance in the fourth quarter of 2021 in response to increased mobility with the surge in Covid-19 cases brought under control and the ongoing vaccination drive; the more extensive opening of economic sectors; continued policy stimulus actions; and the buoyant performance in exports. In light of these recent positive developments, we are optimistic for continuous economic improvement in 2022.

Bank Indonesia has deployed all instruments in the policy mix to support national economic recovery, working in coordination with the Government and the Financial System Stability Committee. Cognizant that the Indonesian economy was performing below the optimum path of the business and financial cycle in 2021, Bank Indonesia maintained an accommodative policy mix by utilizing the existing space for policy relaxation. Bank Indonesia continued the monetary stimulus, employing a low-interest rate policy and liquidity injections to promote economic recovery. Further measures were taken to bolster the monetary operations strategy to reinforce the accommodative monetary policy stance. The rupiah exchange rate policy was strengthened further to maintain exchange rate stability in line with fundamentals and the market mechanism. Additional measures were taken to relax macroprudential policies to encourage increased provision of bank financing for business in synergy with the Financial System Stability Committee policies. Digitalization of the payment system advanced more rapidly in line with the Indonesia Payment System Blueprint 2025 to support the efficient and inclusive integration of the national digital economy and finance. The close synergy with the Government, the banking system and other institutions was strengthened further to develop micro, small and medium enterprises and the sharia economy and finance, envisaged as new sources of growth for the Indonesian economy. Financial market deepening was also given added impetus to strengthen monetary policy transmission and support financial system stability as well as development financing, including funding for infrastructure. International policy focused not only on strengthening Bank Indonesia policy diplomacy, but also on supporting the Government in facilitation and promotion of trade and investment in various foreign countries. Furthermore, the Bank Indonesia policy mix formed part of the synergy and innovation in national economic policy that was key to driving the process of economic recovery and safeguarding stability. The accelerated vaccination campaign, firmer action to tackle Covid-19 and the re-opening of priority economic sectors became a game-changer in controlling the spread of the Delta variant and sustaining the momentum for economic

recovery. Added reinforcement of fiscal and monetary policy coordination came from Bank Indonesia's participation in the funding of the State Budget, including the tackling of health and humanitarian concerns arising from the Covid-19 pandemic. In this regard, it became incumbent upon Bank Indonesia to participate in joint actions to tackle health and human safety issues ensuing from the Covid-19 pandemic, as a duty to the nation and humanity, as well as for the health and safety of the population.

The close policy synergy and economic achievements in 2021 underpin the resolve to rise forth with optimism for more rapid economic recovery in Indonesia during 2022. The ongoing drive for economic recovery will continue to be based on a framework of policy synergy and innovation with the primary requisites of more rapid vaccinations and the opening of priority economic sectors. These prerequisites need to be supported by the following five policy responses: (i) accelerated transformation of the real sector; (ii) synergy of the monetary stimulus and macroprudential policies with fiscal policies; (iii) accelerated transformation of the financial sector; (iv) digitalization of the economy and finance; and (v) the green economy and finance. The synergy between Bank Indonesia and the Central and Regional Governments, the Financial System Stability Committee, the banking system, and business will be strengthened further for sustainable improvement in the national economy's performance. The policy mix innovations will be consistently aligned to global and domestic developments and fiscal policy supporting ongoing structural reforms. The more robust synergy and innovation will bolster momentum for rising forth with optimism for the economic recovery ahead.

In 2022, the Bank Indonesia policy mix will operate in synergy and form part of the national economic policy direction for accelerated recovery and continued safeguarding of economic stability. The policy mix has been put together based on developments in the global economic outlook and response to the six issues on the agenda for international policy coordination during Indonesia's G20 Presidency in 2022. Monetary policy in 2022 will be more pro-stability, in keeping with the risk of mounting pressures from global financial market instability

triggered by the normalization of monetary policy by the US Fed and other advanced nations. This pro-stability policy will have a greater focus on achieving the inflation target and exchange rate stability as well as macroeconomic and financial system stability. Alongside this, macroprudential policies, payment system digitalization, money market deepening, and the inclusive and green economy and finance will continue to be pro-growth in order to expedite national economic recovery. Working in synergy with the national economic policy mix, Bank Indonesia policy will be directed at promoting Indonesia's economic growth to return the nation to the path for medium-term transformation into an Advanced Indonesia.

This Economic Report on Indonesia 2021 with the theme of "Rising Forth with Optimism: Synergy and Innovation for Economic Recovery" presents a detailed overview of the economy, and the various forms of policy synergy and innovation pursued to support this economic recovery. With three enhancements in the Economic Report in Indonesia 2021, we are upholding the tradition begun in 2020 for reinforcing the transparency and accountability of Bank Indonesia as mandated by the Bank Indonesia Act. **First** is greater integration of the substance of the Bank Indonesia Annual Meeting on 24 November 2021 into the Economic Report on Indonesia 2021. We have elaborated the various evaluations, and economic outlook, the policy direction and the messages of synergy and innovation in the Bank Indonesia Annual Report 2021 and have underscored the relevance of this information to recent economic conditions in the Economic Report on Indonesia 2021. **Second** is greater integration in the publication of reports to uphold the provision of transparency and accountability by Bank Indonesia. After the simultaneous publication of the Economic Report on Indonesia and the Bank Indonesia Annual Report in January 2021, Bank Indonesia followed suit with the Sharia Economy and Finance Report in January 2022. **Third**, the scope of the Economic Report on Indonesia 2021 is enriched with the discussion of strategic issues. The main content of the Economic Report on Indonesia 2021 is presented in the first five chapters. Chapter I is Global Economic Performance and Outlook: Uneven Recovery, Lingering Uncertainties

on Financial Markets. Chapter II is National Economic Performance and Outlook: Continuing Process of Recovery, Prudently Managed Stability. Chapter III is Bank Indonesia Policies in 2021: Promoting National Economic Recovery, Safeguarding Stability. Chapter IV is Revival and Optimism: Synergy and Innovation for Economic Recovery, and Chapter V presents the Bank Indonesia Policy Mix Direction in 2022: Promoting Accelerated Economic Recovery, Safeguarding Stability. Furthermore, we have enriched the publication of the Economic Report on Indonesia 2021 with thematic discussions in Chapter VI about the Transformation of the Policy Mix and Acceleration of the Digital Economy and Finance.

Complementing the information elaborated in the Economic Report on Indonesia 2021, information on developments and policy direction in sharia economic and finance in synergy with the Government, relevant agencies and national and international stakeholders is presented in the Sharia Economy and Finance Report 2021. Apart from the responses implemented under the policy mix, Bank Indonesia undertook further transformation in key policy areas and the institutional framework to build Bank Indonesia as a leading central bank. Policy transformation was undertaken by strengthening the Bank Indonesia policy mix both in implementing statutory mandates and within the context of national policy synergy. The institutional transformation involved working areas and processes; human resources and the work culture; and digital transformation. It was carried out by implementing a mix of institutional policies aimed at achieving performance excellence on the basis of effectiveness, efficiency and good governance. We have presented a complete account

of the performance of policy and institutional tasks and the various transformational processes pursued by Bank Indonesia in the Bank Indonesia Annual Report 2021. The Economic Report on Indonesia, the Sharia Economy and Finance Report and the Bank Indonesia Annual Report 2021 have been published simultaneously in fulfillment of Bank Indonesia's transparency and accountability.

In closing, our hope is that this book, the Economic Report on Indonesia 2021, will prove useful for the public and serve as a leading, trusted, quality reference work in planning our steps as we rise forth with optimism, working in synergy and innovation in support of economic recovery. On the cover of the Economic Report on Indonesia 2021, we have visualized this rising forth with optimism in water, which comprises a source of life providing refreshment and resolve to rise forth with optimism for the struggle ahead. In detail, the light radiating from the digital ripples symbolizes rising forth with optimism. It is accompanied by digital rings that resemble waves of water in a vessel of light and the germinating shoot that portrays innovation. Local wisdom and synergy are depicted by the Batik Kawung motif, in which all points within it combine to create a cosmic force. In coming together as one, the strength derived will be greater, shaping an inclusive whole that will take Indonesia forward on the path of economic growth into a new and better era of civilization.

May God the Almighty bestow upon us the abundance of His grace and protection in every step of our endeavors.

Jakarta, 26 January 2022

The Governor of Bank Indonesia



Perry Warjiyo