## Overview

# SYNERGY STRENGTHENING NATIONAL ECONOMIC RESILIENCE AND REVIVAL

*The Indonesian economy charted a steady recovery with prudently managed economic stability in 2023 amid slowing growth in the global economy and heightened uncertainty in financial markets. Policy mix responses by Bank Indonesia, in synergy with national economic policies, were key to the resilient performance of the Indonesian economy. Further steps will be taken to strengthen the Bank Indonesia policy mix in 2024 to preserve stability and drive sustainable economic growth. Bank Indonesia is confident that the policy mix and close policy synergy will strengthen national economic revival and generate further momentum in moving towards an Advanced Indonesia.*

**The Indonesian economy charted a steady recovery in 2023 amid slowing growth in the global economy and heightened uncertainty in financial markets.** Economic growth remained strong in 2023, bolstered by vibrant domestic demand. The economy was also marked by continued internal and external stability. The balance of payments performed well, buoyed by a surplus on the capital and financial account despite heightened uncertainties in the global economy. Exchange rate stability in the Rupiah was supported by the Bank Indonesia stabilisation policy during a time of a strong US dollar. Inflation declined markedly and returned within the target range. Meanwhile, banks recorded increased lending growth supported by resilient financial system stability and bolstered by adequate liquidity, robust capital and low credit risk (Diagram 1).

**This positive performance in the domestic economy was achieved amid mounting turbulence in a global economy replete with challenges.** Various developments highlight five characteristics of global economic performance and the outlook in 2023. *First*, weakening economic growth accompanied by divergences in growth rates. *Second*, a gradual decline in inflation. *Third*, high interest rates over a long duration. *Fourth*, capital outflows from emerging market and developing economies (EMDEs). *Fifth*, the continued strength of the US dollar. Pressure from these global developments weighed on the economies of developing nations, necessitating more robust policy responses to mitigate negative spillovers on the domestic economies of EMDE nations, including Indonesia.

**The responses in the Bank Indonesia policy mix in synergy with the national economic policies pursued by the Government, Bank Indonesia and the Financial System Stability Committee (KSSK) were key to Indonesia's resilient economic performance.** During 2023, the Bank Indonesia policy mix sought to maintain stability and support sustainable growth. In this regard, monetary policy focused on maintaining stability (pro-stability), while the other four policies for

**Diagram 1.** Economic Challenges and Synergy in Strengthening National Economic Resilience and Revival


Source: Bank Indonesia

macroprudential management, the payment system, money market deepening and the inclusive and green economy and finance were geared to supporting sustainable economic growth (pro-growth). The Bank Indonesia policy mix then operated in synergy with national economic policies, covering five important areas of focus: (i) fiscal and monetary coordination; (ii) accelerated transformation of the financial sector; (iii) accelerated transformation of the real sector; (iv) digitalisation of the economy and finance; and (v) inclusive and green economy and finance.

**In 2024, Bank Indonesia will continue strengthening the policy mix with the aim of maintaining stability and reviving sustainable economic growth, working in close synergy with national economic policy**. Bank Indonesia's monetary policy in 2024 will maintain a pro-stability focus on achieving the inflation target and Rupiah exchange rate stability in tandem with support for macroeconomic and financial system stability. Meanwhile, other key Bank Indonesia policies will focus on reviving sustainable growth in the economy (pro-growth). Relaxed macroprudential policies will be kept in place to support sustainable economic growth while preserving financial system stability. As in previous years, the payment system will focus on accelerated integration of the digital economy and finance, international cooperation in payment systems and development of the Digital Rupiah. At the same time, supporting policies for financial market deepening and development of the inclusive and green economy and finance will continue to be pro-growth. Bank Indonesia policies will also work in synergy with the national economic policy mix to strengthen resilience and national economic revival. Policy synergy will be pursued in five key areas: (i) synergy of government fiscal policy with the monetary and macroprudential policies of Bank Indonesia; (ii) synergy in financial system stability policy; (iii) accelerated digitalisation of the national economy and finance; (iv) downstreaming in minerals and coal, agriculture, plantations and fisheries; and (v) trade, investment and infrastructure policies.

"In 2024, the Bank Indonesia policy mix will be strengthened further with the aim of maintaining stability and reviving sustainable economic growth, working in close synergy with national economic policy."

**Bank Indonesia is confident that the policy mix and close synergy between short-term policies for economic management and policies for real sector transformation will strengthen and generate momentum for national economic revival in moving towards an Advanced Indonesia.** Continued real sector transformation will drive increases in output capacity in the medium-term, enabling the economy to achieve higher growth with prudently managed stability. The forecast for Indonesia's economic growth in 2024 and 2025 is in the range of 4.7-5.5% and 4.8%-5.6%, respectively, rising to 5.1-5.9% in 2026 and 5.3-6.1% in 2028. Subdued inflation is forecast within the 2.5±1% targeting range in both 2024 and 2025. The current account deficit will be kept prudently low in the range of 0.1% to 0.9% of GDP in 2024 and 0.5% to 1.3% of GDP in 2025. Similarly, increased growth is projected in bank lending/financing for business, reaching 10-12% in 2024 and 11-13% in 2025.

## The Global Economy: Moderating Growth, Heightened Uncertainty

In 2023, the Indonesian economy was confronted with significant challenges brought on by weakening growth in the global economy and a widening divergence among nations in growth. After recording a brisk 3.5% in 2022, world economic growth is estimated to have slowed to 3.0% in 2023 with further decline to 2.8% projected for 2024. Optimism for recovery in early 2023 gradually faded as a result of lingering scarring effects and increasing geopolitical and economic fragmentation. In 2023, global economic performance was also marked by divergence with relatively strong growth enjoyed by advanced nations, led by the United States, and decline and stagnation experienced by EMDEs. Among the EMDEs, growth slowed in China in response to flagging consumption and decline in the property sector, while India and the ASEAN-5 economies continued to perform well.

**As economic growth slowed, global disinflation process has progressed gradually, with inflation persisting at levels above target in advanced economies.** On one hand, global inflation eased to 6.8% in December 2023 from a high of 11.6% in the second quarter of 2022. This decline in inflation was consistent with falling energy and food prices, resolution of supply bottlenecks and the impact of monetary tightening policies applied by central banks in many countries. On the other hand, global inflation has eased more slowly than originally forecast. In advanced economies, the continued strength of the labor market caused inflation to remain well above the desired inflation target of 2%. Meanwhile in emerging economies, inflation ran above the targeting range in countries such as Brazil and Mexico in South and Central America and the Philippines in Asia. Several other EMDEs were able to bring down inflation to within the targeting range, including in Indonesia.

**Stubbornly high inflationary pressures have prompted monetary tightening in advanced economies with policy rates set to remain higher for longer**. In the US, the Fed Funds rate, currently in the 5.50-5.75% range, is projected to hold steady during the first half of 2024 before easing in the second half of the year. A similar trend is also visible in Europe, with the rates of the European Central Bank (ECB) and the Bank of England (BoE), now as high as 4.50% and 5.25%, to be sustained throughout the first half of 2024. In Central and South America, central banks that acted early with more aggressive monetary tightening have embarked on lowering their rates. By contrast, monetary policy rates in Asian EMDEs will be maintained longer until the end of 2024 to mitigate the spillover impact from high interest rates in advanced economies. The phenomenon of high interest rates in advanced economies will limit room for manoeuvre for EMDE's central banks to lower their policy rates in order to stimulate economic growth, even though inflation in some countries has been brought to within the target range.

Global economic challenges have taken on added complexity due to uncertainties that have brought about the "cash is king" phenomenon and the strong dollar. High policy rates in advanced nations during times of heavy fiscal burdens, particularly in the US, prompted sharp increases in long-term bond yields. This has triggered a relocation of global portfolio assets and appreciation in the US dollar. The aggressive hike in the Fed Funds Rate, against a background of high demand for fiscal financing and US government debt ,widened yields on long-term bonds, driven among others by increases in term premia. This in turn prompted global portfolio investors to move their funds from risk-bearing securities to liquid instruments. The "cash is king" phenomenon, which has resurfaced, is also consistent with perceptions of heightened risk linked to intensified uncertainties on global financial markets. These conditions have in turn fuelled appreciation in the US dollar and put downward pressure on various currencies worldwide, including the Rupiah.

## The Domestic Economy: Stability Maintained, Recovery Intact

**The Indonesian economy remained healthy, recording resilient growth in the face of spillover impact from the global downturn and heightened uncertainty.** In the third quarter of 2023, Indonesia's economy continued to chart buoyant growth bolstered by sustained vibrant domestic demand amid a decline in exports consistent with the global economic slowdown. Private consumption, including brisk consumption in the services sector, was driven by continued high levels of consumer confidence, steady purchasing power thanks to low inflation and fiscal policy stimulus that included the provision of subsidies and various social assistance programs. Investment also remained strong, driven by ongoing work for completion of national strategic projects as well as non-construction investment. From a geographic perspective, healthy economic growth was recorded across almost all of Indonesia. Economic growth is estimated in the range of 4.5-5.3% range for 2023 and will climb to 4.7-5.5% in 2024. Sustained improvement in the economy in 2024 will be driven mainly by domestic demand with increases in pay for civil servants, the holding of the general election and development of the Nusantara Capital City. Economic growth is projected to climb further to the 4.8-5.6% range in 2025.

**The balance of payments continued to perform well, in so doing bolstering Indonesia's external sector.** The current account remained sound, bolstered by a continued trade surplus during 2024 amid a slowdown in global economic growth, decline in Indonesia's terms of trade and robust domestic demand. Foreign capital recorded net inflows, despite the mounting uncertainties on global financial markets in 2023. At the end of December 2023, Indonesia's international reserves position stood at USD146.4 billion, equivalent to 6.7 months of payments for imports or 6.5 months of imports and servicing of official external debt and well above the three months of imports that serves as the international standard of adequacy (Table 1).

**Exchange rate stability was supported by the Bank Indonesia stabilisation policy during a time of a strong US dollar.** At the end of 2023, the Rupiah recorded a 1.11% appreciation (point-to-point) over a year previously. This trend compared favorably with other regional currencies such as the Thai baht and Philippine peso, which gained 1.03% and 0.62%, respectively (Table 1). This stability of the Rupiah during a time of a strong US dollar had a positive impact in minimizing imported inflation while bolstering overall economic stability.

**Inflation fell relatively quickly to within the target range.** With consistency in pro-stability monetary policy and the close policy synergy between Bank Indonesia and the Central and Regional Governments, inflation was subdued across all major categories. Core inflation eased to 1.80% (yoy) in December 2023, a development assisted by low imported inflation, inflation expectations anchored within the targeting range and the ample capacity of the economy for responding to domestic demand. Amid strong upward pressure on food prices caused by the El Nino, inflation in volatile foods was curbed at 6.73% (yoy). Supporting this was the close inflation control synergy between Bank Indonesia and the Government (Central and Regional levels) in the Central and Regional Inflation Control Teams (TPIP and TPIDs), involving a ramping up of the National Movement for Food Inflation Control (GNPIP) in various regions. Administered price inflation also eased to 1.72% (yoy) in line with the Government fiscal policy stance of providing a shock absorber to cushion the impact of global economic uncertainty on domestic economic resilience. Looking ahead, Bank Indonesia will take further measures to strengthen the monetary policy mix and forge closer synergy with the Government (Central and Regional levels) to ensure that inflation remains subdued within the 2.5±1% range in 2024 and 2025.

**Economic and banking liquidity were sufficient to support credit growth.** In December 2023, the ratio of liquid assets to third-party funds remained high at 28.73%. The positive impact from these developments in liquidity was reflected in subdued bank interest rates that reinvigorated credit/financing growth. In December 2023, credit growth in the banking system reached 10.38% (yoy), compared with 11.35% a year earlier, bolstered by increased demand for corporate financing in keeping with buoyant growth. Sharia bank financing also recorded sustained growth, recorded at 15.80% (yoy) in December 2023. In the MSME segment, credit growth reached 8.03% (yoy), driven in part by a steady rise in disbursements of People's Business Credit (KUR). In the future, credit growth is expected to improve

## Table 1. Domestic Economic Indicators

| Component | 2020 | 2021 | 2022 | 2023 | | | |
|---|---|---|---|---|---|---|---|
| | | | | I | II | III | IV |
| **Economic Growth (Percent, yoy)** | **-2.07** | **3.70** | **5.31** | **5.04** | **5.17** | **4.94** | |
| Household consumption (Percent, yoy) | -2.63 | 2.02 | 4.93 | 4.54 | 5.22 | 5.06 | |
| Government consumption (Percent, yoy) | 2.12 | 4.24 | -4.51 | 3.34 | 10.57 | -3.76 | |
| GFCF (Percent, yoy) | -4.96 | 3.80 | 3.87 | 2.11 | 4.63 | 5.77 | |
| GFCF construction (Percent, yoy) | -3.78 | 2.32 | 0.91 | 0.08 | 3.32 | 6.31 | |
| GFCF non-construction (Percent, yoy) | -8.44 | 8.42 | 12.53 | 7.93 | 8.30 | 4.45 | |
| Export of goods and services (Percent, yoy) | -8.42 | 17.95 | 16.28 | 11.94 | -2.97 | -4.26 | |
| Import of goods and services (Percent, yoy) | -17.60 | 24.87 | 14.75 | 3.69 | -3.06 | -6.18 | |
| **CPI Inflation (Percent, yoy)** | **1.68** | **1.87** | **5.51** | **4.97** | **3.52** | **2.28** | **2.61** |
| Core Inflation (Percent, yoy) | 1.60 | 1.56 | 3.36 | 2.94 | 2.58 | 2.00 | 1.80 |
| Volatile Food Inflation (Percent, yoy) | 3.62 | 3.20 | 5.61 | 5.83 | 1.20 | 3.62 | 6.73 |
| Administered Prices Inflation (Percent, yoy) | 0.25 | 1.79 | 13.34 | 11.56 | 9.21 | 1.99 | 1.72 |
| **Balance of Payment** | | | | | | | |
| Current Account Deficit (Percent, GDP) | -0.42 | 0.30 | 0.98 | 0.89 | -0.63 | -0.25 | |
| Capital and Financial Account (USD billion) | 7.92 | 12.57 | -8.58 | 4.02 | -4.85 | -0.28 | |
| Overall Balance (USD billion) | 2.60 | 13.46 | 4.00 | 6.52 | -7.37 | -1.46 | |
| Official Reserve Assets (USD billion) | 135.90 | 144.91 | 137.23 | 145.19 | 137.54 | 134.86 | 146.38 |
| **Exchange rate (Average; USD/IDR)** | **14,525.30** | **14,296.22** | **14,873.25** | **15,222.98** | **14,859.88** | **15,214.50** | **15,623.78** |
| **JCI (Index)** | **5,240.78** | **6,222.27** | **6,964.56** | **6,797.41** | **6,742.53** | **6,897.29** | **6,977.35** |
| **10-year government bond yields (Percent)** | **6.98** | **6.34** | **7.02** | **6.80** | **6.45** | **6.43** | **6.79** |
| **Banking** | | | | | | | |
| Total Credit (Percent, yoy) | -2.41 | 5.24 | 11.35 | 9.93 | 7.76 | 8.96 | 10.38 |
| CAR (end of period, Percent)* | 23.81 | 25.67 | 25.63 | 24.69 | 26.74 | 27.33 | 27.86* |
| NPL (end of period, Percent) | 3.06 | 3.00 | 2.44 | 2.49 | 2.44 | 2.43 | 2,19 |
| **State Budget**** | | | | | | | |
| Tax Revenue (IDR trillion) | 1,285.1 | 1,547.8 | 2,034.6 | | | | 2,155.4 |
| Primary balance (IDR trillion) | -633.6 | -431.6 | -74.1 | | | | 92.2 |
| State budget deficit (Percent GDP) | -6.14 | -4.57 | -2.35 | | | | -1.65 |

Source: BPS, Bank Indonesia, Ministry of Finance and BEI

Notes: *as of November 2023; ** Preliminary Figures

further, driven by upbeat domestic economic activity and the ensuing impact of mounting household and corporate requirements for financing. This includes demand from the younger generation, who are playing an increasingly important role in the economy. Accordingly, credit growth for 2023 is estimated in the range of 9-11% and it is projected to reach 10-12% in 2024 and 11-13% in 2025.

**Prudently managed banking resilience and financial system stability were supported by robust capital and low credit risk.** In November 2023, the Capital Adequacy Ratio (CAR) was recorded at a high 27.86% with subdued credit risk reflected in the ratio for Non-Performing Loans (NPLs) at 2.19% (gross) and 0.75% (net) in December 2023. Market risk in relation to the Rupiah exchange rate and increased yields on government securities was also low, consistent with portfolio management and adequate loss provisioning by banks. Bank Indonesia will continue to forge stronger synergy with KSSK in mitigating various risks that could disrupt financial system stability and momentum for economic growth.

**Buoyant performance in digital economy and finance transactions was supported by a secure, seamless and reliable payment system.** Digital economic and financial transactions are projected to keep climbing alongside accelerated payment system digitalisation and expansion in crossborder payment systems cooperation, as well as growing public acceptance and preferences for conducting digital transactions. Electronic money (EM) transactions were up by 43.45% (yoy) in 2023, reaching Rp 835.84 trillion, and they are projected to increase by another 25.77% (yoy) in 2024, reaching Rp 1,051.24 trillion. Digital banking transactions were recorded at Rp 58,478.24 trillion with growth at 13.48% (yoy) and are projected to rise by 9.11% (yoy) to Rp 63,803.77 trillion in 2024. E-commerce transactions are also set to rise from Rp 474 trillion in 2023 to Rp 487 trillion in 2024. As regards Rupiah cash management, Bank Indonesia worked continually to ensure availability of Rupiah cash currency with an assured level of quality throughout the national territory of the Republic of Indonesia. Total Cash in Circulation was up 7.33% (yoy) in December 2023 at Rp 1,101.75 trillion.

**Further improvement is projected in the economic outlook, bolstered by the synergy of the Bank Indonesia policy mix with national policies in support of economic revival in moving towards an Advanced Indonesia.** The medium- to long-term will see steady improvements in the Indonesian economy, bolstered by rising private consumption in line with sustained levels of purchasing power, fiscal and monetary policy support and the expanding role of the young generation of millennials. There will also be further growth in investment consistent with export growth and ongoing work on national strategic projects. Export's stronger performance will be in line with the improving global economic outlook and an expansion in downstreaming programs across various sectors. In addition, policies for real sector transformation have potential to generate high economic growth while supporting macroeconomic stability. Downstreaming in processing of resource-based commodities, particularly nickel, will generate higher growth from increased investment and value added in exports. Structural reforms for facilitating investment and business activity, such as the implementing of the Job Creation Act, will also attract foreign investment and improve efficiency and productivity. Similarly, digitalisation of the economy and finance will strengthen efficiency and competitiveness in the domestic economy, most importantly in the retail transactions segment, the MSME sector and the grassroots economy.

## Bank Indonesia Policy Mix in 2023: Maintaning Stability, Supporting Sustainable Growth

**Responses in the Bank Indonesia policy mix were key to the Indonesia's resilient economic performance.** In this regard, monetary policy in the Bank Indonesia policy mix of 2023 focused on maintaining stability (pro-stability), while four other policies (namely, macroprudential management; the payment system; money market deepening and the inclusive and green economy and finance) remained focused on supporting sustainable economic growth (pro-growth). This Bank Indonesia policy mix also operated in synergy with national economic policies covering five important areas of focus: (i) fiscal and monetary coordination; (ii) accelerated transformation of the financial sector; (iii) accelerated transformation of the real sector; (iv) digitalisation of the economy and finance; and (v) the inclusive and green economy and finance.

**Examined in greater detail, each of the key and supporting policies of Bank Indonesia has particular objectives.** The monetary policy objectives are directed at controlling inflation to bring it back into line with the Government-mandated target of 3.0±1% in 2023 and 2.5±1% in 2024, as well as stabilisation of the Rupiah against the impact of global turbulence for control of imported inflation, and support for macroeconomic and financial system stability. Meanwhile, to bolster national economic growth, relaxed macroprudential policies will continue to focus on promoting credit/financing to the business community, with emphasis on priority sectors. Similarly, measures will be taken to accelerate digitalisation of the payment system in support of expansion of economic inclusion and digital finance, with focus on the real sector and MSMEs as drivers of private consumption.

**Strengthening the Bank Indonesia policy mix in 2023 involved optimising all the available instruments in individual policies and in joint actions that would enable stability to be maintained while supporting economic growth**. In particular, measured steps were taken to employ monetary policy as "bitter medicine" for inflation control and Rupiah stability while avoiding excessive impact on growth. At the same time, there was increased relaxation of macroprudential and payment system policies acting as "sweet medicine" for growth without sacrificing stability.

**More specifically, monetary policy focused on maintaining stability by optimising the monetary policy trilemma of preserving price stability and exchange rate stability while managing capital flows.** Interest rate policy in 2023 was adopted with a forward-looking and pre-emptive measure to achieve the inflation target. In January 2023, Bank Indonesia raised the BI7DRR policy rate by 25 bps to 5.75% and held it at that level until September 2023. In October 2023, the BI7DRR policy rate was increased by a further 25 bps to 6.00% in a move to reinforce the Rupiah stabilisation policy in the face of heightened global uncertainties and to mitigate their impact on imported inflation. As an additional step, effective 21st December 2023, Bank Indonesia changed the name of its policy rate to BI Rate from B17DRR in order to strengthen communication of monetary policy. The achievement of controlling inflation was also supported by the Rupiah stabilisation policy and coordination of food inflation control in the Central/Regional Inflation Control Teams (TPIP/TPIDs) and the National Movement for Food Inflation Control (GNPIP).

**The Rupiah stabilisation policy was also implemented to curb short-term exchange rate volatility and control the direction of movement for consistency with the achievement of inflation target.** This policy was pursued by means of triple intervention involving intervention on the spot market, in Domestic Non-Deliverable Forwards (DNDFs) and in government securities transactions on the secondary market. These measures were reinforced by an innovative, pro-market monetary operations strategy involving the issuance of Bank Indonesia Rupiah Securities (SRBIs), Bank Indonesia Foreign Exchange Securities (SVBIs), and Bank Indonesia Foreign Exchange Sukuk (SUVBIs). These steps were taken to support money market deepening and attract inflows of foreign portfolio capital. Further measures to bolster stability involved coordination with the Government in implementing Government Regulation No. 36 of 2023 for placement of Export Proceeds from Natural Resources (DHE SDA).

**Macroprudential policies were eased to stimulate expansion in bank credit/financing and contribute to maintaining financial system stability**. The three targets of the macroprudential policy trilemma, namely optimal credit, financial system stability and financial inclusion, operated in alignment with strengthening the underlying policies. Additional liquidity incentives were provided through implementation of the Macroprudential Liquidity Incentive (MLI) Policy for promoting bank lending/financing to priority sectors, including: downstreaming; housing; tourism and the creative economy; financial inclusion (MSMEs, People's Business Credit and microcredit); and the green economy and finance. Increased flexibility in bank liquidity management was achieved through a one-time reduction in the Macroprudential Liquidity Buffer (MLB) to increase credit/financing and preserve financial system stability. All other macroprudential policy instruments were also eased, including the countercyclical capital buffer (CCyB) policy; the Macroprudential Intermediation Ratio (MIR); the Loan to Value/Financing to Value ratio (LTV/FTV) for property credit/financing; and the rules governing downpayments on vehicle loans/financing.

**Efforts continued for acceleration of payment system digitalisation innovation of instruments and expansion in digital payment services; a sound, competitive and efficient structure for the national payment system industry; and provision of quick, secure and reliable payment system infrastructure.** Strengthened underlying policies ensured progress towards the three targets of the payment system policy trilemma, namely: transactions and velocity; industry structure; and infrastructure stability. Growth in the value and velocity digital payment transactions were achieved through expansion in the use of Quick Response Code Indonesian Standard (QRIS) by users and merchants; the merchant discount rate (MDR) for microenterprise QRIS users; and implementation of cash withdrawal, transfer and cash deposit (TUNTAS) features for the QRIS. Along similar lines, further progress was achieved in electronification of Government financial transactions in particular with Acceleration and Expansion of Regional Digitalisation (P2DD) and broader-based acceptance of the Government segment Indonesia Credit Card (KKI). Furthermore, the national digital economy and finance (EKD) ecosystem underwent more robust consolidation of bank and non-bank payment service companies with e-commerce. For its part, the payment system infrastructure was reinforced with broader acceptance of BI-FAST through membership and the payment services channel.

**The three key components of Bank Indonesia's policy mix were further supported by measures to deepen the money market and forex market.** In 2023, financial market deepening advanced more rapidly to improve the effectiveness of monetary policy operations and transmission; to maintain a liquid and efficient money market; to manage bank liquidity; and to support financing for economic activity. Financial market deepening was implemented according to the Money Market Development Blueprint (BPPU) for 2025. Regulation, development and supervision of the money market and forex market focused on: (i) increased transaction volumes and liquidity; (ii) efficiency in market mechanisms and market conduct; and (iii) market stability and supporting infrastructure. To achieve these three targets, Bank Indonesia made further improvements to regulations in four key areas, abbreviated as 3P+I: products; pricing; participants; and infrastructure of the money market. Bank Indonesia continued to encourage the development of instruments for deepening of the money market and forex market in Indonesia. Money market and forex market development were also strengthened by market mechanisms; consolidation of market actors; expansion of local currency transactions (LCTs); and development of the money market and forex market infrastructure by and/or in cooperation with the industry.

**Work progressed on other supporting policies, including development of MSMEs and the sharia economy and finance, as well as international policies, all to support sustainable economic growth.** Work accelerated in development of the inclusive and green economy and finance, driven by MSME development that involved: (i) economic empowerment; (ii) expansion of financial access and literacy; (iii) increased access to financing; and (iv) consumer protection. Bank

Indonesia continued to encourage development of the national sharia economy and finance with this work organised into three strategic pillars: (i) strengthening of the halal product ecosystem (halal value chain); (ii) strengthening of sharia-compliant finance; and (iii) strengthening of the halal lifestyle in practice. Moreover, international policies were pursued in close synergy with the Government to bolster macroeconomic resilience and stability, support economic recovery and the interests of Bank Indonesia and the Indonesian economy. These measures were undertaken by: (i) expanding collaboration in use of local currency to improve Rupiah stability and bolster domestic financial market resilience; (ii) strengthen positive international perceptions of the Indonesian economy; and (iii) build international recognition as the best central bank among emerging market nations. The close synergy with the Government in these international policies was borne out in the success of Indonesia's ASEAN Chairmanship in 2023.

## Bank Indonesia Policy Mix Direction in 2024: Maintaining Stability, Reviving Sustainable Growth

**Bank Indonesia's policy mix aims to ensure that the improvement in the domestic economy will carry forward into 2024 while maintaining stability amid the risks driven by persistently high global uncertainty.** Bank Indonesia projects a slowdown in world economic growth during 2024, given persistently high level of uncertainty despite some easing relative to the conditions of 2023. The policy rate cycle with rate increases in advanced nations, including for the U.S. Federal Funds Rate (FFR), looks to have reached an end, although rates will remain high in the first half of 2024, before easing in the second half of the year. Government bond yields in advanced economies, including US treasuries, will undergo gradual decline but will remain at a high level in line with long-term risk premia relating in part to the magnitude of fiscal financing and government debt in the US. A close watch will still be warranted for global risks associated with ongoing geopolitical tensions; weakening economies in some important nations, including China; and uncertainty over the timing and magnitude of interest rate cuts in advanced nations, most importantly by the FFR. Against the background of these global economic risks, the policy mix is aimed at ensuring prudently managed stability and continued economic growth. As explained earlier, Bank Indonesia projects further improvement in Indonesia's economic growth bolstered by expansion in domestic demand in the range of 4.7-5.5%, while subdued inflation is projected within the 2.5±1% targeting range in 2024.

**In 2024, Bank Indonesia will continue to strengthen the policy mix with the aim of maintaining stability and reviving sustainable economic growth, working in close synergy with national economic policy**. This policy mix includes a monetary policy with continued focus on the inflation target and Rupiah stability to ensure that global turbulence will not disrupt domestic economic stability and growth. Global economic turbulence is projected to carry over into 2024 with potential to threaten national economic resilience. High interest rates and US bond yields alongside a very strong US dollar will increase the pressure behind outflows of foreign portfolio capital and weakening of the Rupiah. In addition, high world energy and food prices may fuel domestic inflationary pressures.

**In 2024, monetary policy will employ four key instruments.** *First* is forward-looking and pre-emptive interest rate policy for achieving the Government-mandated inflation target. *Second* is the Rupiah stabilisation policy to keep the exchange rate aligned to the inflation target and support external stability. *Third* is the use of pro-market monetary operations to bolster effectiveness in Bank Indonesia policy transmission to financial markets and the economy, as well as improve attractiveness for foreign portfolio capital inflows. *Fourth* is the management of foreign exchange flows in line with international principles to support external stability and adequacy of international reserves. In addition, there will be stronger coordination with the Government for controlling inflation and driving economic growth, and similarly with the KSSK for maintaining financial system stability.

**In 2024, relaxed macroprudential policies will remain in place in support of sustainable economic growth while contributing to financial system stability.** The direction pursued in macroprudential policy will be based on balance among the three targets of optimum credit growth; prudently managed financial system stability; and economic and financial inclusion. Relaxation of macroprudential policies will involve three key instruments. *First* is increased effectiveness of the Macroprudential Liquidity Incentive (MLI) policy and relaxation of all other macroprudential instruments to simulate increased credit/financing in the banking system. *Second* is easing of liquidity by lowering the Macroprudential Liquidity Buffer (MLB) ratio to stimulate credit/financing and safeguard financial system stability against global spillover impacts. *Third* is strengthening of systemic surveillance of credit/financing exposure and banking resilience to contribute to financial system stability. In other actions, there will be further strengthening of coordination with the Government and KSSK to boost credit/financing to priority sectors; to bolster resilience in financial system stability against global impacts; and to pursue further reforms of the financial sector under the mandate of the Financial Sector Development and Strengthening Act.

**In 2024, payment system policy will continue to focus on reinforcing payment system stability and accelerated development of the domestic digital economy and finance in support of sustainable economic growth.** *First* will be further development of the retail payment system with enhanced integration, interoperability and interconnection between BI-FAST and the National Payments Gateway (GPN). *Second* will be development of a modern, multicurrency, international standard, third generation RTGS, comprising a wholesale payment system and featuring integration, interoperability and interconnection with the retail payment system and the money market. *Third* will be development of a payment transactions data centre for leveraging the benefits of accelerated digitalisation and innovation in the national digital economy and finance, in tandem with data management regulation, protection of personal data and adequate cybersecurity. *Fourth* will be further development of the Digital Rupiah to serve as the central bank digital currency (CBDC) valid as legal tender in Indonesia. This will involve finalising the proof of concept for the business development module and first phase trials and include a technology platform and wholesale members for future issuance and circulation of the Digital Rupiah. *Fifth* will be expansion of cooperation in crossborder retail payment systems with bilateral operation of the QRIS and BI-FAST with ASEAN nations and other Asian nations, in particular India, Japan and China, and multilaterally in the NEXUS scheme or with other options.

**In regard to the supporting policies, the money market deepening policy will retain a pro-growth stance in 2024, involving development into a modern, international standard money market capable of enhancing effectiveness in transmission of the Bank Indonesia policy mix and supporting the financing for sustainable economic growth.** In 2024, policy for money market and forex market deepening will focus on four main programs. *First*, development of products for increasing volume and liquidity on the SRBI and SVBI/SUVBI secondary markets, in turn supported by development of interest rate swaps (IRS) and foreign exchange swaps (FX swaps) for effectiveness in monetary transmission, Rupiah stability, hedging and short-term liquidity management. *Second*, development of an efficient market mechanism in shaping the interest rate structure (IndONIA, OIS and repo); exchange rates (domestic non-delivery forwards/

DNDFs); and hedging (IRS and FX swaps). *Third*, consolidation of market participants with the introduction of primary dealers (PDs) and establishment of the Indonesian Money Market and Forex Market Association (APUVINDO) to work as a leading partner for Bank Indonesia in implementing the monetary operations strategy and money market development. *Fourth*, development of interactive, interoperable and interconnected money market infrastructure, monetary operations and the payment system that will also serve as the prerequisites for future issuance of the Digital Rupiah. In other actions, Bank Indonesia will continue building policy synergy with the Government and KSSK for further advancement of the financial sector in inclusive and sustainable economic financing.

**Bank Indonesia will take further measures to expand and strengthen the programme for development of the inclusive and green economy and finance in support of sustainable economic growth.** The MSME development program will focus on support for downstreaming of agriculture and fisheries for purposes of inflation control and development of MSMEs producing the traditional woven *wastra nusantara* fabrics as a pride of Indonesia. It also envisages support for Go Export and Go Digital and development in support of tourism as a source of foreign exchange earnings. In all Bank Indonesia MSME programs for an inclusive economy, emphasis will be given to three facets of development involving: corporatisation; capacity building; and facilities for financing access for strengthening the competitiveness of MSMEs. To support compliance with the requirements for inclusive and green financing, Bank Indonesia will also extend the Macroprudential Liquidity Incentive (MLI) to banks channelling credit to MSMEs and lending KUR and microcredit (UMi). Bank Indonesia will also continue to strengthen its role as pioneer and driving force for the sharia economy and finance as a new source of economic growth and to transform it into a world class player. In addition, Bank Indonesia will pursue further strengthening of policy synergy with the Government in support of achieving a sustainable economy with a stable, inclusive and green financial system.

**Bank Indonesia will also work in close synergy with the Government to strengthen Indonesia's position in bilateral relations, at the regional level in Asia and on the global stage.** In 2024, Bank Indonesia's international policy will be implemented with three key areas of focus. *First*, strengthening and expansion of bilateral cooperation with central banks in Indonesia's major partner nations in central bank affairs, the payment system, LCTs and bilateral swap arrangements (BSAs). *Second*, expansion of regional cooperation in ASEAN Financial Integration and ASEAN Payment Connectivity (APC), in addition to strengthening the Chiang Mai Initiative Multilateralization (CMIM), which comprises one of the forms of regional financial cooperation for the ASEAN+3. *Third*, active Bank Indonesia participation in championing national interests in international economic, monetary and financial agenda, whether in the G20 or with the IMF, the Financial Stability Board (FSB) and the Bank for International Settlements (BIS), including sharia-compliant finance at the Islamic Financial Services Board (IFSB) and International Islamic Liquidity Management (IILM). In addition, Bank Indonesia will continue to optimise the Investor Relations Units, consisting of the IRU (national level), RIRUs (regional level) and GIRUs (global), for managing positive investor and rating agency perceptions and promoting trade and investment.

**Policy synergy will also focus on mitigating the negative impact of global spillovers and on sustaining the momentum for national economic recovery.** National economic policy will encompass five directions in policy response synergy. *First* is building stronger coordination of Government fiscal policy with the Bank Indonesia monetary and macroprudential policies for striking a balance between macroeconomic stability and supporting economic growth. *Second* is strengthening policy coordination by the Financial System Stability Committee (KSSK) in order to safeguard financial system stability and promote economic financing, including inclusive and green finance. *Third* is policy synergy in accelerated digitalisation for expediting economic and financial inclusion. *Fourth* is policy synergy for expansion of downstreaming in minerals and coal to include the agriculture, plantations and fisheries sectors in order to boost value added in exports and expansion of domestic industry. *Fifth* is the policy for expansion of trade and investment to countries representing sources of future growth in the world economy.

**These areas of synergy in the BI policy mix with national policies each have a number of objectives.** The close synergy already forged between Government fiscal policy and Bank Indonesia policies needs to be strengthened further to maintain equilibrium between macroeconomic stability and driving economic growth. The policy synergy in the Financial System Stability Committee (KSSK) will be directed towards preserving financial system stability and driving economic financing, including inclusive and green finance. This policy synergy has gained increasing importance in driving national economic revival in the medium- to long-term. With regard to downstreaming, there will also be a need for policy synergy and transformation of the real sector to accelerate downstreaming in the minerals and mining, agriculture, plantation and fisheries sectors to support higher economic growth and job creation. Alongside this, there will be a need for further improvement and expansion in trade and investment policy synergy in order to mitigate emergent risks of geopolitical fragmentation.