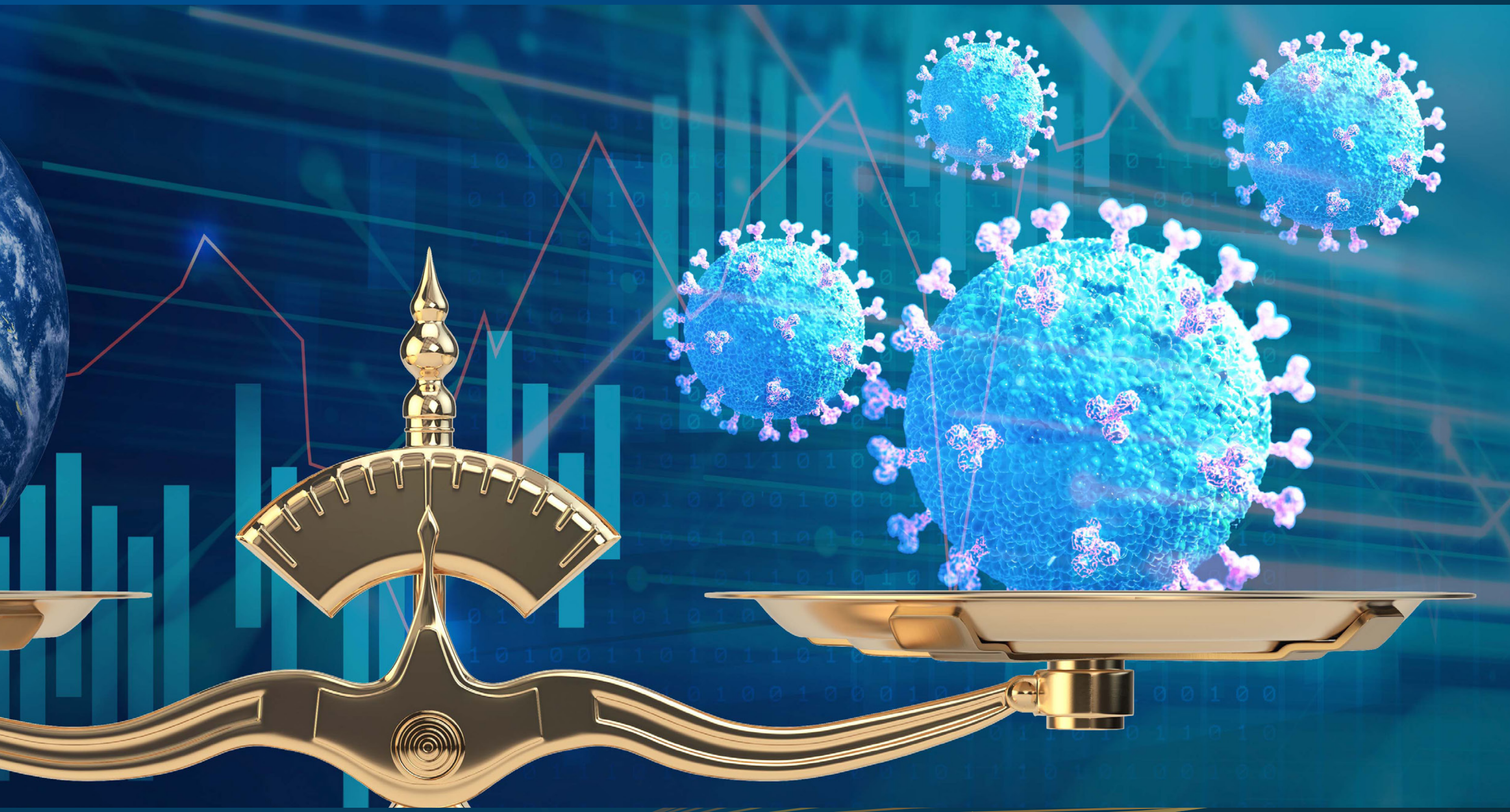
CHAPTER 1

GLOBAL ECONOMIC PERFORMANCE AND OUTLOOK: DIVERGENT RECOVERY, PERSISTENT FINANCIAL MARKET UNCERTAINTY



Global economic improvements continued in 2021, despite divergent and asynchronous economic recoveries between Advanced Economies (AEs) and Emerging Markets and Developing Economies (EMDEs), owing to different access to vaccines and policy stimuli across jurisdictions. At the same time, global financial market uncertainty persisted in response to emerging risks, including transmission of the Delta variant; market anticipation of tapering by the Fed; and concerns stoked by lingering inflationary pressures. The Covid-19 pandemic has brought at least seven important aspects to the forefront, as discussed below. These demand vigilance and must be anticipated properly to support the global economic recovery, which is expected to continue in 2022. International policy coordination, including Indonesia's G20 Presidency agenda in 2022, aims to strengthen the ongoing global economic recovery.

Global economic improvement continued in 2021 despite divergence across regions and persistent financial market uncertainty. Economic recovery in AEs, the United States in particular, progressed more quickly on the back of a faster vaccination rollout, coupled with extraordinary fiscal and monetary policy stimuli. In contrast, most EMDEs, excluding China, struggled to restore domestic economic recovery. Beyond limited supply and access to vaccines, weaker fiscal and monetary stimulus also impeded economic recovery in most EMDEs. The world economy is projected to grow 5.7% in 2021 and 4.4% in 2022 after contracting 3.1% in 2020. Meanwhile, global financial market uncertainty persists in response to emerging risks such as transmission of the Delta variant; market anticipation of tapering by the Fed; and concerns stoked by continuing inflationary pressures caused by supply chain disruptions and energy scarcity.

The pandemic has raised a number of pertinent issues and challenges that demand vigilance and must be anticipated. The global economic recovery from the Covid-19 pandemic continues, accompanied by the maintenance and improvements to macroeconomic and financial system stability. Nevertheless, the pandemic has brought to the forefront at least seven important issues that demand vigilance and must be anticipated appropriately. *First*, an uneven vaccination rollout towards achieving herd immunity. *Second*, a divergent global economic recovery, which has been faster in AEs while progressing more slowly in EMDEs. *Third*, disruptions in the global supply chain of goods and services, coupled with the threat of energy scarcity. *Fourth*, asynchronous exit policies as between AEs and EMDEs and their impact on global financial market uncertainty. *Fifth*, the scarring effect of the pandemic on business conditions and the accompanying risks to financial system stability and to sustainability of the economic recovery. *Sixth*, rapid economic and financial digitalisation, dominated by BigTech together with, for example, the proliferation of cross-border payment systems. *Seventh*, growing calls among AEs for a green economy and sustainable finance, which demand adequate preparation for transition by EMDEs.

"Global economic improvement continued in 2021 despite divergence."

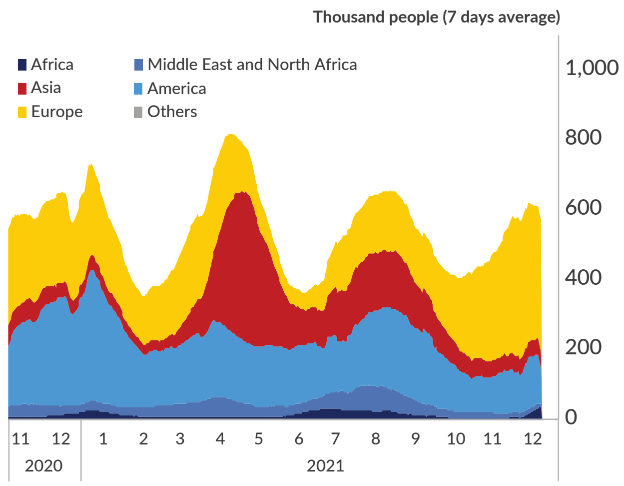
International policy coordination aims to strengthen the global economic recovery and overcome the emerging problems. Important agendas have taken shape at international forums like the Group of 20 (G20); the International Monetary Fund (IMF); the Financial Stability Board (FSB); the Bank for International Settlements (BIS); the World Bank and others. These agendas have been dominated by issues like the expansion of vaccine supply and its distribution from AEs to EMDEs; the phasing of exit policy from the COVID pandemic, including clear communication policies; joint measures to overcome disruptions in the global supply chain; energy scarcity; the scarring effect of these various issues; and international cooperation to accelerate digitalisation of the green economy and sustainable finance. Reflecting these issues, the G20 agenda under Indonesian Presidency in 2022 is 'Recover Together, Recover Stronger' through six priority agendas in the finance track, discussed immediately below.

1.1

Divergent Vaccination Rollout and Covid-19 Endemic Risk

The Covid-19 pandemic continued to overshadow the global economy in 2021. At the beginning of the year, the Covid-19 curve flattened, particularly in the United States and Europe (Chart 1.1). After exhaustive clinical trials, the vaccines were ready for the broader community, the timing of which was propitious for the new Alpha variant. Transmission of the Alpha variant towards the end of 2020 was primarily confined to the Western Hemisphere, with a transmission rate 40-80% higher than the initial Wuhan variant. As the epicentre of the Alpha variant, the UK had vaccinated 45.5% of its population with at least one dose by the end of the first quarter of 2021; the US and Europe followed at 29.2% and 11.7% respectively. Vaccination rates were significantly lower in EMDEs, averaging just 4.6% of the population. The vaccination rollout successfully flattened the Covid-19 curve, as indicated by a decline in daily cases recorded in the United States to around 52,000 from a peak of 251,000 during the Alpha wave. Similar conditions were reported in Europe, particularly the UK and France.

Chart 1.1. Covid-19 Daily New Cases



Source: World Health Organization, calculated

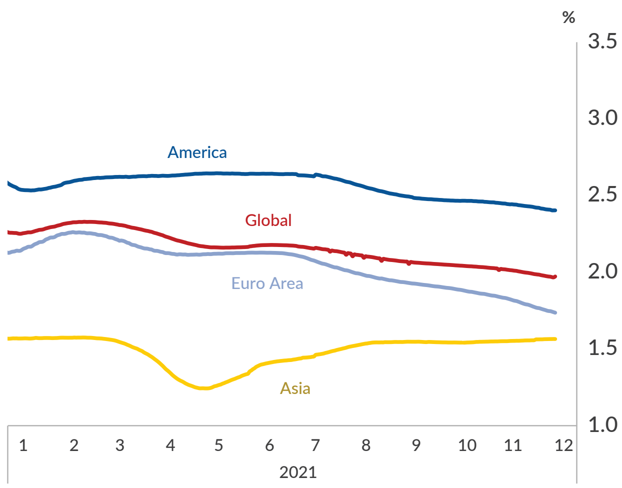
However, flattening of the Covid-19 curve at the beginning of 2021 was only transitory, as the Delta variant emerged in India in April 2021. The World Health Organisation (WHO) declared the Delta variant to be twice as contagious as the initial variant and 50% more infectious than the variants of concern already identified, including Alpha, Beta and Gamma. Delta, which was initially confined to just one state (Maharashtra), quickly spread throughout India. Inadequate health protocols and low vaccination rates in India fanned Delta transmission, with daily cases peaking at 415,000 to place India third in terms of Covid-19 cases globally. A surge of cases in most Asian countries became inevitable as another wave of infections enveloped the globe. Conditions were exacerbated by the divergent distribution of vaccines as between AEs and EMDEs. Residents in Asian EMDEs, where vaccination rates were low, were susceptible to the Delta variant, including Indonesia, Malaysia, Thailand, Vietnam, the Philippines and many others. The more virulent Delta variant pushed up the fatality rate in Asia to a peak of 1.4% by the end of August 2021 (Chart 1.2). For their part, AEs began to reopen their economies early, thereby exposing themselves to Covid-19 transmission.

The possible emergence of new variants and risk of prolonged pandemic, which could become endemic, demands vigilance in terms of the global economic recovery impact. Governments and relevant authorities in various countries need to develop long-term strategies to anticipate a protracted Covid-19 pandemic. Preparatory plans for a new normal, characterized by living with Covid-19, must be strengthened continuously, including community transition and adaptation measures to ensure discipline and familiarity with strict health protocols in the new normal era. Strategies for Covid-19 handling and containment must also be strengthened, encompassing: a faster vaccination rollout; increased testing; tracing and treatment; as well as disciplined health protocols. Such measures will strengthen

global economic resilience against an enduring pandemic, while ensuring a sustainable global economic recovery process.

Accelerating the vaccination rollout to achieve herd immunity remains an ongoing concern worldwide to overcome Covid-19. High vaccination rates have helped stabilise the global fatality rate at around 2% despite successive waves of infection throughout 2021 and soaring daily cases. In addition, herd immunity remains a policy priority in many jurisdictions to overcome the pandemic. Countries benefited from high vaccination rates during the Delta variant outbreak, as reflected by the comparatively mild severity of symptoms as well as lower hospitalisations and mortality rates. Supporting the vaccination program, several countries introduced vaccine passports to allow community activity in public spaces. In practice, communities have adapted

Chart 1.2. Covid-19 Global Fatality Rate

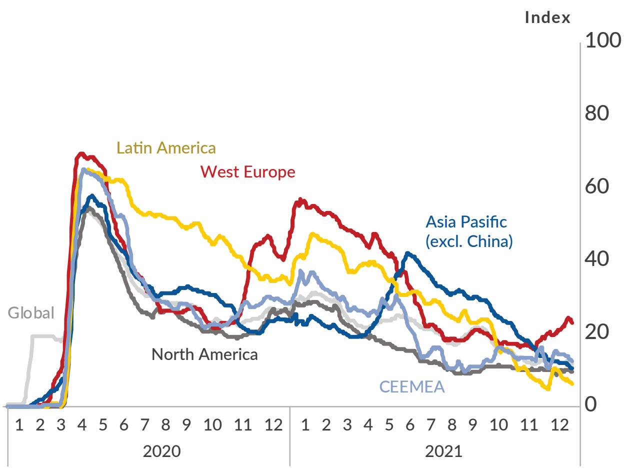


Source: World Health Organization, calculated

by implementing strict health protocols, starting with personal hygiene, washing hands, wearing masks and social distancing, while staying away from crowded places and reducing mobility. Such behavioural adaptations, coupled with home-based learning (HBL) and work from home (WFH) protocols, ultimately created a new balance in terms of community mobility. For example, mobility in the US and several European countries increased in the third quarter of 2021, despite local surges of Covid-19 cases (Chart 1.3).

The rate of vaccination rollouts varied as between AEs and EMDEs. Greater access to vaccines in AEs was supported by technology and availability of funds. The contracted supply of vaccines in AEs was equivalent to three times the local population, and even five times the population in Canada and Australia (Chart 1.4). This is very high compared to the supply of vaccines in EMDEs, currently standing at just 60% of the population. Only a handful of EMDEs have fulfilled their vaccine contractual obligations for the entire population, namely Malaysia, the Philippines and Argentina. Vaccine contracts in South Africa, Saudi Arabia and Mexico are insufficient to cover 50% of the local population. Efforts have been made to donate vaccines from AEs to EMDEs, including from the US to Argentina and the Philippines. China is one of only a few EMDEs to develop a vaccine locally and donate the vaccine, particularly to countries in Africa. At the end of December 2021, statistics show that 49% of the

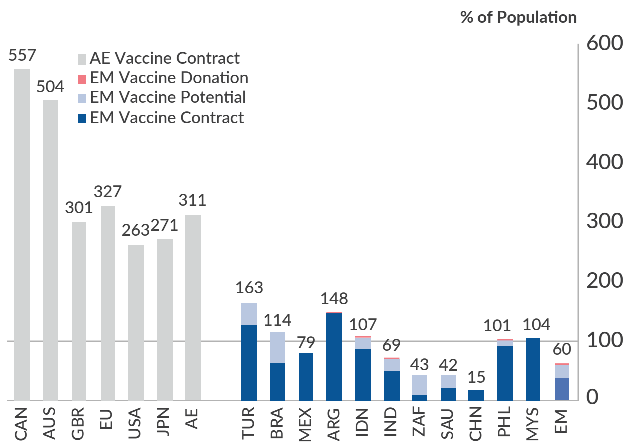
Chart 1.3. World Mobility Index



Source: Goldman Sachs, calculated; Effective Lockdown Index=100, lowest mobility

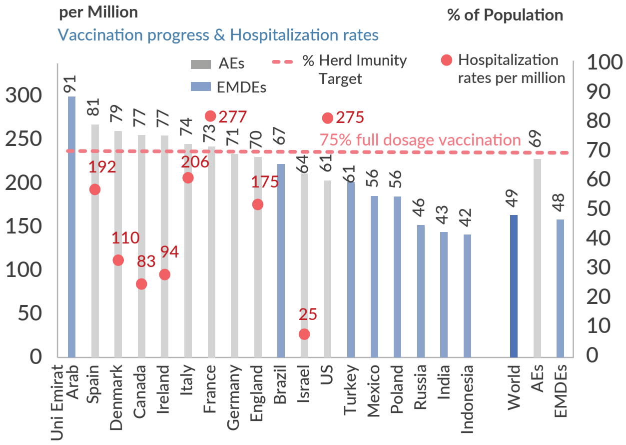
global population was fully vaccinated, almost 70% of the population in AEs but only 48% in EMDEs. Several AEs, namely Spain, Denmark, Canada and Ireland, have already achieved vaccination rates

Chart 1.4. World Vaccine Contract



Source: Ministry of Health , Duke University, World Health Organization.
Notes calculating full dosage of vaccine, for Johnson & Johnson & Cansino assumed full dosage 2 (two) times

Chart 1.5. World Vaccination Rates



Source: Our World In Data, Ministry of Health.
Notes: Indonesia vaccination
progress: total vaccination/ 2/ polulation =51.96%

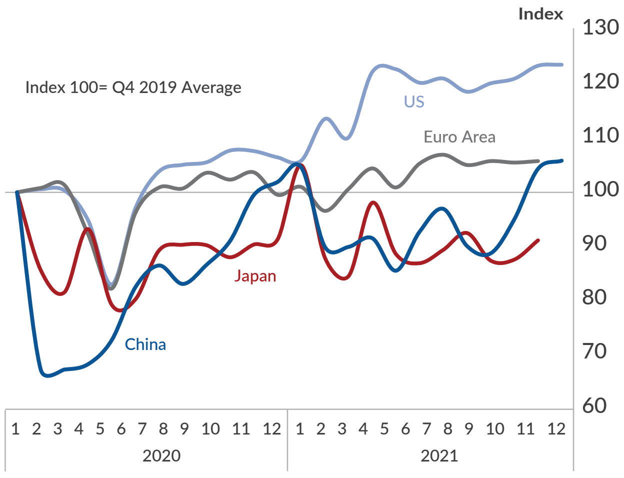
exceeding 75% and nearing herd immunity. This asynchronous vaccination rollout is considered a primary determinant of slower mobility improvements in EMDEs compared with AEs, leading to a divergent global economic recovery.

1.2

A Divergent Global Economic Recovery

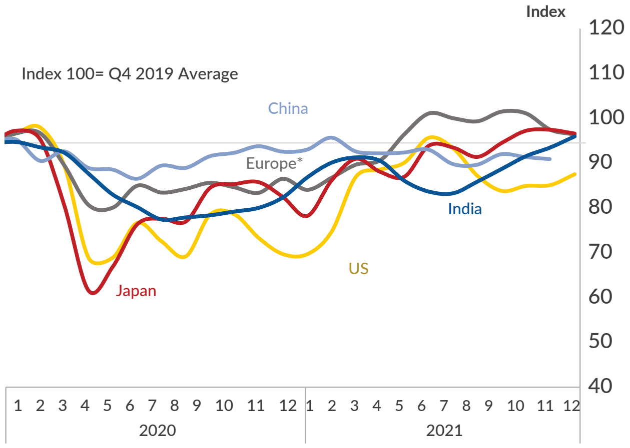
The rapid pace of economic recovery achieved at the beginning of 2021 was stifled by the Delta variant outbreak. Several indicators pointed to a relatively quick recovery of economic activity in the first quarter of 2021, particularly in AEs. Over time, however, mobility restrictions, which were introduced to break the domestic chain of Delta variant transmission, restrained economic activity in several jurisdictions, as reflected in consumer confidence and retail sales in various jurisdictions, with impact depending upon vaccination rates and consumer perceptions of concern over subsequent Covid-19 waves. Among AEs, for instance, upward momentum in the retail sales index, established at the end of 2020, began to fade in March 2021 in the US and July 2021 in Europe (Chart 1.6). Notably, the Consumer Confidence Index (CCI) declined more sharply in the US than in Europe (Chart 1.7). In China, the retail sales index and CCI began to decline in June 2021. By contrast, in India consumer confidence began to regain upward momentum in July 2021, after declining since the Delta variant outbreak in February 2021. As retail sales gained strength, consumption growth picked up, but transmission of the Delta variant and mobility restrictions undermined business confidence (as indicated by the Purchasing Managers Index (PMI)), which hurt production and investment. Overall

Chart 1.6. Retail Sales Index



Source: CEIC, calculated

Chart 1.7. Consumer Confidence Index



Source: Bloomberg, calculated *) Weighted average of consumer confidence: Germany, France, Italy and Spain

economic activity gradually recovered around the third quarter of 2021 as the number of Delta cases decreased and public mobility was restored.

Overall, the global economy improved through 2021, despite an asynchronous recovery. The speed of economic recovery across jurisdictions was determined by the success of vaccination rates in approaching herd immunity, the magnitude of fiscal and monetary stimulus support, as well as the degree of economic resilience. In AEs, particularly the US, a faster pace of recovery was supported by extraordinary fiscal and monetary stimuli; swift vaccination programs, social assistance and business support measures; as well as unprecedented liquidity injections (quantitative easing) into the financial system. Conversely, most EMDEs excluding China, struggled to improve domestic economic recovery. There was limited supply and access to vaccines, while weaker fiscal and monetary stimulus impeded economic recovery in most EMDEs. In addition, the majority of EMDEs faced constraints in terms of increasing their budget spending, primarily due to lower tax revenues as business activity languished, coupled with limited debt capacity to finance larger fiscal deficits. Meanwhile, monetary policy effectiveness to revive economies was beset by inflationary pressures and a financial sector impacted by the pandemic.

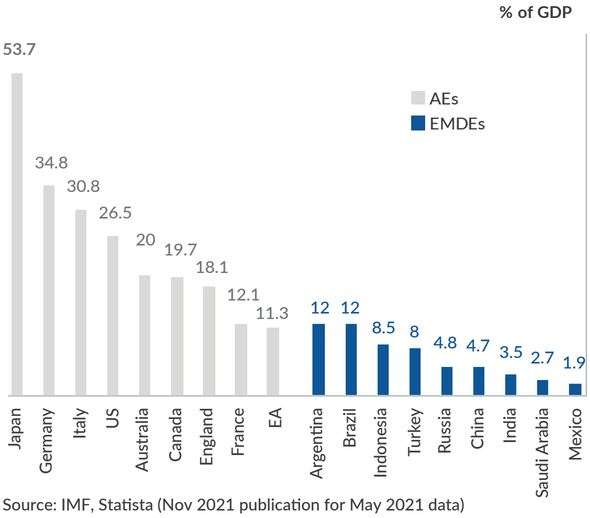
The world economy is forecast to grow by approximately 5.7% in 2021 and 4.4% in 2022, following a 3.1% contraction in 2020 (Table 1.1). The two largest global economies have recovered, with growth in China projected at 8.1% in 2021 and 5.2% in 2022 after moderating to 2.3% in 2020; growth in the US is projected at 5.6% in 2021 and 3.8% in 2022 after contracting 3.4% in 2020. Meanwhile, the economic recovery achieved in other countries in 2021 is expected to continue in 2022. Among AEs, the European Union is projected to grow 5.0% in 2021 and 4.2% in 2022 after contracting 6.3% in 2020. Japan is expected to grow 1.9% in 2021 and 2.7% in 2022 after contracting 4.6% in 2020. Elsewhere in Asia, India is predicted to grow 9.0% in 2021 and 8.2% in 2022 after contracting 7.1% in 2020. Similarly, ASEAN-5 is projected to grow 3.9% in 2021 and 5.4% in 2022 after contracting 3.4% in 2020. Also, world trade volume and international commodity prices continue to rise, thereby supporting exports and recovery prospects in various EMDEs. World trade volume and international commodity prices contracted by 5.3% and 0.8% respectively in 2020 before rebounding sharply by 9.8% and 59.6% in 2021. A stronger global economic recovery is expected in the second half of 2022, 2023 and beyond.

Table 1.1. Global GDP Growth

GDP Growth (%)	2019	2020	2021	2022
World	**2.8**	**-3.1**	**5.7**	**4.4**
AEs	**1.6**	**-4.5**	**5.0**	**3.8**
US	2.2	-3.4	5.6	3.8
Euro Area	1.3	-6.3	5.0	4.2
Japan	0.0	-4.6	1.9	2.7
EMDEs	**3.7**	**-2.1**	**6.1**	**4.8**
China	6.0	2.3	8.1	5.2
India[1]	4.8	-7.1	9.0	8.2
ASEAN-5	4.9	-3.4	3.9	5.4
Latin America	0.1	-7.0	5.1	2.8
Emerging Euro	2.5	-2.0	4.7	3.7
Middle East and Central Asia	1.4	-2.8	4.1	3.8
World Trade Volume	-0.4	-5.3	9.8	3.8
International Commodity Prices Indonesia Export	-3.0	-0.8	59.6	2.8

[1]BI's assumption for Indian GDP is adjusted to Calendar year (estimation)
Source: IMF WEO October 2021 Database, Bank Indonesia Projection, 2019-2020 Realization based on current number

Chart 1.8. G20 Countries Fiscal Stimulus



Source: IMF, Statista (Nov 2021 publication for May 2021 data)

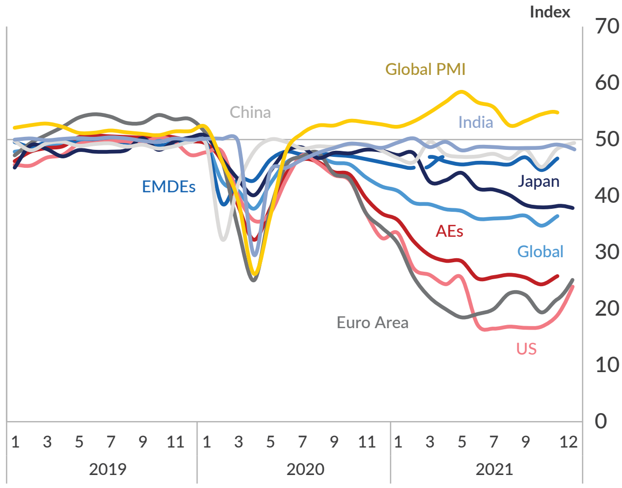
1.3

Global Supply Chain Disruptions and Energy Scarcity

The economic recovery in 2021 faced several onerous challenges. Supply was unable to keep pace with a surge in demand, particularly at the beginning of the year, because factor mobility had not returned to pre-pandemic levels, leading to global supply chain disruptions. Entering 2021, supply constraints hit semiconductors as demand for technology skyrocketed to support work from home protocols, including mobile telephones and computers, which undermined the recovery, primarily in Germany, Japan and the US. In addition, stronger demand created supply and distribution issues affecting production inputs, a condition severely exacerbated by the closure of sea and airports in a number of producing countries in Asia, due to the Delta outbreak. At the beginning of the fourth quarter of 2021, energy scarcity brought on by the application of green economy policies, natural disasters and seasonal demand further compounded the supply constraints. Consequently, a gap emerged between production and demand, coupled with higher international commodity prices. These pushed up actual inflation and inflationary expectations in AEs, although this is projected to be only temporary. Such developments demand vigilance and must be anticipated in terms of their economic impact on Indonesia.

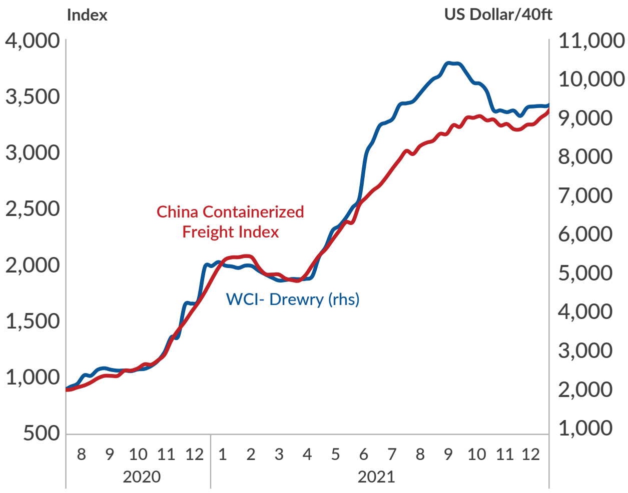
Global supply chain disruptions are a new phenomenon that requires constant vigilance. The disruptions include cross-border distribution constraints and the scarcity of production inputs. International distribution has been severely hampered by a lack of containers, backlogs affecting many ports, longer delivery times and higher shipping costs between countries, especially since April 2021 (Charts 1.9 and 1.10). This problem has compromised production due to the unfulfilled supply of raw materials from other countries. Global producers, particularly China and other Asian countries, imposed mobility restrictions to break Delta variant transmission, which undermined production, inventory and shipping capacity. In addition, the shortage of input materials was blamed on high demand for semiconductors for example, and green energy policies that have led to scarcities of coal, gas and oil. In the US, gaps have appeared in the labour market, as reflected by a rising level of voluntary unemployment and higher wages in several economic sectors, including accommodation and food service activities, education and health, retail sales, manufacturing and trade.

Chart 1.9. Delivery Time Indicator



Source: IHS Markit

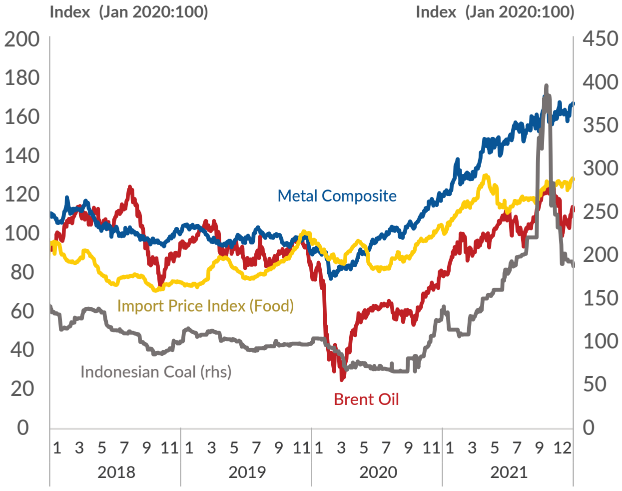
Chart 1.10. Shipping Costs



Source: Bloomberg

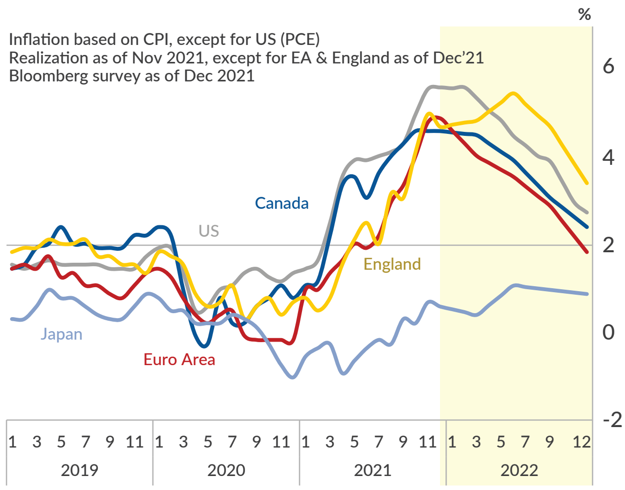
Energy shortages, combined with supply and distribution constraints, have impacted global inflation. In addition to the uneven economic recovery and mobility restrictions to contain Covid-19, the energy shortages have been exacerbated by policy factors, such as growing calls for a green economy from Europe, the US and China, which require a transition period towards environmentally friendly manufacturing and production. At the same time, the demand for energy has increased in the northern hemisphere in anticipation of the winter months. These factors have created a production-demand gap and raised international commodity prices, including oil, coal, metal and food (Chart 1.11). Another result has been rising actual inflation and inflationary expectations in AEs, particularly in the US, Europe, UK, Canada and Australia (Chart 1.12). Inflationary pressures reached a record high of 5% in the US and 4.9% in Europe in November 2021 in line with higher energy prices. As supply disruptions gradually ease, however, milder inflationary pressures are predicted in several AEs towards the middle of 2022. Such developments must be monitored carefully, however, particularly in line with persistently high uncertainty at the end of 2021, considering the Omicron outbreak.

Chart 1.11. World Commodity Prices



Source: CEIC, IHS Market, Bloomberg, World Bank, calculated

Chart 1.12. World Inflation Projection



Surce: Bloomberg Survey, BI's estimation, calculated

1.4

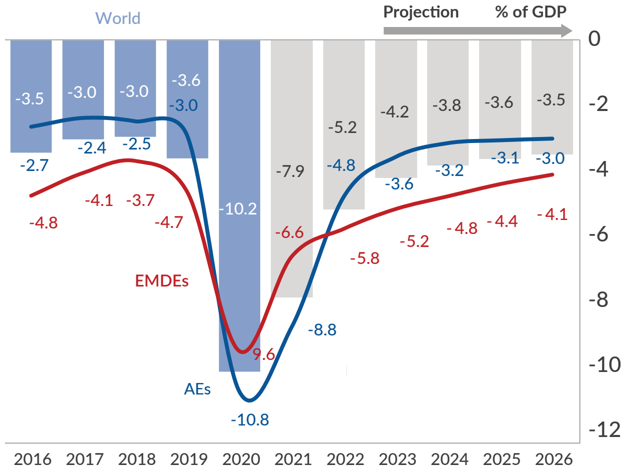
Asynchronous Fiscal and Monetary Exit Policies and Persistent Global Financial Market Uncertainty

A divergent economic recovery, supply disruptions and energy scarcity have led to asynchronous exit policies as between AEs and EMDEs. All countries will eventually normalise their fiscal posture and reduce budget deficits, which have widened significantly in recent years, with EMDEs taking a more gradual approach than AEs (Chart 1.13). Likewise for monetary policy, above-target inflation has compelled central banks in EMDEs to raise policy rates, such as in the Czech Republic, Brazil, Mexico, Russia and Turkey (Chart 1.14). In addition, central banks in several AEs are gradually tapering monetary stimuli in line with the economic recovery together with a build-up of inflationary pressures. The Bank of Canada remains at the forefront by ending its bond purchase program, with the Bank of England, US Federal Reserve and Reserve Bank of Australia expected to follow suit in the first semester of 2022. For instance, at the end of 2021 the Fed announced an accelerated tapering of monetary policy.[2] Meanwhile, the Bank of Korea, Norges Bank and the Reserve Bank of New Zealand have already increased their respective policy rates due to inflationary pressures, improving economic activity and early indications of financial stability risk, among others. As further steps, market participants are expecting a relatively early hike in the US policy rate (the FFR) in the first half of 2022, predicting 75bps overall in 2022.

In line with asynchronous exit policies, global financial market uncertainty persists. In the first quarter of 2021, global financial market uncertainty increased, accompanied by higher UST bond yields in response to a large US fiscal policy package and

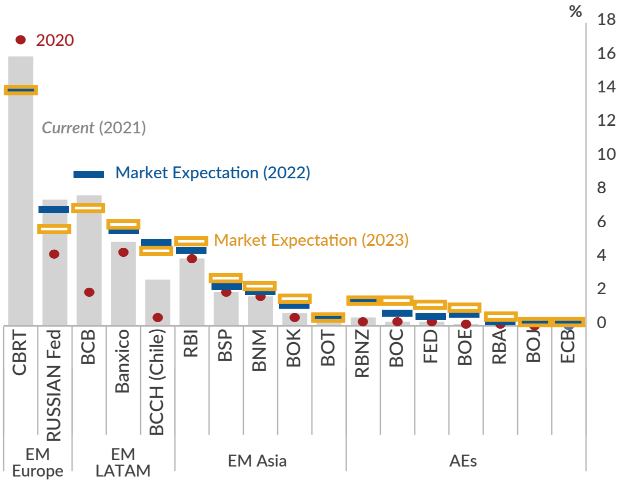
2 Persistently high inflation compelled the Fed to accelerate its tapering policy twofold, to USD30 billion per month (consisting of USD20 billion in UST and USD10 million in MBS), compared with USD15 billion per month in November and December 2021. The move will shorten the duration of tapering to March 2022, thus providing room for the Fed to increase the federal funds rate (FFR).

Chart 1.13. Fiscal Deficit



Source: IMF Fiscal Monitoring October 2021

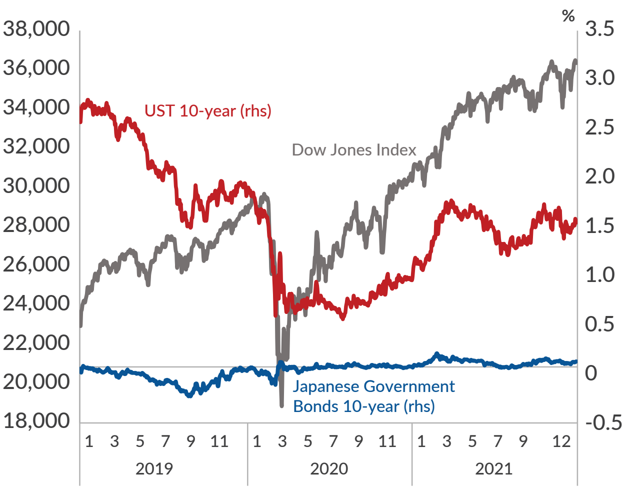
Chart 1.14. Monetary Policy



Source: Bloomberg

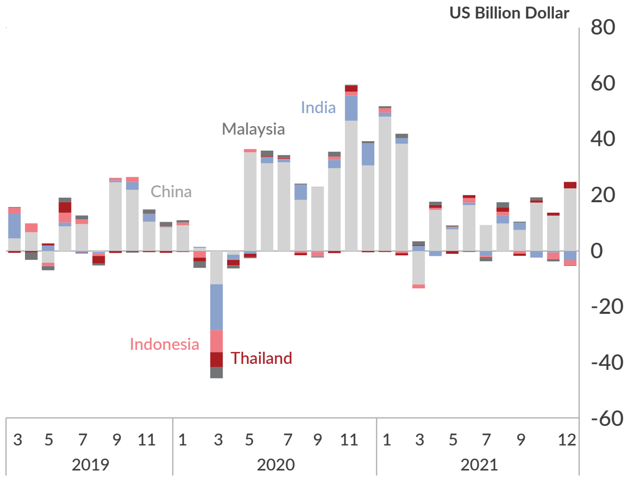
the prospect of a faster US economic recovery (Chart 1.15). Consequently, relatively high portfolio investment inflows to EMs began to subside at the beginning of 2021, particularly from March 2021

Chart 1.15. Movement in Yields and Stocks



Source: Bloomberg

Chart 1.16. Portfolio Investment Flows



Source: Institute of International Finance, calculated

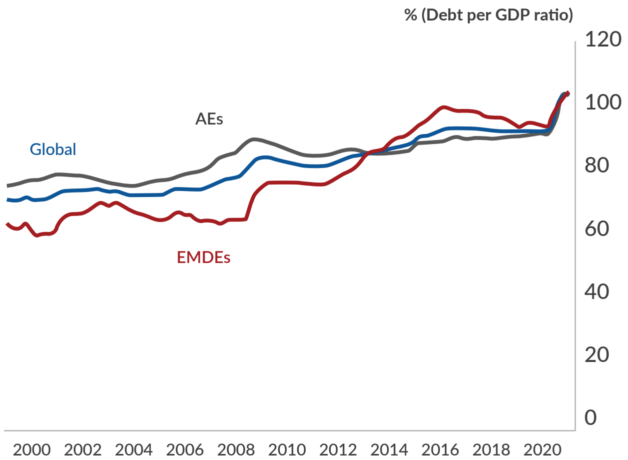
(Chart 1.16). This increased currency pressures and exchange rate volatility in EMs. Global financial market uncertainty began to ease at the beginning of the second quarter of 2021 in line with the transparent and consistent communication by the Fed concerning the accommodative policy direction. Global financial market uncertainty persisted in the latter half of 2021 reflecting emerging risks, including: rising Delta variant transmission; market anticipation of the Fed's tapering; and concerns over persistent inflationary pressures due to supply chain disruptions and the unfolding energy shortages. Asynchronous fiscal and monetary policy normalisation, coupled with elevated global financial market uncertainty, complicated efforts for economic recovery in EMDEs, including Indonesia.

1.5

Scarring Effects of the Pandemic

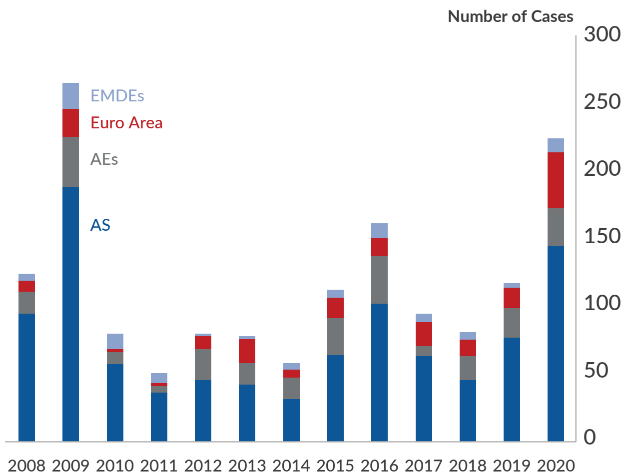
The prolonged Covid-19 pandemic has had a scarring effect on the corporate sector and triggered risks in terms of financial system resilience. Public mobility restrictions have squeezed business activity, thus eroding sales, liquidity, profitability and capital. Leverage has increased during the Covid-19 pandemic in AEs and EMDEs (Chart 1.17). Indeed, corporate default has soared to almost the same level as recorded during the global financial crisis, dominated by the US, followed by Europe and EMDEs (Chart 1.18). Not all businesses have suffered the same extent of scarring, however, with differences depending upon the sectoral impact of mobility restrictions. This condition demands constant vigilance, with the adverse effects on individual banks and overall financial system stability requiring careful monitoring. Financial sector supervisory authorities in various countries, therefore, have relaxed regulatory provisions concerning late principal and instalment payments, thereby providing special dispensation for non-performing loans (NPLs) in the banking industry. The scarring effect in the corporate sector and the impact on financial institutions and financial system stability continues to demand attention as the Covid-19 pandemic endures. Even after the economy has fully recovered, the scarring effect of the pandemic on the corporate sector will take time to heal.

Chart 1.17. Non-financial Corporation Leverage



Source: IMF Global Financial Stability Report - International Monetary Fund, April 2021

Chart 1.18. Number of Corporate Failures



Source: Global Financial Stability Report - International Monetary Fund, April 2021

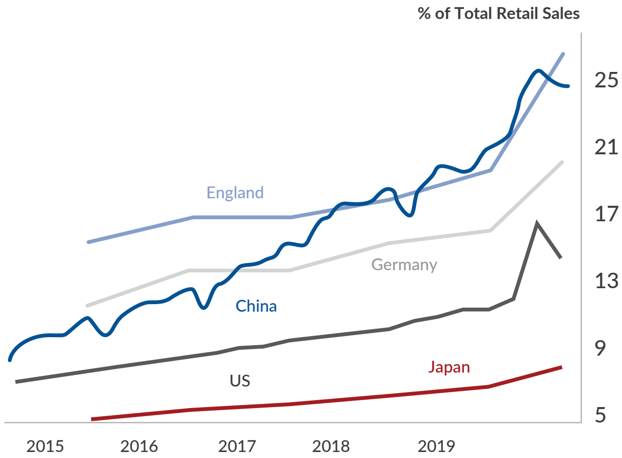
1.6

Pace of Economic and Financial Digitalisation

Digitalisation of the payment system as well as wider finance and the economy is progressing rapidly, increasingly dominated by BigTech and e-commerce growth. Digitalisation began prior to the Covid-19 pandemic, driven by technological advances, including artificial intelligence from BigTech, which can provide personal economic and financial services anytime and anywhere (Chart 1.19). Such services include e-commerce platforms, where the massive volume and frequency is dominated by low-value transactions (Chart 1.20). Since the pandemic began, with the inevitable mobility restrictions, digitalisation of the economy and finance and payment systems have proceeded rapidly. Digital economic and financial transactions, previously dominated by young people and millennials, have penetrated all social strata and become the preferred approach and new norm considering convenience, speed and affordability. Nonetheless, digitalisation has also posed a number of new issues, including personal data ownership and protection, taxing digital economic and financial transactions, shadow banking, cryptocurrency and cyber-attacks. The various opportunities and challenges created by the digital economy and finance demand an optimal policy response to re-establish the role of the state in this new era of digital civilisation.

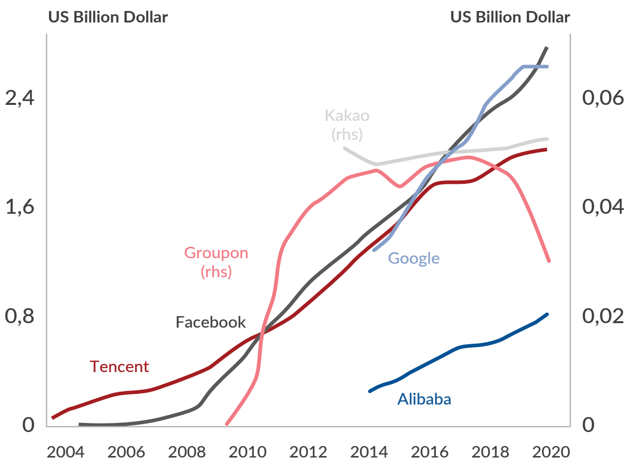
Amid the ongoing global economic recovery, the advancement of digital technology has revealed various new opportunities to revive economic growth as a 'new growth engine'. Payment system

Chart 1.20. E-Commerce Share



Source: Bank for International Settlements;Data as of Nov 2020 (US), Oct 2020 (China), Sep 2020 (Germany, Japan and England)

Chart 1.19. Active Users of BigTech



Source: Bank for International Settlements

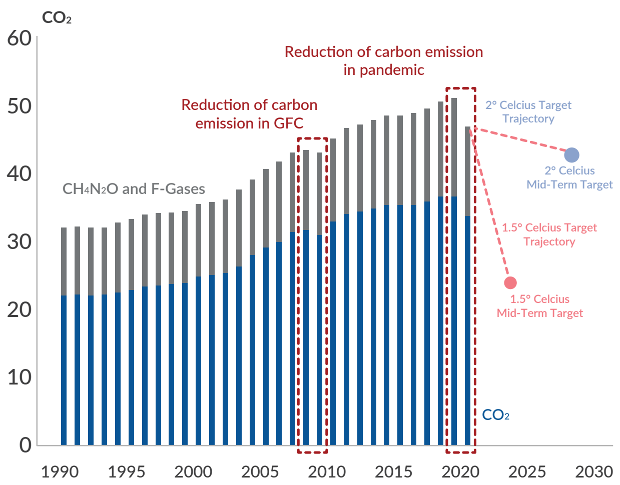
digitalisation has become a critical element in maintaining the momentum of economic recovery. Technological change is driving digital transformation in the payment system, emphasising mobility, speed, efficiency, flexibility, integration and data security. Digital payments via e-Payments benefit all parties involved through increased productivity and efficiency. The availability of digital payments supports a healthy economic cycle, with higher consumption leading to higher production, more jobs, higher incomes and, thereby, stronger economic growth. Nevertheless, the challenge of achieving an efficient, fast, secure and reliable payment system requires the central bank to prepare the necessary mechanisms, instruments and infrastructure as well as the legal and institutional arrangements. Restructuring the payment system industry has been necessary, supported by an adequate regulatory framework. In addition, the authorities must also support development of the digital economy and finance, which will help create a payments processing ecosystem.

1.7

Growing Calls for a Green Economy and Sustainable Finance

The Covid-19 pandemic has increased demand for global action to accelerate the green economy and finance. Prior to the pandemic, various countries had demonstrated their commitment to the 2015 Paris Agreement as an international treaty to adopt a green economy and finance and to help combat climate change, amongst others by reducing carbon emissions (Chart 1.21). Consequently, various countries are committed to gradually transitioning towards a green economy and finance to reduce the costs of climate change. Since the Covid-19 pandemic, however, calls for the green economy and finance have become louder, particularly in AEs, including much larger carbon emission reductions of around 8-9% compared to around 2-3% during the 2008-2009 global financial crisis (Chart 1.22). As a result, carbon emission reduction programs in various countries are being rigorously strengthened to meet the new commitments. Government support and incentives are required to encourage carbon neutrality projects by reducing carbon emissions, increasing energy efficiency and using renewable energy sources. Green finance from banks and financial markets is also being encouraged through green fiscal and monetary policy incentives and disincentives.

Chart 1.21. Carbon Emissions and Reduction Targets

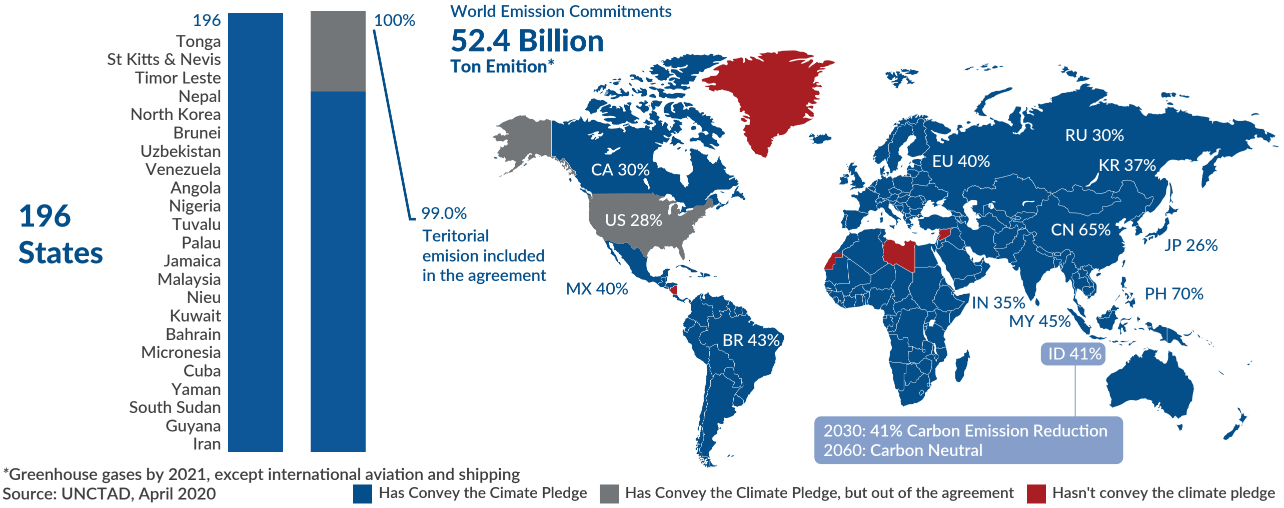


Source: United Nations Conference on Trade and Development

Environmental degradation and climate change create physical and transition risks with implications for monetary and financial system stability. The transition towards a green economy, namely a low-carbon economy, must be gradual and moderate to optimise the policy response to climate change. This initiative supports achievement of the carbon emission reduction targets in the spirit of the 2015 Paris Agreement to limit the rise in mean global temperature. To that end, the financial sector must contribute to lower carbon emissions. It will be difficult to achieve the targets, however, without cross-institutional synergies between the fiscal, real and financial sectors. It is necessary, therefore, to establish green financial infrastructure, including international green certification, digitalisation of green market platforms, as well as digitalisation of the data and the green market. Green investment could considerably boost economic growth and foreign exchange reserves through the transition to low-carbon power, transportation and buildings, as well as other transitions towards a low-carbon economy. Green financial markets are the main source of green investment. By way of example, Singapore opened a global green market in 2021, with financing potential in Asia valued at approximately USD1.7 trillion per year.

International policy coordination has continued to strengthen the momentum of the global economic recovery and to overcome the emerging problems outlined above. Several important agendas have been adopted by the G20, IMF, FSB, BIS and others. *First*, the need to further expand the supply and

Chart 1.22. Paris Agreement



*Greenhouse gases by 2021, except international aviation and shipping
Source: UNCTAD, April 2020

distribution of vaccines from AEs to EMDEs, including the provision of soft loans and debt relief for least developed countries (LDCs) as well as additional Special Drawing Rights (SDR) allocations, specifically requesting that AEs and EMDEs assist LDCs. *Second*, the need to phase and clearly communicate fiscal and monetary policy normalisation (an exit policy) to overcome the uneven global economic recovery as well as its impact on global financial market stability. *Third*, the need for joint measures to address global supply chain disruptions and energy scarcities in order to maintain the momentum of economic recovery and to tackle global inflation. *Fourth*, the need for fiscal, monetary and macroprudential policies as well as regulations targeting financial institutions and the real sector (such as structural and labour market reforms) to overcome the scarring effect of the pandemic on corporate conditions and avoid disrupting economic recovery sustainability, while preventing contagion risk to financial system stability.

Fifth, the need to expedite international cooperation in terms of accelerating economic and financial digitalisation, including in: cross-border payment systems; central bank digital currency (CBDC) development; BigTech regulation and supervision; data; cyber-attacks; as well as digitalisation for economic and financial inclusion, such as remittances, retail trade and MSMEs. *Sixth*, the need for a transition period towards a green economy and sustainable finance, including the provision of transparent carbon emission data, preparing carbon emission transition programs, carbon taxes and the development of green financial products (sustainable finance). *Seventh*, the need for continuous monitoring and anticipation when formulating the policy measures required in Indonesia against a backdrop of various international agendas that dominate discussions at international cooperation forums, including the G20, IMF, FSB and BIS. This has become even more important in light of Indonesia's G20 Presidency in 2022 (Table 1.2).

International organisations, such as the IMF, the FSB and the World Bank, instituted various policies throughout 2021 to support the global economic recovery. The policies focused on supporting global economic resilience and reviving economic growth. Funds mobilisation to strengthen economic resilience impacted by the pandemic, remained a policy priority among international organisations in 2021. Funds were primarily mobilised through the IMF’s allocation of SDRs among its members, to the tune of USD650 billion, effective from 23 August 2021. Under pandemic conditions, countries are permitted to sell their SDR allocation through spot and forward transactions, lend and borrow SDR, use SDR in swap transactions, as well as use or receive SDR donations.

Tabel 1.2. Theme, Focus, and Priority Agenda of G20 Presidency of Indonesia

Indonesia's G20 Presidency ***"Recover Together, Recover Stronger"***	
Focus: driving productivity, increasing economic resilience and stability, and ensuring sustainable and inclusive growth	
6 (six) Finance Track Priority Agenda of Indonesian G20 Presidency in 2022:	
1	Exit Strategy to Support Recovery: Discussing how G20 will protect member countries on the road to economic recovery (particularly developing economies) from the spillover effect of exit policies in countries further along their economic recovery journey (typically advanced economies) and mitigate the risk of uncertainty in global financial markets with well calibrated, well planned, and well communicated communication
2	Addressing the Scarring Effect to Secure Future Growth: Addressing the scarring effect of the crisis to increase productivity and growth in the long term, while paying due attention to the labour market, households, corporate sector and financial sector
3	Payment System in Digital Era: Standardising cross-border payments (CBP) as well as the General Principles for Developing CBDC
4	Sustainable Finance: Discussing climate risk and the risk of transitioning towards a low carbon economy as well as sustainable finance from a macroeconomic and financial stability perspective.
5	Financial Inclusion: Digital Financial Inclusion & SME Finance Utilising open banking to increase productivity, as well as support the economy and financial inclusion for underserved communities, such as women, young people and MSMEs, including cross-border aspects
6	International Taxation: Discussing international taxation, particularly implementation of the joint OECD/G20 inclusive framework on tax planning strategies known as Base Erosion and Profit Sharing (BEPS).

This aims to provide room for countries with strong external conditions to allocate their SDR to weak or vulnerable countries in the context of economic recovery from the pandemic.[3]

The moratorium on debt payments for low-income countries (LICs) remained a policy focus of international organisations in 2021. The suspension of debt payments for LICs through Debt Service Suspension Initiatives (DSSI)[4] was extended until the end of December 2021 (from June 2021). The initiative agreed by G20 members in March 2020 and monitored by the IMF and World Bank aims to provide fiscal space for countries, as required, to focus fiscal spending on financing to manage and contain the Covid-19 pandemic. As the final extension, LIC debt settlement will apply a structural approach through the Common Framework for Debt Treatments beyond the DSSI.

The FSB plays an essential role in maintaining global financial system stability by strengthening analytical studies and evaluating the policy response to the pandemic. The primary focus of the FSB includes vulnerability assessments and work programs to strengthen NBFI resilience; the response and recovery toolkit for cyber incidents, assessing the regulatory and supervisory implications of global stablecoin arrangements; developing a roadmap to strengthen cross-border payments; and risk mitigation in the financial system in relation to

3 In addition to the SDR allocation, funds mobilisation, specifically for low-income countries (LICs) has been increased through: (i) the lending arms of international organisations, such as the International Development Association (IDA) of the World Bank Group, (ii) the IMF's Poverty Reduction and Growth Trust (PRGT), and (iii) Catastrophe Containment Relief Trust (CCRT), as well as (iv) Multinational Development Banks (MDBs).

4 DSSI requirements are: Low-Income Countries (LIC) active in the International Development Association (IDA) in FY20; and United Nations Least Developed Countries (UN LDC).

climate change. In addition, the FSB continues to monitor and advocate the implementation of international standards in the context of post-2008 financial crisis regulatory framework reforms, such as Basel III, the fulfilment of which was relaxed in 2020 due to the pandemic. The core elements of Basel III have nevertheless been met in accordance with the timeline, yet other elements, such as the capital framework, require stronger commitment, as well as international cooperation, coordination and communication, with G20 support.

In general, World Bank policy has focused on providing support to countries in need. Several policies were issued to address health emergencies, strengthen healthcare systems and pandemic preparedness, protect the poor and vulnerable and support the transition process to a green economy. In 2021, the World Bank disbursed funding totalling USD6.3 billion for the purchase and distribution of vaccines in more than 64 EMDEs. The World Bank also partnered with COVAX and the African Union to support the purchase and distribution of vaccines to 400 million people. In conjunction with other international organisations such as the IMF, WTO and WHO, the World Bank established the Multilateral Leaders Task Force on Covid-19 to accelerate access to vaccines and essential medical equipment in DEs through multilateral trade and financial cooperation. In the education space, the World Bank implemented educational projects, reaching 432 million students and 26 million teachers, to help overcome the impact of learning poverty caused by the pandemic. In terms of climate change, the World Bank issued the Climate Change Action Plan 2021-2025, which aims to channel funding to green projects in DEs, strengthen adaptation and harmonise financial flows with the goals of the Paris Agreement.