CHAPTER I

GLOBAL ECONOMY: WORSENING WITH RECESSION/INFLATION RISK

Global geopolitical tensions exacerbated economic fragmentation in 2022, dimming economic prospects and leading to greater uncertainty in global financial markets. Five main challenges emerged which have clouded the outlook for the global economy, including the risk of recession and high inflation, if such fragmentation continues. These various challenges require stronger international cooperation both on a regional and multilateral scale so that the risks can be immediately mitigated in order to help hasten global economic recovery.

The global economy faced additional challenges in 2022 with the worsening of problems that had emerged during the previous five years. In 2017-2018, the challenges were triggered by the United States (US)-China trade war which, at that time, led to turmoil in the global financial markets and lower global trade volumes. The challenges became even more pronounced when the US central bank, the Fed, raised its policy interest rate on four occasions in 2018 or nine times since monetary policy normalization began in December 2015. In turn, this culminated in weaker performance of the global economy through the trade and financial channels. On the trade front, the global economy slowed, not only in the US and China, but also in other countries due to China's central position in the global supply chain. In the financial channel, meanwhile, the US-China trade war and the Fed's interest rate hikes caused panic in global financial markets and triggered a reversal in capital flows to developed countries while also putting pressure on the currencies of many developing countries.

Stiff challenges emerged in 2020 related to the impact of the Covid-19 pandemic which shook the world and caused a multidimensional crisis. The Covid-19 pandemic created severe threats on four fronts. First, the threat of a monetary crisis due to the rapid spread of Covid-19 globally, which led to fear and panic in regard to how many people might die as well as worsening economic conditions. Investors flocked to liquidate portfolio investments and convert them into liquid assets denominated in US dollars, thus giving heed to the notion that "cash is king". Second, the threat of a social crisis due to the handling of the Covid-19 pandemic inevitably resulted in restrictions on people’s mobility, bringing about unemployment and a decline in people's incomes. Third, the threat of an economic crisis due to weaker economic performance in the face of the Covid-19 pandemic has persisted for a long time, and is still felt today. The level of debt has increased in both developed and developing countries. Also, the number of corporate failures rose to almost match the rate of failure during the global financial crisis, most significantly in the US, followed by Europe and then developing countries. Fourth, the threat of greater inequality between countries grew given the large difference between the vaccination capabilities of developed and developing countries, which played a key role in determining the speed of economic recovery. In this regard, economic recovery in developed countries took place more quickly because it was supported by the availability of vaccine supplies and greater government spending.

Global economic challenges heightened in 2022 due to global geopolitical tensions that exacerbated global economic fragmentation and dimmed economic prospects. Russia-Ukraine geopolitical tensions have led to weakening trade transactions, rising commodity prices and uncertainty in global financial markets, even though the Covid-19 pandemic is receding. Against this backdrop, corrections were made to forecasts for global economic growth while there was greater uncertainty in the global financial markets. Political and economic fragmentation and worsening global supply chain disruptions undermined economic growth from the supply side. The escalation of geopolitical tensions between Russia and Ukraine, followed by the imposition of sanctions by various countries on Russia, and the heated US-China trade war disputed international trade and global supply chains. Global commodity prices increased, including energy, food and metals, thereby putting pressure on global inflation. Political and economic fragmentation as well as aggressive monetary policy tightening in developed countries caused an economic slowdown on the demand side. This tightening of monetary policy led to a demand-side economic slowdown and greater volatility in global financial markets.

In 2022, the global economy faced five serious challenges that are worthy of close scrutiny. Firstly, slow economic growth. Second, high inflation that was triggered by increases in global energy and food prices. Third, the policy of maintaining high interest rates for a lengthy period of time (higher for longer). Fourth, a very strong US dollar which put pressure on the currencies of many countries. Fifth, the liquidation of global investor funds with the money being diverting to liquid assets (cash is king). These various challenges faced by the global economy ultimately demanded the strengthening of international cooperation on both a regional and multilateral scale.

1.1

Slowing Growth Accompanied by Risk of Recession

Political and economic fragmentation along with aggressive monetary policy tightening caused the global economy to slow. The global economy is predicted to grow by 3.0% in 2022, after expanding by 6.0% in 2021. With economic conditions that had not fully recovered from the impact of the pandemic, the slowing global economy has been affected by political and economic fragmentation which led to heightened inflationary pressure. In response, central banks in both developed and developing countries across the globe tightened monetary policy aggressively.

The economic slowdown occurred in almost all countries. The US economy initially slowed due to high inflationary pressures and weak consumer purchasing power, then subsequently because of an aggressive tightening of monetary policy. In Europe, the slowdown stemmed from disruptions in energy supplies due to the Russia-Ukraine war, which pushed inflation to very high levels aggravated by spillover effects from the slowdown in major trading partners, namely the US and China. Notably, the Japanese economy is predicted to continue growing steadily in 2022, supported by a reopening of the economy in that year.

Recovery in developing countries, accruing from economic reopening, was restrained due to the economic slowdown in developed countries, their main trading partners. In India, strong economic performance in the first half of 2022, in line with the reopening of the economy, was restrained by weakening external demand in the second half of 2022. China's economic growth slowed due to the implementation of the Zero Covid Policy (ZCP), which entailed a lockdown policy and a property slowdown. By contrast, the ASEAN-5 countries' growth is predicted to rise in 2022. This reflects the normalization of economic activity in line with the opening up of economies and rising global commodity prices, which boosted exports.

The global economic slowdown is predicted to continue in 2023, with the risk of an economic recession. After rising by 6% in 2021 and by 3% in 2022, the forecast for growth in 2023 stands at to 2.3%, *albeit* improving to 2.9% in 2024 (Table 1.1). All countries are expected to see a slowdown in growth, although at different rates (Chart 1.1). Larger downward corrections are expected for the US, Europe and Latin America in 2023 with an increased

Tabel 1.1. Global Economic Performance and Outlook

in percent

GDP Growth	2020	2021	2022*	2023*	2024*
World	-3.0	6.0	3.0	2.3	2.9
Advanced Economies	-4.4	5.2	2.4	0.8	1.5
US	-3.4	5.7	1.9	0.7	1.1
Euro Area	-6.1	5.2	3.1	0.3	1.4
Japan	-4.6	1.7	1.7	1.3	1.3
Emerging Economies	-1.9	6.6	3.5	3.4	3.8
China	2.2	8.1	3.2	4.6	4.8
India*	-6.6	8.3	6.6	5.8	6.3
ASEAN-5	-3.4	3.4	5.0	4,9	5.6
Latin America	-7.0	6.9	3.0	1.0	1.3

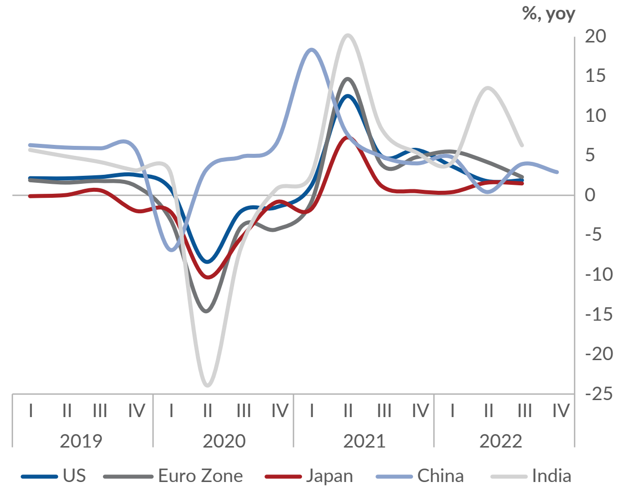
*India GDP assumption adjusted to Calendar Year (Bank Indonesia estimate)
Source: WEO-IMF October 2022 Database, Bank Indonesia
Note: *Bank Indonesia's Projection, Figures for 2020-2021 are based on the latest realization

risk of recession. This reflects a contraction in growth either from the supply side or the demand side in the three regions. From the supply side, high geopolitical tensions arising from the Russia-Ukraine conflict still cause problems in energy supply. Meanwhile, from the demand side, high inflation followed by aggressive monetary policy tightening will continue to moderate consumer purchasing power.

Several countries are predicted to record small growth corrections. This is particularly the case for countries that have adopted tight monetary policies that are not especially aggressive and/or that have better domestic energy and food supplies. Japan's economy is predicted to grow at a slower pace (down from 1.5% in 2022 to 1.3% in 2023 and 2024). India's economic growth, meanwhile, is predicted to slow from 6.8% in 2022 to 5.8% in 2023, but then increase to 6.3% in 2024. For its part, China's economic growth is predicted to rise from 3.0% in 2022 to 4.6% in 2023 and 4.8% in 2024. This brisker growth is expected to be driven by improved mobility, owing to the re-opening of China's economy, which began in the first quarter of 2023. Meanwhile, the ASEAN-5 region remained resilient, despite global concerns as reflected in the relatively stable growth forecasts of 5.0% in 2022 and 4.9% in 2023, which rise to 5.6% in 2024.

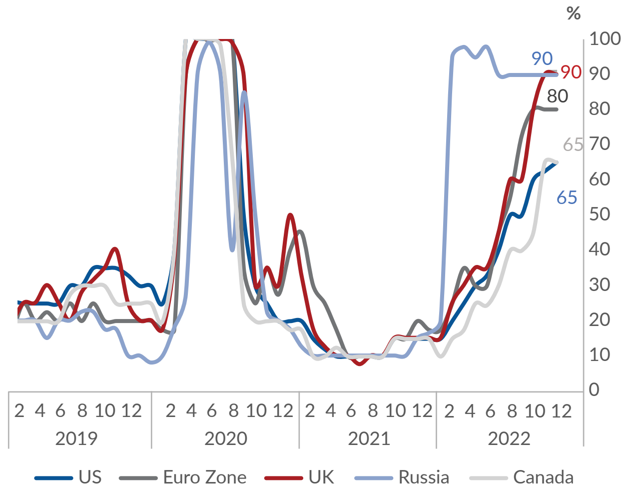
The prospect of a correction in economic growth leads to a risk of recession and high inflation if political and economic fragmentation continue and monetary policy tightening remains in place for a lengthy period of time. Several indicators suggest that the probability of a recession in key countries, such as the US, Europe, the UK and Canada, in 2023 will continue to rise (Chart 1.2). Meanwhile, it is predicted that the reduction in inflationary pressure in 2023 will take place only gradually. Such a condition risks triggering stagflation (economic slowdown and high inflation) and may even lead to "reflation" (economic recession and high inflation), meaning that a quick and appropriate response is needed.

Chart 1.1. Economic Growth of Leading Economies



Source: Bloomberg, calculated

Chart 1.2. Recession Probability Forecast



Source: Bloomberg, calculated

1.2

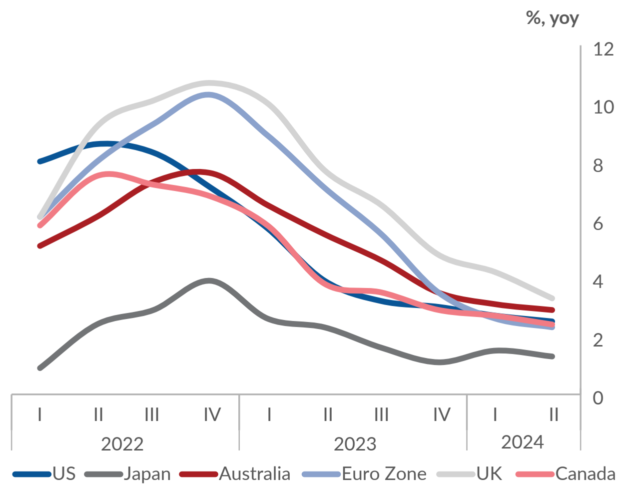
Very High Inflation

Global inflationary pressures heightened significantly in 2022. The imbalance between demand and supply side recovery amid the ultra-stimulus given during the Covid-19 pandemic pushed up prices. This imbalance also contributed to disruption in global supply chains and created labor market tightness in a number of countries, and ultimately fueled further price hikes. The war between Russia and Ukraine also triggered supply disruptions that pushed up global energy and food prices. Consequently, global inflation is predicted to increase from 5.7% in 2021 to 9.1% in 2022, before falling back to 5.0% in 2023 and 3.8% in 2024. On a quarterly basis, global inflation is predicted to peak at 10.0% in the third quarter of 2022, before declining to 5.0% in the fourth quarter of 2023. This is in line with the monetary policy tightening that was undertaken earlier by a number of central banks, especially in developed countries.

Inflation dynamics vary among countries, influenced by domestic supply conditions and monetary policy responses. Overall, the largest increase in inflation was seen in developed countries, where it rose from 5.2% in 2021 to 7.3% in 2022, before falling to 2.9% in 2023. This global disinflationary trajectory in 2023 reflects the impact of the aggressive monetary policy tightening response, as well as anticipated declines in energy and food prices amid an easing of disruptions to global supply chains (Chart 1.3). US and European inflation is predicted to increase to 6.5% and 9.5% in 2022, before falling to 2.8% and 2.9% in 2023. Aside from the impact of energy prices, the high US inflation is also being driven by a tight labor market and a wide output gap that stimulates high core inflation. In Europe, the Russia-Ukraine war has been the main factor behind increases in energy and food prices, accounting for nearly 70% of the rise in inflation across Europe. In developing countries, inflation is predicted to increase from 7.3% in 2021 to 10.3% in 2022, before declining to 6.5% in 2023 (Chart 1.4). The increase in inflation will be less pronounced in both the Asian region, where inflationary pressure projected to ease in China, India and the ASEAN-5 region, and in Latin America starting in mid-2023.

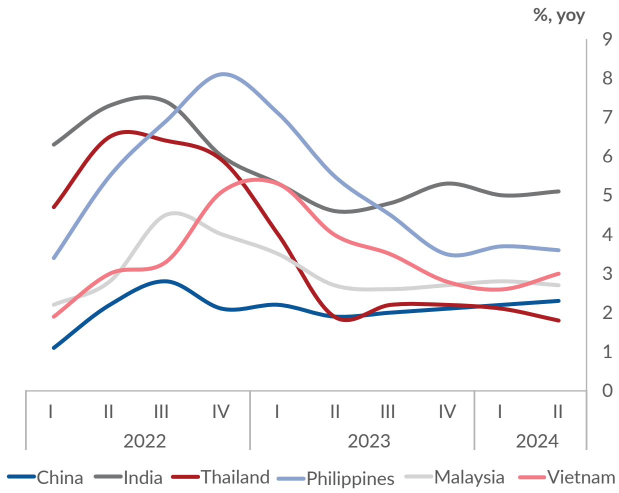
In 2023, inflationary pressure is expected to ease. As mentioned, global energy and food prices are predicted to decline by the end of 2023 and to stabilize in 2024 due to positive developments, some

Chart 1.3. Inflation Outlook in Advanced Countries



Source: Consensus Economics, calculated

Chart 1.4. Inflation Outlook in Emerging Markets



Source: Consensus Economics, calculated

of which are essentially projection assumptions. Several factors support these assumptions. First, Russia and Ukraine have signed an agreement, the Black Sea Grain Initiative, in effect since July 2022, concerning the delivery of foodstuffs from Ukraine to global markets. Second, even though protectionist policies are still being adopted in some jurisdictions, a number of countries have gradually relaxed such policies in order to encourage higher production. Meanwhile, from the energy side, although a number of energy-related sanctions remain in place, the affected countries in Europe have mitigated this by finding alternative sources of supply.

1.3

High Interest Rates for a Lengthy Period of Time

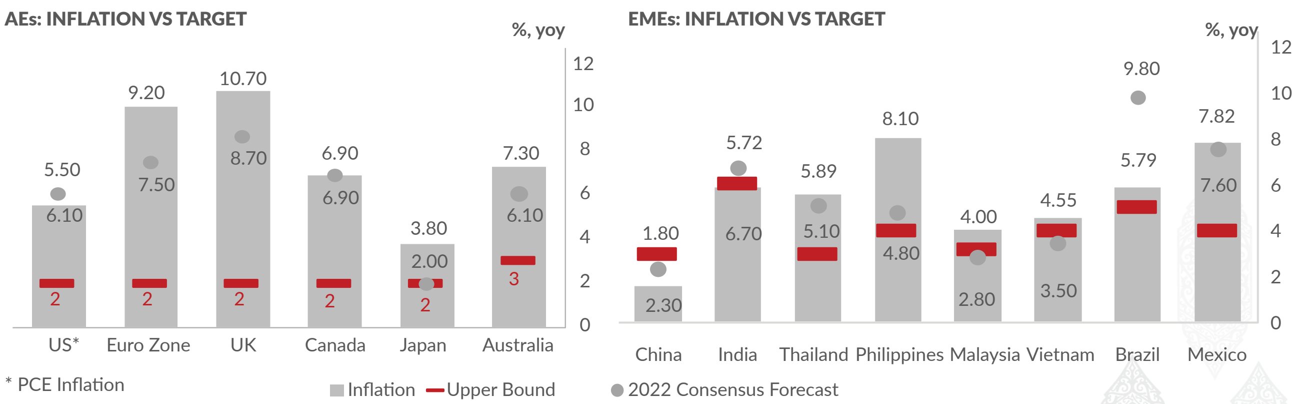
Tight monetary policies were adopted in many developed and developing countries in response to heightened inflationary pressures. The tight monetary policy that was initially adopted by developed countries has also now been pursued by developing countries in response to rising inflation, which was above target in many countries (Chart 1.5).

In the US, the Fed accelerated policy normalization at the start of 2022 by raising the Fed Funds Rate (FFR) at a faster pace than the market had expected. The first increase, of 25 bps, was made by the Fed in March 2022. This move was taken to mitigate the impact of high inflationary pressures stemming from a tight labor market and rising commodity prices due to the Russia-Ukraine war. Subsequently, persistently high inflation in the US prompted the Fed to adopt a very aggressive policy stance, by increasing the FFR by 375 bps in just 10 months (March – December 2022). This policy reflects the Fed's commitment to quickly prioritizing inflation control despite the risk of an economic slowdown and even a recession. The US approach to monetary policy was also undertaken by other countries. The central banks of developed countries such as the European Union, the United Kingdom, Canada, Australia and New Zealand responded the quickest with increases in interest rates throughout 2022.

Developing countries also raised policy interest rates. Efforts to maintain the interest rate differential vis-à-vis key foreign rates, were also taken by the central banks of developing countries, with interest rate hikes made throughout 2022 being larger in Latin American countries compared to the increases in Asian countries. Even though current nominal interest rates have exceeded their pre-pandemic levels, real (that is, inflation-adjusted) interest rates are still lower than their pre-pandemic levels due to the relatively high inflation rates.

The policy of keeping interest rates high is expected to be maintained for a long time to return inflation to its long-term level. In the US, the Fed Funds Rate (FFR), which was recorded in the range of 4.25%-4.50% in December 2022, is predicted to rise to around 4.75%-5.00% in the first quarter of 2023 and to be maintained at that level throughout 2023; it would fall to 4.25%-4.50% in 2024 (Chart 1.6). Similar movements are expected in Europe and the UK. The European Central Bank (ECB) interest rate, which was recorded at 2.50% in December 2022, is expected to increase to 3.50% and to be maintained at this level throughout 2023. The Bank of England (BoE) interest rate, which in December 2022 was recorded at 3.50%, is expected to increase to 4.25% and to be maintained at this level until 2024 (Chart 1.7).

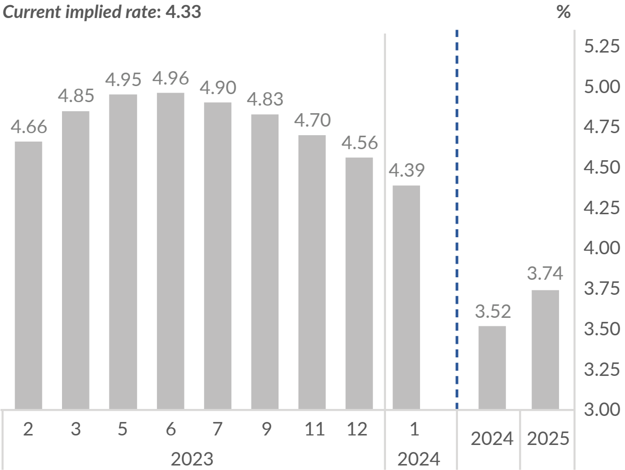
Chart 1.5. Comparison of Inflation with Target



Data as of Nov: US, UK, Canada, Japan, Australia
Data as of Dec: Euro Zone
Source: CEIC, Central Banks, Bloomberg

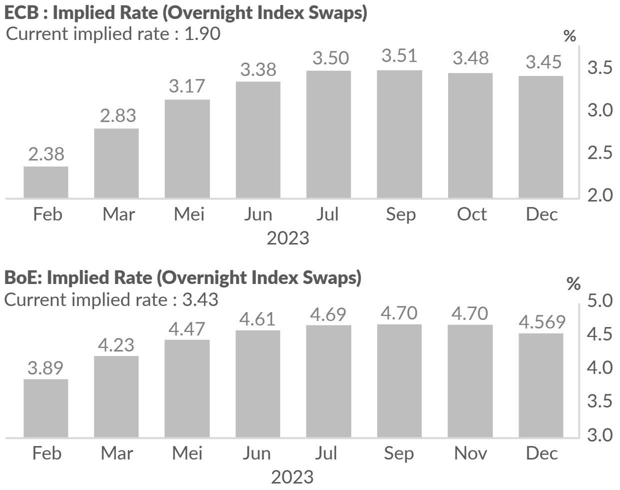
Data as of Nov: Malaysia
Data as of Dec: China, India, Thailand, Philippines, Vietnam, Brazil, Mexico

Chart 1.6. Fed Funds Rate Forecast



Source: Bloomberg, calculated

Chart 1.7. ECB and BoE Interest Rate Forecasts



Source: Bloomberg, calculated

Policy interest rates have also been persistently high in developing countries. The policy of maintaining high interest rates is also expected to continue in Latin America. The policy interest rate in Brazil would be maintained at a high rate of 13.75% until the second quarter of 2023, before it is expected to decline to 8.5% by the end of 2024. Meanwhile, the policy rate in Mexico, which stood at 10.50% in December 2022, is predicted to increase to 11% and be maintained at a high level through the second quarter of 2023, before dropping to 7.50% by the end of 2024. Policy rates in India and South Korea are predicted to increase to 6.40% and 3.50%, respectively in the first quarter of 2023 and to be maintained at this level until the fourth quarter of 2023 (Table 1.2). The phenomenon of higher-for-longer policy interest rates in developed countries compared to developing countries shows that fragmentation from geopolitical tensions drives economic fragmentation, whether in terms of economic growth or inflation, but also global monetary fragmentation.

Tabel 1.2. Monetary Policy Rate Forecast in Various Countries

in percent

Group	Central Bank	2020	2021	2022				2023				2024			
				I	II	III	IV	I*	II*	III*	IV*	I*	II*	III*	IV*
EM Europe	CBRT	17.00	14.00	14.00	14.00	12.00	9.00	9.00	9.00	14.50	14.50	14.50	14.50	13.50	12.38
	RUSSIAN Fed	4.25	8.50	20.00	9.50	7.50	7.50	7.50	7.25	7.00	7.00	6.63	6.00	6.00	6.00
EM Latin America	BCB	2.00	9.25	11.75	13.25	13.75	13.75	13.75	13.75	12.50	11.63	10.63	9.50	9.00	8.50
	Banxico	4.40	5.43	6.51	7.75	9.25	10.50	11.00	11.00	10.75	10.50	10.00	9.13	8.25	7.50
	BCCH	0.50	4.00	7.00	9.00	10.75	11.25	11.25	10.00	8.88	7.63	6.00	5.00	5.00	5.00
EM Asia	RBI	4.00	4.00	4.00	4.90	5.90	6.25	6.50	6.50	6.50	6.50	6.40	6.00	6.00	6.00
	BSP	2.00	2.00	2.00	2.50	4.25	5.50	5.75	5.75	5.75	5.75	5.50	5.00	5.00	4.75
	BNM	1.75	1.75	1.75	2.25	2.50	2.75	3.00	3.25	3.25	3.25	3.25	3.00	3.00	3.00
	BOK	0.50	1.00	1.25	1.75	2.50	3.25	3.50	3.50	3.50	3.50	3.25	3.00	2.75	2.50
	BOT	0.50	0.50	0.50	0.50	1.00	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.75	1.50
	PBOC	2.95	2.95	2.37	2.00	1.67	2.42	2.30	2.28	2.28	2.28	2.20	2.20	2.20	2.20
Advanced Economy	RBNZ	0.25	0.75	1.00	2.00	3.00	4.25	4.50	4.50	4.50	4.50	4.50	4.25	4.00	3.75
	FED	0.25	0.25	0.50	1.75	3.25	4.50	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.50
	BOE	0.10	0.25	0.75	1.25	2.25	3.50	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.25
	RBA	0.10	0.10	0.10	0.85	2.35	3.10	3.60	3.60	3.60	3.60	3.35	3.23	2.85	2.85
	BOJ	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	ECB	0	0	0	0	1.25	2.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50

Note: *Projection
Source : Bloomberg

1.4

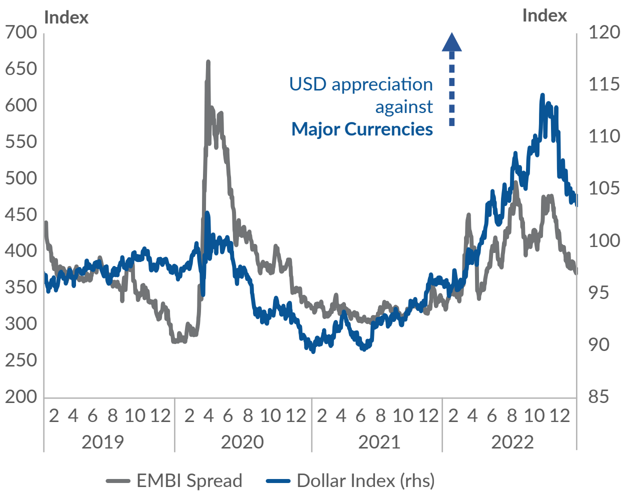
The US Dollar Strengthened

The aggressive hikes in the FFR interest rate led to a strengthening of the US dollar. The combination of aggressive monetary policy tightening, economic slowdown and global uncertainty led to a strengthening of the US dollar. The tightening of global financial conditions has made the US dollar very attractive relative to a number of global currencies. The US Dollar against the global currencies Index (DXY) reached a peak of 114.1 on 27 September 2022, an appreciation of 19.3% from the end of 2021 and 22.2% from a year earlier (Chart 1.8). Since November 2022, the US dollar index has gradually declined in line with expectations of a reduction in the magnitude of future FFR hikes (pivoting) as well as the measured adjustment in China's Zero Covid Policy.

The phenomenon of a very strong US dollar has an impact on the dynamics of the currencies of many countries. Many currencies underwent a sharp depreciation vis-à-vis the US dollar, which risked economic destabilization. As a result, central banks, including those in developing Asian countries, moved to intervene in the foreign exchange markets to maintain the stability of their currencies.

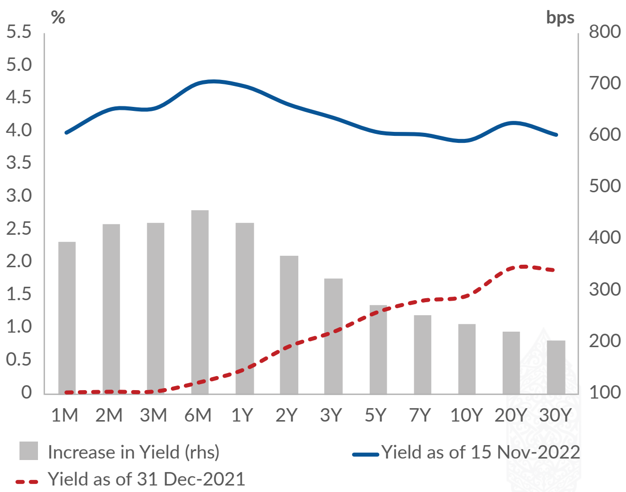
Looking ahead, the US dollar may continue to strengthen in line with increases in the US FFR. This risk needs to be monitored and responded to appropriately in order to mitigate spillover impacts on stability and the domestic economy. Greater vigilance is also needed in regard to the higher US Treasury (UST) yield, which is projected to reach around 3.86% in the first quarter of 2023 for a 10-year tenor. Increases in UST yields were somewhat higher for short-term tenors (Chart 1.9). This phenomenon of inverted UST yields, illustrates investors' perceptions of deteriorating financial markets over the short term, especially with the risk of a recession in 2023. In turn, the pattern of portfolio foreign capital flows will certainly be affected, especially due to movements in bond yields and exchange rates. In addition, the increase in interest rates and the strengthening of the US dollar will further burden the financing of fiscal deficits in various countries, especially deficits originating from foreign debt.

Chart 1.8. EMBI Spread and Dollar Index



Source: Bloomberg, calculated

Chart 1.9. US Treasury Yields



Source: Bloomberg, calculated

1.5

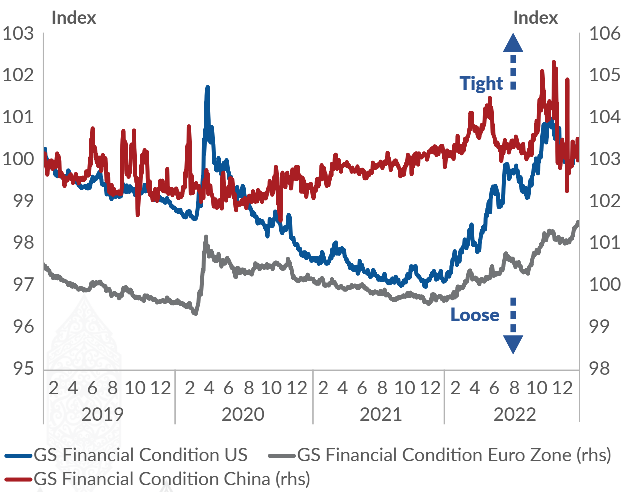
"Cash is King" as an Emerging Phenomena

Various global economic risks created uncertainty in global financial markets and encouraged a shift in portfolio investment to liquid assets (the "cash is king" phenomenon). Most notably, financial risks in the US, European Union and China continued to increase as reflected in the interest rate, exchange rates, financial asset valuations and credit spread risks (Chart 1.10). This increase in risk is in line with the continued global geopolitical tensions, noted earlier, and higher risk of economic recession, high inflation, aggressive interest rate hikes and a strong US dollar. Under such conditions, the risk premium is a more important consideration in portfolio investment decisions than the difference in interest rates between countries. Moreover, the lack of clarity in regard to the solution to global geopolitical tensions has further encouraged global investors to adopt ultra risk-averse behavior. As a result, there has been a change in investor preferences in holding securities with some of them switching to assets that are easy to liquidate.

Increasing risks and tightening of global financial conditions also impacted developing countries. The interest rate differential between developed and developing countries continues to narrow due to very aggressive tightening measures taken by developed countries. Capital outflows from bond investment portfolios of developing countries, which began in early 2022, have continued as global geopolitical tensions heightened (Chart 1.11).

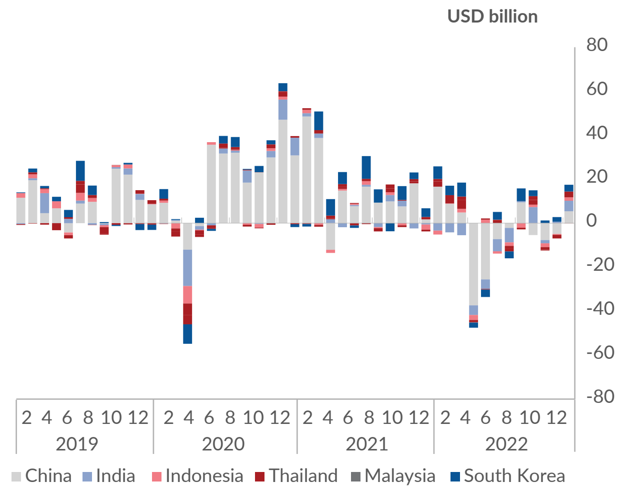
The amount of capital outflow varies across countries, influenced by domestic economic conditions and the credibility of the domestic policy responses. Pressure on foreign capital flows occurred in China, which experienced net outflows in portfolio investment, a reversal of China's historical experience, which is net inflows. Capital flows to India were still relatively strong, with several months of net inflows. This, at least in part, reflects India's high economic growth and relatively higher interest rates compared to those in other developing Asian countries. The trend of capital outflows from developing countries has ultimately put pressure on many currencies and reduced the ability of a number of developing countries to issue bonds to finance fiscal deficits.

Chart 1.10. Global Financial Condition Index



Source: Bloomberg, calculated

Chart 1.11. Bond Portfolio Flows to Emerging Markets



Source: IIF, calculated

1.6

International Cooperation Becomes Crucial

Various regional and multilateral cooperation initiatives have been taken to respond to these global challenges. International cooperation initiatives focus on efforts to promote recovery and strengthen global economic resilience while maintaining global economic and financial system stability. Various policies have been taken by international institutions, such as the International Monetary Fund (IMF), World Bank, Bank for International Settlements (BIS), Financial Stability Board (FSB), and others, in addition to international cooperation via bodies such as the G20, Asia-Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN), which is looking for all countries to recover together and grow stronger. The IMF seeks a global economic recovery and higher growth through the Global Policy Agenda (GPA), which discusses various challenges and the outlook for the global economy. The IMF also agreed to "Act Now" in setting macroeconomic policy responses and "Act Together" as a form of global solidarity in helping groups affected by the crisis. The BIS cooperation forum also pays attention to economic recovery, with a focus on geopolitical tensions, inflation and the response to the tightening of monetary policies in developed countries, as well as the spillover effects on developing countries. Meanwhile, at the regional level, central banks and authorities in the ASEAN region are strengthening cooperation to bolster economic growth through financial inclusion.

Bank Indonesia plays an active role in international cooperation to respond to global challenges

Amid the global economic uncertainty, Bank Indonesia plays an active role in international cooperation, coordinating with the Government and related authorities. Bank Indonesia has participated in several international fora meetings and provided input to promote global economic recovery and mitigate risks from global economic volatility. At the bimonthly BIS meeting as well as with the Group of Governors and Heads of Supervision (GHOS), Bank Indonesia said that rising global inflationary pressures needed to be mitigated through the implementation of the Integrated Policy Framework/Macro-financial Stability Framework. In addition, Bank Indonesia stressed the importance of inter-agency synergies in controlling inflation in the discussion on "Inflation and Commodity Prices in Emerging Market Economies".

Bank Indonesia also plays an active role in regional and multilateral cooperation to respond to global challenges. At the regional level, one of the outcomes of the 8th Joint Meeting of the ASEAN Finance Ministers and Central Bank Governors (AFMGM) was the agreement of ASEAN countries to take advantage of the momentum of economic recovery in promoting ASEAN financial stability and integration. In addition, ASEAN countries also emphasized their commitment to strengthening cooperation in order to mitigate economic risks and challenges after the Covid-19 pandemic, as well as from climate change, digital disruption and geopolitical tensions. Furthermore, as Co-Chairs of the ASEAN Working Committee on Financial Inclusion (WCFINC) for the 2020-2022 period with the National Bank of Cambodia, Bank Indonesia is overseeing efforts to improve financial inclusion in order to support wider economic inclusion. The agenda focuses on the Report on Monitoring Financial Inclusion in ASEAN, which includes indicators of inclusive growth in monitoring

financial inclusion in ASEAN. Within the multilateral framework, Bank Indonesia also participates actively in economic cooperation forums and sharia finance. At the meeting of the Organization of Islamic Cooperation (OIC), Bank Indonesia underlined the importance of synergy between members of OIC in the development of the halal industry as part of the Islamic economy. At this meeting, discussions were also held on cooperation in the use of local currency swap lines to facilitate trade and investment, and on efforts to improve cross-border payments, including the development of the Central Bank Digital Currency (CBDC).

Bank Indonesia together with the Ministry of Finance in Indonesia's G20 Presidency, also discussed six priority agenda items in financial channels and affirmed their commitment to facing tougher global economic challenges. The six priority agenda items of the G20 Presidency are: (i) coordination in the normalization of global macroeconomic policies; (ii) coordination in the regulation and supervision of the financial system to overcome the scarring effect of the Covid-19 pandemic; (iii) strengthening of cooperation in payment systems between countries and developing CBDCs; (iv) the development of policies in the transition toward green and sustainable finance; (v) expanding the development of economic and financial inclusion especially for MSMEs, women and youth; and (vi) advanced policies in international taxation.

Under Indonesia's G20 Presidency, four Finance Minister and Central Bank Governor (FMCBG) meetings have successfully been held. These events, including high-level seminars, gave rise to some concrete results from the G20's actions in the financial track and these were reflected in the agreements on various priority agendas for the financial track. One of the other important achievements of Indonesia's G20 Presidency was the signing of a Regional Payment Connectivity (RPC) memorandum of understanding between five ASEAN central banks--Bank Indonesia, Bank Negara Malaysia, the Monetary Authority of Singapore (MAS), the Bank of Thailand (BOT) and the Central Bank of the Philippines (BSP). This collaboration is based on the need to implement integrated cross-border payments between countries in ASEAN-5 to encourage more inclusive and sustainable regional economic growth by taking advantage of the rapid development of digitalization in the economy.[1]

1 For details, see Chapter 6-Indonesia's G20 Presidency: Global Synergy Drives Economic Recovery