The 2021 economic recovery in Indonesia was largely driven by Covid-19 pandemic developments. Ongoing economic improvements since the first quarter of 2021 have endured, yet have been restrained by the impact of the Delta outbreak in the third quarter of 2021. Overall, Indonesia’s economy is projected to continue improving in 2021 before accelerating in 2022, accompanied by a stable exchange rate and controlled inflation. Stronger economic conditions will be supported by increasing factor mobility as Covid-19 transmission is brought under control in line with a faster vaccination rollout. The broader reopening of economic sectors, along with policy stimuli and solid export performance support such projections. To that end, national economic policy synergy and innovation must be strengthened to bolster the ongoing economic recovery.
The 2021 economic recovery in Indonesia was strongly influenced by Covid-19 pandemic developments. Covid-19 infections in Indonesia increased during 2021 to peak at more than 50,000 daily cases in the middle of July, caused by the highly contagious Delta variant. The spike in daily cases, in July 2021, compelled the Government to strengthen localised community activity restrictions (PPKM), accompanied by activity restrictions that were specific to administrative regions (level-based). In addition to restricting public activity, the Government accelerated the Covid-19 vaccination program rollout, which began at the beginning of 2021, targeting 208 million of the Indonesian population. The surge of Covid-19 cases was brought under control in line with policies implemented to contain and manage the pandemic. By the beginning of August, the Covid-19 curve had flattened as indicated by declines in the positivity rate and bed occupancy ratio (BOR). Such developments allowed the Government to relax the intensity of mobility restrictions, thus spurring economic activity.

The domestic economy improved throughout the first semester of 2021, yet was restrained slightly in the third quarter by the Delta outbreak. Indonesia’s economy in the second quarter of 2021 expanded for the first time since the onset of the pandemic at the beginning of the previous year. Economic expansion was driven by export performance, fiscal spending and non-building investment. Household consumption was more subdued, due to restricted public mobility aimed at containing Covid-19. However, emergence of the Delta variant in the third quarter of 2021 temporarily impeded the economic recovery. Renewed mobility restrictions, implemented to overcome a spike in Covid-19 cases, impacted the economy, particularly domestic demand. On the external side, Indonesia’s Balance of Payments (BOP) continued to post gains in line with stronger export performance. The current account in the third quarter of 2021 recorded a USD4.5 billion surplus, stemming from a solid trade balance. Meanwhile, the capital and financial account recorded a larger surplus in the third quarter of 2021, despite a surge of Covid-19 cases and concerns over relatively early global monetary policy normalisation in the light of higher international inflation. Consistent with strong BOP performance, the value of the rupiah was maintained with low exchange rate volatility, supported by positive perceptions of the domestic economy as well as exchange rate stabilisation policy instituted by Bank Indonesia. The Consumer Price Index (CPI) pointed to low inflation on compressed demand. Finally, financial system stability was maintained, while the digital economy continued to expand, despite transmission of the Delta variant.

Fourth-quarter economic performance in 2021 is projected to improve. This forecast would lift economic growth in 2021 above that achieved in 2020, supported by increasing mobility, broader reopening of economic sectors, ongoing policy stimuli and persistently solid export performance. Export performance also contributed to a strong BOP position, despite elevated global financial market uncertainty. Overall, the rupiah exchange rate in 2021 was maintained in line with the currency’s fundamental value. Stability was supported by an adequate supply of foreign exchange from residents and non-residents, accompanied by the availability of diverse hedging instruments. Inflation remained low until the end of 2021 on the back of compressed domestic demand. In addition, there were adequate supplies of goods and services in response to growing demand; consistent policy synergy between Bank Indonesia and the central and local governments also helped to control price fluctuations. Financial system stability together with stronger banking industry performance and credit growth were consistent with a flattening of the Covid-19 curve. Furthermore, stronger economic performance, underpinned by payment system digitalisation, is expected to increase payment system transactions.
Economic improvements are predicted to continue in 2022. Economic growth is forecast to accelerate in line with higher private consumption and investment, while fiscal spending and exports will be maintained, despite the looming risk of rising Covid-19 cases. External balance will continue in 2022, primarily due to a capital and financial account surplus that can adequately offset the current account deficit. In line with expectations of growing domestic demand, inflation in 2022 is expected to rise, but remain under control within the 3.0%±1% target corridor, accompanied by expanding bank intermediation and continuing financial stability.

National policy synergies and innovation to overcome the Covid-19 impact will be strengthened to maintain national economic stability and revive growth. Accelerated vaccination rollout and containment of Covid-19, combined with reopening of priority economic sectors, will expedite the national economic recovery. In addition, synergy is required to strengthen the national economic policy mix, maintain stability and accelerate the national economic recovery amidst the prospect of persistent global financial market uncertainty. This strategy must be reinforced with innovation in terms of national economic policies and faster digitalisation, together with wider financial and economic inclusion.
The 2021 economic recovery was impeded by the Covid-19 pandemic. Covid-19 continued to spread throughout Indonesia in 2021 in two main waves. After public mobility was restored at the end of 2020, Covid-19 cases in Indonesia increased, peaking at the end of January 2021 with more than 13,000 additional daily cases, particularly in Jakarta, West Java, Central Java and East Java. In the following month, however, the reintroduction of mobility restrictions to reduce infection rates successfully suppressed new cases until the middle of 2021. Nevertheless, the highly transmissible Delta variant triggered a steeper wave of cases in Indonesia, peaking at more than 50,000 daily cases in the middle of July 2021 (Chart 2.1). Consequently, total Covid-19 cases increased to approximately 600,000 in July 2021, accompanied by the highest fatality rate, roughly 1,800 reported deaths per day. The Government moved quickly in the healthcare sector with a strong, 'end-to-end' policy response to reduce the transmission and fatality rates. Consequently, the number of active cases fell precipitously to less than 10,000, accompanied by a fatality rate of less than 10 per day (Chart 2.2).

The Government reintroduced mobility restrictions to break the domestic chain of Covid-19 transmission. In response to this second wave of Covid-19 cases at the beginning of 2021, the Government introduced localised micro community

Chart 2.1. Covid-19 Daily Cases

Chart 2.2. Covid-19 Recovered Cases and Deaths

Source: Indonesian Covid-19 Task Force, calculated
activity restrictions (PPKM) in Java and Bali. The policy regulated various public activities, including the operational hours of traditional markets and shopping malls as well as the maximum capacity permitted in restaurants, offices and on public transportation. A spike in cases caused by the Delta variant in July 2021 compelled the Government to strengthen the micro PPKM policy by implementing level-based community activity restrictions throughout Indonesia. Under this policy, the intensity of restrictions was adjusted based on pandemic assessments at each administrative level (city/regency). The intensity of restrictions was also based on standards issued by the World Health Organisation (WHO) to measure the transmission rate against testing, tracing and treatment (3T) capacity. The number of confirmed daily cases, bed occupancy rate (BOR) and vaccination rate were also considered. Moreover, Indonesia closed its borders and became more selective when issuing visas to inbound foreign travellers\(^5\).

The surge of Covid-19 cases was contained by the implementation of government policy. Upstream interventions included tighter restrictions on community activity, together with more intense testing and tracing, and a faster vaccination rollout. Downstream interventions included additional hospital capacity, additional medical personnel, medical equipment and medicaments as well as higher isolation capacity. Towards the end of July, new Covid-19 cases began to subside; they fell from approximately 45,000 daily cases in July 2021 to an average of 300 daily cases in December 2021. The positivity rate, which peaked at 30.55% in July 2021, fell to 1.5% by year-end. Similarly, the bed occupancy rate decreased from 74% in June 2021 to less than 10% in November 2021 (Chart 2.3). Such positive developments encouraged the Government to gradually and prudently relax the intensity of mobility restrictions, while avoiding a subsequent spike in cases as public mobility resumed (Chart 2.4).

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The Government accelerated the Covid-19 vaccination program that began at the beginning of 2021 to help bring the pandemic under control. Seeking to achieve herd immunity against Covid-19 transmission, the Government has targeted 208 million of the population to receive vaccines. Although the vaccination rate at the beginning of 2021 was impeded by vaccine supply constraints, a corollary of low production and high demand globally, Indonesia continued its vaccination rollout. Initially struggling to hit 100,000 doses per day, the vaccination rate has consistently increased in line with vaccine supply to reach approximately 2 million doses per day. Consequently, Indonesia achieved 60% of its national vaccination target by the end of 2021 (Chart 2.5 and 2.6).
Economic Recovery Momentum Subdued, Despite Continuing Stability

The domestic economic recovery persisted throughout the first semester of 2021. In the first quarter of 2021, a shallower -0.71% (yoy) economic contraction, compared with -2.19% (yoy) in the fourth quarter of 2020, pointed to improving economic performance. Economic gains were primarily driven by exports on growing demand from China and the United States; fiscal spending (procurement, capital spending and social assistance); and non-building investment. Meanwhile, household consumption was more muted given public mobility restrictions to contain Covid-19 in several regions. Spatially, economic gains were recorded in all regions, with the Sulawesi-Maluku-Papua (Sulampua) region charging into positive territory.

Economic activity continued to strengthen in the second quarter of 2021. In the second quarter of 2021, the national economy expanded for the first time since the onset of the pandemic (at the beginning of the previous year) by 7.07% (yoy). Economic gains were predominantly driven by solid export performance on the back of growing demand in Indonesia’s main trading partners. Household consumption turned expansionary for the first time since the second quarter of 2020, growing 5.96% (yoy) in line with improving public mobility, ongoing stimuli, including sales tax exemptions on luxury goods (PPnBM) and accommodative macroprudential policy, as well as seasonal factors stemming from national religious holidays (HBKN). Investment also rebounded, primarily supported by non-building investment. Meanwhile, government consumption soared, driven by the accelerated fiscal stimulus in the form of procurement and capital spending, specifically for the national economic recovery program, as well as personnel expenditure. Economic growth was characterized by a positive performance across all business sectors, coupled with faster economic growth in all regions.

In the third quarter of 2021, the Delta outbreak restrained the economic recovery. In the third quarter of 2021, economic growth moderated to 3.51%. This was a substantial improvement from 3.49% in the same period of the previous year, but well below the 7.07% recorded in the second quarter of 2021 (Table 2.1). Mobility restrictions, re-introduced by the Government to overcome the spike in Delta variant cases in July-August 2021, impacted the economy, domestic demand in particular. Household consumption grew by just 1.03% in the third quarter of 2021 in line with restrained consumption among the middle-upper classes. Mobility restrictions also led to lower investment growth of 3.74% in the third quarter of 2021. Government consumption recorded 0.66% (yoy) growth in the reporting period in line with budget relocation to accelerate the national economic recovery program, including Delta variant containment measures. Further economic moderation was avoided, by the solid contribution of exports, which grew 29.16% (yoy) in the third quarter of 2021, reflecting strong demand in Indonesia’s main trading partners.

Mobility restrictions and export performance influenced sectoral patterns. Agriculture as well as Mining and Quarrying accelerated in the third quarter of 2021 in line with growing demand and rising international commodity prices, particularly coal and crude palm oil (CPO; Table 2.2). Health Services and Social Work Activities expanded owing to pandemic-related containment measures. For their part, Manufacturing, Trade and Construction sustained positive, but moderating growth in line with lower production and construction activity, due to the mobility restrictions. Economic sectors dependent upon services and mobility—such as Transportation and Storage, as well as Accommodation and Food Service Activities—tended to contract in line with mobility restrictions and less consumption of non-essential items.
Spatially, nearly all regions recorded expansion despite moderating from the previous period. The domestic-oriented Manufacturing Industry moderated, particularly on-Java, held back by production activity restrictions affecting essential sectors (Chart 2.7). Nevertheless, robust external demand boosted Manufacturing, especially the CPO industry located in Sumatra and the base metal industry in Sulampua. Public mobility restrictions impacted Trade sector performance, particularly in the Java and Balinsra (Bali-Nusa Tenggara) regions. In contrast, the Sulampua region of Sulawesi-Maluku-Papua recorded the strongest growth, followed by Kalimantan and Sumatra. Several regions, namely Aceh, Jambi and South Kalimantan, achieved faster growth on the back of mining exports, especially coal. Economic growth in Papua accelerated in response to investment in an underground mine as well as construction activity for National Sports Week (PON) XX. Externally, stronger global demand and higher export prices of major commodities supported regional economic performance, particularly in Sumatra and Kalimantan. More specifically, mining sector growth picked up in support of economic growth in regional production hubs; coal mining in Sumatra and Kalimantan remained solid on strong demand from China.

### Table 2.1. Economic Growth by Expenditure (% yoy)

<table>
<thead>
<tr>
<th>Components</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Components</td>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
</tr>
<tr>
<td>Household Consumption</td>
<td>5.02</td>
<td>2.97</td>
<td>-5.32</td>
<td>-3.49</td>
</tr>
<tr>
<td>Non-Profit Institution Serving Household</td>
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<td>-5.01</td>
<td>-7.82</td>
<td>-1.97</td>
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<tr>
<td>Government Consumption</td>
<td>3.25</td>
<td>3.77</td>
<td>-6.90</td>
<td>9.76</td>
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<tr>
<td>Investment (GFCF)</td>
<td>4.45</td>
<td>1.70</td>
<td>-6.61</td>
<td>-4.86</td>
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<tr>
<td>Building Investment</td>
<td>5.37</td>
<td>2.76</td>
<td>-5.26</td>
<td>-5.60</td>
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<tr>
<td>Non-Building Investment</td>
<td>1.80</td>
<td>-1.46</td>
<td>-18.82</td>
<td>-8.99</td>
</tr>
<tr>
<td>Exports</td>
<td>0.87</td>
<td>0.36</td>
<td>-12.02</td>
<td>-11.66</td>
</tr>
<tr>
<td>Imports</td>
<td>-7.69</td>
<td>-3.62</td>
<td>-18.29</td>
<td>-23.00</td>
</tr>
<tr>
<td>GDP</td>
<td>5.02</td>
<td>2.97</td>
<td>-5.32</td>
<td>-3.49</td>
</tr>
</tbody>
</table>

Source: BPS

### Table 2.2. Economic Growth by Sectors (% yoy)

<table>
<thead>
<tr>
<th>Components</th>
<th>2019</th>
<th>2020</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Components</td>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
</tr>
<tr>
<td>Agriculture, Forestry, and Fisheries</td>
<td>3.64</td>
<td>0.01</td>
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<tr>
<td>Mining and Excavation</td>
<td>1.22</td>
<td>0.45</td>
<td>-2.72</td>
<td>-4.28</td>
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<tr>
<td>Manufacture</td>
<td>3.80</td>
<td>2.06</td>
<td>-6.18</td>
<td>-4.34</td>
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<tr>
<td>Electricity and Gas Procurement</td>
<td>4.04</td>
<td>3.85</td>
<td>-5.46</td>
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<tr>
<td>Water Supply</td>
<td>6.83</td>
<td>4.38</td>
<td>4.44</td>
<td>5.94</td>
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<tr>
<td>Construction</td>
<td>5.76</td>
<td>2.90</td>
<td>-5.39</td>
<td>-4.52</td>
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<tr>
<td>Wholesale Retail, Car and Motorcycle Repairs</td>
<td>4.62</td>
<td>1.57</td>
<td>-7.59</td>
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<tr>
<td>Transportation and Warehousing</td>
<td>6.40</td>
<td>1.30</td>
<td>-30.80</td>
<td>-16.71</td>
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<tr>
<td>Provision of Accommodation, Food and Beverages</td>
<td>5.80</td>
<td>1.94</td>
<td>-21.97</td>
<td>-11.81</td>
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<td>Information and Communication</td>
<td>9.41</td>
<td>9.82</td>
<td>10.85</td>
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<tr>
<td>Financial Services and Insurance</td>
<td>6.60</td>
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<td>1.06</td>
<td>-0.95</td>
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<tr>
<td>Real Estate</td>
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<td>3.81</td>
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<td>Corporate Services</td>
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<td>5.39</td>
<td>-12.09</td>
<td>-7.61</td>
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<tr>
<td>Government Administration, Defence and Compulsory Social Security</td>
<td>4.67</td>
<td>3.15</td>
<td>-3.21</td>
<td>-1.82</td>
</tr>
<tr>
<td>Education Services</td>
<td>6.29</td>
<td>5.87</td>
<td>1.19</td>
<td>2.41</td>
</tr>
<tr>
<td>Health Services and Other Social Activities</td>
<td>8.68</td>
<td>10.39</td>
<td>3.71</td>
<td>15.29</td>
</tr>
<tr>
<td>Other Services</td>
<td>10.55</td>
<td>7.09</td>
<td>-12.60</td>
<td>-5.55</td>
</tr>
<tr>
<td>GDP</td>
<td>5.02</td>
<td>2.97</td>
<td>-5.32</td>
<td>-3.49</td>
</tr>
</tbody>
</table>

Source: BPS
The ongoing domestic economic recovery has improved BOP performance, characterised by higher foreign capital inflows, coupled with a low and manageable current account deficit. In the first half of 2021, Indonesia’s Balance of Payments (BOP) recorded a USD3.6 billion surplus, supported by a larger capital and financial account surplus reflecting positive perceptions of investors regarding the promising domestic economic outlook, despite persistent global financial market uncertainty. Meanwhile, the current account deficit remained low and manageable given higher exports, accompanied by rising imports to fuel the domestic economic recovery. This BOP performance yielded an increase in reserve assets, from USD135.9 billion at the end of 2020 to USD137.1 billion at mid-2021. This is equivalent to 9.1 months of imports, or 8.8 months of imports and servicing of government external debt, which is well above the 3-month international adequacy standard.

Supported by a positive trade balance, the current account deficit remained low and manageable in the first semester of 2021. The current account deficit was low at USD3.0 billion in the first semester of 2021, following a USD1.8 billion surplus in the second semester of 2020. The global economic recovery and mass vaccination campaigns boosted world trade volume and international commodity prices, thereby stimulating Indonesia’s exports. Several major commodities (including CPO, iron and steel, coal, metal ore, organic chemicals and motor vehicles) contributed to robust export performance, underpinned by comparatively rapid economic recoveries in Indonesia’s main trading partners, China and the United States. Consistent with positive export performance and gradually stronger domestic demand, imports also flourished in the first half of 2021, which prevented a larger trade surplus. Broad-based import gains were recorded across all commodity groups, particularly raw materials and consumer goods. The current account deficit also
reflected a larger deficit on services in line with increasing import activity, which caused freight payments to edge up. In addition, the domestic recovery produced an uptick in revenue payments on direct investment as business performance improved, leading to a primary income account deficit. Meanwhile, the secondary income account booked a larger surplus amid relatively stable personal transfer receipts.

The capital and financial account maintained a surplus, despite global financial market uncertainty. In the first semester of 2021, the capital and financial account surplus stood at USD7.3 billion, reversing the USD76.0 million deficit recorded in the second semester of 2021. The surplus stemmed from capital inflows in the form of both direct and portfolio investment. Investor optimism concerning the domestic economic recovery attracted a growing net inflow of direct investment totalling USD4.4 billion in the first quarter of 2021 and USD5.3 billion in the second quarter of 2021. In addition, a significant influx of portfolio investment was recorded in the first half of 2021 in the form of debt securities and equities. Foreign investment in shares booked a net inflow of USD1.2 billion to reverse the net outflow totalling USD2.2 billion recorded in the second semester of 2020. By contrast, the deficit on other investment increased, primarily in response to net payments on external loans by the public and private sectors.

BOP improvements continued into the third quarter of 2021 as export performance solidified, although a surge of Delta cases impeded the domestic economic recovery. The current account recorded a third-quarter surplus in 2021 totalling USD4.5 billion, stemming from improvements in the trade balance. Non-oil and gas export performance was maintained in the third quarter of 2021, recording the highest export value since records began, supported by exports of major commodities like coal, crude palm oil (CPO), organic chemicals and metal ores in response to strong demand and rising commodity prices, especially for coal. Positive export performance dampened the impact of declining domestic activity caused by restrictions on public mobility to break the domestic chain of Delta variant transmission. Meanwhile, a wider capital and financial account surplus was recorded in the third quarter of 2021, despite a surge of Covid-19 cases and concerns stoked by expectations of quicker global monetary policy normalisation to address rising inflation. An optimal policy response and inter-authority synergies helped support inflows of direct investment and portfolio investment, despite some moderation from the previous period. Other investment transactions reversed their previous deficit to record a surplus in the reporting period, primarily due to an additional special drawing rights (SDR) allocation; higher non-resident deposits at domestic banks; and lower payments on servicing foreign loans. Overall, the

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6 The SDR is an international reserve asset, created by the International Monetary Fund (IMF) in 1969 to supplement its member countries’ official reserves. In August 2021, the IMF allocated SDR to all member countries, including Indonesia, to help countries cope with the impact of the Covid-19 pandemic, build confidence amongst economic players and address the long-term global need for reserves.
BOP recorded a USD10.7 billion surplus in the third quarter of 2021, accompanied by a significant increase in reserve assets to USD146.9 billion by the end of the third quarter of 2021.

Rupiah exchange rate stability was maintained despite persistent global uncertainty. In the third quarter of 2021, rupiah exchange rate stability was relatively well maintained together with low volatility, supported by solid external sector performance; by positive perceptions concerning the domestic economy; and by the support of Bank Indonesia’s exchange rate stabilisation policy. At the beginning of 2021, currencies in Asia, including the rupiah, appreciated in line with optimism surrounding a relatively quick economic recovery as vaccination programs began rolling out world-wide. Such optimism was eroded, however, by the emergence of the Delta variant together with persistent global financial market uncertainty. This triggered a rebalancing in the form of capital outflows from EMDEs, driven by a flight to quality. Depreciatory pressures on the rupiah intensified at the end of February and into March 2021, primarily triggered by a hike in the benchmark 10-year UST yield in line with economic and inflationary expectations in the United States. In April and July 2021, concerns fuelled by the Delta outbreak intensified currency pressures, with the rupiah losing value against the US dollar, reaching IDR14,610 per USD on 15 April 2021. Bank Indonesia constantly strengthened exchange rate stabilisation policy through triple intervention, targeting the spot market, Domestic Non-Deliverable Forwards (DNDF) market and SBN purchases in the secondary market, supported by intensive communications with investors as well as domestic and non-resident market players. The rupiah responded well, appreciating by 1.49% on average in the third quarter of 2021; on a point-to-point (ptp) basis, this represents a depreciation of 1.83% through the quarter ended September 2021. This outperforms currencies in several other developing economies, such as Turkey, Brazil, Thailand and the Philippines.

Consumer Price Index (CPI) inflation was low as of the third quarter of 2021 in line with compressed domestic demand and maintained supply. CPI inflation in September 2021 stood at 1.60% (yoy), a little below the 1.68% recorded in 2020. Low inflation stemmed from core inflation and volatile food, offsetting higher administered prices. Quarterly dynamics pointed to low CPI inflation in the first quarter of 2021, influenced by weak demand given the enforcement of mobility restrictions. Inflation increased in the second quarter of 2021, reflecting the gradual economic recovery and the seasonal impact of national religious holidays (HBKN). Inflationary pressures moderated somewhat again in the third quarter of 2021 after the Government reintroduced mobility restrictions to break the domestic chain of Covid-19 transmission, which also compressed demand.

Core inflation remained low. In September 2021, core inflation stood at 1.30% (yoy), down from 1.60% (yoy) in 2020 on the back of weak domestic demand, exchange rate stability, limited exchange rate pass-through and policy consistency by Bank Indonesia to anchor inflationary expectations to the target corridor. Non-traded non-food core inflation (primarily services) was the main contributor to low core inflation, in line with compressed demand during the enforcement of mobility restrictions. In addition, lower core inflation stemmed from disinflation affecting gold jewellery, which mirrored international gold prices, and lower automotive prices after the Government introduced a 100% sales tax exemption on luxury goods (PPnBM). Core inflation performed in line with anchored inflationary expectations. In the third quarter of 2021, the Consensus Forecast reported a declining inflation trend from 2.30% in January 2021 to 1.80% in September 2021.

Volatile food (VF) inflation remained under control in line with adequate goods supply and weak demand. VF inflation stood at 3.51% (yoy) in September 2021, decreasing from 3.62% (yoy) in December 2020. Price corrections affecting various commodities drove...
VF inflation on the back of compressed demand, particularly in terms of Accommodation and Food Service Activities in response to mobility restrictions. The realisation of VF inflation was supported by adequate supply from the harvesting season, coupled with orderly distribution in several regions. VF inflation in the first quarter of 2021 increased due to high rainfall at the beginning of the year and low production caused by farmer incentive issues. In the second quarter of 2021, VF inflation fell in line with comparatively weak demand during the holy fasting month and Eid-ul-Fitr, coupled with weather conditions conducive to improving production. VF disinflation continued in the third quarter of 2021 given low demand and the start of the harvesting season for rice and horticultural commodities, thus boosting supply.

Low administered prices (AP) inflation was also maintained in line with government policy to minimize price adjustments, despite higher prices towards the end of the third quarter of 2021 as higher tobacco duties fed through to the retail price of cigarettes. AP inflation in the first and second quarters of 2021 was low at 0.88% (yoy) and 0.49% (yoy) respectively, as the Government was reluctant to adjust prices before private demand recovered. AP inflationary pressures on transportation, particularly air transport, remained low from January until September 2021 in the deflation zone (yoy), owing to limited public mobility that stemmed from tighter flight restrictions. In September 2021, AP inflation increased to 0.99% (yoy), driven by cigarette prices as excise duty hikes on tobacco were transmitted to retail prices. Meanwhile, the Government refrained from adjusting energy prices despite higher international energy prices, leading to mild AP inflationary pressures on energy.

Liquidity conditions were very loose in line with Bank Indonesia’s accommodative monetary policy stance and the impact of synergy between Bank Indonesia and the Government to support the national economic recovery. Bank Indonesia injected liquidity through quantitative easing to the banking industry totalling IDR128.86 trillion in 2021 (as of 30 September 2021). In addition, Bank Indonesia continued to purchase SBN in the primary market to fund the 2021 State Revenue and Expenditure Budget (APBN), totalling IDR141.34 trillion (as of 30 September 2021), with IDR65.88 trillion through primary auction and IDR75.46 trillion through Greenshoe Options (GSO). This expansionary monetary policy stance supports very loose liquidity conditions in the banking industry, as reflected in September 2021 by a high ratio of liquid assets to deposits at 33.53% and deposit growth of 7.69% (yoy). Liquidity in the economy increased, as indicated by narrow (M1) and broad (M2) money supply aggregates, which grew 11.2% (yoy) and 8.0% (yoy) respectively in the reporting period. The money supply accelerated primarily due to growth of loans disbursed by the banking industry to finance the national economic recovery.

Bank Indonesia’s decision to maintain a low policy rate, coupled with very loose liquidity conditions in the banking industry, have prompted lower lending rates. In the financial markets, the overnight interbank rate and 1-month deposit rate have fallen 50bps and 171bps respectively since September 2020 to 2.80% and 3.28% in September 2021. In the credit market, the banking industry continued to lower prime lending rates (PLR) along with lending rates on new loans. The banks reduced interest rates on new loans in line with lower risk perceptions after the Government started to relax public mobility.
restrictions. Bank Indonesia expects the banking industry to continue lowering lending rates as part of the shared responsibility to revive lending to the corporate sector.

Financial system resilience has been solid, thus contributing to stronger macroeconomic fundamentals. In the first semester of 2021, financial system stability was maintained, with several indicators pointing to a gradual recovery. In terms of capital, the Capital Adequacy Ratio (CAR) in the banking industry remained high in June 2021 at 24.30%, up from 22.50% in the same period one year earlier, which is well above the 8% threshold based on prudential principles. In terms of credit risk, the banking industry maintained persistently low NPL ratios of 3.24% (gross) and 1.06% (net) in June 2021. These were supported by stronger liquidity resilience in the banking industry, as reflected by an increase in the ratio of liquid assets to deposits in June 2021 to 32.95% compared with 26.24% for the same position one year earlier.

Consistent with the gradual economic recovery, the bank intermediation function also showed early signs of improvement towards the end of the first semester of 2021. Credit growth in June 2021 tracked a slightly stronger trend, moving into positive territory at 0.59% (yoy) after contracting -2.41% (yoy) in December 2020. Positive credit growth was primarily supported by consumer loans and working capital loans, as the Government reopened businesses and relaxed mobility restrictions after the mass vaccination program began. Investment loans experienced a shallower contraction in June 2021 compared with conditions at the end of 2020 as a consequence of improving business activity despite a prevalent wait-and-see attitude.

The gradual economic recovery also boosted deposits and banking industry performance in the first semester of 2021. Deposit growth accelerated from 11.11% (yoy) in December 2020 to 11.28% (yoy) in June 2021, primarily driven by demand deposits and savings instruments in response to greater public mobility, improving business activity as well as fiscal support from the Government. Banking industry performance was also reflected in efficiency gains, with the BOPO efficiency ratio improving to 84.53% in June 2021 from 86.55% in December 2020. Regarding profitability, the return on assets (ROA) increased to 1.88% in June 2021 from 1.59% in December 2020, while the net interest margin (NIM) increased to 4.56% from 4.32% over the same period.

Financial system stability was maintained, despite the Delta outbreak at the beginning of the third quarter of 2021. Such conditions were reflected in a low and stable Financial System Stability Index (FSSI), recorded in the normal zone during the peak of Delta variant transmission in June-July 2021. Solid bank capital amid very loose liquidity conditions dampened the impact of Delta on banking industry resilience. Consequently, bank capital and liquidity were high and stable at 24.30% and 32.95% respectively in June 2021 as well as 24.57% and 32.51% in July 2021. Furthermore, the banking industry maintained a low ratio of non-performing loans (NPL) at 3.24% (gross) in June 2021 and 3.35% in July 2021. As government handling of the Covid-19 pandemic improved and public activity increased in August 2021, credit growth picked up and financial system stability was maintained (Table 2.3).

Digital transactions have flourished against a backdrop of subdued retail transactions during the mobility restrictions enforced in the third quarter of 2021. During the year ended the third quarter of 2021, the value of e-commerce transactions soared 61.7% (yoy) to IDR291.5 trillion in line with greater public acceptance and propensity for online

### Table 2.3. Financial System Conditions during Spread of the Covid-19 Delta Variant

<table>
<thead>
<tr>
<th>2021</th>
<th>AL/DPK (%)</th>
<th>CAR (%)</th>
<th>NPL (%)</th>
<th>Credit (%)</th>
<th>Spread of New Loan Interest Rates to SBDK (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May</td>
<td>32.71</td>
<td>24.28</td>
<td>3.35</td>
<td>-1.28</td>
<td>-0.09</td>
</tr>
<tr>
<td>June</td>
<td>32.95</td>
<td>24.30</td>
<td>3.24</td>
<td>0.59</td>
<td>0.11</td>
</tr>
<tr>
<td>July</td>
<td>32.51</td>
<td>24.57</td>
<td>3.35</td>
<td>0.50</td>
<td>0.59</td>
</tr>
<tr>
<td>August</td>
<td>32.67</td>
<td>24.38</td>
<td>3.35</td>
<td>1.16</td>
<td>-0.07</td>
</tr>
</tbody>
</table>

Note: Delta Variant Spread Period

Source: Bank Indonesia
retail; the expansion and convenience of the digital payment system; as well as the acceleration of broader digital banking services. The value of digital banking transactions increased 46.72% (yoy) in the third quarter of 2021 (Chart 2.8). Similarly, the value of electronic money (e-money) transactions increased 45.05% (yoy) in the same period (Chart 2.9). Such achievements were supported by various payment system digitisation programs, including expansion of the QR Indonesian Standard (QRIS) and National Open API Payment Standard (SNAP) as well as payment system regulatory reform, and plans to accelerate BI-FAST implementation. Turning to card-based instruments, retail payments using ATM/debit cards and credit cards maintained positive growth, despite retreating slightly in the third quarter of 2021 due to mobility restrictions. On the cash side, currency in circulation moderated slightly in September 2021 to 11.75% (yoy). Bank Indonesia constantly strives to maintain the availability of currency fit for circulation throughout the Indonesian archipelago by strengthening the cash distribution strategy and reopening cash services in line with local mobility restrictions in each region.
Momentum of Economic Recovery is Expected to Continue

Economic performance is forecast to improve in the fourth quarter of 2021, supported by greater mobility reflecting the faster vaccination rollout, broader reopening of economic sectors, sustained policy stimuli and solid export performance.

Successful handling of the health crisis, coupled with a faster and broader vaccination program rollout, allowed the Government to gradually reduce the intensity of community activity restrictions (PPKM), while maintaining disciplined health protocols. Consequently, mobility was restored in various regions to pre-pandemic levels. The reopening of priority sectors, particularly within the manufacturing industry, was expanded in accordance with the local level of community activity restrictions (PPKM) based on operational and mobility permits (IOMKI), fully vaccinated staff as well as use of the Peduli Lindungi mobile application in the work environment. In addition, the Government maintained policy stimuli, primarily in the form of social aid program (bansos) disbursements, procurement as well as regional transfers and village fund disbursements. Economic gains were also bolstered by persistently solid export performance fuelled by the global economic recovery.

Early signs of increasing domestic demand supported national economic improvements along with persistently solid export performance. Household consumption is forecast to regain momentum in the fourth quarter of 2021, owing to greater public mobility and a restoration of consumer confidence. Investment activity is also expected to increase, building investment in particular, as the Government continues construction activity in line with capital spending realisations and early signals of private sector construction. Meanwhile, growing global demand should sustain a solid export performance, especially for several major commodities, such as coal, CPO as well as iron and steel. Imports would begin to accelerate, responding to growing domestic demand and solid export performance. Further economic gains in the fourth quarter of 2021 are also foreshadowed by several indicators, including significantly stronger consumer expectations (Chart 2.10). Likewise, the Manufacturing Purchasing Managers Index (PMI) charged into an expansionary phase as the reading increased to 53.5 in December 2021 (Chart 2.11). Economic growth in 2021, therefore, is expected in line with Bank Indonesia's projection of 3.2-4.0%. The economic recovery process is improving general prosperity, as reflected by the declining unemployment rate, from 7.07% in August 2020 to 6.49% in August 2021.
Economic sectors oriented towards consumption and investment will improve further. Manufacturing performance is expected to increase in the fourth quarter of 2021 to meet domestic and external demand. As economic activities continue to reopen, economic sectors relating to mobility and consumption (like Transportation and Storage, Accommodation and Food Service Activities as well as Trade) will accelerate. Along similar lines, the Construction sector is on an improving trend, in line with government and private sector construction activity, supported by policy stimuli and increasing funding from the Government in the form of capital spending, together with faster growth of housing loans. Meanwhile, sectors associated with export commodities, namely Agriculture and Mining, are expected to flourish on continued strong export demand, primarily from the United States and China.

Spatially, the economic recovery in several regions of Indonesia is supported by stronger domestic and external demand. Mobility in some regions has already returned to pre-pandemic levels since the Government relaxed local community activity restrictions (PPKM). This has begun to restore regional consumption, as reflected by indicators of sales, consumer confidence and job vacancies, which increased in nearly all regions. Regional investment, building investment in particular, is also increasing in terms of national strategic projects, dominated by toll road construction on Java. Disbursements of village funds and regional transfers improved in the fourth quarter of 2021 in line with regional government efforts to accelerate and improve the fulfilment of administrative requirements, which will further support regional economic gains. The economies of Sulampua, Sumatra and Kalimantan will continue to be propped up by solid export performance, while economic performance in Java relies on manufacturing exports. The economy of Balinusra has already moved into positive territory, albeit with growth restrained by a tourism sector that is still reeling from effects of the pandemic. Regional growth forecasts for Java, Sumatra, Kalimantan, Balinusra and Sulampua are: 3.2-4.0%; 2.7-3.5%; 2.8-3.6%; 0.2-1.0%; and 5.8-6.6%, respectively.

Increasing domestic economic activity and the ongoing global economic recovery are expected to bolster BOP performance. BOP performance is projected to improve in the fourth quarter of 2021 due to a robust current account that reflects high export commodity prices and global demand. Meanwhile, elevated global financial market
uncertainty and concerns stoked by the highly transmissible Omicron variant are likely to subdue the capital and financial account. On balance, a solid BOP is predicted in the fourth quarter and for 2021, thus supporting a strong reserve asset position at the end of 2021, increasing to USD144.9 billion compared with USD135.9 billion in 2020. Reserve assets at the end of 2021 were equivalent to 8.0 months of imports or 7.8 months of imports and servicing government external debt, which is well above the 3-month international standard. The strong BOP position was also supported by a safe and manageable external debt position. The external debt of non-financial corporations contracted 1.0% (yoy) in November 2021 amid a surge of other domestic sources of economic financing, in line with improving corporate performance. External debt was primarily used to meet financial obligations in the Energy, Manufacturing and Mining sectors. Overall, the ratio of external debt to GDP in 2021 improved from 2020 and is in line with the peer average. The composition of external debt is also healthy, with short-term external debt below the peer average and long-term external debt dominating 89% of the total based on original maturity.

BOP performance was maintained in line with the strong current account. In the fourth quarter of 2021, solid current account performance will be maintained after recording a USD4.5 billion surplus in the third quarter of 2021, stemming from a goods trade surplus in line with persistently strong exports. Performance is supported by coal exports bound for China and Japan as well as clothing exports to the United States, which are in line with the economic recovery and seasonal winter demand. Exports of iron and steel also remain high given improving manufacturing activity in China and India. On the other hand, imports will begin to increase in support of exports and growing domestic demand after the Government relaxed community activity restrictions (PPKM). On services, the stronger domestic economy and imports will increase the deficits on primary income account and overall services, noting that the travel services balance has not recovered to pre-pandemic levels. Overall, the current account is expected to record a surplus equivalent to 0.2% of GDP in 2021, improving from 0.4% of GDP deficit in 2020.

Elevated uncertainty in global financial markets and Covid-19 dynamics have restrained foreign capital inflows, thereby squeezing further BOP improvements. The capital and financial account in the fourth quarter of 2021 is expected to record a smaller surplus compared with conditions in the previous period. Foreign capital flows in the form of direct investment are expected to record a surplus in line with the domestic economic recovery and supported by various measures by the authorities to stimulate investment, including trade promotion in Indonesia’s trading partner countries. Meanwhile, more subdued portfolio inflows are anticipated, given the risk-off sentiment of foreign investors in response to earlier-than-planned monetary policy normalisation in advanced economies and concerns over further Covid-19 waves following the Omicron outbreak in several countries. A net outflow of portfolio investment from the domestic SBN market is expected at USD4.9 billion, coupled with a net inflow to equity instruments totalling USD0.8 billion in the fourth quarter of 2021. Overall, the capital and financial account is expected to improve in 2021 compared with conditions in 2020, supported by increasing direct and portfolio investments, given loose global liquidity conditions, optimism surrounding the domestic economic recovery as well as attractive yields on domestic financial assets for investment.

Consistent with BOP performance, rupiah exchange rates were stable in the fourth quarter of 2021. Point to point, the rupiah lost 0.42% of its value during the fourth quarter of 2021 or 0.80% of the third-quarter average. Such developments were influenced by economic fundamentals in Indonesia, specifically external and export performance, foreign capital inflows and the stabilisation measures implemented by Bank Indonesia. Consequently, for 2021 as a whole the rupiah depreciated 1.42% (ptp) to close the year at IDR14,252 per US dollar. On average for the year,
the rupiah regained 1.60% of its value, strengthening from IDR14,525 per US dollar in 2020 to IDR14,296 in 2021. On this basis, the rupiah outperformed currencies in several other developing economies, such as India, Malaysia, the Philippines and Thailand (Chart 2.12). Rupiah exchange rate stability was also supported by risk perceptions of global investors concerning portfolio investment in Indonesia, as reflected by relatively stable data on credit default swaps (CDS) (Chart 2.13). Bank Indonesia constantly conducts exchange rate stabilisation policy in line with the currency’s fundamental value and market mechanisms through effective monetary operations and the availability of market liquidity.

**Overall, rupiah stability in 2021, in accordance with economic fundamentals, was also supported by the availability of hedging instruments.** As global uncertainty increased, market players hedged against rupiah depreciation through derivative transactions. The composition of derivatives in the foreign exchange market remains relatively stable, however, at approximately 37% of total transactions in 2021. The availability of hedging instruments, such as cross currency swaps and call spread options, has increased the options available to dampen pressures in the rupiah spot market. Market players also used derivative transactions to meet hedging needs pursuant to the Prudential Principles Implementation Activity (KPPK). Of the market players with KPPK reporting obligations concerning external debt in the second quarter of 2021, 89.9% had already fulfilled the hedging requirements for the upcoming 0-3 months and 94.2% for the upcoming 3-6 months.

**Consumer Price Index (CPI) inflation remained low and under control through the end of 2021, rising slightly in the fourth quarter as mobility increased.** CPI inflation in December 2021 stood at 1.87% (yoy), up from 1.60% (yoy) in September 2021. Relatively low inflation (that is, below Bank Indonesia’s target) during 2021 was influenced by compressed domestic demand due to increasing Covid-19 cases, particularly...
in the third quarter of 2021. Several other factors contributed to low inflation in 2021. For example, the exchange rate was stable and inflation was anchored in low inflationary expectations. In addition, there were adequate supplies and uninterrupted distribution of foodstuffs and consistent policy synergies between Bank Indonesia and the central and local governments to maintain price stability. As mentioned, headline inflation in December 2021 was a bit above the 1.68% (yoy) recorded a year earlier (Chart 2.15) in line with early signs of increasing mobility as well as seasonal trends during the national religious holidays (HBKN), which boosted demand for goods and services at year-end. Inflationary pressures were higher for core inflation and administered prices (AP), while volatile food (VF) inflation remained under control. Spatially, CPI inflation increased in all regions, led by West Sulawesi (4.40%), Maluku (4.01%) and Bangka Belitung Islands (3.75%) (Chart 2.16). Moving forward, Bank Indonesia remains fully committed to maintaining price stability and strengthening policy coordination with the central and local governments to control inflation within the target corridor.

**Core inflation in 2021 was low.** In December 2021, core inflation was recorded at 1.56% (yoy), up from 1.30% (yoy) at the end of the third quarter of 2021 but down from 1.60% (yoy) during 2020. Core inflation remained low despite early signs of recovery in domestic demand, assisted by exchange rate stability and policy consistency by Bank Indonesia to anchor inflationary expectations. Early indications also point towards the gradual impact of rising international commodity prices transmitted to domestic inflation. By commodity, core inflation edged upwards due to higher prices for gold jewellery and residential property rentals in line with international gold prices and greater public mobility, respectively. According to the Consensus Forecast (CF), inflationary expectations in November 2021 stood at 1.60%, down from 1.70% one month earlier.

**Adequate supplies helped to control VF inflation.** VF inflation in December 2021 stood at 3.20% (yoy), lower than the 3.51% (yoy) in September 2021 and 3.62% during 2020. A recovery of demand during 2021 was offset by an adequate supply of horticultural produce and other foodstuffs. VF inflation was primarily accounted for by price corrections affecting shallots, purebred chicken eggs and rice. There were higher prices for cooking oil, reflecting rising international CPO prices. The adequate supply was facilitated by synergy and coordination between the Government and Bank Indonesia through the National and Regional Inflation Control Teams (TPIP and TPID).

**Inflationary pressures on administered prices (AP) increased.** By December 2021, AP inflation stood at 1.79% (yoy), up from 0.99% (yoy) in September 2021 and 0.25% (yoy) in 2020. Administered price inflation edged upwards owing to higher airfares after the Government relaxed mobility restrictions, filtered clove cigarettes and white cigarettes as higher tobacco duties fed through to selling prices.
Liquidity conditions remain loose as a consequence of accommodative monetary policy and synergy between Bank Indonesia and the Government to support the economic recovery. Bank Indonesia injected liquidity totalling IDR147.83 trillion during 2021, making for a total of IDR874.4 trillion since 2020, or approximately 5.3% of gross domestic product, one of the largest liquidity injections in developing economies. In 2021, Bank Indonesia purchased IDR358.32 trillion of SBN to fund the 2021 State Revenue and Expenditure Budget (APBN). This comprised: (i) purchases in the primary market worth IDR143.32 trillion in accordance with the Joint Decree (KB) issued by the Minister of Finance and Governor of Bank Indonesia on 16 April 2020, and extended on 11 December 2020 and subsequently on 28 December 2021 until 31 December 2022; and (ii) private placements totalling IDR215 trillion to finance the health and humanitarian budgets for Covid-19 pandemic handling in accordance with the Joint Decree (KB) issued by the Minister of Finance and Governor of Bank Indonesia on 23 August 2021. This expansive stance of monetary policy stance supported loose liquidity conditions in the banking industry through December 2021, as reflected by high ratio of liquid assets to deposits at 35.12% and deposit growth of 12.21% (yoy). Liquidity in the economy also increased, as indicated by narrow (M1) and broad (M2) money supply aggregates, which grew 17.9% (yoy) and 13.9% (yoy) in the reporting period. Based on the affecting factors, increasing loans disbursed by the banking industry to finance the economic recovery were the main contributors to money supply growth.

A consistently low policy rate and loose liquidity conditions in the banking industry have continued to edge lending rates downwards. The overnight interbank rate and 1-month deposit rate fell 26bps and 131bps since December 2020 to 2.78% and 2.96% in December 2021, respectively. In the credit market, the banking industry continues to lower prime lending rates (PLR), accompanied by lower interest rates on new loans across all bank groups. Increasing economic activity and greater public mobility have improved risk perceptions in the banking industry, prompting lower interest rates on new loans. Nonetheless, significantly smaller reductions in lending rates compared to deposit rates have increased the interest rate spread in the

Table 2.17. Money Supply and Ratio of Liquid Assets to Deposits (AL/DPK)

<table>
<thead>
<tr>
<th>Year</th>
<th>M1 (rhs)</th>
<th>M2 (rhs)</th>
<th>AL/DPK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>10.5</td>
<td>14.2</td>
<td>0.74</td>
</tr>
<tr>
<td>2017</td>
<td>11.0</td>
<td>14.8</td>
<td>0.75</td>
</tr>
<tr>
<td>2018</td>
<td>11.5</td>
<td>15.2</td>
<td>0.77</td>
</tr>
<tr>
<td>2019</td>
<td>12.0</td>
<td>15.7</td>
<td>0.78</td>
</tr>
<tr>
<td>2020</td>
<td>12.5</td>
<td>16.2</td>
<td>0.80</td>
</tr>
<tr>
<td>2021</td>
<td>13.0</td>
<td>16.7</td>
<td>0.80</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia

Chart 2.18. Banking Interest Rate

Chart 2.19. BI7DDR Transmission to Base Lending Rate (SBDK)

<table>
<thead>
<tr>
<th>Year</th>
<th>BI7DDR</th>
<th>SBDK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>2.87</td>
<td>3.30</td>
</tr>
<tr>
<td>2017</td>
<td>2.92</td>
<td>3.35</td>
</tr>
<tr>
<td>2018</td>
<td>2.97</td>
<td>3.40</td>
</tr>
<tr>
<td>2019</td>
<td>3.02</td>
<td>3.45</td>
</tr>
<tr>
<td>2020</td>
<td>3.07</td>
<td>3.50</td>
</tr>
<tr>
<td>2021</td>
<td>3.12</td>
<td>3.55</td>
</tr>
</tbody>
</table>

Source: OJK, Bank Indonesia, calculated
banking industry. Consequently, Bank Indonesia acknowledges that the commercial banks’ role in lending and financing could be improved, including by lowering lending rates, to hasten the national economic recovery.

Financial system stability is improving in line with greater control over Covid-19 transmission. The Financial System Stability Index (FSSI) remained low and stable in the normal zone throughout 2021. The Capital Adequacy Ratio (CAR) in the banking industry was still high in November 2021 at 25.59%, up from 25.18% in October 2021 (Chart 2.20). Meanwhile, persistently low NPL ratios were maintained at 3.19% (gross) and 0.98% (net), down from 3.22% (gross) and 1.04% (net) in October 2021 as the economy continued to recover, supported by OJK policy to extend credit restructuring.

The bank intermediation function continued to gain momentum throughout 2021. Credit growth accelerated to 5.24% (yoy) in December 2021 in response to demand- and supply-side improvements (Chart 2.21). Demand for credit has increased in line with growing corporate activity and stronger consumption, given greater community mobility. All loan types expanded, including working capital loans, consumer loans and investment loans. In the consumer segment, housing loans enjoyed strong 9.13% (yoy) growth in December 2021, boosted by the Integrated Policy Package issued by the Financial System Stability Committee to revive the property sector. MSME loans experienced significant growth in December 2021 on higher demand in line with recovering business activity in the real sector, particularly MSMEs.

Banking industry performance is also gaining strength. From an efficiency perspective, a stronger banking industry is reflected in the BOPO efficiency ratio, which improved to 82.97% in November 2021 from 83.14% in October 2021. In terms of profitability, the return on assets (ROA) and net interest margin (NIM) were recorded at 1.91% and 4.51% respectively in November 2021, relatively stable throughout the latter half of the year.
to IDR39,841.4 trillion. The value of transactions using card-based payment instruments, including ATM cards, debit cards and credit cards, increased 10.70% (yoy) to IDR7,921.70 trillion. Bank Indonesia continues to maintain a seamless and reliable payment system, while supporting government programs through coordination and monitoring trials of social aid program (bansos) 4.0 digitalisation, together with the electronification of financial transactions in the local government environment and electronification of transportation modes. In addition, Bank Indonesia launched BI-FAST on 21 December 2021 as retail payments infrastructure operating in real time (as it happens) and 24/7 (non-stop). In terms of cash, currency in circulation grew 6.78% (yoy) in December 2021, reaching IDR959.8 trillion.
National Economic Performance Projected to Improve in 2022

The pace of economic growth in Indonesia is projected to accelerate in 2022, supported by ongoing global economic improvements. This is foreshadowed by several strong early indicators in December 2021, including the Purchasing Managers Index (PMI), consumer confidence and retail sales. Externally, Bank Indonesia projects global economic growth at around 5.7% in 2021 and 4.4% in 2022. World trade volume and international commodity prices will continue to rise, thereby supporting the export outlook in developing economies. Global financial market uncertainty will continue in line with normalisation policy by the Fed in response to a build-up of domestic inflationary pressures caused by supply chain disruptions and growing demand, coupled with the highly transmissible Omicron variant. Consequently, developing economies, including Indonesia, are likely to experience currency pressures and attract lower capital flows in 2021.

National economic growth is predicted to accelerate in 2022, primarily supported by increasing private consumption and investment amid sustained fiscal spending and exports. This was already reflected in improvements in several indicators in December 2021, including public mobility in several regions, cement sales and consumer confidence. More balanced sources of economic growth are expected in 2022, with the contribution of domestic demand predicted to increase despite the ever-present risk of rising Covid-19 cases, which demands vigilance. Expectations of stronger domestic demand are reflected in sectoral developments, while regional GDP will begin converging. Consumption in 2022 is anticipated to improve as the domestic economy continues to reopen, supported by the mass vaccination program and greater mobility, together with ongoing policy stimuli. Meanwhile, government plans to restart national strategic projects will bolster investment gains, along with solid export performance and the relocation of international corporations to Indonesia. Externally, export performance in 2022 is projected to remain positive on the back of the global recovery (Table 2.4).

The sectoral outlook for 2022 is promising in line with the domestic economic recovery and persistently solid export performance. The outlook is consistent with increasing public mobility as the mass vaccination program seeks to achieve herd immunity in 2022, more economic sectors are reopened, policy stimuli are maintained and the global economic recovery gains momentum. Economic prospects are also supported by higher motor vehicle sales targets, clothing companies, coal, CPO and mineral production as well as expectations of increasing numbers of air passengers (Table 2.5).

External balance will be maintained in 2022, primarily supported by a capital and financial account surplus that is expected to offset the current account deficit. Bank Indonesia projects a manageable current

Table 2.4. GDP Growth Projection, Expenditure Side

<table>
<thead>
<tr>
<th>Components</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.2 - 4.0</td>
<td>4.7 - 5.5</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>1.5 - 2.3</td>
<td>4.3 - 5.1</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>4.6 - 5.4</td>
<td>3.2 - 4.0</td>
</tr>
<tr>
<td>Investment (GFCF)</td>
<td>3.5 - 4.3</td>
<td>5.3 - 6.1</td>
</tr>
<tr>
<td>Goods and Services Exports</td>
<td>22.0 - 22.8</td>
<td>6.8 - 7.6</td>
</tr>
<tr>
<td>Goods and Services Imports</td>
<td>21.7 - 22.5</td>
<td>6.3 - 7.1</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia
account deficit in the 1.1-1.9% of GDP range in 2022. This is the outcome of strong export growth, founded upon recovering global demand; higher imports to meet growing domestic demand; and various efforts to stimulate exports and reduce dependence upon imports. Manufacturing exports will increase by implementing recovery policy, accompanied through the reopening of priority industrial sectors and the digitalisation 4.0 process. The role of tourism will also increase in the near term by optimising the contribution of domestic travellers and in the long term by accelerating the development of super priority destinations. A tourism recovery program (see the Annex on Bank Indonesia Policy Mix) will focus on implementing integrated health protocols, including with the Peduli Lindungi mobile application, which is used widely in the tourism sector. These measures would help contain the spread and of the pandemic and bolster preparations for the return of inbound international travellers to Indonesia.

The outlook for foreign capital inflows is also favourable, thereby bolstering the capital and financial account surplus. The capital and financial account surplus in 2022 is expected to exceed that recorded in 2021. On the side of external factors, capital inflows will benefit from the global recovery and reduced risk of divergence between advanced and developing economies. On the side of internal factors, capital inflows will be attracted by the promising domestic economic outlook in Indonesia, the attractiveness of domestic financial assets for investment and a lower risk premium. By component, direct investment inflows are expected to increase due to improvements in the business climate. Portfolio inflows are also likely to increase if monetary policies continue their expansive stance in advanced economies, thereby leading to loose global liquidity conditions. Other investment inflows are predicted to rise to meet higher infrastructure funding needs together with strong export-import growth. It should be noted that the prospect of global monetary policy normalisation sooner than expected could adversely impact capital flows into Indonesia.

Inflation in 2022 is projected to increase yet remain under control within the 3.0%±1% target corridor. This projection is consistent with a faster economic recovery amid potential corrections to energy prices, taxation policy and the impact of financing to support the recovery process in previous years. Inflation in 2022 is projected to remain under control within the 3.0%±1% target range, in line with adequate aggregate supply to meet higher aggregate demand; anchored inflationary expectations; rupiah exchange rate stability; and policy responses instituted by Bank Indonesia and the Government. For its part, Bank Indonesia remains firmly committed to maintaining price stability and strengthening policy coordination with the Government through National and Regional Inflation Control Teams (TPIP and TPID) to maintain CPI inflation within the target corridor. Core inflation in 2022 is expected to rise on higher demand and inflationary expectations, along with intense, yet moderating, external pressures. Administered price (AP) inflation is also predicted to rise in 2022, pushed upwards by transportation inflation as public mobility

<table>
<thead>
<tr>
<th>Components</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>3.2 - 4.0</td>
<td>4.7 - 5.5</td>
</tr>
<tr>
<td>Agriculture, Forestry, and Fisheries</td>
<td>0.8 - 1.8</td>
<td>3.6 - 4.6</td>
</tr>
<tr>
<td>Mining and Excavation</td>
<td>3.8 - 4.8</td>
<td>2.7 - 3.7</td>
</tr>
<tr>
<td>Manufacture</td>
<td>2.8 - 3.8</td>
<td>3.9 - 4.9</td>
</tr>
<tr>
<td>Electricity and Gas Procurement</td>
<td>3.9 - 4.9</td>
<td>4.0 - 5.0</td>
</tr>
<tr>
<td>Water Supply</td>
<td>4.7 - 5.7</td>
<td>5.1 - 6.1</td>
</tr>
<tr>
<td>Construction</td>
<td>2.7 - 3.7</td>
<td>3.9 - 4.9</td>
</tr>
<tr>
<td>Wholesale Retail, Car and Motorcycle Repairs</td>
<td>4.5 - 5.5</td>
<td>4.8 - 5.8</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>2.5 - 3.5</td>
<td>5.6 - 6.6</td>
</tr>
<tr>
<td>Provision of Accommodation, Food and Beverages</td>
<td>4.9 - 5.9</td>
<td>5.0 - 6.0</td>
</tr>
<tr>
<td>Information and Communication</td>
<td>6.5 - 7.5</td>
<td>8.1 - 9.1</td>
</tr>
<tr>
<td>Financial Services and Insurance</td>
<td>2.6 - 3.6</td>
<td>6.1 - 7.1</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1.4 - 2.4</td>
<td>2.5 - 3.5</td>
</tr>
<tr>
<td>Corporate Services</td>
<td>1.4 - 2.4</td>
<td>8.2 - 9.2</td>
</tr>
<tr>
<td>Government Administration, Defence and Compulsory Social Security</td>
<td>1.0 - 2.0</td>
<td>0.9 - 1.9</td>
</tr>
<tr>
<td>Education Services</td>
<td>-0.2 - 0.8</td>
<td>4.4 - 5.4</td>
</tr>
<tr>
<td>Health Services and Social Activities</td>
<td>7.6 - 8.6</td>
<td>6.8 - 7.8</td>
</tr>
<tr>
<td>Other Services</td>
<td>3.5 - 4.5</td>
<td>6.4 - 7.4</td>
</tr>
</tbody>
</table>

Table 2.5. GDP Growth Projection, Sectors Side

Source: Bank Indonesia
returns to normal, cigarette duties and energy prices as economic activity improves. In contrast, milder volatile food (VF) inflation is anticipated in response to maintained supply during normal weather conditions, fewer import constraints and decelerating international food prices.

**In 2022, the bank intermediation function is predicted to improve while financial stability is maintained.** As the national economy continues to recover from the Covid-19 pandemic, driven by factors discussed above, Bank Indonesia expects loans disbursed by the banking industry and financing from the capital market to increase gradually next year. More specifically, Bank Indonesia projects stronger credit and deposit growth in 2022 at rates of 6.0-8.0% and 7.0-9.0%, respectively. On the supply side, credit growth is supported by loose liquidity conditions and lower risk perceptions in the banking industry, combined with accommodative macroprudential policy.

Bank Indonesia expects the national digital economy and finance to grow in 2022, supported by Bank Indonesia’s efforts to accelerate payment system digitalisation. E-commerce transactions in 2022 are projected to expand 31% to IDR526 trillion, supported by a larger e-commerce ecosystem, together with a continuing shift in public preferences and further acceptance of online retail; promotional activities and innovation by various businesses; and diverse programs run by Bank Indonesia and the Government. E-money transactions are also expected to grow as the preferred payment method for e-commerce and various other online platforms. On this basis, Bank Indonesia projects 17.1% (yoy) e-money growth in 2022 to reach IDR358 trillion. Similarly, digital banking transactions in 2022 are projected to maintain solid growth given the convenience afforded by digital transactions and the various digital innovations developed by the banking industry. Bank Indonesia projects digital banking payments to grow 24.8% (yoy) in 2022 to reach IDR49.7 thousand trillion.
2.5 Efforts to Advance Domestic Economic Recovery

Based on the dynamics observed in 2021, several aspects demand attention in terms of advancing the domestic economic recovery in Indonesia. First, synergies to accelerate the vaccination rollout and Covid-19 containment, must be strengthened to speed up the national economic recovery by safe reopening of priority sectors. Immediate efforts to accelerate the vaccination program and Covid-19 containment measures are required to restore economic activity while maintaining health protocols. Re-opening policy should focus on sectors with a multiplier effect in the economy or a large contribution to economic growth. Priority sectors also include those with a significant export contribution, thereby maintaining economic capacity to generate foreign exchange, and sectors with a significant contribution to fulfilling domestic demand. The reopening of priority sectors should also target micro, small and medium enterprises (MSME) to ensure the positive impact of the economic recovery process can benefit the wider community. Synergy must also be increased in sectors still reeling from the scarring effect of the pandemic or sectors with relatively high financial system stability risk, such as tourism.

Second, synergy is required to strengthen the national economic policy mix and maintain stability, while accelerating the national economic recovery. Amid continuing global financial market uncertainty in line with the monetary policy normalisation plans of the US Fed and several other central banks, cooperation to strengthen the national economic policy mix must be strengthened to maintain stability on the one hand while accelerating the national economic recovery on the other. Global supply chain disruptions and soaring energy prices due to scarcities have intensified inflationary pressures in the United States and several other countries. Ambiguity concerning whether the inflation is persistent or temporary continues to stoke uncertainty surrounding global monetary policy normalisation. A measured exit policy in anticipation of normalisation plans is required, therefore. To offset undesirable impacts of stabilisation policy, the economic recovery must be sped up through policies to accelerate structural reforms in the real sector. This would include infrastructure development projects; implementation of the Job Creation Act; sustainable fiscal stimuli supported by synergies between
monetary and fiscal policies; and Financial System Stability Committee synergy to revive financing to the corporate sector.

Third, innovation in terms of national economic policy, faster digitalisation as well as national economic and financial inclusion must be strengthened. Strengthening faster digitalisation can be achieved through payment system digitalisation to create a rapid, affordable, convenient, secure and reliable payment system. This will be complemented by increasing national economic and financial inclusion through MSMEs and local economic development programs. MSME empowerment entails three policy pillars, namely corporatisation, capacity building and financing. This approach aims to create productive, innovative and adaptive MSMEs. Furthermore, development of the green economy and finance requires policy and program innovation for sustainable national economic development and in response to the growing demands of advanced economies. The transition towards a green economy must be gradual and moderate to maintain economic performance amidst efforts to achieve lower carbon emission targets in Indonesia and contribute to limiting the rising global mean temperature.