CHAPTER II

DOMESTIC ECONOMY: CAUTIOUSLY OPTIMISTIC

The policy synergy between Bank Indonesia, the Government and the Financial System Stability Committee (KSSK) supported the continuation of the domestic economic recovery process in 2022, amid weakening global economic conditions. Economic growth in 2022 is predicted to have an upwards bias within the range of Bank Indonesia's projection of 4.5-5.3% and be supported by both monetary and financial system stability. Economic growth is predicted to remain strong in 2023, although it will slow slightly to the midpoint of the 4.5-5.3% range in line with the dimmer prospects for global economic growth, before increasing again to 4.7-5.5% in 2024.

The strong policy synergy between Bank Indonesia, the Government and the KSSK underpinned continued economic recovery in 2022 with the support of maintained economic stability. Economic growth in 2022 is predicted to have increased into the range of 4.5-5.3% with an upward bias tendency, driven by strong exports in line with the high demand from several main trading partners and government policy support. External stability was maintained, underpinned by Indonesia's Balance of Payments (BOP) which remained healthy, in line with a current account surplus and despite pressure on the capital and financial accounts, especially portfolio investment. This healthy balance of payments performance and Bank Indonesia's prompt policy response helped to maintain Rupiah exchange rate stability, despite global conditions marked by uncertainties in financial markets. Inflation, although higher than the target range for 2022 after the hikes in subsidized fuel prices, was lower than initially projected and is expected to return within the target range in the first half of 2023. Financial system stability was also sound with sustained resilience and a better intermediary function.

Indonesia's economic recovery is predicted to continue in the short term and strengthen in the medium term. Indonesia's economic growth in 2023 is predicted to remain firm in the range of 4.5-5.3%, although it will slow slightly due to the global economic slowdown. External stability should be maintained, supported by a healthy balance of payments. Inflation should also come under control into its target range of 3.0±1%. Meanwhile, financial system stability remains sound. In the medium term, the Indonesian economy should improve further and return to its trajectory towards achieving a highly developed Indonesia. This prospect is supported by the ongoing recovery in the global economy along with an improving domestic economy, driven by increased investment and productivity in line with the implementation of structural reform policies, especially in the real sector, and acceleration of the national digital economy and finance. Bank Indonesia predicts that in the medium term, Indonesia's economic growth will continue to accelerate into the range of 5.0-5.8% in 2027. Inflation is predicted to be maintained in the range of 1.5-3.5%, supported by greater efficiency and economic productivity. The current account deficit is also projected to stay under control at a healthy level in the range of 1.2-2.0% of GDP, thus supporting the resilience of Indonesia's external sector. Given this backdrop, Indonesia is predicted to become a high-income developed country by 2047.

2.1

Improvements Continue Amid Global Economic Slowdown

Amid global economic turmoil, Indonesia's economy improved further in 2022 in line with greater mobility of the population. National economic growth in 2022 is predicted to have an upward bias inside Bank Indonesia's projection of 4.5-5.3%. In 2022, the economies of Sumatra, Java, Kalimantan, Bali-Nusa Tenggara (Balinusra) and Sulawesi-Maluku-Papua (Sulampua) are predicted to grow in the range of 4.2-5.0%, 5.0-5.8%, 3.8-4.6%, 4.5-5.3% and 6.9-7.7%, respectively.

The momentum for a stronger domestic economy has strengthened since the first quarter of 2022. Growth in the first quarter of 2022 was 5.02% (yoy), unchanged from last quarter of 2021. This positive performance was driven by increased domestic demand and solid export performance. The strong domestic demand was mainly supported by household consumption, which continued to improve in line with people's greater mobility given the easing of Covid-related policies restricting people's movements and the continued acceleration of vaccination programs. Meanwhile, the solid export performance was supported by solid demand from major trading partners, with geopolitical tensions from the Russia-Ukraine conflict having only a limited overall impact. Improvements in the national economy were seen in the majority of business fields and in all regions.

The stronger performance of the domestic economy continued in the second quarter of 2022, despite heightened economic risks and rising global inflationary pressures. Indonesia's economic growth in the second quarter of 2022 reached 5.45% (yoy), much higher than forecast and higher than in the previous quarter. This solid growth was supported by stronger domestic demand, especially household consumption, as well as robust exports. Household consumption grew at a high rate of 5.51% (yoy), driven by greater mobility given the easing of Covid-related mobility restrictions, as well as boosted by activities related to the celebration of National Religious Holidays (HBKN). Meanwhile, investment growth slowed to 3.07% (yoy), due to a decline in construction investment, despite continued, solid performance of non-construction investment. Government consumption contracted by 4.86% (yoy) mainly due to a decrease in spending on goods to handle the Covid-19 pandemic and on National Economic Recovery (PC-PEN), due to easing of the Covid-19 pandemic. By Business Field (LU), the national economy was accounted for by several sectors, especially Manufacturing, Transportation and Warehousing, as well as Wholesale and Retail Trade. Geographically, economic improvements were seen across Indonesia, with the highest growth in the Sulampua region, followed by Java, Sumatra, Kalimantan and Balinusra. Stronger growth in the Sulampua, Kalimantan and Sumatra regions was supported by solid exports. Meanwhile, in most other regions, especially Java and Balinusra, economic performance was driven by improvements in domestic demand in line with the people's greater mobility.

Domestic economic activity continued to strengthen in the third quarter of 2022. Economic growth, which remained strong in the third quarter of 2022 at 5.72% (yoy), owing to continued improvements in domestic demand and solid exports (Table 2.1). Household consumption continued to grow at the high rate of 5.39% (yoy). This was led by higher consumption of the middle- and upper-income classes in line with easing restrictions on activities, as well as by distribution of social assistance and energy subsidies to mitigate the impact of fuel price hikes on the lower-income class. By contrast, government consumption contracted by 2.88% (yoy) due to the continued decline in spending on Covid-related goods (PC-PEN), as the severity of the Covid-19 pandemic eased. Investment growth rose to 4.96% (yoy), driven by non-construction investment, with construction investment stagnant. Exports remained buoyant with growth of 21.64% (yoy), supported by strong demand from major trading partners. Imports grew briskly at 22.98% (yoy) commensurate with the strong export performance and high domestic demand.

Table 2.1. Economic Growth by Expenditure

%, yoy

Components	2020	2021				2021	2022		
		I	II	III	IV		I	II	III
Household Consumption	-2.63	-2.21	5.96	1.02	3.55	2.02	4.34	5.51	5.39
Government Cosumption	1.96	2.55	8.06	0.62	5.25	4.17	-6.94	-4.86	-2.88
Investment (GFCF)	-4.96	-0.21	7.52	3.76	4.49	3.8	4.09	3.07	4.96
Building Investment	-3.78	-0.74	4.36	3.36	2.48	2.32	2.58	0.92	0.07
Nonbuilding Investment	-8.44	1.44	18.5	4.96	10.4	8.42	8.66	9.65	19.24
Export	-8.14	6.94	31.5	29.16	29.83	24.04	16.7	20.02	21.64
Import	-16.72	4.41	31.84	29.95	29.6	23.31	15.88	12.37	22.98
Gross Domestic Product	**-2.07**	**-0.70**	**7.07**	**3.51**	**5.02**	**3.69**	**5.02**	**5.45**	**5.72**

Source: BPS

The economic improvements were reflected in the positive performance of almost all Business Fields in the third quarter of 2022. The recovery of Manufacturing, Transportation and Warehousing Industries, as well as Wholesale and Retail Trade continued and became the main source of growth supported by solid domestic demand following the Religious and National Holidays period, given people's greater mobility and firm purchasing power as well as higher external demand (Table 2.2). The stronger performance of the Agricultural business field was supported by Plantations and Fisheries due to the peak of the harvesting period and high global fishery prices. Meanwhile, Construction grew more slowly due to rising energy prices and fuel price hikes.

Geographically, economic improvements were recorded in all regions of Indonesia. The Bali-Nusa Tenggara (Balinusra), Java and Kalimantan regions grew significantly in the third quarter of 2022 compared to the previous quarter at 6.69% (yoy), 5.76% (yoy) and 5.67% (yoy), respectively (Chart 2.1). Economic growth in these three regions was

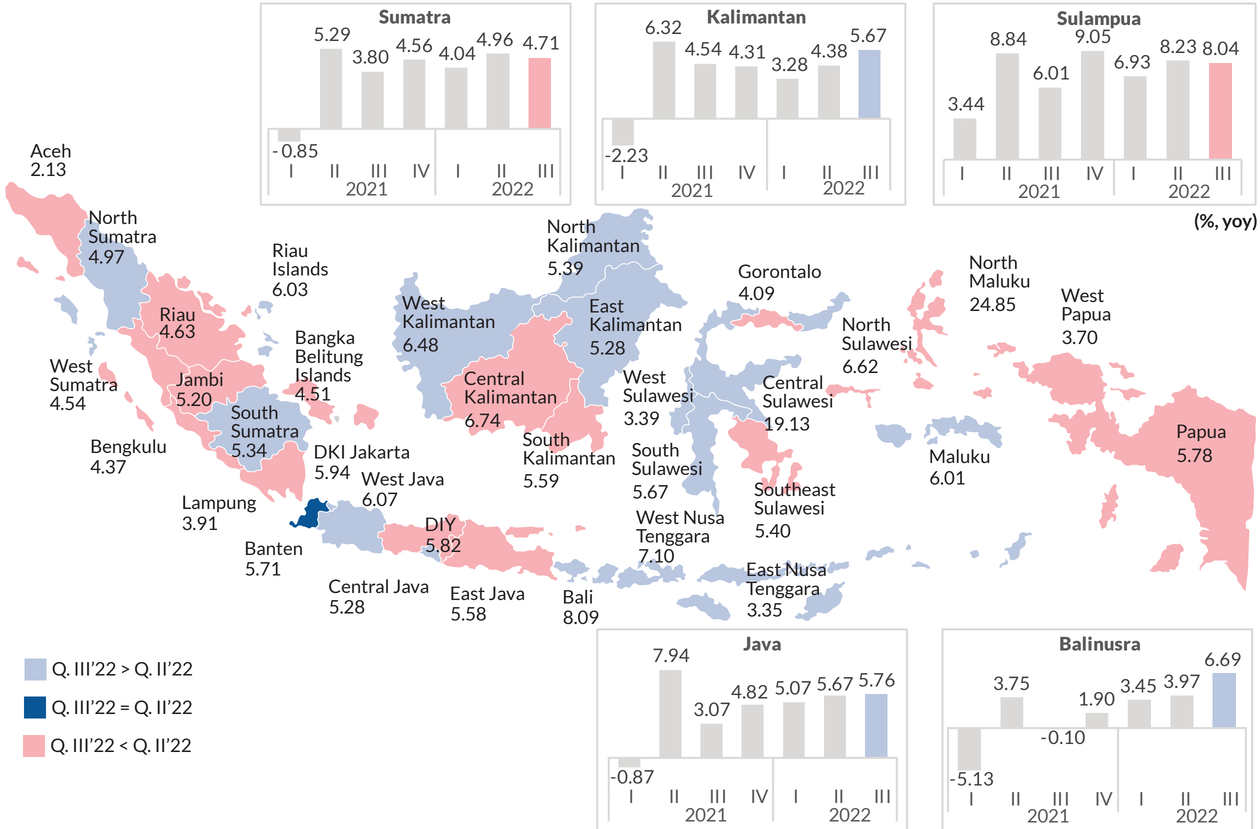
Table 2.2. Economic Growth by Sector

%, yoy

Components	2020	2021				2021	2022		
		I	II	III	IV		I	II	III
Agriculture, Forestry, and Fisheries	1.75	3.44	0.53	1.43	2.28	1.84	1.21	1.38	1.65
Mining and Excavation	-1.95	-2.02	5.22	7.78	5.15	4.00	3.82	4.01	3.22
Manufacture	-2.93	-1.38	6.58	3.68	4.92	3.39	5.07	4.01	4.83
Electricity and Gas Procurement	-2.34	1.68	9.09	3.85	7.81	5.55	7.04	9.33	8.05
Water Supply	4.94	5.46	5.78	4.56	4.14	4.97	1.30	4.46	4.25
Construction	-3.26	-0.79	4.42	3.84	3.91	2.81	4.83	1.02	0.63
Wholesale Retail, Car and Motorcycle Repairs	-3.72	-1.26	9.52	5.15	5.56	4.65	5.73	4.42	5.35
Transportation and Warehousing	-15.04	-13.09	25.10	-0.72	7.93	3.24	15.79	21.27	25.81
Provision of Accomodation, Food and Beverages	-10.22	-7.27	21.58	-0.14	4.95	3.89	6.56	9.76	17.83
Information and Communication	10.58	8.72	6.90	5.54	6.21	6.81	7.16	8.07	6.88
Financial Services and Insurance	3.25	-2.97	8.33	4.29	-2.59	1.56	1.64	1.50	0.87
Real Estate	2.32	0.94	2.82	3.42	3.94	2.78	3.78	2.16	0.63
Corporate Services	-5.44	-6.10	9.94	-0.59	0.89	0.73	5.96	7.92	10.79
Government Administration, Defence and Compulsory Social Security	-0.03	-2.26	9.95	-9.95	0.98	-0.33	-1.38	-1.56	12.42
Education Services	2.63	-1.54	5.89	-4.42	0.70	0.11	-1.66	-1.09	4.46
Health Services and Other Social Activities	11.60	3.39	11.69	14.06	12.16	10.46	4.50	6.49	-1.74
Other Services	-4.10	-5.15	11.97	-0.30	3.35	2.12	8.25	9.26	9.13
Gross Domestic Product	-2.07	-0.7	7.07	3.51	5.02	3.69	5.02	5.45	5.72

Source: BPS

Chart 2.1. Economic Growth by Region, Third Quarter of 2022



Source: BPS

underpinned by strong domestic demand in line with greater mobility, including activities related to tourism. Balinusra's economic growth was further supported by strong copper exports from West Nusa Tenggara. Likewise, Kalimantan's exports remained strong, especially of CPO and coal. Meanwhile, the Sulampua and Sumatra regions grew at the brisk pace of 8.04% (yoy) and 4.71% (yoy), respectively, which was slightly slower than in the previous quarter. This growth was supported by solid domestic demand and exports of natural resource-based industries which remained strong.

Indonesia's balance of payments (BOP) remained healthy, supported by an increase in the current account surplus, which underpinned external resilience. The current account balance in the first nine months of 2022 recorded a large surplus in line with strong exports. This strong performance on current account reduced pressure on the balance of payments brought on by weakness in the capital and financial accounts; this weakness stemmed from portfolio investment outflows in line with increasing uncertainty in the global financial markets.

Cumulatively, the balance of payments up to the third quarter of 2022 recorded a deficit of 0.7 billion US dollars. The nation's foreign exchange reserves at the end of December 2022 stood at US$137.2 billion, or equivalent to 5.9 months of imports financing and servicing the government's foreign debt, which is above international standards of adequacy.

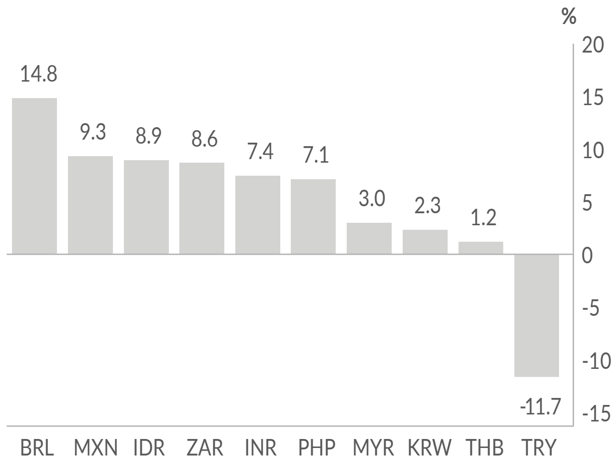
The increase in the current account surplus stemmed from strong exports amid more robust domestic economic activity. The surplus in the current account balance through the third quarter of 2022 reached USD 9.0 billion (0.9% of GDP), far exceeding the surplus achieved in the same period the previous year of USD 2.0 billion (0.2% of GDP). This improvement was accounted for by an increase in the surplus in the goods trade balance, which exceeded the wider deficit in the services account and the primary income account. The surplus in the goods trade balance increased in line with the better exports performance, owing to a surge in commodity prices due to the Russia-Ukraine war and strong demand from trading partner countries for Indonesia's manufacturing and mining products. On the other hand, the continued improvement in the economy boosted domestic demand and the upward trend in global oil prices led to higher imports. There was also a wider deficit on services account mainly due to an increase in payments for transportation services, for both freight and passengers. This wider services deficit was reined in, thanks to an improvement in the travel surplus, stemming from an increase in foreign tourist arrivals. There was an easing of Covid-related policies for overseas travelers (PPLN) and there were various international events, including those as part of Indonesia's chairmanship of the G20 in 2022. Meanwhile, the payment of investment returns to foreign investors increased so that the primary income account deficit widened in line with the improved corporate performance from higher exports.

Portfolio investment outflows put pressure on the capital and financial accounts in the Balance of Payments. The capital and financial accounts in the first three quarters of 2022 recorded a deficit of USD 9.2 billion, a turnaround from a surplus of USD 14.8 billion in the same period in 2021. Higher uncertainty in the global financial markets contributed to foreign portfolio investment outflows, particularly SBN, offsetting increasing inflows into the stock market. The capital and financial accounts deficit also stemmed from other investment transactions caused by the placement of private assets in several financial instruments overseas related to business operational needs. At the same time, direct investment continued in surplus, reflecting the optimism of foreign investors on the prospects for the Indonesian economy. The conducive investment climate encouraged direct investment, especially in the Manufacturing Industry, Financial Intermediary Institutions and the Trade sectors.

Bank Indonesia's immediate response helped to maintain the stability of the Rupiah exchange rate amid a very strong US dollar and increasing uncertainty in the global financial markets. Various external factors, including the aggressive hikes in the FFR, the very strong US dollar and heightened risk perceptions of global investors ("cash is king") led to portfolio investment outflows and pressure on the exchange rates of developing countries, including Indonesia. To mitigate the contagion effect of this global turmoil, Bank Indonesia strengthened its Rupiah exchange rate stabilization policy by intervening in the foreign exchange market in large quantities, in both the spot and Domestic Non-Deliverable Forward (DNDF) markets, in addition to conducting transactions of state securities (SBN) in the secondary market to maintain yields. SBN yields remain attractive to foreign portfolio investors (Chart 2.2). Rupiah stabilization is very important to prevent Indonesia from entering a crisis due to global turmoil. By minimizing imported inflation, inflation can be kept under control, thereby helping to maintain monetary stability, as well as financial system and macroeconomic stability. The US Dollar exchange rate index against major currencies (DXY) reached a high of 114.11 on September 27 2022 and stood at 103.49 by the end of 2022, which represents a strengthening of 8.18% during 2022. Meanwhile, the Rupiah exchange rate as of the end of December 2022 had depreciated 8.45% compared to the end of 2021, which is less than the depreciation of currencies of a number of other developing countries, such as the Philippines (8.50% depreciation) and India (10.15% depreciation); see Chart 2.3. Going forward, Bank Indonesia will continue to strengthen its Rupiah exchange rate stabilization policy in accordance with the functioning of the market mechanism and the Rupiah's fundamental value.

Consumer Price Index (CPI) inflation in the first half of 2022 recorded increases in all components, namely core inflation, volatile food inflation (VF) and administered prices (AP) inflation. CPI inflation in June 2022 was recorded at 4.35% (yoy), higher than the June 2021 figure of 1.33%. The increase in

Chart 2.2. Risk Adjusted Return (RAR)

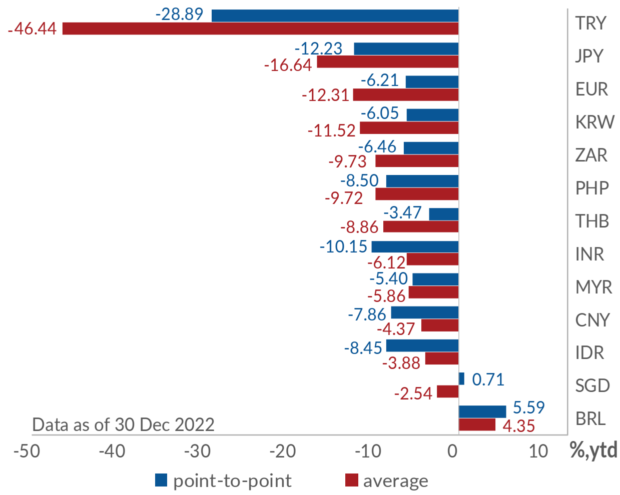


Source: Bank Indonesia

CPI inflation occurred in all regions, with widening disparities. This is partly a reflection of structural problems in controlling VF inflation, particularly due to production patterns and distribution disruptions between regions. Geographically, the highest CPI inflation was recorded in Jambi province at 7.01% (yoy), while the lowest CPI inflation was recorded in North Maluku province at 2.20% (yoy).

Core inflation increased but remained at a low level, in line with domestic demand which improved gradually after the easing of mobility restrictions, global commodity inflation and the depreciation of the exchange rate. Core inflation in June 2022 was recorded at 2.63% (yoy), up from 1.49% in the previous year driven by an increase in all components. Core food inflation reached 3.73% (yoy) in June 2022, up a little from 3.69% (yoy) in June 2021, stemming from an increase in the non-traded food category; the traded food group declined. Meanwhile, core non-food inflation was recorded at 2.31% (yoy) in June 2022, up appreciably from 1.28% (yoy) in June 2021. By product, the increase in core inflation was mainly driven by increases in house rental prices, soap powder/liquid detergents, cars and rice, with side dishes mainly driven by several factors like: implementation of work-from-office policies and school activities; the high price of Crude Palm Oil (CPO) as a raw material for soap; the end of sales tax discounts on luxury goods (PPnBM); and increases in food prices.

Chart 2.3. Rupiah Movement vs Other Countries



Source: Bank Indonesia

VF inflation increased significantly in the first semester of 2022 mainly driven by rising prices of horticultural commodities. VF inflation in June 2022 was recorded at 10.07% (yoy), much higher than 1.60% (yoy) in June the previous year. The high VF inflation reflects the impact of heavy rainfall that hampered the production of horticultural commodities, especially various types of chilies and shallots. In addition, cooking oil prices rose in the first half of 2022 in line with limited domestic cooking oil supply due to increased demand and rising global CPO prices. Furthermore, the prices of eggs also increased in the same period, partly due to higher prices of production inputs, especially the prices of chicken feed and day old chicks (DOC).

AP inflation increased in the middle of 2022 as mobility improved. In June 2022, AP inflation was recorded at 5.33% (yoy), or significantly higher than the previous year's figure of 0.49% (yoy), driven mainly by air transport (AU) tariffs and gasoline. The increase in air transport tariffs reflected higher demand following the implementation of the policy to ease mobility restrictions and the Idul Fitri religious holidays; limited airline fleets; higher value added tax (VAT) on tickets; and the imposition of fuel surcharges by airlines to offset the increase in the price of jet fuel. Meanwhile, the increase in gasoline inflation was driven by the policy to raise the price of the non-subsidized fuel (Pertamax) on 1 April 2022. The increase in AP inflation in the first half of 2022 was also driven by higher prices of subsidized and non-subsidized LPG sold at the retail level, as well as price increases on various types of cigarettes as producers passed on tobacco excise increases to consumers.

CPI inflation was very high in the third quarter of 2022. CPI inflation at the end of the third quarter of 2022 was recorded at 5.95% (yoy), up from the previous quarter's 4.35% (yoy). This increase mainly reflects higher AP inflation which reached 13.28% (yoy), much higher than in the second quarter of 2022 at 5.33% (yoy), as a direct impact (first round) of adjustments to subsidized fuel prices in September 2022. In addition, the higher CPI inflation stemmed from VF inflation, given high global food prices and supply disruptions due to bad weather. The increase in subsidized fuel prices also heightened inflation expectations which reached 6.5% (yoy), and could have put additional pressure on core inflation, which was starting to increase. In light of these developments, Bank Indonesia made adjustments to the BI7DRR policy rate in a front-loaded, pre-emptive and forward-looking manner to mitigate the risk of rising core inflation and inflation expectations. Bank Indonesia also strengthened coordination with the Central and Regional Governments through the Central and Regional Inflation Control Teams (TPIP-TPID) and the National Movement for Food Inflation Control (GNPIP)[2] to control food inflation, notably from the second round impact of subsidized fuel price hikes.

Inflation at the end of 2022 is lower than initially forecast, but still above the target of 3.0±1%. CPI inflation at the end of 2022 was recorded at 5.51% (yoy), or much lower than the consensus forecast of 6.5% (yoy) following the subsidized fuel price hikes in September 2022. This reflects a smaller-than-predicted impact of the fuel price adjustments on inflation in the volatile food (VF) and administered prices (AP) groups. The decline in VF inflation from its highest level of 11.47% in July 2022 to 5.61% (yoy) in December 2022, reflecting the closer policy synergies between the Central and Regional Governments, Bank Indonesia and various other strategic partners through TPIP-TPID and GNPIP. These efforts were successful in reducing food inflation by ensuring supply availability, smooth distribution and effective communication, including controlling the secondary, follow-on effects of the fuel price hikes. In addition, the decline in VF inflation was also driven by the ongoing harvesting season for horticultural commodities in production centers. The increase in AP inflation, which reached 13.34% (yoy), was also not as high as forecast due to a reduction in air transport fares, which was supported by the implementation of a relaxation policy for aircraft landing; placement and storage services (PJP4U) at airports managed by the Ministry of Transportation; and transportation subsidies which came in part from the Government's General Transfer Fund (DTU). Meanwhile, core inflation was maintained at 3.36% (yoy), within the 3.0±1% range, in line with the lower follow-on effects of fuel price adjustments, limited inflationary

After the subsidized fuel price hikes, inflation is back under control, as reflected in lower inflation expectations and easing inflationary pressure, and it is lower than initial forecasts.

pressure from the demand side, controlled inflation expectations in line with Bank Indonesia's monetary policy response and manageable imported inflation which was supported by the Rupiah exchange rate stabilization policy. Geographically, the provinces that experienced the highest inflation in December 2022 were West Sumatra, Southeast Sulawesi and South Kalimantan, at 7.42% (yoy), 7.39% (yoy) and 6.99% (yoy), respectively. Meanwhile, the provinces that experienced the lowest inflation were North Maluku, West Papua and the Special Capital Region (DKI) Jakarta, at 3.37% (yoy), 3.87% (yoy), and 4.22% (yoy), respectively.

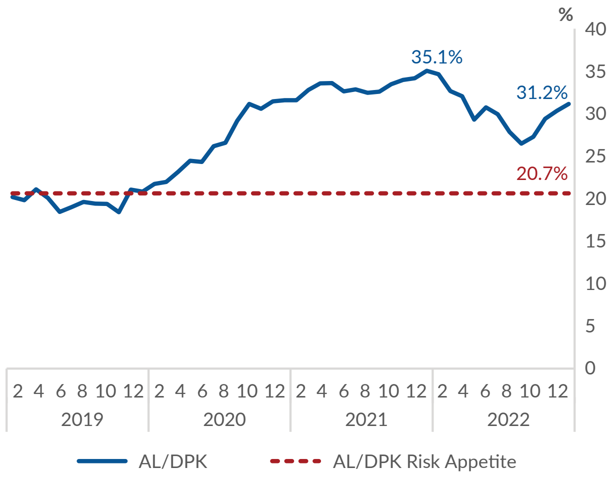
Liquidity conditions in the banking system and the economy remained loose, thus supporting the disbursement of credit and financing of the State Budget. Loose liquidity conditions were driven by accommodative monetary policies and the impact of Bank Indonesia's synergy with the Government in supporting national economic recovery from the Covid-19 pandemic. In 2020 and 2021, Bank Indonesia injected large amounts of liquidity into the banking system (i.e. quantitative easing), mainly by purchasing SBN for State Budget funding in the primary market and via private placements in accordance with the Joint Decree of the Minister of Finance and the Governor of Bank Indonesia. As of the end of 2021, this policy of quantitative easing had reached IDR 874.4 trillion or around 5.3% of GDP, one of the largest injections of liquidity in developing countries. To maintain stability as well as to mitigate the impact from the normalization of policies in developed countries, Bank Indonesia also normalized monetary policy in 2022 by gradually absorbing excess liquidity. Normalization of liquidity was partly done by increasing the Rupiah Minimum Statutory Reserves (GWM) while still supporting the ability of banks to channel loans and purchase SBN in

2 A more detailed explanation of GNPIP can be seen in Box 2 on the National Movement for Control of Food Inflation (GNPIP).

the primary market for financing of the State Budget. With this policy of increasing the GWM, the ratio of Liquid Assets to Third Party Funds (LA/TPF) for banks decreased from 35.1% at the end of 2021 to 31.2% in December 2022 (Chart 2.4). This ratio is still higher than the average LA/TPF ratio before the Covid-19 pandemic which was recorded at around 20.7%. The loose banking liquidity supported the ability of banks to extend loans and purchase SBN to finance the State Budget. Liquidity in the economy also remained loose, as reflected in the narrow (M1) and broad (M2) money supply which grew by 9.5% (yoy) and 8.3% (yoy), respectively, in December 2022 (Chart 2.5). By component, growth in the money supply was driven by increases in public savings and quasi-money. In terms of its factors, the growth in the money supply was mainly supported by increasing bank loans given the ongoing national economic recovery.

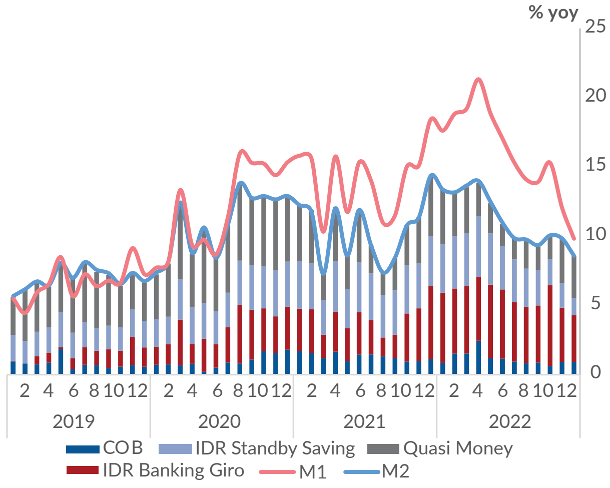
Given the loose liquidity conditions in the banking system, the increase in policy interest rates had only a limited impact on lending rates. During August-December 2022, Bank Indonesia raised the monetary policy interest rate by 200 bps to 5.50%. This policy rate hike was a front-loaded, pre-emptive and forward-looking move to reduce inflation expectations and to ensure future core inflation returns to the target range of 3.0±1% at an early stage, namely in the first half of 2023. The policy rate hike was also carried out, along with the exchange rate stabilization policy, to prevent the Rupiah from deviating from its fundamental value caused by the strong US dollar

Chart 2.4. Liquid Assets/Deposit Ratio in the Banking System



Source: Bank Indonesia

Chart 2.5. Money Supply and its Components



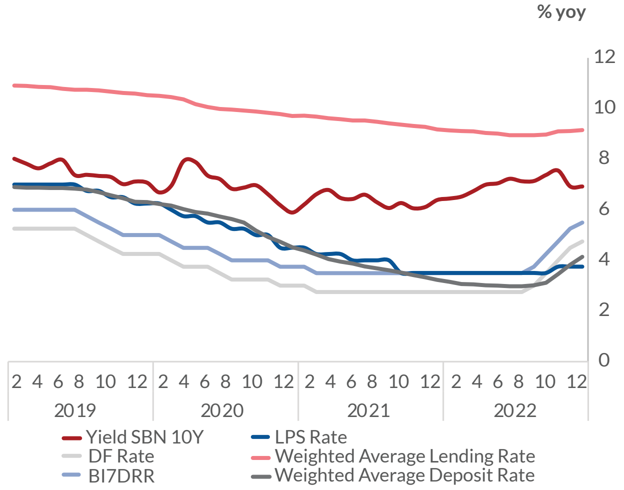
Source: Bank Indonesia

and high global market uncertainty. In line with the increase in the BI7DRR and the strengthening of Bank Indonesia's monetary operations strategy, the Indonesia Overnight Index Average (IndONIA, a money market benchmark rate) rose 223 basis points from the end of July to 5.02%.

The increase in policy interest rates was transmitted to short-term tenor SBN yields, while long-term SBN yields remained relatively stable. The yield on the SBN 2-year tenor rose by 65 bps to 5.89% and the SBN 10-year tenor yield fell by 22 bps to 6.92% at the end of December 2022 compared to the end of July 2022 according to the market mechanism and in line with the increase in US Treasury yields (Chart 2.6). This increase in yields also reflected non-resident inflows into SBN starting at the end of November 2022. Another factor was Bank Indonesia's policy is to sell short-term SBN and purchase long-term SBN in the secondary market (a "twist" operation), as part of efforts to stabilize the Rupiah exchange rate, whilst limiting the impact from rising US Treasury yields. Meanwhile, deposit rates and bank lending rates increased modestly by 115 bps and 21 bps, respectively, in December 2022 compared to July 2022, to 4.14% and 9.15% (Chart 2.7). This limited increase in bank interest rates reflects the fact that liquidity is still loose which dampened the lagging effect in the transmission of policy interest rates to deposit and lending rates.

The channelling of bank loans/financing to the business sector continues to show improvement and to support economic recovery. Loan growth in December 2022 rose to 11.35% (yoy), supported by an increase in all types of credit and all economic sectors (Chart 2.8). Working capital loans grew briskly by 12.17% (yoy), while investment loans and consumer loans grew by 12.00% (yoy) and 9.42% (yoy), respectively. Intermediation recovery was also seen in sharia banking, with financing growth of 20.15% (yoy) in December 2022 (Chart 2.9). On the supply side, the continued improvement in bank intermediation was supported by the relaxed lending standards (Chart 2.10), in line with the growing appetite of banks to lend, especially to the Trade, Industry, Agriculture, Construction and Mining sectors. On the demand side, improvements in intermediation were supported by the continued recovery in corporate and household performance. Better corporate performance was reflected in improvements in the ability to re-pay, higher sales and stronger capital expenditure, especially in the Trade and Mining sector. Better household performance was reflected in stronger household consumption and investment in line with improving consumer optimism. In the MSME segment, MSME credit growth was recorded at 10.47% (yoy) in December 2022, mainly supported by the micro segment (Chart 2.11). Credit growth is predicted to remain at a high rate of 10-12% (yoy) in 2023.

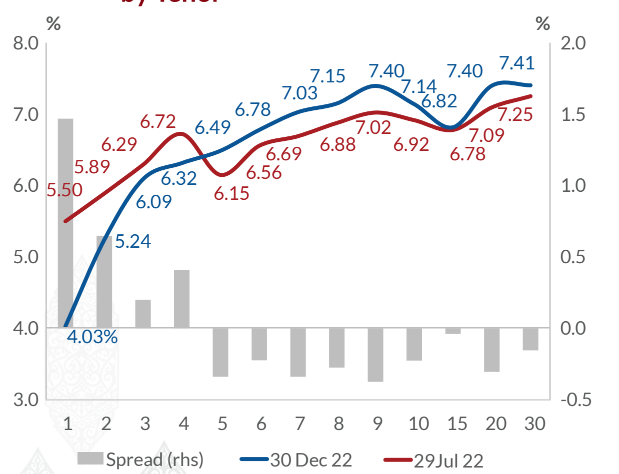
Chart 2.7. Banking Interest Rates



Source: Bank Indonesia

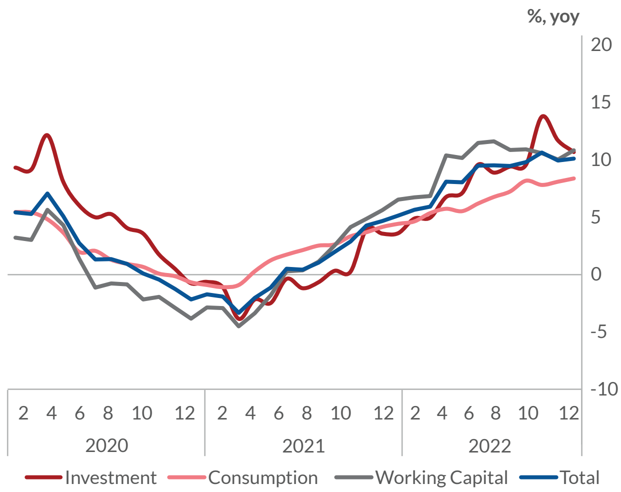
The resilience of the financial system, especially banking, was maintained as measured by capital, credit risk and liquidity. Banking capital remains strong with the Capital Adequacy Ratio (CAR) in November 2022 still high at 25.45% in line with higher retained earnings and risk-weighted assets (RWA). Along with strong capital, credit risk remained under control as reflected in the ratio of non-performing loans (NPL) in November 2022 which stood at 2.65% (gross) and 0.75% (net) - (Chart 2.12). This shows that the Reserves for Impairment Losses (CKPN), which have been created by banks, are sufficient to mitigate credit risk. Banking liquidity risk was kept in check with high liquidity adequacy.

Chart 2.6. Yield Structure for Government Securities by Tenor



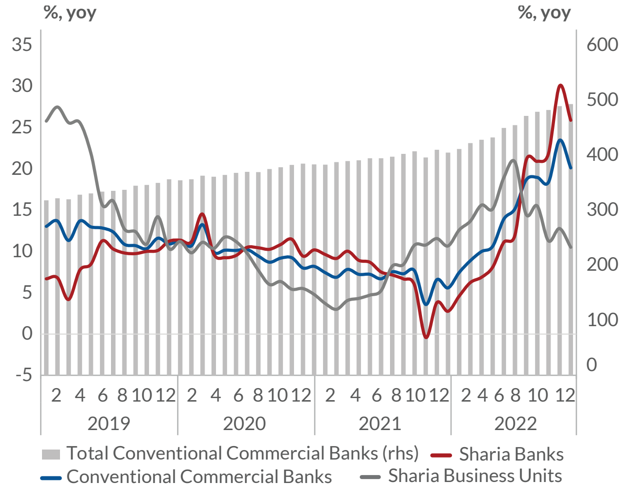
Source: Bank Indonesia

Chart 2.8. Banking Credit



Source: Bank Indonesia

Chart 2.9. Sharia Financing

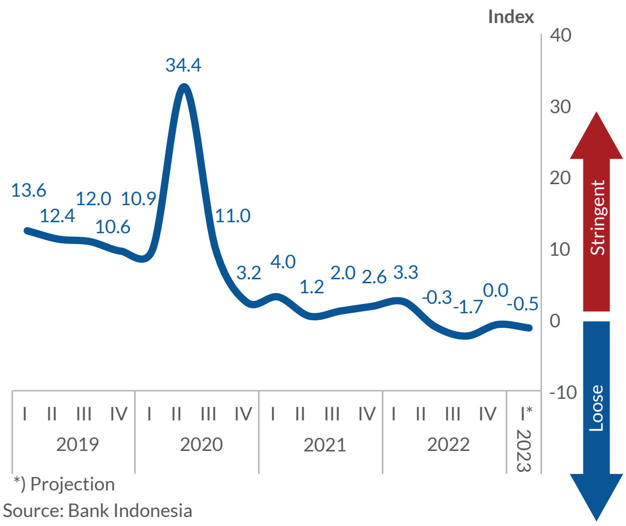


Source: Bank Indonesia

The LA/TPF ratio in December 2022 stood at 31.2% and was higher than the average LA/TPF before the Covid-19 pandemic when it stood at 20.7%.

Going forward, it is necessary to continue to strengthen the resilience of the banking system in order to mitigate various risks, both in terms of domestic macroeconomic conditions and external shocks. These risks include credit risk with on-going Loans at Risk (LaR) in a number of economic sectors such as construction and hospitality due to the impact of the Covid-19 pandemic's scarring effect; liquidity risk due to higher credit growth compared to growth in TPF; and market risk due to the depreciation of the Rupiah exchange rate and the increase in SBN yields.

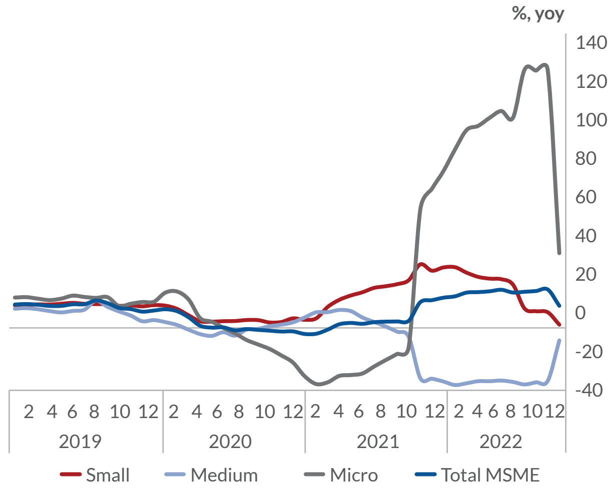
Chart 2.10. Lending Standard Index



*) Projection

Source: Bank Indonesia

Chart 2.11. MSMEs Loan

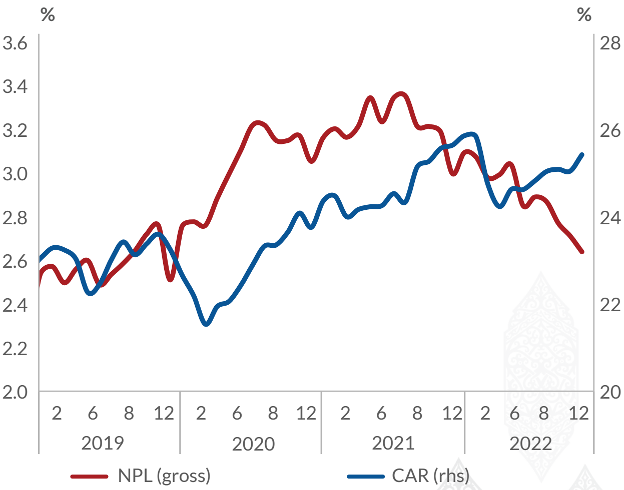


Source: Bank Indonesia

Overall, the results of Bank Indonesia's simulation of various risks indicate that banking resilience should be adequate. This is also in line with the results of the Systemic Risk Survey conducted by BI on 120 respondents from financial institutions, corporations, economic observers, and academics in October 2022. This survey shows that most respondents believe or strongly believe that financial system stability will be maintained both up to and beyond six months ahead (Chart 2.13).

The value of digital economic and financial transactions in Indonesia continues to grow as offline shopping patterns strengthen. E-commerce transactions, electronic money transactions (EU)

Chart 2.12. Banking Capital and Credit Risk



Source: Bank Indonesia

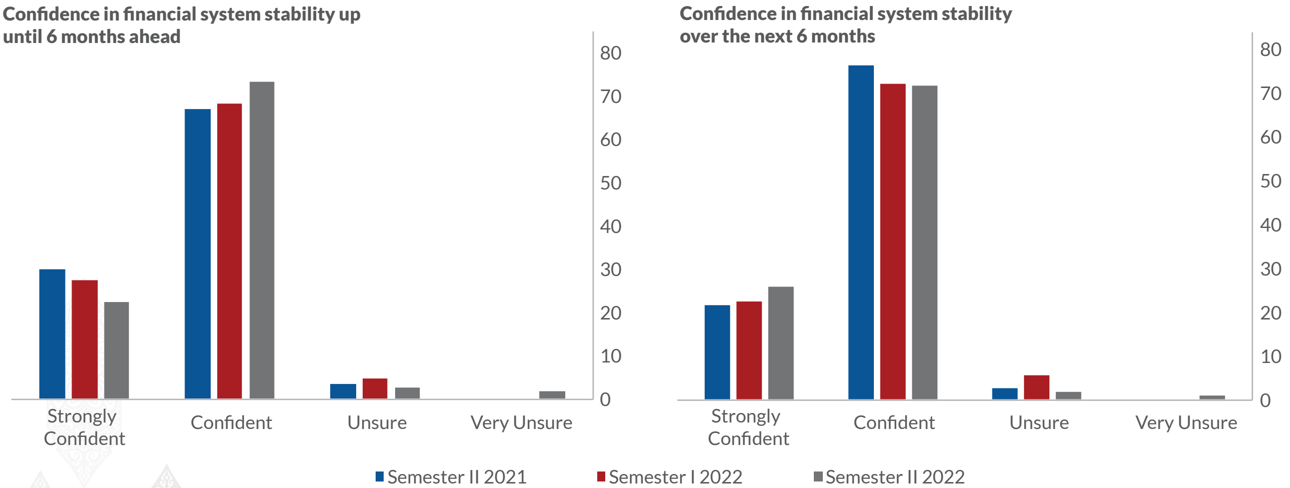
and digital banking transactions grew rapidly, with the 2018-2022 Compound Annual Growth Rate (CAGR) reaching double digits (Table 2.3). This growth trend will continue, especially in e-commerce, which is predicted to continue to expand amid greater public mobility following increasingly relaxed mobility restriction policies. The growth in Gross Merchandising Value (GMV) of Indonesia's digital economy in 2022 will reach 22%, mainly dominated by e-commerce, transportation and food, online travel and digital media.[3] Going forward, digital payments are expected to maintain strong momentum, especially among millennials.

Bank Indonesia continues to accelerate the digitization of the payment system to support acceleration of the digital financial economy and national economic recovery. The outcomes of various digitalization programs (such as regulatory reform, QRIS, BI-FAST and SNAP, as designed in BSPI 2025) are starting to show results. For example, digital economic and financial transactions are growing rapidly and there is growing public acceptance and increased preference for online shopping, as well as the acceleration of digital banking.

The emergence of QRIS as the National Payment QR standard has proven to accelerate expansion of the digital merchant ecosystem, users and digital payment interoperability. The number of QRIS merchants has now reached 24 million across all provinces, with more than 28 million using either electronic money sources, savings accounts or credit cards issued by banks and fintech. QRIS transactions surged 260.5% (yoy) with the share of "off us" transactions continuing to increase, indicating more interoperability within the industry. Also, the majority of merchants using QRIS are now MSMEs, which suggests QRIS is helping with financial inclusion for MSMEs. QRIS also encourages payment service providers, especially banks, to adopt mobile apps to be able to join the expanding QRIS ecosystem.

The acceleration of digital banking transformation encourages healthy collaboration and competition between electronic money and digital banking services. Electronic money payment instruments continued to grow by more than 30% per annum, which is in line with the wider ecosystem connected to e-commerce, ride-hailing and food delivery, as well as greater mobility in regard to toll road and parking use cases. In 2022, the value of electronic money transactions grew by 36.0% (yoy) to IDR399.6 trillion. Meanwhile, the value of digital banking transactions continued to grow rapidly by 28.7% to IDR 52,545.8 trillion. Several industry players are positioning electronic money as a way to give consumers access to financial services, thus encouraging bank customer acquisitions through electronic money channels and facilitating mobile app top-ups with API technology support.

Chart 2.13. Perceptions of Financial System Stability



Source: Bank Indonesia

3 Google, Temasek, and Bain, 2022.

Table 2.3. Compound Annual Growth Rate (CAGR) in Digital Economy and Finance Transactions, 2018-2022

Transaction	CAGR		Transaction	CAGR	
	Value	Volume		Value	Volume
E-commerce	35.1%	47.7%	ATM/Debit	4.7%	2.6%
Digital Banking	19.2%	18.2%	Credit Cards	0.5%	0.1%
Electronic Money	53.3%	18.65%	Currency in Circulation (UYD)	6.5%	

Source: Bank Indonesia

Mobility normalization has also encouraged people to return to using card-based payment instruments such as ATM/D and credit cards, as well as cash. ATM/D transactions in value increased by 20.8% (yoy), dominated by shopping transactions and cash withdrawals. Likewise, credit card transactions recorded an increase of 31.7% (yoy), indicating that traveling and leisure activities are recovering. Concerning the use of cash, currency in circulation increased 6.9% (yoy) to IDR 1,026.5 trillion in 2022, reflecting the economic recovery and mobility normalization. Bank Indonesia ensures the availability of Rupiah throughout the Republic of Indonesia by strengthening the digitalization strategy and expanding the distribution of money, including via the Sovereign Rupiah Expedition Program to the 3T (Outermost, Frontier and Remote) regions, as well as expanding the Love, Pride and Understanding (CBP) Rupiah movement.

In directing its Rupiah currency management policy, Bank Indonesia always ensures the availability of sufficient amounts of Rupiah to meet the increasing demand for currency in line with the increase in economic transactions nationally. Bank Indonesia also ensures that the quality of Rupiah money is maintained throughout the territory of the Republic of Indonesia via the distribution of Rupiah currency to all Bank Indonesia offices as well as for cash services to the public and banks. Accordingly, Bank Indonesia conducts mobile cash activities in 81 islands in the 3T (Outermost, Frontier and Remote) regions in collaboration with the Indonesian Navy through "Sovereign Rupiah Expedition" activities. Bank Indonesia also continues to work with commercial banks in the provision of cash custodial activities in 87 Regencies/Cities which are relatively far from Bank Indonesia's office locations. As a form of synergy with stakeholders, Bank Indonesia formed a Rupiah Money Management Industry Forum (FORIN PUR) in 2022 with Banking and Rupiah Money Processing Service Providers (PJPUR) in order to strengthen Rupiah Money Management (PUR) policy communication by Bank Indonesia to the PUR industry. Efforts to improve the quality of the Rupiah were also carried out through: the launch of seven banknote denominations for the 2022 Emission Year, which used better quality materials and printing specifications than in the previous issuance; the destruction of Rupiah banknotes that were not fit for circulation; and the circulation of perfectly printed Rupiah currency (HCS) and money fit for circulation.

2.2

Prospects Remain Sound in 2023 Despite a Slight Slowdown

The improvement in the domestic economy is predicted to continue, underpinned by resilient domestic demand and strong export performance. The national economy is expected to continue improving, supported by higher private consumption and investment: continued strong exports; and sustained public purchasing power, despite relatively high inflation. Various indicators and results of recent Bank Indonesia surveys, such as consumer confidence, retail sales and the Manufacturing Purchasing Managers' Index (PMI) indicate an on-going domestic economic recovery. On the external side, export performance is predicted to remain strong, especially for coal, CPO and iron and steel in line with the strong demand from several main trading partners and the Government's policy to encourage exports of CPO and its derivatives. Geographically, the positive performance of exports covers all regions, but especially Kalimantan and Sumatra, which will continue to grow briskly. The improvement in the national economy will also be reflected in the performance of the country's main business fields, such as Trade, Mining and Agriculture.

Economic growth is expected to remain strong in 2023 although it will slow slightly to the midpoint of the 4.5-5.3% range before increasing to 4.7-5.5% in 2024 (Table 2.4). The continued economic recovery will be driven by solid domestic demand, both private consumption and investment, in line with greater public mobility and brisker economic-financial activity; a solid export performance supported by an increase in added value from downstream natural resource-based industries; and the continued completion of National Strategic Projects (PSN).

Looking at the country's Business Fields (LU), the outlook would improve further in line with solid domestic demand and stronger exports performance. Business fields related to domestic demand and mobility are expected to follow-up with strong growth in 2022 (Table 2.5). Improvements were seen mainly in export-led sectors, such as Manufacturing Industry, while sectors related to domestic demand, such as Construction, Trade and Infocomm, are expected to have a downward bias from previous estimates due to the impact of fuel price hikes and higher interest rates. The agricultural sector is not expected to have performed as strongly as originally estimated in 2022, due to slowing rice production given high rainfall and pest disturbances. The performance of the manufacturing industry is expected to have improved in the fourth quarter of 2022, supported by stronger performance of export-oriented industries, such as base metals. Performance of the Mining sector in quarters III and IV 2022 was not as strong as previously forecast due to lower metal mining output, contractions in oil and gas production and

Table 2.4. GDP Growth Projection, Expenditure Side

in percent

Components	2022	2023
Gross Domestic Product	4.5 - 5.3	4.5 - 5.3
Private Consumption	4.4 - 5.2	4.6 - 5.4
Government Consumption	-5.1 - -4.3	3.2 - 4.0
Investment (GFCF)	3.8 - 4.6	6.8 - 7.6
Goods and Services Exports	14.9 - 15.7	6.0 - 6.8
Goods and Services Imports	12.3 - 13.1	6.6 - 7.4

Source: Bank Indonesia

Table 2.5. GDP Growth Projection, Sector Side

in percent

Components	2022	2023
Gross Domestic Product	4.5 - 5.3	4.5 - 5.3
Agriculture, Forestry, and Fisheries	1.6 - 2.4	3.7 - 4.5
Mining and Excavation	3.7 - 4.5	3.5 - 4.3
Manufacture	3.4 - 4.2	3.6 - 4.4
Electricity and Gas Procurement	5.5 - 6.3	3.3 - 4.1
Water Supply	3.2 - 4.0	4.1 - 4.9
Construction	1.9 - 2.7	5.4 - 6.2
Wholesale Retail, Car and Motorcycle Repairs	3.7 - 4.5	4.0 - 4.8
Transportation and Warehousing	13.0 - 13.8	8.0 - 8.8
Provision of Accomodation, Food and Beverages	10.1 - 10.9	5.6 - 6.4
Information and Communication	7.4 - 8.2	9.0 - 9.8
Financial Services and Insurance	2.9 - 3.7	5.7 - 6.5
Real Estate	1.8 - 2.6	2.3 - 3.1
Corporate Services	6.2 - 7.0	7.5 - 8.3
Government Administration, Defence and Compulsory Social Security	-2.2 - -1.4	0.3 - 1.1
Education Services	3.4 - 4.2	4.2 - 5.0
Health Services and Other Social Activities	5.5 - 6.3	5.9 - 6.7
Other Services	5.8 - 6.6	2.9 - 3.7

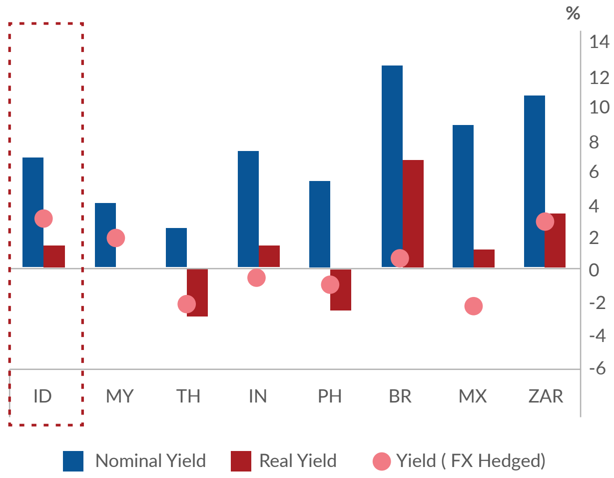
Source: Bank Indonesia

bad weather affecting coal production. The outlook for the main business fields in 2023 is predicted to be less bright given restraints on external performance and natural resource commodity prices that would not be as strong as in 2022.

External resilience of the Indonesian economy is expected to remain solid, supported by healthy performance of Indonesia's Balance of Payments (BOP) in line with continued strong export performance. The current account balance in 2022 is predicted to show a surplus in the range of 0.4% - 1.2% of GDP, supported by exports as global commodity prices remain high and demand for Indonesian commodities continues stills solid. Meanwhile, the capital and financial accounts are supported by direct investment so that the 2022 balance of payments should remain under control and in surplus. The BOP in 2023 is predicted to remain healthy, supported by a surplus in the capital and financial accounts amid a steady current account balance. The global economic slowdown led to a moderation in exports. Meanwhile, imports have increased in line with improving domestic demand so that the current account surplus in 2023 is projected to fall to a level within the range of a 0.4% surplus to a 0.4% deficit of GDP. The capital and financial accounts are expected to improve, mainly due to direct investment and foreign portfolio investment flows that are returning to Indonesia. Meanwhile, the position of foreign exchange reserves, which at the end of December 2022 was recorded at USD 137.2 billion, should continue to increase and therefore support Indonesia's external resilience. With uncertainty in the global financial markets easing, at least after the FFR hikes peak in the first quarter of 2023, the Rupiah exchange rate is expected to steady and even have a tendency to strengthen according to its fundamentals. This is in line with several factors: the forecast surplus in the balance of payments; controlled inflation back in the target range of 3.0±1%; a fiscal deficit below 3% of GDP; relatively strong economic growth; and yields on Indonesia's SBN that are attractive compared to other developing countries (Chart 2.14).

Inflation is projected to decline in 2023 and return to the 3.0±1% target. Core inflation is expected to return to the target range fairly quickly, that is, in the first half of 2023. This is due to several factors: controlled imported inflation; a relatively stable Rupiah exchange rate; and a front-loaded,

Chart 2.14. Government Bond Yields in Emerging Markets



Source: Bloomberg

pre-emptive and forward-looking monetary policy response that moderates high inflation expectations. At the same time, the increase in VF inflation is expected to remain under control in line with the decline in global commodity prices; more conducive 2023 weather forecasts; and price control measures taken by the Central and Regional Governments, Bank Indonesia and various other strategic partners through tighter TPIP-TPID and GNPIP. For its part, AP inflation will also be lower with a limited chance of energy price hikes given lower fuel costs. The policy synergy between the Central and Regional Governments and Bank Indonesia will continue to be strengthened to ensure that inflation returns to its target range as soon as possible.

Digital economic and financial transactions (EKD) continue to grow supported by Bank Indonesia's policy to accelerate the digitalization of payment systems to promote national economic recovery. Development of the digital economy and finance (EKD) continues apace, supported by increasing public acceptance and preference for online shopping; the expansion and convenience of digital payment systems; and an acceleration of digital banking. The value of Electronic Money (EU) transactions in 2022 grew 36.0% (yoy) to IDR 400 trillion (Table 2.6), while the value of digital banking transactions in 2022 rose by 28.7% (yoy) to IDR 52,546 trillion. The acceleration of digitalization of the payment system also helped e-commerce transactions to grow rapidly, rising 18.7% to IDR 476 trillion in 2022. To encourage payment system acceleration and innovation, Bank Indonesia continues to accelerate implementation of the 2025 Payment System Blueprint (BSPI), both improving acceptance and expanding the features of QRIS and BI-FAST payment services, as well as implementing SNAP and consolidating the Indonesian payment system industry to form strong and competitive Indonesian unicorns. Bank Indonesia will

Table 2.6. Performance and Projections for the Indonesian Payment System

Transaction	Growth (%)			Value (Rp Trillion)		
	2022	2023	2024	2022	2023	2024
Digital Economy and Finance						
E-Commerce	18.7	11.8	10.4	476	533	588
Digital Banking	28.7	22.1	23.7	52,546	64,175	79,355
Electronic Money	36.0	23.9	25.7	400	495	622
Card-Based Payment						
ATM-Debit Cards	20.8	2.1	2.6	7,922	8,089	8,303
Credit Cards	31.7	20.6	16.0	322	388	450
Bank Indonesia Payment System						
SKNBI	4.7	-2.4	-4.5	5,133	5,012	4,788
BI-FAST		180.0	86.0	1,986	5,757	10,688
BI-RTGS	15.3	5.7	7.7	98,247	103,816	111,845
Rupiah Currency Distribution						
Currency in Circulation (UYD)	6.9	7.6	7.8	1,026	1,104	1,190

Source: Bank Indonesia

also expand payment system cooperation between countries, both in ASEAN and with strategic partners of other countries.

The increase in EKD transactions is expected to continue in 2023 supported by Bank Indonesia's policy to accelerate and strengthen integration of the EKD ecosystem. The adoption of the use of e-commerce is expected to grow to IDR 533 trillion in 2023 supported by wider digital adoption among the general public, an increasing number of merchants and expanding digital payment system infrastructure. This can be seen in the increase in the value of BI-FAST transactions which are forecast to grow 180.0% to Rp5,757 trillion. In 2023, the value of EU transactions is expected to grow 23.9% to IDR495 trillion. Meanwhile, transactions using debit and credit cards are predicted to grow by 2.1% and 20.6%, respectively, in 2023 in line with changes in people's preferences for digital payments and the return of activity to shopping centers. In digital banking, the banking service strategy will continue to grow. Conventional banks are developing apps to build digital ecosystems by integrating lifestyle features, while digital banks offer simple, intuitive and easy-to-use financial service features, by utilizing their digital ecosystem. With these developments, the value of digital banking transactions is expected to grow by 22.1% to IDR64,175 trillion in 2023. In terms of money in circulation, the Currency in Circulation (UYD) is predicted to increase by 7.6% to IDR 1,104 trillion in 2023. Bank Indonesia continues to ensure the availability of Rupiah currency throughout the Unitary State of the Republic of Indonesia, including the circulation of Banknotes for the 2022 Year of Issuance.

2.3

Medium Term Outlook Towards a Developed Indonesia

The outlook for national economic improvement remains intact over the medium term with a resilient economic structure that will support the transformation of the national economy towards a developed Indonesia. This optimism reflects the improving prospects for the global economy as well as increased investment and productivity from the implementation of structural reform policies in both the real sector and acceleration of the national digital economy and finance. Increased economic competitiveness, as well as greater industrial capacity and capability, will support resilient and strong economic growth with an improved economic structure. Success in downstreaming will increase the added value of exports as well as have a positive impact on boosting investment and productivity. In addition, a more conducive business and investment climate, including through the implementation of the Job Creation Law, will promote higher economic growth. Indonesia's economic growth is projected to increase further to the range of 4.8-5.6% in 2025; 4.9-5.7% in 2026; and 5.0-5.8% in 2027. Inflation, meanwhile, is expected to remain low in the range of 1.5-3.5%, assisted by increased national production capacity through greater efficiency and productivity in meeting rising aggregate demand in the economy. The current account deficit is also predicted to remain under control at a low level, thereby supporting a resilient Indonesian external sector. Against this backdrop, Indonesia is expected to become a high-income developed country by 2047.

Several risks, both in the short term and in the medium term, still need attention because they could weaken the economic outlook. In the short term, global turmoil could adversely affect the domestic economy through both the trade and financial channels. In the trade channel, the impact of the global economic slowdown and even an economic recession in several countries could lead to a decline in the contribution of exports in supporting economic growth. Meanwhile, high global energy and food prices could result in persistently strong domestic inflationary pressures. As for the financial channel, a strong US dollar exchange rate, high monetary policy interest rates and US Treasury yields, as well as an elevated risk premium and uncertainty in global financial markets, could lead to a flight of foreign portfolio investment (capital outflows), which would push up SBN yields and put pressure (depreciation) on the Rupiah exchange rate. Onset of such global turmoil would increase financial system stability risks; exchange rate risk; higher SBN yields; and greater credit risk from reduced domestic economic activity. In the medium to long term, there is a further risk that a multipolar pattern of global trade might derail Indonesia from its trajectory towards a developed Indonesia. This risk arises because of political and economic fragmentation that has reduced US and European dominance in global trade and in the global economy, as countries in Asia - especially China and India--play a larger role. A number of countries in Africa would also grow faster and increase their share of global trade.

Box 2

National Movement for Controlling Food Inflation (GNPIP)

Price stability and food security were the main economic and financial challenges for Indonesia in 2022. The price of certain foodstuffs, especially horticulture foodstuffs, namely red chilies, cayenne peppers and shallots, rose significantly in the middle of the year due to bad weather in production centers. Also, the price of cooking oil also rose sharply at the beginning of the year in response to the increase in global CPO prices, due to disruptions in global supply chains. Amid the decline in domestic production, these various conditions posed a risk to national food security.

The National Movement for Controlling Food Inflation (GNPIP) is focused on synergizing and innovating to strengthen inflation control programs and establish national food security. GNPIP is part of the Central and Regional Inflation Control Team (TPIP - TPID) program, which is undertaken together by Bank Indonesia and the Central Government, Regional Governments and strategic partners. This strengthening of synergy and innovation supports extra efforts to control food inflation, as called for by the President of the Republic of Indonesia at the 2022 National Coordination Meeting (Rakornas) on Inflation Control. GNPIP seeks to optimize measures to control food inflation from the supply side and encourage production in order to improve food security, so as to support purchasing power and accelerate national economic recovery. Policy synergy as part of efforts to support food inflation control was also pursued at the same time to encourage the role of MSMEs.

GNPIP is being undertaken in an integrated, end-to-end and innovative fashion on a national scale within the framework of achieving Price Stability, Supply Availability, Smooth Distribution and Effective Communication (4K). GNPIP efforts are focused on 7 flagship programs implemented by Bank Indonesia Domestic Representative Offices (KPwDN), namely: (i) The optimization of State Ministry/Institution and PEMDA budgets for Market Operations and the Availability of Supply and Price Stabilization (KPSH), as well as to maintain purchasing power; (ii) The expansion of Inter-Regional Cooperation (KAD); (iii) Optimizing the distribution of strategic foodstuffs through subsidized transportation costs; (iv) Strengthening the resilience of horticultural commodities and other strategic food supplies, including through a Chili Planting Movement and replication of best practices in the upstream and downstream chili cluster business model; (v) Increasing the use of agricultural machinery and agricultural production facilities in order to support the end-to-end development of food clusters; (vi) Strengthening Information and Communication Technology (ICT) infrastructure, digitization, food data and information; and (vii) Strengthening coordination and communication to maintain inflation expectations. In its implementation, some of these programs are being pursued at the same time to encourage the role of MSMEs.

GNPIP was implemented in 2022 in all 46 BI Regional Office (KPwDN) working areas from July to December 2022. The targets set in 2022 include: (i) the implementation of 254 Market Operations in 38 KPwDN; (ii) the expansion of 40 KAD in 31 KPwDN; (iii) the implementation of 34 transportation fare subsidy policy programs in 14 KPwDN; (iv) the use of 0.94 million polybags by 46 KPwDN under the Chili Planting Movement and business model replication of 33 programs in 23 KPwDN; (v) the distribution of agricultural machinery and agricultural production facilities through synergy with 29 Bank Indonesia Social Programs (PSBI) in 18 KPwDN; (vi) the digitalization of 46 programs; and (vii) strengthening coordination and communication through the implementation of 68 TPID High Level Meetings (HLM) in 33 KPwDN (Figure 1).

As of end-2022, all GNPIP programs were above target, with Market Operation activities performing the best. The realization of Market Operations until December 30 2022 reached 1,038.5% with the implementation of 2,638 points in 46 KPwDN for various commodities such as chilies, shallots, rice, cooking oil, beef, chicken meat and eggs, as well as granulated sugar. TPID's commitment to maintaining

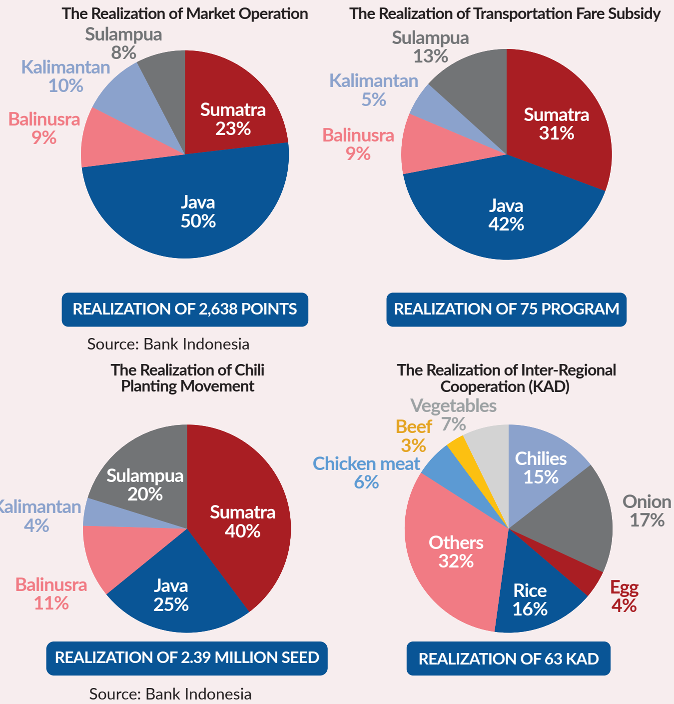
Figure 1.GNPIP Target and Realization

PROGRAM TARGET AND REALIZATION

	Target (July - Dec 2022)	Realization (July - 30 Dec 2022)	
Market Operation (such as "Pasar Murah")	254 points in 38 KPwDN	2638 points in 46 KPwDN	1038.5%
Inter-Regional Cooperation (KAD)	40 KAD in 31 KPwDN	63 KAD in 25 KPwDN	157.5%
Transportation Fare Subsidy	34 Program in 14 KPwDN	75 Program in 32 KPwDN	220.6%
Chili Planting Movement	0,94 million Polybag in 46 KPwDN	2,39 million Polybag in 46 KPwDN	254.2%
Business Model Replication	33 Program in 23 KPwDN	86 Program in 34 KPwDN	260.6%
Alsintan dan Saprotan (PSBI)	18 KPwDN 29 PSBI*	45 KPwDN Rp 32,21 Billion	250.0%
Digitalization (Data and Information)	46 Program	48 Program in 40 KPwDN	104.3%
Coordination and Communication	68 HLM in 33 KPwDN	152 HLM in 33 KPwDN	223.5%

*(nominal based on the needs of food cluster development)

PROGRAM REALIZATION BASED ON REGION AND COMMODITIES



price stability in the regions has encouraged the implementation of more Market Operations than initially anticipated, including those that have been synergized with the implementation of Market Operations by Ministries/Institutions. The Market Operations program is considered quite effective in reducing the prices of the majority of commodities in the program. However, the program is not yet fully optimal for rice and beef given that high rice prices are also caused by seasonal patterns as well as the National Food Agency's Highest Retail Price (HET) regulation. Meanwhile, for beef, the geographical coverage and the size of the Market Operations need to be expanded in order to offset the surge in demand amid declining stocks due to hoof and mouth disease (FMD).

Implementation of the Chili Planting Movement program and replication of the upstream and downstream chili cluster business model also exceeded the targets. As of December 30, 2022, the two programs have achieved 254.2% and 260.6% of the initial targets, respectively. A total of 2.39 million polybags of seeds have been distributed in 46 KPwDN with beneficiaries, including women farmers' groups and assisted village communities. This success is also a testament to the related assistance and education concerning food security given to the community. As of December 2022, the Chili Planting Movement's harvests are predicted to meet the consumption needs of households receiving seeds, such that the price of various chilies at the end of the year came under control. Business model replication reached 260.6% of the target with the implementation of 86 programs in 34 KPwDN. In this program, potential off-takers who can absorb excess production, have been mapped, including those through the Chili Planting Movement. Off-takers with this potential consist of aggregators, industries and marketplaces. Nonetheless, cooperation with off-takers needs to be strengthened, especially for the absorption of harvests and to achieve price stabilization.

Realization of the freight subsidy program and KAD were also higher than initially targeted. As of 30 December 2022, the two programs had reached 220.6% and 157.5% of their targets, respectively.

A total of 75 transport subsidy programs had been carried out in 32 KPwDN for various commodities such as chilies, shallots, cooking oil and broiler chicken eggs. The implementation of freight subsidies was also carried out to support Market Operation activities, with funding sources including the Unforeseen Expenditure Budget (BTT) in the Regional Revenues and Expenditure Budget (APBD), as well as 2% of the General Transfer Fund (DTU). However, use of the freight subsidy budget is not considered to be fully optimal, mainly due to the lack of regional understanding regarding the provisions and implementation related to BTT and DTU. The KAD program achieved 157.5% of the initial target, namely 63 KAD in 25 KPwDN, with KAD trading partners being intra- and inter-provincial. The commodities traded included various processed foods, rice, various types of chilies and onions, eggs and purebred chicken meat, beef and various vegetables. Going forward, the strengthening of Interregional Cooperation can still be improved through optimizing food BUMD, as well as achieving synergy with government policy facilities, such as sea highways and air bridges (air cargo transportation subsidy facilities) with the Ministry of Transportation, especially in underdeveloped, remote, outermost and border areas (3TP).

The digitization program undertaken by KPwDN within the framework of GNPIP also exceeded its targets. As of 30 December 2022, the achievement of the digitalization program was 104.3% of target with the implementation of 48 programs in 40 KPwDN. The main challenges in implementing the digitalization program include the low digital literacy of farmers, which requires intensive assistance, relatively high costs and the availability of supporting technological infrastructure. Meanwhile, the targets for the Agricultural Equipment and Machinery and Agricultural Production Facilities' distribution program as well as the coordination and communication program reached 250% and 223.5% of the targets, respectively. A total of 45 KPwDN have distributed as much as IDR 32.21 billion for the provision of the Agricultural Equipment and Machinery and Agricultural Production Facilities in the context of developing food clusters. In the coordination and communications program, 152 HLMs have been implemented in 33 KPwDN. In the third quarter of 2022, the theme of the TPID HLM included the risk of volatile food (VF) inflation; the issue of food scarcity; and the synergy required in controlling inflation and achieving regional food security. Furthermore, the topics discussed included the impact of subsidized fuel price adjustments and the risk of rising inflation due to global conditions. To mitigate associated risks, a number of recommendations have been formulated, including: the importance of implementing GNPIP; distributing social assistance and Direct Cash Assistance (BLT); optimizing BTT and Regional Incentive Funds (DID) to control inflation; market inspections; and periodic monitoring and evaluation.