Chapter 2

NATIONAL ECONOMIC PERFORMANCE AND PROSPECTS: STABILITY MAINTAINED, RECOVERY INTACT

The synergy of prudent and consistent national economic policies can support the continued recovery of the national economy amidst global economic slowdown. Economic growth is projected to reach 4.5-5.3% in 2023 and is expected to increase into the range of 4.7-5.5% in 2024, supported by the maintenance of stability. Inflation is declining markedly and it is well-controlled within the target range. Banking resilience and financial system stability are maintained, supported by adequate liquidity, strong capitalization and low credit risk. Moving forward, the economic prospects for 2025 are projected to improve further, with growth of 4.8-5.6% with the continued maintenance of monetary and financial system stability.

Economic performance and a favorable outlook have been maintained in Indonesia, despite increasing global uncertainty. Macroeconomic and financial system stability have been maintained and economic recovery continues, despite rapidly changing and worsening global dynamics. Inflation has quickly returned to its target range, while economic growth remains robust. This positive performance is attributable to prudent and consistent national economic policies. In particular, synergy between fiscal and monetary policies as well as the Financial System Stability Committee (KSSK), plays a crucial role. Moving forward, Bank Indonesia is optimistic that the prospects for national economic improvement will continue, with the maintenance of stability and sustained economic growth. Notwithstanding several risks posed by the dynamics of heightened global uncertainty, vigilance and an appropriate national policy mix will protect against spillover effects on the national economy.

2.1. The economy continues to expand and remains resilient

The Indonesian economy continues to expand and remains resilient, despite risks of spillover effects from the global economy. Economic growth continued improving in the third quarter of 2023, underpinned by domestic demand, despite external sector moderation in line with the global economic downturn. In terms of domestic demand, private consumption maintained solid growth, including consumption by the younger generation, along with higher consumption in the services sector, sustained consumer confidence and maintained purchasing power, in line with low inflation and fiscal policy support from sources including subsidies and various social assistance programs. Investment growth also remains strong, driven by the ongoing National Strategic Projects (PSN) and non-building investment. On the external side, real growth of exports of goods weakened, reflecting lower demand from major trading partners, particularly China, and declining commodity prices; exports of services grew strongly reflecting an increase in the number of foreign tourists. Entering the fourth quarter of 2023, various indicators (such as retail sales, the consumer confidence index, cement sales and the Purchasing Manager's Index (PMI)) remained in an expansionary zone, thus confirming continued economic growth in Indonesia. Sustained economic growth is reflected in the performance of major economic sectors such as manufacturing, mining, construction, and services-related sectors, including transportation and warehousing, accommodation and food services, as well as information and telecommunications. On this basis, Bank Indonesia projects economic growth in the range of 4.5-5.3% in 2023, increasing to 4.7-5.5% in 2024 and 4.8-5.6% in 2025 (Table 2.1). Economic gains in 2024 would mainly be driven by domestic demand in line with higher salaries for civil servants, the national general elections and the development of the New

Table 2.1. Indonesia's Economic Growth: 2023-2025 (%, yoy)

Component	2022*	2023**			2023ᴾ	2024ᴾ	2025ᴾ
		I	II	III			
Economic Growth	5.31	5.04	5.17	4.94	4.5-5.3	4.7-5.5	4.8-5.6
Private Consumption	4.93	4.54	5.22	5.06	4.5-5.3	4.6-5.4	4.6-5.4
Government Consumption	-4.51	3.34	10.57	-3.76	2.9-3.7	2.8-3.6	2.8-3.6
Investment	3.87	2.11	4.63	5.77	4.1-4.9	5.0-5.8	5.2-6.0
Export	16.28	11.94	-2.97	-4.26	-0.5-0.3	-0.4-0.4	6.1-6.9
Import	14.75	3.69	-3.06	-6.18	-2.9 - -2.1	-1.1 - -0.3	7.1-7.9

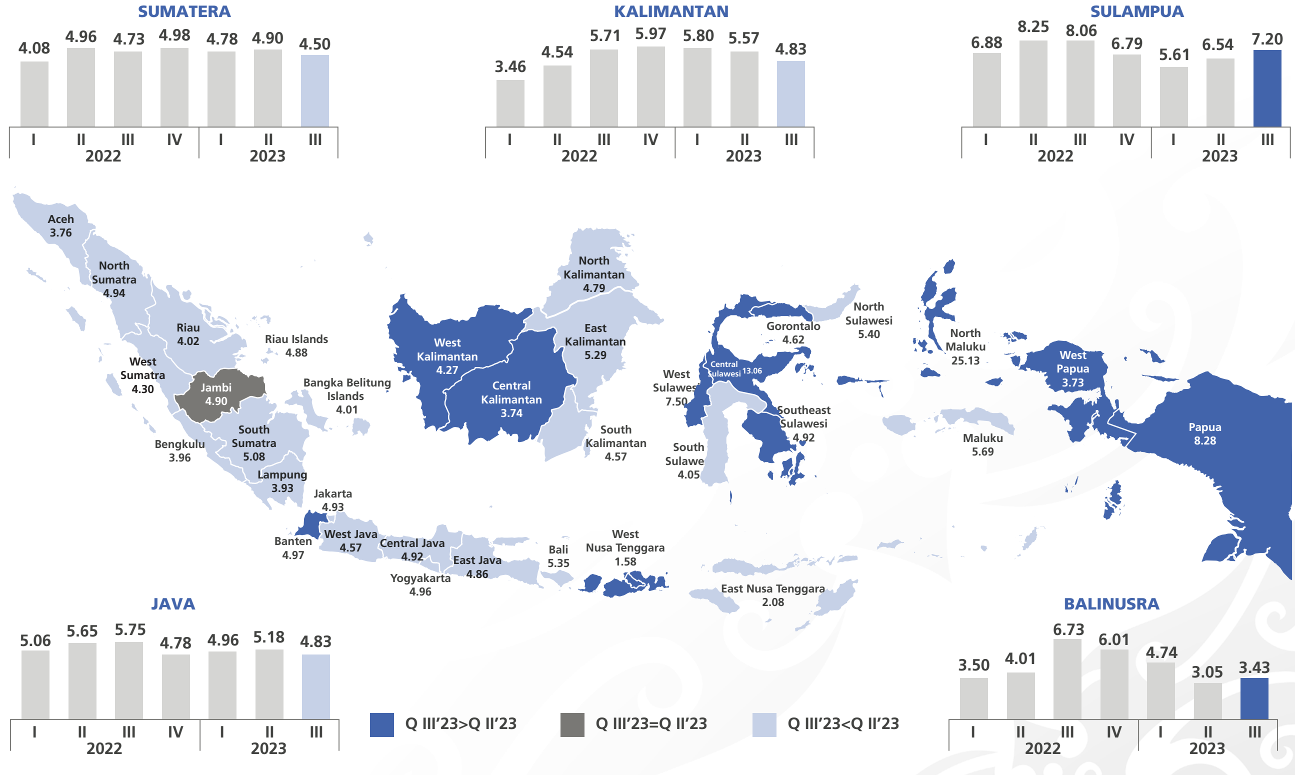
Source: BPS, Bank Indonesia

Notes: *Very preliminary figure; **Very very preliminary figure; ᴾBank Indonesia's Projection

Capital City (IKN). Bolstering economic growth on the demand side, Bank Indonesia will increase macroprudential policy stimuli and accelerate payment system digitalization in close synergy with the fiscal policy of Government.

Resilient economic growth in Indonesia is supported by economic growth in nearly all regions. Regional economic growth continued to improve in the third quarter of 2023, led by Sulampua (Sulawesi-Maluku-Papua), followed by Java, Kalimantan, Sumatra and Balinusra (Bali-Nusa Tenggara). Exports were the main driver of strong economic performance in Sulampua in line with ongoing efforts to downstream mineral mining, supported by strong private consumption. On Java, consumption and building investment were the main contributors to robust economic growth, as the completion of PSNs continued amid rising manufacturing exports. In Kalimantan, economic growth was underpinned by building investment related to the development of the new National Capital City (IKN) and solid private consumption, despite weaker exports of natural resources, due to declining demand among major trading partners, especially China. The economy of Sumatra also performed well due to private consumption and building investment as PSN continued, which offset the impact of moderating exports of natural resources, especially coal and palm oil. Meanwhile, positive economic growth was maintained in Balinusra, primarily attributable to private consumption alongside the recovery of tourism and investment in the mining sector. Looking ahead, further economic gains are projected in most regions amidst the normalization of economic growth in Kalimantan as capital expenditure for the new capital city normalizes, and in Sulampua due to the completion of capital investment realization in several downstream nickel projects. Therefore, the regional economies of Sumatra, Java, Kalimantan, Balinusra and Sulampua are projected to grow in 2023 in the range of 4.1-4.9%; 4.6-5.4%; 4.8-5.6%' 3.4-4.2%; and 6.2-7.0%, respectively. In 2024, these would generally increase somewhat to: 4.5-5.3%;4.7-5.5%; 4.3-5.1%; 3.8-4.6%; and 6.7-7.5% (Figure 2.1).

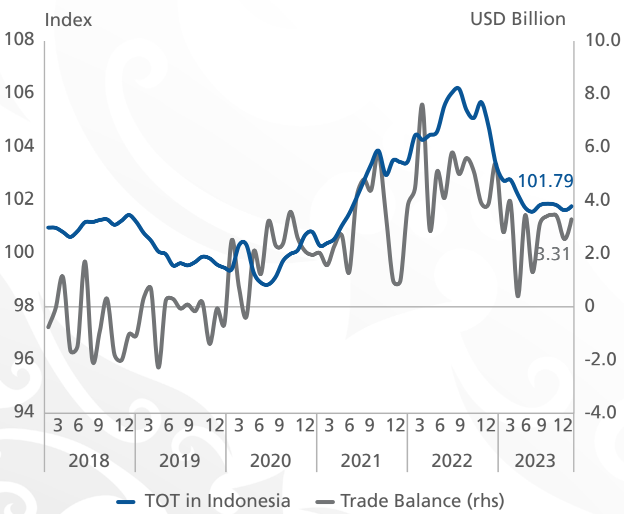
Figure 2.1. Economic Growth by Region in the Third Quarter of 2023 (%, yoy)



Source: BPS (calculated)

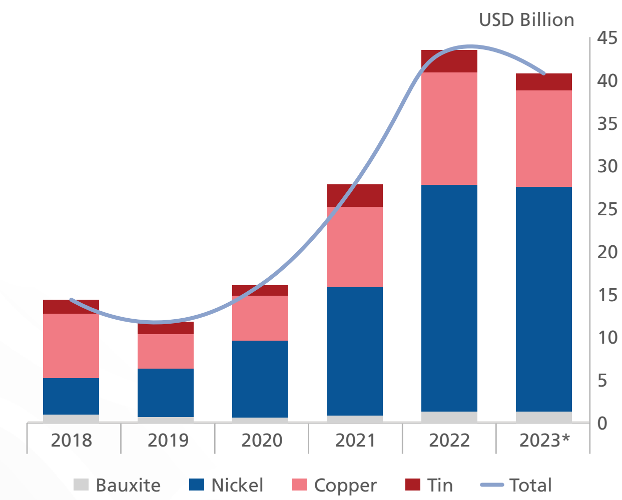
Indonesia's Balance of Payments (BOP) maintained external stability. A trade surplus was maintained in 2023, thereby supporting a healthy current account. Despite the ongoing global slowdown, declining terms of trade and strong domestic demand, Indonesia's trade balance recorded a surplus of USD36.93 billion in 2023, narrower than the previous year's surplus of USD54.46 billion (Graph 2.1). A further narrowing of the trade surplus was avoided due to strong exports of downstream products, particularly mineral and mining products (nickel, copper, tin and bauxite), totalling around US40.8 billion in 2023 (Graph 2.2). Mirroring these developments, a narrow current account deficit was also recorded in the same period. On capital account, elevated global financial uncertainty triggered net outflows of portfolio investment; they amounted to USD0.1 billion as of the third quarter of 2023. In the fourth quarter of 2023, foreign capital returned to the domestic market, recording net inflows of USD5.5 billion. Official reserve assets at the end of 2023 stood at USD146.4 billion, equivalent to 6.7 months of imports or 6.5 months of imports and servicing of government external debt. This is well above the international adequacy standard of around three months of imports. Looking ahead, Indonesia's BOP in 2023 is projected to remain sound, accompanied by a current account that is forecast to be near balance, in the range of a 0.4% surplus to a 0.4% deficit of GDP (Table 2.2). In 2024, Indonesia's BOP will be supported by foreign capital inflows, particularly in the form of Foreign Direct Investment (FDI) given Indonesia's promising economic outlook and attractive returns on investment. BOP performance will also be supported by a manageable current account deficit, forecast to range from 0.1% to 0.9% of GDP. This favourable outcome would occur, despite the global economic downturn, weak terms of trade and a recovery of domestic

Graph 2.1. Terms of Trade (ToT) in Indonesia



Source: Bloomberg, BPS (calculated)

Graph 2.2. Exports of Downstream Mineral and Coal Mining Products



Source: Bank Indonesia

Note: *Figures are very preliminary

Table 2.2. Indonesia's Balance of Payments (US dollars, billions)

Component (USD Billion)	2019	2020	2021					2022*					2023		
			I	II	III	IV	Total	I	II	III	IV	Total	I*	II*	III**
Current Account	-30.3	-4.4	-1.1	-1.9	5.0	1.5	3.5	0.6	3.9	4.6	3.7	12.9	3.0	-2.2	0.9
A. Goods	3.5	28.3	7.6	8.3	15.4	12.4	43.8	11.3	16.8	17.6	17.0	62.7	14.7	10.1	10.3
- Export, fob	168.5	163.4	49.4	54.3	61.7	67.5	232.8	66.8	75.2	77.8	72.8	292.5	67.3	62.0	64.0
- Import, fob	-164.9	135.1	-41.7	-46.0	-46.2	-55.1	-189.0	-55.5	-58.4	-60.2	-55.8	-229.9	-52.6	-51.8	-53.7
a. Nonoil & Gas	13.8	33.7	9.9	11.5	17.9	17.5	56.8	17.0	24.0	24.1	22.4	87.4	18.7	14.7	15.4
b. Oil & Gas	-10.3	-5.4	-2.3	-3.1	-2.5	-5.0	-13.0	-5.7	-7.2	-6.5	-5.4	-24.8	-4.0	-4.5	-5.2
B. Services	-7.6	-9.8	-3.4	-3.7	-3.5	-4.0	-14.6	-4.4	-5.0	-5.3	-5.5	-20.2	-4.6	-4.7	-4.1
C. Primary Income	-33.8	-28.9	-6.8	-8.0	-8.3	-8.9	-32.0	-7.9	-9.4	-9.1	-9.6	-35.9	-8.6	-9.2	-8.5
D. Secondary Income	7.6	5.9	1.4	1.5	1.4	2.0	6.3	1.5	1.5	1.4	1.9	6.4	1.5	1.5	1.5
Capital and Financial Account	36.6	7.9	5.8	1.5	7.3	-2.1	12.6	-1.9	-1.8	-5.3	0.4	-8.6	4.0	-4.8	-0.3
1. Direct Investment	20.5	14.1	4.5	5.4	3.5	3.9	17.3	4.6	6.6	3.5	3.4	18.2	4.3	4.0	2.8
2. Portfolio Investment	22.0	3.4	4.9	4.0	1.2	-5.0	5.1	-3.2	-3.6	-3.1	-1.7	-11.6	3.0	-2.6	-3.1
3. Other Investment	-6.1	-9.6	-3.7	-7.9	2.5	-1.1	-10.2	-3.5	-4.7	-5.7	-1.7	-15.6	-3.5	-6.1	0.1
Overall Balance	4.7	2.6	4.1	-0.4	10.7	-0.8	13.5	-1.8	2.4	-1.3	4.7	4.0	6.5	-7.4	-1.5
Memorandum :	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve Assets Position	4.7	2.6	4.1	- 0.4	10.7	- 0.8	13.5	- 1.8	2.4	- 1.3	4.7	4.0	6.5	- 7.4	- 1.5
In Months of Imports and Official Debt Repayment	7.3	9.8	9.7	8.8	8.6	7.8	7.8	7.0	6.4	5.7	5.9	5.9	6.2	6.0	6.0
- Current Account (% GDP)	-2.7	-0.4	-0.4	-0.6	1.7	0.5	0.3	0.2	1.2	1.4	1.1	1.0	0.9	-0.6	-0.2

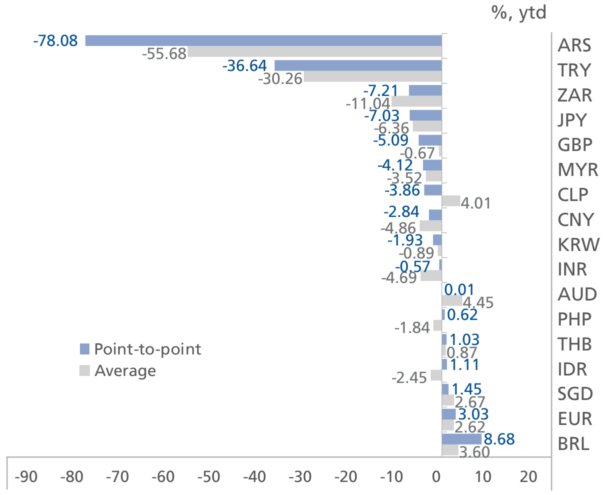
Source: Bank Indonesia

Notes: *Preliminary figure; **Very preliminary figure

economic activity. BOP gains are expected to persist in 2025, accompanied by a current account deficit of 0.5% to 1.3% of GDP in line with improving domestic economic activity and accelerating global economic growth.

Stability of the Rupiah exchange rate has been maintained, owing to the stabilization policy pursued by Bank Indonesia, amidst the strong US dollar which intensified depreciation pressure on many currencies. High interest rates, inducing stronger inflows of capital into the United States, precipitated a strong US dollar, causing downward pressure on many currencies in the world. The US dollar index (DXY) which recorded a high of 106.7 at the end of October 2023, remained at a high level, 101.3, through 29th December 2023. The strong US dollar has created broad-based depreciation pressures across most global currencies, including the Japanese yen, Chinese yuan and British pound sterling, which lost 7.03%, 2.84% and 5.09% (ytd) in value, respectively. Regional currencies, such as the Malaysian ringgit and Indian rupee also depreciated, by 4.12% and 0.57% (ytd) respectively (Graph 2.3). By contrast, the Rupiah fared much better than other regional or global currencies; its value appreciated by 1.11%, bolstered by the stabilization measures of Bank Indonesia. Moving forward and in line with high global financial market uncertainty, Bank Indonesia will continue strengthening Rupiah stabilization policy in line with the currency's fundamental value to help control imported inflation and to maintain macroeconomic and financial system stability. In addition to domestic foreign exchange market intervention, Bank Indonesia will accelerate efforts to deepen the money market and the foreign exchange market, while optimizing use of Bank Indonesia

Graph 2.3. Currency Movement Against USD



Source: Reuters, Bloomberg

Note: Data as of 29 Dec 2023

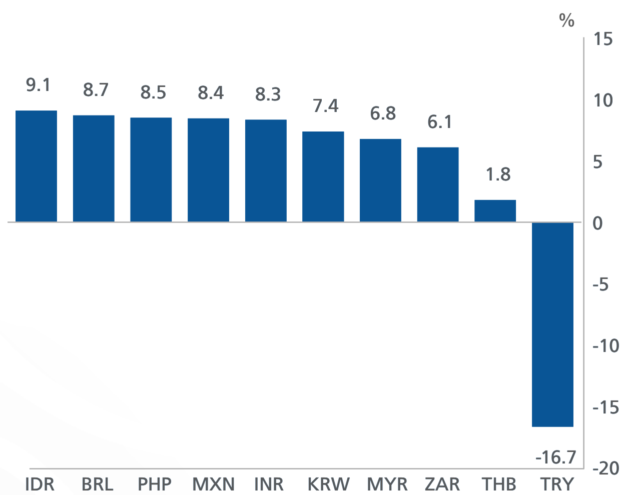
Rupiah Securities (SRBI), Bank Indonesia Foreign Currency Securities (SVBI) and Bank Indonesia Foreign Currency Sukuk (SUVBI). These market mechanisms will enhance liquidity management of the domestic financial institutions and attract foreign portfolio investment inflows. In addition, coordination with the government, the banking industry and the business community will be strengthened to improve implementation of the Government Regulation (PP) Number 36 of 2023 concerning the Exports Proceed from Natural Resources Goods (DHE SDA). Going forward, these measures, coupled with reduced global financial market uncertainty, would keep Rupiah exchange rate stable with a tendency to strengthen. This outcome is fully consistent with the BOP surplus that reflects stable FDI inflows and attractive SBN yields compared with other Emerging Market and Developing Economies (EMDEs); controlled inflation in the 2.5±1% range in 2024; and a promising economic growth outlook (Graph 2.4).

Inflation is under control within the target corridor. Consumer Price Index (CPI) inflation in December 2023 stood at 2.61% (yoy), significantly lower than the 5.51% (yoy) recorded at the end of 2022 (Graph 2.5). Headline inflation returned to within the 3.0±1% target as a tangible result of Bank Indonesia's consistent pro-stability monetary policy, coupled with close policy

> "The stability of the Rupiah exchange rate remains maintained with the stabilization policy pursued by Bank Indonesia, amidst the strength of the US dollar."

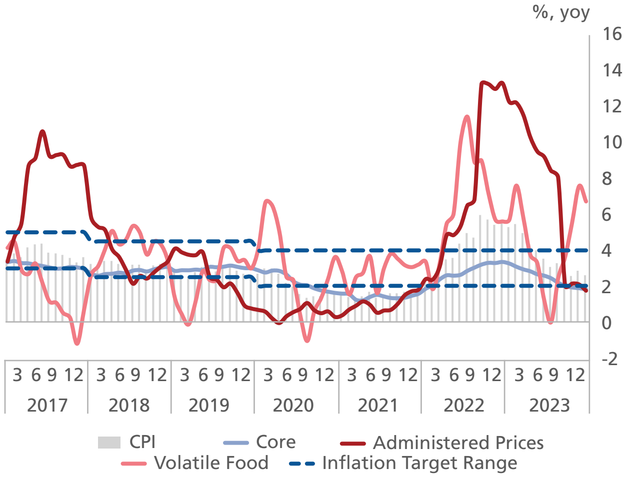
synergy between Bank Indonesia and the (central and regional) Government. Core inflation in 2023 remained low at 1.80% (yoy) in line with low imported inflation, inflation expectations that are well-anchored within the target range and sufficient economic capacity to respond to rising domestic demand. Volatile food inflation was also under control at 6.73% (yoy), underpinned by close synergy between Bank Indonesia and the (central and regional) Government within the Central and Regional Inflation Control Teams (TPIP and TPID). These arrangements strengthened the National Movement for Food Inflation Control (GNPIP) to manage food prices against the impact of El Niño. Administered price inflation fell to 1.72% (yoy) in response to the use of fiscal policy as a shock absorber against the impact of global economic uncertainty on domestic economic resilience. Moving forward,

Graph 2.4. Risk Adjusted Return (RAR)



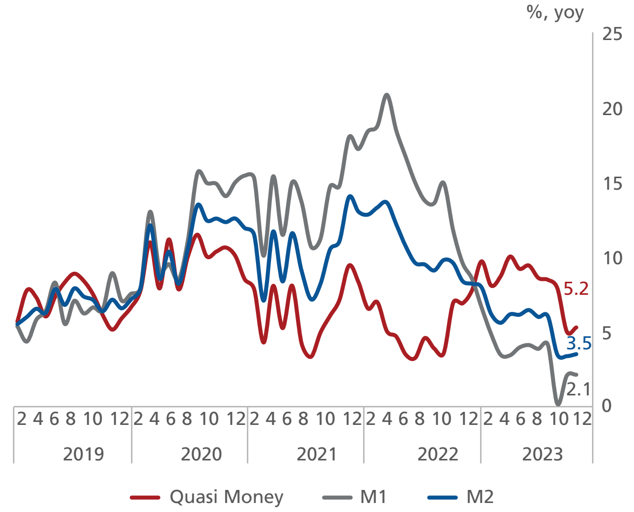
Source: Bloomberg (calculated)

Graph 2.5. CPI, Core, Volatile Food, Administered Prices Inflation, and Target



Source: BPS

Graph 2.6. Money Supply Growth



Source: Bank Indonesia

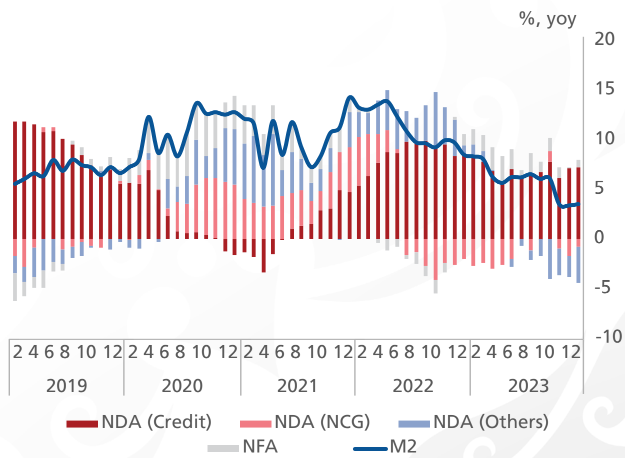
Bank Indonesia will continue monitoring various risks that could trigger inflationary pressures, including the impact of rising international food and energy prices, as well as pressures on imported inflation due to depreciation of the Rupiah. To that end, Bank Indonesia will continue strengthening its monetary policy mix and synergy with the (central and regional) Government to control inflation within the target of 3.0±1% in 2023 and 2.5±1% in 2024.

2.2. Banking Resilience and Financial System Stability are Maintained

Ample liquidity in the banking system and economy. Demand deposits placed by banks at Bank Indonesia declined in line with implementation of the Macroprudential Liquidity Incentive Policy (KLM), which resulted in primary money supply (M0 or base money) contracting by 1.5% year-on-year (yoy) in December 2023. For its part, broad money supply (M2) growth in December 2023 was recorded at 3.5% yoy, supported by robust growth of 5.2% (yoy) in quasi money and 8.7% (yoy) in currency in circulation (Graph 2.6). Looking at contributing factors, M2 growth was driven by persistently strong credit and an expansion in government financial operations (Graph 2.7). Government financial operations in December 2023 recorded an expansion of Rp124.8 trillion after previously contracting by Rp187.6 trillion up to November 2023. Bank Indonesia continues to ensure ample liquidity, both through existing policy effectiveness and by relaxing further macroprudential policies, to revive the ongoing increase in credit/financing to support national economic recovery.

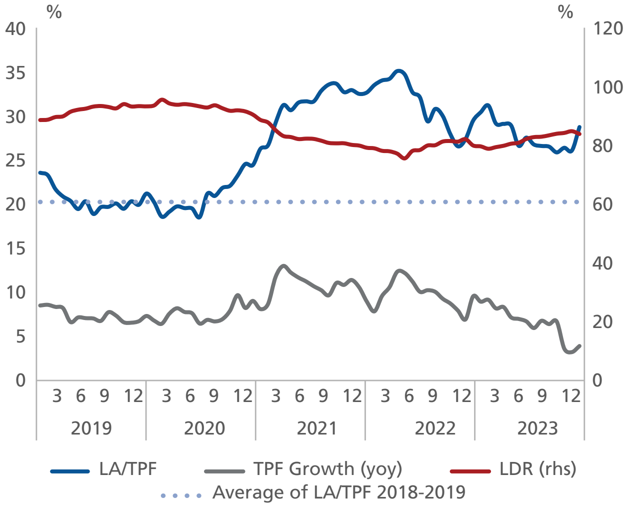
Ample liquidity supported banking intermediation and stability of the financial system. In December 2023, the Liquid Assets to Third Party Funds (LA/TPF) ratio remained high at 28.73% (Graph 2.8). The issuance of SRBI adds to bank's flexibility in managing

Graph 2.7. Government Financial Operations



Notes : Net Foreign Assets (NFA), Net Domestic Assets (NDA), Net Claims on Government (NCG)
Source: Bank Indonesia

Graph 2.8. Banking Liquidity

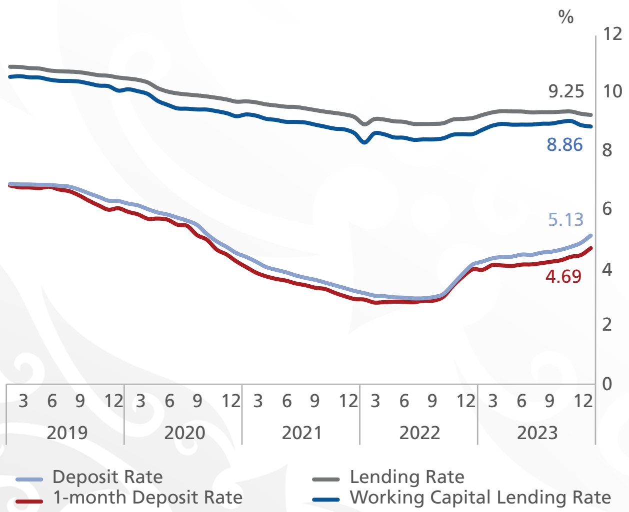


Source: Bank Indonesia

liquidity, thus helping maintain banking lending capacity. Ample liquidity has been conducive to competitive interest rates in the banking industry, with the 1-month term deposit rate and lending rate in December 2023 recorded at 4.69% and 9.25% respectively (Graph 2.9). Ample liquidity has also maintained in the banking industry with support from the KLM since October 2023; it has provided additional liquidity of Rp55 trillion to Rp163.3 trillion as of December 2023. Bank Indonesia continues to improve the effectiveness of the KLM liquidity incentives to encourage the channelling of banking loans/financing to priority sectors to support sustainable economic growth. Liquidity is projected to further increase going forward in line with increased credit growth in priority sectors, which are the policy focus. For example, a 100 bps reduction in the Macroprudential Liquidity Buffer (MPLB) to 5%, effective from 1st December 2023 with flexibility features, will further ease banking liquidity management. Bank Indonesia continues ensuring ample liquidity to maintain financial system stability and to increase lending in support of sustainable economic growth.

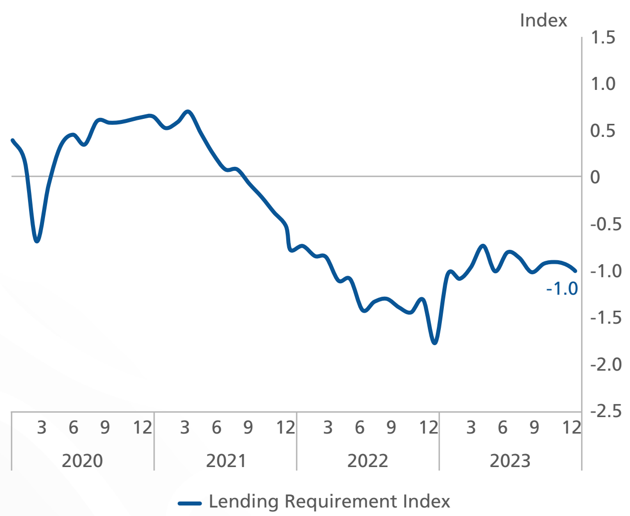
Bank lending continues to improve and is projected to grow at a faster pace. Loans disbursed by the banking industry recorded 10.38% (yoy) growth in December 2023, supported by bank appetite to lend and early signs of increasing demand for financing in line with solid corporate performance (Graph 2.10). By sector, the highest growth was recorded by tertiary sectors, such as social services, trade and business services, which have also recorded strong economic growth (Table 2.3). Sharia-based financing accelerated to 15.80% (yoy) in December 2023, while MSME loans reached 8.03% (yoy) on the back of increasing disbursements of People's Business Loans (KUR), among others. Moving forward, Bank Indonesia will continue reviving bank lending/financing and strengthening synergy with the Government to maintain economic growth momentum, primarily targeting priority and inclusive sectors and the green economy. Consequently, the loan growth

Graph 2.9. Banking Interest Rates



Source: Bank Indonesia

Graph 2.10. Lending Requirement Index



Source: Bank Indonesia

Table 2.3. Loans Disbursement by Banking Industry

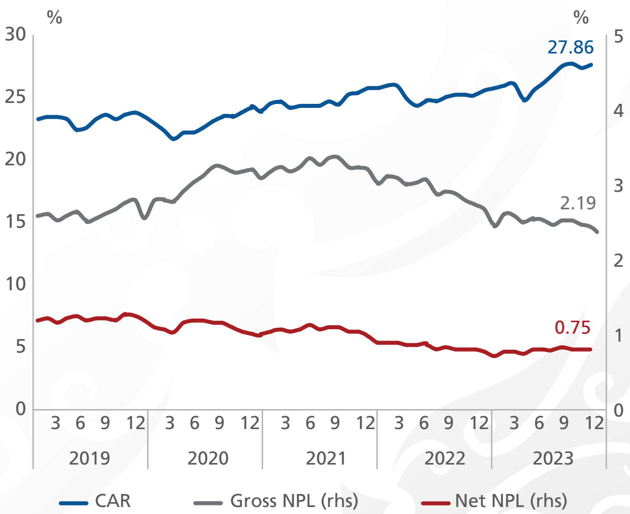
Industrial Origin	Economic Sector	Growth (%, yoy)								Growth (%, ytd)								Share	
		Sep'22	Dec'22	Mar'23	Jun'23	Sep'23	Oct'23	Nov'23	Dec'23	Sep'22	Dec'22	Mar'23	Jun'23	Sep'23	Oct'23	Nov'23	Dec'23	Nov'23	Dec'23
Primary	Agriculture	10.94	10.10	8.81	7.42	7.37	8.49	8.35	8.45	7.52	10.10	0.80	3.31	4.86	5.86	7.50	8.45	7.38	7.31
	Mining	49.51	54.35	43.41	20.02	22.66	15.23	16.83	22.36	43.12	54.35	-0.07	6.65	13.74	18.10	16.51	22.36	3.97	4.10
Primary Total		**20.94**	**21.67**	**18.22**	**11.38**	**12.27**	**10.80**	**11.17**	**13.07**	**16.83**	**21.67**	**0.51**	**4.42**	**7.81**	**9.92**	**10.49**	**13.07**	**11.35**	**11.35**
Secondary	Manufacturing	14.86	12.19	6.50	1.70	3.14	4.16	4.84	4.72	10.13	12.19	-3.08	-0.63	1.26	3.37	3.63	4.72	15.87	15.76
	Electricity, Gas and Water Supply	-8.64	1.64	-3.28	-7.79	7.81	4.36	9.52	13.33	0.54	1.64	-6.70	-3.10	6.64	3.53	8.18	13.33	2.52	2.59
	Construction	0.69	4.26	7.97	5.73	3.32	-0.68	-0.61	-0.37	1.70	4.26	1.75	1.65	0.79	-0.46	-0.41	-0.37	5.67	5.57
Secondary Total		**8.36**	**9.03**	**5.84**	**1.65**	**3.66**	**2.99**	**3.96**	**4.33**	**6.96**	**9.03**	**-2.27**	**-0.32**	**1.68**	**2.45**	**3.10**	**4.33**	**24.06**	**24.06**
Tersier	Wholesale Retail	7.78	6.61	4.75	3.62	5.44	5.55	7.82	8.77	6.86	6.61	0.63	3.32	5.69	6.20	7.53	8.77	18.02	17.91
	Transportation	7.68	2.22	1.45	5.11	11.15	14.30	16.31	19.28	4.16	2.22	-3.13	9.63	13.26	14.95	16.30	19.28	5.23	5.27
	Business Services	22.17	26.60	25.24	20.41	19.82	18.19	17.44	16.98	17.66	26.60	2.69	7.79	11.36	11.43	12.15	16.98	9.99	10.24
	Social/Public Services	13.69	18.23	25.89	28.00	29.33	33.79	33.14	35.06	11.94	18.23	7.67	15.79	22.45	26.62	29.86	35.06	3.89	3.98
Tertiary Total		**11.62**	**11.69**	**11.02**	**10.07**	**12.00**	**12.47**	**13.76**	**14.78**	**9.45**	**11.69**	**1.31**	**6.50**	**9.76**	**10.64**	**11.98**	**14.78**	**37.13**	**37.13**
Other		9.12	9.32	9.20	9.03	8.57	9.28	9.26	9.10	6.67	9.32	1.40	3.16	5.94	6.93	7.91	9.10	27.46	27.27
Total		**11.00**	**11.35**	**9.93**	**7.76**	**8.96**	**8.99**	**9.74**	**10.38**	**8.78**	**11.35**	**0.34**	**3.62**	**6.44**	**7.46**	**8.44**	**10.38**	**100.00**	**100.00**

Source: OJK, Bank Indonesia

forecast for 2023 is projected in the 9-11% range before accelerating to 10-12% in 2024 and 11-13% in 2025. Expectations of higher loan growth moving forward are also consistent with increasing domestic economic activity, which will boost demand for financing from the corporate and household sectors, including the younger generation who are playing a more significant role in the economy.

Banking industry resilience remains solid, supported by a strong capital base and low credit risk. The Capital Adequacy Ratio (CAR) of the banking industry remains high at 27.86%, with credit risk mitigated effectively, as reflected in low Non-Performing Loan (NPL) ratios of 2.19% (gross) and 0.75% (net) in December 2023 (Graph 2.11). Liquidity in the banking industry in December 2023 was maintained, as indicated by the ratio of liquid asset to third-party funds (LA/TPF), which remained high at 28.73%. This is lower than a year previously, in line with the increasing need for banks to finance an increase in credit in the face of third-party funds growth of 3.73% (yoy). The market risk associated with the Rupiah exchange rate and the increase in SBN yields were also under control in line with portfolio management and adequate loss reserves from banks. The results of Bank Indonesia stress tests confirmed solid

Graph 2.11. CAR and NPL in Banking Industry

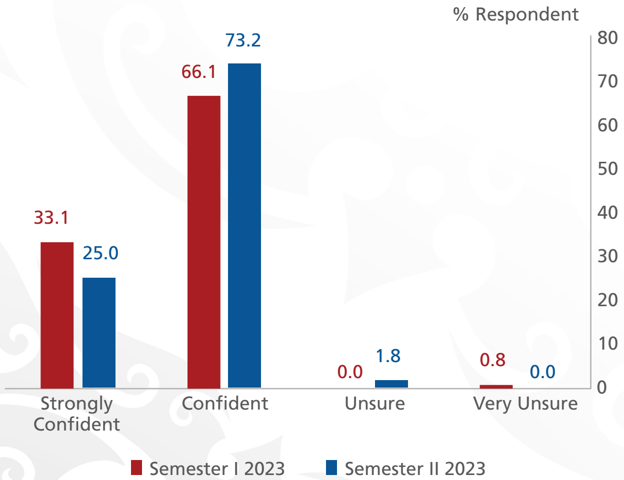


Source: OJK, Bank Indonesia

banking industry resilience in the face of global pressures. Resilience of the banking sector was also in line with the results of the Systemic Risk Survey conducted by Bank Indonesia, which showed that most respondents firmly believe that financial system stability will remain maintained up to and more than 6 (six) months ahead (Graph 2.12). Bank Indonesia will continue strengthening synergy with KSSK to mitigate various domestic and global economic risks that could undermine financial system resilience and economic recovery momentum.

Digital economic and financial transactions continue to perform solidly, supported by a secure, uninterrupted and reliable payment system. In the fourth quarter of 2023, the value of electronic money transactions increased 33.30% (yoy) to reach Rp238 trillion, while the value of digital banking transactions grew 13.25% (yoy) to Rp15,870.69 trillion. The value of QRIS transactions continues enjoying strong 170% (yoy) growth, amounting to Rp82.70 trillion, with users and merchants totalling 45.78 million and 30.41 million respectively, dominated by MSMEs. Bank Indonesia continues accelerating payment system digitalization and expanding cross-border payment linkages towards greater economic and financial inclusion as well as expansion of the digital economy and finance. Meanwhile, the value of card-based payments using ATM, debit and credit cards,

Graph 2.12. Perceptions of Financial System Stability



Note: Perceptions of FSS over the next 6 months
Source: Bank Indonesia

reached Rp2,051.90 trillion in the reporting period, down 1.79% (yoy). Moving forward, in line with faster payment system digitalization, the expansion of cross-border payment system cooperation as well as growing public acceptance and preference for digital transactions, digital economic and financial transactions are expected to continue increasing. Therefore, electronic money transactions in 2023 are expected to reach Rp836 trillion before growing 25.8% in 2024 to Rp1,051 trillion. The value of digital banking transactions in 2023 is projected at Rp58,478 trillion, with 9.1% growth forecasted in 2024 to reach Rp63,804 trillion. E-commerce transactions will also increase 7.2% from Rp454 trillion in 2023 to Rp487 trillion in 2024 (Table 2.4). In terms of Rupiah currency management, total currency in circulation in the third quarter of 2023 grew 7.3% (yoy) to Rp1,102 trillion and is forecast to increase 5.9% to Rp1,166 trillion by end-2024. In addition, Bank Indonesia continues ensuring the availability of Rupiah currency fit for circulation in all regions of the Republic of Indonesia through programs to circulate the Rupiah in 3T (the Frontmost, the Outermost, the Remote) regions as well as mobile cash services, cash deposit services and the Sovereign Rupiah Expedition (Ekspedisi Rupiah Berdaulat).

2.3. Synergy of National Economic Policy Mix Response

Resilient and solid national economic performance in Indonesia was the positive outcome of close synergy between the Government, Bank Indonesia and KSSK in formulating an optimal national economic policy mix. As mentioned at the Bank Indonesia Annual Meeting (PTBI) in 2022, the national economic policy mix covers five important aspects as follows: (i) fiscal and monetary coordination; (ii) accelerating financial sector transformation; (iii) accelerating real sector transformation; (iv) economic and financial digitalization; and (v) the green and inclusive economy and finance. These five aspects of the policy mix support the economy both on the demand and supply sides. The first aspect (fiscal and monetary coordination) and the second aspect (KSSK

Table 2.4. Indonesia Payment System Projections 2023-2025

Transaction		Growth (%)			Value		
		2023	2024*	2025*	2023	2024*	2025*
Digital Economy and Finance							
E-Commerce	IDR Trillion (Nom)	-4.4	7.2	3.3	454	487	503
Digital Banking	IDR Trillion (Nom)	13.5	9.1	10.2	58,478	63,804	70,289
Electronic Money	IDR Trillion (Nom)	43.4	25.8	22.6	836	1,051	1,289
Card Based Payment							
ATM-Debit Cards	IDR Trillion (Nom)	-0.4	4.6	4.5	8,214	8,594	8,979
Bank Indonesia Payment System							
SKNBI	IDR Trillion (Nom)	-3.9	-6.7	1.6	4,934	4,604	4,675
BI-FAST	IDR Trillion (Nom)	180.0	62.0	28.0	5,761	9,353	11,927
BI-RTGS	IDR Trillion (Nom)	9.3	8.5	8.4	107,392	116,506	126,34
Rupiah Currency Distribution							
Currency in Circulation (CIC)	IDR Trillion (Nom)	7.3	5.9	5.6	1,102	1,166	1,227

Source: Bank Indonesia

Note: *Bank Indonesia Projection

coordination), focus more on maintaining macroeconomic and financial system stability by providing stimuli for economic growth. The other aspects bolster the supply side for higher economic growth, thereby strengthening macroeconomic stability. The synergies among the five salient aspects of the national economic policy mix contribute to the economic resilience in Indonesia in the face of global spillovers while maintaining stability and relatively high growth.

Strong fiscal-monetary policy synergy and financial system stability policy coordination contributed to maintaining macroeconomic and financial system stability, while supporting economic growth. Close coordination between the fiscal policy of the Government and monetary policy of Bank Indonesia was successful in overcoming the threats posed by the Covid-19 pandemic crisis. These steps were strengthened to mitigate the impact of global turmoil, primarily to maintain macroeconomic stability internally; to return inflation to the 3.0±1% target corridor; to hold the fiscal deficit below 3% of GDP; and to maintain external stability (that is, a strong Rupiah, competitive SBN yields and a sound BOP). In seeking to control inflation, Bank Indonesia instituted monetary policy by raising the BI7DRR to manage core inflation and rein in overshooting inflation expectations, while pursuing Rupiah stabilization measures to minimize imported inflation. From a fiscal perspective, the Government allocated Rp339.6 trillion from the State Revenue and Expenditure Budget (APBN) 2023 for energy subsidies and compensation for the energy security program to protect administered prices inflation from the impact of soaring international energy prices. Inflation control synergy, particularly targeting food inflation, was also implemented through the Central and Regional Inflation Control Teams (TPIP and TPID), which included strengthening the National Movement for Food Inflation Control (GNPIP) with the full support of all 46 Bank Indonesia offices in various regions. To maintain the stability of the financial system, policy coordination between the Ministry of Finance, Bank Indonesia, the Financial Services Authority (OJK) and the Indonesia Deposit Insurance Corporation (LPS), under the auspices of the KSSK, was also strengthened. Steps included implementation of the P2SK Act, to safeguard the resilience of financial institutions, individually and systemwide, in the face of emerging global and domestic economic shocks.

Real sector transformation policy was refined to nurture higher economic growth and simultaneously bolster macroeconomic stability. Under the exemplary leadership of President Joko Widodo, infrastructure development since 2013 has increased economic growth in terms of investment and productivity. Downstream processing of natural resources, specifically nickel, has driven growth through investment and value-added exports. Meanwhile, structural reforms to facilitate investment and business, such as the Omnibus Law on Job Creation, have attracted Foreign Direct Investment (FDI), while enhancing efficiency and productivity. Similarly, economic and financial digitalization have increased national economic efficiency and competitiveness, particularly in the retail transaction segment, as well as the MSME sector and local economy. Coordination between fiscal policy (through state budget expenditure allocation to drive consumption and investment) and Bank Indonesia policy (through an accommodative macroprudential stance, payment system digitalization, money market deepening as well as economic and financial inclusion) must be enhanced to maintain the economic recovery. Based on the endogenous growth model approach (see Chapter 7), infrastructure development, downstreaming, streamlined business licenses and investment as well as digitalization may increase economic capacity and growth in terms of capital, labor absorption and productivity. On this basis, the five aspects of the national economic policy mix (enumerated at the beginning of this Section) are contributing propitiously to national economic performance, with stability maintained and comparatively high growth.

2.4. Prospects for Economic Revival Towards Indonesia Maju (Advanced Indonesia)

The prospects for national economic improvement remain bright, with stability maintained, thus supporting the national economic revival and resurgence towards Indonesia Maju (Advanced Indonesia). The Bank Indonesia policy mix response, taken in synergy with the other elements in the national policy mix, has proven valuable in maintaining stability in the face of global spillovers, as discussed in previous sections, while simultaneously strengthening economic growth. Moving forward, we are confident that a prudent and consistent policy mix will further strengthen national economic resilience and recovery. In the medium- to long-term, economic growth in Indonesia will continue improving on the back of rising private consumption, given sustained purchasing power, fiscal and monetary policy support, as well as the growing

Minister of Finance, Governor of Bank Indonesia, Chairman of the OJK Board of Commissioners, and Chairman of the LPS Board of Commissioners at the Periodic Meeting of the Financial System Stability Committee (KSSK) contribution of the millennial generation. Investment will increase in line with higher exports and ongoing PSN activity. Exports will accelerate as the global economy improves and downstreaming efforts are replicated in various sectors. Equally as important, the consistent implementation of structural reforms (including infrastructure development); implementation of the Omnibus Law on Job Creation; various downstreaming programs; faster digitalization; and competent and agile human resources, will strengthen economic capacity and facilitate higher economic growth without triggering any significant pressures on stability.

Several risks posed by high global uncertainty demand vigilance and anticipation through an optimal national policy mix response to mitigate spillover effects on the domestic economy. As discussed in the previous section, there are five main risks posed by global spillovers. First, global economic growth is projected to moderate accompanied by a wider divergence in growth among countries. Second, a prolonged disinflation process due to persistently high international food and energy prices as well as tight labor markets in Advanced Economies (AEs). Third, higher for longer monetary policy rates and bond yields in AEs, including the Federal Funds Rate (FFR) and US Treasury yields. Fourth, significant capital outflows from EMDEs to AEs, often held in the form of more liquid assets. And fifth, a strong US dollar, coupled with broad-based currency pressures on various global currencies. We must focus our attention, therefore, on strengthening the national policy mix to bolster external stability against global spillovers, including the impact on domestic inflation and also on sustainable economic growth towards Indonesia Maju (Advanced Indonesia).

Box 2.1.

Economic Implications of the Demographic Transition

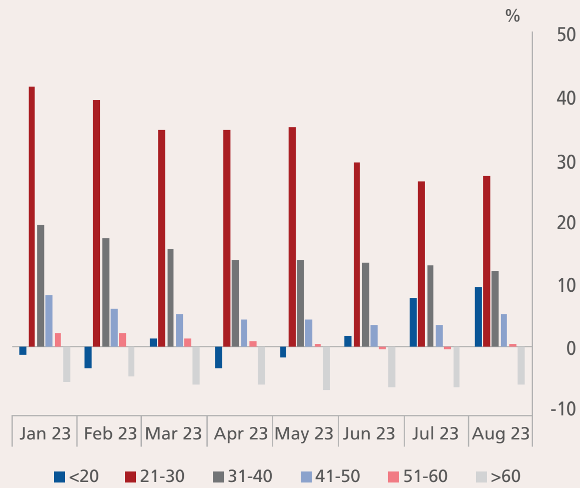
Indonesia's demographic structure is currently in transition, as signalled by an increase in the proportion of Millennials and Gen Z, which could potentially influence economic dynamics in Indonesia moving forward. The demographic structure of Indonesia in 2020 was dominated by Millennials and Gen Z, that is the younger generation.[2] This is reflected in the proportion of residents under 40 years old, who now represent 64.2% of the population. This demographic shift demands vigilance because the younger generation, as economic agents, demonstrates characteristics and behavior that differ from the older generation. The younger generation is tech savvy and actively leverages technological advancements for more convenient consumption, investment and access to finance. The younger generation also has a higher level of consumption than the older generation, as reflected in the proportion of spending on goods and services, totalling 62.8% (versus 37.2% among the older generation), accompanied by a greater preference for consuming services. Nonetheless, the propensity of younger adults to consume services is not met by adequate incomes, leading to support from external sources of finance, including parents, banks and non-banks. In terms of investment, the younger generation is more inclined to invest, supported by technological developments that provide convenient access to investment, particularly instruments with higher potential returns. Moving forward, the larger proportion of the younger demographic cohort, with the aforementioned characteristics, will precipitate a change in aggregate consumption, investment and financing behavior.

Consumption by the large, younger population may bolster domestic demand, yet sustainability depends on the younger generation's ability to fill jobs in productive sectors. In general, the younger generation exhibits higher consumption patterns than the older generation, particularly the consumption of services. This increased significantly in 2022, especially spending on telecommunications, food and beverage services and fuel/mobility, reflecting the tech savvy nature of the younger generation, coupled with a strong desire to eat out and travel. This pattern of high consumption among the large, younger population has opened up an opportunity to strengthen domestic demand, primarily in the services sector. The ongoing push towards increasing demand for consumption among the younger generation must be supported, however, by efforts to improve employment and income. In terms of manpower, the younger generation does not yet dominate the workforce in sectors with high productivity and real wages due to a lack of experience and education. In terms of income, the average real wage of the younger generation is below that of the older generation, which cannot support the high consumption trends. Younger consumers rely on parental support and other sources of finance, as reflected in the large contribution to consumer loan growth (Graph B2.1). Meanwhile, FinTech users are dominated by the younger generation, accounting for approximately 76.9% of total users.

The characteristics of the younger generation, who are more tech savvy and endowed with higher financial literacy than their older counterparts, have prompted a rebalancing in terms of investment placements and use of non-bank sources of credit/financing. In terms of investment, preferences of the younger generation have occasioned an increase of placements in government securities (SBN), shares and other investment products with higher potential returns. This trend towards high consumption has also pushed the younger generation towards external financing

2 The younger generation is defined as residents who, in 2022, were 40 years old or younger, contrasting with the older generation who were older than 40.

Graph B2.1. Consumption Credit Growth



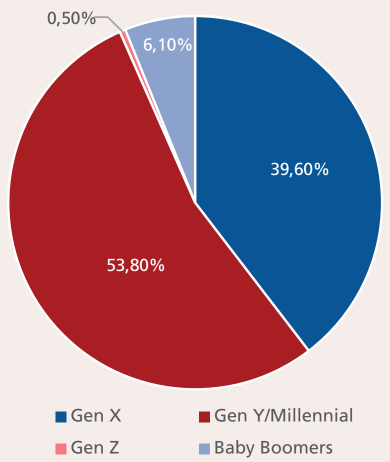
Source: Bank Indonesia

support from banks and non-banks. This is unequivocally reflected in significantly higher consumer loan growth among the younger generation than the older generation. In addition to consumption loans, the younger generation also relies on non-bank financing, such as FinTech lending, which is relatively frictionless to access by the unbanked segment despite higher lending rates. The proliferation of FinTech lending among the younger generation has been accompanied by increases in loan delinquency (non-current and loss). Such conditions demand heightened vigilance and must be anticipated to minimise potential loan default among the younger generation, particularly in terms of FinTech lending.

In related areas, the younger generation is driving the acceleration of digital transactions, particularly through the use of online retail platforms and alternative funding, such as credit cards and FinTech lending. The younger generation dominates digital transactions given their preference for frictionless consumption and securing financing through technology. On the consumption side, the rapid development of e-commerce platforms, which provide convenience, comfort and competitive prices, has increased the number of younger consumers. In terms of financing, a lack of sources of income for the younger generation has increased the use of other funding alternatives, namely credit cards and FinTech lending. Credit cards have become a key source of funding for younger consumers, as reflected in the high volume of retail transactions and cash withdrawals using credit cards, accounting for 46.6% of such transactions. Moreover, the younger generation also dominates the share of debt through FinTech lending in line with the prolific development of digital applications that reduce friction from the loan application process and encourage consumption for daily needs (Graph B2.2).

The appropriate policy response must be oriented towards maintaining sustainable consumption among the younger generation and mitigating the risks posed by excessive risk-taking. Efforts to boost incomes that safeguard the sustainability of younger consumers should focus on increasing education and expanding employment opportunities for the younger generation to fill vacancies in sectors with higher productivity and wages, such as financial services, health services and information and communication technology services. Consequently, the independent income of the younger generation will increase and support sustainable consumption moving forward. In response to the prolific use of loans, efforts are required to further educate the younger generation as to the dangers of excessive risk-taking behavior.

Graph B2.2. Share of Outstanding Fintech Loans



Source: Bank Indonesia