Bank Indonesia has strengthened its policy mix in order to mitigate the impact of Covid-19 on economic growth and stability. The policy response was instituted through an accommodative monetary policy mix, including policy rate (BI7DRR) reductions, liquidity injections, strengthening the monetary operations strategy and guiding the exchange rate towards the currency’s fundamental value. Accommodative macroprudential policy was maintained along with efforts to strengthen payment system policy in order to accelerate the digital economy and finance, buttressed by other supporting policies. Bank Indonesia also continued to strengthen synergy with the Government and other relevant authorities in order to follow-up on all responsibilities in accordance with Act No. 2 of 2020 as part of the national policy response under the extraordinary conditions caused by the Covid-19 pandemic.
The Covid-19 outbreak in Indonesia at the beginning of March 2020 triggered extraordinary pressures on the domestic economy. Efforts to break the domestic chain of transmission through large-scale social restrictions curbed economic mobility and inexorably led to economic decline in Indonesia in 2020, to levels far below optimal for the business and financial cycles. Economic growth is projected to fall sharply from 5.02% (yoy) in 2019 into the range of -2% to -1% (yoy) in 2020. External stability also experienced pressures in the first semester of 2020 in line with elevated global financial market uncertainty caused by Covid-19 transmission and the unfavourable world economic outlook. Such conditions severely eroded foreign capital inflows and triggered currency depreciation in the first half of 2020. At the same time, inflationary pressures were mild, mainly due to weak domestic demand. For its part, the financial system, including the banking industry which was performing soundly when the pandemic emerged, provided a cushion to maintain financial system resilience, as reflected by adequate capital, sound credit quality and sufficient liquidity. Nevertheless, weak domestic demand and a selective banking industry in terms of disbursing loans during the pandemic, prompted a 2.41% (yoy) credit contraction in December 2020.

Bank Indonesia strengthened its policy mix, directed towards safeguarding economic stability and stimulating economic recovery from the distress caused by the Covid-19 pandemic. On this basis, Bank Indonesia based its policy direction on the concept of complementary and mutually reinforcing relationships between economic growth and stability, including financial system stability. On one hand, Bank Indonesia continued to direct its policy response towards maintaining macroeconomic stability, particularly external stability, which was subject to intense pressures caused by elevated global financial market uncertainty. Policy was also directed towards maintaining financial system stability, including adequate banking industry liquidity and resilience. Meanwhile, inflation declined largely due to weak domestic demand, squeezed by restricted economic mobility during the pandemic. These efforts to maintain economic stability were expected to provide a solid foundation for economic recovery. On the other hand, the policy mix was directed in balance towards stimulating economic growth, which had fallen sharply during the Covid-19 period. Efforts to catalyse sustainable economic growth became Bank Indonesia’s attention, because solid economic growth supports economic stability. For example, the banks are resilient with adequate capital accompanied by solid credit growth and quality. At the same time, robust economic growth bolsters positive perceptions of Indonesia’s economic outlook and ultimately attracts foreign capital inflows and strengthens external stability. Both elements are complementary and mutually reinforcing, thereby further accelerating the economic recovery.

Bank Indonesia’s policy direction was implemented through an accommodative policy mix and by optimising various policy instruments. Adequate space was available for Bank Indonesia to implement accommodative policy, especially since economic performance in 2020 was below the economy’s optimal level for the business and financial cycles. In terms of monetary policy, amidst mild inflationary pressures, Bank Indonesia lowered the BI7DRR policy rate and injected liquidity through quantitative easing to stimulate economic growth and maintain financial system stability. Furthermore, Bank Indonesia also strengthened monetary operations to support the general policy direction. Rupiah exchange rate stabilisation policy was kept in line with the currency’s fundamental value and market mechanisms through a triple intervention strategy. This approach maintained external stability and

effectively managed economic rebalancing during the period of elevated global financial market uncertainty and domestic economic moderation. An accommodative macroprudential policy was adopted by relaxing several regulations to stimulate economic and corporate financing from the banking industry, as well as safeguard to financial system resilience. Macropuadrential policy was directed towards: maintaining financial system stability; balanced and healthy intermediation function; and rapid development of an efficient and inclusive financial sector (Figure 3.1). Payment system policy prioritised accelerating payment system digitalization through various digital transformation initiatives that were part of the Indonesia Payment System Blueprint (BSPI 2025). In addition to those three main policies, Bank Indonesia also instituted supporting policies, encompassing financial market deepening; the sharia economy and finance; MSMEs; and international policy. All of these were constantly strengthened to stimulate national economic recovery.

Bank Indonesia also discharged its responsibilities in accordance with Act No. 2 of 2020 as part of the national policy response under extraordinary conditions caused by Covid-19. Under the extraordinary circumstances of 2020, the national policy response involved state financial policy and financial system stability policy, which were implemented with due consideration for medium- to long-term stability. To that end and in terms of state financial policy, Bank Indonesia was authorised to purchase long-term government securities (SBN) from the Government in the primary market. At the same time, policies for financial stability involved refining the short-term liquidity assistance (PLJP/Sharia PLJPS) facilities; purchasing/repurchasing SBN from the Indonesia Deposit Insurance Corporation (LPS); regulating foreign exchange flows; and funding access for the corporate/private sector through repurchase agreements with the banking industry for government bond (SUN) and government sharia securities (SBSN).

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Monetary Policy Loosened

Bank Indonesia relaxed monetary policy to support the national economic recovery while maintaining economic stability. Low inflation and maintained external stability were the main considerations for Bank Indonesia to loosen monetary policy. In addition, accommodative monetary policy helped to maintain adequate economic liquidity, thus supporting monetary and financial system stability. Bank Indonesia relaxed monetary policy through repeated reductions in the BI 7-Day Reverse Repo Rate (BI7DRR) and through liquidity injections (quantitative easing), supported by efforts to strengthen the monetary operations strategy. In practice, instruments were selected to support the accommodative policy stance based on bank liquidity conditions and global financial market uncertainty. Bank Indonesia also took into consideration the intense external pressures of 2020 when calibrating the timing of policy rate changes and the intensity of exchange rate stabilization policy. Meanwhile, liquidity conditions were loosened in order to maintain adequate liquidity in the banking industry, thereby preserving financial system stability and stimulating the intermediation function to expedite economic recovery.

Bank Indonesia lowered the BI7DRR policy rate five times in 2020. BI7DRR reductions in 2020 totalled 125 basis points, bringing the policy rate to its lowest level in recorded history, namely 3.75% by the end of 2020. Reductions of 25 bps were announced at each Board of Governors Meeting in February, March, June, July and November 2020. The measured decision to reduce gradually the policy rate was based on low inflation and the need to maintain the attractiveness and competitiveness of domestic financial assets for investment for the sake of external stability. In February and March 2020, Bank Indonesia lowered the policy rate as a pre-emptive measure to support the economy after trade tensions between

In 2020, Bank Indonesia lowered the BI7DRR policy rate five times to its lowest recorded level in history at 3.75%”

To stimulate national economic recovery and maintain financial system stability, Bank Indonesia also introduced monetary stimuli in the form of quantitative easing (QE). As of end-2020, Bank Indonesia had injected rupiah liquidity totalling approximately IDR726.57 trillion, equivalent to 4.7% of GDP, primarily in the form of lower reserve requirements totalling around IDR155 trillion and monetary expansion totalling approximately IDR555.77 trillion. The magnitude of QE policy in Indonesia surpassed that of certain other emerging economies, which averaged around 1.7% of GDP (Chart 1.10).

Bank Indonesia lowered reserve requirements by 300 bps, including the 50 bps incentive, in 2020. The first 50 bps reduction effective in January 2020 was a pre-emptive measure to support the economy after trade tensions between

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19 Average of Mexico, Chile, the Philippines, Thailand and India.
20 By 300 bps for conventional commercial banks and by 150 bps for Sharia banks/business units (50 bps in January and May 2020, with the incentive reserve requirement by 50 bps in March 2020).
the United States and China exacerbated pressures in 2019. In March 2020, Bank Indonesia lowered the reserve requirements by 50 bps as incentive for banks allocating loans to productive export-import activity, MSMEs and priority sectors that were designated in the national economic recovery program. In addition, Bank Indonesia lowered the foreign currency reserve requirements by 400 bps, effective 16 March 2020. The reduction of incentive reserve requirements was a pre-emptive measure in anticipation of economic moderation during the pandemic. The same considerations were valid when Bank Indonesia reduced the foreign currency reserve requirements in order to boost foreign exchange liquidity in the banking industry and alleviate pressures in the foreign exchange market. Furthermore, Bank Indonesia lowered reserve requirements by a further 200 bps in May 2020 to mitigate the deepening impact of Covid-19, including efforts to maintain adequate liquidity and support monetary and financial system stability. In addition to lower reserve requirements, Bank Indonesia also waived the additional Macroprudential Intermediation Ratio (MIR) Giro, the balance of rupiah demand deposits held at Bank Indonesia to meet the MIR. This policy provided approximately IDR15.8 trillion of additional liquidity to the banking industry. In the latter half of the year, Bank Indonesia provided giro services to banks meeting the daily and average rupiah reserve requirements of 1.5% per year, with a portion calculated to obtain a giro service of 3% of deposit, effective 1 August 2020.

Amidst persistently high global financial market uncertainty, Bank Indonesia continuously strengthened stabilisation policy to maintain rupiah exchange rates in line with the currency’s fundamental value and market mechanisms. Rupiah stabilisation policy aimed to bolster expectations and provide assurances to economic players so as to ensure orderly economic rebalancing during periods of elevated global financial market uncertainty and domestic economic moderation. The policy was implemented through triple intervention strategy in the spot market and domestic non-deliverable forwards (DNDF) market and through SBN purchases in the secondary market. Intensity of this triple intervention policy during the first semester of 2020 was strengthened when global uncertainty increased, as signalled by a reversal of foreign portfolio investment, especially in SBN, thereby escalating pressures on the rupiah. Furthermore, exchange rate stabilisation policy was supported by adequate reserve assets. Bank Indonesia has secured bilateral swap agreements with the financial authorities in China, Japan, Singapore and Malaysia, as well as repo agreements with several other central banks and international organisations, including the New York Federal Reserve and the Bank for International Settlements (BIS) in order to strengthen this second line of defence. Bank Indonesia has also strengthened cooperation with central banks in the region to promote Local Currency Settlement (LCS) for trade and investment purposes in order to reduce dependence on hard currencies. This is done through two schemes, namely: LCS based on Appointed Cross Currency Dealers (ACCD) with authorities in Japan, China, Malaysia and Thailand; and LCS based on Bilateral Currency Swap Arrangements (BCSA) with authorities in China, South Korea and Australia. In addition, Bank Indonesia has engaged in intensive communications with investors, rating agencies as well as domestic and international market players to build optimism and support exchange rate stabilisation policy. Such efforts helped to maintain Indonesia’s sovereign credit rating, while other countries were downgraded.

Bank Indonesia strengthened its monetary operations in order to maintain adequate liquidity and to enhance money market efficiency. Implementation of two-sided monetary operations was maintained via absorption and injection. Bank Indonesia also honed its operational strategy for DNDF instruments by increasing auction frequency from 2 January 2020. As the impact of Covid-19 spread, Bank Indonesia further strengthened its monetary operations to maintain adequate liquidity in the banking industry through implementation of repo auctions for tenors up to 12 months. In addition, there were daily auctions from 20 March 2020, accompanied by more frequent FX swap auctions, which become daily as of 19 March 2020.

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21 Implemented in conjunction with policy to strengthen liquidity through the Macroprudential Liquidity Buffer (MPLB/Sharia MPLB) as part of fiscal, monetary and macroprudential synergy. See Subsection 3.2 for a more in-depth analysis.

22 Including giro services in the form of granting (‘athaya) to Sharia banks/business units.

23 FX Swap auctions for 1-, 3-, 6- and 12-month tenors increased from three times per week to daily.
term deposit instruments to enhance liquidity management in the domestic foreign exchange market and to encourage the banking industry to use its foreign currency for domestic purposes. In the second semester of 2020, Bank Indonesia further strengthened its monetary operations to increase the effectiveness of accommodative monetary policy transmission and support the economic recovery. Meanwhile, Bank Indonesia also strengthened sharia-compliant monetary operations and Sharia financial market deepening through implementation of sharia-compliant liquidity facilities (FLiSBI) and sharia-compliant liquidity management (PaSBI), effective 5 October 2020.

The accommodative monetary policy stance implemented by Bank Indonesia was transmitted effectively, thus contributing to the economic recovery and maintaining economic stability. BI7DRR reductions and liquidity injections by Bank Indonesia translated into lower interest rates and adequate liquidity in the money market and banking industry. The lower policy rate was effectively transmitted to money market and bank interest rates, despite a suboptimal lag to lending rates, reflecting a cautious and selective banking industry responding to the pandemic-driven economic moderation. The exchange rate stabilisation policy implemented by Bank Indonesia had a positive impact on rupiah exchange rate movements and volatility, thereby supporting economic rebalancing and maintaining expectations concerning exchange rate movements. Overall, Bank Indonesia’s accommodative monetary policy stance contributed to supporting the national economic recovery from the impact of Covid-19 as well as maintaining macroeconomic and financial system stability. Nevertheless, massive liquidity injections to the banking industry are yet to flow to the real sector in line with low demand and a selective banking industry in terms of loan disbursements. Such abundant liquidity has brought its own challenges in terms of monetary policy management moving forward.
Bank Indonesia maintained an accommodative macroprudential policy stance to mitigate the deepening impact of Covid-19 on the financial system and to support economic recovery. The policy was maintained as financial system stability remained under control and the economic and financial cycles were well below optimal. Such conditions provided space for Bank Indonesia to accelerate economic growth by strengthening the intermediation role without disrupting financial system stability. To that end, Bank Indonesia relaxed several macroprudential policies in order to maintain financial system resilience and balance the intermediation function with economic capacity and a contained level of risk. At the outbreak of the pandemic in March 2020, Bank Indonesia relaxed the rupiah reserve requirement by 50 basis points as an incentive for banks engaged in lending for productive export-import activity, MSMEs and priority sectors that were designated in the national economic recovery program. The policy was a pre-emptive measure to maintain economic growth momentum by facilitating export-import activity and strengthening MSMEs through lower costs. Implemented on 1 April 2020, the policy was to remain effective for nine months before re-evaluation. In addition, supporting the intermediation function and based on an evaluation performed in the first semester of 2020, Bank Indonesia maintained bank capital resilience by holding the countercyclical capital buffer (CCyB) at 0%.

The macroprudential policy response was further sharpened by relaxing the Macroprudential Intermediation Ratio (MIR/Sharia MIR) and strengthening liquidity through the Macroprudential Liquidity Buffer (MPLB/Sharia MPLB). Bank Indonesia eased the MIR/Sharia MIR (that is, the ratio of bank financing to funding) by waiving penalties on banks with a ratio outside of the 84-94% target range (Chart 3.1). Effectively, the MIR disincentive parameters were reduced to zero. This was done in line with muted demand for loans, effective from 1 May 2020 for a period of one year. Bank Indonesia also strengthened bank liquidity by reinforcing the Macroprudential Liquidity Buffer (MPLB/Sharia MPLB) requirements. Consistent with expansionary monetary policy through lower reserve requirements, effective 1 May 2020, the Macroprudential Liquidity Buffer (MPLB, a measure of liquid assets in the form of SBN and Bank Indonesia Certificates) was raised by 200bps for conventional commercial banks and by 50bps for Sharia banks/business units. The MPLB ratio was increased from 4% to 6% of rupiah deposits for conventional commercial banks and to 4.5% of rupiah deposits for Sharia banks; banks were required to meet the requirements through purchases of SUN/SBSN issued by the Government in the primary market. The macroprudential liquidity buffer maintained by banks could subsequently be used as underlying transactions for repurchasing agreements between the banks and Bank Indonesia. Through MPLB policy, Bank Indonesia endeavoured to strengthen liquidity management in the banking industry and

![Chart 3.1. MIR Disincentive Parameters](image-url)
to guarantee adequate high-quality bank liquidity. Furthermore, MPLB policy was a form of fiscal, monetary and macroprudential policy synergy to support the national economic recovery. These policy measures were expected to provide greater flexibility for the banking industry to disburse loans, thereby catalysing economic recovery, while prioritising financial system stability.

Bank Indonesia maintained an accommodative macroprudential policy stance in the second semester of 2020, considering the need to continue stimulating the economic recovery. Bank Indonesia lowered the minimum downpayment requirements on green automotive loans from 5-10% to 0%, effective 1 October 2020, to stimulate economic growth amidst contained credit risk, while simultaneously boosting the green economy. This is consistent with government initiatives to accelerate the electric vehicle program, including fiscal incentives to lower electric vehicle prices. In addition, the deadline for lower reserve requirements affecting priority sectors was extended to 30 June 2021. In November 2020, Bank Indonesia decided to maintain an accommodative macroprudential policy stance by holding the CCyB ratio at 0%; the MIR in the 84-94% range with 0% disincentive parameters; the MPLB ratio at 6% with 6% repo flexibility; and the loan-to-value or financing-to-value (LTV/FTV) ratios for property loans/financing in line with prevailing regulations (Chart 3.2).

Looser macroprudential policy in conjunction with accommodative monetary policy helped to maintain financial system stability. Looser liquidity conditions were recorded in the banking industry, accompanied by solid capital as well as maintained efficiency and profitability. The banking industry reported high deposit growth despite sluggish credit growth. Large liquidity injections by Bank Indonesia that remained in the banking industry rather than flowing as loans to the real sector, represented a challenge for the bank intermediation function. Weak demand and higher risk were the main issues facing the bank intermediation function. In addition, efforts to maintain loan quality are still required, primarily after the loan restructuring program comes to an end.

Bank Indonesia followed up on all its responsibilities pursuant to Act No. 2 of 2020 as part of the national policy response to the extraordinary conditions caused by the Covid-19 pandemic. As mentioned in the previous section, the response through Act No. 2 of 2020 included state financial policy and financial system stability policy. In that context, Bank Indonesia’s responsibilities in relation to state financial policy, in accordance with Act No. 2 of 2020, involved purchasing long-term SBN from the Government in the primary market. Bank Indonesia’s responsibilities in terms of financial system stability policy involved granting Short-Term Liquidity Assistance (PLJP/Sharia-PLJPS) and Special Liquidity Loans (PLK); purchasing/repurchasing SBN with the Indonesia Deposit Insurance Corporation (LPS); regulating foreign exchange flows; and providing funding access to the corporate/private sector through repurchase agreements with the banking industry for government bond (SUN) and government sharia securities (SBSN).

Bank Indonesia’s commitment to funding and burden sharing in the 2020 State Budget was realised while consistently complying with prudential principles to maintain economic stability, including the impact on inflation. Long-tenor SBN were purchased by Bank Indonesia in the primary market through market mechanisms in accordance with a Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 16 April 2020 (subsequently known as KB I). In pursuance of KB I, Bank Indonesia purchased SBN in the primary market with reference to four main principles (Figure 3.2), namely: (i) prioritising market mechanisms; (ii) considering the impact on inflation; (iii) purchasing tradable and marketable SBN/SBSN; and (iv) acting as a last resort when market capacity could not absorb the government’s auction target. KB I also stated that the government SBN issuances is carried out after prioritising other financing sources and must consider state financial sustainability. Purchases by Bank Indonesia are therefore based on the following priorities: (i) non-competitive bids; (ii) greenshoe options (GSO); and (iii) private placements.

Synergies between the Government and Bank Indonesia were subsequently strengthened in terms of burden sharing for Covid-19 containment measures and the national economic recovery. Such synergies were realised through funding and burden sharing in the 2020 State Budget based on mechanisms stipulated in the Joint Decree of the Minister of Finance and Governor of Bank Indonesia.

Figure 3.2. Principles for Long-Term Government Bonds Purchasing by Bank Indonesia in the Primary Market

![Figure 3.2. Principles for Long-Term Government Bonds Purchasing by Bank Indonesia in the Primary Market](source: Bank Indonesia)
issued on 7 July 2020 (subsequently known as KB II). KB II was a follow-up action to the decision taken by Commission XI of the People’s Representative Council of the Republic of Indonesia (DPR-RI) at the Work Meeting held on 6 July 2020. The burden sharing scheme between the Government and Bank Indonesia was implemented while prioritising prudential principles, good governance, transparency and accountability. In addition, the scheme was implemented with careful consideration to economic, fiscal and monetary management credibility and integrity as well as financial sustainability for the Government and Bank Indonesia. KB II regulated SUN/SBSN purchases through private placements to fund public goods in the form of healthcare, social protections as well as central and local government administration in the 2020 State Revenue and Expenditure Budget (APBN) totalling IDR397.56 trillion. Funding and burden sharing for public goods were borne in full by Bank Indonesia. In addition, Bank Indonesia undertook burden sharing with the Government for SBN purchases to fund non-public goods in the 2020 State Budget in relation to MSMEs and corporations totalling IDR177.03 trillion.

Bank Indonesia is fully committed to funding and burden sharing in the 2020 State Budget in order to support the national economic recovery in accordance with Act No. 2 of 2020. With Bank Indonesia’s commitment to purchase SBN in the primary market, the Government could focus on efforts to accelerate state budget realisation and catalyse the economic recovery. As of end-2020, Bank Indonesia had purchased SBN in the primary market (through market mechanisms in accordance with the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 16 April 2020) totalling IDR75.86 trillion. Meanwhile, the realisation of funding and burden sharing for public goods in the 2020 State Budget by Bank Indonesia through private placement SBN purchases (in accordance with the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 7 July 2020) stood at approximately IDR397.56 trillion. Overall, Bank Indonesia purchased SBN for funding and burden sharing in the 2020 State Budget in an amount totaling around IDR473.42 trillion. Moreover, Bank Indonesia realised burden sharing with the Government on SBN purchases to fund non-public goods to fund non-public goods-MSMEs totalling IDR114.81 trillion and non-public goods-corporate totalling IDR62.22 trillion (pursuant to the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 7 July 2020).

Bank Indonesia also strengthened its lender of last resort (LoLR) function, while maintaining prudential principles and good governance, as a follow-up to Act No. 2 of 2020. Bank Indonesia amended regulations concerning short-term liquidity assistance (PLJP) for conventional commercial banks and sharia-compliant short-term liquidity assistance (PLJPS) on 29 September 2020.24

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amendment was made to facilitate PLJP/PLJPS implementation in accordance with international standards to support financial system stability. The amendment focused on regulating interest rates; simplifying collateral requirements; and streamlining the collateral verification and valuation process by public accountants/appraisers (KAP/KJPP) in the bank application process for short-term liquidity assistance. The policy was strengthened through establishment of the Macroprudential-Microprudential Coordination Forum (FKMM) between Bank Indonesia and OJK in accordance with a Joint Decree between the Governor of Bank Indonesia and Chairperson of the OJK Board of Commissioners issued on 19 October 2020. Consequently, process was revised for PLJP/PLJPS disbursements as part of the supervisory actions by OJK. Namely, banks applying for PLJP/PLJPS and meeting the requirements, were first required to prepare collateral verification and valuation by KAP/KJPP, which served to accelerate the PLJP/PLJPS disbursement process by Bank Indonesia. This Joint Decree strengthened BI’s LoLR function and OJK’s supervisory function for the banking industry and financial services institutions.

In addition to refining short-term liquidity assistance, Bank Indonesia is currently coordinating intensively with other financial authorities to prepare regulations concerning the Special Liquidity Loan (PLK). Based on Act No. 2 of 2020, the special liquidity loan is granted to systemic banks experiencing a liquidity mismatch yet failing to meet the PLJP/PLJPS disbursement requirements. The special liquidity loan is guaranteed by the Government and disbursed based on a decree issued by the Financial System Stability Committee.

Bank Indonesia and the Indonesia Deposit Insurance Corporation (LPS) amended their Memorandum of Understanding (MoU) to support the resolution of bank solvency issues. The amendment was a follow-up action to Act No. 2 of 2020. It concerned Bank Indonesia’s authority to directly purchase/repurchase SBN held by LPS to fund the resolution of solvency issues at systemic and non-systemic bank. The direct purchase is conducted to minimise potential market distortions. The Memorandum of Understanding (MoU) was complemented with a rigorous coordination mechanism as stipulated in a Cooperation Agreement (PKS). According to the MoU and PKS, SBN purchases and/or repurchases prioritised good governance and accountability as defined in prevailing regulations, and referring to market mechanisms. SBN purchases to resolve solvency issues at systemic banks are based on a decision made by the Financial System Stability Committee and SBN purchases to resolve solvency issues at non-systemic banks are made directly by LPS with Bank Indonesia. SBN repurchases to resolve solvency issues at systemic and non-systemic banks are also made directly by LPS with Bank Indonesia.

Bank Indonesia also followed up on its responsibilities pursuant to Act No. 2 of 2020 in relation to regulating foreign exchange flows and funding access for the corporate/private sector through SBN repurchase agreements with the banking industry. Regulations concerning the receipt and use of foreign exchange by residents (including provisions for the surrender, repatriation and conversion of foreign exchange to maintain macroeconomic and financial system stability) will be acted upon by the planned issuance of a Bank Indonesia Regulation (PBI) concerning repatriation obligations for export proceeds from natural resources, if required. Meanwhile, corporate/private sector funding through SUN/SBSN repurchase agreements with the banking industry is already facilitated through prevailing PBI provisions and a PDG (Board of Governors’ regulation) concerning monetary operations.
Faster Payment System Digitalization

Bank Indonesia accelerated payment system digitalization based on the Indonesia Payment System Blueprint (BSPI) 2025 in order to expand the digital economy; to finance the economic recovery; and to strengthen Indonesia’s structural foundations. Bank Indonesia promoted various digital transformation initiatives in a range of areas, including digital payments through Quick Response Code Indonesia Standard (QRIS); digital banking; and expanding MSME and public access to digital economic and financial services, supported by collaboration between the banking and FinTech industries. Bank Indonesia also continued the payment electronification program in various sectors to increase economic efficiency and drive the economic recovery. Efforts to accelerate digitalization and economic recovery during the pandemic were also implemented through various policies to ease payment system conditions. Furthermore, Bank Indonesia also maintained the uninterrupted availability of cash and non-cash payment systems to support various economic and financial transactions during the pandemic era.

To promote the digital economy and finance as a source of economic growth, Bank Indonesia accelerated payment system digitalization as part of the BSPI 2025. The Covid-19 pandemic has increased the relevance of BSPI 2025, which was launched by Bank Indonesia in May 2019. BSPI 2025 includes five visions to integrate the national digital economy and finance, namely, banking industry digitalization, linkages between the banking and FinTech industries, innovation based on prudential principles and consumer protection, as well as prioritising the national interest in terms of cross-border payment system cooperation. The five visions are implemented through five main initiatives, namely: i) open banking; ii) the retail payment system; iii) financial market infrastructure (FMI); iv) data; and v) regulatory, licensing and supervisory reforms. BSPI 2025 implementation will safeguard the flow of digitalisation in the digital financial ecosystem conducive to economic and financial activity, while driving the national economic recovery and accelerating economic and financial inclusion. Substantial progress has been made in terms of BSPI 2025 implementation in cooperation with the banking industry and the Indonesia Payment System Association (ASPI), the Financial Services Authority (OJK) as well as central and regional governments. In 2020, Bank Indonesia completed the conceptual design of several pieces of the payment system infrastructure, including BI-FAST, IPT, Data Hub and Payment ID. In terms of industry restructuring, Bank Indonesia issued Bank Indonesia Regulation (PBI) No. 22/23/PBI/2020 concerning the Payment System as a regulatory reform effort to create a more agile and supportive payment system. Payment system design implementation and testing will begin in 2021.

Since the Covid-19 outbreak, Bank Indonesia has relaxed several payment system policies. First, Bank Indonesia lowered the cap on charges for funds transfer through the National Clearing System (SKNBI) from IDR3,500 to IDR2,900 in order to increase use of cashless transactions during the Covid-19 pandemic and to enhance the efficiency of cashless transactions. The policy was effective from 1 April 2020 until 31 December 2020. Second, Bank Indonesia relaxed credit card regulations, effective from 1 May 2020 until 31 December 2020, including a lower maximum interest rate, minimum payment and late payment penalty, while supporting credit card issuers by extending the payment deadline for users in order to provide relief for individuals impacted by the Covid-19 pandemic.

Bank Indonesia further supported digitalization of the payments space by expanding acceptance of the QRIS, particularly amongst MSME merchants. In April 2020, Bank Indonesia adjusted the Merchant Discount Rate (MDR) on QRIS transactions to 0%, specifically targeting micro-merchants, effective from 1 April 2020 until 31 December 2020. In addition to promoting MSME digitalization, pricing
Various payment system policies to support the economic recovery were extended in the second semester of 2020 to support digital activity during the pandemic. Bank Indonesia extended the 0% Merchant Discount Rate until 31 March 2021. In November 2020, Bank Indonesia also extended the period for lower clearing system charges until 30 June 2021. The extension also applied to credit cards policy which was previously valid until 31 December 2020. The lower maximum interest rate applicable to credit cards was extended into 2021, while the lower minimum payment on credit cards was extended until 31 December 2021 and the lower penalty for late payment charges was extended until 30 June 2021. Moreover, Bank Indonesia reduced the charges of the Bank Indonesia – Real Time Gross Settlement (BI-RTGS) system effective from 1 December 2020.

Bank Indonesia continued to strengthen synergy with the Government in terms of promoting cashless transactions in several strategic sectors through a payment electronification program. Electronification of disbursements of the cashless social aid program (bansos) improved the timeliness of payments; ensured receipt by the targeted person; and safeguarded good governance during the pandemic. Also, the electronification of regional government financial transactions continued, reaching 542 regional administrations in 34 provinces, 93 cities and 415 regencies. The scope of interregional payment electronification varies, however, from cashless management systems (CMS) and online SP2D to the utilisation of QRIS, electronic money and online banking. In addition, electronification of local government financial transactions now extends to tax and retribution payments as well as procurement and expenditure. Electronification is expected to increase tax revenues, improve the efficiency of spending and strengthen financial governance at the local government level.

In terms of rupiah currency management, Bank Indonesia implemented certain transformations, through centralised cash distribution, digitalization, and efficient printing as well as the circulation of currency throughout the Republic of Indonesia. Rupiah currency management transformation was directed towards providing currency fit for circulation of appropriate denominations, just in time and central bank-driven, in line with the direction of non-cash policy and considering efficiency aspects as well as the national interest. Transformation was achieved through three pillars, namely: i) the availability of quality and trusted rupiah currency; ii) an efficient currency distribution system, including premium cash services; and iii) development of adequate technology-based rupiah currency management infrastructure. Through those three pillars, rupiah currency management transformation is the manifestation of Bank Indonesia's avowed commitment to maintain rupiah integrity and credibility as legal tender in the Republic of Indonesia and, simultaneously, as a unifier and symbol of pride for the nation of Indonesia.
Building upon rupiah currency management transformation, Bank Indonesia continued to strengthen rupiah currency management policy to meet public demand for currency more efficiently. In 2020, Bank Indonesia enhanced its distribution network through its Front Office, Middle Office and Back Office model in order to optimise stock management and utilisation. Furthermore, Bank Indonesia is gradually strengthening all Cash Work Units via a stock management digitalization process using the Warehouse Management System (WMS). In line with the Destination Statement of the Rupiah Currency Circulation Framework 2025, Bank Indonesia has also adjusted the total National Iron Stock and minimum cash held at each cash work unit based on the respective characteristics of each region. This policy ensures that public demand for currency is met in terms of value and denominations more efficiently. Bank Indonesia has also strengthened the innovative design and specification of banknotes by issuing a special commemorative banknote to celebrate the 75th year of Indonesian independence. The banknotes were printed using the latest technology and security features to ensure greater familiarity, durability and security against counterfeiting.

The range of policies instituted by Bank Indonesia impacted to full operation of payment system which contributed to economic recovery. Since the Covid-19 outbreak, Bank Indonesia has maintained full operation of the cash and non-cash payment systems. This was achieved by adjusting the operational hours of the Bank Indonesia Payment System, effective 30 March 2020. The policy was instituted in coordination with OJK, the banking industry and payment system service providers as a form of commitment to maintain an uninterrupted payment system and financial transactions. Bank Indonesia also ensured the availability and circulation of hygienic currency to overcome public concerns and provide greater convenience when transacting with cash. The policy response therefore contributed to the national economic recovery, as reflected in a recovery in the value of cash and non-cash transactions. Furthermore, payment system digitalization has contributed to rapid growth of digital economic transactions through e-commerce, which have made a positive contribution to economic recovery.
Bank Indonesia also implemented various supporting policies to strengthen policy effectiveness during the Covid-19 pandemic. The supporting policies included financial market deepening; Sharia economic and financial policy; MSME policy; and international policy. In terms of financial market deepening, Bank Indonesia launched in 2020 the Blueprint for Money Market Development (BPPU) 2025, which is directed towards creating and maintaining a modern and advanced money market that supports monetary stability, financial system stability and a conducive national development financing climate. Regarding the Sharia economy and finance, policies are directed towards development of a halal value chain ecosystem and strengthening Sharia finance through stronger liquidity management at Sharia banks/business units in order to increase their contribution to economic financing. Concerning MSMEs, Bank Indonesia continues to improve the development program through corporatisation, capacity building and financing in order to safeguard MSMEs as a key economic driver in the digital era. Regarding international policy, international cooperation is directed towards supporting the economic recovery as well as maintaining macroeconomic and financial system stability globally and at home.

In terms of financial market deepening, Bank Indonesia accelerated money market reforms to strengthen monetary policy transmission and support economic financing, as signalled by the launch of the BPPU 2025 on 14 December 2020. BPPU aims to create a modern and advanced money market that supports monetary stability, financial system stability and a conducive national development financing climate. BPPU 2025 was developed based on three main initiatives, namely: i) to promote digitalization and strengthen financial market infrastructure; ii) to strengthen the effectiveness of monetary policy transmission; and iii) to develop sources of economic financing and risk management capacity. The three main initiatives are supported by a modern and efficient market ecosystem based on international standards end-to-end, incorporating instruments, market base, creditable benchmark rates and infrastructure (market infrastructure, regulatory framework as well as coordination and education). The money market, foreign exchange market and Sharia money market are developed in coordination and collaboration with relevant government ministries and authorities.

Bank Indonesia continued development of a Domestic Non-Deliverable Forwards (DNDF) instrument and Local Currency Settlement (LCS) cooperation to reinforce exchange rate stabilisation policy. DNDF instruments were developed through the relaxation of certain regulations and expansion of the investor base to prevent foreign investors directly converting their rupiah into foreign exchange. DNDF regulations were relaxed through exemptions on underlying transactions up to a certain threshold for DNDF selling transactions, thereby providing greater hedging flexibility. Underlying transactions were also expanded in the form of foreign rupiah vostro accounts for DNDF buying transactions. In addition, Bank Indonesia developed LCS cooperation in order to reduce dependence on hard currencies. Bank Indonesia continued to strengthen the Indonesia-Malaysia and Indonesia-Thailand LCS frameworks. In terms of the LCS legal framework, Bank Indonesia issued regulations to expand the scope of underlying transactions by including current account transactions and direct investment. Bank Indonesia also expanded LCS cooperation with Japan and

25 See Chapter 5 for details.

implemented public education and socialisation activities to increase understanding of LCS.\textsuperscript{27}

**Bank Indonesia encouraged development of the sharia economy and finance as a new source of economic growth in Indonesia.** The policy target is to develop a halal value chain ecosystem through three main pillars. First, empowerment of the sharia economy directed towards developing halal supply chains, including small- and medium-scale for pesantren and the Muslim community, as well as for large-scale industry. The major sectors ripe for development include agriculture, fashion, Muslim friendly tourism and renewable energy. Second, sharia finance to expand financial products and access, including commercial finance, namely the banking industry, financial markets and other financial institutions, as well as social finance, such as zakat, infaq/shodaqoh and waqf. Third, education and socialisation through development of a curriculum for sharia economics and finance, entrepreneurship as well as national and international events, such as the Sharia Economic Festival (FESyar) and Indonesia Sharia Economic Festival (ISEF).

**Bank Indonesia is developing the sharia economy through implementation of a halal value chain ecosystem for pesantren, Muslim MSMEs and industry in order to boost the resilience of sharia businesses during the Covid-19 pandemic.** Supporting food security and exploiting resilient sectoral potential, Bank Indonesia is implementing various pilot programs in the agricultural sector using business models to create a halal value chain ecosystem amongst pesantren as the main producers; Muslim MSMEs as the partner, provider and mentor of digital technologies; and the corporate sector as off-taker. Development is focused on horticultural products with a domestic or export market orientation. Such business models have been implemented at several pesantren in Indonesia under a holding system, meaning that each pesantren in a particular area mutually reinforces economic independence amongst other pesantren in the same region.

**Sharia finance has been strengthened through liquidity management in the sharia banking industry in order to expand its contribution to economic financing.** In 2020, Bank Indonesia issued a new instrument in the sharia interbank money market (PUAS) in the form of a Sharia-Compliant Interbank Fund Management Certificate (SiPA) using a wakalah bi al-istitsmar contract. Three types of SiPA can be traded in the sharia interbank money market, namely with the current project as the underlying asset, securities as the underlying asset, or a combination of the two. In addition to expanding sharia interbank money market instruments to help liquidity management in the sharia banking industry, SiPA is also compatible with Bank Indonesia Sukuk (SukBI) issued as a monetary operations instrument with government sharia securities (SBSN) as the underlying asset. Furthermore, Bank Indonesia also strengthened sharia monetary operations by issuing new liquidity injection instruments.

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\textsuperscript{27} In accordance with Board of Governors Regulation (PADG) No. 22/20/PADG/2020 concerning Bilateral Transaction Settlements between Indonesia and Japan using Rupiah and Yen through Banks.

“Bank Indonesia encouraged efforts to accelerate development of the sharia economy and finance as a new source of economic growth in Indonesia”
in the form of Sharia-Compliant Bank Indonesia Liquidity Management (PaSBI), also using a wakalah bi al-istitsmar contract, as well as Sharia-Compliant Bank Indonesia Liquidity Facilities (FLiSBI), using qard and rahn contracts. Such instruments are expected to expand the contribution of sharia banking in terms of economic financing. Under the sharia social finance pillar, Bank Indonesia has strengthened instruments that integrate commercial finance and sharia social finance as an alternative form of economic financing. In March 2020, Bank Indonesia, the Ministry of Finance and Indonesia Waqf Board (BWI) launched Cash Waqf-Linked Sukuk (CWLS), which are cash waqf fund placements in government sharia securities (SBSN). CWLS have enabled the private sector to participate actively in the development of public facilities by the Government for the greater good.

Bank Indonesia has continued to strengthen education and socialisation efforts concerning the sharia economy in order to reinforce synergy and development of the sharia economy and finance in Indonesia. The manifestation of such efforts includes the FESyar and ISEF series of events, including national and international webinars, business coaching and matching, workshops and international showcases with more than 700 exhibition participants. Such activities aim to accelerate the sharia economy through the business development of pesantren, halal economic associations and industries, halal certification, international travel forums as well as economic digitalization and inclusion conferences. In terms of sharia finance, activities include sharia financial investment forums, waqf development and several international conferences. In addition, Bank Indonesia organised 2020 The Financial Intermediary Day – Business Deals (banks, FinTech, businesses) and the Indonesia Modest Fashion Show. ISEF attracted more than 430,000 participants and generated total transactions of approximately IDR5 trillion along with IDR30.3 billion in waqf commitments.

Bank Indonesia has improved its MSME development program through three policy pillars, namely corporatisation, capacity and financing. Institutionally, Bank Indonesia is strengthening MSMEs through corporatisation supported by solid social capital. Clusters are developed based on mutual cooperation and directed towards formal and modern institutional arrangements, such as cooperatives, limited liability companies or other institutional arrangements. MSMEs are being developed in potential export sectors, including handicrafts, fabrics and fashion, food and beverages (including coffee) and agriculture. Digital economic and financial integration have been accelerated through fast, convenient, affordable, secure and reliable payment system infrastructure via the MSME onboarding program. Bank Indonesia has also built synergy with government ministries/agencies, associations and communities to advance MSMEs. Such synergy is discharged in the form of capacity building, MSME onboarding, talk shows, business matching, business coaching, as well as national and international exhibitions. Synergy also aims to support the "Proud of Made in Indonesian Product" National Movement.

MSME development synergy aims to catalyse MSMEs as a new source of economic strength in the digital era. Such efforts were realised through three series of Indonesian Creative Works (KKI) in 2020, entitled "Promoting MSMEs as a New Source of Economic Strength in the Digital Era". The three series focused on export MSMEs, digital MSMEs and millennial-friendly MSMEs. The three KKI series in 2020 were made possible through cooperation between Bank Indonesia and relevant government ministries, which showcased the excellent products of MSMEs under the mentorship of Bank Indonesia. The showcase was presented virtually via the KKI platform as well as physically, restricted with Covid-19 protocols at various Bank Indonesia Representative Offices. Nevertheless, workshops, business matching and coaching as well as international showcases went ahead, thus strengthening MSME’s position as a new strength of the national economy.

Bank Indonesia constantly strengthened international policy to support economic recovery as well as maintain macroeconomic and financial system stability globally and at home. Bank Indonesia also strengthened international cooperation in coordination with the Government. International policy was continuously developed in terms of stance and diplomacy strategy; strengthening cooperation; partner perception management; and strengthening global surveillance. Such efforts were taken in the interests of Bank Indonesia and/or the national economy at the international level, including cooperation to contain...
the economic impact of Covid-19. International and regional cooperation in Asia has been expanded in the form of a Global Financial Safety Net (GFSN) and Local Currency Settlement (LCS). Currently, Bank Indonesia has bilateral swap agreements with financial authorities in China, Japan, Singapore and Malaysia, as well as repo agreements with several other central banks and international organisations, including the New York Federal Reserve and the Bank for International Settlements (BIS). Bank Indonesia has also strengthened cooperation with central banks in the region to promote Local Currency Settlement (LCS) for trade and investment purposes in order to reduce dependence on hard currencies. This is done through two schemes, namely: LCS based on Appointed Cross Currency Dealers (ACCD) with authorities in Japan, China, Malaysia and Thailand; and LCS based on Bilateral Currency Swap Arrangements (BCSA) with authorities in China, South Korea and Australia. In 2020, Bank Indonesia strengthened its LCS framework with the Bank of Thailand by expanding the scope to include direct investment and by relaxing certain rules concerning foreign exchange transaction. In addition, Bank Indonesia expanded and implemented institutional cooperation in the form of Structured Bilateral Cooperation (SBC) with the central banks in South Korea, Japan, United Kingdom, Germany and Turkey as well as international organisations such as the Bank for International Settlements (BIS).

Bank Indonesia has also actively strengthened positive international perceptions concerning Indonesia’s economy, particularly amongst rating agencies and foreign investors. This was achieved through regular intensive communication and engagement with rating agencies and foreign investors, for example the Investor Conference Call after each monthly Board of Governors (BoG) Meeting and each time a strategic policy had to be communicated. The national, regional and global Investor Relations Units (IRU) promote investment and trade through Bank Indonesia’s office network in various regions in conjunction with the central government and regional administrations as well as Indonesian embassies abroad. In 2020, Bank Indonesia actively participated in the Indonesia Investment Day in Singapore; the Central Java Investment Business Forum; and the West Java Investment Summit, all held virtually.

International cooperation also aims to advance the national interest in terms of the payment system and trade. In 2020, Bank Indonesia and Bangko Sentral ng Pilipinas agreed to cooperate in terms of payment systems and digital financial innovation. This complements similar existing agreements with the Bank of Thailand and Bank Negara Malaysia. In terms of trade, Bank Indonesia actively supports government efforts to initiate new markets through trade negotiations and international investment, bilaterally and multilaterally.