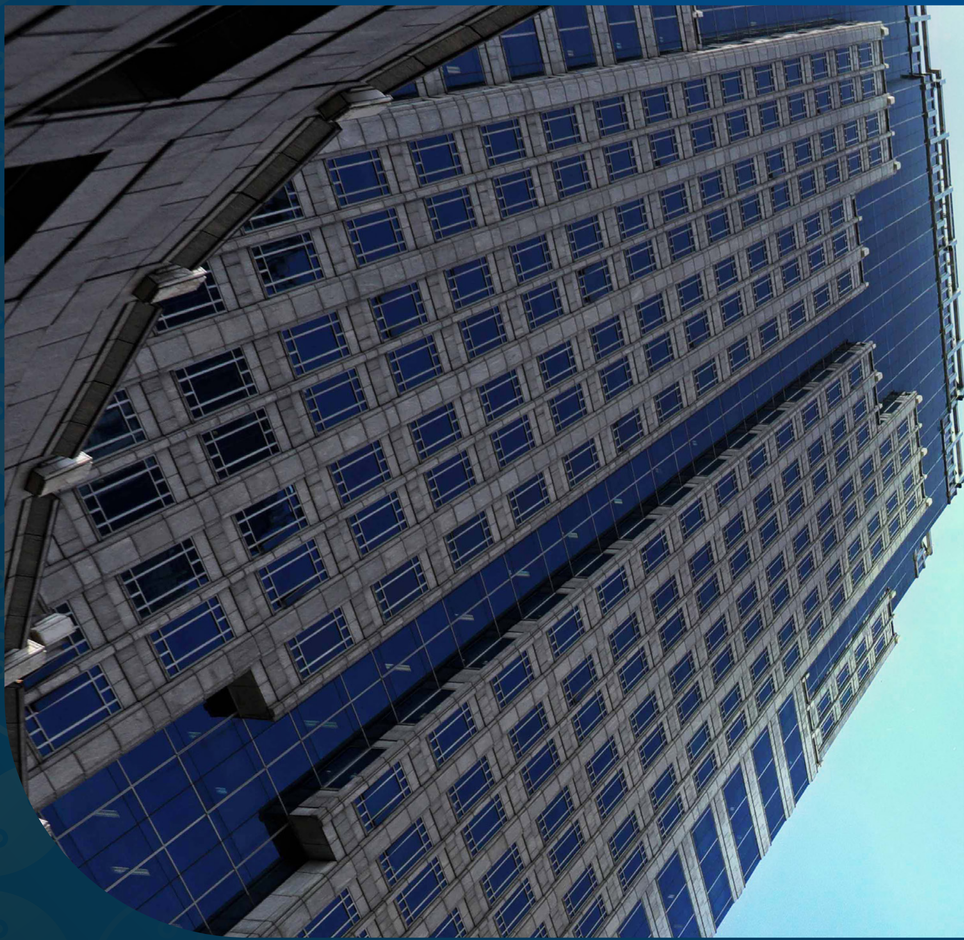


CHAPTER 3

BANK INDONESIA POLICY MIX 2021: ENCOURAGING NATIONAL ECONOMIC RECOVERY, MAINTAINING STABILITY

National policy synergy was strengthened in 2021 to maintain stability and revive the national economy. Strong economic policy coordination between the Government, Financial System Stability Committee and Bank Indonesia helped the economic recovery, while maintaining macroeconomic and financial system stability. Fiscal and monetary policy cooperation was strengthened through Bank Indonesia's participation in funding the State Revenue and Expenditure Budget (APBN) in accordance with Act No. 2 of 2020. Furthermore, Bank Indonesia also oriented the full panoply of monetary, macroprudential and payment system policy mix instruments towards supporting the national economic recovery in close coordination with the Government and Financial System Stability Committee.

Closer national policy synergy to overcome the Covid-19 pandemic in 2020 was strengthened in 2021 to maintain stability and continue driving the national economic recovery. To that end, Bank Indonesia formulated one prerequisite (a necessary condition), namely the mass vaccination program and disciplined application of Covid-19 health protocols, as well as five policies (sufficient conditions) as follows: (i) reopening of productive and safe sectors, (ii) faster realisation of fiscal stimuli, (iii) stronger credit performance from the demand and supply sides, (iv) maintained monetary and macroprudential stimuli, and (v) economic and financial digitalisation, particularly among MSMEs. As for the necessary condition, the vaccination rollout was accelerated in 2021 as global vaccine supply and distribution improved, especially after the Delta outbreak. The Government continues to prioritise the reopening of productive and safe sectors amid resolute efforts to mitigate the Covid-19 pandemic, specifically targeting the property and automotive sectors, accompanied by close coordination with the Financial System Stability Committee to revive financing to the corporate sector. Meanwhile, **payment system digitalisation synergy with the Pride in Indonesia Movements (BBI and BWI), between Bank Indonesia, the Government, banking industry, payment service providers, FinTech and e-commerce, has been strengthened to accelerate the national digital economy and finance and support inclusive economic growth.**

Strong national economic policy synergy between the Government, the Financial System Stability Committee and Bank Indonesia has effectively maintained national economic recovery momentum along with macroeconomic and financial system stability. In 2021, the Government maintained extraordinary fiscal stimuli to contain the health and economic impacts of Covid-19. The fiscal deficit in 2021 is expected to reach IDR783.70 trillion, or 4.65% of GDP. This includes a Covid-19 containment and national economic recovery program budget totalling IDR744.77 trillion, comprising a health budget of IDR214.96 trillion and a budget for social protections totalling IDR186.64 trillion. Seeking to maintain financial system stability and revive financing to the corporate sector, close coordination under the auspices of the Financial System Stability Committee aims to improve the property and automotive sectors through fiscal incentives from the Government and accommodative macroprudential policy from Bank Indonesia. Meanwhile, the Financial Services Authority (OJK) continues to relax credit restructuring requirements for the banking industry by deferring principal and interest payments to avoid increasing non-performing loans (NPLs), or non-performing financing (NPF), and decreasing capital by extending OJK Regulation (POJK) No. 48 of 2021 until March 2023. Similarly, the Indonesia Deposit Insurance Corporation (LPS) continues to guarantee private deposits in the banking industry, thereby maintaining financial system stability, while lowering the guaranteed interest rate to support the national economic recovery.

> **"National economic policy synergy supports economic recovery along with macroeconomic and financial system stability."**

Stronger fiscal and monetary policy coordination extended beyond maintaining macroeconomic stability and accelerating the national economic recovery in 2021 to include Bank Indonesia's participation in funding the State Revenue and Expenditure Budget (APBN) by purchasing government securities (SBN) in the primary market in accordance with Act No. 2 of 2020. In 2021, Bank Indonesia continued to fund the State Revenue and Expenditure Budget by purchasing SBN in the primary market pursuant to the first Joint Decree (KB I) totalling IDR143.32 trillion, consisting of IDR67.87 trillion through primary auction and IDR75.46 trillion through Greenshoe Options (GSO). Furthermore, responding to the national call for state budget funding to finance the health and humanitarian aspects of the Delta outbreak, Bank Indonesia also committed to purchase SBN directly from the Government based on the third Joint Decree (KB III) to the tune of IDR215 trillion in 2021 and IDR224 trillion in 2022. The rate on these securities was below the Bank Indonesia Reverse Repo Rate for 3-month tenors. In addition to the low interest rate, Bank Indonesia will repay a portion of the coupon revenue received from the SBN purchases, totalling IDR58 trillion in 2021 and IDR40 trillion in 2022, thereby reducing the Government's interest payment obligations in the state budget. This demonstrates Bank Indonesia's avowed commitment to fund the health and humanitarian aspects of the state budget due to Covid-19, while accelerating the national economic recovery in accordance with prevailing regulations.

Bank Indonesia has oriented all monetary, macroprudential and payment system policy instruments towards supporting the national economic recovery in close coordination with the Government and Financial System Stability Committee as follows:

i. **In the monetary sector, a historically low policy rate has been maintained along with rupiah exchange rate stability and liquidity injections through quantitative easing.** The low policy rate will be maintained until there are indications of rising inflation. Since 2020, Bank Indonesia has lowered the BI7DRR policy rate six times to 3.50%, the lowest in history. The rupiah exchange rate stabilisation policy was implemented through triple intervention targeting the spot market, DNDF (Domestic Non-Deliverable Forwards) and purchases of government securities in the secondary market, amid persistent global financial market uncertainty. Likewise, Bank Indonesia continued to inject liquidity via quantitative easing to strengthen the banking industry's ability to extend credit/financing to the corporate sector. Throughout 2020-21, the quantitative easing policy amounted to IDR874.4 trillion, or 5.3% of GDP, through liquidity injections into the banking industry to support the national economic recovery program.

ii. **Accommodative macroprudential policies continue to revive bank financing disbursed to the corporate sector** in synergy with Financial System Stability Committee policy. This includes loosening the down payment requirements on automotive loans; the Loan/Financing-to-Value (LTV/FTV) Ratio on Property Loans and the (sharia) Macroprudential Intermediation Ratio (MIR); encouraging the banks to lower Prime Lending Rates; and other accommodative macroprudential policies. Bank Indonesia has also refined and modernised the MSME Credit Ratio policy into the Macroprudential Inclusive Financing Ratio (RPIM - *Rasio Pembiayaan Inklusif Makroprudensial*).

iii. **Bank Indonesia continues to accelerate payment system digitalisation for integration of the national digital economy and finance.** This includes expansion of QRIS (Quick Response Code Indonesian Standard) acceptance to 12 million merchants by the end of 2021, including cross-border QRIS; implementation of the National Open API Payment Standard (SNAP); as well as electronification of social aid program (bansos) disbursements, transportation modes and government financial operations. Various agendas in the Indonesia Payment System Blueprint (BSPI - *Blueprint Sistem Pembayaran Indonesia*) 2025 have also been accelerated, including development of BI-FAST as a real-time retail payment system available 24/7, along with linkages between digital banking and FinTech, as well as payment system regulatory reform.

iv. In addition to the three main policy initiatives outlined above, Bank Indonesia also directed four supporting policies towards national economic recovery. Close synergy with the Government, banks and other institutions has been enhanced to **develop MSMEs** and **the Islamic economy and finance** as a new source of national economic growth in Indonesia. Also, **financial market deepening** has accelerated, particularly the rupiah and foreign exchange money markets, to strengthen monetary policy transmission, support financial system stability and finance development, including infrastructure. Furthermore, **international policy** has been oriented towards strengthening Bank Indonesia's policy diplomacy and to supporting the Government in facilitating and promoting trade and investment in various countries.

v. Bank Indonesia also **adjusted its operational activities and public services to support Government restrictions on public mobility during the Covid-19 pandemic**. This includes cash services; payment systems; monetary operations and central banking services to the Government. In addition, Bank Indonesia **temporarily increased the maximum limit on cash withdrawals through ATM machines using chip technology** until 30 September 2021

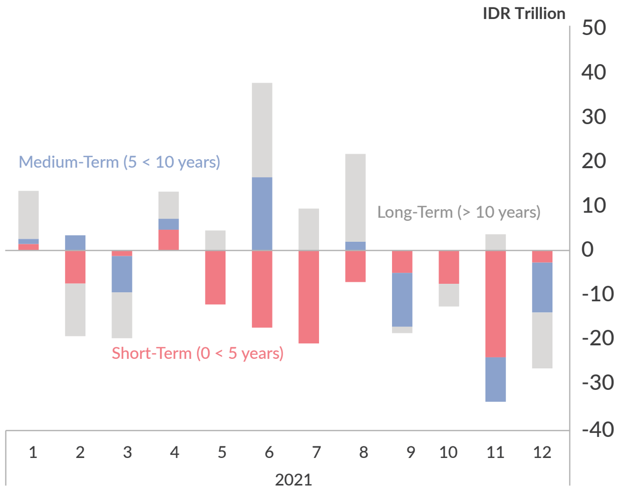
3.1

Rupiah Exchange Rate Stabilisation Policy

The rupiah has appreciated markedly thanks to the stabilisation policy adopted by Bank Indonesia, which has been very conducive to the national economic recovery. Triple intervention exchange rate stabilisation policy, targeting the spot market, Domestic Non-Deliverable Forwards (DNDF) and purchases of Government Securities in the secondary market, was reinforced via intensive communication with investors as well as domestic and overseas market players. As mentioned in the previous chapter, the rupiah has regained much of its lost value, hitting IDR14,610 per US dollar on 15 April 2021 before strengthening to IDR14,253 on 31 December 2021.

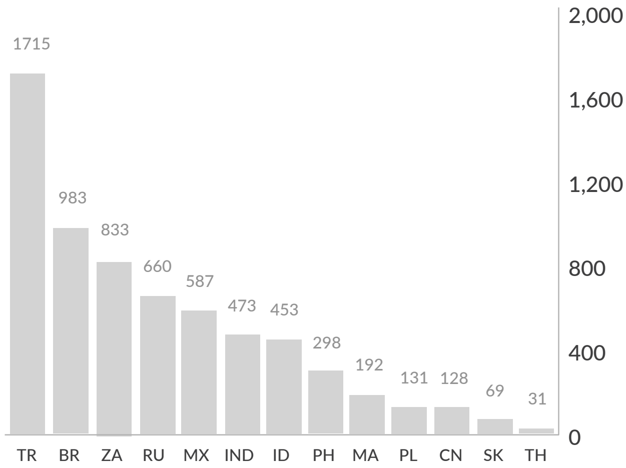
In addition, investor confidence has drawn foreign portfolio inflows into Indonesia although on a net basis throughout 2021 it still recorded outflow (Chart 3.1), while the position of reserve assets increased to USD144.9 billion at the end of December 2021, well above the USD135.9 billion recorded at the end of 2020. Looking ahead, the rupiah is expected to remain relatively stable, supported by controlled inflation within the target corridor, a manageable current account deficit, attractive returns on domestic financial assets for investment with a relatively moderate risk premium (Chart 3.2).

Chart 3.1. Inflows of Foreign Investment into Long-Term Government Securities



Source: Bank Indonesia

Chart 3.2. Yield Spreads for Long-Term Government Securities and US Treasuries



Source: Bank Indonesia

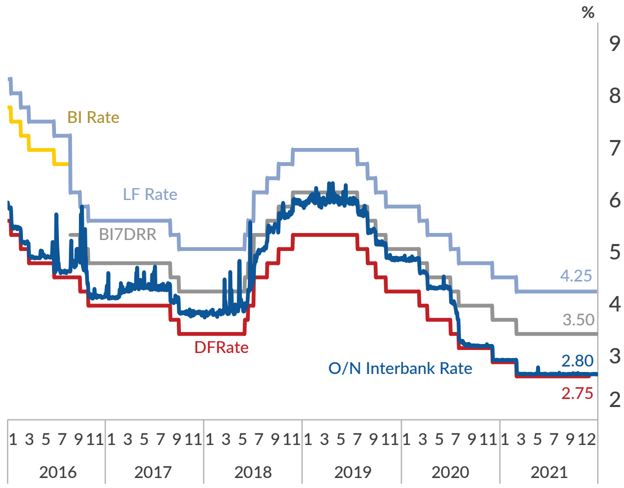
KSSK Synergy in Maintaining the Financial System and Strengthening National Recovery

3.2

Monetary Policy Stimuli

A historically low policy rate and loosening of Bank Indonesia's monetary policy stance have prompted further reductions in bank lending rates, while maintaining financial market stability. Since 2020, Bank Indonesia has lowered the BI7DRR policy rate six times to 3.50%. The low BI7DRR and loose liquidity were accompanied by lower market rates. For example, the overnight interbank rate and banks' 1-month deposit rate have decreased 26bps and 131bps respectively since December 2020 to 2.78% and 2.96% in December 2021 (Chart 3.3). Likewise, the benchmark yield on 10-year government securities fell 200bps from a high of 8.38% at the end of March 2020 to 6.38% on 7 December 2021. In the credit markets, Bank Indonesia continued to encourage lower prime lending rates, accompanied by a decrease in interest rates on new loans (Chart 3.4).

Chart 3.3. Overnight Interbank Rates



Source: Bank Indonesia

Bank Indonesia also maintained monetary stimuli in the banking industry in the form of massive quantitative easing (QE) to revive financing to the corporate sector and support the national economic recovery. In 2021, Bank Indonesia injected liquidity via quantitative easing to the banking industry totalling IDR147.8 trillion. Since 2020, quantitative easing has reached IDR874.4 trillion or around 5.3% of GDP, one of the largest liquidity injections in developing economies. Though massive liquidity injections to the banking industry have thus far failed to fully revive bank lending, due to softness on the demand side from the corporate sector, very loose liquidity conditions play an important role in maintaining overall financial system stability. In addition to injecting liquidity into the banking industry, Bank Indonesia also continued to purchase government securities in the primary market to fund the 2021 State Budget to the tune of IDR358.32 trillion, consisting of IDR67.87 trillion through primary auction and IDR75.46 trillion through Greenshoe Options (GSO). This was done in accordance with the first Joint Decree (KB I) issued by the Minister of Finance and Governor of Bank Indonesia on 16 April 2020 as well as IDR215 trillion through private placement (PP) pursuant to the third Joint Decree (KB III) issued by the Minister of Finance and Governor of Bank Indonesia on 23 August 2021.

3.3

Macroprudential Policy Easing

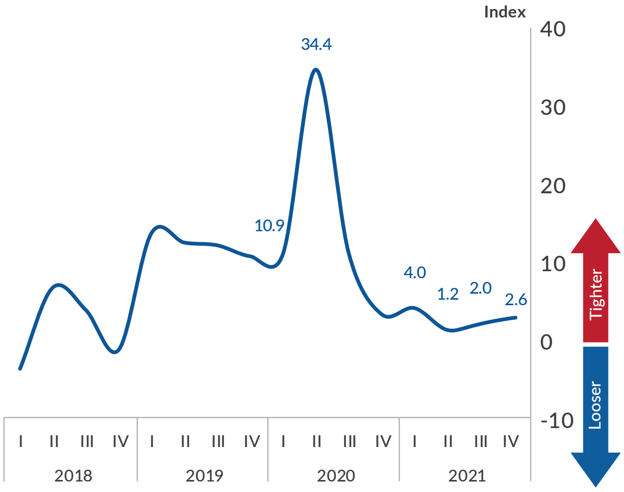
The macroprudential policy stance remains accommodative and synergised with Financial System Stability Committee policy to revive financing to the corporate sector and accelerate the national economic recovery. Bank Indonesia has loosened several macroprudential policies. *First*, relaxing the loan-to-value (LTV) ratio on property loans and down payment requirements on automotive loans to 0%, effective from 1 March 2021. Bank Indonesia initiated the policy in cooperation with the Government and Financial Services Authority (OJK), which issued a separate policy package to stimulate the property and automotive sectors, which have strong (backward and forward) linkages to other economic sectors. *Second*, publishing in-depth assessments of Prime Lending Rate (PLR) transparency in the banking industry since February 2021 to strengthen the transmission of accommodative monetary and macroprudential policies. *Third*, gradual reactivation of the Macroprudential Intermediation Ratio (RIM - *Rasio Intermediasi Makroprudensial*) by raising the lower limit to 75% in May 2021, 80% in September 2021 and 84% in January 2022. Further strengthening was achieved by including letters of credit (L/C) held by banks into MIR calculations. Bank Indonesia has synergised these policy measures with efforts to maintain adequate banking liquidity through a Countercyclical Buffer (CCyB) held at 0% and a Macroprudential Liquidity Buffer (MPLB) (*Penyangga Likuiditas Makroprudensial*) of 6%, which are eligible for repurchase with Bank Indonesia.

Bank Indonesia has also refined and modernised the MSME Credit Ratio into the Macroprudential Inclusive Financing Ratio (RPIM). Promoting inclusiveness, Bank Indonesia has improved policy by expanding the financing target beyond MSMEs to include low-income individuals (PBR - *Perorangan Berpenghasilan Rendah*). In addition, Bank Indonesia provides flexibility to allow banks to participate in financing MSMEs and low-income individuals based on the banks' expertise and business models by expanding the financing options for MSMEs and low-income individuals. In this case, banks can contribute to inclusive financing through three modality schemes, namely: (i) direct supply chain inclusive financing, (ii) financing through financial institutions and service agencies, including (sharia) rural banks, FinTech, Permodalan Nasional Madani (PNM) and Sarana Multi Finance (SMF), and (iii) financing through the purchase of inclusive financing securities, such as Inclusive Government Securities, Inclusive Medium-Term Notes (MTN) and Inclusive Asset-Backed Securities (EBA - *Efek Beragun Aset*). Moving forward, expansion of the inclusive financing scheme is expected to indirectly foster banking innovation and financial market deepening. RPIM implementation will be incremental to achieve a target portion of MSMEs and other inclusions in bank loans of at least 30% by the end of June 2024.

Bank Indonesia has also held policy rates at a low level, adopting an accommodative monetary and macroprudential stance to support financial system stability. Bank liquidity conditions in December 2021 were loose, as reflected by a high ratio of liquid assets to deposits (AL/DPK - *Alat Likuid/Dana Pihak Ketiga*) at 35.12%, with deposit growth recorded at 12.21% (yoy). Liquidity in the economy has increased, as reflected in the narrow (M1) and broad (M2) money supply aggregates, which expanded by 17.9% (yoy) and 13.9% (yoy), respectively by December 2021. This growth in money supply was mainly supported by continued fiscal expansion and increased bank credit.

Demand- and supply-side improvements are reviving the bank intermediation function. Demand for loans has improved, particularly from the business and consumption sectors, in response to rising public activity. On the supply side, the banking industry has eased lending standards in line with lower risk perceptions, very loose liquidity conditions and lower interest rates on new loans (Chart 3.4). All loan types recorded positive growth, led by consumer loans and working capital loans, while housing loans (KPR - *Kredit Pemilikan Rumah*) posted higher growth at

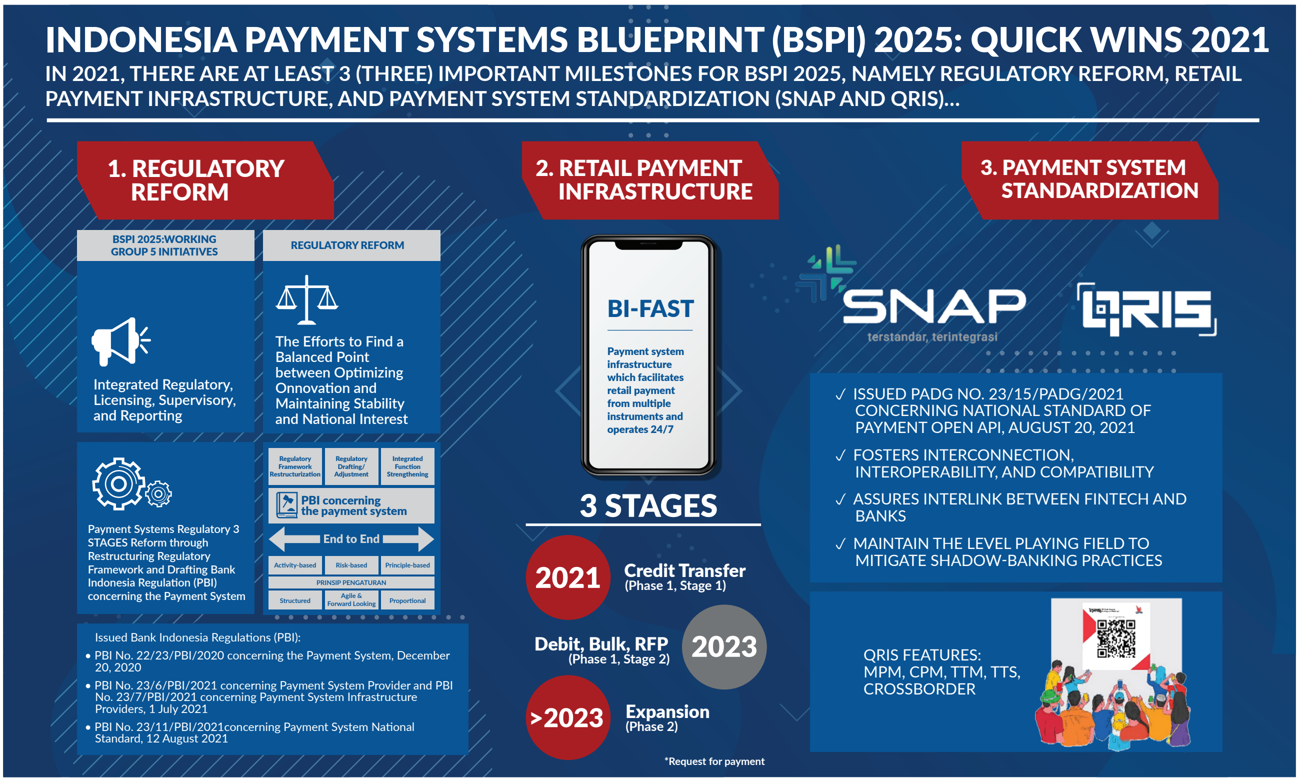
Chart 3.4. Lending Standard Index



Source: Bank Indonesia

9.13% (yoy) in December 2021 in line with Financial System Stability Committee (KSSK) policy to stimulate the property sector. The growth of MSME loans also accelerated. Such developments demonstrate ongoing gains in the real and corporate sectors, including micro, small and medium enterprises (MSMEs). Looking ahead, Bank Indonesia anticipates gradual improvements in bank lending and financing from the capital market in line with national economic recovery momentum after the Covid-19 pandemic; increasing public mobility and economic activity; faster state and regional budget realisations; an accommodative monetary and macroprudential policy mix, including very loose liquidity in the banking industry; and progress in credit restructuring in the banking industry.

Figure 3.1. Developments in the Indonesia Payment System Blueprint (BSPI) 2025



Source: Bank Indonesia

3.4

Accelerating Payment System Digitalisation

Bank Indonesia continues to accelerate payment system digitalisation and integrate the national digital economy and finance. Concerning implementation of the Indonesian Payment System Blueprint (BSPI - *Blueprint Sistem Pembayaran Indonesia*) 2025, Bank Indonesia in 2021 focused payment system digitalisation on three priorities, namely: regulatory reform; retail payment system infrastructure; and payment system standardisation (Figure 3.1). In terms of regulatory reform, policy transformation is key to consolidating the national payment system industry, while streamlining licensing procedures. To that end, Bank Indonesia is strengthening the Bank Indonesia Payment System Regulation issued at the end of 2020, with promulgation of the Payment Service Provider PBI (PJP) and the Payment Infrastructure Provider PBI (PIP) regulations dated 1 July 2021. The two BI regulations intend to strengthen the Indonesian payments ecosystem end-to-end and to encourage healthy business practices through industry collaboration so as to accelerate an inclusive digital economy and finance. Licensing has been simplified by applying principle-based rules and granting permits to groups of payment service types rather than the previous arrangement with rigid (rules-based) requirements for each service type. This has been applied to processing licenses for payment service providers (PSP), designating payment system infrastructure operators (PIP), as well as processing the development of risk-based activities, products and/or cooperation.

Bank Indonesia also continues to develop an integrated, interoperable and interconnected payment system infrastructure to support the national digital economic and financial ecosystem. Bank Indonesia has modernised retail payment infrastructure to operate in real-time and 24/7 by launching BI-FAST in December 2021. Nationally driven, BI-FAST was built to support the industry by integrating and consolidating the digital economy and finance (EKD) end-to-end, with implementation of BSPI 2025, while supporting a fast, affordable, convenient, secure and reliable payment system (CEMUMUAH). In the initial stage, BI-FAST services focus on individual credit transfers. Various implementation policies prepare for the BI-FAST rollout, such as open participation; the option of providing infrastructure independently or jointly/sharing; setting a maximum transaction limit of IDR250 million; and a BI-FAST price scheme limit of IDR2,500 to bank customers with a Bank Indonesia fee to participants of just IDR19 per transaction. The first batch of 22 BI-FAST participants was welcomed in December 2021, with a second batch of 22 planned for January 2022. BI-FAST implementation is also consistent with Bank Indonesia's monetary, macroprudential and payment system policy direction. It also modernises national payment infrastructure according to international standards and in accordance with the principles issued by the Committee on Payments and Market Infrastructures (CPMI), while simultaneously supporting the creation of an integrated, interoperable and interconnected (3i) digital ecosystem.

In addition to BI-FAST, Bank Indonesia also launched the National Open API Payment Standard (SNAP) to standardise the EKD ecosystem. SNAP is a national standard for protocols and instructions that facilitate open interconnection between applications in processing payment transactions. They were prepared by Bank Indonesia in collaboration with the Indonesia Payment System Association (ASPI - *Asosiasi Sistem Pembayaran Indonesia*). SNAP intends to create a healthy, competitive and innovative payment system that provides efficient, secure and reliable payment system services to the public. SNAP was launched on 17 August 2021 and will be adopted gradually, commencing in June 2022 for the first payment service providers and in December 2022 for other PJPs. Bank Indonesia is confident that SNAP implementation will facilitate interconnection, interoperability and compatibility between Open API payment providers, thereby strengthening the links between PJP banks and nonbanks. In addition, SNAP also establishes a level playing field between payment industry players, thus minimising fragmentation and accelerating the digital economy and finance in Indonesia.

Payment system digitalisation is also supported by QRIS extensification as the national standard for QR Payments in various digital economic and financial transactions. QRIS expansion has been realised through a national campaign to bring onboard 12 million connected merchants using QRIS in the national ecosystem by the end of 2021. Bank Indonesia used several incentives, such as extending the 0% merchant discount rate (MDR) for micro businesses until 31 December 2021. It also increases the QRIS transaction limit from IDR2 million per transaction to IDR5 million per transaction, to increase QRIS transactions by the medium-sized enterprises, beginning 1 May 2021. Coordination with the Government continues to be strengthened through QRIS use in the Proudly Made in Indonesia National Movement (BBI - *Gerakan Nasional Bangga Buatan Indonesia*) and the Proud to Travel in Indonesia Movement (BWI - *Gerakan Berwisata di Indonesia*).

QRIS expansion in the local government environment was also expanded as part of the Regional Digitalisation Expansion and Acceleration Team (TP2DD). The various policies and close coordination have produced fruitful results. The target of 12 million merchants connected to QRIS was achieved at the beginning of November 2021; by year-end, it was exceeded by a wide margin (Table 3.1). Furthermore, QRIS, which operates in 34 provinces and 480 regencies/cities, is used by 88% of micro and small businesses, and is operated by 68 payment service providers, both banks and nonbank institutions. Moreover, the use of QRIS is increasing both in terms of volume and value, which demonstrates growing public acceptance of QRIS (Chart 3.5).

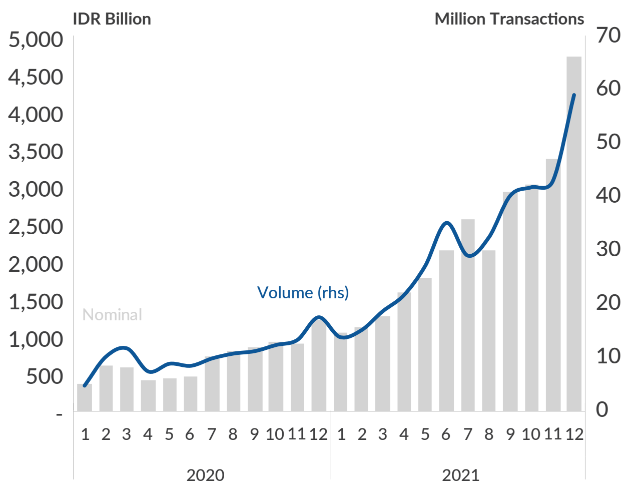
Bank Indonesia continues to expand the payment electronification initiative for social aid program (bansos) disbursements, transportation modes and regional government financial transactions to help accelerate the digital economy and finance. Bank Indonesia fully backs government efforts to disburse social assistance more quickly, on target and with good governance through the social assistance electronification program. To that end, Bank Indonesia continues to encourage the digitalisation of social assistance 4.0 by strengthening business models, regulations and payment methods that are in line with prevailing needs, including improvements to data quality. In terms of transportation sector electronification, Bank Indonesia encourages the integration of payment systems and data in the transportation sector. Bank Indonesia provides

Tabel 3.1. QRIS-Registered Merchants

Merchant Criteria	5 November 2021	31 December 2021
Big Enterprise	449,331	496,405
Medium Enterprise	928,005	1,048,560
Small Enterprise	3,203,652	3,624,295
Micro Enterprise	7,532,134	8,476,367
Donation/Social, Public Service Agency (PSA), and Public Service Obligation (PSO)	124,484	1,134,351
TOTAL	**12,237,586**	**14,779,978**

Source: Bank Indonesia

Chart 3.5. Developments in the Indonesia Standard QR Code (QRIS)

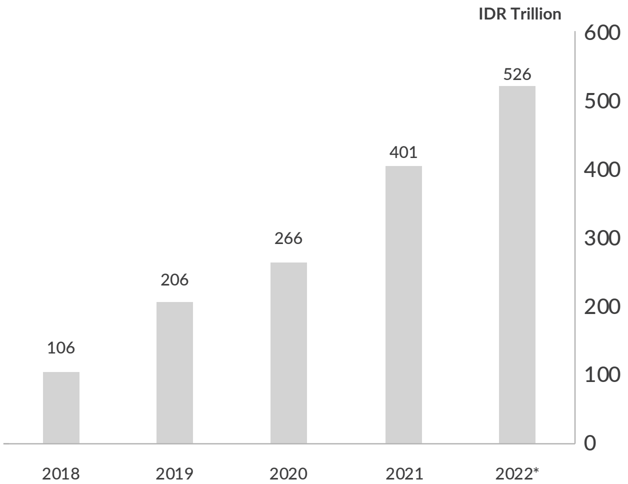


Source: Bank Indonesia

support for the preparation of a payment aspect business model for integrated transportation modes as well as multi-lane, free-flow toll roads that will gradually begin operating in 2022. Furthermore, to strengthen the electronification of regional government transactions, in 2021 Bank Indonesia strengthened cooperation with the Acceleration and Expansion Regional Digitalisation Task Force. As of 14 October 2021, a total of 482 Regional Digitalisation Acceleration Teams (TP2DD) have been established, accounting for 88% of local governments in Indonesia, comprised of 33 provincial governments, 360 districts and 89 cities. Synergies among the relevant authorities and stakeholders is being built continuously through, among others, the successful Indonesia Digital Economy and Finance Festival in 2021 (FEKDI - *Festival Ekonomi Keuangan Digital Indonesia*). This served as a forum for implementing development of the digital economy and finance in order to accelerate digital transformation and economic recovery.

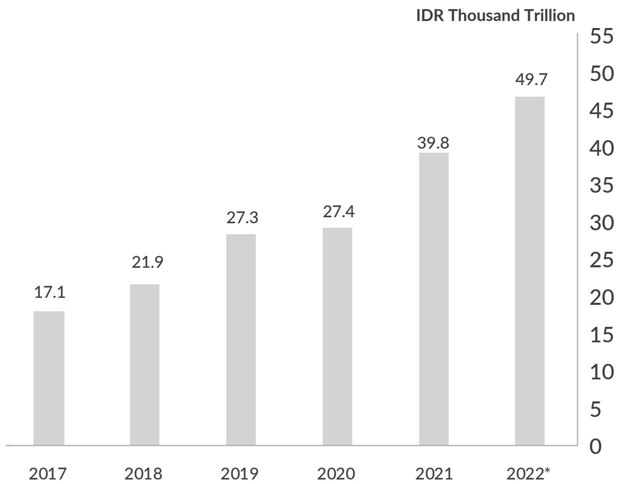
The aforementioned payment system digitalisation programs are accelerating and integrating the national digital economy and finance, today and in the future. E-commerce transactions, which are estimated to have grown 50.8% in 2021, will continue to increase in 2022 to reach IDR526 trillion, or growth of another 31.2% (Chart 3.6). Mirroring these developments, digital banking payment transactions are projected to increase by 45.64% (yoy) during 2021 and followed by 24.8% next year, reaching IDR49.7 trillion in 2022 (Chart 3.7). Meanwhile, the use of Electronic Money in 2021 is estimated to increase by 49.06% (yoy) and by another 17.13% (yoy) during 2022, to reach IDR358 trillion by end-2022 (Chart 3.8). This rapid development of digital economic and financial transactions is in line with growing public acceptance and preference for online retail; expansion of the e-commerce ecosystem; development of digital payment services; improving domestic economic conditions; and the acceleration of various payment system digitalisation programs in accordance with BSPI 2025.

Chart 3.6. Developments in E-Commerce



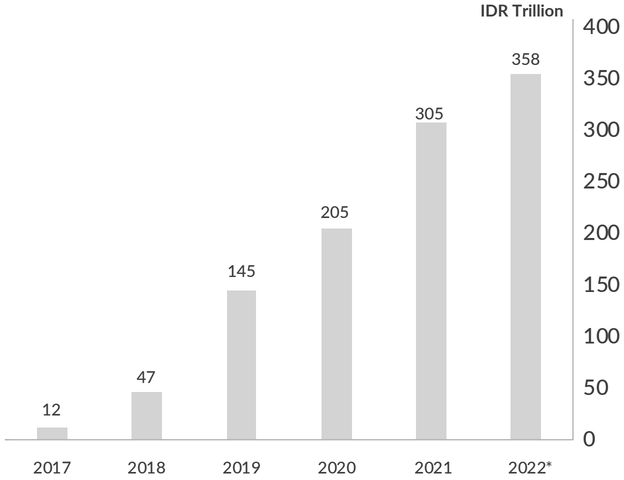
Source: Bank Indonesia *Bank Indonesia's Projection

Chart 3.7. Developments in Digital Banking



Source: Bank Indonesia *Bank Indonesia's Projection

Chart 3.8. Developments in Electronic Money



Source: Bank Indonesia *Bank Indonesia's Projection

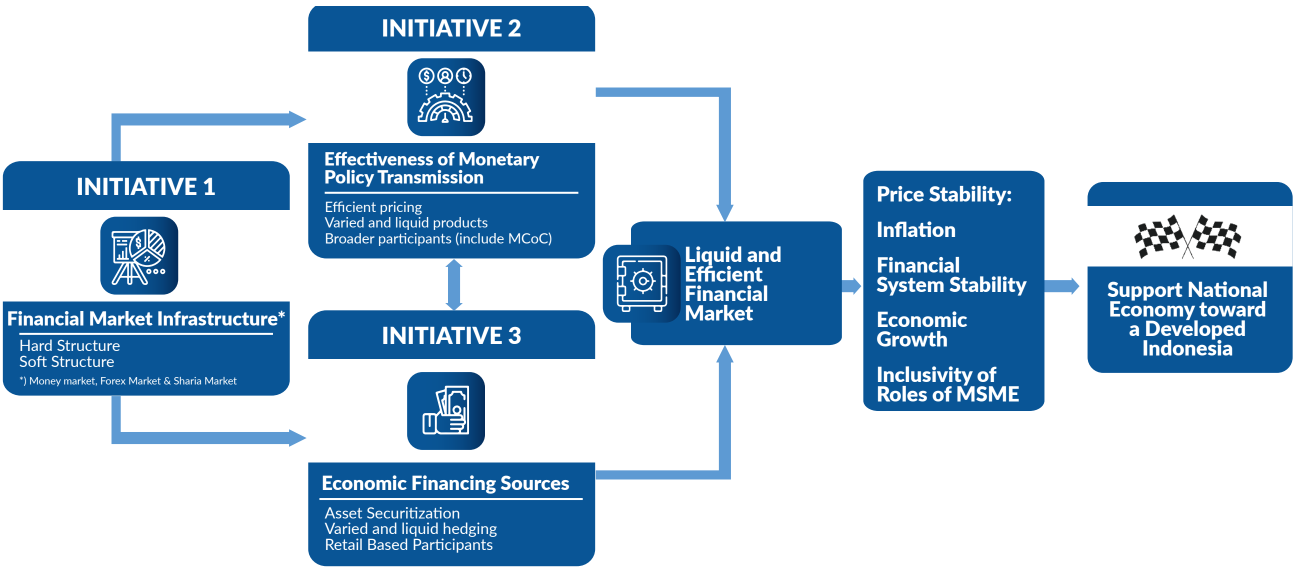
With regard to rupiah currency management, Bank Indonesia continues transformation efforts through centralisation, automation and efficiency in the printing and circulation of money throughout the territory of the Republic of Indonesia. Transformation is oriented towards providing money fit for circulation in appropriate denominations, just in time through the central bank, aligned with the direction of non-cash policies and paying attention to efficiency and the national interest based on the 2025 Rupiah Currency Management Blueprint (BPPUR - *Blueprint Pengelolaan Uang Rupiah*). This Blueprint envisages a transformation based on three keys milestones, namely: centralised distribution; digitalisation; and efficiency supported by strengthening information systems, regulations, the organisation and human resources. Centralised distribution is achieved by aligning distribution lines and layers, strengthening command centres, centralising cash inventory management and optimising the use of infrastructure and different modes of transportation. Meanwhile, end-to-end digitalisation of rupiah currency management begins with planning and printing, to issuing, circulating, removing and destroying rupiah currency. In the context of increasing efficiency, Bank Indonesia continues to improve rupiah currency management, including the efficient management of currency supply, distribution and cash services, meeting spatial-based cash needs as well as strengthening the quality of currency materials and security features. The transformation of rupiah currency management based on these three key milestones represents a manifestation of Bank Indonesia's firm commitment to maintaining rupiah integrity and credibility as legal tender, as well as a unifying force for instilling a sense of pride in the Republic of Indonesia and the Indonesian nation.

3.5

Accelerating Money Market Development

Bank Indonesia is accelerating money market deepening to strengthen monetary policy effectiveness and support economic recovery. Various programs were carried out as part of the Blueprint for Money Market Development (BPPU) 2025 based on three main initiatives, namely: (i) encouraging digitalisation and strengthening financial market infrastructure; (ii) strengthening the effectiveness of monetary policy transmission; and (iii) developing financial instruments as a source of economic financing and strengthening risk management (Figure 3.2). Strengthening monetary policy transmission effectiveness, Bank Indonesia focused on accelerating the development of repo and DNDF transactions between market participants in 2021. To that end, Bank Indonesia strengthened the Jakarta Interbank Spot Dollar Rate (JISDOR) as a reference rate for the rupiah against the US dollar.[8] The development of DNDF instruments continued through efforts to increase supply in the market and balance the supply and demand sides, including by allowing DNDF participants to rollover maturing DNDF. In addition, the Local Currency Settlement (LCS) scheme has been strengthened continuously and expanded to alleviate dependence on specific currencies.[9,10] In addition, Bank Indonesia in cooperation with the Ministry of Finance and OJK, through the Financial Market Deepening Development Forum (FP-PPK), continue to develop financial instruments for economic financing, including Commercial Papers (SBK - *Surat Berharga Komersial*), while expanding interbank repo transactions using SBN as the underlying transaction, and campaigning to mobilise SBN retail investors.

Figure 3.2. Linkages Between Initiatives in The Money Market Development Blueprint (BPPU) 2025



Source: Bank Indonesia

8 Strengthening efforts during the transaction monitoring period and at the time of JISDOR issuance should increase forex market credibility and reinforce exchange rate stability.

9 The LCS framework has been strengthened between Indonesia-Malaysia and Indonesia-Japan, while expansion of LCS partner countries was followed by the implementation of the Indonesia-China LCS in September 2021.

10 The development of JISDOR, DNDF and LCS is part of Bank Indonesia's efforts to enrich financial instruments as a source of economic financing and to strengthen risk management.

Bank Indonesia has created a regulatory framework through promulgation of money market regulations (PBI) with the industry to hasten digitalisation and strengthen money market infrastructure. This includes development of a Multimatching Electronic Trading Platform (ETP) with money market and forex market transactions executed jointly by standardising instruments and determining prices more transparently among market participants, shifting away from bilateral over-the-counter (OTC) transactions. Implementation of ETP Multimatching will encourage efficient and transparent pricing and better risk management. In its early stages, ETP Multimatching will be implemented for foreign exchange transactions, especially spot transactions, before being extended to cover other types, including repo, swap and DNDF transactions. In addition, Bank Indonesia is coordinating with the relevant authorities and the industry to accelerate establishment of a central counterparty (CCP) to improve transaction efficiency, strengthen transparency and reduce the risks associated with repo transactions using SBN as underlying transactions (Figure 3.3).[11] Therefore, CCP-SBN NT will increase the volume and liquidity of interbank SBN repo transactions, strengthen transparency in the formation of market rates and eliminate counterparty risk arising from bilateral OTC repo transactions.[12] Efforts to strengthen market infrastructure will deepen the Indonesian money market, consistent with the G20 OTC Derivative Market Reform agenda.

Figure 3.3. Developments of CCP-SB NT in Indonesia

Source: Bank Indonesia

11 In contrast to bilateral OTC SBN repo transactions, repo transactions through CCP are performed jointly through ETP Multimatching with product standardisation, transaction contracts, price transactions, as well as a closed-out netting mechanism using the submitted SBN as the underlying transaction from market participants to the CCP agency.

12 The CCP-SBN NT is expected to reduce the currently large disparity between SBN yields (approximately 5.2% on a 5-year tenor) and money market interest rates (approximately 3.7% on a 12-month tenor) and, therefore, support government efforts to reduce the interest burden on government debt.

3.6

Empowerment of Sharia Economy and Finance and MSMEs

Bank Indonesia continues to accelerate development of the national sharia economy and finance as a new source of inclusive and sustainable economic growth, as part of structural reforms supporting *Indonesia Maju* (Onward Indonesia)[13]. Bank Indonesia continues to strengthen and expand the halal value chain ecosystem through three development pillars, namely institutional strengthening, expanding implementation and strengthening the supporting infrastructure, including digitalisation. In implementation of these pillars, the institutional arrangements of the halal value chain ecosystem are being strengthened by accelerating corporatisation of pesantren (Islamic boarding school) holding business units. This is achieved through the establishment of the Pesantren Economy and Business Association (HEBITREN - *Himpunan Ekonomi dan Bisnis Pesantren*) in various provinces. At the same time, sectoral strengthening is carried out by accelerating the Halal Assurance System for the halal food sector with the Halal Certification Agency (BPJPH), government ministries and agencies as well as other stakeholders, while supporting the implementation of Halal Industrial Estates (KIH - *Kawasan Industri Halal*). Sectoral performance of the sharia economy is also supported by strengthening the halal value supply chain in the agricultural sector, as well as implementing business matching, business intermediaries and on-boarding domestic and global e-commerce. Likewise, the modest fashion sector is being strengthened in terms of the capacity of sharia business players who are ready to export and unlock market access.

Implementation of the *second pillar* of developing Islamic finance entails strengthening monetary operations and Islamic money market deepening to support financing. This is achieved, among others, by expanding BI Sukuk (SukBI) implementation. In addition, preparations for RPIM implementation in the sharia banking industry are being carried out in coordination with the Ministry of Finance for the underlying project of Inclusive SukBI in order to encourage sharia financing for MSMEs as part of economic recovery. Furthermore, measures to optimise Islamic social finance as an alternative financing source are also continuously encouraged by strengthening productive waqf with relevant government ministries/agencies. As mandated by Act No. 2 of 2020, improvements have been made to the provisions concerning sharia-compliant, short-term liquidity assistance in order to maintain financial system stability during the economic recovery.

The third pillar focuses on education and socialisation, with the national contribution in 2021 of the Sharia Economic Festivals (FESyar) and Indonesia Shari'a Economic Festival (ISEF) to the sharia economy and finance increasingly evident. A series of Road to ISEF activities were held in 2021. These include three FESyar events in Java, Sumatra and Eastern Indonesia, which covered various activities, from webinars to business matching and business deals. Market expansion, domestically and to unlock global markets, includes on-boarding to global e-commerce platforms. In terms of sharia finance, the collaborative Sharia Financing Month was organised with OJK and various other relevant stakeholders, including productive waqf. The series of hybrid virtual FESyar and ISEF activities attracted more than 290 thousand participants and 970 exhibitors (Figure 3.4). At the 8th ISEF, activities to accelerate the sharia economy focused on the halal food and modest fashion sectors, including the Global Halal Dialogue, as well as the Indonesia Sustainable Modest Fashion Show by 420 designers throughout Indonesia. The series of FESyar and ISEF activities generated transactions totalling IDR25.8 trillion and collected

13 Further elaboration on sharia economic and financial development policies can also be seen in the 2021 Sharia Economics and Finance Report (LEKSI) in Chapter 3 Synergy of Sharia Economic and Financial Policies and Chapter 4 Policy Directions for 2022

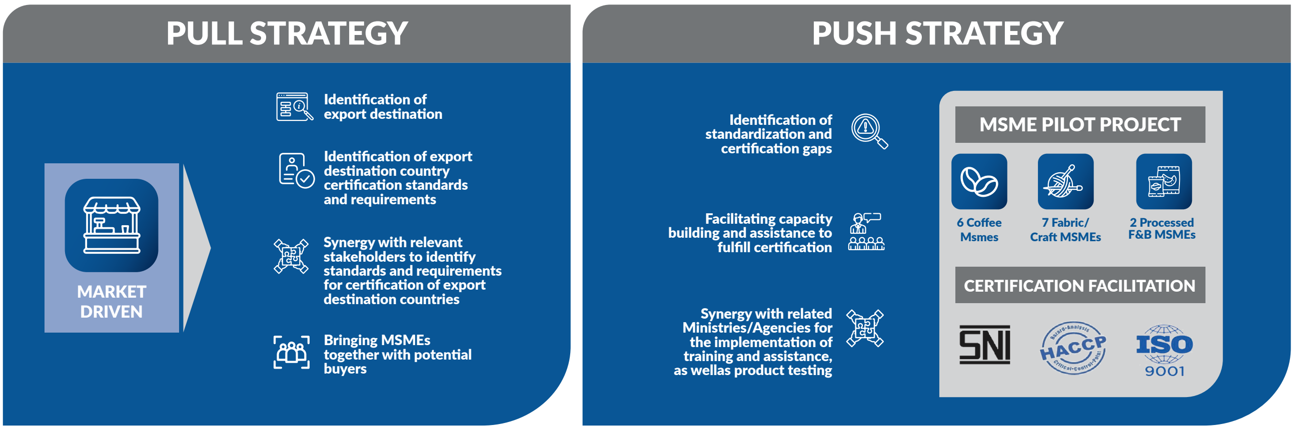
Figure 3.4. FeSyar and ISEF 2021: Indonesia as the World Center of Sharia Economics and Finance

Source: Bank Indonesia

IDR669 billion worth of zakat, infaq, sadaqah and waqf (ZISWAF) funds in 2021, improving considerably on previous years. Encouragingly, the number of institutions, associations and various other national and international parties that have joined ISEF to accelerate the sharia economy and finance in support of the national economic recovery has increased significantly.

Bank Indonesia continues to strengthen its MSME development program to promote digital and exporting MSMEs. Bank Indonesia consistently implements MSME development programs across three policy pillars, namely corporatisation, capacity building and financing in order to create productive, innovative and adaptive MSMEs (Figure 3.5). Corporatisation is strengthened through the formation of groups based on solid social capital and stronger formal and modern institutions. MSMEs are encouraged to collaborate with other MSMEs, large businesses and financial institutions to increase economies of scale. Capacity building, the second pillar, is focused on increasing productivity through innovation and digitalisation of business processes to improve MSME competitiveness. The MSME digitalisation program strives to increase productivity and efficiency; expand MSME marketing access, both nationally and globally; facilitate MSME access to finance; and facilitate MSME transactions as entry points into the digital economic and financial ecosystem through greater QRIS adoption. In terms of financing, broader access will facilitate business expansion with healthier MSME financing. Bank Indonesia also continues to promote MSME exports through two strategies, namely a market-driven pull strategy to identify standards and requirements according to export destination countries and a push strategy by facilitating the fulfilment of certification requirements by MSMEs (Figure 3.5).

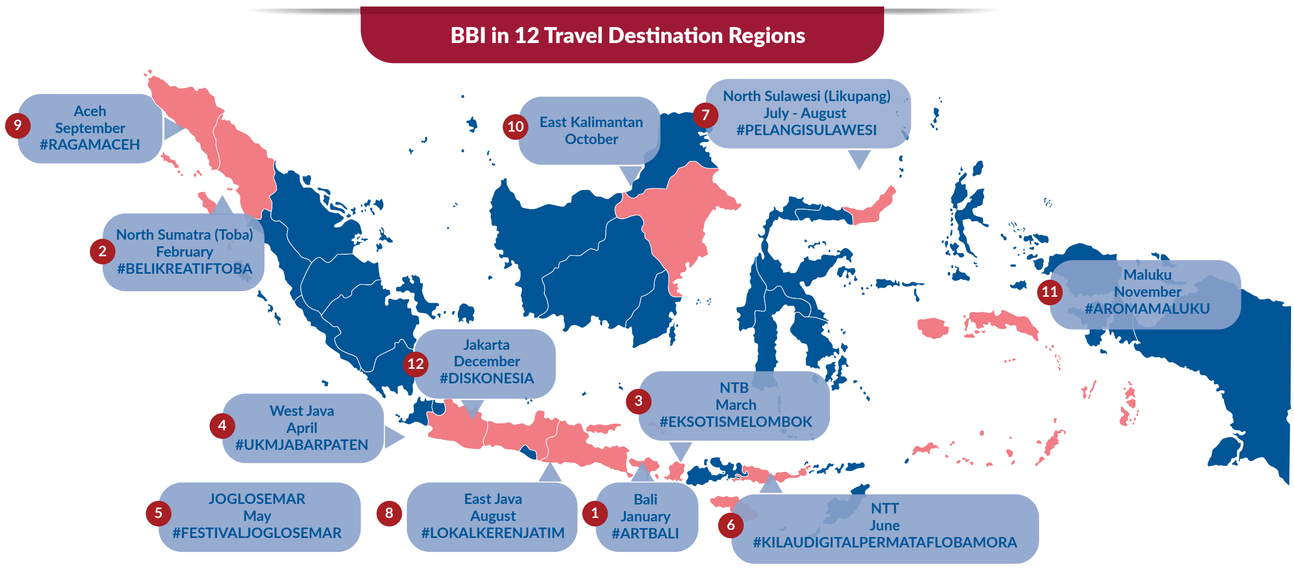
Figure 3.5. MSME Export Development Strategy



Source: Bank Indonesia

Bank Indonesia strengthens synergies with ministries, institutions, associations and communities to increase MSME competitiveness. Bank Indonesia's synergies with partners intend to increase MSME capacity; MSME on-boarding and business matching; facilitate access to finance and exhibitions; and the promotion of international trade. Bank Indonesia has also consistently supported the Proudly Made in Indonesia National Movement (Gernas BBI) and Proud to Travel in Indonesia Movement (BWI) by involving all Bank Indonesia representative offices in an effort to boost economic recovery, including a retail program for MSME products, expanding the use of MSME QRIS and organising various strategic Bank Indonesia events (Figure 3.6). In line with Bank Indonesia's strategic role in the Gernas BBI team, Bank Indonesia will continue to strengthen its active role in supporting the success of Gernas BBI and BWI.

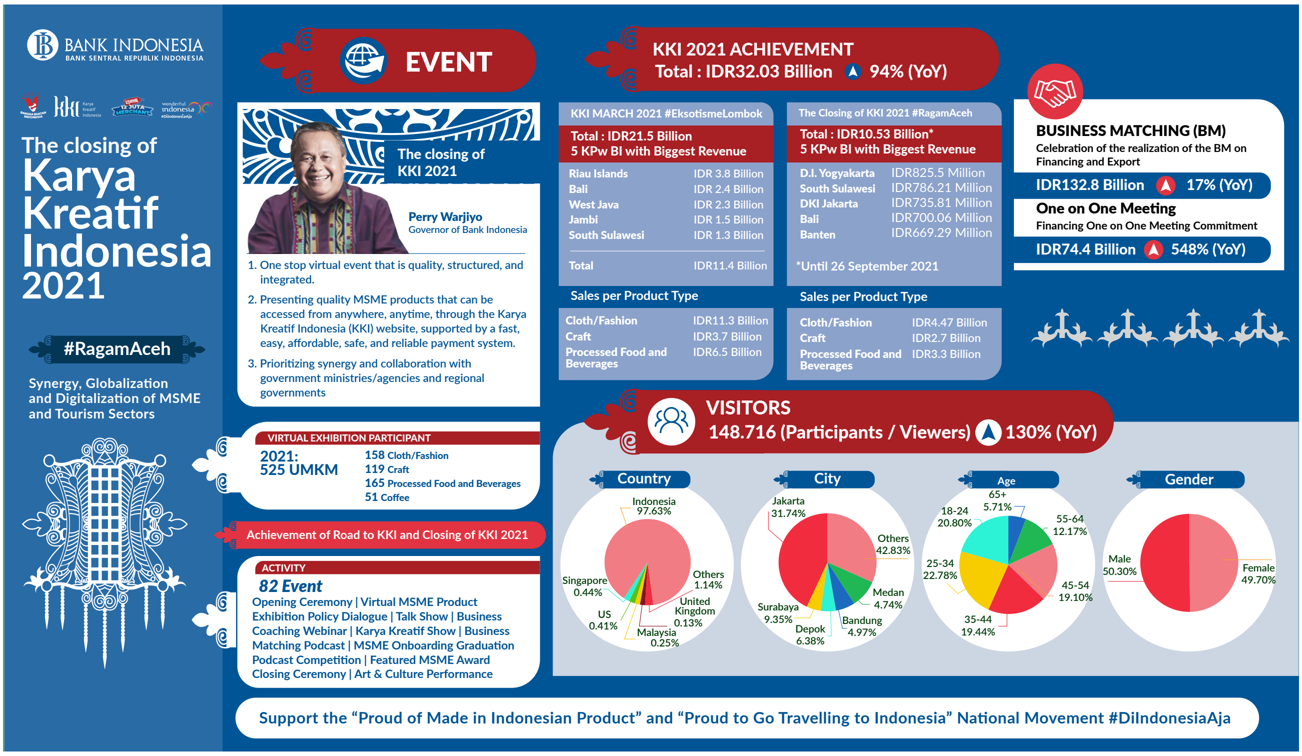
Figure 3.6. Regional Distribution of the Made in Indonesia Pride Campaign (Gernas BBI)



Source: Bank Indonesia

Through close synergy, a series of activities for the Indonesian Creative Works Exhibition (KKI - *Karya Kreatif Indonesia*) in 2021, organised by Bank Indonesia, was a key moment in the revival of MSMEs during the Covid-19 era. KKI 2021 was themed "Synergy, Globalisation and Digitalisation of MSMEs and the Tourism Sector". Series 1 of KKI in March 2021 aligned with Bank Indonesia's role as movement manager for Gernas BBI 2021 with the hashtag #EksotismeLombok, cooperating with relevant government ministries/agencies and the West Nusa Tenggara Regional Government. The KKI in 2021 culminated on 23-26 September with the hashtag #RagamAceh, which was officially kicked off by Indonesia's First Lady and successfully became a key moment in the revival of MSMEs during the pandemic to encourage digital MSMEs and export MSMEs. The scale of KKI 2021 increased significantly over the previous year, both in terms of turnover (94%), number of visitors (130%), as well as commitments created from export business matching (17%) and financing (548%). These reflected the improving performance of MSMEs and optimism of a rebound after riding out the pandemic storm (Figure 3.7). Closer and more intensive coordination with government ministries/agencies provided value added in capacity building, marketing access and access to MSME financing, while increasing public awareness and garnering public interest in MSME products.

Figure 3.7. Achievements of Indonesia Creative Works (KKI) 2021



Source: Bank Indonesia

3.7

Strengthening International Policy

Bank Indonesia's international policies are implemented in close coordination with the Government, aimed at supporting the main policies of Bank Indonesia to achieve macroeconomic and financial system stability, while campaigning for the interests of Bank Indonesia and the Indonesian economy. International and regional cooperation in Asia continues to solidify economic resilience and support growth. Bank Indonesia also strengthened international cooperation, including the International Financial Safety Net (JPKI - *Jaring Pengaman Keuangan Internasional*). Currently, Bank Indonesia has Bilateral Currency Swap Arrangements (BCSA) with China, Japan, South Korea, Australia and Singapore, as well as repo agreements with the New York Fed and the BIS. Efforts to increase the positive perception of global investors and rating agencies concerning the Indonesian economy will continue. Bank Indonesia also encourages faster and broader implementation of Local Currency Settlement (LCS) to facilitate trade and investment with partner countries by strengthening cooperation with the Government, Financial System Stability Committee, banking industry and business community. In addition, the LCS framework has been strengthened between Indonesia-Malaysia as well as the LCS scheme between Indonesia-Malaysia and Indonesia-Japan, while expanding LCS partner countries through implementation of the Indonesia-China LCS in September 2021. Bank Indonesia is also increasing cooperation in terms of financial system and/or payment system development to support efficient and secure transactions as well as digital financial innovation. In addition, Bank Indonesia has strengthened the Anti-Money Laundering and Prevention of Terrorism Financing (APU PPT) framework through agreements with the central banks of Thailand, Malaysia, the Philippines and Brunei Darussalam.

Bank Indonesia plays an active role in strengthening positive international perceptions of the Indonesian economy, particularly among rating agencies and foreign investors. This is achieved through intensive communication and engagement with rating agencies and foreign investors on a regular basis, especially the Investor Conference Call at the monthly Board of Governors Meeting (RDG - *Rapat Dewan Gubernur*), and when a strategic policy must be communicated. Investment and trade are promoted by the Investor Relations Unit (IRU) nationally, regionally and globally, through Bank Indonesia representative offices at home and abroad in collaboration with the (Central and Regional) Governments as well as Indonesian embassies abroad. During 2021, for example, Bank Indonesia cooperated and actively participated in investment promotional activities at the Indonesia Business and Investment Forum in Shanghai; the Indonesia Investment Forum in London; New York Now; and the London Coffee Festival.

Bank Indonesia also continues to enhance its international recognition as the best central bank among emerging markets. This was achieved in 2021 by increasing Bank Indonesia representation, either through membership or chairmanship, in various international cooperation forums. In addition, Bank Indonesia's reputation has been improved through several international awards presented by prominent and reputable international institutions; the implementation of several international standards; publishing research and international journals; as well as serving as a reference and resource at various strategic international events. In 2021, Bank Indonesia received an international award as Reserve Manager of the Year from the Central Banking Awards; a gold medal at the 15th Annual Next Generation Contact Centre & Customer Engagement

Conference; Best Systemic and Prudential Regulator in Asia Pacific from The Asian Banker Regulation and Supervision Awards 2021; a gold medal at the Annual Report Competition; and a gold medal at the International Business Awards (IBA) as a Stevie Award winner.

Policy synergy still faces tough challenges in handling the Covid-19 amid the outbreak of new variants, impacting domestic demand that has not fully recovered. Several factors have become challenges to accelerating domestic demand and the economic recovery. *First*, the relatively limited global supply and distribution of vaccines have hampered efforts to accelerate the vaccination rollout, which is a prerequisite for economic recovery. *Second*, the subsequent waves of Covid-19, especially the emergence of new variants, including the highly transmissible and more virulent Delta variant, risk the reintroduction of mobility restrictions accompanied by muted economic activity. *Third*, discipline in implementing Covid-19 protocols needs to be continuously improved as part of efforts to mitigate the risk of further Covid-19 transmission. The spread of Delta and ongoing efforts to strengthen the vaccination rollout and Covid-19 response, have had a negative impact on households, corporations and banks. This includes forcing extreme caution and delays in economic decision-making, affecting consumption, production and investment. This has compressed domestic demand and restrained bank lending, despite ample banking capacity to disburse loans in line with looser monetary policy in the form of lower interest rates; extraordinary liquidity injections; and accommodative macroprudential policy. Further measures to accelerate the mass vaccination program and mitigate Covid-19 would have a positive impact on controlling the spread of Covid-19, thus allowing for a broader reopening of priority sectors to further revive economic activity.

3.8

Bank Indonesia Transformation

Bank Indonesia has continued to expand and strengthen the comprehensive transformation that has been ongoing since 2018, both in terms of policy and institutional transformation, including the response to rapid digitalisation. This transformation is consistent with Bank Indonesia's vision to become a leading digital central bank with a tangible contribution to the national economy and the best among emerging markets (EMs) towards *Indonesia Maju* (Onward Indonesia). To that end, Bank Indonesia has prepared a strategic business plan (SBP) through to 2025, for Bank Indonesia as a whole and for each of 12 strategic programs. Bank Indonesia's policy transformation is achieved by strengthening the policy mix to discharge its mandate of maintaining rupiah stability (inflation and exchange rates), preserving financial system stability and promoting sustainable economic growth. Bank Indonesia's independence is a central tenet of synergies and coordination to strengthen national economic policy. In its application, Bank Indonesia has pioneered the implementation of a central bank policy mix of monetary and macroprudential policies to more optimally achieve monetary, financial system and macroeconomic stability as well as support sustainable economic growth. In the payment system, policy transformation entails BSPI 2025 implementation to accelerate and integrate the digital economy and finance as a source of national economic growth. Money market deepening has been expedited in accordance with BPPU 2025 through the development of money market instruments and financial market infrastructures to create a modern and advanced money market. Synergy and policy coordination with the Government continue to be strengthened, both between monetary and fiscal policies and accelerating real sector reform. In addition, synergy and coordination under the auspices of the Financial System Stability Committee focus on maintaining financial system stability and reviving financing to the corporate sector. Synergy and coordination with the Government, Financial System Stability Committee, banking industry and payment systems are constantly enhanced to deepen the financial markets and hasten integration of the digital economy and finance nationally.

Bank Indonesia continues to strengthen institutional transformation as a concrete step to develop Bank Indonesia as a leading central bank. This ensures the implementation of Bank Indonesia's mandate in a credible manner. Institutional transformation through a policy mix that aims to enhance performance based on effectiveness, efficiency and governance (2EG, Figure 3.8). This is a necessary step in creating balance in ensuring the achievement of Bank Indonesia's mandate through effective performance by efforts to promote efficient resource productivity, coupled with legal compliance and accountability through good governance. Institutional transformation encompasses the various work areas as well as processes, human resources, work culture and digital transformation. Organisational transformation entails: (i) formulation of an institutional policy mix based on principles of effectiveness, efficiency and good-governance; (ii) integration of certain strategic institutional functions, namely Strategic Management, Strategic Finance, Strategic Risk Management and Strategic Risk-Based Internal Audit, as well as the function of managing non-financial resources; (iii) improvement of the audit framework for internal control; (iv) bolstering risk management; and (v) strengthening the procurement and asset management functions.

Figure 3.8. Institutional Transformation

Source: Bank Indonesia

Bank Indonesia continues the transformation of human resources to achieve excellence in the digital era, accompanied by digital transformation of both policy and institutional arrangements. HR transformation focuses on four aspects, namely HR Planning, Fulfilment, Development and Maintenance. Transformation in the planning space means HR planning no longer merely focuses on quantity, but also quality. In terms of fulfilment, transformation implies compliance with organisational needs in a transparent, programmed and scheduled manner. In the development area, transformation applies the concept of a new Learning Task Program (PTB - *Program Tugas Belajar*) with institutionally-driven principles, managed end-to-end in line with employee career management. Regarding maintenance, transformation aims to maintain motivation and engagement. For its part, digital transformation is implemented comprehensively in both the institutional and policy areas through system development (toolset), human resource development (mindset and skillset) and maintaining the quality and reliability of information system (IS) services. In general, transformation intends to realise Bank Indonesia's vision of becoming a leading digital central bank and making a tangible contribution to the national economy as the best emerging market central bank towards *Indonesia Maju* (Onward Indonesia).