



## CHAPTER 4

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# RISE AND BE OPTIMISTIC: SYNERGY AND INNOVATION FOR ECONOMIC RECOVERY

Effective policy synergy and improving economic performance in 2021 are good reasons to be more optimistic about an acceleration of Indonesia's economic recovery in 2022. Efforts to promote economic recovery will continue to be based on a framework of policy synergies so that the economy returns to its long-term trajectory. For 2022, Indonesia's economic prospects will continue to improve in line with stronger expected domestic demand and a pick-up in the global economy. Economic stability is predicted to be maintained as the economy recovers. This positive outlook is underpinned by synergy and innovation to maintain momentum and create optimism for the recovery of the national economy. Synergies among Bank Indonesia and the Central and Regional Governments, the Financial System Stability Committee (KSSK), the banking sector and the business world will continue to be strengthened to improve performance of the national economy in a sustainable manner. Furthermore, policy mix innovations are constantly aligned with developments globally, domestically and in regard to fiscal conditions in order to support continued structural reforms of the national economy so that the economy continues to improve over the medium term and is back on track towards the realisation of an Advanced Indonesia.

Acceleration of national economic recovery continues to be encouraged by strengthening synergies and innovation based upon optimism and a strong spirit to recover. Economic recovery efforts are formulated within a framework of policy synergy and innovation by strengthening one prerequisite policy and accelerating five necessary policy responses to ensure return of the economy to its long-term trajectory. The prerequisite policy concerns acceleration of vaccination programs and handling of Covid-19 to enable re-opening of priority economic sectors, which is vital to continue the economic recovery. This prerequisite needs to be supported by five other policy responses, namely: (i) accelerated transformation of the real sector; (ii) synergy of

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### "Effective policy synergy in 2021 offers good reason to be more optimistic for the economic recovery process in 2022"

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monetary stimulus and macroprudential policy with fiscal policy; (iii) accelerated transformation of the financial sector; (iv) digitalization of the economy and finance; and (v) advancing the green economy and finance.





## 4.1

## One Prerequisite, Five Policy Responses

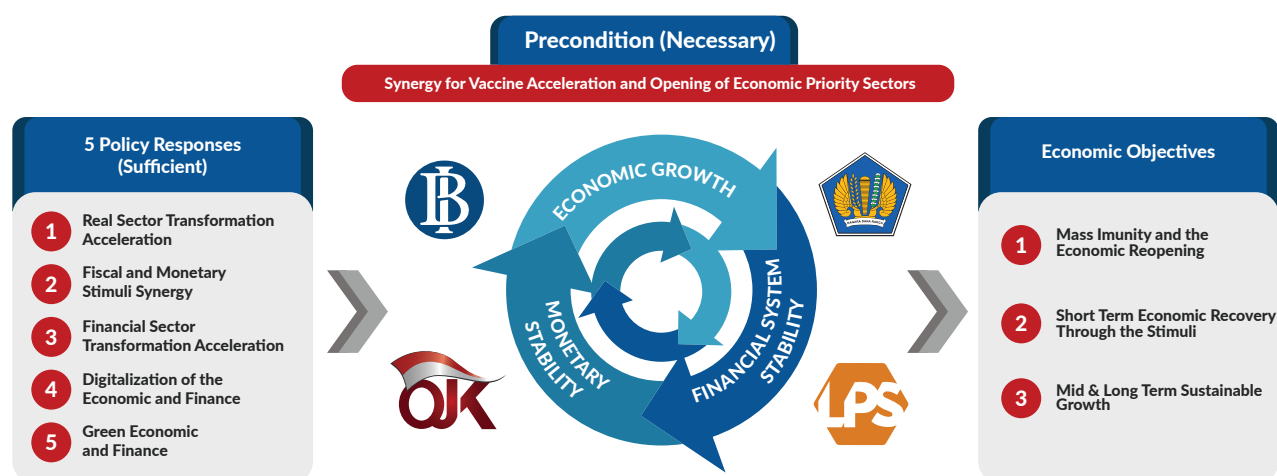
Effective policy synergies and improving economic performance in 2021 are good reasons to be more optimistic about Indonesia's economic recovery in 2022. Acceleration of the economic recovery continues to be encouraged by strengthening synergies and innovation based on a strong spirit of recovery and optimism. Synergy and innovation are aimed at creating herd immunity against the Covid-19 disease and at re-opening the priority economic sectors; promoting economic recovery in the short term through policies to increase demand; and maintaining stability, along with achieving higher growth in the medium term through structural reform policies.

Economic recovery efforts are still based on a policy synergy framework, namely the need to strengthen one prerequisite policy and to accelerate five necessary policy responses so that the economy returns to its long-term trajectory. Policy synergy for the acceleration of vaccinations and the handling of Covid-19 with the opening of priority economic sectors is very much needed as a prerequisite policy

for national economic recovery. This prerequisite needs to be supported by five other policy responses, namely: (i) acceleration of real sector transformation; (ii) synergy of monetary stimulus and macroprudential policy with fiscal policy; (iii) acceleration of financial sector transformation; (iv) economic and financial digitalization; and (v) the green economy and finance (Figure 4.1). Strengthening these synergies and innovations will create optimism with regard to accelerating the economic recovery in 2022 and the following years, as well as increasing the growth rate in the medium-long term towards achieving an Advanced Indonesia by 2045.

Acceleration of vaccination programs and the re-opening of priority sectors is a prerequisite for the sustainability of the national economic recovery. A valuable lesson from 2021 is that a fast and measurable policy response for accelerating vaccination programs and handling Covid-19 will be decisive for re-opening priority sectors and economic recovery. The government's policy of accelerating vaccination programs and restricting

Figure 4.1. National Policy Synergy

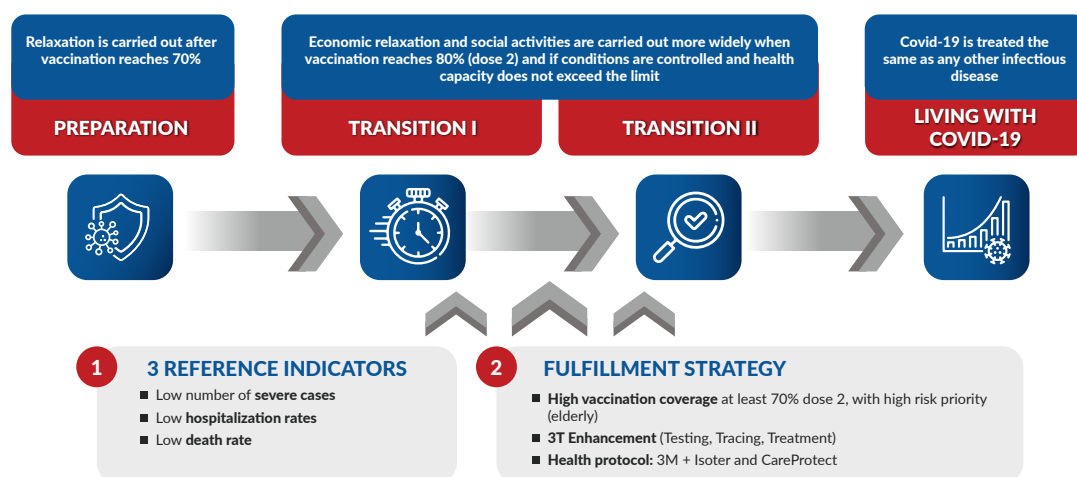


Source: Bank Indonesia

community activities was able to contain the spread of Covid-19 in a relatively short period of time. After experiencing a significant spike in June-July 2021, the number of daily new cases of Covid-19 has continued to decline since August 2021. In line with that, the Government plans to start gradually re-opening sectors and/or areas with low numbers of severe cases, low hospital utilization rates and low mortality rates. This re-opening is being carried out in stages, from preparation and transition stages I and II to live with Covid-19, also taking into account the strategy to adequately handle the pandemic, that is, accelerating vaccinations; increasing 3T (testing, tracing, treatment); and implementing health protocols, including *peduli lindungi* (Figure 4.2). Going forward, the vaccination program needs to be further accelerated to achieve the required level of immunity; to strengthen resilience against the possible spread of new variants of Covid-19; and to ensure the sustainability of the progress to date in improving economic conditions. This reaffirms the importance of synergies in accelerating vaccinations and the re-opening of priority sectors as prerequisites for economic recovery, as well as their impact on the financial and monetary sectors. In turn, the fulfilment of these prerequisites will strengthen optimism for economic recovery in the future.

The Government's efforts to accelerate vaccination programs and to support health and humanitarian management due to the Covid-19 pandemic, were fully supported by Bank Indonesia, including through participation in State Budget funding. The Delta Covid-19 virus variant that spread rapidly in June-August 2021 created a spike in positive cases and deaths. At the same time, the availability of vaccine supply, capacity and distribution, as well as the capacity of hospitals, medical personnel and treatment needs were very limited and entailed very high costs. To help remedy these important issues, Bank Indonesia participated in joint measures to address health needs and save lives from the spread of Covid-19. Bank Indonesia took the initiative to support the 2021 and 2022 State Budget funding through the purchase of Government Securities from the primary market directly (private placement) in accordance with the Joint Decree of the Minister of Finance and the Governor of Bank Indonesia dated 23 August 2021. The direct purchase of Government Securities by Bank Indonesia to cover all health costs in the 2021 and 2022 State Budgets reached IDR215 trillion and IDR224 trillion, respectively. These Government Securities carried very low interest rates, essentially equal to the cost of monetary operations (Bank Indonesia Reverse Repo Rate with a tenor of 3

**Figure 4.2. Preparation Plan for the New Normal, Living with the Endemic**



Source: Presentation on PPKM Evaluation of the Coordinating Ministry for Maritime Affairs, Study Australia and Singapore

months). Bank Indonesia's participation was realized through the contribution of all interest costs for financing vaccinations and health care needs with a maximum limit of IDR58 trillion (2021) and IDR40 trillion (2022), in accordance with Bank Indonesia's financial capacity. With the additional funding for medical expenses provided by Bank Indonesia in the 2021 and 2022 State Budgets, the Government was able to effectively handle the Delta Covid-19 variant very quickly. The government could also accelerate vaccinations to achieve herd immunity, thereby increasing resistance to the possible spread of new virus variants. This was vital so that steps to open up business sectors and various economic activities can continue with adequate risk mitigation of the Covid-19 pandemic.

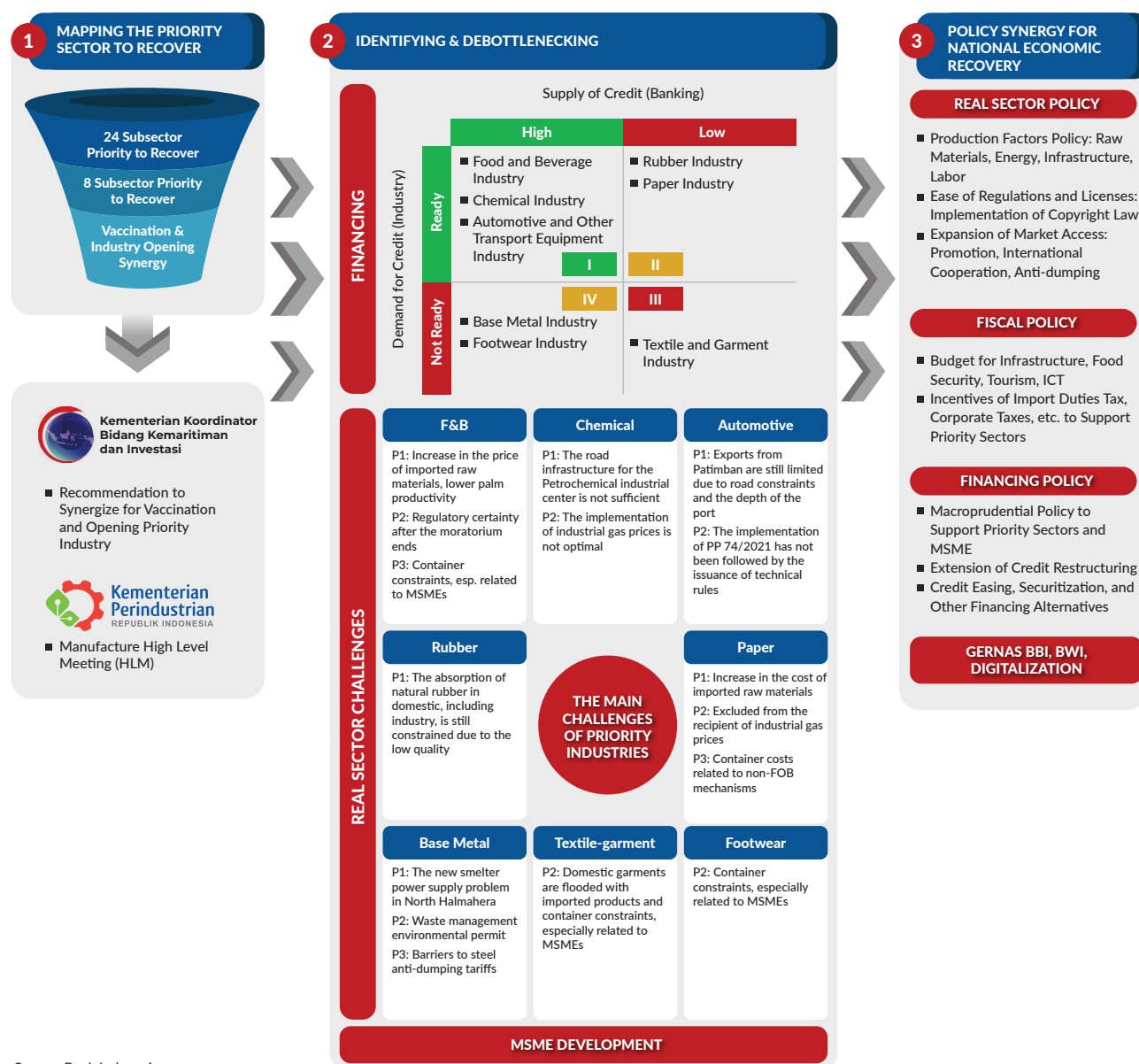
**In line with the acceleration of vaccination programs to achieve herd immunity, the first national economic policy response needed to focus on the rapid recovery of priority sectors in order to encourage growth and job creation.** Synergy and policy innovation are vital to overcome any problems that may occur, whether resolving various issues (debottlenecking) on the real sector side, providing fiscal policy incentives or the macroprudential policy and financial sector support that are needed. This approach was initiated by KSSK through policy synergies for the recovery of the property and automotive sectors prior to the outbreak of the Delta Covid-19 variant. This process is being carried out in three stages.

*The first stage is the mapping of priority sectors that are resilient, promote growth and support economic recovery. In this regard, there are eight main priority sub-sectors that can support economic growth and exports, namely: (1) The Food and Beverages Industry; (2) The Leather, Leather Goods and Footwear Industry; (3) The Textile and Apparel Industry; (4) The Chemical, Pharmaceutical and Traditional Medicine Industries; (5) The Paper and Paper Goods Industry; (6) The Base Metals Industry; (7) The Transportation Equipment Industry; and (8) The Rubber and Rubber and Plastic Products Industry (Figure 4.3).* By giving consideration to the regional aspects in accordance with the production centres and mobility restrictions (PPKM) enforced in these centres, a strategy for re-opening was formulated to support industrial activities, notwithstanding the risks from the spread of Covid-19. The results of the mapping provided a basis for policy recommendations to re-open industries in tandem with accelerated delivery of vaccinations.

This proposal became one of the policy recommendations submitted in a coordination forum with the Ministry of Industry through a bilateral High Level Manufacturing Coordination Meeting on 8 October 2021. In the meeting, the Ministry of Industry and Bank Indonesia agreed on a recovery policy strategy and strengthening of the structure of the manufacturing industry which would be followed up through a series of collaborative activities in 2022. Besides the industrial sector, the development of



Figure 4.3. National Economic Policy Synergy for Accelerated Recovery in Priority Sectors



Source: Bank Indonesia

MSMEs should remain a priority because of their significant contribution to economic growth and job creation, as well as to economic and financial inclusion.

Secondly is the identification of obstacles faced in the recovery of these priority sectors, both in the real sector and in terms of financing. For this reason, joint discussions through coordination forums are vital, namely between the relevant ministries and agencies in the Central Government, KSSK, industry players, banks and relevant Regional Governments. Various problems in the real sector are related to aspects of improving production factors such as raw materials;

energy and labour; regulatory and institutional aspects, especially policy clarity and licensing; and aspects of promotion and market access at home and abroad. In regard to the aspect of financing, problems can come from companies or banks. A number of sectors, particularly those that are export-oriented, have grown and lending has increased. However, for other sectors, a policy response is needed, both in terms of credit demand from the real sector and to address banks' perception of credit risk.

Thirdly is the synergy and coordination of national economic policies that needed to be formulated and implemented according to the conditions in each

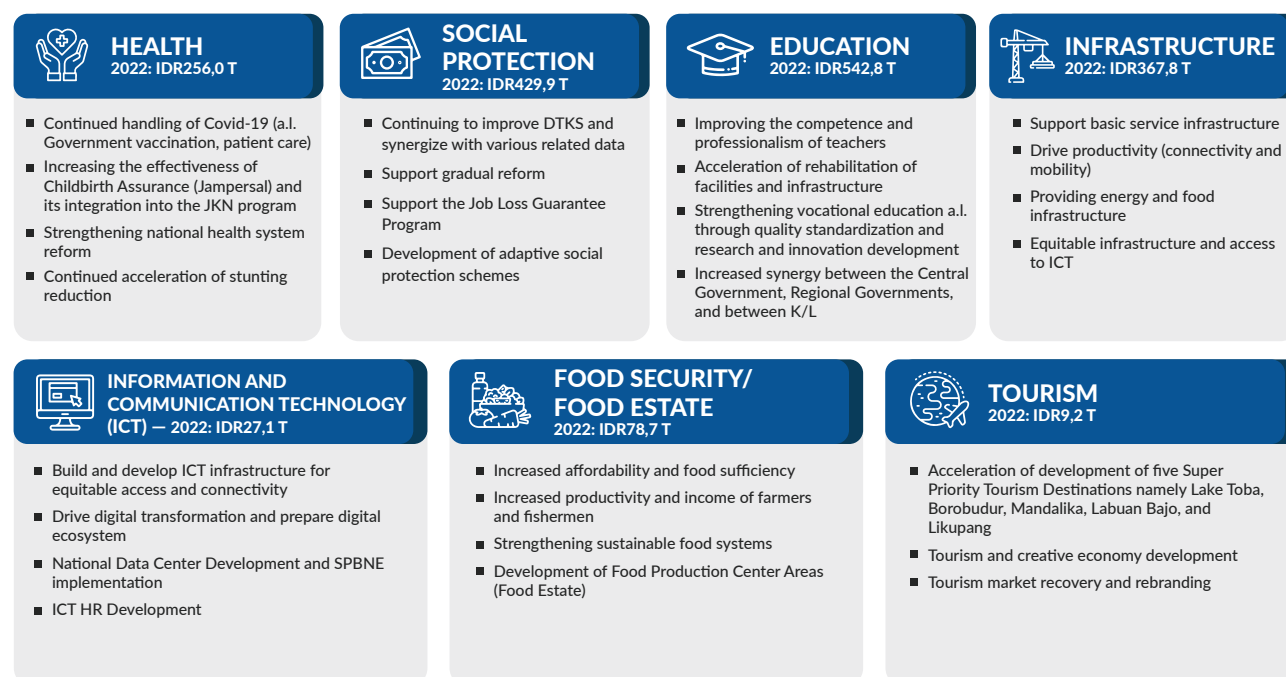


of the productive sectors in question. Overall, the required policies include those related to the real sector, fiscal policies and financing policies. For the real sector, required policies are related to production factors such as raw materials, energy, infrastructure and labour; policies for facilitating regulations and licensing, including the implementation of the Job Creation Law; and policies to expand market access, such as promotion and international cooperation. In the fiscal sector, policies involve budget allocations for infrastructure, food security, tourism, information and communications technology (ICT), as well as import duties, corporate taxes and others for priority sectors. From the financing side, the policies include Bank Indonesia macroprudential policies for priority sectors and MSMEs; policies for extending credit restructuring by OJK; as well as banking credit facilities, securitization and other financing alternatives.

**The second policy response for national economic recovery relates to the synergy of the Government's fiscal policy with the monetary and macroprudential stimulus provided by Bank Indonesia to boost demand, particularly in the short term. A relatively**

large fiscal stimulus will support economic recovery. In order to stimulate the economy and reach development targets, the 2022 State Budget envisages planned state revenues of IDR1,846.1 trillion and planned state expenditures of IDR2,714.2 trillion, resulting in a budget deficit of IDR868 trillion or 4.85% of GDP. Most of the budget, amounting to IDR1,711.5 trillion, or 63%, was allocated for the 2022 State Budget strategic program to support the acceleration of recovery and economic transformation towards an Advanced Indonesia (Figure 4.4). Meanwhile, Bank Indonesia strengthened its role in funding the 2021 and 2022 State Budgets with participation in the form of contributions to all interest costs for financing vaccinations and health care, subject to a ceiling calculated according to Bank Indonesia's financial capacity. By this synergy, the Government can focus more on efforts to accelerate realization of the 2021 and 2022 State Budgets to encourage accelerated economic recovery. Bank Indonesia also pursued an accommodative macroprudential policy to encourage bank intermediation, including through the countercyclical capital buffer (CCyB) ratio; the macroprudential intermediation ratio (RIM); and the loan to value (LTV)

Figure 4.4. Fiscal Stimulus



Source: Ministry of Finance



ratio or down-payment, all of which are conducive to bank intermediation, including encouraging priority sectors, exports and inclusion.

**The third policy response for recovery concerns matters related to increasing and facilitating financing from the financial sector to the business world.** In the short term, policies to encourage bank lending are needed to address issues regarding the supply of credit extended by banks and the demand for credit by businesses. Mapping the priority sectors is very important in this regard, to understand which factors are more dominant and what policy response is needed. As previously stated, problems can arise from the demand for company credit or the supply of bank credit. For food and beverages, chemicals, automotive, and other transportation sectors, credit disbursement has increased due to higher demand from corporations with banks ready to supply the financing. But in the other sectors, incentives are needed to encourage the channeling of credit, including both incentives for the real sector and incentives for banks in the form of credit guarantees or interest rate incentives.

**Besides bank credit, more financing from the capital market is also needed, either through the issuance of shares or corporate bonds.** For instance, the issuance of asset-backed and earnings-backed securities needs to be further developed. In this regard, the role of the Indonesia Investment Authority (INA) is very much needed as a pioneer in the securitization of assets and income from well-performing infrastructure projects with sound corporate financial conditions. Furthermore, the development of the money market and foreign exchange market by Bank Indonesia in accordance with BPPU 2025 plays an important role,

including with regard to the issuance of short-term securities, like Commercial Paper, repo transactions and hedging instruments. Hedging instruments are needed for both Rupiah exchange rate markets (that is, including DNDF) and interest rates, such as Interest Rate Swaps (IRSs). Financial market development is urgently needed to further expand financing alternatives to the business world in support of economic recovery.

**The fourth policy response is directed toward accelerating digitalization to achieve national economic and financial inclusion.** The success of various policy synergies in 2020 and 2021 needs to be further improved and expanded. To encourage economic and financial inclusion, Gernas BBI and BWI have strengthened the role of MSMEs in the economy, including increasing MSME transactions through the MSME product shopping program and expanding the use of MSME QRIS. Bank Indonesia has consistently supported Gernas BBI and BWI, through close synergies with the Central and Regional Governments and the business world. To this end, various joint activities have been held every month in various regions, including strategic events initiated by Bank Indonesia, such as the annual Indonesian Creative Works (KKI) exhibition. The strategic role of Bank Indonesia in supporting the implementation of Gernas BBI and BWI was confirmed through the issuance of Presidential Decree No. 15 of 2021 concerning the Proudly Made in Indonesia National Movement Team. Under this decree, the Governor of Bank Indonesia is stipulated as the Deputy Chair along with the Coordinating Minister for Economic Affairs and the Chairman of the Board of Commissioners of the Financial Services Authority. The issuance of this decree demonstrates

the Government's appreciation for the active role played by Bank Indonesia in supporting the success of Gernas BBI and BWI. Bank Indonesia's strong commitment to economic and financial inclusion is reflected in the acceleration of the digitalization of the payment system according to the Indonesia Payment System Blueprint (BSPI) 2025 for the integration and strengthening of an efficient and inclusive EKD. Furthermore, digitalization of the payment system is directed toward supporting Government programs through electronification of the distribution of funds via social protection programs, various modes of transportation and the electronification of Regional Government finances.

**The fifth policy response is related to green economic development and finance to achieve sustainable economic growth.** Environmental damage and climate change pose physical and transition risks that have implications for monetary stability and for stability of the financial system. The transition to a green (low-carbon) economy needs to

be carried out gradually and moderately, to optimize policy responses in relation to climate change. In this regard, Bank Indonesia will continue to strengthen green finance policies to encourage a sustainable financial system, through close coordination with relevant authorities and active involvement in various international forums that focus on green finance. Bank Indonesia has taken various initiatives, both in the form of policies and the application of the principle of sustainable investment in the allocation of the foreign exchange reserve portfolio, in line with the strengthening of global financial policies leading toward sustainability. In addition, Bank Indonesia supports the transformation towards a green financial system, which is hoped to encourage the domestic financial sector to play its part in reducing carbon emissions. This initiative is being carried out to help achieve Indonesia's target for carbon emission reductions in the spirit of the Paris Agreement signed by the governments of various countries to limit the rise in global temperatures.

## 4.2

## Synergy of National Economic Policy

The closer policy synergy since the beginning of the pandemic and the improving economic performance have helped to create more optimism for Indonesia's economic recovery in 2022. Acceleration of national economic recovery continues to be encouraged through the support of national policy synergies and innovations based on a strong spirit to recover with optimism. Synergy and national policy innovations are directed toward achieving herd immunity in control of the spread of Covid-19, accompanied by the re-opening of priority economic sectors; encouraging economic recovery through policies to bolster demand while maintaining stability; and achieving higher growth in the medium term through structural reform policies. This series of policies has been strengthened by the close coordination of well performing national policies that have positively impacted the economy.

**National policy synergies will continue to be strengthened by Bank Indonesia, the Government and policy makers in various sectors to support the acceleration of economic recovery and the maintenance of stability.** Good progress in handling Covid-19 in 2021 coupled with continued economic recovery demonstrate the effectiveness of sound national policy synergies. Nonetheless, policy synergy between Bank Indonesia, the Government, OJK, LPS and related institutions still needs to be strengthened further, considering that the pandemic is not over yet. In addition to the uncertainty surrounding the pandemic, various challenges globally and domestically need to be monitored closely.

**Bank Indonesia together with the Ministry of Finance, OJK, and LPS in the KSSK forum are committed to strengthening synergies for maintaining the momentum of economic recovery and financial system stability.** Bank Indonesia continues to optimize its entire policy mix in terms of monetary, macroprudential and payment systems to maintain macroeconomic and financial system stability and to support further economic recovery. The government, through optimizing state spending

instruments, seeks to overcome the pandemic, provide social protection and accelerate economic recovery. As part of the policy cooperation between Bank Indonesia and the Government, Bank Indonesia has continued to purchase Government Securities in the primary market for State budget funding as referred to in Law No. 2 of 2020. For its part, OJK continues to encourage digital transformation of the financial services sector to support the accelerated economic recovery. The transformation is focused on providing fast, easy, cheap, and competitive services/products to the community as well as increasing convenience and expanding access for the unbanked and MSMEs. LPS again lowered the Guaranteed Interest Rate to boost the momentum of national economic recovery. It is hoped that the decrease in LPS's Guaranteed Interest Rate will lead to a reduction in deposit interest rates, which in turn will lead to lower lending rates. Coordination of policies, like those in the KSSK forum, continues to be strengthened to anticipate various risks to financial system stability and to strengthen efforts to accelerate economic recovery. In addition, coordination of policy synergies between KSSK and related ministries/institutions is also continuously carried out to support the business sector and the economic recovery.

**In maintaining price stability, the 2022-2024 Inflation Control Roadmap has been prepared as a guide for future inflation control policies.**

The government and Bank Indonesia have set a low inflation target with a downward trend and in accordance with the inflation rate that supports efforts to achieve sustainable growth. Minister of Finance Regulation Number 101/PMK.010/21 dated 28 July 2021 has set an inflation target for the period 2022-2024 at  $3.0\% \pm 1.0\%$ ;  $3.0\% \pm 1.0\%$  and;  $2.5\% \pm 1.0\%$ , respectively. To achieve this target, the 2022-2024 Inflation Control Roadmap has been devised. This roadmap is in line with the direction provided by the President at the 2021 Inflation Control National Coordination Meeting, which includes increasing the productivity of farmers and fishermen; strengthening



the MSME sector so they can survive and move up a level; and increasing the added value of the agricultural sector to make a greater contribution to economic growth. Technological development, use of the internet, e-commerce and digital platforms, which have increased significantly during the pandemic, can be utilized to integrate the development of the agricultural sector from upstream to downstream through the adoption of technology.

**The Inflation Control Roadmap is also used as a guide and for recommendations in the preparation of Local Government Work Plans in the 2022-2024 TPID Roadmap.**

Nonetheless, the challenges faced and the capabilities of each region in controlling regional inflation may vary. For this reason, the preparation of guidelines for controlling regional inflation, apart from referring to efforts at the national level, needs to take into account the context and problems of inflation in each region. To strengthen efforts to control inflation in the regions, it is necessary to increase the role and capability of the regions through TPID forums at the provincial and district/city levels. Efforts to increase the reliability of TPID can be carried out continuously through coaching, capacity building and socialization with a view to institutional strengthening of the TPIDs. The evaluation of TPID performance is carried out by two means: first, by setting objectives (outcomes), which are measured by the actual regional inflation rate compared to the target; and second, an assessment of the achievements of the work program in each region. In this work program, Bank Indonesia synergizes with the Coordinating Ministry for Economic Affairs and the Ministry of Home Affairs to set targets to be achieved in 2022-2024.

**To manage inflationary expectations, the implementation of a credible policy mix is to be strengthened by regular and reliable communication.**

Efforts to control inflation also depend upon implementation of the policy mix, including credible inflation control and effective and continuous communication. In this regard, various policy communications will be carried out on a regular basis and further strengthened, including through the publication of press releases, press conferences and other communication strategy efforts by various media/communication channels. Through these

efforts, it is hoped that the public's inflationary expectations can be managed amid the dynamics of the global and domestic economy.

**In the area of payment systems, synergies of financial policies and electronification will be continued and strengthened.** Strengthened coordination is carried out by Bank Indonesia along with the Government (Central and Regional); the banks; and the payment system, fintech and e-commerce associations including through the Indonesian Digital Financial Economy Festival (FEKDI) and the Fintech Summit. These efforts are mainly directed toward expanding the electronification of regional government financial transactions; coordinating policies on digitalizing payment systems and digitizing financial institutions; expanding existing payment system digitalization programs, such as QRIS, SNAP and BI-FAST; and expanding services to the public at large.

**Bank Indonesia continues to encourage the use of technology, product innovation and distribution channels to increase the electronification of transactions within the Regional Government environment.** This is done with the aim of improving financial inclusion in ways that are targeted, efficient and synergistic. The program is directed toward realizing better financial governance and increasing the potential of local government revenues, including the establishment of a Regional Digitalization Acceleration Team (TP2DD) in the regions and the implementation of Regional Government Transaction Electronification (ETP). Efforts to expand the ETP are supported by a legal framework and strengthening of institutions. Presidential Decree (Keppres) RI No. 3 of 2021 concerning the P2DD Task Force was issued on 5 March 2021. This Presidential Decree requires all Regional Governments to form TP2DDs no later than one year after the Presidential Decree was issued. As of 15 November 2021, as many as 521 local governments in Indonesia had formed TP2DDs. As an implementing regulation, the Decree of the Coordinating Minister for Economic Affairs (Kepmenko) No. 147 of 2021 concerning the Membership, Duties and Mechanisms of Implementing Work and the Secretariat of the Task Force for the Acceleration and Expansion of Regional Digitalization was issued on 2 June 2021. This decree

is expected to encourage the acceleration and expansion of digitalization in the regions by, in part, serving as guidelines for work programs of the P2DD Task Force at all levels.

**Bank Indonesia supports the Government's social assistance programs (PKH and Sembako Program) by facilitating the use of non-cash payment instruments.** As of end-October 2021, IDR20.79 trillion (72.40% of the target) had been distributed as PKH social assistance and another IDR30.87 trillion (61.87% of the target) under the Basic Food Program. Besides that, Bank Indonesia continues to strengthen policy coordination with the Government through support for the trial implementation of social assistance digitalization to encourage the realization of government spending. This trial was launched on 21 November 2021.

**Bank Indonesia also coordinates with relevant ministries and institutions in the electronification of payments in the transportation sector.** The coordination of transportation electronification is carried out by Bank Indonesia in synergy with relevant ministries and institutions in a number of regions for several modes of transportation. This coordination includes accelerating the implementation of the Security Access Module

(SAM) Multiapplet on transportation modes in Jakarta and its surrounding areas, the integration of transportation modes, electronification of Bus Rapid Transit (BRT) payments, expansion of airport parking payment electronification, the implementation of SAM Multiapplet and the expansion of online on-street parking payment electronification, and interoperability testing using the SAM Multiapplet on the national transportation program's Buy The Service (BTS) in a number of cities with the Ministry of Transportation. Bank Indonesia also supports the integration of transportation mode payments in Jabodetabek. This support is carried out through the facilitation of electronic payments for integrated transportation modes. In the third quarter of 2021, a limited trial for phase 1 was carried out at select locations within the Jabodetabek transportation network. Also in the third quarter, Bank Indonesia facilitated the implementation of electronification in the context of opening new toll roads. Bank Indonesia actively coordinates these activities with the Ministry of Public Works and Public Housing – the Toll Road Regulatory Agency (KemenPUPR – BPJT) and the Implementing Business Entity (BUP) appointed to prepare for the implementation of toll roads using contactless technology with Multi Lane Free Flow (MLFF).

