Chapter 5

BANK INDONESIA POLICY MIX DIRECTION IN 2024: MAINTAINING STABILITY, REVIVING SUSTAINABLE GROWTH

Bank Indonesia's policy mix in 2024 will remain oriented towards maintaining stability and reviving sustainable economic growth. Bank Indonesia's monetary policy is focused on maintaining stability (pro-stability), while macroprudential policies, payment systems, deepening money markets and inclusive and green economic finance will continue to be aimed at promoting sustainable economic growth (pro-growth). Bank Indonesia will also continue to strengthen synergy and coordination with government policies and the Financial System Stability Committee (KSSK), as well as with the financial industry, business community and associations.

The Bank Indonesia policy mix in 2024 will remain oriented towards maintaining stability and reviving sustainable economic growth in close synergy with national economic policy, primarily to strengthen national economic resilience against the impact of global turmoil. Bank Indonesia monetary policy in 2024 will remain focused on stability (pro-stability), in particular achieving the inflation target and Rupiah stability, while supporting macroeconomic and financial system stability (Figure 5.1). Meanwhile, Bank Indonesia's four other policies, as an integral part of national economic policy synergy, will continue reviving sustainable economic growth (pro-growth). Bank Indonesia will maintain an accommodative macroprudential policy stance to revive bank lending and financing to priority sectors as well as micro, small and medium enterprises (MSMEs) for sustainable economic growth, while maintaining stability of the financial system, increasing economic inclusion and developing green finance. Payment system digitalization will be expanded to accelerate integration of the digital economy and finance, increase cross-border payment system linkages, as well as develop the Digital Rupiah. Deepening of the money market and foreign exchange markets will also continue to enhance the effectiveness of policy transmission; to develop modern money market infrastructure based on international standards; and to improve financing instruments, including sustainable finance. Programs to develop financial and economic inclusion among MSMEs together with the sharia economy and finance will be expanded, including digitalization and wider access to domestic and export markets. Bank Indonesia will also continue strengthening synergy and coordination with Government and Financial System Stability Committee (KSSK) policies, as well as the financial industry, the corporate sector and relevant associations to strengthen national economic resilience, recovery and revival in the medium- to long-term towards Indonesia Maju (Advanced Indonesia).

"Bank Indonesia's policy mix in 2024 will remain oriented towards maintaining stability and reviving sustainable economic growth, in close synergy with national economic policy."

Figure 5.1. Direction of Bank Indonesia Policy Mix in 2024

Source: Bank Indonesia

The policy mix is in line with implementation of the mandate according to the Financial Sector Development and Strengthening Act (P2SK Act), which unambiguously strengthens the goals and duties of Bank Indonesia. Pursuant to the P2SK Act, Bank Indonesia's goals are to maintain Rupiah stability, payment system stability and financial system stability towards reviving sustainable economic growth. The goals are achieved through three main duties: (i) determining and implementing monetary policy sustainably, consistently and transparently; (ii) regulating and maintaining an uninterrupted payment system; and (iii) determining and implementing macroprudential policy. In implementation, Bank Indonesia support for sustainable economic growth proceeds as follows. First, through monetary policy, controlled inflation and Rupiah stability are prerequisites for the development of economic and financial activities by the Government, banking industry, corporate sector, investors and the public. Second, through payment system digitalization, raising the transactions value and volume of the digital economy and finance to increase the velocity and efficiency of payments as well as the productivity of various economic and financial activities, supported by the development of a healthy national payment services industry. Third, by reviving bank lending/ financing to the business community to foster sustainable economic growth, supported by the maintenance of financial system stability. In addition, Bank Indonesia supports sustainable economic growth through development of the money market and domestic foreign exchange market, MSME empowerment programs as well as sharia economy and finance.

5.1. Monetary Policy Direction

The direction of Bank Indonesia monetary policy in 2024 will remain focused on achieving the inflation target and maintaining Rupiah stability to ensure that global shocks do not disrupt national economic stability or growth. The current global economic turmoil is expected to persist in 2024 and, therefore, could pose a threat to national economic resilience. Specifically, higher for longer interest rates in the US, high US Treasury yields and the strong US dollar could intensify pressures on portfolio investment and, thereby, on the Rupiah. Similarly, high international food and energy prices could be transmitted through to domestic inflation. Consequently, monetary policy in 2024 must remain focused on controlling inflation and maintaining Rupiah stability to bolster external resilience and sustainable economic growth. Pro-stability monetary policy will be instituted through four main policy instruments (Figure 5.2). First, a forward-looking and pre-emptive interest rate policy to achieve the inflation target set by the Government. Second, Rupiah stabilization policy to remain in line with achieving the inflation target and supporting external stability. Third, pro-market monetary operations to strengthen the effectiveness of Bank Indonesia policy transmission to the financial markets and economy, which includes attracting inflows of foreign portfolio investment. And fourth, managing capital flows in accordance with international principles to bolster external stability and the maintenance of adequate reserve assets. Coordination with the Government will be strengthened to control inflation and revive economic growth, and similarly with KSSK to maintain the stability of the financial system.

First, forward-looking and pre-emptive interest rate policy to achieve the inflation target set by the Government at 2.5%±1% in 2024 and 2025. The main risks to inflationary pressures

> "The direction of Bank Indonesia monetary policy in 2024 will remain focused on achieving the inflation target and maintaining Rupiah stability."

Figure 5.2. Monetary Policy Direction in 2024

Source: Bank Indonesia

in 2024 will primarily stem from global shocks, namely the impact of Rupiah depreciation and high international food and energy prices on imported inflation and volatile food prices. Meanwhile, core inflation is expected remain under control in line with higher aggregate demand that remains below potential output. Core inflationary pressures could potentially emerge at the beginning of 2025 in line with expected stronger domestic demand after the transition to a new government in Indonesia. A BI7DRR policy rate of 6.00% is expected to ensure that inflation remains under control within the 2.5%±1% target corridor during 2024 and 2025. Going forward, Bank Indonesia will consistently implement a well-calibrated, well-planned and well-communicated monetary policy response to achieve that inflation target. The policy response will be based on assessments of development dynamics as well as the global and domestic economic outlook and risks that could trigger inflationary pressures over time (data dependence). Coordination with the (central and regional) Government through the Central and Regional Inflation Control Teams (TPIP and TPID) will be strengthened to control food price inflation nationally and in various regions via the National Movement for Food Inflation Control (GNPIP) by mobilizing all 46 Bank Indonesia offices.

Second, Rupiah stabilization policy to mitigate the impact of global shocks on achieving the inflation target as well as maintaining macroeconomic and financial system stability to support the national economic recovery. Fundamentally, the Rupiah is expected to appreciate and stabilize in line with controlled inflation, a current account surplus, attractive yields on domestic financial assets for investment and comparatively high economic growth. Nonetheless, a persistently high Federal Funds Rate (FFR) and US Treasury yields, coupled with the strong US dollar, will intensify depreciatory currency pressures around the world, including in Indonesia. Consequently, Rupiah stability must be maintained to manage imported inflation, including the impact of high international food and energy prices. Moreover, Rupiah stability is important to maintain fiscal performance, particularly in terms of maintaining attractive SBN yields to fund the State Revenue and Expenditure Budget (APBN). Rupiah stability is also a determinant of financial system stability, particularly the exchange rate risk to balance sheets in the corporate and banking sectors, in addition to maintaining business and public confidence. To that end, Bank Indonesia will continue to implement Rupiah stabilization policy through intervention in the foreign exchange market, with a focus on spot and Domestic Non-Deliverable Forward (DNDF) transactions, as well as buying government securities (SBN) in the secondary market, if required. Looking ahead, as global uncertainty eases, Bank Indonesia is confident the Rupiah will stabilise and even appreciate in line with the currency's fundamental value.

Third, a pro-market monetary operations strategy to strengthen the effectiveness of Bank Indonesia policy transmission to financial markets and the economy, which includes attracting foreign portfolio inflows. To this end, SRBI issuances of 6, 9 and 12-month tenors will be continued, while the 2-week and 1-month Reverse Repo (RR) monetary operations will remain suspended, with the 3-month RR SBN reduced. Similarly, SVBI and SUVBI issuances for tenors of 1 and 3 months will continue and be extended for 6, 9 and 12-month tenors in line with market developments. The pro-market monetary operations strategy developed by Bank Indonesia will provide various benefits for the national economy. First, deeper money market and foreign exchange markets will flourish with higher transaction volumes and greater liquidity, more participants and more efficient exchange rate and interest rate mechanisms. Second, the SRBI, SVBI and SUVBI instruments, which can be held and traded by residents and non-residents, are expected to attract portfolio inflows. Third, liquidity management in the banking industry and the formation of investment portfolios by investment managers will be more flexible and developed with the availability of SRBI, SVBI and SUVBI instruments as liquid assets that are easily tradable in the market. Furthermore, not only will monetary policy transmission be more effective, the pro-market monetary operation strategy will also support a deeper SBN market as an integral part of fiscal financing, while maintaining market and financial system stability overall.

Fourth, managing capital flows in accordance with international principles to support external economic stability in Indonesia and maintain adequate reserve assets. Bank Indonesia will continue increasing the adequacy of reserve assets by optimising placements and managing foreign exchange flows in line with international standards. To that end, Bank Indonesia will continue optimising reserve asset management through the application of Strategic Asset Allocation (SAA) in line with global financial market dynamics to achieve the target return on investment and need for liquidity to service government external debt and support Rupiah stabilization policy. Bank Indonesia will also expand placements of export proceeds from natural resources goods (DHE SDA) as required in accordance with Government Regulation Number 36 of 2023, which currently encompasses seven types of instruments, into other foreign exchange instrument types in line with market deepening progress. International cooperation will also be strengthened bilaterally with several central banks, including the US, Japan, China and ASEAN countries, as well as regionally under the auspices of the Chiang Mai Initiative Multilateralization (CMIM) to strengthen Regional Financial Arrangements (RFA) in Asia. Multilaterally, this will be pursued with the Bank for International Settlements (BIS) for foreign exchange management and the International Monetary Fund (IMF) to strengthen the Global Financial Safety Net (GFSN). Capital flow management regulations will also be developed in accordance with international standards, including IMF guidelines as in the Institutional Views and Best Practices on Capital Flow Management. Such regulations cover capital flow management under normal conditions, volatile conditions and crisis conditions, which are available for countries to strengthen external resilience in terms of maintaining macroeconomic and financial system stability.

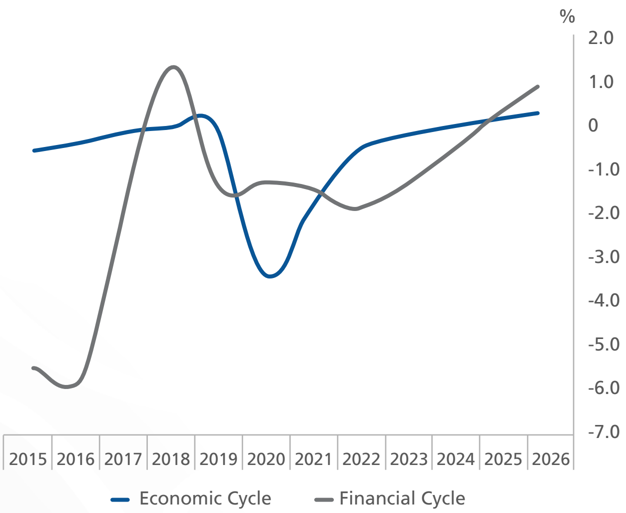
Policy coordination between Bank Indonesia and the Government will be increased to strengthen external resilience to global shocks, control inflation and foster sustainable economic growth. Strengthening external resilience to global shocks, coordination between the monetary policy of Bank Indonesia and fiscal policy of the Government covers the management of aggregate demand to maintain macroeconomic stability by issuing SUN in the domestic and global markets, from the annual plan to intertemporal implementation. In controlling volatile food (VF) inflation, Bank Indonesia will also undertake massive collaboration efforts in synergy with the Government through the Central and Regional Inflation Control Teams (TPIP and TPID) and National Movement for Food Inflation Control (GNPIP) in various regions. Meanwhile, coordination to revive priority sectors will be strengthened, among others, through Bank Indonesia support to assess developments and issues centrally and regionally, as well as by providing national economic policy recommendations based on the results of the Regional Economic and Financial Review (KEKDA) by Bank Indonesia offices in various regions.

5.2. Macroprudential Policy Direction

Bank Indonesia will hold an accommodative macroprudential policy stance in 2024 to revive sustainable economic growth, while maintaining financial system stability. Bank Indonesia will conduct an accommodative macroprudential policy, considering that the financial cycle in Indonesia is in an expansionary phase in line with the upward economic cycle. Global economic moderation in 2024, which will coincide with the transition period for the new government in Indonesia, is likely to lag the economic and financial cycles in Indonesia by approximately one year from the initial projection. Based on historical trends of both cycles, Bank Indonesia expects the economic and financial cycles to remain in an expansionary phase before hitting a boom period in 2025-2026 for the economic cycle, and 2026-2027 for the financial cycle (Graph 5.1). Consequently, Bank Indonesia will maintain an accommodative macroprudential policy stance throughout 2024 and up to the middle of 2025 as a counter-cyclical instrument to revive bank lending/financing as a form of Bank Indonesia support to increase national economic growth, particularly in priority sectors. This includes the MSME sector and green economy, thus increasing economic inclusion and sustainable finance. Bank Indonesia does not expect to begin tightening macroprudential policy until the latter half of 2025, when the financial cycle nears its peak, in order to avoid triggering risks to financial system stability.

Bank Indonesia will maintain an accommodative stance across the full panoply of macroprudential policy instruments with a view to achieving the credit growth target of 10-12% in 2024 and 11-13% in 2025, while preserving stability of the financial system. The direction of macroprudential policy is based on striking a balance between three targets, namely: optimal credit growth; maintained financial system

Graph 5.1. Indonesia Economic and Financial Cycle

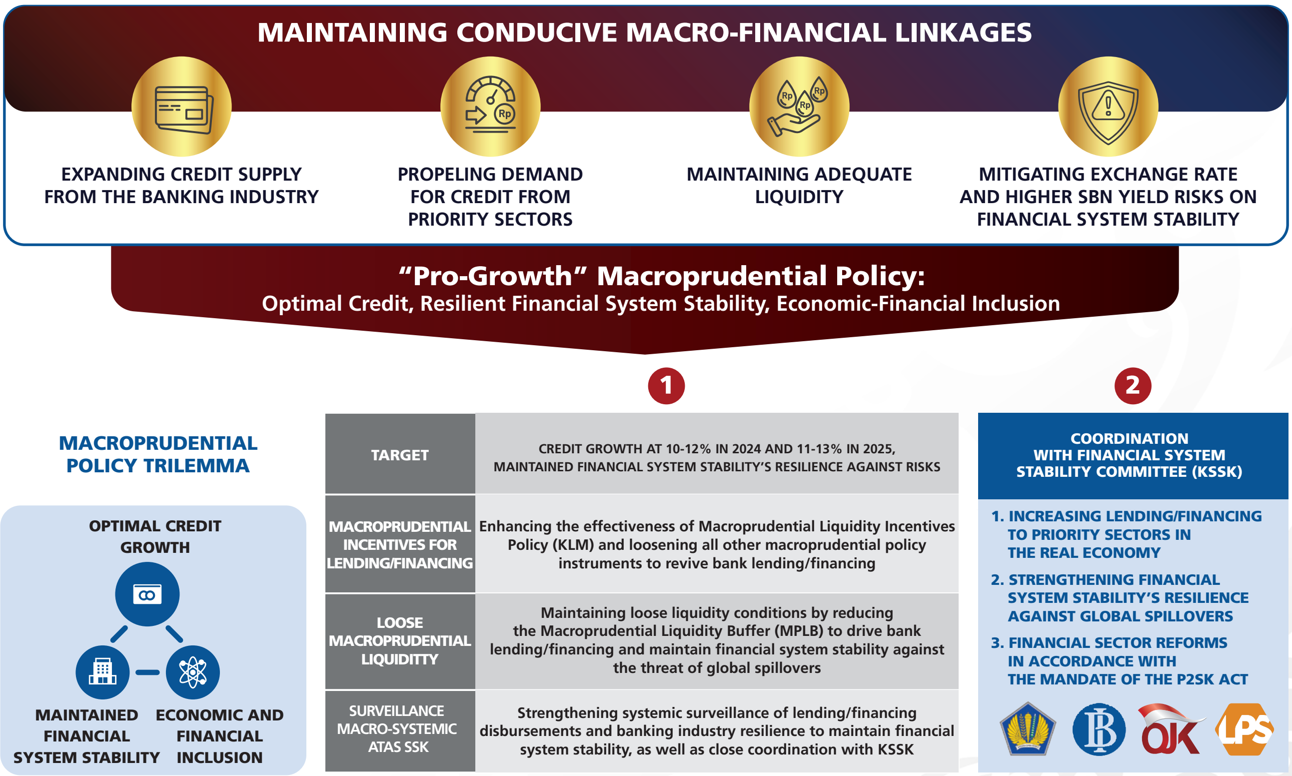


Source: Bank Indonesia

stability; and financial and economic inclusion, all in line with a financial cycle lacking impetus (Figure 5.3). Optimising the three targets is important to maintain conducive macro-financial linkages, including the capacity to supply credit by the banking industry, the demand for credit from priority sectors, the need to maintain adequate liquidity, as well as mitigating financial system stability risks that could emerge from Rupiah volatility and higher SBN yields. Therefore, a cognitive macroprudential policy will be maintained through the following three core instruments. First, enhancing the effectiveness of Macroprudential Liquidity Incentives Policy (KLM) and loosening all other macroprudential policy instruments to revive bank lending/ financing. Second, maintaining loose liquidity conditions by reducing the Macroprudential Liquidity Buffer (MPLB) to drive bank lending/ financing and maintain financial system stability against threats from global spillovers. Third, strengthening systemic surveillance of loan/ financing disbursements and banking industry resilience to maintain financial system stability. Coordination with the Government and KSSK will be strengthened to revive lending/financing to priority sectors in the real economy; strengthen financial system resilience to global spillovers; and continue financial sector reforms in accordance with the mandate of the P2SK Act.

First, enhancing the effectiveness of KLM and loosening all other macroprudential policy instruments to revive bank lending/financing to priority sectors in the economy. This is the realization of strong commitment by Bank Indonesia to support sustainable economic growth. Priority sectors include downstream sectors (mineral and mining, agriculture, plantation and fishing), housing (including public housing), tourism and the creative economy, as well as MSMEs, KUR, ultra-micro and the green economy. In this case, Bank Indonesia will enhance the effectiveness of existing KLM. As discussed in the previous section, Bank Indonesia provides KLM liquidity incentives up to 4% of deposits (approximately Rp159 trillion) to banks channelling loans/financing to priority sectors. Data realizations as of December 2023 show that 120 banks have utilised the

Figure 5.3. Macroprudential Policy Direction in 2024



Source: Bank Indonesia

KLM liquidity incentives, amounting to Rp163 trillion in total. Bank Indonesia will assess the effectiveness of KLM liquidity incentives regularly to continue reviving bank lending/financing to priority sectors. In addition, all other macroprudential policy instruments will remain accommodative to nurture bank lending/financing and maintain financial system stability for sustainable economic growth. To that end, Bank Indonesia has extended the effective period for other accommodative macroprudential policy instruments, namely a Loan/Financing-to-Value (LTV/FTV) ratio of 100% for property/housing loans and 0% down payment requirements on automotive loans, a Macroprudential Intermediation Ratio (MIR) of 84-94%, and a Countercyclical Capital Buffer (CCyB) held at 0% until the end of December 2024. Furthermore, Bank Indonesia will maintain the Prime Lending Rate (PLR) transparency policy and strengthen its effectiveness moving forward.

Second, maintaining loose liquidity conditions by reducing the MPLB to revive lending/financing and maintain financial system stability against the impact of global spillovers. As discussed in Chapter 3.3 and consistent with loose liquidity policy instituted by Bank Indonesia, ample liquidity remains in the banking system. This is reflected, among others, in a relatively high ratio of Liquid Assets to Third-Party Funds (LA/TPF), recorded at 28.73% in December 2023. Nevertheless, global economic turmoil could trigger foreign capital outflows and erode liquidity in the domestic financial markets in 2024. In addition, expansionary spending by the Government could remain under-realised during the transition period for the new government administration. Seeking to increase liquidity management flexibility in the banking industry, therefore, Bank Indonesia lowered the MPLB for conventional commercial banks as well as sharia banks and sharia business units by 100 bps to 5% and 3.5% respectively, commencing 1st December 2023, which injected approximately Rp81 trillion of additional liquidity into the banking system. Bank Indonesia expects the banking industry to leverage this liquidity flexibility to increase lending/financing to accelerate economic growth. In addition, liquidity flexibility is also expected to strengthen financial system stability resilience, which includes mitigating the risks posed by global spillovers.

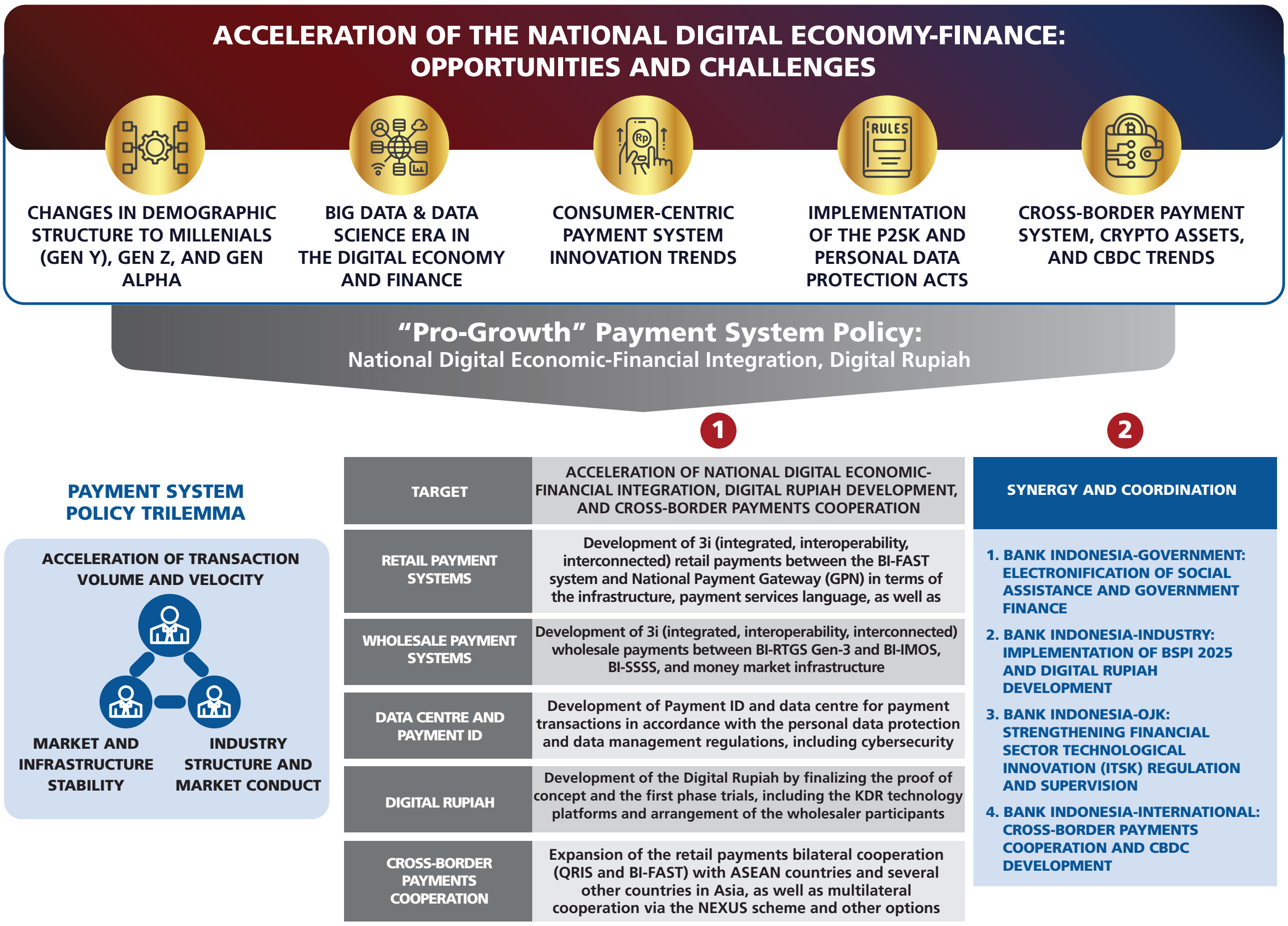
Third, strengthening the systemic surveillance of loan/financing disbursements and banking industry resilience to maintain financial system stability in close coordination with the KSSK. Systemic surveillance by Bank Indonesia, as an integral part of macroprudential supervision, focuses on big banks with strong macroeconomic-financial sector linkages that significantly influence overall disbursements of loans/financing and financial system stability. The most important aspects of systemic surveillance by Bank Indonesia include loan/financing performance, resilience to liquidity risk, market risk (exchange rates and SBN yields) and credit risk, as well as interconnectedness in funding, money markets and the payment system. In implementation, Bank Indonesia coordinates closely with the KSSK to maintain financial system stability bilaterally with surveillance by the Financial Services Authority (OJK). In this regard, policy coordination and supervision under KSSK is strengthened to revive economic financing and maintain financial system stability, including against the impact of global turmoil. As discussed earlier, financial system stability is expected to be maintained, accompanied by increasing intermediation in line with national economic activity. Nonetheless, several near-term risks continue to demand vigilance, particularly those stemming from global shocks, particularly: foreign portfolio outflows; higher for longer FFR and US Treasury yields; the strong US dollar; and global economic moderation. KSSK coordination, therefore, will be strengthened by stress testing various risks in the financial sector individually and systemically. Overall, the results of stress tests performed by KSSK in the third quarter of 2023 showed that financial system resilience in Indonesia remains solid in the face of extreme pressures that could emerge from the aforementioned risks. Moving forward, KSSK has agreed to remain vigilant of global dynamics, strengthen regular stress testing and coordinate to formulate an optimal response and supervision by each institution, namely the Ministry of Finance, Bank Indonesia, OJK and LPS, in accordance with their respective jurisdiction.

Coordinated macroprudential supervision by Bank Indonesia with microprudential supervision by the OJK will be strengthened to maintain financial sector resilience, including risk mitigation of the global spillovers. As an integral part of P2SK Act implementation, Bank Indonesia and the OJK have strengthened the coordination mechanism and scope by renewing the Memorandum of Understanding (MoU) in February 2023. The scope of coordination was expanded and strengthened through the formation of six Working Committees (WC) as follows: (i) Macroprudential and Microprudential Policy/Regulation Working Committee; (ii) Data/Information Exchange and Cyber Security Working Committee; (iii) Supervision of Financial Services Institutions Working Committee; (iv) Financial Market Development and Deepening Working Committee; (v) Financial and Payment System Digitalization Working Committee; and (vi) Institutional Working Committee on Asset Lending, the Organization and Human Resources. The coordination mechanism was strengthened across three levels, namely: the Principal Meeting between the Governor of Bank Indonesia and the Chairman of the OJK; Board of Commissioners, Senior Level Committee (SLC) meeting coordinated by the Senior Deputy Governor of Bank Indonesia and Vice-Chairman of the OJK Board of Commissioners; and WC meetings led by the Member of the Bank Indonesia Board of Governors and Member of the OJK Board of Commissioners in the relevant field, supported by the Work Unit Leader Technical Team. The work program is formulated collectively in accordance with the scope of coordination and cooperation in each respective field, including the top-down delegation of priorities from the Governor of Bank Indonesia and Chairman of the OJK Board of Commissioners or a bottom-up approach from each respective working committee. Bank Indonesia and the OJK also strengthen coordination in terms of the (sharia) short-term liquidity assistance. In addition, Bank Indonesia and the LPS also strengthened coordination, including preparations to handle troubled banks or resolve banks by the LPS, possibly through bridge banks, if required.

5.3. Payment System Policy Direction

Payment system policy in 2024 will remain oriented towards further strengthening of payment system stability and accelerating the national digital economy and finance to support sustainable economic growth. The direction of payment system policy remains in accordance with implementation of the Indonesia Payment System Blueprint (BSPI) 2025, which is currently being refined and extended to 2025-2030. There are three targets. First, Velocity, namely accelerating the volume and frequency of digital payment transactions to increase the rate of velocity, efficiency and productivity of various economic and financial transactions for sustainable economic growth. Second, Structure, namely strengthening a healthy, competitive and innovative national payment system industry ecosystem and structure (banks and nonbanks) with efficient practices and fair market conduct. And third, Stability, namely the realization of stable, modern, secure and reliable payment system and money market infrastructure in accordance with international standards (Figure 5.4). Implementation is also based on the principle of One Country, One Nation and One Language, in homage to the Youth Pledge of 28th October 1928 (Sumpah Pemuda of 28 Oktober 1928). One Language refers to the application of national standards, such as Quick Response Code Indonesia Standard (QRIS) and the National Open API Payment Standard (SNAP) in payment system services. One Nation refers to national payment system industry consolidation (banks and non-banks) with FinTech and digital marketplaces to create healthy, competitive and innovative unicorns in Indonesia. One Country refers to the development of (retail and wholesale) payment system infrastructure and

Figure 5.4. Payment System Policy Direction in 2024



Source: Bank Indonesia

(Rupiah and foreign currency) money markets by Bank Indonesia and the industry that are integrated, interoperable and interconnected (3i) in a national digital economy and finance ecosystem.

Rapid advancement of the national digital economy and finance since 2019 has provided numerous opportunities and some challenges to strengthening national economic resilience and revival moving forward. At least five opportunities and challenges must be considered. The first challenge is a transition in the demographic structure with the rapid increase in economic participation by Millennials and Gen Z (see Box 2.1), who are more tech savvy and prefer digital payments and financial products. The second challenge is rapid payment system innovation in the front-end segment that is customer centric (such as QR, contactless and tokenised payments) utilising Artificial Intelligence (AI) in biometric payments. Similarly, various types of crypto assets and digital currencies issued by the private sector have become increasingly popular, thus threatening the existence of digital money issued by central banks as legal tender. The third challenge is the emergence of the big data era, which has opened massive economic opportunities to leverage data for various digital payment innovations for consumers, particularly the younger generation. Consequently, regulations concerning data management and personal data protection are critical to remain within the corridors of personal, institutional and state interests, including security against cyber-attacks. The fourth challenge, namely the need for payment system policies, regulations and supervision to be strengthened for the sustainability of the BSPI 2025 and implementation of P2SK Act and the Personal Data Protection Act (PDP Act) to ensure the national digital economy and finance support sustainable economic growth. The fifth challenge is the need to nurture cross-border payment system linkages in response to various global initiatives, through the G20, the Financial Stability Board (FSB) and the International Monetary Fund (IMF) as well as regional initiatives through ASEAN and with several other countries, which includes issuing Central Bank Digital Currency (CBDC).

Payment system policy in 2024 will focus on five main programs to mutually reinforce acceleration and integration of the national digital economy and finance ecosystem. First, further development of the retail payment system by strengthening 3i (integrated, interoperability, interconnected) between the BI-FAST system and National Payment Gateway (NPG) in terms of the infrastructure, payment services language as well as safe, fast and efficient fund transfers (Scheme 16). Second, developing a modern, multicurrency, third-generation wholesale payment system (BI-RTGS Gen-3) based on international standards and 3i with the retail payment system and money market to help accelerate the national digital economy and finance, cross-border payment linkages and future development of the Digital Rupiah. Third, developing a data center for payment transactions for further use in accelerating digital economy and finance digitalization and innovation through data management regulations, personal data protection and adequate cyber security. Fourth, further development of the Digital Rupiah as a CBDC and legal tender in Indonesia by finalizing the proof of concept for the business model as well as the first phase trials, including the technology platforms and wholesaler participants to issue and circulate the Digital Rupiah moving forward. Fifth, expanding bilateral cross-border retail payment system linkages through QRIS and BI-FAST with ASEAN member countries (AMS) and several other countries in the Asian region, specifically India, Japan and China, as well as multilaterally through the NEXUS scheme or other schemes. Each of these five programs is discussed in more detail immediately below.

***First*, further development of the retail payment system by strengthening 3i between BI-FAST and the NPG in terms of the infrastructure, payment services language as well as safe, fast and efficient fund transfers.** Similar to an urban ring-road, the BI-FAST and the NPG retail payment infrastructure, which have thus far operated independently, must be 3i in terms of authorization and payment transaction clearing between both systems to facilitate final settlement in the BI-RTGS system. Bank Indonesia is looking at several business models in conjunction with the Indonesia Payment System Association (ASPI) to determine the most optimal 3i development in terms of choice of technology, common services language as well as security and the transfer of funds. This also includes industry preparedness and understanding on pricing. Bank Indonesia will ensure the 3i development process continues to prioritise a balance between the national interest, consumers and business development in the industry. End-to-end 3i development of the retail payment system from the consumer to the bank account at Bank Indonesia is critical to increase the volume, value and velocity of digital currency in the economy, thereby supporting Bank Indonesia policy and sustainable economic growth. Furthermore, 3i development of BI-FAST and the NPG in terms of the infrastructure, services language and data refers to international standards (ISO 20022), thus facilitating the expansion of cross-border payment linkages in the national interest.

***Second*, developing a modern, multicurrency, third-generation wholesale payment system (BI-RTGS Gen-3), based on international standards and 3i with the retail payment system and money market, to help accelerate the national digital economy and finance, cross-border payment linkages and future development of the Digital Rupiah.** Several key features in the development of a modern digital payment system are not available in the existing second-generation BI-RTGS system, thus necessitating the development of a third-generation BI-RTGS system. *First*, development of multicurrency settlements other than in US dollars into other partner currencies, including synergy with Local Currency Transaction (LCT) payments in the Japanese yen, Chinese yuan, Singaporean dollar, Malaysia ringgit and Thai baht. This multicurrency feature will boost the efficiency of onshore and offshore payment transactions in Rupiah and foreign currencies, thereby supporting the national digital economy and finance. *Second*, preparing the BI-RTGS system for cross-border interoperability, specifically in terms of standard messaging based on ISO 20022 and the implementation of Application Programming Interface (API) standards. ISO 20022, with the classification of payment transaction types, is also necessary to digitalise data for the national digital economy and finance as well as Bank Indonesia policy. *Third*, strengthening risk management, specifically using AI threat detection, including fraud and cyber security, as well as implementing an active-active Data Center[6]/Disaster Recovery Center (DC/DRC). In addition to those three key features, development of the third-generation BI-RTGS system will also ensure 3i with BI-FAST and NPG, as explained in the first program above. The third-generation BI-RTGS system will also be in line with the development of monetary operation and money market infrastructure, namely modernization of the BI-IMOS (Bank Indonesia - Integrated Monetary Operation System) and the administration of government securities (SBN) at Bank Indonesia (BI-SSSS), as well as central counterparty interest rate and exchange rate transactions (CCP SBNT) by the industry. Furthermore, development of the third-generation BI-RTGS system is vital in terms of Digital Rupiah development through future integration with the Digital Rupiah Depository (KDR).

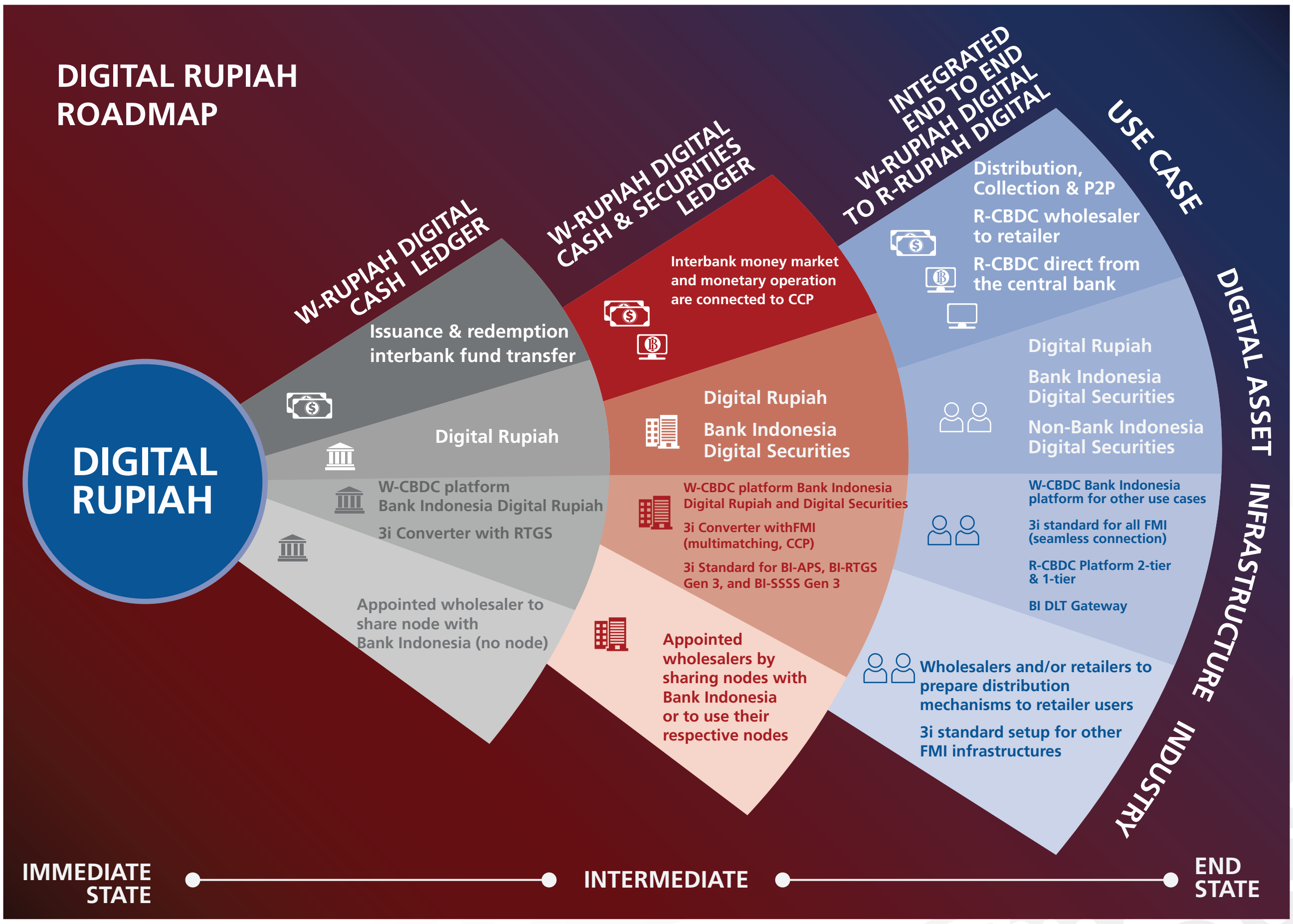
6 An active-active data center is one in which two sub-centers run the same services simultaneously.

***Third*, developing a data center for payment transactions for further use in accelerating the national digital economy and finance through regulations that are in line with personal data protection.** As discussed previously, the emergence of big data has created broad economic opportunities to leverage data for various digital payment innovations for the consumer, particularly the younger generation. From a consumer and industry perspective, the development of a payment data center would support rapid consumer-centric payment system innovation in the front-end segment (such as QR, contactless and tokenization), using AI in biometric payments. On the policy side, Bank Indonesia, the Government and KSSK emphasize the importance of developing a payment data center for the formulation, implementation and monitoring of public policy to accelerate the national digital economy and finance; support macroeconomic and financial system stability; bolster national economic growth; and ameliorate public prosperity. Development of the data center is also one of Bank Indonesia commitment to strengthening payment system policy, regulation and supervision as in the BSPI 2025, which includes supporting the Digital Rupiah as legal tender in the territory of the Republic of Indonesia, as well as implementation of the P2SK Act concerning financial sector reform and the PDP Act. Regulations on data management and personal data protection, therefore, are critical to remain within the corridors of personal, institutional and state interests, including security against cyber-attacks. Bank Indonesia will collaborate with the industry to develop the data center and regulations for national payment data management to support the national economy and finance ecosystem, while maintaining data confidentiality and privacy. Data management includes the development of a Payment ID, data classification as public data, contractual data and/or customer consent data, as well as confidential and/or private data, along with the technology required for the data center.

***Fourth*, Bank Indonesia will continue development of the Digital Rupiah as the only legal digital payment instrument in Indonesia.** Currently, Bank Indonesia is in the process of formulating the proof of concept for issuing the Digital Rupiah after the conceptual design was published as a consultative paper and received input from the industry and public. The wholesaler business model for the Digital Rupiah will be rolled out so Bank Indonesia, as the central bank, can focus on issuing and circulating the Digital Rupiah via the KDR Platform, to be developed. Meanwhile, use of retail Digital Rupiah transactions by the public will be transferred to the banks and nonbanks as wholesalers. Studies are being conducted to select an appropriate technology platform that is compatible with the various platforms currently being developed by central banks and international organizations. In accordance with the plan and road map published, the Digital Rupiah will be implemented gradually under the auspices of Project Garuda (Figure 5.5). The first stage entails wholesale CBDC for the use cases of issuance, destruction and interbank transfers. During the second stage, the wholesale CBDC will be expanded with broader use cases to support monetary operations and financial market deepening. The third stage will develop the interactions between wholesale and retail CBDC end-to-end. This stage is also consistent with development of the third-generation BI-RTGS system and 3i process with monetary operation and money market infrastructure as well as retail payment system infrastructure, namely BI-FAST and NPG, as discussed previously.

***Fifth*, expanding cross-border retail payment system linkages with ASEAN member countries (AMS) and several other partner countries in the Asian region, while prioritizing the national interest.** The primary focus of retail payment

Figure 5.5. Digital Rupiah Development Roadmap



Source: Bank Indonesia

system linkages through QRIS and BI-FAST is to expand payment system use for MSME and tourism industry development. The progress made in terms of bilateral cooperation with ASEAN-5 member countries and Vietnam will be expanded to other ASEAN countries, such as Cambodia and Brunei Darussalam, as well as several other countries in the Asian region, namely India, Japan and China. The expansion of payment system linkages will simultaneously be integrated with the use of LCT that not only involve trade and investment transactions, yet also banking and financial transactions, as well as payment system transactions. Expanding LCT is critical to nurture currency diversification in cross-border trade and investment away from dependence on the US dollar. Meanwhile, multilateral payment system cooperation via the NEXUS scheme and other options is also being developed through the payment infrastructure connectivity technology applied in each respective jurisdiction. Discussions during multilateral cooperation address multiple topics, not only concerning technology, but also the regulation and supervision of payment transactions and industry players in each country, as well as the policies and regulations regarding capital flows and determining exchange rates between countries. This is vital because the authorities and practices for regulating and implementing payment systems do not always align between jurisdictions in terms of central banking authorities, the supervision of financial services and industry associations. Discussions on the governance structure, therefore, including cross-border payment system policies and regulations are considerably more complex than merely developing cooperation based on technology for the interconnection and interoperability of payment infrastructure.

In addition to the five core programs discussed above, other progress made in the payment system digitalization program based on the BSPI 2025 will be improved and expanded to support the national digital economy and finance. First, formulating national standards for digital payment services in accordance with best international practices through collaboration between Bank Indonesia and the industry, along with a public acceptance campaign. This includes increasing QRIS users to 55 million and expanding QRIS features to include QRIS Withdrawal, Transfer and Deposit (QRIS TUNTAS), as well as expanding payment channels by bank and non-bank Payment Service Providers (PSPs). Implementation of the National Open API Payment Standard (SNAP) will also be expanded in terms of the number of participants and payment services towards the goal of "One Language" for the various payment services available in Indonesia. Furthermore, Bank Indonesia will continue fostering end-to-end consolidation of the national payment system industry as "One Nation" to create unicorns in Indonesia that are healthy, competitive and innovative nationally and internationally, including (business and/ or ownership) cooperation between PSPs with e-commerce platforms. Payment system industry consolidation will be crucial moving forward for wholesalers in the circulation of the Digital Rupiah. Pricing policy and market conduct will be developed, therefore, to create and maintain a secure, efficient and fair national payment system industry. The pricing scheme must offer incentives for the industry to invest and innovate without burdening the consumer. Risk management and payment system supervision will also be strengthened, particularly in terms of cyber security and resilience, as well as compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT).

Bank Indonesia will also continue strengthening synergy and coordination with the (central and regional) Government and payment system industry. Coordination with the (central and regional) Government is primarily oriented towards expanding the electronification of financial transactions in the regional government environment by strengthening the Regional Digitalization Acceleration and Expansion Team (TP2DD); increasing social aid program (Bansos)

Opening of National Movement (Gernas) Proudly Made in Indonesia and Proud to Travel in Indonesia (BBI and BBWI) in Palangkaraya City, Central Kalimantan

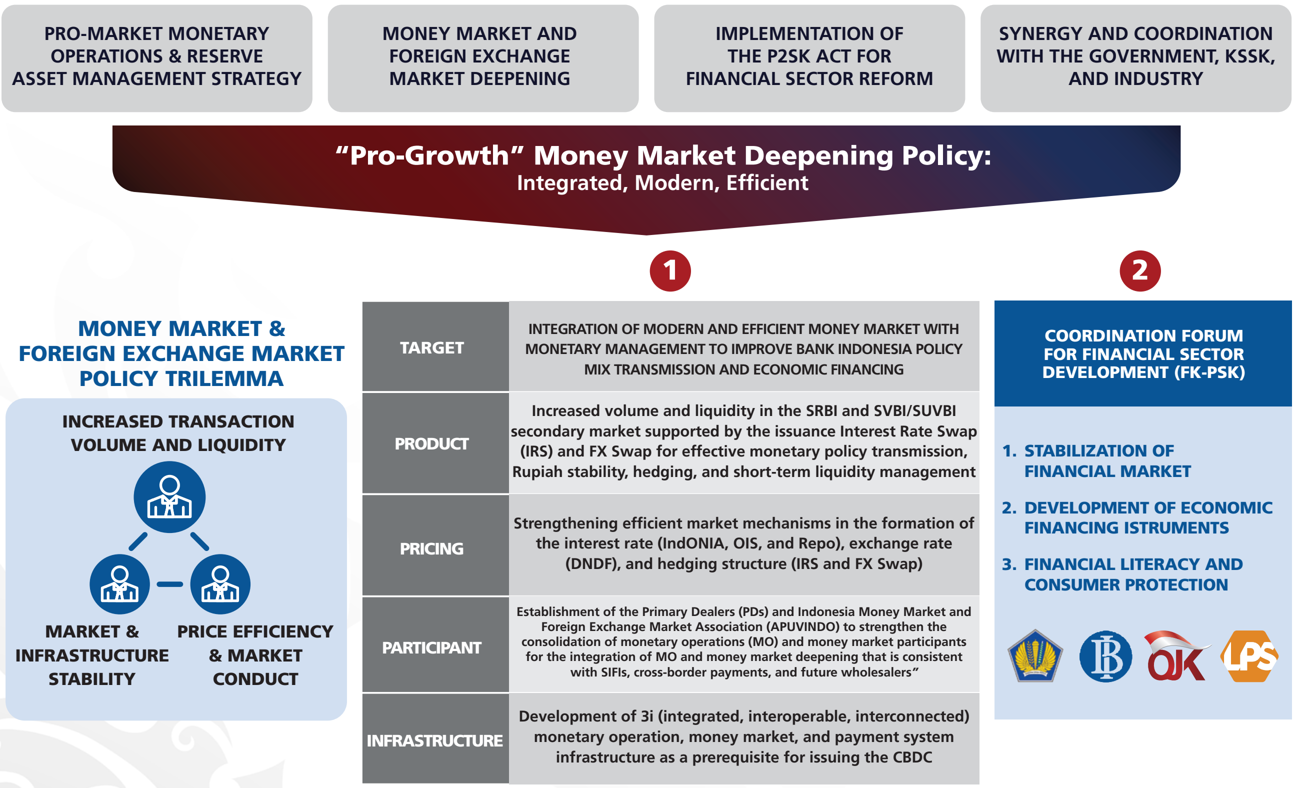
disbursements; and expanding uptake of the Indonesia Credit Card (KKI) in the Government segment. Similarly, digitalization of the MSMEs and tourism sectors will be intensified through the National Movement of Promoting Pride in Indonesian-made Products and the Proud to Travel in Indonesia (BBI and BBWI) in various regions. Regulatory and supervisory synergy and coordination in terms of payment system digitalization by Bank Indonesia with the digitalization of financial institutions by the OJK will also be intensified in accordance with the mandate stipulated in the P2SK Act. This will encompass crypto assets and the financial system technology innovation; digital financial literacy' consumer protection; and cyber security. Synergy with the banking industry, payment system associations, FinTech associations and other associations will also be strengthened to expand various existing payment system digitalization programs, such as QRIS, SNAP and BI-FAST, while also expanding services for the public. Bank Indonesia applies industry-friendly policies in terms of formulating and implementing payment system policies, regulations and supervision in conjunction with the industry.

5.4. Money Market and Foreign Exchange Market Deepening Policy

Pro-growth money market deepening policy will be maintained in 2024, by creating and maintaining a modern money market based on international standards, strengthening the transmission effectiveness of the Bank Indonesia policy mix, as well as reviving financing for sustainable economic growth. The direction of money market deepening will remain consistent with the objectives and programs as in the Money Market Development Blueprint (BPPU) 2025, with Bank Indonesia currently in the process of refining the BPPU for 2025-2030 as part of its mandate and jurisdiction in accordance with the P2SK Act. The focus of development remains the same, namely on three aspects of efficient money markets (3P), namely: the products; participants; and pricing, as well as 3i infrastructure between the money market and payment system. In implementation, the money market deepening program remains oriented towards striking an optimal balance among three targets, namely: (i) increasing transaction volume and liquidity; (ii) enhancing market mechanism efficiency and market conduct; and (iii) market stability and supporting infrastructure (Figure 5.6). The development program also considers the emerging opportunities and challenges, particularly in the implementation of a pro-market monetary and reserve asset management strategy, accelerating money market deepening, implementing financial reform in accordance with the P2SK Act as well as the need to strengthen coordination with the Government, KSSK and the industry. Money market and foreign exchange market deepening policy in 2024 will, therefore, focus on five flagship programs as follows. *First*, product development to increase volume and liquidity in the secondary market for Bank Indonesia Rupiah Securities (SRBI); Bank Indonesia Foreign Currency Securities (SVBI)and; Bank Indonesia Foreign Currency Sukuk (SUVBI), supported by issuing Interest Rate Swap (IRS) and Foreign Exchange Swap (FX Swap) to support efficient monetary policy transmission, Rupiah stability, hedging and short-term liquidity management. *Second*, strengthening efficient market mechanisms in the formation of the interest rate structure (IndONIA, OIS and repo), exchange rate structure (Domestic Non-Deliverable Forwards) and hedging structure (IRS and FX Swap). *Third*, strengthening market participant consolidation through the establishment of Primary Dealers (PDs) and the formation of the Indonesia Money Market and Foreign Exchange Market Association (APUVINDO) as a key partner of Bank Indonesia in the implementation of the monetary operation and money market deepening strategies. Fourth, the development of 3i money market, monetary operation and payment system infrastructure as a prerequisite for issuing the Digital Rupiah moving forward.

***First*, product development to increase market volume and liquidity, thereby supporting effective monetary policy transmission, Rupiah stability, hedging and short-term liquidity management.** Trading in the SRBI secondary market, which began on 1st October 2023, will be nurtured to increase money market transactions

Figure 5.6. Money Market Deepening Policy Direction in 2024



Source: Bank Indonesia

volume and frequency. To that end, SRBI auctions are only available for 6, 9 and 12-month tenors, with the 3-month RR SBN reduced. Through a consistent pro-market monetary operations strategy and more outstanding SRBI, Bank Indonesia is confident the SRBI secondary market will continue deepening and attract foreign portfolio inflows. The development of interest rate hedging instruments, namely Overnight Index Swap (OIS) and Interest Rate Swap (IRS), will continue, which is expected to deepen the money market further. Similarly, two new foreign exchange market instruments were launched on 21st November 2023, namely SVBI with tenors from 1 to 12 months and SUVBI with tenors from 1 to 3 months, which will be extended to 12 months. Secondary market transactions of both instruments will increase in terms of volume and value, thus deepening the market and attracting foreign portfolio inflows. The development of interest rate hedging instruments, namely FX Swap and DNDF, will be increased to support foreign exchange market deepening, foreign portfolio flows and Rupiah stability. The currencies traded will also be expanded and linked to the growing development of LCT with several countries, including Japan, South Korea, Malaysia and Thailand. In addition, the establishment of CCP SBNT for repo and DNDF instruments is also expected to increase transaction volumes, liquidity and market mechanism efficiency when determining interest rates and exchange rates.

***Second*, strengthening efficient market mechanisms in the formation of the interest rate, exchange rate and hedging structure as a credible reference for effective monetary policy transmission, market liquidity management and setting long-term interest rates.** In the money market, Bank Indonesia has developed the overnight (O/N) IndONIA rate in conjunction with market participants, which has served as a reference rate for tenors of 2 weeks, 1 month and up to 12 months through the development of OIS products as discussed above. Market participants, therefore, can valuate money market transactions through SRBI secondary trading, SBN-NT repo transactions or interbank IRS hedging based on the IndONIA and OIS reference rates for various tenors. Bank Indonesia can also use the rates as a reference for assessing the effectiveness of the BI7DRR policy rate on the money market. Similarly, IndONIA and OIS of various tenors can also be used by market participants as reference rates to evaluate FX Swap prices as hedging instruments between Rupiah and foreign currency transactions as well as DNDF forward transaction prices for tenors of 1-12 months in the foreign exchange market. This is expected to increase cash (spot) as well as SVBI and SUVBI transactions in the secondary market, as discussed previously. The development of this foreign exchange market mechanism is also expected to support the more efficient setting of Rupiah exchange rates in the domestic foreign exchange market and bolster Rupiah stabilization policy by Bank Indonesia. Consequently, the domestic money market will be more attractive to portfolio inflows from abroad. A deeper and more liquid money market and foreign exchange market, accompanied by more efficient market mechanisms, will also help the Government when issuing SBN to finance fiscal operations in the domestic market.

***Third*, strengthening the consolidation of market players to support synergy in the implementation of development programs to create and maintain modern and efficient money markets based on international standards.** Consolidation through the implementation of Primary Dealers (PDs) as the main market makers and partners of Bank Indonesia monetary operations will begin in January 2024, which is expected to accelerate the money market deepening program. In seeking to strengthen pro-market monetary operations integrated with money market and foreign exchange market development (in accordance with Bank Indonesia Regulation (PBI) No. 9 as an amendment to PBI No. 22 of 2020 concerning Monetary Operations), Bank Indonesia is optimising the role of PDs when issuing and trading SRBI or SVBI/SUVBI in the secondary market. This is in line with the critical role of PDs for active monetary operation transactions with Bank Indonesia and as market makers in the money market and foreign exchange market. There are three important criteria that must be met as a Primary Dealer, namely: (i) contribution; (ii) capabilities; (iii) collaboration and reputation, in accordance with the international criteria for systemically important financial institutions (SIFIs), which are also applied in the classification of Systemic Payment System Providers (SPSPs). This is important to ensure that systemic PDs and SPSPs can become future wholesalers in the circulation of the Digital Rupiah. In addition, industry and market player consolidation is necessary for the formation of the Indonesia Money Market and Foreign Exchange Market Association (APUVINDO) as a key partner of Bank Indonesia in the implementation of the monetary operation strategy as well as money market and foreign exchange market deepening efforts. Therefore, the organization and programs of APUVINDO encompass the aspects of "Products", "Pricing", "Participants" and "Infrastructure", which are being implemented by Bank Indonesia, as discussed above. Establishing APUVINDO as a self-regulatory organization (SRO) representing the industry is consistent with the pro-market and pro-industry policy stance of Bank Indonesia, which is expected to strengthen money market and foreign exchange market development synergy in Indonesia.

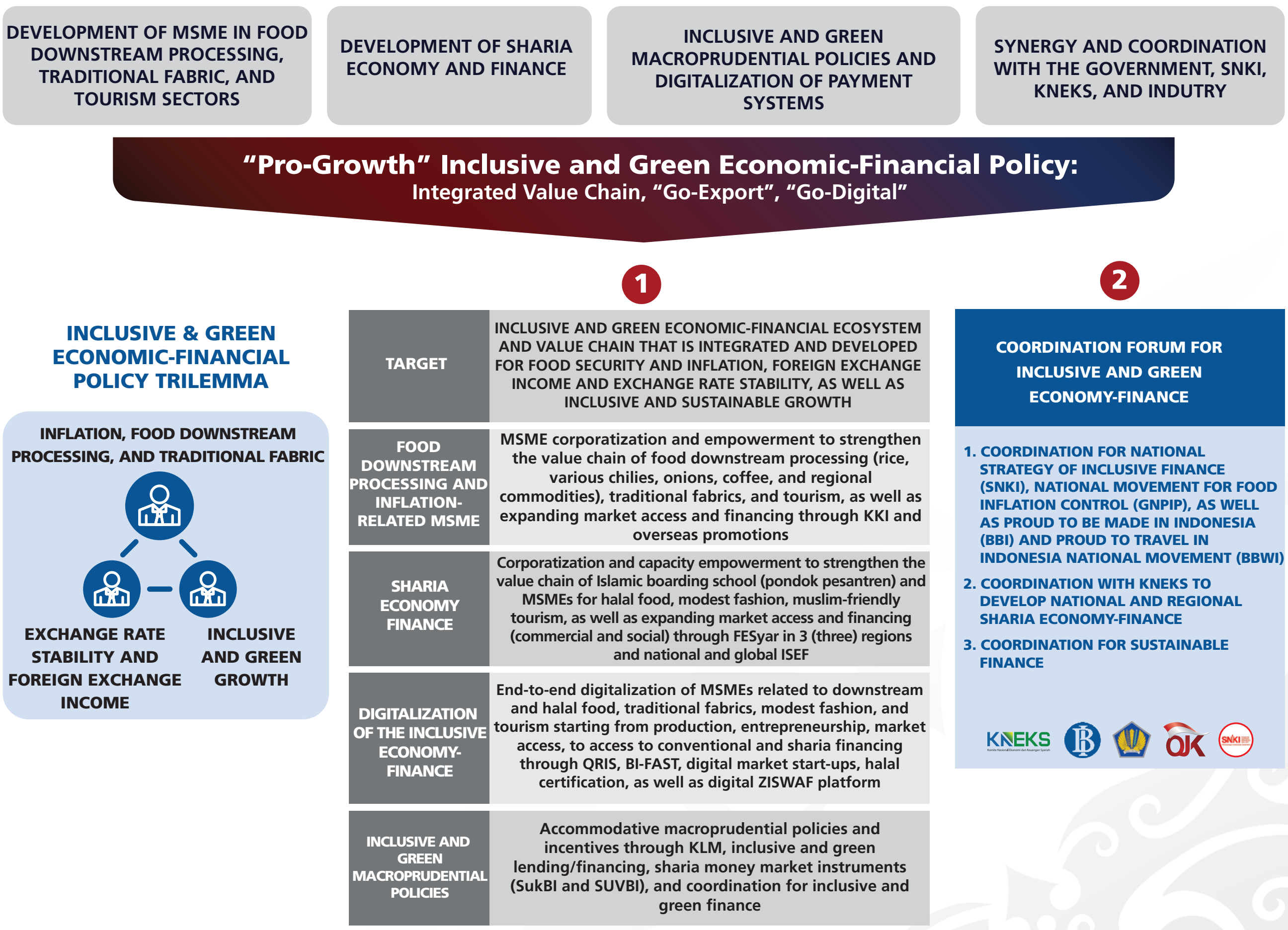
***Fourth*, the development of 3i money market, monetary operation and payment system infrastructure as a prerequisite for issuing the Digital Rupiah moving forward.** In this case, the existing Electronic Trading Platform, namely ETP Multimatching, for foreign exchange market instruments by private parties will be enhanced with ETP Multimatching for money market and fixed-income trading instruments. Bank Indonesia has also received approval for the minimum capital participation from Commission XI of the People's Representative Council (DPR) to initiate establishment of a CCP (Central Counterparty) with the industry for interest rate and exchange rate transactions (CCP SBNT). The creation of CCP SBNT is crucial for money market deepening in Indonesia as part of Indonesia's international commitments to the G20, implementation of its mandate in accordance with the P2SK Act and a flagship program in the National Financing and Financial Market Deepening Strategy (SN-PPPK) in synergy with the Ministry of Finance and OJK. Bank Indonesia is also in the process of modernising ETP infrastructure for monetary operations to become more pro-market and integrated with money market deepening efforts, which is known as the BI-IMOS. Bank Indonesia emphasises the need for 3i between monetary operation infrastructure (BI-IMOS) and money market infrastructure (CCP SBNT and ETP Multimatching), particularly to accelerate national financial market deepening, investment portfolio management and hedging for domestic and nonresident investors, effective monetary operations and monetary policy transmission by Bank Indonesia, as well as issuances and management for fiscal financing.

Bank Indonesia will continue strengthening policy synergy with the Government and KSSK to advance the financial sector in terms of inclusive and sustainable economic financing. Regarding implementation of Article 11 of the P2SK Act, the KSSK meeting on 30th October 2023 agreed to strengthen and evolve the Coordination Forum for Development Financing through Financial Markets (FK-PPPK) into the Financial Sector Development Coordination Forum (FK-PSK), which also oversees the Sustainable Finance Committee (KKB) and National Financial Inclusion Council (DNKI). In its approach to these issues, FK-PPPK is focused on coordination between the Ministry of Finance in developing the government bond market for development financing; Bank Indonesia in money market and foreign exchange market deepening; and OJK in capital market development. Second, KKB is mandated in accordance with Article 224 of the P2SK Act to coordinate the development of sustainable finance for the green economy and towards achieving the Sustainable Development Goals (SDGs) between the Ministry of Finance for government project and program financing; with Bank Indonesia for macroprudential policymaking and money market development; and with OJK for financing through the banking industry and capital market. Third, DNKI is mandated with the coordination and synchronization of policy formulation and implementation in the National Financial Inclusion Strategy (SNKI) between the Government, Bank Indonesia and the OJK as mandated by Presidential Regulation No. 114 of 2020, which also covers increasing financial literacy and inclusion. The creation of FK-PSK will strengthen financial sector development synergy and efficiency end-to-end, including consideration of: the forms of financing required, namely the development of financial market products, pricing, participants and infrastructure; financing support from the banking industry and nonbank financial industry; fiscal policy coordination by the Ministry of Finance, with macroprudential and money market policy by Bank Indonesia; and microprudential regulation, capital market policy, financial literacy and consumer protection by the OJK.

5.5. Inclusive and Green Economic-Financial Policy

Bank Indonesia will continue expanding and strengthening programs to develop a green and inclusive economy and finance to support sustainable economic growth. To this end, the MSME development program will be oriented towards supporting the downstreaming of agriculture and fishing to help controlling inflation; the development of MSMEs producing traditional fabrics (wastra) as the pride of Indonesia, along with Go Export and Go Digital MSMEs; and development to support tourism as a national source of foreign exchange income (Figure 5.7). Programs will be implemented by mobilizing all 46 Bank Indonesia offices in various regions and offices abroad. The MSMEs program to control inflation will focus on downstream production; developing integrated business models with markets and consumers; as well

Figure 5.7. Inclusive and Green Economy-Finance Policy Direction in 2024



Source: Bank Indonesia

Synergy of Strengthening GNPIP and GSMP (South Sumatra Independent Food Movement) with Agricultural Modernization

as inter-regional cooperation, particularly for food commodities that contribute to inflation (such as rice, various chili and allium varieties, beef, chicken and fish). Implementation will be achieved in synergy with the National Movement for Food Inflation Control (GNPIP) and (central and regional) Government. Likewise, development programs targeting MSMEs producing traditional fabrics and various food commodities, as well as tourism-related MSMEs will focus on increasing value added to help control inflation, increase foreign exchange income and improve living standards. All MSMEs programs by Bank Indonesia for economic inclusion emphasise three development aspects: corporatization; capacity building; and facilitating access to markets and finance, all to increase MSMEs competitiveness. Corporatization is achieved by strengthening the institutional arrangements, expanding partnerships and developing business models to create new entrepreneurs. MSMEs capacity building is implemented end-to-end and supported by digitalization to increase production, improve financial management and unlock market access. Increasing access to markets and financing is achieved by facilitating certification and product curation, trade promotion and business matching through the annual event of Karya Kreatif Indonesia (KKI) as well as other MSME exhibitions in various countries around the world in conjunction with the embassies of the Republic of Indonesia. In accordance with regulations concerning green and inclusive finance, Bank Indonesia also provides Macroprudential Liquidity Incentives Policy (KLM) to banks channelling financing to MSMEs, KUR and ultra-micro enterprises.

Bank Indonesia will also continue strengthening its role as a pioneer and driver of the sharia economy and finance as a new source of economic growth and to become a major world player. The focus of halal value chain (HVC) ecosystem development will prioritise key sectors of the sharia economy, namely: halal food; modest fashion; Muslim friendly tourism; and the green economy. End-to-end HVC ecosystem development will be accelerated in terms of the players, institutions and supporting infrastructure through the economic development of pesantren (Islamic boarding schools) and MSMEs, with the backing of all 46 Bank Indonesia offices throughout Indonesia; by strengthening the Pesantren Economy and Business Association (Hebitren) and Global Halal Hub (GHH); and facilitating business matching with international business partners. Bank Indonesia will also support government programs to implement halal certification in

ISEF 2023 Opening Ceremony; ISEF was Attended by 793 Exhibitors from Indonesia and 20 Partner Countries

synergy with the Halal Certification Agency (BPJPH) and Indonesian Council of Ulama (MUI), centrally and regionally, which includes support to automate halal certification services. In terms of sharia commercial finance, Bank Indonesia will continue sharia money market deepening policy to support sharia finance by expanding Bank Indonesia Sukuk (SukBI) and SUVBI transactions in the money market, and KLM for sharia banks to disburse sharia and inclusive finance. Bank Indonesia support for increased sharia social finance will be realised by integrating the digital platform 'Satu Waqf Indonesia' (in conjunction with the Indonesia Waqf Board (BWI), National Amil Zakat Board (BAZNAS) and several amil zakat institutions) to optimise the mobilization of zakat and waqf funds as a source of sharia economic financing, particularly through productive waqf. In addition, Bank Indonesia will increase business linkages under the auspices of the Sharia Economic Festivals (FESyar) in three regions (Java, Sumatra and Eastern Indonesia) and the international Indonesia Sharia Economic Festival (ISEF). Bank Indonesia is are grateful that the 10th Indonesia Sharia Economic Festival (ISEF) and three Sharia Economic Festivals (FESyar) held in 2023 recorded a total transaction value of Rp28.9 trillion, which is expected to increase in the coming years. Bank Indonesia continuously strengthens synergy with various parties, including the National Sharia Economy and Finance Committee (KNEKS) as well as pesantren; the Sharia Economic Society (MES); business associations; the banking industry; ulama; academia; and the general public.

Bank Indonesia will strengthen policy synergy with the Government to create and maintain a sustainable economy, accompanied by a stable, inclusive and green financial system. As discussed previously, Bank Indonesia has instituted various macroprudential policies to support green finance, which include offering KLM to banks disbursing loans/financing to sectors of the green economy. Bank Indonesia will continue coordinating in close synergy with the KSSK, government ministries/agencies and relevant stakeholders, including through the Financial Sector Development Coordination Forum (FK-PSK), mentioned previously. Bank Indonesia will also orient various conventional and sharia MSMEs development programs towards supporting the green economy and finance. Bank Indonesia will also pursue financial market deepening by developing and implementing green money market instruments with the support of APUVINDO. Bank Indonesia support to promote green investment projects will be expanded in synergy with the (central and regional) Government and Embassies of the Republic of Indonesia through Indonesian Investment Forums (IIF) abroad, including in the US, London, Japan, China, South Korea and United Arab Emirates (UAE). In addition, Bank Indonesia will continue institutional transformation, encompassing governance, risk management, strategies and monitoring indicators.

5.6. International Policy

After the success of Indonesia's G20 Presidency in 2022 and ASEAN Chairmanship in 2023, Bank Indonesia will continue cooperating in close synergy with the Government to strengthen Indonesia's position bilaterally, regionally and globally. International policy will continue to pursue the national interest in terms of strengthening economic resilience against global shocks, while expanding cooperation to drive sustainable economic growth (Figure 5.8).

In pursuance of its authority, Bank Indonesia international policy addresses aspects of the national economic and central bank policy mix; cross-border payment system linkages; and expanding LCT, in addition to the green and inclusive economy and finance, as well as promoting trade and investment in synergy with the Government and KSSK. In 2024, Bank Indonesia international policy will follow three main points of focus. First, strengthening and expanding bilateral cooperation with partner central banks in terms of central banking, the payment system, LCT and bilateral swap arrangements (BSA). Second, expanding regional cooperation, specifically: ASEAN Financial Integration; ASEAN Payments Connectivity (APC); and strengthening the Chiang Mai Initiative Multilateralization (CMIM) as a form of regional financial cooperation in ASEAN+3. Third, the active participation of Bank Indonesia to pursue the national interest through various international economic, monetary and financial

Figure 5.8. International Policy Direction in 2024

ECONOMIC AND CENTRAL BANK POLICY MIX	CROSS-BORDER PAYMENT SYSTEM COOPERATION	LOCAL CURRENCY TRANSACTION (LCT) EXPANSION
INCLUSIVE AND GREEN ECONOMY-FINANCE	TRADE AND INVESTMENT PROMOTION	SYNERGY WITH THE GOVERNMENT, KSSK, AND INDUSTRY

"Pro-Stability & Growth" International Policy:
Cooperation, Diplomacy, Promotion

INTERNATIONAL POLICY TRILEMMA

1

TARGET	PURSUING THE NATIONAL INTEREST IN TERMS OF STRENGTHENING ECONOMIC RESILIENCE AGAINST GLOBAL SHOCKS AND EXPANDING COOPERATION TO DRIVE SUSTAINABLE ECONOMIC GROWTH
BILATERAL COOPERATION	Strengthening and expanding bilateral cooperation with partner central banks, including ASEAN+3 (Japan, China, South Korea), USA, India, Saudi Arabia, and UAE, in terms of central banking, the payment system, LCT, and BSA
REGIONAL COOPERATION	Expanding cooperation in terms of central banking, ASEAN Financial Integration, ASEAN Payments Connectivity (APC), and CMIM
MULTILATERAL COOPERATION	Active participation to pursue the national interest in international economic, monetary, and financial agendas at the G20, IMF, FSB, and BIS, as well as in sharia finance at the IFSB and IILM

2

INTERNATIONAL POLICY COORDINATION AND TRADE AND INVESTMENT PROMOTION

1. COORDINATION OF MINISTRY OF FINANCE, BANK INDONESIA, AND KSSK FOR INTERNATIONAL AND ASEAN+3 ECONOMIC-FINANCIAL AGENDAS
2. COORDINATION WITH THE GOVERNMENT FOR THE EXPANSION OF LCT AND TRADE AND INVESTMENT PROMOTION
3. COORDINATION WITH OJK AND INDUSTRY FOR BANKING COOPERATION AND CROSS-BORDER PAYMENTS

Source: Bank Indonesia

agendas under the G20; the IMF; the FSB; the BIS and sharia finance under the Islamic Financial Services Board (IFSB) and International Islamic Liquidity Management Corporation (IILM). In addition, Bank Indonesia will manage the perceptions of international investors and rating agencies, while promoting trade and investment through the Bank Indonesia Investor Relations Unit at the national (IRU), regional (RIRU) and global (GIRU) levels by empowering the network of Bank Indonesia offices in various regions and abroad. Bank Indonesia will also enhance institutional leadership and strive to attain international awards in terms of the policy mix, research, innovation, institutional arrangements and leadership as well as digitalization of the payment system and circulation of currency.

Bilaterally, Bank Indonesia will continue strengthening and expanding cooperation with other key partner central banks in terms of formulating a monetary and macroprudential policy mix, establishing payment system linkages and expanding LCT and BSA. Existing Structured Bilateral Cooperation (SBC) and Memorandums of Understanding (MoU) with the central banks of Malaysia, Thailand, Singapore, Japan, China, South Korea, the US and India will be expanded to other countries. Payment system linkages through QR and FAST Payments interoperability with Malaysia, Thailand and Singapore will also be expanded to Japan, China, India and Saudi Arabia. Similarly, LCT schemes with Malaysia, Thailand, Japan, China and Singapore will also be expanded in terms of: partner countries; the scope of transactions to include trade and investment; portfolio investment and payment transactions; as well as the number of participating Appointed Cross Currency Dealers (ACCD). This will be facilitated through Local Currency Bilateral Swap Agreement (LCBSA) with Bank Negara Malaysia (worth RM8 billion or Rp28 trillion); the Bank of Korea (KRW10.7 trillion or Rp115 trillion); People's Bank of China (CNY250 billion or Rp550 trillion); Monetary Authority of Singapore (SGD9.5 billion or Rp100 trillion); and the Reserve Bank of Australia (AUD10 billion or Rp100 trillion). In addition, Bank Indonesia will also maintain bilateral cooperation to strengthen international reserve assets to offset the negative

Minister of Finance and Governor of Bank Indonesia at the 10th AFMGM Stated Commitment to Strengthen Collaboration in Supporting ASEAN as the Center for World Growth impact of global turmoil through BSA with the Bank of Japan (USD22.76 billion) and a Bilateral Repo Line (BRL) with the Monetary Authority of Singapore (USD3 billion).

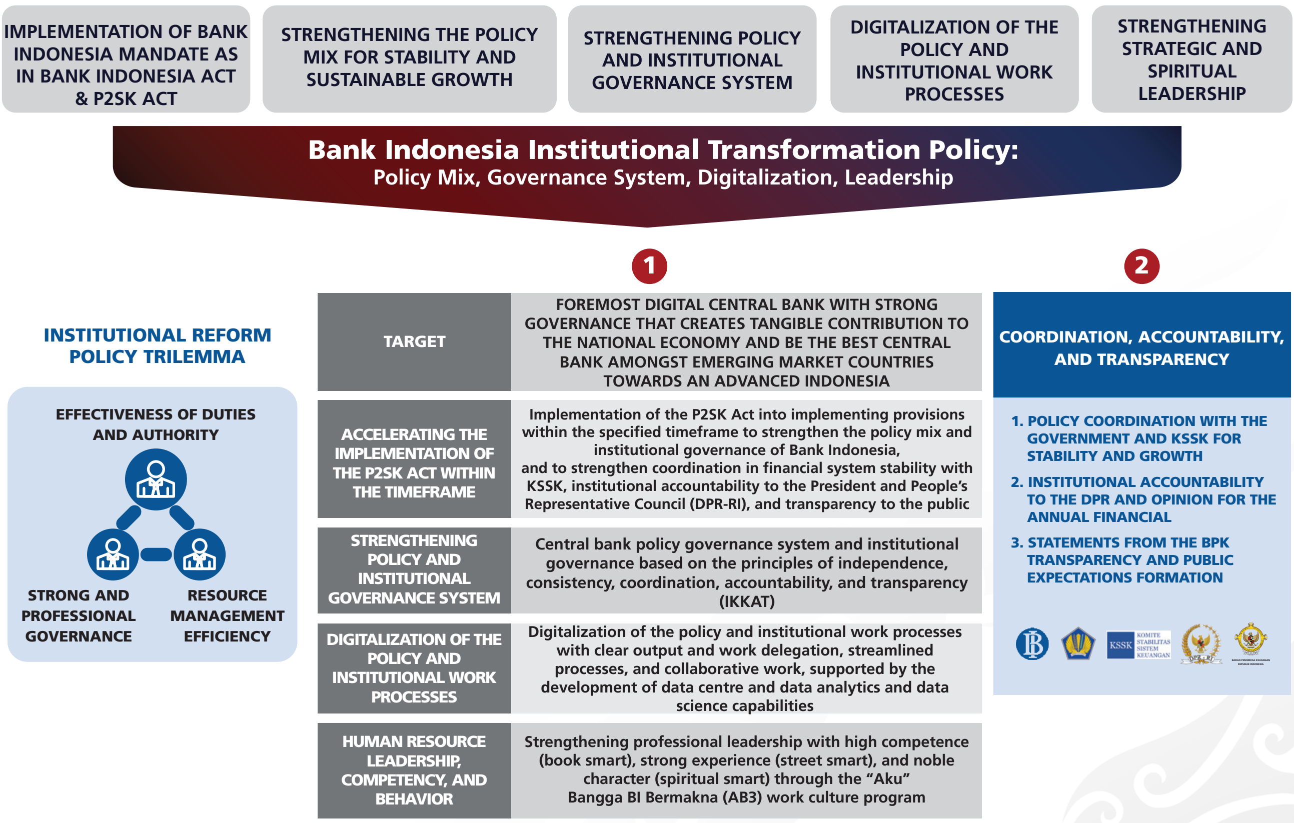
Regionally, Bank Indonesia will play an active role in ASEAN cooperation, particularly in terms of ASEAN Financial Integration, ASEAN Regional Payments Connectivity and ASEAN+3 Regional Financial Arrangements. Bank Indonesia will continue overseeing the sustainability of several ASEAN strategic agenda items as deliverables of Indonesia's ASEAN Chairmanship in 2023. First, the application of the macroeconomic policy mix, namely: monetary-fiscal policy coordination and a monetary-macroprudential policy mix, as a significant policy framework against the current global challenges and uncertainty. Implementation of the Integrated Policy Framework (IPF) of the IMF and the Macro-Financial Stability Framework (MFSF) of the BIS is expected to complement the macroeconomic policy mix applied in the ASEAN region. Second, expansion of the LCT framework in the ASEAN region for trade and investment transactions, cross-border payment systems and financial assets. Third, expansion of Regional Payments Connectivity (RPC) in the ASEAN region through QR and FAST Payments interoperability to facilitate cross-border payments from ASEAN-5 to Vietnam, Brunei Darussalam and Cambodia. Fourth, strengthening digital financial inclusion and literacy to bolster the role of micro, small and medium enterprises (MSMEs) in the ASEAN economy, including cross-border payment system linkages. Fifth, strengthening the ASEAN work processes, which includes revisiting the mandates and work processes of each existing Working Committee (WC). In addition, Bank Indonesia will also play an active role in strengthening the ASEAN+3 (Japan, China and South Korea) regional financial cooperation framework through Chiang Mai Initiative Multilateralization (CMIM) and the ability of the ASEAN+3 Macroeconomic Research Office (AMRO) to monitor economic and financial conditions in ASEAN member states (AMS), particularly in terms of external resilience to the impact of global spillovers.

Multilaterally, Bank Indonesia will continue participating actively in multilateral cooperation forums in pursuit of the national interest through international economic, monetary and financial agendas. In the G20 and the IMF forums, Indonesia regularly emphasises the need to strengthen monetary-fiscal policy coordination and apply a monetary and macroprudential policy mix by the central bank. This includes implementation of the IPF of the IMF and MFSF of the BIS in various countries. Bank Indonesia will also continue calling for IMF institutional reforms, which: include monitoring and policy inputs to overcome global economic turmoil and its impact on Emerging Markets and Developing Economies (EMDEs); providing appropriate funding facilities; as well as increasing quotas based on current economic conditions. Meanwhile, green economic policies must be implemented over an adequate transition period to prepare the projects and secure necessary financing, particularly in EMDEs, to avoid any adverse impact on growth. In the financial sector, through the FSB and the BIS, Bank Indonesia will continue communicating the need to strengthen the supervision and regulation of crypto assets, develop Central Bank Digital Currency (CBDC) and strengthen cross-border payment system linkages, including digitalization to support economic and financial inclusion. In terms of international cooperation for the development of the sharia economy and finance, Bank Indonesia remains the chairman of the Executive Committee to oversee the current transformation of the Islamic Financial Services Board (IFSB) regarding issuing and implementing international standards to advance sharia banking and finance as well as institutional transformation, which has progressed well. Similarly, Bank Indonesia will continue participating actively in the International Islamic Liquidity Management Corporation (IILM) to advance the sharia money market and liquidity management in the sharia banking industry internationally.

5.7. Institutional Transformation Policy

Bank Indonesia will continue pursuing end-to-end institutional transformation to create a credible and transparent central bank based on performance excellence and good governance. Transformation of the policy mix, institutional governance, organization and work processes and human resources, as well as digital transformation, which began in 2018, will be strengthened and sharpened. In addition, to safeguard the national economy from the impact of global turmoil and to strengthen the role and authority of Bank Indonesia in the digital era, institutional transformation is an integral part of the mandates stipulated in accordance with the Bank Indonesia Act and P2SK Act (Figure 5.9). Strengthening institutional transformation is focused on four main agenda items. *First*, implementation of the P2SK Act within the specified timeframe to strengthen the policy mix and institutional governance of Bank Indonesia, and to strengthen coordinated system stability with KSSK, institutional accountability to the President and People's Representative Council (DPR-RI) and transparency to the public. *Second*, strengthening the central bank policy governance system and institutional governance based on the principles of independence, consistency, coordination, accountability and transparency (IKKAT). *Third*, digitalization of the policy and institutional work processes with clear output and work delegation, streamlined processes and collaborative work, supported by the development of data centers and AI capabilities, specifically in terms of utilising data analytics and data science. *Fourth*, strengthening professional leadership at Bank Indonesia with book-smarts, street-smarts and spiritual-smarts

Figure 5.9. Institutional Transformation Policy Direction in 2024



Source: Bank Indonesia

through the "Aku" Bangga BI Bermakna (AB3) work culture program. Bank Indonesia will also continue strengthening policy coordination with the (central and regional) Government and KSSK to maintain stability and foster sustainable growth. Similarly, Bank Indonesia will strengthen institutional accountability to the People's Representative Council (DPR-RI) and maintain an unqualified opinion for the annual financial statements from the Audit Board of the Republic of Indonesia, while also strengthening public transparency. In implementation, institutional transformation is based on 2EC principles (Effective, Efficient and Compliance), namely striking an optimal balance between task and authority effectiveness, resource management efficiency as well as strong and professional governance.

***First*, implementation of the P2SK Act within the specified timeframe to strengthen the policy mix and institutional governance of Bank Indonesia, and to strengthen coordinated system stability with KSSK, institutional accountability to the President and People's Representative Council (DPR-RI) and transparency to the public.** After promulgating ten Bank Indonesia Regulations (PBI) in 2023, Bank Indonesia in 2024 will complete another ten PBI as mandated by the P2SK Act. The regulatory priority in 2023 concerned related to Bank Indonesia's role in financial system stability, such as: the KLM and short-term liquidity assistance, including based on sharia principles (PLJP and PLJPS); the new mandate for Bank Indonesia in the money market and foreign exchange market; as well as strengthening regulations with a broad impact on the community, including the payment system (payment system policy, National Payment Gateway - NPG, Payment Service Providers – PSPs and Payment System Infrastructure Operators - PIPs) and consumer protection. In 2024, the new regulations associated with P2SK Act implementation will include foreign exchange flows; liquidity management for economic growth; money market infrastructure; and strengthening existing regulations relating to monetary controls, the Countercyclical Capital Buffer (CCyB), foreign exchange market transactions, foreign exchange trading by nonbanks, standardization of payment system competencies as well as cyber security and resilience. In addition, Bank Indonesia will coordinate, in close synergy with KSSK and bilaterally with OJK and LPS, to implement the P2SK Act. In October 2023, KSSK agreed to strengthen and evolve the Coordination Forum for Development Financing through Financial Markets (FK-PPPK) into the Financial Sector Development Coordination Forum (FK-PSK), which also oversees the Sustainable Finance Committee (KKB) and National Financial Inclusion Council (DNKI). Bank Indonesia and the OJK also strengthened the coordination mechanism and scope by renewing their Memorandum of Understanding (MoU) in February 2023. Similarly, Bank Indonesia and the LPS also strengthened coordination, including preparations to handle troubled banks or resolve banks by the LPS, possibly through bridge banks, if required.

***Second*, strengthening the central bank policy governance system and institutional governance based on the principles of Independence, Consistency, Coordination, Accountability and Transparency (IKKAT).** In accordance with Bank Indonesia's mandate as stated in the Bank Indonesia Act and P2SK Act, Bank Indonesia's vision was refined to become "The Foremost Digital Central Bank with Strong Governance that Creates a Tangible Contribution to the National Economy and the Best amongst Emerging Market Countries towards Advanced Indonesia". The vision is implemented by strengthening seven missions as the implementation of the main policies in the monetary, payment system and macroprudential fields. They are supported by money market and foreign exchange deepening policies; a green and inclusive economy and finance; international policy; digitalization strengthening governance; as well as organizational and HR management (Figure 5.10). To that end, Board of Governors Regulations (PDG) were issued to regulate the Bank Indonesia governance system as a central bank and institutional entity. As a central bank, Bank Indonesia independence is enshrined in legislation, in terms of executing its policy roles and authority and budget policy to achieve the inflation target set by the Government. Strengthening the credibility of Bank Indonesia, the policy governance system regulates aspects concerning policy consistency, coordination with the Government and public transparency. In this context, policymaking at Bank Indonesia is implemented through tiered discussions involving committees for each policy, before being discussed at the Main Policy Mix Committee (KBKU) and escalated to the Board of Governors Meeting (RDG) for approval. Meanwhile, the institutional governance system of Bank Indonesia as an entity covers the planning process and work program consistency, operational budget approval by the People's Representative Council (DPR-RI) and institution performance accountability to the President and DPR-RI. In this regard, Bank Indonesia has submitted its quarterly and annual institutional performance reports to the President and DPR-RI in accordance with the P2SK Act. Internally, institutional performance of Bank Indonesia as an entity is discussed by the Institutional Governance Committee (KTKK) on a quarterly basis before submission to the RDG for approval.

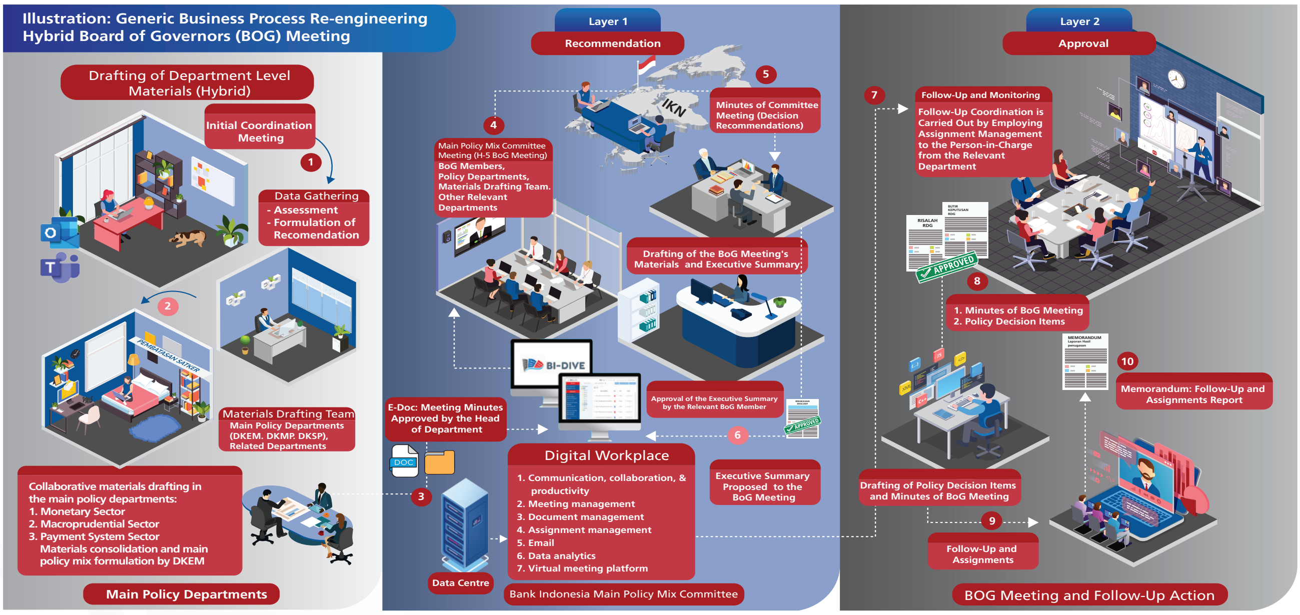
***Third*, digitalization of the policy and institutional work processes with clear output and work delegation, streamlined processes and collaborative work, supported by the development of data centers and AI capabilities, specifically in terms of utilising data analytics and data science.** Bank Indonesia

Figure 5.10. Bank Indonesia Policy and Institutional Governance System

Source: Bank Indonesia

has accelerated the digitalization to support the hybrid work processes that were introduced during the Covid-19 pandemic in 2020. Digital Business Process Re-engineering (Digital BPR) is a policy process and institutional process that strengthens the governance system as a digital transformation program towards the vision of becoming the foremost central bank, while preparing Bank Indonesia for relocation to the new capital city in 2024. Digital BPR, which has been successful from the department level to the RDG, will be expanded through digital BPR within departments to create digital collaborative work, which will begin in the policymaking department, strategic management department and Human Resources Department (Figure 5.11). Through Digital BPR, work processes that previously required eight stages have been streamlined into four stages from the department level to decision-making in the Board of Governors meeting (RDG). Hybrid working has also been standardised through the Work in the Digital Era system (SKUAD), which is more efficient and effective in terms of resource management and performance with convenient and rapid work collaboration possible from different remote locations. Bank Indonesia digitalization encompasses three interrelated and mutually reinforcing parts. *First*, Digital BPR in the policy and institutional processes, as discussed previously. *Second*, end-to-end development of data centers and data digitalization for data management and innovation, from the data input to the use of big data in processing metadata, storing data in data lakes and using data analytics and data science for analysis and policies. *Third*, the development of omni-technology platforms to facilitate digitalization

Figure 5.11. Bank Indonesia Digital Business Process Re-engineering



Source: Bank Indonesia

and data innovation and Digital BPR in the policy and institutional processes with several core applications that are interconnected and integrated, supported by cyber security.

***Fourth*, strengthening professional leadership at Bank Indonesia with book-smarts, street-smarts and spiritual-smarts through "Aku" Bangga BI Bermakna (AB3) work culture program.** Success has been achieved in human resource transformation since 2018 with merit-based human resource planning, clear and transparent career management, stringent selection from the talent pool in accordance with person to job fit, a tiered leadership program from non-officers to officers and the top leaders, training and education programs to develop technical competencies as well as master and doctoral scholarships, all of which are supported by competitive remuneration, employee benefits and post-employment benefits. In addition to strengthening the various programs further, future human resource transformation will focus more on strengthening visionary leadership characteristics with strategic spiritual leadership, accompanied by book-smart, street-smart and spiritual-smart. This is critical to mould innovative and creative leaders, who are agile to change, motivated and principled, with morality based on national and spiritual values according to each individual religion. Strengthening competence also emphasises the ability to adapt to digitalization, including technical competencies in terms of AI as well as behaviour and mindset. Strengthening the Employee Value Proposition (EVP) and "Aku" Bangga BI Bermakna (AB3) work culture program focuses on building book-smart, street-smart and spiritual-smart leadership characteristics through nine programs across three pillars, namely leadership, family and wellbeing. Equally important is the development of a modern office environment, with relationships and work facilities that better support digitalization and suit the characteristics of millennial employees, including the application of a Work in the Digital Era system.