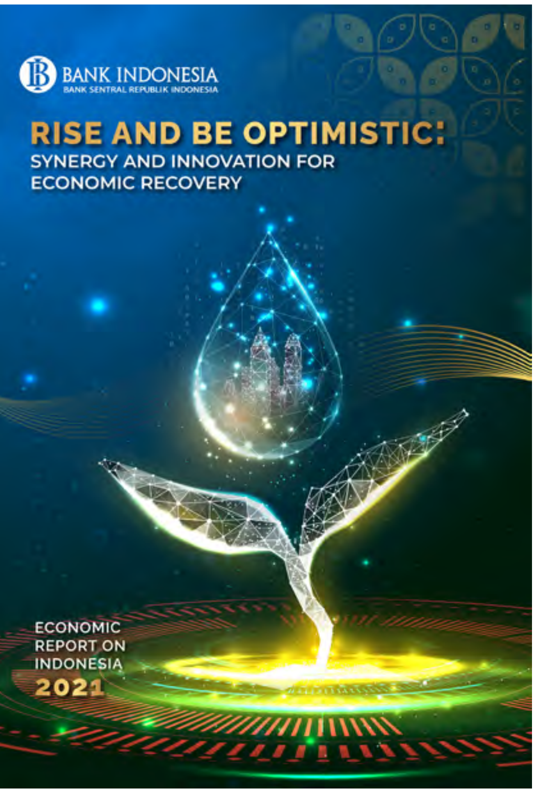
BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

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

ECONOMIC REPORT ON INDONESIA

2021




Water is a source of life that provides refreshment and resolve to rise forth with optimism for the struggle ahead. The light radiating from the digital ripples symbolizes rising forth with optimism. It is accompanied by digital rings that resemble waves of water in a vessel of light and the germinating shoot that portrays innovation. Local wisdom and synergy are depicted by the Batik Kawung motif, in which all points within it combine to create a cosmic force. In coming together as one, the strength derived will be greater, shaping an inclusive whole that will take Indonesia forward into a new and better era of civilization.

**ECONOMIC
REPORT
ON INDONESIA**

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The Economic Report on Indonesia has been written as a fulfillment of the Bank Indonesia obligations for transparency and accountability as prescribed in Article 58 of Act No. 23 of 1999 concerning Bank Indonesia, last amended by Act No. 6 of 2009.

BANK INDONESIA

## VISION

To become the foremost digital central bank that creates tangible contribution to the national economy and be the best central bank amongst emerging market countries towards an Advanced Indonesia.

## MISSION

1. To achieve and maintain rupiah stability through effective monetary policy and Bank Indonesia policy mix;

2. To engage in maintaining financial system stability through effective macroprudential policy in synergy with microprudential policy by the Financial Services Authority (OJK);

3. To engage in developing digital economy and finance through strengthening Bank Indonesia payment system policy in synergy with the Government and other strategic partners policies;

4. To support macroeconomic stability and sustainable economic growth through achieving synergy among Bank Indonesia's policy mix, Government's fiscal policies and structural reformation as well as other strategic partners policies;

5. To engage in enhancing financial market deepening in order to strengthen the effectiveness of Bank Indonesia policy and to support national economic financing;

6. To develop sharia economy and finance from the national level to the regional level;

7. To build a digital-based central bank in terms of the policies and institutional arrangements by strengthening the organisation, human resource, governance and reliable information system as well as proactive international role.

## STRATEGIC VALUES

The strategic values of Bank Indonesia are: (i) trust and integrity; (ii) professionalism; (iii) excellence; (iv) public interest; and (v) coordination and teamwork, based on the nobility of religious values.

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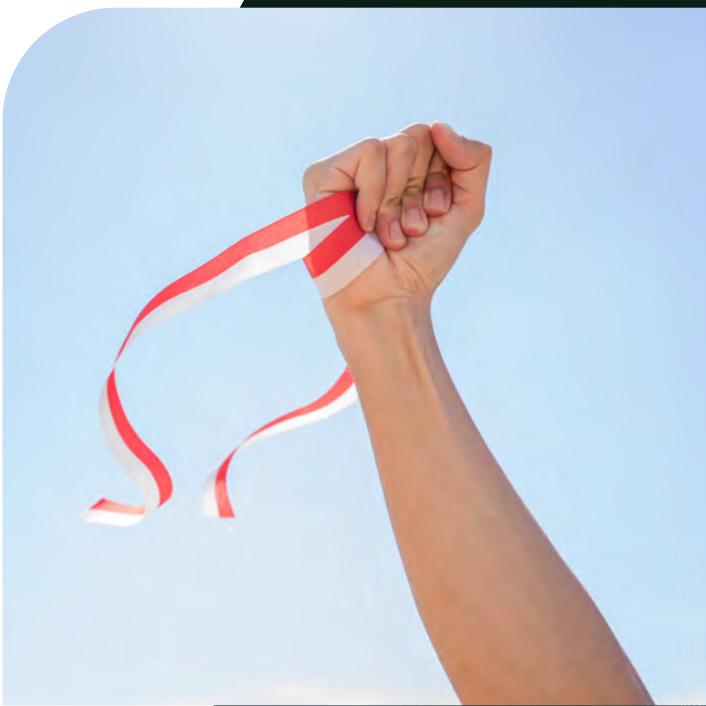




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Until 5 January 2022

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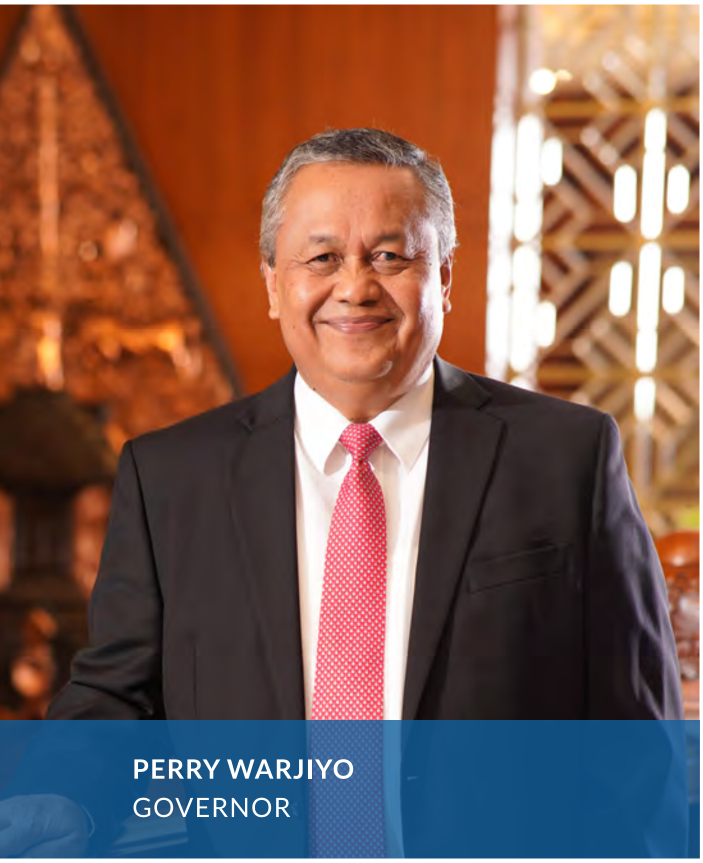
**DEPUTY GOVERNOR**
Until 5 January 2022

# Foreword




"The close policy synergy and economic achievements in 2021 underpin the resolve to rise forth with optimism for more rapid economic recovery in Indonesia during 2022"

Praise be to Allah. Let us give thanks before the Almighty God, for by His grace, Bank Indonesia has been able to continue the tradition of publication of reports for transparency and accountability at the start of the year, following the Bank Indonesia Annual Meeting. In January 2022, Bank Indonesia simultaneously published three reports in support of transparency and accountability: the Economic Report on Indonesia 2021; the Sharia Economy and Finance Report 2021; and the Bank Indonesia Annual Report 2021, following the Bank Indonesia Annual Meeting on 24 November 2021. The publication of these three reports represents a fulfilment of our steadfast commitment to strengthening the transparency and accountability of Bank Indonesia as mandated in the Bank Indonesia Act.

From our standpoint, despite inequity in the gains achieved, the global economy saw further improvement in 2021. Economic recovery progressed more rapidly in advanced economies than in emerging markets and developing economies due to differences between individual nations in vaccination rates and capacity for policy stimulus. In 2021, global economic recovery plateaued temporarily in response to the spread of the Covid-19 Delta variant in the second quarter. The Delta variant, which is extremely contagious and causes more severe illness than other variants, had a significant impact on public health, human lives and the world economy. Given the wider spread of the Covid-19 Delta variant, uncertainties persisted in global financial markets amid market anticipation of a tapering policy by the US Fed and fears of prolonged inflationary pressure.

The Covid-19 pandemic has highlighted at least seven important issues that call for careful monitoring and preventive actions. *First* is the lack of equitable provision of vaccinations for achieving herd immunity and the high risk that Covid-19 could become endemic. *Second* are disparities in the global economic recovery, which progressed more rapidly in advanced economies and remained sluggish in emerging markets and developing economies. *Third* is the disruption to global supply chains and the looming threat of energy shortages. *Fourth* is the lack of synchronization between advanced economies and emerging markets and developing economies in exit policies involving the planning of monetary and fiscal policies for a return to the new normal, in addition to the impact of the ensuing uncertainties on global financial markets. *Fifth* is the scarring effect of the pandemic on corporations and the risks that may arise for the sustainability of economic recovery and safeguarding of financial system stability. *Sixth* is the rapid pace of digitalization of the economy and finance-dominated by a few world technology giants (BigTech), leading to the steady expansion in cross-border payment systems. *Seventh* is the increasingly vocal demands for a green economy and sustainable finance from advanced economies, requiring emerging markets and developing economies to prepare themselves well for this transition. Efforts have been made to coordinate international policies, including the agenda of Indonesia's G20 Presidency in 2022, to strengthen the ongoing global economic recovery further.

The Covid-19 pandemic that continued throughout 2021 did not set us back; on the contrary, it became a strong motivation to rebound with optimism. We give thanks for the steady improvement in the Indonesian economy since the third quarter of 2020 that led to robust and positive growth in the second quarter of 2021. However, this economic recovery was interrupted by the spread of the Covid-19 Delta variant in the third quarter. Mobility restriction policies introduced to curb the rising Covid-19 cases impacted the economy, especially domestic demand. However, the economy is predicted to record a better performance in the fourth quarter of 2021 in response to increased mobility with the surge in Covid-19 cases brought under control and the ongoing vaccination drive; the more extensive opening of economic sectors; continued policy stimulus actions; and the buoyant performance in exports. In light of these recent positive developments, we are optimistic for continuous economic improvement in 2022.

Bank Indonesia has deployed all instruments in the policy mix to support national economic recovery, working in coordination with the Government and the Financial System Stability Committee. Cognizant that the Indonesian economy was performing below the optimum path of the business and financial cycle in 2021, Bank Indonesia maintained an accommodative policy mix by utilizing the existing space for policy relaxation. Bank Indonesia continued the monetary stimulus, employing a low-interest rate policy and liquidity injections to promote economic recovery. Further measures were taken to bolster the monetary operations strategy to reinforce the accommodative monetary policy stance. The rupiah exchange rate policy was strengthened further to maintain exchange rate stability in line with fundamentals and the market mechanism. Additional measures were taken to relax macroprudential policies to encourage increased provision of bank financing for business in synergy with the Financial System Stability Committee policies. Digitalization of the payment system advanced more rapidly in line with the Indonesia Payment System Blueprint 2025 to support the efficient and inclusive integration of the national digital economy and finance. The close synergy with the Government, the banking system and other institutions was strengthened further to develop micro, small and medium enterprises and the sharia economy and finance, envisaged as new sources of growth for the Indonesian economy. Financial market deepening was also given added impetus to strengthen monetary policy transmission and support financial system stability as well as development financing, including funding for infrastructure. International policy focused not only on strengthening Bank Indonesia policy diplomacy, but also on supporting the Government in facilitation and promotion of trade and investment in various foreign countries. Furthermore, the Bank Indonesia policy mix formed part of the synergy and innovation in national economic policy that was key to driving the process of economic recovery and safeguarding stability. The accelerated vaccination campaign, firmer action to tackle Covid-19 and the re-opening of priority economic sectors became a game-changer in controlling the spread of the Delta variant and sustaining the momentum for economic recovery. Added reinforcement of fiscal and monetary policy coordination came from Bank Indonesia's participation in the funding of the State Budget, including the tackling of health and humanitarian concerns arising from the Covid-19 pandemic. In this regard, it became incumbent upon Bank Indonesia to participate in joint actions to tackle health and human safety issues ensuing from the Covid-19 pandemic, as a duty to the nation and humanity, as well as for the health and safety of the population.

The close policy synergy and economic achievements in 2021 underpin the resolve to rise forth with optimism for more rapid economic recovery in Indonesia during 2022. The ongoing drive for economic recovery will continue to be based on a framework of policy synergy and innovation with the primary requisites of more rapid vaccinations and the opening of priority economic sectors. These prerequisites need to be supported by the following five policy responses: (i) accelerated transformation of the real sector; (ii) synergy of the monetary stimulus and macroprudential policies with fiscal policies; (iii) accelerated transformation of the financial sector; (iv) digitalization of the economy and finance; and (v) the green economy and finance. The synergy between Bank Indonesia and the Central and Regional Governments, the Financial System Stability Committee, the banking system, and business will be strengthened further for sustainable improvement in the national economy's performance. The policy mix innovations will be consistently aligned to global and domestic developments and fiscal policy supporting ongoing structural reforms. The more robust synergy and innovation will bolster momentum for rising forth with optimism for the economic recovery ahead.

In 2022, the Bank Indonesia policy mix will operate in synergy and form part of the national economic policy direction for accelerated recovery and continued safeguarding of economic stability. The policy mix has been put together based on developments in the global economic outlook and response to the six issues on the agenda for international policy coordination during Indonesia's G20 Presidency in 2022. Monetary policy in 2022 will be more pro-stability, in keeping with the risk of mounting pressures from global financial market instability triggered by the normalization of monetary policy by the US Fed and other advanced nations. This pro-stability policy will have a greater focus on achieving the inflation target and exchange rate stability as well as macroeconomic and financial system stability. Alongside this, macroprudential policies, payment system digitalization, money market deepening, and the inclusive and green economy and finance will continue to be pro-growth in order to expedite national economic recovery. Working in synergy with the national economic policy mix, Bank Indonesia policy will be directed at promoting Indonesia's economic growth to return the nation to the path for medium-term transformation into an Advanced Indonesia.

This Economic Report on Indonesia 2021 with the theme of "Rising Forth with Optimism: Synergy and Innovation for Economic Recovery" presents a detailed overview of the economy, and the various forms of policy synergy and innovation pursued to support this economic recovery. With three enhancements in the Economic Report in Indonesia 2021, we are upholding the tradition begun in 2020 for reinforcing the transparency and accountability of Bank Indonesia as mandated by the Bank Indonesia Act. ***First** is* greater integration of the substance of the Bank Indonesia Annual Meeting on 24 November 2021 into the Economic Report on Indonesia 2021. We have elaborated the various evaluations, and economic outlook, the policy direction and the messages of synergy and innovation in the Bank Indonesia Annual Report 2021 and have underscored the relevance of this information to recent economic conditions in the Economic Report on Indonesia 2021. ***Second*** is greater integration in the publication of reports to uphold the provision of transparency and accountability by Bank Indonesia. After the simultaneous publication of the Economic Report on Indonesia and the Bank Indonesia Annual Report in January 2021, Bank Indonesia followed suit with the Sharia Economy and Finance Report in January 2022. ***Third***, the scope of the Economic Report on Indonesia 2021 is enriched with the discussion of strategic issues. The main content of the Economic Report on Indonesia 2021 is presented in the first five chapters. Chapter I is Global Economic Performance and Outlook: Uneven Recovery, Lingering Uncertainties on Financial Markets. Chapter II is National Economic Performance and Outlook: Continuing Process of Recovery, Prudently Managed Stability. Chapter III is Bank Indonesia Policies in 2021: Promoting National Economic Recovery, Safeguarding Stability. Chapter IV is Revival and Optimism: Synergy and Innovation for Economic Recovery, and Chapter V presents the Bank Indonesia Policy Mix Direction in 2022: Promoting Accelerated Economic Recovery, Safeguarding Stability. Furthermore, we have enriched the publication of the Economic Report on Indonesia 2021 with thematic discussions in Chapter VI about the Transformation of the Policy Mix and Acceleration of the Digital Economy and Finance.

Complementing the information elaborated in the Economic Report on Indonesia 2021, information on developments and policy direction in sharia economic and finance in synergy with the Government, relevant agencies and national and international stakeholders is presented in the Sharia Economy and Finance Report 2021. Apart from the responses implemented under the policy mix, Bank Indonesia undertook further transformation in key policy areas and the institutional framework to build Bank Indonesia as a leading central bank. Policy transformation was undertaken by strengthening the Bank Indonesia policy mix both in implementing statutory mandates and within the context of national policy synergy. The institutional transformation involved working areas and processes; human resources and the work culture; and digital transformation. It was carried out by implementing a mix of institutional policies aimed at achieving performance excellence on the basis of effectiveness, efficiency and good governance. We have presented a complete account of the performance of policy and institutional tasks and the various transformational processes pursued by Bank Indonesia in the Bank Indonesia Annual Report 2021. The Economic Report on Indonesia, the Sharia Economy and Finance Report and the Bank Indonesia Annual Report 2021 have been published simultaneously in fulfillment of Bank Indonesia's transparency and accountability.

In closing, our hope is that this book, the Economic Report on Indonesia 2021, will prove useful for the public and serve as a leading, trusted, quality reference work in planning our steps as we rise forth with optimism, working in synergy and innovation in support of economic recovery. On the cover of the Economic Report on Indonesia 2021, we have visualized this rising forth with optimism in water, which comprises a source of life providing refreshment and resolve to rise forth with optimism for the struggle ahead. In detail, the light radiating from the digital ripples symbolizes rising forth with optimism. It is accompanied by digital rings that resemble waves of water in a vessel of light and the germinating shoot that portrays innovation. Local wisdom and synergy are depicted by the Batik Kawung motif, in which all points within it combine to create a cosmic force. In coming together as one, the strength derived will be greater, shaping an inclusive whole that will take Indonesia forward on the path of economic growth into a new and better era of civilization.

May God the Almighty bestow upon us the abundance of His grace and protection in every step of our endeavors.

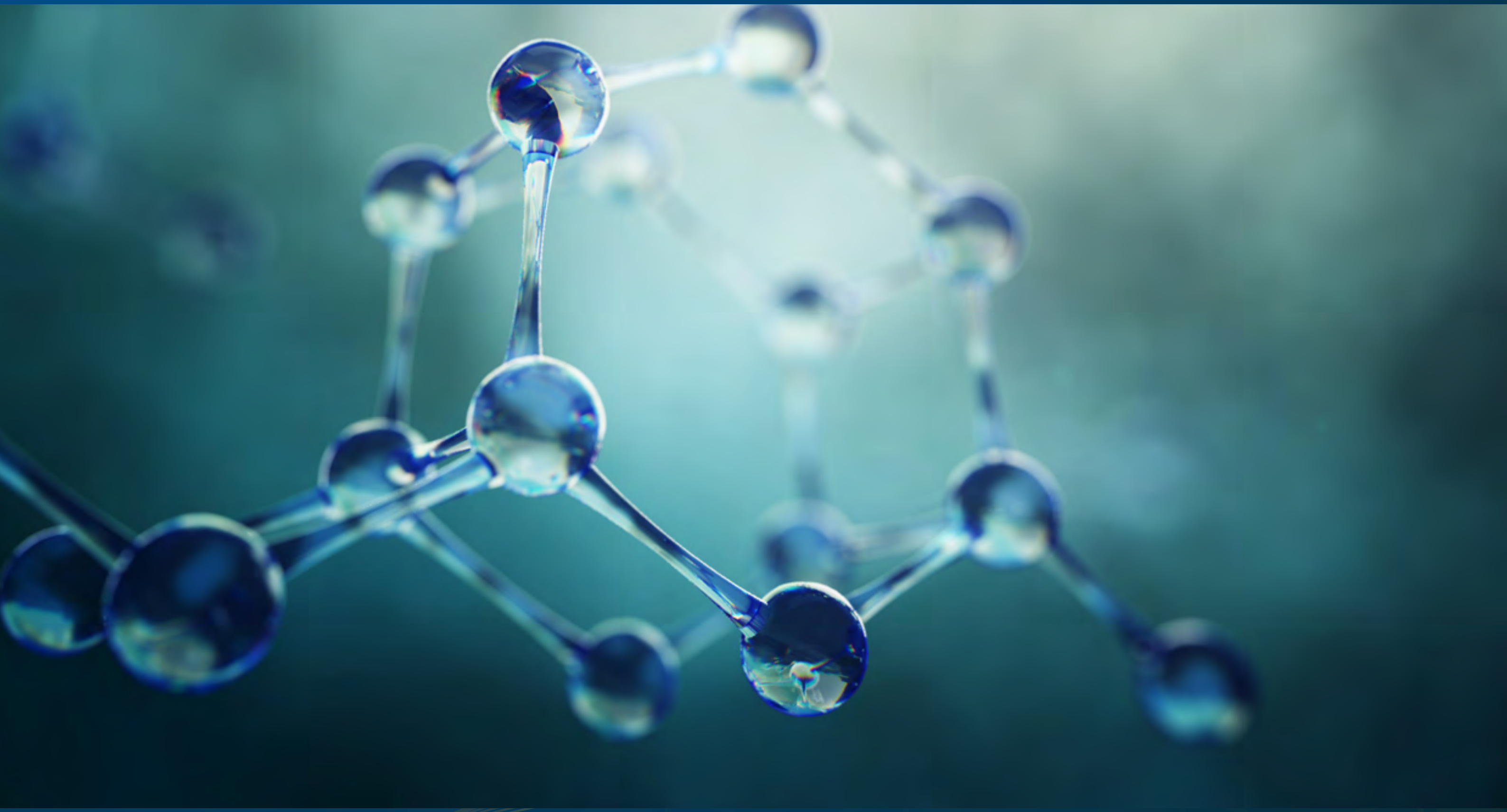
Jakarta, 26 January 2022

The Governor of Bank Indonesia

Perry Warjiyo

GENERAL REVIEW

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

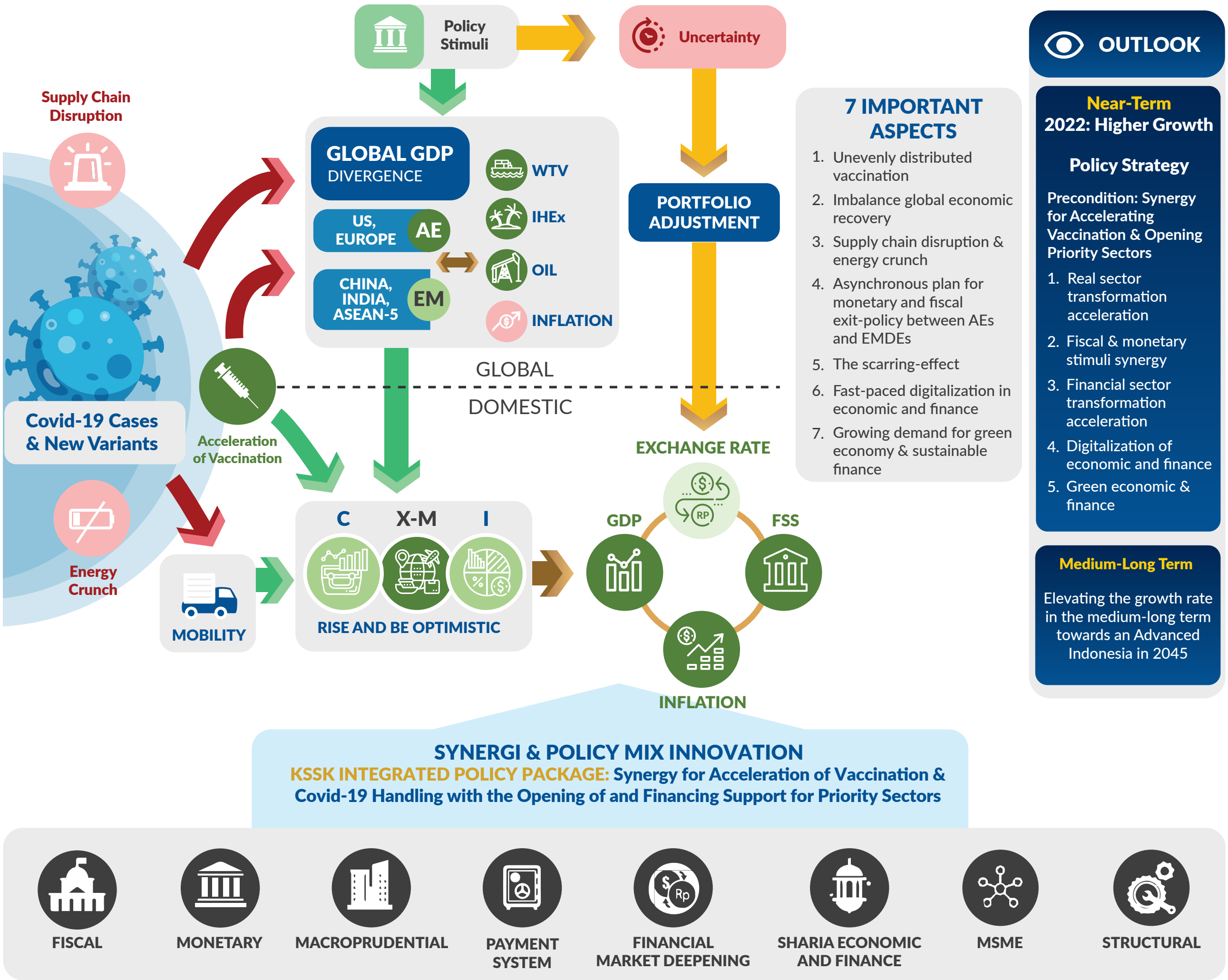


In 2021, the global economy recorded further improvements despite an uneven performance across countries and lingering uncertainty on financial markets. Indonesia's economic recovery also progressed with prudently managed stability, despite the interruption in the third quarter of 2021 caused by the rapid spread of the Delta variant. Close policy synergy and the economy's performance in 2021 set the stage for greater optimism regarding a  more robust recovery in the Indonesian economy in 2022. Driving this result was one policy prerequisite, namely accelerating the rate of vaccinations and tackling Covid-19, which formed the basis for re-opening priority sectors of the economy. Five other policy responses addressed certain necessary conditions, as discussed below. In a continuation of these policies, the Bank Indonesia policy mix in 2022 will form a key part of the national economic policy for an accelerated recovery and the maintenance of economic stability. This will be expedited by structural reforms involving both the real sector and more rapid development of the national digital economy and finance, alongside the transformation of Bank Indonesia policy mix, to reinforce ongoing efforts for building an Advanced Indonesia (Indonesia Maju).

**In 2021, the global economy recorded further improvements despite uneven progress across countries and lingering financial market uncertainty.** World economic growth is forecast to pick up in 2021 with a strong economic recovery in advanced economies (AEs), particularly the United States, supported by accelerated vaccination campaigns and massive policy stimuli. Economic growth in Emerging Market and Developing Economies (EMDEs) in 2021, with the exception of China, generally showed improvement as well, although lagging behind the recovery in AEs.  Uncertainty lingered on global financial markets as risks continued to emerge, including those relating to the increased spread of the Delta variant of Covid-19; market anticipation of tapering by the Fed; and fears over inflationary pressures that have remained stubbornly high due to supply chain disruptions and the energy shortages. Experience with the pandemic has given rise to seven key issues that need to be monitored and anticipated carefully so that the process of global economic recovery from the Covid-19 pandemic can remain on track in the context of prudently managed macroeconomic and financial system stability (Diagram 1).

**National economic recovery continued to move forward while maintaining stability**. In 2021, domestic economic recovery was still affected by the continuing Covid-19 pandemic. The outbreak of the Delta variant of Covid 19 in the third quarter of 2021 caused Indonesia's economic recovery to plateau. Nevertheless, economic performance is expected to improve in the fourth quarter of 2021 in response to greater public mobility, reflecting increased vaccinations and reduced transmission of Covid-19; a wider re-opening of economic sectors; continued policy stimuli; and buoyant exports.

### Diagram 1. Rise and be Optimistic: Synergy and Innovation for Economic Recovery




Source: Bank Indonesia

After factoring in all these developments, economic growth during 2021 is estimated in the range of 3.2-4.0%. Meanwhile, external stability was reflected in an increased surplus in the Indonesia balance of payments in 2021, bolstered by surpluses in the current account and in the capital and financial account. Mirroring this strength in the balance of payments, the rupiah exchange rate remained under control with support from Bank Indonesia stabilization policy. Inflation remained low due partly to Bank Indonesia's success in managing inflationary expectations and despite renewed growth in domestic demand. The financial system remained firmly stable, accompanied by improved intermediation function. Looking ahead, the Indonesian economy is predicted to chart higher growth in 2022 in line with strengthening domestic demand; the comfortable level of external stability; inflation that remains under control; and financial system stability.

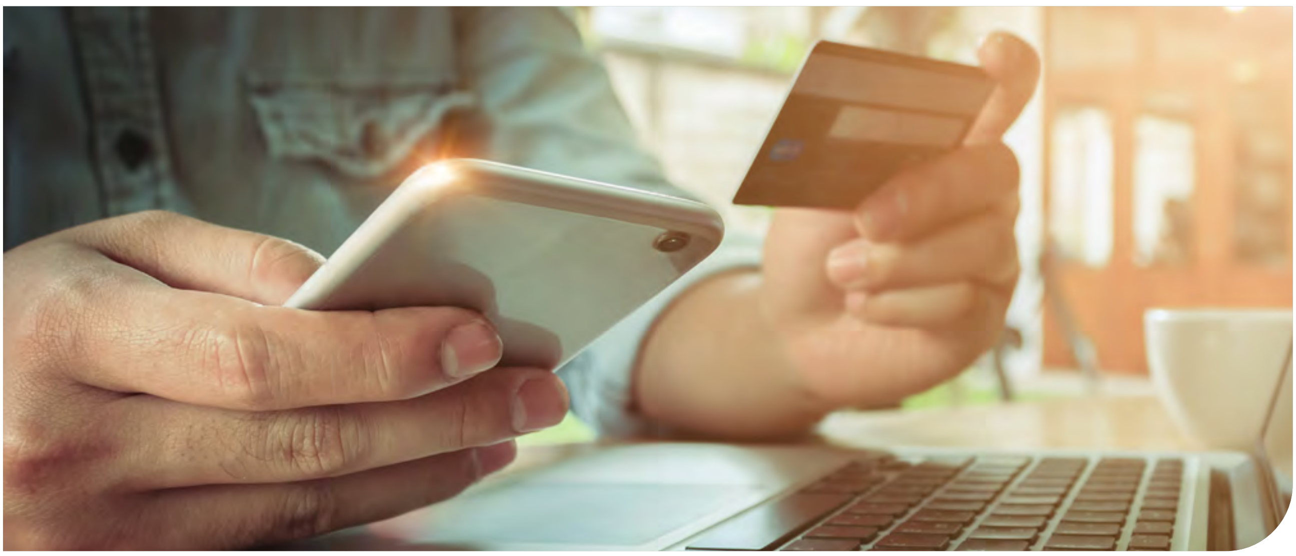
**Synergy and innovation in national economic policy have been key to promoting economic recovery and maintaining stability**. Accelerated vaccinations and reinforcing actions to tackle Covid-19, like restrictions on various social activities, became a game-changer in controlling the Delta variant's spread and sustaining momentum for economic recovery by re-opening priority sectors. Other key factors included: robust policy synergy between Bank Indonesia, the Government and the Financial System Stability Committee (KSSK); innovation in the coordination of national economic policies, including fiscal-monetary coordination; and acceleration of digitalization and economic-financial inclusion. The Government maintained an expansionary fiscal policy with substantial fiscal stimulus actions to tackle the impact of Covid-19. For its part, Bank Indonesia focused its policy instruments on supporting economic recovery and safeguarding stability. For example, Bank Indonesia continued with monetary stimulus, employing a low-interest rate policy and liquidity injections to promote economic recovery. Further strengthening of fiscal and monetary policy coordination was achieved through Bank Indonesia's participation in the funding of the State Budget, including the tackling of health and humanitarian impacts resulting from the Covid-19 pandemic. Furthermore, accommodative macroprudential policies were kept to promote lending to business and recovery in the national economy while payment system digitalization accelerated. Bank Indonesia also strengthened cooperation with the Government and KSSK to safeguard financial system stability and encourage lending to business in priority sectors in order to promote economic growth, exports and economic and financial inclusion.

**Close policy synergy and performance of the economy in 2021 set the stage for rising optimism regarding a more robust recovery in 2022.** Further measures are needed to accelerate the pace of national economic recovery, underpinned by success in one necessary condition, that is, accelerated vaccinations and tackling of Covid-19, which has allowed the re- opening of priority economic sectors. Added to this are five policy responses that represent sufficient conditions for accelerating the pace of national economic recovery, as follows: (i) accelerated transformation of the real sector; (ii) synergy of the monetary stimulus and macroprudential policies with fiscal policies; (iii) accelerated transformation of the financial sector; (iv) digitalization of the economy and finance; and (v) the green economy and finance. Success in these policies will kindle optimism for more rapid economic recovery in 2022 and the following years in gearing up for Advanced Indonesia 2045 (Indonesia Maju).

**In 2022, the Bank Indonesia policy mix will cooperate within the national economic policy direction for accelerated recovery and continued safeguarding of economic stability.** Great caution has been exercised in planning the policy mix for 2022, which is carefully calibrated to provide continuing support for national economic recovery while maintaining financial stability. In 2022, monetary policy will be more pro-stability, in keeping with the risk of mounting pressures from global financial markets represented by the normalization of monetary policy by the US Fed and some other AEs. The focus of this pro-stability policy in 2022 will shift more towards achieving the inflation target and exchange rate stability, as well as in macroeconomic and financial system stability. Macroprudential policies, payment system digitalization, money market deepening and the inclusive and green economy and finance will continue to be pro-growth in order to expedite the economic recovery. As one part of the national economic policy mix, Bank Indonesia policy will be directed at promoting Indonesia's economic growth in order to return the nation to the path for medium-term transformation into an Advanced Indonesia.

**In the medium term, the Indonesian economy will continue moving towards an Advanced Indonesia.** This outlook is supported by a continuing recovery in the global economy and by gains in the domestic economy driven by increased investment and productivity that reflect structural reforms in the real sector and acceleration of the digital economy and finance. Transformation of the Bank Indonesia policy mix will also reinforce the drive to bring about an Advanced Indonesia amid the increasing complexity of global economic dynamics. Based on these considerations, Bank Indonesia predicts steady, medium-term improvement to bring Indonesia's economic growth within the range of 5.0-5.8% by 2026. Inflation is expected to remain under control in the 1.5-3.5% range with support from improved efficiency and productivity in the real economy. The current account deficit is also projected to remain at a prudent level in the range of 1.2-2.0% of GDP, thus bolstering Indonesia's external sector resilience. Overall, with the outlook on this track, Indonesia is predicted to have the capacity to become a high-income advanced country by 2045.

**The more rapid economic transformation of Indonesia into an advanced nation will be supported by strengthening structural reforms in tandem with Bank Indonesia policy transformation and accelerated digitalization of the payment system.** A series of structural reforms is vital for improving efficiency, productivity, and potential output to achieve higher and more sustainable economic growth in tandem with financial stability. Transformation and innovation in the principal policies of Bank Indonesia (that is, monetary policy, macroprudential policies and payment system policies) and its supporting policies, are vital for responding to the increasingly complex dynamics of the global economy for realizing an Advanced Indonesia. This transformation includes closer international policy coordination, including Indonesia's G20 Presidency in 2022 with a "Recover Together, Recover Stronger" theme. At the same time, accelerated digitalization of the payment system is also key to supporting the growth of a vibrant and inclusive economy. In this regard, and as Indonesia enters the new digital era, Bank Indonesia is moving quickly and comprehensively for more rapid implementation of an inclusive and efficient digital economy and finance.



# Global Economic Performance and Outlook: Divergent Recovery, Persistent Financial Market Uncertainty

**The spread of Covid-19 underwent a resurgence driven by the outbreak of the Delta variant.** Daily Covid-19 cases subsided in early 2021 amid the emergence of the Alpha variant at the end of 2020. In AEs, an accelerated pace of vaccinations positively impacted the reduced transmission of Covid-19, notably in the United States and Europe. However, the fall in Covid-19 cases at the beginning of the year was only temporary, due to the outbreak of the Delta variant in India during April 2021 and its subsequent rapid spread to Asia and other parts of the world, which threatened the health and human well-being. The Delta variant is extremely transmissible with a more severe impact on human health and mortality than the Alpha and other variants. The spread in Asia reached a peak in early May before dropping back slightly in June but surged again in August 2021. In Asian EMDEs with low vaccination coverage, the Delta variant spread rapidly throughout the population. Among the countries affected were Indonesia, Malaysia, Thailand, Vietnam and the Philippines, as well as many others. In the United States and Europe, the spread of the Delta variant peaked in August 2021 but remained stubbornly high until the end of the year.

**Improvement in the global economy suffered an interruption due to the spread of the Delta variant of Covid-19.** Mobility restrictions that were necessary to prevent further spreading of the Delta variant inevitably resulted in slower economic activity. Reflecting this was a gradual decline in various indicators during the second quarter of the Delta outbreak, for instance: the consumer confidence index; retail sales; the business confidence index; and the Purchasing Managers' Index (PMI). The magnitude of the impact varied considerably by individual country, depending on vaccination coverage and consumer perceptions of the next wave of Covid-19. Over time, with the decline in Delta cases and social mobility resumption, economic activity gradually improved in the third quarter of 2021.

**Throughout 2021, the global economy stayed on an improving trend despite disparities across countries and lingering uncertainty on financial markets.** Economic recovery progressed more rapidly in AEs, led by the United States with support from accelerated vaccination campaigns and massive fiscal and monetary stimuli. By contrast, most EMDEs, with the exception of China, still faced an uphill struggle in pursuing economic recovery. In addition to a limited supply of vaccines and delivery capacity, limits to delivering fiscal and monetary stimuli also hampered economic recovery in most EMDEs.  Overall, the world economy is estimated to have grown by about 5.7% in 2021 with 4.4% growth projected for 2022, following a contraction of 3.1% in 2020. Meanwhile, uncertainty lingered on global financial markets in keeping with the persistent emergence of risks, including those relating to the increased spread of the Delta variant of Covid-19; market anticipation of tapering by the Fed; and fears over inflationary pressures that have remained stubbornly high due to supply chain disruptions and the energy shortage. Moreover, careful watch needs to be kept on the escalating spread of the Omicron variant, which has further heightened uncertainty.

**The pandemic has highlighted seven important issues that call for careful monitoring and sound preventive actions.** The global economic recovery from the Covid-19 pandemic is underway thanks to prudently managed macroeconomic policies and financial system stability. Nonetheless, the pandemic has highlighted at least seven important issues that call for careful monitoring and preventive actions. *First* is the lack of equitable vaccinations across countries for achieving herd immunity. *Second* is the uneven global economic recovery, which progressed rapidly in AEs but remained sluggish in EMDEs. *Third* is the disruption to global supply chains for goods and services and the emerging threat of energy shortages. *Fourth* is the lack of synchronization between AEs and EMs in exit policies for defining a return to a new normal for monetary and fiscal policies, which has heightened uncertainty in global financial markets. *Fifth* is the scarring effect of the pandemic on business conditions and the risks that may arise for the sustainability of economic recovery and financial system stability. *Sixth* is the rapid pace of

digitalization of the economy and finance-dominated by a few world technology giants (BigTech) that lead to a proliferation of cross-border payment systems. *Seventh* is the increasingly vocal demands for a green economy and sustainable finance from advanced economies, which require emerging markets and developing economies to prepare themselves well for this transition.

**Some international policy coordination measures are being taken to strengthen global economic recovery**. An important agenda has emerged in the G20, IMF, FSB, BIS and other forums, mainly in relation to expansion in supply and distribution of vaccines from AEs to EMDEs; phasing and clarity of communications regarding exit policy; joint actions to address disruptions in global supply chains; the energy shortage; the scarring effect of the pandemic; and international cooperation in accelerating digitalization and the green economy and finance. Accordingly, the agenda of Indonesia's G20 Presidency in 2022 will continue to advocate for a more robust and equitable global economic recovery with a focus on measures to encourage productivity, improve economic resilience and stability and ensure sustainable and inclusive growth.

## National Economic Performance and Outlook: The Recovery Process Continues, Stability is Maintained

**The domestic economy saw further improvement in the first half of the year with maintenance of stability alongside reductions in the spread of Covid-19.** The domestic economy continued to improve in the second quarter of 2021 with strong, positive growth at 7.07% yoy, representing a sharp increase after the 0.71% yoy contraction in the preceding quarter (Table 1). Key to this turn of events was the buoyant performance in exports alongside continuing improvement in household consumption, investment and government consumption. Economic growth was further characterized by a positive performance in all business segments and higher economic growth in all regions of Indonesia. Meanwhile, external stability was maintained with the aid of a USD3.6 billion surplus in the Indonesia balance of payments in the first half of 2021. This positive performance was supported by a low current account deficit at 0.38% and 0.68% of GDP in the first and second quarters, alongside surpluses of USD5.7 billion and USD1.6 billion in the capital and financial account for the same periods. The rupiah exchange rate was relatively stable during the first half of 2021 in response to stabilization measures maintained by Bank Indonesia and continued foreign capital inflows into the domestic financial markets. Internal stability also remained strong, reflected in low inflation at 1.33% yoy in June 2021. In the financial system, stability held firm despite a continuing need for improvement in the bank intermediation function.

**The spread of the Delta variant restrained the economy, preventing much improvement during the third quarter of 2021.** Around mid-year, Indonesia experienced a sharp increase in the spread of the Delta variant of Covid-19, with average cases soaring to 50,000 per day in the third week of July 2021 and the bed occupancy rate reaching 63.61% during that month. In Java and Bali, the Government tightened mobility restrictions to contain the spread of the Delta variant. The inevitable impact of these measures was reduced mobility and a slowdown in economic activity as reflected in various indicators, such as consumer confidence, retail sales and the purchasing managers' index. Economic growth slowed to 3.51% yoy in the third quarter of 2021 from 7.07% yoy one quarter earlier. Growth in private consumption and investment fell from 5.96% yoy and 7.54% yoy to 1.03% yoy and 3.74% yoy, respectively.

### Table 1. Domestic Economic Indicators

| Components | 2019 | 2020 | 2021 | | | |
|---|---|---|---|---|---|---|
| | | | I | II | III | IV |
| **Economic Growth (Percent, yoy)** | 5.02 | -2.07 | -0.71 | 7.07 | 3.51 | |
| Household consumption (Percent, yoy) | 5.04 | -2.63 | -2.21 | 5.96 | 1.03 | |
| Government consumption (Percent, yoy) | 3.26 | 1.94 | 2.58 | 8.03 | 0.66 | |
| GFCF (Percent, yoy) | 4.45 | -4.95 | -0.23 | 7.54 | 3.74 | |
| GFCF construction (Percent, yoy) | 5.37 | -3.78 | -0.74 | 4.36 | 3.36 | |
| GFCF non-construction (Percent, yoy) | 1.83 | -8.38 | 1.39 | 18.58 | 4.89 | |
| Export of goods and services (Percent, yoy) | -0.86 | -7.70 | 7.09 | 31.98 | 29.16 | |
| Import of goods and services (Percent, yoy) | -7.39 | -14.71 | 5.38 | 31.72 | 30.11 | |
| **CPI Inflation (Percent, yoy)** | 2.58 | 1.68 | 1.37 | 1.33 | 1.60 | 1.87 |
| Core Inflation (Percent, yoy) | 3.00 | 1.60 | 1.21 | 1.49 | 1.30 | 1.56 |
| Volatile Food Inflation (Percent, yoy) | 2.99 | 3.62 | 2.49 | 1.60 | 3.51 | 3.20 |
| Administered Prices Inflation (Percent, yoy) | 0.72 | 0.25 | 0.88 | 0.49 | 0.99 | 1.79 |
| **Balance of Payment** | | | | | | |
| Current Account Deficit (Percent, GDP) | -2.71 | -0.42 | -0.38 | -0.68 | 1.49 | |
| Capital and Financial Account (USD billion) | 36.60 | 7.89 | 5.70 | 1.64 | 6.10 | |
| Overall Balance (USD billion) | 4.68 | 2.60 | 4.06 | -0.45 | 10.69 | |
| Official Reserve Assets (USD billion) | 129.2 | 135.9 | 137.1 | 137.1 | 146.9 | 144.9 |
| **Exchange rate (Average; USD/IDR)** | 14,139 | 14,525 | 14,157 | 14,399 | 14,373 | 14,259 |
| **JCI (Index)** | 6298.9 | 5240.9 | 6226.3 | 5981.8 | 6092.8 | 6580.6 |
| **10-year government bond yields (Percent)** | 7.53 | 6.98 | 6.41 | 6.48 | 6.24 | 6.18 |
| **Banking** | | | | | | |
| Total Credit (Percent, yoy) | 6.08 | -2.41 | -3.75 | 0.59 | 2.21 | 5.24 |
| CAR (end of period, Percent)* | 23.31 | 23.81 | 24.05 | 24.30 | 25.18 | 25.59* |
| NPL (end of period, Percent) | 2.53 | 3.06 | 3.17 | 3.24 | 3.22 | 3.00 |
| **State Budget** | | | | | | |
| Tax (Percent GDP) | 9.76 | 8.33 | 1.73** | 2.32** | 2.10** | 3.06** |
| Primary balance (Percent GDP) | -0.46 | -4.11 | -0.39** | -0.3** | -0.49** | -1.44** |
| State budget deficit (Percent GDP) | -2.20 | -6.14 | -0.86** | -0.83** | -1.00** | -1.98** |

Source: BPS, Bank Indonesia, Ministry of Finance and BEI
Notes: *as of November 2021; **Preliminary Figures

Export growth remained strong at 29.16% in the third quarter of 2021 in keeping with sustained vibrant demand from major trading partners but was insufficient to compensate for reduced growth in domestic demand. In the analysis by business segment, the key segments such as manufacturing, trade, and mining and quarrying maintained positive growth. However, other segments, particularly the provision of accommodation and meals and transportation and warehousing services, experienced contraction due to mobility restrictions.

**External stability remained firm amid mounting uncertainties on global financial markets. Indonesia'**s external resilience remained strong, supported by improvement in the balance of payments with a USD10.7 billion surplus in the third quarter of 2021, following a deficit of USD0.4 billion in the preceding quarter. This balance of payments performance was mainly accounted for by a current account surplus that reached USD4.5 billion (1.49% of GDP), reversing the USD2.0 billion deficit (0.68% of GDP) one quarter earlier. Key to this surplus in the third quarter was strong exports in line with rising global demand and world commodity prices. Adding further support, the surplus on capital and financial account widened from USD1.6 billion in the second quarter of 2021 to USD6.1 billion in the third quarter on the strength of sustained capital inflows into the domestic financial market. At the end of September 2021, Indonesia's international reserves stood at USD146.9 billion, equivalent to 8.6 months of imports and servicing of official external debt. Reflecting this strength in the balance of payments,  the rupiah exchange rate appreciated by 1.31% point-to-point during the third quarter of 2021 and by 0.18% on average.

**Inflation remained low, supporting economic stability.** Inflation in the consumer price index (CPI) reached 1.60% (yoy) in the third quarter of 2021, up from 1.33% in the second quarter. Core inflation remained low in line with soft and somewhat restrained domestic demand in the third quarter of 2021, owing to the Government's mobility restrictions to curb the rise in Delta variant cases. Other factors contributing to low core inflation included the stable exchange rate and consistency in Bank Indonesia policies for managing inflation expectations in line with the target range. Rising inflation in volatile foods was caused by increasing prices for horticultural commodities and cooking oil in line with increased global CPO prices while other goods generally remained in adequate supply. Inflation mounted in the administered prices category due to increases in tobacco excise taxes. Bank Indonesia is committed to maintaining price stability and strengthening coordination with the central and regional governments through the National and Regional Inflation Control Teams (TPIP and TPIDs) by keeping CPI inflation within the targeting range.

**Financial system stability remained intact, accompanied by improvement in the intermediation function**. Stability was indicated by the subdued level of the Financial System Stability Index (ISSK) in the normal zone and improvement in the Financial System Vulnerability Index. Financial system resilience remained strong, as reflected in the increased bank capital adequacy ratio (CAR) level at 25.18%. Non-performing loans (NPLs) remained at prudent levels of 3.22% (gross) and 1.04% (net), with ample liquidity in the banking system, reflected in the highly liquid instruments to third-party funds ratio of 33.53% in September 2021. As a result, it was possible to absorb shocks that could disrupt financial stability while promoting expansion in bank intermediation. Despite plateauing in July 2021 in response to policies restricting mobility, credit growth mounted a recovery, reaching 2.21% yoy in September 2021. This recovery was driven by rising demand for credit, particularly from business and consumption, and increased credit supply due to perceptions of reduced risk, ample liquidity, and a continued decline in interest rates on new loans. Credit expanded in all categories of credit use, but notably in consumption credit and working capital credit. Higher credit expansion was recorded in home mortgages at 8.67% in September 2021.

**Payment activity declined with a slower economy during the third quarter of 2021.** Non-cash payment transactions made with ATM-debit cards and credit cards recorded diminished growth with the Government's implementation of mobility restriction policies to contain the Delta variant of Covid-19. Transactions with ATM-debit cards slowed from 29.2% yoy in the second quarter of 2021 to 8.2% in the third quarter. Similarly, the growth of credit card transactions fell from 23.7% (yoy) growth in the second quarter of 2021 to 6.4% in the third quarter.

Meanwhile, transactions with electronic money (EM) and digital banking recorded significant increases of 52.5% (yoy) and 60.7% in the third quarter of 2021. Digital transactions grew rapidly in line with growing public acceptance and preference for online shopping; the expansion and convenience of digital payment systems; and accelerated development of digital banking. During the first half of 2021, e-commerce transactions recorded strong growth despite deceleration in the third quarter, to 51.98% (yoy) from 75.36% one quarter earlier.

**Further improvement in the domestic economy is projected for the fourth quarter of 2021**. Stronger economic performance is expected with support from increased mobility in line with the faster rate of vaccinations; the broader re-opening of economic sectors; continued policy stimulus actions; and buoyant export performance. Household consumption is projected to recover robustly in the fourth quarter of 2021 in line with growing social activity and rising consumer confidence. Investment is also expanding, led by sustained construction activity on the part of the Government and the private sector. Meanwhile, exports of commodities such as coal, CPO and iron and steel remain strong against a background of expanding global demand. With the recovery in domestic demand and the continued strength of exports, higher growth is also projected for imports. In the analysis by business segment, there is increased business activity in the fields related to consumption and investment, including manufacturing, transportation and warehousing, provision of accommodation and meals and construction. Disaggregated by region, economic recovery in the Java, Sumatra, Kalimantan and Sulampua regions is supported by improvement in domestic and external demand. A further improvement in the fourth quarter of 2021 is foreshadowed by December 2021 indicators, such as retail sales, consumer expectations and the PMI.

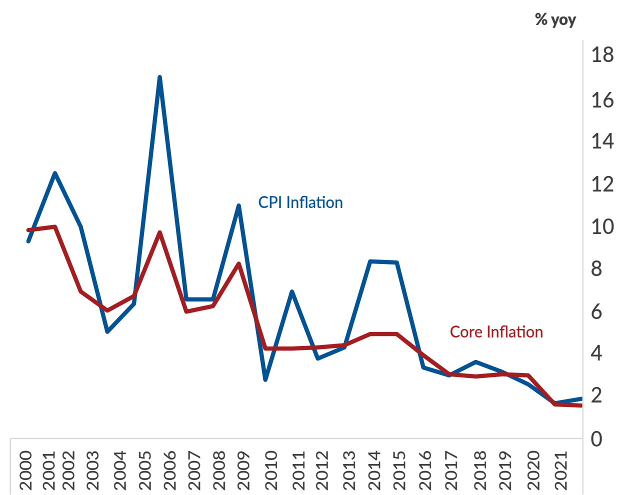
**Macroeconomic stability held firm amid continuing uncertainties on global financial markets.** External stability remained sound in the fourth quarter with projected strength in the Indonesia balance of payments, bolstered by a current account surplus. For 2021 as a whole, the Indonesia balance of payments is predicted to record a larger surplus compared to the previous year, bolstered by a current account surplus estimated at about 0.2% of GDP and a wider surplus in the capital and financial account. International reserves increased to USD144.9 billion at the end of 2021, equivalent to 7.8 months of imports and servicing of official debt. Buoyed by the balance of payments, the rupiah appreciated by an average of 0.80% in the fourth quarter of 2021, or 0.42% point-to-point compared to the level recorded at the end of the third quarter. The strengthening of the rupiah was driven by sustained foreign capital inflows in line with positive perceptions of the outlook for the domestic economy; attractive yields on domestic financial assets; a prudently managed domestic supply of forex; and the stabilization measures taken by Bank Indonesia. For 2021 as a whole, the rupiah experienced a depreciation of 1.42% to close the year at IDR14,253 to the US dollar. This was a better performance than the currencies of other developing nations, like Malaysia, the Philippines and Thailand.

**Inflation remained low in 2021, supporting economic stability.** In 2021, the consumer price index (CPI) was recorded at 1.87% yoy. While this represented a slight increase over the 2020 inflation of 1.68% yoy, it remained well below the 3.0%±1% targeting range. This is attributable to the low level recorded in core inflation at 1.56% yoy, down slightly from the previous year. This low core inflation is explained mainly by sluggish domestic demand impacted by the Covid-19 pandemic, the stable exchange rate, prudently managed expectations of inflation and minimal pressure from global prices on the domestic economy. Volatile foods inflation was well under control at 3.20% yoy. Contributing to this was the prudently managed supply and unimpeded distribution of foodstuffs and the policy synergy between Bank Indonesia and the Government in maintaining price stability. Inflation in the administered prices category was up from the previous year at 1.79% yoy, partly due to higher air fares at a time of greater mobility enjoyed by the public and increases in the tobacco excise tax.

**Financial system stability remained firm with renewed expansion in intermediation**. The Financial System Stability Index (ISSK) remained low in the normal-stable zone throughout 2021. There was a high level of bank capital resilience, as reflected in a CAR of 25.59% in November 2021. Likewise, non-performing loans (NPLs) remained well within prudent limits at 3.19% gross and 0.98% net in November 2021, consistent with the steady improvement in the economy and supported by a decision by Indonesia's Financial Services Authority (OJK) to extend the implementation of debt restructuring policies. The banking system had ample liquidity reflected in the highly liquid instruments to third-party funds ratio of 35.12% in December 2012, which contributed to the positive performance in bank intermediation. Credit growth climbed steadily throughout 2021 to reach 5.24% in December, consistent with the improvement in supply and demand conditions. Lending to MSMEs also recorded stronger expansion during 2021, keeping with sustained improvement in the real sector and business, particularly among MSMEs. Consumption credit and working capital credit sustained positive growth at 4.67% and 6.32%, respectively. In the consumption sector, home mortgages again reported substantial growth, reaching 9.13% yoy in December 2021, in response to integrated policies by the KSSK to stimulate the property sector.

**Sustained improvement in the economy led to renewed increases in payment transactions.** Non-cash payment transactions made with credit cards rebounded by 21.5% (yoy) expansion in the fourth quarter of 2021, up from 6.4% yoy in the preceding quarter, consistent with ongoing economic gains. ATM and debit card transactions maintained positive growth at 7.1% (yoy) in the fourth quarter of 2021 and 11.0% for 2021. Meanwhile, payment transactions with EM and digital banking maintained rapid growth at 58.7% (yoy) and 42.9% for the quarter, with growth

**Chart 1. Consumer Price Index and Core Inflation**




Source: BPS

for 2021 as a whole reaching 49.06% (yoy) and 45.64%. Contributing to this growth was expansion in the Indonesia Standard Quick Response Code (QRIS) ecosystem, which surpassed the target of 12 million merchants in 2021. Micro- and small-scale enterprises largely supported this expansion; more than 7 million and 3 million, respectively, signed on during this period. This achievement represents the outcome of broad collaboration involving the central and regional governments; line ministries/central agencies; associations/organizations and industry; and all members of society. E-commerce transactions again recorded vibrant growth at 28.28% (yoy) in the fourth quarter of 2021, with growth for 2021 overall projected to reach 50.74%. This positive performance was supported by expansion in the e-commerce ecosystem, changes in the online shopping behavior by the public and various innovations for ease and convenience in shopping.

**The Indonesian economy is predicted to expand faster in 2022, in line with improving domestic demand.** In 2022, more positive growth in the national economy will be supported by increased mobility in line with greater control over the spread of Covid-19 and increased vaccination rates; by broader re-opening of priority sectors; optimized implementation of the KSSK integrated policy package; and the fiscal stimulus policy by the Government and the Bank Indonesia policy mix. In this regard, Bank Indonesia predicts that in 2022, Indonesia's economic growth will reach 4.7-5.5%, led by higher private consumption and investment, while Government fiscal expenditures and exports are maintained at sound levels. However, the risk of increases in Covid-19 cases calls for continued vigilance. Private consumption would recover with growth reaching about 5% in the second half of 2022, in response to control over the spread of Covid-19 as Indonesia achieves herd immunity and the resultant gradual recovery in public mobility. Exports will also continue to be a source of economic growth in line with sustained high demand and global commodity prices. Investment is predicted to grow more rapidly in response to rising domestic demand; the sustained strength of exports; the resumption of national strategic infrastructure projects that had been deferred; and increased foreign direct investment in keeping with an improving domestic investment climate. In the analysis by business segment, several sectors are predicted to experience high growth, such as mining, manufacturing, trade and agriculture.

**Accelerated economic recovery will be accompanied by continued stability.** In 2022, external stability is predicted to remain under control with a low current account deficit in the range of 1.1-1.9% of GDP and a wider surplus in the capital and financial account. Likewise, stability will be maintained in the rupiah exchange rate, bolstered by the sound condition of Indonesia's economic fundamentals amid ongoing uncertainty in global financial markets over the normalization of monetary policy in advanced economies. Inflation would rise into the targeting range of 3%±1%, in keeping with increased domestic demand. Relatively subdued inflation would be supported by adequate domestic production capacity to compensate for increases in aggregate demand, while the impact of global energy price increases will necessitate continued vigilance. Financial system stability will also hold steady, accompanied by improved intermediation. The banking system CAR will remain high alongside a subdued level of non-performing loans (NPLs), including loans that will benefit from extending the debt restructuring regulation issued by OJK. Banks will continue to have abundant liquidity, as reflected in the high level of the liquid instruments to third-party funds ratio, while Bank Indonesia plans to taper off bank liquidity as part of the normalization of monetary stimulus. The bank intermediation function will steadily improve with growth in credit and third-party funds projected to reach 6.0-8.0% and 7.0-9.0% in 2022.

**The national digital economy and finance will continue to expand rapidly in 2022, underpinned by the accelerated digitalization of the payment system by Bank Indonesia**. Steady expansion is projected in e-commerce transactions, with volume reaching IDR526 trillion, representing a growth of 31%. Supporting this will be the expansion of the e-commerce ecosystem and the ongoing shift in consumer preferences and behavior towards online shopping; by various corporate-level innovations and promotions; and programs of the Government and Bank Indonesia. The rapid growth in EM transactions is also predicted to continue, driven by the increasing use of EM in e-commerce and other online platforms. EM use is forecast to maintain vibrant growth at 17.1% yoy, with volume reaching IDR358 trillion in 2022. Similarly, digital banking transactions are projected to continue their strong performance in 2022, driven by consumer convenience in conducting transactions digitally and the various digital innovations offered by banks. Digital banking transactions are projected to chart vigorous growth at 24.8% yoy, with volume reaching IDR49.7 trillion in 2022. The various Bank Indonesia initiatives for digitalization of the payment system under PSPI 2025 will move forward more rapidly to provide quick, user-friendly, low-cost, secure and dependable payment system transactions that will encourage further advancement in the national digital economy and finance.

**In looking at the experience of 2021, various issues have emerged that call for attention in efforts to promote recovery in the Indonesian economy**. *First*, success in accelerating vaccinations and tackling of Covid-19 and in opening up priority sectors needs to be strengthened further to expedite economic recovery. This needs to be directed at sectors contributing significantly to economic growth, particularly the export sector, and to meet rising demand and include MSMEs. *Second*, amid the prolonged uncertainty on global financial markets, as the Fed and some other central banks move forward with plans for normalization of monetary policy, a further bolstering of the national economic policy mix will be necessary to maintain stability and promote more rapid national economic recovery. For economic recovery to progress faster, the pace of structural reforms in the real sector needs to be maintained and carried forward in tandem with sustained fiscal stimulus actions with funding partially supported by Bank Indonesia and the synergy of the KSSK in promoting finance for the business community. *Third*, innovation needs strengthening, in the synergy of national economic policy; in accelerating digitalization and inclusion in the national economy and finance; in digitalization of the payment system; and in development programs for MSMEs and the grassroots economy. Innovation in policy and programs is also essential for the development of the green economy and finance, both for the sustainability of national economic development and to respond to growing demands from advanced nations.

# Bank Indonesia Policy Mix 2021: Encouraging National Economic Recovery, Maintaining Stability

**Synergy and innovation in national economic policy will enable efforts to improve the national economy while maintaining macroeconomic and financial system stability**. Better cooperation between Bank Indonesia, the Government and KSSK, and innovation in the coordination and acceleration of various economic policies, including fiscal-monetary coordination and acceleration of digitalization and national economic-financial inclusion, were key factors in the 2021 improvement in the economy, in tandem with the maintenance of stability. In 2021, the Government maintained an expansionary fiscal policy with substantial fiscal stimulus to tackle the impact of Covid-19, including the funding of health care and social protections. With this expansionary fiscal policy, the predicted fiscal deficit for 2021 is 4.65% of GDP. Bank Indonesia maintained close coordination with the KSSK to safeguard financial system stability and encourage lending to business, including through the issuance of policy packages to strengthen performance in the property and automotive sectors. For its part, the Financial Services Authority (OJK) extended the relaxation of banking requirements for debt restructuring. This entailed deferment of instalment and interest payments by extending the validity of OJK Regulation No. 28 of 2021 until March 2023. This measure is expected to positively impact efforts to bring problem loans under control, which in turn will benefit the performance of bank capital. Similarly, the Indonesia Deposit Insurance Corporation (LPS) guarantees the deposits held by the public in the banking system, and in so doing will support the maintenance of financial system stability. LPS will also lower the deposit guarantee interest rates to encourage economic recovery.

**Rapid Government response under the national policy synergy ensured that the national economy would withstand the spread of the Covid-19 Delta variant.** Quick actions launched by the Government, together with other national actors and support from the public, succeeded in curbing the spread of the Delta variant, which peaked in July-August 2021. The accelerated vaccination campaign by the Government was a key factor in resisting the Delta variant. Reinforcement measures for tackling and controlling Covid-19--including strict enforcement of restrictions on public activities coupled with increased health care capacity--also helped to curb further spread of the Delta variant. Consequently, the daily numbers of new Covid-19 cases were brought under control after having soared to 50,000 cases per day in the third week of July 2021. In addition, the national policy synergy in fast-tracking vaccinations and strengthened tackling of Covid-19 by opening up priority sectors was a game-changer in controlling the spread of Covid-19 while ensuring continued improvement in the national economy.

**Further strengthening took place in fiscal and monetary coordination, not only in safeguarding macroeconomic stability and promoting economic recovery, but also through Bank Indonesia's participation in funding the State Budget.** In this regard, Bank Indonesia extended full support to Government measures and participated in the funding of the State Budget for accelerating vaccinations and actions to tackle health and humanitarian impacts resulting from the Covid-19 pandemic. It was incumbent upon Bank Indonesia to participate in joint actions to tackle health and human safety issues ensuing from the Covid-19 pandemic, as a duty to the nation and humanity, as well as for the health and safety of the population. The participation involved strengthening the Bank Indonesia role in funding the State Budget in 2021 and 2022 through private placements of long-term government securities under the Joint Decree of the Minister of Finance and the Governor of Bank Indonesia of 23 August 2021 (Joint Decree III). These purchases of long-term government securities for the State Budget would amount to IDR215 trillion for 2021 and IDR224 trillion for 2022, with a low-interest rate equal to that of the Bank Indonesia 3-month reverse repo. Bank Indonesia also contributed to covering the full interest expense for funding of vaccinations and health care measures up to a maximum limit of IDR58 trillion (2021) and IDR40 trillion (2022), in line with the financial capacity of Bank Indonesia.

**Bank Indonesia held to its commitment to purchase long-term government securities for funding the 2021 State Budget.** Throughout 2021, Bank Indonesia purchased IDR358.32 trillion worth of long-term government securities for funding the 2021 State Budget. These purchases comprised: (i) IDR143.32 trillion on the primary market under Joint Decree of the Minister of Finance and the Governor of Bank Indonesia of 16 April 2020 (Joint Decree I) as extended on 11 December 2020 and 28 December 2021, effective until 31 December 2022; and (ii) IDR215 trillion in private placements to fund health care and humanitarian needs in tackling the Covid-19 pandemic under Joint Decree III. This policy continued the primary market purchases of long-term government securities for the 2020 State Budget. The total value of these purchases was IDR473.42 trillion, divided into IDR75.86 trillion for long-term government securities purchased in primary market auctions (Joint Decree I) and IDR397.56 trillion in private placements under a burden-sharing arrangement for the State Budget (Joint Decree of the Minister of Finance and the Governor of Bank Indonesia of 7 July 2020, or Joint Decree II).

**Bank Indonesia is committed to gearing all instruments of the policy mix to support national economic recovery and maintain stability in close coordination with the Government and KSSK**. Cognizant that the Indonesian economy was performing below the optimum path for the business and financial cycle in 2021, Bank Indonesia continued with an accommodative policy mix, utilizing the existing space for policy relaxation. In monetary policy, Bank Indonesia took further actions for monetary stimulus, employing a low interest rate policy and liquidity injections to promote economic recovery. Additional reinforcement of the monetary operations strategy bolstered the accommodative monetary policy stance. For example, the rupiah exchange rate policy was strengthened further to maintain exchange rate stability in line with fundamentals and the market mechanism. Working in synergy with the policies of the KSSK, Bank Indonesia also kept accommodative macroprudential policies in place to promote financing for business and national economic recovery. Furthermore, measures were taken to increase the pace of payment system digitalization under the BSPI 2025 in support of efficient and inclusive integration of the national digital economy and finance. Moreover, Bank Indonesia reinforced other supporting policies, such as: policies for financial market deepening; development of the sharia economy and finance and MSMEs; and international policies to promote more rapid recovery in the national economy.

**Bank Indonesia continued with a low-interest rate policy and liquidity injections to promote economic recovery.** After a series of five reductions since 2020, in February 2021Bank Indonesia lowered its policy rate (the 7-Day Reverse Repo Rate, BI7DRR) to a historical low of 3.50%. During the remainder of 2021, Bank Indonesia put the BI7DRR on hold, in line with the need to maintain exchange rate stability, amid forecasts of low inflation and efforts to bolster economic growth. The quantitative easing policy was continued to provide banks with additional capacity to increase lending to businesses. In 2021, Bank Indonesia employed quantitative easing to inject IDR147.83 trillion into the banking system. With these actions, the volume of quantitative easing undertaken since 2020 reached IDR874.4 trillion or about 5.3% of GDP. Besides injecting this liquidity into the banking system, Bank Indonesia expanded its long-term government securities purchases to fund the 2021 State Budget, raising IDR358.32 trillion. The purchases of long-term government securities for funding the State Budget also added to the liquidity in the economy in line with Government expenditure outcomes.

**Stabilization policy was strengthened further to keep the rupiah exchange rate aligned to fundamentals and the market mechanism**. This policy was pursued through a strategy of triple intervention on the spot market, domestic non-deliverable forward (DNDF) market and purchases of long-term government securities on the secondary market. This exchange rate stabilization policy was backed by an adequate level of international reserves, which served as the first line of defense. In addition, Bank Indonesia strengthened bilateral and multilateral cooperation at the international level to reinforce the second line of defense. To this end, efforts continued to strengthen and expand collaboration with central banks in regional countries to promote the use of local currency settlement (LCS) in trade and investment to scale back the high reduce the existing high dependence on the US dollar. Strengthening of the LCS framework took place in the Indonesia-Malaysia and Indonesia-Japan LCS schemes, while the launching of the Indonesia-China LCS in September 2021 marked an expansion in the ranks of LCS partner nations. Stronger, more intensified communication with investors, rating agencies, and domestic and foreign market actors also built confidence, optimism, and positive perceptions and supported a stable rupiah. To bolster the effectiveness of exchange rate policy, Bank Indonesia continued efforts to optimize monetary operations to ensure the functioning of market mechanisms and availability of liquidity on both the money market and forex market.

**An accommodative macroprudential policy stance was maintained in cooperation with the KSSK to promote financing for business and economic recovery**. Bank Indonesia eased requirements by lowering the LTV for property credit and reducing down payments for car purchase loans to 0%, effective from 1 March 2021. This action was taken in synergy with the Government and OJK, which launched a separate policy package to stimulate the property and automotive sectors. In addition, Bank Indonesia published an assessment of the transparency of bank base lending rates in February 2021 to reinforce the transmission of monetary and macroprudential policy relaxation measures. Moreover, the Macroprudential Intermediation Ratio (MIR) was reactivated in phases by raising the lower limit of the RIM to 75% in May 2021, to 80% in September 2021 and 84% in January 2022. Furthermore, the countercyclical capital buffer (CCyB) aggregate safeguarded the adequacy of bank liquidity, which remained at 0%, and the 6% macroprudential liquidity buffer (MLB), all of which could be used in Repo operations with Bank Indonesia. Bank Indonesia also updated the MSME Lending Ratio policy to become the Macroprudential Inclusive Financing Ratio (MIFR), effective from 31 August 2021. This policy has been phased effective 31 August 2021, with MIFR compliance targeted at 20% by June 2022 and 30% by June 2024.

**Bank Indonesia took further steps to accelerate digitalization of the payment system to promote the integration of the national digital economy and finance.** In implementing the PSPI 2025, the digitalization of the payment system in 2021 focused on three priorities and milestones: regulatory reform; retail payment system infrastructure; and payment system standardization. In regulatory reform, policy transformation targeted the consolidation of the national payment system industry in conjunction with facilitation and streamlining of licensing procedures. To this end, the Bank Indonesia Regulation (PBI) concerning the Payment System issued at the end of 2020 was reinforced with the issuance of the PBI concerning Payment Service Providers and the PBI concerning Payment Infrastructure Operators on 1 July 2021. For retail payment system infrastructure, Bank Indonesia launched the BI-FAST system for real-time transfers 24/7 as part of the drive for 3I infrastructure that is integrated, interconnected and interoperable, as well as secure and dependable. BI-FAST was developed to support the consolidation of the industry and end-to-end integration of the national digital economy and finance while also contributing to a fast, low-cost, user-friendly, secure and dependable payment system. Regarding standardization of the payment system, further efforts to promote the expansion of the ecosystem involved the development and Indonesian Standard Quick Response Code (QRIS) as well as the implementation of the Open API National Standard for Payments (SNAP). The QRIS in the Made in Indonesia Pride and Tourism in Indonesia Pride campaigns also contributed to the strengthening of synergy and coordination with the Government.

**Bank Indonesia reinforced synergy with the central government and regional governments to expand the payments electronification program to further support accelerated development of the digital economy and finance.** In one measure for greater electronification of social assistance, Bank Indonesia promoted social assistance digitalization 4.0 in measures to strengthen payment business models, regulation and methods appropriate to needs, including further improvements in the quality of data. This enhancement of payment electronification will support better targeted disbursement of

Government social assistance with greater accuracy in payment amounts, timely payment and also better governance in the midst of the pandemic. Continued expansion in the electronification of local government transactions, including collection of taxes and user charges and material and routine expenditures, was also supported by stronger synergy in the strategic programs of the Regional Digitalization Acceleration and Expansion task forces. In the area of transportation electronification, Bank Indonesia promoted payment systems and data integration in the transportation sector. Bank Indonesia extended support for formulating a business model for the payment aspects of transportation modes and the multi-lane free-flow toll roads that are to be phased into operation beginning in 2022. The synergy between authorities and relevant stakeholders was key to the success of the Indonesian Digital Economy and Finance Festival (FEKDI) 2021, which provided a forum for building policy synergy and preparing the ground for implementation of various initiatives for development and expansion of the digital economy and finance to accelerate digital transformation and expedite economic recovery.

**Money market deepening was accelerated further in order to strengthen monetary policy effectiveness and support economic recovery.** Bank Indonesia continued working on implementation of the Money Market Development Blueprint (BPPU) via three main initiatives: promoting the digitalization and strengthening of financial market infrastructure; strengthening the effectiveness of monetary policy transmission; and development of sources of economic financing and risk management. In 2021, financial market deepening focused on expediting the development of repo and DNDF transactions. In support, infrastructure was strengthened with a more robust regulatory framework and Electronic Trading Platform (ETP) multi-matching implementation. These actions were designed to support the transmission of Bank Indonesia monetary policy and expedite the development of the money market while simultaneously responding to the global challenge of the G20 OTC Derivative Market Reform. To strengthen infrastructure, Bank Indonesia expedited the establishment of the Central Counterparty (CCP) to resolve the issues of segmentation and fragmentation on the Indonesian money market by mitigating the credit risk of transacting parties and facilitating more efficient transaction settlements. In addition, efforts continued to develop other instruments, such as the overnight index swap for interest rate hedging and strengthening the LCS framework. In other actions, Bank Indonesia continued the development of financial instruments for economic financing in the Coordination Forum for Development Financing through Financial Markets (FK-PPPK), working in cooperation with the Ministry of Finance and OJK.

**Various supporting policies were also implemented to promote economic recovery**. Synergies with the Government, the banking system and other institutions were strengthened further for development of MSMEs and the sharia economy and finance, which are envisaged as new sources of growth for the Indonesian economy. Bank Indonesia continued to strengthen the MSME development program to promote MSMEs operating digitally and in exports. In this regard, the MSME development program was enhanced further under the three policy pillars of corporatization, capacity building, and financing to build productive, innovative, and adaptive MSMEs. Development of the sharia economy and finance continued under the three pillars of sharia economic empowerment, namely strengthening the halal value chain ecosystem, sharia financial market deepening and strengthening of research, assessment and education.[1] Under each of these pillars, the reinforcement strategy was pursued in institution building, broader implementation and strengthening of infrastructure, including digitalization. Meanwhile, Bank Indonesia's international policy, in coordination with the Government, focused on supporting economic recovery and safeguarding macroeconomic and financial system stability at the global level and in Indonesia.

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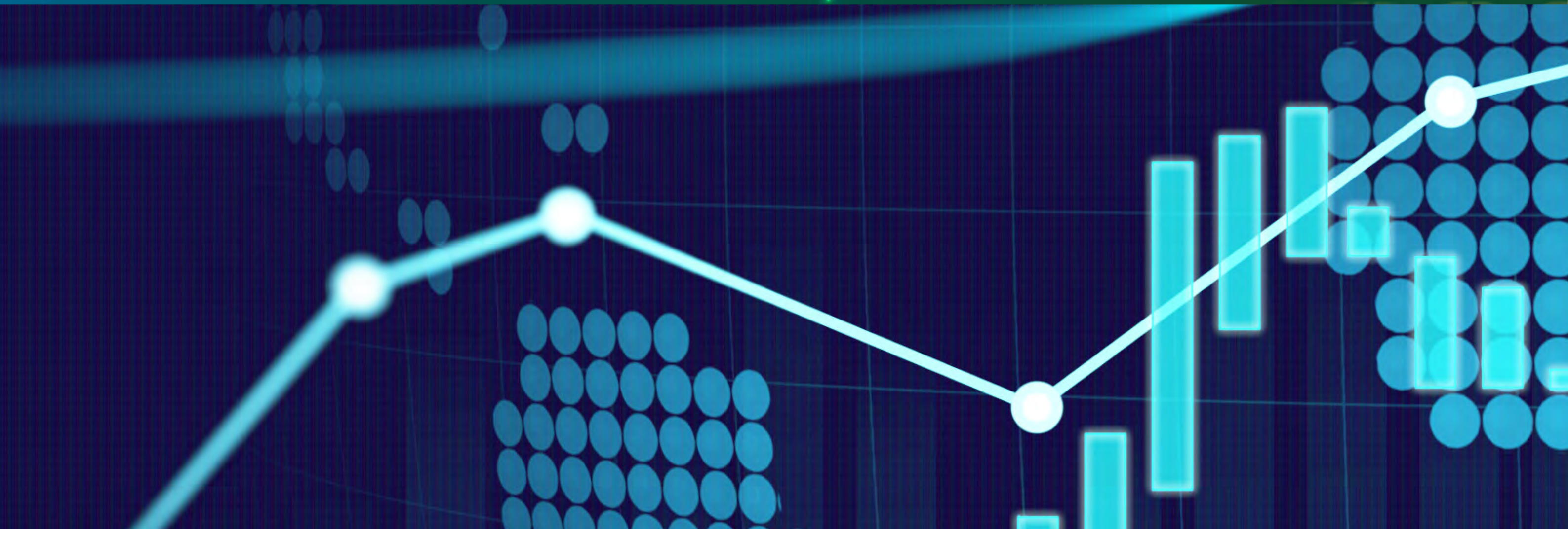
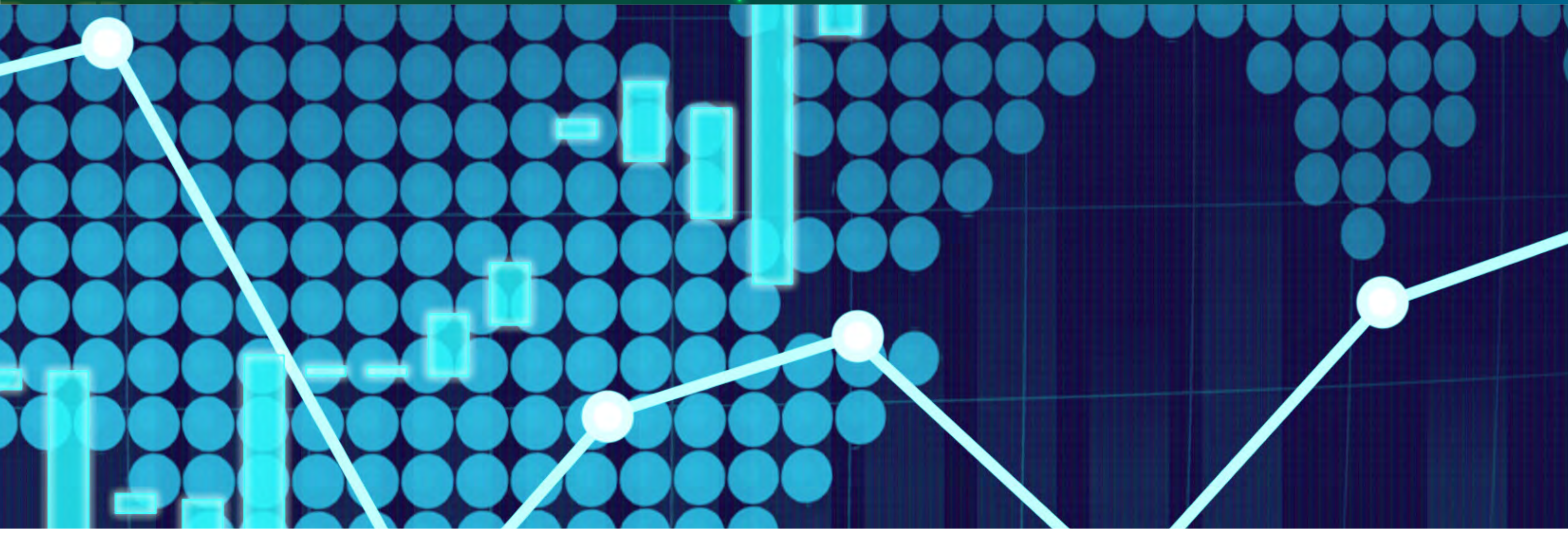
1 For further elaboration of the policies for development of the sharia economy and finance, see the Sharia Economy and Finance Report for 2021 in Chapter 3, Policy Synergy in the Sharia Economy and Finance, and Chapter 4, Policy Direction in 2022.



# Rise and Be Optimistic: Synergy and Innovation for Economic Recovery

**Close policy synergy and the performance of the economy in 2021 set the stage for greater optimism for a more robust recovery in the Indonesian economy in 2022.** Further measures are needed to accelerate national economic recovery with more robust synergy and innovation, underpinned by strength in the resolve to renew optimism. In this regard, a policy perquisite for economic recovery is an accelerated vaccination program for Covid-19 and re-opening of priority sectors. Also, there are the five necessary policy responses for more rapid recovery in the national economy, namely: (i) accelerated transformation of the real sector; (ii) synergy of the monetary stimulus and macroprudential policies with fiscal policy; (iii) accelerated transformation of the financial sector; (iv) digitalization of the economy and finance; and (v) the green economy and finance. These necessary policy responses are discussed further below. Success in this regard will build optimism for a more rapid economic recovery, including over the medium- to long-term in gearing up for Advanced Indonesia 2045.

*First* among the necessary policy responses is a response focused on the fastest possible recovery in the priority sectors, which will promote growth and create employment. Mapping has been performed of the priority sectors that are resilient and able to promote growth and support economic recovery, in tandem with identifying the obstacles to recovery in both the real sector and in financing. In addition, policy synergy and innovation will be crucially important to resolving existing problems through debottlenecking of the real sector, provision of fiscal policy incentives and support from macroprudential policies and the financial sector. The *second* policy concerns fiscal policy cooperation with the monetary stimulus and macroprudential policies pursued by Bank Indonesia to stimulate demand, mainly in the short term. The Government is continuing an expansionary fiscal policy to stimulate the economy and pursue development targets, with the 2022 State Budget predicted to chart a deficit of IDR868 trillion or 4.85% of GDP. Bank Indonesia commits to funding the 2021 and 2022 State Budgets and maintains



accommodative macroprudential policies to promote intermediation. With this synergy, the Government will be able to expedite realization of the State Budget to accelerate the recovery in the national economy.

*Third*, the policy response for these accelerated processes involves expansion and streamlining of financing from the financial sector for business. In the short term, policies designed to encourage bank lending will be needed to resolve problems of both supply and demand for credit. Besides bank lending, there will be an increasing need for financing from the capital market raised through issues of shares and corporate bonds. In addition, transformation of the financial market will be key to expanding the range of financing alternatives available to businesses. *Fourth* is the policy response for accelerated digitalization and inclusion in the national economy and finance. Bank Indonesia will consistently support the Made in Indonesia Pride and Tourism in Indonesia Pride campaigns to promote inclusion in the national economy and finance. Bank Indonesia will also follow through on its steadfast commitment to economic and financial inclusion by increasing the pace of payment system digitalization in keeping with the BSPI 2025 for integration and strengthening of the national digital economy and finance on an efficient and inclusive basis. *Fifth* is the policy response relating to development of the green economy and finance to bring about sustainable economic growth. The transition to a green economy, defined as low carbon, needs to be gradual and moderate in how it is undertaken in order to optimize policy responses to the consequences of climate change. In this regard, Bank Indonesia will continue to reinforce polices for green finance in order to boost the contribution of the domestic financial sector in reducing carbon emissions. This will be done through close coordination with the relevant authorities and active involvement in various international forums. These five policy responses, within policy synergies and innovation for economic recovery, are aligned to Indonesia's G20 Presidency in 2022 with the theme of "Recover Together, Recover Stronger". Indonesia's G20 Presidency will focus on measures to strengthen productivity, bolster economic resilience and stability, and ensure sustainable and inclusive growth.

# Bank Indonesia Policy Mix Direction for 2022: Encouraging Acceleration of Economic Recovery, Maintaining Stability

**In 2022, the Bank Indonesia policy mix will cooperate closely with national policies for accelerated recovery and continued safeguarding of economic stability.** The Bank Indonesia policy mix has been developed with careful attention to the global economic outlook and the six issues on the agenda for international policy coordination during Indonesia's G20 Presidency in 2022. In this regard, thorough calculation, careful planning and clear communication are all essential for the five components of the policy mix, i.e. monetary policy, macroprudential policies, digitalization of the payment system, money market deepening and inclusive and green economy and finance. In 2022, monetary policy will be more pro-stability, in keeping with the risk of mounting pressures from global financial market instability triggered by the normalization of monetary policy by the US Fed and some other AEs. The focus of this pro-stability policy in 2022 will shift more towards achieving the inflation target and exchange rate stability as well as in macroeconomic and financial system stability. The normalization of monetary policy will be managed with great caution in measured steps to avoid disruption to economic recovery. Macroprudential policies, payment system digitalization, money market deepening and the inclusive and green economy and finance will continue to be pro-growth and form part of a collective effort to expedite national economic recovery. Working in synergy with the national policy mix, Bank Indonesia policy will promote Indonesia's economic growth to return the nation to a path for medium- and long-term transformation into an Advanced Indonesia.

**Bank Indonesia policy in 2022 will be consistently directed towards safeguarding macroeconomic stability in support of sustainable national economic growth.** The direction and phasing of monetary policy will be pre-emptive, ahead of the curve and front-loaded to maintain stability in anticipation of normalization of monetary policy, global consolidation of fiscal policies and increases in the Fed Funds Rate (FFR), while continuing to support national economic recovery. The low-interest rate policy will be maintained until early indications of rising inflation emerge. Interest rate policy will focus more on strengthening the effectiveness of transmission into reductions in bank lending rates by employing transparency in interest rate policy and money market deepening to reduce, for example, differential between yields on medium-long government securities and the persistently high rates on the interbank money market. Normalization of monetary policy will occur through gradual reductions in the very substantial excess liquidity in the banking system. Normalization of liquidity will be conducted with great caution in measured steps to avoid disrupting the ability of the banking system to extend credit and purchase long-term government securities. In that way, the process will support the maintenance of monetary and financial system stability and the sustainability of national economic recovery. Normalization of liquidity will involve phased increases in the statutory reserve requirement effective from 1 March 2022, 1 June 2022 and 1 September 2022 to 6.5% for conventional commercial banks and 5.0% for sharia commercial banks and sharia units. Meanwhile, the policy response to the impact of monetary policy normalization by the Fed and a number of other AEs will emphasize exchange rate policy for safeguarding external stability while maintaining monetary and financial system stability and economic recovery. Coordination of monetary policy with fiscal policy will be strengthened further to continue promoting national economic recovery while maintaining macroeconomic stability. Bank Indonesia and the Government will continue to build closer policy coordination in inflation control and promote activity in priority sectors to achieve economic recovery.

**Bank Indonesia will keep relaxed macroprudential policies in place during 2022 for increased bank lending in economic recovery while safeguarding financial system stability.** Relaxation of macroprudential policies will involve incentives for banks to channel credit/financing to priority sectors and for inclusive financing and/or banks meeting the targeted Macroprudential Inclusive Financing Ratio (MIFR). Under this incentive, banks will benefit from a reduction of up to 100 bps in the daily reserve requirement, effective from 1 March 2022. Macroprudential policy relaxation will also be undertaken by reinstatement of a low countercyclical buffer (CCyB) and flexibility in determining compliance with the macroprudential liquidity buffer (MLB) involving repos to Bank Indonesia. In addition, the 100% FLTV/LTV ratio for home and apartment mortgages and 0% down payment for vehicle loans for banks complying with the low NPLs/NPF criteria will remain in effect until the end of December 2022. Macroprudential policies aimed at increasing financing by banks, such as the Macroprudential Intermediation Ratio (MIR) and transparency in interest rates will also be kept in place and reinforced through macroprudential supervision of banks. In addition, the relaxed macroprudential policies will be expanded to encourage lending/financing to priority sectors as part of coordination with KSSK as part of national economic recovery. To promote the inclusive economy and finance for MSMEs in particular, further improvements will be introduced for a more effective implementation of the MIFR. These improvements will involve the fulfillment of bank commitments to the prescribed MIFR target commensurate with the expertise of the bank and its business model; clustering and corporatization of MSMEs in synergy with the Government; promotion of bank cooperation with MSME lending partners; and the development of securities for MSME financing that satisfies certain eligibility criteria. Bank Indonesia will continue to build stronger policy synergy with KSSK in promoting lending/financing to business by banks and other financial institutions to support national economic recovery. Coordination of the macroprudential supervision by Bank Indonesia with the microprudential supervision by the Financial Services Authority (OJK) and the deposit guarantee scheme operated by the Indonesia Deposit Insurance Corporation(LPS) will be strengthened further to maintain financial system stability.

**Bank Indonesia will continue expanding payment system digitalization in 2022 to accelerate the integration of the digital economy and finance ecosystem, including promoting economic and financial inclusion.** Various programs envisaged in the BSPI 2025 will be implemented according to the prescribed schedule and targets. In 2022, payment system policy will continue to be guided by five key points of strategic focus. *First* is more rapid consolidation of the industry for a sound, competitive and innovative payment system. A regulatory reform would undertake this in keeping with more industry-friendly policies and Bank Indonesia regulations concerning the Payment System; streamlined licensing and approvals with service level agreements (SLAs) between Bank Indonesia and the payment system industry; and more robust supervision of the payment system with focus on capital compliance, risk management and cyber security.

*Second* is the continued development of 3I (interoperable, interconnected and integrated), secure and dependable payment system infrastructure supporting increased economic and financial inclusion, including for MSMEs and in retail transactions. The use of the QRIS will be expanded further as a healthy (*Sehat*), innovative (*Innovatif*) and safe for use (*Aman Pakai*) contactless payment instrument. By these means, QRIS would comply with health protocols under the SIAP QRIS program at markets and shopping centers, including enhanced service features for ease of use and convenience. The QRIS will be upscaled to increase transaction volume and achieve the target of 15 million QRIS users in 2022. The Open API National Standard for Payments (SNAP) for connecting payment transaction services operated by banks with fintech will be implemented faster for broader integration of the national digital economy and finance ecosystem. Similarly, operationalization of the BI-FAST system will be upscaled via expanded membership and increased acceptance of use for more efficient interbank and public transactions. It is envisaged that all banks will be connected as members and provide retail payment services in real-time around the clock (24/7). In addition to the three leading programs of QRIS, SNAP and BI-FAST, Bank Indonesia will also strengthen digital payment system reform with development programs for data optimization and to ensure the availability and dependability of the Bank Indonesia payment system.

*Third*, secure, efficient and fair market practices will continue to be developed for a quick, user-friendly, low-cost, secure and dependable payment system. *Fourth*, Bank Indonesia's preparations will move faster for issuance of digital rupiah currency and implementation of digitalization of the rupiah cash payment system. *Fifth*, in the cash payments system, Bank Indonesia policy will focus on the provision of rupiah cash in the appropriate quality and maintaining adequate levels of cash throughout the territory of Indonesia under the 2025 Rupiah Currency Management Blueprint (BPPUR 2025). Bank Indonesia will continue to bolster synergy and coordination with the Government (at the national and regional levels), the banking and payment systems, and fintech and e-commerce associations.

**In 2022, policies for financial market deepening will be expedited for greater effectiveness in monetary policy transmission and the financing of infrastructure and business in support of national economic recovery**. Accelerated development of the money market in 2022 will build a modern, international-standard money market. To this end, there would be broader market development in terms of products, participants and pricing and better technical infrastructure that integrates the money market and payment system. Progress will continue on the key initiatives of the 2025 Money Market Development Blueprint (BPPU 2025), based on three policy pillars. In the *first* pillar, the development of money market infrastructure will focus on the implementation of the CCP with a view to operation in 2022. Also, the money market would be expanded via ETP multi-matching for both the rupiah and forex markets. Besides these, Bank Indonesia will also finalize the conceptual design for development of money market infrastructure and an integrated, interconnected and interoperable payment system, including the Bank Indonesia API Payment Standard (BI-APS), the BI Scripless Securities Settlement System (BI-SSSS), the 3rd generation BI-RTGS and the Trade Repository. In the second pillar, strengthening monetary policy transmission effectiveness will focus on implementing money market instruments traded via ETP multi-matching and the development of repo, DNDF and LCS transactions. The *third* pillar encompasses further strengthening of economic financing in three policy strategies: (i) the development of asset securitization under the Collective Investment Contract for Asset-Backed Securities (KIK-EBA) and Mortgage-Backed Securities (EBA-SP) programs; (ii) promoting retail investors and financial literacy regularly, and (iii) strengthening coordination and communications relating to the Sustainable Green Finance (SGF) program.

**Bank Indonesia will continue to expand and strengthen the MSME development program through corporatization, capacity building and facilitation of access to financing in order to improve MSME competitiveness**. The corporatization of MSMEs will involve strengthening the institutional framework and expanding partnerships with other business actors for greater economies of scale. MSME capacity building will be end-to-end and focused on digitalization to promote increased production, improvements in financial management and expansion of market access. Market access for MSMEs will be continually expanded with facilitation for product certification and pre-export screening as well as stronger connections with local value chains (LVCs) and global value chains (GVCs), including greater participation at international trade promotions. Accompanying this will promote the role of the sharia economy and finance as a new source of economic growth. The accelerated implementation of the halal value chain ecosystem at the local and global levels will be expanded further concerning actors, institutional framework and supporting infrastructure. The focus on developing this halal value chain ecosystem will continue to be the mainstay sectors of halal foods and modest fashions. In sharia finance, policies will be put in place for sharia money market deepening, involving the development of forex transaction products and inclusive Bank Indonesia Sukuk (SUKBI). Bank Indonesia will continually strengthen synergy with various parties in the National Committee for the Sharia Economic and Finance (KNEKS) and with Islamic boarding schools, the Sharia Economic Community (MES), business associations, and the banking system Islamic scholars, academics and the general public.

**Strengthening policies for green finance will continue to support building a sustainable economy with a stable, inclusive and green financial system**. To respond to the looming challenges of climate change and make an active contribution to the achievement of Indonesia's low carbon targets, Bank Indonesia will establish more robust policies for green finance. In addition, Bank Indonesia will proceed further with its institutional transformation, covering the areas of governance, risk management, strategy and green performance indicators. In developing and implementing this process, Bank Indonesia will continue working in synergy and coordinating closely with KSSK, line ministries/central agencies and other relevant stakeholders.

**In international policy, Bank Indonesia will continue playing an active role in various international cooperation forums to support broad economic recovery.** Indonesia's G20 Presidency in 2022 will be optimized to support the interests of Indonesia and the global economy through the best possible formulation of substantive topics and organization of meetings. Beyond the G20 Presidency and similar lines, the formulation of agendas supporting Indonesian and regional interests will focus on Indonesia's chairmanship of ASEAN in 2023. Further strengthening of international cooperation will also take place at the multilateral, regional and bilateral levels. Bank Indonesia will also continue to participate in the facilitation of trade and investment promotions for priority sectors with support of the Investor Relations Unit (IRU) at the regional, national and international levels and to conduct campaigns to advocate for and expand the use of LCS among Indonesia's trade and investment partners

**In the medium term, the Indonesian economy will continue to move forward, returning to the path towards an Advanced Indonesia.** Several factors will help put Indonesia on a medium term path to becoming a high-income country. Externally, the continuing global economic recovery will boost Indonesia's exports via greater trade with existing markets and export diversification across a broader range of trading partners. Also, the domestic economic outlook will improve, driven by increased investment and productivity following the implementation of structural reforms, like an acceleration of the national digital economy and finance and implementation of the Job Creation Act. On the basis of these considerations, Bank Indonesia predicts steady, medium-term improvements to bring Indonesia's economic growth within the range of 5.0-5.8% in 2026. Subdued inflation is predicted in the 1.5-3.5% range with support from improved efficiency and productivity in the economy. The current account deficit is also projected to remain subdued at a prudent level in the range of 1.2-2.0% of GDP, thus bolstering Indonesia's external resilience. With the overall outlook on this track, Indonesia is predicted to have the capacity to become a high-income advanced country by 2045.

## Key to Strengthening the Outlook: Transformation of The Policy Mix and Acceleration of Digital Economy and Finance

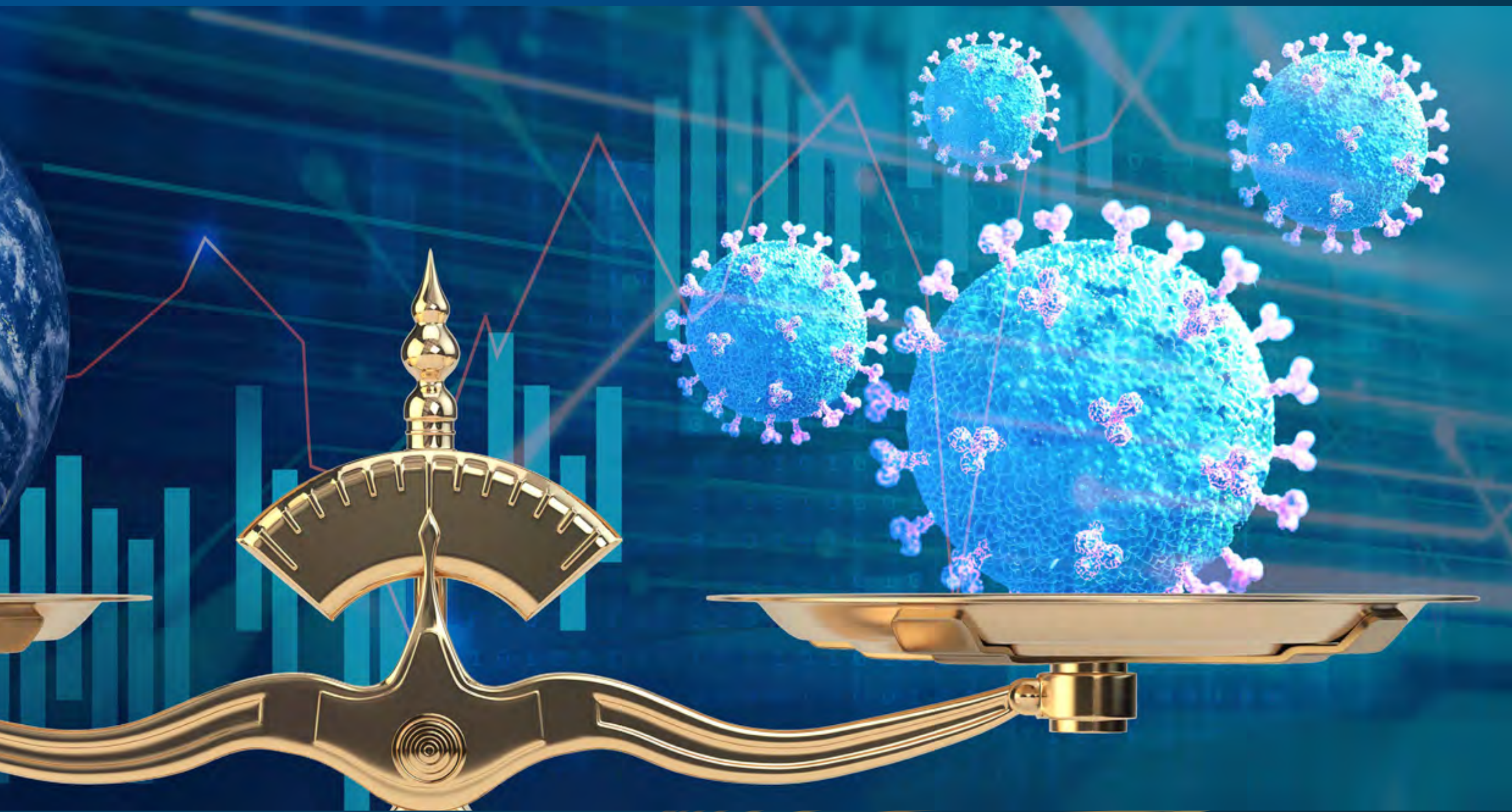
**Bank Indonesia believes that further reinforcement of structural reform policies is essential to increase the pace of Indonesia's economic transformation into an advanced nation.** A series of structural reforms are vital for improving efficiency and productivity in pursuing higher and more sustainable economic growth in tandem with prudently managed stability. Structural reform policies have become increasingly vital to promoting growth by prioritizing recovery and improvements in productivity, human capital and investment, especially in activities negatively impacted by the pandemic. The structural reform policies encompass the provision of supporting infrastructure to support a resilient and inclusive workforce, expedite the transition in labor, and build greater human capital, including education policies. Improvements in digital connectivity are also necessary to promote digital transformation and support increases in productivity and, thereby, potential output. Policies for the development of domestic supply chains also need to be expedited to reinforce the economy's structure. Moreover, economic recovery from the pandemic represents an opportunity to adopt strategies for the green economy's growth, including optimising the private investment role in supporting a green future.

**One important component of this structural reform is the transformation of Bank Indonesia to adapt to the dynamics of an increasingly complex economy represented by an Advanced Indonesia.** Bank Indonesia will refine its strategic direction through a series of transformations of its core and ancillary policy mix, including strengthening the monetary policy framework and financial market deepening. Bank Indonesia will transform and harmonise its core policy framework amid the various increasingly complex challenges in maintaining stability and promoting accelerated economic recovery. This will be pursued by integrating the working frameworks for monetary, macroprudential and cash and non-cash payment system policies, supported by ancillary policies. At the operational level, this will involve integrated refinement of monetary management to ensure that money market development increases the effectiveness of policy transmission and maintains economic stability. Bank Indonesia will also promote digital transformation and strengthen financial market infrastructure to support more rapid economic growth. All in all, this series of transformations will represent a culmination of efforts to achieve Bank Indonesia's vision of becoming a leading digital central bank, delivering real contributions to the national economy and the best-ranking among emerging market nations as its contribution to an Advanced Indonesia.

**Accelerated digitalization of the payment system will also be key to supporting the growth of a strong and inclusive economy.** As Indonesia enters the new digital era in the economy and finance, Bank Indonesia is moving quickly and comprehensively, emphasising inclusion and efficiency. As part of the implementation of BSPI 2025, various important milestones were accomplished in the areas of regulatory reform, retail payment system infrastructure and payment system standardization during 2021. But more is needed to achieve the vision of BSPI 2025, by optimizing the way that digitalization is employed in support of higher, more robust economic growth. As major beneficiaries of this approach, MSMEs digital transformation will need to occur throughout the value chain to support the creation of an integrated digital ecosystem. In adapting to these digital changes, optimization of the MSME role as a backbone of the economy will continue to focus on improvements in productivity and strong, inclusive economic growth.

CHAPTER 1

# GLOBAL ECONOMIC PERFORMANCE AND OUTLOOK: DIVERGENT RECOVERY, PERSISTENT FINANCIAL MARKET UNCERTAINTY



Global economic improvements continued in 2021, despite divergent and asynchronous economic recoveries between Advanced Economies (AEs) and Emerging Markets and Developing Economies (EMDEs), owing to different access to vaccines and policy stimuli across jurisdictions. At the same time, global financial market uncertainty persisted in response to emerging risks, including transmission of the Delta variant; market anticipation of tapering by the Fed; and concerns stoked by lingering inflationary pressures. The Covid-19 pandemic has brought at least seven important aspects to the forefront, as discussed below. These demand vigilance and must be anticipated properly to support the global economic recovery, which is expected to continue in 2022. International policy coordination, including Indonesia's G20 Presidency agenda in 2022, aims to strengthen the ongoing global economic recovery.

**Global economic improvement continued in 2021 despite divergence across regions and persistent financial market uncertainty**. Economic recovery in AEs, the United States in particular, progressed more quickly on the back of a faster vaccination rollout, coupled with extraordinary fiscal and monetary policy stimuli. In contrast, most EMDEs, excluding China, struggled to restore domestic economic recovery. Beyond limited supply and access to vaccines, weaker fiscal and monetary stimulus also impeded economic recovery in most EMDEs. The world economy is projected to grow 5.7% in 2021 and 4.4% in 2022 after contracting 3.1% in 2020. Meanwhile, global financial market uncertainty persists in response to emerging risks such as transmission of the Delta variant; market anticipation of tapering by the Fed; and concerns stoked by continuing inflationary pressures caused by supply chain disruptions and energy scarcity.

**The pandemic has raised a number of pertinent issues and challenges that demand vigilance and must be anticipated**. The global economic recovery from the Covid-19 pandemic continues, accompanied by the maintenance and improvements to macroeconomic and financial system stability. Nevertheless, the pandemic has brought to the forefront at least seven important issues that demand vigilance and must be anticipated appropriately. *First*, an uneven vaccination rollout towards achieving herd immunity. *Second*, a divergent global economic recovery, which has been faster in AEs while progressing more slowly in EMDEs. *Third*, disruptions in the global supply chain of goods and services, coupled with the threat of energy scarcity. *Fourth*, asynchronous exit policies as between AEs and EMDEs and their impact on global financial market uncertainty. *Fifth*, the scarring effect of the pandemic on business conditions and the accompanying risks to financial system stability and to sustainability of the economic recovery. *Sixth*, rapid economic and financial digitalisation, dominated by BigTech together with, for example, the proliferation of cross-border payment systems. *Seventh*, growing calls among AEs for a green economy and sustainable finance, which demand adequate preparation for transition by EMDEs.

"Global economic improvement continued in 2021 despite divergence."

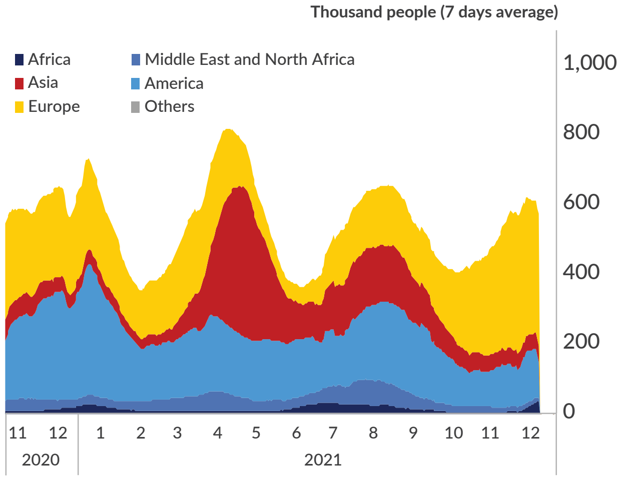
**International policy coordination aims to strengthen the global economic recovery and overcome the emerging problems**. Important agendas have taken shape at international forums like the Group of 20 (G20); the International Monetary Fund (IMF); the Financial Stability Board (FSB); the Bank for International Settlements (BIS); the World Bank and others. These agendas have been dominated by issues like the expansion of vaccine supply and its distribution from AEs to EMDEs; the phasing of exit policy from the COVID pandemic, including clear communication policies; joint measures to overcome disruptions in the global supply chain; energy scarcity; the scarring effect of these various issues; and international cooperation to accelerate digitalisation of the green economy and sustainable finance. Reflecting these issues, the G20 agenda under Indonesian Presidency in 2022 is ‘Recover Together, Recover Stronger’ through six priority agendas in the finance track, discussed immediately below.

1.1

# Divergent Vaccination Rollout and Covid-19 Endemic Risk

**The Covid-19 pandemic continued to overshadow the global economy in 2021**. At the beginning of the year, the Covid-19 curve flattened, particularly in the United States and Europe (Chart 1.1). After exhaustive clinical trials, the vaccines were ready for the broader community, the timing of which was propitious for the new Alpha variant. Transmission of the Alpha variant towards the end of 2020 was primarily confined to the Western Hemisphere, with a transmission rate 40-80% higher than the initial Wuhan variant. As the epicentre of the Alpha variant, the UK had vaccinated 45.5% of its population with at least one dose by the end of the first quarter of 2021; the US and Europe followed at 29.2% and 11.7% respectively. Vaccination rates were significantly lower in EMDEs, averaging just 4.6% of the population. The vaccination rollout successfully flattened the Covid-19 curve, as indicated by a decline in daily cases recorded in the United States to around 52,000 from a peak of 251,000 during the Alpha wave. Similar conditions were reported in Europe, particularly the UK and France.

### Chart 1.1. Covid-19 Daily New Cases




Source: World Health Organization, calculated

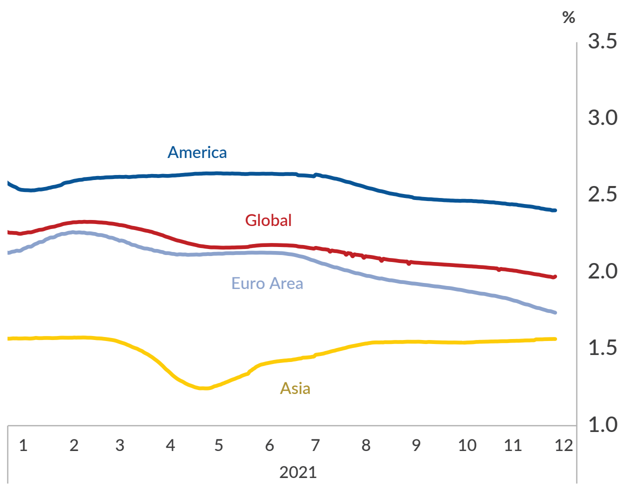
**However, flattening of the Covid-19 curve at the beginning of 2021 was only transitory, as the Delta variant emerged in India in April 2021**. The World Health Organisation (WHO) declared the Delta variant to be twice as contagious as the initial variant and 50% more infectious than the variants of concern already identified, including Alpha, Beta and Gamma. Delta, which was initially confined to just one state (Maharashtra), quickly spread throughout India. Inadequate health protocols and low vaccination rates in India fanned Delta transmission, with daily cases peaking at 415,000 to place India third in terms of Covid-19 cases globally. A surge of cases in most Asian countries became inevitable as another wave of infections enveloped the globe. Conditions were exacerbated by the divergent distribution of vaccines as between AEs and EMDEs.  Residents in Asian EMDEs, where vaccination rates were low, were susceptible to the Delta variant, including Indonesia, Malaysia, Thailand, Vietnam, the Philippines and many others. The more virulent Delta variant pushed up the fatality rate in Asia to a peak of 1.4% by the end of August 2021 (Chart 1.2). For their part, AEs began to reopen their economies early, thereby exposing themselves to Covid-19 transmission.

**The possible emergence of new variants and risk of prolonged pandemic, which could become endemic, demands vigilance in terms of the global economic recovery impact**. Governments and relevant authorities in various countries need to develop long-term strategies to anticipate a protracted Covid-19 pandemic. Preparatory plans for a new normal, characterized by living with Covid-19, must be strengthened continuously, including community transition and adaptation measures to ensure discipline and familiarity with strict health protocols in the new normal era. Strategies for Covid-19 handling and containment must also be strengthened, encompassing: a faster vaccination rollout; increased testing; tracing and treatment; as well as disciplined health protocols. Such measures will strengthen

global economic resilience against an enduring pandemic, while ensuring a sustainable global economic recovery process.

**Accelerating the vaccination rollout to achieve herd immunity remains an ongoing concern worldwide to overcome Covid-19**. High vaccination rates have helped stabilise the global fatality rate at around 2% despite successive waves of infection throughout 2021 and soaring daily cases. In addition, herd immunity remains a policy priority in many jurisdictions to overcome the pandemic. Countries benefited from high vaccination rates during the Delta variant outbreak, as reflected by the comparatively mild severity of symptoms as well as lower hospitalisations and mortality rates. Supporting the vaccination program, several countries introduced vaccine passports to allow community activity in public spaces. In practice, communities have adapted by implementing strict health protocols, starting with personal hygiene, washing hands, wearing masks and social distancing, while staying away from crowded places and reducing mobility. Such behavioural adaptations, coupled with home-based learning (HBL) and work from home (WFH) protocols, ultimately created a new balance in terms of community mobility. For example, mobility in the US and several European countries increased in the third quarter of 2021, despite local surges of Covid-19 cases (Chart 1.3).

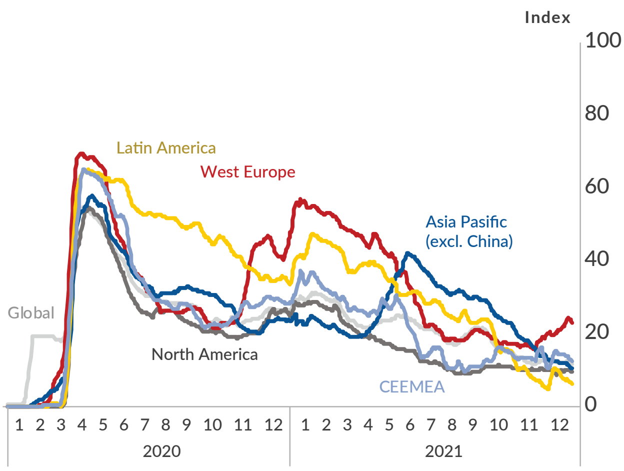
### Chart 1.2. Covid-19 Global Fatality Rate




Source: World Health Organization, calculated

**The rate of vaccination rollouts varied as between AEs and EMDEs**. Greater access to vaccines in AEs was supported by technology and availability of funds. The contracted supply of vaccines in AEs was equivalent to three times the local population, and even five times the population in Canada and Australia (Chart 1.4). This is very high compared to the supply of vaccines in EMDEs, currently standing at just 60% of the population. Only a handful of EMDEs have fulfilled their vaccine contractual obligations for the entire population, namely Malaysia, the Philippines and Argentina. Vaccine contracts in South Africa, Saudi Arabia and Mexico are insufficient to cover 50% of the local population. Efforts have been made to donate vaccines from AEs to EMDEs, including from the US to Argentina and the Philippines. China is one of only a few EMDEs to develop a vaccine locally and donate the vaccine, particularly to countries in Africa. At the end of December 2021, statistics show that 49% of the

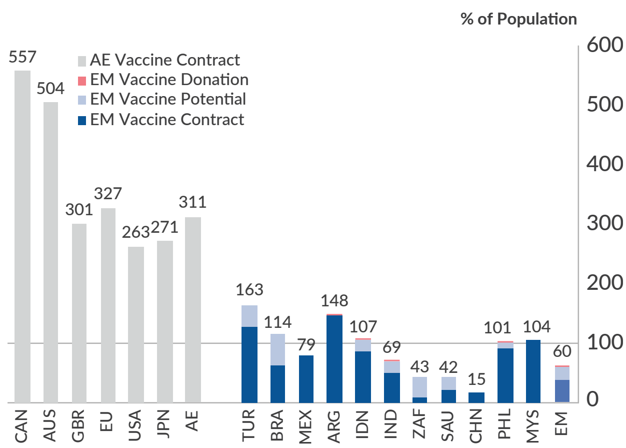
## Chart 1.3. World Mobility Index




Source: Goldman Sachs, calculated; Effective Lockdown Index=100, lowest mobility

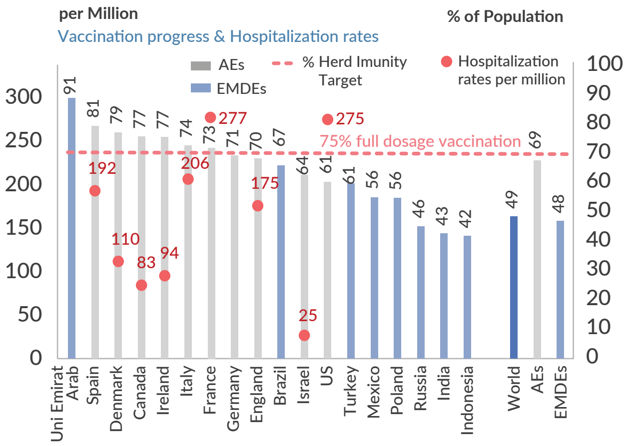
global population was fully vaccinated, almost 70% of the population in AEs but only 48% in EMDEs. Several AEs, namely Spain, Denmark, Canada and Ireland, have already achieved vaccination rates

## Chart 1.4. World Vaccine Contract




Source: Ministry of Health , Duke University, World Health Organization.
Notes calculating full dosage of vaccine, for Johnson & Johnson & Cansino assumed full dosage 2 (two) times

## Chart 1.5. World Vaccination Rates




Source: Our World In Data, Ministry of Health.
Notes: Indonesia vaccination
progress: total vaccination/ 2/ polulation =51.96%

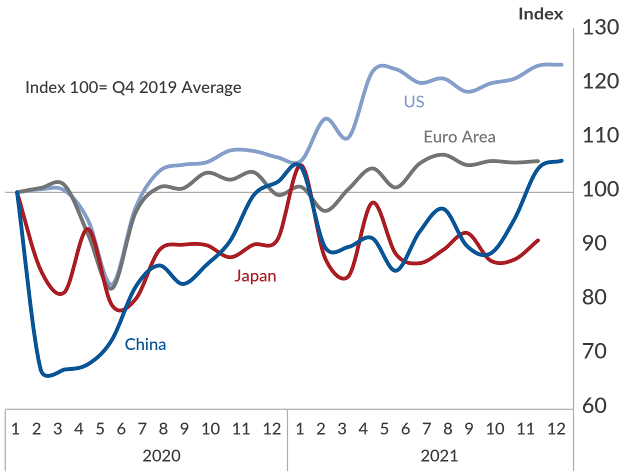
exceeding 75% and nearing herd immunity. This asynchronous vaccination rollout is considered a primary determinant of slower mobility improvements in EMDEs compared with AEs, leading to a divergent global economic recovery.

# 1.2

# A Divergent Global Economic Recovery

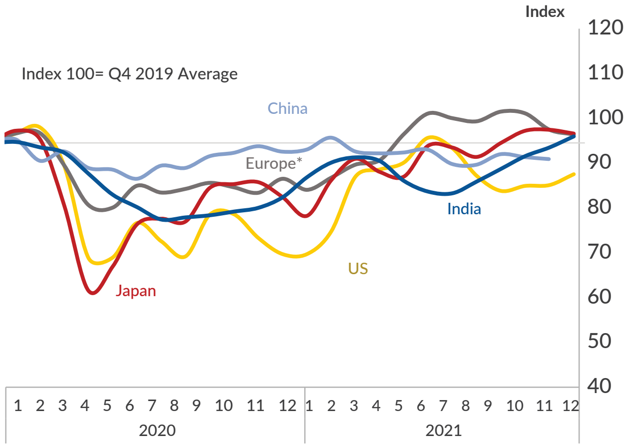
**The rapid pace of economic recovery achieved at the beginning of 2021 was stifled by the Delta variant outbreak.** Several indicators pointed to a relatively quick recovery of economic activity in the first quarter of 2021, particularly in AEs. Over time, however, mobility restrictions, which were introduced to break the domestic chain of Delta variant transmission, restrained economic activity in several jurisdictions, as reflected in consumer confidence and retail sales in various jurisdictions, with impact depending upon vaccination rates and consumer perceptions of concern over subsequent Covid-19 waves. Among AEs, for instance, upward momentum in the retail sales index, established at the end of 2020, began to fade in March 2021 in the US and July 2021 in Europe (Chart 1.6). Notably, the Consumer Confidence Index (CCI) declined more sharply in the US than in Europe (Chart 1.7). In China, the retail sales index and CCI began to decline in June 2021. By contrast, in India consumer confidence began to regain upward momentum in July 2021, after declining since the Delta variant outbreak in February 2021. As retail sales gained strength, consumption growth picked up, but transmission of the Delta variant and mobility restrictions undermined business confidence (as indicated by the Purchasing Managers Index (PMI)), which hurt production and investment. Overall

**Chart 1.6. Retail Sales Index**




Source: CEIC, calculated

**Chart 1.7. Consumer Confidence Index**




Source: Bloomberg, calculated *) Weighted average of consumer confidence: Germany, France, Italy and Spain

economic activity gradually recovered around the third quarter of 2021 as the number of Delta cases decreased and public mobility was restored.

**Overall, the global economy improved through 2021, despite an asynchronous recovery**. The speed of economic recovery across jurisdictions was determined by the success of vaccination rates in approaching herd immunity, the magnitude of fiscal and monetary stimulus support, as well as the degree of economic resilience. In AEs, particularly the US, a faster pace of recovery was supported by extraordinary fiscal and monetary stimuli; swift vaccination programs, social assistance and business support measures; as well as unprecedented liquidity injections (quantitative easing) into the financial system. Conversely, most EMDEs excluding China, struggled to improve domestic economic recovery. There was limited supply and access to vaccines, while weaker fiscal and monetary stimulus impeded economic recovery in most EMDEs. In addition, the majority of EMDEs faced constraints in terms of increasing their budget spending, primarily due to lower tax revenues as business activity languished, coupled with limited debt capacity to finance larger fiscal deficits. Meanwhile, monetary policy effectiveness to revive economies was beset by inflationary pressures and a financial sector impacted by the pandemic.

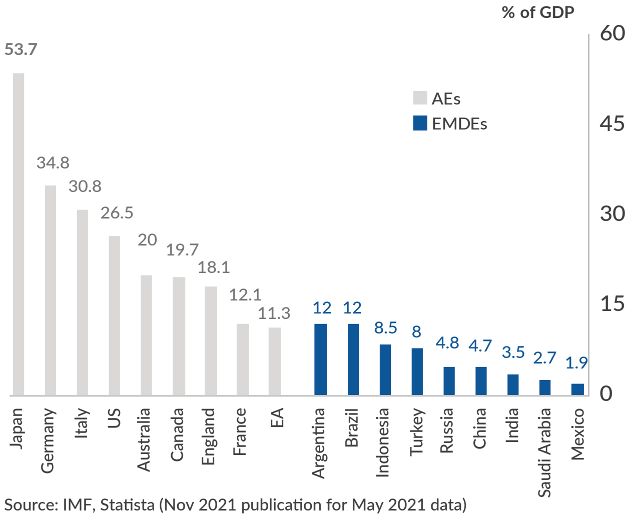
**The world economy is forecast to grow by approximately 5.7% in 2021 and 4.4% in 2022, following a 3.1% contraction in 2020 (Table 1.1).** The two largest global economies have recovered, with growth in China projected at 8.1% in 2021 and 5.2% in 2022 after moderating to 2.3% in 2020; growth in the US is projected at 5.6% in 2021 and 3.8% in 2022 after contracting 3.4% in 2020. Meanwhile, the economic recovery achieved in other countries in 2021 is expected to continue in 2022. Among AEs, the European Union is projected to grow 5.0% in 2021 and 4.2% in 2022 after contracting 6.3% in 2020. Japan is expected to grow 1.9% in 2021 and 2.7% in 2022 after contracting 4.6% in 2020. Elsewhere in Asia, India is predicted to grow 9.0% in 2021 and 8.2% in 2022 after contracting 7.1% in 2020. Similarly, ASEAN-5 is projected to grow 3.9% in 2021 and 5.4% in 2022 after contracting 3.4% in 2020. Also, world trade volume and international commodity prices continue to rise, thereby supporting exports and recovery prospects in various EMDEs. World trade volume and international commodity prices contracted by 5.3% and 0.8% respectively in 2020 before rebounding sharply by 9.8% and 59.6% in 2021. A stronger global economic recovery is expected in the second half of 2022, 2023 and beyond.

### Table 1.1. Global GDP Growth

| GDP Growth (%) | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| **World** | **2.8** | **-3.1** | **5.7** | **4.4** |
| **AEs** | **1.6** | **-4.5** | **5.0** | **3.8** |
| US | 2.2 | -3.4 | 5.6 | 3.8 |
| Euro Area | 1.3 | -6.3 | 5.0 | 4.2 |
| Japan | 0.0 | -4.6 | 1.9 | 2.7 |
| **EMDEs** | **3.7** | **-2.1** | **6.1** | **4.8** |
| China | 6.0 | 2.3 | 8.1 | 5.2 |
| India[1] | 4.8 | -7.1 | 9.0 | 8.2 |
| ASEAN-5 | 4.9 | -3.4 | 3.9 | 5.4 |
| Latin America | 0.1 | -7.0 | 5.1 | 2.8 |
| Emerging Euro | 2.5 | -2.0 | 4.7 | 3.7 |
| Middle East and Central Asia | 1.4 | -2.8 | 4.1 | 3.8 |
| **World Trade Volume** | -0.4 | -5.3 | 9.8 | 3.8 |
| **International Commodity Prices Indonesia Export** | -3.0 | -0.8 | 59.6 | 2.8 |

[1]BI's assumption for Indian GDP is adjusted to Calendar year (estimation)
Source: IMF WEO October 2021 Database, Bank Indonesia Projection, 2019-2020 Realization based on current number

### Chart 1.8. G20 Countries Fiscal Stimulus




Source: IMF, Statista (Nov 2021 publication for May 2021 data)

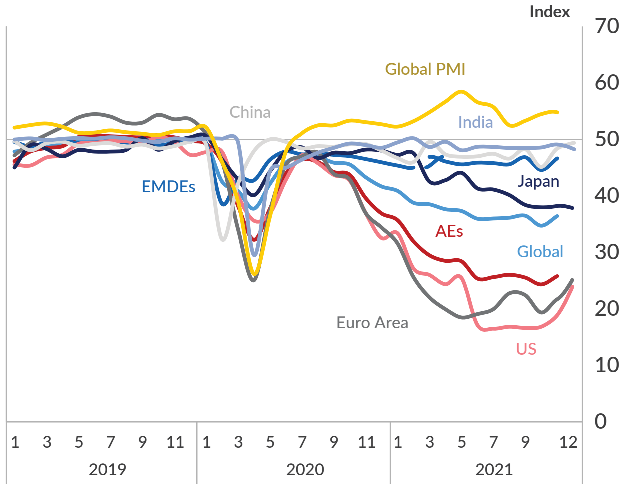
# 1.3

## Global Supply Chain Disruptions and Energy Scarcity

**The economic recovery in 2021 faced several onerous challenges**. Supply was unable to keep pace with a surge in demand, particularly at the beginning of the year, because factor mobility had not returned to pre-pandemic levels, leading to global supply chain disruptions. Entering 2021, supply constraints hit semiconductors as demand for technology skyrocketed to support work from home protocols, including mobile telephones and computers, which undermined the recovery, primarily in Germany, Japan and the US. In addition, stronger demand created supply and distribution issues affecting production inputs, a condition severely exacerbated by the closure of sea and airports in a number of producing countries in Asia, due to the Delta outbreak. At the beginning of the fourth quarter of 2021, energy scarcity brought on by the application of green economy policies, natural disasters and seasonal demand further compounded the supply constraints. Consequently, a gap emerged between production and demand, coupled with higher international commodity prices. These pushed up actual inflation and inflationary expectations in AEs, although this is projected to be only temporary. Such developments demand vigilance and must be anticipated in terms of their economic impact on Indonesia.

**Global supply chain disruptions are a new phenomenon that requires constant vigilance**. The disruptions include cross-border distribution constraints and the scarcity of production inputs. International distribution has been severely hampered by a lack of containers, backlogs affecting many ports, longer delivery times and higher shipping costs between countries, especially since April 2021 (Charts 1.9 and 1.10). This problem has compromised production due to the unfulfilled supply of raw materials from other countries. Global producers, particularly China and other Asian countries, imposed mobility restrictions to break Delta variant transmission, which undermined production, inventory and shipping capacity. In

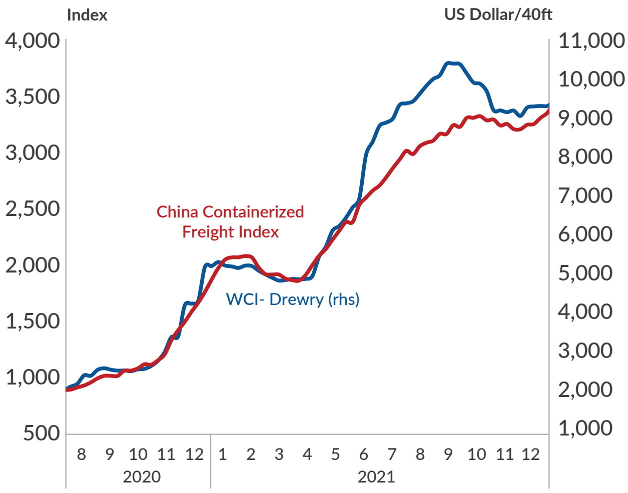
### Chart 1.9. Delivery Time Indicator




Source: IHS Markit

addition, the shortage of input materials was blamed on high demand for semiconductors for example, and green energy policies that have led to scarcities of coal, gas and oil. In the US, gaps have appeared in the labour market, as reflected by a rising level of voluntary unemployment and higher wages in several economic sectors, including accommodation and food service activities, education and health, retail sales, manufacturing and trade.

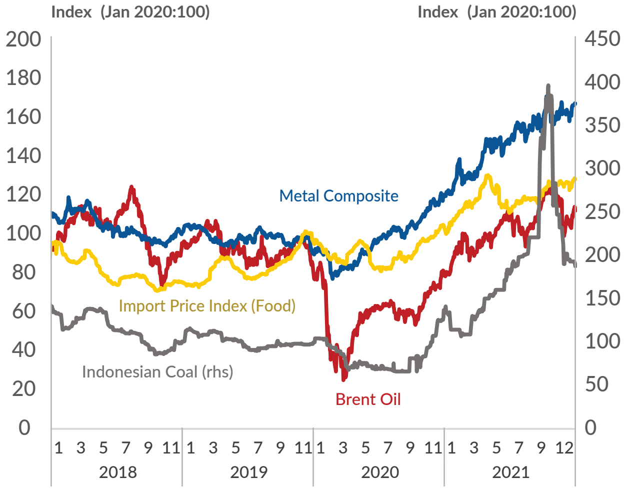
### Chart 1.10. Shipping Costs




Source: Bloomberg

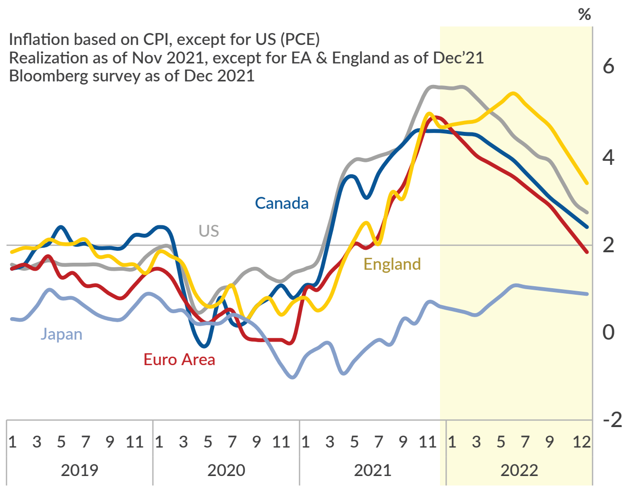
**Energy shortages, combined with supply and distribution constraints, have impacted global inflation**. In addition to the uneven economic recovery and mobility restrictions to contain Covid-19, the energy shortages have been exacerbated by policy factors, such as growing calls for a green economy from Europe, the US and China, which require a transition period towards environmentally friendly manufacturing and production. At the same time, the demand for energy has increased in the northern hemisphere in anticipation of the winter months. These factors have created a production-demand gap and raised international commodity prices, including oil, coal, metal and food (Chart 1.11). Another result has been rising actual inflation and inflationary expectations in AEs, particularly in the US, Europe, UK, Canada and Australia (Chart 1.12). Inflationary pressures reached a record high of 5% in the US and 4.9% in Europe in November 2021 in line with higher energy prices. As supply disruptions gradually ease, however, milder inflationary pressures are predicted in several AEs towards the middle of 2022. Such developments must be monitored carefully, however, particularly in line with persistently high uncertainty at the end of 2021, considering the Omicron outbreak.

### Chart 1.11. World Commodity Prices




Source: CEIC, IHS Market, Bloomberg, World Bank, calculated

### Chart 1.12. World Inflation Projection




Surce: Bloomberg Survey, BI's estimation, calculated

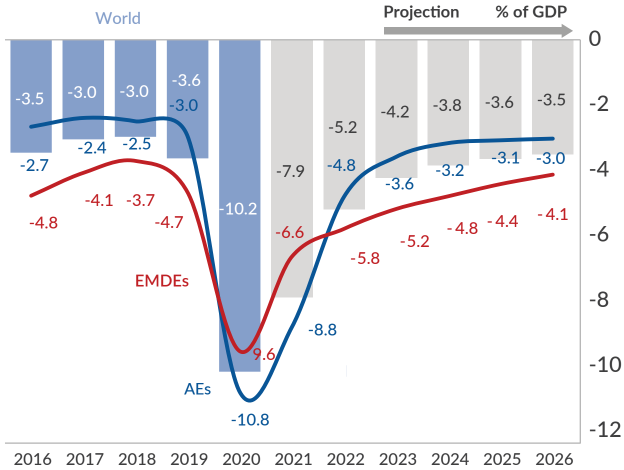
# 1.4

# Asynchronous Fiscal and Monetary Exit Policies and Persistent Global Financial Market Uncertainty

**A divergent economic recovery, supply disruptions and energy scarcity have led to asynchronous exit policies as between AEs and EMDEs.** All countries will eventually normalise their fiscal posture and reduce budget deficits, which have widened significantly in recent years, with EMDEs taking a more gradual approach than AEs (Chart 1.13). Likewise for monetary policy, above-target inflation has compelled central banks in EMDEs to raise policy rates, such as in the Czech Republic, Brazil, Mexico, Russia and Turkey (Chart 1.14). In addition, central banks in several AEs are gradually tapering monetary stimuli in line with the economic recovery together with a build-up of inflationary pressures. The Bank of Canada remains at the forefront by ending its bond purchase program, with the Bank of England, US Federal Reserve and Reserve Bank of Australia expected to follow suit in the first semester of 2022. For instance, at the end of 2021 the Fed announced an accelerated tapering of monetary policy.[2] Meanwhile, the Bank of Korea, Norges Bank and the Reserve Bank of New Zealand have already increased their respective policy rates due to inflationary pressures, improving economic activity and early indications of financial stability risk, among others. As further steps, market participants are expecting a relatively early hike in the US policy rate (the FFR) in the first half of 2022, predicting 75bps overall in 2022.

**In line with asynchronous exit policies, global financial market uncertainty persists.** In the first quarter of 2021, global financial market uncertainty increased, accompanied by higher UST bond yields in response to a large US fiscal policy package and

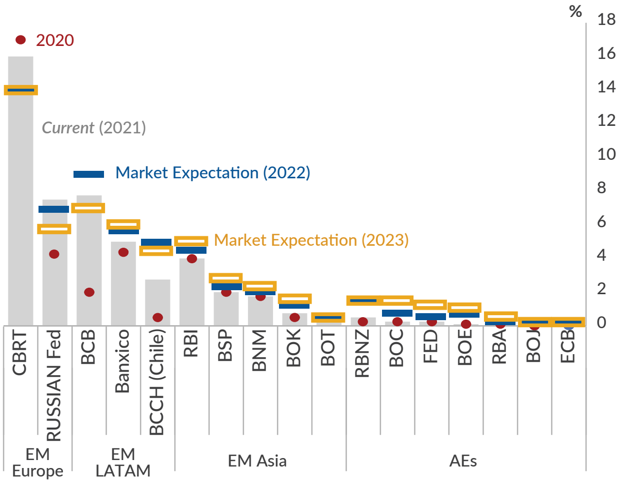
## Chart 1.13. Fiscal Deficit




Source: IMF Fiscal Monitoring October 2021

2 Persistently high inflation compelled the Fed to accelerate its tapering policy twofold, to USD30 billion per month (consisting of USD20 billion in UST and USD10 million in MBS), compared with USD15 billion per month in November and December 2021. The move will shorten the duration of tapering to March 2022, thus providing room for the Fed to increase the federal funds rate (FFR).

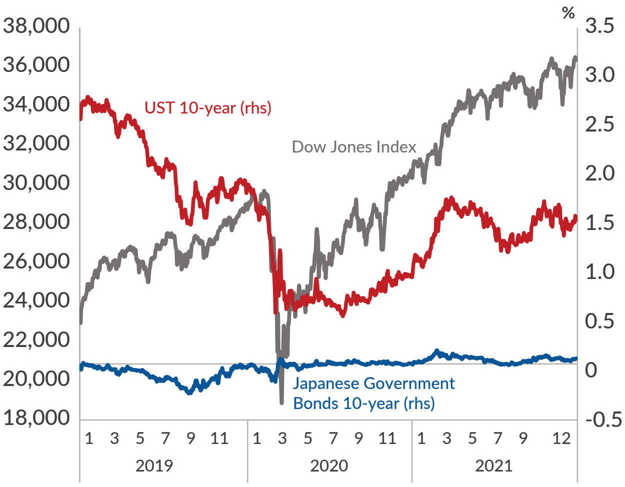
**Chart 1.14. Monetary Policy**




Source: Bloomberg

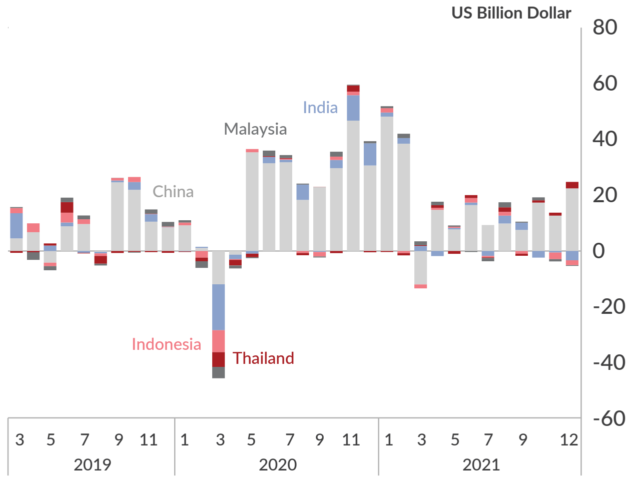
the prospect of a faster US economic recovery (Chart 1.15). Consequently, relatively high portfolio investment inflows to EMs began to subside at the beginning of 2021, particularly from March 2021

**Chart 1.15. Movement in Yields and Stocks**




Source: Bloomberg

**Chart 1.16. Portfolio Investment Flows**




Source: Institute of International Finance, calculated

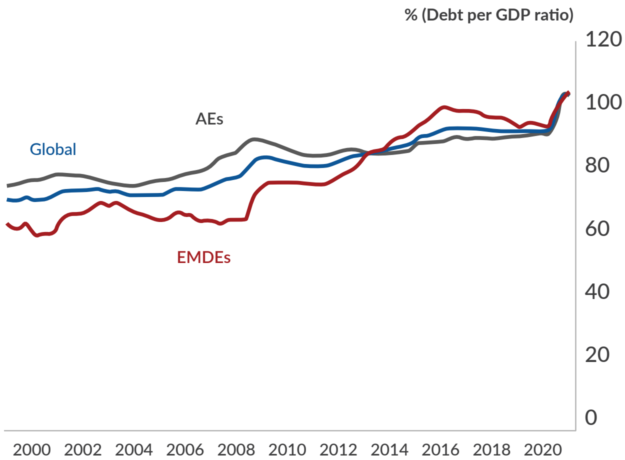
(Chart 1.16). This increased currency pressures and exchange rate volatility in EMs. Global financial market uncertainty began to ease at the beginning of the second quarter of 2021 in line with the transparent and consistent communication by the Fed concerning the accommodative policy direction. Global financial market uncertainty persisted in the latter half of 2021 reflecting emerging risks, including: rising Delta variant transmission; market anticipation of the Fed's tapering; and concerns over persistent inflationary pressures due to supply chain disruptions and the unfolding energy shortages. Asynchronous fiscal and monetary policy normalisation, coupled with elevated global financial market uncertainty, complicated efforts for economic recovery in EMDEs, including Indonesia.

# 1.5

# Scarring Effects of the Pandemic

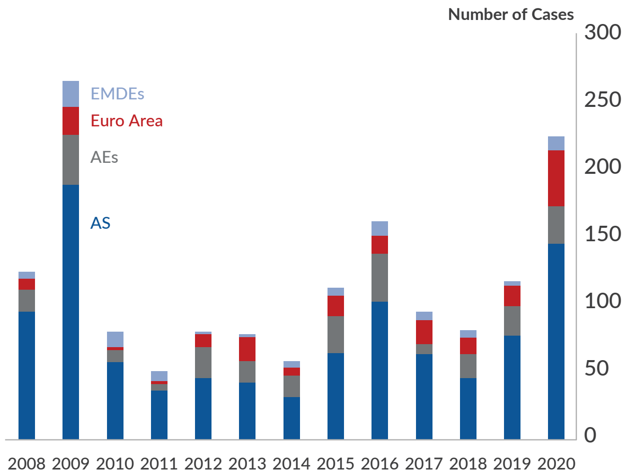
**The prolonged Covid-19 pandemic has had a scarring effect on the corporate sector and triggered risks in terms of financial system resilience.** Public mobility restrictions have squeezed business activity, thus eroding sales, liquidity, profitability and capital. Leverage has increased during the Covid-19 pandemic in AEs and EMDEs (Chart 1.17). Indeed, corporate default has soared to almost the same level as recorded during the global financial crisis, dominated by the US, followed by Europe and EMDEs (Chart 1.18). Not all businesses have suffered the same extent of scarring, however, with differences depending upon the sectoral impact of mobility restrictions. This condition demands constant vigilance, with the adverse effects on individual banks and overall financial system stability requiring careful monitoring. Financial sector supervisory authorities in various countries, therefore, have relaxed regulatory provisions concerning late principal and instalment payments, thereby providing special dispensation for non-performing loans (NPLs) in the banking industry. The scarring effect in the corporate sector and the impact on financial institutions and financial system stability continues to demand attention as the Covid-19 pandemic endures. Even after the economy has fully recovered, the scarring effect of the pandemic on the corporate sector will take time to heal.

## Chart 1.17. Non-financial Corporation Leverage




Source: IMF Global Financial Stability Report - International Monetary Fund, April 2021


## Chart 1.18. Number of Corporate Failures



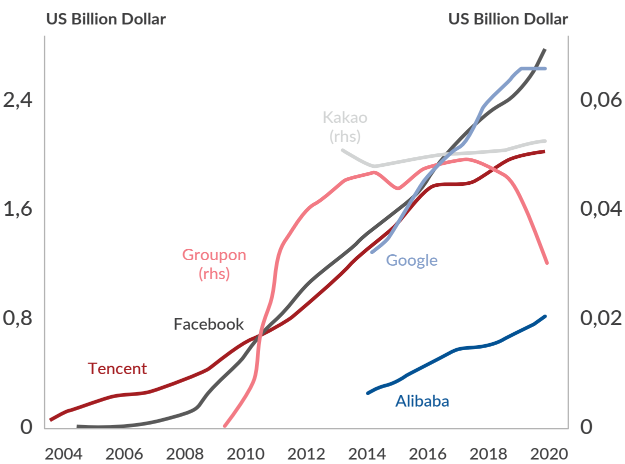

Source: Global Financial Stability Report - International Monetary Fund, April 2021

# 1.6

# Pace of Economic and Financial Digitalisation

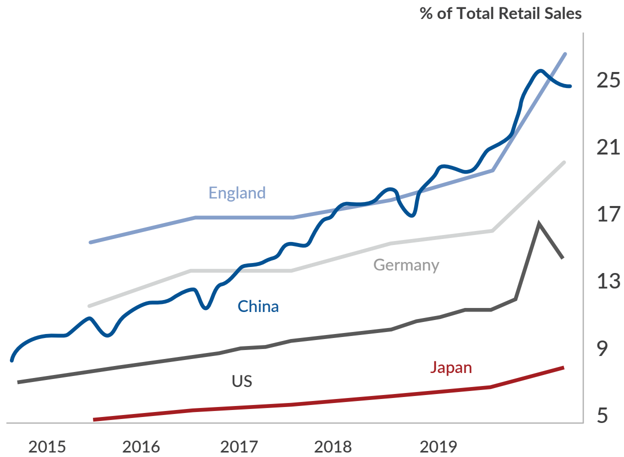
**Digitalisation of the payment system as well as wider finance and the economy is progressing rapidly, increasingly dominated by BigTech and e-commerce growth**. Digitalisation began prior to the Covid-19 pandemic, driven by technological advances, including artificial intelligence from BigTech, which can provide personal economic and financial services anytime and anywhere (Chart 1.19). Such services include e-commerce platforms, where the massive volume and frequency is dominated by low-value transactions (Chart 1.20). Since the pandemic began, with the inevitable mobility restrictions, digitalisation of the economy and finance and payment systems have proceeded rapidly. Digital economic and financial transactions, previously dominated by young people and millennials, have penetrated all social strata and become the preferred approach and new norm considering convenience, speed and affordability. Nonetheless, digitalisation has also posed a number of new issues, including personal data ownership and protection, taxing digital economic and financial transactions, shadow banking, cryptocurrency and cyber-attacks. The various opportunities and challenges created by the digital economy and finance demand an optimal policy response to re-establish the role of the state in this new era of digital civilisation.

### Chart 1.19. Active Users of BigTech



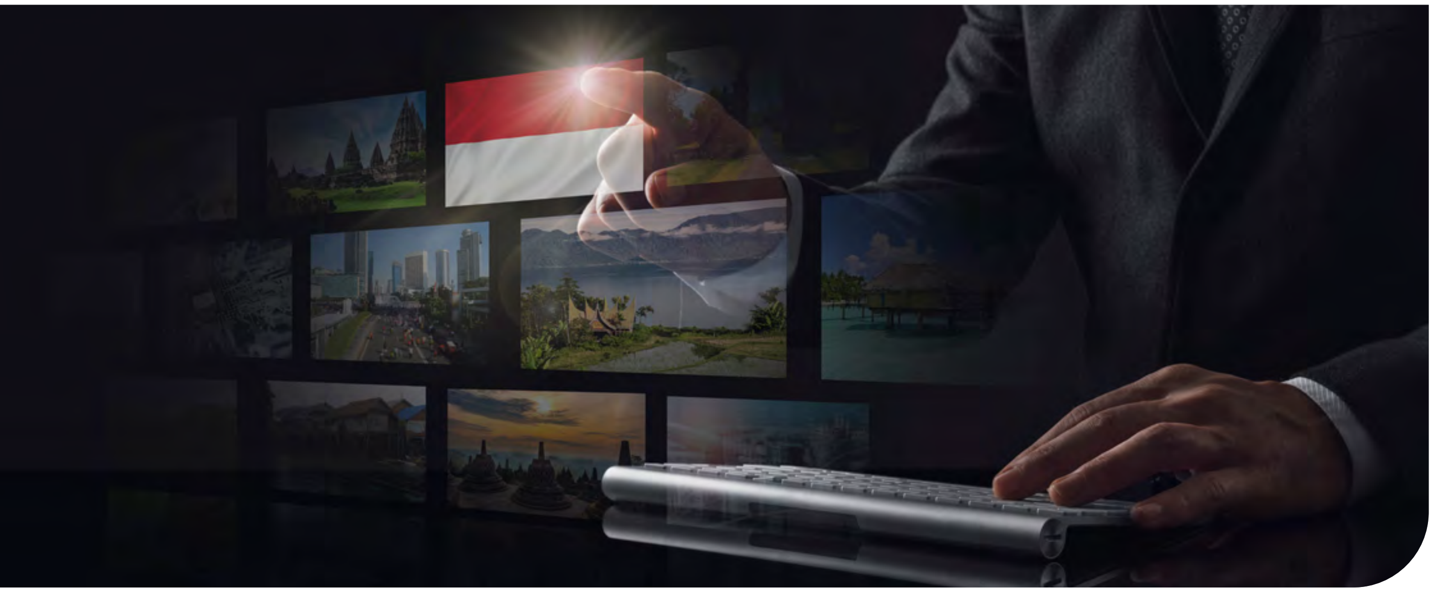

Source: Bank for International Settlements

### Chart 1.20. E-Commerce Share




Source: Bank for International Settlements;Data as of Nov 2020 (US), Oct 2020 (China), Sep 2020 (Germany, Japan and England)

**Amid the ongoing global economic recovery, the advancement of digital technology has revealed various new opportunities to revive economic growth as a 'new growth engine'**. Payment system



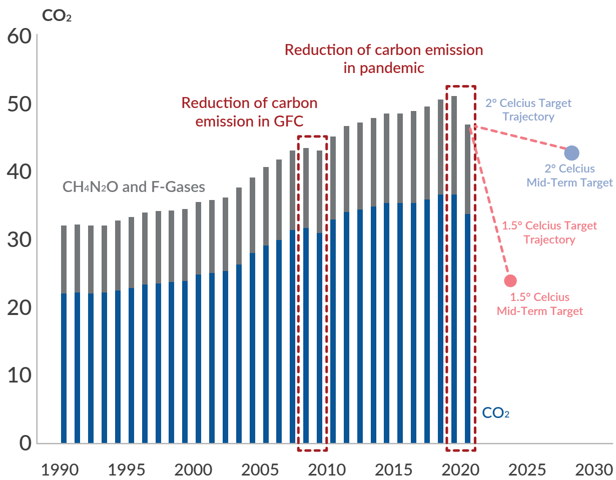
digitalisation has become a critical element in maintaining the momentum of economic recovery. Technological change is driving digital transformation in the payment system, emphasising mobility, speed, efficiency, flexibility, integration and data security. Digital payments via e-Payments benefit all parties involved through increased productivity and efficiency. The availability of digital payments supports a healthy economic cycle, with higher consumption leading to higher production, more jobs, higher incomes and, thereby, stronger economic growth. Nevertheless, the challenge of achieving an efficient, fast, secure and reliable payment system requires the central bank to prepare the necessary mechanisms, instruments and infrastructure as well as the legal and institutional arrangements. Restructuring the payment system industry has been necessary, supported by an adequate regulatory framework. In addition, the authorities must also support development of the digital economy and finance, which will help create a payments processing ecosystem.

# 1.7

# Growing Calls for a Green Economy and Sustainable Finance

**The Covid-19 pandemic has increased demand for global action to accelerate the green economy and finance.** Prior to the pandemic, various countries had demonstrated their commitment to the 2015 Paris Agreement as an international treaty to adopt a green economy and finance and to help combat climate change, amongst others by reducing carbon emissions (Chart 1.21). Consequently, various countries are committed to gradually transitioning towards a green economy and finance to reduce the costs of climate change. Since the Covid-19 pandemic, however, calls for the green economy and finance have become louder, particularly in AEs, including much larger carbon emission reductions of around 8-9% compared to around 2-3% during the 2008-2009 global financial crisis (Chart 1.22). As a result, carbon emission reduction programs in various countries are being rigorously strengthened to meet the new commitments. Government support and incentives are required to encourage carbon neutrality projects by reducing carbon emissions, increasing energy efficiency and using renewable energy sources. Green finance from banks and financial markets is also being encouraged through green fiscal and monetary policy incentives and disincentives.

**Chart 1.21. Carbon Emissions and Reduction Targets**

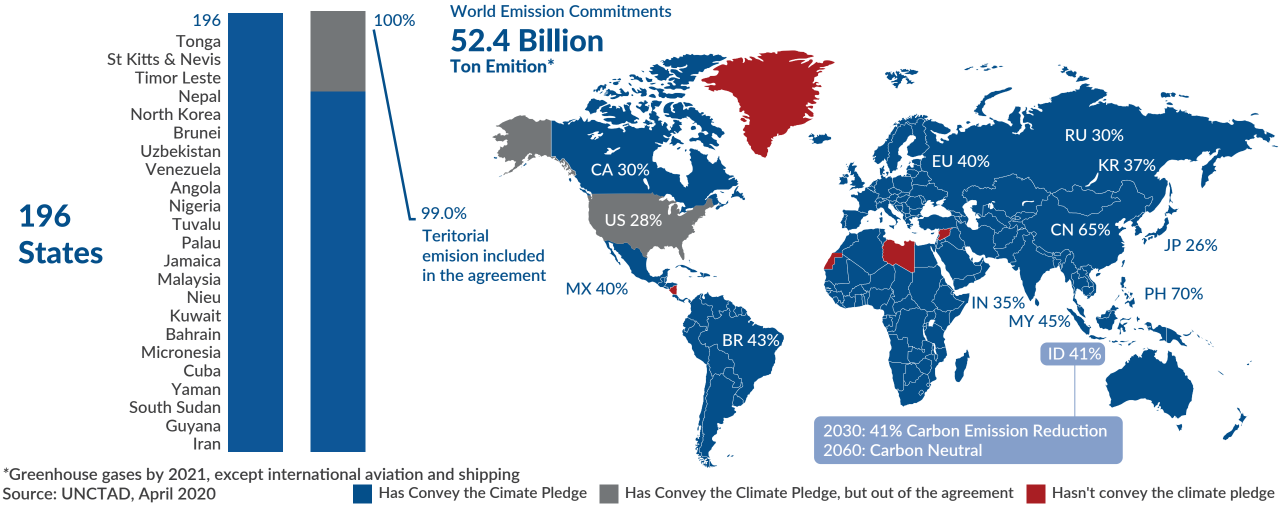



Source: United Nations Conference on Trade and Development

**Environmental degradation and climate change create physical and transition risks with implications for monetary and financial system stability.** The transition towards a green economy, namely a low-carbon economy, must be gradual and moderate to optimise the policy response to climate change. This initiative supports achievement of the carbon emission reduction targets in the spirit of the 2015 Paris Agreement to limit the rise in mean global temperature. To that end, the financial sector must contribute to lower carbon emissions. It will be difficult to achieve the targets, however, without cross-institutional synergies between the fiscal, real and financial sectors. It is necessary, therefore, to establish green financial infrastructure, including international green certification, digitalisation of green market platforms, as well as digitalisation of the data and the green market. Green investment could considerably boost economic growth and foreign exchange reserves through the transition to low-carbon power, transportation and buildings, as well as other transitions towards a low-carbon economy. Green financial markets are the main source of green investment. By way of example, Singapore opened a global green market in 2021, with financing potential in Asia valued at approximately USD1.7 trillion per year.

**International policy coordination has continued to strengthen the momentum of the global economic recovery and to overcome the emerging problems outlined above.** Several important agendas have been adopted by the G20, IMF, FSB, BIS and others. *First*, the need to further expand the supply and

### Chart 1.22. Paris Agreement




*Greenhouse gases by 2021, except international aviation and shipping
Source: UNCTAD, April 2020

distribution of vaccines from AEs to EMDEs, including the provision of soft loans and debt relief for least developed countries (LDCs) as well as additional Special Drawing Rights (SDR) allocations, specifically requesting that AEs and EMDEs assist LDCs. *Second*, the need to phase and clearly communicate fiscal and monetary policy normalisation (an exit policy) to overcome the uneven global economic recovery as well as its impact on global financial market stability. *Third*, the need for joint measures to address global supply chain disruptions and energy scarcities in order to maintain the momentum of economic recovery and to tackle global inflation. *Fourth*, the need for fiscal, monetary and macroprudential policies as well as regulations targeting financial institutions and the real sector (such as structural and labour market reforms) to overcome the scarring effect of the pandemic on corporate conditions and avoid disrupting economic recovery sustainability, while preventing contagion risk to financial system stability.

*Fifth*, the need to expedite international cooperation in terms of accelerating economic and financial digitalisation, including in: cross-border payment systems; central bank digital currency (CBDC) development; BigTech regulation and supervision; data; cyber-attacks; as well as digitalisation for economic and financial inclusion, such as remittances, retail trade and MSMEs. *Sixth*, the need for a transition period towards a green economy and sustainable finance, including the provision of transparent carbon emission data, preparing carbon emission transition programs, carbon taxes and the development of green financial products (sustainable finance). *Seventh*, the need for continuous monitoring and anticipation when formulating the policy measures required in Indonesia against a backdrop of various international agendas that dominate discussions at international cooperation forums, including the G20, IMF, FSB and BIS. This has become even more important in light of Indonesia's G20 Presidency in 2022 (Table 1.2).

**International organisations, such as the IMF, the FSB and the World Bank, instituted various policies throughout 2021 to support the global economic recovery**. The policies focused on supporting global economic resilience and reviving economic growth. Funds mobilisation to strengthen economic resilience impacted by the pandemic, remained a policy priority among international organisations in 2021. Funds were primarily mobilised through the IMF's allocation of SDRs among its members, to the tune of USD650 billion, effective from 23 August 2021. Under pandemic conditions, countries are permitted to sell their SDR allocation through spot and forward transactions, lend and borrow SDR, use SDR in swap transactions, as well as use or receive SDR donations.

### Tabel 1.2. Theme, Focus, and Priority Agenda of G20 Presidency of Indonesia

| | |
|---|---|
| **Indonesia's G20 Presidency**<br>***"Recover Together, Recover Stronger"*** | |
| Focus: driving productivity, increasing economic resilience and stability, and ensuring sustainable and inclusive growth | |
| **6 (six) Finance Track Priority Agenda of Indonesian G20 Presidency in 2022:** | |
| 1 | Exit Strategy to Support Recovery: Discussing how G20 will protect member countries on the road to economic recovery (particularly developing economies) from the spillover effect of exit policies in countries further along their economic recovery journey (typically advanced economies) and mitigate the risk of uncertainty in global financial markets with well calibrated, well planned, and well communicated communication |
| 2 | Addressing the Scarring Effect to Secure Future Growth: Addressing the scarring effect of the crisis to increase productivity and growth in the long term, while paying due attention to the labour market, households, corporate sector and financial sector |
| 3 | Payment System in Digital Era: Standardising cross-border payments (CBP) as well as the General Principles for Developing CBDC |
| 4 | Sustainable Finance: Discussing climate risk and the risk of transitioning towards a low carbon economy as well as sustainable finance from a macroeconomic and financial stability perspective. |
| 5 | Financial Inclusion: Digital Financial Inclusion & SME Finance Utilising open banking to increase productivity, as well as support the economy and financial inclusion for underserved communities, such as women, young people and MSMEs, including cross-border aspects |
| 6 | International Taxation: Discussing international taxation, particularly implementation of the joint OECD/G20 inclusive framework on tax planning strategies known as Base Erosion and Profit Sharing (BEPS). |

This aims to provide room for countries with strong external conditions to allocate their SDR to weak or vulnerable countries in the context of economic recovery from the pandemic.[3]

**The moratorium on debt payments for low-income countries (LICs) remained a policy focus of international organisations in 2021**. The suspension of debt payments for LICs through Debt Service Suspension Initiatives (DSSI)[4] was extended until the end of December 2021 (from June 2021). The initiative agreed by G20 members in March 2020 and monitored by the IMF and World Bank aims to provide fiscal space for countries, as required, to focus fiscal spending on financing to manage and contain the Covid-19 pandemic. As the final extension, LIC debt settlement will apply a structural approach through the Common Framework for Debt Treatments beyond the DSSI.

**The FSB plays an essential role in maintaining global financial system stability by strengthening analytical studies and evaluating the policy response to the pandemic**. The primary focus of the FSB includes vulnerability assessments and work programs to strengthen NBFI resilience; the response and recovery toolkit for cyber incidents, assessing the regulatory and supervisory implications of global stablecoin arrangements; developing a roadmap to strengthen cross-border payments; and risk mitigation in the financial system in relation to

3 In addition to the SDR allocation, funds mobilisation, specifically for low-income countries (LICs) has been increased through: (i) the lending arms of international organisations, such as the International Development Association (IDA) of the World Bank Group, (ii) the IMF's Poverty Reduction and Growth Trust (PRGT), and (iii) Catastrophe Containment Relief Trust (CCRT), as well as (iv) Multinational Development Banks (MDBs).

4 DSSI requirements are: Low-Income Countries (LIC) active in the International Development Association (IDA) in FY20; and United Nations Least Developed Countries (UN LDC).

climate change. In addition, the FSB continues to monitor and advocate the implementation of international standards in the context of post-2008 financial crisis regulatory framework reforms, such as Basel III, the fulfilment of which was relaxed in 2020 due to the pandemic. The core elements of Basel III have nevertheless been met in accordance with the timeline, yet other elements, such as the capital framework, require stronger commitment, as well as international cooperation, coordination and communication, with G20 support.

**In general, World Bank policy has focused on providing support to countries in need**. Several policies were issued to address health emergencies, strengthen healthcare systems and pandemic preparedness, protect the poor and vulnerable and support the transition process to a green economy. In 2021, the World Bank disbursed funding totalling USD6.3 billion for the purchase and distribution of vaccines in more than 64 EMDEs. The World Bank also partnered with COVAX and the African Union to support the purchase and distribution of vaccines to 400 million people. In conjunction with other international organisations such as the IMF, WTO and WHO, the World Bank established the Multilateral Leaders Task Force on Covid-19 to accelerate access to vaccines and essential medical equipment in DEs through multilateral trade and financial cooperation. In the education space, the World Bank implemented educational projects, reaching 432 million students and 26 million teachers, to help overcome the impact of learning poverty caused by the pandemic. In terms of climate change, the World Bank issued the Climate Change Action Plan 2021-2025, which aims to channel funding to green projects in DEs, strengthen adaptation and harmonise financial flows with the goals of the Paris Agreement.

CHAPTER 2

# NATIONAL ECONOMIC PERFORMANCE AND OUTLOOK: THE RECOVERY PROCESS CONTINUES, STABILITY IS MAINTAINED

The 2021 economic recovery in Indonesia was largely driven by Covid-19 pandemic developments. Ongoing economic improvements since the first quarter of 2021 have endured, yet have been restrained by the impact of the Delta outbreak in the third quarter of 2021. Overall, Indonesia's economy is projected to continue improving in 2021 before accelerating in 2022, accompanied by a stable exchange rate and controlled inflation. Stronger economic conditions will be supported by increasing factor mobility as Covid-19 transmission is brought under control in line with a faster vaccination rollout. The broader reopening of economic sectors, along with policy stimuli and solid export performance support such projections. To that end, national economic policy synergy and innovation must be strengthened to bolster the ongoing economic recovery.

**The 2021 economic recovery in Indonesia was strongly influenced by Covid-19 pandemic developments**. Covid-19 infections in Indonesia increased during 2021 to peak at more than 50,000 daily cases in the middle of July, caused by the highly contagious Delta variant. The spike in daily cases, in July 2021, compelled the Government to strengthen localised community activity restrictions (PPKM), accompanied by activity restrictions that were specific to administrative regions (level-based). In addition to restricting public activity, the Government accelerated the Covid-19 vaccination program rollout, which began at the beginning of 2021, targeting 208 million of the Indonesian population. The surge of Covid-19 cases was brought under control in line with policies implemented to contain and manage the pandemic. By the beginning of August, the Covid-19 curve had flattened as indicated by declines in the positivity rate and bed occupancy ratio (BOR). Such developments allowed the Government to relax the intensity of mobility restrictions, thus spurring economic activity.

**The domestic economy improved throughout the first semester of 2021, yet was restrained slightly in the third quarter by the Delta outbreak**. Indonesia's economy in the second quarter of 2021 expanded for the first time since the onset of the pandemic at the beginning of the previous year. Economic expansion was driven by export performance, fiscal spending and non-building investment. Household consumption was more subdued, due to restricted public mobility aimed at containing Covid-19. However, emergence of the Delta variant in the third quarter of 2021 temporarily impeded the economic recovery. Renewed mobility restrictions, implemented to overcome a spike in Covid-19 cases, impacted the economy, particularly domestic demand. On the external side, Indonesia's Balance of Payments (BOP) continued to post gains in line with stronger export performance. The current account in the third quarter of 2021 recorded a USD4.5 billion surplus, stemming from a solid trade balance. Meanwhile, the capital and financial account recorded a larger surplus in the third quarter of 2021, despite a surge of Covid-19 cases and concerns over relatively early global monetary policy normalisation in the light of higher international inflation. Consistent with strong BOP performance, the value of the rupiah was maintained with low exchange rate volatility, supported by positive perceptions of the domestic economy as well as exchange rate stabilisation policy instituted by Bank Indonesia. The Consumer Price Index (CPI) pointed to low inflation on compressed demand. Finally, financial system stability was maintained, while the digital economy continued to expand, despite transmission of the Delta variant.

**Fourth-quarter economic performance in 2021 is projected to improve**. This forecast would lift economic growth in 2021 above that achieved in 2020, supported by increasing mobility, broader reopening of economic sectors, ongoing policy stimuli and persistently solid export performance. Export performance also contributed to a strong BOP position, despite elevated global financial market uncertainty. Overall, the rupiah exchange rate in 2021 was maintained in line with the currency's fundamental value. Stability was supported by an adequate supply of foreign exchange from residents and non-residents, accompanied by the availability of diverse hedging instruments. Inflation remained low until the end of 2021 on the back of compressed domestic demand. In addition, there were adequate supplies of goods and services in response to growing demand; consistent policy synergy between Bank Indonesia and the central and local governments also helped to control price fluctuations. Financial system stability together with stronger banking industry performance and credit growth were consistent with a flattening of the Covid-19 curve. Furthermore, stronger economic performance, underpinned by payment system digitalisation, is expected to increase payment system transactions.

**Economic improvements are predicted to continue in 2022**. Economic growth is forecast to accelerate in line with higher private consumption and investment, while fiscal spending and exports will be maintained, despite the looming risk of rising Covid-19 cases. External balance will continue in 2022, primarily due to a capital and financial account surplus that can adequately offset the current account deficit. In line with expectations of growing domestic demand, inflation in 2022 is expected to rise, but remain under control within the 3.0%±1% target corridor, accompanied by expanding bank intermediation and continuing financial stability.

**National policy synergies and innovation to overcome the Covid-19 impact will be strengthened to maintain national economic stability and revive growth**. Accelerated vaccination rollout and containment of Covid-19, combined with reopening of priority economic sectors, will expedite the national economic recovery. In addition, synergy is required to strengthen the national economic policy mix, maintain stability and accelerate the national economic recovery amidst the prospect of persistent global financial market uncertainty. This strategy must be reinforced with innovation in terms of national economic policies and faster digitalisation, together with wider financial and economic inclusion.

**"Economic improvements predicted to continue in 2022"**

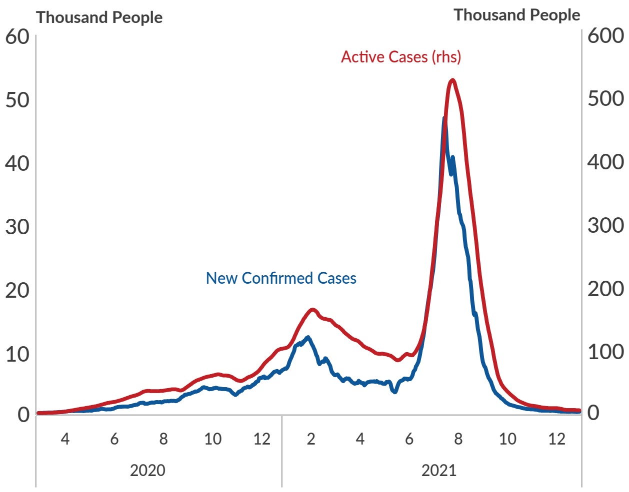
# 2.1

# Covid-19 Transmission in Indonesia Continues

**The 2021 economic recovery was impeded by the Covid-19 pandemic**. Covid-19 continued to spread throughout Indonesia in 2021 in two main waves. After public mobility was restored at the end of 2020, Covid-19 cases in Indonesia increased, peaking at the end of January 2021 with more than 13,000 additional daily cases, particularly in Jakarta, West Java, Central Java and East Java. In the following month, however, the reintroduction of mobility restrictions to reduce infection rates successfully suppressed new cases until the middle of 2021. Nevertheless, the highly transmissible Delta variant triggered a steeper wave of cases in Indonesia, peaking at more than 50,000 daily cases in the middle of July 2021 (Chart 2.1). Consequently, total Covid-19 cases increased to approximately 600,000 in July 2021, accompanied by the highest fatality rate, roughly 1,800 reported deaths per day. The Government moved quickly in the healthcare sector with a strong, 'end-to-end' policy response to reduce the transmission and fatality rates. Consequently, the number of active cases fell precipitously to less than 10,000, accompanied by a fatality rate of less than 10 per day (Chart 2.2).

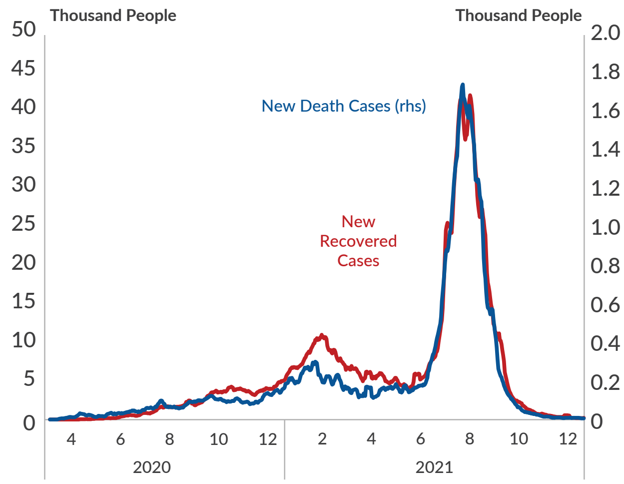
**The Government reintroduced mobility restrictions to break the domestic chain of Covid-19 transmission**. In response to this second wave of Covid-19 cases at the beginning of 2021, the Government introduced localised micro community

### Chart 2.1. Covid-19 Daily Cases




Source: Indonesian Covid-19 Task Force, calculated

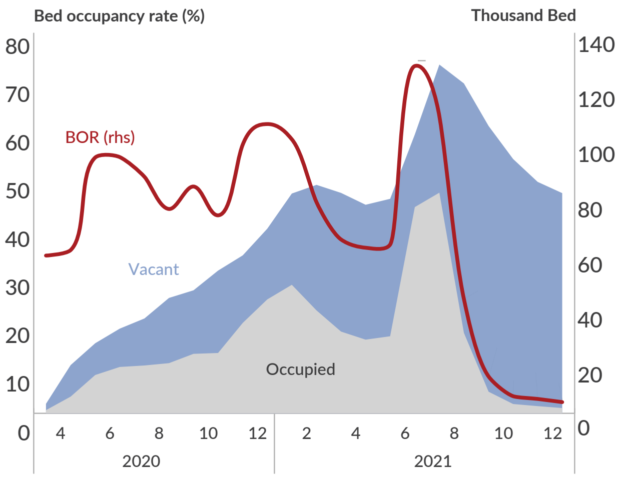
### Chart 2.2. Covid-19 Recovered Cases and Deaths




Source: Indonesian Covid-19 Task Force, calculated activity restrictions (PPKM) in Java and Bali. The policy regulated various public activities, including the operational hours of traditional markets and shopping malls as well as the maximum capacity permitted in restaurants, offices and on public transportation. A spike in cases caused by the Delta variant in July 2021 compelled the Government to strengthen the micro PPKM policy by implementing level-based community activity restrictions throughout Indonesia. Under this policy, the intensity of restrictions was adjusted based on pandemic assessments at each administrative level (city/regency). The intensity of restrictions was also based on standards issued by the World Health Organisation (WHO) to measure the transmission rate against testing, tracing and treatment (3T) capacity. The number of confirmed daily cases, bed occupancy rate (BOR) and vaccination rate were also considered. Moreover, Indonesia closed its borders and became more selective when issuing visas to inbound foreign travellers[5].

**The surge of Covid-19 cases was contained by the implementation of government policy**. Upstream interventions included tighter restrictions on community activity, together with more intense testing and tracing, and a faster vaccination rollout. Downstream interventions included additional hospital capacity, additional medical personnel, medical equipment and medicaments as well as higher isolation capacity. Towards the end of July, new Covid-19 cases began to subside; they fell from approximately 45,000 daily cases in July 2021 to an average of 300 daily cases in December 2021. The positivity rate, which peaked at 30.55% in July 2021, fell to 1.5% by year-end. Similarly, the bed occupancy

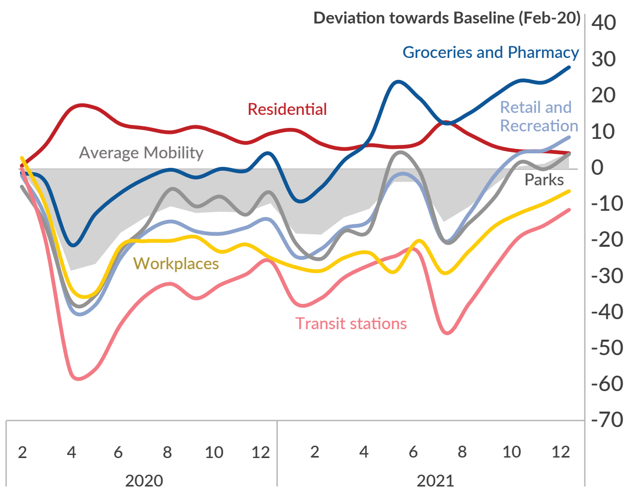
### Chart 2.3. National Bed Occupancy Rate (BOR)




Source: Ministry of Health

rate decreased from 74% in June 2021 to less than 10% in November 2021 (Chart 2.3). Such positive developments encouraged the Government to gradually and prudently relax the intensity of mobility restrictions, while avoiding a subsequent spike in cases as public mobility resumed (Chart 2.4).

### Chart 2.4. Indonesian Public Mobility

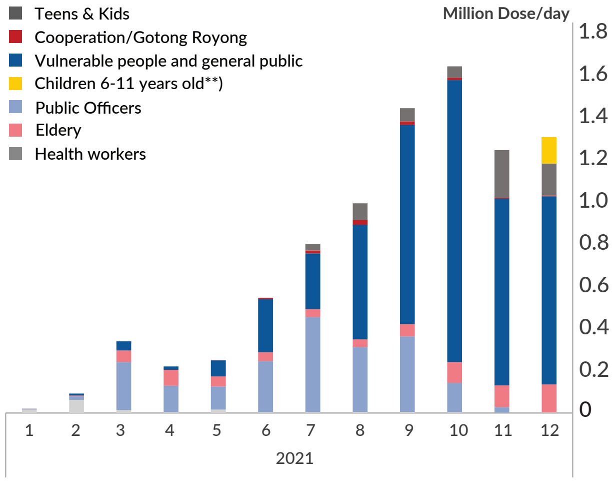



Source: Google COVID-19 Community Mobility Reports

5 https://ekon.go.id/publikasi/detail/3159/penerapan-ppkm-untuk-mengendalikan-laju-covid-19-dan-menjaga-kehidupan-masyarakat

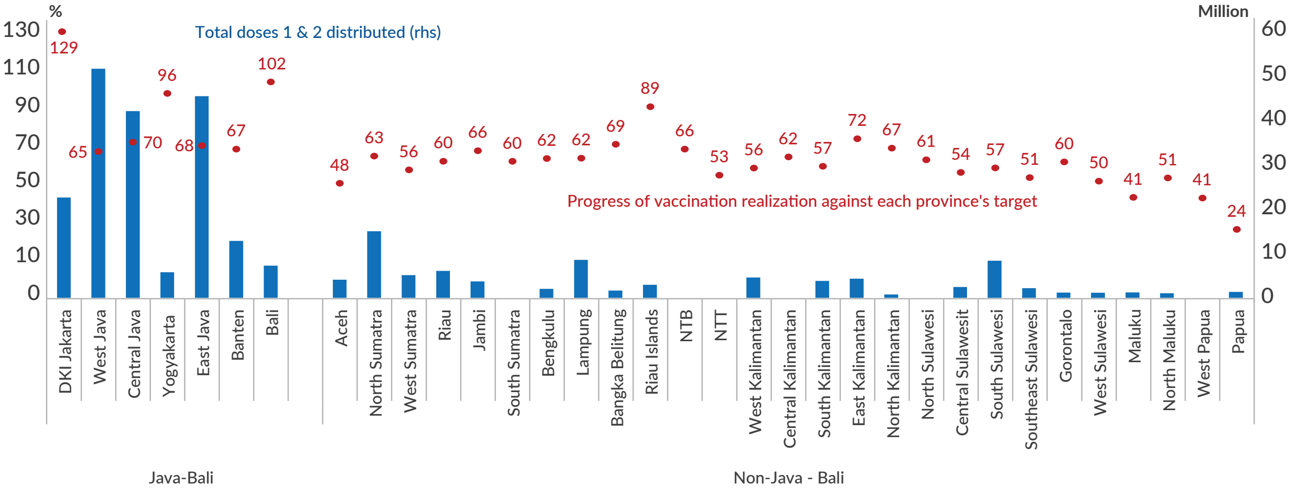
**The Government accelerated the Covid-19 vaccination program that began at the beginning of 2021 to help bring the pandemic under control.** Seeking to achieve herd immunity against Covid-19 transmission, the Government has targeted 208 million of the population to receive vaccines. Although the vaccination rate at the beginning of 2021 was impeded by vaccine supply constraints, a corollary of low production and high demand globally, Indonesia continued its vaccination rollout. Initially struggling to hit 100,000 doses per day, the vaccination rate has consistently increased in line with vaccine supply to reach approximately 2 million doses per day. Consequently, Indonesia achieved 60% of its national vaccination target by the end of 2021 (Chart 2.5 and 2.6).

### Chart 2.5. Vaccination Capacity




Source: Ministry of Health

### Chart 2.6. Vaccination Progress by Region




Source: Ministry of Health

# 2.2

# Economic Recovery Momentum Subdued, Despite Continuing Stability

**The domestic economic recovery persisted throughout the first semester of 2021**. In the first quarter of 2021, a shallower -0.71% (yoy) economic contraction, compared with -2.19% (yoy) in the fourth quarter of 2020, pointed to improving economic performance. Economic gains were primarily driven by exports on growing demand from China and the United States; fiscal spending (procurement, capital spending and social assistance); and non-building investment. Meanwhile, household consumption was more muted given public mobility restrictions to contain Covid-19 in several regions. Spatially, economic gains were recorded in all regions, with the Sulawesi-Maluku-Papua (Sulampua) region charging into positive territory.

**Economic activity continued to strengthen in the second quarter of 2021**. In the second quarter of 2021, the national economy expanded for the first time since the onset of the pandemic (at the beginning of the previous year) by 7.07% (yoy). Economic gains were predominantly driven by solid export performance on the back of growing demand in Indonesia's main trading partners. Household consumption turned expansionary for the first time since the second quarter of 2020, growing 5.96% (yoy) in line with improving public mobility, ongoing stimuli, including sales tax exemptions on luxury goods (PPnBM) and accommodative macroprudential policy, as well as seasonal factors stemming from national religious holidays (HBKN). Investment also rebounded, primarily supported by non-building investment. Meanwhile, government consumption soared, given the accelerated fiscal stimulus in the form of procurement and capital spending, specifically for the national economic recovery program, as well as personnel expenditure. Economic growth was characterized by a positive performance across all business sectors, coupled with faster economic growth in all regions.

**In the third quarter of 2021, the Delta outbreak restrained the economic recovery**. In the third quarter of 2021, economic growth moderated to 3.51%. This was a substantial improvement from 3.49% in the same period of the previous year, but well below the 7.07% recorded in the second quarter of 2021 (Table 2.1). Mobility restrictions, re-introduced by the Government to overcome the spike in Delta variant cases in July-August 2021, impacted the economy, domestic demand in particular. Household consumption grew by just 1.03% in the third quarter of 2021 in line with restrained consumption among the middle-upper classes. Mobility restrictions also led to lower investment growth of 3.74% in the third quarter of 2021. Government consumption recorded 0.66% (yoy) growth in the reporting period in line with budget relocation to accelerate the national economic recovery program, including Delta variant containment measures. Further economic moderation was avoided, by the solid contribution of exports, which grew 29.16% (yoy) in the third quarter of 2021, reflecting strong demand in Indonesia's main trading partners.

**Mobility restrictions and export performance influenced sectoral patterns**. Agriculture as well as Mining and Quarrying accelerated in the third quarter of 2021 in line with growing demand and rising international commodity prices, particularly coal and crude palm oil (CPO; Table 2.2). Health Services and Social Work Activities expanded owing to pandemic-related containment measures. For their part, Manufacturing, Trade and Construction sustained positive, but moderating growth in line with lower production and construction activity, due to the mobility restrictions. Economic sectors dependent upon services and mobility--such as Transportation and Storage, as well as Accommodation and Food Service Activities--tended to contract in line with mobility restrictions and less consumption of non-essential items.

**Spatially, nearly all regions recorded expansion despite moderating from the previous period.** The domestic-oriented Manufacturing Industry moderated, particularly on-Java, held back by production activity restrictions affecting essential sectors (Chart 2.7). Nevertheless, robust external demand boosted Manufacturing, especially the CPO industry located in Sumatra and the base metal industry in Sulampua. Public mobility restrictions impacted Trade sector performance, particularly in the Java and Balinusra (Bali-Nusa Tenggara) regions. In contrast, the Sulampua region of Sulawesi-Maluku-Papua recorded the strongest growth, followed by Kalimantan and Sumatra. Several regions, namely Aceh, Jambi and South Kalimantan, achieved faster growth on the back of mining exports, especially coal. Economic growth in Papua accelerated in response to investment in an underground mine as well as construction activity for National Sports Week (PON) XX. Externally, stronger global demand and higher export prices of major commodities supported regional economic performance, particularly in Sumatra and Kalimantan. More specifically, mining sector growth picked up in support of economic growth in regional production hubs; coal mining in Sumatra and Kalimantan remained solid on strong demand from China.

### Table 2.1. Economic Growth by Expenditure (%, yoy)

| Components | 2019 | 2020 | | | | 2020 | 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | I | II | III | IV | | I | II | III |
| Household Consumption | 5.04 | 2.83 | -5.52 | -4.05 | -3.61 | -2.63 | -2.21 | 5.96 | 1.03 |
| Non-Profit Institution Serving Household | 10.62 | -5.01 | -7.82 | -1.97 | -2.14 | -4.29 | -3.99 | 4.15 | 2.96 |
| Government Cosumption | 3.25 | 3.77 | -6.90 | 9.76 | 1.76 | 1.94 | 2.58 | 8.03 | 0.66 |
| Investment (GFCF) | 4.45 | 1.70 | -8.61 | -6.48 | -6.15 | -4.95 | -0.23 | 7.54 | 3.74 |
| Building Investment | 5.37 | 2.76 | -5.26 | -5.60 | -6.63 | -3.78 | -0.74 | 4.36 | 3.36 |
| NonBuilding Investment | 1.80 | -1.46 | -18.62 | -8.99 | -4.71 | -8.38 | 1.39 | 18.58 | 4.89 |
| Exports | -0.87 | 0.36 | -12.02 | -11.66 | -7.21 | -7.70 | 7.09 | 31.98 | 29.16 |
| Imports | -7.69 | -3.62 | -18.29 | -23.00 | -13.52 | -14.71 | 5.38 | 31.72 | 30.11 |
| GDP | 5.02 | 2.97 | -5.32 | -3.49 | -2.19 | -2.07 | -0.71 | 7.07 | 3.51 |

Source: BPS

### Table 2.2. Economic Growth by Sectors (%, yoy)

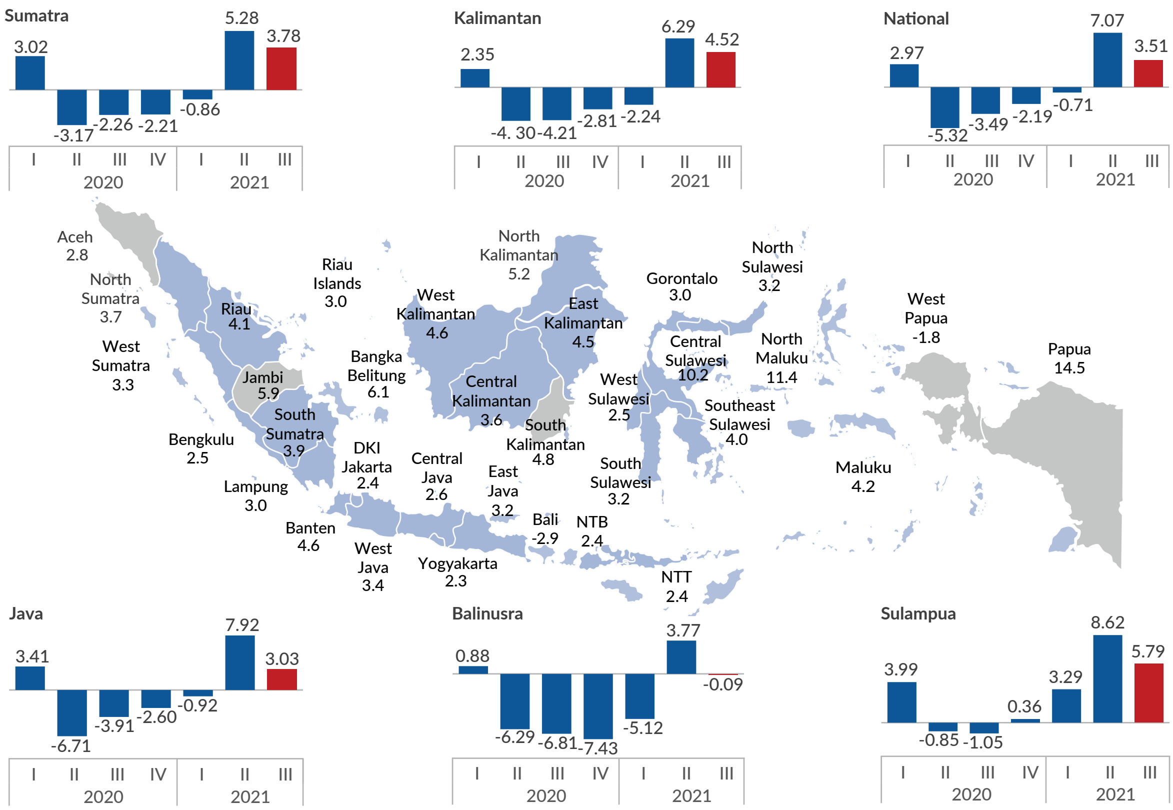
| Components | 2019 | 2020 | | | | 2020 | 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | | I | II | III | IV | | I | II | III |
| Agriculture, Forestry, and Fisheries | 3.64 | 0.01 | 2.20 | 2.16 | 2.59 | 1.75 | 3.38 | 0.43 | 1.31 |
| Mining and Excavation | 1.22 | 0.45 | -2.72 | -4.28 | -1.20 | -1.95 | -2.02 | 5.22 | 7.78 |
| Manufacture | 3.80 | 2.06 | -6.18 | -4.34 | -3.14 | -2.93 | -1.38 | 6.58 | 3.68 |
| Electricity and Gas Procurement | 4.04 | 3.85 | -5.46 | -2.44 | -5.01 | -2,34 | 1.68 | 9.09 | 3.85 |
| Water Supply | 6.83 | 4.38 | 4.44 | 5.94 | 4.98 | 4.94 | 5.46 | 5.78 | 4.56 |
| Construction | 5.76 | 2.90 | -5.39 | -4.52 | -5.67 | -3.26 | -0.79 | 4.42 | 3.84 |
| Wholesale Retail, Car and Motorcycle Repairs | 4.62 | 1.57 | -7.59 | -5.05 | -3.64 | -3.72 | -1.23 | 9.45 | 5.16 |
| Transportation and Warehousing | 6.40 | 1.30 | -30.80 | -16.71 | -13.42 | -15.04 | -13.12 | 25.10 | -0.72 |
| Provision of Accomodation, Food and Beverages | 5.80 | 1.94 | -21.97 | -11.81 | -8.88 | -10.22 | -7.26 | 21.58 | -0.13 |
| Information and Communication | 9.41 | 9.82 | 10.85 | 10.72 | 10.91 | 10.58 | 8.71 | 6.90 | 5.51 |
| Financial Services and Insurance | 6.60 | 10.63 | 1,06 | -0.95 | 2.37 | 3.25 | -2.97 | 8.33 | 4.29 |
| Real Estate | 5.74 | 3.81 | 2.31 | 1.96 | 1.25 | 2.32 | 0.94 | 2.82 | 3.42 |
| Corporate Services | 10.25 | 5.39 | -12.09 | -7.61 | -7.02 | -5.44 | -6.10 | 9.94 | -0.59 |
| Government Administration, Defence and Compulsory Social Security | 4.67 | 3.15 | -3.21 | 1.82 | -1.55 | -0,03 | -2,91 | 9.63 | -9.96 |
| Education Services | 6.29 | 5.87 | 1.19 | 2.41 | 1.36 | 2.63 | -1.53 | 5.89 | -4.42 |
| Health Services and Other Social Activities | 8.68 | 10.39 | 3.71 | 15.29 | 16.54 | 11.60 | 3.38 | 11.68 | 14.06 |
| Other Services | 10.55 | 7.09 | -12.60 | -5.55 | -4.84 | -4.10 | -5.15 | 11.97 | -0.30 |
| GDP | 5.02 | 2.97 | -5.32 | -3.49 | -2.19 | -2.07 | -0.71 | 7.07 | 3.51 |

Source: BPS

**The ongoing domestic economic recovery has improved BOP performance, characterised by higher foreign capital inflows, coupled with a low and manageable current account deficit**. In the first half of 2021, Indonesia's Balance of Payments (BOP) recorded a USD3.6 billion surplus, supported by a larger capital and financial account surplus reflecting positive perceptions of investors regarding the promising domestic economic outlook, despite persistent global financial market uncertainty. Meanwhile, the current account deficit remained low and manageable given higher exports, accompanied by rising imports to fuel the domestic economic recovery. This BOP performance yielded an increase in reserve assets, from USD135.9 billion at the end of 2020 to USD137.1 billion at mid-2021. This is equivalent to 9.1 months of imports, or 8.8 months of imports and servicing of government external debt, which is well above the 3-month international adequacy standard.

**Supported by a positive trade balance, the current account deficit remained low and manageable in the first semester of 2021**. The current account deficit was low at USD3.0 billion in the first semester of 2021, following a USD1.8 billion surplus in the second semester of 2020. The global economic recovery and mass vaccination campaigns boosted world trade volume and international commodity prices, thereby stimulating Indonesia's exports. Several major commodities (including CPO, iron and steel, coal, metal ore, organic chemicals and motor vehicles) contributed to robust export performance, underpinned by comparatively rapid economic recoveries in Indonesia's main trading partners, China and the United States. Consistent with positive export performance and gradually stronger domestic demand, imports also flourished in the first half of 2021, which prevented a larger trade surplus. Broad-based import gains were recorded across all commodity groups, particularly raw materials and consumer goods. The current account deficit also

**Chart 2.7. Economic Growth by Region, Third Quarter of 2021 (%, yoy)**




Source: BPS

reflected a larger deficit on services in line with increasing import activity, which caused freight payments to edge up. In addition, the domestic recovery produced an uptick in revenue payments on direct investment as business performance improved, leading to a primary income account deficit. Meanwhile, the secondary income account booked a larger surplus amid relatively stable personal transfer receipts.

**The capital and financial account maintained a surplus, despite global financial market uncertainty**. In the first semester of 2021, the capital and financial account surplus stood at USD7.3 billion, reversing the USD76.0 million deficit recorded in the second semester of 2021. The surplus stemmed from capital inflows in the form of both direct and portfolio investment. Investor optimism concerning the domestic economic recovery attracted a growing net inflow of direct investment totalling USD4.4 billion in the first quarter of 2021 and USD5.3 billion in the second quarter of 2021. In addition, a significant influx of portfolio investment was recorded in the first half of 2021 in the form of debt securities and equities. Foreign investment in shares booked a net inflow of USD1.2 billion to reverse the net outflow totalling USD2.2 billion recorded in the second semester of 2020. By contrast, the deficit on other investment increased, primarily in response to net payments on external loans by the public and private sectors.

**BOP improvements continued into the third quarter of 2021 as export performance solidified, although a surge of Delta cases impeded the domestic economic recovery**. The current account recorded a third-quarter surplus in 2021 totalling USD4.5 billion, stemming from improvements in the trade balance. Non-oil and gas export performance was maintained in the third quarter of 2021, recording the highest export value since records began, supported by exports of major commodities like coal, crude palm oil (CPO), organic chemicals and metal ores in response to strong demand and rising commodity prices, especially for coal. Positive export performance dampened the impact of declining domestic activity caused by restrictions on public mobility to break the domestic chain of Delta variant transmission. Meanwhile, a wider capital and financial account surplus was recorded in the third quarter of 2021, despite a surge of Covid-19 cases and concerns stoked by expectations of quicker global monetary policy normalisation to address rising inflation. An optimal policy response and inter-authority synergies helped support inflows of direct investment and portfolio investment, despite some moderation from the previous period. Other investment transactions reversed their previous deficit to record a surplus in the reporting period, primarily due to an additional special drawing rights (SDR) allocation;[6] higher non-resident deposits at domestic banks; and lower payments on servicing foreign loans. Overall, the

6 The SDR is an international reserve asset, created by the International Monetary Fund (IMF) in 1969 to supplement its member countries' official reserves. In August 2021, the IMF allocated SDR to all member countries, including Indonesia, to help countries cope with the impact of the Covid-19 pandemic, build confidence amongst economic players and address the long-term global need for reserves.

BOP recorded a USD10.7 billion surplus in the third quarter of 2021, accompanied by a significant increase in reserve assets to USD146.9 billion by the end of the third quarter of 2021.

**Rupiah exchange rate stability was maintained despite persistent global uncertainty**. In the third quarter of 2021, rupiah exchange rate stability was relatively well maintained together with low volatility, supported by solid external sector performance; by positive perceptions concerning the domestic economy; and by the support of Bank Indonesia's exchange rate stabilisation policy. At the beginning of 2021, currencies in Asia, including the rupiah, appreciated in line with optimism surrounding a relatively quick economic recovery as vaccination programs began rolling out world-wide. Such optimism was eroded, however, by the emergence of the Delta variant together with persistent global financial market uncertainty. This triggered a rebalancing in the form of capital outflows from EMDEs, driven by a flight to quality. Depreciatory pressures on the rupiah intensified at the end of February and into March 2021, primarily triggered by a hike in the benchmark 10-year UST yield in line with economic and inflationary expectations in the United States. In April and July 2021, concerns fuelled by the Delta outbreak intensified currency pressures, with the rupiah losing value against the US dollar, reaching IDR14,610 per USD on 15 April 2021. Bank Indonesia constantly strengthened exchange rate stabilisation policy through triple intervention, targeting the spot market, Domestic Non-Deliverable Forwards (DNDF) market and SBN purchases in the secondary market, supported by intensive communications with investors as well as domestic and non-resident market players. The rupiah responded well, appreciating by 1.49% on average in the third quarter of 2021; on a point-to-point (ptp) basis, this represents a depreciation of 1.83% through the quarter ended September 2021. This outperforms currencies in several other developing economies, such as Turkey, Brazil, Thailand and the Philippines.

**Consumer Price Index (CPI) inflation was low as of the third quarter of 2021 in line with compressed domestic demand and maintained supply**. CPI inflation in September 2021 stood at 1.60% (yoy), a little below the 1.68% recorded in 2020. Low inflation stemmed from core inflation and volatile food, offsetting higher administered prices. Quarterly dynamics pointed to low CPI inflation in the first quarter of 2021, influenced by weak demand given the enforcement of mobility restrictions. Inflation increased in the second quarter of 2021, reflecting the gradual economic recovery and the seasonal impact of national religious holidays (HBKN). Inflationary pressures moderated somewhat again in the third quarter of 2021 after the Government reintroduced mobility restrictions to break the domestic chain of Covid-19 transmission, which also compressed demand.

**Core inflation remained low**. In September 2021, core inflation stood at 1.30% (yoy), down from 1.60% (yoy) in 2020 on the back of weak domestic demand, exchange rate stability, limited exchange rate pass-through and policy consistency by Bank Indonesia to anchor inflationary expectations to the target corridor. Non-traded non-food core inflation (primarily services) was the main contributor to low core inflation, in line with compressed demand during the enforcement of mobility restrictions. In addition, lower core inflation stemmed from disinflation affecting gold jewellery, which mirrored international gold prices, and lower automotive prices after the Government introduced a 100% sales tax exemption on luxury goods (PPnBM). Core inflation performed in line with anchored inflationary expectations. In the third quarter of 2021, the Consensus Forecast reported a declining inflation trend from 2.30% in January 2021 to 1.80% in September 2021.

**Volatile food (VF) inflation remained under control in line with adequate goods supply and weak demand**. VF inflation stood at 3.51% (yoy) in September 2021, decreasing from 3.62% (yoy) in December 2020. Price corrections affecting various commodities drove

VF inflation on the back of compressed demand, particularly in terms of Accommodation and Food Service Activities in response to mobility restrictions. The realisation of VF inflation was supported by adequate supply from the harvesting season, coupled with orderly distribution in several regions. VF inflation in the first quarter of 2021 increased due to high rainfall at the beginning of the year and low production caused by farmer incentive issues. In the second quarter of 2021, VF inflation fell in line with comparatively weak demand during the holy fasting month and Eid-ul-Fitr, coupled with weather conditions conducive to improving production. VF disinflation continued in the third quarter of 2021 given low demand and the start of the harvesting season for rice and horticultural commodities, thus boosting supply.

**Low administered prices (AP) inflation was also maintained in line with government policy to minimize price adjustments, despite higher prices towards the end of the third quarter of 2021 as higher tobacco duties fed through to the retail price of cigarettes**. AP inflation in the first and second quarters of 2021 was low at 0.88% (yoy) and 0.49% (yoy) respectively, as the Government was reluctant to adjust prices before private demand recovered. AP inflationary pressures on transportation, particularly air transport, remained low from January until September 2021 in the deflation zone (yoy), owing to limited public mobility that stemmed from tighter flight restrictions. In September 2021, AP inflation increased to 0.99% (yoy), driven by cigarette prices as excise duty hikes on tobacco were transmitted to retail prices. Meanwhile, the Government refrained from adjusting energy prices despite higher international energy prices, leading to mild AP inflationary pressures on energy.

**Liquidity conditions were very loose in line with Bank Indonesia's accommodative monetary policy stance and the impact of synergy between Bank Indonesia and the Government to support the national economic recovery**. Bank Indonesia injected liquidity through quantitative easing to the banking industry totalling IDR128.86 trillion in 2021 (as of 30 September 2021). In addition, Bank Indonesia continued to purchase SBN in the primary market to fund the 2021 State Revenue and Expenditure Budget (APBN), totalling IDR141.34 trillion (as of 30 September 2021), with IDR65.88 trillion through primary auction and IDR75.46 trillion through Greenshoe Options (GSO). This expansionary monetary policy stance supports very loose liquidity conditions in the banking industry, as reflected in September 2021 by a high ratio of liquid assets to deposits at 33.53% and deposit growth of 7.69% (yoy). Liquidity in the economy increased, as indicated by narrow (M1) and broad (M2) money supply aggregates, which grew 11.2% (yoy) and 8.0% (yoy) respectively in the reporting period. The money supply accelerated primarily due to growth of loans disbursed by the banking industry to finance the national economic recovery.

**Bank Indonesia's decision to maintain a low policy rate, coupled with very loose liquidity conditions in the banking industry, have prompted lower lending rates**. In the financial markets, the overnight interbank rate and 1-month deposit rate have fallen 50bps and 171bps respectively since September 2020 to 2.80% and 3.28% in September 2021. In the credit market, the banking industry continued to lower prime lending rates (PLR) along with lending rates on new loans. The banks reduced interest rates on new loans in line with lower risk perceptions after the Government started to relax public mobility restrictions. Bank Indonesia expects the banking industry to continue lowering lending rates as part of the shared responsibility to revive lending to the corporate sector.

**Financial system resilience has been solid, thus contributing to stronger macroeconomic fundamentals**. In the first semester of 2021, financial system stability was maintained, with several indicators pointing to a gradual recovery. In terms of capital, the Capital Adequacy Ratio (CAR) in the banking industry remained high in June 2021 at 24.30%, up from 22.50% in the same period one year earlier, which is well above the 8% threshold based on prudential principles. In terms of credit risk, the banking industry maintained persistently low NPL ratios of 3.24% (gross) and 1.06% (net) in June 2021. These were supported by stronger liquidity resilience in the banking industry, as reflected by an increase in the ratio of liquid assets to deposits in June 2021 to 32.95% compared with 26.24% for the same position one year earlier.

**Consistent with the gradual economic recovery, the bank intermediation function also showed early signs of improvement towards the end of the first semester of 2021**. Credit growth in June 2021 tracked a slightly stronger trend, moving into positive territory at 0.59% (yoy) after contracting -2.41% (yoy) in December 2020. Positive credit growth was primarily supported by consumer loans and working capital loans, as the Government reopened businesses and relaxed mobility restrictions after the mass vaccination program began. Investment loans experienced a shallower contraction in June 2021 compared with conditions at the end of 2020 as a consequence of improving business activity despite a prevalent wait-and-see attitude.

**The gradual economic recovery also boosted deposits and banking industry performance in the first semester of 2021**. Deposit growth accelerated from 11.11% (yoy) in December 2020 to 11.28% (yoy) in June 2021, primarily driven by demand deposits and savings instruments in response to greater public mobility, improving business activity as well as fiscal support from the Government. Banking industry performance was also reflected in efficiency gains, with the BOPO efficiency ratio improving to 84.53% in June 2021 from 86.55% in December 2020. Regarding profitability, the return on assets (ROA) increased to 1.88% in June 2021 from 1.59% in December 2020, while the net interest margin (NIM) increased to 4.56% from 4.32% over the same period.

**Financial system stability was maintained, despite the Delta outbreak at the beginning of the third quarter of 2021**. Such conditions were reflected in a low and stable Financial System Stability Index (FSSI), recorded in the normal zone during the peak of Delta variant transmission in June-July 2021. Solid bank capital amid very loose liquidity conditions dampened the impact of Delta on banking industry resilience. Consequently, bank capital and liquidity were high and stable at 24.30% and 32.95% respectively in June 2021 as well as 24.57% and 32.51% in July 2021. Furthermore, the banking industry maintained a low ratio of non-performing loans (NPL) at 3.24% (gross) in June 2021 and 3.35% in July 2021. As government handling of the Covid-19 pandemic improved and public activity increased in August 2021, credit growth picked up and financial system stability was maintained (Table 2.3).

**Digital transactions have flourished against a backdrop of subdued retail transactions during the mobility restrictions enforced in the third quarter of 2021**. During the year ended the third quarter of 2121, the value of e-commerce transactions soared 61.7% (yoy) to IDR291.5 trillion in line with greater public acceptance and propensity for online

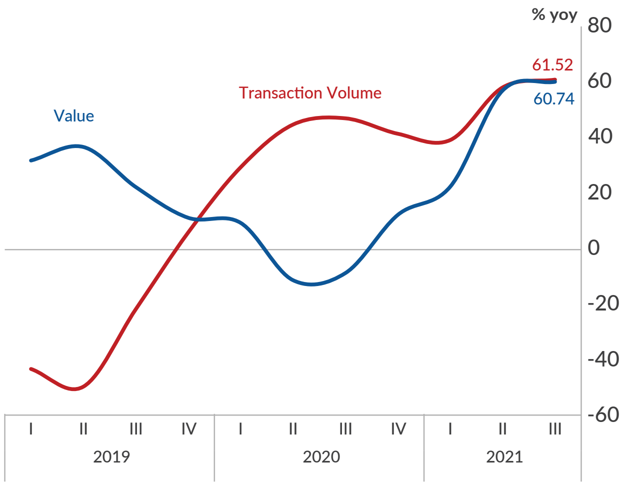
**Table 2.3. Financial System Conditions during Spread of the Covid-19 Delta Variant**

| 2021 | AL/ DPK (%) | CAR (%) | NPL (%) | Credit (%) | Spread of New Loan Interest Rates to SBDK (%) |
|---|---|---|---|---|---|
| May | 32.71 | 24.28 | 3.35 | -1.28 | -0.09 |
| June | 32.95 | 24.30 | 3.24 | 0.59 | 0.11 |
| July | 32.51 | 24.57 | 3.35 | 0.50 | 0.59 |
| August | 32.67 | 24.38 | 3.35 | 1.16 | -0.07 |

Note: Delta Variant Spread Period

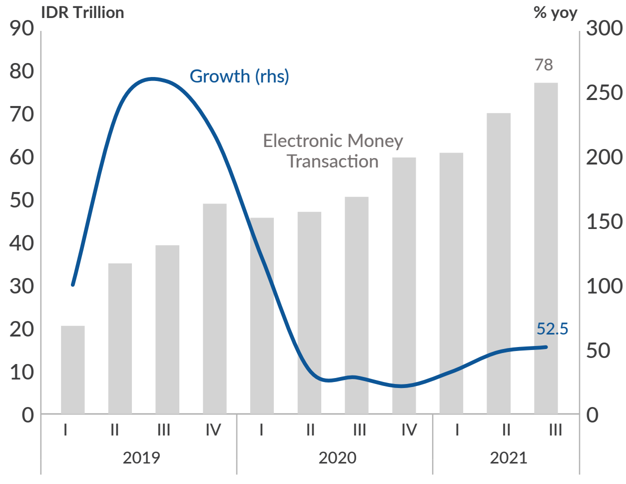
Source: Bank Indonesia

**Chart 2.8. Digital Banking Transactions**




Source: Bank Indonesia

**Chart 2.9. Electronic Money Transactions**




Source: Bank Indonesia

retail; the expansion and convenience of the digital payment system; as well as the acceleration of broader digital banking services. The value of digital banking transactions increased 46.72% (yoy) in the third quarter of 2021 (Chart 2.8). Similarly, the value of electronic money (e-money) transactions increased 45.05% (yoy) in the same period (Chart 2.9). Such achievements were supported by various payment system digitisation programs, including expansion of the QR Indonesian Standard (QRIS) and National Open API Payment Standard (SNAP) as well as payment system regulatory reform, and plans to accelerate BI-FAST implementation. Turning to card-based instruments, retail payments using ATM/debit cards and credit cards maintained positive growth, despite retreating slightly in the third quarter of 2021 due to mobility restrictions. On the cash side, currency in circulation moderated slightly in September 2021 to 11.75% (yoy). Bank Indonesia constantly strives to maintain the availability of currency fit for circulation throughout the Indonesian archipelago by strengthening the cash distribution strategy and reopening cash services in line with local mobility restrictions in each region.

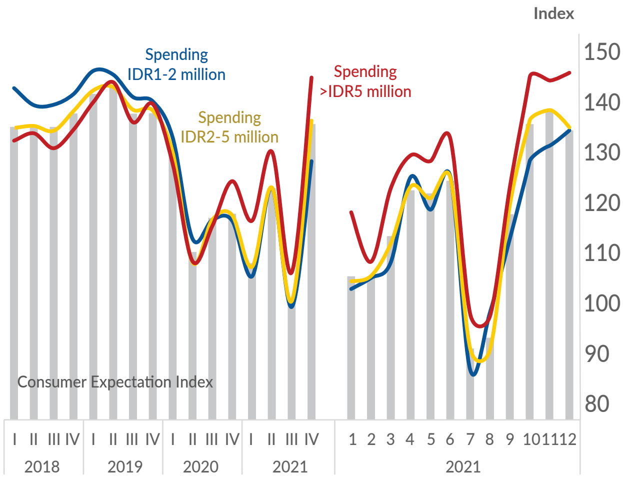
2.3

# Momentum of Economic Recovery is Expected to Continue

**Economic performance is forecast to improve in the fourth quarter of 2021, supported by greater mobility reflecting the faster vaccination rollout, broader reopening of economic sectors, sustained policy stimuli and solid export performance**. Successful handling of the health crisis, coupled with a faster and broader vaccination program rollout, allowed the Government to gradually reduce the intensity of community activity restrictions (PPKM), while maintaining disciplined health protocols. Consequently, mobility was restored in various regions to pre-pandemic levels. The reopening of priority sectors, particularly within the manufacturing industry, was expanded in accordance with the local level of community activity restrictions (PPKM) based on operational and mobility permits (IOMKI), fully vaccinated staff as well as use of the Peduli Lindungi mobile application in the work environment. In addition, the Government maintained policy stimuli, primarily in the form of social aid program (bansos) disbursements, procurement as well as regional transfers and village fund disbursements. Economic gains were also bolstered by persistently solid export performance fuelled by the global economic recovery.

**Early signs of increasing domestic demand supported national economic improvements along with persistently solid export performance**. Household consumption is forecast to regain momentum in the fourth quarter of 2021, owing to greater public mobility and a restoration of consumer confidence. Investment activity is also expected to increase, building investment in particular, as the Government continues construction activity in line with capital spending realisations and early signals of private sector construction. Meanwhile, growing global demand should sustain a solid export performance, especially for several major commodities, such as coal, CPO as well as iron and steel. Imports would begin to accelerate, responding to growing domestic demand and solid export performance. Further economic gains in the fourth quarter of 2021 are also foreshadowed

**Chart 2.10. Consumer Expectation**




Source: Bank Indonesia

by several indicators, including significantly stronger consumer expectations (Chart 2.10). Likewise, the Manufacturing Purchasing Managers Index (PMI) charged into an expansionary phase as the reading increased to 53.5 in December 2021 (Chart 2.11). Economic growth in 2021, therefore, is expected in line with Bank Indonesia's projection of 3.2-4.0%. The economic recovery process is improving general prosperity, as reflected by the declining unemployment rate, from 7.07% in August 2020 to 6.49% in August 2021.

**Chart 2.11. Purchasing Managers' Index (PMI)**


Source: Markit Economics

**Economic sectors oriented towards consumption and investment will improve further**. Manufacturing performance is expected to increase in the fourth quarter of 2021 to meet domestic and external demand. As economic activities continue to reopen, economic sectors relating to mobility and consumption (like Transportation and Storage, Accommodation and Food Service Activities as well as Trade) will accelerate. Along similar lines, the Construction sector is on an improving trend, in line with government and private sector construction activity, supported by policy stimuli and increasing funding from the Government in the form of capital spending, together with faster growth of housing loans. Meanwhile, sectors associated with export commodities, namely Agriculture and Mining, are expected to flourish on continued strong export demand, primarily from the United States and China.

**Spatially, the economic recovery in several regions of Indonesia is supported by stronger domestic and external demand**. Mobility in some regions has already returned to pre-pandemic levels since the Government relaxed local community activity restrictions (PPKM). This has begun to restore regional consumption, as reflected by indicators of sales, consumer confidence and job vacancies, which increased in nearly all regions. Regional investment, building investment in particular, is also increasing in terms of national strategic projects, dominated by toll road construction on-Java. Disbursements of village funds and regional transfers improved in the fourth quarter of 2021 in line with regional government efforts to accelerate and improve the fulfilment of administrative requirements, which will further support regional economic gains. The economies of Sulampua, Sumatra and Kalimantan will continue to be propped up by solid export performance, while economic performance in Java relies on manufacturing exports. The economy of Balinusra has already moved into positive territory, *albeit* with growth restrained by a tourism sector that is still reeling from effects of the pandemic. Regional growth forecasts for Java, Sumatra, Kalimantan, Balinusra and Sulampua are: 3.2-4.0%; 2.7-3.5%; 2.8-3.6%; 0.2-1.0%; and 5.8-6.6%, respectively.

**Increasing domestic economic activity and the ongoing global economic recovery are expected to bolster BOP performance.** BOP performance is projected to improve in the fourth quarter of 2021 due to a robust current account that reflects high export commodity prices and global demand. Meanwhile, elevated global financial market uncertainty and concerns stoked by the highly transmissible Omicron variant are likely to subdue the capital and financial account. On balance, a solid BOP is predicted in the fourth quarter and for 2021, thus supporting a strong reserve asset position at the end of 2021, increasing to USD144.9 billion compared with USD135.9 billion in 2020. Reserve assets at the end of 2021 were equivalent to 8.0 months of imports or 7.8 months of imports and servicing government external debt, which is well above the 3-month international standard. The strong BOP position was also supported by a safe and manageable external debt position. The external debt of non-financial corporations contracted 1.0% (yoy) in November 2021 amid a surge of other domestic sources of economic financing, in line with improving corporate performance. External debt was primarily used to meet financial obligations in the Energy, Manufacturing and Mining sectors. Overall, the ratio of external debt to GDP in 2021 improved from 2020 and is in line with the peer average. The composition of external debt is also healthy, with short-term external debt below the peer average and long-term external debt dominating 89% of the total based on original maturity.

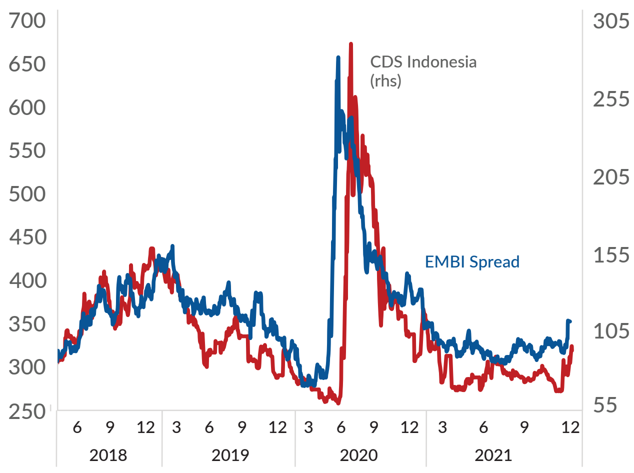
**BOP performance was maintained in line with the strong current account**. In the fourth quarter of 2021, solid current account performance will be maintained after recording a USD4.5 billion surplus in the third quarter of 2021, stemming from a goods trade surplus in line with persistently strong exports. Performance is supported by coal exports bound for China and Japan as well as clothing exports to the United States, which are in line with the economic recovery and seasonal winter demand. Exports of iron and steel also remain high given improving manufacturing activity in China and India. On the other hand, imports will begin to increase in support of exports and growing domestic demand after the Government relaxed community activity restrictions (PPKM). On services, the stronger domestic economy and imports will increase the deficits on primary income account and overall services, noting that the travel services balance has not recovered to pre-pandemic levels. Overall, the current account is expected to record a surplus equivalent to 0.2% of GDP in 2021, improving from 0.4% of GDP deficit in 2020.

**Elevated uncertainty in global financial markets and Covid-19 dynamics have restrained foreign capital inflows, thereby squeezing further BOP improvements**. The capital and financial account in the fourth quarter of 2021 is expected to record a smaller surplus compared with conditions in the previous period. Foreign capital flows in the form of direct investment are expected to record a surplus in line with the domestic economic recovery and supported by various measures by the authorities to stimulate investment, including trade promotion in Indonesia's trading partner countries. Meanwhile, more subdued portfolio inflows are anticipated, given the risk-off sentiment of foreign investors in response to earlier-than-planned monetary policy normalisation in advanced economies and concerns over further Covid-19 waves following the Omicron outbreak in several countries. A net outflow of portfolio investment from the domestic SBN market is expected at USD4.9 billion, coupled with a net inflow to equity instruments totalling USD0.8 billion in the fourth quarter of 2021. Overall, the capital and financial account is expected to improve in 2021 compared with conditions in 2020, supported by increasing direct and portfolio investments, given loose global liquidity conditions, optimism surrounding the domestic economic recovery as well as attractive yields on domestic financial assets for investment.

**Consistent with BOP performance, rupiah exchange rates were stable in the fourth quarter of 2021**. Point to point, the rupiah lost 0.42% of its value during the fourth quarter of 2021 or 0.80% of the third-quarter average. Such developments were influenced by economic fundamentals in Indonesia, specifically external and export performance, foreign capital inflows and the stabilisation measures implemented by Bank Indonesia. Consequently, for 2021 as a whole the rupiah depreciated 1.42% (ptp) to close the year at IDR14,252 per US dollar. On average for the year, the rupiah regained 1.60% of its value, strengthening from IDR14,525 per US dollar in 2020 to IDR14,296 in 2021. On this basis, the rupiah outperformed currencies in several other developing economies, such as India, Malaysia, the Philippines and Thailand (Chart 2.12). Rupiah exchange rate stability was also supported by risk perceptions of global investors concerning portfolio investment in Indonesia, as reflected by relatively stable data on credit default swaps (CDS) (Chart 2.13). Bank Indonesia constantly conducts exchange rate stabilisation policy in line with the currency's fundamental value and market mechanisms through effective monetary operations and the availability of market liquidity.

**Overall, rupiah stability in 2021, in accordance with economic fundamentals, was also supported by the availability of hedging instruments**. As global uncertainty increased, market players hedged against rupiah depreciation through derivative transactions. The composition of derivatives in the foreign exchange market remains relatively stable, however, at approximately 37% of total transactions in 2021. The availability of hedging instruments, such as cross currency swaps and call spread options, has increased the options available to dampen pressures in the rupiah spot market. Market players also used derivative transactions to meet hedging needs pursuant to the Prudential Principles Implementation Activity (KPPK). Of the market players with KPPK reporting obligations concerning external debt in the second quarter of 2021, 89.9% had already fulfilled the hedging requirements for the upcoming 0-3 months and 94.2% for the upcoming 3-6 months.

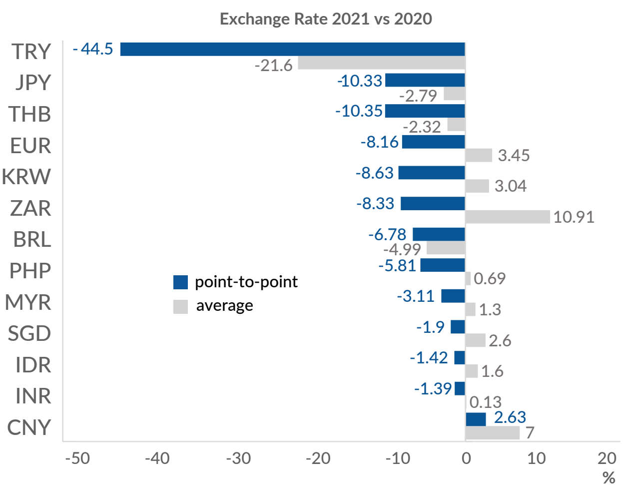
**Chart 2.13. Risk Perception in Emerging Markets and Indonesia**




Source: Bloomberg

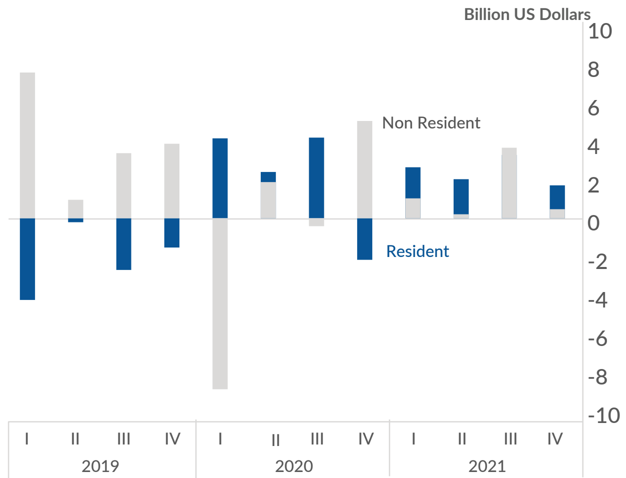
**Consumer Price Index (CPI) inflation remained low and under control through the end of 2021, rising slightly in the fourth quarter as mobility increased.** CPI inflation in December 2021 stood at 1.87% (yoy), up from 1.60% (yoy) in September 2021. Relatively low inflation (that is, below Bank Indonesia's target) during 2021 was influenced by compressed domestic demand due to increasing Covid-19 cases, particularly

**Grafik 2.12. Currency Appreciation and Depreciation**




Source: Reuters dan Bloomberg

**Grafik 2.14. Forex Demand and Supply**

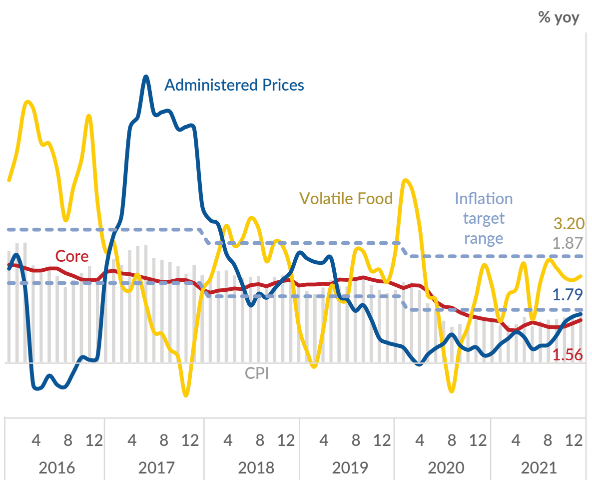



Source: Bank Indonesia

in the third quarter of 2021. Several other factors contributed to low inflation in 2021. For example, the exchange rate was stable and inflation was anchored in low inflationary expectations. In addition, there were adequate supplies and uninterrupted distribution of foodstuffs and consistent policy synergies between Bank Indonesia and the central and local governments to maintain price stability. As mentioned, headline inflation in December 2021 was a bit above the 1.68% (yoy) recorded a year earlier (Chart 2.15) in line with early signs of increasing mobility as well as seasonal trends during the national religious holidays (HBKN), which boosted demand for goods and services at year-end. Inflationary pressures were higher for core inflation and administered prices (AP), while volatile food (VF) inflation remained under control. Spatially, CPI inflation increased in all regions, led by West Sulawesi (4.40%), Maluku (4.01%) and Bangka Belitung Islands (3.75%) (Chart 2.16). Moving forward, Bank Indonesia remains fully committed to maintaining price stability and strengthening policy coordination with the central and local governments to control inflation within the target corridor.

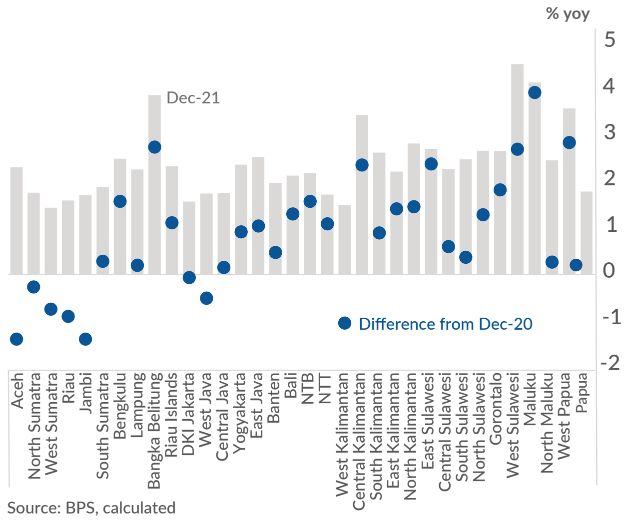
**Core inflation in 2021 was low**. In December 2021, core inflation was recorded at 1.56% (yoy), up from 1.30% (yoy) at the end of the third quarter of 2021 but down from 1.60% (yoy) during 2020. Core inflation remained low despite early signs of recovery in domestic demand, assisted by exchange rate stability and policy consistency by Bank Indonesia to anchor inflationary expectations. Early

### Chart 2.15. CPI Inflation




Source: BPS, calculated

### Chart 2.16. CPI Inflation in Various Regions



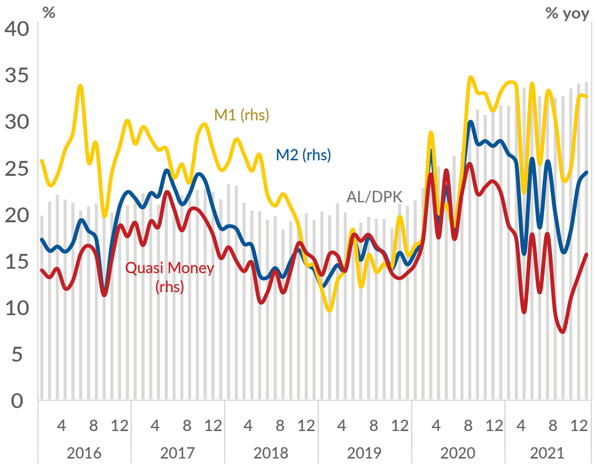

Source: BPS, calculated

indications also point towards the gradual impact of rising international commodity prices transmitted to domestic inflation. By commodity, core inflation edged upwards due to higher prices for gold jewellery and residential property rentals in line with international gold prices and greater public mobility, respectively. According to the Consensus Forecast (CF), inflationary expectations in November 2021 stood at 1.60%, down from 1.70% one month earlier.

**Adequate supplies helped to control VF inflation.** VF inflation in December 2021 stood at 3.20% (yoy), lower than the 3.51% (yoy) in September 2021 and 3.62% during 2020. A recovery of demand during 2021 was offset by an adequate supply of horticultural produce and other foodstuffs. VF inflation was primarily accounted for by price corrections affecting shallots, purebred chicken eggs and rice. There were higher prices for cooking oil, reflecting rising international CPO prices. The adequate supply was facilitated by synergy and coordination between the Government and Bank Indonesia through the National and Regional Inflation Control Teams (TPIP and TPID).

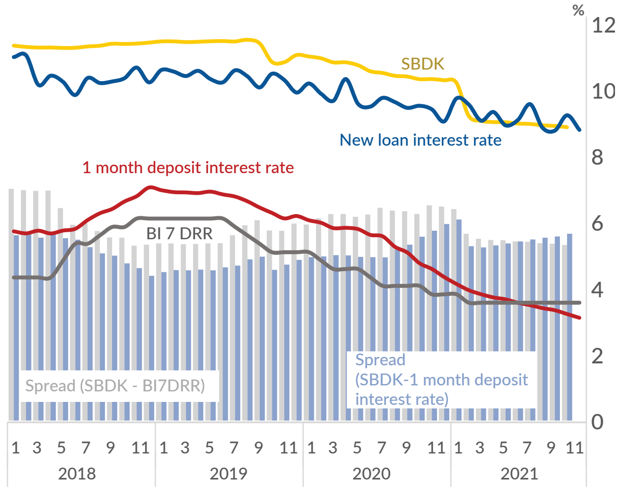
**Inflationary pressures on administered prices (AP) increased.** By December 2021, AP inflation stood at 1.79% (yoy), up from 0.99% (yoy) in September 2021 and 0.25% (yoy) in 2020. Administered price inflation edged upwards owing to higher airfares after the Government relaxed mobility restrictions, filtered clove cigarettes and white cigarettes as higher tobacco duties fed through to selling prices.

### Table 2.17. Money Supply and Ratio of Liquid Assets to Deposits (AL/DPK)




Source: Bank Indonesia

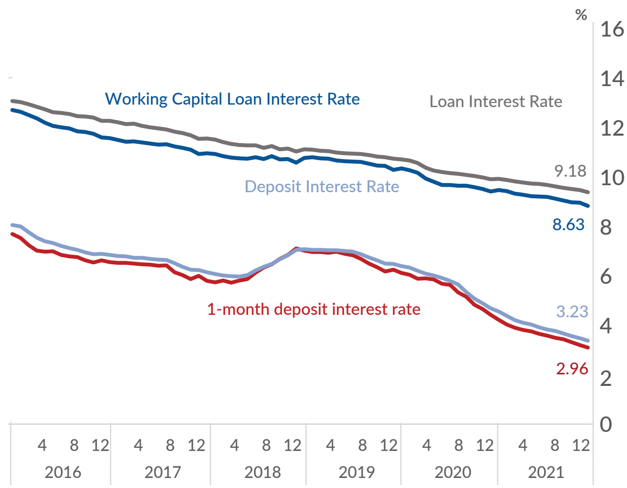
### Chart 2.19. BI7DDR Transmission to Base Lending Rate (SBDK)




Source: OJK, Bank Indonesia, calculated

**Liquidity conditions remain loose as a consequence of accommodative monetary policy and synergy between Bank Indonesia and the Government to support the economic recovery**. Bank Indonesia injected liquidity totalling IDR147.83 trillion during 2021, making for a total of IDR874.4 trillion since 2020, or approximately 5.3% of gross domestic product, one of the largest liquidity injections in developing economies. In 2021, Bank Indonesia purchased IDR358.32 trillion of SBN to fund the 2021 State Revenue and Expenditure Budget (APBN). This comprised: (i) purchases in the primary market worth IDR143.32 trillion in accordance with the Joint Decree (KB) issued by the Minister of Finance and Governor of Bank Indonesia on 16 April 2020, and extended on 11 December 2020 and subsequently on 28 December 2021 until 31 December 2022; and (ii) private placements totalling IDR215 trillion to finance the health and humanitarian budgets for Covid-19 pandemic handling in accordance with the Joint Decree (KB) issued by the Minister of Finance and Governor of Bank Indonesia on 23 August 2021. This expansive stance of monetary policy stance supported loose liquidity conditions in the banking industry through December 2021, as reflected by high ratio of liquid assets to deposits at 35.12% and deposit growth of 12.21% (yoy). Liquidity in the economy also increased, as indicated by narrow (M1) and broad (M2) money supply aggregates, which grew 17.9% (yoy) and 13.9% (yoy) in the reporting period. Based on the affecting factors, increasing loans disbursed by the banking industry to finance the economic recovery were the main contributors to money supply growth.

### Chart 2.18. Banking Interest Rate




Source: Bank Indonesia

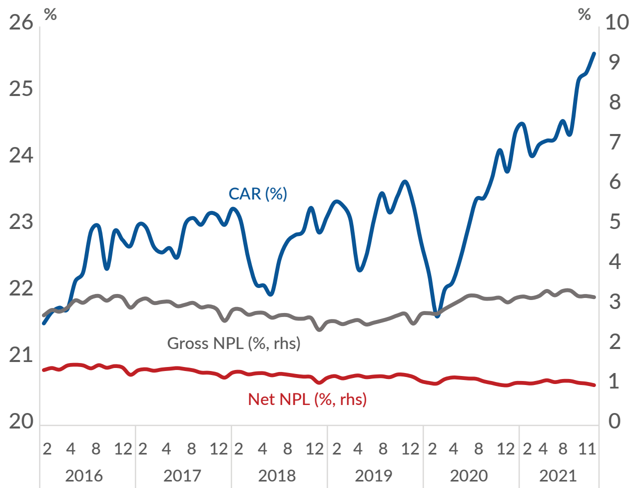
**A consistently low policy rate and loose liquidity conditions in the banking industry have continued to edge lending rates downwards**. The overnight interbank rate and 1-month deposit rate fell 26bps and 131bps since December 2020 to 2.78% and 2.96% in December 2021, respectively. In the credit market, the banking industry continues to lower prime lending rates (PLR), accompanied by lower interest rates on new loans across all bank groups. Increasing economic activity and greater public mobility have improved risk perceptions in the banking industry, prompting lower interest rates on new loans. Nonetheless, significantly smaller reductions in lending rates compared to deposit rates have increased the interest rate spread in the banking industry. Consequently, Bank Indonesia acknowledges that the commercial banks' role in lending and financing could be improved, including by lowering lending rates, to hasten the national economic recovery.

**Financial system stability is improving in line with greater control over Covid-19 transmission.** The Financial System Stability Index (FSSI) remained low and stable in the normal zone throughout 2021. The Capital Adequacy Ratio (CAR) in the banking industry was still high in November 2021 at 25.59%, up from 25.18% in October 2021 (Chart 2.20). Meanwhile, persistently low NPL ratios were maintained at 3.19% (gross) and 0.98% (net), down from 3.22% (gross) and 1.04% (net) in October 2021 as the economy continued to recover, supported by OJK policy to extend credit restructuring.

**The bank intermediation function continued to gain momentum throughout 2021.** Credit growth accelerated to 5.24% (yoy) in December 2021 in response to demand- and supply-side improvements (Chart 2.21). Demand for credit has increased in line with growing corporate activity and stronger consumption, given greater community mobility. All loan types expanded, including working capital loans, consumer loans and investment loans. In the consumer segment, housing loans enjoyed strong 9.13% (yoy) growth in December 2021, boosted by the Integrated Policy Package issued by the Financial System Stability Committee to revive the property sector. MSME loans experienced significant growth in December 2021 on higher demand in line with recovering business activity in the real sector, particularly MSMEs.

**Banking industry performance is also gaining strength.** From an efficiency perspective, a stronger banking industry is reflected in the BOPO efficiency ratio, which improved to 82.97% in November 2021 from 83.14% in October 2021. In terms of profitability, the return on assets (ROA) and net interest margin (NIM) were recorded at 1.91% and 4.51% respectively in November 2021, relatively stable throughout the latter half of the year.

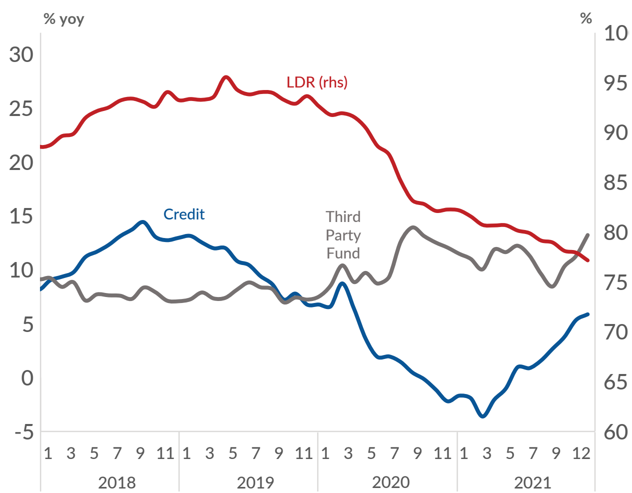
**Grafik 2.20. Banking Capital and Credit Quality**




Source: OJK, Bank Indonesia

**Consistent with the promising economic outlook and supported by the payment system digitalisation program, payment system transactions are expected to continue accelerating, particularly digital transactions.** E-commerce transactions proliferated throughout 2021 given the larger e-commerce ecosystem; greater public acceptance and growing public preference towards online retail; various innovations to make online shopping simpler and more convenient; thematic promotions by retailers; and government and Bank Indonesia programs. In 2021, the value of e-money transactions soared 49.06% (yoy) to IDR305.4 trillion and the value of digital banking transactions jumped 45.64% (yoy)

**Grafik 2.21. Credit and Third-Party Funds**




Source: Bank Indonesia

to IDR39,841.4 trillion. The value of transactions using card-based payment instruments, including ATM cards, debit cards and credit cards, increased 10.70% (yoy) to IDR7,921.70 trillion. Bank Indonesia continues to maintain a seamless and reliable payment system, while supporting government programs through coordination and monitoring trials of social aid program (bansos) 4.0 digitalisation, together with the electronification of financial transactions in the local government environment and electronification of transportation modes. In addition, Bank Indonesia launched BI-FAST on 21 December 2021 as retail payments infrastructure operating in real time (as it happens) and 24/7 (non-stop). In terms of cash, currency in circulation grew 6.78% (yoy) in December 2021, reaching IDR959.8 trillion.

2.4

# National Economic Performance Projected to Improve in 2022

**The pace of economic growth in Indonesia is projected to accelerate in 2022, supported by ongoing global economic improvements**. This is foreshadowed by several strong early indicators in December 2021, including the Purchasing Managers Index (PMI), consumer confidence and retail sales. Externally, Bank Indonesia projects global economic growth at around 5.7% in 2021 and 4.4% in 2022. World trade volume and international commodity prices will continue to rise, thereby supporting the export outlook in developing economies. Global financial market uncertainty will continue in line with normalisation policy by the Fed in response to a build-up of domestic inflationary pressures caused by supply chain disruptions and growing demand, coupled with the highly transmissible Omicron variant. Consequently, developing economies, including Indonesia, are likely to experience currency pressures and attract lower capital flows in 2021.

**National economic growth is predicted to accelerate in 2022, primarily supported by increasing private consumption and investment amid sustained fiscal spending and exports**. This was already reflected in improvements in several indicators in December 2021, including public mobility in several regions, cement sales and consumer confidence. More balanced sources of economic growth are expected in 2022, with the contribution of domestic demand predicted to increase despite the ever-present risk of rising Covid-19 cases, which demands vigilance. Expectations of stronger domestic demand are reflected in sectoral developments, while regional GDP will begin converging. Consumption in 2022 is anticipated to improve as the domestic economy continues to reopen, supported by the mass vaccination program and greater mobility, together with ongoing policy stimuli. Meanwhile, government plans to restart national strategic projects will bolster investment gains, along with solid export performance and the relocation of international corporations to Indonesia. Externally, export performance in 2022 is projected to remain positive on the back of the global recovery (Table 2.4).

**The sectoral outlook for 2022 is promising in line with the domestic economic recovery and persistently solid export performance**. The outlook is consistent with increasing public mobility as the mass vaccination program seeks to achieve herd immunity in 2022, more economic sectors are reopened, policy stimuli are maintained and the global economic recovery gains momentum. Economic prospects are also supported by higher motor vehicle sales targets, clothing companies, coal, CPO and mineral production as well as expectations of increasing numbers of air passengers (Table 2.5).

**External balance will be maintained in 2022, primarily supported by a capital and financial account surplus that is expected to offset the current account deficit**. Bank Indonesia projects a manageable current

### Table 2.4. GDP Growth Projection, Expenditure Side

| Components | 2021 | 2022 |
|---|---|---|
| GDP | 3.2 - 4.0 | 4.7 - 5.5 |
| Private Consumption | 1.5 - 2.3 | 4.3 - 5.1 |
| Government Consumption | 4.6 - 5.4 | 3.2 - 4.0 |
| Investment (GFCF) | 3.5 - 4.3 | 5.3 - 6.1 |
| Goods and Services Exports | 22.0 - 22.8 | 6.8 - 7.6 |
| Goods and Services Imports | 21.7 - 22.5 | 6.3 - 7.1 |

Source: Bank Indonesia

**Table 2.5. GDP Growth Projection, Sectors Side**

| Components | 2021 | 2022 |
|---|---|---|
| GDP | 3.2 - 4.0 | 4.7 - 5.5 |
| Agriculture, Forestry, and Fisheries | 0.8 - 1.8 | 3.6 - 4.6 |
| Mining and Excavation | 3.8 - 4.8 | 2.7 - 3.7 |
| Manufacture | 2.8 - 3.8 | 3.9 - 4.9 |
| Electricity and Gas Procurement | 3.9 - 4.9 | 4.0 - 5.0 |
| Water Supply | 4.7 - 5.7 | 5.1 - 6.1 |
| Construction | 2.7 - 3.7 | 3.9 - 4.9 |
| Wholesale Retail, Car and Motorcycle Repairs | 4.5 - 5.5 | 4.8 - 5.8 |
| Transportation and Warehousing | 2.5 - 3.5 | 5.6 - 6.6 |
| Provision of Accomodation, Food and Beverages | 4.9 - 5.9 | 5.0 - 6.0 |
| Information and Communication | 6.5 - 7.5 | 8.1 - 9.1 |
| Financial Services and Insurance | 2.6 - 3.6 | 6.1 - 7.1 |
| Real Estate | 1.4 - 2.4 | 2.5 - 3.5 |
| Corporate Services | 1.4 - 2.4 | 8.2 - 9.2 |
| Government Administration, Defence and Compulsory Social Security | 1.0 - 2.0 | 0.9 - 1.9 |
| Education Services | -0.2 - 0.8 | 4.4 - 5.4 |
| Health Services and Social Activities | 7.6 - 8.6 | 6.8 - 7.8 |
| Other Services | 3.5 - 4.5 | 6.4 - 7.4 |

Source: Bank Indonesia

account deficit in the 1.1-1.9% of GDP range in 2022. This is the outcome of strong export growth, founded upon recovering global demand; higher imports to meet growing domestic demand; and various efforts to stimulate exports and reduce dependence upon imports. Manufacturing exports will increase by implementing recovery policy, accompanied through the reopening of priority industrial sectors and the digitalisation 4.0 process. The role of tourism will also increase in the near term by optimising the contribution of domestic travellers and in the long term by accelerating the development of super priority destinations. A tourism recovery program (see the Annex on Bank Indonesia Policy Mix) will focus on implementing integrated health protocols, including with the Peduli Lindungi mobile application, which is used widely in the tourism sector. These measures would help contain the spread and of the pandemic and bolster preparations for the return of inbound international travellers to Indonesia.

**The outlook for foreign capital inflows is also favourable, thereby bolstering the capital and financial account surplus.** The capital and financial account surplus in 2022 is expected to exceed that recorded in 2021. On the side of external factors, capital inflows will benefit from the global recovery and reduced risk of divergence between advanced and developing economies. On the side of internal factors, capital inflows will be attracted by the promising domestic economic outlook in Indonesia, the attractiveness of domestic financial assets for investment and a lower risk premium. By component, direct investment inflows are expected to increase due to improvements in the business climate. Portfolio inflows are also likely to increase if monetary policies continue their expansive stance in advanced economies, thereby leading to loose global liquidity conditions. Other investment inflows are predicted to rise to meet higher infrastructure funding needs together with strong export-import growth. It should be noted that the prospect of global monetary policy normalisation sooner than expected could adversely impact capital flows into Indonesia.

**Inflation in 2022 is projected to increase yet remain under control within the 3.0%±1% target corridor.** This projection is consistent with a faster economic recovery amid potential corrections to energy prices, taxation policy and the impact of financing to support the recovery process in previous years. Inflation in 2022 is projected to remain under control within the 3.0%±1% target range, in line with adequate aggregate supply to meet higher aggregate demand; anchored inflationary expectations; rupiah exchange rate stability; and policy responses instituted by Bank Indonesia and the Government. For its part, Bank Indonesia remains firmly committed to maintaining price stability and strengthening policy coordination with the Government through National and Regional Inflation Control Teams (TPIP and TPID) to maintain CPI inflation within the target corridor. Core inflation in 2022 is expected to rise on higher demand and inflationary expectations, along with intense, yet moderating, external pressures. Administered price (AP) inflation is also predicted to rise in 2022, pushed upwards by transportation inflation as public mobility returns to normal, cigarette duties and energy prices as economic activity improves. In contrast, milder volatile food (VF) inflation is anticipated in response to maintained supply during normal weather conditions, fewer import constraints and decelerating international food prices.

**In 2022, the bank intermediation function is predicted to improve while financial stability is maintained**. As the national economy continues to recover from the Covid-19 pandemic, driven by factors discussed above, Bank Indonesia expects loans disbursed by the banking industry and financing from the capital market to increase gradually next year. More specifically, Bank Indonesia projects stronger credit and deposit growth in 2022 at rates of 6.0-8.0% and 7.0-9.0%, respectively. On the supply side, credit growth is supported by loose liquidity conditions and lower risk perceptions in the banking industry, combined with accommodative macroprudential policy.

**Bank Indonesia expects the national digital economy and finance to grow in 2022, supported by Bank Indonesia's efforts to accelerate payment system digitalisation**. E-commerce transactions in 2022 are projected to expand 31% to IDR526 trillion, supported by a larger e-commerce ecosystem, together with a continuing shift in public preferences and further acceptance of online retail; promotional activities and innovation by various businesses; and diverse programs run by Bank Indonesia and the Government. E-money transactions are also expected to grow as the preferred payment method for e-commerce and various other online platforms. On this basis, Bank Indonesia projects 17.1% (yoy) e-money growth in 2022 to reach IDR358 trillion. Similarly, digital banking transactions in 2022 are projected to maintain solid growth given the convenience afforded by digital transactions and the various digital innovations developed by the banking industry. Bank Indonesia projects digital banking payments to grow 24.8% (yoy) in 2022 to reach IDR49.7 thousand trillion.

## 2.5

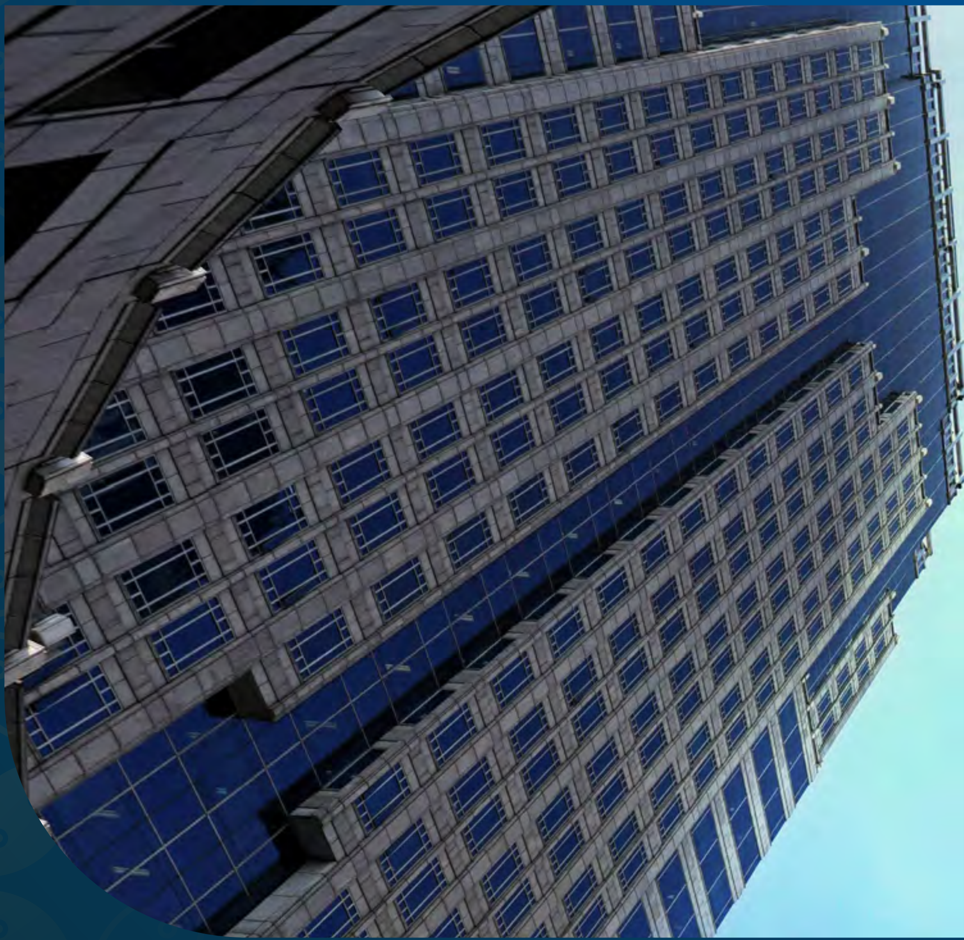
# Efforts to Advance Domestic Economic Recovery

**Based on the dynamics observed in 2021, several aspects demand attention in terms of advancing the domestic economic recovery in Indonesia**. ***First*****, synergies to accelerate the vaccination rollout and Covid-19 containment, must be strengthened to speed up the national economic recovery by safe reopening of priority sectors.** Immediate efforts to accelerate the vaccination program and Covid-19 containment measures are required to restore economic activity while maintaining health protocols. Re-opening policy should focus on sectors with a multiplier effect in the economy or a large contribution to economic growth. Priority sectors also include those with a significant export contribution, thereby maintaining economic capacity to generate foreign exchange, and sectors with a significant contribution to fulfilling domestic demand. The reopening of priority sectors should also target micro, small and medium enterprises (MSME) to ensure the positive impact of the economic recovery process can benefit the wider community. Synergy must also be increased in sectors still reeling from the scarring effect of the pandemic or sectors with relatively high financial system stability risk, such as tourism.

***Second*****, synergy is required to strengthen the national economic policy mix and maintain stability, while accelerating the national economic recovery**. Amid continuing global financial market uncertainty in line with the monetary policy normalisation plans of the US Fed and several other central banks, cooperation to strengthen the national economic policy mix must be strengthened to maintain stability on the one hand while accelerating the national economic recovery on the other. Global supply chain disruptions and soaring energy prices due to scarcities have intensified inflationary pressures in the United States and several other countries. Ambiguity concerning whether the inflation is persistent or temporary continues to stoke uncertainty surrounding global monetary policy normalisation. A measured exit policy in anticipation of normalisation plans is required, therefore. To offset undesirable impacts of stabilisation policy, the economic recovery must be sped up through policies to accelerate structural reforms in the real sector. This would include infrastructure development projects; implementation of the Job Creation Act; sustainable fiscal stimuli supported by synergies between

monetary and fiscal policies; and Financial System Stability Committee synergy to revive financing to the corporate sector.

***Third*, innovation in terms of national economic policy, faster digitalisation as well as national economic and financial inclusion must be strengthened**. Strengthening faster digitalisation can be achieved through payment system digitalisation to create a rapid, affordable, convenient, secure and reliable payment system. This will be complemented by increasing national economic and financial inclusion through MSMEs and local economic development programs. MSME empowerment entails three policy pillars, namely corporatisation, capacity building and financing. This approach aims to create productive, innovative and adaptive MSMEs. Furthermore, development of the green economy and finance requires policy and program innovation for sustainable national economic development and in response to the growing demands of advanced economies. The transition towards a green economy must be gradual and moderate to maintain economic performance amidst efforts to achieve lower carbon emission targets in Indonesia and contribute to limiting the rising global mean temperature.



CHAPTER 3

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

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

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

**Strong national economic policy synergy between the Government, the Financial System Stability Committee and Bank Indonesia has effectively maintained national economic recovery momentum along with macroeconomic and financial system stability**. In 2021, the Government maintained extraordinary fiscal stimuli to contain the health and economic impacts of Covid-19. The fiscal deficit in 2021 is expected to reach IDR783.70 trillion, or 4.65% of GDP. This includes a Covid-19 containment and national economic recovery program budget totalling IDR744.77 trillion, comprising a health budget of IDR214.96 trillion and a budget for social protections totalling IDR186.64 trillion. Seeking to maintain financial system stability and revive financing to the corporate sector, close coordination under the auspices of the Financial System Stability Committee aims to improve the property and automotive sectors through fiscal incentives from the

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

Government and accommodative macroprudential policy from Bank Indonesia. Meanwhile, the Financial Services Authority (OJK) continues to relax credit restructuring requirements for the banking industry by deferring principal and interest payments to avoid increasing non-performing loans (NPLs), or non-performing financing (NPF), and decreasing capital by extending OJK Regulation (POJK) No. 48 of 2021 until March 2023. Similarly, the Indonesia Deposit Insurance Corporation (LPS) continues to guarantee private deposits in the banking industry, thereby maintaining financial system stability, while lowering the guaranteed interest rate to support the national economic recovery.

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

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

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

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

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

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

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

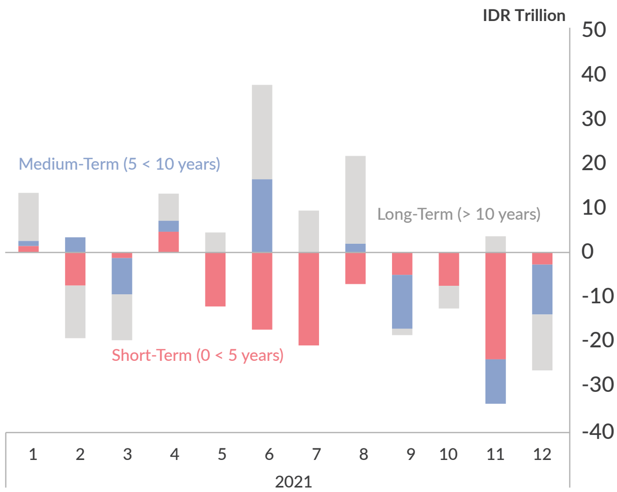
# 3.1

# Rupiah Exchange Rate Stabilisation Policy

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

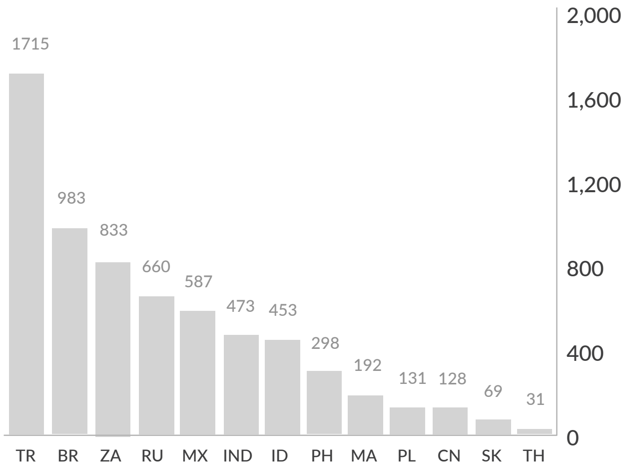
In addition, investor confidence has drawn foreign portfolio inflows into Indonesia although on a net basis throughout 2021 it still recorded outflow (Chart 3.1), while the position of reserve assets increased to USD144.9 billion at the end of December 2021, well above the USD135.9 billion recorded at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

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




Source: Bank Indonesia

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




Source: Bank Indonesia

**KSSK Synergy in Maintaining the Financial System and Strengthening National Recovery**

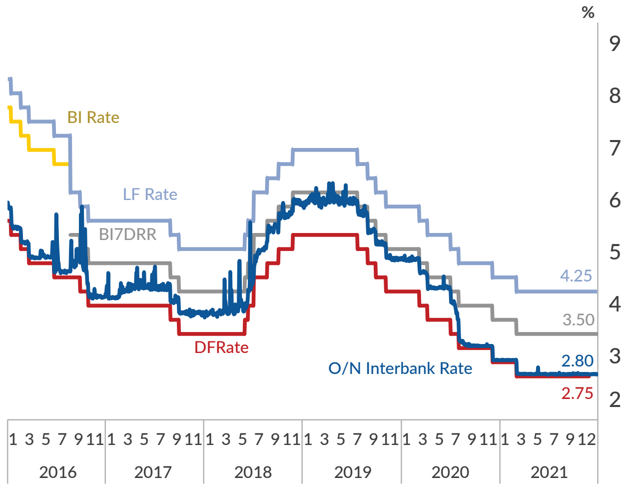
## 3.2

# Monetary Policy Stimuli

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

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

**Chart 3.3. Overnight Interbank Rates**




Source: Bank Indonesia

# 3.3

# Macroprudential Policy Easing

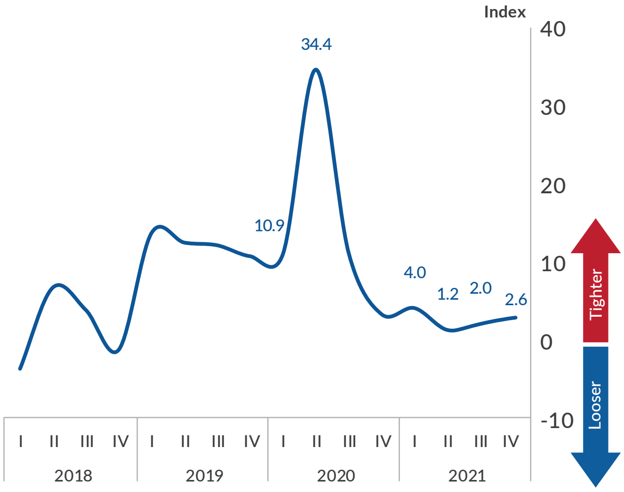
**The macroprudential policy stance remains accommodative and synergised with Financial System Stability Committee policy to revive financing to the corporate sector and accelerate the national economic recovery**. Bank Indonesia has loosened several macroprudential policies. *First*, relaxing the loan-to-value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

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

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

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

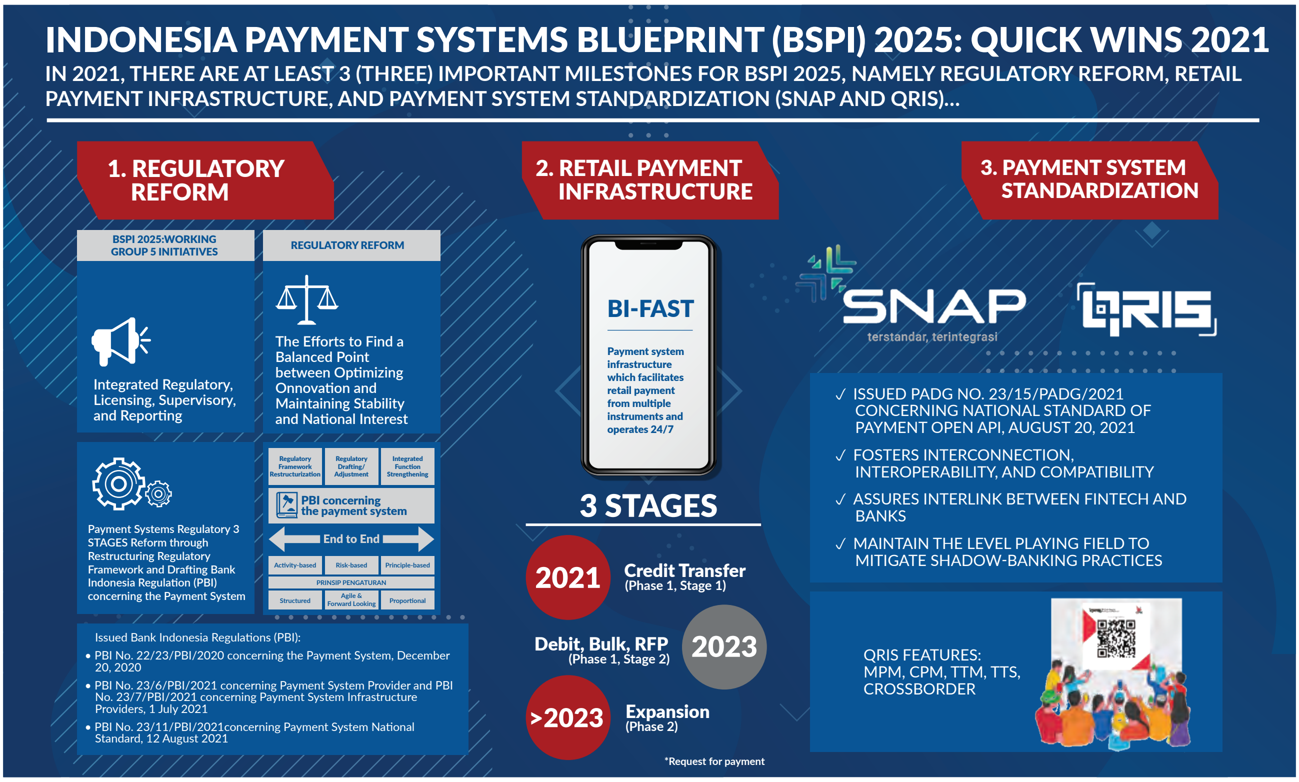
**Chart 3.4. Lending Standard Index**




Source: Bank Indonesia

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

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




Source: Bank Indonesia

## 3.4

# Accelerating Payment System Digitalisation

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

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

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

**Payment system digitalisation is also supported by QRIS extensification as the national standard for QR Payments in various digital economic and financial transactions.** QRIS expansion has been realised through a national campaign to bring onboard 12 million connected merchants using QRIS in the national ecosystem by the end of 2021. Bank Indonesia used several incentives, such as extending the 0% merchant discount rate (MDR) for micro businesses until 31 December 2021. It also increases the QRIS transaction limit from IDR2 million per transaction to IDR5 million per transaction, to increase QRIS transactions by the medium-sized enterprises, beginning 1 May 2021. Coordination with the Government continues to be strengthened through QRIS use in the Proudly Made in Indonesia National Movement (BBI - *Gerakan Nasional Bangga Buatan Indonesia*) and the Proud to Travel in Indonesia Movement (BWI - *Gerakan Berwisata di Indonesia*). QRIS expansion in the local government environment was also expanded as part of the Regional Digitalisation Expansion and Acceleration Team (TP2DD). The various policies and close coordination have produced fruitful results. The target of 12 million merchants connected to QRIS was achieved at the beginning of November 2021; by year-end, it was exceeded by a wide margin (Table 3.1). Furthermore, QRIS, which operates in 34 provinces and 480 regencies/cities, is used by 88% of micro and small businesses, and is operated by 68 payment service providers, both banks and nonbank institutions. Moreover, the use of QRIS is increasing both in terms of volume and value, which demonstrates growing public acceptance of QRIS (Chart 3.5).

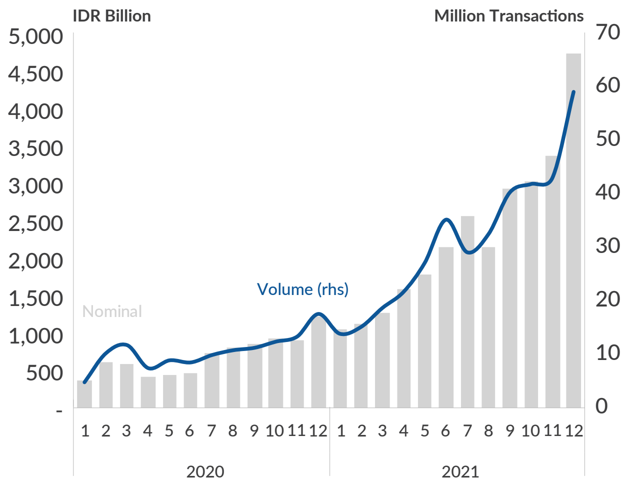
**Bank Indonesia continues to expand the payment electronification initiative for social aid program (bansos) disbursements, transportation modes and regional government financial transactions to help accelerate the digital economy and finance.** Bank Indonesia fully backs government efforts to disburse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

### Tabel 3.1. QRIS-Registered Merchants

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

Source: Bank Indonesia

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

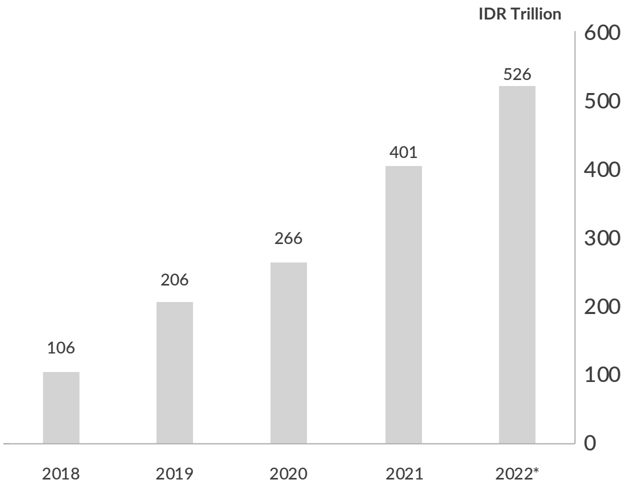



Source: Bank Indonesia

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

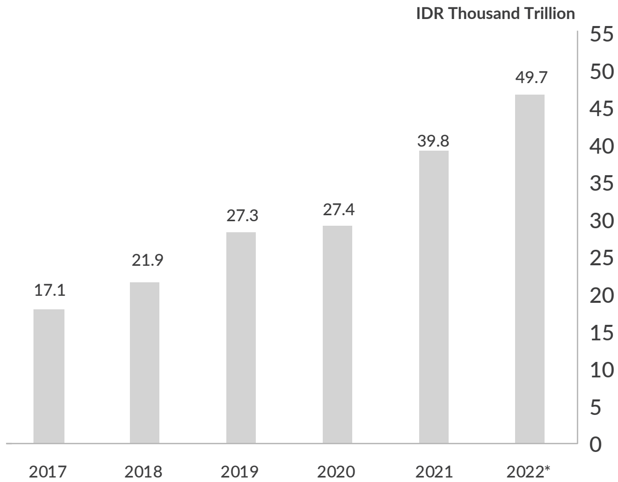
**The aforementioned payment system digitalisation programs are accelerating and integrating the national digital economy and finance, today and in the future**. E-commerce transactions, which are estimated to have grown 50.8% in 2021, will continue to increase in 2022 to reach IDR526 trillion, or growth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

### Chart 3.6. Developments in E-Commerce



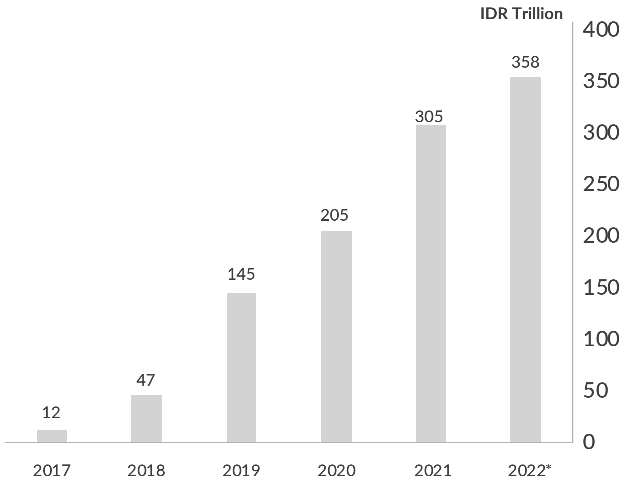

Source: Bank Indonesia *Bank Indonesia's Projection

### Chart 3.7. Developments in Digital Banking




Source: Bank Indonesia *Bank Indonesia's Projection

**Chart 3.8. Developments in Electronic Money**




Source: Bank Indonesia *Bank Indonesia's Projection

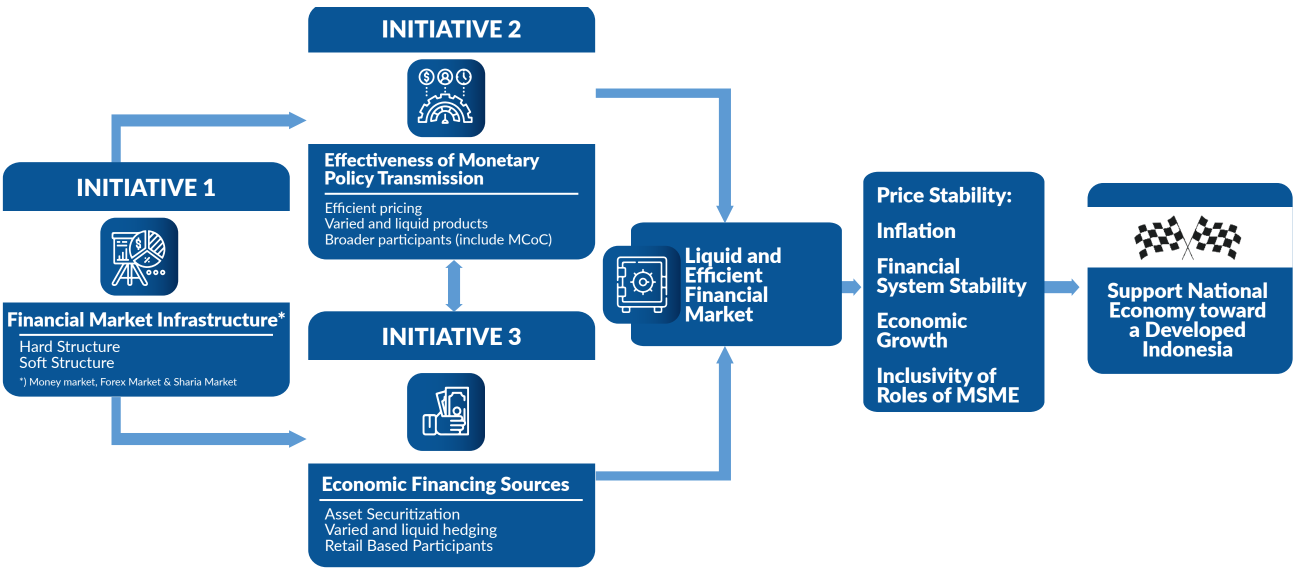
**With regard to rupiah currency management, Bank Indonesia continues transformation efforts through centralisation, automation and efficiency in the printing and circulation of money throughout the territory of the Republic of Indonesia.** Transformation is oriented towards providing money fit for circulation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

# 3.5

# Accelerating Money Market Development

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

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




Source: Bank Indonesia

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

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

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

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

**Figure 3.3. Developments of CCP-SB NT in Indonesia**


Source: Bank Indonesia

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

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

# 3.6

# Empowerment of Sharia Economy and Finance and MSMEs

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

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

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

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

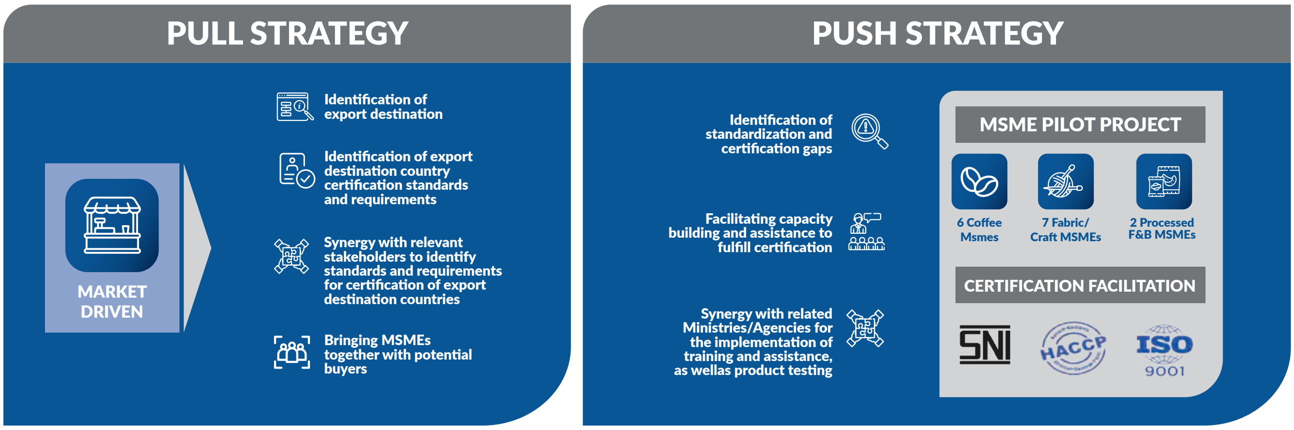
**Figure 3.4. FeSyar and ISEF 2021: Indonesia as the World Center of Sharia Economics and Finance**


Source: Bank Indonesia

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

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

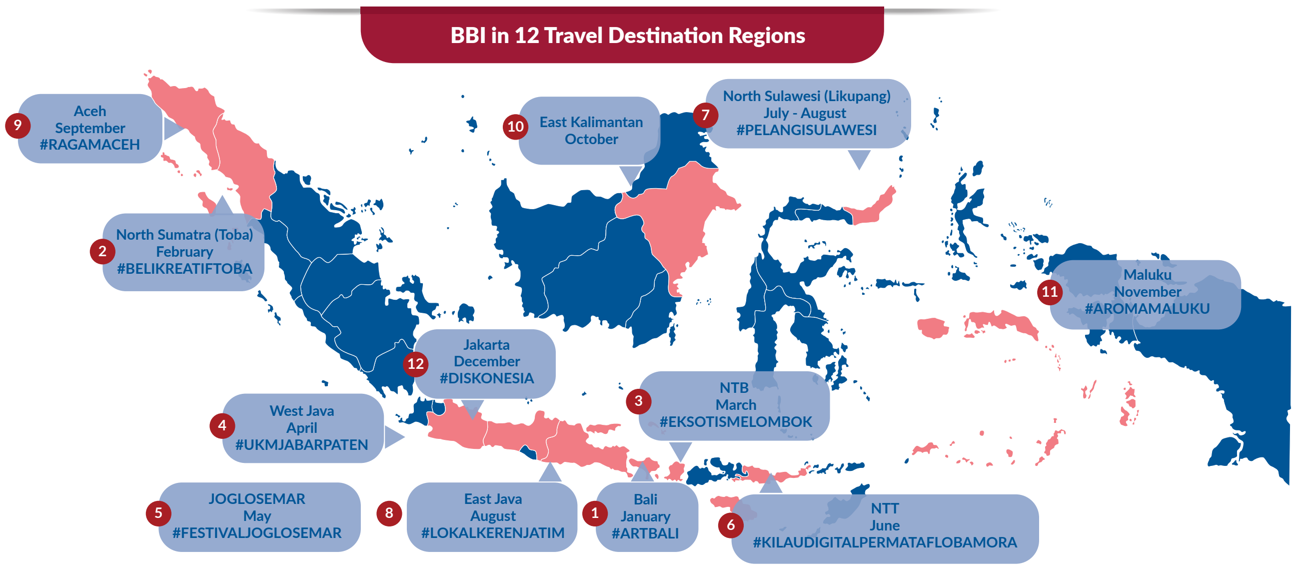
**Figure 3.5. MSME Export Development Strategy**




Source: Bank Indonesia

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

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




Source: Bank Indonesia

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

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


Source: Bank Indonesia

# 3.7

# Strengthening International Policy

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

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

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

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

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

3.8

# Bank Indonesia Transformation

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

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

**Figure 3.8. Institutional Transformation**


Source: Bank Indonesia

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

# CHAPTER 4

# 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 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.

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

# 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

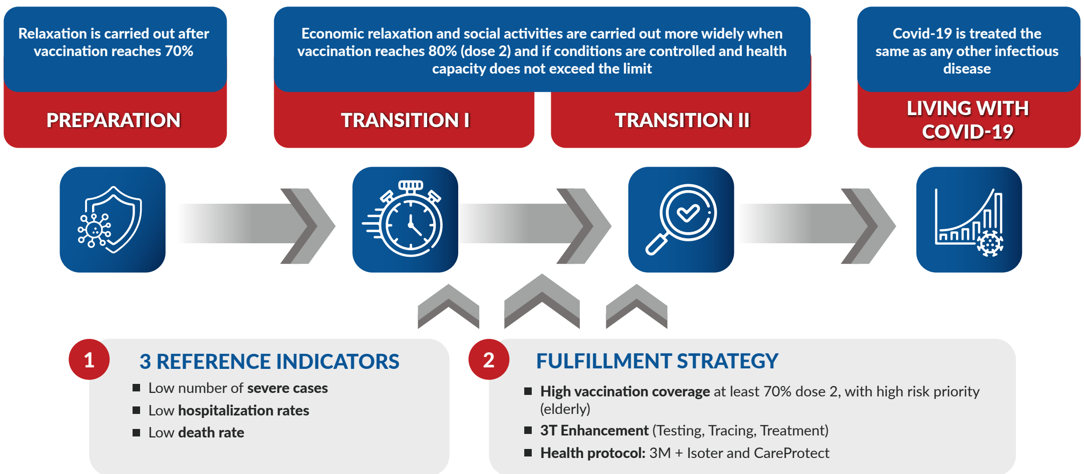
**Figure 4.1. National Policy Synergy**


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**



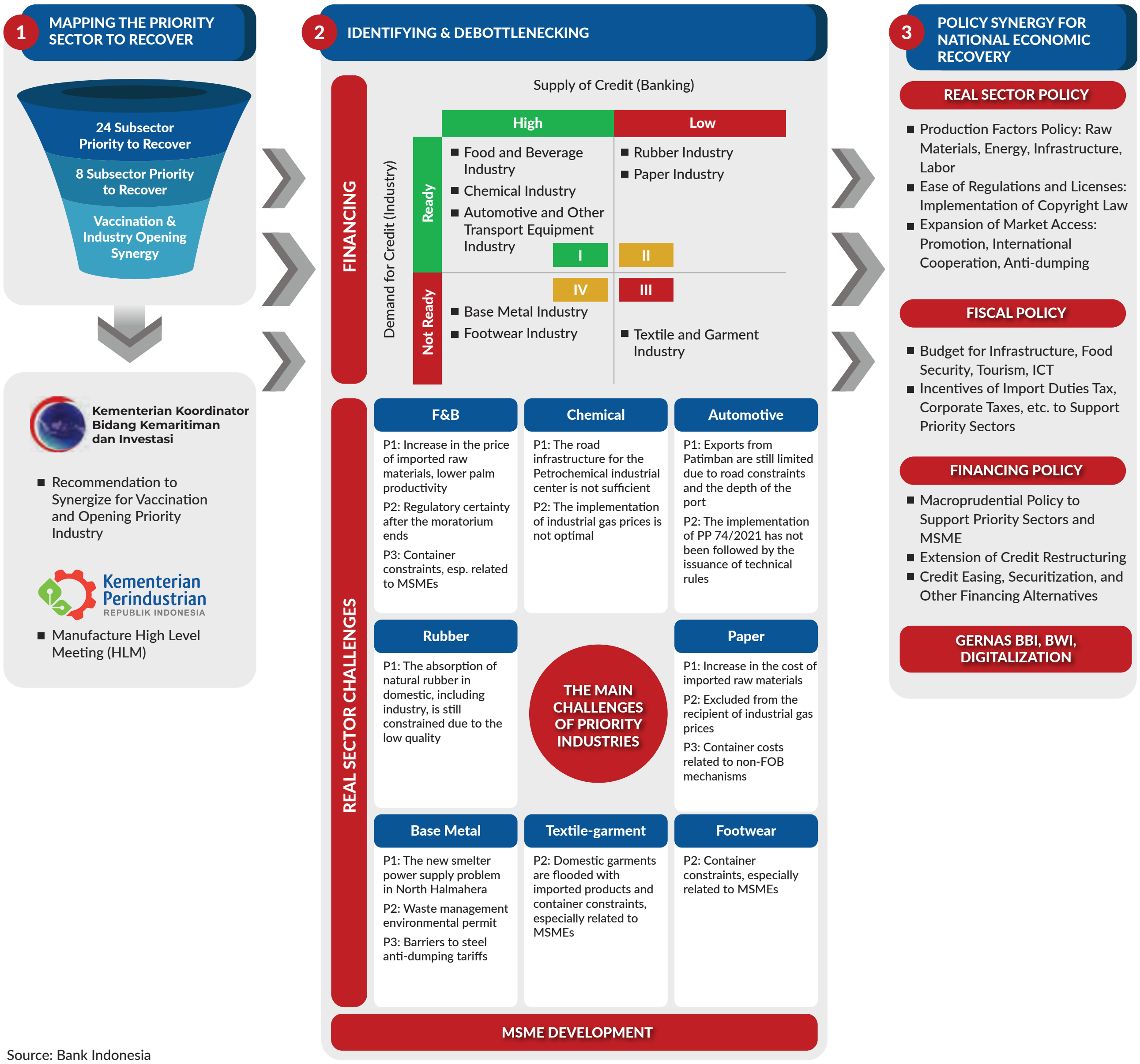

Source: Presentation on PPKM Evaluation of the Coordinating Ministry for Maritime Affairs, Study Australia and Singapore months). Bank Indonesia's participation was realized through the contribution of all interest costs for financing vaccinations and health care needs with a maximum limit of IDR58 trillion (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

**HEALTH**
**2022: IDR256,0 T**

- Continued handling of Covid-19 (a.l. Government vaccination, patient care)
- Increasing the effectiveness of Childbirth Assurance (Jampersal) and its integration into the JKN program
- Strengthening national health system reform
- Continued acceleration of stunting reduction

**SOCIAL PROTECTION**
**2022: IDR429,9 T**

- Continuing to improve DTKS and synergize with various related data
- Support gradual reform
- Support the Job Loss Guarantee Program
- Development of adaptive social protection schemes

**EDUCATION**
**2022: IDR542,8 T**

- Improving the competence and professionalism of teachers
- Acceleration of rehabilitation of facilities and infrastructure
- Strengthening vocational education a.l. through quality standardization and research and innovation development
- Increased synergy between the Central Government, Regional Governments, and between K/L

**INFRASTRUCTURE**
**2022: IDR367,8 T**

- Support basic service infrastructure
- Drive productivity (connectivity and mobility)
- Providing energy and food infrastructure
- Equitable infrastructure and access to ICT

**INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) — 2022: IDR27,1 T**

- Build and develop ICT infrastructure for equitable access and connectivity
- Drive digital transformation and prepare digital ecosystem
- National Data Center Development and SPBNE implementation
- ICT HR Development

**FOOD SECURITY/ FOOD ESTATE**
**2022: IDR78,7 T**

- Increased affordability and food sufficiency
- Increased productivity and income of farmers and fishermen
- Strengthening sustainable food systems
- Development of Food Production Center Areas (Food Estate)

**TOURISM**
**2022: IDR9,2 T**

- Acceleration of development of five Super Priority Tourism Destinations namely Lake Toba, Borobudur, Mandalika, Labuan Bajo, and Likupang
- Tourism and creative economy development
- Tourism market recovery and rebranding

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 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% ± 1.0%; 3.0% ± 1.0% and; 2.5% ± 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).

CHAPTER 5

# BANK INDONESIA POLICY MIX DIRECTION FOR 2022: ENCOURAGING ACCELERATION OF ECONOMIC RECOVERY, MAINTAINING STABILITY

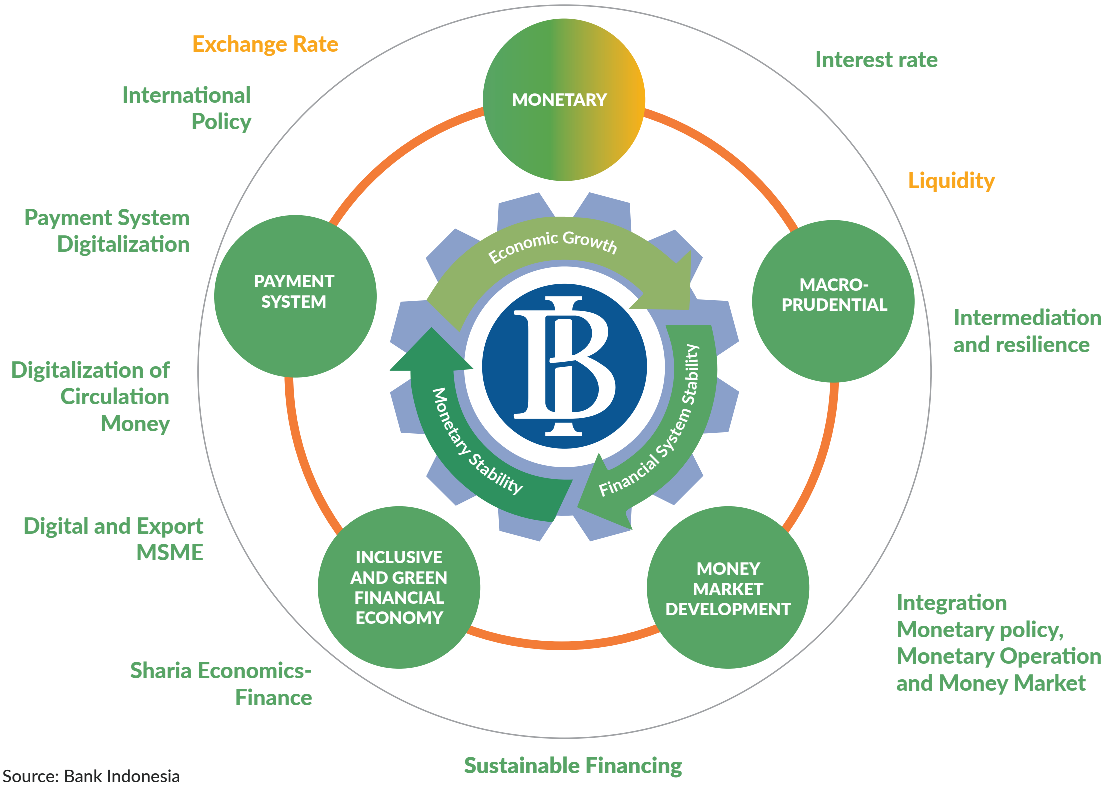
Bank Indonesia's policy mix in 2022 will synergize and help guide national economic policy toward accelerating recovery and maintaining economic stability. The policy mix is based upon the global economic outlook and gives consideration to issues that are on the international policy coordination agenda in the Indonesian Presidency at the G20 in 2022. In this regard, implementation entails five policy instruments, namely: monetary policy; macroprudential policy; digitalization of the payment system; deepening of the money market; and creating an inclusive and green economy. These all require accurate analysis, good planning and effective communication. Beginning with monetary policy, external risks are critical, most importantly the risk of increasing global financial market instability pressures brought on by the normalization of monetary policy by the Fed and a number of Advanced Economies. In light of this possibility, monetary policy in 2022 will be directed more towards maintaining stability (pro-stability), in terms of achieving the inflation target; exchange rate stability; and macroeconomic and financial system stability. At the same time, macroprudential policies, digitalization of the payment system, deepening of the money market and creation of an inclusive and green economy will continue to be directed towards accelerating Indonesia’s economic recovery (pro-growth). The direction of Bank Indonesia's policies in synergy with the national economic policy mix will help bring Indonesia's economic growth back to its medium-term trajectory, aiming at creating an Advanced Indonesia.

**The policy mix for 2022 is planned very carefully in a measured manner, in order to support the national economic recovery with the maintenance of macroeconomic and financial system stability.** Bank Indonesia's monetary policy in 2022 will be directed towards maintaining stability while still supporting national economic recovery. The loose macroprudential policy will continue and be expanded to encourage credit and banking financing to priority sectors and MSMEs, so as to accelerate the economic recovery, while maintaining financial system stability and developing a green economy. Implementation of payment system digitalization (based on the Indonesia Payment System Blueprint 2025, BSPI) will accelerate integration of the digital economy and finance, end-to-end, as a new source of economic growth. Likewise, accelerated deepening of the money market and the foreign exchange market will strengthen the effectiveness of policy transmission; develop a modern and international-standard money market infrastructure and encourage new financing instruments, including for sustainable finance. Inclusive economic-financial development programs for MSMEs and the sharia-financed economy will be expanded, including by digitizing and expanding access to domestic and export markets. Synergy of Bank Indonesia's policy mix with the policies of the Government, the Financial System Stability Committee (KSSK), the financial industry, the business world and various associations continue to be strengthened so that the national economy can fully recover from the impact of the Covid-19 pandemic, returning to the medium- to long-term trajectory for achieving the goal of an Advanced Indonesia.

**The synergy of Bank Indonesia's policy mix with national economic policies will encourage the acceleration of Indonesia's economic growth to return to its medium-term trajectory for an Advanced Indonesia.** The prospect of a recovery in the global economy and the positive impact of structural reforms are expected to help strengthen the Indonesian economy over the medium term. In line with a better economic structure, Indonesia's Balance of Payments (BOP) is predicted to show an improving trend, supported by a stable current account deficit. Increased productivity and greater efficiencies in the economy over the medium term will help keep inflation within the target range. Structural reform policies continue to be strengthened in order to accelerate the transformation of Indonesia's economy into a developed country. Implementation of the Job Creation Law (UUCK) coupled with infrastructure development and increased digital connectivity will support higher productivity and encourage digital transformation. In terms of human capital, strong policies in the fields of education and health are needed to limit damage from the pandemic and to encourage a resilient and inclusive employment recovery. Furthermore, domestic supply chain policies need to be accelerated to strengthen this part of the structure of the economy. Furthermore, the post-pandemic recovery is an opportunity to adopt a green growth strategy to provide broad opportunities for economic growth through environmentally friendly investments (Figure 5.1).

> **"The synergy of national economic policies will encourage the acceleration of Indonesia's economic growth to return to the medium-term trajectory towards creating an Advanced Indonesia."**

Figure 5.1. Bank Indonesia Policy Mix for 2022




Source: Bank Indonesia

# 5.1

# Monetary Policy Direction

**Bank Indonesia's monetary policy in 2022 will emphasize the maintenance of stability while still supporting national economic recovery.** The implementation of monetary policy will be carried out pre-emptively, ahead of the curve and with a front-loading approach to maintain stability in anticipation of monetary policy normalization and consolidation of global fiscal policy and an increase in the Fed Funds Rate (FFR), while still supporting national economic recovery (Figure 5.2). The low interest rate policy will be maintained until there are early indications of rising inflation. In the meantime, interest rate policy will be focused more on strengthening its effectiveness in affecting bank lending rates. This would be accomplished by interest rate transparency policies and money market deepening to narrow the wide spread in yields between, for example, Medium and Long Term Government Securities and Interbank Money Market (PUAB) interest rates. Normalization of monetary policy in Indonesia will be carried out gradually, taking into account the huge excess liquidity currently in the banking system (the ratio of Liquid Assets to Third Party Funds (LA/TPF) stands at 35.12%). Liquidity normalization policy will be carried out while ensuring the ability of banks to disburse credit/financing to the business world and to participate in the purchase of Government Securities for State Budget financing. Liquidity normalization will be carried out by gradually, by increasing the Rupiah Statutory Reserves (Giro Requirement) for Conventional Commercial Banks which currently stands at 3.5% to the following:

"Bank Indonesia's monetary policy in 2022 will be directed more toward maintaining stability while still supporting the national economic recovery"

i. An increase of 150 bps to 5.0% with daily fulfillment of 1.0% and an average of 4.0% effective as of 1 March, 2022;

ii. An increase of 100 bps to 6.0% with a daily fulfillment of 1.0% and an average of 5.0% effective as of 1 June 2022;

iii. An increase of 50 bps to 6.5% with a daily fulfillment of 1.0% and an average of 5.5% effective as of 1 September, 2022.

The normalization of liquidity policy is also being carried out by gradually increasing the Rupiah Statutory Reserves for Islamic Commercial Banks and Sharia Business Units which currently stands at 3.5% to the following:

i. An increase of 50 bps to 4.0% with a daily fulfillment of 1.0% and an average of 3.0% effective as of 1 March 2022;

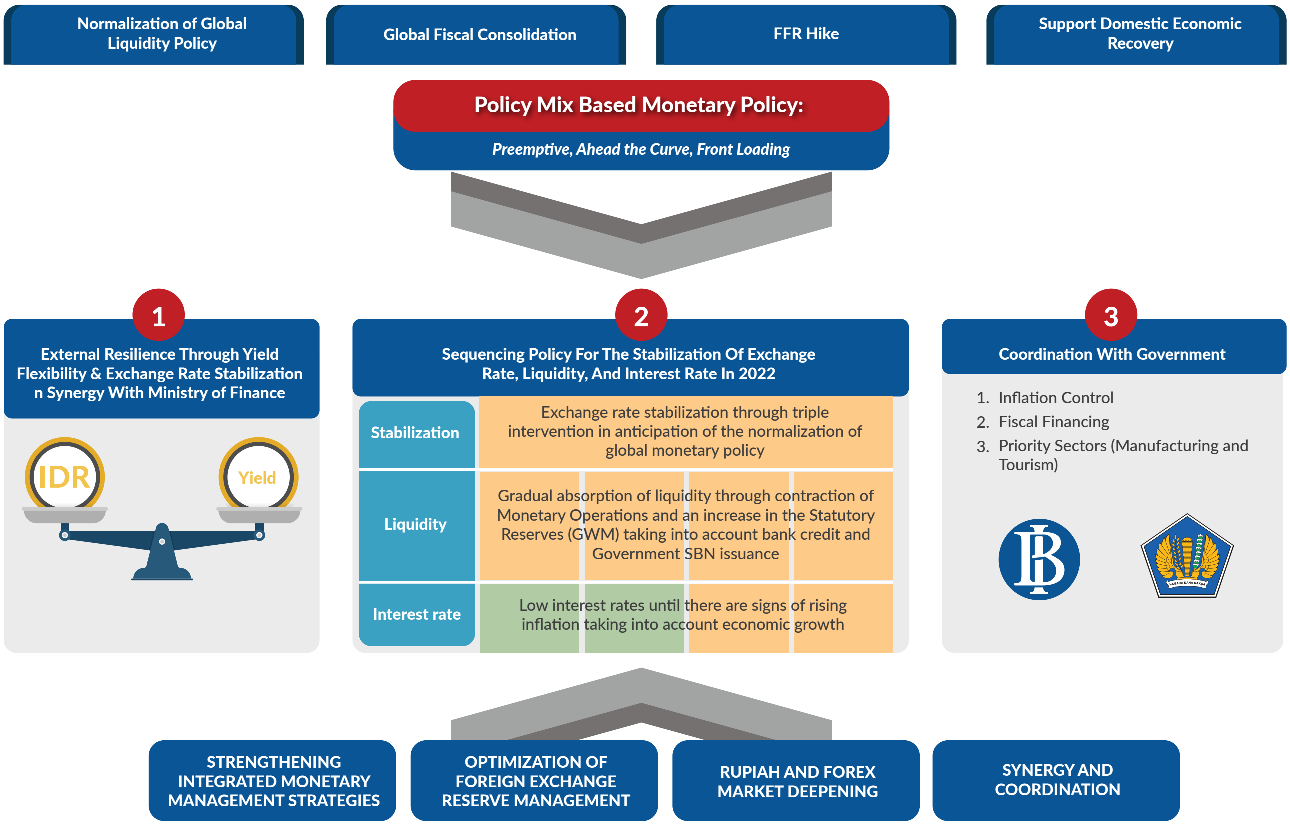
ii. An increase of 50 bps to 4.5% with a daily fulfillment of 1.0% and an average of 3.5% effective as of 1 June 2022;

iii. An increase of 50 bps to 5.0% with a daily fulfillment of 1.0% and an average of 4.0% effective as of 1 September, 2022.

The liquidity normalization policy is accompanied by the provision of demand deposits of 1.5% for Conventional Commercial Banks, Islamic Commercial Banks and Sharia Business Units to fulfill the statutory reserve requirement in rupiah on average.

**Policy of monetary policy normalization by the Fed and a number of other developed countries puts the emphasis on Rupiah exchange rate policy, to maintain external stability while maintaining monetary and financial system stability as well as national economic recovery.** Monetary policy is being implemented by taking into account the room for adjustments in the Rupiah exchange rate and yields on Government Securities that are consistent with

Figure 5.2. Monetary Policy Direction for 2022




Source: Bank Indonesia

changes in global exchange rates and US Treasury yields. Adjustments are made in a measurable fashion and within normal limits to maintain an adequate Rupiah yield on Government Securities through a competitive interest rate differential. If necessary, the Rupiah exchange rate stabilization policy is to be carried out through triple intervention in the spot market, Domestic Non-Deliverable Forward (DNDF) market and the purchase of Government Securities in the secondary market, to maintain exchange rate stability in line with fundamentals and the market mechanism. Coordination with the Ministry of Finance will continue to be strengthened to maintain the stability of the Rupiah exchange rate and the stability of the Government Securities market in managing adjustments according to global developments. The monetary operations strategy will also be strengthened to support the effectiveness of the monetary policy stance.

**The coordination of monetary policy with fiscal policy will continue to be strengthened in order to further encourage economic recovery while maintaining macroeconomic stability.** Coordination is carried out at several levels. First is the coordination of monetary-fiscal policy in promoting economic growth from the side of aggregate demand. This coordination takes place, for example, in discussions of macro assumptions in the preparation of the State Budget and in the meetings to discuss the latest economic developments, taking into account the realization of State Budget expenditures and monetary operations. Discussions on macroeconomic, monetary and financial system stability are also carried out on a quarterly basis through the KSSK. A second level for discussions is the coordination of monetary-fiscal policy in the plans to issue Government Securities both domestically and globally to fulfil State Budget financing by taking into account global financial market developments and their impact on monetary stability and domestic financial markets. Third is the coordination in the purchase of Government Securities in the primary market by Bank Indonesia to fulfil State Budget funding as the implementation of Law No. 2020 up to the end of 2022. In 2022, Bank Indonesia will continue to purchase Government Securities in primary market auctions for State Budget financing as a standby buyer as agreed in the Joint Decree of the Minister of Finance and the Governor of Bank

Indonesia dated 16 April, 2020. Furthermore, Bank Indonesia will continue to purchase Government Securities directly amounting to Rp224 trillion in 2022 to finance the health budget and for part of the humanitarian budget in the 2022 State Budget due to Covid-19, as stated in the Joint Decree of the Minister of Finance and the Governor of Bank Indonesia dated 23 August 2021. Fiscal-monetary coordination will be increasingly important in 2022 to manage the national economy amid the risk of high global uncertainty due to the normalization of monetary and fiscal policies in the US and a number of other Advanced Economies.

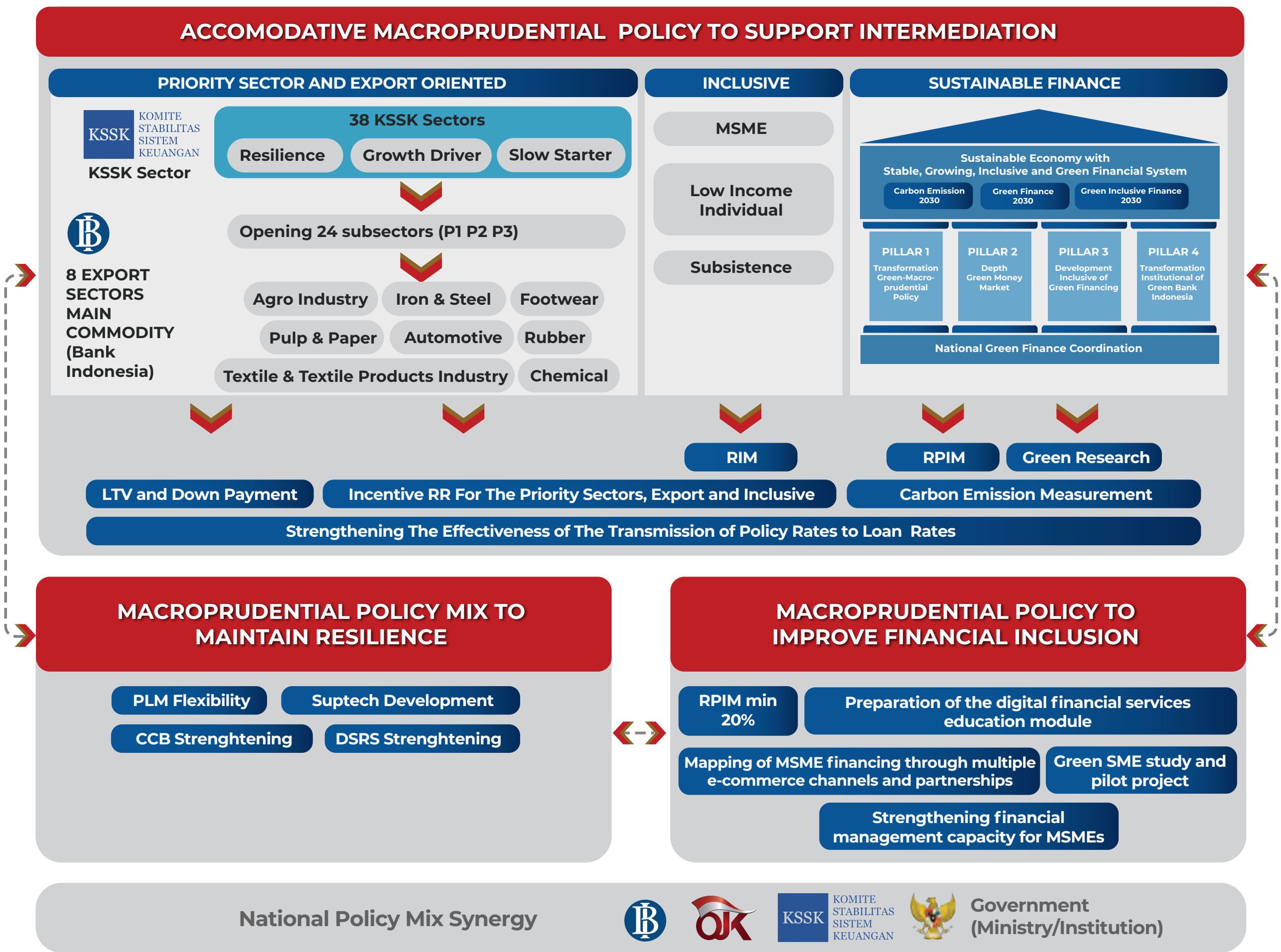
**Bank Indonesia's policy coordination with Government policies will also continue to be strengthened in controlling inflation and encouraging priority sectors to contribute to economic recovery.** Inflation in 2022 is predicted to remain under control within the target of 3±1% in line with adequate aggregate supply to meet rising aggregate demand; controlled inflationary expectations; stability in the Rupiah exchange rate; and policy responses from Bank Indonesia and the Government. Coordination of inflation control through the Central and Regional Inflation Control Teams (TPIP and TPID) also contributes to managing inflation, especially from possible increases in global energy prices and pressure on the prices of basic commodities. Meanwhile, coordination to encourage priority sectors was strengthened with support from Bank Indonesia, both in assessing developments and problems occurring at the central and regional levels, and in making recommendations on important economic policies, including by the Regional Economic and Financial Studies (KEKDA) conducted by Bank Indonesia representative offices in various regions. Furthermore, coordination and support from Bank Indonesia continues to be strengthened in the development and improvement of MSMEs and Islamic finance, both at the national and regional levels.

# 5.2

# Macroprudential Policy Direction

**Macroprudential policy will continue to be accommodative in 2022 to increase bank credit/ financing to support national economic recovery while maintaining financial system stability.** Loose macroprudential policy is carried out by setting the Countercyclical Capital Buffer Ratio (CCyB) at 0%; the Macroprudential Intermediation Ratio (RIM) in the range of 84-94% with a lower limit disincentive parameter of 84% since 1 January, 2022; the Macroprudential Liquidity Buffer (PLM) ratio at 6% with repo flexibility of 6%; and the PLM Syariah ratio at 4.5% with repo flexibility of 4.5%. Furthermore, the FLTV/LTV KPR/KPA ratio is set at 100% and the KKB down payment is 0% for banks that meet the low NPL/NPF criteria, which will remain valid until the end of December 2022 (Figure 5.3). Macroprudential policies to increase interest rate transparency will also be continued and will be strengthened by macroprudential supervision of banks and the widening of the spread between lending rates and deposit rates by bank group. In addition, macroprudential policies will be eased further to encourage credit/financing in priority sectors as part of KSSK policy coordination in pursuing national economic recovery. Formulation and implementation of this macroprudential policy will be adjusted to the conditions of the priority sector in question and to the constraints faced by banks in regard to its distribution, including in the form of incentives/disincentives for Statutory Reserves and others. To support the

**Figure 5.3. Macroprudential Policy Direction for 2022**




Source: Bank Indonesia

establishment of an inclusive financial economy, especially for MSMEs, the Macroprudential Inclusive Financing Ratio Policy (RPIM) will continue to improve the effectiveness of its implementation, by MSME clustering and corporatization efforts in synergy with the Government; encouraging bank cooperation with MSME channeling partner institutions; and by developing MSME financing securities that can meet regulatory requirements. This policy provides incentives to banks that channel credit/financing to priority sectors and inclusive financing, and/or banks that meet the RPIM targets set in accordance with the bank's expertise and business model. As incentive, the daily Statutory Reserves obligation is reduced by up to 100 bps effective 1 March, 2022. Bank Indonesia also synergizes with the Government in expanding access to financing and developing MSMEs, including low-income and subsistence groups. Furthermore, Bank Indonesia is cooperating with KSSK and related Ministries/Agencies to continue developing macroprudential policies and sustainable finance to support green finance.

**Policy synergy with KSSK is being strengthened to encourage credit/financing from banks and other financial institutions for the business world to support national economic recovery.** The process of economic recovery is highly dependent on the availability of financing for the business world. Also, bank financing is very much needed to overcome the damage done by the Covid-19 pandemic, which will also affect the sustainability of economic growth. To this end, synergy and policy coordination are needed to overcome various real sector problems, especially in priority sectors driving economic recovery, as well as in the KSSK to address the problems of demand from the business world and supply of bank credit. The effectiveness of Bank Indonesia's loose macroprudential policy is strongly influenced by the synergy and coordination of these policies. From the government's perspective, the forms of policy support include using State Budget instruments to handle the pandemic, providing social protection and providing fiscal incentives, as well as various other business facilities. OJK provided support through its microprudential instruments, such as stimulus policies for financial institutions and adjustments to Risk-Weighted Assets and Advances for Financing Companies. LPS, meanwhile, provided support through a policy of strengthening the deposit guarantee program in the form of a low-interest rate guarantee and incentives for relaxation of late fees for guaranteeing premiums. In addition to focusing on economic recovery, Bank Indonesia and KSSK also strengthened coordination in order to anticipate the potential risk of a spike in the cases of new variants of Covid-19.

**The coordination of Bank Indonesia's macroprudential supervision with OJK's microprudential supervision and deposit insurance by LPS continues to be strengthened to maintain financial system stability.** Coordination within the framework of banking supervision between Bank Indonesia and OJK and LPS continues to be carried out regularly to exchange information on the results of supervision, surveillance and inspection, including at the technical level and with institutional leaders. Coordination is carried out either bilaterally by BI and OJK or BI and LPS or multilaterally by BI, OJK and LPS. Several items of discussion in the forum included reviews of the latest individual banking conditions; assessments of liquidity conditions; credit quality; capital; and other aspects, such as developments in monetary conditions, financial markets and corporations, as well as cyber and macroeconomic risks. Coordination is carried out so that each authority can come up with the necessary policy response in a timely manner. The synergy of macroprudential-microprudential policies of Bank Indonesia and OJK is also carried out in the provision of Short-Term Liquidity Loans (PLJP) and Sharia Short-Term Liquidity Financing (PLJPS) by Bank Indonesia and by strengthening the basis for cooperation as outlined in the Joint Implementation Guidelines between Bank Indonesia and OJK. Synergy of the macroprudential-microprudential policies of Bank Indonesia and OJK is also achieved via the provision of Short-Term Liquidity Loans (PLJP) and Sharia Short-Term Liquidity Financing (PLJPS) by Bank Indonesia. This is attained by strengthening the basis for cooperation as outlined in the Joint Implementation Guidelines between Bank Indonesia and OJK. Furthermore, Bank Indonesia and LPS are intensively and continuously carrying out coordination to strengthen their readiness to handle problem banks or bank resolution by LPS, if needed, as well as providing financing support to LPS in the context of bank handling/resolution contained in a Memorandum of Understanding.

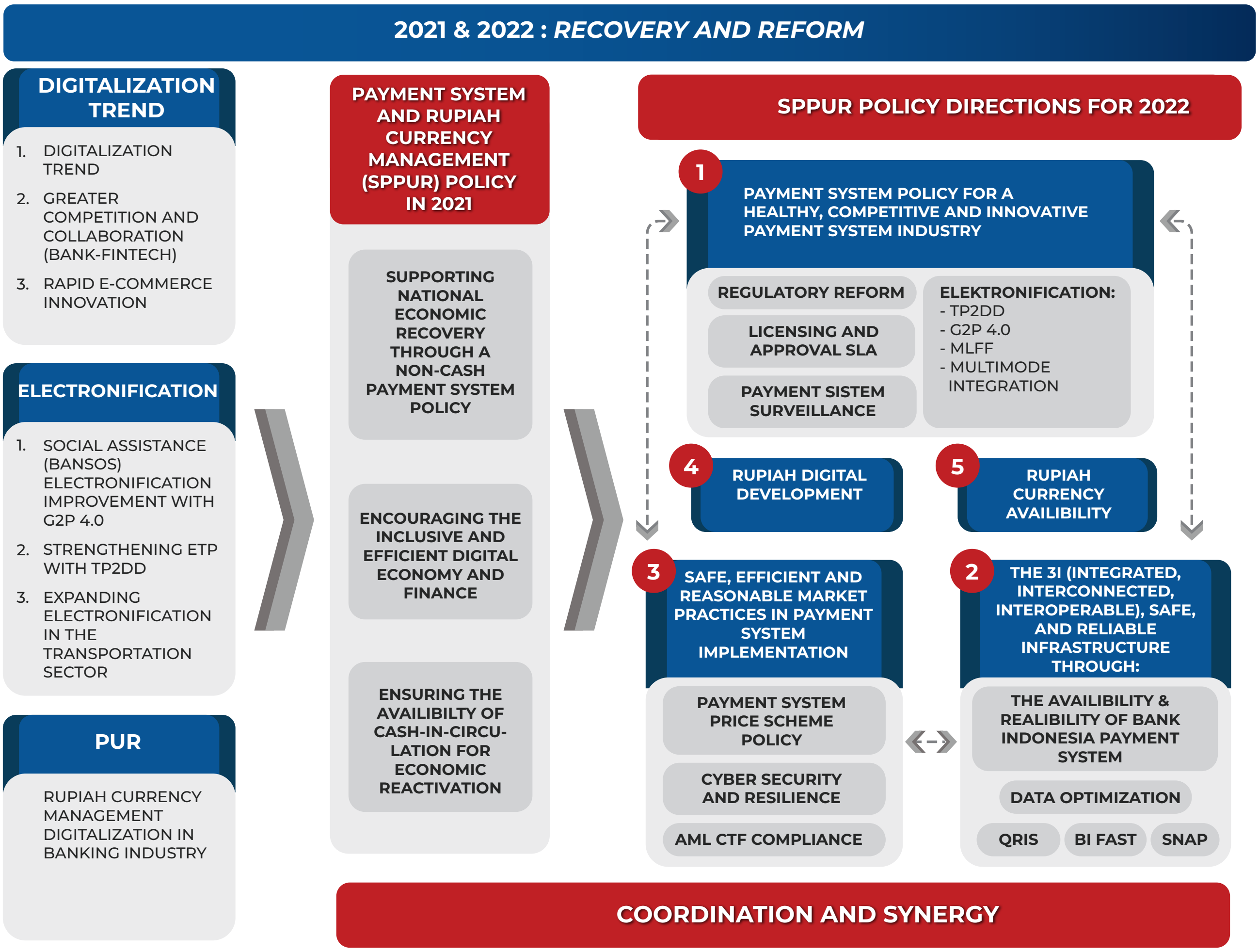
# 5.3

# Payment System Policy Direction

**Payment system policies in 2022 include expanding the digitalization of payment systems to accelerate the integration of the digital economy and finance ecosystem, including to promote an inclusive economy.** Various programs that have been announced in BSPI 2025 will be carried out according to the schedule and targets specified. Payment system policy in 2022 will remain focused on five main strategic matters (Figure 5.4). *First* is accelerating consolidation of the payment system industry so that it is healthy, competitive and innovative through regulatory reforms in accordance with more industry-friendly policies and regulations in the BI Payment System; ease of licensing and approval with a service level agreement (SLA) between Bank Indonesia and the payment system industry; and strengthening payment system supervision, particularly in capital compliance, risk management and cyber security. This strategy is directed toward establishing an end-to-end industrial ecosystem from digital banking, fintech and e-commerce, either through business cooperation, ownership or other forms.

*Second* is the payment system infrastructure that is interoperable, interconnected and integrated (3I), secure and reliable, which continues to be developed to support further economic and financial inclusion, including MSME and retail transactions. Greater use

**Figure 5.4. Payment System Policy Direction for 2022**




Source: Bank Indonesia

of QRIS continues to be undertaken as a contactless payment tool that meets health protocols through the QRIS READY program in markets/shopping centers, including by improving service features for the convenience and comfort of users. Greater use of QRIS would increase the number of transactions so that a credit profile of MSME merchants can be drawn up to support the extension of more bank credit to MSMEs, to reduce the room for illegal online lending activities and to achieve the target of 15 million QRIS users by 2022. The expansion of the use of QRIS is carried out through: (i) implementation of the strategy of 15 million new QRIS users by 2022 through collaboration with industry, Ministries/Agencies, and communities; (ii) expansion of QRIS features; and (iii) setting up business models and resolving technical details in order to implement cross-border QRIS with Malaysia. The implementation of SNAP for connection of payment transaction services by banks with fintech continues to be accelerated, thereby expanding the integration of the national digital economy-financial ecosystem. Similarly, the operationalization and expansion of participation in BI-FAST continues to be improved and it is hoped that all banks will be connected as participants and that they will be able to provide retail payment services 24/7 and in real time. In addition to these three flagship programs, digital payment system reform will also be strengthened through a development program to optimize data and maintain the availability and reliability of the Bank Indonesia Payment System.

*Third* are safe, efficient and fair market practices to further realize a fast, easy, cheap, secure and reliable payment system which is continuously being developed. A pricing policy will be adopted in order to simplify, harmonize and reduce transaction costs in the digital payment system. The price structure of payment system services, the types of services from one payment service company to another and the speed at which merchant sellers receive payments from buyers, which currently varies too much, will be simplified. Simplification of the price structure needs to provide incentives to the industry to invest and innovate, without burdening the public as consumers. Strengthening risk management and monitoring of payment systems will also continue, particularly in the implementation of cyber security and resilience, as well as strengthening compliance with Anti-Money Laundering and Countering the Financing of Terrorism principles.

*Fourth* is the preparation for the issuance of Digital Rupiah while the implementation of digitizing Rupiah money management will be accelerated. The development of the Digital Rupiah as a legal payment instrument will continue as a manifestation of the mandate and implementation of central banking tasks, as well as supporting the acceleration and integration of the national digital economy-financial ecosystem. The plan to issue Digital Rupiah is based on at least three considerations, namely: (i) Digital Rupiah as a legal tender for the Unitary State of the Republic of Indonesia issued and circulated by Bank Indonesia as a central bank institution as mandated in the Constitution and Laws; (ii) the readiness of payment system infrastructure and integrated financial markets, interconnection and interoperability which, in time, will become a wholesaler of Digital Rupiah; and (iii) the choice of technology platforms that support the issuance and circulation of Digital Rupiah, such as Distributed Ledger Technology (DLT) or a Centralized Ledger. In 2022, Bank Indonesia will issue a conceptual design for the Digital Rupiah.

*Fifth*, in terms of the cash payment system, Bank Indonesia's policy direction will be focused on providing quality Rupiah currency and maintaining adequate cash throughout the territory of the Republic of Indonesia in accordance with BPPUR 2025. This policy direction is pursued to achieve three key milestones concurrently, namely: (i) efficiency in the printing and circulation of banknotes and coins, (ii) centralization and expansion of the distribution of money circulation from the center to various remote regions, including 3T regions (Front, Outermost, and Remote), and expansion of the Love Proud and Understand Rupiah movement, and (iii) digitalization by taking into account its alignment with the economic and financial digitalization program.

**Synergy and coordination between Bank Indonesia and the Government (Central and Regional), banks, and associations for payment systems, fintech and e-commerce will continue to be strengthened.** Coordination with Governments (Central and Regional) is primarily directed at expanding the electronification of regional government financial transactions by strengthening the Regional Digitalization Acceleration and Expansion Team (TP2DD) by encouraging the distribution of Government to Private (G2P) 4.0 social assistance; expanding electronification and integration between modes of transportation and implementing Multi Lane Free Flow (MLFF); and expanding the digitalization of MSMEs and tourism through Gernas BBI and BWI in various regions and main tourism destinations that have been chosen. The synergy and coordination of payment system digitalization policies is undertaken by Bank Indonesia with the digitalization of financial institutions by OJK, particularly related to fintech development through sandboxes and digital banks. Synergy with banks, payment system associations, fintech associations and other associations continues to be strengthened both in expanding the various payment system digitalization programs that are already running, such as QRIS, SNAP, and BI-FAST, as well as in expanding services to the community at large.

# 5.4

# Acceleration Financial Market Deepening

**The policy of financial market deepening is being accelerated in 2022 to strengthen the effectiveness of monetary policy transmission as well as infrastructure and business financing to support the economic recovery.** The acceleration of money market deepening in 2022 continues to be directed toward building a modern money market of international standard, as well as supporting the transformation of monetary management that is more supportive of market development, whether in terms of instruments (products), participants, pricing mechanisms, integrated infrastructure, interconnections and the interoperability between money markets and payment systems. The development of the main initiatives for 2025 will continue to be based on three policy pillars (Figure 5.5). In the first pillar, the development of money market infrastructure will focus on the implementation of the central counterparty (CCP), which is expected to be operational in 2022, and on expanding money market transactions through multi-matching ETPs for both the Rupiah and foreign exchange money markets. Bank Indonesia will also finalize its Conceptual Design (CD) for the development of money market infrastructure and integrated payment systems, interconnection and interoperability, including BI-APS, BI-SSSS, BI-RTGS Gen 3 and the Trade Repository.

In the second pillar, strengthening the effectiveness of monetary policy transmission will focus on the implementation of money market instruments transacted via multi-matching ETPs, as well as the development of Repo, DNDF and LCS transactions. In

**Figure 5.5. Acceleration of Financial Market Deepening in 2022**


Source: Bank Indonesia

this regard, various programs continue to be improved to accelerate the increased use of the Local Currency Settlement (LCS) framework in facilitating trade and investment with partner countries, by strengthening synergies and coordination with other relevant authorities.

The LCS campaign continues to be broadly enhanced for the use of Appointed Cross Currency Dealer (ACCD)-based LCS for banks, corporations and other potential users, in collaboration with relevant agencies in domestic and partner countries. Included in this program is the implementation of the Non-USD/IDR reference rate for the development of derivative instruments within the LCS framework. In addition, Bank Indonesia will strengthen regulations on transactions in the foreign exchange market through simplification and integration of regulations to encourage market deepening and to support financial system stability. This reform of market regulations will simplify provisions by basing it on a principle-based approach to increase the flexibility and effectiveness of implementation for market participants. Foreign exchange market regulatory reforms, mainly cover: (i) Relaxation of the threshold requirement for underlying spot transactions from USD25,000/month to USD100,000/month; (ii) Development of the non-US Dollar reference rate against the Rupiah as a fixing rate for derivative transactions in order to support hedging; and (iii) Standardization of instruments to support the digitalization of transactions conducted through ETP and CCP.

Within the third pillar, economic financing will continue to be strengthened through three policy strategies, namely: (i) encouraging the development of asset securitization through the KIK-EBA and EBASP programs; (ii) encouraging the development of retail investors and financial literacy on a regular basis; and (iii) strengthening coordination and communication related to the Sustainable Green Finance (SGF) program. These various financial market deepening policies will naturally be supported by close synergy between Bank Indonesia, the Ministry of Finance, OJK, and LPS in FK-PPPK coordination. The development of various derivative products in the money and foreign exchange markets by Bank Indonesia as stated above, particularly those related to exchange rate hedging instruments (such as DNDF), interest rate swaps, repos and LCS, will also encourage medium- to long-term financing.

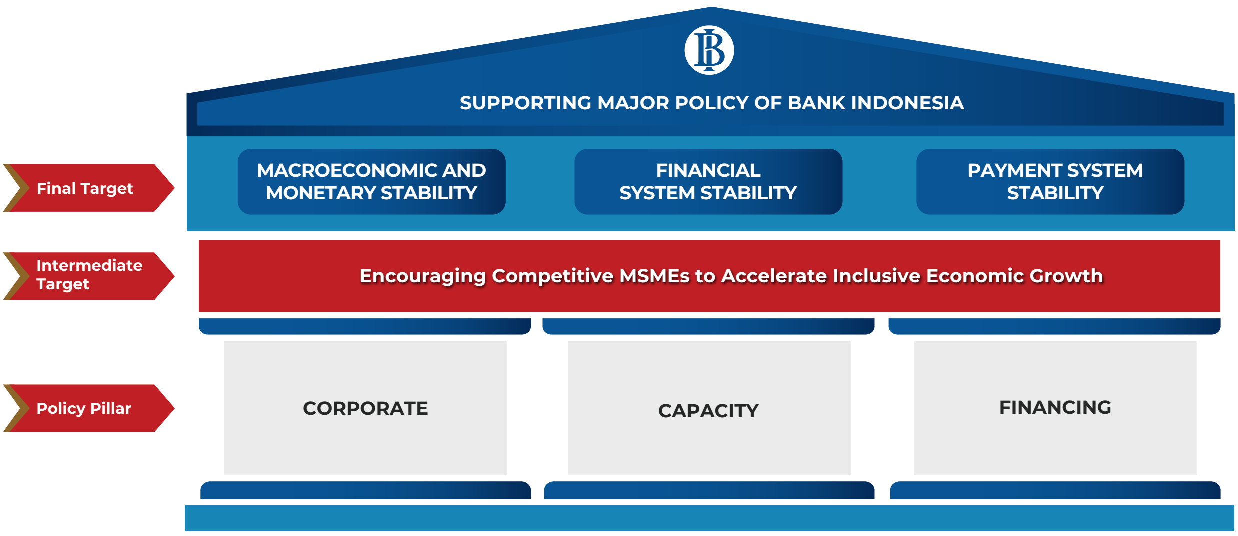
# 5.5

# Inclusive and Green Economic-Financial Policy

**Bank Indonesia will continue to expand and strengthen its MSME development program through corporatization, capacity building and the facilitation of access to financing to improve MSME competitiveness (Figure 5.6).** Corporatization is carried out through institutional strengthening and expanding partnerships with other business actors to increase economies of scale. MSME capacity building is carried out end-to-end and will focus on digitalization to encourage increased production, financial management and expansion of market access. Digitalization to support increased production and the marketing of food MSMEs will be expanded by continuing to prioritize the application of Good Agricultural Practices (GAP); mentoring; capacity building for MSMEs/farmers; and intensive assistance through partnerships with digital agricultural platforms. An onboarding program for expanding MSME market access will be carried out by all Bank Indonesia Representative Offices by strengthening monitoring and assistance given to MSMEs. Bank Indonesia will also strengthen synergies with Ministries/Institutions to increase the capacity of MSMEs in financial management by expanding the utilization of the Financial Information Recording Application Information System (SI APIK).

**Increasing MSME market access will continue to be carried out through facilitation of product certification and curation, as well as by encouraging interconnection with the local value chain (LVC) and global value chain (GVC), including strengthening of the facilitation of international trade promotion.** Bank Indonesia will also support the Green MSME campaign movement, starting with the preparation of a business model and pilot project to sharpen existing practices. Efforts to apply the concept of green MSMEs will start with the MSMEs fostered to encourage environmentally friendly production processes, organic cultivation and integrated farming. The facilitation of access to MSME financing will be carried out to support the fulfillment of inclusive financing provisions, among others by encouraging MSME financing through multiple channels to increase the role of MSMEs in exports and import substitution as well as facilitating business matching. The implementation of Indonesian Creative Works (KKI) to encourage Go Export and digital MSMEs will continue to be improved in 2022, while strengthening synergies with the Government's in the Proudly Made in Indonesia National Movement (Gernas BBI) and the Proud to Travel in Indonesia Movement (BWI), by involving all Bank Indonesia offices. Replication of the subsistence group business model as an

**Figure 5.6. Strengthening the MSME Development Program**




Source: Bank Indonesia

effort to create potential new entrepreneurs will be carried out in various regions by strengthening the mindset of entrepreneurs; increasing financial literacy and improving financial access; increasing the role of local leaders as role models for other group members; mentoring; and achieving synergies with various stakeholders, such as the Regional Government, financial institutions, universities, socio-economic institutions and others. Furthermore, Indonesia's financial inclusion achievements will be reported to the National Council for Financial Inclusion (DNKI), using results of the National Financial Inclusive Survey. Moreover, accelerating the digitalization of financial products and services requires strengthening public literacy in the use of digital financial services. To that end, Bank Indonesia in collaboration with the World Bank will develop a digital financial services education module.

**Bank Indonesia will continue to strengthen consumer protection strategies through the implementation of comprehensive regulations; increasing consumer empowerment through educational strategies; increasing the effectiveness of complaint handling; and monitoring the behavior of operators**. Bank Indonesia will develop data infrastructure to support more proactive supervision by utilizing supervisory technology (suptech). Strengthening education is carried out by encouraging the role of service providers in giving education to consumers, as well as strengthening Bank Indonesia's education strategy through determining consumer segmentation, developing delivery channels and supporting infrastructure as well as increasing coordination with the relevant authorities/institutions.

**The role of the Islamic economy and finance will continue to be encouraged as a new source of economic growth.** Accelerated implementation of the halal value chain ecosystem, locally and globally, is increasingly being expanded in terms of the actors, institutions and supporting infrastructure. Developing the halal value chain will continue to prioritize the leading sectors of halal food and Muslim fashion. In terms of sharia finance, the policy of deepening the sharia money market to support sharia financing is pursued, among others, through the development of foreign exchange transaction instruments and the Inclusive BI Sukuk. Support for increasing the optimization of Islamic social finance as an alternative source of financing for the leading sectors of the Islamic economy, continues to be encouraged, especially through productive waqf. In addition, increasing business linkages in a series of FeSyar activities in three regions (Java, Sumatra and Eastern Indonesia) is being pursued along with ISEF at international standards. Strengthening the centers of excellence in the Islamic economy and finance, especially via higher education, is an important aspect of implementing strategies for developing and increasing public literacy. To that end, Bank Indonesia continues to strengthen synergies with various parties, such as: the National Sharia Financial Economics Committee (KNEKS); Islamic boarding schools; the Islamic Economic Community (MES); business associations; banks; religious scholars; academics; and the wider community.

**The strengthening of green finance policies continues to support the realization of a sustainable economy with a stable, inclusive and green financial system**. To respond to the challenges of climate change, which can threaten economic stability, and as part of Bank Indonesia's contribution to achieving Indonesia's low carbon target, Bank Indonesia will strengthen green finance policies. Studies on green macroprudential policies to support sustainable finance continue to be carried out, and Bank Indonesia encourages financial market deepening through the development of green money market instruments. Similarly, the development of a green inclusive economy continues, including through the development of a circular economy business model, green farming and green financial reports for MSMEs and sharia economic players. In addition, Bank Indonesia continues its internal, institutional transformation, including matters related to governance, risk management, strategy and green performance indicators. In this regard, Bank Indonesia will continue to synergize and coordinate closely with KSSK, Ministries/Agencies, and relevant stakeholders.

## 5.6

# International Policy

**In 2022, there will continue to be active participation in various international cooperation forums to support national economic recovery.** Indonesia's presidency at the 2022 G20 will be optimized in order to support the interests of Indonesia and the global economy, both through formulation of its substance and the best possible implementation. Beyond the G20 Presidency, Indonesia's chairmanship of ASEAN in 2023 will focus on the formulation of substance that supports the interests of Indonesia and the region. Strengthening of international cooperation is also being carried out continuously at the multilateral, regional and bilateral levels in relation to the International Financial Safety Net; LCS; Payment Systems and Digital Financial Innovation; Anti-Money Laundering and Prevention of Terrorism Financing; and Structured Bilateral Cooperation with central banks and other international institutions. Bank Indonesia continues to bolster positive perceptions of investors and rating agencies through more proactive engagements. Bank Indonesia also continues to facilitate the promotion of trade and investment in priority sectors through its Investor Relations Unit (IRU) at the regional, national and international levels. Bank Indonesia will conduct campaigns to encourage and expand the use of LCS, including through outreach activities to potential business actors in collaboration with Foreign and Domestic Representative Offices and other strategic partners of Bank Indonesia.

## 5.7

# Indonesia's Economy on a Medium-Term Trajectory towards an Advanced Indonesia

**Bank Indonesia's policies, in synergy with the broader national economic policy mix, will encourage accelerated economic growth in 2022 and the following years to return to the medium-term trajectory towards an advanced Indonesia.** Indonesia's economic growth in 2022 is predicted to reach 4.7-5.5%. This will be supported by continued improvement in the global economy, which boosts exports with a secondary impact on domestic demand from higher consumption and investment. The expected recovery in domestic demand is in line with the greater mobility of the public given easing concerns over the Covid-19 pandemic and the acceleration of vaccinations; the wider re-opening of priority sectors; implementation of the KSSK integrated policy package; the Government's fiscal policy stimulus; and Bank Indonesia's policy mix. In the medium- to long-term, the economic outlook will improve further and be on the trajectory towards an Advanced Indonesia, driven by a stronger global outlook as well as increases in investment and productivity stemming from structural reform policies in the real sector and acceleration of the national digital economy. Increasing economic competitiveness and industrial capacity will support strong and more resilient economic growth with a better economic structure. In addition, a better business and investment climate, including through the implementation of the Job Creation Law, will encourage the strengthening of sources of higher economic growth.

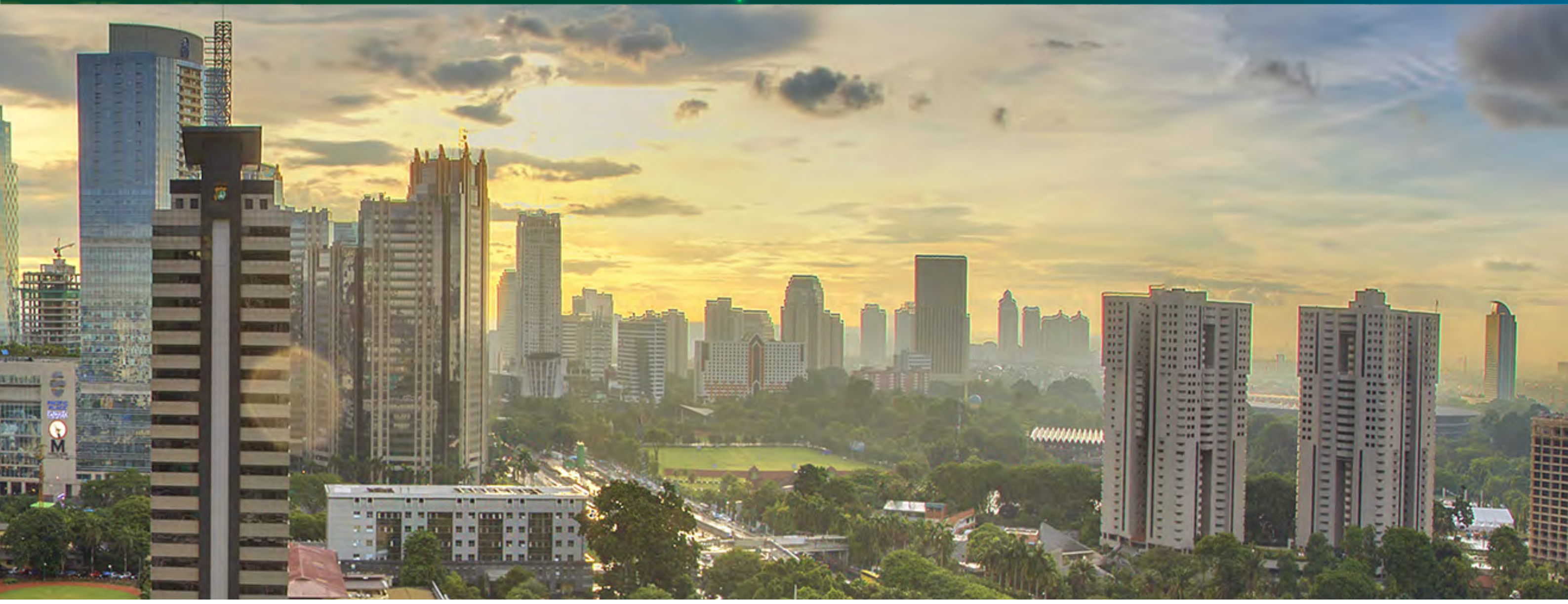
**Indonesia's economic growth in 2023 is predicted to remain on an upward trajectory.** Global economic growth in 2023 is predicted to remain positive in line with the easing of pressure from Covid-19 and the impact of policy stimulus that is still continuing in several countries. The prospect of continued positive global economic performance is reflected in the economic performance of both developed and developing countries. Among the main drivers, fiscal stimulus policy is predicted to continue in several countries, but with a decreasing magnitude in line with medium-term fiscal consolidation efforts. Similarly, global monetary policy is expected to enter a normalization phase, returning economic growth in 2023 and beyond to its long-term trajectory. Coordination among countries and international institutions will continue to strengthen, which will contribute to the post-pandemic global economic recovery. Global trade activity is predicted to improve in line with the positive outlook for global economic growth. Based on these considerations, global economic growth in 2023 is predicted to increase to around 3.7% compared with 4.4% in 2022.

**Domestic and external factors are predicted to have a positive effect on the performance of the Indonesian economy in 2023.** The Indonesian economy is predicted to recover further in 2023, driven by a return to normal global economic growth; the impact of continued structural reform policies; and normalization of the stance of monetary and fiscal policies. Positive global economic growth and easing pressures from the Covid-19 pandemic are expected to support improvements in Indonesia's exports, thereby giving a boost to both production and investment activities. The business climate is expected to continue improving in line with the implementation of UUCK, noting that the Government and the DPR have prepared the necessary steps to ensure that the UUCK law can be implemented, after the recent, unfavorable ruling by the Constitutional Court. These structural improvements in the business climate will be reflected in positive growth in domestic investment supported by stronger, post-pandemic household consumption and delayed investment from previous

years due to the Covid-19 pandemic. The continued strengthening of policy synergy between Bank Indonesia, the Government and relevant authorities, including continued structural reform policies, will accelerate the national economic recovery. With these developments, domestic economic growth is predicted to increase to the range of 4.8-5.6% in 2023.

**In the longer term, the global economy is predicted to return to more normal growth rates.** After the recovery phase in 2021-2023, global economic growth is predicted to return to normal levels in line with the achievement of herd immunity and easing supply constraints. In line with these developments and the normalization of monetary and fiscal policies, export commodity prices would remain relatively stable in the medium term. In particular, global oil prices are predicted to decline gradually after 2022, as the use of renewable energy sources increases. The forecast for global economic growth is overshadowed by several structural factors that could restrain economic performance. These factors, which all warrant attention, include: population aging; low physical investment growth; continued income inequality; and the scarring effect of the pandemic. Aging populations in developed countries can limit labor force availability amid greater limitations on international labor flows. Global investment is currently sub-optimal in helping increase capital accumulation and its use of technological innovation. Income inequality, particularly in developing countries, is predicted to persist due to the low quality of growth. Scarring effects can occur due to a deep and prolonged decline in demand, which may reduce the productivity both capital and labor.

**The prospect of a recovery in the global economy and the positive impact of structural reforms are predicted to strengthen the Indonesian economy over the medium term.** The global economic recovery is having a positive impact on world trade activities, thereby giving a boost to Indonesia's exports performance, which will be strengthened through increased cooperation with major trading partner countries and export diversification into non-traditional markets. Domestic demand is predicted to rise in line with the achievement of herd immunity, coupled with the wider re-opening of economic activities. These would drive delayed investment and the normalization of consumption. Furthermore, structural reforms have increased the capacity of the economy and helped significantly to achieve macroeconomic stability amid ongoing expansion of GDP. On this basis, Indonesian economic growth is predicted to rise into the range of 5.0-5.8% by 2026. Over the longer term, Indonesia's economic growth is predicted to strengthen further so that Indonesia can become a high-income developed country by 2045.



**In line with improvements to the economic structure, the BOP in the medium term is predicted to show an improving trend, supported by a stable current account deficit.** The current account deficit is predicted to stabilize in the range of 1.2-2.0% over the medium term, supported by economic transformation in priority sectors, which should improve competitiveness, thereby boosting exports and reducing dependency on imports. Taken together, improved competitiveness, continued structural reforms and better infrastructure will support improvements in the current account deficit. Export-oriented manufacturing and import-substitution industries are forecast to increase the non-oil and gas trade balance surplus. This increase in the non-oil and gas trade balance surplus would compensate for the oil and gas balance deficit, which is predicted to continue to widen in line with growing domestic consumption and declining domestic oil and gas production. The deficit on services account would continue to narrow in line with improved domestic shipping and growth in the tourism industry. Stronger inflows of direct investment would encourage the primary income deficit to widen further. By contrast, the secondary income surplus is predicted to widen in line with the improvement in the quality of Indonesians working overseas.

**Medium-term improvement in the BOP would be supported by a continued surplus in the capital and financial account.** Several factors would contribute to the maintenance of adequate inflows of direct and portfolio investment, for instance: increased infrastructure investment and funding; relatively high expectations for domestic economic growth; attractive interest rate yields; and a more conducive investment climate.

**Increased productivity and efficiency of the economy over the medium term should help keep inflation within the target range.** This forecast is in line with Bank Indonesia's consistent policy of maintaining price stability and strengthening coordination and synergy with the Government. Also, the impact of exchange rate movements on inflation is predicted to be relatively limited, reflecting the improving economic structure reinforced by greater use of technology and the increased credibility of monetary policy. Core inflation is predicted to remain subdued as production capacity increases, thereby boosting the economy’s supply capacity to respond to rising demand. Furthermore, transportation and logistics efficiency will increase in line with the availability of better connectivity infrastructure to support more efficient distribution of goods and services. The

Government's continued efforts to contain food prices and the relatively stable outlook for growth in global commodity prices should help rein in volatile food (VF) inflation. In addition, improved import management and crop patterns in addition to better infrastructure, should help keep VF inflation under control. Administered price (AP) inflation is predicted to remain under control in line with the relatively stable global commodity prices, oil prices and support from government policies.

**Strengthening structural reform policies is vital to accelerating the transformation of Indonesia's economy into a developed country.** The ongoing pandemic is predicted to have a negative impact on potential output; if effective structural reform policies are not put in place, it could delay Indonesia's goal of becoming a high-income country. On the one hand, the pandemic may have a significant impact on human capital in terms of lost education, skills and health, such that recovery may need additional time. In addition, the uncertainty arising from the pandemic has hampered the accumulation of physical capital. But at the same time, the pandemic offers an opportunity to implement policies that respond to the damaging impact of Covid-19 and other long-term challenges, like inclusivity and sustainability. Structural reforms need to prioritize policies to encourage growth by emphasizing recovery and higher productivity, human capital and investment in economic activities that were negatively affected by the pandemic. These would include: more supporting infrastructure development; improvements in human capital; easier access to digital connectivity; the development of domestic supply chains; and environmentally friendly investments. Given the large scale and wide scope of such policies, the Government's structural reform policies will be more effective through strengthening synergies with various parties, including Bank Indonesia.

**Policies are needed to encourage a resilient and inclusive employment recovery process and to limit the negative impact of the pandemic on human capital.** The economic impact of Covid-19 has resulted in weaker job creation, especially in sectors that rely on mobility. Also, increasing digitalization during a pandemic increases the risk of job losses related to automation processes. For these reasons, several labor policies would help meet labor force needs, like: providing services for job seekers; entrepreneurship support; greater workforce flexibility, especially in sectors undergoing change; and manpower training programs. In addition, policies in the education sector are needed to mitigate the deeper negative impacts on human capital related to the pandemic. The development of educational technology can be used to overcome the limitations of facilities for learning needs, especially for people with limited access and funds.

**Improved digital connectivity can drive digital transformation and support increased productivity and potential output.** Higher investment in communications infrastructure is needed to improve digital connectivity. This would reduce the cost of digital connectivity, thereby increasing internet usage and facilitating access to information and various digital services with positive externalities for the economy as a whole. In addition, providing equitable access to the internet for education can reduce the digital divide between income levels. To this end, the requisite policies include supportive regulations; an efficient system of taxation; and incentives to encourage more private investment. Other policies also have a role to play, for example, improvements to data transparency and security can strengthen institutional governance, improve resource efficiency, reduce uncertainty and, thereby, reduce costs in the economy.

**Policies related domestic supply chains need to be accelerated to strengthen the structure of the economy.** This policy helps to reduce dependency on imported raw materials, having a positive impact on the balance of payments, especially when economic growth is in the acceleration phase. Related policies to reduce logistics costs, increase competitiveness and connectivity needs to be similarly strengthened. One promising area is implementation of UUCK, accompanied by simplification of regulations and bureaucracy. These would improve the business climate and increase competitiveness, thereby encouraging investment from both domestic and foreign sources. Development of the digital economy and finance would also be helpful in this regard, including digitalization of the payment system. This strategy will reduce costs and increase the number of economic players, thereby supporting greater inclusiveness in economic growth.

**The post-pandemic recovery is an opportunity to adopt a green growth strategy.** Investments in green infrastructure and environmentally friendly agricultural technologies, combined with sustainable energy policies, will play an important role in driving sustainable, post-pandemic growth. Some examples include the modification of buildings to increase energy efficiency; the use of renewable energy sources to reduce greenhouse gases; conservation activities; and the prevention of the illegal extraction of natural resources.

**The role of private investment is very important in a green economy.** Increasing private participation in the green economy requires policy support in the form of favorable domestic conditions, low risk, healthy competition and support for capital flows to ensure adequate financing. The key policy is effective environmental regulation based upon clear environmental standards. In addition, the capacity of the domestic financial sector needs to be increased to attract the funds needed to finance green investment by working with international institutions; by strengthening regulations; and by financial sector supervision. Authorities and other actors in the financial sector can also encourage the issuance of green securities that are needed to provide adequate financing for prevention and adaptation to climate change.

**The transition to a green economy could be more effectively supported by policies related to carbon pricing.** Carbon levies have the potential to reduce carbon emissions and support the development and innovation of renewable energy. Furthermore, the proceeds from carbon levies can be used to finance incentives or for subsidies to other important areas, such as: education; health; public transportation; and investments and innovations in environmentally friendly technologies. In the Indonesian context, the carbon levy instrument is one way the Government could expand revenues in the form of a carbon tax as stipulated in the Law on the Harmonization of Tax Regulations which is planned to be implemented in 2022. A carbon tax or carbon levy would reduce greenhouse gas emissions while also serving as a source of state revenues.

CHAPTER 6

# TRANSFORMATION OF THE POLICY MIX AND ACCELERATION OF THE DIGITAL ECONOMY AND FINANCE


The transformation of Bank Indonesia's policy mix is a culmination of efforts to become a leading digital central bank that contributes significantly to the national economy and is the best among emerging market countries to create an Advanced Indonesia. Bank Indonesia has sharpened its strategic direction through a series of transformations of the main and supporting policy mix, including strengthening the monetary operating framework and deepening the financial markets. Entering the new era of economic and financial digitalization, Bank Indonesia is also moving quickly to accelerate the realization of an inclusive and efficient digital economy. Based on the Indonesian Payment System Blueprint (BSPI) 2025, Bank Indonesia issued a national payment system reform policy package in 2021, which comprises regulatory reform; development and implementation of BI-FAST as retail payment system infrastructure; and development and expansion of the national payment system QRIS (QR Indonesian Standard) and SNAP (National Standard for Open API Payments). Bank Indonesia is also encouraging the strengthening of MSMEs through a comprehensive and inclusive digital transformation carried out along the value chain to support the creation of an integrated digital ecosystem and in line with the pillars of Bank Indonesia's MSME development policy, namely corporatization, capacity and financing.


**Bank Indonesia is harmonizing the main policy framework amid increasingly complex challenges in maintaining macroeconomic and financial system stability.** Various emerging challenges affect macro-financial linkages in the policy mix, including the outbreak of the Covid-19 pandemic; the rapid development of the digital economy and finance; the risk of climate change; and the increasing importance of an inclusive and sustainable economy. Bank Indonesia has set up its policy framework in an effort to respond to these challenges. The process entails integrating the monetary policy framework, macroprudential policies, payment system development and Rupiah money management, all backed by supporting policies.

**Policy transformation at the operational level is carried out through the transformation of monetary management to support the effectiveness of monetary policy transmission in maintaining economic stability.** The monetary management framework is in line with efforts to deepen the money market in the Money Market Development Blueprint (BPPU) 2025. Integrating monetary management with money market development is founded upon 3 pillars, namely: comprehensive planning, which gives consideration to future conditions; effective monetary management; and the integration of monetary management with the direction of monetary and money market policy development. This strengthening of operational management is predicted to further support the effectiveness of monetary transmission and economic stability, which will be strengthened by synergies with the Government, banks and associations.

**Bank Indonesia encourages digitalization and the strengthening of financial market infrastructure to support accelerated economic growth.** This is being done through efforts to accelerate the development of various instruments such as repos, Domestic Non-Deliverable Forward (DNDF) and Local Currency Settlement (LCS), as well as strengthening coordination with relevant authorities. Efforts are aimed at facilitating transactions in the money market and foreign exchange market, including transactions by Bank Indonesia in the context of stabilization efforts. Besides that, the development of these instruments will increase transaction efficiency, strengthen transparency and reduce dependency on the US dollar. Bank Indonesia's coordination with relevant authorities also includes the development of green financial instruments.

**Bank Indonesia continues to accelerate digitalization of the payment system to integrate the digital economy and finance.** In the implementation of the Indonesian Payment System Blueprint (BSPI) 2025, digitalization of the payment system in 2021 will stress three important priorities, namely: regulatory

> **"Bank Indonesia encourages digitalization and strengthening financial market infrastructure to support accelerated economic growth"**

reform; retail payment system infrastructure; and payment system standardization. BSPI 2025 constitutes part of Bank Indonesia's contribution to responding to challenges in the digital era, fully orientated toward efforts to build a healthy digital economy and financial ecosystem. Further in this regard, implementation of BSPI supports achievement of the SPI 2025 vision, which is aimed at encouraging the integration of the national digital financial economy to ensure the central bank's function in safeguarding the integrity of the money circulation process, maintaining the effectiveness of monetary policy and financial system stability and supporting economic inclusion in the digital era.

**As regards the regulatory reform component of BSPI 2025, reforms are being undertaken to support the creation of a healthy, competitive and innovative payment system industry**. Regulatory reform is carried out by prioritizing efforts to maintain a level playing field for various industry players through a principle-, activity- and risk-based approach to industry regulation. Policies to reform payment system regulations are being carried out in an integrated manner starting from the regulatory umbrella, actors and standards, through the issuance of Bank Indonesia Regulation (PBI) for Payment Systems; for Payment Service Providers; Payment System Infrastructure Operators; and for National Payment System Standards. The payment system regulatory reform is aimed at finding a balance between efforts to optimize digital innovation opportunities to create a fast, cheap, easy, safe, and reliable payment system, while at the same time, paying attention to stability, wider access, consumer protection, healthy business practices, and the application of best practices. Bank Indonesia will also collaborate and communicate intensively with stakeholders to ensure that payment system regulatory reforms are effective.

**As for the retail payment system infrastructure, Bank Indonesia launched BI-FAST which is real time and 24/7 to encourage a 3I infrastructure (Integration, Interconnection and Interoperability) that is safe and reliable**. The development of BI-FAST, as a fast and 24/7 payment infrastructure that serves all types of payment transactions, is a response to the public's need to transact digitally. The BI-FAST development initiative is expected to realize a 3I retail payment system infrastructure to replace the existing infrastructure that still only serves partial and incomplete types of transactions and payment instruments. When it is fully operational, BI-FAST will boost industry competitiveness, open up wider payment options for the public, improve transaction efficiency and strengthen reliability of the retail payment system in Indonesia. Implementation of BI-FAST will be carried out in stages to replace credit and debit transfer services at SKNBI. In the initial stage, BI-FAST started operating in December 2021 with the implementation of credit transfers and its operations have been underpinned by implementing regulations. This initial stage is the beginning of a transition period for the transfer of retail transaction settlement services from SKNBI to BI-FAST. It includes more affordable pricing for BI-FAST services.

**In terms of the standardization of the payment system, the expansion of the ecosystem continues to be encouraged through the development and expansion of QRIS and the implementation of SNAP.** In 2021, QRIS policy was focused on expanding users and services. The expansion target of 12 million merchants was exceeded in November 2021 by various efforts including: optimization of QRIS TTM via social commerce; QRIS collaboration to support government programs; expansion of QRIS merchants for religious activities; and QRIS support for the digitalization of MSMEs. Also, synergy and coordination with the Government continues to be strengthened through the use of QRIS in the Proudly Made in Indonesia National Movement (BBI) and the Proud to Travel in Indonesia Movement (BWI). Meanwhile, SNAP is structured for the digital transformation of the banking industry and connectivity between banks and financial technology (fintech) through open banking. With support from implementation of SNAP, it is hoped that integration, interconnection and interoperability between API providers will be achieved, thereby improving the efficiency of the payment system and promoting healthy, efficient and fair market practices. In the future, the acceleration of QRIS development will be carried out through the introduction of inter-country QRIS and the widening of QRIS acceptance, supported by QRIS feature innovations that are undergoing continuous development. The process of implementation of SNAP will be divided into two stages, beginning with a first group (banks, PJP and e-commerce involved in the working group preparing the SNAP) followed by the other PJPs, which can then be integrated into all service users, including MSMEs and non-profit organizations.

**To support creation of an integrated digital ecosystem, MSMEs will be strengthened through comprehensive and inclusive digital transformation, along the value chain.** Efforts to strengthen MSMEs are made in line with the pillars of Bank Indonesia's MSME development policy, namely corporatization, capacity and financing. To increase the capacity and competitiveness of MSMEs, Bank Indonesia encourages greater use of digitalization throughout MSME business processes, that is, on the production side; for access to markets; for access to finance; and for payment transactions. For example, the digitalization of business processes in the agricultural sector is being applied to the production and marketing of a number of agricultural clusters in Java, Sumatra, Kalimantan, Sulawesi, Nusa Tenggara, and Papua. Efforts to expand marketing digitalization continue to be carried out through the MSME onboarding program. This will develop a digital mindset and increase MSME capacity in utilizing various digital marketing channels, in accordance with the characteristics of their business. To encourage MSME exports, Bank Indonesia facilitates business meetings for MSMEs that have export potential with cross-border e-commerce and aggregators that utilize e-commerce. Digitalization is also being continuously encouraged through greater use of the Financial Information Recording Application Information System (SI APIK), which makes it easier for MSMEs to prepare digital financial reports to improve access to financing. Moreover, wider adoption of QRIS continues to be encouraged to facilitate MSME digital payment transactions as the entry point into the digital economy and finance ecosystem.

# 6.1

# Policy Mix Transformation for Economic Acceleration

## 6.1.1. Policy Mix Transformation Underpins Stability

**The transformation of Bank Indonesia's policy mix was carried out to make progress towards creating an Advanced Indonesia by 2045.** In line with the vision of achieving an Advanced Indonesia by 2045, Bank Indonesia has strengthened its plans for the 2020-2025 period, namely "To become a Leading Digital Central Bank that Contributes to the National Economy and is the Best Among Emerging Market Countries to Achieve an Advanced Indonesia". In implementation, Bank Indonesia faces various challenges, as discussed below.

**The challenges facing the Central Bank are increasingly complex as regards the maintenance of macroeconomic stability and stability of the financial system.** The Covid-19 pandemic has increased the complexity of policies due in part to divergences among country performance in global economic growth. Other complexities are led by development of the digital economy and finance, as increasingly rapid advances in digital technology drive changes in the behavior of economic agents. At the same time, the risk of climate change underlines the urgency to reduce carbon emissions globally, including in Indonesia. Similarly, an inclusive economy is important to support economic growth and create opportunities at all levels of society. Such developments have caught the attention of central banks around the world, because they affect the macro-financial linkage of the policy mix, further underscoring the current complexity of policy formulation.

> "The monetary policy framework to achieve stability and support economic growth takes into account the interaction between the economic cycle and the financial cycle as well as external conditions"

**Bank Indonesia has re-structured its policy framework in an effort to respond to these various challenges.** This transformation is undertaken by strengthening the policy mix, basing policy formulation on a number of principles, including being forward-looking and data- and research-based. The policy mix includes key monetary, macroprudential and payment system policies, including Rupiah money management. They are supported by international policies; regional economics and finance; money market development; sharia economics and finance; and MSMEs. In implementation, Bank Indonesia's main policies are aimed at achieving macroeconomic and financial system stability to support sustainable economic growth. In more concrete terms, macroeconomic stability is reflected in the stability of the Rupiah, which is pursued by implementing a credible monetary policy through effective monetary transmission, supported by optimal synergy between Bank Indonesia and other national policy-making institutions. For its part, financial system stability is characterized by a financial system that can withstand volatility and maintain effective intermediation and other financial services. For its part, payment system policies are aimed at achieving an integrated and inclusive digital economy and finance.

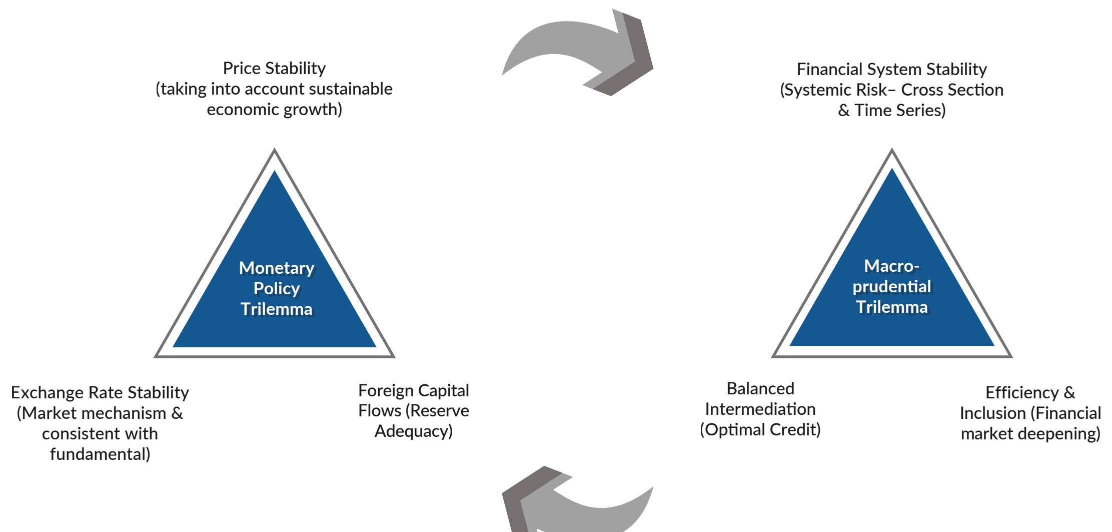
**The monetary policy framework gives consideration to the interaction between the economic cycle and the financial cycle, including external conditions.** As backdrop, the 2007-2008 Global Financial Crisis (GFC) provided valuable lessons on the importance of maintaining financial system stability as a key component of macro stability. The central bank must take into account the risks that arise from the increasingly close linkages between the financial system and the macro-economy. Following the GFC, Bank Indonesia did not rely only on monetary policy in efforts to maintain macroeconomic stability. Rather, Bank Indonesia also implemented macroprudential regulations and supervision to ensure that financial intermediation was effective, to mitigate systemic risks to the broader financial system. To accommodate this macroprudential policy, the existing monetary policy framework was expanded to include an assessment of macro-financial imbalances and forecasts along with their relationship to macroeconomic assessments. Macroprudential policy in this integrated framework has the goal of supporting financial system stability, by considering analysis and forecasts of macro-financial linkages; related pro-cyclical and systemic risk assessments; and any macroprudential policy instruments that should be used.

**In addition to macro-financial linkages, the GFC demonstrated that there are external sector risks to macro-economic stability in EME countries due to the high volatility of capital flows (macro-external linkages).** Similar volatility in capital flows was observed during the Covid-19 pandemic period when risk-off behavior was prevalent in global financial markets. In response, and in addition to monetary and macroprudential policies, Bank Indonesia implemented a policy of exchange rate stabilization through triple intervention in the spot market, DNDF and through the purchase of Government Securities from the secondary market supported by intensive communication with investors and domestic and overseas market players, to mitigate potential risks arising from volatile foreign capital flows.

**Based on our success to date, it can be concluded that Bank Indonesia's policy mix represents optimal management of the recent monetary and macroprudential trilemma.** Optimal risk management of the two trilemmas (Figure 6.1) takes into account external sector risk factors that can be addressed through the implementation of exchange rate stabilization policies and capital flow management. In practice, the challenge that arises is how to integrate the four policies, namely monetary, macroprudential and exchange rate policy, along with capital flow management, into an optimal policy mix (Figure 6.2). To support implementation of the policy mix transformation, Bank Indonesia has developed a quantitative tool in the form of a model embodying the Integrated Policy Framework. This model can: (i) consider the analysis of the economic and financial cycles in an integrated manner; (ii) support the analysis framework and assessment of macro-financial-external linkages transmission mechanism; and (iii) consider trade-offs and interactions between policies, and simulate the impact of various policy combinations.

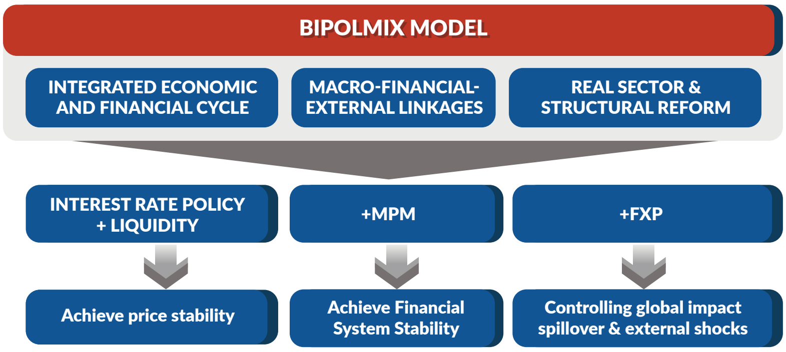
**In the Bank Indonesia policy mix model (BIPOLMIX), monetary, macroprudential and exchange rate policy instruments complement each other in achieving Bank Indonesia's objectives, namely price stability, exchange rate stability financial system stability and economic growth.** The policy direction is based on the concept of a close relationship between economic growth and stability, including financial system stability. Monetary policy is aimed

**Figure 6.1. Optimum Management of the Two Trilemmas**




Source: Bank Indonesia

**Figure 6.2. Policy Integration in the BIPOLMIX**




Note: FXP = Foreign Exchange Policy, MPM = Macroprudential Management
Source: Bank Indonesia

at achieving price stability, taking into account asset prices (financial and property) to support financial system stability. Macroprudential policy includes the regulation and supervision of banking by monitoring the entire financial system from a macrofinancial perspective. It also focuses on maintaining quality financial intermediation in order to encourage greater banking financing for the business world and national economic recovery. Macroprudential policy instruments are also intended to limit systemic risk in support of financial system stability. Meanwhile, exchange rate policy can strengthen the effectiveness of monetary policy in achieving price stability while macroprudential policy can support financial system stability amid global economic developments.

**Along with the development and implementation of the BIPOLMIX model, Bank Indonesia also strengthened the framework of the policy formulation modeling system.** This modeling system integrates policy projections and simulations to obtain a coherent view of economic conditions, policy implications and the further research and analysis that needs to be done. Furthermore, Bank Indonesia also made adjustments to the decision-making process for the policy mix, particularly related to integration of the projection process and simulation of monetary and macroprudential policies. This is done so that the policy formulation process can run in an integrated manner and is equipped with measurable considerations based on the latest information.

**Strengthening macroprudential policies is carried out to achieve financial system stability whereas payment system policies are aimed at promoting economic integration and national digital finance.** Implementation of macroprudential policies can impact virtually all financial and non-financial institutions, including banks, non-bank financial institutions, financial markets, corporations and households. Strengthening of the macroprudential policy framework is carried out by taking into account the roles of these various economic agents. In addition, strengthening pays attention to aspects of intermediation, resilience and inclusion, supported by research-based policy recommendations as well as synergy and communications with various parties. For its part, the transformation of payment system policies was carried out as part of the implementation of the 2025 Indonesia Payment System Blueprint to accelerate the realization of an inclusive and efficient digital economy and finance in forming a fast, easy to use, cheap, secure and reliable payment system.

**Various other policies support the main policies to maintain stability and attain inclusive and sustainable economic growth.** Supporting policies include, among others: international policies; regional economy and finance policies; money market development; sharia economic and financial policies; and MSME policies. Supporting policies act in synergy with the main policies and they are implemented consistently into the Bank Indonesia's main policy mix in line with efforts to achieve Bank Indonesia's 2020-2025 vision and mission. Furthermore, Bank Indonesia is always in the process of synergizing its main policy mix with other key parties, such as the Government and other authorities so that policies are effective.

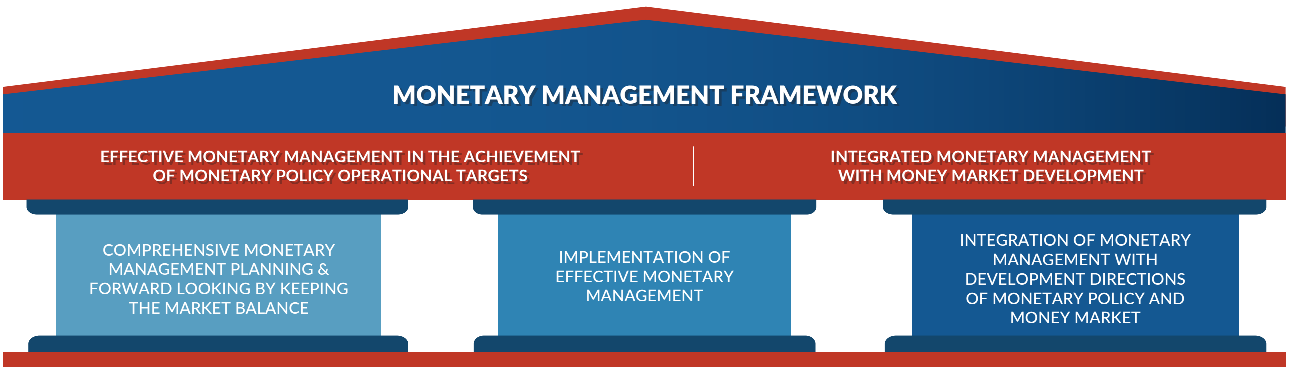
### 6.1.2. Strengthening the Monetary Operations Framework and the Effectiveness of Monetary Policy Transmission

**The monetary management transformation is aimed at supporting the effectiveness of monetary transmission and economic stability.** Several factors can impact the effectiveness of monetary policy transmission, for example: shifting strategic uncertainties in the global economic recovery; increasingly rapid digitalization of the financial sector; ample liquidity in the domestic financial system; a segmented money market structure; high demand for foreign exchange that is concentrated in cash instruments; and a relatively limited number of hedging instruments. Taken together, these factors have the potential to cause domestic turmoil in the event of a sizable shock. In line with efforts to develop the money market, Bank Indonesia took an initiative to transform monetary management in a manner that is integrated with monetary policy development and with money market development, to support the effectiveness of monetary transmission and economic stability.

**The monetary management framework is in line with deepening the money market as foreshadowed in the 2025 BPPU**. The strategy for integrating monetary management with money market development aims to strengthen the effectiveness of monetary policy transmission while deepening the money market. Integrating monetary management with money market development includes three pillars, namely: (i) comprehensive and forward-looking planning while maintaining a balanced market; (ii) implementation of effective monetary management; and (iii) integration of monetary management with the development of monetary policy and the money market (Figure 6.3). In line with BPPU 2025, the integration of monetary management with money market development is focused on strengthening repo transactions to support the effectiveness of monetary policy transmission through the interest rate channel. In addition, the development of liquid and efficient hedging instruments, especially DNDF, is aimed at supporting stability of the Rupiah exchange rate. The implementation of a monetary management framework with money market integration is supported by modern, reliable and integrated financial market infrastructure so as to support efficient transactions and price discovery to accelerate deepening of the Indonesian money market.

**Development of the repo market aims at strengthening monetary operations and deepening the money market.** Bank Indonesia continues the development of a collateralized repo market for monetary operations using monetary operation instruments (OM) as the underlying instrument. From the participant's perspective, the transformation of monetary management will give market players a bigger role so that price discovery is done efficiently and transparently. The expansion of repo transactions between players encourages the redistribution of liquidity, thereby supporting a well-functioning market and the deepening of the money market. This would be in accordance with the principles of best practices, standardization and uniformity as the features of Bank Indonesia market repo transactions.

**Figure 6.3. Monetary Management Framework**




Source: Bank Indonesia

In terms of prices, the improvement in price determination for open market operations (OPT) is in line with efforts to harmonize prices in the money market with yields on Government Securities and the establishment of long-tenor repo interest rates as a reference for market transactions. The integrated monetary management strategy is also strengthened during the normalization phase of Bank Indonesia's monetary policy by reducing excessive liquidity in the banking system in a gradual, measurable and prudent manner.

**In the foreign exchange market, the development of exchange rate derivative instruments is aimed at supporting stability of the Rupiah exchange rate.** The risk of increased instability from the Fed and a number of other Advanced Economies (AEs) normalizing monetary policy could affect the Rupiah exchange rate. Bank Indonesia will continue to monitor and have a presence in the market. Also, Bank Indonesia stands ready to stabilize the Rupiah exchange rate, if necessary, through triple intervention in the spot market, DNDF and by purchasing Government Securities in the secondary market, to maintain exchange rate stability in line with market fundamentals and mechanisms. The development of DNDF is expected to support efforts to stabilize the Rupiah exchange rate and increase the effectiveness of monetary policy transmission.

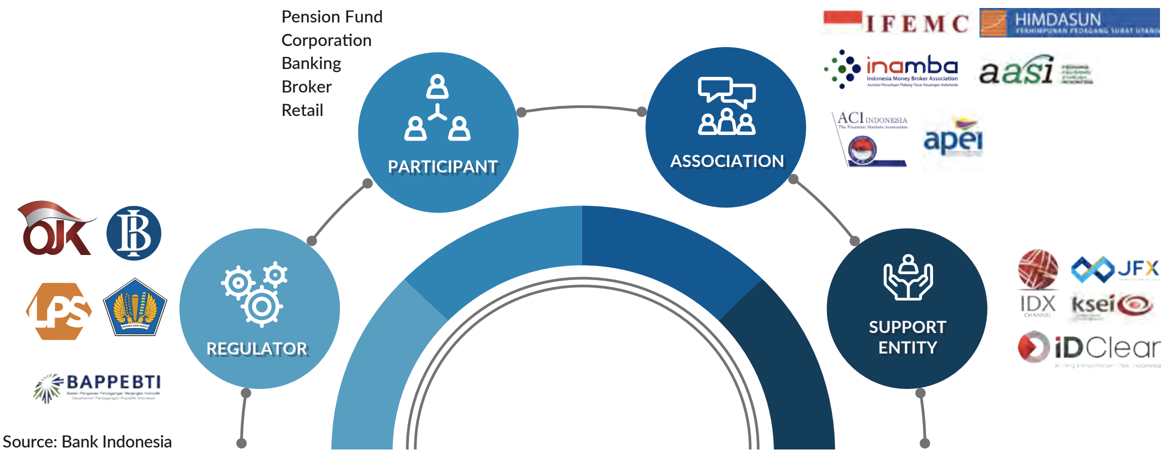
**Development of hedging instruments is being continued to balance supply and demand.** Various improvements were made to increase the effectiveness of DNDF's role in supporting Rupiah exchange rate stability and hedging in a sustainable manner, including: (i) the implementation of Bank Indonesia's DNDF rollover; (ii) the use of foreign currency deposits as underlying transactions; and (iii) infrastructure development in multi-matching and rollover features in the Electronic Trading Platform (ETP). Going forward, the development of hedging instruments for various currencies and tenors will provide a choice of instruments and expand financing alternatives for businesses in support of national economic recovery. Calibration of the foreign currency monetary operation strategy (by adjusting the auction window time, auction schedule and auction process) continues to be strengthened to increase the active role of market players in line with the dynamics of the financial market. Also, strengthening of DNDF pricing is aimed at optimizing signals given to the market and at supporting a liquid and efficient hedging market. Regarding the participants, efforts to increase hedging from the supply side are carried out with more intensive socialization, especially for exporters, including the gradual relaxation of the underlying amounts.

**Implementation of monetary management transformation continues to be strengthened through synergies and coordination with the Government, banks and associations.** The authority of Bank Indonesia in establishing and implementing monetary policy, in accordance with the Bank Indonesia Law Article 10 paragraph (1), needs to be supported by monetary regulation and supervision and by regulation and the development of the money market and foreign exchange market. The improvement of rules and regulations serves as an umbrella for strengthening the authority of Bank Indonesia in developing the money market. The improvement of rules and regulations is also founded on efforts to improve the competence and integrity of market players to support strengthening market credibility. The support and participation of other actors (such as the Government, banks, financial service institutions, corporations, individuals and intermediary institutions, like brokers) continue to be strengthened in implementing the transformation of monetary management (Figure 6.4).

### 6.1.3. Financial Market Deepening Supports Acceleration of Economic Growth

**Bank Indonesia will continue to encourage digitalization and strengthening of financial market infrastructure, whether hard or soft infrastructure, as well as improving coordination with the relevant authorities for the development of green financial instruments.** The development of Financial Market Infrastructure (FMI) covers the entire system, namely trading, clearing, transaction settlement, reporting and recording. It would facilitate efficient transactions in the financial market and continues to be the main focus of Bank Indonesia in its efforts

**Figure 6.4. Indonesia Market Participants**




Source: Bank Indonesia

to achieve a modern and digitally transformed financial market. The development of financial market infrastructure (IPK) is focused on developing money market and foreign exchange market transactions in the multi-matching ETP system (including BI-ETP), cleared through a Central Counterparty (CCP) and reported through the trade repository. This is intended to address the global challenge from G20 OTC Derivative Market Reform. Support from soft infrastructure is equally important, especially with regard to close out netting and its regulation in the Bill on the Development and Strengthening of the Financial Sector (P2SK) and the Draft Bill on the revision of the Bankruptcy Law and Postponement of Debt Payment Obligations.

**Infrastructure development in the form of ETP Matching is also being encouraged to facilitate transactions in the money market and foreign exchange market, including transactions by Bank Indonesia as stabilization efforts.** ETP Matching, which has been done since June 2021 for spot transactions, has already developed quite significantly. To accelerate the attainment of modern and advanced money markets, ETP Matching will also be developed to facilitate money market and other foreign exchange market transactions, including repos and DNDF, as well as facilitating LCS currency.

**Bank Indonesia is also accelerating the establishment of a central counterparty for Interest Rate and Exchange Rate (CCP SBNT) derivative transactions to improve transaction efficiency, strengthen transparency and reduce transaction risk.** The Indonesian Clearing and Guarantee Corporation obtained a principal license from Bank Indonesia as an interest rate and exchange rate CCP in August 2020. As a result of the continued collaboration between Bank Indonesia, OJK, domestic banks and PT KPEI, the fulfillment of technical requirements as the CCP SBNT were met immediately. Furthermore, PT KPEI will apply for an operational permit in the first quarter of 2022. Through coordination with the relevant authorities, Bank Indonesia will also strengthen CCP SBNT's capital. Along with the establishment of the CCP, OJK in collaboration with Bank Indonesia will issue a regulation regarding margin obligations for derivative transactions that are not cleared through CCP. The issuance of technical provisions governing the criteria and standardization of instruments planned for 2022 is another way for Bank Indonesia to accelerate synchronization between the instruments in the market and clearing at CCP SBNT.

**Development of transactions in the Rupiah money market in the form of repo transactions and interest rate derivatives is aligned with Bank Indonesia's monetary development and management strategy.** Bank Indonesia will continue to strengthen the collateral management features in the BI-SSSS system to support repo transactions, with various transaction mechanisms. Bank Indonesia will also conduct a study with a view to expanding the underlying securities for repo transactions and their impact on the economy, in this case including short-term securities and green securities. In line with these efforts, repo transactions conducted by Bank Indonesia will also be harmonized with efforts to strengthen repo transaction schemes in the money market. In the derivatives market, overnight index swap and interest rate swap transactions continue to be strengthened as a follow-up to educational activities and the dissemination of interest rate derivative transactions, including increasing the understanding of derivative contracts (ISDA master agreement). On one hand, Bank Indonesia, in collaboration with the Ministry of Finance, OJK, LPS and IFEMC, formed the National Working Group on Benchmark Reform (NWGBR) to address plans to stop using the London Interbank Offered Rate (LIBOR) and make efforts to strengthen the credibility of the benchmark rate in the domestic financial market. It is hoped that the synergy between the financial authorities and the associations of market players, through the establishment of the NWGBR, will result in appropriate and comprehensive recommendations for market players in responding to the LIBOR transition, to support financial system stability. On the other hand, recommendations for strengthening the benchmark rate in the domestic financial market are expected to support efforts to develop financial markets.

**Efforts to strengthen and expand the LCS framework continue to be encouraged to accelerate efforts to reduce dependency on the US dollar, as part of the stabilization of the Rupiah exchange rate.** Strengthening the LCS framework will be carried out through the implementation of an extensive LCS campaign, including via the issuance of logos and keywords (taglines) that are used nationally. Increasing the understanding of business actors of the LCS framework is also being carried out in other countries in collaboration with appointed cross currency dealers (ACCD). Expansion of the LCS framework will also be carried out through the expansion of LCS partner countries with several countries in other regions. This is being done to expand the reach of LCS in order to facilitate the trading activities of Indonesian exporters and importers. Strengthening and expansion of the LCS framework is also supported by a wider range of LCS instruments, including the DNDF instrument for the LCS currency; the Malaysian ringgit; Thai baht; Japanese yen; and Chinese yuan. As next steps, in the future Bank Indonesia will issue a reference rate for non-US dollar currencies against the Rupiah to provide a reference for market participants in the fixing rate to be used in DNDF transactions. Also, Bank Indonesia will strengthen synergies with Ministries/Agencies and related parties to encourage LCS transactions in an effort to promote national economic recovery.

**Bank Indonesia will continue to coordinate with other relevant authorities to develop green financial instruments, as one of the main topics in Indonesia's G20 Presidency in 2022.** Bank Indonesia's policies in the green economy are focused on macroprudential policies to support the achievement of net zero emissions. Under this approach, banks are encouraged to continue contributing toward meeting the national carbon emission reduction target by carrying out institutional transformation and the repositioning of banking portfolios. In addition, to implement the green money market roadmap, Bank Indonesia will conduct an assessment of the potential development of green money market instruments (product, participant and pricing), as well as coordinate with the relevant authorities for incentives and preparation of a green money market/capital market. The assessment is also concerned with the supporting infrastructure that is aligned with the sustainable finance roadmap issued by other relevant authorities.

# 6.2

# Acceleration of an Inclusive and Efficient Digital Economy and Finance

## 6.2.1. Payment System Regulatory Reforms to Promote a Digital Economy and Finance

**Payment system regulatory reform is one of the foundations of reform policies issued to create a healthy, competitive and innovative payment system industry.** The rapid digitalization of the economy and finance invites new players to enter the payment system industry. On the one hand, the presence of new players, which are mostly financial technology companies, can create new innovations that are in demand by society. But on the other hand, there are various risks that need to be mitigated. These risks include increased shadow banking activities; cyber risk; new types of fraud; unfair business competition; and the misuse of consumer data. Payment system regulation reform as part of the Indonesia Payment System Blueprint (BSPI) 2025 is an effort to find a balance between optimizing innovation and maintaining stability and national interest.

**Regulatory reforms are carried out to reorganize the industrial structure and provide an umbrella for the payment system ecosystem, end-to-end.** The emergence of mobile technology, fast communication networks, as well as higher data processing capacity create a variety of new business models and an increasingly diverse array of new products. This increases the need for new regulatory and supervisory approaches that are in line with industry developments whilst also maintaining a level playing field for diverse industry players. Accordingly, changes to the regulatory approach are done using activity- and risk-based considerations by prioritizing a principle-based regulatory approach. Policies to reform payment system regulations are carried out in an integrated manner starting from the regulatory umbrella, actors and standards, through the issuance of Bank Indonesia Regulation (PBI) on Payment Systems; on Payment Service Providers; Payment System Infrastructure Operators; and on National Payment System Standards.

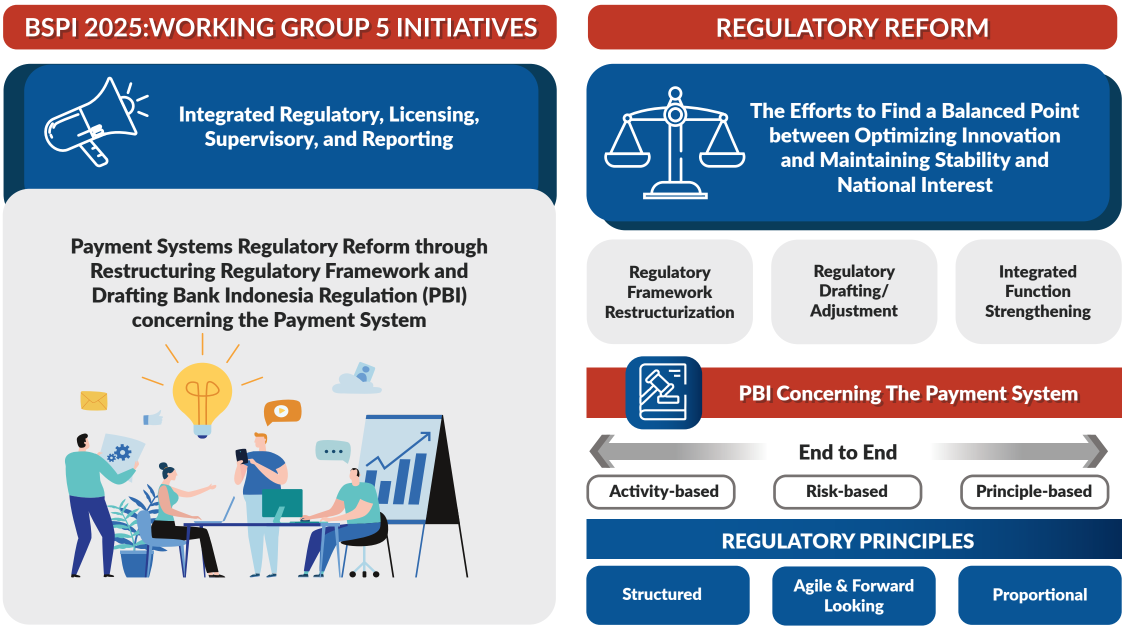
### 6.2.1.1. PBI on Payment Systems

**Payment system regulation reform is carried out in a comprehensive and integrated manner.** As a first step, Payment System PBI No 22/23/PBI/2020 was issued on 31 December 2020. This Payment System PBI was issued to cover various regulations in the payment system sector to integrate and simplify 135 provisions. Using a principle-based approach, this PBI constitutes the legal basis for restructuring the industry and providing an end-to-end umbrella for the payment system ecosystem to accommodate the digital economy and finance (Figure 6.5). The more specific targets of reform are: regulation of access to payment system operations; institutional strengthening of payment system operators; risk-based supervision; expansion of the testing space for technological innovation; and integrated data management.

**Five main payment system regulatory reforms are addressed in the Payment System PBI. First is the reform of the policy which provides access to the implementation of the payment system (access policy).** Payment system operation activities are to be simplified and grouped into Payment Service Providers (PJP) and Payment System Infrastructure Providers (PIP). This is in response to the high interest from new players to enter the payment system industry with a high complexity of activities and a variety of business models. Also, licensing for PJPs is facilitated by shifting from being product-based, to being based on activity groups. This easier licensing process will improve the balance between supporting innovation and controlling risk. By contrast, the access policy for PIP is intended to be more stringent than for PJPs to maintain stability in line with the greater risk and higher investment requirements.

**Second is reform of payment system institutional regulations related to aspects of share ownership composition and domestic control.** This reform is aimed at strengthening the payment system operator

**Figure 6.5. Regulatory Reform, Bank Indonesia Regulation for the Payment System**




Source: Bank Indonesia

institutions by taking into account the characteristics of the implementation activities at both the front-end and back-end as well as the funding needs of the providers. Through this new arrangement, the composition of domestic share ownership is not only based on financial shares, but also an assessment of control aspects in the form of voting rights, special rights and other controls.

**Third is the reform of regulation and supervision of risk-based payment system operators.** PJP and PIP are classified according to risk management factors, namely: Systemic Payment System Operators (PSPS); Critical Payment System Operators (PSPK); and General Payment System Operators (PSPU). This grouping of payment system operators gives consideration to the criteria of size, connectivity, complexity and replaceability. Based on this classification, Bank Indonesia will determine certain obligations covering matters related to capital, risk management, information systems and other aspects determined by Bank Indonesia.

**Fourth is the expansion of testing for payment system technology (sandboxing).** In 2016, Bank Indonesia introduced a regulatory sandbox. Through the Payment System PBI, Bank Indonesia will expand the testing space for the development of payment system technology innovations (start-ups) to include a regulatory sandbox, an innovation lab and an industrial sandbox. This expansion is carried out to accommodate the development of payment system technology innovations to support the digital economy and finance. The scope of the sandbox includes the development of innovations that have not been used yet; innovations that are still used in a limited manner and are driven by industrial expansion; and the testing of payment system policies or regulations.

**Fifth is the reform of integrated payment system data and/or information management.** In the future, Bank Indonesia's data acquisition mechanism will be expanded beyond being done through reporting to include inter-system connections (data capturing). Furthermore, the scope of parties who are required to submit data and/or information to Bank Indonesia, is expanded to cover parties who cooperate with PJP and PIP. The matter of data protection is also emphasized through the obligation to protect personal data and comply with the data processing mechanism, as stipulated by Bank Indonesia.

#### 6.2.1.2. Payment Service Provider PBI and Payment System Infrastructure Operator PBI

**As a follow-up to the Payment System PBI component of regulatory reform, Bank Indonesia issued two regulations governing payment system service providers.** The two regulations are PBI Number 23/6/PBI/2021 concerning Payment Service Providers (PJP) and PBI Number 23/7/PBI/2021 concerning Payment System Infrastructure Operators (PIP). Implementation of these PBIs is intended to ensure effectiveness of the implementation of the Payment System PBI and to accommodate regulatory needs based on the development of innovation and business models and adjustments to the current payment system provisions. There are three main reforms being carried out by PBI PJP and PIP, which elaborate on the Payment System PBI, namely: simplification and efficiency of licensing/approvals; restructuring of payment system operators and industry; and optimization of payment system supervision.

**In the first main aspect of the reform, simplification and efficiency of licensing is outlined as a whole to speed up the payment system licensing process.** There are four breakthroughs in regard to the licensing. First is the determination of the service level agreement (SLA) processing both from the side of Bank Indonesia and also the applicant, which previously was not uniform. Second is the transparency concerning the licensing status or the determination of the SLA through publication on the Bank Indonesia website or in other media. Third is the simplification of the development of the processing of activities, products and collaboration using a risk-based approach. If the risk category is low, then the PJP/PIP is only required to submit a report, whereas if the risk category is determined as either medium or high, the application must be accompanied by supporting documents related to operational readiness, system security and reliability, risk management and consumer protection. Fourth, Bank Indonesia also provides facilities such as pre-consultative meetings, consultative meetings and coaching clinics to assist prospective PJP/parties who will be designated as PIP or PJP/PIP, to fulfil the complete requirements.

**To keep pace with the speed of licensing, the second main aspect of reform concerns the quality of institutions, and implementation of the payment system is strengthened through industry restructuring and standardization of operations.** A quality payment system operator needs to be backed by adequate capital, risk management and information system security standards. This is also stated in the PBI PJP and PIP through the obligation to fulfill the minimum capital at the time of entry (initial capital) and maintain capital adequacy during the implementation of the payment system (outgoing capital). The minimum paid-up capital requirements for prospective PJPs are set according to the category of license applied for, ranging from the most complete to only a limited scope of activities.[14] Furthermore, for parties which will be designated as PIP, there is a minimum initial capital requirement of IDR100 billion to ensure that the PIP is able to provide safe and reliable infrastructure for all its members in the industry, including mitigating existing risks. The obligation to maintain this minimum capital also stands during the implementation of the payment system.[15]

**Restructuring of payment system operators and the industry is also carried out regarding the fulfillment of risk management obligations and information system security standards, based on PJP or PIP classifications.** The risk management regulated in the PBI PJP/PIP covers, among other things, the adequacy of policies and Standard Operating Procedures (SOPs) in managing risk; the ability to maintain the level of service availability; and the risk management function within the organization, data center and disaster recovery, fraud management, security information, financial statement audits and information technology (IT) audits. In addition to risk management and information system security standards, PJP/PIP

14 For PJP candidates in the first permit category, the initial capital requirement is at least IDR15 billion, while for the second permit category the amount is at least IDR5 billion. The initial capital requirement for PJP candidates for license category three is at least (i) IDR500 million for PJP candidates who do not provide systems for other providers, and (ii) at least IDR1 billion for PJP candidates who provide systems for other providers.

15 The amount is based on the ratio of the Payment System Operator's Capital Liability (KPSP) based on the intended PJP or PIP classification, namely systemic, critical and general. The KPSP ratio for PJP/PIP in the form of Non-Bank Institutions is set at 10% of risk-weighted transactions at a minimum, with an additional surcharge of 2.5% for PJPs classified as PSPS, and 1.5% for PJPs classified as PSPK. The additional surcharge for PIPs classified as PSPS is 5%, and 2.5% for PIPs classified as PSPK.

are required to ensure the implementation of cyber security standards which, at a minimum, cover aspects of the governance, prevention and handling of cyber security.

**In the third aspect of reform, the optimization of supervision is strengthened to ensure continuity in the implementation of a healthy payment system.** After an operating license is obtained, the supervisor will evaluate the PJP permit or determine the PIP periodically every three years or at any time, by considering aspects related to transaction performance, business and institutional activities, efficiency or the level of industrial concentration, as well as compliance with applicable regulations. As a follow-up to the results of supervision, a PJP/PIP must submit an action plan. Examples of follow-up supervision that can be carried out by Bank Indonesia include: the provision of additional capital from shareholders, corporate actions, and other funding sources; strengthening efforts to ensure the security and reliability of information systems; and fit and proper tests and the replacement of management. Furthermore, Bank Indonesia may ask the PJP/PIP to do or not do something; limit business activities; stop temporarily some or all activities; and revoke permits as a follow-up to supervision.

#### 6.2.1.3. PBI on the National Standard Payment System

**Complementing the regulatory reform, Bank Indonesia also issued a PBI on the National Standard Payment System No. 23/11/PBI/2021.** Issuance of this standardization regulation is intended to encourage integration, interconnection, interoperability, security and the reliability of payment system infrastructure. The PBI on the National Standard Payment System also constitutes the legal basis covering objectives and scope, preparation, determination, management and application of national payment system standards. National standards for payment systems are applied in various stages of payment system operations, from pre-transaction, initiation, authorization, clearing and final settlement to post-transaction. This includes data processing related to the payment system, covering the interconnection and interoperability of instruments, channels, supporting technology and infrastructure, as well as institutional and organizational aspects.

**The PBI on the National Standard Payment System also emphasizes the authority of Bank Indonesia in the preparation, determination and management of national standards.** The preparation of this national

standard includes planning, preparing specifications or guidelines and conducting trials. The establishment of standards by Bank Indonesia can be done through regulations or decisions of Bank Indonesia. In exercising this authority, Bank Indonesia may assign a self-regulated organization (SRO) or other party to formulate and manage national standards for the payment system. This PBI also stipulates the obligations that must be fulfilled by SROs or other parties assigned by Bank Indonesia in the preparation and management of national payment system standards.

### 6.2.2. Payment System Infrastructure which is 3I (Integrated, Interconnected, and Interoperable), Secure and Reliable

**Public acceptance of online transactions and digital payments demands the support of payment system infrastructure that is able to facilitate digital payment methods that are mobile, fast, safe and inexpensive.** This encourages the need for payment system infrastructure that is integrated, interconnected and interoperable, secure and reliable. The development of payment system infrastructure has been carried out for both retail and large amounts as part of the implementation of the Indonesian Payment System Blueprint (BSPI) 2025. As a first step, the development of payment system infrastructure is prioritized on the retail payment system through the development of BI-FAST. BI-FAST is expected to be able to encourage industrial competitiveness, open wider payment options for the public, increase transaction efficiency and strengthen the reliability of the retail payment system in Indonesia.

**The 3I payment system infrastructure allows the payment process to be carried out seamlessly from the transaction start point until settlement (end-to-end).** In the context of the central bank, the payment system is the lifeblood of the economy that determines the money flows between economic agents. The payment process, from the initiation of transactions at the front-end to the completion of transactions at the back-end, needs to be in a configuration that can be monitored and regulated by the central bank as the authority. This is intended to ensure the efficiency and smooth operations of the payment system as one of the mandates of Bank Indonesia.

**The 3I payment system infrastructure supports the integration of the digital economy and finance so as to ensure the function of the central bank in the process of money circulation, monetary operations, financial system stability and financial inclusion.** As vision 1 of the Indonesian Payment System 2025, which integrates the national digital economy-finance, the payment system infrastructure is expected to meet the demands of the digital era and guarantee the process of money circulation. A well-run payment system and a well-functioning monetary


system are the basis for economic growth, prosperity and financial system stability. Monetary policy and financial system stability are rooted in the traditional role of a central bank in the payment system. The three main tasks of the central bank constitute the pillars supporting public confidence that determine the transmission of monetary policy and the effectiveness of economic and financial inclusion.

**The development of BI-FAST serves all types of payment transactions in addressing the people's desire to transact digitally and acts as a bridge to 3I payment system infrastructure.** Before BI-FAST was launched, the configuration of Indonesia's retail payment system was not able to address the challenges in the digital era. For example, the National Payment Gateway (GPN) service is still limited to debit card transactions, and the Bank Indonesia National Clearing System (SKNBI) is not fully real time and does not operate 24/7. Furthermore, there is no transaction scheme that optimally uses a proxy address that is linked to a cellphone number or other type of identification, as a substitute for an account. The BI-FAST development initiative will create infrastructure that can address these challenges; it offers real time features, non-stop operations 24/7 and a proxy address feature that distinguishes it from other services that are currently available. This initiative is also expected to realize the 3I retail payment system infrastructure, replacing the current infrastructure that is only able to serve partial and incomplete types of transactions and payment instruments.[16]

**Development of BI-FAST provides efficiency and innovation to industry players and the public by providing faster and more integrated processing of economic transactions.** Payment service providers can optimize the use of BI-FAST features to improve the quality of payment system services to get customers engaged and provide business opportunities for cross selling, including offering other banking products. Furthermore, affordable innovation has the potential to increase transaction volume, which, in turn, will increase the income of industry players. The BI-FAST settlement mechanism, which is real time and 24/7 and offers affordable prices, gives industry players a faster turnover of funds to support production activities. This is very helpful for industry players, especially those with low turnover, such as MSMEs and those whose business activities depend on the daily circulation of money.

**BI-FAST is needed to consolidate the national payment system industry and to integrate the digital economy and finance.** The rapid development of technology and the rising demands of customers have given rise to new players with new payment

16 As an illustration, fund transfers using SKNBI and BI RTGS are still segmented based on nominal value and are still based on individual bank infrastructure. BI-FAST development can serve as a bridge with real time, 24/7 features and can make transfers between banks more quickly and cheaply.

instruments and channels. This development is accompanied by a tendency for consumers to place too much emphasis on the use of certain payment instruments and channels, by not giving consideration to the definition of instruments and their providers; they place more importance on payment services that can be done, such as sending emails or photos via mobile phones. This trend, if it continues, has the potential to create a closed ecosystem and give data control to certain groups. Through BI-FAST, the provision of fast, safe and inexpensive payment system infrastructure is expected to reach all levels of society and businesses of all sizes. BI-FAST will be able to support the cooperation and collaboration of digital economic and financial actors by mitigating the likelihood of the creation of an exclusive ecosystem. BI-FAST is expected to become a solution for the integration of an inclusive digital economy and finance.

**The implementation of BI-FAST also supports Bank Indonesia's future policies in terms of monetary aspects, financial system stability and payment systems.** The central bank in the digital era is required to have an up-to-date understanding of economic and financial conditions. For this reason, an integrated financial market infrastructure and payment system is needed, including the digitalization of a retail payment system that can capture granular transaction data. The availability of comprehensive and granular data and information will further strengthen Bank Indonesia's policy formulation. In addition, BI-FAST, which features safe and reliable 3I retail payment system infrastructure, is expected to be able to boost industrial competitiveness, open up wider payment options for the public, increase transaction efficiency and strengthen the reliability of the retail payment system in Indonesia.

**BI-FAST implementation policy takes into account the readiness and diversity of the industry including the configuration of the available payment systems.** Regarding participation, Bank Indonesia encourages all players in the payment system industry, whether banks or non-bank institutions, to become BI-FAST participants. This is in line with the objective of developing BI-FAST as a Systemically Important Payment System being real time, having 24/7 availability and accelerating SLA participation, as well as supporting the direction of payment system policies going forward. BI-FAST members are comprised of direct participants and indirect participants, and both provide the same BI-FAST service to customers. The difference is on the side of the operator; direct participants have the flexibility to manage liquidity through ownership of a settlement account at BI-FAST. The payment system operator can choose the type of participation according to the participant's needs.[17]

**The implementation of BI-FAST provides affordable prices while taking into account the industry's sustainability.** The price paid by customers is set at a maximum of IDR2,500 per transaction, and Bank Indonesia charges participants a price of IDR19 per transaction. Periodic evaluations will be carried out of this price scheme. The implementation of an affordable price scheme is intended to encourage wide acceptance of the use of non-cash payments by the public. A high adoption rate of digital payments will provide broad economic benefits to industry and society. To achieve this goal, the provision of efficient payment services and support for industrial collaboration will be critical in encouraging the public's acceptance.

**Going forward, the implementation of BI-FAST will be carried out in stages to replace debit and credit transfer services at SKNBI.** The current retail payment infrastructure will operate concurrently between BI-FAST and SKNBI, taking into account the use of check settlement services that need to be accommodated by SKNBI. BI-FAST was launched on 21 December 2021 with the implementation of credit transfers and the preparation of regulations regarding BI-FAST. The provision of credit transfer services, as an initial feature of BI-FAST, is available in the initial transition period for the transfer of retail transaction settlement services from SKNBI to BI-FAST accompanied by a more affordable price

17 BI-FAST provides several options for providing infrastructure according to the capacity of the operator. Bank Indonesia determines the policy for BI-FAST infrastructure provision by the participants, which can be: (i) independent; (ii) sub-independent (affiliates); and (iii) sharing between participants/Third Parties, in accordance with the applicable requirements. The choice of infrastructure provision supports the acceleration of adoption and is in line with the trend of increasingly widespread use of sharing infrastructure.

incentive mechanism for BI-FAST services. The maximum nominal limit for BI-FAST transactions is set at a maximum of IDR250 million per transaction and will be evaluated periodically. The second phase of BI-FAST implementation will last from 2022 to 2023 (Figure 6.6). In its early stages, this second phase of development includes direct debit, bulk credit and Request for Payment (RFP) transactions. Development and implementation of this phase will continue with the use of QRIS in all BI-FAST transactions and the development of instrument-based, UE, and cross-border transaction capabilities in 2023. The implementation of BI-FAST in the second phase will constitute a continued transitionary period of transaction services from SKNBI to BI-FAST. It is hoped that after the total implementation of BI-FAST, all retail transaction service settlements will fully switch from SKNBI to BI-FAST.

### 6.2.3. Expansion of the Payment System Ecosystem through Standardization of QRIS and SNAP

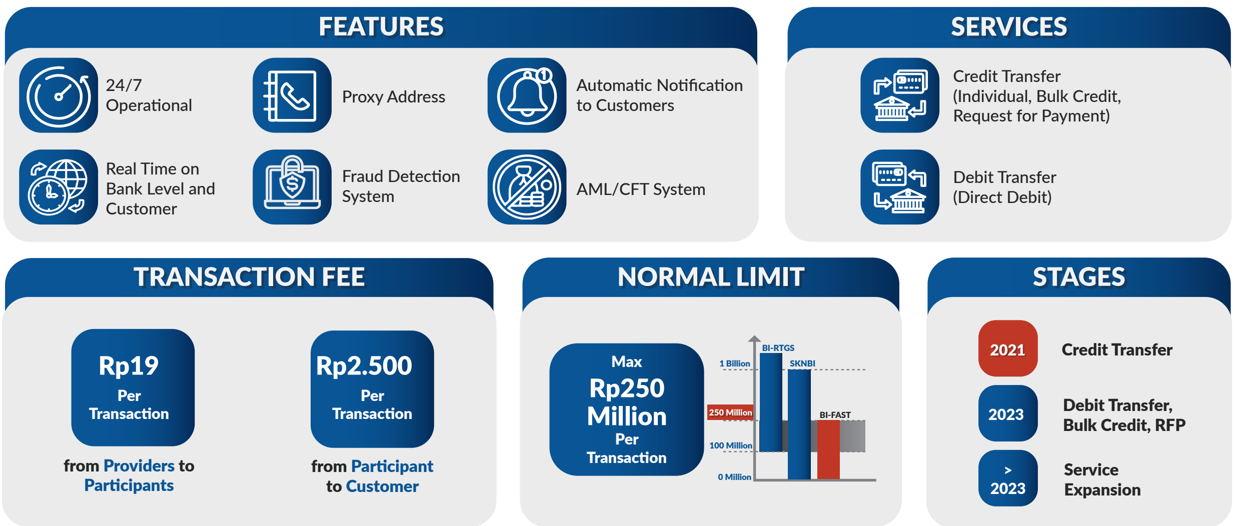
**The payment system ecosystem will continue to be expanded through standardization to accelerate interoperability and integration between players in the payment system and support an inclusive digital economy and finance.** In international practices, standardization of payment systems is carried out both at the front- and back-ends. In 2021, Bank Indonesia will undertake two initiatives through standardization, namely expansion of the QR Payment national standard (QRIS) and the issuance of the API Open Payment (SNAP) national standard, as discussed immediately below.

#### 6.2.3.1. QR Payment National Standard (QRIS)

**In 2021, QRIS policy is focused on expanding the ecosystem.** The expansion target of 12 million merchants was exceeded in November 2021. As of the end of December 2021, the total number of merchants who adopted QRIS as a payment channel stood at 14.78 million merchants. The convenience of QRIS has been enjoyed by merchants in various segments, ranging from street vendors, leading stores in malls and houses of worship. Merchants who adopt QRIS are mainly MSMEs (as many as 96%), especially micro businesses (61%). On the operator side, QRIS has been adopted by 71 payment system service providers. Both PJP banks and non-bank institutions are involved in collaboration--and in competition--by using QRIS as a standard payment channel. QRIS is now used in 34 provinces and 480 cities/districts throughout Indonesia. With easy interconnection, it is currently estimated that more than 80 million Indonesians, both in urban and rural areas, can make payments using QRIS.

**The form and features of QRIS continue to be developed as a payment channel for online and offline transactions.** QRIS can be displayed in various forms, such as in Point of Sale (POS) machines, placed on acrylic, Electronic Data Capture (EDC)

**Figure 6.6. BI-FAST Features, Services and Prices**




Source: Bank Indonesia

printouts or directly on an EDC screen. QRIS is also used for e-commerce, both registered platforms and conversational commerce such as social media. The use of Without Face to Face QRIS has become increasingly widespread to facilitate conversational commerce, especially during the Covid-19 pandemic period. To complement QRIS for payments, QRIS Transfer, Withdraw and Deposit (QRIS TTS) is currently being developed. This feature is being developed to assist those segments of society that have difficulty in topping up their balances and savings accounts. Furthermore, QRIS will facilitate additional funding sources from Paylater to support the expansion of a healthy QRIS ecosystem. In order to ensure acceptance of the business model and for supervision of QRIS Paylater, a QRIS Paylater sandbox is currently being developed with PJP QRIS participants and financing institutions as well as licensed P2P lenders.

**QRIS pricing encourages expansion of the ecosystem and supports recovery of the national economy.** As of April 2020, Bank Indonesia reduced the QRIS Merchant Discount Rate (MDR) fee to 0% specifically for merchants in the Micro Business (UMI) category, extending this policy until now. It is hoped that this policy can help Micro Enterprises during the Covid-19 pandemic period when demand is still weak. In 2021, Bank Indonesia will strengthen the MDR policy. Since June 2021, the MDR for special category merchants, namely Public Service Agency (BLU) and Public Service Obligation (PSO) merchants, has been reduced from 0.7% to 0.4%. This policy was taken to further encourage the acceptance of QRIS and encourage the use of QRIS as an alternative to the use of physical media payment instruments, such as cash and cards.

**Support from QRIS for national economic recovery is carried out in synergy and coordination with the Government and industry players.** During 2021, Bank Indonesia collaborated with 16 Ministries and Institutions and 19 Associations and Organizations, including cooperation with the Ministry of Religion; Ministry of Social Affairs; Ministry of Transportation; Ministry of Cooperatives and SMEs; Ministry of Trade; and others. The role of QRIS in supporting economic recovery has also been welcomed by the Government and has been used as an efficient and inclusive payment channel in economic recovery programs, namely the Proudly Made in Indonesia National Movement (BBI) and Proud to Travel in Indonesia Movement (BWI). The expansion of QRIS is also synergized with the local government electronification program through the Regional Digitalization Acceleration and Expansion Team.

**Expansion of the QRIS ecosystem will be developed across countries.** On 17 August 2021, the QRIS sandbox trial with Thailand (Thai QR Payment) began. This interoperability and interconnection between QRIS and the Thai QR Payment is a culmination of the collaboration and synergy between Bank Indonesia; Bank of Thailand; the Indonesian Payment

Association (ASPI); switching institutions of the two countries; Bank Appointed Cross Currency Dealers (ACCD); and Payment Service Providers. The settlement of transactions is carried out using the local currencies of the two countries through ACCD Banks in Indonesia (BCA, BNI and BRI) and ACCD Banks in Thailand (Bangkok Bank; Bank of Ayudhya; and CIMB Thai Bank). The full commercial phase of Intercountry QRIS with Thailand will be carried out in the first quarter of 2022. The development of Intercountry QRIS with Thailand is expected to be a new milestone in facilitating the people's activities of the two countries, especially for tourists from both countries.

#### 6.2.3.2. Open API Payments National Standard (SNAP)

**The implementation of SNAP is an important step in accelerating open banking in payment systems.** This initiative is a follow-up to the Indonesian Payment System Blueprint (BSPI) 2025 and continues to encourage the acceleration of digitalization of the national economy and finance, including through open banking initiatives. The implementation of this standard is expected to create a healthy, competitive and innovative Payment System industry; promote integration, interconnection, interoperability, security and reliability of payment system infrastructure. It would also to improve efficiency and sound business practices in the operation of the payment system. In line with the practice in several countries, standardization of the Open API Payments is expected to reduce industry fragmentation and encourage the acceleration of economic and financial digitalization in Indonesia.

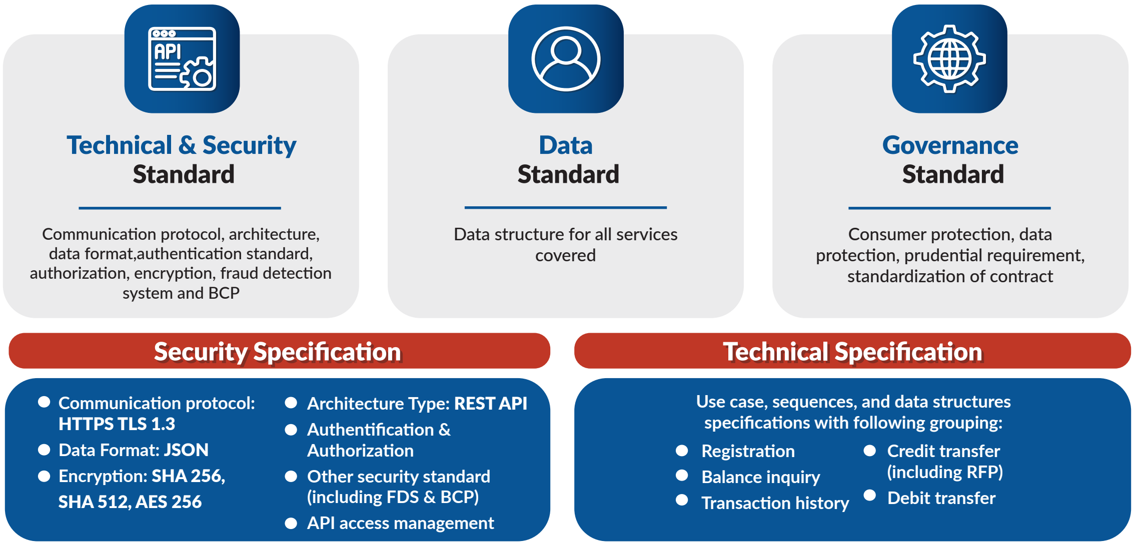
**The implementation of SNAP plays an important role in supporting digital transformation by banks as well as the interlinks between banks and fintech, thereby encouraging innovation, collaboration and competition.** Amid the brisk adoption of economic and financial digitalization, the implementation of open banking is vital to maintain an equal level playing field between banks and fintech, while encouraging innovation, collaboration and competition, as well as expanding public financial access. The open banking service strategy allows banks and fintech to disclose financial data and information related to payment transactions from their customers in a reciprocal manner (the principle of equality), supported by contractual cooperation, using open API technology. The use of Open API in the payment system industry has actually started to expand in recent years. The establishment of SNAP will further encourage interlinks between banking and fintech, thereby opening up more room for competition and collaboration.

**The Open API Standards include Technical and Security Standards, Data Standards, Technical Specifications and Governance Guidelines.** To ensure ease of implementation and/or adoption as well as security, data confidentiality and system integrity, the implementation of the Open API will be accompanied by the implementation of technical and security standards covering communication protocols, architecture types and data formats (Figure 6.7). Furthermore, the implementation of data standards is aimed at improving interoperability and efficiency for Open API providers, as well as ensuring the adequacy and quality of data for analysis and innovation. In its implementation, the standard of the data exchanged adheres to the principle of consumer consent, that is, data can be disclosed if approval has been obtained from the consumer as the owner of the data. Meanwhile, the Governance Guidelines cover regulations regarding consumer protection, data protection, prudential requirements for service providers and service users as well as contract standards. The setting of governance standards is needed to support the creation of an Open API ecosystem which has integrity, ensures compliance with applicable regulations, including aspects of consumer protection, as well as the handling and resolution of disputes.

**To accelerate the adoption of Open API, SNAP was prepared jointly by Bank Indonesia and the National Working Group on Open API Payments under the Indonesian Payment System Association (ASPI).** The National Working Group on Open API Payments consists of representatives of the payment system industry comprising banks, fintech companies in the payment system sector, and e-commerce providers. Bank Indonesia pays attention to the readiness of industry to undertake adoption in line with the diversity of information technology capacities, including several players that have used Open API before. Against this backdrop, the SNAP implementation strategy will be divided into two stages, namely First Mover and Next Mover. In the First Mover stage, for PJP and non-PJP involved in the preparation of SNAP, Bank Indonesia will determine the implementation of SNAP no later than 30 June 2022. Meanwhile, for other PJPs, the deadline is 31 December 2022.

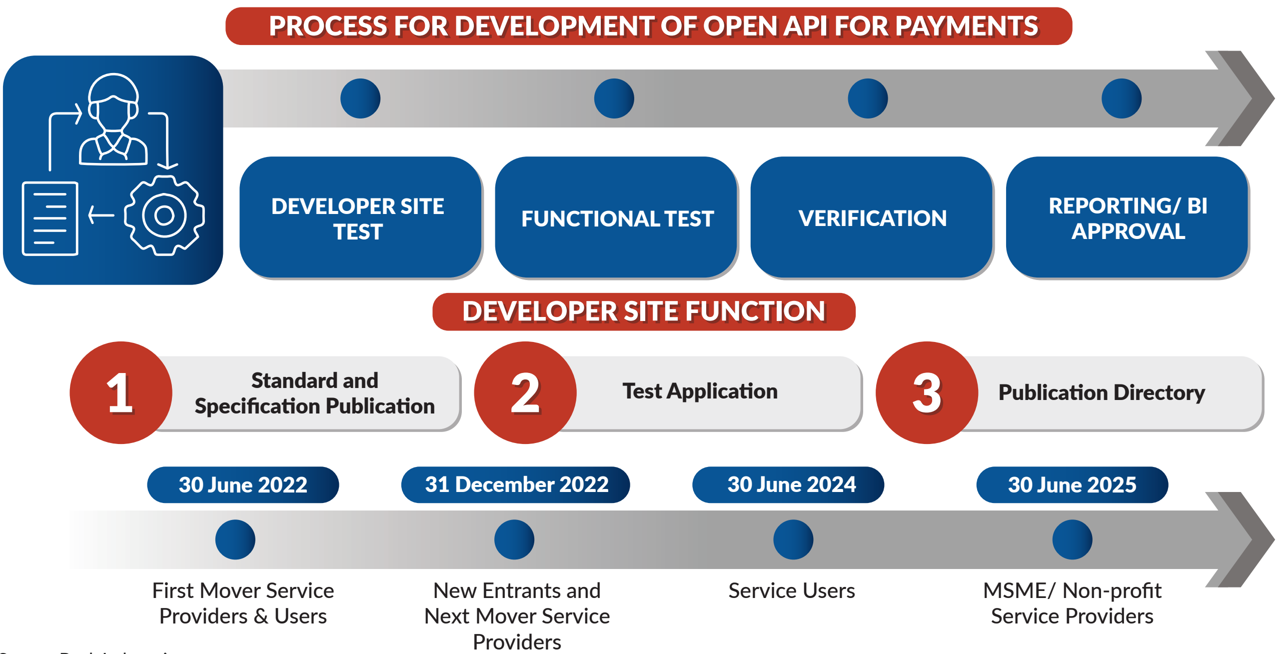
**Bank Indonesia provides a developer site to support implementation of SNAP.** The SNAP developer site, which is initially managed by Bank Indonesia, is a site with three functions: publication, test application and a publication directory (Figure 6.8). As a publication function, the public can access technical standards and specifications to be studied and developed in accordance with their needs. As a test application function, PJP and non-PJP can perform API testing which is prepared based on SNAP technical standards and specifications. As publication directory, the public can access parties which have met the standards and technical specifications of SNAP. In the future, SNAP will be managed by ASPI as the Self-Regulatory Organization appointed by Bank Indonesia.

**Figure 6.7. Standar Coverage of Open API for Payments**




Source: Bank Indonesia

**Figure 6.8. Process for Development of Open API for Payments**




Source: Bank Indonesia

### 6.2.4. Strengthening MSMEs through Digitalization for Economic Acceleration and Inclusive Digital Finance

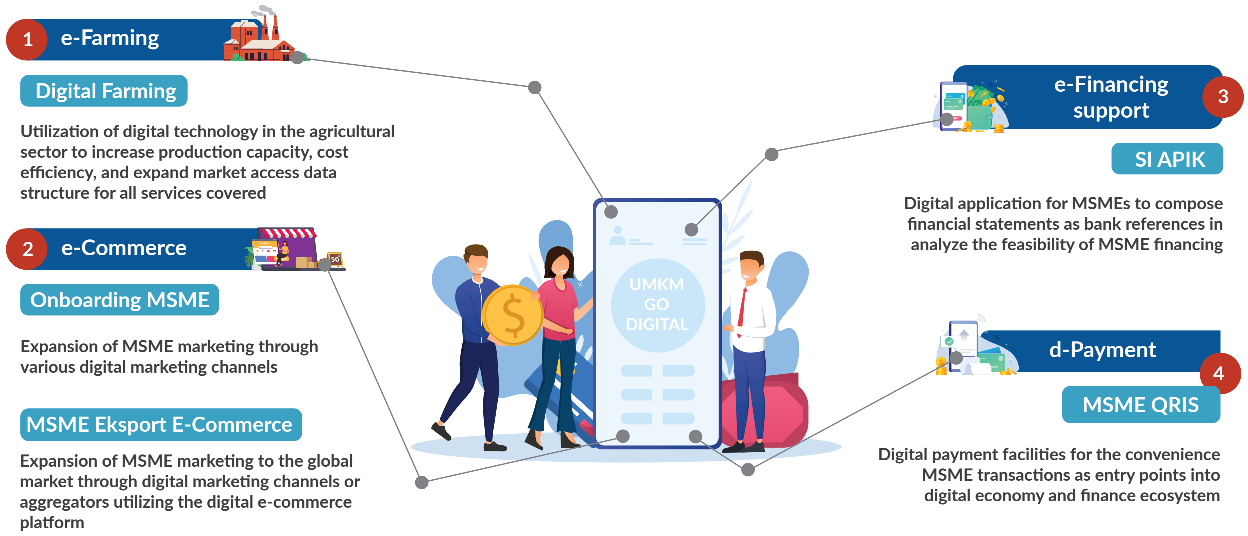
**Bank Indonesia has consistently strengthened its MSME development program to encourage digital MSMEs and exports.** The MSME development program is implemented through three policy pillars, namely corporatization, capacity building and financing, in order to realize productive, innovative and adaptive MSMEs. Strengthening of corporatization is carried out through the formation of MSME groups, which are strengthened by formal and modern institutions. MSMEs are also encouraged to collaborate with other business actors, either among MSMEs or with large businesses and financial institutions to increase their economies of scale. Capacity building is focused on increasing productivity, including through the innovation and digitalization of business processes so as to make MSMEs more competitive. The MSME digitalization program aims to increase productivity and efficiency; expand MSME marketing access both nationally and globally; and facilitate MSME transactions as an entry point into the digital economy and financial ecosystem through expanding the adoption of QRIS. Expansion of access to financing continues to be encouraged to facilitate business expansion in accordance with the capacity of MSMEs.

**Digitalization is very important for MSMEs as it can increase productivity, reduce transaction costs and expand access to global markets.**[18] Around 70% of MSMEs globally are intensifying their use of digital technology during the Covid-19 pandemic. For this reason, Government engagement is needed to accelerate the digital transformation of MSMEs, including by increasing MSME capacity; by providing easier access to strategic resources; creating a conducive business environment through comprehensive policies; and by supporting the digital ecosystem. The government is actively encouraging the digitalization of MSMEs, including through the Proudly Made in Indonesia National Movement (Gernas BBI) program. The government encourages the Indonesian people to buy MSME products and encourages the digitalization of MSMEs with a target of 30 million MSMEs onboarding by 2023. As of December 2021, the number of onboarding MSMEs through the Gernas BBI program had reached 9.2 million, bringing the total number of MSMEs going digital to 17.2 million MSMEs.

**To accelerate the digital transformation of MSMEs, the digitalization of MSMEs is carried out along the value chain from upstream to downstream to support the creation of an integrated digital ecosystem.** The use of end-to-end digital technology is also believed to increase the efficiency of business processes to boost the competitiveness of MSMEs. To that end, Bank Indonesia encourages optimizing the use of digitalization in various aspects of MSME business processes, especially in regard to production; access to marketing; access to finance; and payment transactions, as part of efforts to increase the capacity of MSMEs (Figure 6.9).

18 *OECD (Organisation for Economic Co-operation and Development). 2021. Policy Highlights: The Digital Transformation of SMEs*

### Figure 6.9. BI Digitalization Program for MSMEs



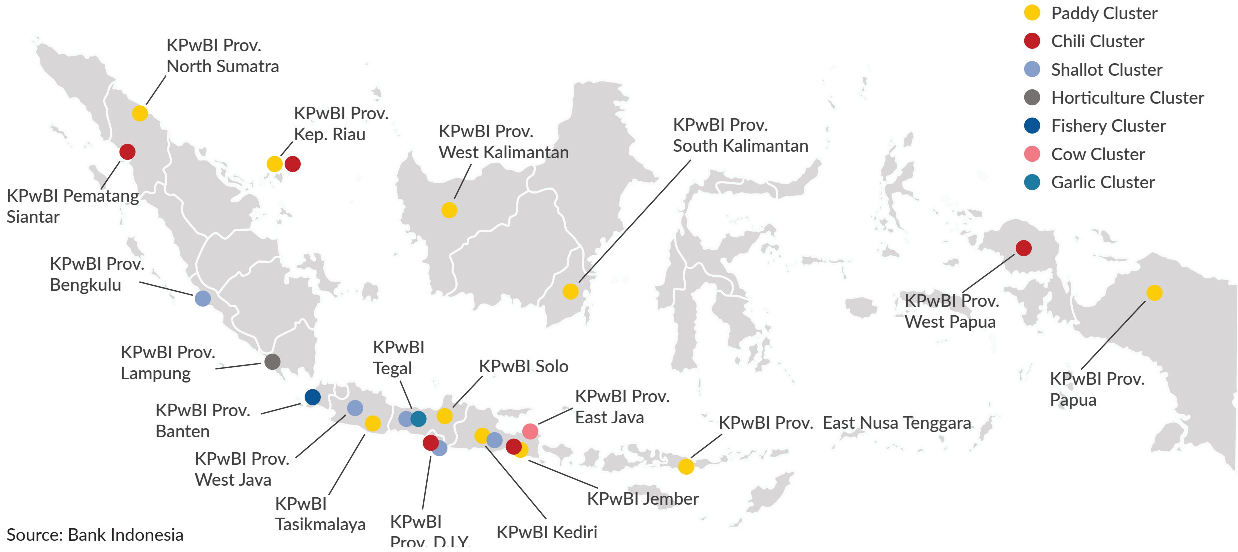

Source: Bank Indonesia

**Digitalization of production is carried out by MSMEs in the agricultural sector through the use of technology on the upstream side (cultivation) to increase productivity, as well as on the downstream side (marketing) to improve efficiency in the distribution chain of agricultural commodities.** Agricultural digitalization has been implemented in several food clusters with assistance from Bank Indonesia in Java, Sumatra, Kalimantan, Sulawesi, Nusa Tenggara and Papua, in collaboration with digital agriculture platforms (Figure 6.10). Upstream digitalization is carried out through the use of Internet of Things (IoT) based technology such as weather sensors, soil sensors and automated irrigation (Figure 6.11). The use of digital technology in the cultivation process has helped farmers carry out precision farming with measurable and effective resources, optimize plant growth and reduce cultivation costs. Horticulture and chili clusters fostered by Bank Indonesia in Lembang and Cianjur, West Java, have already implemented automated fertilization and irrigation technology for horticultural commodities. These efforts have increased the production capacity of the clusters and reduced costs. Several clusters have also felt the positive impact of using digital equipment to determine wind speed and direction, so that farmers can chose the right time to spray liquid fertilizers and pesticides effectively.

**On the downstream side, digitalization is carried out by facilitating access to food MSME marketing for agricultural e-commerce, whether on a local or national scale.** Facilitating cooperation between food MSMEs and agricultural e-commerce is an effort to add alternative MSME marketing channels to maintain price stability in the event of oversupply and to encourage efficiency in the agricultural distribution chain from producers to consumers. As examples, the shallot cluster fostered by Bank Indonesia in West Java has supplied its production to more than one agricultural e-commerce player. The fisheries cluster in Banten has also collaborated with an e-commerce platform for fishery products. This collaboration has helped to motivate fishermen to increase fishing productivity with an incentive program offered by the platform for fishermen who meet targets and achieve the highest fish catches.

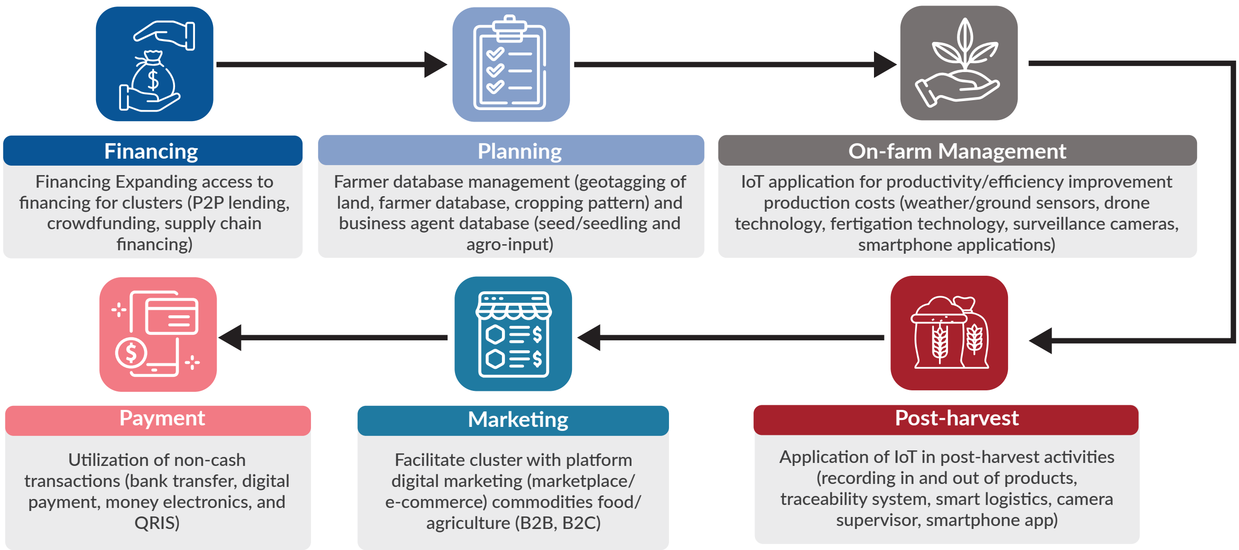
**Bank Indonesia implemented an MSME onboarding program to foster a digital mindset and increase MSME capacity in utilizing various digital marketing channels in accordance with their particular business characteristics.** The onboarding program is carried out comprehensively in stages in adapting to digital technology, including digital skills and mindset; digital presence; digital onboarding; digital marketing; and digital operations. Strengthening digital skills and

**Figure 6.10. Coverage of the Food Cluster Digitalization Program**




Source: Bank Indonesia

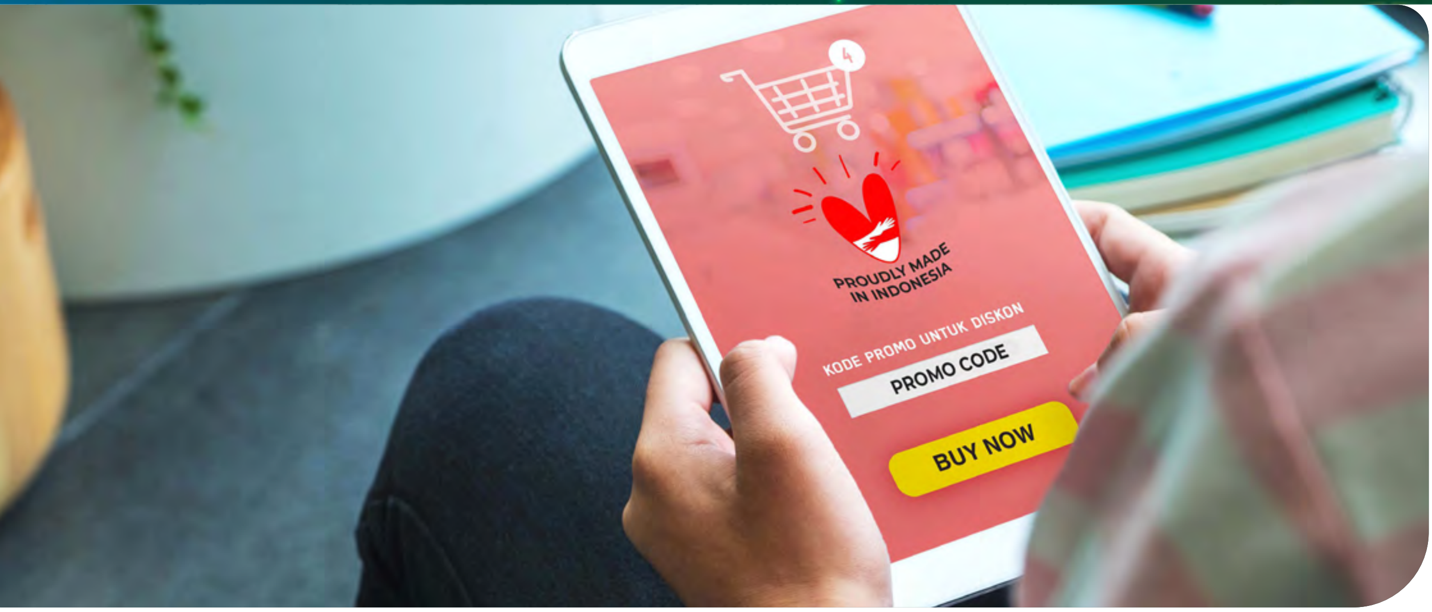
**Figure 6.11. Channels for Harnessing Digital Technology in the Agriculture Sector**




Source: Bank Indonesia

mindsets seeks to build the digital entrepreneurial mindset of MSMEs as the basic capital in utilizing digital technology. MSMEs are encouraged to have a presence in the digital world so they can be recognized by potential consumers and expand their customer base. MSMEs are trained to implement digital onboarding through various digital marketing channels, both social media and marketplaces, in accordance with their business characteristics and target markets, including strengthening MSME branding. Furthermore, MSMEs are also equipped with knowledge about digital operations through data analysis, logistics and the adoption of digital payment systems through QRIS.

**The majority of the MSME onboarding program participants in 2021 were micro-enterprises, which tend to use social media (conversational commerce) more than the marketplace.** The adoption of MSME marketing digitalization has helped lift sales transactions. MSME managers that are successful in online marketing are generally in working age group (ages 15 to 64) and especially the younger generation; they have higher education; and they are accustomed to using social media, which supports their level of awareness and ability to adopt digital technology in their business activities. The opportunity for online marketing success is also greater if MSMEs sell products according to the demand and character




of the selected online market. For example, it is better for fast food products to optimize marketing through local marketplaces or social media, rather than national marketplaces. In addition, a strong commitment from MSMEs is needed to keep trying persistently, so that they are able to manage their business activities well by utilizing digitalization.

**Online marketing channels may also help give MSMEs access to global markets.** Efforts to increase MSME exports still need to be encouraged, including by utilizing online platforms or e-commerce. Many countries are starting to take advantage of this media, as can be seen in the global value of cross-border e-commerce transactions which has shown an increase over the last few years (UNESCAP, 2019).[19] The results of the Kinda study (2019) in 6 Asian countries also show that businesses that use e-commerce have 30% greater total factor productivity (TFP) and 50% higher exports compared to those that do not use e-commerce.[20] Expansion of the export market through the use of online marketing media is the first step for MSMEs in global market penetration, market testing and strengthening brand awareness.

**Bank Indonesia has mapped out various export e-commerce business models that can be utilized by MSMEs in order to contribute to global trade through online marketing channels.** Utilization of e-commerce can facilitate the processing of transactions, payments, international logistics services and warehousing. In general, the export e-commerce business model consists of retail e-commerce with the Business to Consumer (B2C) model; e-commerce with the Business to Business (B2B) model; and aggregators that can facilitate marketing for MSMEs through global e-commerce.[21] MSMEs can choose an e-commerce business model that best suits their type of business, while still meeting product quality, capacity, production continuity and target markets. The use of e-commerce needs to be encouraged because it can be the initial stage for MSMEs to export starting at the retail level before gradually moving onto larger-sized transactions. To encourage MSME exports, Bank Indonesia facilitates business meetings for MSMEs with export potential and aggregators that utilize e-commerce in accordance with the type of business and MSME products according to the destination country

.

19 *UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific). 2019. Studies in Trade, Investment and Innovation No. 91: Selected Issues In Cross-Border E-Commerce Development in Asia and the Pacific. Bangkok.*

20 *Kinda, T. 2019. E-commerce as a Potential New Engine for Growth in Asia. IMF Working Paper WP/19/135. International Monetary Fund. Washington DC.*

21 Bank Indonesia. 2021. *Study of Export E-Commerce Business Model for MSMEs*

**Digitalization is also carried out to help give MSME easier access to financing.** Bank Indonesia encourages expansion of use of the Financial Information Recording Application Information System (SI APIK) to assist MSMEs in the preparation of digital financial reports. These reports can be a reference for banks and non-bank financial institutions in analyzing the feasibility of MSME financing so as to reduce asymmetric information between financial institutions and MSMEs. Bank Indonesia continues to synergize with various parties from the central government, regional governments, OJK, banks, and non-bank financial institutions to promote the use of SI APIK so that its implementation is more extensive and sustainable.

**Bank Indonesia is increasing the use of QRIS to facilitate MSME digital payment transactions as an entry point into the digital economy and finance ecosystem.** QRIS has been a fast, easy, cheap, safe and reliable solution for MSME payment transactions during the pandemic. Also, it can encourage MSMEs to be more efficient with better financial management. The history of MSME digital payment system transactions will be used as data to support business feasibility analysis for MSMEs to improve access to financing. To expand the use of QRIS, Bank Indonesia waived the merchant discount rate (MDR) fee of 0% specifically for micro businesses. The number of QRIS users has reached 14.78 million and most of the merchants are MSMEs, comprising 8.48 million micro merchants, 3.62 million small businesses and 1.05 million medium businesses. Through QRIS, the digitalization of MSMEs can be accelerated so as to support economic and financial inclusion, including through the provision of MSME financial transactions data. In addition, Bank Indonesia has launched the National Payment API Open Standard (SNAP) which can facilitate open interconnection between applications in processing payment transactions. With SNAP, payment transactions between banks and fintech, aggregators and payment gateways including e-commerce will be increasingly integrated and can encourage more efficient, secure and reliable payment system services for the public, including MSMEs.

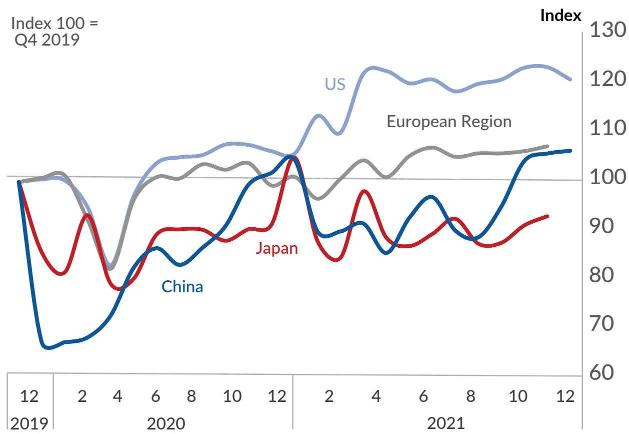
**Going forward, efforts to implement the digitalization of MSMEs will continue to be strengthened to encourage digital and export MSMEs, in line with Bank Indonesia's MSME development policy pillars, namely corporatization, capacity and financing.** Digitalization is part of efforts to increase MSME capacity which is carried out end-to-end to encourage increased production, financial management and expansion of market access. To support the availability of supply and the smooth distribution of food commodities, digital adoption will be expanded to the mentored food MSMEs to support increased production and marketing, in line with the 2022-2024 inflation control roadmap. The onboarding program for expanding MSME market access will be carried out more extensively by all Bank Indonesia Representative Offices by strengthening monitoring and assistance given to MSMEs. Efforts to encourage MSME exports will be expanded by utilizing e-commerce and assistance through aggregators that utilize global e-commerce. Bank Indonesia will also continue to increase the capacity of MSMEs in financial management by expanding the use of the Financial Information Recording Application Information System (SI APIK) and by expanding the adoption of QRIS for MSMEs to facilitate MSME payment transactions and to serve as an entry point into the digital ecosystem. In addition, to increase public literacy in the use of digital financial services, Bank Indonesia will develop a digital financial service education module in collaboration with the World Bank.

# APPENDICES

## Chart Pack 1.
## Global Economic Improvements Accompanied by Continuing Financial Market Uncertainty

### *Retail Sales Continue to Improve Despite Moderating in Q2/2021*

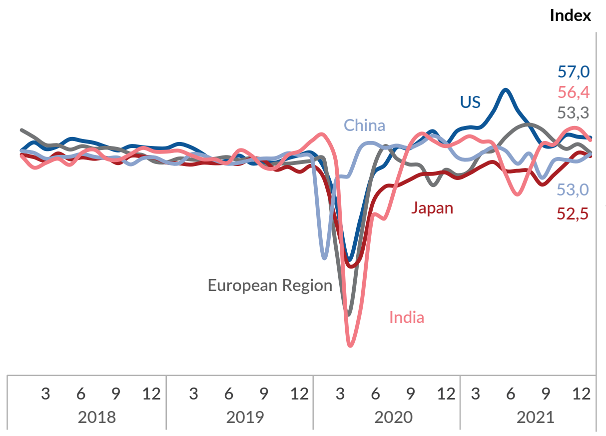
*Retail Sales Index*




Source: CEIC, calculated

### *PMI Remains Solid*

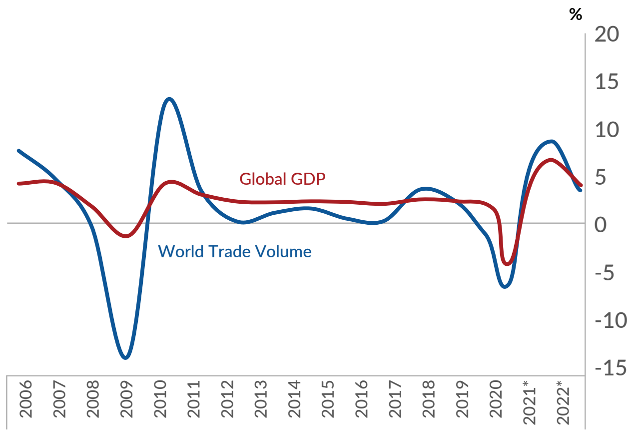
*Global PMI*




Source: IHS Markit, Bloomberg (China)

### *Higher WTV in line with Global Economic Improvements*

*World Trade Volume and Global GDP*




Source: CPB, IMF, * Bank Indonesia Projection

### *International Commodity Prices Continue to Rise, thus Supporting Exports in Developing Economies*

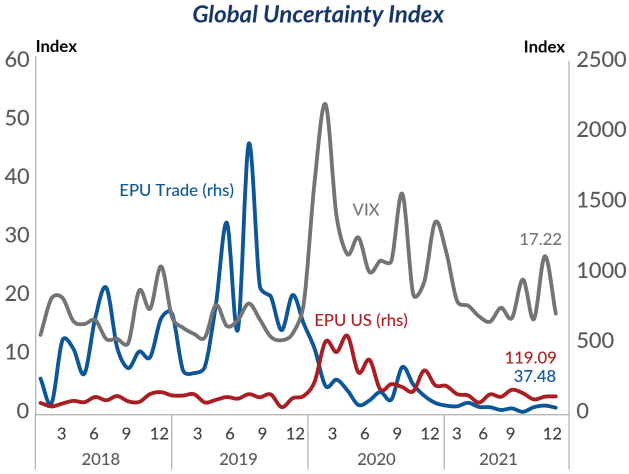
*Commodity Prices*

| COMMODITY | 2018 | 2019 | 2020 | | | | 2020 | 2021 | | | | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Q1 | Q2 | Q3 | Q4 | | Q1 | Q2 | Q3 | Q4 | |
| Copper | 6.7 | -7.8 | -7.8 | -12.3 | 11.8 | 21.6 | 3.3 | 50.3 | 80.3 | 44.3 | 33.1 | 52.0 |
| Coal | 2.5 | -8.6 | -8.0 | -28.2 | -27.9 | -9.8 | -18.5 | 19.5 | 92.8 | 203.9 | 204.7 | 130.2 |
| CPO | -19.2 | -2.3 | 33.3 | 14.0 | 35.5 | 34.9 | 29.4 | 47.1 | 84.6 | 60.4 | 53.0 | 61.3 |
| Rubber | -16.8 | 12.4 | -18.6 | -22.7 | 3.8 | 36.4 | -0.3 | 37.7 | 42.7 | 6.6 | -11.2 | 18.9 |
| Nickel | 27.8 | 7.0 | 3.8 | 0.0 | -8.1 | 3.9 | -0.1 | 37.9 | 41.4 | 33.7 | 23.0 | 34.0 |
| Tin | 0.5 | -7.5 | -17.2 | -20.4 | 3.1 | 12.6 | -5.5 | 46.1 | 86.1 | 91.1 | 101.2 | 81.1 |
| Aluminium | 7.4 | -14.1 | -5.8 | -15.9 | -2.6 | 9.8 | -3.7 | 22.9 | 57.7 | 52.2 | 43.0 | 43.9 |
| Coffee | -15.4 | -11.8 | 14.8 | -2.8 | 2.9 | -3.4 | 3.0 | 6.7 | 39.0 | 55.2 | 91.4 | 48.6 |
| Others | 1.2 | -0.7 | -2.1 | -5.6 | -4.9 | -4.5 | -4.3 | 0.3 | 7.6 | 3.9 | 4.0 | 3.9 |
| Indonesian Export Commodity Prices | -2.8 | -3.0 | 1.5 | -10.4 | -1.7 | 7.5 | -0.8 | 23.7 | 58.5 | 79.5 | 76.5 | 59.6 |
| Oil (Brent)** | 71 | 64 | 51 | 31 | 43 | 45 | 42 | 61 | 69 | 73 | 79 | 71 |

Source: Bloomberg, Data as of 31 December 2022
** Oil in USD/Barrel, other commodities (%, yoy)

### *Global Financial Market Uncertainty Persisting*

*Global Uncertainty Index*




Source: Bloomberg. Data as of 31 December 2021

### *Risk Perceptions Low and Manageable in Developing Economies*

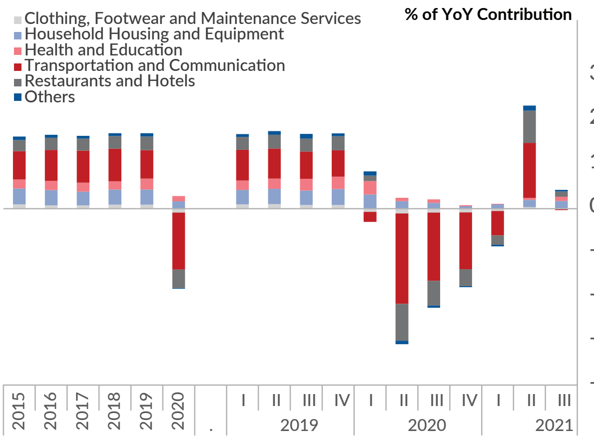
*Risk Perception on EM and Indonesia*


Source: Bloomberg. Data as of 31 December 2021

## Chart Pack 2.
## Domestic Economic Recovery Continued in 2021

### *Non-Food Consumption on Improving Trend*

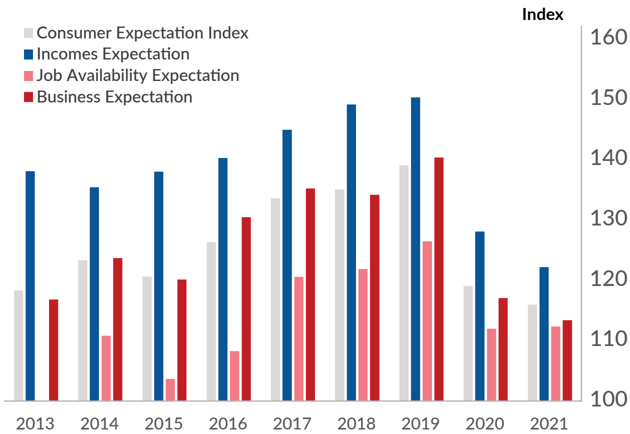
***Contribution of Non-food Consumption***




Source: BPS

### *Consumer Expectations Maintained*

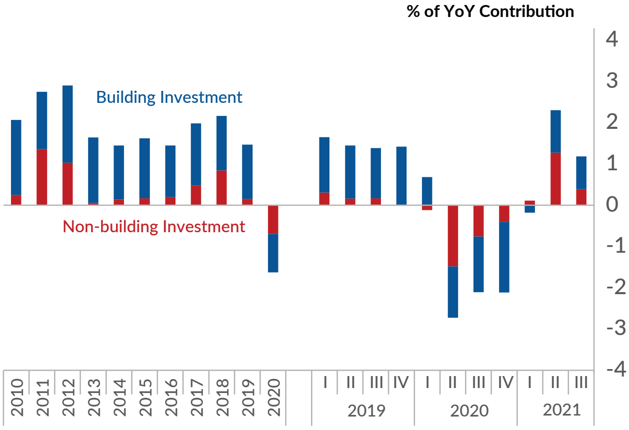
***Expectations Index***




Source: Bank Indonesia

### *Positive Investment Growth*

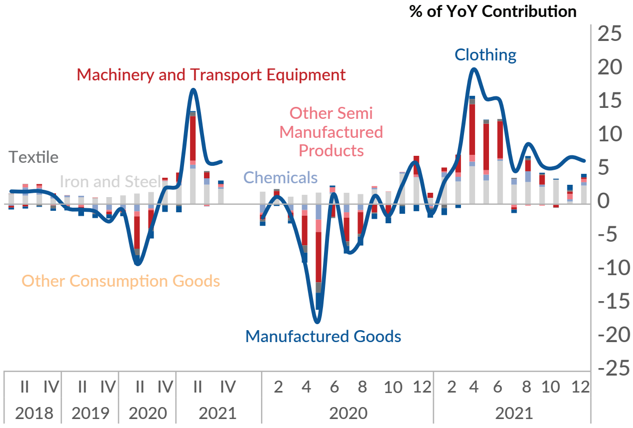
***Contribution of Investment***




Source: BPS

### *Positive Manufacturing Export Growth, particularly Iron and Steel*

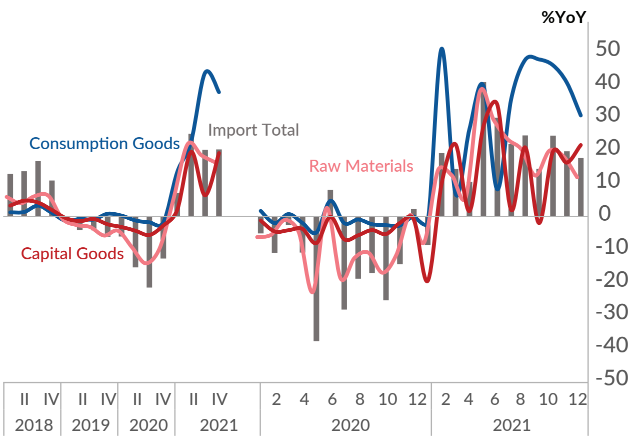
***Manufacturing Exports (SITC - Real)***




Source: Bank Indonesia

### *Import Growth Increasing in line with Higher Exports and Domestic Economic Activity*

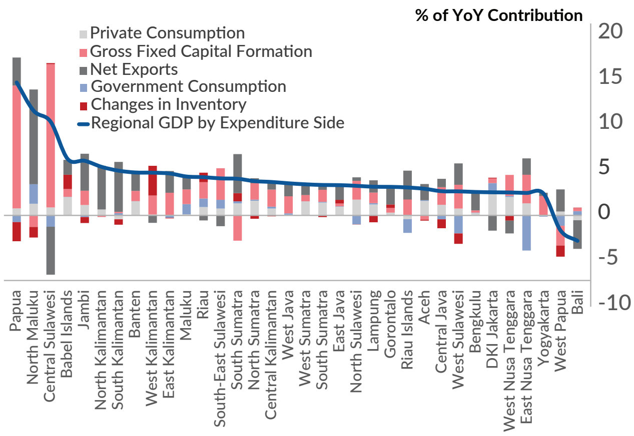
***Imports of Raw Materials, Capital Goods and Consumer Goods***




Source: Bank Indonesia

### *Positive Economic Growth Recorded in Most Regions*

***Regional Economic Growth in Third Quarter of 2021***




Source: BPS, calculated

## Chart Pack 3.
## BOP Surplus Maintained in 2021 along with External Resilience

### *External Resilience Maintained*

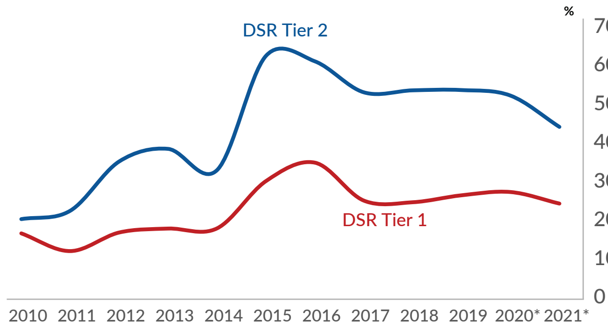
***External Resilience Indicators***

| INDICATOR | 2019 | 2020* | | | | | 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Q I | Q II | Q III | Q IV | Total | Q I* | Q II* | Q III** |
| Current Account/GDP (%)[1] | -2.7 | -1.3 | -1.2 | 0.4 | 0.3 | -0.4 | -0.4 | -0.7 | 1.5 |
| Exports - Imports of Goods and Services/GDP (%)[1] | -0.4 | 1.0 | 0.7 | 2.7 | 2.5 | 1.7 | 1.5 | 1.6 | 3.8 |
| Exports + Imports of Goods and Services/GDP (%)[1] | 36.1 | 33.8 | 29.6 | 30.3 | 33.7 | 31.9 | 36.1 | 38.0 | 39.5 |
| Total External Debt[3]/GDP (%)[2] | 36.1 | 34.4 | 37.3 | 38.1 | 39.4 | 39.4 | 39.1 | 37.6 | 37.1 |
| Short-Term Total External Debt[4]/GDP (%)[2] | 5.7 | 5.4 | 5.8 | 6.3 | 6.1 | 6.1 | 6.4 | 5.9 | 5.7 |
| Total External Debt[3]/Official Reserve Assets (%) | 312.4 | 320.8 | 310.0 | 302.3 | 307.0 | 307.0 | 303.1 | 303.6 | 288.7 |
| Short-Term Total External Debt[4]/Official Reserve Assets (%) | 49.0 | 49.9 | 48.0 | 49.6 | 47.9 | 47.9 | 49.8 | 47.6 | 44.1 |

Note:
[1] Quarterly GDP at Current Market Prices [2] Annualized GDP at Current Market Prices (Sum of GDP for the last 4 quarters)
[3] Preliminary Figures of External Debt (SULNI publication in January 2022)
[4] Based on remaining maturity; * preliminary figures ** very preliminary figures
Source: Bank Indonesia

### *Stable Debt Service Ratio (DSR)*

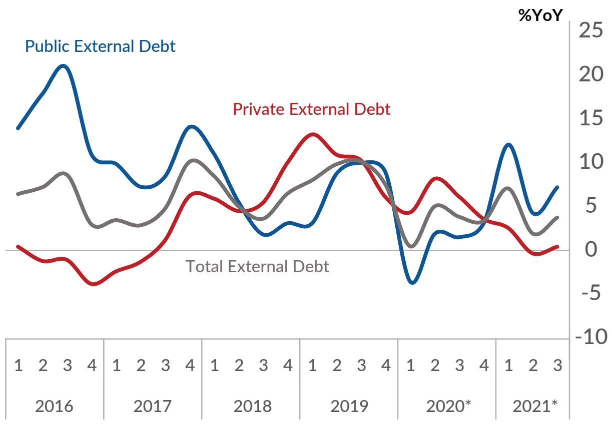
***Annual DSR Growth***




Note:
* Total payment on external debt – Tier 1 covers repayment of principal and interest on long term external debt and payment of interest on short term external debt
** Total payment on external debt – Tier 2 covers total repayment of principal and interest on debt related to direct investment excluding those from direct investment enterprises abroad, and loan and trade credit from non-affiliates
Source: Bank Indonesia

### *Growth in External Debt*

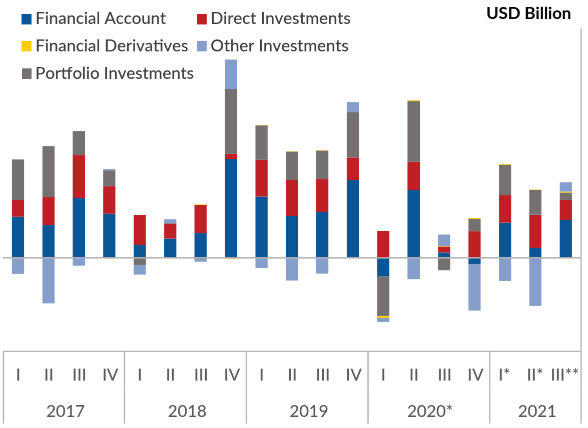
***Annual External Debt Growth***




Source: Bank Indonesia *) Preliminary Figures

### *Higher Capital Inflows*

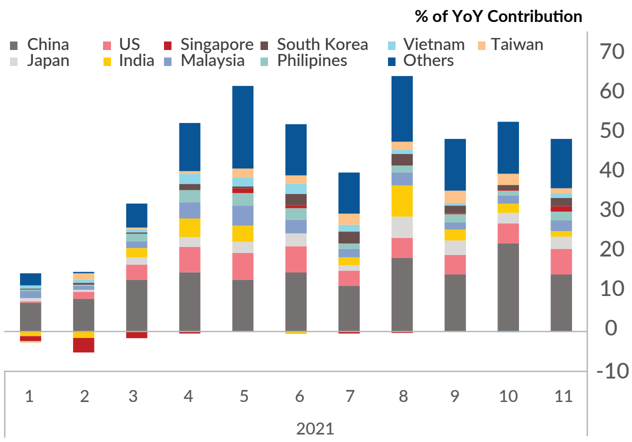
***Capital and Financial Account***




Source: Bank Indonesia *) Preliminary figures **) Very preliminary figures

### *Export Performance Supported by Demand in China, United States, India and Japan*

***Non-Oil and Gas Exports by Destination Country***

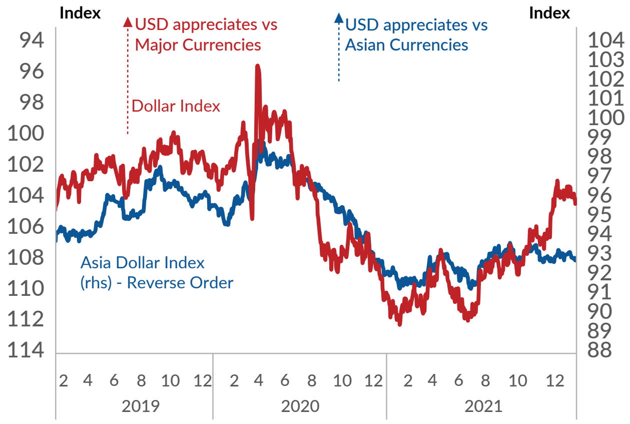



Source: Bank Indonesia

## Chart Pack 4.
Exchange Rate Performance Maintained

*Relatively Stable Dollar Index Against Asian Currencies*

*DXY Index*




Source: Bloomberg, calculated

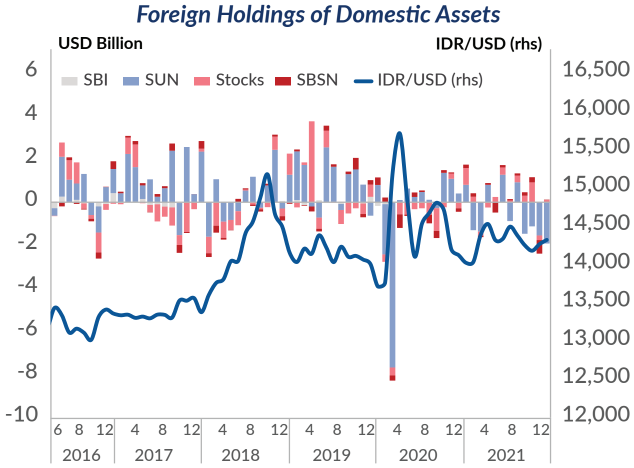
*Relatively Low and Stable Risk in EM and Indonesia*

*EMBI Spread and CDS*


Source: Bloomberg, calculated

*Foreign Holdings of Domestic Assets Down Slightly*

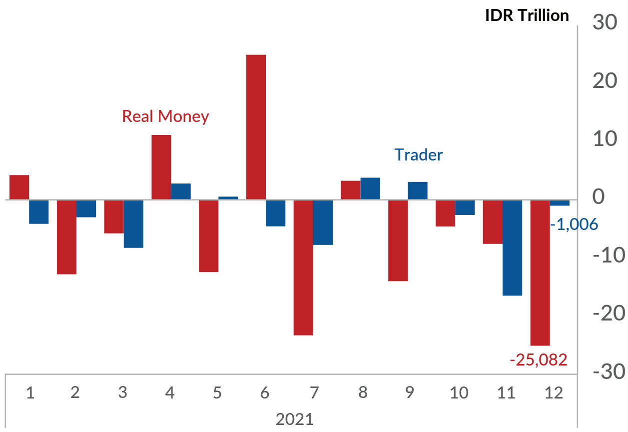
*Foreign Holdings of Domestic Assets*




Source: Bank Indonesia, BEI, Bloomberg

*... Affecting Real Money Investors and Traders*

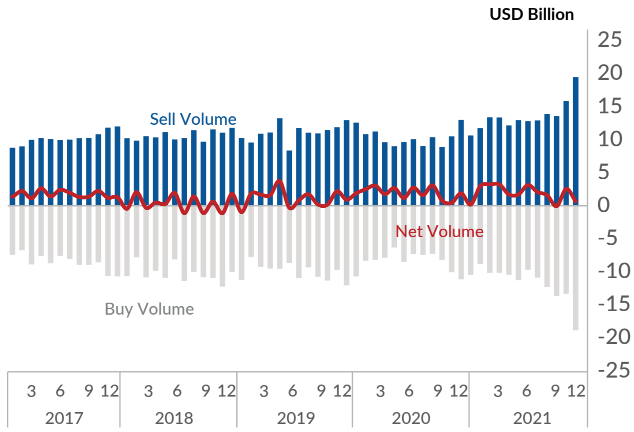
*Value of Trader and Real Money Investor Holdings of SUN*




Source: Bank Indonesia

*Corporations (excluding Pertamina and PLN) Record Net Supply of Foreign Exchange Throughout 2021*

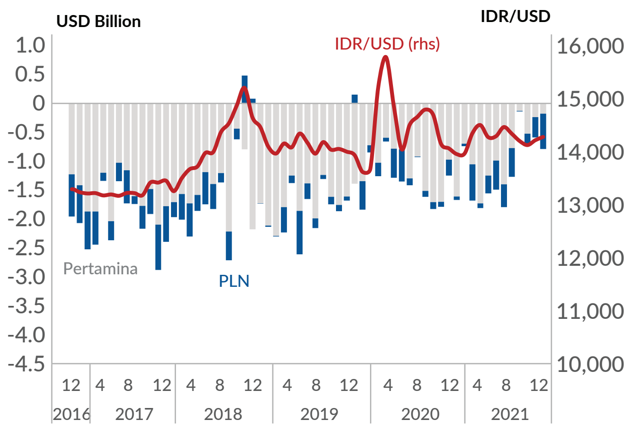
*Corporate Transaction Volume (excluding Pertamina and PLN)*




Source: Bank Indonesia

*Lower Demand by Pertamina and PLN for Foreign Exchange on Compressed Domestic Demand*

*Pertamina and PLN Transaction Volume*

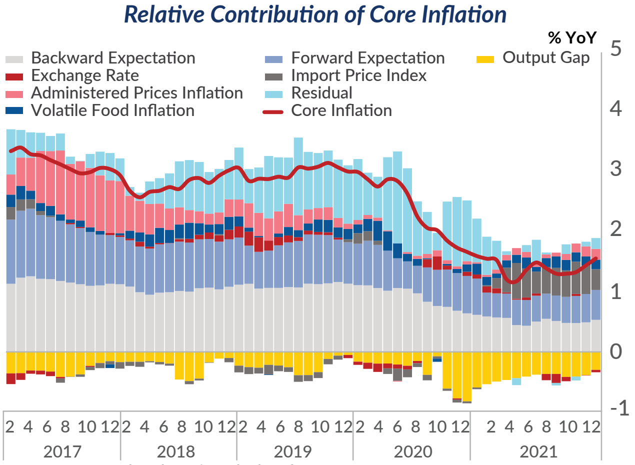



Source: Bank Indonesia

## Chart Pack 5.
## Low Inflation Caused by Weak Domestic Demand and Maintained Supplies

### *Core Inflation Remains Low Despite Increasing Slightly on Higher International Commodity Prices and Economic Improvements*

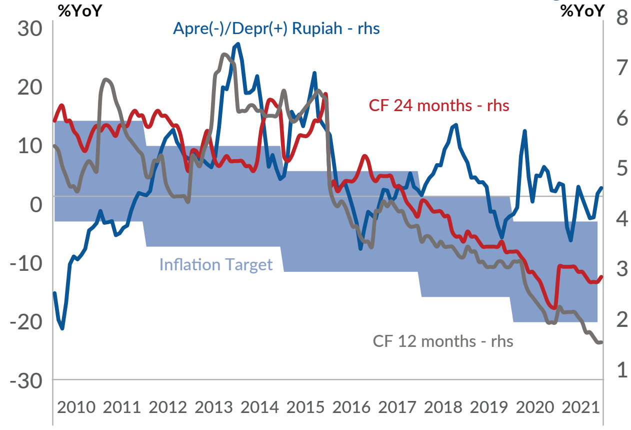
*Relative Contribution of Core Inflation*




Source: BPS, Bank Indonesia, calculated

### *... and Anchored Inflationary Expectations*

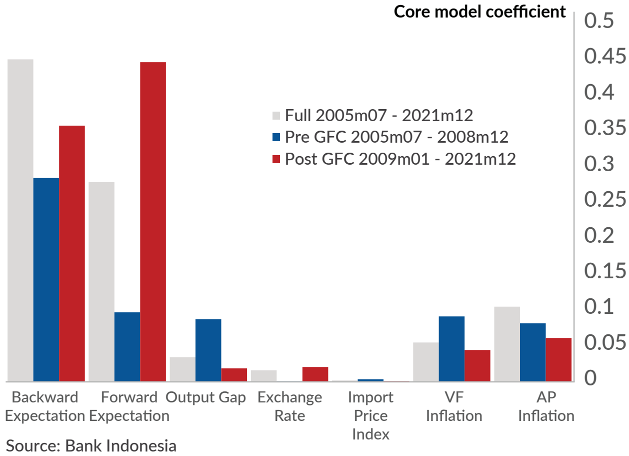
*Consensus Forecast for Inflation and Inflation Target*




Source: Consensus Forecast, Bank Indonesia

### *Post-GFC, Role of Forward Expectations has Increased, Impact of VF and AP Inflation have Declined*

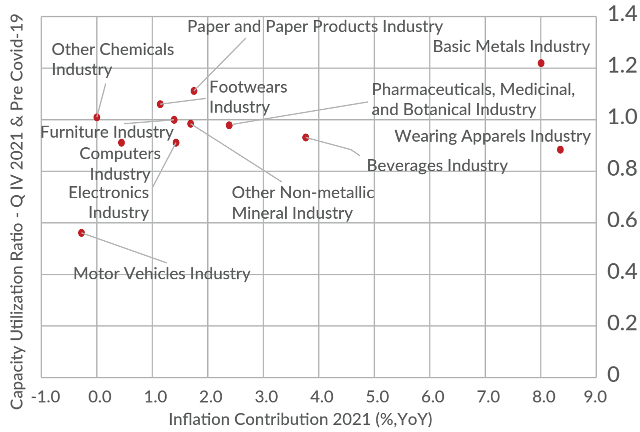
*Determinants of Core Inflation in Indonesia*




Source: Bank Indonesia

### *Capacity Utilisation Starting to Increase with Limited Impact on Inflation*

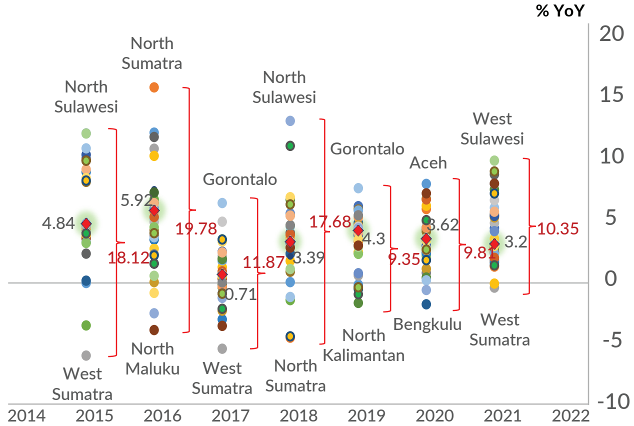
*GDP Sector Capacity Utilization and Inflation Development*




Source: Ministry of Industry, BPS, calculated

### *Regional volatile foods inflation disparity remains a challenge*

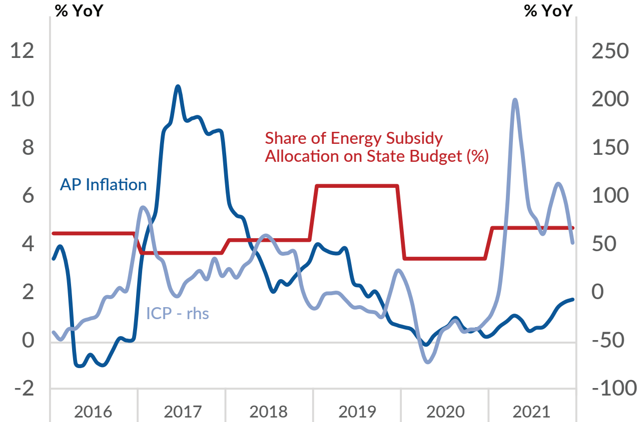
*Interregional Volatile Foods Inflation*




Source: BPS

### *Marginally Higher AP Inflation on International Energy Prices*

*Energy-Related Determinants of Administered Prices Inflation*

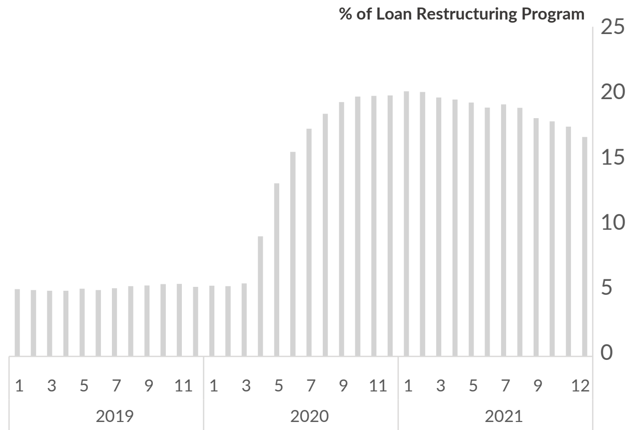



Source: BPS, Ministry of Energy and Mineral Resources, and Ministry of Finance

## Chart Pack 6.
## Financial System and Payment System Stability Maintained

***Ongoing Credit Restructuring Program Supports Financial System Stability***

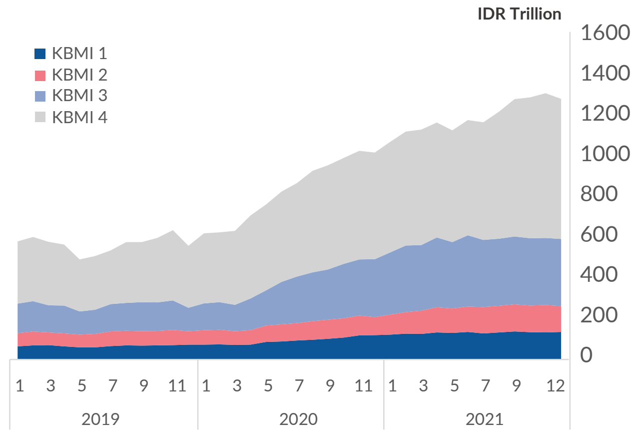
***Loan Restructuring Performance***




Source: OJK

***Increasing Bank Liquidity (SBN) Strengthens Liquidity Management***

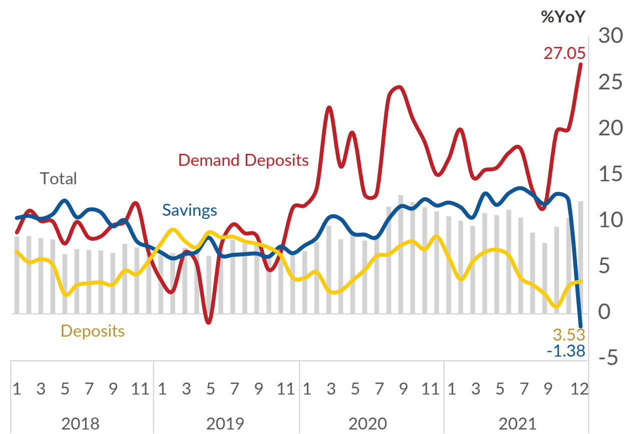
***SBN Holdings by KBMI Bank***




Source: Bank Indonesia; KBMI: Bank Group based on Core Capital

***Stable Bank Deposit Growth***

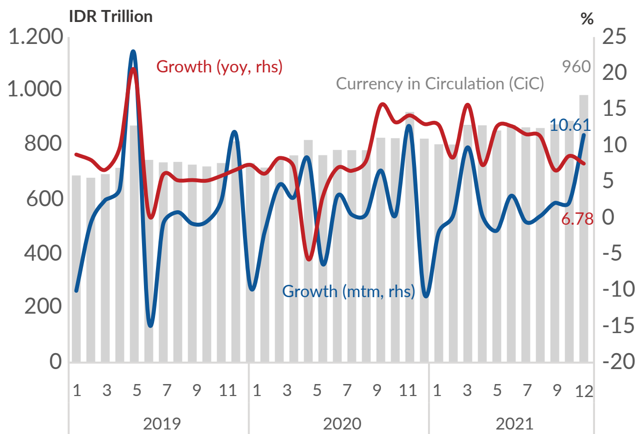
***Deposit Growth by Type***




Source: Bank Indonesia

***E-Commerce Transactions Supported by UE Convenience as Payment Method***

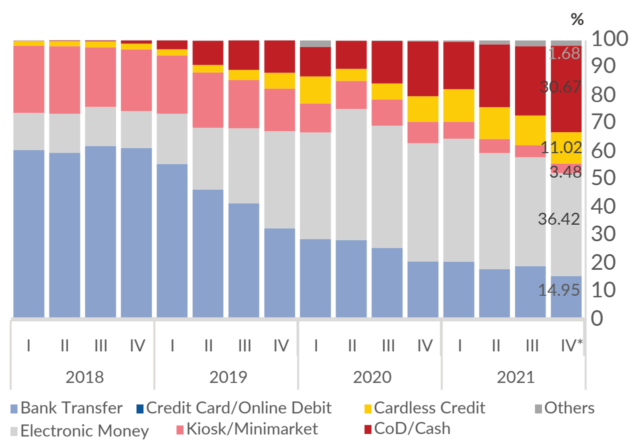
***Growth of Currency in Circulation***




Source: Bank Indonesia

***E-commerce transactions, supported by convenience of electronic money as main payment method***

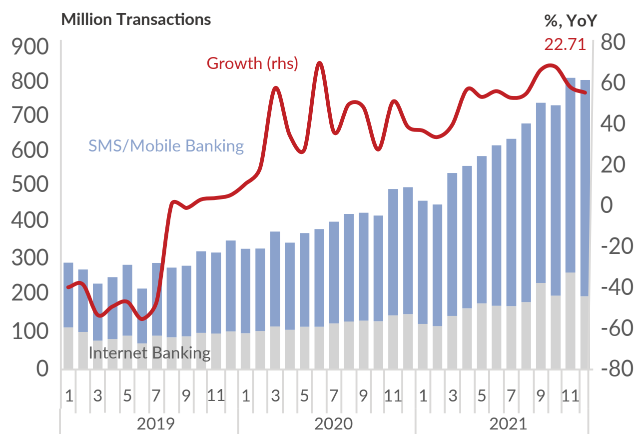
***E-Commerce Payment Methods***




Source: Bank Indonesia

***Digital Banking Transactions Continue to Increase in line with Public Preference for Digital Payments during Pandemic***

***Digital Banking Volume***




Source: Bank Indonesia

# TABLE BANK INDONESIA POLICY MIX

## I. Monetary Policy

| No | Policy | Description of Policy | Objectives and Background |
|---|---|---|---|
| 1 | Interest Rate Policy | a. Lowered the BI 7-Day Reverse Repo Rate (BI7DRR) by 25 bps to 3.50% in the Board of Governors Meeting held on 17-18 February 2021. | Accommodative monetary policy decisions were consistent with the forecast for steady, low inflation, a subdued rupiah exchange rate, and further measures to bolster national economic recovery momentum. |
| | | b. Maintained the BI7DRR at 3.50% in the Board of Governors Meetings from March to December 2021. | These decisions were aligned to the need to maintain exchange rate stability amid forecasts of low inflation and efforts to promote economic growth. |
| 2 | Statutory Reserve Requirement | Revised the statutory reserve requirement for conventional commercial banks, sharia commercial banks and sharia units with the issuance of Bank Indonesia Regulation (PBI) Number 23/16/PBI/2021 concerning the Third Amendment to PBI Number 20/3/PBI/2018 concerning the Statutory Reserve Requirement in Rupiahs and Foreign Currencies for Conventional Commercial Banks, Sharia Commercial Banks and Sharia Units and Regulation of the Board of Governors Members (PADG) Number 23/27/PADG/2021 concerning the Seventh Amendment to PADG Number 20/10/2018 concerning the Statutory Reserve Requirement in Rupiahs and Foreign Currencies for Conventional Commercial Banks, Sharia Commercial Banks and Sharia Units. These provisions entered into force on 21 December 2021. The revision to the regulation involved a change in the scope of bank funding components factored into compliance with the statutory reserve requirement in connection with the implementation of BI-FAST. | • Bank Indonesia is developing the infrastructure for a more efficient national retail payment system to facilitate direct funds transfer and settlements in real time and 24/7. The development of national retail payment system infrastructure by Bank Indonesia is aligned with the Bank Indonesia policies in maintaining monetary and financial system stability, part of which is carried out with the policy for statutory reserve requirements.<br>• For this purpose, Bank Indonesia introduced changes to the PBI and PADG concerning the Statutory Reserve Requirement. The substance of these regulatory enhancements concerns the additional components for calculating compliance with the reserve requirement, in this case the bank's rupiah account balance in the BI-RTGS and the balance of funds held in BI-FAST. |
| 3 | Monetary Operations | a. Continued the auctions of BI sharia-compliant, long-term government securities in the 1-week to 12-month tenors and auctions of FX swaps in the 1-month, 3-month, 6-month and 12-months tenors on a daily basis to maintain availability of liquidity. | Further strengthening of the monetary operations strategy for improving the effectiveness of the accommodative monetary policy stance in support of national economic recovery and to ensure availability of liquidity on the market. |
| | | b. Expanded the use of Bank Indonesia Sukuk (SUKBI) in the 1-week to 12-month tenors from only the 3-month tenor previously, effective from 16 April 2021, for strengthening of sharia monetary operations. | Expansion in the use of SUKBI represents a strategy for strengthening sharia monetary options in support of sharia liquidity management. |
| | | c. Implementation of DNDF roll-over on 20 May 2021. | Provision of the roll-over feature in DNDF transactions to ensure the continual availability of hedging instruments. |

| No | Policy | Description of Policy | Objectives and Background |
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| | | d. Strengthened the rupiah exchange policy by maintaining a permanent market presence and furthering the triple intervention strategy by: buying Rupiah on the spot market and the domestic non-deliverable forward (DNDF) market; and by purchasing long-term government securities. These measures maintain exchange rate stability in line with fundamentals and the market mechanism. | The triple intervention strategy was introduced to safeguard exchange rate stability while maintaining adequate levels of rupiah liquidity. |
| | | e. Continued primary market purchases of long-term government securities during 2021 in follow up to Act No. 20 of 2020 to provide funding support for the 2021 State Budget within the context of national economic recovery. These purchases were conducted under the market mechanism under the Joint Decree of the Minister of Finance and the Governor of Bank Indonesia dated 16 April 2020, as extended on 11 December 2020 and 28 December 2021. | In follow-up to Act No. 2 of 2020, Bank Indonesia was granted powers to purchase long-term government securities on the primary market to support financing in relation to national economic recovery.<br><br>During 2021, Bank Indonesia purchased IDR358.32 trillion worth of long-term government securities for funding the 2021 State Budget. These purchases consisted of: (i) purchases on the primary market totaling IDR143.32 trillion under Joint Decree of the Minister of Finance and the Governor of Bank Indonesia of 16 April 2020, extended on 11 December 2020 and 28 December 2021 and effective until 31 December 2022; and (ii) private placements of IDR215 trillion to fund health care and humanitarian needs in tackling the impact of the Covid-19 pandemic under the Joint Decree of the Minister of Finance and the Governor of Bank Indonesia dated 23 August 2021. |
| | | f. Committed to buy long-term government securities directly from the Government under Joint Decree of the Minister of Finance and the Governor of Bank Indonesia dated 23 August 2021, amounting to IDR215 trillion for the 2021 State Budget and IDR224 trillion for the 2022 State Budget. These government securities carry a low interest rate, equal to the Bank Indonesia Reverse Repo Rate in the 3-month tenor. In addition to keeping interest rates low, Bank Indonesia also returned part of the coupon earned from the purchases of these long-term government securities. A total of IDR58 trillion from long-term government securities was returned for the 2021 State budget and IDR40 trillion for the 2022 State Budget, thus reducing the interest payable by the Government in the State Budget. | |
| 4 | Quantitative Easing | Monetary stimulus comprising injections of liquidity into the banking system through monetary expansion. | To promote national economic recovery and financial system stability, Bank Indonesia has been providing monetary stimulus in the form of quantitative easing (QE). During 2021, Bank Indonesia conducted rupiah liquidity injections totaling IDR147.83 trillion. |

| No | Policy | Description of Policy | Objectives and Background |
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| 5 | Policy Coordination | a. Held a High-Level Meeting (HLM) of the National Inflation Control Team (TPIP)[22] on 11 February 2021. The HLM was chaired by the Coordinating Minister for the Economy and attended by: the Governor of Bank Indonesia; the Minister of Finance; the Minister of Home Affairs; the Minister of Trade; the Minister of Public Works and People's Housing; the Minister of Energy and Mineral Resources; the Minister of State Owned Enterprises; the Head of Statistics Indonesia (BPS); the President Director of the National Logistics Agency (BULOG); and representatives of other relevant line ministries and central agencies. | • The purpose of the TRIP HLM was to discuss accountability for the inflation outcome in 2020; the inflation outlook in 2021; proposed inflation targets for 2022-2024; and the strategy for future strengthening of inflation control.<br><br>• The TPIP HLM reached agreement on five strategic actions for curbing inflation within the 3.0%±1% targeting range during 2021 as follows: i) to curb volatile foods inflation within the 3.0%-5.0% range; ii) to strengthen Central Government and Regional Government coordination by holding a National Coordination Meeting (Rakornas) for Inflation Control in 2021; iii) to reinforce synergy between line ministries and central agencies with the support of regional governments in striving for the success of the TPIP work program for 2021; iv) to strengthen national food resilience by increasing production and maintaining smooth flows in distribution; and v) to maintain the Government Rice Buffer within the context of the Supply Availability and Price Stabilization (KPSH) program to support the implementation of Community Activities Restrictions Enforcement (CARE).<br><br>• The TPIP HLM also reached agreement on the inflation targets for 2022, 2023 and 2024 at 3.0%±1%, 3.0%±1% and 2.5%±1%, which were subsequently adopted in Minister of Finance Regulation No. 101/PMK.010/2021 dated 28 July 2021. |
| | | b. Convened a Rakornas for Inflation Control initiated by the TPIP (joint working program of the Coordinating Ministry for the Economy; Bank Indonesia; the Ministry of Home Affairs; the Ministry of Finance; and the Ministry for National Development Planning/Bappenas) on 25 August 2021. The theme of this meeting was "Promoting a Greater Role for Food Commodity MSMEs by Optimizing Digitalization in Support of Economic Recovery and Food Price Stability". The Rakornas was chaired in person by the President of Indonesia and attended by the Coordinating Minister for the Economy as Chairman of the TPIP; the Governor of Bank Indonesia; some ministers of the Onward Indonesia cabinet, the Head of the Financial Services Authority (OJK); and TPIDs from the provincial and regency/municipality levels. The Rakornas was organized as a hybrid event with the primary venue at the Presidential Palace. | • The various efforts to maintain price stability and public purchasing power are key elements in the effort for faster recovery in the national economy. In addition, subdued inflation also presented a window of opportunity to strengthen the role of food commodity MSMEs in economic recovery and improving the welfare of the public.<br><br>• A need exists for integrated strengthening the MSME role in the economic ecosystem alongside adaptation to the expanded use of digital technology in support of economic recovery and price stability. The transformation for support of the MSME role needs to be taken further with cluster development, capacity building and expansion of access to financing. Looking forward, the digital transformation of MSMEs is aimed at building competitiveness in local and national supply chains as well as global supply chains.<br><br>• The synergy between the Central Government, Regional Governments and Bank Indonesia together with various innovations for inflation control programs will continue to be strengthened to maintain price stability. |
| 6 | Policy Coordination | Organized the 2021 High-Level Manufacturing Coordination Meeting on 8 October 2021 with the theme of "Promoting Synergy in Recovery and Strengthening the Manufacturing Industry Structure". | • The Manufacturing Coordination Meeting was held to promote synergy in recovery and strengthening the manufacturing industry. The Manufacturing Coordination Meeting concluded with eight agreements by the Ministry of Industry and Bank Indonesia on future policy strategy and work programs.<br><br>• At this Manufacturing Coordination Meeting, the signing took place of the 2022 Collaboration Activities in implementing the 2019 Memorandum of Understanding between Bank Indonesia and the Ministry of Industry. |

22 The TPIP High-Level Meeting is a meeting of the leading officials of the member line ministries and central agencies of the TPIP as stipulated in Regulation of the Coordinating Minister for the Economy No. 10/2017 concerning Working Mechanism and Procedures for the National Inflation Control Team (TPIP), Provincial Inflation Control Teams (TPID Provinsi) and Regency/Municipality Inflation Control Teams (TPID Kabupaten/Kota).

| No | Policy | Description of Policy | Objectives and Background |
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| | | | • The manufacturing industry development strategy remains focused on increasing local value added; cross-industry and cross-regional integration; inclusiveness; and support for transition to the green economy. In the short term, strategy will focus on the priority industries that will provide the backbone for economic growth and exports. This will involve eight strategic measures as follows: (i) safe and productive re-opening of industry together with an acceleration in vaccinations; (ii) coordination in formulation of the policy and strategy for financing manufacturing industry; (iii) export promotion activities, facilitation of trade and investment promotion for priority industries, and promotion activities for the Made in Indonesia Pride campaign to optimize the Increased Use of Domestic Products program; (iv) campaign activities for utilizing LCS; (v) strengthening of the import substitution policy with a commodity balance sheet; (vi) program for development of medium-sized industry/ manufacturing MSMEs through training, digitalization, business matching, the halal value chain and materials centers; (vii) preparation of a study on environmentally-friendly manufacturing; and (viii) monitoring and evaluation of execution of the manufacturing industry recovery and development strategy. |
| 7 | Policy Coordination | a. Held a 2021 Tourism Coordination High-Level Meeting (HLM) on 24 March 2021 on the theme of “Promoting Improvement in Tourism in the Era of Adapting to the New Normal”. | • The Tourism Coordination HLM is convened within the context of recovery and development of national tourism with the objective of promoting economic growth and strengthening external resilience. The Coordination HLM reached agreement on the work program of the Joint Secretariat for Acceleration of Tourism Sector Development (Joint Tourism Secretariat) in 2021.<br><br>• Agreement was reached on eight points: (i) to continue the development of 5 Super Priority Tourism Destinations (DSPs), (ii) to conduct a pilot project for the ecosystem of cleanliness, health, safety and environmental sustainability (CHSE) in Bali and the Riau Archipelago; (iii) to revamp the meetings, incentives, conventions and exhibitions (MICE) and event programs; (iv) to undertake expansion of the non-cash payment system at tourist destinations and end-to-end in tourism activities; (v) to support and facilitate the implementation of a series of Made in Indonesia Pride activities in synergy with Tourism in Indonesia Pride; (vi) to develop MSMEs providing support for tourism; (vii) to expand the role of Tourism Hub Network for formulating tourism policy with the involvement of online travel agents; and (viii) to strengthen the Joint Tourism Secretariat by means of an assessment and studies. |
| | | b. Regular and incidental meetings of the Joint Tourism Secretariat Executive were held for coordinating the accelerated recovery of tourism and with line ministries/central agencies, regional governments and business when urgent decisions were needed. | • These coordinating meetings regularly monitor progress in developing the five Super Priority Tourism Destinations with regard to access, amenities, attractions, promotions and actors, including expansion of the non-cash payment system at tourist destinations and end-to-end in tourism activities.<br><br>• Coordinating meetings were also held to coordinate issues relating to recovery in tourism that needed to be decided urgently, such as: (i) the proposal for opening safe tourism bubbles for foreign tourists and domestic tourists; (ii) introduction of electronic visas for foreigners intending to enter Indonesia; (iii) preparation for the holding of the World Superbike event at Mandalika in November 2021; and (iv) evaluation of the opening of tourism to foreign visitors in Bali and the Riau Archipelago. |

## II. Macroprudential Policies

| No | Policy | Description of Policy | Objectives and Background |
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| **Intermediation** | | | |
| 1 | Loan to Value/Financing to Value (LTV/FTV) ratios for home mortgages and down payments for vehicle loans/financing | Set the maximum limit of the LTV/FTV at 100% for home mortgages and the minimum down payment at 0% for loans/financing for vehicle purchases, including environmentally-friendly vehicles, without sacrificing prudential principles. These new limits are valid from 1 March 2021 until 31 December 2022. | To promote national economic recovery, Bank Indonesia eased the LTV/FTV regulation for property ownership and down payments for vehicle ownership, including for environmentally-friendly vehicles. This policy was adopted in synergy with KSSK as part of an integrated policy package in which one aim is to stimulate priority sectors, in this case the property and automotive sectors. These two sectors have considerable backward and forward linkages to other economic sectors. The relaxation of FTV/LTV and down payments is also aligned to the accommodative direction of macroprudential policy aimed at promoting a balanced and quality bank intermediation function, including for the green economy. |
| 2 | Interest Rate Transparency | February: Publication of the response in the base lending rate (BLR) to reduction in the BI7DRR, including an assessment of the BLR by bank category and credit segment.<br><br>March: (i) In-depth assessment by BLR component: base cost of funds for loans, overhead costs and profit margin. (ii) Publication highlighting the decline in the BLR that was not commensurate with reduction in the BI7DRR.<br><br>April: In-depth assessment was performed by looking at movement in the base cost of funds for loans and overhead costs by bank category.<br><br>May: In-depth assessment of movement in interest rates on new loans to movement in cost of funds for loans and the BI7DRR.<br><br>June: (i) In-depth analysis of the increase in interest rates on new loans and factors causing this trend, including the risk premium. (ii) Publication of the BLR/BI7DRR spread for individual banks by credit segment.<br><br>July: In-depth assessment of BLR transmission, BLR components and the risk premium and interest rates on new loans by credit category.<br><br>August: In-depth assessment of transmission of the BLR to interest rates for new home mortgage loans and non-mortgage loans by category of bank. | Bank Indonesia conducted an assessment of the transparency of bank interest rates for strengthening of monetary and macroprudential policy transmission and to improve governance and market discipline, and published this assessment in the media determined by Bank Indonesia. The objective was to promote the creation of more competitive base lending rates offered by banks in order to boost demand for intermediation and expedite economic recovery.<br><br>With this publication, members of the public and the business community are able to see and compare the base lending rates offered by banks, which should provide the public with an overview of the base lending rates offered by banks in Indonesia. |

| No | Policy | Description of Policy | Objectives and Background |
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| 3 | Incentive for Banks to Extend Funds for Specified Economic Activities | Introduced a further 50 bps reduction in rupiah statutory reserve requirement specifically targeting banks providing financing for export-import activities, MSMEs and other priority sectors (including non-MSME entities) until 30 June 2021. | To mitigate Covid-19 risks for the domestic and financial system and support national economic recovery, Bank Indonesia introduced further relaxation of macroprudential policies with provision of an incentive of a reduced statutory reserve requirement to promote banking intermediation for a defined period. This measure was targeted at banks providing funding for export-import activities and financing for MSMEs and other priority sectors (including non-MSME entities). This relaxation improved bank liquidity, enabling further growth in the bank intermediation function. |
| 4 | Macroprudential Intermediation Ratio (MIR)/Sharia MIR | a. Expanded the scope of securities held in the form of export drafts as a component of bank financing for calculating the MIR and Sharia MIR.<br>b. Phased in a lower disincentive parameter while ensuring continued attention to NPLs/NPF and the bank CAR.<br>c. Expanded the scope of the components of BI-FAST funds in calculation of compliance with the MIR reserve requirement/ Sharia MIR reserve requirement for conventional commercial banks, sharia commercial banks and sharia units. In this amendment, the calculation covers the rupiah account balance in the BI-RTGS system and BI-FAST funds.<br>d. Made changes to the calculation of compliance with the MIR/Sharia MIR reserve requirement so that it is based on the end-of-day position, i.e. the time of the operational closing of the BI-RTGS system.<br>e. Issued a waiver of sanctions for breach of compliance with the MIR/ Sharia MIR reserve requirement during the transition period (21 December 2021-2 January 2022) for conventional commercial banks, sharia commercial banks and sharia units enrolled as members in BI-FAST and extended BI-FAST funds. | With the re-opening of business activity and relaxation of restrictions on public mobility in tandem with mass vaccinations, various indicators for the economy pointed to an improving trend and a continuing process of economic recovery. In view of these conditions, Bank Indonesia employed measures in accommodative macroprudential policies to strengthen banking intermediation. One of the measures taken was a renewed phasing in of the lower disincentive parameter for the MIR/Sharia MIR.<br>In parallel with implementation of Bank Indonesia-Fast Payment (BI-FAST), Bank Indonesia revised regulatory provisions governing the reserve requirements for MIR/ Sharia MIR. |

| No | Policy | Description of Policy | Objectives and Background |
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| **Resilience** | | | |
| 5 | Countercyclical Capital Buffer (CCB) | Continued an accommodative macroprudential policy by maintaining the countercyclical buffer (CCB) ratio at 0% throughout 2021. | This decision was consistent with the primary indicator for the CCB (Credit to GDP Gap), which did not indicate any excessive intermediation tendencies. Also affirming this were the comfortably safe levels of macro and banking indicators. |
| 6 | Macroprudential Liquidity Buffer (MLB) | a. Maintained the required Macroprudential Liquidity Buffer (MLB) Ratio at 6% for conventional commercial banks and 4.5% for sharia commercial banks.<br><br>b. The amount of for securities that can be repoed to Bank Indonesia for MLB compliance is 6% for conventional commercial banks and 4.5% for sharia commercial banks, calculated from rupiah third-party funds. | Bank Indonesia maintained the level of the MLB in order to strengthen resilience and ensure adequate liquidity for the banking system. The purpose of flexibility in the MLB held in securities repoed to Bank Indonesia is to support bank liquidity management. This series of MLB policies, which comprises a form of synergy with fiscal, monetary and other macroprudential policies, is expected to provide flexibility for banks in liquidity management for lending in order promote national economic recovery while maintaining focus on prudently managed financial system stability. |
| **Financial Inclusion** | | | |
| 7 | Macroprudential Inclusive Financing Ratio (MIFR) | a. The MIFR is a ratio indicating the proportion of inclusive financing by commercial banks where conventional commercial banks, sharia commercial banks and sharia divisions are required to channel credit/financing to the following inclusive targets: (i) MSMEs; (ii) MSME corporations; and (iii) individual low-income earners. This lending is set at a certain level relative to total credit/financing.<br><br>b. Banks are able to use three schemes for financing modalities in order to comply with the MIFR requirement. These schemes are: (1) direct and supply chain inclusive financing; (2) financing through financial institutions and public service agencies/other business entities; and (3) financing through the purchase of inclusive financing securities (SBPI).<br><br>c. The MIFR requirement will be phased in from June 2022 with a target of 20% to be progressively increased to 30% by June 2024. | • Bank Indonesia promotes a balanced, quality intermediation function. To this end, it is necessary to expand access to inclusive financing and development for MSMEs, MSME corporations and low-income earners through regulations for inclusive financing.<br><br>• In this regard, Bank Indonesia launched the MIFR policy, which represents an improvement over the previously existing policy for the MSME Credit Ratio. The improvement consists of: expansion in (i) direct financing and supply chain financing; (ii) bank partners for channeling credit/financing; and (iii) inclusive financing options involving purchases of inclusive financing securities .<br><br>• Banks have various methods, partners and strategies in extending credit/financing, which are adapted to their individual expertise and business models. In this regard, banks are able to make more optimum contribution to inclusive financing under three schemes of modalities as explained above.<br><br>• Looking ahead, the expansion of this indirect scheme for inclusive financing is expected to promote innovation in the banking system and financial market deepening. Implementation of the MIFR will be phased in from June 2022, so that the targeted proportion of at least 30% (thirty percent) of bank credit for MSMEs and other inclusion can be achieved by the end of June 2024. |
| **Policy Coordination** | | | |
| 8 | Scheduled Meetings of the Financial System Stability Committee (KSSK) | The KSSK scheduled meetings were held quarterly for safeguarding of financial system stability and promoting national economic recovery. | The KSSK holds quarterly meetings for coordination with the Ministry of Finance, Bank Indonesia, the Financial Services Authority (OJK) and the Indonesia Deposit Insurance Corporation (LPS) for maintaining financial system stability. Results achieved through this coordination include the integrated policy packages and a synergized policy mix among the different authorities. The deliberations in the meetings generally consist of an assessment of the economy and financial system, policy formulation and discussion of current issues closely related to safeguarding financial system stability. |
| 9 | BI-OJK-LPS High-Level Meetings | High-Level Meetings of Bank Indonesia with OJK and LPS were held to discuss strategic issues on the money and forex markets relating to financial system stability. | The meetings were held to discuss strategic issues and the policies of individual authorities on the money market and forex market for greater strengthening and deepening of the money and forex markets and maintenance of financial system stability. |

| No | Policy | Description of Policy | Objectives and Background |
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| 10 | BI-LPS Deputies Meeting | A meeting of deputies of Bank Indonesia and LPS was held to discuss the mechanism and readiness of funding support by Bank Indonesia for the LPS for addressing bank problems. The funding support for LPS comprises provision of a facility for repo to Bank Indonesia of long-term government securities held by LPS. | The meeting was held to confirm the mechanism and readiness for implementing the provision of the facility for repo to Bank Indonesia of long-term government securities held by LPS. |
| 11 | Signing of Agreement of Cooperation by Bank Indonesia and the Financial Services Authority | Signing of the Bank Indonesia and OJK Agreement of Cooperation on Cooperation and Coordination in Provision of Short-Term Liquidity Loans (PLJP) and Sharia Short-Term Liquidity Loans (PLJPS) | The Agreement of Cooperation is intended to serve as a basis and reference for coordination between Bank Indonesia and OJK in provision of PLJP and PLJPS to commercial banks. This signing is a follow up to strengthening of Bank Indonesia powers in extending PLJP and PLJPS to commercial banks as stipulated in Act No. 2 of 2020. |
| 12 | Signing of a joint statement by OJK; BI; the Indonesian National Police; the Ministry of Communications and Information; and the Ministry of Cooperatives and SMEs | Signing of this joint statement concerned the eradication of illegal online lending | The background to this joint statement is the proliferation of illegal online lending in which loans are offered to the public at high rates and with unfair compound interest terms. Immediate action is necessary for eradication of this practice. |

## III. Payment System Policies

| No | Policy | Description of Policy | Objectives and Background |
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| 1 | Extension of Policy for Adjustments in the Schedules for Bank Indonesia Operational Activities and Public Services | Adjustments to schedules for Bank Indonesia operational activities and public services for mitigating the spread of Covid-19, including the following:<br>a. Bank Indonesia Real Time Gross Settlement (BI-RTGS);<br>b. Bank Indonesia Scripless Securities Settlement System (BI-SSSS);<br>c. Bank Indonesia National Clearing System (SKNBI);<br>d. Cash Operational Services; and<br>e. Rupiah and Forex Monetary Operations Transactions. | • To support Government measures for mitigating the spread of Covid-19, Bank Indonesia is committed to ensuring the smooth operation of payment system services and financial transactions in support of a wide range of economic activities.<br>• Bank Indonesia made changes to the schedules for operational activities and public services effective from 30 March 2020, in view of public health concerns over the spread of Covid-19 and taking account of the coordination with agencies such as the Financial Services Authority (OJK), the banking industry and payment system service providers. |
| 2 | Extension of the Fee Reduction Policy for the Bank Indonesia National Clearing System | Reduced the Bank Indonesia National Clearing System (SKNBI) fees paid by banks to Bank Indonesia from IDR600 to IDR1 and by customers to banks from the previous maximum of IDR3,500 to a maximum of IDR2,900, effective from 1 April 2020. | • Bank Indonesia reduced the SKNBI fees to ease the public's burden in conducting retail activities.<br>• This fee structure takes account of sustainability on the part of the industry, because the largest portion of the reduction is borne by Bank Indonesia. |
| 3 | Extension of Policy for Reduced Service Charges for the Bank Indonesia Real Time Gross Settlement System | Reduced the service charges for the Bank Indonesia Real Time Gross Settlement (BI-RTGS) system for each time zone and lowered price capping from a maximum of IDR35,000 to IDR30,000, effective from 1 December 2020. | • To ease the burden on members of the public in conducting wholesale and corporate economic activities, Bank Indonesia reduced the service charges for the BI-RTGS.<br>• This fee schedule nevertheless takes account of sustainability on the part of the industry and Bank Indonesia. |

| No | Policy | Description of Policy | Objectives and Background |
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| 4 | Continuation of Policy for Reduction in the Merchant Discount Rate for the Indonesian Standard Quick Response Code | a. Reduction in the QRIS Merchant Discount Rate (MDR) fee for the Indonesian Standard Quick Response Code (QRIS) to 0% for micro business merchants, with effect from 1 April 2020.<br><br>b. Reduction in the QRIS MDR fee from 0.7% to 0.4% for public service agency (PSA) and public service obligation (PSO) merchants with effect from 1 June 2021. | The MDR fee is waived for micro enterprises for the following reasons: (i) to provide assistance to micro enterprises in the pandemic situation; (ii) promote acceptance of the QRIS in these business segments; and (iii) promote the use of the QRIS as an alternative to payment instruments issued in physical media (cash and cards). |
| 5 | Increased the QRIS Transaction Limit | Increased the QRIS transaction limit from the previous IDR2 million to IDR5 million, with effect from 1 May 2021. | The limit was raised within the context of expanding the use of the QRIS, taking into account that QRIS transactions are now widely used for transactions above IDR2 million. |
| 6 | Expansion in QRIS Merchants and Additional QRIS Features | a. Use of the QRIS targeted to reach 12 million merchants in 2021.<br><br>b. Development of QRIS features for transfers, withdrawals and deposits, in addition to the cross-border QRIS | To promote MSME digitalization and adaptation in how transactions are conducted in the Covid-19 era. |
| 7 | Changes in Credit Card Policies | Changes in credit card policies:<br><br>a. Reduction in the maximum credit card interest rate from 2% to 1.75% per month, with effect from 1 July 2021;<br><br>b. Reduction in minimum payment from 10% to 5% with effect from 1 May 2020; and<br><br>c. Reduction in the overdue payment penalty from 3% or a maximum of IDR150,000 to 1% or a maximum of IDR100,000, with effect from 1 May 2020. | To promote non-cash transactions, non-face-to-face flexibility and support a buffer for private consumption, Bank Indonesia has relaxed policies for credit cards by reducing the maximum limit on interest rates, the minimum payment and the size of penalties for overdue payments, while supporting policies introduced by credit card issuers to extend the payment period for their customers. |
| 8 | Increased the Limit on ATM Cash Withdrawals | The limit on ATM cash withdrawals was raised from IDR15 million to IDR20 million, effective from 12 July 2021 until 30 September 2021. | This step provides a buffer for transactions by members of the public and reduces the risks from face-to-face contact at branch offices. |
| 9 | Issued implementing regulations for the Bank Indonesia Regulation concerning the Payment System | Issued PBI No. 23/6/PBI/2021 concerning Payment Service Providers and Bank Indonesia Regulation No. 23/7/PBI/2021 concerning Operators of Payment System Infrastructure | • These steps are part of implementation of the Payment System Blueprint (BSPI) 2025, as follows.<br><br>• A change in the regulatory approach for operation of the payment system from an institutional to an activity- and risk-based approach.<br><br>• Strengthening regulations concerning access and operational policy, including the sources of funds concept and access to sources of funds for payments and technology innovation.<br><br>• Reinforcement and harmonization of the powers and functions of Bank Indonesia relating to licensing, supervision and integrated data and/or information.<br><br>• Adoption of a regulatory approach with primary emphasis on principle-based regulation and optimization of the role of self-regulatory organizations (SROs). |

| No | Policy | Description of Policy | Objectives and Background |
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| | | Issued PBI No. 23/11/PBI/2021 concerning National Payment System Standards. | To support the interconnected provision of services for various payment transactions by banks and fintech. These will pave the way for growth and expansion in volume and value of transactions and the provision of broader based, faster, secure and affordable services to consumers. |
| | | Issued PADG No. 23/25/PADG/2021 concerning Provision of the Bank Indonesia Fast Payments (BI-FAST), effective from 12 November 2021. | To support readiness for implementing BI-FAST. This regulation serves as a guideline for prospective and active members of BI-FAST. |
| 10 | Development of BI-FAST | Initial implementation of BI-FAST credit transfer transactions subject to a maximum limit of IDR250 million on the amount transferred. | To be prepared for future developments in digital transactions, including cross-border transactions, which will provide access to the banking system and the public to participate in the development of the digital economy and finance, including by regional and local government transactions. |
| 11 | Electronification of Regional and Local Government Transactions, Social Assistance and the Transportation Sector | a. Innovation, acceleration and expansion of the electronification of regional and local government receipts and expenditures, integrated management of regional and local government finances and support for integration of the digital economy and finance provided through Regional Acceleration and Expansion of Digitalization Teams (TP2DD).<br>b. Bank Indonesia supports disbursement of non-cash social assistance by facilitating the use of non-cash payment instruments and by conducting a pilot digitalization of social assistance digitalization (Government to Private 4.0).<br>c. Coordination with relevant line ministries and central agencies in facilitation for electronification and integration of payments for transportation modes and support for application of contactless technology on toll roads. | Support consumption through national digitalization of social assistance (Government to Private) and strengthen and expand electronification and digitalization by regional and local governments. |
| 12 | Implementation of Sandbox 2.0 | Innovation and harnessing of technology and bank collaboration with fintech in Sandbox 2.0, encompassing the regulatory sandbox, industrial test, innovation lap and startups. | Encourage the creation and testing of innovations in payments and finance. |
| 13 | Indonesian Digital Economy and Finance Festival | Promotion of policies and synergy for establishment of the national digital economy and finance. The Indonesian Digital Economy and Finance Festival (FEKDI) is a regular annual event, held this year on 5-8 April 2021. | Implement and expand networks for the non-cash ecosystem and promote innovation in the digital economy and finance. |

## IV. Cash Management Policies

| No | Policy | Description of Policy | Objectives and Background |
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| 1 | Centralized Distribution of Cash | Bank Indonesia has centralized the distribution of rupiah currency to all parts of the national territory of Indonesia in a phased implementation of front office, middle office and back office (FOMOBO) business processes involving the following:<br><br>a. Improvements in the national cash distribution network and implementation of the FO function at all Bank Indonesia Representative Office for provision of cashier and cash management services;<br><br>b. Establishment of a Rupiah Currency Management Command Center performing the MO functions in the line of command of management of national cash adequacy;<br><br>c. Designation of nine Bank Indonesia Representative Offices as Regional Cash Depositories to perform the FO and BO functions;<br><br>d. Establishment of the South Sulawesi Main Cash Depository to perform the BO function for distribution and storage of cash. | Bank Indonesia has made centralized distribution one of the three key milestones for provision of rupiah currency fit for circulation in adequate volume, appropriate denominations and in good time as valid instruments of payment throughout Indonesia's national territory. Centralized distribution has been implemented with efficiency as the foremost consideration, taking into account the available routes, transportation modes and inventory management practices for optimizing cash storage capacity. |
| 2 | Digitalization & Automation of Cashier Equipment and Infrastructure | Digitalization and automation of cashier equipment and infrastructure is being phased in at all Bank Indonesia Representative Offices, taking into account the needs and condition of cash management in line with the implementation of the FOMOBO business processes in the centralization of cash distribution. Digitalization and automation have been put in place with the use of an automated banknote feeding system, automated banknote packaging system and use of a warehouse management system and racking system. | Digitalization and automation represent key milestones for rupiah cash management that have been implemented in support of modern, integrated, efficient and secure cash management with less human intervention. |
| 3 | Implementation of the Cash Management module of the Core Banking System | On 8 September 2021, Bank Indonesia implemented the Core Banking System (CBS), which consists of eight modules. One of these modules concerns Cash Management. | As part of the transformation into a leading digital central bank contributing in substance to the national economy, Bank Indonesia has implemented the CBS for integrating all applications for cashier services to banks and the public. In this way, cash services are end-to-end with a single entry point for all business processes, thereby operating more effectively and efficiently in supporting the development of future Bank Indonesia policy. |
| 4 | E-Licensing for Rupiah Cash Management Providers | Bank Indonesia introduced an integrated electronic system in the form of an e-licensing application to support the cash distribution function performed by Rupiah Cash Management Providers (PJPURs). The implementation of e-licensing is prescribed in PBI No. 22/8/PBI/2020 dated 29 April 2020 concerning Bank Indonesia Integrated Licensing through the Licensing Front Office. | The e-licensing for PJPURs is among the measures pursued by Bank Indonesia to improve service and ensure transparency, accountability, effectiveness and efficiency. This would establish a strong institutional structure with good governance in which PJPURs are partners for Bank Indonesia in the operation of rupiah cash management in Indonesia. In the e-licensing application, all licensing applications for PJPURs are submitted online. In addition, PJPURs can track progress in completion of previously submitted licensing applications. |

| No | Policy | Description of Policy | Objectives and Background |
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| 5 | Quarantine and Safe Provision of Rupiah Cash | Bank Indonesia holds rupiah cash deposited by banks in quarantine for three days before the cash is processed for re-entry into public circulation. In addition, Bank Indonesia introduced more stringent cleanliness and regularly sprays the cashier and cash management areas with disinfectant. The Bank Indonesia cashier personnel also adhere to the protocol for preventing the spread of Covid-19 by wearing masks and face shields/protective eyewear, carrying out body temperature checks and providing adequate hand-washing facilities and hand sanitizer. | • To meet the need for public circulation of cash of suitable quality and fit for circulation, Bank Indonesia routinely processes the cash deposited by banks, separating cash unfit for circulation which is to be destroyed. Cash that is fit for circulation is returned into public circulation.<br>• In order to minimize the spread of Covid-19 by the medium of cash and for members of the public to feel safe and comfortable when conducting transactions in cash, Bank Indonesia quarantines cash deposited by banks for three days so that any virus that may have attached to the surface of the cash will no longer be active, thus ensuring the safety of cash circulated by Bank Indonesia. |
| 6 | Policy Coordination with the Government for Planning, Printing, Minting and Destruction of Rupiah Cash | Bank Indonesia stays in constant coordination with the Government in the performance of tasks in rupiah cash management throughout the stages of planning, printing and minting, and destruction of rupiah cash as mandated in Act No. 7 of 2001 concerning Currency. | Bank Indonesia's coordination with the Government in relation to planning, printing and minting, and destruction of rupiah currency is to ensure the availability of rupiah cash fit for circulation in adequate volume and appropriate denominations for the public. |
| 7 | Circulation of Rupiah Cash to Border, Outlying and Remote Regions in Collaboration with the Indonesian Navy | In 2021, Bank Indonesia signed an Agreement of Cooperation with the Indonesian Navy for Distribution, Security and Safeguarding in Transit of Rupiah Cash to and from Bank Indonesia and Border, Outlying and Remote Areas of Indonesia within the framework of circulation of rupiah cash throughout the territory of Indonesia. | To ensure the availability of rupiah cash fit for circulation as legal tender throughout the territory of Indonesia, Bank Indonesia is cooperating with the Indonesian Navy in the circulation of rupiah cash to border, outlying and remote areas. |
| 8 | Digital Planning Estimates of Cash Requirements | Bank Indonesia is implementing digitalization at all stages of rupiah cash management through an omni experience platform, in line with the direction of Bank Indonesia's digital transformation. This digitalization will be phased in for preparing the calculations for Cash Needs Estimates, which represent parts of the rupiah cash planning stage. | To guarantee the timely and effective availability of quality cash in adequate volume and appropriate denominations, Bank Indonesia prepares accurate and integrated Cash Needs Estimates to use as a basis for determining the volume of rupiah cash to be printed and minted. |
| 9 | Prevention and Eradication of Rupiah Counterfeiting | In addition to working in coordination with all offices of the Coordinating Agency for Eradication of Rupiah Counterfeiting (Botasupal), Bank Indonesia is engaged in various preventive and pre-emptive measures to prevent counterfeiting of the rupiah. Preventive measures were taken by augmenting security features to produce rupiah currency that would be difficult to counterfeit, but also easy for members of the public to recognize and identify by marks of authenticity. Alongside this, Bank Indonesia undertook pre-emptive actions in synergy with various parties in the *Cinta, Bangga dan Paham Rupiah* (love, pride and understand the rupiah) campaign for educating the public. In addition, Bank Indonesia provides support for laboratory testing of rupiah cash of doubtful authenticity that has been discovered by law enforcement agencies in the course of case investigations. Bank Indonesia also assists with expert testimony in investigations and court trials in rupiah counterfeiting cases and provides support through exchange of data and information with law enforcement agencies on discoveries of counterfeited rupiah. | Bank Indonesia has instituted various policies for preventing and eradicating rupiah counterfeiting to build greater confidence in the rupiah as legal tender throughout the territory of Indonesia. |

| No | Policy | Description of Policy | Objectives and Background |
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| 10 | Online Ordering for Replacement of Damaged/ Defaced Rupiah Cash via the PINTAR Application | In the era of the new normal, Bank Indonesia is striving for excellence in provision of public services with an online service for ordering replacement of damaged/ defaced rupiah cash with use of the PINTAR application. | To support the implementation of the new normal, Bank Indonesia is providing an online service for members of the public to order replacement of damaged/defaced rupiah cash. With this service, members of the public can place a cash service order online before visiting a Bank Indonesia office and thus minimize the potential for gathering of crowds and provide the public with assurance of receiving the cash services that they need. |
| 11 | Transformation of *Cinta, Bangga, Paham* Rupiah Education | Bank Indonesia undertook a transformation of education and communication programs about the rupiah involving the key messages of *Cinta, Bangga, Paham Rupiah* (love, pride and understand the rupiah). | To improve public literacy concerning the rupiah currency, Bank Indonesia undertook a transformation of education and communication programs about the rupiah involving the *Cinta, Bangga, Paham* (love, pride and understanding) key messages about the rupiah. The rupiah education and communication programs focused on the marks of authenticity of rupiah cash; ways to care for rupiah cash; and messages about the rupiah as an identity and symbol of national sovereignty with a vital role in the economy. |
| 12 | Rupiah Augmented Reality | For education of the public with the use of various means of communication, Bank Indonesia launched the Rupiah AR, a digitally based medium for education about the rupiah using an augmented reality (AR) game application. | The rupiah currency, which comprises legal tender throughout the sovereign territory of Indonesia, comes in designs imbued with rich meaning and portraying the cultural diversity of the nation. As legal tender, it also a symbol of national sovereignty. The Rupiah AR was launched by Bank Indonesia as an interactive, digitally based educational forum to improve public literacy with regard to the *Cinta Rupiah* (love for the rupiah), *Bangga Rupiah* (rupiah pride) and *Paham Rupiah* (understand the rupiah) campaigns. |

## V. Financial Market Development Policies

| No | Policy | Description of Policy | Objectives and Background |
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| 1 | Digitalization and Strengthening of Financial Market Infrastructure | a. Implementation of Electronic Trading Platform (ETP) multi-matching for FX spot products in June 2021.<br><br>b. Interconnection of the Electronic Bond Clearing System (e-BOCS) operated by the Indonesian Clearing and Guarantee Corporation (KSEI) with the BI-SSSS implemented in October 2021.<br><br>c. Technical preparation for founding of the Central Counterparty (CCP) institution, including preparation of system interconnection between Bank Indonesia and candidates for the CCP institution in 2021 and interconnection of the CCP with its prospective members.<br><br>d. Availability of a trade depository conceptual design. | Strengthened coordination and strategy for development of the domestic money market through implementation of the 2020-2025 Money Market Blueprint for creating a modern, advanced money market. |
| 2 | Development of Instruments for Strengthening Transmission Effectiveness | a. Implementation of measures to strengthen the JISDOR in an Internal PADG concerning the JISDOR dated 5 April 2021 and effective from 5 April 2021. | |

| No | Policy | Description of Policy | Objectives and Background |
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| | | b. Measures implemented for strengthening the JIBOR in submission of JIBOR quotations by contributor banks became effective on 1 March 2021.<br><br>c. Measures implemented for strengthening the DNDF were completed with issuance of the Third Amendment to the PBI concerning the DNDF (PBI No. 23/3/PBI/2021) on 23 March 2021: DNDF Rollover on the Market and Forex Time Deposits as Underlying Instruments for Selling DNDFs.<br><br>d. Issuance of the PBI concerning the Money Market comprising an umbrella regulation in PBI No. 23/10/PBI/2021 dated 30 July 2021.<br><br>e. Strengthening and expansion of the LCS framework as follows:<br>• Strengthening of the Malaysia LCS framework with issuance of PADG No. 23/12/PADG/2021 on 2 August 2021;<br>• Strengthening of the Japan LCS framework with issuance of PADG No. 23/14/PADG/2021 on 5 August 2021; and<br>• Development of a China LCS framework (new LCS partner nation) with issuance of PADG No. 23/16/PADG/2021 on 6 September 2021.<br><br>f. Expedited deepening of the money market with development of repo transactions between market actors and strengthening of transaction infrastructure, including the following: (i) holding of a Repo Webinar on 16 April 2021; and (ii) strengthened implementation of repo transactions through coordination of product standardization; FGDs on the operation of interbank repo transactions; and coordination for increasing the numbers of parties conducting repo transactions on the money market.<br><br>g. Coordination with the Indonesian Foreign Exchange Market Committee (IFEMC) in relation to the holding of OIS Webinar, FRA Study and long-term hedging. | |
| 3 | Sources of Economic Financing and Risk Management | a. Strengthening of assessment and recommendations relating to sources of economic financing and risk management, including: (i) pricing of green and sustainable financing products; (ii) evaluation of the existing National Strategy for Financial Market Development and Deepening (SN-PPPK); (iii) value of the carbon economy; and (iv) development of long-term derivative instruments for hedging of development financing, including CCS and IRS products.<br><br>b. Strengthening of efforts to promote green and sustainable financing with: (i) the Like It series of 3 webinars on 3, 5 and 13 August 2021; and (ii) Sustainable Finance and Climate Change Impact Workshop in collaboration with Standard Chartered Bank on 25-27 October 2021. | |
| 4 | Interagency Coordination | a. Coordination with relevant line ministries/central agencies for amendment of the Bankruptcy Act, most importantly in the MUVA cluster. | Strengthening of coordination with other authorities in support of economic recovery beyond the period of adaptation to the new normal alongside support for development financing through financial markets. |

| No | Policy | Description of Policy | Objectives and Background |
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| | | b. Coordination by the Coordination Forum for Development Financing through Financial Markets (FK-PPPK) in the Like It 2021 webinar series in August 2021 for implementation of a development program based on retail investors, asset securitization and sustainable and green finance.<br><br>c. Agreement on the Priority Programs of the FK-PPPK: (i) financing for national strategic projects; (ii) financial sector reform; (iii) increase in institutional investors through trust and credibility; (iv) issuance of bank bullion; (v) acceleration of economic recovery with a roadshow to various regions for dissemination of financial sector policy; and (vi) green financing.<br><br>d. Bank Indonesia-Ministry of Finance coordination of technical assistance with the US Treasury Office of Treasury Assistance (US-OTA) relating to development of the FX hedging market in Indonesia during May, June, July and September 2021. | |

## VI. Sharia Economy and Finance Policies

| No | Policy | Description of Policy | Objectives and Background |
|---|---|---|---|
| 1 | Sharia Money Market | Development of Sharia Interbank Fund Management Certificates (SiPA), a new instrument for the Sharia Interbank Money Market. | The development of a new instrument for sharia interbank money market activities is aimed at supporting the development of the sharia money market and expanding the available alternatives for liquidity placements/supply for the sharia banking system. |
| 2 | Sharia Monetary Operations | Strengthening of sharia monetary operations with the implementation of two new liquidity injection instruments: the Bank Indonesia Sharia Liquidity Management (PaSBI) instrument for sharia open market operations; and the Bank Indonesia Sharia. Liquidity Facility (FLiSBI) for sharia standby facilities. | To achieve monetary stability, the sharia monetary operations focus on influencing the adequacy of liquidity on the sharia-compliant money market and forex market. This policy was adopted to strengthen monetary operations and sharia financial market deepening with the launching of the FLiSBI, PaSBI and SiPA instruments. |
| 3 | Sharia Macro-prudential Regulation | Policy reinforcement of the Macroprudential Intermediation Ratio/Sharia Macroprudential Intermediation Ration (MIR/SMIR). | This policy reinforcement includes the following:<br><br>• Expansion of the scope of securities held in portfolio in the formula for calculating MIR/SMIR by adding exports drafts as a new component, with the MIR/SMIR calculation unchanged at 84%-94%.<br><br>• Phased reintroduction of a disincentive in the form of an MIR/SMIR reserve requirement as follows: for banks with an MIR/SMIR below 75% effective from 1 May 2021; below 80% effective from 1 September 2021; and below 84% effective from 1 January 2022.<br><br>• The disincentive parameter for the upper limit of the MIR/SMIR is set at 0.00 for banks with a capital adequacy ratio (CAR) less than or equal to 14% and for banks with a CAR above 14%. |
| 4 | Financial System Stability | Revision of internal regulations for Short-Term Liquidity Loans (PLJP)/Sharia Short-Term Liquidity Loans (PLJPS) for streamlining business processes between units at Bank Indonesia involved in processing PLJP/PLJPS. | Bank Indonesia introduced further strengthening of the lender of last resort (LOLR) function as one of several measures to bolster financial system stability amid heavy economic pressures as a result of the Covid-19 pandemic. Act Number 2 of 2020 strengthens the powers of Bank Indonesia for dealing with troubled banks by providing PLJP/PLJPS to banks. |

| No | Policy | Description of Policy | Objectives and Background |
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| 5 | Policy Coordination in Development of the Halal Value Chain Ecosystem | a. Conducted development of the Halal Value Chain (HVC) under the Program for Strengthening the Economic Self-Reliance of Islamic Board Schools. | The objectives of building stronger economic self-reliance of Islamic boarding schools are to support inclusive growth and reinforce the structure of the national economy. The following was carried out in 2021:<br>• Strengthening of Islamic boarding schools units in line with the program for reinforcing national food resilience and supporting exports of quality agricultural commodities;<br>• Expedited work on Islamic boarding school business units with strengthened collective institution-building through establishment of the Islamic Boarding Schools Economics and Business Association (HEBITREN).<br>• Strengthening of business entities and institution-building was supported by the development of other infrastructure, such as business training centers (centers of excellence);<br>• Building and expansion of sharia financial inclusion at Islamic boarding schools through education and digitalization, including use of the QRIS. |
| | | b. Conducted development of the HVC ecosystem under the sharia business development program with support from the halal industry. | The strengthening of the HVC is a key strategy in sharia economic empowerment undertaken in an upstream-downstream integrated ecosystem approach. This is aimed at supporting structural improvements in the economy by strengthening export-oriented and import substitution sharia businesses that include the following: (i) development of business models; (ii) strengthening of sharia business actors; and (iii) more rapid halal certification as part of the supporting infrastructure by collaborating with line ministries/central agencies, higher educational institutions and communities. |
| 6 | Policy Coordination in Development of Sharia Social Finance | Supported the development of sharia social finance through initiation of Cash Waqf Linked Sukuk (CWLS); strengthening of governance in sharia social finance; digitalization of ZISWAF payments of *zakat*, *infaq* and *sedekah* charitable contributions (ZISWAF); and capacity building for managers of sharia social finance. | The integration between the commercial and social financial sectors represents greater sharia-compliant financing and deepening of the sharia financial market. This integration is expected to expand the variety of instruments; reduce poverty; and improve financial inclusion and socio-economic well-being while simultaneously bolstering financial system stability.<br>In 2021, Bank Indonesia worked with the Indonesian Waqf Board (BWI) in continuation of a pilot project to promote the implementation of the Waqf Core Principles (WCP) for strengthening waqf governance in Indonesia.<br>The digitalization of payments in management of ZISWAF charitable funds is expected to increase funds mobilization in sharia social finance while strengthening the transparency of their management.<br>Training and certification were provided for building the capacity and capabilities of entities active in sharia social finance with the aim of improving the competence and abilities of officers managing funds in sharia social finance. |
| 7 | Policy Coordination in Improving Literacy in the Sharia Economy and Finance | Tracking of the Sharia Economics Literacy Index | Bank Indonesia publicly launched the Sharia Economics Literacy Index on 30 March 2020. In 2021, Bank Indonesia conducted the second survey on sharia economics literacy. The sharia economics literacy index in 2021 is based on the findings of a tracking survey conducted with 885 respondents in eight provinces. The purpose of survey tracking is to monitor developments in sharia economics literacy on a national scale. A nationwide survey was previously conducted in 2019; subsequent nationwide surveys will be held at three-year intervals. |
| | | Provided coordination among stakeholders involved in education and communication about regional policies for the sharia economy at the Sharia Economic Festival (FeSyar). | The FeSyar event was first held in 2017. The FeSyar is a venue for educational and campaign activities while providing facilitation for business matching/coaching related to the sharia economy and finance and holding a series of events in advance of the Indonesia Sharia Economic Festival (ISEF). In 2021, an unexpected benefit of the Covid-19 pandemic was the harnessing of technology for raising awareness about the sharia economy and finance, including the holding of festivals and awareness raising activities in virtual and hybrid forms. |

| No | Policy | Description of Policy | Objectives and Background |
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| | | | In 2021, the FeSyar was again held in three regions of Indonesia: (i) the Eastern Indonesia Region FeSyar, hosted by Gorontalo on 27 July - 3 August 2021; (ii) the Sumatra Region F4Syar in Riau on 10-15 August 2021; and (iii) the Java Region FeSyar in East Java on 27 September - 2 October 2021. |
| | | Engaged in public education and awareness raising about national and international sharia economics by organizing the 7th ISEF. | The ISEF is the biggest and most comprehensive event for the sharia economy and finance in Indonesia. Initiated by Bank Indonesia in 2014, the ISEF has been transformed from an exhibition on the sharia economy and finance into a global scale integrated event. In 2021, the theme for the 8th ISEF was “Magnifying Halal Industries Through Food and Fashion Markets for Economic Recovery”. The series of activities organized for the 8th ISEF to promote halal industry development with focus on sustainable food and modest fashion.<br><br>In 2021, the organization of the 8th ISEF employed a hybrid concept with participants able to participate online on the Zoom platform and visit offline at the Jakarta Convention Center (JCC); the Istiqlal Mosque; Hotel Sultan and the Bank Indonesia Mosque. The ISEF 2021 featured a total series of 194 activities comprising webinars, workshops, business coaching, business meeting-matching and FGDs at the national and international, as well as a talkshow and a Tabligh Akbar mass Qur'anic recitation event.<br><br>The series of ISEF 2021 activities consisted of the Road to ISEF 2021 on 5-23 October 2021 and the holding of the FeSyar in three regions, followed by the main ISEF 2021 event on 25-30 October 2021. Attending the ISEF 2021 activities were at least 970 businesspersons; 420 designers; 4,451 participants in competitions; 82,700 visitors to the platform; and 293,000 online and offline participants from 119 countries. |
| | | Launching of the Bank Indonesia Report on the Sharia Economy and Finance (LEKSI) 2020 | The compilation of LEKSI 2020 represents a tangible product of the active support by Bank Indonesia in the national development of the sharia economy and finance. The theme of this report is “Synergy in Building the Sharia Economy and Finance.” This was highly fitting theme for bolstering the momentum for national economic recovery, including the sharia economy and finance, during the times of the Covid-19 pandemic. LEKSI presents an overview of the condition of the sharia economy and finance in Indonesia and is a resource for policy formulation and evaluation in development of the national sharia economy and finance. |

## VII. International Policies

| No | Policy | Description of Policy | Objectives and Background |
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| 1 | Cooperation in International Financial Safety Net Facilities | a. Extended the Indonesia-Japan BSA on 14 October 2021. | The Indonesia-Japan Bilateral Swap Arrangement (BSA) is a bilateral agreement for financial cooperation that enables Indonesia to swap the rupiah currency for US dollars and Japanese yen at the same facility value, to a maximum of 22.76 million US dollars or an equivalent value in Japanese yen. The purpose of this financial cooperation is to provide a financial safety net envisaged as able to contribute to financial stability at the regional and global level. Agreement was first reached on the cooperation on 17 February 2003. Subsequently, the BSA underwent several amendments and extensions of term, the last of which prior to this report was in 2018. In 2021, no change was made to the value of the BSA. The present amendment extends the term of the BSA until 13 October 2014 (effective for three years) and aims to bring the arrangement into line with the amendment to the CMIM agreement, the model on which this BSA is based. |
| | | b. Extended the term of the Local Currency Bilateral Swap Arrangement (LCBSA) and Bilateral Repo Line (BRL) cooperation between Bank Indonesia and the Monetary Authority of Singapore (MAS) on 5 November 2021. | The BI-MAS LCBSA is a bilateral agreement for financial cooperation under which local currency can be exchanged between BI and MAS in the form of swaps between IDRand SGD up to a value of 9.5 billion Singapore dollars or IDR100 trillion (equivalent to about 7 billion US dollars).<br><br>The BI-MAS BRL is a bilateral cooperation that enables repo transactions to be conducted between BI and MAS to obtain US dollar liquidity to as much as 3 billion US dollars against collateral in the form of government bonds issued by the G3 nations (United States, Japan and Germany) and held by BI or MAS.<br><br>This cooperation has been in place since November 2018 in follow-up to an agreement between the President of Indonesia, Joko Widodo, and the Prime Minister of Singapore, Lee Hsien Loong, to continue support for monetary and financial stability in the two nations. This agreement has been extended annually, demonstrating the commitment of Indonesia and Singapore in building confidence in the economic conditions of the individual nations amid the continuing effort to recover from the Covid-19 pandemic. |
| 2 | Local Currency Settlement Cooperation | a. Reached agreement on a cooperation framework between BI and the People's Bank of China (PBC) for Local Currency Settlement (LCS) based on Appointed Cross Currency Dealers (ACCDs), implemented effective from 6 September 2021. | As part of implementing the Memorandum of Understanding on LCS ACCD, signed by BI and the PBC on 30 September 2020, BI and the PBC also reached agreement in 2021 on the framework for LCS ACCD implementation, effective from 6 September 2021. In addition to appointing ACCD banks involved in this collaborative scheme, BI and the PBC agreed to facilitate transactions between the two nations by relaxing certain regulations applying to rupiah-yuan currency transactions. This included an agreement on use of CNY/IDR direct quotation to encourage optimum use of the LCS scheme. The use of the LCS offers various benefits that include the following: (i) providing greater efficiency in transaction conversion fees; (ii) availability of alternatives for financing of trade and direct investment in local currency; (iii) availability of alternative hedging instruments in local currency; and (iv) diversification of exposure in currencies used for settlement of international transactions. |
| | | b. Reached agreement on strengthening the LCS ACCD cooperation framework between BI and Bank Negara Malaysia (BNM), with implementation effective from 2 August 2021. | On 2 August 2021 BI and BNM reached agreement for strengthening the framework for LCS ACCD cooperation between the two nations in rupiah and ringgit, implemented from 2 January 2018. The strengthening of the framework expands the scope of LCS cooperation. Previously it covered only trade transactions, but now adds direct investment and income transfers (including remittances). In other changes, the strengthened LCS cooperation between BI and BNM includes the easing of currency transaction regulations. Among others, this is related to expansion of hedging products and an increase in the threshold of transactions without underlying documentation to USD200,000 per transaction. |

| No | Policy | Description of Policy | Objectives and Background |
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| | | c. Reached agreement on strengthening the LCS ACCD cooperation framework between BI and the Japan Ministry of Finance (JMoF), implemented effective from 2 August 2021. | BI and JMoF reached agreement on 5 August 2021 for strengthening the framework for LCS ACCD cooperation between the two nations in rupiah and yen, implemented since 31 August 2020. The purpose of the strengthened framework is to ease the regulations for currency transactions conducted between the two nations in rupiahs and yen under the bilateral LCS framework. This includes expansion in hedging products; provision of hedging on the basis of trade and investment projections; increased flexibility in transfers to IDR accounts in Japan; and an increase in the threshold for transactions without underlying documents to USD500,000 per transaction. |
| 3 | Expansion of Bilateral Cooperation in Areas of Central Bank Affairs, Payment System and Digital Finance Innovation, Anti-Money Laundering and Prevention of Terrorism Financing and Others | a. Signing of the Anti-Money Laundering and Prevention of Terrorism Financing (AML-PTF) cooperation between Bank Indonesia and the Brunei Darussalam Central Bank (BDCB) | BI and the BDCB reached agreement on AML-PTF cooperation, to strengthen financial system integrity and to respond to increasingly complex challenges in the payment system. A Memorandum of Understanding (MoU), which became effective in June 2021, envisages a working framework for closer cooperation between the two central banks in implementing AML-PTF policies in accordance with the powers of each central bank.<br><br>Cooperation includes the following: (i) legal and regulatory framework; (ii) supervision methods; and (iii) a transaction reporting framework. This MoU has been implemented with various forms of activities, such as policy dialog; data and information exchanges; and human resources capacity building. The signing of this MoU represents a contribution by Bank Indonesia in support of Government efforts to become a member of the Financial Action Task Force on Money Laundering (FATF) while demonstrating Bank Indonesia's commitment to eradication of money laundering and terrorism financing and compliance with FATF recommendations and guidelines. |
| | | b. Signing of the cooperation on Payment Systems and Digital Finance Innovation, including AML-PTF, by Bank Indonesia and the Central Bank of the United Arab Emirates (CBUAE) | BI and CBUAE signed a Memorandum of Understanding to promote cooperation in Payment Systems and Digital Finance Innovations, effective from 3 November 2021. This MoU covers three main areas: digital innovation in financial and payment services; cross-border payment systems including retail payment systems; and the AML-PTF framework.<br><br>The MoU with the CBUAE represents an effort by Bank Indonesia to expand cooperation between Bank Indonesia and strategic partners in various key areas. This MoU also represents a contribution by Bank Indonesia in support of Government efforts to become a member of the FATF while demonstrating Bank Indonesia's commitment to eradication of money laundering and terrorism financing and compliance with FATF recommendations and guidelines. |
| 4 | Policy for Maintaining Positive Perceptions of the Indonesian Economy | Policy for maintaining the confidence of international stakeholders in Indonesia's economic resilience during the Covid-19 pandemic supported by policy credibility and the strong synergy of the policy mix between Bank Indonesia and the Government. | • In order to maintain the confidence of international stakeholders, Bank Indonesia and relevant line ministries/central agencies held a series of intensive investor meetings and conference calls with international investors and rating agencies, with the BI Governor and senior MoF officials (Minister or Deputy Minister of Finance) participating as resource persons. In 2021, these officials held a total of 33 investor conference calls (ICCs) (as of November 2021). This compares with 46 ICCs in 2020, in addition to 29 bilateral conference calls between the Governor of Bank Indonesia and investors and 13 bilateral meetings with rating agencies.<br><br>• Indonesia succeeded in maintaining its sovereign credit rating (SCR) and outlook, which remained investment grade:<br><br>· Affirmation of the Indonesia SCR by Moody's at Baa2 with stable outlook in February 2020 (the most recent rating action) - the 2021 annual review was not followed by a rating action, and therefore the Indonesia SCR remained at the same level.<br><br>· Affirmation of the Indonesia SCR by Fitch at BBB (investment grade) with stable outlook in November 2021 (result of semi-annual review).<br><br>· Affirmation of the Indonesia SCR by S&P at the BBB (investment grade) with negative outlook in April 2021.<br><br>· Affirmation of the Indonesia SCR by R&I at the BBB+ (investment grade) with stable outlook in April 2021. |

| No | Policy | Description of Policy | Objectives and Background |
|---|---|---|---|
| 5 | International policy coordination with domestic and foreign strategic partners | a. Strengthened the Investor Relations Unit; Regional Investor Relations Unit; and Global Investor Relations Unit (IRU-RIRU-GIRU) linkages | As part of efforts to curb the current account deficit, BI maintained coordination and synergy with the relevant line ministries/central agencies to promote inflows of foreign direct investment and increase exports with focus on MSME products by organizing investment and trade promotion activities. BI conducted synergized, targeted and outcome-oriented promotional activities through the IRU-RIRU-GIRU linkages to match supply and demand for MSME investment projects and products. On the supply side, the RIRUs (domestic representative offices and stakeholders) identified clean and clear regional investment projects that could be promoted to foreign investors and mainstay MSME products for promotion to overseas aggregators and buyers. On the demand side, the GIRUs (Bank Indonesia overseas representative offices and stakeholders) identified sectors of interest to foreign investors in the representative office working areas and products attracting interest from aggregators and buyers. The matching of supply and demand was performed by the IRU (BI Head Office) in coordination with line ministries/central agencies at the national level to identify potential promotional events that BI could organize or attend. The IRU then ensured the readiness of the RIRUs and GIRUs for participating in promotional activities. This collaboration between the IRU, RIRUs and GIRUs aimed to support promotional activities for potential regional investment by utilizing the flagship joint integrated trade, tourism and investment programs together with relevant agencies.<br><br>Overseas activities for promoting trade and investment in Indonesia made use of the IRU-RIRU-GIRU linkages. These included flagship promotional activities conducted by investment partners in the representative office working areas, such as:<br><br>1. Indonesia Business & Investment Forum, Shanghai;<br>2. Indonesia Investment Forum, London;<br>3. New York Now; and<br>4. London Coffee Festival.<br><br>Working in coordination with other line ministries and central agencies, BI was also active in holding other investment and trade promotions during 2021. Moreover, BI pursued the establishment of Regional Investor Relations Units (RIRUs) to build closer coordination of investment and trade promotion in the regions. |
| | | b. BI-Ministry of Foreign Affairs cooperation and coordination program | The Ministry of Foreign Affairs (MoFA) is one of Bank Indonesia's strategic partners in dealing with international issues of strategic importance. In 2021, the coordination and cooperation between BI and MoFA was demonstrated by: (i) development of a joint BI-MoFA program of activities; (ii) coordination and discussion of international issues of strategic importance; (iii) coordination of participation in international forums, such as the UN; (iv) coordination of attendance at international forums/activities; and (v) resource persons in various activities, including capacity building and seminars. |
| | | c. High-level meetings held between Bank Indonesia and the Monetary Authority of Singapore (MAS) | BI and MAS held bilateral meetings to update on issues and discussions about economic developments; digitalization and cross-border payment systems; the green and sustainable economy; the priority agenda for the G20 Presidency; and other areas of cooperation by the two central banks. These meetings were held to strengthen cooperation and coordination by the two central banks and sought to build structured, systematic cooperation between them. |
| | | d. High-level bilateral meeting was held between Bank Indonesia and the Bank of Japan (BoJ) within the context of Structured Bilateral Cooperation (SBC) | BI and BoJ held a bilateral meeting as part of implementing the previously agreed cooperation within the SBC framework. The two central banks used the opportunity to exchange views and hold discussions on the latest economic developments in the two nations. This meeting, which was held online, also sought to strengthen the cooperation established to date with the BoJ. |

| No | Policy | Description of Policy | Objectives and Background |
|---|---|---|---|
| | | e. ASEAN Regional Webinars and High-Level International Webinars held as part of the Bank Indonesia-Bank of England (BoE) SBC and representing the BI institutional leadership in the ASEAN region | • The ASEAN Regional Seminar on Managing Risks from Climate Change was held online in March 2021. This seminar discussed the impact of climate change on economies and the policy responses undertaken by governments and central banks in the effort to create a green economy.<br>• The ASEAN Regional Workshop on "Enhancing Payment Systems for the Digital Age and the Role of Fintech" in September 2021 discussed a number of strategic issues relating to (i) RTGS, (ii) CBDC and (iii) cross-border payment systems.<br>• The High-Level International Webinar on "Climate Change and Central Banking: a Strategic Perspective" in November 2021 discussed strategic issues relating to climate change and plans for harnessing low carbon energy.<br>• The High-Level International Webinar on the topic of "Challenges Facing the International Monetary and Financial System in the Recovery from Covid-19" in November 2021 discussed strategic issues and exit strategy in relation to economic recovery. At this opportunity, BI also presented the priority agenda for the G20. |
| | | f. Bank Indonesia involvement in the Government loan program funded by the World Bank | BI acted as one of the implementing agencies undertaking the policy reforms that also form the underlying basis for the loan from the World Bank listed under Financial Sector Development Policy Loans (DPLs). In 2021, the Government of Indonesia, acting through the Ministry of Finance as executing agency, and other relevant line ministries and central agencies acting as implementing agencies approved the DPL program, which has now entered phase 2. |

## VIII. MSME Development and Consumer Protection Policies

### Policy for Development of Micro, Small and Medium Enterprises

| No | Policy | Description of Policy | Objectives and Background |
|---|---|---|---|
| 1 | Board of Governors Regulation No. 23/7/PDG/2021 dated 6 August 2021, concerning Bank Indonesia Policy in Development of Micro, Small and Medium-Scale Enterprise (MSMEs). | This regulation was developed to strengthen Bank Indonesia policy in MSME development by providing clarity for the internal and external processes of design, implementation and coordination in MSME development. | • The Bank Indonesia policy direction and framework in MSME development needed to be brought into alignment with national policies and Bank Indonesia core policies.<br>• The MSME development policy operates by means of the three pillars of Corporatization, Capacity and Financing and is thus able to promote the development of competitive MSMEs for expediting the growth of an inclusive economy. |
| 2 | Bank Indonesia policy framework in MSME development | MSME development policy operates by means of the three pillars of Corporatization, Capacity and Financing to create productive, innovative and adaptive MSMEs. | • The Bank Indonesia policy for MSME development is implemented through corporatization, capacity building and financing to increase the economy of scale and competitiveness of MSMEs to promote the emergence of digital-based and export-oriented MSMEs.<br>• The corporatization of MSMEs is undertaken by establishing clusters on the basis of strong social capital and the strengthening of formal and modern institutions to increase the scale of business undertaken by MSMEs.<br>• Capacity building is focused on strengthening the capacity of human resources and the productivity of MSMEs. Among others, this involves innovation and digitalization of business processes that can help improve MSME competitiveness.<br>• Expansion in access to MSME financing was achieved, among others, by: facilitating business matching for MSMEs and Bank Indonesia Foster Partners; and by providing profile information on MSMEs to resolve problems of asymmetric information on financing as between MSMEs and financial institutions. |

| No | Policy | Description of Policy | Objectives and Background |
|---|---|---|---|
| 3 | Promote More Rapid Digitalization to Increase MSME Capacity and Productivity | The MSME digitalization program is one of the areas of focus in MSME capacity building for improving productivity and efficiency, expanding MSME marketing access at the national and global level, creating easier access to MSME financing and facilitating MSME transactions as an entry point into the digital economy and finance ecosystem through adoption of the QRIS code. | • Bank Indonesia has been facilitating digitalization for MSMEs operating in the agriculture sector in production (cultivation) to improve productivity and efficiency and in marketing for efficiency in distribution chains for agricultural commodities.<br>• Bank Indonesia conducted an MSME onboarding program to instill a digital mindset and build capacity in MSMEs for taking advantage of the various digital marketing channels as appropriate to the characteristics of their business.<br>• Bank Indonesia has encouraged use of the Information System for Financial Information Recording Applications to ease the work of MSMEs in digital preparation of financial statements that can be used as reference material for banks and non-bank financial institutions in analyzing the viability of MSME financing.<br>• Bank Indonesia expanded the use of QRIS codes as a quick, convenient, low-cost, secure and dependable transaction solution for MSME payments during the pandemic, a solution that can help MSMEs become more efficient with better financial management.<br>• Bank Indonesia has introduced digitalization in promotions of MSME products through e-catalogues and facilitated business matching in online meetings at the national and international level. |
| 4 | Promote Export MSMEs with a Push Strategy and a Pull Strategy (Market Driven) | Bank Indonesia has applied two strategies to promote MSME exports. One is a push strategy involving facilitation for MSMEs to comply with certification requirements, while the other is a (market-driven) pull strategy to identify standards and requirements that apply in export destination countries. | This push and pull strategy has been applied to streamline processes for export-oriented MSMEs. The push strategy involves facilitation of capacity building and mentoring for MSMEs to meet requirements in terms of quantity, quality and continuity of products, including compliance with the standardization and certification that MSMEs require for exports. The market-driven or pull strategy is carried out by encouraging MSMEs to participate at various trade promotions and exhibitions in other countries and in business matching with business actors or potential buyers. |
| 5 | Build Stronger Synergy for Improving MSME Competitiveness | The Bank Indonesia development strategy for MSMEs operates by applying the principle of synergy with various stakeholders to improve the competitiveness of MSMEs. This synergy takes place in capacity building for MSMEs; onboarding of MSMEs; business matching; facilitation of access to financing; exhibitions; and international trade promotions. | • Working in synergy with various line ministries/central agencies, Bank Indonesia organized Indonesia Creative Works 2021 with the theme of "Synergy, Globalization and Digitalization of MSMEs and the Tourism Sector". This represented one tangible form of Bank Indonesia support for the Made in Indonesia Pride (BBI) and Tourism in Indonesia Pride (BWI) national campaigns.<br>• Bank Indonesia provided active support for the BBI and BWI national campaigns with involvement from all Bank Indonesia offices. As part of this support, Bank Indonesia acted as movement manager and organized various activities, such as the MSME product shopping program; expansion in MSME use of QRIS codes; and organization of various strategic Bank Indonesia activities.<br>• MSME development by Bank Indonesia was conducted with involvement from all Bank Indonesia representative offices in cooperation with the various stakeholders at the national and regional levels. |
| 6 | National Strategy for an Inclusive Economy and Finance | The National Strategy for an Inclusive Economy and Finance (SNEKI) consists of three main pillars: Economic Empowerment; Expanded Financial Access and Literacy; and Policy Harmonization. | Through SNEKI, Bank Indonesia helps to support the implementation of the National Financial Inclusion Strategy (SNKI). SNEKI applies a three-pillar approach as follows:<br>• The Economic Empowerment Pillar offers capacity building for subsistence groups such as beneficiaries of non-cash social assistance. This should improve their skills and capabilities for conducting business in a group-based approach (corporatization), thus achieving economy of scale in a jointly owned business unit.<br>• Expanded Financial Access and Literacy involves making greater use of financial access; better financial education; and use of payment digitalization as an entry point for the public in using financial services.<br>• The Policy Harmonization pillar, implemented by line ministries and central agencies working in synergy to support the expansion in MSME corporatization and to create a healthy business ecosystem for MSMEs. |

| No | Policy | Description of Policy | Objectives and Background |
|---|---|---|---|
| 7 | Development of Inclusive Economy and Finance | The inclusive economy and finance development program targets subsistence groups in a three-pillar approach of economic empowerment, expanded financial access and literacy, and policy harmonization. | • Bank Indonesia supports the SNKI through its membership in the National Inclusive Finance Council (DNKI) under Presidential Regulation No. 114 of 2020 concerning the SNKI. Bank Indonesia plays an active role in various DNKI working groups: (1) financial education; (2) community property rights; (3) products, intermediation and distribution channels; (4) government sector financial services; and (5) consumer protection.<br>• To monitor progress in financial inclusion at the national level, Bank Indonesia cooperated with the DNKI Secretariat in conducting the National Financial Inclusion Survey in 2021.<br>• Bank Indonesia carried out a pilot project for an inclusive economy and finance development involving subsistence groups in order to foster a greater self-reliance among potential micro entrepreneurs. |

## Consumer Protection Policy

| No | Policy | Description of Policy | Objectives and Background |
|---|---|---|---|
| 1 | Bank Indonesia Consumer Protection Framework | Bank Indonesia provides consumer protection by means of 4 (four) strategic actions: (1) regulation and policy; (2) supervision; (3) handling of complaints; and (4) education and literacy. | • Bank Indonesia has worked on strengthening consumer protection in order to bring about sustainable economic growth supported by financial system stability through policies for financial inclusion, financial literacy and consumer protection. The Bank Indonesia Consumer Protection framework operates with focus on three pillars of policy: (1) an effective Bank Indonesia role; (2) compliance of providers; and (3) empowerment of consumers.<br>• This strengthening of consumer protection is also supported by institutional cooperation at the national and international level and development of infrastructure. The measures to build more robust consumer protection are envisaged as creating an effective consumer protection function capable of responding to challenges and developments in financial innovations and digitalization of financial services products and/or services and ensure higher priority for consumer interests. |
| 2 | PADG Number 23/17/PADG/2021 concerning Procedures for Implementation of Consumer Protection by Bank Indonesia | The PADG concerning Procedures for Implementation of Consumer Protection is an implementing regulation under PBI No. 22/20/PBI/2020 concerning Bank Indonesia Consumer Protection. This implementing regulation prescribes in greater detail the four principles of consumer protection: i) disclosure and transparency; ii) education and literacy; iii) protection of consumer data and/or information; and iv) effective handling and resolution of disputes, It also covers the reporting requirements for providers; resolution of consumer complaints at Bank Indonesia; and the supervision of provider conduct by Bank Indonesia. | Bank Indonesia has powers to regulate and supervise providers whose products and/or services are used by consumers, including the regulation of consumer protection.<br>Effective consumer protection will help consumers to feel more comfortable in conducting economic transactions, which in turn will support financial system stability. For providers, effective consumer protection will have a positive effect on the continuity of their business. The objectives of issuing this PADG are as follows:<br>• As guidance for providers in undertaking key regulatory functions mandated in the PBI concerning Bank Indonesia Consumer Protection, including provider obligations in submitting reports to Bank Indonesia.<br>• To provide further explanations to consumers and members of the public about consumer rights and provider obligations relating to consumer protection.<br>• To provide further explanations on the mechanism employed by providers and Bank Indonesia in dealing with consumer complaints.<br>• Further technical regulations on supervision of provider conduct, the education mechanism in improving literacy, handling of consumer complaints and other coordination mechanisms for internal use by Bank Indonesia are also stipulated in Internal PADGs under the mandate of the PBI of 2020. |

# GLOSSARY OF TERMS

| Term | Meaning |
|---|---|
| Administered Prices | The component of inflation comprising the prices of goods and services heavily influenced by Governments or state-owned enterprises |
| Advanced Economies (AEs) | Economies of developed countries |
| Aggregate demand | The total amount of final goods and services produced in the economy during a specific period of time |
| Application Programming Interface | A set of algorithms, protocols and tools for building software applications that determine the manner of interaction of these software components |
| Appreciation | Increase in the value of domestic exchange rate against foreign currencies |
| Asset Backed Securities | Securities whose value is backed by  a collection of other financial assets in the form of receivables arising from commercial transactions, such as credit card bills, loans (including mortgages and car loans), government guaranteed debt securities or cash flow |
| Asset-Backed Securities – Collective Investment Contract | A contract between an investment manager and a custodian bank. It binds i) holders of asset-backed securities, which the investment manager is authorized to manage in a collective investment portfolio; and ii) the custodian bank which is authorized to carry out collective custody |
| Asset Backed Securities in the Form of Participation Letters | Asset-backed securities of an issuer whose portfolio is part a collection of receivables. The issuer has proof of proportional ownership of a collection of receivables that are jointly owned by a group of EBA-SP holders |
| Balinusra | Bali and Nusa Tenggara Region, including Bali, West Nusa Tenggara and East Nusa Tenggara |
| Bank Indonesia Policy Mix | The use of several policy instruments by Bank Indonesia, covering the monetary, macroprudential, payment system and other supporting policies |
| Basel III | Regulatory reform in the banking sector in response to the 2008 Global Financial Crisis |
| Bed Occupancy Rate (BOR) | The percentage of beds in use at a certain time in an in-patient unit |
| BI-FAST | Payment system services that are carried out in real-time and 24/7, to speed up the transaction settlement process and replace the Bank Indonesia National Clearing System (SKNBI) |
| BigTech | The major technology companies |
| Burden sharing | The sharing of burdens, currently in the context of financing the National Economic Recovery program |
| Business cycle | Fluctuations in economic activity from its long-term growth trend |
| Business matching | Business meetings between different players in the economy |
| Capital Adequacy Ratio | A measure of the adequacy of a bank's capital; the ratio of total capital to risk-weighted assets (RWA) |
| Carbon emissions | Gas released from the combustion of compounds containing carbon |
| Carbon neutrality | The practice of compensating carbon emissions by carbon offsetting projects. The objective is to reduce the amount of carbon dioxide being released into the atmosphere |
| Carbon pricing | Pricing (valuation) of Greenhouse Gas or carbon emissions |
| Centralized Ledger | Physical books or digital files used by individuals or organizations to record transactions in a central location |
| Cluster | A broad term referring to interconnected groups, for example of Covid, business groups or MSME centers |
| Conceptual design | Early plans for some project or policy |

| Term | Meaning |
|---|---|
| Confidence Index | An index that measures assessments of economic players' optimism/pessimism in future economic conditions |
| Consensus Forecast | A general agreement on a forecast, prepared by different entities |
| Core inflation | The inflation component that tends to be persistent in inflationary movements and is influenced by fundamental factors, such as demand-supply interactions, exchange rates, international commodity prices, trading partner inflation and inflationary expectations |
| Countercyclical Capital Buffer | Additional bank capital that functions as a cushion against heavy losses during economic contractions have |
| COVAX | Covid-19 Vaccines Global Access, a global initiative aimed at ensuring equal access to Covid-19 vaccines |
| Covid-19 | Coronaviruses (CoV) are a large family of viruses that cause illnesses ranging from the common cold to more severe illnesses such as Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). COVID-19 is an infectious disease caused by the coronavirus which was discovered in 2019 |
| Cross border | Across national borders |
| Cross-border payments system | Payments system that functions across national borders |
| Cryptocurrency | A digital asset designed to work as a medium of exchange using strong cryptography to secure financial transactions, control the creation of additional units and verify asset transfers |
| Current account deficit | A negative balance in the component of the Balance of Payments, which comprises: the Merchandise Trade; Services; Primary Income; and Secondary Income |
| Debt relief | Actions that write off a portion of the debt of an individual, company or state |
| Deposits | Money placed with a bank for safekeeping, normally with a specific withdrawal period, based on an agreement between the bank and the customer |
| Depreciation | Decline in the value of domestic exchange rate against foreign currencies |
| Derivatives | A financial instrument whose value is dependent upon that of another financial instrument. Examples include options and warrants |
| Devisa | Foreign exchange |
| Digital banking | Banking services delivered by computer or mobile device, empowering cashless, time-saving transactions. Normally it encompasses on-line and mobile banking |
| Digital economy | An economy that is oriented towards the development and advancement of information and communication technology |
| Digitalization | The process of transferring media from physical, printed, audio, or video forms to electronic form |
| Diversification of exports | Efforts to make exports more varied, either in terms of product types and export destination countries |
| Domestic Non-Deliverable Forward | A derivative transaction in the form of forward contract in which the two contracting parties never pay the contracted amounts (non-deliverable). The contracting parties settle the transaction based upon the difference between the contracted price and the spot price at the settlement date |
| E-commerce | Trading transactions conducted using internet technology |
| Economic inclusion | A sustainable widening of access to financial markets and goods markets |
| Economic transformation | A process of deep economic reform |
| Electronic money | Electronic payment instruments issued on the basis of the value of money that has been deposited in advance |
| Electronification | Changing from a method of payment that originally used cash to a non-cash payment method |

| Term | Meaning |
|---|---|
| Emerging Market and Developing Economies (EMDEs) | The economies of developing countries |
| End-to-end | Integrated and comprehensive policies or operations, operating from start to finish of some process |
| E-payments | Electronic payments |
| ETP multi-matching | An electronic system to conduct financial market transactions using the multi-matching method, which is an upgraded trading engine |
| Exit policy | Steps taken to end a policy.  In the current context, policies that were previously carried out due to abnormal events |
| Exports | Goods or services sold across national borders |
| Financial cycle | Fluctuations in financial activity from long-term growth trends |
| Financial inclusion | Deepening of financial services so that a wider range of customers (usually at lower-income levels) can take advantage of formal financial products |
| Financing to Value | The ratio of financing provided by banks to the value of the asset being purchased |
| Fintech (Financial Technology) | A broad term covering the application of electronic technology to almost any kind of financial service |
| Fiscal stimulus | A Government fiscal policy measure aimed at boosting aggregate demand.  For example, an increase in spending or a tax cut |
| Flight to quality | Moving toward higher quality |
| Forward | Contract to buy or sell assets at a certain price in the future |
| Front loading | Placing the emphasis of some action, possibly an economic policy, at the conceptual beginning (front-end) of that action |
| G20 Presidency | Most senior position in a multilateral forum consisting of 19 major countries and the European Union (EU).  The position of the presidency is held by one of the member states and it  changes every year |
| Giro | Demand deposit, that is a bank deposit from which withdrawals can be made at any time by using a check or other payment order or by book-entry |
| Global Financial Crisis | The deep 2008 global financial crisis, caused by a lack of capital adequacy, high variations in RWA among banks, very high leverage and a liquidity crunch |
| Go Digital | A move toward digital |
| Go Export | A move toward exports |
| Granular | Extreme detail, commonly in various kinds of data |
| Green economy and finance | An economic and financial system that supports efforts to give consideration towards environmental and/or climate concerns |
| Green energy | Energy that comes from relatively safe sources, taking into account environmental, social and good governance aspects, and is sustainable |
| Green investment | An investment that takes into consideration environmental, social and good governance aspects |
| Greenshoe | Additional auction conducted by the Government if the SBN auction target has not been met in the main auction |
| Greenshoe option | Provision for the option of an additional auction |
| Halal Industry | Industries that meet the halal criteria of the Indonesian Food and Drug Research Institute (LPPOM MUI) |
| Halal value chain | A halal ecosystem or supply chain from upstream (producers and suppliers) to downstream (retailers) industries. The halal value chain covers four industrial sectors, namely the halal tourism industry, halal cosmetics and medicines, the halal food industry and the halal financial industry |

| Term | Meaning |
|---|---|
| Hedging | Activities undertaken by investors to reduce or eliminate a source of risk |
| Herd immunity | Herd immunity occurs when a large portion of the population becomes immune to a particular infectious disease, thereby providing indirect protection to those who are not immune to that infectious disease |
| Imports | Goods and services purchased across national borders |
| Inflation Disparity | Differences in inflation rates, for example, between regions in a country |
| Interest rate differential | The difference between two interest rates, for example, between key rates in two countries |
| Internet of Things | Physical objects that are embedded with, for example sensors and software, and that connect and communicate with other systems over the Internet |
| Interoperability | Mutually operational, for example a condition whereby payment instruments can be used on other financial infrastructure |
| Investment | The accumulation of an asset in the hope of a future benefit. Sometimes referred to as capital investment |
| Investment grade | A relatively high rating of the quality of a financial instrument. |
| Java Region | The island of Java, comprising DKI Jakarta, West Java, Central Java, DI Yogyakarta, East Java and Banten |
| Legible banknotes | Rupiah banknotes that meet the requirements for circulation based on quality standards set by Bank Indonesia |
| Liquidity | The ability of a company to meet its short-term obligations |
| Loan to Value | The ratio of loans provided by banks, to the purchased asset's value |
| Local value chain | A sequence of activities that increase value added in the domestic production of a good or service |
| Lockdown | Strict restrictions on mobility |
| M1 | Money in a narrowly-defined sense, consisting of currency and demand deposits |
| M2 | Money in a broad sense, consisting of currency, demand deposits, quasi money (time deposits and savings in Rupiah and foreign currencies as well as demand deposits in foreign exchange) and securities other than shares |
| Macroprudential | Financial regulations that aim to mitigate overall risks in the financial system |
| Macroprudential Intermediation Ratio | The ratio of a bank's loans plus (certain) securities owned, to its deposits plus (certain) securities issued. Policy settings are intended to optimize intermediation while maintaining adequate bank liquidity |
| Macroprudential Liquidity Buffer | Financial instrument formulated to increase banking liquidity resilience, by holding extra liquidity, that is, a buffer, in the form of securities in a certain amount from Rupiah third party funds |
| Macroprudential policy trilemma | An economic theory that postulates that it is impossible for a central bank to simultaneously attain three macroprudential policy objectives, namely: financial system stability; balanced intermediation; and market efficiency and inclusiveness |
| Marketplace | The place where a transaction between a seller and buyer is conducted, whether in a physical or non-physical form (i.e. e-commerce) |
| Microprudential | The process of supervising individual financial institutions to ensure sustainability of their businesses |
| Monetary policy trilemma | An economic theory that asserts that it is impossible for a central bank to simultaneously attain three monetary policy objectives, namely: price stability; exchange rate stability; and favorable capital flows |
| Money market infrastructure | Systems between participating institutions, including system operators, which are used for clearing or the recording of financial transactions, normally of a short-term nature |

| Term | Meaning |
|---|---|
| Multilateral Leaders Task Force on Covid-19 | Collaborative efforts undertaken by the World Bank along with other international institutions such as the IMF, WTO and WHO to accelerate access to vaccines and essential health equipment for developing countries through multilateral financial and trade cooperation |
| New growth engine | New source of economic growth |
| Non-building investment | Investment in physical facilities other than buildings, including machinery and equipment, vehicles, equipment, cultivated biological resources (CBR) and intellectual property products |
| Non-Performing Loans | Loans for which the borrower has not made scheduled payments for a specific period of time. Often expressed as a ratio relative to an institution's total loans |
| Non cash | Payment methods other than using cash, i.e. by using electronic money, mobile banking, or internet banking |
| Online | Active on a network, i.e. connected through computer networks, most commonly the internet |
| Open banking | An approach that allows banks to reveal their customers' financial data and information to third parties (fintech) based on customer consent |
| Pandemic | An outbreak of a disease which spreads globally |
| Paris Agreement | Agreements in the United Nations Framework Convention on Climate Change (UNFCCC) on greenhouse gas emissions mitigation, adaptation, and finance |
| Payment system | System for transferring money from one party to another party |
| Policy Normalization | Steps taken to return to policies appropriate for normal conditions, after extraordinary policy steps were taken due to abnormal events |
| Positivity rate | Comparison between the number of positive cases of Covid-19 with the number of tests carried out |
| Price discovery | The process of reaching an agreement on a price for the quality and quantity of the product at a predetermined time and place between the buyer and seller |
| Private placement | The issuance and sale of SBN conducted by the Government to a specific buyer, with the terms and conditions in accordance with the agreement between the Government and buyer |
| Purchasing Managers' Index | Economic indicator obtained from monthly surveys of supply chain managers in the private sector |
| QR Code | A technological feature that allows payment transactions to be carried out only by scanning certain codes through a mobile application at the merchant's place of business |
| Quantitative Easing | Popular term for the addition of liquidity by the central bank into the economy |
| Regulatory framework | Laws, regulations and policies that are officially developed and approved by the Government |
| Remittance | Money transfers made by foreign workers to recipients in their home countries |
| Repo | Sale of a security with repurchase obligations in accordance with an agreed price and time period |
| Reserve Requirement | The minimum funds that must be maintained by banks in the form of cash or balances placed at Bank Indonesia |
| Reverse Repo | Purchase of a security with a promise to resell at a time and price that is predetermined |
| Sandbox | Fintech terminology that refers to keeping up with the latest financial innovations in, for example, regulation of the payment system |
| Scarring effect | The long-term impact of crises on the economy |
| Shadow banking | Non-bank financial institutions that function like banks but outside normal financial policies |

| Term | Meaning |
|---|---|
| Social assistance | Providing aid in the form of money/goods from the Regional Government to individuals, families, groups and/or communities that is ephemeral and selective in nature and that seeks to mitigate the likelihood of social risks |
| Soft infrastructure | Laws, regulations and institutions that play a role in carrying out economic, health and socio-cultural functions in a country |
| Spot | Forex transactions with settlement on the same day or a maximum of two days |
| Stance | The side or approach taken, possibly in describing economic policies |
| Start-up | A company and project initiated by a group of entrepreneurs to effectively search, develop and validate a business model |
| Structural policy | Government policies to improve the economy's capacity to supply goods and services |
| Structural reform | Fundamental changes to a system. Also see Structural policy, above |
| Sukuk | A type of long-term security based on sharia principles issued to sharia bondholders |
| Sulampua | Covers the regions of Sulawesi and Mapua |
| Super priority destination | Priority tourist destinations to be developed in 2019-2020, including Lake Toba, Borobudur-Joglosemar, Mandalika, Labuan Bajo, and Likupang |
| Suptech | Technology-based surveillance |
| Sustainable finance | Comprehensive support from the financial services industry for sustainable growth resulting from the alignment of economic, social and environmental interests |
| Tapering | Central bank policy to reduce quantitative easing, probably in the form of reduced purchases of assets such as bonds |
| Testing, tracing dan treatment (3T). | One of the main efforts to manage Covid-19, namely the 3T effort or the act of carrying out a Covid-19 test (testing), tracing close contacts (tracing), and follow-up in the form of treatment for COVID-19 patients (treatment) |
| The Fed | The Federal Reserve Board, the central bank of the United States |
| Trade repository | Trading repositories collect and maintain derivatives trading records, with the aim of helping regulators monitor increased systemic risk |
| Triple intervention | A strategy to stabilize the Rupiah exchange rate through intervention in the spot market; the provision of foreign exchange liquidity related to hedging instruments through DNDF; and the purchase of SBN on the secondary market to maintain sufficient Rupiah liquidity |
| US Treasuries | Government bonds issued by the United States Department of the Treasury to finance federal government spending |
| Variant of concern | Something that differs in some important respect from other forms of the same thing (for example, a virus) and is worthy of attention |
| Village Funds | Funds sourced from the State Budget and allocated for Villages. They are transferred through the district/city Budget and are used to finance governance, development and to empower the community |
| Vocational education | Education that supports the mastery of certain applied skills, for example technicians and nurses |
| Volatile foods | Foods whose price fluctuates markedly, probably due to shocks such as poor harvests, natural disturbances or international food prices |
| Wholesaler | Distributors who sell products to retailers |
| Yield | Return on investment |
| Yield spread | Difference between the yields on alternative financial instruments |

## GLOSSARY OF ABBREVIATIONS

| Abbreviation | Description |
|---|---|
| 3A2P | Access, Attractions, Amenities, Persons and Promotions |
| 3M | Mask Wearing, Hand Washing, Social Distancing |
| 3T | Tracing, Testing, Treatment |
| 3T | Frontier, Outlying, Remote |
| ACCD | Appointed Cross Currency Dealer |
| AE | Advanced Economy |
| AL/DPK | Liquid Assets to Deposits |
| AP | Administered Price |
| APBN | State Revenue and Expenditure Budget |
| API | Application Program Interface |
| APU PTT | Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) |
| AS | United States (US) |
| ASEAN | Association of Southeast Asian Nations |
| ASPI | Indonesia Payment System Association |
| ATM | Automated Teller Machine |
| B2B | Business to Business |
| B2C | Business to Customer |
| Bansos | Social Aid Program |
| BBI | Pride in Indonesian-Made Products |
| BCSA | Bilateral Currency Swap Arrangement |
| BI7DRR | BI 7-Day (Reverse) Repo Rate |
| BI-APS | Bank Indonesia Auction Platform System |
| BI-FAST | Bank Indonesia Fast Payment |
| BIPOLMIX | Bank Indonesia Policy Mix |
| BI-RTGS | Bank Indonesia – Real Time Gross Settlement System |
| BI-RTGS Gen 3 | Third Generation Bank Indonesia – Real Time Gross Settlement System |
| BIS | Bank for International Settlements |
| BI-SSSS | Bank Indonesia – Scripless Securities Settlement System |
| BLU | Public Services Agency |
| BNM | Bank Negara Malaysia |
| BoC | Bank of Canada |
| BoE | Bank of England |

| Abbreviation | Description |
|---|---|
| BoJ | Bank of Japan |
| BoK | Bank of Korea |
| BOR | Bed Occupancy Rate |
| BoT | Bank of Thailand |
| BPJT | Toll Road Regulatory Agency |
| BPPU | Money Market Development Blueprint |
| BPPUR | Rupiah Currency Management Blueprint |
| bps | Basis point |
| BPS | Statistics Indonesia |
| BRT | Bus Rapid Transit |
| BSP | Bangko Sentral ng Pilipinas |
| BSPI | Indonesia Payment System Blueprint |
| BTS | Buy the Service |
| BUK | Conventional Commercial Bank |
| BUMN | State-Owned Enterprise |
| BUP | Implementing Business Entity |
| BWI | Proud to Travel in Indonesia Movement |
| CAR | Capital Adequacy Ratio |
| CBDC | Central Bank Digital Currency |
| CBP | Cross-Border Payments |
| CCB | Countercyclical Capital Buffer |
| CCP | Central Counterparty |
| CCP SBNT | Interest Rate and Exchange Rate Central Counterparty |
| CCyB | Countercyclical Capital Buffer |
| CD | Conceptual Design |
| CDS | Credit Default Swap |
| CEMUMUAH | Fast, Affordable, Convenient, Secure and Reliable |
| CF | Consensus Forecast |
| Covid-19 | Coronavirus Disease 2019 |
| CPI | Consumer Price Index |
| CPM | Customer Present Mode |
| CPO | Crude Palm Oil |
| CWLS | Cash Waqf-Linked Sukuk |
| DBP | Cross-Border Payments |
| DLT | Distributed Ledger Technology |

| Abbreviation | Description |
|---|---|
| DNDF | Domestic Non-Deliverable Forward |
| DNKI | National Financial Inclusion Board |
| DPK | Deposits/Third-Party Funds |
| DSSI | Debt Service Suspension Initiative |
| EBA | Asset-Backed Security (ABS) |
| EBA-SP | Asset-Backed Securities Participatory Note |
| ECB | European Central Bank |
| EDC | Electronic Data Capture |
| EKD | Digital Economy and Finance |
| EMDE | Emerging Market and Developing Economy |
| EPU | Economic Policy Uncertainty |
| ETP | Electronic Trading Platform |
| ETP | Electronic Local Government Transactions |
| FEKDI | Indonesia Digital Economy and Finance Festival |
| FeSyar | Sharia Economic Festival |
| FFR | Federal Funds Rate |
| FinTech | Financial Technology |
| FK-PPPK | Financial Market Development and Deepening Coordination Forum |
| FLiSBI | Sharia-Compliant Liquidity Facility |
| FLTV | Financing Loan-to-Value Ratio |
| FMI | Financial Market Infrastructure |
| FOMOBO | Front Office, Middle Office and Back Office |
| FSB | Financial Stability Board |
| FTV | Financing-to-Value Ratio |
| FX | Foreign Exchange |
| G20 | Group of Twenty |
| G2P | Government to Private |
| GAP | Good Agricultural Practices |
| Gernas BBI | National BBI Movement Promoting Pride in Indonesian-Made Products |
| GFC | Global Financial Crisis |
| GMRA | Global Master Repurchase Agreement |
| GPN | National Payment Gateway (NPG) |
| GSO | Greenshoe Option |
| GVC | Global Value Chain |
| GWM | Reserve Requirements (RR) |

| Abbreviation | Description |
|---|---|
| HBKN | National Religious Holidays |
| Horeka | Hotels, Restaurants and Cafes |
| HVC | Halal Value Chain |
| ICC | Investor Conference Call |
| IHK | Consumer Price Index (CPI) |
| IHKEI | Indonesia Export Price Index |
| IHSG | Jakarta Composite Index (JCI) |
| IKM | Small-Medium Industries |
| IKNB | Nonbank Financial Industry (NBFI) |
| IMF | International Monetary Fund |
| INA | Investment Authorities |
| IndONIA | Indonesia Overnight Index Average |
| IOMKI | Operational and Mobility Permits |
| IoT | Internet of Things |
| IRS | Interest Rate Swap |
| IRU | Investor Relations Unit |
| ISEF | Indonesia Sharia Economic Festival |
| ISSK | Financial System Stability Index (FSSI) |
| JIBOR | Jakarta Interbank Offered Rate |
| JKN | National Health Insurance Program |
| JPKI | Global Financial Safety Net (GFSN) |
| K/L | Government Ministries/Institutions |
| Kemenkomarves | Coordinating Ministry for Maritime and Investment Affairs |
| KemenPUPR | Ministry of Public Works and Housing |
| KIK | Collective Investment Contract |
| KIK-EBA | Asset-Backed Securities – Collective Investment Contract |
| KKB | Automotive Loan |
| KKI | Indonesia Creative Works |
| KMK | Working Capital Loans |
| KNEKS | National Islamic Economy and Finance Committee |
| KPA | Apartment Loan |
| KPPK | Implementation of Prudential Principles |
| KPSH | Supply Availability and Price Stability |
| KPwDN | Domestic Bank Indonesia Representative Office |

| Abbreviation | Description |
|---|---|
| KSSK | Financial System Stability Committee |
| LCS | Local Currency Settlement |
| LDC | Least Developed Country |
| LIBOR | London Interbank Offered Rate |
| LoLR | Lender of Last Resort |
| LPS | Indonesia Deposit Insurance Corporation |
| LTV | Loan-to-Value Ratio |
| LTV KPR | Housing Loan-to-Value Ratio |
| LU | Economic Sector |
| LVC | Local Value Chain |
| MDR | Merchant Discount Rate |
| Migas | Oil and Gas |
| MLFF | Multi Lane Free Flow |
| MPM | Merchant Present Mode |
| mtm | Month-to-month |
| NIM | Net Interest Margin |
| NKRI | Republic of Indonesia |
| NPF | Non-Performing Financing |
| NPI | Indonesia's Balance of Payments (BOP) |
| NPL | Non-Performing Loan |
| NWGBR | National Working Group on Benchmark Reform |
| O/N | Overnight |
| OIS | Overnight Index Swap |
| OJK | Financial Services Authority |
| OPT | Open Market Operations (OMO) |
| OTC | Over the Counter |
| P2P | Peer-to-Peer |
| P3DN | Increasing Utilisation of Domestic Products |
| PADG | Regulation of the Board of Governors |
| PaSBI | Sharia-Compliant Liquidity Management |
| PBI | Bank Indonesia Regulation |
| PDB | Gross Domestic Product |
| Pemda | Regional Government |
| PEN | National Economic Recovery |
| Perlinsos | Social Protections |
| PIP | Payment System Infrastructure Operators |
| PJP | Payment Service Provider (PSP) |

| Abbreviation | Description |
|---|---|
| PJPUUR | Rupiah Currency Management Services Provider |
| PKH | Family Hope Program |
| PKS | Cooperation Agreement |
| PLJP | Short-Term Liquidity Assistance |
| PLJPS | Sharia-Compliant Short-Term Liquidity Assistance |
| PLK | Special Liquidity Loan |
| PLM | Macroprudential Liquidity Buffer (MPLB) |
| PMA | Foreign Direct Investment (FDI) |
| PMI | Purchasing Managers Index |
| PMTB | Gross Fixed Capital Formation (GFCF) |
| PON | National Sports Week |
| POS | Point of Sale |
| PPKM | Community Activity Restrictions |
| PPnBM | Sales Tax on Luxury Goods |
| PSN | National Strategic Projects |
| PSPK | Critical Payment System Provider |
| PSPS | Systemic Payment System Provider |
| PSPU | General Payment System Provider |
| ptp | Point-to-point |
| PUAB | Interbank Money Market |
| PUAB O/N | Overnight Interbank Money Market |
| PUAS | Sharia Interbank Money Market |
| QE | Quantitative Easing |
| QR | Quick Response |
| QR Code | Quick Response Code |
| QRIS | Quick Response Code Indonesia Standard |
| QRIS TTM | Contactless Quick Response Code Indonesia Standard |
| QRIS TTS | Quick Response Code Indonesia Standard Transfer, Withdrawal and Deposit |
| Rakornas | National Coordination Meeting |
| RBI | Reserve Bank of India |
| RBNZ | Reserve Bank of New Zealand |
| RDG | Board of Governors Meeting |
| Repo | Repurchase Agreement |
| RFP | Request for Payment |

| Abbreviation | Description |
|---|---|
| RIM | Macroprudential Intermediation Ratio (MIR) |
| RPIM | Macroprudential Inclusive Financing Ratio |
| SAM | Security Access Module |
| SBC | Structured Bilateral Cooperation |
| SBDK | Prime Lending Rate (PLR) |
| SBK | Commercial Paper |
| SBN | Tradeable Government Securities |
| SBSN | Government Sharia Securities |
| SDM | Human Resources (HR) |
| SDR | Special Drawing Rights |
| Sekber | Joint Secretariat |
| SGF | Sustainable and Green Finance |
| SI APIK | Financial Information Recording Application |
| SiPA | Sharia-Compliant Interbank Fund Management Certificates |
| SKNBI | National Clearing System |
| SLA | Service Level Agreement |
| SNAP | National Open API Payment Standard |
| SN-PPPK | National Financial Market Development and Deepening Strategy |
| SOP | Standard Operating Procedure |
| SPI | Indonesia Payment System |
| SRO | Self-Regulated Organisation |
| SUKBI | Bank Indonesia Sukuk |
| SUN | Government Debt Security |
| TBP | Guaranteed Interest Rate |

| Abbreviation | Description |
|---|---|
| TIK | Information and Communication Technology |
| TKDD | Regional Transfers and Village Fund Disbursements |
| TMF | Capital and Financial Account |
| TP2DD | Regional Digitalisation Acceleration and Expansion Team |
| TPID | Regional Inflation Control Team |
| TPIP | National Inflation Control Team |
| TPT | Textiles and Textile Products |
| UE | Electronic Money |
| UKE | Small Enterprise |
| ULE | Fit for Circulation |
| ULN | External Debt |
| UMI | Micro Enterprise |
| UMKM | Micro, Small and Medium Enterprises (MSME) |
| UUCK | Omnibus Law on Job Creation |
| UYD | Currency in Circulation |
| Valas | Foreign Exchange |
| VF | Volatile Food |
| VIX | Volatility Index |
| WB | World Bank |
| WHO | World Health Organisation |
| Wisman | International Travellers |
| WTV | World Trade Volume |

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