



BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

MONETARY POLICY REVIEW

December 2020







Foreword

The Monetary Policy Review (MPR) is published monthly by Bank Indonesia after the Board of Governors' Meeting each January, March, April, June, July, September, October and December. This report is intended as a medium for the Board of Governors of Bank Indonesia to present to the public the latest evaluation of monetary conditions, assessment, and forecast for the Indonesian

economy, in addition to the Bank Indonesia monetary policy response published quarterly in the Monetary Policy Report in February, May, August, and November. Specifically, the MPR presents an evaluation of the latest developments in inflation, the exchange rate, and monetary conditions during the reporting month and decisions concerning the monetary policy response adopted by Bank Indonesia.



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Executive Summary

Global economic improvements have endured and are projected to accelerate in 2021. The global economic gains come amidst increasing mobility and the impact of ongoing policy stimuli in various countries, particularly the United States and China. Several early indicators in November 2020 pointed to ongoing global economic improvements. The upward Manufacturing and Services PMI trends have persisted in the United States and China, consumer and business confidence are growing in the United States, China and Europe, and unemployment has fallen in many jurisdictions. Consequently, the global economy is projected to grow at approximately 5.0% in 2021 after contracting 3.8% in 2020. Moving forward, the speed of the global economic recovery will be affected by the COVID-19 vaccine rollout, increasing mobility as well as ongoing fiscal and monetary stimuli. Stronger global economic performance will catalyse world trade volume

and raise international commodity prices in line with previous projections. Meanwhile, global financial market uncertainty is expected to dissipate due to positive expectations surrounding the global economic outlook in line with the availability of COVID-19 vaccines, abundant global liquidity, low interest rates and a weak US dollar. Such developments will trigger a surge of capital flows to developing economies, thus strengthening local currencies, including in Indonesia.

At home, domestic economic growth is expected to gradually gain momentum and accelerate in 2021. This was confirmed by several positive indicators in November 2020, including increasing public mobility in several regions, ongoing improvements in the Manufacturing PMI as well as stronger consumer confidence and expectations concerning incomes, job availability and business activity. Moving forward,



vaccinations and discipline in terms of implementing COVID-19 protocols are prerequisites for the national economic recovery process. Under such conditions, Bank Indonesia expects national economic growth to regain positive momentum in the fourth quarter of 2020, thus recording -1% to -2% in 2020 before accelerating to 4.8-5.8% in 2021. Indonesia's Balance of Payments (BOP) remains solid, thereby reinforcing external sector resilience. Supported by Bank Indonesia's stabilisation measures and maintained foreign capital inflows to domestic financial markets, rupiah exchange rates have been maintained. Inflation remains low on weak domestic demand and adequate supply. In line with Bank Indonesia's accommodative monetary and macroprudential policy stance, liquidity conditions are loose, prompting lower interest rates and stimulating economic financing. Cash and non-cash payment system transactions are increasing in line with the economic recovery, accompanied by rapid economic and financial digitalisation.

Bank Indonesia will strengthen monetary expansion synergy with fiscal stimuli by the Government in order to build national economic recovery momentum. Bank Indonesia continues its commitment to funding the 2020 state budget through SBN purchases in the primary market in accordance with Act No. 2 of 2020, through market mechanisms and private placement, as part of the efforts to accelerate the national economic recovery program, while maintaining macroeconomic stability. As of 15th December 2020, Bank Indonesia had purchased Rp75.86 trillion worth of SBN in the primary market through market mechanisms pursuant to the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 16th April

2020, including auction schemes, greenshoe options (GSO) and private placement. Meanwhile, funding realisation and burden sharing to fund public goods in the 2020 state budget by Bank Indonesia through private placement in accordance with the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 7th July 2020 currently stand at Rp397.56 trillion. Overall, therefore, Bank Indonesia has purchased SBN for funding and burden sharing in the 2020 state budget for the national economic recovery program totalling Rp473.42 trillion. In addition, Bank Indonesia has also realised burden sharing with the Government to fund non-public goods-SME totalling Rp114.81 trillion and non-public goods-corporate totalling Rp62.22 trillion pursuant to the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 7th July 2020. Through such synergy, the Government can focus on accelerating state budget realisation in order to drive national economic recovery momentum.

Based on those considerations, the BI Board of Governors agreed on 16th and 17th December 2020 to hold the BI 7-Day Reverse Repo Rate at 3.75%, while also maintaining the Deposit Facility (DF) rate at 3.00% and Lending Facility (LF) rate at 4.50%. The decision is consistent with projected low inflation and maintained external stability, coupled with efforts to support the economic recovery. Bank Indonesia has strengthened policy synergy and backs the various follow-up policies to build national economic recovery optimism through the gradual reopening of productive and safe economic sectors, accelerating fiscal stimuli, increasing bank lending on the demand and supply sides, maintaining monetary and macroprudential stimuli as well as expediting economic and financial digitalisation.



CHAPTER I

Global Economic Developments

Global economic improvements have endured and are projected to accelerate in 2021. The global economic gains come amidst increasing mobility and the impact of ongoing policy stimuli in various countries, particularly the United States and China. Several early indicators in November 2020 pointed to ongoing global economic improvements. The upward Manufacturing and Services PMI trends have persisted in the United States and China, consumer and business confidence are growing in the United States, China and Europe, and unemployment has fallen in many jurisdictions. Consequently, the global economy is projected to grow at approximately 5.0% in 2021 after contracting 3.8% in 2020. The speed of

the global economic recovery will be affected by the COVID-19 vaccine rollout, increasing mobility as well as ongoing fiscal and monetary stimuli. Stronger global economic performance will catalyse world trade volume and raise international commodity prices in line with previous projections. Meanwhile, global financial market uncertainty is expected to dissipate due to the positive expectations surrounding the global economic outlook in line with the availability of COVID-19 vaccines, abundant global liquidity, low interest rates and a weak US dollar. Such developments will trigger a surge of capital flows to developing economies, thus strengthening local currencies, including in Indonesia.

Global Economic Improvements Have Endured

Globally, total COVID-19 cases continue to rise despite a lower fatality rate. The latest developments show that total global COVID-19 cases continue to climb, exceeding 72 million on 13th December 2020 and more than 1.6 million in terms of total fatalities (Table 1.1). The latest statistics have been driven by a surge of daily new cases as a third wave of infections hits the United States and a second wave spreads across Turkey, Germany, Brazil and Russia. Notwithstanding, the fatality rate continues to decline in all regions (Graph 1.1).

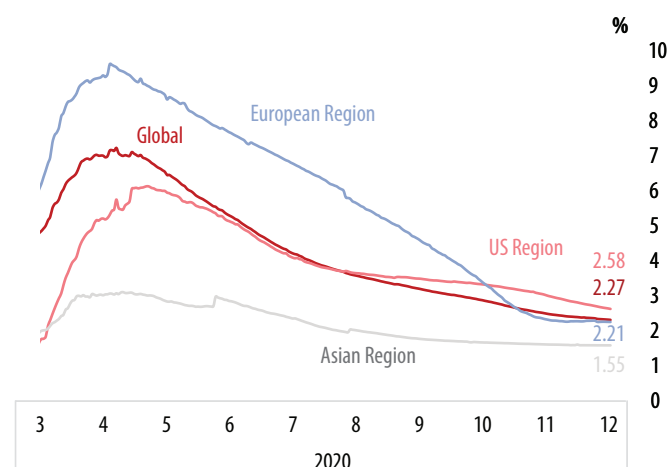
The monetary and fiscal stimulus support implemented by authorities around the world throughout 2020 has spurred economic recovery momentum from the devastating impact of the COVID-19 pandemic. In advanced economies, with near-zero policy rates, central banks have also introduced monetary stimuli in the form of liquidity injections (quantitative easing) to the financial sector, banking industry in particular, through asset purchase programs targeting the government and private bond markets as well as loan securitisation. In developing economies, monetary stimuli include a combination of lower policy rates and liquidity injections to the banking industry and financial markets. The magnitude of policy rate reductions is in line with lower inflation and the need to maintain exchange rate stability. In general,

Table 1.1 COVID-19 Confirmed Cases

No	Country	Confirmed Cases	Total Deaths	Fatality Rate (%)	Total Recovered
1	US	16,737,267	306,459	1.83	9,724,439
2	India	9,884,716	143,393	1.45	9,388,159
3	Brazil	6,901,990	181,419	2.63	5,982,953
4	France	2,653,928	46,941	1.77	2,106,235
5	Russia	2,376,852	57,911	2.44	176,995
6	Spain	1,849,403	64,170	3.47	N/A
7	UK	1,843,712	64,520	3.50	1,093,161
8	Argentina	1,836,728	16,417	0.89	1,603,780
9	Italy	1,741,439	47,624	2.73	150,376*
10	Colombia	1,498,160	40,766	2.72	1,335,317
21	Indonesia	617,820	18,819	3.05	505,836
	Rest of Affected Country	24,705,067	630,466	2.55	18,461,665
	Total	72,647,082	1,618,905	2.23	50,378,540

Source: www.worldometers.info/coronavirus; per 13 Dec 2020. *Data Bloomberg

Graph 1.1 COVID-19 Global Fatality Rate

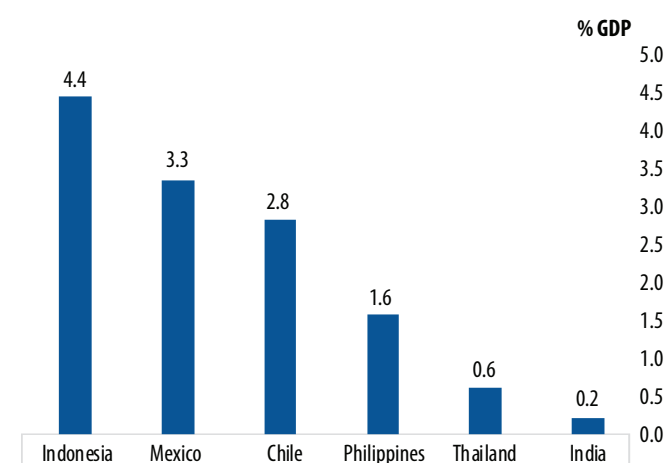


Source: WHO, calculated

liquidity injections (QE) have been implemented through monetary operations considering the underdeveloped financial assets in the secondary market. As a percentage of GDP, Bank Indonesia has instituted the largest total QE, followed by Mexico, Chile and the Philippines (Graph 1.2). The ongoing stimuli are expected to boost consumption and investment activity in developing and advanced economies in 2021.

Expectations of maintained accommodative monetary policy will reinforce the global economic recovery in 2021. The US Federal Reserve has maintained an ultra-accommodative policy stance through low interest rates and potential asset purchases

Graph 1.2 Developing Economies Quantitative Easing



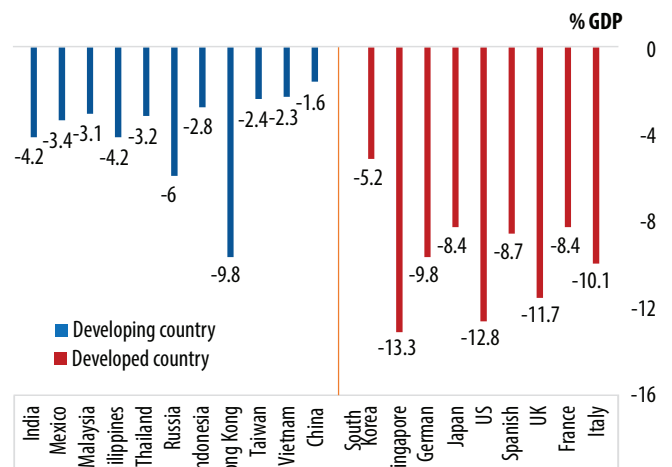
Source: Haver, Various Central Banks, Tellimer Research, Bank Indonesia, calculated

of longer tenors. The Fed's sustained monetary policy of quantitative easing and special purpose vehicles (SPV) is alleviating financial market pressures and supports lending. The European Central Bank (ECB) has increased its Pandemic Emergency Purchase Programme (PEPP) allocation to EUR1.85 trillion and extended the program until March 2022 in order to contain the impact of second-wave infections and maintain market expectations. The recalibration also aims to ensure that financing conditions remain conducive to the economic recovery and raise inflation expectations. Meanwhile, the Bank of Japan (BOJ) has maintained accommodative policy and financing support for the corporate sector through: (i) a special program to support financing during the COVID-19 pandemic; (ii) guarantees to ensure adequate yen and foreign currency liquidity without upper bounds; and (iii) active asset purchases, including Exchange Traded Funds (ETF). The People's Bank of China (PBoC) continued to inject liquidity in December 2020 and will maintain targeted and flexible policies based on the domestic and external challenges faced, with gradual policy normalisation a possibility.

The expansive global fiscal policy response is expected to persist in order to mitigate the risks of COVID-19 and stimulate economic recovery.

In general, fiscal stimuli have been allocated to health budgets, social aid programs, business incentives specifically targeting micro, small and medium enterprises (MSME), as well as tax relief for the corporate sector. Extraordinary government spending amidst lower tax revenues has significantly increased fiscal deficits in many jurisdictions (Graph 1.3). In the United States, monetary and fiscal policy coordination will remain ultra-accommodative with discussions ongoing concerning a new USD908 billion stimulus package to save small businesses, namely the paycheck protection program for

Graph 1.3 Global Increase in Fiscal Deficit



Source: OECD, Ministry of Finance, Bloomberg, * Data up to November 2020

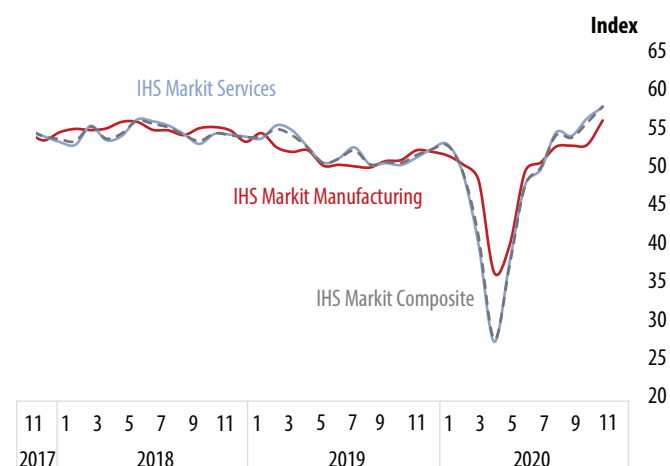
small businesses, provide unemployment benefits as well as assist other sectors impacted by COVID-19. In Europe, the EUR750 billion Disbursement European Recovery Fund is scheduled to begin in 2021, which will catalyse economic recovery momentum in Europe and mitigate the Brexit impact. Fiscal stimuli in Europe, supported by a financing strategy that includes domestic and Union funds, are expected to reinforce the economic recovery moving forward. In Japan, a USD0.7 trillion phase III stimulus package, equivalent to 13% of GDP, has been agreed in order to provide financial market assurance and reform Japan's economy for the post-pandemic era through digital transformation, green society realisation as well as the reorganisation of small and medium enterprises (SMEs) and the supply chain. The authorities in China are maintaining fiscal stimuli, dominated by infrastructure spending, underpinned by higher government revenues, mainly off-budget revenues, through bond issuance realisation.



The global economic gains come amidst increasing mobility and the impact of ongoing policy stimuli in various countries, particularly the United States and China.

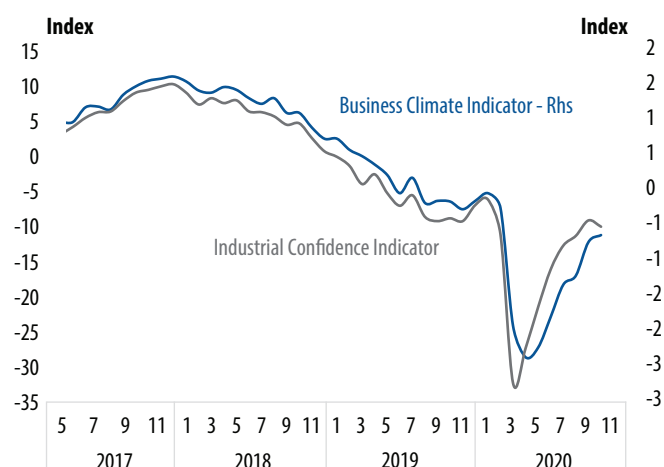
The recent approval and availability of COVID-19 vaccines has sparked increasing mobility and economic activity. At the beginning of December 2020, several countries began to roll out vaccine programs, including United Kingdom, United States and other countries. Such positive developments coupled with strong distribution factors are expected to enable widespread vaccine availability in the first semester of 2021. In the near term, optimism stoked by the availability of vaccines has increased economic confidence and expectations that the economic recovery will progress as expected. In the long term, the economic impact of COVID-19 vaccines will gradually increase in advanced and developing economies. Several early indicators in November 2020 confirmed ongoing global economic improvements, such as the upward Manufacturing and Services PMI trends persisting in the United States and China, as well as growing consumer and business confidence in the United States, China and Europe (Graph 1.4 and 1.5). Consequently, the global economy is projected to grow at approximately 5.0% in 2021 after contracting 3.8% in 2020, which is consistent with the projections of international institutions, including the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD) and Consensus Forecast (CF), which projected economic expansion in 2021 after contracting in 2020 (Table 1.2).

Graph 1.4 US Manufacturing PMI



Source: IHS Markit

Graph 1.5 European Business Climate and Industrial Confidence



Source: CEIC

The promising global economic growth outlook is supported by advanced and developing economies.

Economic gains in the US are expected to persist despite the third wave of COVID-19 infections. Growing demand is increasing manufacturing and services activities and stimulating production, which will ultimately improve labour absorption in the economy. In 2021, stronger consumption due to the ongoing stimuli will boost the economic and investment outlooks. Therefore, the US economy is projected to expand 4.3% in 2021 after contracting 3.8% in 2020. The economic recovery in Europe is underpinned by stimuli and COVID-19 containment measures despite the inherent risk of Brexit uncertainty. Europe's economic outlook will depend on the vaccination process, with the region planning to implement a vaccination program in 2021 along with other advanced economies. In 2021, Europe's economy is projected to expand 5.0% after contracting 7.2% in 2020. Meanwhile, economic recovery in China is supported by an ongoing services sector recovery as well as solid manufacturing growth. Looking ahead, economic expansion in China will be supported by the availability of vaccines and execution of the long-term RCEP plan, together with the dual circulation strategy. Therefore, China's economy is projected to grow 7.8% in 2021 after moderating to 2.1% in 2020.

Table 1.2 Global Economic Growth Projections

	2019	WEO (IMF)				OECD				Consensus Forecast (CF)				Bank Indonesia	
		Jun 2020		Oct 2020		Sept 2020 (Interim)		Dec 2020		Oct 2020		Nov 2020		Dec 2020 Projection	
		2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
World	2.7	-5.2	5.4	-4.4 ↑	5.2 ↓	-4.5	5.0	-4.2 ↑	4.2 ↓	-3.9	5.6	-4.0 ↓	5.4 ↓	-3.8	5.0
Advanced Economies	1.6	-8.1	4.8	-5.8 ↑	3.9 ↓					-5.6	4.3	-5.2 ↑	4.0 ↓	-4.9	4.0
United States of America	2.2	-8.0	4.5	-4.3 ↑	3.1 ↓	-3.8	4.0	-3.7 ↑	3.2 ↓	-4.0	3.7	-3.7 ↑	3.8 ↑	-3.8	4.3
Euro area	1.3	-10.2	6.0	-8.3 ↑	5.2 ↓	-7.9	5.1	-7.5 ↑	3.6 ↓	-7.5	5.3	-7.3 ↑	4.7 ↓	-7.2	5.0
Japan	0.3	-5.8	2.4	-5.3 ↑	2.3 ↓	-5.8	1.5	-5.3 ↑	2.3 ↑	-5.7	2.5	-5.5 ↑	2.5	-5.7	2.5
Emerging Market & Developing Economies	3.7	-3.1	5.8	-3.3 ↓	6.0 ↑					-2.4	6.8	-2.9 ↓	6.7 ↓	-2.9	5.6
China	6.1	1.0	8.2	1.9 ↑	8.2	1.8	8.0	1.8	8.0	2.3	7.9	2.0 ↓	7.9	2.1	7.8
India	4.2	-4.9	5.8	-8.6 ↓	6.8 ↑	-10.2	10.7	-9.9 ↑	7.9 ↓	-9.7	10.9	-9.4 ↑	10.2 ↓	-8.8	8.2
ASEAN-5	4.9	-2.0	6.2	-3.4 ↓	6.2					-3.8	5.7	-2.7 ↑	3.9 ↓	-3.0	6.2
Latin America	0.0	-9.4	3.7	-8.1 ↑	3.6 ↓					-7.8	4.0	-7.6 ↑	4.1 ↑	-7.5	3.1
Emerging and Developing Europe	2.1	-5.8	4.3	-4.6 ↑	3.9 ↓					-4.4	4.1	-4.1 ↑	4.0 ↓	-5.0	3.2
Middle East & North Africa	1.4	-4.5	3.5	-4.1 ↑	3.0 ↓									-3.8	3.2

Source: IMF, OECD, Consensus Forecast, and Bank Indonesia's Projection

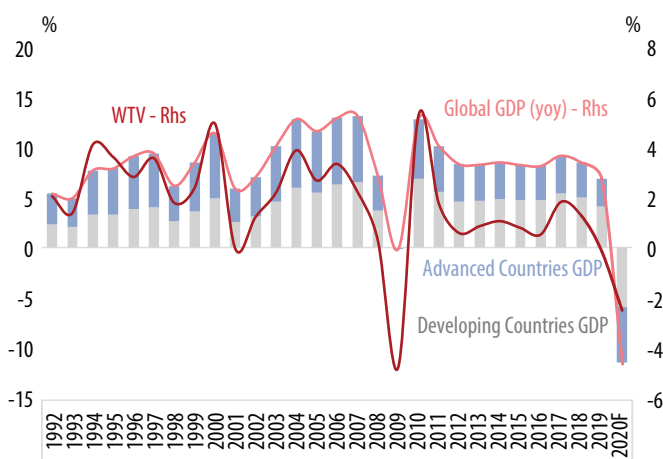
Higher World Trade Volume and International Commodity Prices

World trade volume is increasing on stronger global economic performance. Higher production in advanced and developing economies is edging up world trade volume (Graph 1.6). This was confirmed by the Drewry World Container Index in November 2020, which soared to its highest level in 2020 at 3,059.74 after slumping to its lowest point in April 2020 with a reading of 1,446.22, which is indicative of recovering export activity in various countries (Graph 1.7). Therefore, world trade volume

growth is expected to return to positive territory in 2021 in line with the global economic recovery. Further global economic improvements in 2021 will stimulate production activity as well as demand for imported goods and global exports.

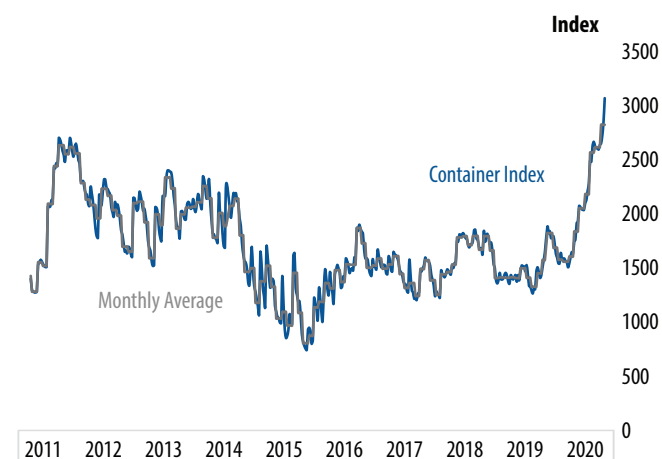
Consistent with higher world trade volume, international commodity prices are expected to rise on the back of global economic gains. Indonesia export prices will increase as a corollary of strong commodity demand for production and investment purposes in line with the global economic recovery (Table 1.3). Indonesia export prices are expected to maintain positive growth in 2021 based on economic

Graph 1.6 World Trade Volume



Source: CPB, IMF, Bank Indonesia, calculated

Graph 1.7 Drewry World Container Index



Source: Drewry World Container Index, Bloomberg; Data as of November 26, 2020

Table 1.3 Commodity Prices

Commodity	2018	2019	2020			
			Q1	Q2	Q3	YTD*
Copper	6.7	-7.8	-7.8	-12.3	11.8	1.8
Coal	2.5	-8.6	-8.0	-28.2	-27.9	-20.1
CPO	-19.2	-2.3	33.3	14.0	35.5	27.5
Rubber	-16.8	12.4	-18.6	-22.7	3.8	-3.6
Nickel	27.8	7.0	3.8	0.0	-8.1	-1.5
Tin	0.5	-7.5	-17.2	-20.4	3.1	-7.3
Aluminium	7.4	-14.1	-5.8	-15.9	-2.6	-4.6
Coffee	-15.4	-11.8	14.8	-2.8	2.9	4.8
Others	1.2	-0.7	-2.1	-5.6	-4.9	-4.3
Indonesian Export Commodity Price Index	-2.8	-3.0	1.5	-10.4	-1.7	-2.0
Oil (Brent)**	71	64	51	31	43	42

Source: Bloomberg; *) IHKEI as of 11 December 2020;

**) Oil as of 14 December 2020; In USD / barrel; other commodities (%yoy)

expansion in China. Meanwhile, the global oil price is tracking an upward trend in response to global economic recovery optimism amidst low supply triggered by high compliance to the oil cuts agreed by OPEC+. The oil price is expected to continue rising in line with global economic expansion.

Capital Flows to Developing Economies Maintained

Expectations of global economic expansion due to vaccine availability have lowered financial market uncertainty and maintained capital inflows to developing economies. The global economic recovery outlook is promising as a result of vaccine availability, increasing mobility and the ongoing impact of policy stimuli on consumption and investment activities, which has reduced uncertainty and attracted capital flows to developing economies. Lower global financial market uncertainty is reflected by declines in the Economic Policy Uncertainty and VIX indexes, as well as risk indicators in developing economies. Positive developments were observed in terms of narrower Emerging Market Bond Index (EMBI) spread and credit default swaps (CDS) in most developing economies, including Indonesia. Lower uncertainty has attracted capital inflows to developing economies, particularly emerging Asia as the main destination of capital inflows, thereby strengthening currencies in the region, including Indonesia.



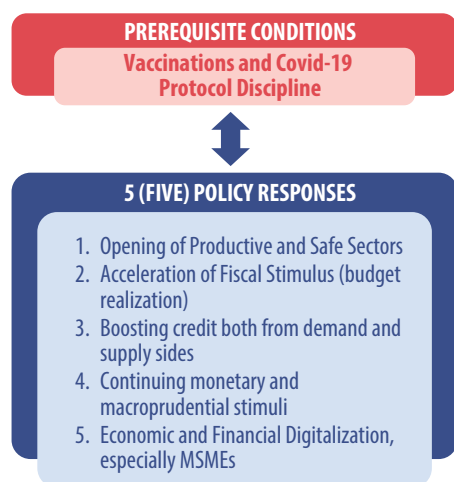
CHAPTER II

Domestic Economic Developments

At home, domestic economic growth is expected to incrementally gain momentum and accelerate in 2021. This was confirmed by several positive indicators in November 2020, including increasing public mobility in several regions, ongoing improvements in the Manufacturing PMI as well as stronger consumer confidence and expectations concerning incomes, job availability and business activity. Moving forward, vaccinations and discipline in terms of implementing COVID-19 protocols are prerequisites for the national economic recovery process (Figure 2.1). The promising domestic economic outlook is also supported by various policy measures aimed at: (i) reopening productive and safe sectors nationally and in each respective

region; (ii) accelerating fiscal stimuli; (iii) stimulating bank lending on the supply and demand sides; (iv) maintaining monetary and macroprudential stimuli; and (v) accelerating economic and financial digitalisation, particularly in terms of SME development. Under such conditions, Bank Indonesia expects national economic growth to regain positive momentum in the fourth quarter of 2020, recording -1% to -2% in 2020 before accelerating to 4.8-5.8% in 2021. Bank Indonesia will continue to strengthen synergy with the Government and other relevant authorities in order to implement the follow-up policy measures necessary to effectively stimulate economic recovery.

Figure 2.1 Prerequisite Condition and 5 (five) Policy Responses



Source: Bank Indonesia

Stronger Domestic Economic Growth Expected to Persist in 2021

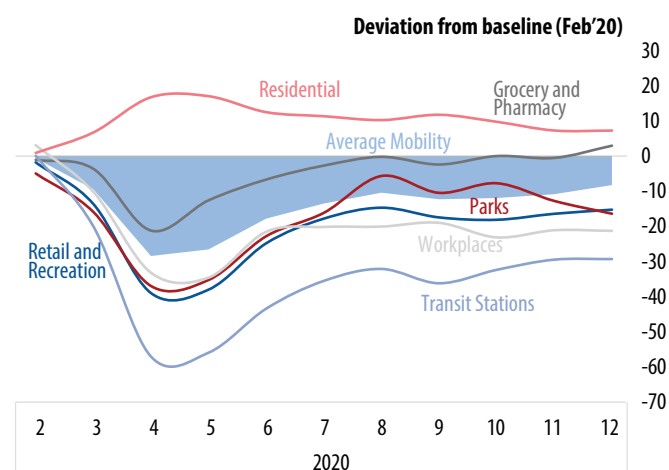
Domestic economic growth is expected to accelerate in 2021. Faster economic growth will stem from global economic gains, bolstered by the policy response to support economic recovery. In terms of mobility, the latest developments indicate increasing public mobility in December 2020, particularly in terms of grocery and pharmacy shopping, retail and recreation, workplaces and transit stations (Graph 2.1). Increasing public mobility has been recorded in several Indonesian provinces, including the Jakarta Special

Table 2.1 Economic Growth by Expenditure

Components	% yoy												
	2018				2018	2019				2019	2020		
	I	II	III	IV		I	II	III	IV		I	II	III
Household Consumption	4.96	5.17	5.00	5.08	5.05	5.02	5.18	5.01	4.97	5.04	2.83	-5.52	-4.04
Non-Profit Institution Serving Household (NPISH) Consumption	8.12	8.77	8.61	10.82	9.10	16.96	15.29	7.41	3.53	10.62	-5.09	-7.75	-2.12
Government Consumption	2.71	5.21	6.26	4.56	4.80	5.22	8.23	0.98	0.48	3.25	3.75	-6.90	9.76
Investment (GFCF)	7.92	5.81	6.92	6.01	6.64	5.03	4.55	4.21	4.06	4.45	1.70	-8.61	-6.48
Building Investment	6.12	4.96	5.60	5.02	5.41	5.48	5.46	5.03	5.53	5.37	2.76	-5.26	-5.60
NonBuilding Investment	13.56	8.33	10.73	8.96	10.31	3.69	1.96	1.95	-0.13	1.80	-1.46	-18.62	-8.99
Exports	5.84	7.48	8.34	4.59	6.55	-1.58	-1.73	0.10	-0.39	-0.87	0.23	-11.66	-10.82
Imports	12.46	14.94	13.77	7.11	11.88	-7.47	-6.84	-8.30	-8.05	-7.69	-2.19	-16.96	-21.86
GDP	5.06	5.27	5.17	5.18	5.17	5.07	5.05	5.02	4.97	5.02	2.97	-5.32	-3.49

Source: BPS

Graph 2.1 Mobility of Indonesian People

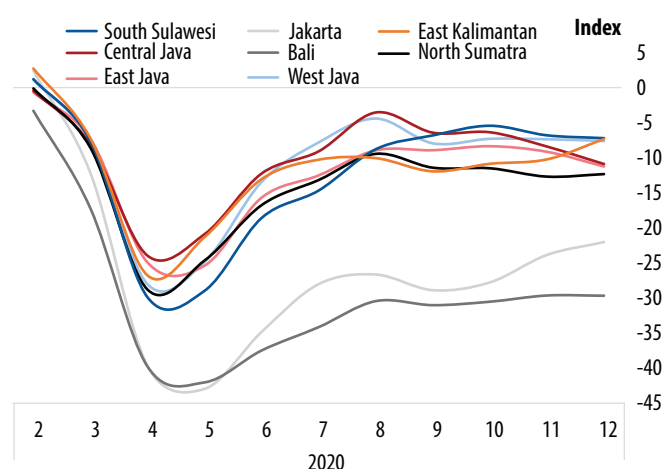


Source: Google Covid-19 Community Mobility Reports

Capital Region, North Sumatra and East Kalimantan (Graph 2.2). Nevertheless, total positive COVID-19 cases in Indonesia continue to rise, accompanied by flatter recovery and fatality rates in line with ongoing COVID-19 containment measures (Graph 2.3). In addition, COVID-19 transmission remains high in several provinces. In response, authorities in the Jakarta Special Capital Region, Banten province and five regencies/cities in West Java have maintained strict COVID-19 protocols.

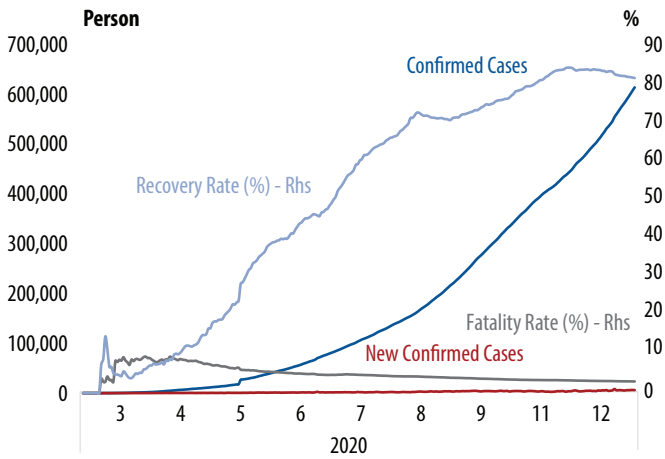
Positive export performance is supporting the economic recovery. Non-oil and gas exports accelerated in November 2020 to the fastest rate recorded since the COVID-19 outbreak at 3.0% (yoy) after contracting -7.4% (yoy) in October 2020 (Graph 2.4). The broad-

Graph 2.2 Community Mobility in Several Big Cities in Indonesia



Source: Google Mobility Report

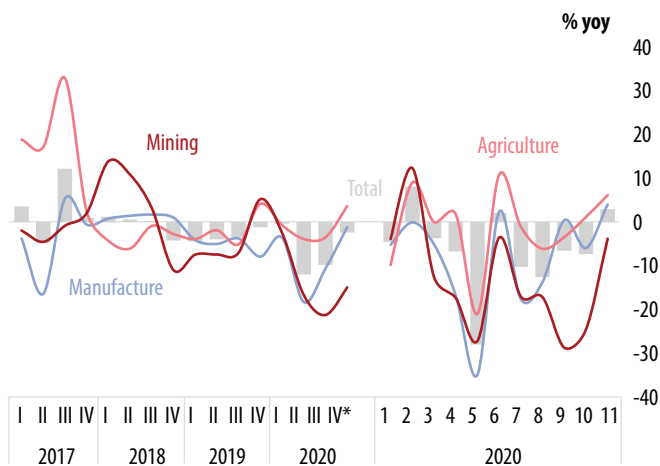
Graph 2.3 National COVID-19 Pandemic Spread



Source: WHO, Task Force for the Acceleration of Covid-19 Handling (calculated); Data as of 13 December 2020

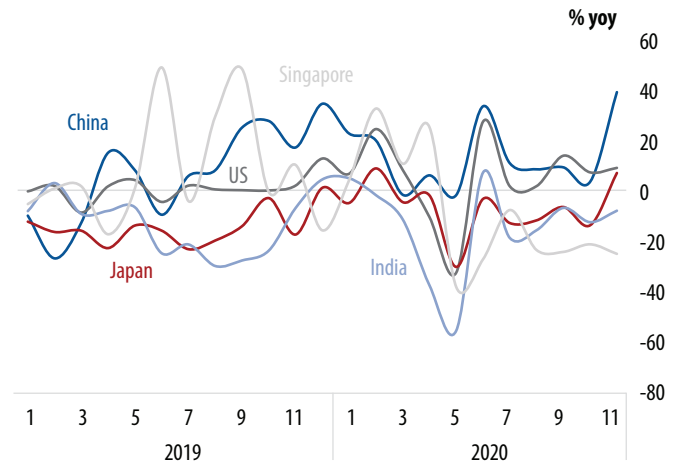
based gains were observed across all components of non-oil and gas exports, led by positive agricultural and manufacturing exports. Agricultural exports were boosted by CPO and coffee on higher commodity prices in the international market. Manufacturing export performance has also improved, primarily driven by iron and steel, paper as well as food and beverages. Meanwhile, mining exports recorded a shallower contraction, alleviated by coal, metal ore as well as non-ferrous metals. Stronger non-oil and gas export performance is in line with growing external demand, particularly from China (Graph 2.5).

Graph 2.4 Non-Oil and Gas Exports



Source: Bank Indonesia; *Data as of November 2020

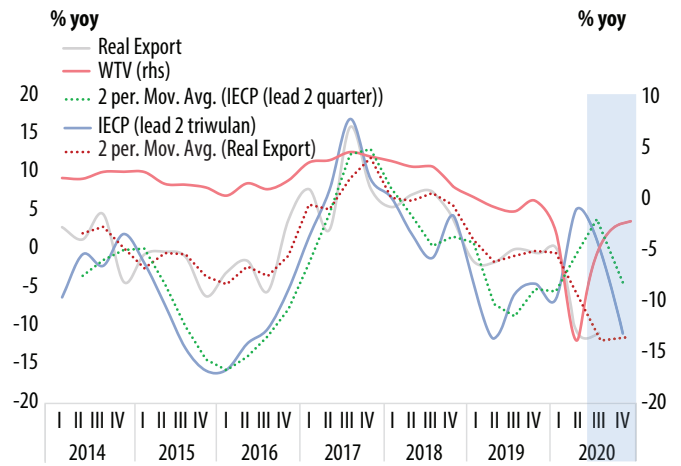
Graph 2.5 Exports to Major Trading Partner Countries



Source: Bank Indonesia

The global economic gains are expected to assist advanced and developing countries, thus improving export performance and supporting the national economic recovery in 2021. World trade volume and international commodity prices are predicted to improve beyond previous projections, thereby boosting demand for Indonesia's export products (Graph 2.6). The positive export outlook is also bolstered by increasing global activity, as reflected by a bump in the global PMI, which will stimulate demand for export products from Indonesia. Such optimism is consistent with the characteristics of Indonesia's export commodities

Graph 2.6 IHKEI, WTV, and Indonesian Exports



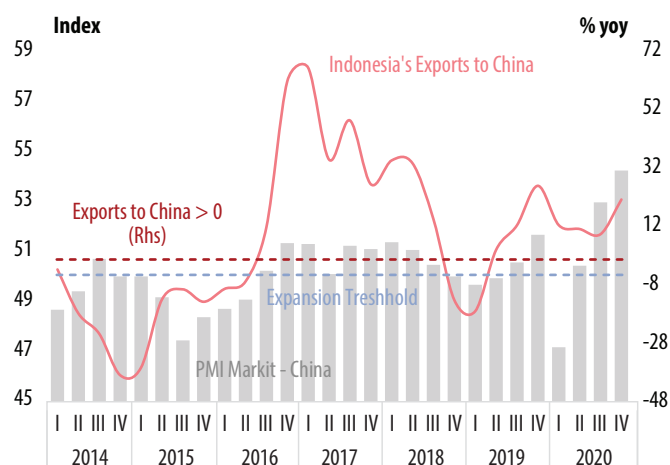
Source: BPS, CPB World Trade Monitor

that correlate positively with external demand. More specifically, Indonesia's export outlook is supported by economic recoveries in the major export destinations, including China (Graph 2.7).

Spatially, the improvement in export performance is supported by positive export growth from outside Java.

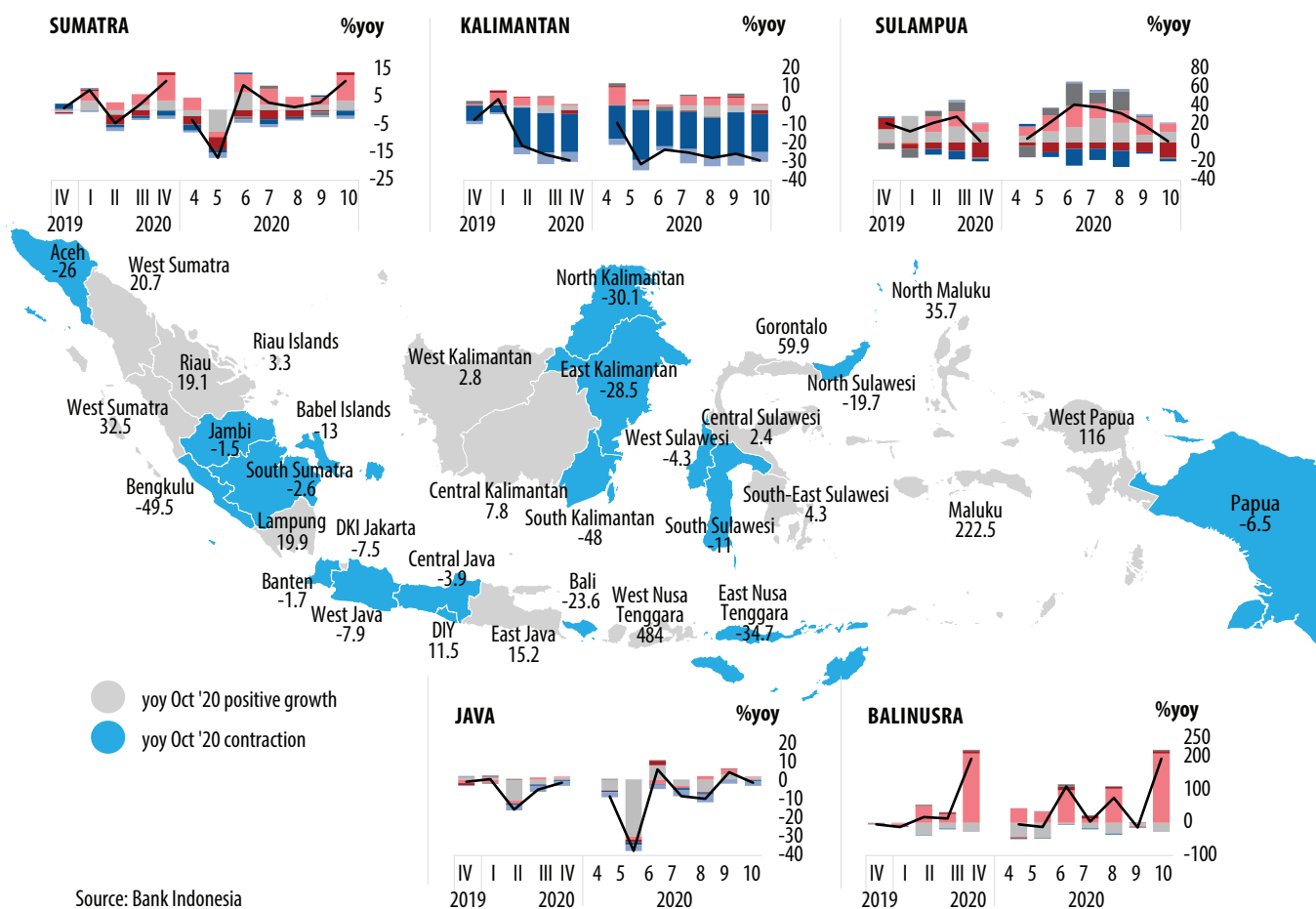
Several provinces in areas outside Java, such as Sumatra, Bali-Nusa Tenggara, and Sulawesi-Maluku-Papua, as well as Kalimantan recorded positive export growth in October 2020 (Figure 2.2). The export of steel and copper concentrate in Sulawesi, Maluku and Papua (Sulampua), West Nusa Tenggara Province and East Java Province has increased. Most of the export performance in Sumatra has increased, especially for CPO and natural rubber commodities. Moreover, the exports of West Kalimantan and Central Kalimantan also recorded positive growth. Looking forward, the improvement of Java's export performance is supported by exports of industrial products such as footwear and vehicles.

Graph 2.7 Indonesia's Export Performance to China



Source: Forecast Trading economics, Bank Indonesia

Figure 2.2 Non-oil & Gas Regional Exports



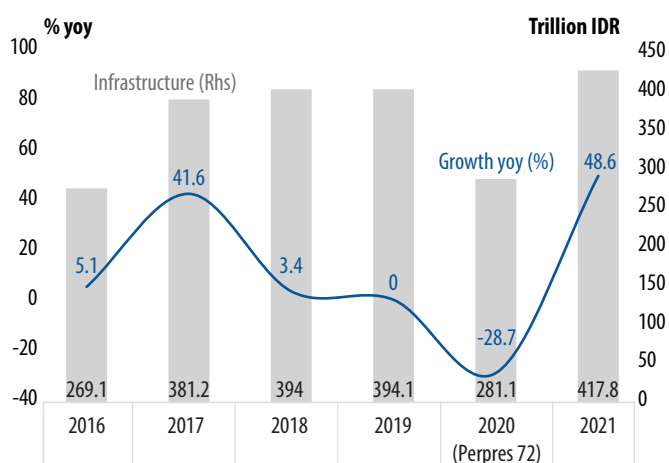
Source: Bank Indonesia

Efforts by the authorities to accelerate fiscal stimuli have sustained the domestic economic gains.

As of November 2020, absorption of government expenditure had reached 84.2% of the allotment stipulated in Presidential Regulation No. 72. Meanwhile, national economic recovery program spending reached 62% of the total budget in November 2020, supported by the faster absorption of spending on social protections and SMEs (Table 2.2). The Government will maintain an expansive fiscal posture in 2021, as reflected by an increase in the state budget deficit to 5.7% of GDP. State budget policy in 2021 will focus spending on education, healthcare, social protections, infrastructure, food security, tourism and information technology. Meanwhile, the sustainability of government stimuli will be maintained through a national economic recovery program budget to support sustainable pandemic and post-pandemic containment measures, public purchasing power and business recovery. In addition, the infrastructure allocation in the 2021 State Budget has been increased significantly by 48.6% (yoy) to Rp417.8 trillion (Graph 2.8), thereby stimulating government investment and leading to improvements in the structure of the economy. Fiscal stimulus sustainability is supported by projections of higher state revenues as the economy continues to recover in 2021, thus safeguarding fiscal sustainability.

Investment is expected to recover gradually. The latest indicators point to building and non-building investment gains. On the building investment side, a shallower contraction of cement sales indicates stronger

Graph 2.8 Government Infrastructure Budget



Source: Ministry of Finance

performance (Graph 2.9), which is in line with the ongoing construction of government infrastructure projects. Such developments are also supported by an uptake of new orders at state-owned enterprises along with a surge of traffic volume recorded on the toll roads in terms of category III and V vehicles (Graph 2.10). On the other hand, non-building investment is also improving, as reflected by the Manufacturing PMI, which pushed into expansionary territory for the first time since the outbreak of the COVID-19 pandemic.

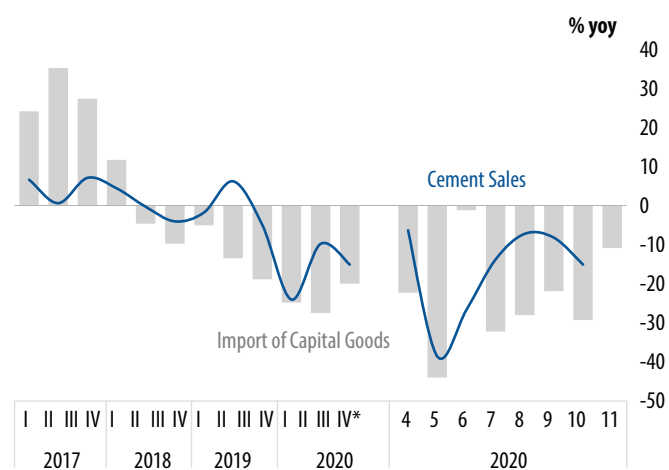
Investment in 2021 is expected to increase on growing business confidence with the support of the Omnibus Bill on Job Creation and ongoing national strategic projects, including other

Table 2.2. Realization of Fiscal Stimulus

Spending Items	Budget (Rp T)	September		October		November*	
		Rp T	% budget	Rp T	% budget	Rp T	% budget
Health	87.6	21.9	25.0	30.7	35.1	40.3	46.1
Social Safety Net	203.9	157.0	77.0	174.1	85.4	207.8	101.9
Economic Sector & Regional	106.1	26.6	25.1	28.6	27.0	36.3	34.2
Total Public Goods	397.5	205.6	51.7	233.4	58.7	284.4	71.5
SMEs	123.5	84.9	68.7	92.6	75.0	98.8	80.0
Corporate Financing	53.6	0.0	0.0	0.0	0.0	2.0	3.7
Total Non Public Goods	177.0	84.9	47.9	92.6	52.3	100.8	56.9
Business Incentives	120.6	28.1	23.3	35.5	29.4	46.4	38.5
Others Total	120.6	28.1	23.3	35.5	29.4	46.4	38.5
Total	695.2	318.48	45.81	361.50	52.0	431.53	62.1

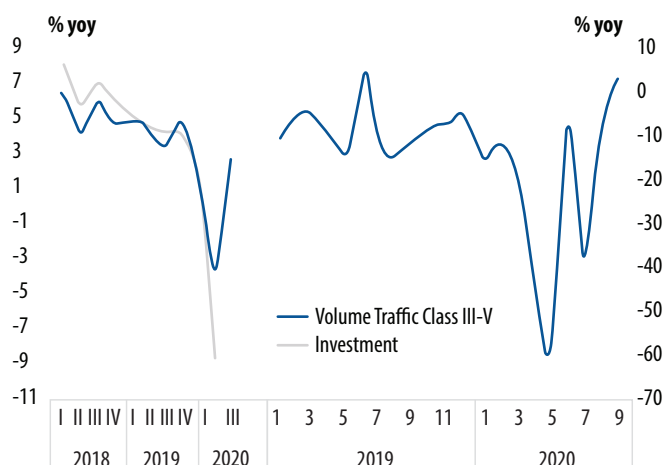
Source: Ministry of Finance; *Data as of 25 November 2020

Graph 2.9 Cement Sales and Capital Goods Imports



Source: ASI, Bank Indonesia; *Data as of November 2020

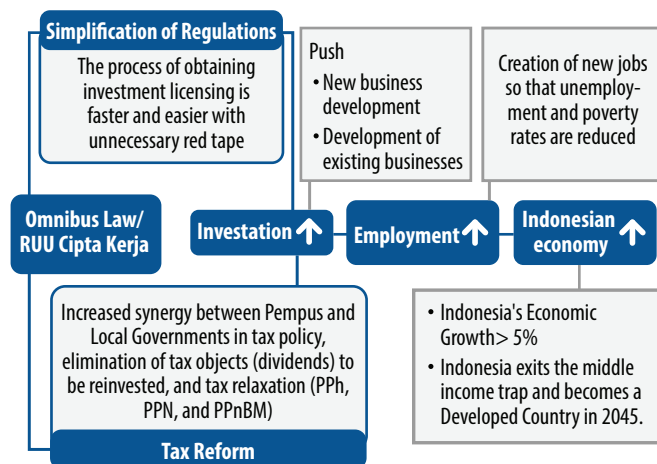
Graph 2.10 Toll Road Traffic Volume Class III-IV



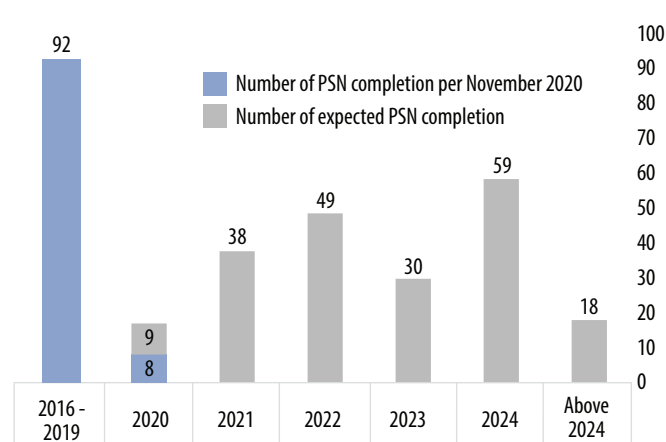
Source: Jasa Marga

infrastructure development. Implementation of the job creation bill will boost the competitiveness of investing in Indonesia by improving the investment ecosystem and ease of doing business, while providing incentives to stimulate economic growth. This will, in turn, grow business confidence and stimulate investment, which are important in terms of labour absorption and the national economy (Graph 2.11). Strong investment performance in 2021 will be supported by ongoing national strategic projects that were postponed or delayed in 2020, including infrastructure projects (Graph 2.12).

Graph 2.11 Job Creation Bill and Investment



Graph 2.12 Number of PSN Estimation



Source: KPPIP, as of 3 December 2020

Bank Indonesia expects to see more consumption in line with higher incomes and consumer expectations. Household consumption is predicted to improve as a result of higher incomes in response to ongoing fiscal stimuli in the form of social protections in 2021, amongst others, which will bolster the purchasing power of those towards the bottom of the pyramid (Table 2.3). Public purchasing power will also be supported by respective hikes in the Provincial Minimum Wage in 2021 in several provinces. Incomes will also be boosted by higher export revenues in line with the promising export outlook. Bank Indonesia also expects

Table 2.3 Government Social Protection Budget

Social Protection Programs	2020 Perpres 72 (Rp T)	2021 APBN (Rp T)
Family Hope Program	37	28.7
Provision of Staple	43.1	45.1
Cash Transfer	16.2	12.1
Subsidies (non DTP)	180.1	163.6
Pre-employment program	20	10
PBI	48.8	48.8
Smart Indonesia Program (PIP)	11.1	11.1
Others	138.7	89.3
TOTAL	495	408.7

Source: Ministry of Finance

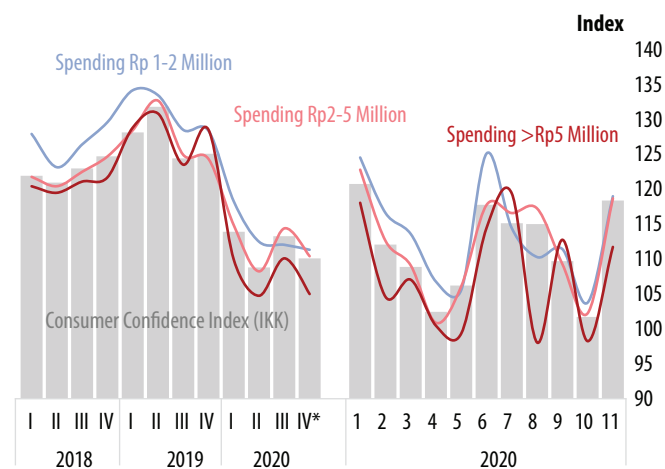
consumption to recover on strong consumer confidence and expectations concerning income, job availability and business activity (Graph 2.13). In addition, public expectations are also improving given the growing optimism regarding the availability of COVID-19 vaccines in 2021.

The reopening of productive and safe sectors will reinforce the national economic recovery.

Safe sectors have been prioritised based on a risk map of COVID-19 transmission published by the Natural Disaster Management Board (BNPB), namely sectors with the lowest risk of transmission, while medium and high-risk sectors are required to implement stringent COVID-19 protocols commensurate with the respective level of risk. Sectors have also been prioritised based on economic impact, namely sectors with the highest contribution to GDP and/or exports. Based on the results of risk mapping, six sectors with the largest GDP and/or export contributions have been declared safe, including food and beverages; chemicals, pharmaceuticals and traditional medicaments; forestry and logging; horticulture; plantation crops; as well as metal ore mining. Meanwhile, the Government has declared a further 15 economic sectors with large GDP and/or export contributions safe (Figure 2.3) as the second priority. Overall, the priority sectors contribute around 38% of national GDP.

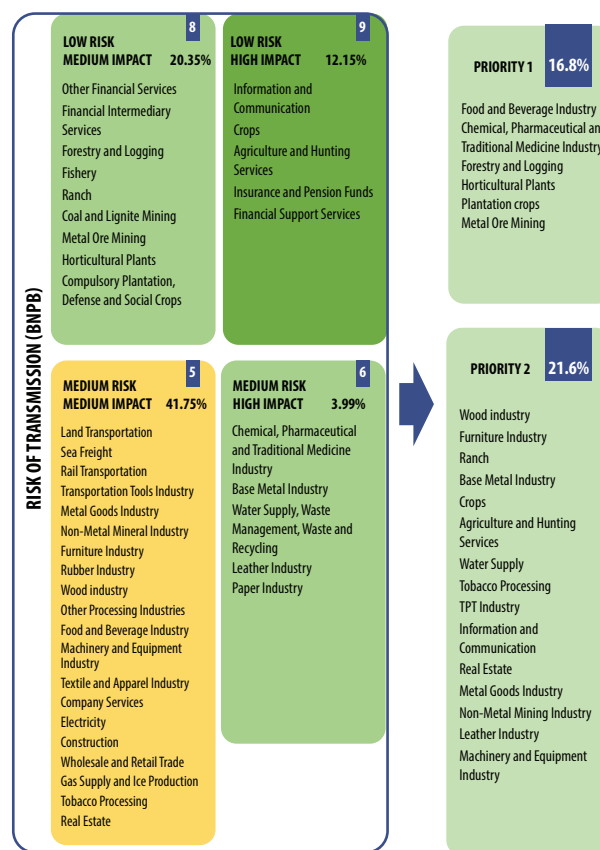
Given the gradual reopening of priority and safe sectors, the performance of major economic sectors in Indonesia continues to improve. The main sectors

Graph 2.13 Job Availability Expectation Index



Source: Bank Indonesia; *Data as of November 2020

Figure 2.3 Priority and Safe Economic Sector

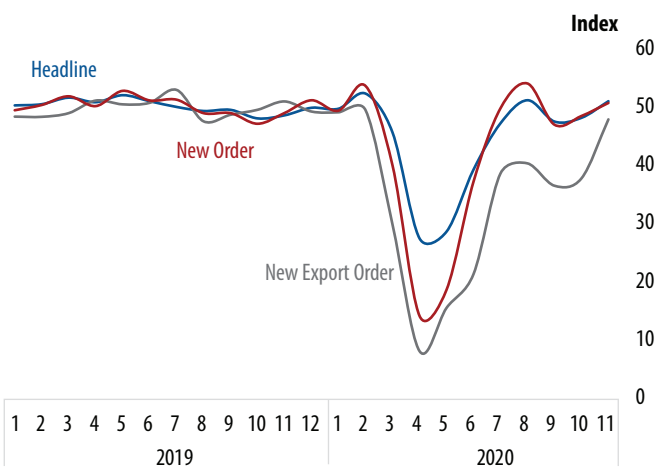


ECONOMIC IMPACT (Deviation, Growth, Multiplier Output, Labor and Added Value)

Source: Bank Indonesia

are improving in line with greater public mobility, stronger export performance and the reopening of business activities. Manufacturing industry performance has improved, as confirmed by the Purchasing Managers Index (PMI), which entered an expansionary phase in November 2020 due to a bump in the new orders index (Graph 2.14). Manufacturing exports are recovering, with several of the main manufacturing subsectors even exceeding pre-pandemic levels, including basic metals, food and beverages, metals for electronics, as well as chemicals and medicaments. In addition, Wholesale and Retail Trade are improving in line with greater public mobility, as confirmed by higher sales, online sales and automotive sales in particular (Graph 2.15). Meanwhile, sectors relating to communication and COVID-19 containment measures are also expected to maintain solid growth.

Graph 2.14 Purchasing Manager Index

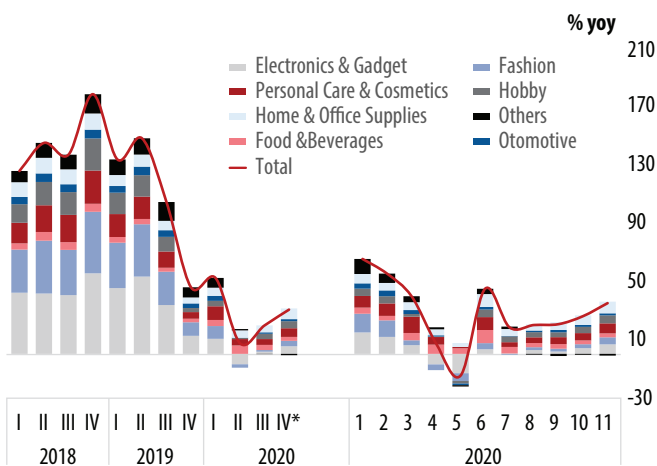


Source: Markit Economics

Indonesia's Balance of Payments (BOP) Remains Solid

Indonesia's Balance of Payments (BOP) remains solid, thus reinforcing external sector resilience. Solid BOP performance is supported by a low current account deficit together with a larger capital and financial account surplus. Furthermore, foreign capital inflows persisted until the middle of December 2020 in response to less global financial market uncertainty. External sector resilience is supported by a high position of reserve assets.

Graph 2.15 Online Sales

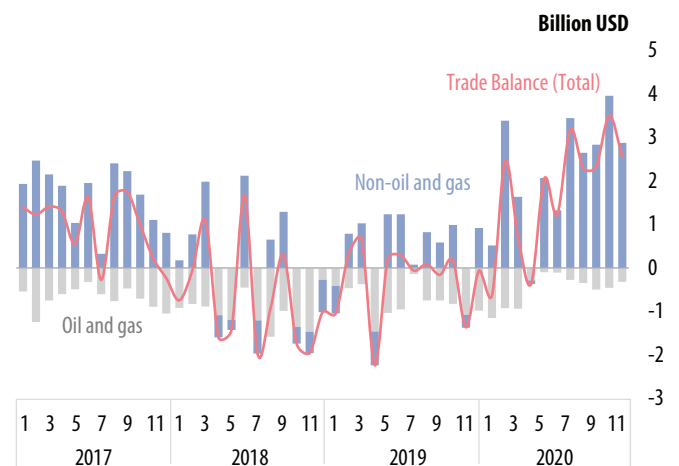


Source: Big Data Analytics; * Data as of November 2020

A narrow current account deficit is predicted on the back of a maintained goods trade surplus. The trade balance amassed a USD2.61 billion surplus in November 2020 after recording a USD3.58 billion surplus the month earlier. Therefore, Indonesia's trade balance has maintained a surplus for the past seven consecutive months since May 2020 (Graph 2.16). The trade surplus in November 2020 was influenced by a non-oil and gas trade surplus and narrower oil and gas trade deficit. The non-oil and gas trade balance recorded a USD2.94 billion surplus in November 2020 after experiencing a USD4.04 billion surplus one month earlier. The non-oil and gas trade surplus was maintained in response to higher non-oil and gas exports, particularly in terms of animal/vegetable fats and oils, mineral fuels as well as iron and steel. Meanwhile, non-oil and gas imports, including consumer goods, raw materials and capital goods, also increased in line with the gradual recovery of economic activity. On the other hand, the oil and gas trade deficit reduced from USD465.4 million in October 2020 to USD322.9 million in the reporting period as oil and gas exports increased beyond oil and gas imports.

Bank Indonesia predicts a larger capital and financial account surplus in response to maintained foreign capital inflows. This was reflected by portfolio investment recording a net inflow of USD2.54 billion in the period from October – 15th December 2020. Moving forward, Bank Indonesia expects further increases of foreign capital inflows to domestic financial markets

Graph 2.16 Trade Balance



Source: Bank Indonesia

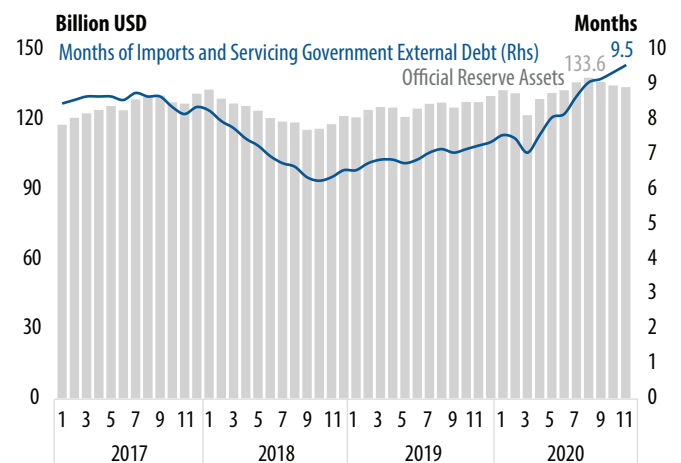


in line with attractive domestic financial assets for investment, maintained investor confidence in the domestic economic outlook and abundant global liquidity.

External sector resilience is also supported by a high level of reserve assets. The position of reserve assets remained high towards the end of November 2020 at USD133.6 billion, relatively unchanged from USD133.7 billion at the end of October 2020, equivalent to 9.9 months of imports or 9.5 months of imports and servicing government external debt, which is well above the international adequacy standard of three months (Graph 2.17). The position of reserve assets in November 2020 was primarily influenced by increasing withdrawals of foreign loans by the Government, tax revenues and foreign exchange proceeds in the oil and gas sector as well as the servicing of government external debt. Bank Indonesia considers the current position of reserve assets adequate to sustain external sector resilience as well as maintain macroeconomic and financial system stability.

Looking forward, external sector resilience will be supported by a solid BOP outlook. Bank Indonesia projects a low current account deficit in 2020 at below 1.5% of GDP and approximately 1.0-2.0% of GDP in 2021, thereby supporting external sector resilience in Indonesia. Foreign capital inflows are expected to persist in response to less global financial market uncertainty, attractive returns on domestic financial instruments for investment, maintained confidence in national economic conditions as well as increasing global liquidity. Bank Indonesia also considers the current position of reserve assets adequate, supported by maintained economic

Graph 2.17 Foreign Exchange Reserves



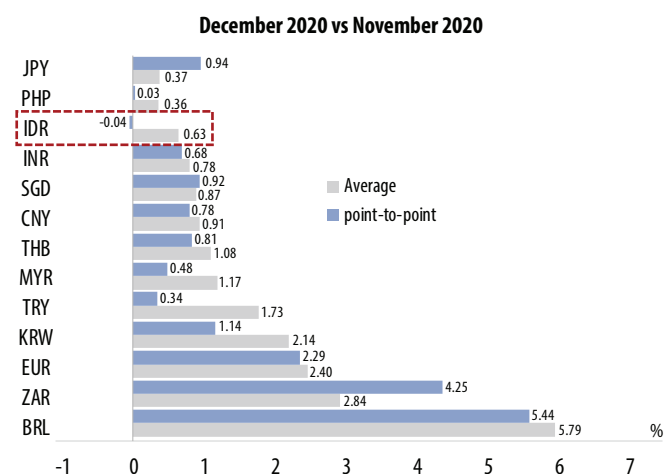
Source: Bank Indonesia

stability and a promising economic outlook in line with the optimal policy response taken to stimulate economic recovery. Bank Indonesia will continue to monitor global economic dynamics that could impact the BOP outlook, while constantly strengthening policy synergy with the Government and other relevant authorities to increase external sector resilience in Indonesia.

Bank Indonesia's Stabilisation Measures Maintain Rupiah Exchange Rate Stability

Supported by Bank Indonesia's stabilisation measures and maintained foreign capital inflows to domestic financial markets, rupiah exchange rates have been maintained. As of 16th December 2020, the rupiah strengthened by 0.63% on average despite depreciating by 0.04% (ptp) on the November 2020 level. A surge of foreign capital inflows to domestic financial markets in line with lower global financial market uncertainty and the positive perception of investors towards the promising domestic economic outlook have fed through to a stronger rupiah. Therefore, the rupiah recorded 1.72% (ytd) depreciation as of 16th December 2020 compared with the level at the end of 2019.

Graph 2.18 Appreciation/Depreciation of Peers Currencies

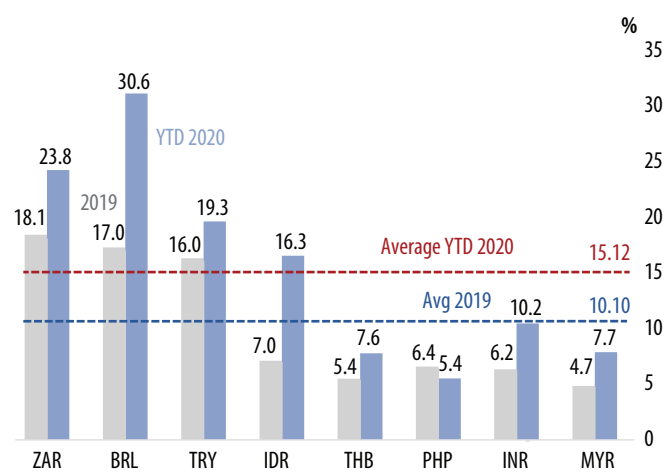


Source: Reuters and Bloomberg; Data as of 16 December 2020

Rupiah appreciation has been maintained, accompanied by lower volatility. Rupiah exchange rate volatility in the fourth quarter of 2020 (qtd as of 16th December 2020) stood at 8.3%, down from 9.6% in the previous period in line with less financial market uncertainty. Furthermore, rupiah exchange rate volatility was also lower than that recorded in other peer countries, including the Brazilian real (BRL), South African rand (ZAR) and Turkish lira (TRY) at 30.6%, 23.8% and 19.3% respectively (Graph 2.19). Annually, rupiah exchange rate volatility stood at 16.3%, which is considerably higher than 7.0% one year earlier. In general, however, exchange rate volatility in 2020 also increased in other peer countries.

Looking ahead, Bank Indonesia still expects the rupiah to regain lost value as the currency is fundamentally undervalued, supported by a narrow current account deficit, low and stable inflation, attractive domestic financial assets for investment, a lower risk premium in Indonesia as well as abundant global liquidity. Bank Indonesia will continue to hone rupiah exchange rate stabilisation policy in line with the currency's fundamental value and market mechanisms through effective monetary operations and by providing market liquidity.

Graph 2.19 Exchange Rate Volatility



Source: Reuters and Bloomberg; Data as of 16 December 2020

Inflation Remains Low, Thus Supporting Economic Recovery

Inflation remains low on weak domestic demand and adequate supply. In November 2020, the Consumer Price Index (CPI) inflation stood at 0.28% (mtm) or 1.23% (ytd). Annually, low headline inflation was recorded at 1.59% (yoy), despite increasing from 1.44% (yoy) in October 2020 (Graph 2.20). The latest developments were influenced by persistently low core inflation amidst accumulating inflationary pressures on volatile foods and administered prices. Inflation remains low on compressed domestic demand, policy consistency by Bank Indonesia to anchor inflation expectations to the target corridor as well as maintained exchange rate stability. Anchored inflation expectations were also reflected in the November 2020 edition of the Consensus Forecast, which recorded a rate within the target corridor namely 2.00% (yoy).

Core inflation remains low. Core inflation decreased to 1.67% (yoy) in November 2020 from 1.74% (yoy) in October 2020. Lower core inflation stems from weak domestic demand coupled with policy consistency by Bank Indonesia to anchor inflation expectations within the target corridor, low international commodity prices and maintained exchange rate stability. On a monthly basis, therefore, core inflation in November 2020 was recorded at 0.06% (mtm), relatively stable compared with 0.04% (mtm) in October 2020. Relatively stable monthly core inflation was influenced by a build-up of inflationary pressures on clothing and footwear, healthcare and education, amid deflation in gold jewellery in line with the slowdown in international gold prices.

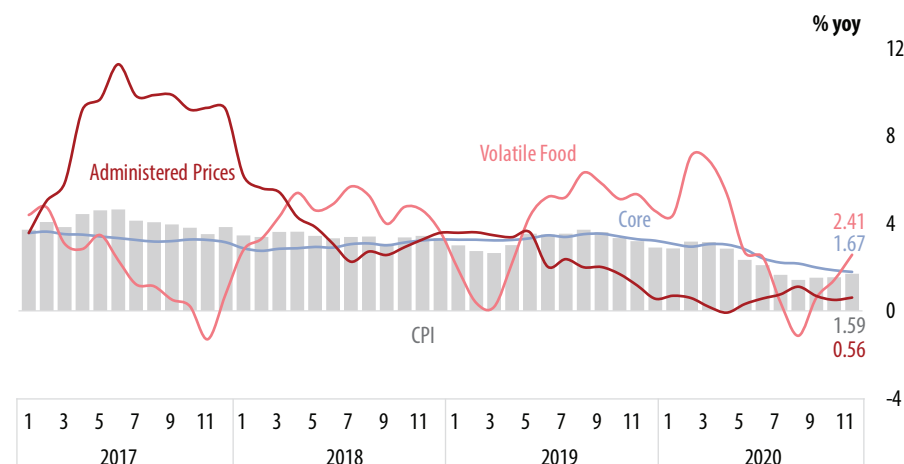
Volatile food (VF) inflation has increased. Annually, VF inflation stood at 2.41% (yoy) in the reporting period, up from 1.32% (yoy) one month earlier. On a monthly basis, VF inflation increased to 1.31% (mtm) from 0.40% (mtm) in the previous period. Volatile food inflation has

been edged upwards by higher prices of purebred chicken meat and eggs, horticultural commodities due to seasonal factors, and cooking oil on higher international crude palm oil (CPO) prices. Nevertheless, inflationary pressures on volatile foods were offset by price corrections experienced by rice and beef in line with maintained supply.

Administered prices (AP) inflation has also increased. Annually, AP inflation stood at 0.56% (yoy) in the reporting period, up from 0.46% (yoy) one month earlier. Inflationary pressures on administered prices began to accumulate in line with higher airfares on growing demand, despite deflationary pressures on electricity rates in line with the Government's tariff adjustments for post-paid customers. On a monthly basis, administered prices experienced 0.16% (mtm) inflation in November 2020 after tracking a deflationary trend for four consecutive months.

Low CPI inflation was supported by controlled inflationary pressures in all regions of Indonesia. Annually, low CPI inflation was recorded below 2% despite increasing in all regions except Bali-Nusa Tenggara. In November 2020, deflation was only recorded in North Sulawesi (Figure 2.4) due to lower airfares and price corrections affecting several food commodities. Low regional inflation throughout Indonesia was primarily influenced by lower core inflation and administered prices amidst a build-up of inflationary pressures on volatile foods in all regions.

Graph 2.20 Inflation

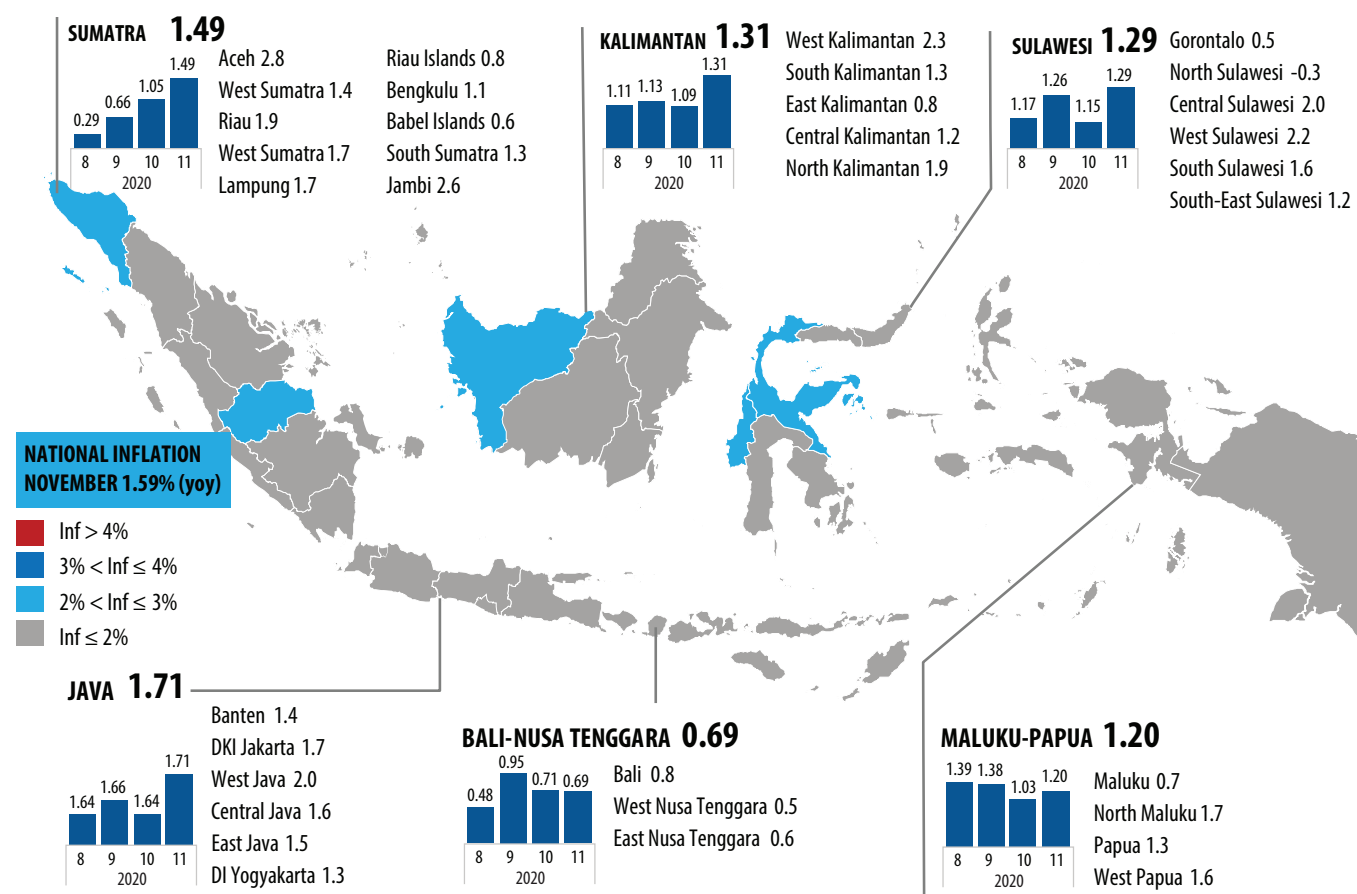


Source: BPS, calculated

Bank Indonesia projects inflation in 2020 below the lower bound of the target corridor before returning to the target range in 2021. The low inflation projection is based on weak inflationary pressures across all components. Core inflation will remain low in line with demand compressed by the COVID-19 pandemic, anchored inflation expectations to the target corridor as well as maintained exchange rate stability. Bank Indonesia also expects inflationary pressures on volatile foods to remain under control in line with low demand for several commodities, supported by government commitment to maintain supply and distribution during the COVID-19 pandemic. In addition, low AP inflation is

consistent with weak demand as well as adjustments to special fuel prices and electricity rates. Bank Indonesia projects inflation in 2020 below the lower bound of the target corridor before returning to the target range of 3.0%±1% in 2021 in response to stronger demand stoked by increasing public mobility, higher inflation expectations and rising international prices against maintained rupiah exchange rates. Additionally, Bank Indonesia consistently maintains price stability and strengthens policy coordination with the central and local governments to control inflation within the predetermined target.

Figure 2.4 Regional Inflation (% , yoy)



Source: BPS, calculated

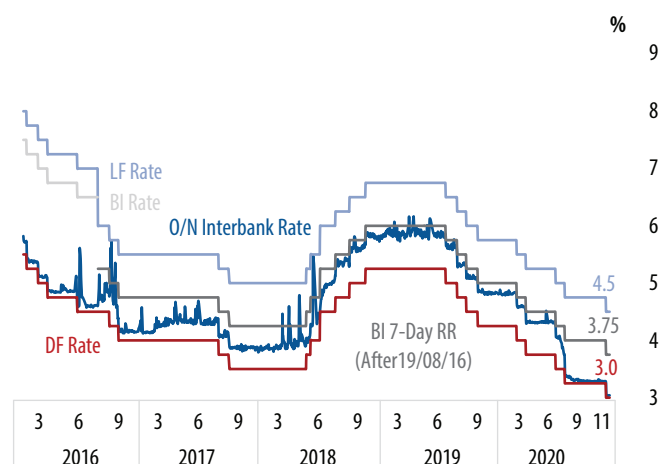
Loose Liquidity Conditions and Lower Interest Rates

In line with Bank Indonesia's accommodative monetary and macroprudential policy stance, liquidity conditions remain loose, prompting lower interest rates and stimulating economic financing.

As of 15th December 2020, Bank Indonesia has injected around Rp694.87 trillion of additional liquidity through quantitative easing into the banking system, primarily in the form of lower reserve requirements totalling Rp155 trillion and monetary expansion totalling Rp524.07 trillion. Loose liquidity conditions maintained a high ratio of liquid assets to deposits in November 2020 at 31.52%, coupled with a low overnight interbank rate of 3.20% in the reporting period (Graph 2.21). Loose liquidity and BI 7-Day (Reverse) Repo Rate reductions have contributed to lower deposit and lending rates from 4.93% and 9.38% in October 2020 to 4.74% and 9.32% respectively in November 2020 (Graph 2.22). Lower lending rates are expected to persist due to loose liquidity conditions and the low policy rate held by Bank Indonesia.

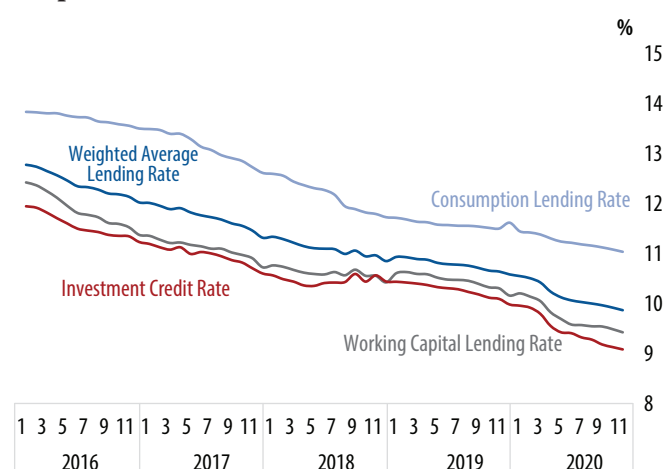
Growth of currency in circulation remained high in November 2020 in line with the gradual economic recovery process. In terms of monetary aggregates, M1 and M2 growth remained solid in November 2020

Graph 2.21 Interbank O/N Interest Rate



Source: Bank Indonesia

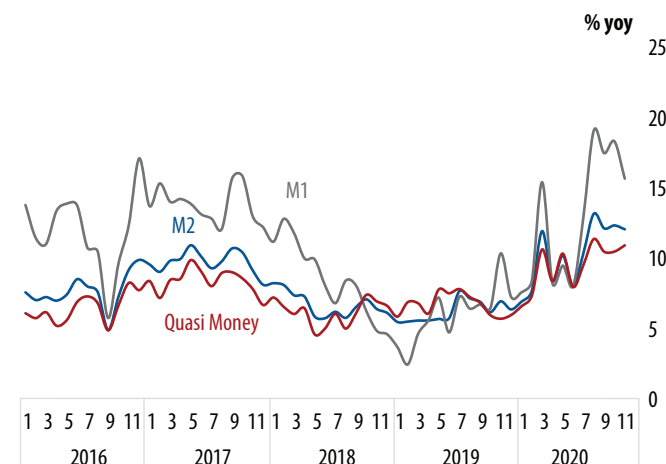
Graph 2.22 Lending Rates by Type



Source: Bank Indonesia

at 15.8% (yoy) and 12.2% (yoy) respectively (Graph 2.23). Based on the affecting factors, solid M2 growth was influenced by the maintained contribution of Net Domestic Assets (NDA) in line with expansive fiscal operations amidst flagging credit growth. In addition, the contribution of Net Foreign Assets (NFA) to M2 also remained high based on the maintained position of reserve assets and rupiah exchange rates in line with the currency's fundamental value. By component, high M1 and quasi-money growth also contributed to strong M2 growth. M1 was boosted by growth of demand deposits and Currency Outside Banks (COB), despite

Graph 2.23 M2 Components

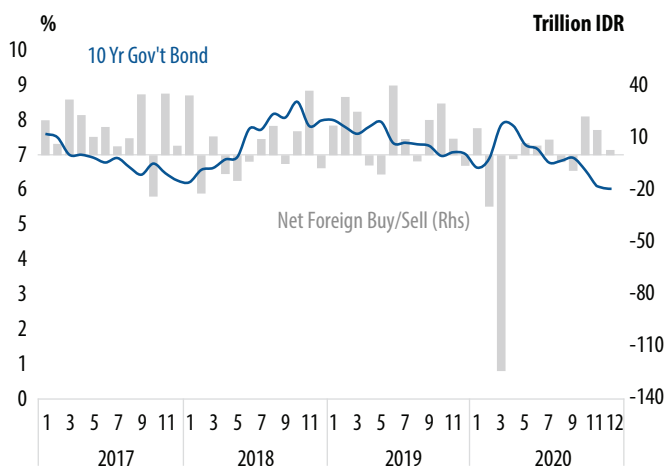


Source: Bank Indonesia

moderating in line with sluggish economic growth. Such developments were affected by liquidity in the banking system, which is slowly entering the economy. Moving forward, monetary expansion by Bank Indonesia, faster budget realisation and the bank loan restructuring program are expected to boost lending for the national economic recovery.

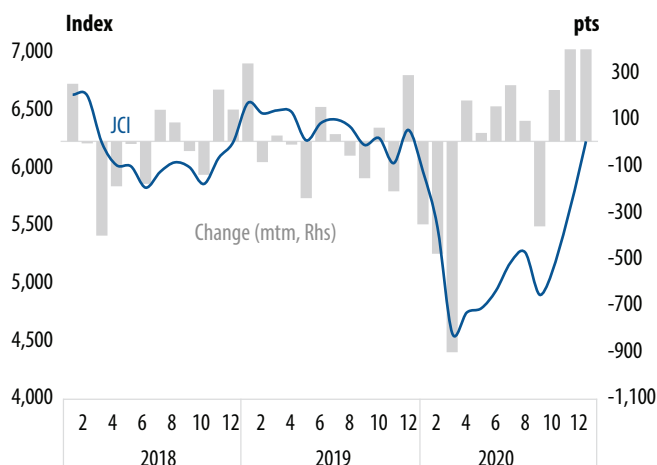
Given less uncertainty, the domestic financial markets have continued to improve. The benchmark 10-year SBN yield decreased from 6.16% at the end of November 2020 to 6.07% on 16th December 2020 (Graph 2.24). In November 2020, non-resident investors booked a net inflow to the SBN market, which continued at the beginning of December 2020 despite growing SBN holdings in the banking industry. Such developments were bolstered by an economy that improved in the third quarter of 2020 and a promising economic outlook for the fourth quarter of 2020 in line with stronger macroeconomic indicators. In addition, SBN yields also remain competitive with other countries in the region. Positive performance was also recorded in the stock market. As of 16th December 2020, the Jakarta Composite Index (JCI) rallied to pre-pandemic levels, increasing 9.4% (mtm) in November 2020 and then 9.0% (mtm) as of 16th December 2020, consistent with bourses in most neighbouring countries (Graph 2.25). The stock market rally was driven by positive domestic sentiment stoked by optimism concerning economic gains as well as positive global sentiment after several economic indicators were released that pointed to stronger economic performance in several jurisdictions.

Graph 2.24 Government Securities and Net Foreign Buy/Sell



Source: Bank Indonesia, Bloomberg, data as of 16 December 2020

Graph 2.25 JCI development



Source: Bloomberg, IDX, data as of 16 December 2020

Bank Indonesia will strengthen monetary expansion synergy with fiscal stimuli by the Government in order to build national economic recovery momentum.

Bank Indonesia continues its commitment to funding the 2020 state budget through SBN purchases in the primary market in accordance with Act No. 2 of 2020, through market mechanisms and private placement, as part of the efforts to accelerate the national economic recovery program, while maintaining macroeconomic stability. As of 15th December 2020, Bank Indonesia had purchased Rp75.86 trillion worth of SBN in the primary market through market mechanisms pursuant to the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 16th April 2020, including auction schemes, greenshoe options (GSO) and private placement. Meanwhile, funding realisation and burden sharing to fund public goods in the 2020 state budget by Bank Indonesia through private placement in accordance with the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 7th July 2020 currently stand at Rp397.56 trillion. Overall, therefore, Bank Indonesia has purchased SBN for funding and burden sharing in the 2020 state budget for the national economic recovery program totalling Rp473.42 trillion. In addition, Bank Indonesia has also realised burden sharing with the Government to fund non-public goods-SME totalling Rp114.81 trillion and non-public goods-corporate totalling Rp62.22 trillion pursuant to the Joint Decree of the Minister of Finance and Governor of Bank Indonesia issued on 7th July 2020.



Through such synergy, the Government can focus on accelerating state budget realisation in order to drive national economic recovery momentum.

Financial system stability remains solid, although the risks associated with COVID-19 transmission on financial system stability continue to demand vigilance. The Capital Adequacy Ratio (CAR) remained high in October 2020 at 23.70%, accompanied by persistently low NPL ratios of 3.15% (gross) and 1.03% (nett). Notwithstanding, the intermediation function of the financial sector remains weak, as reflected by a 1.39% (yoy) credit contraction in the reporting period, coupled with 11.55% (yoy) deposit growth. Bank Indonesia is confident that low credit growth stems from weak corporate demand on the demand side and high-risk perception in the banking industry on the supply side. New loan growth could potentially accelerate in a number of sectors, including the food and beverages industry, basic metals industry as well as leather and footwear industry, in addition to several priority sectors that support economic and export growth. Corporate and SME performance have improved in those sectors, as reflected by higher sales and repayment capacity. Bank Indonesia will maintain an accommodative macroprudential policy stance, while continuously strengthening policy synergy and coordination with the Government, Financial System Stability Committee, banking industry and business community to overcome the supply and demand-side constraints in terms of bank lending to priority sectors.

Cash and non-cash payment system transactions are increasing in line with the economic recovery, accompanied by rapid economic and financial digitalisation. In November 2020, currency in circulation grew 12.3% (yoy) to reach Rp804.9 trillion in line with increasing economic activity. Transaction value using ATM, debit cards and credit cards recorded a shallower 1.93% (yoy) contraction in November 2020 compared with a 3.97% (yoy) contraction in October 2020. On the other hand, digital economy and finance transactions maintained positive growth in line with greater use of digital platforms and instruments during the pandemic, together with a shift in public preference and greater public acceptance of digital transactions. Growth of transaction value using electronic money remained positive in November 2020 at 20.27% (yoy). Similarly, in terms of digital banking, transaction volume and value growth also remained positive at 29.98% (yoy) and 2.11% (yoy) respectively in October 2020. Bank Indonesia expects the current payment digitalisation trend to persist, supported by FinTech ecosystem integration. Furthermore, Bank Indonesia will orient payment system policy towards strengthening economic recovery momentum, creating synergy with the Government and other relevant authorities and expanding digital acceptance in all regions of the Indonesian archipelago.



CHAPTER III

Bank Indonesia Policy Response

From February-December 2020, Bank Indonesia instituted a diverse policy mix to mitigate the economic risks associated with COVID-19 and stimulate the national economic recovery program.

To that end, Bank Indonesia has strengthened the full panoply of its policy mix instruments in order to maintain rupiah exchange stability, control inflation and preserve financial system stability as well as take the necessary follow-up policy measures in coordination and synergy with the Government and Financial System Stability Committee in order to maintain macroeconomic and financial system stability and expedite the national economic recovery. The Bank Indonesia policy mix consists of six salient elements as follows:

1. Lowering the monetary policy rate, the BI 7-Day (Reverse) Repo Rate, by 125 basis points since the beginning of 2020 to 3.75%. Reductions of 25bps were implemented in February, March, June, July and November 2020. The decisions were consistent with low projected inflation and maintained external stability and as a follow-up measure to stimulate economic recovery during the COVID-19 pandemic. Meanwhile, at the Board of Governors Meeting (RDG) in April, May, August, September, October and December 2020, Bank Indonesia decided to hold the BI7DRR in order to maintain external stability against a backdrop of persistently low inflation.

2. Stabilising rupiah exchange rates in line with the currency's fundamental value and market mechanisms despite elevated and persistent global financial market uncertainty. Bank Indonesia has stabilised and strengthened the rupiah by increasing the intensity of triple intervention policy in the spot market and domestic non-deliverable forwards (DNDF) market, while purchasing SBN in the secondary market. In addition, Bank Indonesia has lowered foreign currency reserve requirements by 400bps in order to boost foreign exchange liquidity in the banking industry and simultaneously alleviate pressure on the foreign exchange market, while expanding the types of underlying transactions available to foreign investors as alternative hedging instruments against rupiah holdings. Furthermore, exchange rate stabilisation policy is supported by efforts to strengthen external resilience. To that end, Bank Indonesia has also secured bilateral swap and repo loan agreements with several other central banks, including the US Federal Reserve and the People's Bank of China (PBoC).
3. Expanding money market and foreign exchange market instruments and transactions in order to provide more hedging instruments against currency risk through DNDF transactions, FX swaps and term-repo agreements with the banking industry, while strengthening money market deepening by expanding underlying DNDF to increase liquidity and strengthen JISDOR as a reference for the exchange rate setting mechanism in the foreign exchange market. Additionally, Bank Indonesia is also strengthening monetary operations and Islamic financial market deepening through the Sharia-Compliant Liquidity Facility (FLisBI), Sharia-Compliant Liquidity Management (PaSBI) and Sharia-Compliant Interbank Funds Management Certificates (SiPA). Furthermore, Bank Indonesia has also strengthened foreign currency term deposit instruments in order to enhance foreign currency liquidity management in the domestic markets, while encouraging the banking industry to utilise lower foreign currency reserve requirements for domestic purposes. In addition, to accelerate money market and foreign exchange market deepening, Bank Indonesia is developing electronic trading platform (ETP) and central counterparty (CCP) infrastructure for centralised clearing, novation and transaction activities. To increase effective transmission of the accommodative monetary policy stance, Bank Indonesia is also strengthening its monetary operations strategy. Besides, Bank Indonesia is catalysing the development of money market instruments through implementation of the Money Market Development Blueprint (BPPU) 2025 to support corporate and SME financing in line with the national economic recovery program.
4. Injecting liquidity through quantitative easing (QE) to the money market and banking industry in order to stimulate financing for the business community and national economic recovery. As of 15th December 2020, Bank Indonesia has injected liquidity totalling Rp694.87 trillion through SBN purchases in the secondary market, repo SBN with the banking industry and FX swaps, as well as lower rupiah reserve requirements totalling 300bps. Bank Indonesia is focusing on the quantity channel by providing liquidity to stimulate economic recovery from the COVID-19 pandemic, including Bank Indonesia support for the Government in terms of accelerating state budget realisation in 2020.
5. Maintaining an accommodative macroprudential policy stance in line with the existing policy mix and national policy mix, including efforts to mitigate risk in the financial sector caused by COVID-19 transmission. This was achieved by relaxing the Macroprudential Intermediation Ratio (MIR) through an extension of the 50bps incentive of lower rupiah reserve requirements for banks disbursing loans to SMEs, or for import-export activity and non-SME loans to priority sectors as part of the national economic recovery program, from 31st December 2020 previously to 30th June 2021, while also injecting liquidity into the banking industry to support loan restructuring for SMEs as well as ultra-micro enterprises with loans from financial institutions. Furthermore, Bank Indonesia lowered the minimum downpayment on automotive loans/financing from 5-10% to 0% for the purchase of green vehicles, while maintaining prudential principles. Bank Indonesia will continue to strengthen accommodative macroprudential policy to stimulate credit/financing disbursed to priority sectors in order to reinforce the national economic recovery against a backdrop of maintained financial system resilience. Bank Indonesia is also encouraging lower lending rates through oversight and public communication regarding interest rate transparency

in the banking industry via coordination with the Indonesian Financial Services Authority (OJK). In terms of coordination between authorities, Bank Indonesia will continue to strengthen integrated banking industry supervision through coordination between Bank Indonesia, OJK and the Deposit Insurance Corporation (LPS) in order to maintain financial system stability

6. Maintaining the convenience of uninterrupted cash and non-cash payment systems to support economic and financial transactions. This is achieved by circulating hygienic currency, promoting cashless transactions, such as e-money, internet banking and QRIS, as well as accelerating implementation of the digital economy and finance as part of the economic recovery effort. Bank Indonesia has also strengthened synergy with the banking industry, FinTech, Government and other relevant authorities in order to accelerate digitalisation and, thus, bolster economic recovery momentum, amongst others, by:
 - i. Strengthening policy implementation to stimulate SMEs through corporatisation, greater capacity, access to financing and digitalisation in line with the Made in Indonesia National Movement (Gernas BBI).
 - ii. Expanding community based QRIS acceptance to support the economic recovery program and SME development through an extension to the 0% Merchant Discount Rate (MDR) for micro enterprises, from 30th September 2020 previously to 31st December 2020.
 - iii. Promoting QRIS use for e-commerce.
 - iv. Strengthening the digital economy and finance ecosystem through the use of digital payment instruments as well as collaboration between the banking industry, FinTech and e-commerce to support the national economic recovery.
 - v. Strengthening and expanding electronification and digitalisation, centrally and regionally, in synergy with the central government and regional administrations as well as other relevant authorities through formation of Regional Digitalisation Acceleration and Expansion Teams;

- vi. Stimulating technology innovation and utilisation as well as collaboration between the banking and FinTech industries through expedited implementation of Sandbox 2.0, including the regulatory sandbox, industrial tests, innovation lab and start-ups

Bank Indonesia has also accelerated implementation of the Indonesia Payment System Blueprint for 2025 to support digital economy and finance activities in the New Normal era, stimulate national economic recovery momentum as well as increase economic and financial inclusion. Furthermore, Bank Indonesia will also continue to strengthen synergy with the Government and other relevant authorities to support cashless social aid program disbursements and economic recovery momentum. This will be achieved by expediting the electronification of social aid program disbursements, including the Family Hope Program (PKH), Noncash Food Assistance Program (BPNT), Pre-Employment Card and Indonesia Smart Card (KIP) to help alleviate the public impact of COVID-19.

The BI Board of Governors agreed on 16th and 17th December 2020 to hold the BI 7-Day Reverse Repo Rate at 3.75%, while also maintaining the Deposit Facility (DF) rate at 3.00% and Lending Facility (LF) rate at 4.50%. The decision is consistent with projected low inflation and maintained external stability, coupled with efforts to support the economic recovery. Bank Indonesia has strengthened policy synergy and supports the various follow-up policies to build national economic recovery optimism through the gradual reopening of productive and safe economic sectors, accelerating fiscal stimuli, increasing bank lending on the demand and supply sides, maintaining monetary and macroprudential stimuli as well as expediting economic and financial digitalisation. In addition to those policies, Bank Indonesia has also implemented the following measures:

1. Maintaining rupiah exchange rate stabilisation policy in line with the currency's fundamental value and market mechanisms.
2. Strengthening the monetary operations strategy to reinforce the accommodative monetary policy stance.
3. Strengthening accommodative macroprudential

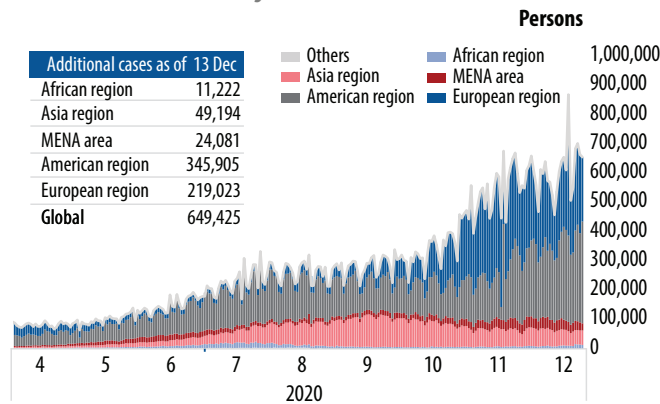
- policy to stimulate growth of loans/financing allocated to priority sectors towards national economic recovery, while maintaining financial system resilience.
4. Promoting lower lending rates through close supervision and public communication in coordination with the Indonesian Financial Services Authority (OJK) in terms of interest rate transparency in the banking industry.
 5. Strengthening money market deepening by expanding underlying DNDF to boost liquidity and reinforce JISDOR as a reference for exchange rate setting in the foreign exchange market.
 6. Strengthening integrated bank supervision coordination between Bank Indonesia, the Indonesian Financial Services Authority (OJK) and Deposit Insurance Corporation (LPS) to maintain financial system stability.
 7. Accelerating digital transformation and synergy to strengthen economic recovery momentum through robust payment system policy and faster implementation of the Indonesia Payment System Blueprint 2025.
 - a. Extending the 0% Merchant Discount Rate (MDR) on QRIS transactions for micro enterprises until 31st March 2021.
 - b. Strengthening and expanding electronification and digitalisation centrally and regionally in synergy with the central and regional governments as well as other relevant authorities by forming Regional Digitalisation Acceleration and Expansion Teams.
 - c. Promoting technology innovation and utilisation as well as collaboration between the banking and FinTech industries through faster implementation of Sandbox 2.0, including the regulatory sandbox, industrial tests, innovation lab and start-ups.

Bank Indonesia will continue to direct all policy instruments towards supporting the national economic recovery, while controlling inflation as well as maintaining rupiah exchange rate stability and financial system stability. Furthermore, close policy coordination with the Government and Financial System Stability Committee will constantly be strengthened in order to maintain macroeconomic and financial system stability, as well as expedite the national economic recovery. The focus of policy coordination is oriented towards overcoming supply and demand-side constraints in terms of bank lending to priority sectors in order to support economic growth and the national economic recovery.

Global Economic Improvements Have Endured

Increasing global cases driven by third wave in the United States...

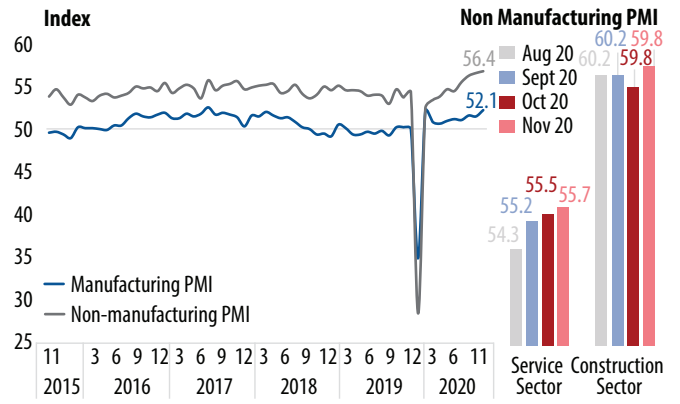
Additional Global Daily COVID-19 Cases



Source: WHO, calculated; Data as of 13 December 2020

Non-Manufacturing PMI expansion in China driven by services sector gains...

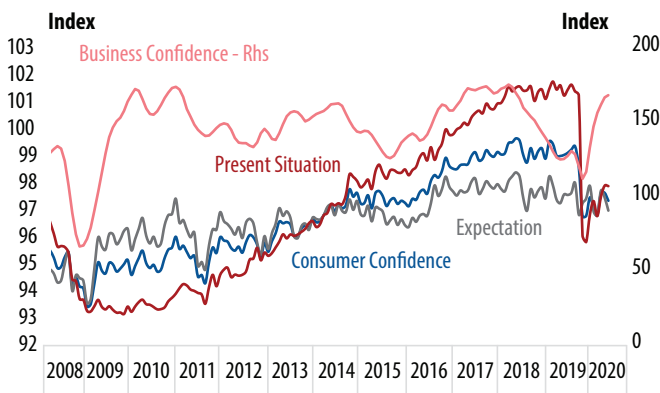
China PMI Index



Source: Bloomberg, calculated

Business confidence in United States growing...

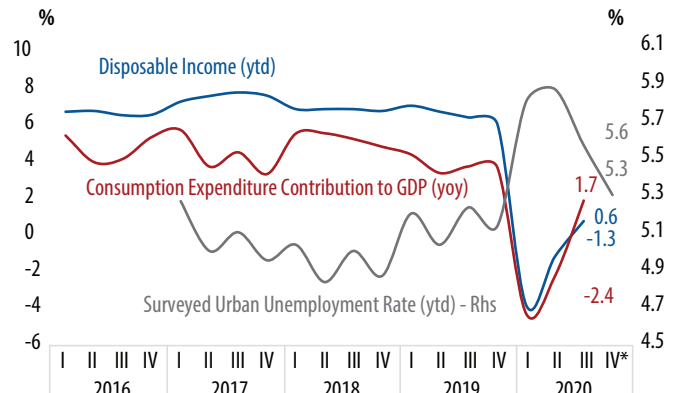
US Business Confidence



Source: Bloomberg, calculated; Data as of November 2020

Purchasing power in China improving in line with lower unemployment...

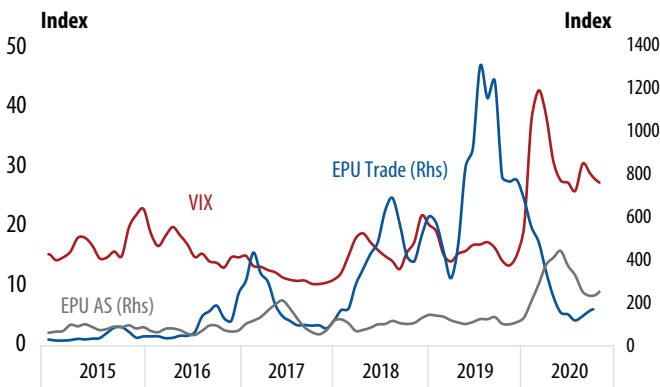
China's Purchasing Power and Unemployment Rate



Source: Bloomberg, NBS, calculated; *Per October 2020

Lower global financial market uncertainty...

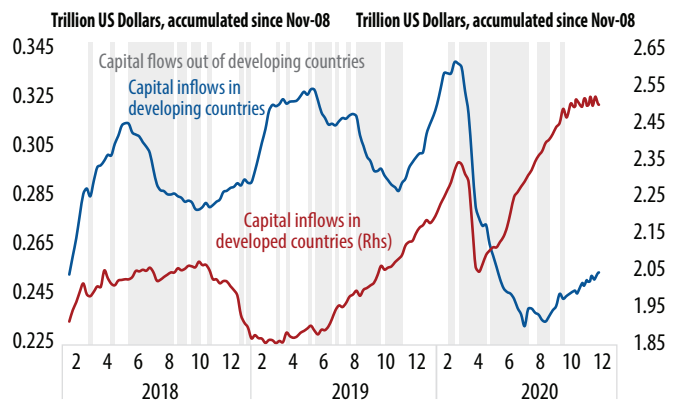
Global Financial Market Uncertainty



Source: Bloomberg; *Data as of 15 December 2020

Capital flows to advanced economies restrained, yet increasing to developing economies...

Global Capital Flow

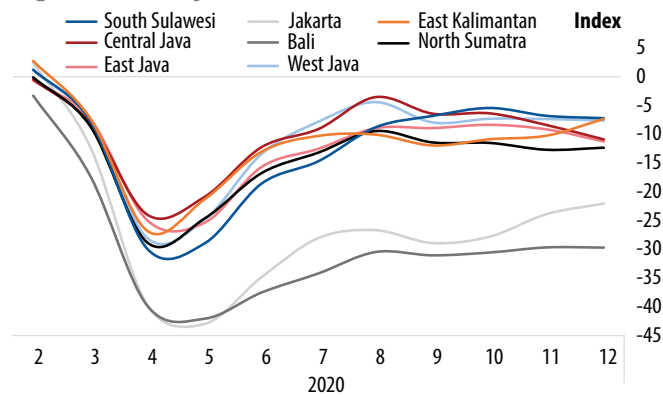


Source: EPFR, Fund Flows; weekly data up to 2 December 2020

Incremental Domestic Economic Growth Expected to Persist in 2021

Improving economic indicators: regional mobility increasing...

Regional Mobility



Source: Google Mobility Report

...and ongoing realisation of government stimuli

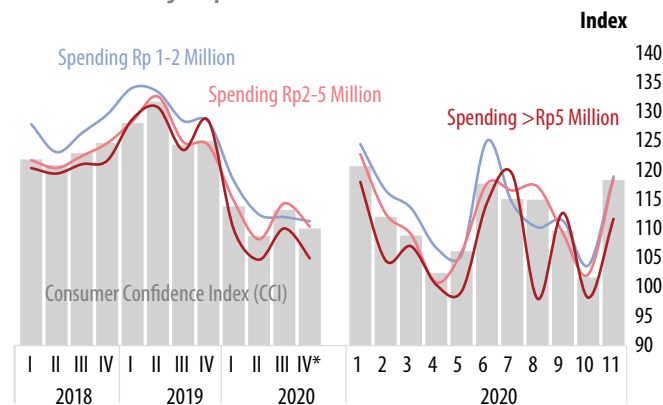
Realization of Fiscal Stimulus

Spending Items	Budget (Rp T)	September Rp T % budget	October Rp T % budget	November* Rp T % budget
Health	87.6	21.9	25.0	30.7
Social Safety Net	203.9	157.0	77.0	174.1
Economic Sector & Regional	106.1	26.6	25.1	28.6
Total Public Goods	397.5	205.6	51.7	233.4
SMEs	123.5	84.9	68.7	92.6
Corporate Financing	53.6	0.0	0.0	0.0
Total Non Public Goods	177.0	84.9	47.9	92.6
Bussiness Incentives	120.6	28.1	23.3	35.5
Others Total	120.6	28.1	23.3	29.4
Total	695.2	318.48	45.81	361.50
		52.0	431.53	62.1

Source: Ministry of Finance; *Data as of 25 November 2020

Consumption increasing in line with higher consumer expectations...

Job Availability Expectation Index



Source: Bank Indonesia; *Data as of November 2020

... and higher retail sales expectations

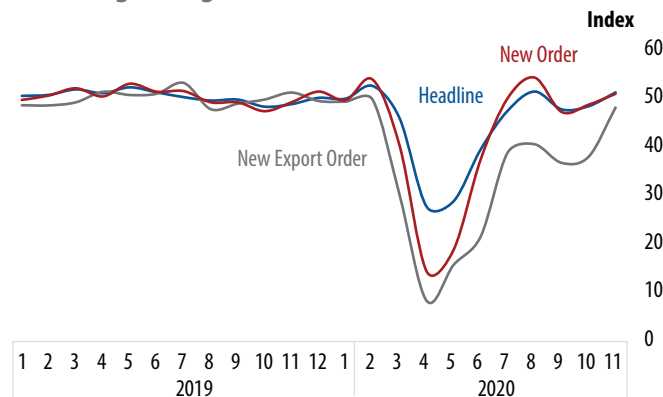
Retail Sales Expectation Index



Source: Bank Indonesia

Manufacturing industry improving on exports

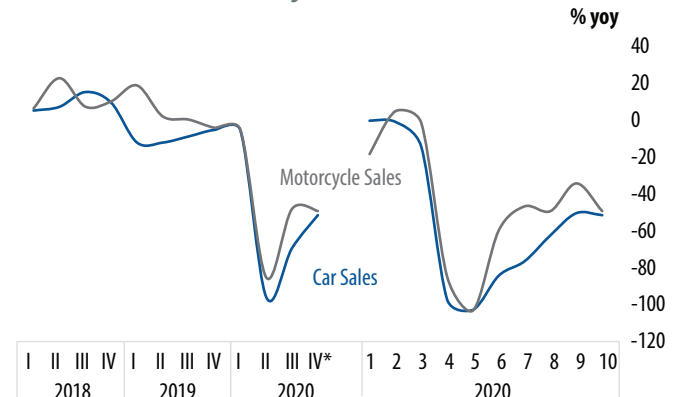
Purchasing Manager Index



Source: Markit Economics

Public activity supporting trade sector performance

Sales of Cars and Motorcycles

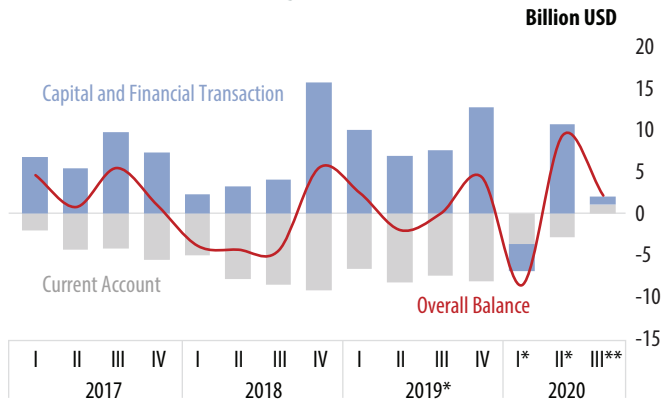


Source: AISI, Gaikindo; *Data as of October 2020

External Resilience Remains Solid

Solid BOP supporting external sector resilience

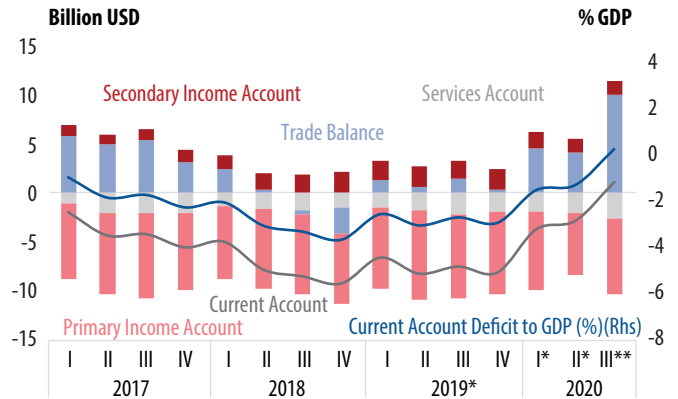
Indonesia's Balance of Payments



Source: Bank Indonesia; *Preliminary Data **Very Preliminary Data

Current account surplus

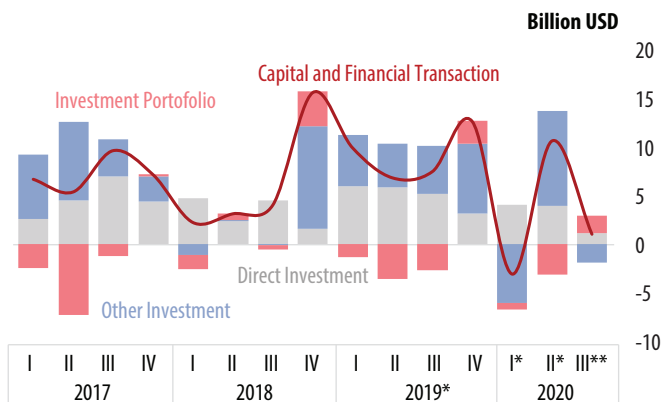
Current Account



Source: Bank Indonesia; *Preliminary Data **Very Preliminary Data

Capital and financial account surplus

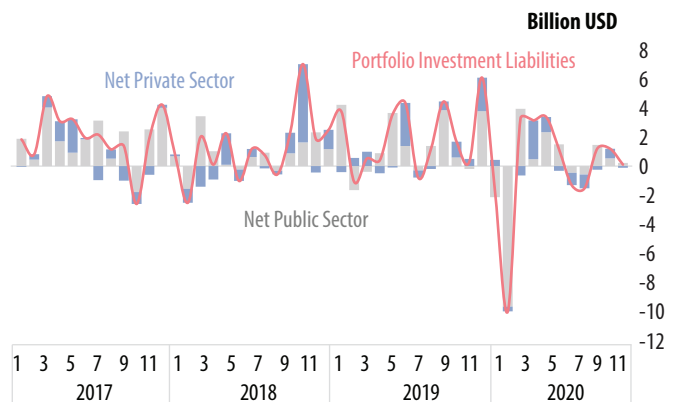
Capital and Financial Transactions



Source: Bank Indonesia; *Preliminary Data **Very Preliminary Data

Maintained capital flows

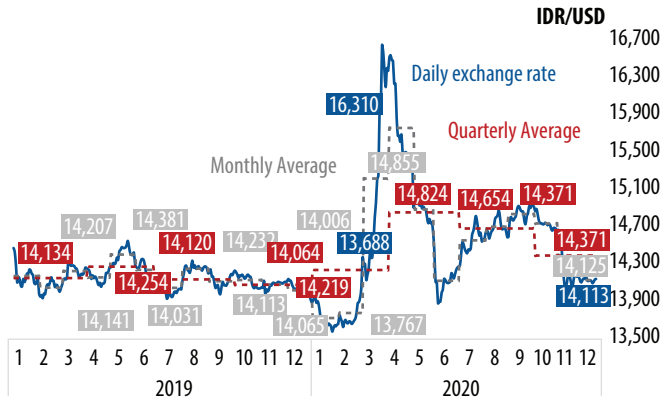
Capital Flow



Source: Bank Indonesia; *Data as of 15 December 2020

Rupiah exchange rates have been maintained

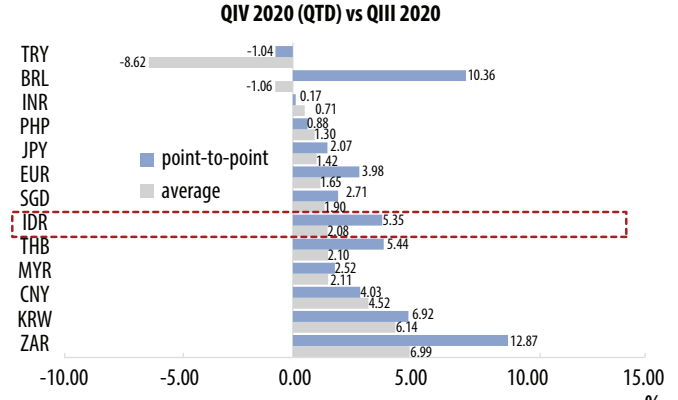
Exchange Rate Movements



Source: Reuters, calculated; Data as of 16 December 2020

Exchange rate under control in Q4/2020

Country Peers Quarterly Appreciation/Depreciation

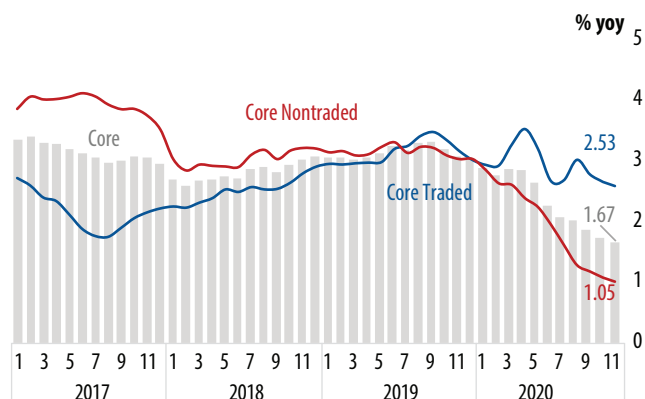


Source: Reuters, Bloomberg, calculated; Data as of 16 December 2020

Low Inflation Supporting Economic Gains

Lower core inflation...

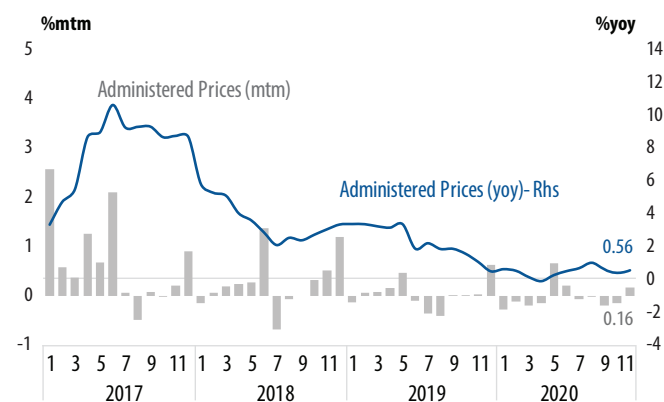
Traded vs. Non-Traded Core Inflation



Source: BPS, calculated

Higher administered prices inflation...

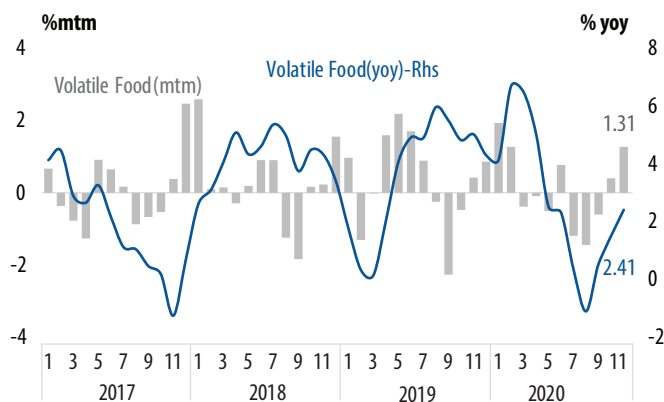
Administered Prices Inflation



Source: BPS, calculated

Higher volatile food inflation...

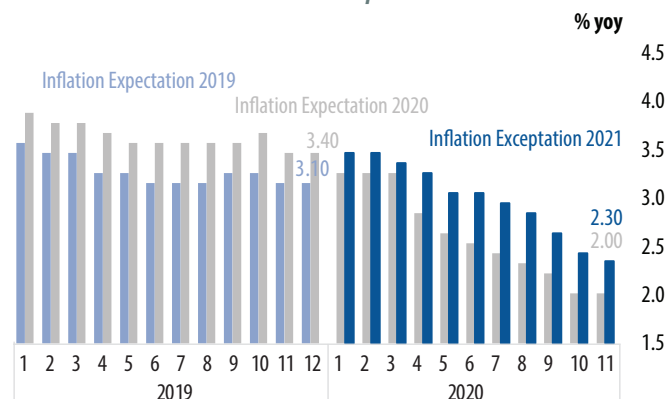
Volatile Food Inflation



Source: BPS, calculated

...in line with persistently low inflation expectations

Consensus Forecast Inflation Expectations



Source: Consensus Forecast

...influenced by rising airfares

Administered Prices Commodity Inflation/Deflation Contribution

Commodity	Inflation/Deflation (% mtm)	Contribution (%)
Inflation		
Air Transport	3.79	0.03
Deflation		
Electrical Charges	-0.35	-0.01

Source: BPS, calculated

...primarily influenced by higher prices of purebred chicken meat and eggs as well as horticultural produce

Volatile Food Commodity Inflation/Deflation Contribution

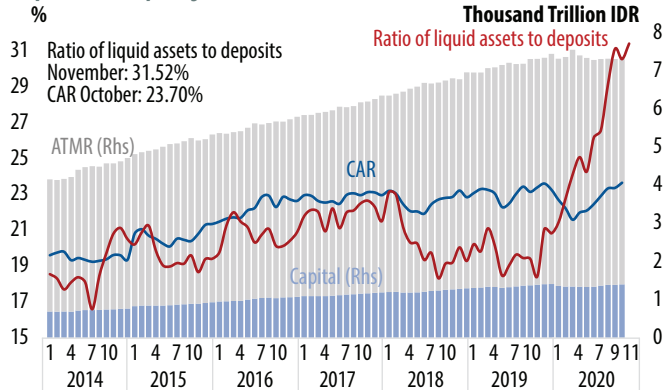
Commodity	Inflation/Deflation (% mtm)	Contribution (%)
Inflation		
Broiler Chicken Meat	6.42	0.08
Broiler Chicken Egg	5.34	0.04
Red chili	10.28	0.04
Red onion	9.00	0.03
Bird's Eye Chili	10.98	0.01
Cooking oil	1.40	0.01
Tomato	8.77	0.01
Garlic	3.09	0.01
Deflation		
Rice	-0.27	-0.01
Beef	-1.02	-0.01

Source: BPS, calculated

Financial System Stability Maintained and Payment System Uninterrupted

High Capital Adequacy Ratio (CAR)...

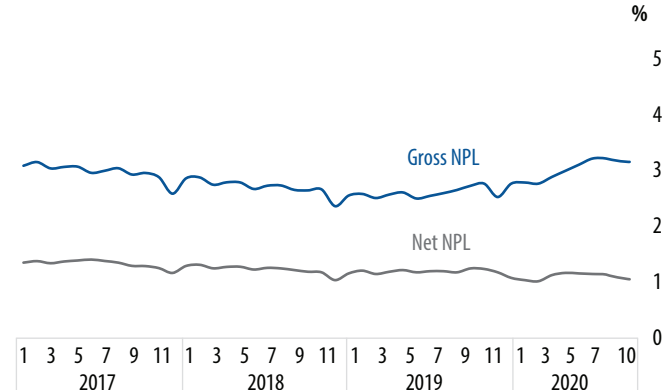
Capital Adequacy Ratio (CAR)



Source: Bank Indonesia

Non-performing loans (NPL) maintained

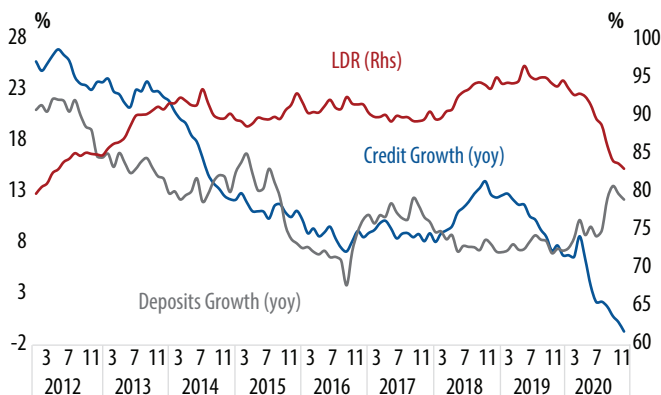
Nett and Gross NPL



Source: Bank Indonesia

Sluggish credit growth...

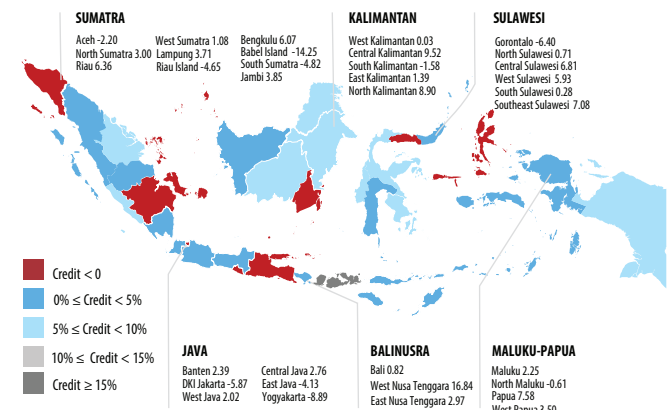
Credit and Deposits Growth



Source: Bank Indonesia

...in line with weak regional credit growth

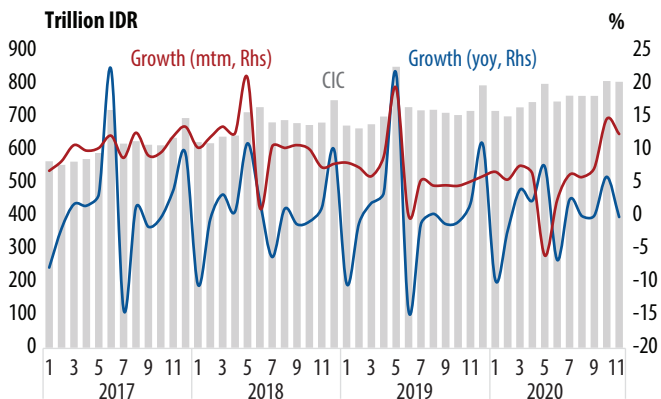
Credit Growth by Region



Source: Bank Indonesia

Currency in circulation remains high in line with economic activity...

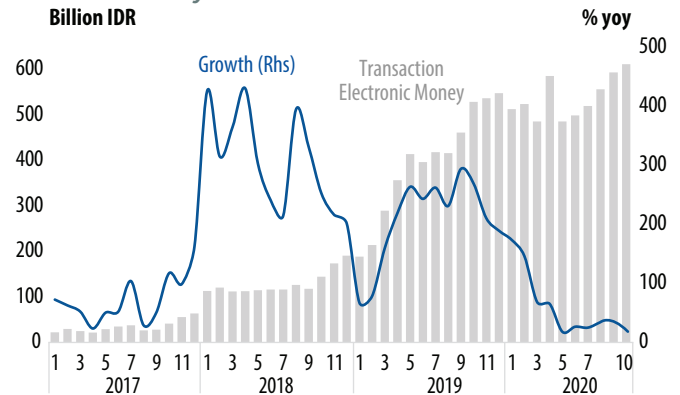
Currency in Circulation



Source: Bank Indonesia

Electronic money transactions expanding...

Electronic Money Transaction



Source: Bank Indonesia, Daily Average Data



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