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NUSANTARA

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APRIL 2024

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Foreword

The Nusantara Report describes the latest national economic conditions and outlook from a regional perspective. The spatial economic assessments presented in this publication are based on five geographic regions: Sumatra, Java, Kalimantan, Bali-Nusa Tenggara (Balinusra) and Sulawesi-Maluku-Papua (Sulampua). The Nusantara Report is published on a quarterly basis by Bank Indonesia in January, April, July and October.

This edition of the Nusantara Report addresses the strategic issue of "Strengthening the Regional Payment Ecosystem to Support the National Digital Economy and Finance". This is an important issue to explore in line with structural efforts to bolster national economic resilience and revival amidst dynamic global economic changes. The report specifically discusses strategies to accelerate payment system digitalisation towards boosting economic efficiency in order to maintain stability and strengthen sustainable economic growth.

We sincerely hope the Nusantara Report brings valuable insights and benefits to all stakeholders and regional economists. The spirit of optimism is reflected in the Garuda Eagle architectural design of the Bank Indonesia Office Complex in the new Nusantara Capital City (IKN), representing the spirit of revival. We are also confident that Bank Indonesia can continue supporting sectoral recovery and development throughout the Indonesian archipelago, while remaining vigilant of the latest dynamics. We visualise this hope through the map of the archipelago, with a touch of the Tangkawang Ampiek batik motif, which symbolises good fortune and health towards national prosperity.

Jakarta, 29th April 2024

Economic and Monetary Policy Department

Firman Mochtar

Executive Director

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Executive Summary

Regional economic gains recorded in the first quarter of 2024 were driven by Sumatra, Java and Sulampua, contrasting economic moderation in the Kalimantan and Balinusra regions. The regional economies of Sumatra and Java accelerated on the back of private consumption, particularly household consumption. Meanwhile, economic improvements in the Sulampua region stemmed more from a growing contribution of net exports and investment. Departing from conditions in Sumatra and Java, economic moderation in the Kalimantan region was influenced by the normalisation of government spending relating to the development of the new capital city (IKN). In the Balinusra region, the economic slowdown was attributable to the completion of tourism infrastructure projects. Economic improvements in most regions were also reflected by the stronger performance of several economic sectors. Furthermore, higher private consumption in all regions induced gains in the trade sector and manufacturing industry in various regions. In Sulampua, improvements in terms of net exports and investment buoyed strong growth of the mining sector and manufacturing industry in the first quarter of 2024.

Overall, economic performance in most regions is projected to post limited gains in 2024, with moderation expected in Kalimantan. Household consumption, along with general and local elections, will support economic improvements in most regions. Specific to the Java region, improving household consumption will have a large multiplier effect on higher sectoral output in other regions. In contrast, economic improvements in Sulampua will stem more from exports and investment. Meanwhile, economic moderation is only anticipated in the Kalimantan region as the Government normalises spending related to development of the new capital city (IKN), despite a promising export outlook. The performance of major economic sectors in each region has confirmed limited economic gains. Developments in the main regional economic sectors are divergent, as reflected by sluggish improvements in the tertiary sector amid stronger gains recorded in the manufacturing industry, except in Sulampua. Economic developments in several regions have strengthened indications of restrained national economic improvements in Indonesia in 2024.

Composite Consumer Price Index (CPI) inflation for cities in all regions of Indonesia remained manageable in the first quarter of 2024. Nationally, CPI inflation in the first quarter of 2024 was recorded at 3.05% (yoy), which is still within the national target corridor despite the increase compared with conditions in the previous period. The build-up of inflationary pressures was primarily influenced by Volatile Food (VF) as a corollary of limited supply after the harvesting season was delayed. Meanwhile, Core Inflation was still under control in the first quarter of 2024, and Administered Prices (AP) fell in all regions. Spatially, inflation in 13 provinces exceeded the target range, with the highest rate recorded in West Papua at 4.78% (yoy).

CPI inflation is expected to remain under control and within the 2.5%±1% target in 2024, supported by synergy between Bank Indonesia and the Government. Spatially, CPI inflation in all regions is also forecast to remain manageable. Bank Indonesia will continue orienting its policy mix towards consistently maintaining rupiah stability, as a preemptive and forward-looking measure to ensure inflation remains within the target range. In addition, Bank Indonesia will continue strengthening policy coordination with the (central and regional) Government and other strategic partners through the National Movement for Food Inflation Control (GNPIP) in various regions within the Central and Regional Inflation Control Teams (TPIP and TPID). Coordination will be strengthened to manage volatile food inflation against a backdrop of productivity issues and intertemporal supply imbalances, which remain an ongoing concern. Synergy with the Government will be strengthened to accelerate payment system digitalisation, thereby boosting economic efficiency and supporting efforts to manage core inflation. Part III of this edition of the Nusantara Report explores the strategic issue of “Strengthening the Regional Payment Ecosystem to Support the National Digital Economy and Finance”.

Moving forward, rapidly changing global economic dynamics and increasing uncertainty will continue to demand vigilance. The stronger economic growth anticipated in the United States (US) will impact the monetary policy stance of the US Federal Reserve. Furthermore, such improvements have boosted economic growth in India on the back of external performance. Meanwhile, the economic outlook for China remains sluggish. International commodity prices are forecast to increase due to limited production and supply triggered by inclement weather and deepening geopolitical tensions, including Israel-Iran. Such factors could exacerbate global financial market uncertainty and the world economic growth outlook and, in turn, impact the economic outlook in various regions of Indonesia.

PART 1

Overview of Recent Regional Economic Developments and Outlook

Regional Economic Developments

The economic improvements witnessed in most regions are anticipated to continue throughout the first quarter of 2024. The economic growth is underpinned by private consumption, specifically household expenditure, in the majority of regions. Higher household consumption was reflected in strong retail sales, which were influenced by seasonal factors ahead of the Eid-ul-Fitr national religious holiday (HBKN). Household consumption is expected to accelerate in all regions, except in Balinusra in response to moderating tourism activities in the region. Contrasting other regions, economic improvements in Sulampua stemmed from a higher contribution of net exports, driven by mining commodities as well as iron and steel, coupled with ongoing investment to expand the capacity of the iron and steel industry.

Persistent regional economic gains were confirmed by sectoral performance in several regions. Improving private consumption in all regions elevated trade sector performance in all regions. Furthermore, higher consumption also improved manufacturing industry performance in the Java, Sumatra and Kalimantan regions. Meanwhile, improving net exports and investment in the Sulampua region maintained robust mining and manufacturing industry performance in the first quarter of 2024.

Economic performance is anticipated to show slight improvement across most regions in 2024, with the exception of a more restrained outlook for Kalimantan. Household consumption is the main driver of improvements in all regions, except Sulampua where exports and investment are dominant. Private consumption improved in all regions, supported by higher incomes as well as spending on general and local elections. Investment growth is also expected to increase, except in the Sulampua region given recent adjustments to the completion schedules for investment and operational activities of basic metal industry and copper mining projects. Investment in the Kalimantan region also moderated due to the normalisation of new capital city (IKN) development. The economic support of net exports in several regions will not be as strong as previously projected. Non-oil and gas exports in the Balinusra, Kalimantan and Sulampua regions are expected to increase, with moderation predicted in Sumatra and Java.

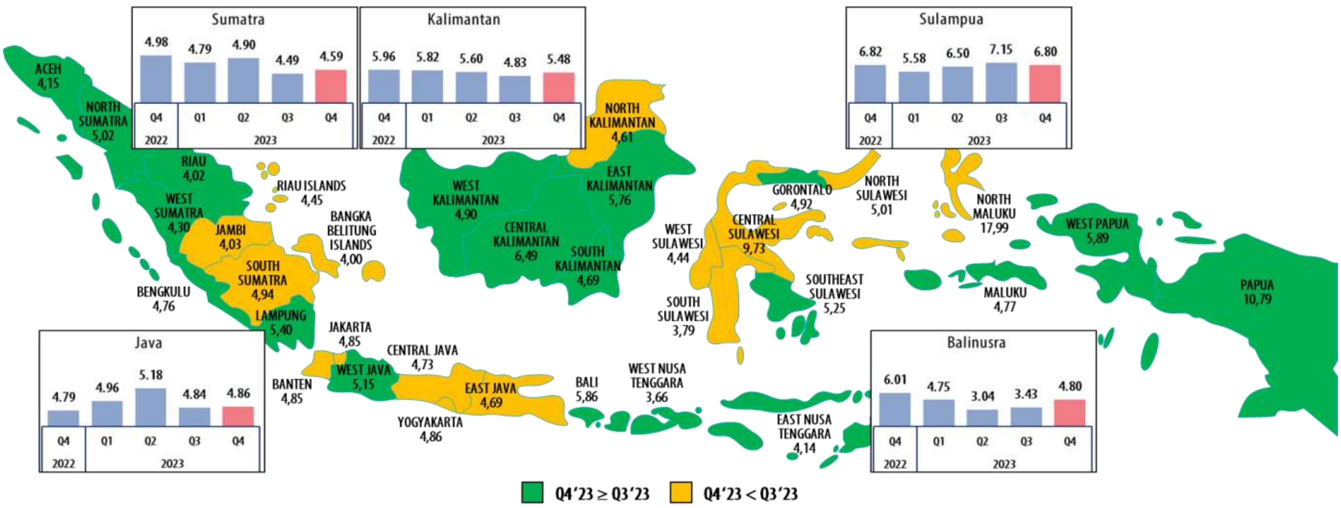
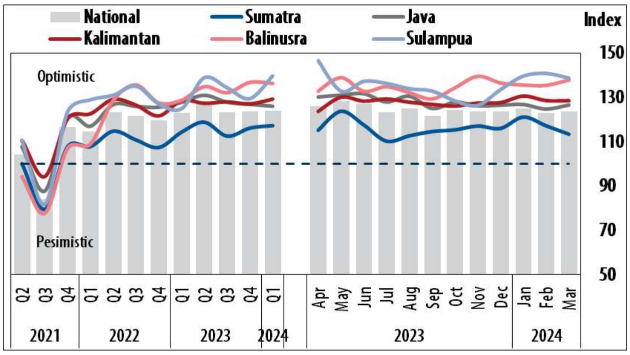


Figure I.1. Map of Regional Economic Growth in Q4/2023

The economic performance of key sectors in various regions has indicated modest economic growth in 2024. Furthermore, a multi-speed sectoral recovery is also anticipated across different regions, as reflected by sluggish gains in the tertiary sector coupled with stronger manufacturing industry improvements in various regions, except Sulampua. Regional economic and sectoral developments have strengthened indications of limited economic gains achievable in Indonesia in 2024.

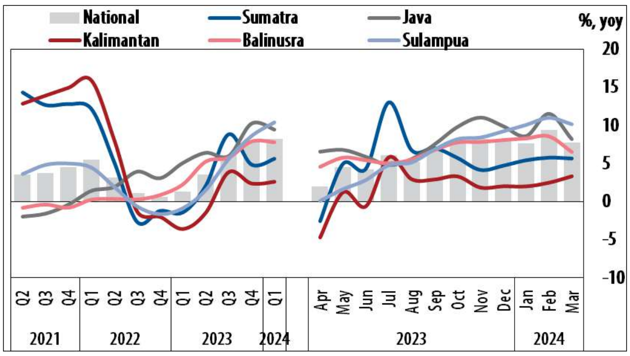
Private Consumption

In the first quarter of 2024, private consumption growth is projected to accelerate. Seasonal factors during the Ramadan festive period were the main contributor to higher private consumption in the first quarter of 2024. In addition, the recent presidential election also had a positive impact on private consumption. Such developments were confirmed by robust retail sales in various regions. Solid consumption activity was also reflected by higher consumer confidence in all regions (Graph I.1). Farm income also improved in various regions, as indicated by a higher farmers' terms of trade (FTT) in food crop producing areas, such as Balinusra and Sulampua (Graph I.2). Farmers' income also increased in plantation crop producing regions, particularly in terms of freshfruit bunches (FFB) in Sumatra and Kalimantan amid subdued export demand.



Source: Bank Indonesia

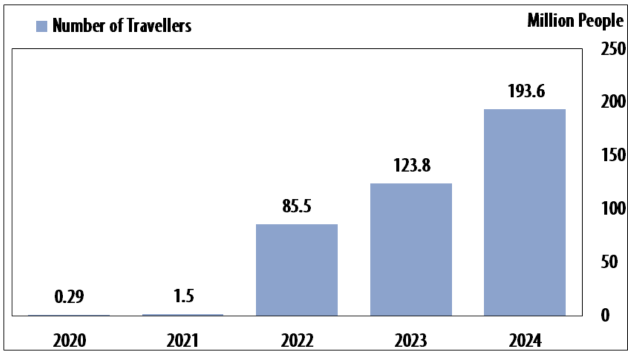
Graph I.1. Consumer Confidence Index (CCI)



Source: BPS-Statistics Indonesia, processed

Graph I.2. Farmers' Terms of Trade (FTT)

Such positive developments are supporting private consumption improvements overall in 2024. Private consumption has improved on higher income. In addition, local elections, which will be held simultaneously for the first time, are also expected to boost private consumption growth in all regions in 2024. The impact of the Eid-ul-Fitr festive period in 2024 is also forecast to support strong consumption growth, as reflected by the higher number of Indonesians who are traveling to their hometowns ahead of the holiday (Graph I.3). Regionally, private consumption in Sumatra and Kalimantan is expected to accelerate, supported by higher export income. Private consumption in the Java, Balinusra and Sulampua regions is also predicted to increase in line with the previous projection, supported by higher minimum wages, civil servant salaries as well as fiscal incentives and Bank Indonesia policy support.



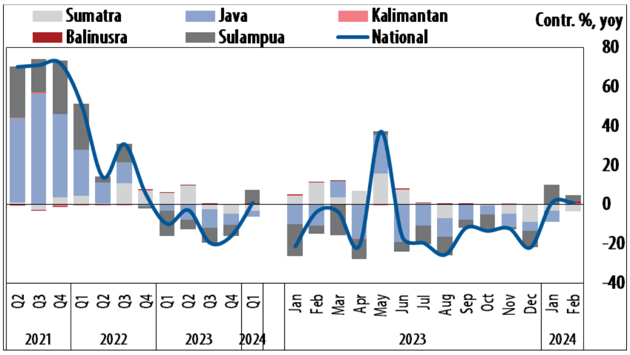
Source: Ministry of Transportation, Ministry of Communication and Information Technology, bps, processed

Graph I.3. Projected Number of Travellers

Investment

Investment in the first quarter of 2024 is projected to moderate in most regions, except Sulampua. Ongoing investment in the downstream nickel industry is the main driver of investment gains in the Sulampua region. Meanwhile, investment in other regions decelerated due to the wait-and-see attitude of investors during the presidential election, coupled with more muted export performance. Deeper investment moderation in several regions was offset, however, by robust building investment, as reflected by high imports of construction materials (Graph I.4). The ongoing construction investment projects include the new capital city (IKN) development in Kalimantan, completion of the Trans-Sumatra Toll Road (JTTS), private and public sector projects relating to tourism in the Balinusra region, as well as construction projects for several industries in the Java region.

Overall, investment in 2024 is expected to accelerate, except in Kalimantan. The main drivers for improving regional investment include projects for oil and gas investment in Sumatra, additional automotive industry capacity and the completion of national strategic projects (PSN) in Java, as well as the expedited construction of smelters and tourism-related projects in Balinusra. Additional capacity in the basic metal industry, which is not as high as in the previous year due to operational delays to 2025, together with the faster completion of copper mining investment at the beginning of 2024 have lowered the investment projection for Sulampua. Meanwhile, moderating investment in Kalimantan is primarily due to the normalisation of projects relating to the new capital city development.



Source: Bank Indonesia

Graph I.4. Value of Construction Material Imports

Regional Government Consumption

Regional fiscal stimuli in the first quarter of 2024 are expected to remain limited. The realisation of the Regional Revenue and Expenditure Budget (APBD) spending as of February 2024 in all regions is lower than in the same period one year earlier and lower than historical trends. The realisation of budget expenditures has decreased most significantly in the Kalimantan region. Low spending stemmed from the realisation of locally generated revenue (PAD), which was not as high as in the previous year, despite improving disbursements of regional transfers (TKD). In addition to lower realisation, the composition of regional expenditures was still dominated by personnel expenditures, which tended to increase in all regions, except Sumatra, where the procurement component increased.

The realisation of the Regional Revenue and Expenditure Budget expenditures was supported by improving disbursements of regional transfers (TKD), despite a decrease in locally generated revenue (PAD) across all regions. The realisation of regional transfers improved across all components, led by the non-physical Special Allocation Fund (DAK). This was supported by phase 1 disbursements of the Educational Unit Operational Assistance Fund (BOSP), consisting of School Operational Assistance (BOS) funds, Operational Assistance Funds for Early Education (BOP PAUD) and the Equitable Education Fund (BOP Kesetaraan). The improvement in the realisation of the General Allocation Fund (DAU) resulted from a larger portion of the block grant. Furthermore, village fund realisation also increased given the redesign of the disbursement mechanism that separates earmarked village funds for eradicating extreme poverty through the Direct Cash Assistance (BLT) Fund from non-earmarked funds. Realisation of the Profit-Sharing Fund (DBH) also increased in line with the higher ceiling on the profit-sharing fund for Mineral and Coal Mining in 2024. Meanwhile, moderating receipts of locally generated revenue (PAD) stemmed from lower regional tax revenues, lower levies collected in nearly all regions, except Java, the outcome of separated regional wealth management in Kalimantan, Java and Sulampua as well as other locally generated revenue.

Table I.1. Regional Transfers (TKD)

Transfer to Region (TKD) (IDR Trillion)	Allocation		Realization				
	2023	2024	up to Feb '23	up to Feb '24	%up to Feb '23	%up to Feb '24	up to Feb '24 (yoy)
1. Profit Sharing Fund (DBH)	136.26	143.10	14.79	16.17	10.9%	11.3%	9.3%
2. General Allocation Fund (DAU)	396.00	427.70	71.67	82.55	18.1%	19.3%	15.2%
3. Special Transfer Funds	185.80	188.10	12.52	28.58	6.7%	15.2%	128.2%
a. Special Allocation Fund (DAK) Physical	53.42	53.82	0.00	0.00	0.0%	0.0%	0.0%
b. Special Allocation Fund (DAK) Non Physical	130.30	133.76	12.52	28.58	9.6%	21.4%	128.2%
c. Grants to Regions	2.08	0.51	0.00	0.00	0.0%	0.0%	0.0%
4. Special Autonomy Funds	17.24	18.27	0.00	0.00	0.0%	0.0%	0.0%
5. DIY Special Funds	1.42	1.42	0.00	0.00	0.0%	0.0%	0.0%
6. Village Fund	70.00	71.00	6.23	7.36	8.9%	10.4%	18.1%
7. Fiscal Incentives	8.00	8.00	0.00	0.03	0.0%	0.3%	0.0%
TKD Total	814.72	857.59	105.21	134.68	12.9%	15.7%	28.0%

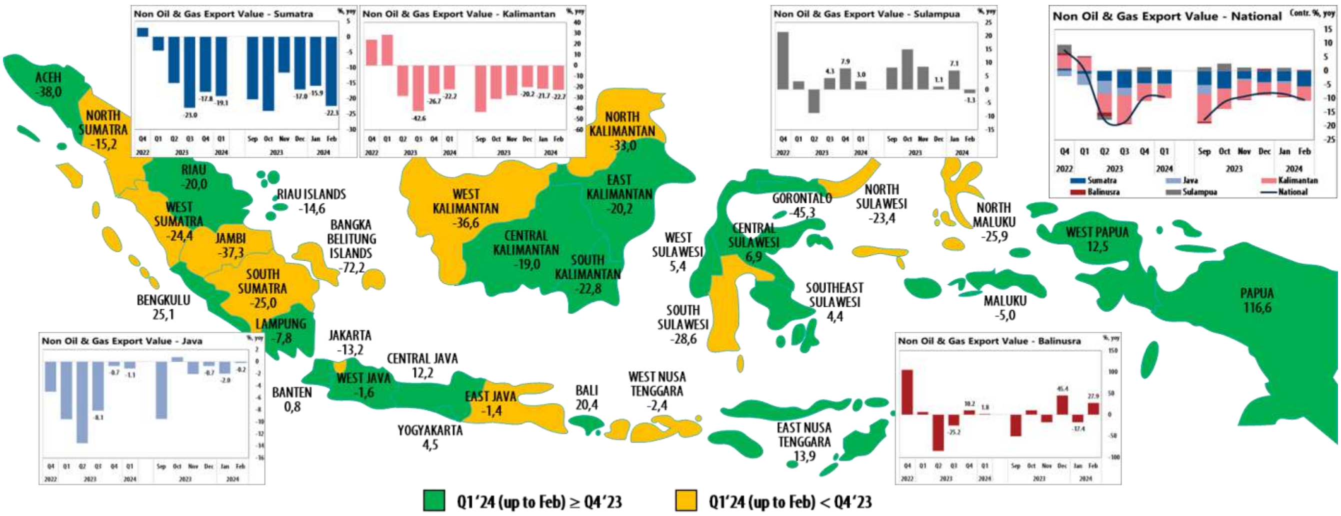
Source: Ministry of Finance, processed

Overall, fiscal performance is expected to post limited gains in 2024. Regional Revenue and Expenditure Budget (APBD) realisation is expected to increase gradually beginning in the second quarter of 2024, triggered by the realisation of personal expenditures relating to the Religious Holiday Allowance (THR) as well as the start of spending on preparations for the local elections. In addition, various provincial government projects also contributed to the realisation of regional spending as follows: National Sports Week XXI and capital expenditures (CapEx) to repair roads in Sumatra, spending on the New Autonomous Regions (DOB) in Sulampua, and expenditure support for projects relating to the new capital city in Kalimantan. Accelerating the electronification program for local government transactions is also expected to have a positive impact on expediting the realisation of regional expenditures.

International Exports

Non-oil and gas export performance increased in the first quarter of 2024, supported by stronger exports in various regions, except Java and Sumatra. Developments as of February 2024 pointed to a shallower export contraction in Kalimantan, primarily due to coal. This was supported by higher demand from India in line with domestic policy to extend the coal import mandate until June 2024. International exports from the Balinusra region recorded positive growth, primarily supported by exports of pearls and copper concentrate. Exports from Sulampua moderated due to lower nickel prices, limited additional production capacity and maintenance at several smelters. Meanwhile, exports from the Sumatra and Java regions decreased in the first quarter of 2024. Lower exports from Sumatra were caused by the suspension of tin exports due to licensing and operational constraints, while exports from the Java region were held back by various manufacturing products, specifically motor vehicles and jewellery.

Overall, non-oil and gas exports are projected to improve in 2024 in most regions. The outlook for non-oil and gas exports in the Balinusra, Kalimantan and Sulampua regions is projected to increase, contrasting moderating exports forecast in Sumatra and Java. Improving export performance from the Balinusra region will be supported by copper concentrate products and increasing tourism activity. Exports in Sulampua will also improve due to various downstream nickel commodities. Notwithstanding, further gains will be offset due to nickel oversupply globally, limited additional production capacity and maintenance at several smelters, which are expected to push export performance in Sulampua below the previous projection. In the Kalimantan region, export improvements will be supported by persistently strong demand for coal and crude palm oil (CPO), despite being below the previous projection. Meanwhile, exports from Sumatra and Java are expected to moderate on the back of soft demand for various manufacturing commodities from Indonesia's key trading partners.



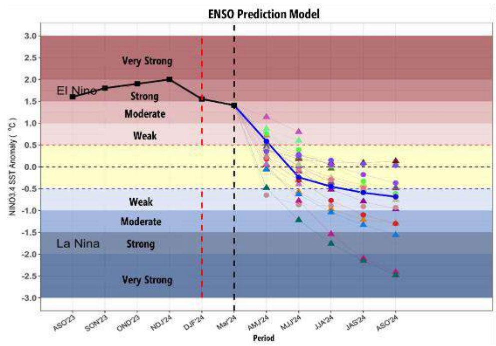
Source: Directorate General of Customs and Excise (DJBC), processed (Q1/2024 data as of February 2024)

Figure I.2. Map of Regional Non-Oil and Gas Export Growth in Q1/2024 (% yoy)

Agriculture

Agricultural sector performance is projected to moderate in all regions, except Sumatra. Moderation was primarily driven by the food crop and horticultural crop subsectors, contrasting maintained performance in the plantation crop subsector. Rice production is expected to slow after the peak harvesting season was delayed until the second quarter of 2024 in the Java, Sumatra and Sulampua regions due to a postponed planting season caused by the impact of El Niño at the end of 2023. Conversely, the production of fresh fruit bunches (FFB), specifically in Sumatra and Kalimantan, is expected to increase given conducive rainfall and additional arable land area.

Agricultural sector performance overall in 2024 is forecast to increase. In general, the projected increase in agricultural sector performance coincides with the end of El Niño (Graph I.5), thereby improving the food crop and horticultural crop harvests in Java and Sumatra. Various efforts to increase production by the Government, including a larger subsidy allocation for fertiliser, water pumping equipment, the El Niño Movement and expanded land area for food crops using marshland in Sumatra are expected to boost agricultural performance in various regions. In the Java region, as the largest food crop producer in Indonesia, production is not expected to increase as high as previously projected as a result of land productivity factors. In addition to food crops, agricultural sector gains are also supported by FFB production in Kalimantan and Sumatra and South Sumatra, which is expected to increase in line with the larger harvesting area.

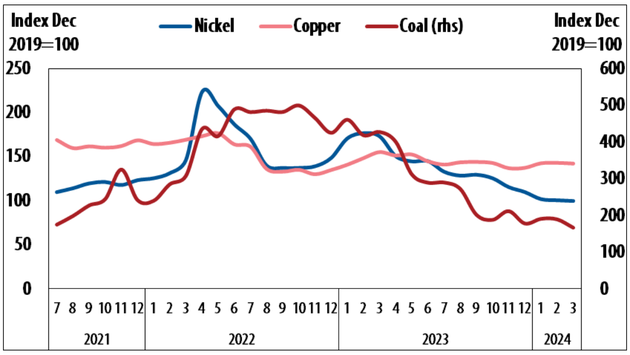


Source: Meteorological, Climatological and Geophysical Agency (BMKG)

Graph I.5. ENSO Index

Mining

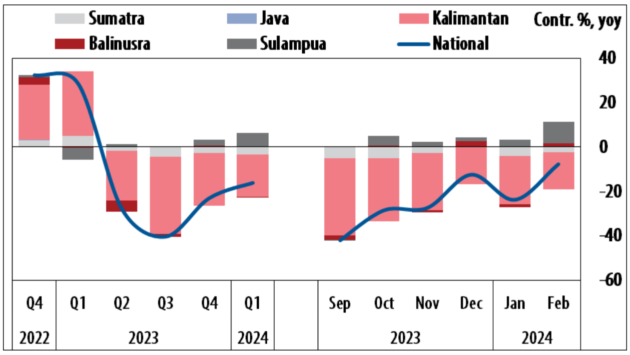
Mining industry performances projected to moderate in the first quarter of 2024. This is a result of global economic headwinds, particularly in Indonesia's main trading partner countries. In addition, the downward trend of commodity prices for coal, nickel, and copper since 2023, as the major regional mining commodities, has also impacted mining performance (Graph I.6). The combination of both factors has lowered production targets for those major commodities. In Sumatra, oil and gas production decelerated in line with the lower lifting target for 2024 and flooding at a major oil and gas well. Furthermore, coal production in Sumatra is also expected to moderate, with a similar scenario playing out in Kalimantan due to lower production targets and licensing constraints. On the other hand, mining sector performance in Balinusra and Sulampua improved on the back of growing demand for copper exports (Graph I.7). Higher copper production in both regions was used to optimise export quotas effective until May 2024 before export restrictions on copper concentrate come into force.



Source: Ministry of Energy and Mineral Resources (ESDM), processed

Graph I.6. Reference Prices for National Mining Commodities

Mining sector performance in 2024 is anticipated to moderate in all regions. Moderation will stem from limited demand expected in Indonesia's main trading partner countries, particularly for coal and nickel and downstream products. In Sumatra and Kalimantan, global demand, especially in China, is experiencing a slowdown, which is forecast to impact coal production. Nevertheless, the prospect of higher demand in India is predicted to drive mining sector performance in both regions beyond the previous projection. In the Balinusra region, copper production is expected to remain high to meet demand for smelters that are planned to commence operations in the second quarter of 2024. Meanwhile, lower copper production in the Sulampua region is expected than the previous projection. Nickel production in Sulampua, as a raw material for steel production, is also forecast to decelerate due to demand pressures in China.

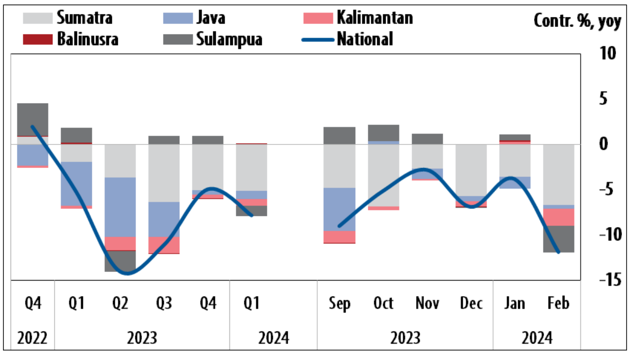


Source: Directorate General of Customs and Excise (DJBC), processed

Graph I.7. Value of Mining Exports

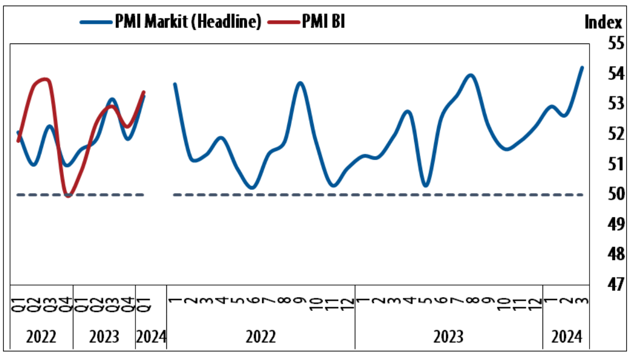
Manufacturing Industry

Manufacturing industry performance improved in most regions in the first quarter of 2024. Manufacturing industry improvement was driven by increased private consumption across all regions, attributed to seasonal factors during the Ramadan festive period and the implementation of the general election. This growth occurred despite a decline in manufacturing product exports (Graph I.8). Manufacturing industry gains were reported in all regions, led by Sulampua. Manufacturing industry performance improved in the Java region due to the food and beverages industry in line with solid domestic demand during the election campaigning and holy month of Ramadan, as well as stronger textile and footwear industry performance on US demand for exports. Manufacturing industry improvements in the Sumatra region were driven by stronger CPO industry performance to meet demand for food products and blending biodiesel in line with B40 policy. CPO industry improvements also boosted manufacturing industry performance in the Kalimantan region. Meanwhile, the manufacturing industry in Sri Lanka maintained strong growth, supported by the iron and steel industry, particularly stainless-steel products driven by Chinese demand.



Source: Directorate General of Customs and Excise (DJBC), processed
Graph I.8. Manufacturing Exports

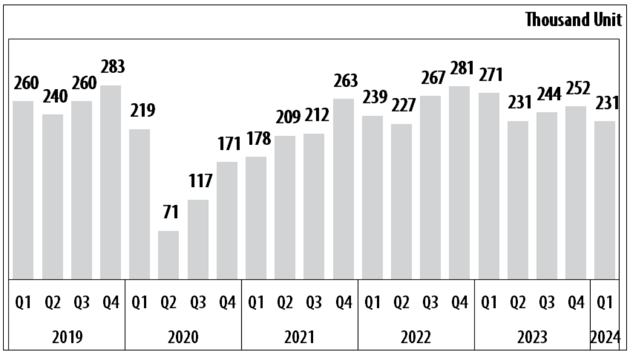
The overall performance of the manufacturing industry in 2024 is expected to show improvement in almost all regions, with the exception of Sulampua. This will be driven by domestic demand in line with higher incomes, the general and local elections amidts restrained export performance. Such conditions are reflected in the Purchasing Managers Index (PMI), which is increasing and moving deeper into an expansionary phase (Graph I.9). Manufacturing industry improvements are expected in nearly all regions, except Sulampua. The textile and footwear industry is expected to drive manufacturing industry gains in the Java region as the US economy outperforms the previous projection, coupled with additional production capacity in the automotive industry in response to government policy to foster green industry. Meanwhile, manufacturing industry improvements in the Sumatra and Kalimantan regions are supported by higher demand in the CPO industry for domestic biodiesel in line with the B40 program. In the Sulampua region, manufacturing industry moderation is expected, particularly in the iron and steel industry, due to lower Chinese demand. Nevertheless, manufacturing industry growth will remain high as efforts to increase capacity remain ongoing.



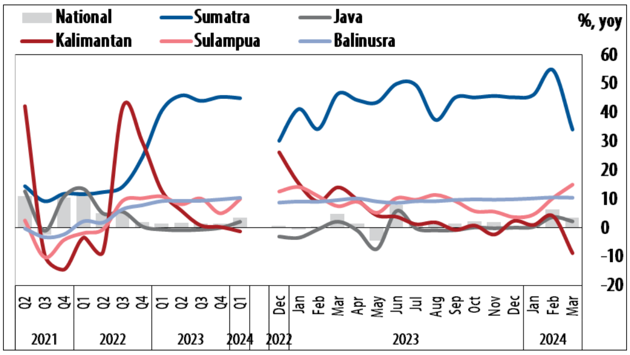
Source: HIS Markit, Bank Indonesia, processed
Graph I.9. Purchasing Managers Index (PMI)

Trade

Trade sector performance is projected to increase in all regions in the first quarter of 2024. This was driven by persistently solid domestic demand, particularly household consumption in all regions. Such developments were also supported by seasonal factors during Ramadan, controlled inflation and the impact of general election activities. In the Balinusra region, trade sector performance was also impacted by the Galungan and Kuningan festive period. Performance was also reflected by positive trade indicators in various regions, including positive retail sales growth in most regions, except Kalimantan, as well as persistently high retail motor vehicle sales in the first quarter of 2024, despite retreating slightly on the previous period.



Source: Association of Indonesia Automotive Industries (GAIKINDO)
Graph I.10. Retail Motor Vehicle Sales

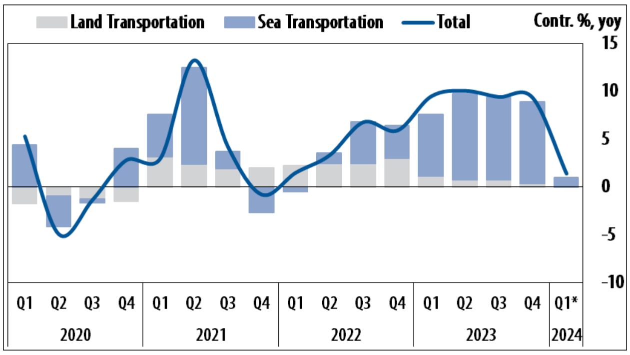


Source: Bank Indonesia
Graph I.11. Real Retail Sales Index

In 2024, the trade sector is projected to maintain its solid growth, particularly in Kalimantan and Balinusra. Robust trade sector performance is anticipated in 2024, supported by domestic trade activity as world trade remains sluggish. Trade sector performance will remain solid in all regions, particularly Kalimantan and Balinusra, driven by improving regional private consumption, controlled inflation, the impact of general and local elections as well as various fiscal incentives instituted by the Government. Meanwhile, the trade sector in the Sumatra, Java and Sulampua regions is not growing as strongly as previously projected as a consequence of global economic moderation.

Transportation and Logistics

The performance of the transportation and logistics sector is expected to remain subdued in most regions during the first quarter of 2024, except in Kalimantan. The slowdown in the transportation sector, primarily freight, was influenced by subdued export performance and the normalisation of mobility after the Christmas and New Year festive period (Graph I.12). Notwithstanding, further sectoral moderation was offset by general election activity and positive retail sales growth in most regions. In Kalimantan, specifically, improving coal exports had a favourable impact on improving transportation and logistics sector performance in the reporting period.



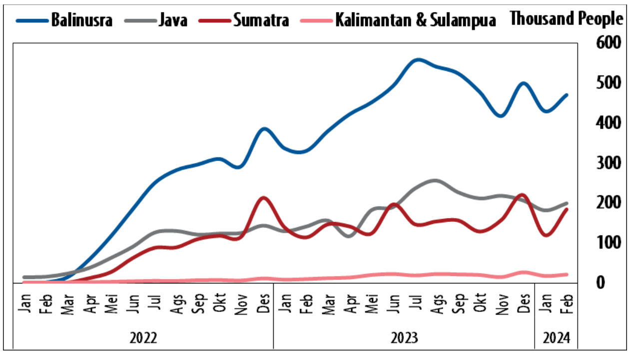
Source: BPS-Statistics Indonesia, processed (Q1/2024 data as of February 2024)

Graph I.12. Freight Growth by Transportation Mode

The projected performance of the transportation and logistics sector in 2024 is expected to moderate across all regions, this is due to an export outlook that is not as robust as initially projected. In Kalimantan, transportation and logistics sector moderation is not as deep as the previous projection due to improving coal exports. A further sectoral slowdown has been offset by growth of passenger transportation during the national religious holidays (HBKN) and general election, coupled with the introduction of several new flight routes throughout 2024, particularly in the Kalimantan, Sumatra and Sulampua regions.

Accommodation and Food Service Activities

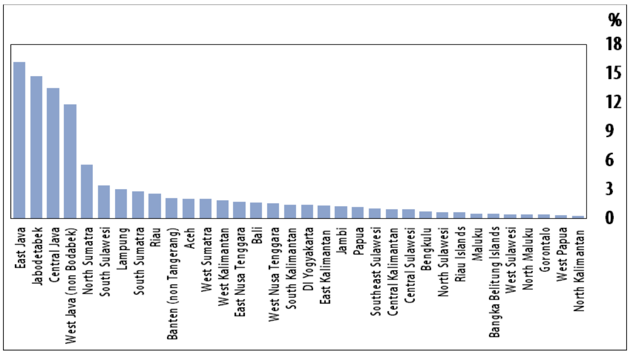
The performance of accommodation and food service activities in the first quarter of 2024 is projected to moderate, primarily in Balinusra and Sumatra. Moderation stemmed from the normalisation of community mobility after the Christmas and New Year festive period and beginning of Ramadan. The sectoral slowdown was most significant in the Balinusra and Sumatra regions, as confirmed by the number of inbound international travellers to both regions (Graph I.13). A deeper downturn was offset, however, by general election activities in various regions, coupled with the mobilisation of domestic travellers given the higher number of collective leave days, particularly in the Java region.



Source: BPS-Statistics Indonesia, processed

Graph I.13. Inbound International Travellers

The accommodation and food service sector's performance in 2024 is predicted to moderate in most regions. Moderation is expected to stem from the normalisation of inbound international travellers due to the base effect of rapid growth in 2023 as well as fewer international events hosted in the Sumatra region and a shorter length of stay after Visa on Arrival fees were reintroduced, despite efforts to gradually increase airline capacity. Meanwhile, accommodation and food service sector activities are forecast to improve only in the Java region in response to the impact of general election activity as well as the massive mobilisation of domestic travellers during the national religious holidays (HBKN), which is concentrated in this region (Graph I.14).



Source: Ministry of Transportation, processed

Graph I.14. Origin of Domestic Travellers during Eid-ul-Fitr

Construction

Construction sector moderation is also projected in the first quarter of 2024 in most regions, except Kalimantan. Slower growth of the construction sector was influenced by the delayed realisation of various construction projects by developers in different regions during the General Election 2024. Nevertheless, several regional projects offset further moderation, including: (i) completion of the Trans-Sumatra Toll Road (JTTS) on target, (ii) expedited development of several industries from the second to first quarter of 2024 in the Java region, particularly Central Java, (iii) ongoing realisation of downstream nickel investment in the Sulampua region, despite retreating compared with the previous period, and (iv) private and government projects related to tourism in the Balinusra region. Meanwhile, ongoing development of the new capital city (IKN) in East Kalimantan by the Government along with several private projects increased construction sector performance in the Kalimantan region in the first quarter of 2024.

Construction sector moderation overall in 2024 is not as deep as previously projected, particularly in Java and Balinusra. This is consistent with ongoing government infrastructure projects and a conducive investment climate maintained after the general election. The completion of several national strategic projects (PSN) in Java is ahead of schedule. In addition, various projects in different industrial zones located in West Java, Central Java and East Java are earmarked to continue. Private and public sector projects supporting tourism in the Balinusra region will also continue, including the development of housing in Bali, smelters in West Nusa Tenggara as well as tourism zones and roads in East Nusa Tenggara, which will drive construction sector growth beyond the previous projection. Construction activity in the Sumatra region in 2024 will be driven by the expedited realisation of the Trans-Sumatra Toll Road (JTTS) (Phase I) as well as supporting facilities for National Sports Week XXI in Aceh and North Sumatra. Meanwhile, construction in the Kalimantan region will also continue, supported by development of the new capital city, particularly for the government zone in 2024. In the Sulampua region, construction sector performance is bolstered by the ongoing development of smelters, despite decelerating compared with conditions in the previous year.

PART 2

Recent Regional Inflation Developments and Outlook

Composite CPI inflation for cities in all regions of Indonesia remained manageable in the first quarter of 2024. Nationally, CPI inflation in the first quarter of 2024 was recorded at 3.05% (yoy), which is within the target corridor despite increasing on the previous period. Inflationary pressures were intensified primarily by volatile food (VF) given limited supply caused by the delayed harvesting season. Meanwhile, core inflation remained under control and administered prices (AP) inflation fell in all regions. Spatially, the highest rate of provincial inflation was recorded in West Papua, reaching 4.78% (yoy), while the lowest was recorded in in Southwest Papua at 1.42% (yoy).

Core inflation remained under control in all regions. Lower core inflation was recorded in the first quarter of 2024 compared with the previous period due to limited economic gains, anchored inflation expectations to the target corridor, minimal imported inflation in line with rupiah stability, and the positive impact of structural factors relating to digitalisation. The main contributor to core inflation in the reporting period was gold jewellery, primarily in South Kalimantan, Riau Islands and South Sumatra.

Administered prices (AP) inflation decreased in all regions. Lower administered prices in the first quarter of 2024 were primarily influenced by lower airfares after the number of airlines and flight routes were increased. In the first quarter of 2024, the main contributors to inflationary pressures on administered prices were various cigarettes (machine rolled clove cigarettes, hand rolled clove cigarettes and machine rolled white cigarettes) and airfares. Inflationary pressures from cigarettes were most intense in South Papua, while inflationary pressures from airfares were primarily felt in South Sulawesi. In addition, the introduction of several tariff policies under the authority of the regional government in the first quarter of 2024 also contributed to AP inflation. These include higher minimum water tariffs in West Kalimantan, West Sumatra and Central Java as well as higher parking charges in various regions, including South Sulawesi, Riau Islands and Bungkulu.

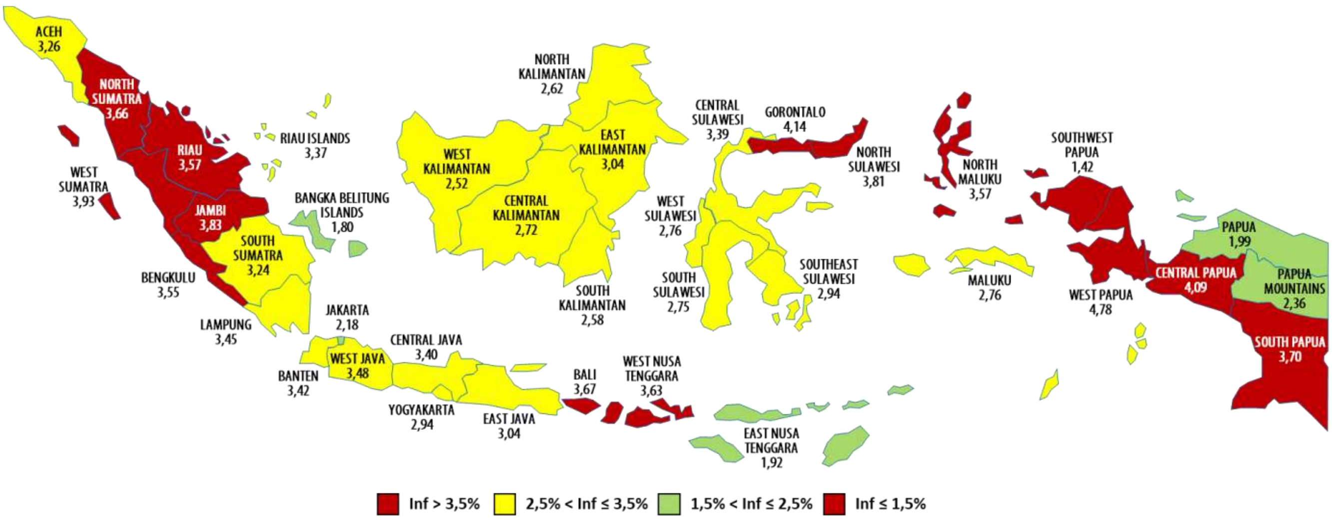


Figure II.1. Map of Composite Inflation for Cities in Each Province and Region in Q1/2024 (yoy)

Volatile food (VF) inflation increased in all regions. The main contributors to higher VF inflation were higher food prices, particularly rice, chicken meat and chicken eggs. Rice prices increased on limited supply given the impact of El Niño that delayed the planting season. Inflationary pressures on rice prices were highest in Gorontalo, North Sulawesi and West Sulawesi. Meanwhile, chicken meat and egg prices were edged upwards by more expensive feed. Further increases in VF inflation were offset, however, by various synergic efforts to control inflation by the Central and Regional Inflation Control Teams (TPIP and TPID) through the National Movement for Food Inflation Control (GNPIP) in different regions as follows: (i) strengthening the resilience of strategic food commodities, (ii) strengthening the capacity of independent food cultivation, (iii) optimising inter-regional cooperation, (iv) facilitating support for food distribution, (v) optimising various types of affordable food market as well as price and supply stabilisation efforts, (vi) strengthening digitalisation and food data, and (vii) strengthening coordination and communication.

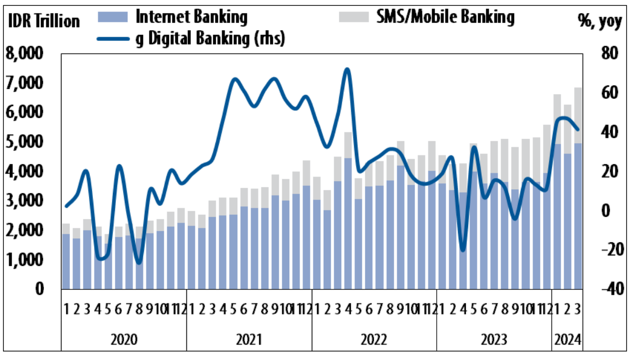
Overall, CPI inflation in 2024 is projected to remain under control. The policy mix instituted by Bank Indonesia will remain consistently oriented towards maintaining rupiah stability, as well as pre-emptive and forward-looking measures to ensure inflation remains under control and within the 2.5%±1% target corridor in 2024. In addition, Bank Indonesia will continue strengthening policy coordination with the (central and regional) government and strategic partners, including through the National Movement for Food Inflation Control (GNPIP) in various regions within the Central and Regional Inflation Control Teams (TPIP and TPID).

Spatially, CPI inflation in various regions is forecast to remain under control and within the 2.5%±1% target corridor in 2024. By region, CPI inflation in Sumatra was higher than in other regions as a result of declining soil fertility and harvest quality due to natural disasters impacting producing areas. Modest economic gains and increasing digitalisation are contributing positively to control core inflation in all regions. Administered prices inflation is also tracking a downward trend in all regions. Nevertheless, government adjustments to tariffs and levies in different regions require further monitoring. Meanwhile, volatile food inflation is projected to continue falling as production increases with the onset of the harvesting season. Notwithstanding, the impact of climate change along with productivity issues and intertemporal supply imbalances at production hubs on volatile food demands vigilance. In addition, the potential impact of geopolitical uncertainty on food inflation also requires attention. Consequently, the primary focus of efforts to control food inflation moving forward will be oriented towards ensuring seamless distribution from production hubs to other areas, while strengthening efforts to maintain the supply availability of strategic foods and monitoring the prices and supply of strategic foods in all regions.

PART 3

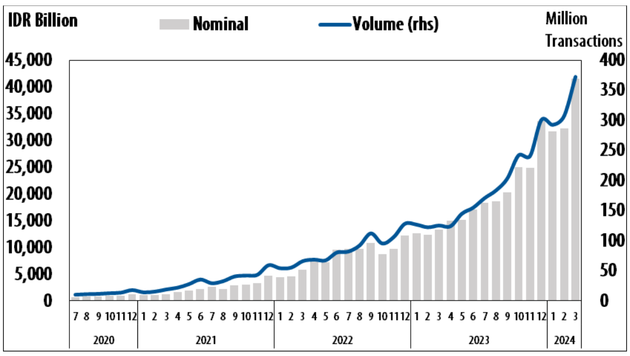
Recent Payment System and Rupiah Currency Management Developments

The digital economy and finance remained solid in the first quarter of 2024. The value of digital banking transactions grew 12.85% (yoy) in the reporting period, bolstered by the convenience and security afforded by digital banking (Graph III.1). The value of electronic money transactions also grew 40.31% (yoy), up from 27.5% (yoy) in the previous period. Meanwhile, the value of wholesale transactions through the Bank Indonesia – Real Time Gross Settlement (BI-RTGS) system expanded 6.62% (yoy) after contracting 8.9% (yoy) in the third quarter of 2023. The value of BI-FAST transactions increased 55.4% (yoy), while card-based payment instruments, specifically ATM/debit cards, contracted 4.29% (yoy). The value of retail transactions via the National Clearing System (SKNBI) in the first quarter of 2024 also contracted by 1.2% (yoy).



Source: *Bank Indonesia*

Graph III.1. Digital Banking Transactions



Source: *Bank Indonesia*

Graph III.2. QRIS Transactions

Bank Indonesia continued promoting the use of cashless transactions to boost economic efficiency. This was achieved, amongst others, by fostering the use of QRIS in all regions, particularly among micro, small, and medium enterprises (MSME). As of March 2024, the number of QRIS merchants reached 31.6 million, dominated by MSMEs, and the number of QRIS users increased by 48.46% (yoy) to reach 48.12 million. QRIS acceptance continues to flourish, as reflected by increases in terms of QRIS transaction value and volume. As of March 2024, total QRIS transaction volume stood at 973.06 million with a value of Rp105.51 trillion (Graph III.2).

Bank Indonesia continues to support the Regional Payment Connectivity (RPC) cooperation. Increasing cooperation to expand the use of local currencies in cross-border payment transactions is expected to benefit business players by reducing the transaction costs associated with commerce, while deepening financial markets in local currencies and alleviating the risk of currency pressures. Such cooperation will also provide greater transaction convenience for travellers from countries participating in the connectivity scheme. At the beginning of 2024, Indonesia, Singapore, the Philippines, Thailand, Malaysia, Vietnam, Brunei and Laos had joined the RPC cooperation scheme.

Bank Indonesia is committed to ensuring the availability of the rupiah currency in sufficient quantities, appropriate denominations, and maintained quality throughout all regions of the Republic of Indonesia. This is achieved through programs to circulate the rupiah in outermost, frontier and remote (3T) regions as well as mobile cash services, cash deposit services and the Sovereign Rupiah Expedition. In the first quarter of 2024, currency in circulation recorded 13.2% (yoy) growth, up from 6.3% (yoy) in the previous period. Bank Indonesia also provides a series of activities to exchange currency during the Ramadan and Eid-ul-Fitr festive period through the SERAMBI 2024 program, entitled "Wise Rupiah Use during the Month Full of Blessings". The SERAMBI 2024 program simultaneously allows Bank Indonesia to promote Rupiah Love, Pride and Understanding in the community. Love for the rupiah is realised by recognising the characteristics of authenticity through sight and touch (3D), looking after the rupiah currency by not folding, defacing, crumpling, stapling or wetting (5J) the banknotes. Rupiah pride because the rupiah is not merely a means of payment as legal tender in national economic activity but also a symbol of national sovereignty. Using rupiah currency within the territory of the Republic of Indonesia plays an important role in maintaining national sovereignty. Meanwhile, rupiah understanding is demonstrated by wise retail behaviour based on needs, purchasing domestic products to support Indonesian MSMEs as well as saving and investing to support sustainable economic growth.

PART 4

Strategic Issue: Strengthening the Regional Payment Ecosystem to Support the National Digital Economy and Finance

Introduction

One of Bank Indonesia's efforts to foster the digital economy and finance (EKD) focuses on 3 (three) government program pillars, namely the digitalisation of government-to-person (G2P) transactions, the electronification of regional government transactions and electronification of the transportation sector. Synergy and faster implementation of payment system digitalisation across the three main pillars are oriented towards strengthening the payment ecosystem to support digitalisation nationally and create efficiency in the national economy. Such efforts are expected to provide a significant contribution to national economic resilience.

The national economy currently faces various challenges due to the impact of global economic dynamics. Digital economic transformation is a breakthrough that not only accelerates but also improves the quality of national economic growth. Taking into account conditions in the strategic environment, pro-growth payment system (PS) policy is oriented towards maintaining stability and prioritising the principles of One Country, One Nation and One Language.

The digitalisation trend through digital payment innovation has made the payment system crucial in terms of supporting the national economy. Consequently, payment system digitalisation plays a vital role in strengthening and accelerating integration of the digital economy and finance. To that end, a digital ecosystem is required that encompasses various players and the support of enablers, underpinned by the alignment of the national digitalisation vision along with synergy between relevant government ministries and agencies and the industry.

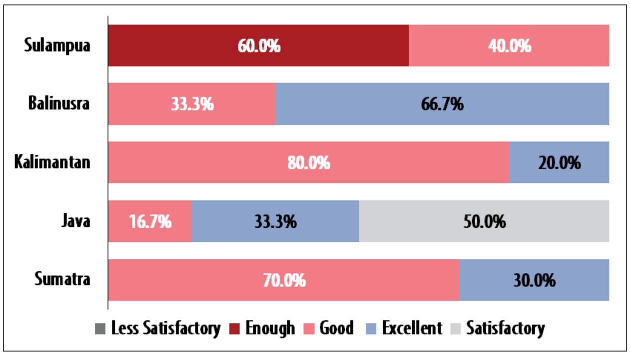
The Payment System Digitalisation Framework, which refers to the Indonesia Payment System Blueprint (BSPI) 2025, functions as a navigator of payment system digitalisation. BSPI presents various initiatives that were subsequently aligned with the national vision of digitalisation in synergy with the vision of relevant government ministries and agencies and the interests of the industry. This is expected to provide adequate guidance in strengthening the payment system ecosystem to optimise digitalisation nationally.

The results of environmental scanning revealed various compelling opportunities when preparing the digital ecosystem, including central and regional coordination as well as the availability of payment system infrastructure. On the other hand, the equitable distribution of network infrastructure, public literacy and the availability of supporting regulations are still required in order to optimise digitalisation. Mapping such conditions was strengthened by assessments based on the 3I+2K approach as follows: (i) information and data, (ii) infrastructure, (iii) implementation, (iv) regulations, and (v) national as well as central-regional coordination. The outcome of the assessments will be used as input when formulating the focus of policy coordination in general as well as policy coordination specifically under the 3 (three) pillars of payment electronification through government programs.

Dimensions of Regional Digitalisation Readiness

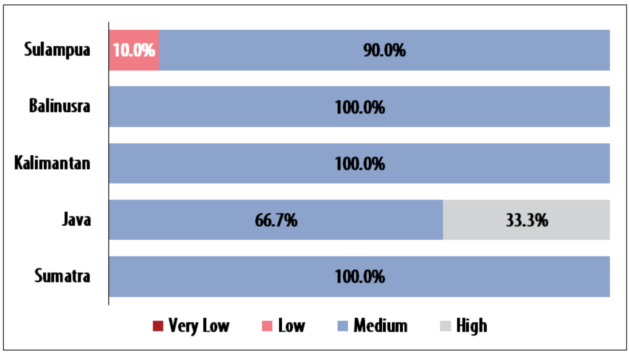
Payment system electronification moving forward must refer to regional readiness for digitalisation. A three-dimensional approach is used to gauge regional readiness, including regional government readiness, system readiness and public readiness. Each of the three dimensions is represented in the Electronic Based Government System Index (SPBE), Information and Communication Technology (ICT) Access and Infrastructure Index published in the ICT Development Index Statistics, and the Human Resources Index in the

Digital Competitiveness Index (DCI)[1]. In terms of regional government readiness, most local governments are already providing electronic-based government services, despite an opportunity for improvement among most local governments in the Sulampua region in order to maximise their future potential. In terms of system readiness, nearly all regions already have ICT access and infrastructure, supported by the availability of 4G and 5G fibre-optic networks, though more attention must be focused on strengthening this aspect in the Sulampua region. In terms of public readiness, public understanding of digitalisation was found to be generally good, particularly in the Java and Balinusra regions, despite some lingering literacy challenges in the Sulampua, Sumatra and Kalimantan regions.



Source: Ministry of Administrative and Bureaucratic Reform of the Republic of Indonesia, 2023, processed

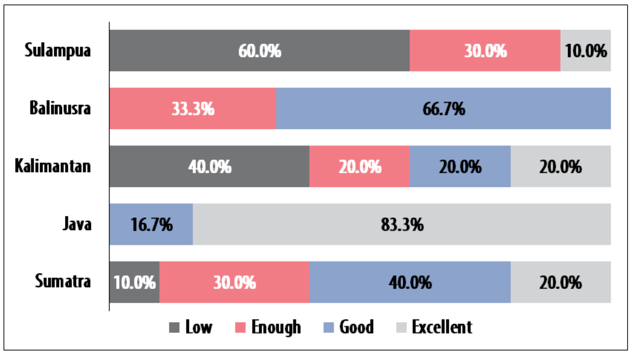
Graph IV.1. Regional Government Readiness



Source: BPS-Statistics Indonesia, 2022, processed

Graph IV.2. System Readiness

Mapping the dimensions of digitalisation readiness in different regions revealed 3 (three) general challenges to the digital ecosystem as follows: (i) the implementation of electronic government services still requires further strengthening moving forward in some regions, particularly Sulampua, (ii) ICT infrastructure improvements are still required in some regions, particularly Sulampua, and (iii) HR digital capabilities in Indonesia are not equitably distributed. The challenges require joint action to prepare various aspects of the digital ecosystem in each region.



Source: East Venture, 2023, processed

Graph IV.3. Public Readiness

Assessment of Government Electronification Program

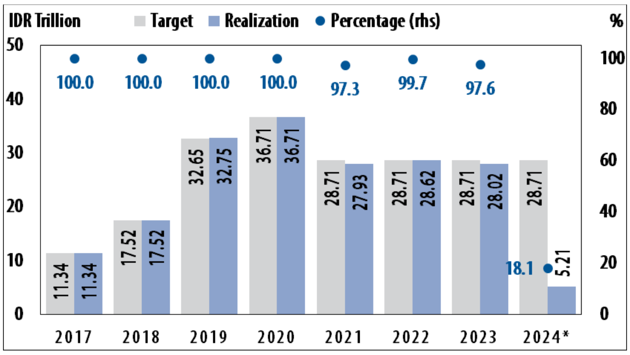
Government-to-Person (G2P) Digitalisation

Efforts to digitalise G2P disbursements remain ongoing to improve quality. Technological innovation and the commitment of the Noncash Social Assistance Control Team (BSNT) are key for G2P digital transformation. The preliminary stage began with G2P disbursements in cash, which subsequently evolved into cashless disbursements using card-based instruments for various types of assistance. Currently, the cashless G2P disbursement mechanism uses the Prosperous Family Card (KKS), while cash disbursements are distributed by PT Pos Indonesia. Efforts to increase cashless G2P disbursements remain ongoing in line with government efforts to achieve the financial inclusion target of 90% in 2024, up from 88.7% in 2023. In addition, cashless G2P disbursements are expected to support government commitments to alleviate poverty.

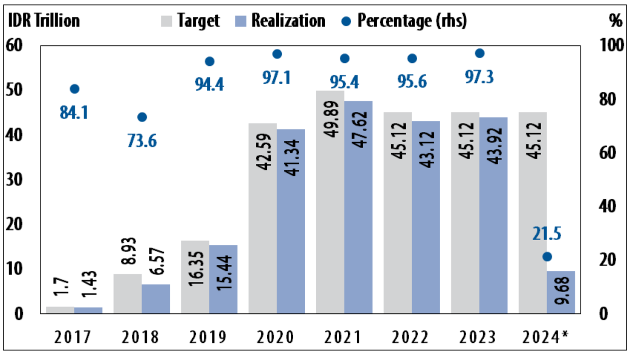
Seamless G2P disbursements through the Family Hope Program (PKH) and Sembako Program remain on target each year. This is reflected in the realisation of G2P disbursements against the target as a percentage, which has remained above 90% since 2019. In the first quarter of 2024, the realisation of G2P disbursements through the Family Hope Program (PKH) stood at Rp5.21 trillion, or approximately 18% of the Rp28.71 trillion

[1] The SPBE Index is published by the Ministry of Administrative and Bureaucratic Reform of the Republic of Indonesia, while the ICT Access and Infrastructure Index is published by BPS-Statistics Indonesia, and the HR Index is published by East Venture.

target (Graph IV.4). In terms of the Sembako Program, the realisation of G2P disbursements was recorded at Rp9.68 trillion, or approximately 21% of the Rp45.12 trillion target (Graph IV.5).



Graph IV.4. G2P Disbursements though Family Hope Program (PKH)



Graph IV.5. G2P Disbursements though Sembako Program

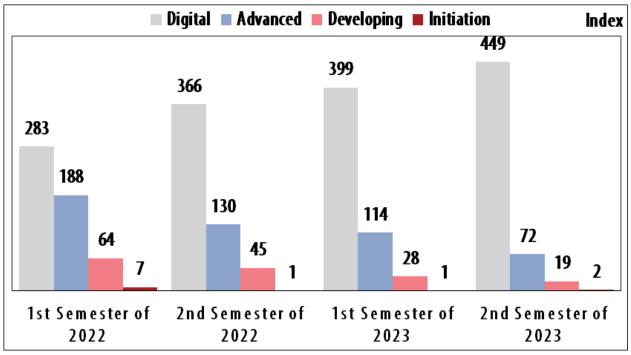
Regional efforts to expand cashless social aid program (bansos) disbursements remain an ongoing concern. For example, the City Administration (Pemkot) in Medan runs a social aid program called Dana Jasa Pelayanan (DJP), which aims to support regional public prosperity with approximately 13,250 beneficiaries. The disbursement mechanism applies a transfer scheme to the beneficiary's account via an ATM card.

G2P digitalisation is also pursued through the potential expansion of disbursing institutions in the form of banks and non-banks. Social aid program (bansos) disbursements through the expansion of disbursing institutions are expected to increase reach and inclusivity, while prioritising customer centric principles.

Electronification of Regional Government Transactions

The electronification of regional government transactions (ETPD) continues to accelerate. This is reflected by the broader electronification of revenue and expenditure transactions in the regional government environment. The ETPD Index Survey in the second semester of 2023 revealed that 98.5% of regional tax transactions facilitate cashless payments, up from 96.5% in 2022. The level of electronification in terms of regional levy revenues also increased from 85.4% in 2022 to 93.6% in 2023. Concerning expenditure transactions, 98.6% of regional expenditure entries have been digitalised, up from 96.3% in 2022.

Spatially, the Java region is leading the electronification of local government tax and expenditure transactions. All types of tax transactions and expenditure entries in Java accommodate cashless payments, along with 99.6% of levy transactions. The high realisation of Regional Government Transaction Electronification (ETPD) in the Java region is inextricably linked to the broad availability of telecommunication infrastructure and payment system services as well as broad public acceptance of digital services. On the other hand, local governments in the Balinusra and Sulampua regions still have the opportunity to increase the electronification of levy transactions, which currently stands at 84% in Balinusra and 86.5% in Sulampua.



Graph IV.6. ETPD Index

Accelerating ETPD implementation has prompted 82.8% of regional governments to reach the Digital stage. Based on mapping the ETPD Index in the second semester of 2023, a total of 449 regional governments are currently at the Digital stage, up 22.7% from 366 (67.5%) the year earlier. Meanwhile, 72 regional governments are at the Advanced stage (13.3%), 19 at the Developing stage (3.5%) and just 2 regional governments are at the Initiation stage (0.4%). Spatially, all regional governments in the Java region have reached the Digital stage. This was supported by synergy between regional governments, regional government banks and various other parties to foster cashless tax and expenditure transactions, while expanding payment channels and innovation in the local government payment ecosystem.

Accelerating and Expanding the Electronification of Central and Regional Government Transactions (P2DD) has also contributed to regional fiscal

sustainability. Based on mapping the stage of local government digitalisation against the realisation of regional revenues and expenditures, regional governments at the Digital stage tend to enjoy a higher level of regional tax, levy and expenditure realisation than regional governments at other stages of digitalisation. This is driven by greater convenience for the public and businesses afforded by cashless transactions.

In conjunction with the Task Force for Accelerating and Expanding the Electronification of Central and Regional Government Transactions (P2DD Task Force), Bank Indonesia is committed to accelerating ETPD implementation to support the digital economy and finance. As a follow-up action to the direction given by the Vice President of the Republic of Indonesia at the National Coordination Meeting for P2DD in 2023, the work program of the P2DD Task Force in 2024 will focus on three main pillars to increase the electronification of regional government transactions as follows: (i) strengthening regulation and coordination, (ii) strengthening the government digital ecosystem, and (iii) strengthening infrastructure.

Bank Indonesia also remains committed to overseeing P2DD implementation in terms of payment system policy, expanding digital acceptance and strengthening consumer protection. From a policy perspective, Bank Indonesia will continue accelerating the digitalisation of regional government transactions by strengthening regional government banks, implementing QRIS on the revenue side as well as developing and expanding the use of the Indonesia Credit Card (KKI) on the expenditure side. After developing KKI equipped with QRIS features and a physical card, the Indonesia Credit Card will also feature online payments using tokenisation, which will support regional government payments for retail transactions via online platforms.

Digitalisation of the Transportation Sector

Various initiation efforts, implementing the use of multiple instruments and cashless channels, as well as replicating payment system business models continue to accelerate transportation sector digitalisation centrally and regionally. Progress to date shows that efforts have been made to initiate digitalisation of the transportation sector by developing multi-lane free flow (MLFF) as a contactless payment method on toll roads and developing cashless payment methods for the Makassar Railway. In terms of implementation, digitalisation has been implemented across different transportation modes in various regions of Indonesia. The Jakarta region has expanded the use of cashless payments using server-based electronic money (eMoney), card-based eMoney and mobile applications for transportation on the Jakarta LRT, Jakarta MRT, TransJakarta BRT, and Jabodebek LRT. In South Sumatra, eMoney can also be used on the local LRT system. The successful digitalisation of various transportation modes demonstrates that digitalisation has expanded progressively through the replication of PS business models, encompassing ferry crossings that apply cashless payments at several ports as well as the introduction of cashless payments in the parking sector.

In addition to expanding cashless payments, transportation sector digitalisation could also enhance the user experience through integrated intermodal transportation. As a use case, the Jakarta region has implemented integrated intermodal transportation payments, which are managed centrally through Electronic Fare Collection (EFC). Integrated intermodal transportation fares also provide greater convenience for people in the Jakarta region when using different transportation modes.

3I+2K Assessment

Assessments based on 3I+2K principles (Information and Data, Infrastructure, Implementation, Coordination and Regulations) are regularly used to monitor digitalisation across each respective program and identify issues for follow-up action.

Social Aid Program (bansos) Digitalisation

Seeking to support the digitalisation of G2P transactions, Bank Indonesia is collaborating with its Domestic Representative Offices to conduct a survey of beneficiary families (KPM) through an assessment based on 3I+2K principles. The survey concluded that efforts to encourage G2P digitalisation readiness require the support and commitment of the Noncash Social Assistance Control Team (BSNT) to strengthen infrastructure quality, including information and communication technology (ICT) as well as the payment system, increasing the literacy of beneficiary families, improving the data mechanism and refining prevailing regulations.

Information and Data

Bank Indonesia continues improving the quality of KPM data to support G2P disbursements based on good governance. The quality of KPM data from cashless G2P disbursements under the Family Hope Program (PKH) and Sembako Program continues to improve. Notwithstanding, several constraints remain, including invalid KPM data and incidences of beneficiary families with more than 1 (one) Prosperous Family Card (KKS). Consequently, efforts to improve KPM data will remain ongoing, including through the development of a Central Mapper as shared infrastructure for KPM data across various social aid programs.

Infrastructure

The provision of adequate infrastructure is a prerequisite for supporting G2P digitalisation. Currently, the main challenge to cashless G2P disbursements is overcoming blankspot regions where internet networks are weak. In response, Bank Indonesia is coordinating with relevant authorities and local governments to support the provision of telecommunication network infrastructure.

Implementation

In general, the implementation of cashless G2P disbursements is currently progressing well despite various emerging challenges. One of the main challenges is the timely disbursement of social assistance due to suboptimal planning, human error (forgotten and/or erroneous PIN), minimal utilisation of digital channels caused by limited literacy, particularly in disadvantaged, frontier and outermost (3T) regions, as well as a protracted process for providing and distributing Prosperous Family Card (KKS) to the beneficiaries.

Coordination

G2P disbursements require the support of intensive coordination in synergy with various stakeholders, particularly the Noncash Social Assistance Control Team (BSNT). As a member of the BSNT Control Team, Bank Indonesia has implemented a series of coordination, facilitation and communication activities with relevant government ministries/agencies and other stakeholders to support cashless G2P disbursements as follows:

a) Periodic evaluation and monitoring of G2P disbursements as well as coordination to anticipate issues/constraints nationally and regionally under the coordination of the BSNT Control Team.

b) Ensuring the readiness of a seamless payment system during the period of cashless G2P disbursements through intensive communication with disbursing banks.

c) Preparing bank and non-bank Payment Service Providers (PSP) to support the digital transformation of social aid program (bansos) disbursements.

Regulations

G2P digitalisation based on good governance requires adequate regulatory support. Currently, the main legislation that supports implementation of cashless G2P disbursements is contained in Presidential Regulation (Perpres) Number 63 of 2017 concerning Cashless G2P Disbursements. Supporting the digitalisation of G2P disbursements moving forward requires regulatory amendments to accommodate several aspects, which includes expanding the disbursing institutions and payment infrastructure in accordance with PS principles, namely interconnected, interoperable and integrated (3i). In addition, regulatory amendments are also required to support G2P digitalisation, including technical guidelines for regular G2P disbursements (PKH and Sembako programs).

Electronification of Regional Government Transactions (ETPD)

As one of the tools for monitoring ETPD implementation, mapping the ETPD Index has revealed the need to strengthen aspects of ICT infrastructure and the prevailing regulations. In general, ETPD implementation has accelerated, supported by greater PS infrastructure availability, more accurate reporting in the Information System for Accelerating and Expanding the Electronification of Central and Regional Government Transactions (SIP2DD), as well as close coordination and synergy with regional governments.

Information and Data

Monitoring the information and data based on the level of reporting and data accuracy of regional government reporting through the SIP2DD information system has shown an improvement. As with the previous year, all regional governments reported their ETPD implementation via the SIP2DD information. Nevertheless, the accuracy of the data reported by regional governments through self-assessment must be strengthened. Further verification is required for 40 regional governments (7.4%) with an accuracy level reaching 92.6%. Historically, data accuracy has improved from 88.9% in the previous year. This improvement in data accuracy is inseparably linked to the support of Bank Indonesia Domestic Representative Offices and members of the P2DD Task Force, providing assistance and capacity building in the regional government environment. Spatially, the accuracy of data in terms of ETPD reporting continues to improve, particularly among regional governments in the Sulampua region (84%).

Infrastructure

In terms of infrastructure, the ETPD Index revealed that inconsistent telecommunication network quality and coverage is one of the main challenges to ETPD implementation. A good quality telecommunication network is dominant in the Java region, with coverage reaching 96.6% of regional governments, followed by the Sumatra region with 85.4% of regional governments and Balinusra with 79.5%. Meanwhile, network quality in the Sulampua and Kalimantan regions remains suboptimal, with some regional governments lacking access to 4G networks in the Sulampua region. Such conditions are an impediment to digitalisation in the regional government environment. In fact, there are currently two regional governments in the Sulampua region still at the Initiation stage.

Supporting PS infrastructure continues to improve, as reflected by greater availability of cashless PS instruments and channels for various regional government transactions. Mapping the ETPD Index in the second semester of 2023 revealed greater use of digital channels for regional tax and levy payments via QRIS, digital banking and e-commerce. Currently, 475 regional governments (87.6%) provide QRIS facilities for tax and levy payments. This has increased sharply from 401 regional governments (74%) in 2022. Meanwhile, 514 regional governments (94.8%) provide tax and levy payment facilities through digital banking channels and 388 regional governments (71.6%) offer such facilities through e-commerce. Regionally, the utilisation of digital payment channels, particularly QRIS and e-commerce, must be encouraged in the Sulampua region.

Efforts to integrate the regional government financial system with Regional General Treasury Account (RKUD) Banks via the Cash Management System (CMS) remain ongoing. At the end of 2023, 472 regional governments (87%) had integrated their regional financial systems with the RKUD system, up from 416 regional governments in 2022. Spatially, 99.2% of regional governments in the Java region have implemented CMS integration, followed by Sumatra (95.7%). In other regions, however, CMS integration, which currently stands at 70-80%, must be encouraged.

Implementation

Regional government transactions are accelerating as digitalisation increases. ETPD implementation continues to face the main challenges associated with a lack of public interest and quality of telecommunication infrastructure. As many as 490 regional governments (90.4%) have acknowledged a lack of public interest in cashless transactions, while 273 regional governments (50.3%) continue to face various challenges associated with ICT infrastructure. In addition, issues relating to bank infrastructure and HR capacity in the regional government persist in various regions (>40% of regional governments). This challenge is specifically faced by regional governments at the Advanced and Developing stages.

Considering the main challenges faced, the P2DD program must be focused on efforts to expand public acceptance of digitalisation. Bank Indonesia regularly coordinates with relevant government ministries/agencies, regional governments, the banking industry and payment system industry players to increase digital education and literacy centrally and regionally through various flagship events and social media channels. Moving forward, efforts to increase literacy cannot only focus on innovative education and PS products but also on risk management and consumer protection.

Coordination

In terms of coordination, the ETPD Coordination Forum led by regional heads must be improved. High-level meetings (HLM) chaired by regional heads remain limited. The results of a survey conducted by BI Domestic Representative Offices revealed that 32% of regional governments have not held a high-level meeting and only 46% held one HLM in 2023. Meanwhile, the commitment of regional heads in the Java region for the ETPD Coordination Forum is comparatively stronger than in other regions.

Regulations

From a regulatory perspective, the support of regional regulations, particularly in terms of implementing the Indonesia Credit Card (KKI) for regional government transactions, must be strengthened. Regional gubernatorial/regent/mayoral regulations (Perkada) concerning the Indonesia Credit Card (KKI) for the government segment are an important legal foundation for KKI use in the regional government. Nevertheless, only 38% of regional governments have issued Perkada regulations for the Indonesia Credit Card (KKI), with 31% of regional governments still at the draft bill stage and the remaining 30% without any formal KKI regulations. Consequently, the promulgation of Perkada regulations for the Indonesia Credit Card (KKI) must be monitored and accelerated to ensure the use of KKI can be optimised for procurement transactions in the regional government environment using QRIS or physical cards and, later, online payments using tokenisation technology.

Digitalisation of Transportation Sector

Efforts are required to expand electronification of the transportation sector. This is required from the initiation to replication stages, while integrating public transportation modes with various cashless payment instruments and channels. This will be supported by integrated data and information, payment system infrastructure, replication in various regions as well as strengthening coordination by establishing a National Transportation Team.

Information and Data

In terms of information, efforts are required to centralise the settlement process and data availability for account profiling in the transportation sector. Currently, Indonesia lacks integrated transaction data and information management in the toll road sector. Consequently, data and information management is decentralised across each toll road operator (BUJT). Moving forward, MLFF implementation will require centralised data and information management via Electronic Toll Collection (ATC). Meanwhile, in terms of public transportation integration, no institution has been appointed for Electronic Fare Collection (EFC) to manage information and data in regions outside Jakarta.

Infrastructure

PS infrastructure and network limitations are currently the most binding constraints to cashless implementation in the transportation sector. In general, such constraints primarily affect ports, ferry transportation and airport parking. Moving forward, technological optimisation is required to innovate transportation sector payments, with near-field communication (NFC) technology currently being developed.

Implementation

Digitalisation of the transportation sector involves the application of multiple instruments/channels, including digital payments. Implementation is being more widely applied across different transportation and parking modes in various regions. Nevertheless, the physical integration currently ongoing of transportation modes is not fully accompanied by the integration of payments. Three regions have implemented physical and payment integration of the transportation sector, namely Jakarta, Yogyakarta and Solo. Meanwhile, six regions have implemented the physical integration of transportation infrastructure, namely Aceh, Riau Islands, South Sulawesi, South Sumatra, North Sumatra and East Java, with several other regions still at the initiation stage, including Bali, Banten, Lampung, West Java and Purwokerto.

Coordination

In line with the directions given by the President of the Republic of Indonesia at the Limited Cabinet Meeting (Ratas) in September 2023, transportation mode integration supported by payment services will remain a government priority moving forward, thereby providing convenience and comfort for the users. To that end, the Government will establish a national transportation team to consolidate integration of the transportation modes, fares and payments. In general, coordination and synergy with relevant stakeholders must be fostered to accelerate the implementation of cashless payments in the transportation sector.

Regulations

Several central government regulations support electronification of the transportation sector as follows:

a) Presidential Regulation (Perpres) No. 55 of 2018 concerning the Jabodetabek Transportation Master Plan.

b) Minister of Transportation Instruction No. 11 of 2017 concerning the Electronic Intercity Public Passenger Transport Ticket Sales System.

c) Minister of Public Works and Housing (PUPR) Regulation No. 18 of 2020 concerning Contactless Toll Road Transactions.

Nevertheless, regional regulations concerning transportation sector digitalisation remain limited. Mapping has shown that only 13 regions have promulgated regulations concerning regional transportation sector electronification. Consequently, efforts to strengthen regulatory support as a legal umbrella for regional implementation are required to nurture cashless payments in the transportation sector.

Development of QRIS Transactions in the Tourism Sector

In-depth assessments are required concerning different aspects of electronification of a digital-based tourism sector. This is because the tourism sector is closely related to the Regional Government Transaction Electronification (ETPD) program, as well as electronification of the transportation sector and other retail payment systems. In addition, the tourism sector is one of the main initiatives of the 10 national priority sectors that will be accelerated through digital transformation moving forward.

QRIS use in the tourism sector continues to increase. Gains have been recorded in terms of transaction volume and value, growing 236% (yoy) and 211% (yoy) respectively. Based on merchant category, the highest QRIS use is among retailers (minimarkets/supermarkets) as well as food service activities (restaurants).

Spatially, QRIS support in the tourism sector is reflected by the increasing number of QRIS merchants at tourism hubs. At the regional level, most tourism merchants are located in Java and Sumatra. Meanwhile, the largest increase in merchants has occurred in the Balinusra region. The share of tourism merchants to total QRIS merchants in each region has reached 50%. Market share is dominant in the Balinusra and Kalimantan regions at 59%, followed by Java (54%). At the 5 (five) Super Priority Tourism Destinations (DPSP), the majority of tourism merchant are in DPSP Lake Toba and Borobudur, however, growth and market share are highest in Labuan Bajo.

Cross-border QRIS linkages further support the tourism sector, specifically by expanding market access for MSMEs through payment transactions by tourists in partner countries. In line with the upward trend of tourism merchants using QRIS, the use of (inbound) cross-border QRIS is dominated by the Java and Sumatra regions, particularly at the Lake Toba and Borobudur super priority tourism destinations (DPSP).

Future Plan

Based on the latest developments and 3I+2K assessments for each digitalisation program, several quick wins in the form of policy coordination substance for each of the 3 (three) pillars have been proposed to accelerate digitalisation across each pillar.

General Substance

Nurturing integration of the digital economy and finance (EKD) to bolster national economic resilience and efficiency requires immediate action as an integral part of the general substance of coordination to strengthen the digital payment ecosystem. This incorporates 5 (five) main strategies as follows:

a) Strengthening the legal umbrella for implementing digitalisation centrally and regionally.

b) Accelerating the provision of ICT infrastructure, particularly in blankspots, along with payment system infrastructure, including strengthening aspects of consumer protection.

c) Increasing public acceptance of digital payments through education and literacy programs.

d) Strengthening regional coordination among stakeholders.

e) Fostering cashless payments in the tourism sector, including purchases of travel tickets and integrated transportation supported by the development of digital platforms.

G2P Digitalisation

Seeking to implement gradual and measured G2P digitalisation, Bank Indonesia will focus on 3 (three) aspects of coordination as a quick wins strategy, namely:

a) Supporting development of a Central Mapper that accommodates payment system aspects in accordance with Bank Indonesia regulations.

b) Overseeing the accommodation of payment system aspects in the revised Presidential Regulation (Perpres) concerning the Non-cash Social Assistance Control Team (BSNT).

c) Preparing PSP banks and non-banks as potential disbursing institutions for the G2P 4.0 ecosystem.

Electronification of Regional Government Transactions

Ongoing efforts to accelerate the electronification of regional government transactions will be strengthened by strategic measures moving forward and coordination as the bedrock of sustainable digitalisation in the local government environment as follows:

a) Continuing the implementation of priority P2DD programs, including the development of indicators to monitor the Regional Government Transaction Electronification (ETPD) program.

b) Expanding the role of regional government banks, which includes optimising the capacity of digital payment services.

c) Expanding implementation of the Indonesia Credit Card (KKI) for the Government Segment.

Digitalisation of the Transportation Sector

Based on 3I+2K assessments and the urgency of implementation, three main substances of coordination have been proposed to accelerate digitalisation in the transportation sector as follows:

a) Overseeing payment system principles accommodated in government, operator and PSP facilitation of cashless payments in the transportation sector.

b) Encouraging Payment Service Providers (PSP) to prepare for the implementation of innovative transportation sector payments, including the development of NFC and expansion of QRIS.

c) Creating a national coordination forum for the transportation sector.

BOX 1

Role of the Retail Payment System Regionally

The digital economy and finance (EKD) continue to strengthen, as reflected by an increase in retail payment transactions that are increasingly moving towards digital. Based on the e-Conomy Report published by Sea in 2023, digital payments accounted for 50% of the value of payment transactions in the Southeast Asian region and are projected at approximately USD2.1 trillion in 2030 (Google Temasek, and Bain & Company, 2023).[2]

Nationally, payment system transactions through retail instruments and channels in the first quarter of 2024 were recorded at Rp18,069.33 trillion, growing 13.97% on the previous year.[3] Furthermore, the upward trend is expected to persist as public acceptance of digital payments increases along with the expansion of digital payment infrastructure, instruments and channels. From the demand side, public adaptation to digital is strengthening given growing economic participation of tech savvy Gen Y and Z. From the supply side, payment system innovation continues with policy support for 3i (interconnected, interoperable and integrated) retail payment systems.

Expanding and accelerating payment system digitalisation are critical aspects, particularly to strengthen the payment ecosystem regionally, which will support the national digital economy and finance (EKD) as well as sustainable economic growth. Optimising the role of the retail payment system regionally requires tools to measure the level of penetration, availability of services and uptake of the retail payment system against regional economic conditions. The role of the retail payment system in the regional economy is measured by adopting an approach to calculate the Financial Inclusion Index based on the ratio of accessibility, availability and utilisation (Hidayat & Sari, 2022). In the context of the payment system, the main indicators used include transactions via retail payment system instruments and channel (ATM/debit cards, electronic money and digital banking), total population as well as gross regional domestic product (GRDP) at current prices. The choice of payment system indicators also considers data availability in each region. A higher ratio across the three dimensions indicates a larger economic role for the retail payment system in a given region.

The role of retail payment systems was calculated using a spatial approach for each region, namely Sumatra, Java, Balinusra, Kalimantan and Sulampua, with the three dimensions described as follows:

1. Accessibility Ratio

The accessibility dimension describes the level of penetration of retail payment instruments and channels, measured from the ratio of total retail payment system instruments to total population in a region. Retail payment system instruments include ATM/debit cards (ATM/D), credit cards (KK) and electronic money (UE).

$$\text{Accessibility Ratio} = \frac{\text{ATM/D} + \text{KK} + \text{UE}}{\text{Total Population}}$$

Calculating the accessibility ratio revealed broad-based increases in retail payment system penetration across all regions (Table IV.1). Retail payment system penetration is increasing due to various efforts to accelerate digital acceptance regionally. Spatially, the largest increase was recorded in the Java region given the concentration of economic activity in the region, supported by adequate ICT infrastructure.

Table IV.1. Accessibility Ratio by Region

Region	Accessibility Ratio		
	2022	2023	Changes
Sumatra	1.035	1.152	0.117
Java	4.943	5.417	0.474
Balinusra	0.937	1.035	0.097
Kalimantan	1.118	1.228	0.110
Sulampua	0.918	1.021	0.104

2. Availability Ratio

The availability dimension describes the public availability of payment system services, measured as a comparison between total retail payment system infrastructure and total population. The retail payment system infrastructure used as a measurement indicator

[2] Gross transaction value for digital payments includes the value of credit, debit, electronic money cards, account to account (A2A) and electronic wallet transactions, covering Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

[3] Transactions through ATM/debit cards, credit cards, electronic money and digital banking.

included the number of ATM machines, EDC machines and electronic money readers.

$$\text{Availability Ratio} = \frac{\text{ATM} + \text{EDC Machines} + \text{UE Reader}}{\text{Total Population}}$$

Calculating the availability ratio for the five regions revealed greater public availability of payment system services (Table IV.2). This was supported by efforts to expand the availability of payment system infrastructure by payment system operators, including banks and non-banks, as well as supporting industries. Bank Indonesia will continue expanding the availability of payment system infrastructure in accordance with the Indonesia Payment System Blueprint (BSPI) 2025 to support EKD integration nationally.

Table IV.2. Availability Ratio by Region

Region	Availability Ratio		
	2022	2023	Changes
Sumatra	0.005	0.006	0.001
Java	0.016	0.017	0.001
Balinusra	0.008	0.009	0.001
Kalimantan	0.006	0.007	0.001
Sulampua	0.004	0.005	0.001

3. Utilisation Ratio

The utilisation dimension describes the use of retail payment system instruments and channels, measured as the ratio of transaction value to gross regional domestic product (GRDP) at current prices. This is calculated based on the value of rupiah transacted through ATM/debit cards, credit cards, electronic money and digital banking.

$$\text{Utilisation Ratio} = \frac{\text{Transaction Value}}{\text{Current Price GRDP}}$$

In general, the uptake of retail payment system instruments and channels in various regions has increased, except in Sulampua which experienced a modest decline (Table IV.3). Spatially, the largest increase was recorded in the Java region, followed by Balinusra. Meanwhile, the lower ratio recorded in Sulampua was attributable to a smaller increase in the value of retail payment system transactions than recorded in terms of regional economic growth. The value of retail payment system transactions in the Sulampua region expanded 8.5% (yoy), while GRDP at current prices posted 8.9% (yoy) growth.

Table IV.3. Utilisation Ratio by Region

Region	Utilisation Ratio		
	2022	2023	Changes
Sumatra	1.524	1.550	0.027
Java	4.347	4.530	0.183
Balinusra	3.984	4.121	0.137
Kalimantan	1.234	1.361	0.128
Sulampua	1.365	1.361	-0.005

In general, calculating the accessibility, availability and utilisation ratios demonstrated an increasing role for the retail payment system in various regions. Moving forward, the direction of payment system policies and strategies to expand digital acceptance are expected to increase the role of the retail payment system further in terms of supporting regional economic growth and the national digital economy and finance (EKD).

BOX 2

Role of Payment System Digitalisation in Transportation Sector

Digital transformation has advanced inexorably, prompting changes in the economic paradigm and socio-economic behaviour, while creating an integrated digital economy and finance (EKD) as a new source of growth. The digital economy and finance are developing faster globally, as reflected in the valuation that reached 15.5% of total global Gross Domestic Product (GDP), or 2.5 times faster than in the past 15 years.[4] Nationally, the contribution of the digital economy and finance to GDP has reached 7.6-8.5%.[5] The various benefits felt through digitalisation have encouraged further efforts to strengthen the supporting ecosystem, particularly the payment system that functions as a catalyst for the economy.

The role of digitalisation in various economic sectors is increasingly being felt, including the transportation sector. One element of digitalisation that is developing in the transportation sector is payments. This is in line with the electronification program of Bank Indonesia that aims to create a secure, efficient and seamless payment system by encouraging the public to use cashless payment instruments. Support for strengthening the payment system ecosystem in the transportation sector has increased significantly since the Indonesia Payment System Blueprint (BSPI) 2025 was published, which fosters efficiency, convenience and inclusivity through EKD integration, encompassing the transportation sector. Such efforts are also supported by solid coordination synergy with relevant government ministries/agencies, local government, the industry, associations as well as operators of different transportation modes, which has consistently contributed positively to transportation sector digitalisation.

The critical role of payment system digitalisation in the transportation sector is felt directly by the public in terms of creating efficient payments. Several use cases that have emerged include the application of digital payments in ride hailing or online transportation services, integrated intermodal payments as well as cashless toll payments. In general, efficient payments reduce queueing time at counters, gates and entrances to different transportation modes, thereby piquing interest to use public transport and reduced traffic gridlock.

Another important role is increasing the ability to profile users of transportation services. Better user profiling could potentially improve public services, particularly moving forward with the development of innovative account-based ticketing (ABT) that will promote more targeted disbursement of transportation subsidies. Furthermore, better data collection will create a compelling opportunity to optimise big data and machine learning analysis to produce optimal recommendations and maximise public services. From there, better payment transaction data will also help operational management recapitulate revenue in the transportation sector. Payment digitalisation will also increase tax and levy revenue, particularly in terms of parking fares and motor vehicle tax, which will raise locally generated revenue (PAD).

Supporting the implementation of payment digitalisation in the transportation sector, Bank Indonesia will continue overseeing the implementation of payment system principles as follows: (i) Non-Exclusive, open to all PS ecosystem players with fair barriers to entry, (ii) Interconnected and Interoperable, simple to connect with all Payment Service Providers (PSP) as well as infrastructure and other instruments, (iii) Accessible to All Users, meaning payments are accessible to all user segments, (iv) PS Industry Leverage, namely by utilising existing payment system industry capabilities to nurture innovation and healthy competition, (v) Practicality of Use, namely prioritising user convenience and transaction security, (vi) safe from Single Point of Failure (SPOF) risk, through the availability of contingency plans to ensure payment continuity in the event of system failure, and (vii) Time to Market, namely considering the development schedule against the planned timeline.

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[4] World Bank, Value of Digital Economy in Indonesia will Reach Rp4,698 trillion, 2023.

[5] Ministry of Communication and Information Technology, Government Prepares Three Phases of National Digital Transformation, 2023

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BANK INDONESIA

For further information please contacting:

BANK INDONESIA
Economic and Monetary Policy
Department Sectoral and Regional Group
Ph. +62 21 - 2981 8119, 2981 8868
Fax. +62 21 - 3452 489, 231 0553

BANK INDONESIA

JL. MH. Thamrin No. 2 Jakarta 10350
www.bi.go.id