

REGIONAL ECONOMIC AND FINANCIAL REVIEW

# NUSANTARA REPORT

OCTOBER 2023





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# Foreword

**T**he 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 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 specifically raises the strategic issue of “Optimising Post-Pandemic Opportunities through Quality Tourism for Sustainable Growth”. This is a critical issue to explore in line with structural efforts to accelerate the economic recovery amid dynamic global economic challenges. The report specifically discusses strategies to accelerate national tourism industry performance in order to support sustainable economic growth.

We sincerely hope the Nusantara Report brings valuable insights and benefits to all stakeholders and regional economists. This is visualised on the cover of the Nusantara Report through the depiction of a lighthouse as a symbol of the navigation process to support strengthening the economic structure, accompanied by a batik motif, known as Sidomukti Ornamen Meru, which symbolises the determination to achieve public prosperity and welfare. We also express our utmost gratitude to all parties for their contributions to this report. May God Almighty always bless our path and bring a positive contribution to our country towards an advanced Indonesia, or Indonesia Maju (Onward Indonesia).

**Jakarta, 24<sup>th</sup> October 2023**

*Economic and Monetary Policy Department*

**Firman Mochtar**  
Executive Director

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# Executive Summary

**The world economic outlook points to moderation, accompanied by increasing uncertainty.** Global economic growth in 2023 is projected to slow with greater divergence between countries. Divergence is highlighted by solid economic growth in the United States (US), coupled with an economic slowdown in China. US economic gains are predominantly bolstered by household consumption as consumers leverage accumulated savings, supported by the domestic-oriented services sector. On the other hand, economic moderation in China stems from weaker consumption as well as issues plaguing the property sector. Meanwhile, global inflation remains high, given rising food and energy prices caused by escalating geopolitical tensions. Seeking to control inflation, the monetary authorities in advanced economies are maintaining policy rates higher for longer, particularly the Federal Funds Rate (FFR) in the US. Consequently, global financial market uncertainty is expected to increase, thus requiring a strong policy response to mitigate the adverse effect of global spillovers.

**Despite global economic uncertainty, domestic demand supports solid economic growth in various regions in the second quarter of 2023.** Economic growth accelerated compared to the previous period in most regions, led by Sulawesi-Maluku-Papua (Sulampua), followed by Kalimantan, Java, Sumatra and Bali-Nusa Tenggara (Balinusra). Growth in various regions improved, supported by domestic demand in line with increasing household and government consumption as well as investment. Conversely, export performance was restrained by the effect of global economic moderation, except in the Sulampua region. By sector, all economic sectors in the second quarter of 2023 recorded positive growth.

**The process of improving the economic structure through to the second quarter of 2023 has supported broad-based economic gains.** Economic growth in most regions increased with the support of contact-intensive sectors, namely transportation and logistics, trade, as well as accommodation and food service activities, in response to greater mobility and the positive impact of the Eid-ul-Fitr and Eid-ul-Adha national religious holidays (HBKN). Sectoral performance was also supported by consumption among the younger generation, which currently dominates the demographic composition of all regions. In addition, the downstreaming strategy has

effectively strengthened regional growth through downstreaming the mineral subsector, particularly in the Sulampua region. Downstreaming efforts must be strengthened and replicated in the food crop subsector to increase value-added and provide a strong multiplier effect to other economic sectors.

**Economic performance in various regions in the third quarter of 2023 is expected to remain solid on the back of maintained private consumption and increasing investment.** Early indicators of regional economic performance have been maintained. Private consumption, including consumption by the younger generation, is expected to remain solid in line with persistently high consumer confidence, which is supported by accumulated excess savings in most regions amid normalising demand after the recent national religious holidays (HBKN) and long school holidays. Such conditions are also supported by the strong realisation of expenditures in most regions to support economic growth, despite a further opportunity to improve spending in the Sulampua region. Meanwhile, regional investment is predicted to increase, particularly building investment in the Java, Sumatra and Sulampua regions, in line with the ongoing completion of national strategic projects (PSN). In the Kalimantan region, building investment performance will remain primarily underpinned by the development of the new capital city (IKN). Non-building investment is expected to remain solid despite indications of moderation in the form of lower capital goods imports, particularly in the Java region, in line with restrained manufacturing production, and in the Sulampua region due to lower investment in nickel downstreaming efforts. On the other hand, subdued non-oil and gas exports are anticipated, given lower exports of natural resources, particularly in the Kalimantan and Sumatra regions, caused by weak demand from Indonesia's main trading partners, especially China.

**By sector, domestic economic performance is expected to support the improvement process in several economic sectors in various regions in the third quarter of 2023.** Economic performance will be supported by gains predicted in the agricultural and construction sectors. Agricultural performance will improve with the support of persistently solid plantation crop subsector performance, particularly in the Sumatra and Kalimantan regions, along with maintained horticultural

production during the main harvesting season at production hubs in the Java region despite restrained rice production due to the deleterious impact of El Niño. Consistent with increasing investment, construction sector performance in the third quarter of 2023 is also expected to increase in several regions, given ongoing private sector projects and national strategic projects (PSN). The export outlook for mining commodities is expected to remain solid despite economic moderation in China, including coal from Sumatra and Kalimantan as well as copper concentrate from Balinusra and Sulampua. Such prospects are supported by potentially higher demand from other trading partners, such as India, South Korea and ASEAN. Meanwhile, the performance of service industries, including transportation and logistics, as well as accommodation and food service activities, will be hampered by the normalisation of community activity in the second quarter of 2023. The hosting of various international events in the Java region and the tourism program in the Sulampua region are expected to strengthen the performance of accommodation and food service activities moving forward.

**Spatially, the economic outlook for 2023 is forecast to remain solid and resilient in accordance with the previous projection, supported by domestic demand.**

Improving domestic consumption is supported by maintained public purchasing power amid milder inflationary pressures, with headline inflation expected to return to the 3.0%±1% target in 2023. The hosting of several international events as part of the tourism calendar in the Java and Balinusra regions, coupled with preparations for the upcoming general election, will boost private consumption. Ongoing fiscal support will continue stimulating regional economic performance, underpinned by higher regional government expenditures and increasing disbursements of regional transfers (TKD). Meanwhile, the investment outlook is stronger than in the previous year due to the ongoing completion of multi-year construction projects in the Java and Sumatra regions, as well as the ongoing development of the new capital city (IKN) in Kalimantan. Overall, domestic economic resilience in 2023 in most regions is expected to remain solid in response to domestic demand despite moderating external performance. The economic outlook is also supported by the accelerating growth of the digital economy and finance in all regions.

**By sector, the growth outlook for 2023 aligns with the previous projection, supported by domestic demand,**

**despite several global risks that continue to demand vigilance.** Improving domestic demand will bolster the outlook for the manufacturing, agricultural and construction sectors in various regions despite slower global demand. The mining sector outlook, specifically coal production in the Sumatra and Kalimantan regions, remains solid on improving demand from India. Copper production in the Balinusra and Sulampua regions is expected to remain strong until the end of 2023 despite the prospect of lower Chinese demand hindering nickel production. The outlook for the transportation and logistics sector is solid despite the base effect of growth normalisation after a period of high growth in the previous year. Moving forward, several global risks demand vigilance, including the potential for deeper global economic moderation and further increases in food and energy prices caused by the risk of escalating geopolitical tensions. Consequently, national economic growth in 2023 is still projected in the 4.5-5.3% range.

**Moving forward, efforts to accelerate economic growth must be supported by strengthening tourism-related sectors.**

The tourism outlook must be improved by optimising the post-pandemic reopening to international travellers, while increasing domestic tourist activity. To that end, strategies for improving tourism performance must be strengthened and focused on boosting the number of inbound international travellers and the movement of domestic travellers, as well as developing travel destinations based on quality tourism and increasing inclusivity, which includes developing creative entrepreneurship at the travel destinations. Furthermore, strategies to achieve tourism targets must consider the demographic transition and global trends towards sustainability and inclusivity. The younger generation's contribution, which accounts for an increasingly large market share of tourism activities, must also be anticipated when strengthening the tourism industry. Efforts to stimulate the national economy through tourism are explored and discussed in depth in Part III Strategic Issue: Optimising Post-Pandemic Opportunities through Quality Tourism for Sustainable Growth.

**Solid regional economic growth was supported by controlled composite CPI inflation for cities in all regions within the target corridor in the third quarter of 2023.**

Nationally, Consumer Price Index (CPI) inflation stood at 2.28% (yoy) in the third quarter of 2023, down from 3.52% (yoy) in the second quarter of 2023, thus maintaining headline inflation within the national inflation target range of 3.0%±1% for 2023. Spatially,

milder inflationary pressures in the reporting period occurred in all regions, influenced by core inflation and administered prices (AP) in line with managed demand, anchored inflation expectations as well as the base effect of subsidised fuel price adjustments in September 2022. Meanwhile, volatile food (VF) inflation increased, primarily in terms of the composite CPI inflation for cities in the regions of Sumatra, Balinusra and Java, edged upwards by lower supply of food commodities due to intertemporal supply continuity imbalances and weather factors.

**Lower inflation was supported by consistent monetary policy instituted by Bank Indonesia, coupled with close**

**policy synergy and coordination to control inflation with the Government.** A consistent pre-emptive and forward-looking monetary policy response by Bank Indonesia has helped to maintain stable inflation within the target corridor. In conjunction with the (central and regional) Government as well as strategic partners in the Central and Regional Inflation Control Teams (TPIP and TPID), Bank Indonesia remains committed to continuously strengthening the National Movement for Food Inflation Control (GNPIP) in all regions to manage VF inflation. Looking ahead, Bank Indonesia is confident inflation will remain manageable and within the 3.0%±1% target corridor for the remainder of 2023.

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## PART 1

# Overview of Recent Regional Economic Developments and Outlook

**Regional economic performance remains solid and is projected to be resilient in 2023 despite global dynamics.** After posting solid growth in the second quarter of 2023, the domestic economy is expected to maintain positive growth in all regions despite export performance restrained by global demand pressures. Performance in mining regions, such as Sumatra, Kalimantan and Sulampua, is expected to remain solid, supported by improvements in trading partner countries other than China. Meanwhile, domestic demand and demand from the United States are forecast to shore up manufacturing industry performance in Java as a manufacturing hub. Tourism industry performance is driving economic gains, specifically in the Balinusra region, in line with the prospect of an influx of international travellers to several international events. Spatially, the strongest regional economic growth is projected in Sulampua, Kalimantan and Java. Overall, national economic growth in 2023 is still projected in the 4.5-5.3% range.

## Economic Growth Realisation

**Solid national economic growth was maintained in the second quarter of 2023 on the back of domestic demand in all regions.** The Sulampua region recorded the highest growth in the second quarter of 2023, followed by Kalimantan, Java, Sumatra and Balinusra. Regional economic gains were primarily underpinned by household consumption in most regions. The positive impact of the Eid-ul-Fitr and Eid-ul-Adha national religious holidays (HBKN) also boosted household consumption in the second quarter of 2023, which was supported by increasing government consumption in most regions in line with disbursements of 13<sup>th</sup>-month salaries for civil servants. Furthermore, in line with ongoing private sector projects and national strategic projects (PSN), investment performance also improved in most regions, thus boosting domestic demand. On the other hand, net exports moderated in all regions except Sulampua, in line with the global economic slowdown. Net exports were maintained in Sulampua primarily due to strong exports of downstream nickel products, accompanied by lower imports in line with limited additional production capacity.

**Domestic demand was maintained, given the improving performance of contact-intensive sectors (service sector) in the second quarter of 2023.** In the midst of increasing mobility, contact-intensive sectors, specifically accommodation and food service activities as well as transportation and logistics, recorded higher growth in the second quarter of 2023, thus approaching pre-pandemic levels in most regions. The consumption preferences of the younger generation bolstered the economic contribution of the service sector, including tourism. The younger generation<sup>1</sup>, which currently dominates Indonesia's demographic composition, is more consumptive and tech-savvy, thereby driving the market share of service consumption beyond older generations in all regions. Meanwhile, the trade sector and manufacturing industry performance remain solid but are yet to reach pre-pandemic levels in any region except Sulampua. Additional downstream nickel production capacity has boosted manufacturing industry performance in the Sulampua region, which maintained high growth in the second quarter of 2023.

## Expenditure Outlook

**Persistently strong domestic demand is maintaining economic performance in 2023 despite increasing global uncertainty.** Economic performance in the third quarter of 2023 is projected to be maintained despite experiencing moderation. This is in line with private and government consumption, which are expected to decelerate in all regions as consumption normalises after the recent national religious holidays (HBKN) and long school holidays, as well as disbursements of government incentives. However, a deeper decline will be offset, by improving investment and net exports in most regions, which are in line with ongoing private sector projects and national strategic projects (PSN), as well as maintained export performance in most regions. Economic growth in 2023 is forecast to remain strong in line with the previous projection, supported by maintained domestic demand despite subdued net export performance. Domestic demand is expected to remain strong on the back of public purchasing power as

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<sup>1</sup> The age of the younger generation is <=40.

inflation is brought under control and government consumption improves. Such developments are also supported by faster growth of the digital economy and

finance in all regions. On the other hand, slower demand from Indonesia's main trading partners could potentially impact net exports.

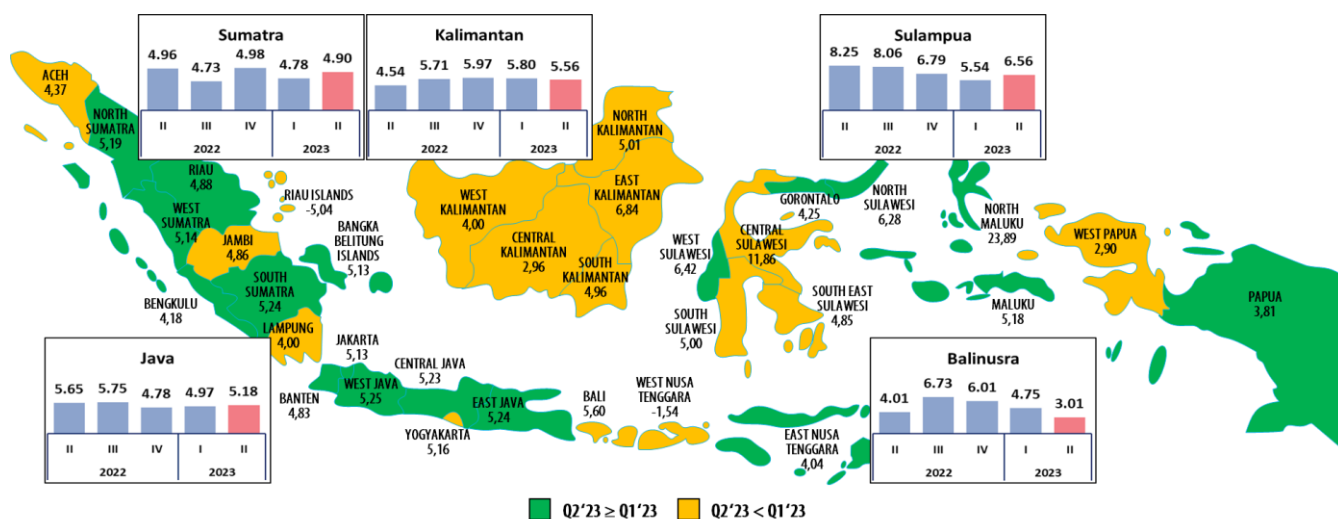
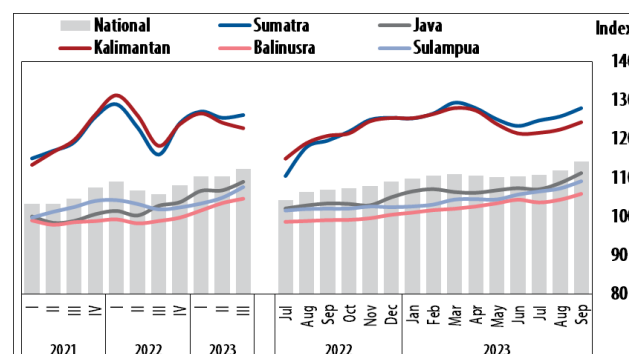


Figure I.1. Map of Regional Economic Growth in Q2/2023

### Private Consumption

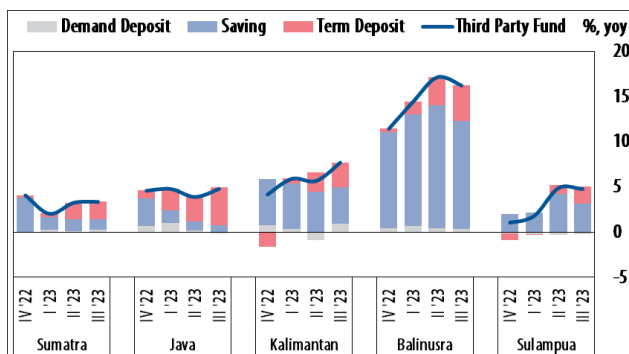
In the third quarter of 2023, private consumption growth is projected to remain solid yet restrained in all regions due to seasonal factors. Consumer confidence remains optimistic in all regions despite retreating in the previous period after the Eid-ul-Fitr and Eid-ul-Adha national religious holidays (HBKN). Retail sales maintained positive growth in most regions in the third quarter of 2023, yet were lower in several regions. Consumption performance is supported by strong consumption among the younger generation. On the other hand, restrained export performance hindered private income gains in regions exporting natural resources. Fewer holidays in the third quarter of 2023 also impacted the outlook for private income among workers engaged in tourism activities, particularly in the Balinusra region. On the other hand, high farmers' terms of trade (FTT) in regions associated with plantation crops, such as Sumatra and Kalimantan, as well as improvements in food crop producing regions, namely Java, Balinusra and Sulampua, helped to maintain private income in the middle class and working class (Graph I.1). Consequently, private consumption growth is projected to remain solid in all regions, despite moderation caused by the normalisation of consumption activity after the national religious holidays (HBKN) that coincided with the previous period.



Graph I.1. Farmers' Terms of Trade (FTT) by Region

Overall, the outlook for private consumption in 2023 is forecast to remain solid in line with the previous projection. Looking ahead, there are indications that private income will be maintained in line with the positive investment outlook in various regions. Individual third-party funds (TPF) increased in most regions, supported by a bump in term deposits, which will support consumption financing moving forward. The hosting of international events and preparations for the general election throughout the second semester of 2023 are also expected to bolster consumption. Meanwhile, restrained export performance is anticipated through to the end of 2023, thus impacting private income in regions producing export commodities for the main Chinese market, such as Sumatra, Kalimantan and Sulampua (Graph I.2).





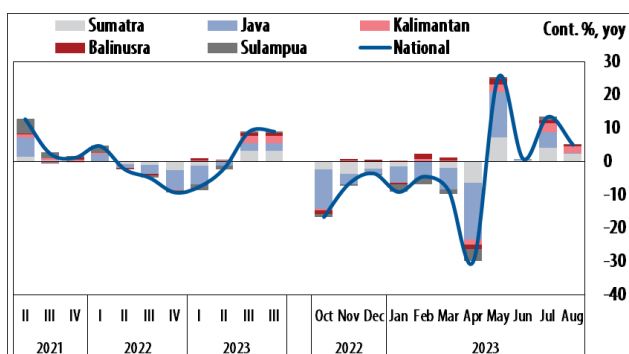
Notes: Q3/2023 data as of August 2023

Source: Bank Indonesia

Graph I.2. Individual Third-Party Funds by Region

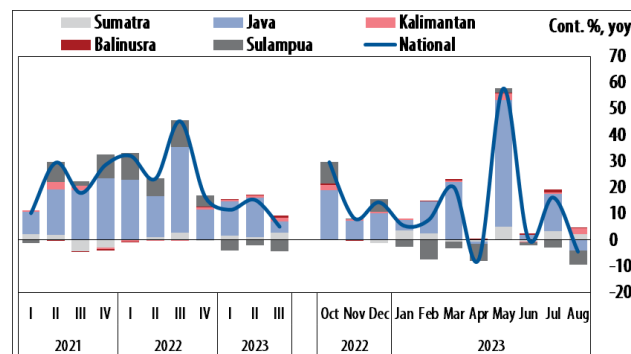
## Investment

Regional investment is projected to increase in the third quarter of 2023, primarily supported by building investment. Cement sales indicated improving building investment in the third quarter of 2023, as of August, in all regions, particularly Java (Graph I.3). Building investment in the Java region in the third quarter of 2023 was supported by the ongoing development of several national strategic projects (PSN), such as toll roads, railways and industrial estates. In the Sumatra region, building investment increased due to the accelerated realisation of national strategic projects (PSN), including dams, and the ongoing construction of toll road sections despite technical constraints in land acquisition issues. In the Balinusra region, building investment is expected to increase in line with the expedited realisation of construction projects due to conducive weather conditions, including dams, the health special economic zone (KEK) and the development of copper smelters. Meanwhile, building investment in the Sulampua region is also expected to increase due to the ongoing development of national strategic projects (PSN). In Kalimantan, building investment is forecast to increase in line with the development of government and private projects, such as the new capital city (IKN), Indonesia Green Industrial Estate (KIHI), nickel smelters and the Refinery Development Master Plan (RDMP) RU V.



Source: Bank Indonesia

Graph I.3. Cement Sales by Region in 2023



Source: Bank Indonesia

Graph I.4. Value of Capital Goods Imports by Region in 2023

Regional non-building investment in the third quarter of 2023 is projected to remain solid despite indications of restraint compared with conditions in the previous period. This is in line with lower domestic demand projected in the third quarter of 2023 amid manufacturing exports that remain limited. Capital goods imports in the third quarter of 2023, as of August, are indicated to decline, particularly in the Java and Sulampua regions (Graph I.4). Lower non-building investment in Sulampua is in line with lower investment in nickel downstreaming. In the Java region, non-building investment moderated in line with subdued manufacturing production, including the automotive and footwear industries. Meanwhile, the development of the new capital city (IKN) and Indonesia Green Industrial Estate (KIHI) supported non-building investment in Kalimantan. Notwithstanding, further improvements were offset by indications of lower investment in heavy equipment, given the weaker export value of coal. Furthermore, non-building investment in the Sumatera region remained solid, supported by several public and private sector projects. Similar to conditions in Sumatra, non-building investment in the Balinusra region was supported by private and government projects, including smelters, dams, special economic zones (KEK) and other tourism-related projects.

The regional investment outlook for 2023 is forecast to increase in line with the previous projection. There are indications of improving building investment in nearly all regions, primarily driven by the ongoing completion of national strategic projects (PSN) and private sector projects. Meanwhile, high yet restrained non-building investment growth is expected in line with more limited demand for additional production capacity as a corollary of global economic moderation.

Spatially, investment performance in most regions in 2023 is predicted to increase in line with previous projections. Investment in the Java region is expected to

increase due to the development of national strategic projects (PSN) and ongoing private investment, particularly in industrial estates and special economic zones (KEK). Meanwhile, the ongoing development of the new capital city (IKN) and the realisation of private investment in the Indonesia Green Industrial Estate (KIHI) for the development of the Sei Mentarang hydroelectric power plant and paper industry will boost investment performance in the Kalimantan region. The development of several national strategic projects (PSN) and industrial estates will also maintain investment in the Sulampua region in line with the previous projection, despite moderation in line with low investment in copper mines located in Papua and the delayed realisation of smelters in North Maluku. Investment in the Sumatra region is predicted to increase on the completion of several national strategic projects (PSN) and building investment in 2023. Finally, investment in the Balinusra region is also expected to increase, driven by several ongoing private sector projects and the completion of strategic government projects, including the ASEAN Summit.

### Regional Government Consumption

**Regional fiscal stimuli growth in the third quarter of 2023 is expected to improve in line with increasing regional transfers (TKD) and expenditures.** The promising realisation outlook for the Regional Revenue and Expenditure Budget (APBD) is reflected by improvements on the revenue and expenditure sides. In terms of revenue, disbursements of regional transfers as of August 2023 improved as an aggregate, primarily supported by the realisation of the Profit Sharing Fund (DBH) and the physical Special Allocation Fund (DAK) (Table I.1). An increase in the cap on mineral and coal mining is the main contributor to improvements in terms of DBH disbursements. Meanwhile, improvements in the non-physical DAK are predominantly supported by compliance in terms of submitting disbursement letters by education units, thus facilitating the timely disbursement of education funds. On the expenditure side, the realisation of regional budgetary expenditures as of the end of August 2023 exceeded the level recorded in the same period one year earlier. Greater regional budget realisation was recorded across all types of regional government expenditures. Spatially, expenditure realisation in most regions increased, except in Sulampua, where conditions must be improved.

**The role of regional fiscal stimuli to support growth and manage inflation could be optimised further.** In this case,

regional transfers (TKD) are available to support regional inflation control policy, including the physical Special Allocation Fund (DAK), non-physical DAK Agriculture and Food Security (KPP), Village Fund and fiscal incentives to support regional food security. Furthermore, the non-physical DAK KPP allocation increased in 2023 compared with 2022. As of August 2023, the non-physical DAK KPP disbursements were satisfactory in most regions. Even so, there remains an opportunity to improve conditions in several areas, particularly in the Kalimantan and Sulampua regions. Moving forward, fiscal optimisation as a shock absorber and to support efforts to control regional inflation must be strengthened.

**Table I.1. Regional Transfers (TKD)**

Regional Transfers (IDR Trillion)	Allocation		Realized				
	2022	2023	up to Aug 2022	up to Aug 2023	% up to Aug 2022	% up to Aug 2023	Aug 2023 (yoy)
1. Profit Sharing Fund (DBH)	140.4	136.3	41.3	63.9	29.4%	46.9%	54.6%
2. General Allocation Fund (DAU)	378.0	396.0	279.2	265.0	73.9%	66.9%	-5.1%
3. Special Transfer Fund	189.6	187.2	94.0	114.5	49.6%	61.2%	21.7%
a. Physical Special Allocation Fund	60.9	53.4	18.2	17.3	29.9%	32.3%	-5.4%
b. Non-Physical Special Allocation Fund	128.7	130.3	75.8	96.2	58.9%	73.8%	26.9%
c. Regional Grants	0.0%	3.4	0.0	1.1	0.0%	30.6%	0.0%
4. Regional Incentive Fund	20.4	17.2	10.5	7.7	51.4%	44.4%	-27.1%
5. Otonomy and Exclusive Region Fund	1.3	1.4	1.1	1.1	80.3%	76.8%	2.8%
6. Village Funds	68.0	70.0	50.4	49.2	74.2%	70.2%	-2.5%
7. Fiscal Incentive	7.0	8.0	2.3	2.6	33.4%	32.4%	10.7%
Regional Transfer and Village Funds	804.8	816.1	478.9	503.9	59.5%	61.7%	5.2%

Source: Ministry of Finance, processed

**Fiscal performance in 2023 is forecast to improve in line with the previous projection.** Regional government expenditure is expected to improve, primarily supported by regional government spending on preparations for the general election in 2024, capital expenditures (CapEx), and the procurement of goods and services for ongoing strategic projects. Implementation of the Indonesia Credit Card (KKI) for regional government officials is predicted to bolster efforts to accelerate budget realisation, particularly the procurement of goods and services in 2023. In addition, instructions from the President of Indonesia to accelerate initiatives that increase the use of domestic products (P3DN), coupled with the digitalisation of procurement through the use of an e-catalogue, will also improve regional budget performance. On the revenue side, locally generated revenue (PAD) is expected to increase in line with the regional economic recovery, which will boost consumptive tax revenues. Other factors will also drive the realisation of regional government expenditures moving forward, namely stronger synergy between institutions in the planning and implementation of various programs to manage inflation. Nevertheless, several risk factors could impede further regional fiscal improvements. The realisation of P3DN expenditures could be hampered by suboptimal industry preparations and local production capacity, as well as insufficient understanding of e-purchasing and e-tendering in



various regions. Furthermore, the policy of earmarked General Allocation Fund (DAU), which lacks the full readiness of regional governments in terms of meeting disbursement requirements, has hampered DAU disbursements in several regions. Therefore, HR capacity and coordination between Regional Apparatus Organisations (OPD) must be strengthened to meet the requirements and administrative aspects. This is expected to contribute to the fiscal decentralisation reform initiated by the central government.

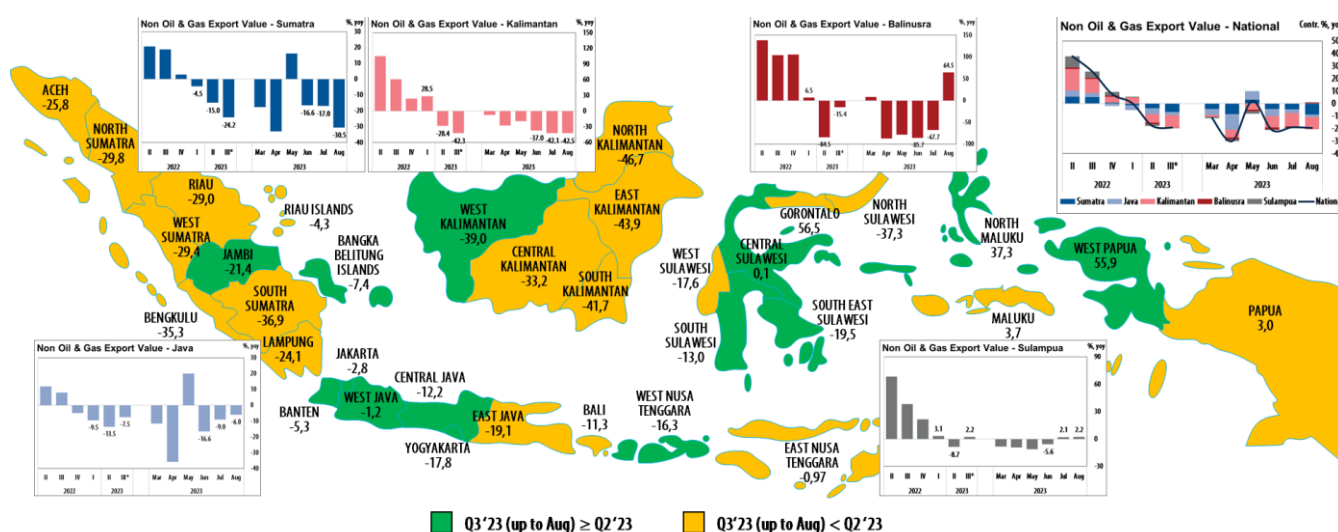
## International Exports

**Growth in the value of non-oil and gas exports in the third quarter of 2023, as of August, remained solid despite moderation.** This occurred in line with the ongoing decline in the export of natural resources, predominantly coal, in Kalimantan and Sumatra. In terms of volume, coal exports continued tracking an upward trend, yet the value of coal exports declined due to lower prices. Nevertheless, a deeper decline in export value in the Sumatra region was offset by improving tin exports, while exports from Kalimantan were supported by stronger exports of inorganic chemicals (Figure I.2).

**Export performance in some regions improved compared to the previous period.** Non-oil and gas exports from the Balinusra region increased, particularly copper concentrate, after export quota licences were issued in July 2023, supported by increasing exports of pearls. Similar to Balinusra, exports from the Sulampua

region also increased, primarily driven by nickel pig iron (NPI). Meanwhile, exports of various manufacturing products from the Jawa region also increased, mainly footwear and textiles, as automotive exports experienced moderation.

**Overall, the non-oil and gas export outlook for 2023 is positive yet lower than in the previous year.** This is supported by persistently strong yet slower external demand than in 2022. Furthermore, international commodity prices, particularly metal prices, are tracking a downward trend. On the other hand, the global oil price is trending upward due to the factors associated with tight supply. Regionally, in Sumatra and Kalimantan, export growth is supported by sufficient external demand in line with the needs of the electricity industry and households in Indonesia's main trading partners, despite moderation in line with lower international coal prices. Meanwhile, solid US economic performance is bolstering exports of various manufacturing products from Jawa, despite moderation. In addition, export performance in the Balinusra region is projected to remain solid overall in 2023, despite decelerating due to technical constraints that impacted shipments of copper concentrate in the second quarter of 2023. In the Sulampua region, export growth in 2023 is supported by iron and steel as well as copper concentrate, although this has slowed due to force majeure in the form of floods and landslides at the beginning of the year which disrupted copper production.



Source: Directorate General of Customs and Excise (DJBC), processed (Q3/2023 data as of August 2023)

Figure I.2. Map of Regional Non-Oil and Gas Export Growth in Q3/2023 (yoy)

## Sectoral Performance

The performance of contact-intensive sectors (service sector) and construction is helping to maintain domestic economic performance in various regions in 2023.

**Maintained yet subdued economic performance is projected in the third quarter of 2023.** This is in line with the normalisation of economic activity after the recent national religious holidays (HBKN) and long school holidays. Trade, transportation and logistics as well as

accommodation and food service activities are expected to moderate in nearly all regions. However, improving agricultural, mining, and construction sector performance offset further moderation. This is primarily supported by increasing production of fresh fruit bunches (FFB) at the onset of the peak harvesting season, restored production in the mining sector as well as ongoing private sector projects and national strategic projects (PSN). Solid economic growth is still projected in 2023, underpinned by the tertiary sector. Maintained public purchasing power amid improving government consumption will help to maintain sectoral performance in terms of transportation and logistics, accommodation and food service activities, trade and the manufacturing industry in all regions in line with previous projections. On the other hand, slower demand in Indonesia's major trading partners will negate further improvements in the manufacturing industry and mining sector, specifically in relation to downstream nickel products and crude palm oil (CPO). Therefore, national economic growth in 2023 is still projected in the 4.5-5.3% range.

### *Agriculture*

**Agricultural sector performance is projected to increase in the third quarter of 2023 in most regions, predominantly supported by the plantation crop subsector despite weather disruptions attributable to the El Niño phenomenon.** The production of fresh fruit bunches (FFB) in the third quarter of 2023 is expected to increase with the onset of the peak annual harvesting season in September-October, supported by increasing productivity due to land replanting initiatives in Sumatra and the impact of modern fertilisation techniques adopted last year in Kalimantan. Furthermore, the upward trend of FFB prices provides an incentive for farmers to increase production. Meanwhile, horticultural production in the third quarter of 2023 is forecast to remain strong due to the main harvesting season for shallots, particularly at production hubs located in the Java region. Nonetheless, the drought caused by El Niño has impacted the harvest of various chili varieties. In addition, suboptimal rice production is also anticipated in the third quarter of 2023 due to dry paddy fields, particularly in the Java region, where sedimentation has undermined the effectiveness of irrigation systems. On the other hand, rising sea temperatures due to El Niño are expected to boost capture fisheries production in the third quarter of 2023, primarily in the Sulampua and Balinusra regions.

**Overall, agricultural sector performance is forecast to remain solid in 2023 despite moderate restraint in line**

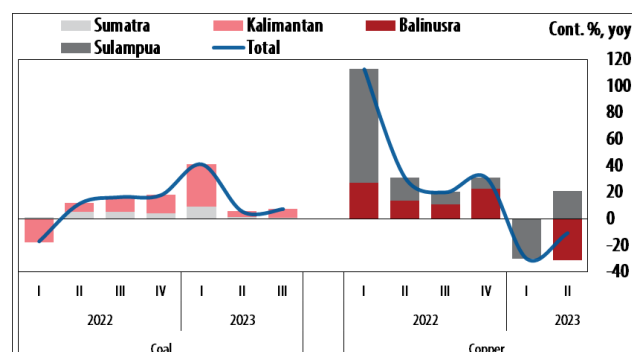
**with the previous projection, primarily due to food crop and horticultural crop subsector performance.** Weather factors, including the impact of drought caused by El Niño in various regions, will impact agricultural sector performance, particularly in the latter half of the year. In the Sumatra region, agricultural sector achievements in 2023 remain on track despite moderation due to lower rice production as a result of flooding at several production hubs in the first quarter, coupled with drought in the third quarter of 2023. On the other hand, FFB production is expected to improve in 2023 as a result of land replanting initiatives to support agricultural sector growth in Sumatra. Agricultural sector performance in the Kalimantan region also remains on track to increase, supported by higher FFB production due to modern fertilisation techniques adopted in 2022. Conversely, lower agricultural sector performance in the Java region is anticipated in 2023 than in the previous projection. The rice harvest at production hubs in Java is not expected to be as high as in 2022 as a consequence of dry paddy fields. Meanwhile, agricultural sector performance in the Balinusra region will moderate below the previous projection due to the African Swine Fever (ASF) transmission that has impacted livestock production. In addition, agricultural sector performance in the Sulampua region in 2023 is on track to moderate due to the current capture fishery policy.

### *Mining*

**Against a backdrop of global economic pressure, mining export commodities in all regions remained solid in the third quarter of 2023.** Economic moderation in China, Indonesia's main trading partner, impacted the demand for mining commodities in various regions. Notwithstanding, the export volume of major regional commodities improved in the third quarter of 2023, including coal from Sumatra and Kalimantan, as well as copper concentrate from Balinusra and Sulampua (Graph I.5). Such improvements were supported by increasing demand from other trading partners, including India, South Korea and ASEAN, as well as maintained production.

**Consistent with export developments, mining sector performance in coal-producing regions is forecast to remain solid in the third quarter of 2023.** Mining sector performance in the Sumatra region improved, supported by persistently high coal production to meet export demand and for domestic steam-electric power stations. Production was also supported by relatively low rainfall throughout the third quarter of 2023. Higher oil and gas production in Riau and South Sumatra to meet

2023 production targets also strengthened mining sector performance in Sumatra. Solid coal production improved mining sector performance in the Kalimantan region. Stronger demand from India and persistently high demand for steam-electric power station requirements also boosted coal production. In addition to coal, bauxite production in Kalimantan was also maintained to meet the production needs of the alumina industry.



Note: Q3/2023 data as of August 2023

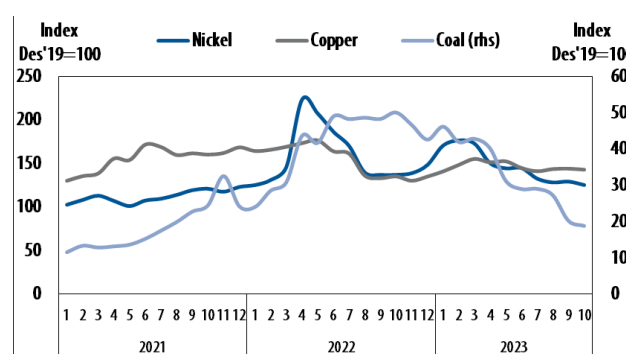
Source: Directorate General of Customs and Excise (DJBC), processed

Graph I.5. Volume of Mining Exports by Region

**Production improvements amid persistently strong demand strengthened the mining sector outlook in metal mineral-producing regions in the third quarter of 2023.** In the Balinusra region, significant mining sector gains are expected, supported by higher copper production. Export licensing constraints that impacted copper production in the second quarter of 2023 were resolved in July 2023. Consistent with positive developments in other regions, mining sector performance in Sulampua is also forecast to improve in the third quarter of 2023. Copper production has rebounded after the deleterious impact of flooding and landslides in the first semester of 2023. In addition, higher production is also supported by increasing production machinery capacity at mining locations. On the other hand, the restrained export outlook for iron and steel has suppressed improvements in terms of nickel production in Sulampua.

**Based on the positive developments aforementioned, the mining sector performance overall in 2023 remains solid in line with the previous projection in all regions.** As a major destination of Indonesian mining commodities, the outlook for Chinese demand remains weak moving forward. This is reflected in the price of major mining commodities, which had not rebounded at the beginning of the fourth quarter of 2023 (Graph I.6). On the other hand, demand from other trading partners, specifically India, is expected to maintain solid manufacturing sector export performance until the end of the year. The

outlook for coal production in the Sumatra and Kalimantan regions remains solid in line with the prospect of improving Indian demand and weather conditions conducive to mining in open pit areas during the latter half of the year. In addition, improving oil and gas productivity and additional production capacity in the Sumatra region will support the mining sector's performance throughout 2023. In the Balinusra and Sulampua regions, copper production is expected to track an upward trend through the end of 2023, thereby compensating for lower production in the first semester of the year owing to licensing constraints and natural disasters. Notwithstanding, nickel production will remain constrained due to the prospect of soft Chinese demand for downstream nickel products until the end of 2023.



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

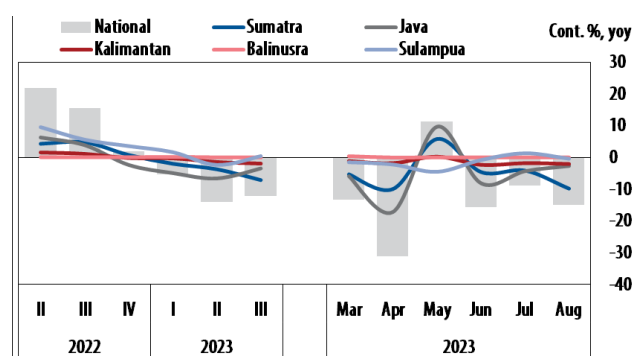
Graph I.6. Reference Prices for National Mining Commodities

## Manufacturing

**Global and domestic demand dynamics influenced manufacturing industry performance in the third quarter of 2023.** Manufacturing exports experienced pressure in most regions in response to weaker global demand (Graph I.7). The main areas impacted were producers of manufacturing products based on natural resources, with China as the primary market. Meanwhile, areas producing labour-intensive and medium-high tech manufacturing commodities, including downstream minerals, were relatively more resilient yet still experienced moderation. Furthermore, domestic demand normalised after the recent national religious holidays (HBKN) in the second quarter of 2023, which also affected manufacturing industry performance in all regions.

**Despite demand pressures, solid manufacturing industry performance in the Java and Sulampua regions is projected in the third quarter of 2023, underpinned by domestic demand.** Growth of the manufacturing industry in Java is expected to accelerate on the back of improvements in the domestic-oriented food and

beverages industry to meet growing demand ahead of the upcoming Christmas and New Year festive period. Labour-intensive industries, specifically textiles and footwear, are also expected to accelerate in line with the prospect of stronger demand from Indonesia's main trading partners, particularly the United States. On the other hand, there were indications of restrained automotive production after the Eid-ul-Fitr national religious holiday (HBKN) in the previous period. In the Sulampua region, high manufacturing industry growth is anticipated in line with production and additional capacity in the downstream nickel industry. On the other hand, further production increases are limited by potentially lower Chinese demand as the main trading partner of industries in Sulampua.



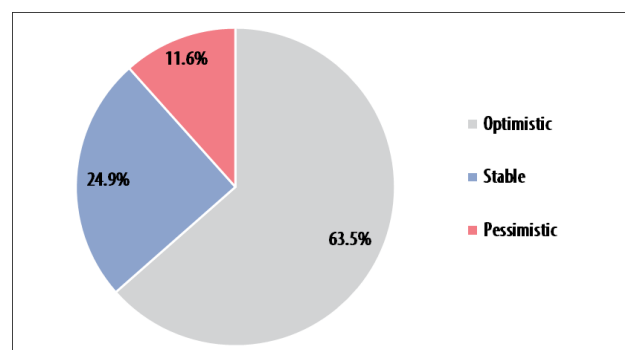
Source: Directorate General of Customs and Excise (DJBC), processed

Graph I.7. Manufacturing Exports by Region

**Manufacturing industry performance in the Sumatra and Kalimantan regions is predicted to remain solid in the third quarter of 2023, though slightly muted.** A moderately subdued manufacturing industry in Sumatra is anticipated in line with lower global and domestic demand for CPO-based products. In addition, there are also indications of weaker exports of electronics and tin due to lower global demand and limited supply of raw materials in the third quarter of 2023. In the Kalimantan region, relatively stable manufacturing industry performance is projected compared with conditions in the previous period. CPO production has been maintained despite the impact of lower demand. Meanwhile, alumina production has remained stable to meet the annual production target. Additionally, oil and gas production, specifically in East Kalimantan, increased in the reporting period.

**Manufacturing industry performance in 2023 remains in line with the previous projection, supported by domestic demand.** The prospect of stronger US demand than previously forecast, coupled with persistently strong domestic demand, is supporting manufacturing industry growth in accordance with the previous projection

despite ongoing demand pressures in China. The promising outlook is also reflected in corporate optimism concerning business conditions moving forward (Graph I.8). The manufacturing industry in Sumatra and Kalimantan will be driven in 2023 by the CPO industry despite the impact of lower Chinese demand. Additional production capacity is anticipated by the end of 2023, particularly in North Sumatra. The manufacturing industry in the Java region is expected to maintain strong growth in line with the previous projection, bolstered by US demand as a major trading partner of labour-intensive industries in the region. In addition, persistent domestic demand will boost manufacturing industry performance in Java, which supplies all regions in Indonesia. In the Sulampua region, the downstream nickel industry will continue propping up high growth in the manufacturing industry. Seeking to accelerate growth moving forward, however, export and domestic markets must be expanded to mitigate the impact of slower Chinese demand for iron and steel commodities from Sulampua.



Source: Ministry of Industry, processed

Graph I.8. View of Industry Conditions in the Next Six Months - Business Confidence Index September 2023

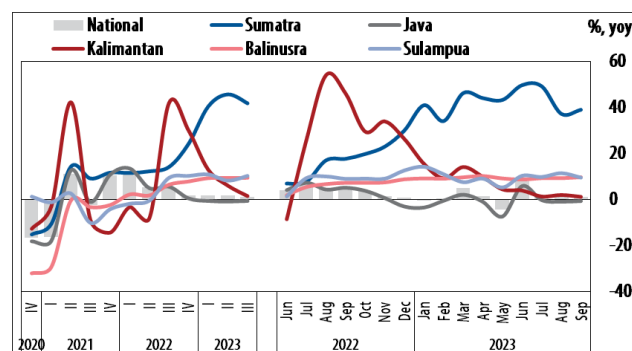
## Trade

**Despite retreating compared with conditions in the previous period, trade sector performance in the third quarter of 2023 is projected to be maintained.** Hosting several events in various regions supported trade sector performance in the third quarter of 2023, offsetting deeper moderation. In the Java region, the Gaikindo Indonesia International Auto Show (GIIAS) and Great Expo boosted automotive and retail sales. In addition, the Galungan and Kuningan religious ceremonies solidified consumer activity and mobility in the Balinusra region in the third quarter of 2023. Overall, however, trade sector performance moderated as community activity and mobility normalised after the recent festive period, namely the Eid-ul-Fitr and Eid-ul-Adha national religious holidays (HBKN), together with collective leave days and the long school holiday. The prospect of trade



sector moderation was also reflected in the real retail sales index in the third quarter of 2023, which retreated in nearly all regions (Graph I.9). Furthermore, the prospect of trade sector performance in the current period is also expected to be restrained as a result of lower automotive sales. Similarly, automotive loans also experienced a decline in the third quarter of 2023, particularly in the Sumatra and Java regions.

**Overall, trade sector performance in 2023 is expected to remain solid in line with the previous projection.** This expectation is consistent with the prospect of resilient domestic demand in various regions. Maintained public purchasing power will also support positive trade sector growth in line with the previous projection, as confirmed by improvements recorded in terms of workers' wages and farmers' terms of trade (FTT) throughout 2023. The occupancy rate of shopping malls has also increased compared with 2022, indicating solid retail sales supported by an increase in third-party funds (TPF) in all regions, primarily in the form of term deposits. Approaching the end of 2023, trade sector performance will be boosted by preparations for the general election and political safari, which will accelerate community mobility and consumption. In addition, controlled inflation, additional collective leave days introduced by the Central Government, an influx of international travellers and the hosting of additional MICE events, including music concerts in the Java region and international conferences in the Kalimantan and Balinusra regions, will help to maintain trade sector performance in 2023.



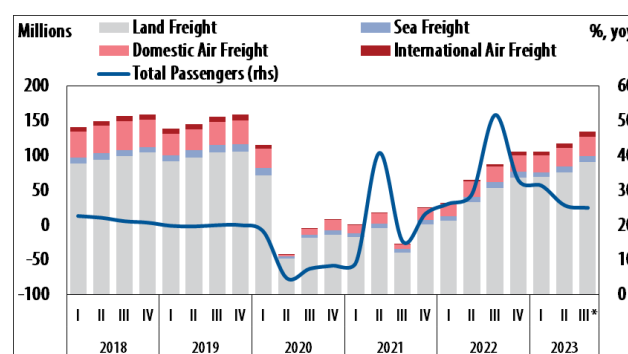
Source: Bank Indonesia

Graph I.9. Real Retail Sales Index

## Transportation and Logistics

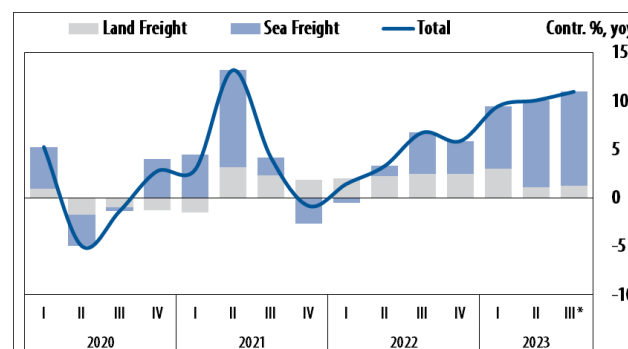
Transportation and logistics sector growth is predicted to remain solid in the third quarter of 2023, though restrained in most regions as mobility normalises. Growth in terms of total passengers experienced moderation as mobility normalised after the Eid-ul-Fitr and Eid-ul-Adha national religious holidays (HBKN) and

long school holidays in the previous period. In contrast, the growth of freight transportation accelerated slightly to offset deeper sectoral moderation. A slowdown was experienced in the Sumatra and Kalimantan regions, primarily due to slower external demand for the primary commodities, which impacted freight transportation growth and traffic volume. The Sumatra region was specifically influenced by the base effect of high transportation and logistics growth in 2022. Meanwhile, sectoral moderation in the Java and Balinusra regions was reflected in slower passenger and freight transportation growth as of August 2023, coupled with additional airlines and flight frequency declines. On the other hand, the transportation and logistics sector in Sulampua is expected to accelerate due to additional flight frequency and routes in the third quarter of 2023.



Source: BPS-Statistics Indonesia

Graph I.10. Total Passengers by Transportation Mode as of August 2023



Source: BPS-Statistics Indonesia

Graph I.11. Freight Growth by Transportation Mode as of August 2023

Overall, the transportation and logistics sector outlook for 2023 remains solid, particularly in the Balinusra region, with moderation nevertheless anticipated in various other regions. The transportation and logistics sector in the Balinusra region is projected to accelerate in line with increasing tourism activity driven by the emergence of international airlines opening direct flights to Balinusra. Meanwhile, transportation and logistics sector performance in the Java region is expected to improve on the previous projection, despite moderation.

The proliferation of international events, together with additional transportation units and routes by the corporate sector, will offset a deeper slowdown in the Java region. Similar to Java, transportation and logistics sector performance in Kalimantan is expected to improve on the previous projection, despite moderation. This is consistent with the upward trend of flights to meet the increasing number of arrivals, particularly in East Kalimantan and North Kalimantan. The trend is driven by increasing mobilisation to develop national strategic projects (PSN) in Kalimantan, including the new capital city (IKN), Refinery Development Master Plan (RDMP), and Indonesia Green Industrial Estate (KIHI). On the other hand, transportation and logistics sector performance in several regions will be subdued as sectoral growth normalises after a period of high growth in 2022. Moderation will also stem from the economic downturn experienced in Indonesia's main trading partner countries, coupled with the trend of lower international commodity prices, which could potentially impact international trade performance. In the Sumatra region, lower transportation and logistics sector performance is forecast than the previous projection as a consequence of weaker external trade performance. Meanwhile, transportation and logistics in the Sumatra region will also decline in line with the previous projection as the number of air passengers from January to August 2023 experienced slower growth than in the same period of the previous year.

### *Accommodation and Food Service Activities*

**Accommodation and food service activities are projected to maintain positive growth momentum in the third quarter of 2023, though restrained by the normalisation of consumption after the recent national religious holidays (HBKN) and long school holidays.** The normalisation of community mobility is expected to impact accommodation and food service activities, as reflected by lower hotel occupancy rates and the number of inbound international and domestic travellers to Sumatra. Similar to Sumatra, accommodation and food service activities in the Java region were also restrained, as reflected by slower growth of several indicators, including average length of stay, retail sales of food and beverages, as well as hotel occupancy and investment. Notwithstanding, a deeper slowdown of accommodation and food service activities in Java was offset by the hosting of various international events, including Indonesia's ASEAN Chairmanship in 2023, the FIBA Basketball World Cup 2023, and several music concerts.

In the Kalimantan and Balinusra regions, accommodation and food service activities are expected to remain solid, despite moderation. In Balinusra, sectoral performance is primarily supported by the peak season for inbound international travellers amid slower growth of MICE activities and events, additional airlines and flight frequency compared with the previous periods. On the other hand, accommodation and food service activities in the Sulampua region are projected to increase in line with greater community mobility given the hosting of various tourism events and official activities. This was reflected by increases in hotel occupancy rates as well as hotel and restaurant tax revenues in the Sulampua region as of July 2023. Furthermore, flight subsidies provided by the Provincial Government of South Sulawesi, accompanied by an expansion of the Sulampua Tourism Program 2023 also boosted accommodation and food service activities in the local region.

**Overall, the outlook for accommodation and food service activities in 2023 will remain solid in all regions as domestic demand is maintained.** Consistent with the previous projection, accommodation and food service activities will remain solid in all regions despite moderation. In the Java region, a shallower moderation of accommodation and food service activities is projected in line with the hosting of various international events and political consolidation ahead of the general election in 2024. Similar to Java, accommodation and food service activities in the Kalimantan region are also expected to improve on the previous projection in line with the political safari ahead of the general election in 2024, which will drive public activity. In the Balinusra region, accommodation and food service activities are expected to increase beyond the previous projection on positive sentiment stoked by a surge of inbound international travellers to international events throughout 2023. Moreover, an influx of international travellers from India, which has grown 16.3% from 2019, will also boost accommodation and food service activities in the Balinusra region. Nonetheless, the base effect will precipitate a slowdown in terms of accommodation and food service activities in 2023. In the Sulampua region, accommodation and food service activities are projected to moderate in line with the previous projection due to the base effect of rapid growth in 2022 after mobility restrictions were removed. Meanwhile, accommodation and food service activities in the Sumatra region will be lower than the previous projection due to the revocation of visa-free travel policy for visitors from 159 countries. Moving forward, travel

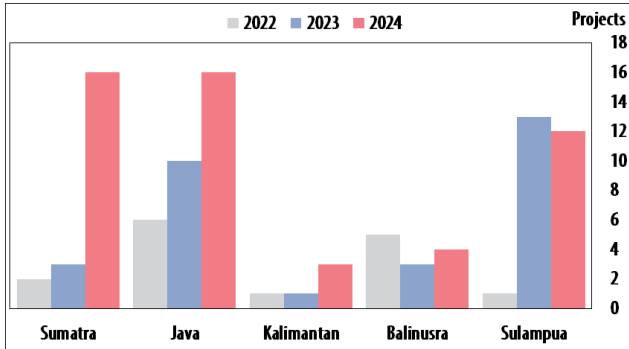
promotions and efficient event licensing must be improved continuously to further spur accommodation and food service activities.

Construction

Construction sector performance is projected to accelerate in all regions in the third quarter of 2023, driven by ongoing public and private sector projects. The bump in construction sector performance was confirmed by stronger third-quarter cement sales, as of August 2023, in all regions, particularly Java. Regionally, increasing construction sector performance in Java was supported by the expedited completion of several national strategic projects (PSN), including the Jabodetabek LRT project, Cisem 1 (Cirebon-Semarang) Gas Pipeline and Bocimi (Bogor-Ciawi-Sukabumi) Toll Road as well as private construction projects at Wilmar Integrated Industrial Estate (KIT), Tanjung Lesung special economic zone (KEK) and Grand Batang City (KIT). In the Sumatra region, construction sector gains are supported by the ongoing Trans-Sumatra Toll Road (JTTS) project, despite unresolved technical constraints. Construction sector performance in the Kalimantan region is projected to accelerate in line with the ongoing development of various national strategic projects (PSN), specifically the new capital city (IKN), Indonesia Green Industrial Estate (KIHI), and Refinery Development Master Plan (RDMP) in Balikpapan. In the Sulampua region, construction sector performance is underpinned by an increase in the value of construction projects and ongoing PSN development. Meanwhile, construction sector performance in the Balinusra region increased due to the expedited realisation of construction projects facilitated by conducive whether, including the Tiu Suntuk and Temef Dams, as well as copper downstreaming projects in West Nusa Tenggara.

Overall, the promising outlook for construction sector performance in 2023 aligns with the previous projection. Gains will primarily stem from the higher realisation of national strategic projects (PSN) in nearly all regions,

including the completion of several carryover PSN from 2022, coupled with solid private sector performance (Graph I.12). In the Sumatra region, the construction sector performance in 2023 is driven by the faster construction of several national strategic projects (PSN), including the Rukoh, Keureuto and Lau Simeme dams and Kisaran-Tebing Tinggi Toll Road as well as expedited completion of six sections of the Trans-Sumatra Toll Road (JTTS). In the Java region, sectoral performance is boosted by the faster completion of national strategic projects (PSN) in 2023 with a larger budget than available in the previous period. In addition, the private sector is also accelerating various construction projects at a number of industrial estates and special economic zones, which will uplift sectoral performance overall in 2023. Construction sector performance in Kalimantan is expected to accelerate in line with ongoing public and private sector projects, specifically the Indonesia Green Industrial Estate (KIHI) and the new capital city (IKN). The development of several connectivity and irrigation PSN will drive construction sector performance in the Balinusra region, in addition to the ongoing development of smelters. Meanwhile, construction sector performance in the Sulampua region is expected to remain positive due to the development of national strategic projects (PSN) and industrial estates, despite retreating compared with conditions in the previous period.



Source: Bank Indonesia  
Graph I.12. PSN Completion in 2023

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## PART 2

### Recent Regional Inflation Developments and Outlook

**Composite CPI inflation of cities in all regions of Indonesia was manageable in the third quarter of 2023 and is expected to remain within the target corridor for the remainder of the year.** Spatially, all regions recorded lower inflation in the reporting period, primarily edged down by lower core inflation and administered prices (AP). In contrast, volatile food (VF) inflation increased, particularly in the Sumatra, Balinusra and Java regions. Falling headline inflation was supported by consistent monetary policy instituted by Bank Indonesia, coupled with close synergy with the Government to control inflation. Moving forward, Bank Indonesia is confident that inflation will remain under control and within the  $3.0\% \pm 1\%$  target corridor for the remainder of the year.

#### Regional Inflation

**Consistent with the national inflation trend, composite CPI inflation of cities declined in all regions of Indonesia in the third quarter of 2023.** Nationally, CPI inflation in the third quarter of 2023 stood at 2.28% (yoy), down from 3.52% (yoy) in the second quarter of 2023. Lower CPI inflation was recorded in all regions, thereby maintaining national CPI inflation within the  $3.0\% \pm 1\%$  target corridor. The lowest rates of composite CPI were recorded in the regions of Sumatra and Java at 2.13% (yoy) and 2.25% (yoy) respectively. On the other hand, the highest composite CPI was recorded in the Kalimantan region at 2.64% (yoy). Consequently, the provincial inflation disparity narrowed to 2.39% (yoy) from 4.11% (yoy) in the previous period. By component, lower headline inflation in the third quarter of 2023 stemmed from core inflation and administered prices (AP). Notwithstanding, a deeper decline was stifled by higher volatile food (VF) inflation in the reporting period, edged upwards by the impact of El Niño that triggered extensive drought and disrupted food production. In addition to the impact of weather conditions, structural factors, such as less arable land that undermined productivity, intertemporal risks as well as the logistics and distribution of rice, challenged efforts to maintain the availability and continuity of intertemporal supply between regions.

**Core inflation was still well-managed in the third quarter of 2023, in line with anchored inflation expectations, stable exchange rates and lower commodity prices.** Low inflation was supported by pro-stability monetary policy,

rupiah stabilisation measures and policy synergy to control inflation by Bank Indonesia in conjunction with the (central and regional) government. By commodity, the main contributors to lower core inflation in the reporting period were primarily house rentals, tuition fees and residential leases, which decreased compared to the second quarter of 2023. Meanwhile, a further decline in core inflation was restrained by higher prices of gold jewellery in all regions and granulated sugar in Kalimantan, Sumatra, Sulampua and Java. Spatially, the highest rate of core inflation in the reporting period was recorded in the Kalimantan region at 2.14% (yoy), contrasting the lowest rate at 1.94% (yoy) in the Sumatra region.

**Volatile food (VF) inflation in the third quarter of 2023 increased in most regions compared to the previous period, primarily edged upward by the lower supply of foodstuffs caused by inclement weather.** Based on data published by the Meteorological, Climatological and Geophysical Agency (BMKG), most areas (74% of the national territory) are experiencing a prolonged drought with low-intensity rainfall that has disrupted food production. Spatially, the highest rate of VF inflation in the reporting period was recorded in the Java region at 4.06% (yoy), contrasting the lowest rate at 2.39% (yoy) in the Sumatra region. Higher VF inflation was primarily driven by rising prices of rice, garlic and purebred chicken meat compared with conditions in the second quarter of 2023. The prices of rice and garlic increased in nearly all regions, while higher prices of purebred chicken meat occurred in Java and Balinusra. Meanwhile, rice prices were elevated by intertemporal supply imbalances as a result of drought as well as production and distribution challenges. Nationally, a further build-up of VF inflationary pressures can be anticipated through policy synergy to manage food prices between the (central and regional) government, Bank Indonesia and other strategic partners via the Central and Regional Inflation Control Teams (TPIP and TPID) as well as the National Movement for Food Inflation Control (GNPIP).

**On the other hand, lower administered prices (AP) inflation was reported in all regions, primarily due to the base effect of subsidised fuel price adjustments introduced in September 2022.** The main commodities experiencing the largest decline in their contribution to

inflation in the reporting period included petrol, household fuel and intracity travel. This was due to the absence of further subsidised fuel price hikes as occurred in September 2022, while household fuel was impacted by lower non-subsidised liquefied petroleum gas (LPG) prices at the agent and retail levels in the reporting period. In terms of intracity travel, the base effect of higher fares after the subsidised fuel price hike implemented in September 2022 faded. Spatially, the highest rate of AP inflation in the reporting period was recorded in the Kalimantan region at 3.21% (yoy), contrasting the lowest rate at 1.64% (yoy) recorded in the Sumatra region.

**CPI and core inflation in 2023 are predicted to remain manageable within the 3.0%±1% target corridor.** Realised inflation through to the end of 2023 is expected to remain stable within the target range set in line with anchored inflation expectations and the mitigated impact within the target range set in line with anchored

inflation expectations and the mitigated impact of imported inflation. Notwithstanding, weather disruptions caused by El Niño could potentially edge up VF inflation along with structural challenges relating to food supply imbalances.

**Bank Indonesia, together with the (central and regional) government and other strategic partners, are firmly committed to strengthening coordination and synergy to manage inflation.** Inter-authority synergy in terms of the TPIP-TPID teams and GNPIP movement via the 4K strategy, namely Price Affordability, Supply Availability, Uninterrupted Distribution and Effective Communication, will be strengthened in all regions and adjusted to the respective needs and challenges of each region. Moving forward, strengthening the 4K strategy within the TPIP-TPID and GNPIP framework is expected to mitigate the risk of higher VF inflation, while ensuring CPI inflation and core inflation remain under control within the target range set.

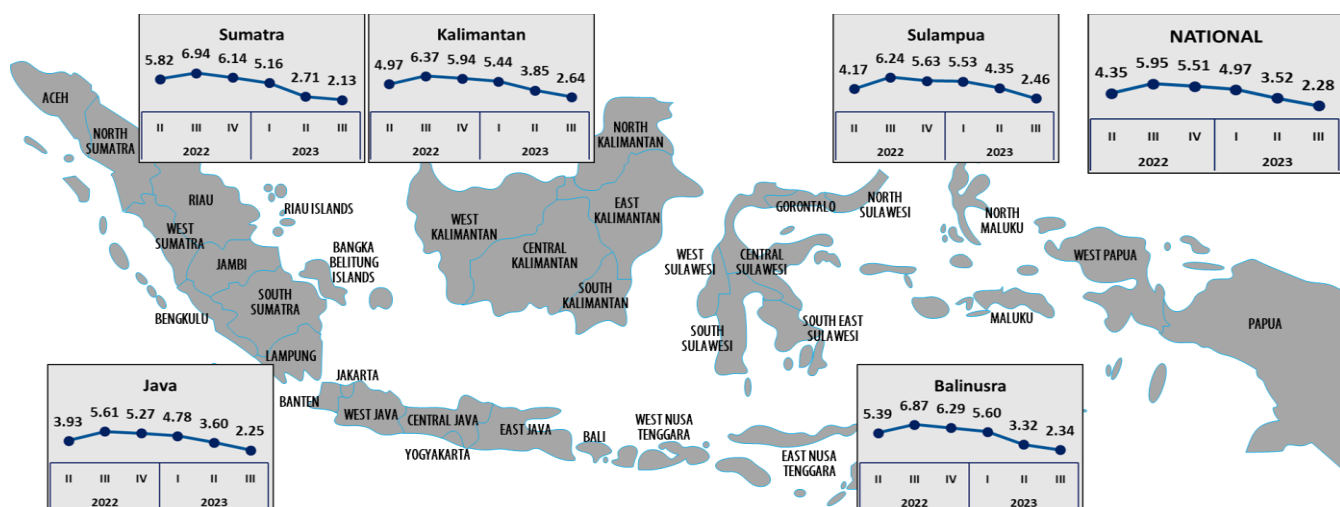


Figure II.1. Map of Composite Inflation for Cities in Each Province and Region in Q3/2023 (yoy)

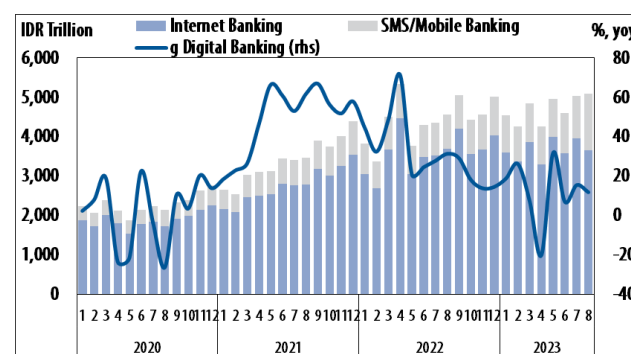
## PART 3

# Recent Payment System and Rupiah Currency Management Developments

**The digital economy and finance remained solid in all regions in the third quarter of 2023, in line with the digital payment system.** The healthy performance of digital economy was reflected by 13.6% (yoy) growth in the value of digital banking transactions in the third quarter of 2023<sup>2</sup> (Graph III.1), supported by greater public acceptance and growing preference for online retail, together with the convenience and acceleration of digital banking. Similarly, the value of electric money transactions in the third quarter of 2023<sup>3</sup> grew 61.3% (yoy), moderating from 78.6% (yoy) in the previous period. Meanwhile, the value of transactions using card-based payment instruments, specifically ATM/debit cards, contracted 6.4% (yoy)<sup>4</sup> after expanding 1.0% (yoy) in the previous period. By region, Kalimantan experienced the deepest contraction of transactions using card-based payment instruments by -14.8% (yoy), followed by Sumatra (-14.3%) and Sulawesi (-13.8%). Retail transactions processed through the National Clearing System (SKNBI) in the third quarter of 2023 experienced a shallow contraction by 2.8% (yoy) in terms of transaction value after declining 8.5% (yoy) in the previous quarter. By region, Kalimantan recorded the highest growth of transaction value in the National Clearing System at 0.2% (yoy), followed by Balinusra (-1.0%) and Java (-1.9%). Meanwhile, wholesale transactions via the Bank Indonesia – Real Time Gross Settlement (BI-RTGS) system also experienced a shallower 16.1% (yoy) contraction after decreasing by 28.8% (yoy) previously. By region, Balinusra recorded the highest RTGS growth in terms of transaction value at 34.4% (yoy), followed by Kalimantan (26.1%) and Sulawesi (15.5%).

**Bank Indonesia continued accelerating QRIS acceptance, which still posted significant growth in the reporting period.** Greater QRIS acceptance was reflected by increased QRIS transaction value and volume in the third quarter of 2023 (Graph III.2), with total volume increasing to 183.5 million transactions with a total value of Rp18.6 trillion in August 2023. Regionally, 86.4% of transactions were processed in the Java region, followed by Sumatra

(7.1%), Balinusra (2.4%), Kalimantan (2.1%) and Sulawesi (2.1%). Bank Indonesia continues supporting and accelerating regional economic and financial digitalization through 3 (three) salient strategies. First, payment system digitalization, including QRIS that has reached 37 million users with merchants dominated by MSMEs. QRIS has ameliorated public welfare and prosperity with newly added features, such as the QRIS Withdrawal, Transfer and Deposit (TUNTAS) and integration with the Indonesia Credit Card (KKI). Second, the expansion of Indonesia Credit Card services with no cost to the user and affordable interest rates for the merchant. Third, through the concept of One Country, One Nation, and One Language, Bank Indonesia is implementing comprehensive, end-to-end digitalization, encompassing the Indonesia Credit Card (KKI), Quick Response Code Indonesia Standard (QRIS), and fast payments integrated with the National Payment Gateway (NPG), thereby facilitating various real-time payment channels.



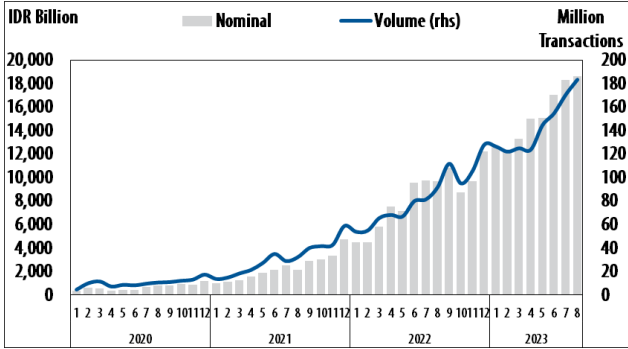
Source: Bank Indonesia

Graph III.1. Digital Banking Transactions

**In terms of cash, Bank Indonesia also maintains adequate currency in circulation.** As of the third quarter of 2023, currency in circulation recorded 4.6% (yoy) growth, up from 3.9% (yoy) in the previous period. By region, Balinusra recorded the largest increase (inflow) of 19.5% (yoy), while Kalimantan experienced the lowest contraction (outflow) of 8.7% (yoy). Bank Indonesia constantly ensures the availability of rupiah currency fit for circulation in all regions of the territory of the Republic of Indonesia. Moreover, Bank Indonesia

<sup>2,3,4</sup> Data as of August 2023

regularly coordinates and cooperates with various parties to circulate rupiah currency, including regional banks and the Indonesian Navy, in frontier, remote, and disadvantaged (3T) regions.



Source: Bank Indonesia

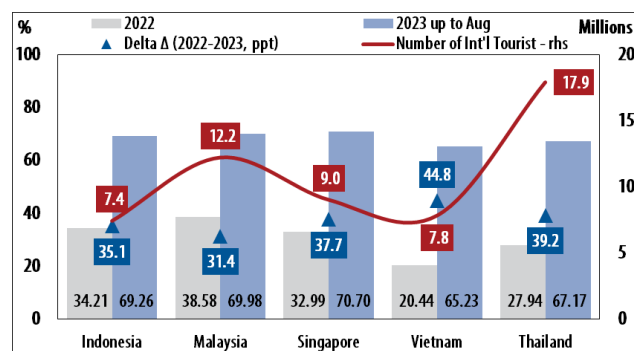
Graph III.2. QRIS Transactions

## PART 4

# Strategic Issue: Optimising Post-Pandemic Opportunities through Quality Tourism for Sustainable Growth

## Introduction

The tourism industry's performance has gradually recovered since the pandemic to become a pillar of the national economy. A surge of inbound international travellers and increasing mobility among domestic travellers have improved the performance of tourism-related economic sectors, such as accommodation and food service activities, trade, and transportation. Notwithstanding, accelerating the post-pandemic recovery of the national tourism industry faces several complex challenges. Despite various improving indicators of national tourism competitiveness, as reflected by a bump in the latest Travel and Tourism Development Index (TTDI) that places Indonesia as one of the highest-rated countries in ASEAN, the number of inbound international travellers has thus far failed to reach pre-pandemic levels.<sup>5</sup> As of August 2023, total visits by international travellers stood at 7.44 million, approximately just 70% of the total visits in the same period of 2019. The number of inbound international travellers in 2023 is expected to exceed the target of 6.8-8.5 million set by the government. Compared with peer countries in ASEAN, however, the pace of recovery remains slow (Graph IV.1).



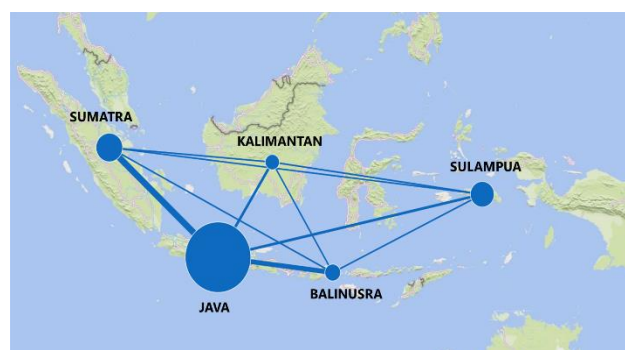
Source: CEIC, processed

Note: Monthly average data for 2022-2023 compared with 2019

**Graph IV.1.** Recovery of Inbound International Travellers in Several ASEAN Countries

The upward mobility trend since the complete removal of community activity restrictions (PPKM) at the end of

2022 is strengthening the performance of tourism nationally. During the first half of 2023, domestic travellers recorded 433.57 million journeys, exceeding the same period before the pandemic (in 2019). Nonetheless, this achievement remains below the national target of 1.2-1.4 billion trips. Furthermore, domestic travel activity remains concentrated in the Java region (Figure IV.1), dominated by East Java, Central Java, and West Java. In addition to the large population of the Java region, the movement of domestic travellers in this region is supported by better connectivity and access, specifically the availability of various public transportation modes and the Trans-Java Toll Road (TJTR).



Source: BPS-Statistics Indonesia, processed

**Figure IV.1.** Origin and Destination of Domestic Travellers in 2022 by Region

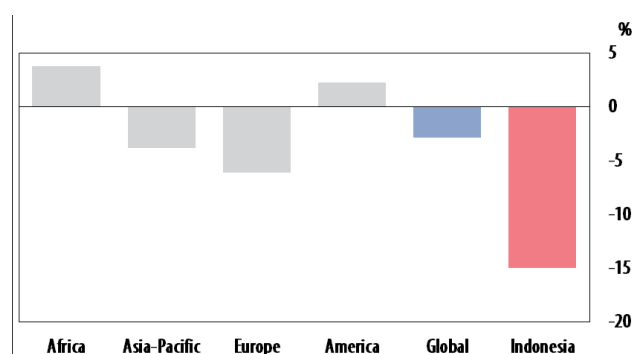
Efforts to accelerate domestic travellers' mobilization towards pre-pandemic levels face at least three salient challenges. *First*, air travel capacity has not fully recovered, leading to high international travel fares amid global flight capacity that has not yet returned to normal (Graph IV.2). Such conditions have impacted inbound international travellers to Indonesia, including from the traditionally dominant countries of origin. *Second*, changes in the visa scheme from visa-free access for visitors from nearly 170 countries to the application of Visa on Arrival (VoA) since March 2022 have impacted international traveller trends to Indonesia.<sup>6</sup> *Third*, the travel promotion capacity in Indonesia's major tourist

<sup>5</sup> The Travel and Tourism Development Index (TTDI) 2021, released by the World Economic Forum (WEF) in May 2021, ranked Indonesia in 32<sup>nd</sup> place, improving from 44<sup>th</sup> place in 2019.

<sup>6</sup> As of August 2023, VoA policy was applied to 97 countries, with visa exemptions applicable to 10 ASEAN countries.



markets to attract international travellers has been limited amid stiffer competition from peer countries. This is also linked to limited budget capacity for tourism promotion, which has thus far relied on the government, with the total tracking a downward trend.



Source: OAG.com, Ministry of Transportation, processed

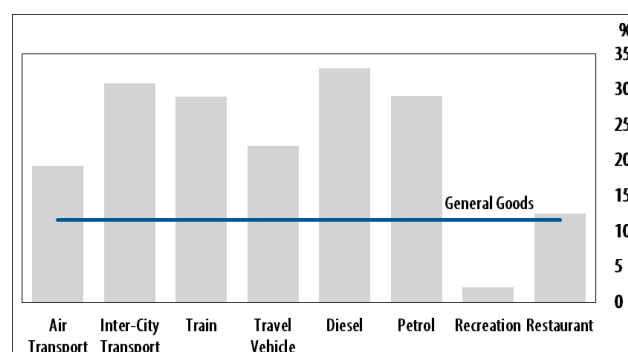
Note: June 2023 data compared with June 2019 data

**Graph IV.2.** Recovery of Flight Seat Capacity by Region

**Accelerating domestic travel mobilization to meet the target also faces three significant challenges.** The first challenge relates to high domestic travel costs in terms of airfares and land travel (Graph IV.3). Rising energy prices and partial recovery in the air travel capacity primarily influence this constraint. The second challenge relates to the issue of suboptimal connectivity between travel destinations, which has led to a concentration of domestic traveller trips in the Java region. The third challenge relates to incentives to mobilize domestic travellers, which are relatively limited compared to peer countries that have provided various subsidies in the form of travel discounts, vouchers as well as integrated and sustainable campaigns.

**Strategies to achieve future tourism targets must also consider global trends and the current demographic transition.** Since the COVID-19 pandemic, tourism has focused primarily on sustainability and inclusivity aspects, as confirmed by several surveys performed by international institutions regarding the latest global tourism preferences and trends (Figure IV.2). Sustainability relates closely with concerns stoked by green tourism. Meanwhile, inclusivity emphasizes greater interest in tourist activities that can benefit local communities. In addition, the current shift in tourist preferences also relates to the demographic transition. A larger market share of Millennials and Generation Z in terms of travelling, with their own preferences and characteristics, must be considered in the future development of travel destinations. The travel preferences of the younger generation are characterized by three main aspects, namely digitally motivated – considering the younger generation is digitally exposed

and literate –, prioritizes experience when travelling that is inspired by digital media, and favours nature-culture and local-based activities.



Source: BPS-Statistics Indonesia, processed

Note: September 2023 data compared with the monthly average in 2019

**Graph IV.3.** Changes in the Price Index Relating to Travel



Source: Booking.com, Sustainable Travel Report 2023

**Figure IV.2.** Travel Preferences Survey

## Strengthening Strategies to Accelerate Recovery of The National Tourism Industry

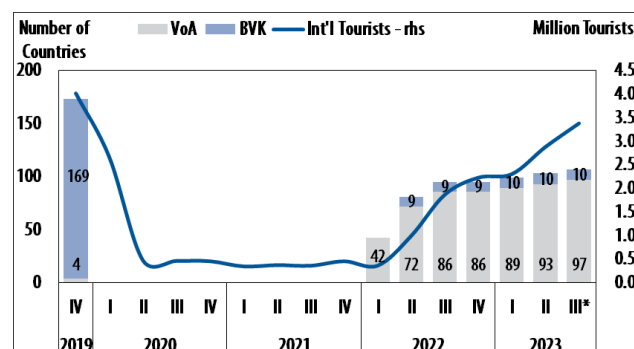
**Strengthening future strategies and addressing the different challenges to improve the performance of the tourism business across the nation require prioritizing at least six elements.** The following six interrelated strategies must be implemented sustainably and in synergy: (i) prioritizing efforts to accelerate the recovery of flight frequency and routes while developing appropriate visa schemes, (ii) strengthening promotional strategies for tourism, specifically targeting high spenders, (iii) strengthening a more focused Indonesia Proud of Travelling Movement (BBWI) campaign, (iv) optimizing MICE activities and events, (v) accelerating the development of travel destinations oriented towards quality tourism, and (vi) increasing inclusivity at tourism destinations through the development of creative entrepreneurship, specifically at tourist villages.

## Accelerating the Recovery of Flight Frequency and Routes while Developing Visa Schemes

**Accelerating the recovery of flight frequency and routes is required to expedite the recovery of inbound international travellers.** Of the three main gateways available to international travellers, the recovery rates at Jakarta and Bali have consistently improved. On the other hand, the Riau Islands (Kepri) gateway has remained stagnant since the beginning of 2023. Though the recovery rates in Jakarta and Bali have tracked an improving trend, pre-pandemic levels have not been attained. This is because the recovery rates of several international flight routes have not returned to pre-pandemic levels, with some even remaining below 70%. To accelerate the tourism industry's recovery, the reopening of international flight routes and additional flight frequency must be a priority. This is also consistent with emerging plans to open new routes and increase flight frequency between India and Indonesia as the number of Indian travellers to Indonesia continues to rise. The priority should focus on countries with high-spending tourists, such as Australia, New Zealand, the Netherlands, Japan, and Saudi Arabia. In addition, the recovery of international flight routes must be accelerated as a priority with major airline hub airports, such as Singapore and Hong Kong, particularly where the recovery rate of flight routes and frequency remains below 70%.

**At the same time, support from the Directorate General of Immigration must be strengthened through broader visa schemes and services.** Government measures to foster the development of various visa schemes since prioritizing the Visa on Arrival (VoA) program after the COVID-19 pandemic must be continued (Graph IV.4).<sup>7</sup> The development of visa schemes must prioritize the national interests and benefits for the country as well as the target market of international travellers. The introduction of a Golden Visa in August 2023 represents a progressive immigration policy implemented by the government.<sup>8</sup> The Golden Visa unlocks the opportunity for higher quality non-residents to reside in Indonesia for longer to support and benefit the national economy. Similarly, immigration continues to support convenient and streamlined visa application services through digital

optimization to increase inbound international travellers. Furthermore, the planned development of a short-stay VoA scheme must be accelerated, in particular to optimize potential visits by non-ASEAN travellers from neighbouring countries, specifically Singapore and Malaysia.



Source: Directorate General of Immigration, BPS-Statistics Indonesia, processed

Note: \*) preliminary value based on September 2023 data

**Graph IV.4.** Total Countries Subject to VoA and Visa-Free Travel and Inbound International Travellers

## Strengthening Tourism Promotion Strategies Focused on the Major Markets

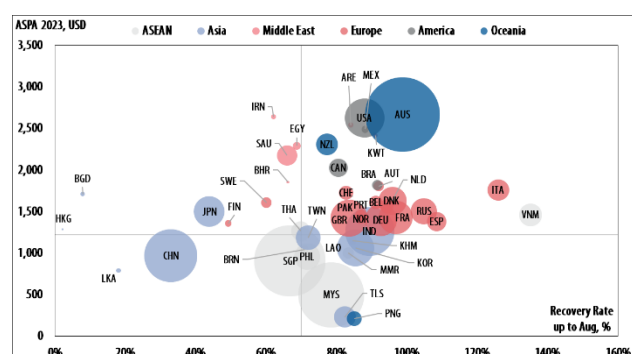
**Promotional strategies for tourism in Indonesia must be strengthened amid stiffer competition.** Strengthening the promotional capacity for tourism in Indonesia faces the challenge of limited budget allocation, thereby impacting the intensity of national marketing and promotional activities, particularly in major international markets. Against a backdrop of growing travel demand globally after the COVID-19 pandemic, including the reopening of China since the beginning of 2023, various peer countries have strengthened their promotional strategies for tourism, accompanied by initiatives to attract international travellers, such as the efforts taken in Thailand and Vietnam that focus on optimizing the Chinese market. A number of other countries, such as Japan and South Korea, have strengthened their promotional strategies for tourism, supported by well-established institutions to promote tourism. These countries are orienting their tourism marketing strategies toward attracting high spenders, including from other Asian countries.

**Strengthening the promotional strategies can be achieved by optimizing Indonesia's tourism branding on**

<sup>7</sup> Before the pandemic, travellers from 169 countries were exempt from visa requirements, with travellers from just four countries requiring a Visa on Arrival (VoA). Since the pandemic, however, the number of countries eligible for visa exemptions has decreased to just 10 (ASEAN), while the number of countries requiring a VoA has increased to 97.

<sup>8</sup> Minister of Law and Human Rights Regulation No. 22 of 2023 concerning Visas and Stay Permits and Minister of Finance Regulation (PMK) No. 82 of 2023 concerning the Types and Tariffs of Non-Tax State Revenues.

the global market with a greater focus on high-spender countries.<sup>9</sup> Beyond stimulating recovery in terms of international travellers from countries with a traditionally large market share of inbound tourists to Indonesia before the Covid-19 pandemic, promotional strategies should also seek to attract high-spenders. Based on the results of mapping visits by international travellers, the emergence of high spenders arriving in Indonesia provides an opportunity that should be pursued further (Graph IV.5). Strengthening the promotional strategies for tourism should also introduce other travel destinations in Indonesia to the world, beyond Bali. Efforts to increase promotional capacity should also optimize and leverage digital media considering the massive role of digital media in inspiring tourists to travel. Optimizing digital media in collaboration with social media influencers and tourism industry players is expected to reach the target market more directly, effectively, and efficiently.



Source: BPS-Statistics Indonesia, processed

**Graph IV.5.** Mapping the Origin of International Travellers in 2023

### *Strengthening the Indonesia Proud of Travelling Movement (BBWI) Campaign with a Focus on the Main Activity Corridors of Domestic Travellers*

Efforts to increase the movement of domestic travellers towards a target of 1.2-1.4 billion trips should focus more on the main activity corridors of domestic travellers. Strengthening the strategies with a greater focus on these activity corridors is oriented towards increasing the frequency of trips by residents on tourist journeys and travel. Data concerning the movement of domestic travellers showed that most activity is undertaken within 11 corridors distributed throughout all regions, predominantly in the Java region (Table IV.1). Simulations showed that a twofold increase in the frequency of

journeys by domestic travellers within those 11 corridors could potentially achieve the target of 1.2 billion trips.

**Table IV.1.** Main Movement Corridors of Domestic Travellers

No.	Domestic Tourist's Corridor	Travel Share
1	Central Java-Special Region of Yogyakarta-East Java	23.8%
2	Banten-Jakarta-West Java	22.0%
3	East Java-Bali-West Nusa Tenggara	14.4%
4	West Java-Central Java	11.6%
5	South-Central-South East-West Sulawesi	6.7%
6	Aceh-North Sumatra-Riau	4.2%
7	North Sumatra-Lampung	1.8%
8	Riau-West Sumatra	1.8%
9	South Kalimantan-East Kalimantan	0.9%
10	North Sulawesi-Gorontalo-North Maluku	0.9%
11	Central Kalimantan-South Kalimantan	0.6%

Note: Based on 2022 data

Source: BPS-Statistics Indonesia, processed

**Amid the challenge of high domestic travel costs, the BBWI campaign must be strengthened to provide more incentives to encourage the movement of domestic travellers.** Incentives to increase domestic travel can be introduced through broader collaboration with tourism industry players, including travel agents, which has been done previously in the form of discounts on toll road fares. Observing peer countries that aggressively encourage domestic tourism, travel incentives for domestic tourists could also include developing tour packages, discounts on railway fares, and even discounted accommodation through vouchers. The development of tour packages within the domestic corridors that integrate attractions at various destinations under a given theme could also be developed (refer to [Box 1: Development of Integrated Tour Packages to Boost Tourism in the Java Region](#)). Furthermore, the BBWI campaign must be strengthened in an integrated manner by optimizing strategic events, holidays, and government MICE events and involving social media influencers' participation.

**Connectivity between travel destinations must also be strengthened to accelerate the movement of domestic travellers.** Various connectivity infrastructure development projects have been undertaken, including the construction of numerous connecting roads, including toll roads, which have improved community mobility. Moreover, the space to develop connectivity infrastructure remains wide open, supported by the expansion of public transportation. Regional governments must still be encouraged towards that end due to their critical role in ensuring the availability of

<sup>9</sup> High-spenders are categorised as international travellers who spend more than the average traveller per visit.

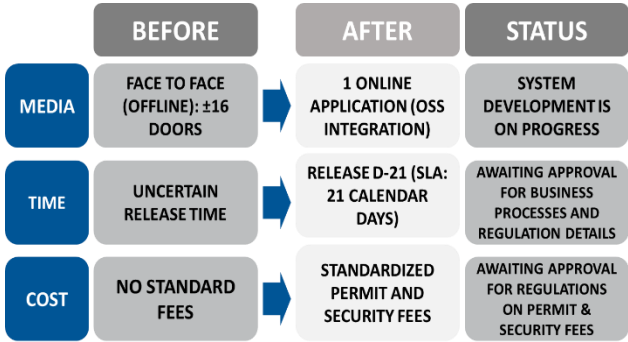


local connectivity and transportation infrastructure. The role of regional governments through their authority to provide local subsidies could also support the strengthening of air connectivity, as implemented by several regional governments, including the Tana Toraja Government in South Sulawesi and Blora Government in Central Java, to increase flights using block seat or minimum revenue schemes.

### Optimizing MICE Activities and Events by Accelerating the Streamlining of Integrated One-Stop Licensing

**Increasing MICE activities and events after the COVID-19 pandemic brings a positive impact on reviving tourism activity.** Hosting a number of international sporting events, such as the MotoGP and WSBK in Mandalika, has significantly boosted local economic activity due to an influx of international and domestic travellers. The last MotoGP race in 2023 attracted around 102,000 visitors to witness the event live.<sup>10</sup> Furthermore, MICE activities and other calendar events are expected to continue flourishing, including international music concerts. Nevertheless, fewer MICE activities and events are held in Indonesia compared with other peer countries. One constraint that has been identified is an inefficient cost and licensing process. On the other hand, a massive opportunity remains to increase MICE activities and international events through the participation of various government ministries/agencies within international organizations/associations.

**Government initiatives to simplify and streamline an integrated one-stop licensing process for MICE activities and events would optimize MICE activities and events in Indonesia.** The end-to-end streamlining process encompasses aspects of time, media, and costs in order to simplify and truncate the licensing process for event organizers (Figure IV.3). In addition, an integrated system between various relevant government ministries/agencies, including the National Police and the OSS application will also support the streamlining process. The integrated licensing system will be implemented gradually to unlock broader opportunities to optimize the role of MICE activities and events in terms of accelerating the tourism sector recovery moving forward.



Source: Coordinating Ministry for Maritime Affairs and Investment, Focus Group Discussions (FGD) by the MICE Association, and anecdotal information, processed

**Figure IV.3.** Planned Streamlining and Digitalisation of MICE and Event Licensing

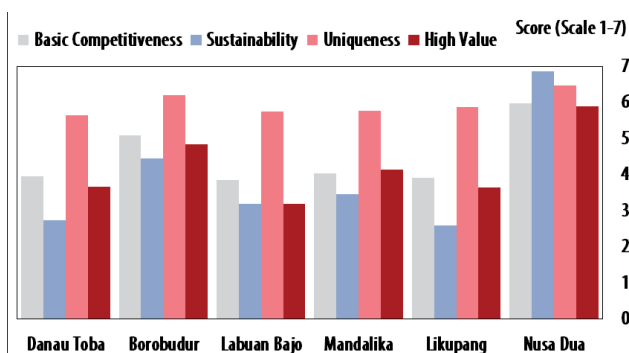
### Accelerating the Development of Travel Destinations Oriented Towards Quality Tourism

**The development of priority tourism destinations oriented towards quality tourism is directed towards ensuring the preparation of four critical aspects.** *First*, to prepare the aspects fundamental to ensuring competitiveness, including connectivity infrastructure, amenities, and government policy support. *Second*, sustainability aspects to conserve the environment, nature and culture as well as preparing the mitigation efforts necessary. Sustainability aspects in the development of destinations are critical, considering that national tourism destinations tend to rely more on natural diversity as the primary attraction (refer to [Box 2: Development of Ecotourism in Kalimantan to Support Sustainable Tourism](#)). *Third*, unique destinations are vital to afford the best experiences for international travellers, which includes preparing adequate human resources in the tourism industry. *Fourth*, to ensure the availability of world-class supporting facilities, including the digitalization of tourism services. The results of an assessment conducted by the Joint Secretariat of Tourism concerning the development of Super Priority Tourism Destinations (DPSP) revealed how much work must still be completed to ensure the implementation of quality tourism at the super-priority tourism destinations (Graph IV.6).

**The participation of private investment is becoming more important to accelerate the development of various aspects of quality tourism, particularly in the super-priority tourism destinations.** Private investment is currently concentrated in the more established and mature regions and destinations, such as Bali and

<sup>10</sup> Estimated by the Ministry of Tourism and Creative Economy.

Jakarta, which must be oriented toward supporting the development of super-priority tourism destinations. Based on the experience of holding several international events at super-priority tourism destinations, the main competitiveness constraints continue to emerge, particularly in preparing adequate capacity to accommodate the increasing number of tourists. This demonstrates, however, a significant investment opportunity to develop accommodation at the super-priority tourism destinations, which is also critical to ensure the fundamental competitiveness of a tourism destination. The role of private investment in the development of tourism destinations is also oriented towards optimizing the appeal of special interest tourism, such as health tourism, sports tourism, and other forms of special interest tourism (refer to [Box 3: Development Opportunities for Special Interest Tourism: Development of Health Tourism in Balinusra](#)).



Source: Joint Secretariat of Tourism

**Graph IV.6.** Implementation Pillars of Quality Tourism in Super Priority Tourism Destinations (DPSP) and Nusa Dua in 2023

The development of tourism destinations must also be complemented with elements of Muslim-friendly tourism (MFT). The opportunity to develop Muslim-friendly tourism is wide open considering Indonesia's position as a major global MFT destination, alongside Malaysia.<sup>11</sup> Supporting worship facilities and information concerning the availability of halal restaurants must be strengthened at the tourist destinations as a critical element of Muslim-friendly tourism (refer to [Box 4: Establishing Ranah Minang as a Muslim Friendly Tourism Destination](#)). In addition, the further development of MFT elements, beyond attracting domestic travellers, should also be oriented towards attracting international travellers from Muslim-majority countries, which are dominated by high spenders.

## *Increasing Inclusivity at Tourism Destinations through the Development of Creative Entrepreneurship in Tourist Villages*

The current demographic transition and shift in tourist preferences are creating opportunities to optimize the role of creative entrepreneurship in tourist villages. As discussed previously, the market share of Millennials and Generation Z is growing in terms of travel, which is accompanied by the emergence of the travel preferences of the younger generation, namely digitally motivated, experienced, and nature-culture-local based (refer to [Box 5: Capturing the Opportunity of Changing Preferences in the Demographic Transition in Sulampua \(Gen Z and Millennial Travel Trends\)](#)). Tourism spending by the younger generation is dominated by shopping on crafts, culinary experiences and fashion, which is part of the creative economy subsector. More specifically, the three subsectors in the creative economy provide a larger economic contribution and absorb more workers. In addition, businesses and the creative economy are also located in rural areas. Such conditions demonstrate the opportunity to develop creative entrepreneurship at the destinations, mainly tourist villages, which will boost inclusivity.

The development of creative entrepreneurship must entail collaboration among policymakers. In implementation, the development of creative entrepreneurship requires the support of close partnerships between various elements as follows: (i) synergy between government ministries/agencies and academia that is oriented towards increasing the capacity and quality of creative entrepreneurship among village communities through mentorship and the provision of technical assistance and/or facilities and supporting infrastructure, (ii) synergy between government ministries/agencies and other relevant authorities to increase broad access to finance, and (iii) synergy between government ministries/agencies and tourism industry players to unlock market access by facilitating onboarding, digital marketing and promotion. Close synergy in the development of entrepreneurship as an integral part of developing tourist villages can be observed in the Taraju and Bantaragun tourist villages (refer to [Box 6: Development of Creative Entrepreneurship in Tourist Villages: Success Stories from Taraju and Bantaragun Tourist Villages](#)).

<sup>11</sup> Global Muslim Travel Index 2023.

**Synergy to expand and develop creative entrepreneurship should focus on several potential tourist villages.** Potential destinations can be determined by referring to several specific criteria, including the potential for substantial collaboration with related parties. The measures taken into consideration for priority areas include regions that have a National Tourism Development Index (IPKN) score above the national average, the main regional corridors for domestic tourist activity, the availability of young workers (15-24 years old), and potential partnerships with local universities. In addition, the maturity level of the tourist village must also be taken into consideration, particularly in terms of the local attractions and amenities. In the implementation, the facilitation of engagement reward programs (ERP) to nurture community engagement is a recommended approach that can be taken to accelerate development efforts in the near term.

## Conclusion

**Synergy to accelerate the recovery of tourism industry must be strengthened on an ongoing basis to support**

**the economy.** Tourism can play a role as a locomotive of economic growth, particularly during the endemic transition period. Not only bolstering national economic resilience through higher foreign exchange earnings, a vibrant tourism industry can also support sustainable and inclusive economic growth. To that end, accelerating the tourism industry must provide broader economic benefits to the community.

**The tourism industry recovery can be accelerated by mitigating the 3A2P challenges through focused programs.** Strengthening strategies that focus on the six aforementioned priorities must be pursued in the near term. The priority programs must also consider emerging dynamics in the medium-long term, including changes in the demographic transition as the contribution of the younger generation increases. Moving forward, synergy in efforts to accelerate the tourism sector recovery will support a stronger national tourism industry towards an advanced Indonesia or *Indonesia Maju* (Onward Indonesia).

## Development of Integrated Tour Packages to Boost Tourism in the Java Region

**The prospect of an intact tourism industry recovery must be strengthened amid the various challenges.** In the Java region, the post-pandemic contribution of tourism-related sectors to GDP has increased to 4.83%, exceeding the 4.04% contribution recorded in 2019. This is supported by the greater mobility of domestic travellers and a surge of inbound international travellers. Notwithstanding, the mobilization of domestic travellers is not expected to achieve the national target concerning the movement of domestic tourists in 2023 at 1.2-1.4 billion trips. Similarly, the influx of international travellers is expected to remain below pre-pandemic levels. Java's position as one of the main gateways for inbound international travellers to Indonesia, supported by extensive connectivity infrastructure between various destinations in the region, must still be promoted further. Better connectivity between destinations in the Java region will not only increase tourism by attracting more international and domestic travellers but also extend the length of stay, accompanied by higher spending. Moreover, increasing tourism activity in Java must also nurture broad and inclusive economic benefits for local communities, while maintaining the environmental and cultural balance.

**Strengthening regional collaboration in the development of integrated tourism packages is an important strategy to boost tourism industry performance in the Java region.** Collaboration in the development of integrated tour packages can be achieved by mapping potential destinations in Java that could be strengthened under one theme and developed to focus on specific tourism segments in accordance with tourist preferences (nature, culture, et cetera). The thematic development of potential destinations must also be accompanied by a greater understanding of the market potential of the domestic and international travellers targeted, including spending potential. For example, higher spending by international travellers from the US and Europe should be targeted to increase the number of arrivals and length of stay. Meanwhile, tourists from Australia, Singapore, and Malaysia, who tend to visit more often, should be targeted to increase the length of stay and spending. Strategies to attract international travellers must be

strengthened by efforts to encourage repeat visitors. Domestic travellers, on the other hand, should be targeted to increase the frequency of travel. Most importantly, when developing tourism based on thematic potential, strategic collaboration is needed to overcome the most binding constraints faced at each destination regarding accessibility, amenities, attractions, players and promotion (3A2P).

**Initial identification efforts by Bank Indonesia show that the potential for developing integrated tour packages in the Java region could be realized based on five themes.**

*First*, culture-based tourism in the Joglosemar region, encompassing the travel destinations of Yogyakarta – Prambanan – Magelang (River Elo) – Borobudur – Candirejo Tourist Village – Semarang – Solo (Pura Mangkunegaran). Development of the Joglosemar tour package could also be optimized by the Dieng Culture Festival held each August. Preliminary simulations revealed a potential length of stay of 12 days based on this integrated Joglosemar tour package, with potential spending totalling USD656.

*Second*, eco-tourism in East Java. This integrated tour package targeting tourists with a preference for nature could be optimized through the development of Malang City Tour – Coban Rondo (Malang) – Bromo Tengger Semeru National Park (TNBTS) – Ijen Geopark (Bondowoso) – Kemiren Tourist Village (Banyuwangi) – Banyuwangi City Tour. Such a package could potentially increase the movement of tourists in the Java region as well as serve as a main gateway to Bali, supported by the Juanda Airport and Gilimanuk-Ketapang Ferry Terminal. In addition, land accessibility is improving due to the construction of various toll roads in the Java region, including the development of the toll road PSN between Probolinggo and Banyuwangi, which will cut the travel time by approximately one hour when it becomes operational. The development of thematic tourism potential must be strengthened, however, by the support of public transportation, specifically to the Bromo Tengger Semeru National Park (TNBTS) and Ijen Geopark.

*Third*, the culture-nature-based greater Jakarta – West Java thematic tour package. This tour package would

combine natural and cultural attractions with destinations in Jakarta – Thousand Islands – Ranca Upas –Ciletuh Geopark – Bandung. The results of simulations showed an estimated length of stay by tourists purchasing this tour package of 12 days and spending of USD1,226. The development of this tour package could potentially be optimized with the support of a modern main and alternative road access between Jakarta and Bandung. Nevertheless, the development of this thematic tour package is constrained by the long distances and travel times between destinations, coupled with inadequate public transportation in the southern region of Bandung.

*Fourth*, the nature-based Tanjung Lesung special economic zone tour package. This eco-toursim package integrates travel destinations around Anak Krakatau, Oar and Umang islands, Ujung Kulon National Park, and Saba Baduy. The diverse activities and natural endowments are also supported by the availability of modern amenities. The main challenges, however, are inadequate accessibility to Tanjung Lesung and limited public transportation.

*Fifth*, the potential development of spiritual or religious tour packages targeting pilgrims. Such tour packages would optimise the opportunities for Muslim-friendly tourism, including domestic travellers, considering Indonesia is the world's most populous Muslim-majority country. The Kalam Nahwa tour package includes a

pilgrimage to Wali Sanga's final resting place and traces the spread of Islam across the island of Java. There is broad potential for developing this spiritual tour package, with destinations distributed from East Java to West Java, which must be supported by comprehensive digital media and information that is accessible to tourists. Development of the Jasira mobile application initiated by the Provincial Government of Central Java in conjunction with Bank Indonesia is one form of support that must be expanded and replicated.

In general, the development of integrated tour packages in the Java region could be optimized through strong collaboration to overcome the main 3A2P challenges as follows:

- a. Attractions: developing attractions at destinations by considering and leveraging seasonal factors,
- b. Amenities: implementing CHSE certification, particularly to meet sustainability and environmental (green) aspects,
- c. Access: connectivity infrastructure between destinations, including the support of public transportation at the destinations,
- d. Players: proficient in foreign languages and hospitality, and
- e. Promotion: integrated promotional activities between tourism destinations.

## Development of Eco-Tourism in Kalimantan to Support Sustainable Tourism

**Kalimantan has massive development potential as a major eco-tourism destination in Indonesia.** Eco-socio-tourism, which prioritizes aspects of natural beauty, diverse flora and fauna, and multiculturalism, serves as a magnet attracting domestic and international travellers. A number of destinations in Kalimantan, including Meratus Geopark (South Kalimantan), Tanjung Puting National Park (Central Kalimantan), Derawan Islands (East Kalimantan), and Singkawang (West Kalimantan), are endowed with a strong capital base as eco-socio-tourism hubs in Indonesia.

**The Meratus Geopark is the only geopark in Kalimantan, bringing together magnificent natural vistas, human life, and culture in South Kalimantan.** A proposal has been submitted for the Meratus Geopark to become the 11<sup>th</sup> UNESCO Global Geopark (UGG) in Indonesia to attract more tourists. Four routes are being developed for tourists to visit the Meratus Geopark, namely: (a) northern route to explore the lives of the Mertus Dayak people, (b) western route to explore river culture, (c) eastern route to explore nature and geology, and (d) southern route to explore tropical rainforests. The beauty of Meratus Geopark is further embellished by Loksado Tourist Village, offering unique tourist attractions, including the Langara rock formation, waterfalls, bamboo rafting, arts and crafts, as well as local culinary treats, which together form the Loksado tourist ecosystem.

**The Tanjung Puting National Park (TNTP), located in Pangkalan Bun, is the main attraction in Central Kalimantan, offering a unique experience in terms of orangutan conservation, river trekking and hiking.** Uniquely, TNTP attracts thousands of international visitors every year, with two international cruise ships docking at Panglima Utar Harbour in 2023, bringing

hundreds of visitors to the park. Moving forward, interest in visiting TNTP could potentially increase due to the screening of Petualangan Sherina 2, which is set in the rainforest of Kalimantan and tells the story of orangutan conservation. The travelling experience in TNTP is also complemented by the Pasir Panjang Tourist Village, which offers rainforest tours, nature baths, outbound activities, traditional rituals, and Rumah Betang (traditional Dayak stilt houses).

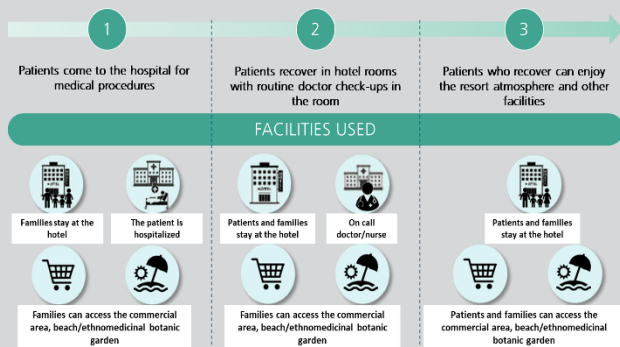
**The Derawan Islands are unparalleled as a tourist destination in East Kalimantan.** The archipelago, consisting of 31 island groups, has four major destinations, namely Derawan Island, Maratua Island, Kakaban Island, and Sangalaki Island. The Derawan Islands are famous for pristine natural underwater beauty with magnificent coral reefs and abundant fish species, coupled with the unique Lake Kakaban, which is one of only a few habitats in the world with stingless jellyfish. The Derawan Islands are also supported by the Teluk Harapan Tourist Village, offering various attractions, such as caves, lakes, mangroves, trekking, diving and snorkelling.

**Singkawang City in West Kalimantan is another destination ripe for development, including to attract cross-border travellers.** Every corner of the city is adorned with old ethnic Chinese houses and temples, leading to the moniker of Singkawang as the city of 1,000 temples. Hundreds of thousands of people flock to the annual Cap Go Meh Festival, Lantern Parade, miniature Chinese villages, rabbit park, and tatung parade. The appeal of Singkawang is also supported by the Cipta Karya (Dewi Cika) Tourist Village, offering eco-tourism in the form of endemic flora and fauna as well as cultural exploration of the Bakati Dayak people, giving the city the distinction of favourite tourist village by ADWI in 2023.



## Development Opportunities for Special Interest Tourism: Development of Health Tourism in Balinusra

In the middle of 2022, the government began the development of the health special economic zone (KEK) in Bali, known as KEK Sanur. The development of KEK Sanur in Bali aims to capture the market opportunities afforded by potential community demand for world-class health facilities. In addition, many Indonesians tend to seek medical treatment abroad. KEK Sanur in Bali is the only facility combining health and tourism. KEK Sanur is being developed in collaboration with an international healthcare provider to ensure international quality standards and facilities. The combination of medical treatment and tourism offered by KEK Sanur is the first of its kind in Indonesia. Patients requiring world-class medical services and procedures can also enjoy diverse tourism facilities during the recovery phase, along with their accompanying families (Figure IV.4).



Source: PT Hotel Indonesia Natour, processed

Figure IV.4. Flow of Medical Treatment while Travelling

With a range of facilities, KEK Sanur could attract the interest of residents and non-residents seeking medical treatment in Bali. With approximately 2 million Indonesian patients seeking medical treatment abroad, KEK Sanur aims to absorb at least 4-8% of that total, or

approximately 80-160,000 patients. Based on a study conducted by the Bank Indonesia Representative Office in Bali Province, the primary consideration when choosing a healthcare facility is the perceived quality of doctors and service received. In addition, recommendations from family and friends, and the perceived value of quality health services are also factors considered by the public when determining the choice of healthcare services.<sup>12</sup>

Progress of the KEK Sanur development is advancing quickly, with completion targeted for the end of 2023. In preparation, the construction of the basic infrastructure has been completed, with the accompanying hotel and Bali International Hospital still under construction. On the other hand, the non-physical infrastructure remains in the explorative stage. KEK Sanur is being actively promoted at various international forums, including the Indonesia Investment Forum Dubai (IIFD), which includes promoting investment within the framework of the Regional Investor Relations Unit (IRU) of Bank Indonesia.

In general, the development of KEK Sanur is unlocking vast opportunities to optimize the development of special interest tourism in the health sector. Community needs for healthcare services with special facilities to support the recovery phase will be optimized through KEK Sanur development. The healthcare services offered by KEK Sanur must be strengthened further to attract international interest. In the near term, strategies must be strengthened by ensuring the quality of the medical services provided, accompanied by strong branding and promotional activities to build local and international trust in the healthcare facilities offered by KEK Sanur.

<sup>12</sup> Consumer Perception and Preference Analysis when Choosing Health Tourism: Case Study of the Sanur Special Economic Zone (KEK).

## Establishing Ranah Minang as a Muslim-Friendly Tourism Destination

Since scooping the award as one of the best Muslim-friendly tourism (MFT) destinations, West Sumatra (Sumbar) has continued making various improvements. The Visit Beautiful West Sumatra (VBWS) campaign is now the promotional tagline for West Sumatra to attract domestic and international travellers. As of August 2023, more than 33,000 international travellers have visited West Sumatra cumulatively through Minangkabau International Airport. Despite falling short of the pre-pandemic level, which hit 61,000 arrivals, optimism remains high concerning tourism in West Sumatra as an economic driver in Ranah Minang.

**West Sumatra's achievements in winning three World Halal Tourism Awards in 2016 were an important milestone in developing Muslim-friendly tourism in Indonesia.** This potential was bolstered by Indonesia's recent first-place achievement as a destination for Muslim-friendly tourism, according to the Global Muslim Traveller Index (GMT) 2023. The traditions and philosophy of *'basandi syarak, syarak basandi kitabullah'* in Minang society help to shape the culture of local communities, which prioritizes Muslim-friendly customs and culture.

**The diverse appeal for tourism in West Sumatra is characterized by Muslim culture as a potential that must be optimized.** Natural tourist attractions, such as Mandeh Beach, Lake Singkarak and Lake Maninjau as well as the Mentawai Islands, promise unforgettable experiences. Diverse cultural attractions, particularly Melayu-Minangkabau attractions, including architectural marvels, such as the Grand Mosque, the Bukittinggi Clock Tower, and Pagaruyung Palace, serve as strong tourist magnets. Thematic tour packages, therefore, could be offered on existing routes, including Padang – Bukittinggi – Batusangkar. West Sumatra is also supported by the adequate availability of Muslim-friendly amenities, as demonstrated by the successful World Islamic Entrepreneur Summit hosted in September 2023.

**Government support to establish West Sumatra as a Muslim-friendly tourism destination is enshrined in regional government regulations.<sup>13</sup>** Such legislation regulates the criteria for Muslim-friendly destinations and businesses, while providing the guidance and supervision necessary. Furthermore, the regional government has also developed a Design Strategy and Action Plan (DSRA) as a roadmap that focuses on two aspects, namely accelerating policies and institutions, as well as establishing and developing halal hubs. The first focus, namely enhancing the quality of basic attributes (including worship facilities, public restrooms and halal food) as well as experiences (thematic activities/halal tour packages, halal certified creative products, halal MICE activities), is the main target. To that end, a team to accelerate halal tourism development has been established to ensure the targets are achieved. The second focus, namely strengthening the creative economy and products, marketing tourism, the tourism industry as well as the institutions and human resources, is also a priority.

**Implementation of the strategic plan, supported by pentahelix collaboration, must be strengthened.** Collaboration between local government, traditional communities, the tourism industry, academia (including economically independent pesantren), as well as the media is an integral part of strengthening Muslim-friendly tourism development in West Sumatra. In that context, Bank Indonesia in West Sumatra also plays an active role in developing the halal lifestyle by supporting food and fashion MSMEs, through product standardization, halal certification, and onboarding to marketing platforms and digital payment systems. Furthermore, Bank Indonesia also supports linkages for access to Islamic finance for business development. Such collaborative efforts are expected to increase optimism in the pursuit of achieving West Sumatra's tourism targets.

<sup>13</sup> West Sumatra Gubernatorial Regulation No. 19 of 2022, as the implementation of Regional Regulation No. 1 of 2020 concerning Halal Tourism.



## Capturing the Opportunity of Changing Preferences in the Demographic Transition in Sulampua (Millennial and Gen Z Travel Trends)

**The role of Millennials and Gen Z in terms of driving tourism activity continues to increase.** The National Census conducted in 2020 by BPS-Statistics Indonesia showed that the Indonesian population is dominated by younger generations, with Millennials accounting for 25.9% and Gen Z for 27.9%. The current demographic transition, in which young people dominate, will drive tourism performance forward. This is also the case for international travellers, where the market share of the younger generation is tracking an upward trend. Furthermore, several advanced economies, which constitute the primary source of inbound tourists to Indonesia, are entering a phase of population aging.

**This demographic transition must be anticipated by strengthening tourism strategies that take into consideration the characteristics and preferences of the younger generation.** Various studies have mapped the characteristics of younger travellers as follows: (i) a tendency for experiential tourism as free and independent travellers (FIT), with concerns over aspects of sustainability (Ilhan, Balyali, & Aktas, 2022), and (ii) a higher willingness to pay and travel for different experiences, prioritizing price bundling tourism (Corbisiero et al., 2021). In general, the travel preferences of younger tourists are dominated by three salient characteristics, namely digitally motivated, prioritizing experiences, and preferring nature-culture-locality activities.

**An emerging trend is solo travel.** Solo travel involves tourism activities carried out alone to enjoy tourist destinations in a specific area. This activity is most popular among Millennials and Gen Z, who wish to have the freedom to make their travel plans and find it easier to relax when they are alone. Several studies and surveys also demonstrate that the majority of young tourists expect to holiday in places they dream about for the future. This has also stimulated the rapid development of solo travelling.<sup>14</sup>

**Young tourists who prefer solo travel also take advantage of open-trip activities as an alternative vacation.** Open trips offer the opportunity to meet and interact with new people in small groups to share experiences and form social connections during the journey. The most popular reasons that pique the interest of Millennials to join open trips include a more practical process, the availability of short vacation times, and relatively affordable costs.

**Word-of-mouth has become the main source of tourism information for Millennial and Gen Z travellers.** A survey found that 92% of consumers place the highest level of trust in word-of-mouth recommendations from people they know.<sup>15</sup> This is most prevalent among Gen Z, who tend to rely more on recommendations from family and friends when looking for holiday references. The power of word-of-mouth can arouse enough curiosity to visit certain tourist areas.

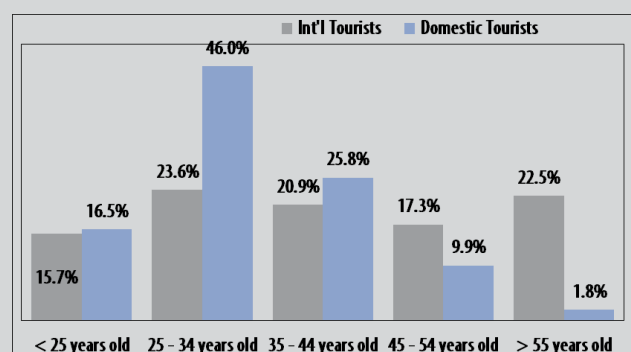
### *Profile of Younger Tourists and Development Opportunities in Sulampua Region*

**The Sulampua region, which is blessed with a wealth of natural endowments to attract tourists, has an opportunity to become one of the major destinations for millennial travellers.** By age group, tourism in Sulampua currently relies on the younger generation aged from below 25 to 34 years old (Graph IV.7). Most domestic travellers in the Millennial and Gen Z age groups travel to Sulampua primarily for holidays, business activities, or to visit friends/family. In terms of tourism activities, the younger generation prefers culinary tourism, rural and urban tours, and marine tourism, which is in line with the characteristics of the Sulampua region that offers various adventure tourism activities. The most popular tourist attractions among young people include the Rammang-Rammang Tourist Village in South Sulawesi, as well as trekking on Lakawan Peak in North Sulawesi.

<sup>14</sup> Asia Travel Leaders' Summit McKinsey & Company and Visa, "Capturing the Asian Millennial Traveller," Singapore, 2013.

<sup>15</sup> Millennial Travel Statistics & Trends 2023. Retrieved from: <https://www.condorferries.co.uk/millennials-travel-statistics-trends> [Online Resource]

In addition, marine tourism is also developing around various dive spots, particularly in Wakatobi and Raja Ampat.



Source: Ministry of Tourism and Creative Economy

**Graph IV.7.** Composition of Tourists in Sulampua Region by Age Group

**The potential of the younger generation in terms of tourism activities in the Sulampua region could be optimized through the development of open trips.** Open trip tourism that offers lower prices is suitable to attract Millennials and Gen Z tourists with an average spending of Rp3.6-5.2 million. The following open trip destinations have the potential for development as priority tourist destinations in the Sulampua region:

**a. Raja Ampat, West Papua**

Tourism activities rely on marine tourism, with snorkelling activities as the main attraction, supported by the availability of modern amenities.

**b. Wakatobi, Central Sulawesi**

This tourist destination offers various eco-tourism and marine tourism activities, such as exploring Kontamale Cave, observing dolphins in their natural habitat, and snorkelling in Wangi-Wangi.

**c. Morotai, North Maluku**

Tourism activity at this destination includes island hopping as the main attraction, with several islands to visit, including Kokoya Island with white sand panoramas and snorkelling, tourist villages on the island of Kolorai, beautiful beaches, and unique dive spots on the island of Dodola, as well as Zumzum Island, which is steeped in World War II history.

**d. Tana Toraja, South Sulawesi**

This destination offers integrated tourism, beginning with a visit to the Rammang-Rammang Tourist Village and continuing with the exploration of various tourist destinations in Tana Toraja, such as Kete Kesu, Lolai To'tombi, Bukit Ollon, Buntu Burake Statue of Jesus, and Goa Londa Museum.

**e. Likupang, North Sulawesi**

This destination offers marine tourism, with Lihaga Beach as the standout attraction with wide swathes of white sand and diverse marine life, as well as exquisite views of Bukit Larata.

In general, efforts to strengthen tourism industry performance in the Sulampua region, including opportunities for the younger generation, are inextricably linked to efforts to overcome the local 3A2P challenges. Adequate and affordable accessibility between destinations in Sulampua must be improved to facilitate convenient tourist mobility when exploring the abundance of attractions the region has to offer. In addition, the support of modern amenities at each destination must be strengthened while also bolstering integrated promotional activities and strengthening various aspects of tourism industry players.

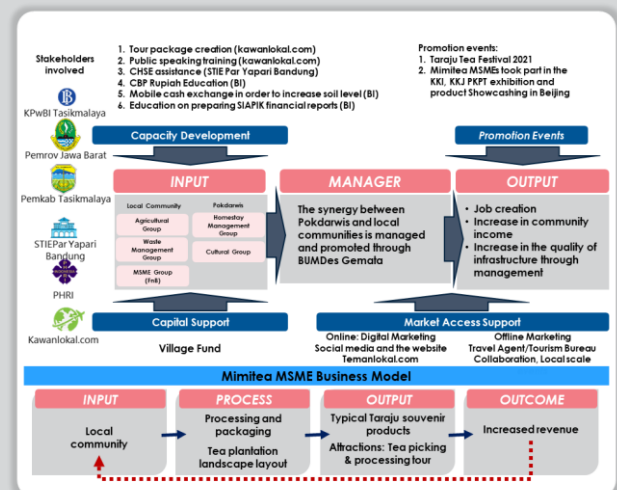
## Development of Creative Entrepreneurship in Tourist Villages: Success Stories from Taraju and Bantaragun Tourist Villages

### The role of the local community in developing tourism destinations must be strengthened to ensure inclusivity.

The strategy of developing tourist villages as an integral part of destination development can be strengthened through the development of creative entrepreneurship under the umbrella of one ecosystem. Moreover, the role of the younger generation is becoming more important when developing creativity in tourist villages. In Java, where 2,136 tourist villages are located with most of which (1,710 villages) are still classified as pioneering tourist villages, entrepreneurship development opportunities are being optimised through synergy and collaboration among various stakeholders. Entrepreneurship development in two tourist villages located in the Java region serves as a success story for close collaboration between stakeholders, with the support of Bank Indonesia. The villages are Taraju Tourist Village in Tasikmalaya, West Java and Bantaragun Tourist Village in Majalengka, West Java.

Taraju Tourist Village falls in the advanced category<sup>16</sup> and won the Creative Digital Village Award at the Indonesia Tourist Village Awards (ADWI) in 2023. The success of Taraju Tourist Village in winning the ADWI award in 2023 was supported by the creativity of local young tourism influencers through promotional digital media, primarily promotional videos depicting the potential attractions and conditions in the village. The development of Taraju Tourist Village is also inseparable from the close synergy built between various stakeholders, including local government, universities, other relevant institutions, and the local community. The local Tourism Awareness Group (Pokdarwis), led by young people, plays a critical role as a catalyst for developing the potential of the Taraju Tourist Village, encompassing cultural groups and homestay management groups, agricultural groups, waste management groups as well as food and beverage business groups.

Pokdarwis and other influencer groups in Taraju were formed under the auspices of one village-owned enterprise (BUMDES), known as Gemata. Through BUMDES Gemata, broader collaboration has been built through mutually beneficial cooperation schemes, including partnerships with the Mimatea business group. This partnership focuses on increasing the value added of tea plantations local to Taraju as a tourist attraction by offering an authentic experience of tea processing with local residents as well as the production of tea commodities. BUMDES Gemata is also developing partnerships with universities to provide assistance, including various other vocational institutions. In general, close collaboration in the development of Taraju Tourist Village has increased the number of visitors and increased income in the local community.



Source: Bank Indonesia

Figure M.5. Development of Taraju Tourist Village

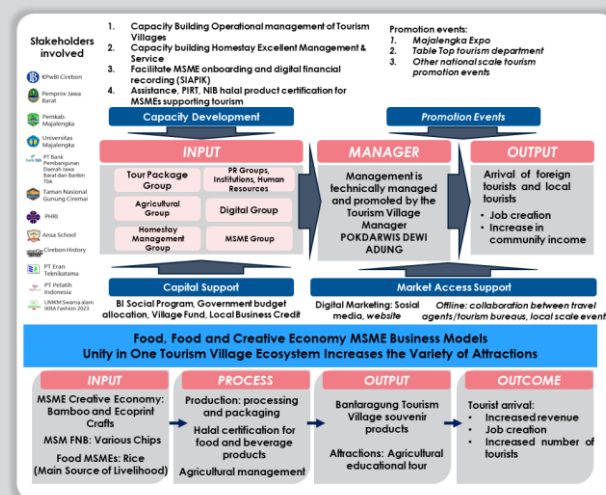
Bantaragun Tourist Village is also in the advanced category, winning second place in the Creative Digital Village category at ADWI in 2023. Bantaragun has a strong comparative advantage in terms of eco-tourism. Bantaragun Tourist Village was developed through close collaboration between central and regional

<sup>16</sup> According to the categories of tourist village development determined by the Ministry of Tourism and Creative Economy, consisting of Pioneering Tourist Villages, Developing Tourist Villages, Advanced Tourist Villages, and Independent Tourist Villages.

stakeholders, including financing support for working capital allocated from the Regional Revenue and Expenditure Budget (APBD) and regional banks. Furthermore, the management of Bantaragun Tourist Village by Dewi Agung Pokdarwis plays a major role as a catalyst for the developing of tourism business groups, including tour package groups, digital groups, homestay management groups, farmer groups, and other business groups. Bantaragun Tourist Village has also developed flagship local products, such as bamboo handicrafts and eco-prints as well as nut-based snacks. In addition, Bantaragun is also a rice producing village, which is the primary business activity of the local community.

Dewi Agung Pokdarwis plays a central role in optimizing agricultural potential in the village. The development of tourist attractions in the village prioritizes the comparative advantages of existing agri-businesses. Tour packages in the village provide tourists with farming experiences and education regarding organic rice as a product specific to Bantaragun Tourist Village. In general,

the successful development of Bantaragun Tourist Village has ameliorated the prosperity of the local community.



Source: Bank Indonesia

Figure IV.6. Development of Bantaragun Tourist Village

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BANK INDONESIA

For further informations please contacting:

BANK INDONESIA

Economic and Monetary Policy

Department Sectoral and Regional Group

Ph. +6221-2981 8119, 2981 8868

Fax. +6221-3452 489, 231 0553









Jl. MH Thamrin No.2 Jakarta 10350  
[www.bi.go.id](http://www.bi.go.id)

