Darmin Nasution: Towards sustainable and inclusive growth – challenges amidst the global turbulence

Speech by Dr Darmin Nasution, Governor of Bank Indonesia, at the Bankers' Dinner, Jakarta, 23 November 2012.

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Respectable Leaders and Members of Parliament,

Honorable Ministers and Heads of Institutions,

Prominent Bankers,

Distinguished Guests, Ladies and Gentlemen,

Assalamu'alaikum Wr. Wb,

Good evening and may God bless us all,

Commencing our respectable gathering this evening, I would like to invite all of you to join me in extending praise and gratitude to God Almighty who has blessed us once again with the opportunity to meet here for the Bankers' Dinner 2012.

In this very appropriate time, please allow me on behalf of Bank Indonesia's Board of Governors to express our deepest gratitude and appreciation to the banking community as well as the government, the parliament, businesspeople, academics, experts, press and other stakeholders for supporting Bank Indonesia in performing its mandates.

Distinguished guests, ladies and gentlemen,

1. During last year's Bankers' Dinner on December 9, 2011, at this very same room, I caught the glimpse of optimism surrounding all of us. We were optimistic that 2012 would be the year of hopes and opportunities for all of us to continue safeguarding the economy with a strong and sustainable growth.
2. It was indeed not an overly sanguine expectation considering that 2011 had seen a steady domestic expansion accompanied by impressive macro stability. Furthermore, since early 2011 the US economy had shown signs of bottoming out from its severe crisis in 2008.
3. However, by mid 2012 we came to realize that the global crisis has not subsided. The multi dimensional crisis that depressed the European economy has brought a global impact of great magnitude during 2012.
4. Up to this moment, the European region has been confronted by unavoidable debt trap, tightened fiscal space, squeezed monetary room, mounting unemployment level, fragile financial sector, and decaying market confidence. All of these combined has manifested into a vicious circle that is weakening Europe's ability to escape from the prolonged crisis.
5. As the global inter-linkages strengthened, the dynamics of emerging economies cannot be entirely decoupled from what happens in the advanced economies. Since mid-2012, we have seen some big developing countries, particularly China, began to lose its endurance.

Distinguished guests, ladies and gentlemen,

6. The depth and scope of crisis originated from US sub-prime bubble burst coupled with European debt problem have shifted backward the structural capacity of advanced economies. In the following years, advanced economies will have to accept a low-growth new equilibrium.

7. Economists have called this equilibrium “the new normal.” It represents an era resulted from significant post-bubble correction following “the great moderation” spanning from 2000 to 2007. During this tranquil episode, global economy grew high in a relatively long period of time, supported by rapid technological advancement, low level of interest rate and inflation, but accompanied by the accumulation of leverage in the household sector as well as excessive risk taking and engineering in the financial sector. The bubble has finally burst at the end of 2008, culminated with the episode of “Lehman Collapse.”

Distinguished guests, ladies and gentlemen,

8. While the advanced countries started the opening decade of this new millennium with the golden era of “great moderation” and closed it with the gloomy “new normal”, the exact opposite happened in Indonesia. We started in thorny path resulted from the aftershock of economic stabilization program post the 1997/1998 crisis, and landed successfully inside a transition period of an economy categorized as middle income country.

9. Indonesia’s per capita income by the end of 2011 has reached approximately USD 3,000, six-fold increase from the figure in the Asian crisis of 1997/1998. If our economy continues to grow while the macroeconomic and financial stability can be maintained, it is only a matter of time before Indonesia move into the upper middle income countries category with per capita income reaching USD 4,000.

10. We also manage to close the early decade of the new millennium with phenomena of an increasing group of society experiencing higher standard of living, the so-called middle class. At present and in the future, this group will become an important transitional strength to influence our entire aspects of life, be it politics, economy, social as well as culture.

11. We have optimism that with the rapid increase in the productive-age population as a demographic bonus within the population pyramid, the growing middle class will continue to expand until at least the next 20 years.

Distinguished guests, ladies and gentlemen,

12. In the midst of prolonged sluggishness within the advanced economies, the expanding middle-class population has strengthened and enriched the diversity of base demand of goods and services in the domestic market, thereby steadfastly supporting the economic expansion. In the last eight years, we manage to successfully maintain a continuous economic growth of around 6.1–6.2% per year (figure 5), one of the highest in the world.

13. In addition to the expanding middle class population, the resilience of the domestic economy is also sustained by the stable and conducive macro and financial environment, therefore providing space for a broad-based economic expansion. In my view, this achievement is inseparable from the solid and well-coordinated fiscal, monetary, and banking policies that are built based on prudence and discipline.

14. *The Economist*, in its November 10, 2012 issue, presented an interesting analysis describing the new era of Great Moderation in Asia. The magazine applauded Indonesia for having the most stable economic growth within the last twenty quarters in world economy.

15. The magazine also acknowledged Indonesia as a pioneer in implementing monetary and macro prudential policy mix. Through an effective policy mix, Indonesia is deemed capable of mitigating credit risks and preventing capital outflows without having to raise interest rate.

16. The central bank's policy of preemptive easing, according to the magazine, has significantly contributed to maintain economic growth stability. Since October 2011, Bank Indonesia has become the first central bank in Asia to lower its policy rate.

17. In my view, this magazine's review has revealed a fresh reference on the fact that macro management relying solely on prudence and discipline is insufficient. At the end of the day, it remains true that the policy is more of an art rather than a science.

Distinguished ladies and gentlemen,

18. While growth can be maintained at a high level, the inflation rate in recent years has in fact shown a downward trend towards the medium-term target of 4.0 percent. Likewise, the rupiah in the past three years have also been moving in line with the fundamental condition.

19. On the one hand, the achievement of a low inflation and stable exchange rate has created conducive climate for the resilience of the banking industry. On the other hand, the well-proven resilience of our banking industry is able to become a shock absorber for the economy. This is supported by adequate capital strength to absorb various risks, as well as effective regulation and supervision.

20. With improved resiliency, the banking intermediation is on the right track. This is reflected in the relatively strong growth of productive loan, while keeping the non-performing at a low level. The increase in credit expansion is also inseparable from BI's policy a few years ago which linked the Minimum Reserve Requirement to Loan-to-Deposit Ratio.

21. With the declining macro risks and the proven financial stability, the saving-investment dynamic grow more robust and contributive to strengthen the structural foundation of the economy. Investors begin to feel confident developing their production capacity. This is reflected in an increased ratio of investment to GDP, even surpassing the pre-crisis level of 1997/1998.

Distinguished guests, ladies and gentlemen,

22. Based on some notes I have underlined earlier, it is not an overstatement to say that in the midst of the turbulent global economy and financial markets, we have recorded numerous successes in 2012. Nevertheless, a series of concerns which has bearing on economic and financial performance still needs to be addressed.

23. In my view, the biggest challenge today is on how best we can manage economic resources and allocate them in the most efficient way possible and right on target. It is also essentially important how we manage to improve the innovation capacity and technology readiness.

24. At this point, I believe the speed in addressing the two challenges will affect our ability to maintain the sustainability of our economic growth in a balanced manner. I would define these equilibriums as internal balance, i.e. the balance of growth and inflation, and external balance which include the balance of payment.

25. We can illustrate internal balance and external balance as two interconnected containers. Imbalances of both or even one of the two could cause the economy to quickly exhaust its power.

26. We experienced external imbalance in 2005 and 2008 because the domestic demand was not supported by efficient and well-targeted allocation of resources. I would like to relate this to the importance of re-composing fiscal expenditure to make it better targeted, especially to address the infrastructure gap.

27. It is true that the structure of fiscal expenditure which prioritizes subsidy and routine spending contributes to the resilience of domestic demand, such that economic growth can remain equally stable across the whole regional territories. Nonetheless,

the resulting price distortion has encouraged excessive fuel price consumption, leading to pressure on the balance of payment.

28. A valuable lesson learned has certainly been obtained from the mini crisis of 2005. The sluggish response to the accumulated problem in the form of delays in adjusting fuel prices had resulted in excessive policy implementation. This led to a steep rise in inflation up to 17% and a sharp decline in purchasing power.

29. Therefore, in 2012 Bank Indonesia continues to endeavor for the balance of payment to be well managed. Notwithstanding, maintaining proper balance of payment is not a matter of interest rate, exchange rate, or macro prudential policy per se.

30. Fundamentally, the balance of payment dynamic correlates more to how our industries own competitive ability and become independent in developing innovative capacity and technological readiness, as well as how economic resources are allocated in an efficient and well-targeted manner.

31. In the middle of the currently expanding economy, the diverse challenges at the end require our ability to direct the economy toward more productive activities and to provide larger and more sustainable supporting capacity for the economy. Among the needed abilities is to avoid the potential vulnerability in the economy such as asset price bubble.

32. Our observation shows that since September 2011, mortgage and auto loan grew faster than the average growth of aggregate credit. At that time, the mortgage loan expanded up to 43% with motorcycle credit reaching 62%, while credit growth in aggregate term only arrived at 24%. This potential risk of asset price bubble could trigger financial instability if not mitigated immediately.

Distinguished ladies and gentlemen,

33. In addition to the above macro challenges, another significant test relates to how the financial sector contributes to economic development through effective and efficient financing. The Banking Act No.7 Year 1992 as amended by Act No.10 Year 1998 clearly stipulates the banking industry to play intermediary role for the economy in an effective and efficient manner.

34. Since last year we have initiated a number of preliminary steps to improve banking efficiency. We launched a policy requiring banks to publish their Prime Lending Rate.

35. The result has been reflected in the gradually declining lending rate, although this can be improved further. Some SMEs still have to deal with micro credit interest rate of around 30%.

36. In my point of view, to improve banking efficiency, efforts needs to be conducted comprehensively taking into account various constraints involved. As an illustration, around 91% of our banking financing source relies heavily on third party funds which concentrated in short term deposits.

37. From those third party funds, 44% is in the form of term deposits of which 50% is beyond the deposit guarantee scheme. The sizable amount of third party funds outside the guarantee scheme resulting from the unhealthy structure of the funding market as price (interest rate) is greatly influenced by the oligopolistic power of some big depositors.

38. This micro constraint has given rise to the rigidity of deposit rate within the banking sector in responding to the downward central bank's policy rate.

39. In terms of fund management, only 4% of banks' asset is placed in the interbank money market. With the number of banks currently reaching 120, segmentation of

the banking industry structure is evident as reflected in the small amount of placement in the interbank money market.

40. Excess liquidity is heavily concentrated only in a few banks whereas other banks must compete to obtain third party fund, leading to high deposit rate.

Distinguished ladies and gentlemen,

41. Segmentation in the area of banking capacity is also found. A great number of banks are operating in contrast to their capacity, and even below their level of economies of scale, hence creating inefficiency.

42. According to Bank Indonesia study, a bank must at least have Rp1 trillion of core capital in order to start operate efficiently. Core capital requirement must increase to at least Rp5 trillion to enable banks to operate at a level of optimal efficiency.

43. This explains why in general the level of our banking efficiency has not been satisfactory. However, I welcome achievements in efficiency improvement as reflected in the lowering of the operation expense to operation income ratio of the industry, reaching 74% in September 2012. However, several banks are still reporting efficiency ratio of above 90% and even some above 100%.

Distinguished ladies and gentlemen,

44. Various problems and challenges in the economy which I have just elaborated have initiated Bank Indonesia to take a number of policy measures during 2012.

45. The formulation of monetary policy was made by strengthening the calibration of a mix of monetary, exchange rate, and macroprudential policy with good dose flexibility. Such blend is required as we must simultaneously respond to two challenges. First, we must prevent the effect of global slowdown to the economy through counter-cyclical policy measures. Second, we must preserve macroeconomic and financial stability through carefully calibrated combination of instruments.

46. Entering the year of 2012, our monetary policy was confronted with deteriorating global economic outlook due to the escalation of the European crisis. On February 9, 2012, we decided to lower the BI rate by 25 basis points to 5.75%.

47. However, the continuity of the counter-cyclical policy response was faced with the challenge of stronger inflation expectation in the midst of the uncertainty of the fuel price adjustment.

48. On that background, since March 2012, the BI rate was maintained at the level of 5.75%. As policy maneuver, we have made a number of adjustments to the overnight interest rate corridor. Strengthening the monetary operation framework for liquidity management was also implemented by optimalizing the reverse-repo-government securities transactions.

Distinguished ladies and gentlemen,

49. The increasing challenge in formulating monetary policy in 2012 arises from the increasing pressure on the Rupiah. In the vulnerable global financial markets as of today, we perceive exchange rate stability as the first line of defense in maintaining macroeconomic and financial stability as a whole. For that reason, it is critically important to maintain the exchange rate stability.

50. In keeping exchange rate volatility in check, we continue to thrive for balance between supply and demand in the foreign exchange market. To strengthen the supply structure, since June 2012, Bank Indonesia regularly conducts the USD term deposit auction.

51. The opening of the USD term deposit auction is expected to address scarcity of instrument in the domestic interbank money market, and to optimize foreign exchange received from export proceeds.

52. To strengthen the supply structure for reserves emanating from Export Proceed Reserves, including oil EPRs, Bank Indonesia will release trustee regulation shortly. This regulation is intended to provide solid legal grounds for trustee activities for banks managing reserves and assets under custody.

Distinguished ladies and gentlemen,

53. As we retain the policy rate to maintain its consistency with inflation target and mitigate the adverse impact of weakening global economy, we optimize the use of macro prudential instruments, in particular a maximum loan to value ratio and a minimum loan down payment effective March 2012.

54. In general, we observe that calibration of our macro prudential and monetary policies have started to produce positive outcome in our economy. Our economy growth, despite slightly slowing down due to global factor, stays strong sustained by solid domestic growth. At the same time, inflation stays controllable at low level.

Distinguished ladies and gentlemen,

55. Driven by various problematic issues surrounding financial and banking systems as I have previously explained, in 2012 Bank Indonesia formulates conventional and Islamic-based banking policy frameworks within 3 complimentary corridors. These corridors are (i) safeguarding macro economy and financial system stability, (ii) bolstering resiliency and competitiveness of banks, and (3) bolstering intermediation.

56. Our policy responses in the first corridor, safeguarding macro and financial stability, are manifested by macro prudential regulation. As I have explained earlier, as part of our policy mix, we have made effective Housing Loan to Value Auto Loan Down Payment regulations applied for conventional banks.

57. The LTV is intended to mitigate financial system instability emanating from rapid credit growth in consumptive sectors, particularly in housing and automotive. To mitigate regulatory arbitrage, in near future we will release LTV and DP applied for Islamic banks and Islamic unit of conventional banks.

58. To anticipate the impact of the global economic issues that could destabilize the financial system and the banking sector, Bank Indonesia will soon revise regulation on Minimum Capital Adequacy Requirements of Commercial Banks, offering an approach to a more comprehensive risks-based capital calculation.

59. In essence, banks will be required to provide the minimum capital in compliance with their risk profile ranging from 8% to 14%. This amount can be set higher if based on Bank Indonesia existing minimum capital requirement, the amount is not adequate to anticipate risks.

60. The statute applies similarly for foreign bank branches operating in Indonesia. Within the framework of the financial system stability, foreign bank branches operating in Indonesia are required to maintain Capital Equivalency Maintained Assets (CEMA). CEMA serves as compulsory capital allocation fund in the form of business capital deposited in certain amount of financial assets that should also meet certain requirements. CEMA will help foreign bank branches bank to immediately anticipate and mitigate the risks. Therefore, risks on financial system can be properly maintained.

61. To safeguard financial stability, Bank Indonesia has enhanced the crisis management protocol related to exchange rates and banking, including integration

with the national crisis management protocol and improvement of short-term funding facilities. To make crisis management effective for systemic crisis prevention, this MoU needs to be sheltered under the protection of upcoming Financial Sector Safety Net Act.

Distinguished ladies and gentlemen,

62. In the second corridor, strengthening resiliency and competitiveness of banks, Bank Indonesia implements policies to structure bank ownership and regulate activities and bank network expansion on the basis of capital (the so-called multi-licensing regime).

63. Structuring bank ownership, of which regulation was issued under Bank Indonesia regulation number 14/8/PBI/2012, has spirit and philosophy to enhance good governance and bank soundness ratings. Therefore, banks whose soundness ratings and governance are deemed to be strong will be exempted from this regulation as long as they successfully maintain strong governance and ratings.

64. In the meantime, regulations on bank operational activities and network expansion are very important in endeavours to foster competitiveness of banks. Therefore, Bank Indonesia will soon release regulation concerning "Banking Activities and Network Expansion based on Capital."

65. On the basis of this regulation, commercial banks will be categorized into four buckets depending upon their Tier 1 size. In other words, the bigger the Tier 1, the wider the scope of the activities and network outreach of the banks. Each bucket will have clear definition of scope of activities as well as network outreach. Lower buckets will permit banks to have basic banking services, whereas higher buckets will permit banks to have wider scope and more complex activities.

66. Banks will be stimulated to foster inclusive finance to support economy development in the region currently underserved. Therefore, regulation on bank activities will be linked to regulation on the mechanism for opening bank office networks.

67. This regulation provides incentive and disincentive mechanisms for banks to expand their activities and branch office networks depending upon their allocation of Tier 1, regionalization, and level of efficiency. Incentives and disincentives are provided through allocation of core capital (Tier 1) required differently for different types of branch networks to be opened by banks (full branch, sub branch, and cash payment points) depending upon the zone considering efficiency level of the bank. Under this regime, core capital required for banks opening office networks in zone with high bank density will be higher than those with lower density.

68. Enhanced regulatory regime for banking activities and distribution expansion will be launched in the same package with amendment of Single Presence Policy (SPP).

69. The amendment will be undertaken by reopening the option to establish holding company. With this option, strategic investors currently holding positions as controlling shareholders in a particular bank will be permitted to become controlling shareholders in other banks without obligations to exercise merger and consolidation of banks under their controls.

70. In the third corridor, we will strive to ensure that bank intermediation is on the right track. Therefore, each bank will be mandated to meet target of productive lending determined for each operational bucket. To stimulate inclusive economy growth, inclusive in the productive lending target is micro, small, and medium enterprises lending at minimum of 20%. The regulation on this productive lending target will be made public shortly.

Distinguished ladies and gentlemen,

71. Safe, robust, and efficient payment systems are vital conduits supporting sustainable economy expansion and efficient transactions in the banking sector. During the course of 2012, Bank Indonesia has collaborated with banking industry to develop the payment system.

72. Key steps completed in 2012 include standardizing chips for ATM and debit cards, fostering synergies amongst ATM networks, and developing electronic credit transfer system for rural bank customers embedded in the National Clearing System.

73. Besides, to mitigate default risk in the credit card segment, in the beginning of 2012 Bank Indonesia released regulation concerning limitation of the number of credit card issuer that is commensurate to financial capacity of customer.

Distinguished ladies and gentlemen,

74. Before we focus on the policy outlook that Bank Indonesia will pursue, allow me to shed some lights on the forthcoming challenges in wider perspective.

75. In 2013, global economy will step into the new normal. In this stance, we need to remain vigilant over two substantial risks, which unless well-mitigated, will amplify complexities in managing our macroeconomic policies.

76. First, risk from the continued uncertainty surrounding the European crisis, and second, risk from the US fiscal cliff, inevitable tax increase and the automatic budget cut in the US, in early 2013.

77. In its October 2012 publication, the IMF warned that failure to address the dual global risk combination will drag developed economies into a whirlwind of recession and the global economy will only grow by 2.0%, far from the baseline scenario of 3.6%.

78. With such bleak portrait, we can obviously see the daunting challenge we face in the future. On that note, backed by supportive demographic structure as our capital base, we are challenged to immediately take a number of structural adjustments.

79. We have been called upon to immediately make efficient every aspect of the economy in order to be more competitive. The development of a more efficient and reliable domestic connectivity, improvement in the ease of doing business, harmonization of regulation and reforms of bureaucracy are important aspects which we must address.

80. I feel troubled if we continue to dally while we still have time; we will remain trapped in the current natural resources-based economic model. By the year 2020, our demographic bonuses we now enjoy will start to diminish.

81. However, if we succeed, I believe we would be able to bring changes in our economic models, from resource-driven growth to efficiency-based growth.

82. In spite of this, we cannot simply rely on efficiency alone. In the future, the Asian region is expected to enter a new era as pioneer of global growth. Asia will grow as basis for consumption, production, and technological progress.

83. Asia’s position as technology-intensive production base is increasingly taken into account. For example, the mobile gadget *iPhone,* labelled as “Made in USA,” in fact has its major components supplied by Asian countries.

84. The reduction of various impediments to every policy aspects will move us from a resource-driven growth economy to an efficiency-based growth economy. However, relying solely on efficiency is not enough since going forward the Asian region is

projected to become the new growth frontier as the basis of production, consumption, and technological advancement.

85. The establishment of these three bases are supported by growing intra-regional trade. In this regard, we are faced with both challenges as well as opportunities: "Will Indonesia reap the enormous potential benefit from Asia by becoming a part of the regional production chain, or will Indonesia stand still and continue as a resource-based economy and only become the market of other countries?"

86. To become an acknowledged player in the Asian production chain, we must become an innovation-driven economy. For that matter, the strengthening of scientific and technological infrastructure as well as human capital to support technological readiness and increase private innovation capacity are considered as strategical aspects which must simultaneously be the focus of our attention.

87. If we are able to bring our economy to become more efficient and innovative, based on technology and human capital, it is without a doubt that Indonesia in time will become an excellent production hub in Asia. That is where we must be heading, with the spirit, commitment, and courage for self-reform. Measures of reforms which we must take to reach this destination will equip our economy with extra energy, independence, and flexibility to face the challenges of globalization.

Distinguished ladies and gentlemen,

88. In our effort to develop an efficient and innovative economy with sustainable growth, we must not neglect the need for equal access of opportunities for every layer of the society (inclusiveness). Based on such economic and objective rationale, inclusive growth is more sustainable and optimal for the economy.

89. However, the transition of our society into a middle class category has some transitional impact to economic gap. Looking deeper into the problem, the transition will result in human capital productivity gap in our domestic economy.

90. The two pillars of productivity will make total economic productivity less optimal and the economy will lose its economic thrust. *Ceteris paribus*, such economy will be more prone to external as well as internal shocks, and this condition will negatively affect our ability to preserve macroeconomic and financial stability. This will in turn put our effort to eradicate poverty and reach better income distribution at risk.

91. For that matter, an inclusive growth is not just merely an empty term. In reality, more than half Indonesian population still do not have access to the formal financial channel (2010 World Bank Survey).

92. This fact also shows that the market is still largely open to banking industry. Furthermore, data shows that the ratio of credit to GDP is still around 31%. It is with respect to this inclusive growth that Bank Indonesia views the significance of "inclusive financial program."

Distinguished ladies and gentlemen,

93. Based on this line of thinking, it is in my view that the future economic policy direction is to answer to the challenge of achieving a sustainable and inclusive growth of the Indonesian economy.

94. If we are able to address the number of structural impediments which have been previously identified, we can hope that the economy will be able to grow on a higher path, and at the same time benefits can be inclusively reaped by every layer of the society.

95. Taking into consideration that macroeconomic management going forward will still be exposed to global risk and the wide complexity of the domestic problems, Bank

Indonesia will continue to calibrate a policy mix composed of interest rate, exchange rate, and macroprudential aspects.

96. To support exchange rate, market interest rate, and overall financial stability, the monetary policy implementation will continue to be enhanced with a more integrated operational framework, with the emphasis in using government securities in monetary operation. In my view, however, this form of stability should not encourage moral hazard behaviour of economic players and the market in general which may expect the authority to constantly intervene to maintain stability at all costs. Such form of stability should in fact give room for the process of financial market deepening.

97. A deep financial sector will extremely help in making effective monetary policy transmission, providing a more variety of instruments for risk mitigation (hedging) and facilitating effective and efficient economic financing, including those provided by our banking industry.

Distinguished ladies and gentlemen,

98. In my view, our banking industry must continue to be encouraged to improve resilience, efficiency and its role in intermediation. Broadening of the public's access to an affordable banking service through the financial inclusive program is included as part of strengthening intermediation function.

99. Going forward, the financial inclusion program must be implemented through the supply and the demand sides. From the supply side, broadening of an affordable banking services access, and making available banking products meeting the need of the lower income society must be carried out.

100. In this regard, going forward, we plan to broaden banking service access by way of a non-conventional measure through the use of information technology, telecommunication, and agent cooperation or familiarly known as branchless banking or mobile payment. Through this strategy, banking services will reach every layer of the society without having to physically present the bank office.

Distinguished ladies and gentlemen,

101. In this regard, branchless banking must be implemented in phase with due consideration on potential risks that may occur, including its impact to the financial stability. On that account, in early 2013 Bank Indonesia will issue guidelines on the implementation of branchless banking which will be followed by the issuance of a number of supporting regulations.

102. Recognizing the increasing strength of the Indonesian middle class, Bank Indonesia also views the need to optimize such new strengths through the acceleration of generating new business ventures. For that, Bank Indonesia will continue its cooperation with universities and the private sector by preparing a business training program for college students and former Indonesian workers abroad.

103. Currently being prepared is a start-up loan for business start-ups. This skim will involve technical agencies and other agents in coaching, consulting, guaranteeing and providing eligible credit collateral, such as land certification.

104. The major obstacles of the community's lower economic level in accessing credits for productive purposes are not only the lack of eligible credit collateral availability but also the high levels of lending rate for the micro segment. As such, I view that the fruits of national banking efficiency improvements should be felt by those in the lower economic level. Having said that, we will promote healthy competition in the micro segment through, among others, the publication of Micro Credit Lending Rates.

Distinguished ladies and gentlemen,

105. Aside supporting the development of inclusive finance, the policy direction for the payment system of the future will focus on several very specific dimensions.

106. First, to increase the community's trust in using payment system instruments, we will continue to improve the security of features in using non-cash payment instruments and support ways to make non-cash transactions more affordable and the services safe, prompt, and widely accepted.

107. Second, to increase the efficiency and convenience of payment system users, we will promote interoperability between payment systems. This will be achieved through the implementation of standards for the payment instrument or infrastructure.

108. Third, we will strengthen the legal framework, both for the providers and the users of payment system. The rapid development of payment system supported by technological development needs to be supported by more stringent laws in the form of a payment system act.

Distinguished ladies and gentlemen,

109. To conclude my speech tonight, please allow me to present economic outlook of 2013. As we view the prospects ahead, we will not be able to release ourselves from the reality that the Indonesian economy is situated within a very challenging global environment.

110. However, the width and depth of such global atmosphere does not mean that our economy's outlook is devoid of any optimism. We should remain optimistic as we have a stable economy, proven and acknowledged, a domestic demand based on growing middle class, and adequate policy spaces to absorb global risks.

111. Such three basis of economic strength will continue to support the growth of confidence and as such can serve as a driving force in the continuation of physical and human capital accumulation process. Several latest indicators show the continuous accumulation of capital for the development of production capacity from both domestic and abroad.

112. With such prognosis and also the support of increasing government capital expenditure, we see the 2012 growth of investment around 10.7%, and we expect that it will continue to increase to 11.6%–12% in 2013.

113. With increasing investment, in due time, purchasing power will be sustained, thus household consumption growth in 2013 can be maintained at 5.0%–5.4%.

114. The economic expansion also gains impetus from export performance which is estimated to improve in line with improved commodity price. For 2013, total exports are estimated to grow by 5.4%–5.8%.

115. With solid growth centres, we believe that the national economy's momentum can still be maintained and even be enhanced. As such, we are optimistic that the national economy in 2013 will grow by 6.3%–6.7%.

116. I firmly believe that growth will reach the upper end of the range if structural issues mentioned earlier can be addressed.

117. Even though growth will continue to be on the upside, the 2013 inflation is forecasted to remain under control within the expected target range of 4.5 ± 1 percent.

Distinguished ladies and gentlemen,

118. This is, in effect, what I have to share with you tonight. Looking at the challenges we are facing, I think we agree that the years to come will be no easier than the

episodes that have passed. However, we should embrace an optimistic attitude. The potential and opportunities within our nation remains strong and vast, and it is our duties to unlock them.

119. We trust that God Almighty will always be with us and give His blessings and ease our steps towards a better future. Thank you.

Wassalamu'alaikum Wr. Wb.