SYNERGIZE
TO BUILD OPTIMISM FOR
ECONOMIC RECOVERY

BANK INDONESIA’S
ANNUAL MEETING 2020
SYNERGIZE TO BUILD OPTIMISM FOR ECONOMIC RECOVERY

BANK INDONESIA’S ANNUAL MEETING 2020


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SYNERGIZE
TO BUILD OPTIMISM FOR ECONOMIC RECOVERY

Speech of the Governor of Bank Indonesia
BANK INDONESIA’S ANNUAL MEETING
Jakarta, 3 December 2020

His Excellency,
• The President of the Republic of Indonesia, Joko Widodo.

Honourable Guests,
• Leaders and Members of the House of Representatives and House of Regional Representatives of the Republic of Indonesia;
• Leaders of State Institutions;
• Ministers of Indonesia Onward Cabinet (Kabinet Indonesia Maju),
• Chairman and Members of the Board of the Financial Services Authority (OJK) and Deposit Insurance Corporations (LPS)
• Former Governors and Board members of Bank Indonesia;
• Provincial Governors from all across Indonesia;
• Leaders of the Banking Industry, Corporate Sector and National Media;
• Awardees of 2020 Bank Indonesia Award;
• Distinguished Ladies and Gentlemen,
Assalamualaikum Warahmatullahi Wabarakatuh,
Greetings to everyone, Shalom,
Om Swastyastu, Namo Buddhaya,
Salam Kebajikan.

First of all, let us express our gratitude to the Almighty God, because only with His grace and blessings today we could gather at this Bank Indonesia Annual Meeting of 2020. With all humility, we would like to extend our gratitude Mr. President who has been pleased to attend this convocation along with all the invited guests.

We congratulate the banks, corporations, and individuals who received the Bank Indonesia Awards 2020. A total of 41 awards in 4 areas and 13 categories in the fields of monetary stability and financial system management, payment systems and Rupiah money management, MSMEs development and sharia economy and finance, as well as Bank Indonesia policies’ supports. This award is held annually, together with the Annual Meeting of Bank Indonesia, as an appreciation and recognition to partners who have supported the implementation of Bank Indonesia’s tasks.

On this auspicious occasion, allow us to present an evaluation of economic performance in 2020 as well as the economic prospects and the policy direction of Bank Indonesia for 2021, which we summarize under the theme “Synergize to Build Optimism for Economic Recovery”. In our opinion, this theme is appropriate to strengthen the momentum for the national economic recovery process. After struggling to cope with the impact of the COVID-19 pandemic, thanks be to God the Indonesian economy has shown strong resilience. The worst is over. Stability has been maintained and the process of economic recovery is ongoing. The synergy of national economic policies is very close, and it is this synergy that we need to continue to strengthen in the future to build optimism for the national economic recovery. Bank Indonesia has, and will always, synergize with the Central and Regional Government, the Financial System Stability Committee (Komite Stabilitas Sistem Keuangan - KSSK), the House of Representatives (Dewan Perwakilan Rakyat - DPR), the banking sector, the businesses, and all parties to jointly build this optimism. God willing, the national economy will get better and continue to improve towards an Advanced Indonesia in 2045.

We present the presentation in 5 (five) sections, namely: (i) Global economic performance and prospects that indicate recovery, financial market uncertainty has eased; (ii) National economic performance and prospects that demonstrate resilience in the recovery process; (iii) Bank Indonesia policy mix for 2020; (iv) Synergy of national economic policies to build optimism for future economic recovery; and (v) The direction of the Bank Indonesia policy mix for 2021. Our presentation is at the same time a manifestation of Bank Indonesia’s accountability and transparency as mandated in the Bank Indonesia Act.

The COVID-19 pandemic had an extraordinary impact on humanity, economy and finance worldwide. The scale and speed of the spread of the pandemic around the world to 138 countries has far exceeded previous pandemics (SARS and MERS). This has had an unprecedented impact on health and humanity with more than 60 million people testing positive and 1.4 million died from COVID-19. The impact on human mobility and world economic and financial activities has been unparalleled. The COVID-19 pandemic has caused a worldwide economic recession and in many countries, financial market panic and uncertainty, as well as many people falling into poverty. Because of the complexity of the problems, it requires an extraordinary policy response in terms of health, fiscal stimulus, monetary stimulus, and also in the financial sector. The crisis conditions we face from the COVID-19 pandemic are very different from previous crises, whether the depression in the 1930s, the debt crisis in Latin America in the 1980s, the Asian crisis in 1997/98, or the global financial crisis in 2008/2009. The epicenter of the crisis this time is the COVID-19 pandemic, attacking human mobility, and therefore economic mobility, resulting in an economic recession affecting the monetary and financial sectors.

The COVID-19 pandemic has an impact on health and humanitarian problems around the world. COVID-19, which first appeared in Wuhan, China, has spread rapidly throughout the world (Graph 1). Until now, more than 60 million people have tested positive for COVID-19, mostly in the United States (US), India, Brazil, and Russia. COVID-19 has also claimed more than 1.4 million lives (Graph 2). After reaching its peak in the second quarter of 2020, additional cases and mortality rates began to slightly subside. However, the risk of a COVID-19 second or even third wave pandemic is the focus of attention in various countries. Meanwhile, vaccine development is continuing with a number of successful trials and ready to be administered in stages starting in December 2020. It is likely that vaccinations can be carried out more widely in 2021, including in Indonesia.

The speed and progress in handling the COVID-19 pandemic determines the process of economic recovery. To mitigate the health impact of the COVID-19 pandemic, governments in many countries have implemented the 3 Ts, namely: Trace, Testing and Treatment; while the community carries out the 3 Ms: Memakai Masker (Wearing a Mask), Menjaga Jarak (Keeping a Distance), and Mencuci Tangan (Hand Washing). Application varies from country to country, for example, there are very stringent restrictions.
on mobility (lockdown) in China, strict in Europe and relatively more relaxed in the US (Graphs 3a and 3b). These policies have limited economic activity, particularly in the second quarter of 2020. Retail sales have decreased, impacting declining consumption, production and investment (Graph 4a and 4b). The volume of international trade has also decreased due to the disruption of global supply chains that have been dominated by China. Economic activity has gradually improved from the third quarter of 2020, along with the increase in human mobility, although it still needs time to recover to the conditions before COVID-19.

Global economic performance has begun to show improvement, and will increase even further in 2021. After the contraction in the second quarter of 2020, world economic activity began to increase, although it is still overshadowed by the risk of a COVID-19 second wave. Economic improvements differ from country to country, depending on the size of fiscal and monetary stimuli, as well as the successful handling of COVID-19 and increased human mobility. The Chinese economy began to record positive growth in the third quarter of 2020 and is estimated to be the first country to begin to recover in the fourth quarter of 2020.
Quarter of 2020 (Table 1). Economic improvements were also recorded in the United States (US), although accompanied by the highest cases of COVID-19. Meanwhile, economic recovery was more limited in Europe, India and Latin America. The global economic recovery could be seen in the improvement of several early indicators in October 2020, such as global community mobility, the Manufacturing and Services Purchasing Managers’ Index (PMI) in several countries, and consumer confidence in the US and Europe. World trade volume and commodity prices have also increased. Going forward, the global economic recovery is predicted to continue with a growth of 5.0% in 2021, after contracting by 3.8% in 2020.

On global financial markets, uncertainty has eased, although caution is warranted. The rapid spread of the COVID-19 pandemic around the world caused a global financial market panic in March 2020, resulting in the Volatility Index (VIX) and Credit Default Swap (CDS) risk indexes for Indonesia soaring to 83 and 272 from previously 19 and 66 respectively (Graph 5). The wave of portfolio investment withdrawals from developing countries (Emerging Market Economies - EMEs) occurred in large numbers and within a very short time period, resulting in the scarcity of the US dollar that put major depreciation pressures on the EME’s currency exchange rate (Graph 6). With the handling of COVID-19 and the response with fiscal and monetary stimulus policies in many countries, global financial market uncertainty has begun to subside and the flow of portfolio investment has begun to return to EMEs. Since early November 2020, global uncertainty has been decreasing after the results of the US Presidential election, although volatility

### Table 1: Global Economy: Growth, Trade Volume, Commodity Prices (% yoy)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020*</th>
<th>2021*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global Economic Growth</strong></td>
<td>3.6</td>
<td>2.8</td>
<td>-3.8</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Advanced Economies</strong></td>
<td>2.2</td>
<td>1.6</td>
<td>-4.9</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>US</strong></td>
<td>2.9</td>
<td>2.2</td>
<td>-3.8</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Euro Area</strong></td>
<td>1.9</td>
<td>1.3</td>
<td>-7.2</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>0.3</td>
<td>0.7</td>
<td>-5.7</td>
<td>2.5</td>
</tr>
<tr>
<td><strong>Emerging Economies</strong></td>
<td>4.5</td>
<td>3.7</td>
<td>-2.9</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>6.7</td>
<td>6.1</td>
<td>2.1</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td>6.1</td>
<td>4.2</td>
<td>-8.8</td>
<td>8.2</td>
</tr>
<tr>
<td><strong>South America</strong></td>
<td>1.1</td>
<td>0.0</td>
<td>-7.5</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>World Trade Volume</strong></td>
<td>3.8</td>
<td>-0.4</td>
<td>-6.3</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Indonesian Export Commodity Price Index</strong></td>
<td>-2.8</td>
<td>-3.0</td>
<td>-5.8</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: World Economic Outlook Database October 2020, Bank Indonesia Projection

Description: * projection
needs to be watched out for amid concerns over a second wave of the COVID-19 pandemic. The VIX indicator decreased to 24 while the CDS also fell to 78 which then encouraged the strengthening of many Asian currencies against the US dollar. The reduction in global uncertainty is expected to stimulate foreign capital inflows and further appreciation of the exchange rates in developing countries, including Indonesia.

A large fiscal stimulus was provided by many countries for economic recovery from the impact of the COVID-19 pandemic. Fiscal stimulus were generally allocated for health budgets, social assistance programs for the community, incentives for the business world, especially for Micro, Small and Medium Enterprises (MSMEs), and tax relief for corporations. Meanwhile, tax revenues dropped dramatically due to the economic recession. The sheer amount of additional spending amid falling tax revenues has led to a widening of the fiscal deficit in many countries, with a large increase in deficit exceeding 8% of GDP in developed countries compared to deficits in EMEs, which are generally lower due to the limited financing required (Graph 7). The size of the fiscal stimulus has had a positive impact on encouraging economic recovery since the third quarter of 2020 and is expected to accelerate future economic recovery from the COVID-19 pandemic. The widening output gap in the 2020-2021 period is expected to narrow in 2022-2023 as economies in many countries recover (Graph 8).

The process of economic recovery from the COVID-19 pandemic was also supported by monetary stimulus from central banks in many countries. In developed countries, with monetary policy interest rates approaching zero percent, central banks have taken monetary stimulus by injecting liquidity (Quantitative Easing - QE) into the financial sector, particularly banking. This has been done by, among others, through an asset purchase program from the market, including government bonds, private bonds, and credit securities. As a percentage of GDP, the largest amount of QE was carried out by the European Central Bank (ECB) then by the Bank of Japan (BoJ),
Bank of England (BoE) and The US Federal Reserve (Graph 9). In EMEs, monetary stimulus is implemented through a combination of lowering policy interest rates and injecting liquidity into banking and financial markets. The magnitude of the reduction in interest rates is in line with lower inflation and the need to maintain exchange rate stability. Meanwhile, liquidity injection (QE) is generally carried out through monetary operations, given the limited financial assets on the secondary market. In percentage of GDP, the largest amount of QE was carried out by Bank Indonesia followed by Mexico, Chile, and the Philippines (Graph 10).

A number of international policy coordination steps were taken to support the global economic recovery. A number of important agendas surfaced in the G20, IMF, FSB and BIS forums. One of them was the need to continue fiscal and monetary stimulus in accordance with economic conditions and the handling of the COVID-19 pandemic in each country. This is because the COVID-19 pandemic will continue in 2021, even though vaccinations have been carried out. Other agendas relate to anticipatory measures for the impact of the decline in economic activity on corporate conditions, including credit and business restructuring programs, fiscal incentives, and the possibility of bankruptcy. Discussion of policies included efforts to maintain financial system stability from the impact of declining corporate performance, including how to overcome very low credit growth (credit crunch), the risk of increasing non-performing loans (loan at risk), a large excess of liquidity in financial markets (liquidity trap), and to anticipate the risk of excessive price bubbles for financial assets. Meanwhile, for developing countries, the main issues discussed were the impact of the COVID-19 pandemic on increasing poverty and unemployment, declining ability to pay and the need for restructuring of foreign debt as well as mobilization of social assistance from donor countries.

The COVID-19 pandemic has also exposed a number of weaknesses in the world’s trade, monetary and financial system arrangement. In the field of international trade, in the short term the COVID-19 pandemic encouraged countries to prioritize domestic interests (inward looking policy), both by increasing domestic sources of growth and limiting trade relations with other countries. The weakness of the international trade system, which has so far relied on China in the global supply chains, creates vulnerabilities (Scheme 1). This needs to be addressed by building domestic supply chains and establishing trade relations bilaterally and with a number of regions (bilateral and regional free-trade agreements) so as to form multiple links in world trade (multi-polar supply chains). In the monetary sector, the dependence of world financial markets on the domination of the US dollar went close to
re-creating the global financial crisis at the end of March 2020. A systemic risk arises when all global investors simultaneously withdraw, in large numbers, their portfolio investment assets and exchange them for US dollars as a safe heaven currency. To overcome this, it is increasingly important to encourage bilateral and regional cooperation to use more local currencies in the settlement of trade and investment transactions (local currency settlement), as are steps to internationalize the Chinese Renminbi currency.

In the financial sector, the growing number of hedge funds using algorithmic trading (AI machine trading) proves the vulnerability of the global financial system to pressure conditions such as at the peak of the COVID-19 pandemic at the end of March 2020. A number of initiatives were undertaken to regulate and supervise Non-Bank Financial Institutions (NBFIs), including these hedge funds in strengthening the resilience of the global financial system.


The COVID-19 pandemic also had a tremendous impact on Indonesia's health, economy and finances, especially in the second quarter of 2020. As of 25 November, there were more than 500,000 positive COVID-19 cases in Indonesia, with around 425,000 recovered patients and 16,100 deaths (Graph 11).

The social restriction policies that need to be taken to prevent the spread of COVID-19 have had an impact on decreasing human mobility in almost all major cities in the period from April to June, and also have an impact on decreasing economic activity in the second quarter of 2020 (Graph 12). Human mobility has gradually improved since July 2020, in line with the easing of social restrictions in various regions, which has also stimulated improvement in...
economic activity since the third quarter of 2020. In the monetary sector, the global financial market panic at the end of March and April 2020 resulted in a large outflow of foreign portfolio investment with a very high depreciation pressure on the Rupiah. With a strong commitment to stability policies from Bank Indonesia, the Rupiah exchange rate has strengthened significantly since the end of March 2020, thus supporting the national economic recovery. Thanks be to God, the hardest times have passed. Stability is maintained and the process of economic recovery is ongoing.

Table 2. GDP by Expenditure (% yoy)

<table>
<thead>
<tr>
<th>Component</th>
<th>2018*</th>
<th>2019**</th>
<th>2019**</th>
<th>2020***</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I</td>
<td>II</td>
<td>III</td>
<td>IV</td>
</tr>
<tr>
<td>GDP</td>
<td>5.17</td>
<td>5.07</td>
<td>5.05</td>
<td>5.02</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>5.05</td>
<td>5.02</td>
<td>5.18</td>
<td>5.01</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>4.80</td>
<td>5.22</td>
<td>8.23</td>
<td>0.98</td>
</tr>
<tr>
<td>Investment</td>
<td>6.64</td>
<td>5.03</td>
<td>4.55</td>
<td>4.21</td>
</tr>
<tr>
<td>Non building Investment</td>
<td>10.31</td>
<td>3.69</td>
<td>1.96</td>
<td>1.95</td>
</tr>
<tr>
<td>Building Investment</td>
<td>5.41</td>
<td>5.48</td>
<td>5.46</td>
<td>5.03</td>
</tr>
<tr>
<td>Exports</td>
<td>6.55</td>
<td>-1.58</td>
<td>-1.73</td>
<td>0.10</td>
</tr>
<tr>
<td>Imports</td>
<td>11.88</td>
<td>-7.47</td>
<td>-6.84</td>
<td>-8.30</td>
</tr>
</tbody>
</table>

Note: * Preliminary figures; ** Figures are very provisional; *** Figures are very, very provisional
well as transfers to regions and village funds (transfer kedaerah dan dana desa - TKDD). Export performance has also improved, driven by global demand, especially from the US and China, that is recorded in a number of commodities such as iron and steel, pulp and waste paper, as well as textiles and textile products (tekstil dan produk tekstil - TPT). A number of indicators show improvement, such as community mobility, non-food and online retail sales, PMI Manufacturing, and public income. Looking ahead, economic growth is predicted to pick up on the back of the improving global economy and accelerated budget realization for the Central and Local Governments, progress on the credit restructuring program, and the continuation of Bank Indonesia monetary and macroprudential stimulus. Overall, Indonesia’s economic growth will start to be positive in the fourth quarter of 2020 and is estimated to reach 4.8% -5.8% in 2021.

Spatially, economic recovery is faster in a number of areas outside Java. Economic improvement in the third quarter of 2020 was recorded in almost all regions in Indonesia, although 7 (seven) provinces, including Bali, are still under pressure (Graph 13). In fact, 2 (two) provinces had positive growth which were Central Sulawesi with 2.82% (yoy) growth and North Maluku which grew at a high rate of 6.66%, supported by the positive performance of export-oriented industries. The easing of social activities by more than 31 Regional Governments (4 Provinces and 27 Regencies/Cities) encouraged economic improvement in the third quarter of 2020. In addition, the Government’s policy of accelerating...
Transfers to Regions and Village Funds (Transfer ke Daerah dan Dana Desa - TKDD) by easing transfer requirements supported the realization of regional expenditures so as to increase regional economic improvement, especially in Java. From the external side, the recovery of the Chinese and US economies has been the driving force for improvements in the export performances of a number of industrial products in Java, Sulawesi-Maluku-Papua (Sulampua) and Sumatra. In terms of business sector, economic recovery in the Sulampua region has been driven by continued investment and increasing demand in the steel and mining industries from abroad. In Java, the economic recovery was mainly supported by improved consumption due to accelerated budget realization and increased mobility, thus supporting improvements in the industry business sector. Meanwhile, the trade sector has improved in all regions in line with improving consumption and export-import activities. The improvement in regional economic growth is expected to continue in 2021, in which the regions of Java, Sumatra, Kalimantan, Bali and Nusa Tenggara (Balinusra), and Sulampua will grow respectively by 5.2%-5.6%; 4.0%-4.4%; 2.4%-2.8%; 5.2%-5.6%; and 7.8%-8.2%.

The resilience and stability of Indonesia’s external sector is well maintained. Current account transactions in the third quarter of 2020 recorded a surplus due to improvements in exports and import adjustments in line with the weak domestic demand. This is reflected in the trade balance during the third quarter of 2020 which recorded a surplus of US $ 9.8 billion, much higher than the
previous quarter’s trade balance surplus of US $ 4.0 billion (Table 3). The capital and financial account balance also remains strong, mainly supported by inflows of foreign portfolio capital in line with large global liquidity, the attractiveness of domestic financial assets, and continued investor confidence in the prospect for the domestic economy. Foreign exchange reserves in October 2020 were recorded at 133.7 billion US dollars, far above the international adequacy standard. Going forward, it is estimated that Indonesia’s external stability will be maintained. The balance of payments is expected to experience a surplus with a lower current account deficit and a larger capital account surplus. The current account deficit is projected to be below 1.5% of GDP in 2020 and around 1.0%-2.0% of GDP in 2021, supporting the resilience of Indonesia’s external economic sector.

With the stabilization policy of Bank Indonesia, the Rupiah exchange rate is stable and has the potential to strengthen. As stated above, the COVID-19 pandemic caused panic among investors and global market players, especially at the end of March and
April 2020 which prompted large capital flight flows and weakened exchange rates for various world currencies, including Indonesia. The Rupiah was under pressure and it reached Rp. 16,575 per US dollar on 23 March 2020 (Graph 14). With the stabilization steps taken by Bank Indonesia and intensive communication to investors and domestic and foreign market players, the Rupiah exchange rate has strengthened significantly again, reaching Rp. 14,165 per US dollar; or it appreciated 17.01% from 23 March 2020 to 20 November 2020 (Graph 15). Going forward, Bank Indonesia views the Rupiah exchange rate will remain stable and still has the potential to strengthen. This is in line with its fundamentally undervalued level, supported by low and controlled inflation, low current account deficit, high attractiveness of domestic financial assets and a declining risk premium for Indonesia. Bank Indonesia continues to strengthen its Rupiah exchange rate stabilization policy in accordance with its fundamentals and market mechanisms.

Inflation remains low in line with weak demand and adequate supply. In October 2020, the Consumer Price Index (CPI) inflation was recorded at a low of 1.44% (yoy) (Graph 16). Low inflation was recorded in all regions of the Republic of Indonesia and for all components of core inflation, volatile food (VF), and administered prices (AP). Core inflation remains low due to weak domestic demand, consistency of Bank Indonesia policies to anchor inflation expectations, and maintained exchange rate stability. Volatile food inflation remains low in line with weak domestic demand, adequate supply, managed distribution, and a more effective coordination between National Inflation Task Force (TPI) and Regional Inflation Task Force (TPID). Meanwhile, low inflation in the administered prices category was not only due to limited human mobility, but also due to lower air transport fares. Bank Indonesia predicts that inflation

Graph 15. Rupiah Exchange Rate Against US Dollar vs Several Countries: 23 March - 20 November, 2020

Graph 16. Inflation: Core, Volatile Food, and Administered Prices
at the end of 2020 will be lower than 2% and in 2021 will be controlled within the target of 3.0±1% (Graph 17). Bank Indonesia consistently maintains price stability and strengthens policy coordination with the Government, both at the central and regional levels through the Inflation Task Force (TPI and TPID), in order to keep inflation within its target range.

### Financial system stability was maintained amidst weak credit growth.

The capital adequacy ratio (CAR) of banks in September 2020 was recorded at 23.41%, and the ratio of non-performing loans (NPL) was recorded at 3.15% (gross) and 1.07% (net), respectively. (Graph 18). However, the intermediation function of the financial sector is still weak due to limited credit growth in line with weak domestic demand as a result of depressed business performance and banking prudence due to the continuing COVID-19 pandemic. Credit in October 2020 contracted by -0.47% (yoy), meanwhile, growth in Third Party Funds (TPF) was recorded at a higher rate of 12.12% (yoy) (Graph 19). The weak credit growth in October 2020 occurred in almost all regions of Indonesia, except in West Nusa Tenggara and Papua. Going forward, banking intermediation is predicted to improve. Growth in credit and Third Party Funds in 2021 is estimated to increase each by 7.0% -9.0% respectively. This prediction is consistent with the prospect of economic recovery as well as continued fiscal and monetary as well as macroprudential policy stimulus. Corporate performance has also gradually improved and reflected in increased sales, ability to pay, and tax revenues, particularly in the Industry and Trade sectors.

### Payment System Transactions increased in line with economic improvements, accompanied by accelerated economic and financial digitalization.

The growth of currency in circulation (Uang Kartal Yang Diedarkan - UYD) in October 2020 was
recorded at 14.61% (yoy) amounting to Rp. 806.8 trillion. Payment transactions using ATMs, Debit Cards, and Credit Cards showed a lower growth contraction to 3.97% (yoy) in October 2020 (Graph 20). On the other hand, digital economic and financial transactions continue to grow positively in line with the use of digital platforms and instruments during the pandemic, as well as the strong public preferences and acceptance of digital transactions. The value of EU transactions in October 2020 continued to grow positively by 14.80% (yoy). The value of digital banking transactions recorded a positive growth of 10.50% (yoy) in September 2020. (Graph 21). Likewise, e-commerce transactions and the use of the Indonesian Standard Quick Response Code (QRIS) in various transactions have increased rapidly. Going forward, Bank Indonesia believes that the development of the digital financial economy in Indonesia will be more rapid, especially e-commerce transactions, electronic money, and digital banking, thus supporting the national economic recovery from the retail and MSME sectors. Bank Indonesia continues to accelerate the digitalization of payments through the implementation of the 2025 Indonesian Payment System Blueprint (Blueprint Sistem Pembayaran Indonesia - BSPI), in collaboration with the Government, banking, fintech, and e-commerce. In addition, the rapid growth of the digital financial economy is also in line with the improving national economic conditions and increasing public preference and acceptance of digital transactions.

The prospects for Indonesia’s economic recovery in 2021 will improve in the following years and return to a trajectory towards an advanced Indonesia in the medium term. The acceleration of economic growth with a better economic structure is supported by the acceleration of economic transformation through a series of structural reform policies directed at 5 (five) main strategies. First, development of reliable human resources with mastery of technology. Second, infrastructure development that supports industrial connectivity, including MSMEs and tourism. Third, improving the investment and business climate that is better supported by the streamlining of regulations through the implementation of the Job Creation Law and the development and deepening of the financial market which encourages the strengthening of sources of development financing. Fourth, strengthening priority sectors that are competitive and with high added value; and fifth, optimizing the use of technology to support digital-based economic transformation. The increased economic capacity which is supported by increased economic efficiency and productivity, as a result of a series of structural reforms, promotes higher and more sustainable economic growth towards an advanced
Indonesia with maintained stability. We predict that in the medium term, Indonesia’s economic growth will continue to pick up to be in the range of 5.5% - 6.1% with inflation maintained at a low level of 1.5% - 3.5% and a current account deficit in the range of 1.5% - 2.5% of GDP in 2025. Overall, with this projected trajectory, Indonesia is predicted to become a high-income developed country by 2045.


The improvement in the performance of the national economy is supported by synergy and close policy coordination among Government, Bank Indonesia, Financial Services Authority (Otoritas Jasa Keuangan - OJK), the Deposit Insurance Agency (Lembaga Penjamin Simpanan - LPS) and other related parties. In 2020, the government provided a relatively large fiscal stimulus with a deficit of Rp. 1,039.2 trillion or 6.3% of GDP. This included the budget for handling COVID-19 and the national economic recovery program of Rp. 695.2 trillion for the public goods (i.e. health, social assistance, and public services) amounting to Rp. 397.6 trillion, as well as non-public goods (namely incentives to MSMEs, business, and corporations) amounting to Rp. 297.6 trillion. Bank Indonesia, in addition to stabilizing the Rupiah exchange rate, also provided a large monetary stimulus in the form of lowering interest rates and quantitative easing, as well as easing macroprudential policies and digitalizing the payment system. Through the “burden sharing” mechanism with the Government, Bank Indonesia provides financing and bears the burden of the entire public goods budget of Rp. 397.6 trillion in the 2020 State Budget through direct purchase of Government Securities (Surat Berharga Negara - SBN), and also bears the burden of around 60% of the SBN interest for the non-public goods budget for MSMEs and corporations in the amount of Rp. 117.0 trillion in the 2020 State Budget. Meanwhile, OJK provides relaxation for banks in restructuring their credit by delaying installments of principal and interest of credit to avoid increasing non-performing loans and worsening capital. Likewise, the theLPS also ensures that public savings in the banking sector are guaranteed to support the stability of the financial system.

Bank Indonesia is fully committed to directing all policy instruments for the national economic recovery. Since the outbreak of of COVID-19, Bank Indonesia’s policy mix has been strengthened and closely coordinated with the Government and the KSSK for national economic recovery, while maintaining macroeconomic and financial system stability. Bank Indonesia is committed to provide financing to the 2020 State Budget through the purchase of Government Securities (SBN) from the primary market or directly, so that the Government can focus on accelerating budget realization. Provision of liquidity is also continuously provided for banks to support the credit restructuring program and the business sector. The strengthening of the Bank Indonesia policy mix covers the following 6 (six) aspects:

i. A decrease in the BI 7-Day Reverse Repo Rate (BI7DRR) which was cut 5 (five) times in 2020 by 125 bps to 3.75%. This decision is in line with the need to boost economic growth, amidst low inflation and relatively stable Rupiah exchange rate. This Bank Indonesia policy interest rate is the lowest level in history.

ii. Rupiah exchange rate stabilization policy through intervention on the spot market, Domestic Non-Deliverable Forward (DNDF), and purchases of SBN from the secondary market, amid continuing uncertainty global financial market.

iii. Quantitative Easing by injecting large amounts of liquidity into banks to support the national economic recovery program. Quantitative easing is carried out by, among others, monetary expansion and a reduction in the reserve requirement (Giro Wajib Minimum - GWM).

iv. Relaxation of macroprudential policies to boost credit and financing for the economy, such as the Macroprudential Intermediation Ratio (MIR), Loan to Value (LTV) ratio, or lending down-payment for green motor vehicle loans.
v. Provision of funding and burden sharing for the 2020 State Budget to support the national economic recovery program through the purchase of SBN from the primary market (based on the Joint Decree by the Minister of Finance and Governor of Bank Indonesia dated 16 April 2020) and direct purchase (based on the Joint Decree by the Minister of Finance and Governor of Bank Indonesia 7 July 2020). Also, providing funding for LPS to anticipate and handle problem banks through the repo mechanism and/or purchase of SBN (PP No. 33 of 2020).

vi. Accelerate digitalization of payment systems based on the Payment System Blueprint (BSPI) 2025 to expand the digital economy and finance as part of economic recovery efforts, through electronification of the distribution of Government social assistance, expansion of QRIS, and collaboration between banks and fintech for easy access for MSMEs and the public to financial services.

Rupiah Exchange Rate Stabilization Policy

With the stabilization policy adopted by Bank Indonesia, the Rupiah exchange rate strengthened significantly, which was conducive to the national economic recovery. Bank Indonesia’s stabilization policy was supported by intensive communication with investors as well as domestic and foreign market players. As we have previously stated, the Rupiah, which touched Rp. 16,575 per US dollars on 23 March 2020, then strengthened to Rp. 14,165 per US dollar on 20 November 2020. Investor’s confidence have improved as can be seen in renewed foreign portfolio flows into Indonesia. From 14 April to 20 November 2020, foreign portfolio inflows to the SBN market were recorded at Rp. 48.6 trillion (Graph 22). Foreign reserves pick up and reach 133.7 billion US dollars at the end of October 2020, higher than the level before COVID-19. We are of the view that the current Rupiah exchange rate is still fundamentally undervalued, and, God willing, the Rupiah still has the potential to strengthen. The stability and strengthening of the Rupiah exchange rate is supported by a number of factors, namely: (a) low and controlled inflation, (b) low current account deficit, which is below 1.5% of GDP for the whole of 2020, (c) high interest rate differential between domestic interest and overseas market (Graph 23), (d) increased foreign exchange reserves, and (e) reduced risk premiums in line with less uncertainty on global and domestic financial markets.
Monetary Policy Stimulus

Lower interest rates and relaxation of Bank Indonesia’s monetary policy has led to lower bank interest rates and financial market stability, although the decline in lending rates is still modest. As we noted above, during 2020 Bank Indonesia lowered the monetary policy rate by 125 bps, bringing the BI7DRR interest rate to 3.75%. This Bank Indonesia policy interest rate is a record-low in the history of Indonesian economy. The decline in the BI7DRR interest rate and the easing of liquidity pursued by Bank Indonesia was accompanied by a 154 bps cut in the Interbank Money Market (Pasar Uang Antar Bank - PUAB) interest rate, resulting in a very low overnight PUAB interest rate of around 3.27% in November 2020 (Graph 24). Likewise, the yield on 10-year SBNs also fell by 75 bps from a high of 8.31% at the end of March 2020 to 6.13% on 18 November 2020. Banking interest rates also went down, particularly deposit rates by 138 bps to 4.93%, despite the 70 bps drop in lending rates to 9.84% at the end of October 2020 (Graph 25). With the large decline in policy interest rates and the easing of Bank Indonesia’s monetary policy, the slow decline in bank credit interest rates is due to increased credit risk that requires banks to increase their reserves. We hope that banks will be able to accelerate the reduction in loan interest rates, thereby supporting credit growth and financing for the national economic recovery.

To encourage financing for business and the national economic recovery, Bank Indonesia also extended the monetary stimulus in the form of a quantitative easing (QE) policy to a large number of banks. As of 20 November 2020, Bank Indonesia has injected Rupiah liquidity of around Rp. 682.0 trillion or nearly 4% of GDP, mainly from a reduction in the statutory reserve requirement (Giro Wajib Minimum - GWM) of around Rp. 155 trillion and a monetary expansion of around Rp. 511.2 trillion. As shown in Graph 10, the amount of QE by Bank Indonesia is the largest among EMEs countries. In more detail, the expansion of monetary operations was carried out through provision of term-repos to banks with underlying SBN and FX swaps totaling Rp. 345.0 trillion. Monetary expansion was also carried out through the purchase of SBN from the secondary market amounting to Rp. 166.2 trillion, as part of the Rupiah exchange rate stabilization policy pursued by Bank Indonesia. This was conducted, particularly in the period of March and April 2020 when there was a withdrawal of foreign portfolio investment, particularly from Government SBNs, that put pressure on the Rupiah. In addition, Bank Indonesia cut the Rupiah reserve requirement 3 (three) times by 300 bps, thereby increasing liquidity to around Rp. 155 trillion during 2020. Bank Indonesia also did not
impose additional demand deposits penalty if banks do not comply with Macroprudential Intermediation Ratio, thereby increasing liquidity by around 15.8 trillion.

**Monetary Policy Mix and Macroprudential Policy**

Bank Indonesia has relaxed its macroprudential policy to encourage bank lending and financing. During 2020, Bank Indonesia relaxed the regulation on Macroprudential Intermediation Ratio (RIM / RIM Sharia), which is the ratio between financing and bank funding, without imposing penalties on banks that have RIM or RIM Sharia outside the target range, that has been set at 84% - 94%, for the next year starting from 1 May 2020 (Graph 26).

The provisions for the Loan to Value (LTV) ratio, namely the down payment policy in bank credit distribution, for environmentally sound motor vehicle loans were also relaxed to 0% (Graph 27). In addition, regulation on Macroprudential Liquidity Support (Penyangga Likuiditas Makroprudensial - PLM / PLM Sharia), namely the ratio of liquid assets in the form of ownership of SBN and SBI as liquidity buffer, was strengthened from 4% to 6% Deposits for conventional banks and to 4.5% against Rupiah Deposits for Islamic banks. All securities used for compliance of or RIM sharia can be repoed to Bank Indonesia to meet liquidity needs. We view that the easing of the macroprudential policy can provide flexibility for banks in channeling credit to promote national economic recovery while maintaining priority on sustaining financial system stability.

The reduction in interest rates and relaxation of monetary and macroprudential policies by Bank Indonesia have provided support maintain financial system stability. Ample liquidity conditions in the banking sector were reflected in the high ratio of Liquid Assets to Third Party Funds (LA / TPF), namely 30.65% in October 2020. Per the BUKU (Bank Umum Kegiatan Usaha / Commercial Bank Business Activities) bank group, LA / TPF ratio reached around 28.91% to 34.19% for BUKU bank 2 to BUKU bank 4, while the LA / TPF ratio for BUKU bank 1 was also relatively high, namely at 17.83% (Graph 28).

Deposit growth in the banking sector was also high, namely 12.12% (yoy) in October 2020, while credit growth contracted 0.47% (yoy). Related to monetary aggregates, growth in the M1 and M2 in October 2020 remained high, at 18.5% (yoy) and 12.5% (yoy). The extraordinary liquidity easing by Bank Indonesia in remains circulated in the banking and money market, and is not yet channeled to the real sector in the form of credit. However, on the other hand, lowering interest rates and loosening liquidity played an important role in maintaining financial
system stability. This was primarily due to maintained risk in interest rate and liquidity aspect. Moreover, the liquidity loosening has also played a favourable role in bank profitability by improving revenue from investing its liquidity in SPN and SBN instruments, in addition to interbank lending (Pinjaman Antar Bank - PUAB). Overall, ownership of securities in banks reached Rp. 1,443 trillion at the end of October 2020, most of which were owned by BUKU bank 3 and 4 (Graph 29).

**Weak demand is the dominant factor in explaining a contraction of credit** (Graph 30). Credit in October 2020 contracted by 0.47% (yoy) despite high growth in banks deposits of 12.12% (yoy). On the supply side, banking capacity to provide lending was more than adequate in line with the easing of Bank Indonesia’s monetary policy in the form of lowering interest rates and large liquidity injections, as well as a relaxation of macroprudential policies. The banking survey by Bank Indonesia in the third quarter of 2020 also showed that the standard of lending was improving (Graph 31). Therefore, we view that this low credit growth condition is caused mainly by weak demand. This is closely related to weak domestic demand and unfavorable
conditions in the business sector due to economic slowdown caused by COVID-19 pandemic as described above. As domestic economy recovers in the aftermath of COVID-19 pandemic, the gradual easing of restrictions on human mobility, acceleration of the realization of the APBN and APBD by the Government, a loose mix of monetary and macroprudential policies including more than adequate banking liquidity by Bank Indonesia, as well as progress on credit restructuring by banks, we estimate that bank lending and financing from the capital market will gradually pick up going forward.

Implementation of Law No. 2 of 2020: Supporting State Finances and Financial System Stability

Bank Indonesia has followed up through all the authorities given by Law Number 2 of 2020 as part of the national policy response to a situation of extreme urgency due to the COVID-19 pandemic. As it is known, the national policy response in Law no. 2 of 2020 includes state budget policies and financial system stability policies. In this regard, the authority of Bank Indonesia related to state budget policies in Law no. 2/2020 includes the purchase of SBN in the primary market from the Government, while related to financial system stability policies include improvements to the Short-Term Liquidity Loan / Sharia Short-Term Liquidity Financing (Pinjaman Likuiditas Jangka Pendek/ Pembiayaan Likuditas Jangka Pendek Syariah - PLJP / PLJPS), purchase / repo of SBN with LPS, foreign exchange activities regulation, and access funding to corporations/private sector by means of repo of Government Securities/State Sharia Securities (Surat Utang Negara/Surat Berharga Syariah Negara - SUN / SBSN) through banks. Bank Indonesia’s follow-up on the authority of Law no. 2 of 2020 is as follows:

i. Long-term SUN / SBSN purchases on the primary market for APBN state budget financing in the context of the COVID-19 pandemic and national economic recovery (Article 16 (1) (c) & 19) have been implemented based on 2 (two) agreements between the Ministry of Finance and Bank Indonesia. First, the purchase of SUN / SBSN from the primary market by Bank Indonesia through a market mechanism to provide financing for 2020 State Budget in accordance with the Joint Decree by the Minister of Finance and the Governor of Bank Indonesia dated 16 April 2020. Second, direct purchase of SUN / SBSN by Bank Indonesia for financing as well as burden sharing of the 2020 State Budget in a Joint Decree by the Minister of Finance and the Governor of Bank Indonesia dated 7 July 2020.

ii. The provision of PLJP / PLJPS to solvent and healthy banks (Article 16 (1) (a) and 17) has been followed up with changes to the two Bank Indonesia Regulations (PBI) No.22 / 5 / PBI / 2020 and PBI No.22 / 6 / PBI / 2020 dated 30 April 2020 which was later revised with the third amendment in PBI No.22 / 15/2020 and PBI No.22 / 16/2020 dated 29 September 2020.

iii. Provision of Special Liquidity Loans (Pinjaman Likuiditas Khusus - PLK) to Systemic Banks experiencing liquidity difficulties that do not meet the requirements of PLJP / PLJPS guaranteed by the Government based on the KSSK Decree (Article 16 (1) (b) & 18). We discussed this at the Board of Governors Meeting on 27 May 2020 and currently it is still in discussion at KSSK.

iv. Purchases and / or repurchase agreement (repo) transactions of SBN with the Deposit Insurance Corporation to recover the cost incurred for handling solvency problems of Systemic Banks and Banks Other Than Systemic Banks (Article 16 (1) (d) & 20). The mechanism has been followed up as set forth in the amendment to the Memorandum of Understanding between Bank Indonesia and IDIC dated 23 July 2020.

v. Regulations on the obligation to receive and use foreign exchange for residents, including provisions regarding the transfer, repatriation and conversion of foreign exchange to maintain macroeconomic and financial system stability (Article 16 (1) (e)), have been followed up with a plan to issue a Bank Indonesia Regulation (PBI) concerning the obligation to repatriate
foreign exchange proceeds from the export of natural resources. Consultation on the PBI implementation plan for the banking and the business community has been carried out. However, until now we have no plans to enforce it.

vi. Funding to corporations / private companies by means of repo SUN / SBSN owned by corporations / private through banking (Article 16 (1) (f)) can be implemented with existing regulation PBI and PDG of Monetary Operations.

Bank Indonesia is fully committed to realizing the purchase of SBN from the primary market for funding and burden sharing for the 2020 State Budget to support national economic recovery in accordance with Law no. 2 of 2020. As stated above, the purchase of SUN / SBSN on the primary market by Bank Indonesia for financing the 2020 State Budget is carried out through 2 (two) “Burden Sharing” mechanisms. First, the Joint Agreement by the Minister of Finance and the Governor of Bank Indonesia dated 16 April 2020 regarding the Purchase of SUN / SBSN from the primary market by Bank Indonesia through a market mechanism. In this case, the purchase of SUN / SBSN can be made through a non-competitive bidder in the main auction, a green shoe option in an additional auction, or a private placement. Second, the Joint Agreement by the Minister of Finance and the Governor of Bank Indonesia dated 7 July 2020 regarding the purchase of SUN / SBSN directly for the financing of the 2020 State Budget, as a follow-up to the decision by Commission XI-DPR RI at the Working Meeting on 6 July 2020. Direct purchase of SUN / SBSN for public goods financing in the 2020 State Budget is Rp. 397.56 trillion, namely for health, social assistance, and public services, all of which are borne by Bank Indonesia. In addition, Bank Indonesia also bears the burden of financing non-public goods in the 2020 State Budget related to MSME and corporate incentives totaling Rp. 177.03 trillion.

The large amount of funding and burden sharing by Bank Indonesia for the 2020 State Budget allows the Government to focus on accelerating budget realization for national economic recovery. Since the signing of the Joint Agreement between the Minister of Finance and the Governor of Bank Indonesia regarding the “Burden Sharing” scheme I, up until 20 November 2020 Bank Indonesia has purchased SBN from the primary market amounting to Rp. 72.5 trillion in 31 (thirty one) auctions conducted by the Government during 2020. Meanwhile, the realization of funding and burden sharing for public goods funding in the 2020 State Budget by Bank Indonesia through the direct purchase of SBN is in accordance with the Joint Decree by the Minister of Finance and the Governor of Bank Indonesia dated 7 July 2020 (“Burden Sharing” II Scheme) to 20 November 2020, amounted to Rp. 297.03 trillion. Thus, the overall purchase of SBN by Bank Indonesia along with the distribution of the burden for funding the 2020 State Budget has reached Rp. 369.52 trillion. In addition, Bank Indonesia will also realize the burden sharing with the Government for funding the 2020 State Budget for Non Public Goods-MSMEs amounting to Rp. 114.81 trillion in accordance with the Joint Decree by the Minister of Finance and the Governor of Bank Indonesia dated 7 July 2020 (“Burden Sharing” Scheme II). With the commitment of Bank Indonesia in purchasing SBN from the primary market, the Government can focus on efforts to accelerate the realization of the State Budget to encourage national economic recovery.

Bank Indonesia refined the PLJP / PLJPS provisions to provide liquidity for solvent and healthy banks to strengthen financial system stability. As stated, two improvements were made so that the PLJP / PLPS provision could be implemented and that it conformed to international standards in supporting financial system stability. The third improvement has been published in PBI No. 22/15/2020 and PBI No. 22/16/2020 on 29 September 2020 regarding the third change of PLJP to conventional banks and PLJPS to Islamic banks respectively. Improvements in particular related to interest rate settings, simplification
of credit collateral requirements, as well as the verification and valuation process for credit collateral by KAP / KJPP in the banking application process for PLJP / PLJPS. We have also established the Macroprudential-Microprudential Supervision Coordination Forum (Forum Koordinasi Pengawasan Makroprudensial-Mikroprudensial - FKMM) between Bank Indonesia and the Chairman of the OJK Board of Commissioners, dated 19 October 2020. In this case, the granting of PLJP / PLJPS was agreed to be part of the supervisory action by OJK so that banks that need and fulfill the requirements of PLJP / PLJPS are required to prepare verification and valuation of credit collateral by KAP / KJPP so that Bank Indonesia will be able to accelerate the provision of PLJP / PLJPS in the event that it is needed.

Digitalization of Payment Systems: Accelerating National Digital Economic and Financial Integration

To encourage the digital economy and finance as sources of economic growth, Bank Indonesia is accelerating the digitalization of the payment system with the implementation of the 2025 Indonesian Payment System Blueprint (Blueprint Sistem Pembayaran Indonesia - BSPI). This is in line with the 5 (five) directives of the President on 3 August 2020 to accelerate digital transformation towards an advanced Indonesia. The acceleration of digitalization of the payment system is an implementation of the 5 (five) visions in BSPI 2025 which we launched in May 2019, that are directed at encouraging: (i) integration of the national digital financial economy, particularly the retail and MSME sectors, (ii) banking digitization (open banking), (iii) digital banking interlink with fintech, (iv) start-up innovation while still considering the principle of prudence, and (v) basing national interests in payment system cooperation between countries. BSPI 2025 is implemented through 5 (five) main initiatives, namely: (i) digitalization of banking through open banking and interlinking with fintech through Application Programming Interface (API), (ii) digitizing retail payment systems through expanding QRIS and developing BI-FAST Payment, (iii) development of large value payment system infrastructure and modern and international standard financial markets, (iv) development of public infrastructure for data through Data Hub and Payment ID, and (v) progressive regulatory reform and development friendly industry. A number of rapid advances have been made in the implementation of the 2025 BSPI, in close synergy with banks and the Indonesian Payment System Association (Asosiasi Sistem Pembayaran Indonesia - ASPI), OJK, and the Government (Central and Regional).

Digitalization of the payment system has driven digital economy transactions through e-commerce amid the COVID-19 pandemic. While economic transactions and physical payments have decreased, in 2020 the nominal value of e-commerce transactions is estimated to reach Rp. 253 trillion, up 23% from 2019, and expected to again increase by 33.2% to Rp. 337 trillion in 2021 (Graph 32). In addition to increasing public preferences amidst limited mobility due to the COVID-19 pandemic, the rapid increase in e-commerce transactions is also driven by a number of marketplace strategies, such as promotional events with free shipping and cashback, safe shopping on official e-commerce platforms, convenience for consumers to choose goods through

Graph 32. Nominal of E-Commerce Transactions

![Graph showing the nominal of e-commerce transactions from 2017 to 2021](image)

Source: Bank Indonesia
Description: * Proyeksi Bank Indonesia
interactive communication, and the use of big data and algorithms that enable a personal shopping experience. In line with the fast pace of e-commerce transactions, digital payment transactions also increased rapidly, as reflected in the use of Electronic Money (EU) which reached 42.8% in e-commerce transactions in the third quarter of 2020, increased by 225.3% (yoy) from 2019 (Graph 33). Meanwhile, payment methods via bank transfer and cash accounted for 24.8% and 14.7% of e-commerce transactions, respectively.

The national and regional QRIS expansion campaign is able to accelerate the digital financial economy, particularly MSMEs and retail trade. Since its launch in August 2019, Bank Indonesia has carried out a massive campaign using QRIS as the only standard used in Indonesia, both nationally and in various regions, especially for MSMEs, traditional markets, and the academic world. The campaign was carried out through all 46 (forty six) Bank Indonesia offices in synergy with banks, payment system associations, institutional ministries, local governments, and strategic partners. QRIS provides various advantages, namely it is fast with recorded transactions, efficient and free of charge, "cool" and up-to-date because it is supervised by Bank Indonesia, and more hygienic because there is no physical contact. The use of QRIS in payment transactions is increasingly widespread and popular throughout Indonesia. This can be seen from the rapidly increasing development of QRIS, both in terms of volume and the nominal value of transactions as well as the number of merchants (Graph 34). Currently, the use of QRIS has connected approximately 5.3 million retail merchants nationally (Table 4). Most of these merchants are MSMEs, with more than 3.4 million Micro Business (Usaha Mikro - UMI) merchants and around 1 million Small Business (Usaha Kecil - UKE) merchants. Through QRIS, the digitalization of MSMEs can be

**Table 4. QRIS Registered Merchants**

<table>
<thead>
<tr>
<th>Merchants' Criteria</th>
<th>22 March 2020</th>
<th>13 November 2020</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Enterprises</td>
<td>129,834</td>
<td>284,309</td>
<td>119%</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>265,077</td>
<td>489,770</td>
<td>85%</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>304,420</td>
<td>1,069,490</td>
<td>251%</td>
</tr>
<tr>
<td>Micro Enterprises</td>
<td>2,378,026</td>
<td>3,426,123</td>
<td>44%</td>
</tr>
<tr>
<td>Donation/ Social</td>
<td>3,996</td>
<td>12,763</td>
<td>219%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3,081,353</strong></td>
<td><strong>5,282,455</strong></td>
<td><strong>71%</strong></td>
</tr>
</tbody>
</table>

Source: Bank Indonesia
accelerated so that it supports national economic and financial inclusion, including the availability of MSME data, which has been one of the obstacles in its development. Moreover, the expansion of the use of QRIS nationally and in the regions has overcome many of the previous problems associated with using QR from other countries in Indonesia.

Electronification payments for distribution of social assistance programs, modes of transportation, as well as electronification of local government finances also accelerates the digital economy and finance. Payment electronification supports the distribution of Government social assistance in a more targeted, correct amount, on time, and with better governance. Until September 2020, Rp. 29.1 trillion in non-cash social assistance has been distributed to the Family Hope Program (Program Keluarga Harapan - PKH) and Rp. 30.0 trillion for the Basic Food Program (Scheme 2). Likewise, the electronification of various modes of transportation continues to be expanded, both for air, land and sea transportation. Moreover, the electronification of regional government financial transactions has progressed rapidly. To date, 542 Regional Governments have electronified their financial transactions, namely 34 provinces, 93 cities and 415 districts. The level of payment electronification varies from Cash Management System (CMS), online SP2D, to the use of QRIS, Electronic Money, and online banking. The electronification of local government financial transactions is not only for collecting taxes and levies, but also for spending and expenses. Payment electronification has been proven to increase tax revenue, expenditure efficiency and optimization, and strengthen local government financial governance.

Digitization of the payment system has also accelerated the development of fintech and digitalized banking. Payment transactions using Electronic Money in 2020 are estimated to have increased from 2019 by 38.4% to Rp. 201 trillion, and

**Scheme 2. Electronification of Government Social Assistance Payments**

<table>
<thead>
<tr>
<th>Program</th>
<th>Nominal</th>
<th>Recipient</th>
<th>Target 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKH</td>
<td>Rp37.4 T</td>
<td>10 million KPM</td>
<td>After Covid-19</td>
</tr>
<tr>
<td>Staple Food</td>
<td>Rp43.6 T</td>
<td>20 million KPM</td>
<td>After Covid-19</td>
</tr>
</tbody>
</table>

**REALIZATION OF NON-CASH SOCIAL ASSISTANCE (PKH AND STAPLE FOOD PROGRAM)**

<table>
<thead>
<tr>
<th></th>
<th>until July 2020</th>
<th>until August 2020</th>
<th>until September 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>PKH</td>
<td>24.1 T 64.38%</td>
<td>26.6 T 71.09%</td>
<td>29.1 T 77.90%</td>
</tr>
<tr>
<td>STAPLE FOOD PROGRAM</td>
<td>22.4 T 51.31%</td>
<td>26.2 T 60.14%</td>
<td>30.0 T 60.85%</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia
are expected to increase by 32.3% to Rp. 266 trillion in 2021 (Graph 35). Meanwhile, digital banking payment transactions via SMS / mobile banking and online banking in 2020 are estimated to reach Rp. 27,036 trillion, slightly higher than in 2019, and are expected to increase significantly by 19.1% to Rp. 32,206 trillion in 2021 (Graph 36). About 15 banks have carried out a digital transformation so as to improve digital financial services, such as opening savings accounts, transfers and payments online, to live-chat services with customers. This development shows that digital banking in Indonesia has developed rapidly, and is able to catch up and even compete with payment transactions through fintech. Bank Indonesia continues to accelerate digital payment transactions through digital banking and fintech as well as interlinking both through Open API (Application Programming Interface) standards so that the public and the business world can choose which one is the cheapest, fastest, and safest.

**In Rupiah currency management, Bank Indonesia has also carried out a transformation in the printing and circulation of money through centralization, automation and efficiency, throughout the Republic of Indonesia.** This transformation is directed at providing currency fit for circulation, appropriate denomination, “just in time”, is “central bank driven”, aligning the direction of non-cash policies and taking into account efficiency and national interests. The transformation is carried out through three pillars. The first pillar, Availability of Quality and Reliable Rupiah Currency, is through strengthening planning for meeting the needs of the Rupiah currency; strengthening of materials, safety elements and designs of Rupiah currency; preparing the implementation of redenomination, as well as strengthening integrity and a culture program to care for the Rupiah. The second pillar, Efficient Money Distribution System and Prime Cash Services is through efficient money distribution networks, strengthening cash services, and strengthening institutional architecture. The third pillar, Development of Adequate and Technology-Based Rupiah Currency Management Infrastructure, is through digitizing processing of the Rupiah currency, infrastructure optimization, as well as integrated and compatible cash equipment. The transformation of Rupiah currency management through these three pillars is a manifestation of Bank Indonesia’s strong commitment to maintaining the integrity and credibility of the Rupiah as legal tender, as well as a unifier and pride for the Republic of Indonesia and the Indonesian nation.

**Money Market Deepening: Effectiveness of Policy Transmission and Financing**

Bank Indonesia has accelerated money market reforms to strengthen monetary policy transmission
and to support financing for the economy. To that end, Bank Indonesia has formulated the Money Market Deepening Blueprint (Blueprint Pendalaman Pasar Uang - BPPU) 2025. The goal is to create fluid and efficient financial market conditions to support monetary stability, financial system stability and to create a conducive climate for financing national development (Scheme 3). The focus is on developing a market ecosystem that is modern with international end-to-end standards covering the 3Ps + I aspects, namely Products (instruments), Providers (and users of funds, intermediaries), and Pricing (benchmark rates and standardization), with Infrastructure (market infrastructure, regulatory framework, as well as coordination and education). This target is achieved through 3 (three) main strategies, namely: (i) Encouraging Digitalization and Strengthening of the Financial Market Infrastructure (FMI), (ii) Strengthening the Effectiveness of Monetary Policy Transmission, and (iii) Developing Sources of Economic Financing and Risk Management. Bank Indonesia focuses on the development of the money market, foreign exchange market and Islamic money market, in close coordination with the OJK that focuses on the stock market, bond market and structured product markets.

BPPU 2025 is implemented through 3 (three) main initiatives to develop a modern and international standard money market. The Strategic Business Plan (SBP) for the three main initiatives will be implemented from 2020 to 2025 (Scheme 4). The first initiative is to encourage digitization and strengthening of money market infrastructure including trading venues such as the electronic trading platform (ETP), central counterparty (CCP), BI-SSS, BI-RTGS, and trade repositories (TR). The second initiative is to increase the effectiveness of monetary policy transmission through the expansion of the instruments of the Repurchase Agreement (Repo), IndONIA and JIBOR, Overnight Index Swap (OIS), DNDF, and Local Currency Settlement (LCS) with a number of countries. Meanwhile, the third initiative is to develop sources of economic financing and risk management, such as long-term hedging instruments, asset securitization, and asset management.

Scheme 3. Money Market Deepening Blueprint (Blueprint Pendalaman Pasar Uang - BPPU) 2025
sustainable and green finance, and expansion of the retail investor base. For the successful implementation of BPPU 2025, especially with the third initiative, Bank Indonesia is coordinating closely with the Government and OJK in the Financial Market Deepening Coordination Forum (Forum Koordinasi Pendasalan Pasar Keuangan – FK-PPK) as well as with the financial industry and with strategic partners.

**Empowerment of Sharia Economy and Finance, and MSMEs**

Bank Indonesia continues to accelerate the development of Islamic economy and finance as a new source of growth for the Indonesian economy. The goal is to build a halal value chain ecosystem through three main pillars. The first pillar, the sharia economic empowerment, is directed at building halal supply chains, from small and medium scale in Islamic boarding schools (pesantren) and Muslim communities, to large scale at the industrial level. This is applied in the leading sectors of agriculture, fashion, Muslim friendly tourism, and renewable energy. The second pillar, Islamic finance, expands financial products and access both commercial - namely banking, financial markets and other financial institutions; and social finance - namely zakat, infaq / shodaqoh, and waqf. The third pillar, education and outreach, is implemented through the development of a curriculum for Islamic economy and finance, entrepreneurship, as well as the establishment of three Sharia Financial Economics Festivals (Fesyar) at the regional level, and ISEF at the national and international.

Sharia financing for economic recovery has also been strengthened through improved liquidity management of sharia banks. In 2020, Bank Indonesia issued provisions for a new Sharia Interbank Money Market (Pasar Uang Antar bank Syariah - PUAS) in the form of an Interbank Sharia Fund Management Certificate (Sertifikat Pengelolaan Dana Berdasarkan Prinsip Syariah Antar bank - SiPA), with a wakalah bi al-istitsmar.
Scheme 5a. PaSBI Mechanism

TRANSACTION MECHANISM “PaSBI”

1. Statement letter and sales power agreement
2. Wakalah bi al-istitsmar contract, among others:
   a. Transaction Value
   b. Period of Time
   c. The expected rate return of the OMS
   d. Nominal value and type of SBS collateral (SBISN/SukBI/SBIS)
3. Delivery of Funds (without ujrah *)
4. Fund management that produces a minimum return equals to the expected return rate of OMS
5. Released pledge of SBS collateral
6. Execution of SBS collateral

*) 1st leg Value = SBS nominal pledged x (SBS Price – haircut)
**) 2nd leg Value = 1st leg Value + management result (istitsmar)

Source: Bank Indonesia

Scheme 5b. FLiSBI Mechanism

TRANSACTION MECHANISM “FLiSBI”

1. Power of sale agreement letter (once at the beginning)
2. Qardh and rahn contracts, among others:
   a. Transaction Value
   b. Period of Time
   c. FF Rate, or the level of cost of storage and maintenance of collateral (mu’nah)
   d. Nominal value and type of SBS collateral (SBISN/SukBI/SBIS)
3. Delivery of funds*)
4. Refunds and cost of storage and maintenance collateral (mu’nah **)  
5. Released pledge agunan SBS collateral
6. Execution of SBS collateral

*) Value at disbursement(1st leg) = SBS nominal pledged x (SBS Price – haircut)
**) Value at due time (2nd leg) = Value at disbursement (1st leg) + collateral storage and maintenance costs (mu’nah)

Source: Bank Indonesia
SiPA can be traded at PUAS in three types, namely with the project being financed of securities as the underlying, or securities, or a combination of both. In addition to multiplying PUAS instruments as liquidity management for sharia banking, SiPA is also in line with Bank Indonesia Sukuk (Sukuk Bank Indonesia - SukBI) which has been issued as a monetary operation instrument with SBSN as the underlying transaction. In addition, Bank Indonesia also strengthened the sharia monetary operations by issuing new liquidity injection instruments in the form of Bank Indonesia Sharia Principles Liquidity Management (Pengelolaan Likuiditas Berdasarkan Prinsip Syariah Bank Indonesia - PaSBI) with a wakalah bi al-istitsmar contract and Bank Indonesia Sharia Based Liquidity Facility (Fasilitas Likuiditas Berdasarkan Prinsip Syariah Bank Indonesia - FLiSBI) with a qard contract and rahn (Schemes 5a and 5b). All of these are expected to further enhance the role of Islamic banking in financing the economy.

The series of Fesyar and ISEF events in 2020 will further strengthen the synergy and the progress achieved in the development of Sharia economy and finance in Indonesia. The series of Fesyar and ISEF activities include national and international webinars, business coaching and matching, workshops, international showcases, with more than 700 exhibition participants (Scheme 6). Most of the activities were aimed at accelerating sharia economy, including through the development of Islamic boarding school businesses, halal economic associations and industries, halal certification, international tourism forums, and digitalization and economic inclusion conferences. In the field of Islamic finance, activities include Islamic financial investment forums, waqf development, and a number of international conferences. These include the organization of “Financial Intermediary Day - Business Deals (Banks, Fintech, and Businesses)”, as well as “Indonesia Modest Fashion Show” by
185 designers from all over Indonesia. The ISEF series was attended by more than 430 thousand participants and resulted in a total transaction of around Rp. 5 trillion and Rp. 30.3 billion in waqf commitments. It is a great pride that an increasing number of institutions, associations, and various parties, national and international, has joined and congregated in ISEF for the acceleration of the economy and Islamic finance.

We continue to enhance our MSMEs development program through 3 (three) policy pillars, namely Corporatization, Capacity, and Financing (Scheme 7a). The MSMEs institutional aspects continue to be strengthened through corporatization, supported by strong social capital. Groups are built on the basis of mutually beneficial cooperation, directed at increasingly formal and modern institutional forms, including cooperatives, limited liability companies, and other institutional forms. MSMEs engaged in export potential businesses are supported, such as handicrafts, fabrics and fashion, food and beverages, including coffee, as well as agriculture and other local potential sectors. Integration of digital economy and finance is accelerated through a payment system infrastructure that is fast, easy, cheap, safe and reliable through MSMEs onboarding program. In addition, business cooperation between MSMEs and between MSMEs and large businesses and financial institutions are also initiated. Bank Indonesia also builds synergies with ministries, institutions, associations and communities to encourage MSMEs to graduate (Scheme 7b). This synergy is in the form of capacity building, MSME onboarding, talk shows, business matching, business coaching, and joint expos in the regions and abroad. Likewise, synergy is also build to support the National “Proudly Made in Indonesia Movement” (Gerakan Nasional Bangga Buatan Indonesia - Gernas BBI).

The above synergy for the development of MSMEs is the spirit of the series of Indonesia Creative Work (Karya Kreatif Indonesia - KKI) events held by Bank Indonesia in 2020. The three 2020 KKI
series have the theme “Encouraging MSMEs as New Strengths of the National Economy in the Digital Age”. The 2020 KKI series 1 on 28-30 August was as a synergy between Bank Indonesia, the Ministry of Foreign Affairs, the Ministry of Cooperatives and MSMEs, the Ministry of Industry, and the Ministry of Trade to focus on encouraging exports by MSMEs. The 2020 KKI Series 2 dated 7-9 October 2020 promoted a synergy between Bank Indonesia, the Ministry of Manpower, the National Craft Council (Dewan Kerajinan Nasional - Dekranas), the Ministry of Tourism and Creative Industries, the Ministry of Communication and Information to focus on encouraging Digital MSMEs. Lastly, the 2020 KKI 2020 on 20-22 November, that was opened by the First Lady, was focused on encouraging synergy for MSMEs as Friends of Millennials. The three 2020 KKI series events featured superior products of MSMEs that are under the guidance program of by Bank Indonesia which were displayed with leading Indonesian designers. Likewise, virtual showcase on the KKI platform nationally, as well as, physically showcases with COVID-19 protocols, at various Bank Indonesia Representative Offices were held. Workshop activities, business matching and coaching, and international showcases were also held to strengthen the existence of MSMEs as a new force for the national economy (Scheme 8).

**Strengthening International Policy**

Bank Indonesia continues to strengthen international cooperation in coordination with the Government to support economic recovery and maintain macroeconomic and financial system stability, both globally and domestically. International policy diplomacy strategies are continuously being developed, both in terms of stance as well as diplomacy strategies, enhancing cooperation, managing partner countries’ perceptions, and strengthening global surveillance,
to support the interests of Bank Indonesia and / or the Indonesian economy at the international level, including cooperation in managing the economic impact of the COVID-19 pandemic. International and Asia regional cooperation is increasingly expanded, including in the form of International Financial Safety Net (Jaring Pengaman Keuangan Internasional - JPKI) and Local Currency Settlement (LCS). Currently, Bank Indonesia has collaborated in the Bilateral Currency Swap Arrangement (BCSA) with China, Japan, South Korea, Australia and Singapore, as well as a Repo Agreement with the New York Fed and the BIS. Meanwhile, LCS cooperation has been established with Japan, China, Malaysia and Thailand. Institutional cooperation has also been expanded under the framework of Structured Bilateral Cooperation (SBC) with a number of central banks such as the New York fed, Japan and Central Bank of The Republic of Turkey, as well as with international institutions such as the BIS.

Bank Indonesia has also played an active role in bolstering positive international perceptions, particularly rating agencies and foreign investors, on the Indonesian economy. This is done through intensive communication and engagement with rating agencies and foreign investors on a regular basis, especially the Investor Conference Call (ICC) a each monthly Board of Governors Meeting and any strategic policies that need to be communicated. Investment and trade promotions are also carried out through the Investor Relations Unit (IRU) both nationally, regionally and globally, through Bank Indonesia representative offices in various regions, in collaboration with the Government (Central and Regional), as well as Indonesian Embassies abroad. For example, during 2020 Bank Indonesia cooperated and actively participated in the Indonesia Investment Forum (IIF) in Singapore, the Central Java Investment Business Forum (CIJBF), and the West Java Investment Summit (WJIS), all of which were held virtually.
Bank Indonesia also continues to gain international recognition as the best central bank among emerging market countries. This is supported by increased representation of Bank Indonesia in international cooperation fora, both through membership and chairmanship, in international cooperation forums. The reputation of Bank Indonesia is also enhanced by gaining international awards from reputable international institutions, application of a number of international standards, publishing internationally acclaimed research publications and journals, as well as being reference and resource persons in various strategic international events. In 2020, Bank Indonesia was awarded as The Best Macroeconomic Regulator in the Asia Pacific Region 2020 from the Asian Banker; QRIS-the Best Payments Innovation Award from Central Banking Publication; and Asia Pacific Stevie Awards - Award for Innovation in Technology Management, Planning, and Implementation 2020 from The Stevie Awards. This international recognition was received after in 2019, Bank Indonesia was also awarded the Central Bank Governor of the Year, Asia Pacific 2019, from Global Capital and the 2019 Contact Center Award from Contact Center World.

Transformation of Bank Indonesia

Internally, we continue to improve through the transformation of policies, organization and work processes, human resources (HR) and work culture, as well as digitization. This institutional transformation of Bank Indonesia was realized by strengthening the Vision, Mission, and the formulation of the 2020-2025 Strategic Business Plan (SBP), namely to realize “Bank Indonesia as the leading digital central bank in contributing significantly to the national economy and the best among Emerging Markets for Advanced Indonesia.” We will not only strengthen the response to the Bank Indonesia policy mix for economic recovery as described above, but also to support economic transformation towards an advanced Indonesia. The transformation of Bank Indonesia since May 2018.

Scheme 9. Organizational Transformation Building Superior Performance
has been strengthened and expanded into 4 (four) main agendas, namely: (i) policy transformation, (ii) organizational transformation, (iii) human resources transformation, and (iv) digital transformation. The entire SBP 2020-2025 has been translated into 12 Strategic Programs, with targets to be achieved and main strategies to be implemented in the next 5 years. More than that, the 2020-2025 SBP has also been equipped with resource planning, including financial planning, human resources, information systems, as well as logistic assets and work facilities.

We are strengthening our organizational transformation to create a digital-based superior performance organization and create prime and credible governance that is in line with the strategic direction of Bank Indonesia. The refinement of the new Bank Indonesia organization was supported by the digitization of business processes to support various business procedures, from policy formulation to institutional management (Scheme 9). Organizations with prime and credible governance are strengthened by the integration of 4 (four) governance functions (strategic management, strategic finance, strategic risk management, and strategic risk based internal audit) in overseeing the formulation and implementation of policies in core and institutional management areas. To support the policy and institutional transformation, the availability of resources (human resources, assets and information technology) has also been formulated, including more optimal logistics management and preparation for the organization, business processes and infrastructure. Organizational strengthening in the area of institutional governance is also pursued through more accountable financial management to ensure the medium-term financial sustainability of Bank Indonesia and the achievement of an audit opinion (Wajar Tanpa Pengecualian - WTP).

We continue to improve HR transformation to strengthen competent, professional, and principled leadership and employees of Bank Indonesia. Since May 2018, HR policies have been implemented in a programmed, scheduled, and transparent manner covering 4 areas, namely Planning, Fulfillment, Development, Preservation.

**Scheme 10. Transformation of Professional, Competent, and Principled Human Resources**

<table>
<thead>
<tr>
<th>PLANNING</th>
<th>COMPLIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strengthening and perfecting manpower planning that is in line with the needs of the digital era and in the context of moving to a new IKN; 2. Mapping of new capabilities &amp; suitability of human resources to carry out policy and institutional work processes in the digital era.</td>
<td>1. Improvement of compliance strategies in terms of quality &amp; quantity that support digitalization; 2. Optimization of HR analytics for employee fulfillment.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>PRESERVATION</th>
<th>DEVELOPMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strengthening the mindset and behavior of human resources that support the digital era 4.0 through work culture programs; 2. Change program platform integration with other HR management; 3 Strengthening the Employee Value Proposition (EVP)</td>
<td>1. Strengthening strategy &amp; development of competencies regarding central bank in the digital era 2. Embody BI as a leading think tank in economic policy analysis 3. Optimization of technology based learning, supporting the implementation of the Kampus Merdeka 4.0 &amp; the initiation of central banking 5.0</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia
Development and Maintenance of HR (Scheme 10). Human resource transformation is emphasized on quality over the quantity. HR planning has been prepared for the next 5 (five) years as the basis for HR development, both per work unit, level of position, task group (job family), and competence. Fulfillment strategies in terms of quality and quantity that support digitalization are enhanced, including specific human resources competency such as data scientists, data engineers, cyber security specialists, and project management. In the area of human resource development, the transformation is carried out by intensively strengthening central banking competencies in the digital era through the BI Institute, and in efforts to make Bank Indonesia a leading think tank in economic policy analysis, and optimization of technology based learning. The leadership regeneration program has been organized and programmed through a strict selection of Potential Employee Groups (Kelompok Pegawai Potensial - KPP) and 4 (four) levels of Leadership Schools and will continue to be implemented consistently. The work culture program that is packaged into BI-Prestasi, BI-Inovasi, BI-Religion, and BI-Digital is implemented in an integrated manner into business processes so that it truly integrates with the implementation of Bank Indonesia’s duties.

Digital transformation at Bank Indonesia is thoroughly implemented in both policy and institutional areas so as to become the leading digital central bank. The digital transformation aims to turn Bank Indonesia into a data driven institution with high analytics capability, digitalization of business processes, international standard information system service quality, as well as high data and digital literacy (Scheme 11). In order to maintain good governance, all of these digital transformations are included in the 2025 Bank Indonesia Information System Master Plan (Rencana Induk Sistem Informasi Bank Indonesia - RISIBI). Digital transformation is focused on (i) building an omni experience technology platform and technology support including cyber security and

**Scheme 11. Digital Transformation: Towards the Leading Digital Central Bank**
networks, (ii) building an omni channel repository (data center) that includes metadata preparation and data capturing mechanisms, and (iii) encouraging policy and institutional digitization initiatives. Digitalization is done top-down, maximizing the existing information and reporting system platform, compiling massive metadata as needed, and changing the mindset to improve experience. Digital transformation is expected to provide an omni experience that further strengthens engagement internally between Bank Indonesia leaders and employees, as well as externally with partners in a seamless, fast and interactive manner.

**Synergize to Build Optimism for Economic Recovery: One Prerequisite, Five Principal Strategies**

National economic recovery is underway and will continue to increase in 2021 as well as in the medium term. As stated above, Bank Indonesia estimates that Indonesia’s economic growth in 2021 will reach 4.8-5.8%, supported by an increase in export performance, private and government consumption, as well as investment from both Government capital expenditures and foreign capital inflows as a positive response of the implementation of the Job Creation Act. Spatially, growth will increase in all regions, especially Java and the Sulawesi-Maluku-Papua region. Macroeconomic and financial system stability will be maintained. Inflation will be controlled within the target of 3±1% in 2021, while the Rupiah exchange rate will be stable and still have the potential to strengthen. External stability will be maintained, with a balance of payments surplus supported by a low current account deficit of around 1.0-2.0% of GDP and foreign capital inflows, both FDI and portfolio investment. Financial system stability is also getting better, with a high capital adequacy ratio, low non performing loan, and growth in deposits and credit that will increase to around 7.0-9.0% in 2021. In the medium term, we predict that Indonesia’s economic growth will continue to increase in the range of 5.5-6.1% with low inflation in the range of 1.5-3.5% and a current account deficit in the range of 1.5-2.5% of GDP in 2025. Overall, with this projected trajectory, Indonesia is predicted to become a high-income country by 2045.

We need to encourage the momentum for national economic recovery by strengthening the synergy to build optimism. Synergy by all parties: The Government (Central and Regional), Bank Indonesia, Financial Services Authority (Otoritas Jasa Keuangan - OJK), Deposit Insurance Corporation (Lembaga Penjamin Simpanan - LPS), the banking and financial sector, business, academia, media, and the society. United, synergized, and working together to build optimism for economic recovery. In this regard, we are of the view that there is the need for vaccination and discipline in applying the COVID-19 protocols as a necessary condition, as well as 5 (five) policies as sufficient conditions, namely: (i) opening of the productive and safe from COVID-19 sectors, (ii) acceleration of fiscal stimulus, (iii) boosting credit both from demand and supply sides, (iv) continuing monetary and macroprudential stimuli, and (vi) economic and financial digitization, particularly MSMEs (Scheme 12). In the synergy to build optimism for national economic recovery, Bank Indonesia is committed to strengthening the fourth policy, namely continuing monetary and macroprudential stimulus, as well as the fifth policy, namely accelerating the implementation of BSPI 2025 to encourage economic and financial digitization, especially MSMEs. God willing, we are optimistic that with the synergy of these policy steps, we can realize national economic recovery in 2021.

Vaccination and the discipline of COVID-19 protocols are prerequisite conditions for national economic recovery. It needs to be emphasized again that the epicenter of the problems we are facing is the COVID-19 pandemic. Therefore, speed and success in dealing with the COVID-19 pandemic is a prerequisite so that the impact on health can be minimized, human mobility can gradually return to normal, economic activity and business conditions improve, while the impact of the spread to the
financial and monetary sectors can be overcome. This optimism for economic recovery is what we need to create. In this regard, we fully support the Government’s efforts to order vaccines from a number of countries, including Sinovac from China, AstraZeneca from the UK, and possibly from other sources. Bank Indonesia has also committed to finance part of the cost of ordering the vaccine by purchasing and bearing the entire burden of Indonesia Government Bond (SBN) as part of the Joint Decree between the Minister of Finance and Bank Indonesia on “Burden Sharing” for Public Goods dated 7 July 2020. In this regard, it is important to remember that the vaccination process for most of the population will need time and, unlike any previous virus pandemic, strengthening antibodies to COVID-19 requires two vaccinations within a period of 6 (six) months. This means that even if vaccinations are carried out, the implementation of the COVID-19 protocols must still be carried out to prevent the second and even third waves of the COVID-19 pandemic. This is to ensure that economic recovery will continue through vaccinations and COVID-19 precautions.

Opening economic sectors gradually that give large added value to growth and are relatively safe from the COVID-19 pandemic. Prioritization can start with a risk map for COVID-19 transmission in 52 (fifty-two) economic sectors compiled by the National Disaster Management Agency (Badan Nasional Penanggulangan Bencana - BNPB), with the highest priority given to sectors with the lowest risk of transmission, followed by sectors with medium or high risk where it will be necessary to implement COVID-19 protocols according to the risk level (Scheme 13). Meanwhile, prioritization based on economic impact can be prioritized on sectors that have the highest contribution to GDP and/or exports. Scheme 13 shows the results of mapping 52 (fifty-two) sectors according to their productivity and level of safety. The first priority, namely 6 (six)
sectors that are safe and provide a large contribution to both GDP and exports include the manufacture of food products and beverage industry; manufacture of chemical, pharmaceuticals, and botanical products; forestry and logging; horticultural crops; plantation; and iron ore mining. The second priority, namely 15 (fifteen) economic sectors that are safe and make a large contribution to GDP or exports, as shown in Scheme 13. Overall these two priorities contribute around 38% of national GDP. Thus, the opening of productive and safe sectors can be focused on companies that are included in these two priorities, both to ensure the COVID-19 protocols and with a number of incentive policies from related ministries and fiscal incentives for business.

A relatively large amount of fiscal stimulus is still needed to support the national economic recovery. In the 2021 State Budget, the Government has budgeted for a fiscal deficit of IDR1,006.4 trillion (5.7% of GDP) after a deficit of IDR1,039.2 trillion (6.3% of GDP) in 2020. With a total state expenditure of IDR2,750.0 trillion, Central Government expenditure is allocated at IDR1,954.5 trillion. Of this amount a large portion, amounting to IDR1,686.2 trillion (86.3%), is allocated for strategic policies in the 2021 State Budget to support the acceleration of economic recovery and economic transformation towards an Advanced Indonesia (Scheme 14). We believe that the relatively large fiscal stimulus in the 2021 APBN will be able to encourage national economic recovery, both in terms of consumption and investment. The budget allocation for continued social protection of IDR408.7 trillion will be able to support consumption growth in GDP, as in 2020, through various programs including PKH, Cash Transfer, Basic Food Cards (Kartu Sembako), and Health Insurance Contribution Beneficiaries (Penerima Bantuan Iuran Jaminan Kesehatan - PBI-JKN). On the investment side, a large increase in the allocation of capital expenditures for infrastructure development to IDR417.8 trillion, after
becoming lower to IDR281.1 trillion in 2020 will raise investment growth in GDP in 2021. In addition, the increase in investment in 2021 is also supported by the continuation of a number of National Strategic Projects (Proyek Strategis Nasional - PSN) and the realization of foreign investment in utilizing various facilities and incentives in the Job Creation Law.

Synergy in boosting bank credit from the demand and supply side is necessary, particularly in productive and safe sectors. As stated above, the growth of bank credit in this year is estimated to reach the range of 7% - 9%. Demand for credit will increase in line with improving corporate conditions, particularly large ones, with increased sales, the ability to pay (interest coverage ratio, ICR), as well as surveys showing increased financing needs and plans for credit applications, issuance of bonds and stocks, as well as for domestic debt in the next 3 to 6 months. Credit supply will also remain conducive supported by low interest rates, abundant liquidity, improved credit requirements (lending standards), and the extension of the credit restructuring program by OJK. The problem, however, is that there is still high risk perception from the banking side and from the corporate side to start expanding, due to the high level of uncertainty due both to the COVID-19 pandemic and the process of economic recovery. Synergy in overcoming the asymmetric information in the credit crunch needs to be done by bringing together corporations, particularly in sectors that contribute to high growth and exports, with the readiness of banks to extend credit. The fourth quadrant (colored green) in Scheme 15 shows the industries that need to be continuously encouraged for growth and exports because of the highest banking readiness with increasing credit growth and large remaining credit limit (undisbursed loan). Meanwhile, the first quadrant (colored red) requires credit guarantees and interest subsidies from the Government to overcome the perception of high credit risk in banks. This kind of synergy will be even stronger when combined with vaccinations and
Scheme 15. Boosting Credit: Demand-Supply Matching

CREDIT GROWTH MAPPING (%YTD) AND UNDISBURSED LOAN (%YTD) BY SUBSECTOR (PER AUGUST 2020)

3rd Quadrant: Credit (-) and UL (+): Lagging Credit Growth Area
Decrease in corporate credit along with increase in undisbursed loan

4th Quadrant: Credit (+) and UL (+): Sustainable Credit Growth Area
Increase in corporate credit and undisbursed loan

2nd Quadrant: Credit (-) and UL (-): Avoided Credit Growth Area
Decrease in corporate and undisbursed loan

1st Quadrant: Credit (+) and UL (-): Limited Credit Growth Area
Increase in corporate credit along with decrease in undisbursed loan

Non financing support

Food and Beverage Industry
Chemical Industry
Non-Metallic Mineral Industry
Basic Metals Industry
Metal Products Industry
Machinery and Equipment Industry
Tobacco Industry
Furniture Industry
Leather, Leather Products, and Footwear
Wood Industry
Textile Industry

Medium Risk of Transmission
Low Risk of Transmission

0 1st priority subsector
2 2nd priority subsector
3 3rd priority subsector
4 4th priority subsector
5 5th priority subsector

Sales Repayment Likuiditas Leverage Profitabilitas Overall
High High Low Low Low Lower Quality
High High High High Low Higher Quality
High High High High High Higher Quality

Note: There are two additional industrial subsectors, namely motor vehicles and pulp in the 4th quadrant, calculated using HS8 data.

Source: Bank Indonesia

provision of fiscal stimulus such as tax incentives and ease of doing business from the Government.

Bank Indonesia is committed to continuing to work together to build optimism for national economic recovery through the fourth policy, namely monetary and macroprudential stimulus, and the fifth policy, namely economic and financial digitization. Bank Indonesia will continue to direct all policy instruments to support the national economic recovery, while keeping inflation under control, maintaining stability of the Rupiah exchange rate, and supporting financial system stability. We will also continue to coordinate closely with the Government and the Financial System Stability Committee (KSSK) to strengthen the national economic recovery, while maintaining macroeconomic and financial system stability. The monetary stimulus and accommodative macroprudential policies will be continued and closely coordinated with the Government's fiscal stimulus and OJK's policies to support credit/financing, thereby further stimulating economic demand and growth. Payment system digitalization and money market deepening efforts will be accelerated to further encourage the digital economy and finance, including MSMEs and the Islamic finance economy, in a close synergy with the Government, KSSK, banking, fintech, the business world and the wider community. We believe that the digital economy and finance will increasingly play an important role in the recovery of the national economy. The following section describes in detail the Bank Indonesia policy mix for 2021.

Bank Indonesia Policy Mix for 2021: Supporting Optimism for National Economic Recovery

The policy mix of Bank Indonesia for 2021 is directed towards strengthening optimism for the national economic recovery while maintaining macroeconomic and financial system stability. The policy mix will be implemented through both
monetary, macroprudential, and payment system policies as well as supporting policies in MSMEs, sharia economy and finance, international area (Scheme 16). Monetary policy stimulus will continue up until there are signs of increasing inflationary pressure, while stability of the Rupiah exchange rate remains our priorities. The accommodative macroprudential policies will be continued to boost credit and financing for national economic recovery, while maintaining financial system stability. The digitalization of the payment system according to BSPI 2025 and the management of Rupiah currency according to BPUR 2025 continues to be accelerated to support the digital financial economy as a source of economic recovery, especially MSMEs and the retail sector. Bank Indonesia will continue to strengthen synergies with the Government, the KSSK, banks and the business world to strengthen optimism for national economic recovery.

**Monetary Policy Direction**

**Monetary policy stimulus will continue in 2021.** The stability of the Rupiah exchange rate in accordance with the fundamentals and market mechanisms continues to be a major concern to ensure that it remains conducive to national economic recovery. Low interest rates and loose liquidity will be maintained until there are signs of increasing inflationary pressure. As noted, the current Bank Indonesia policy rate of 3.75% is the lowest in history. Liquidity will also remain loose to support bank lending and financial system stability. As previously stated, Bank Indonesia has implemented Quantitative Easing of IDR682.0 trillion, or around 4.4% of GDP, the largest monetary stimulus among EMEs central banks. The monetary operation strategy will be pursued to support this monetary policy stance. With Bank Indonesia’s low policy
interest rates and large liquidity easing, it is time for banks to immediately lower interest rates and increase credit for the business world. This step is a joint commitment to strengthen optimism for national economic recovery.

The close coordination between the Bank Indonesia monetary stimulus and the Government’s fiscal stimulus continues to strengthen the national economic recovery. In this regard, Bank Indonesia will continue to purchase SBN from the primary market to finance the 2021 State Budget through regular auction as a non-competitive bidder, greenshoe option, or private placement in accordance with the Joint Decree between the Minister of Finance and the Governor of Bank Indonesia on 16 April 2020. The amount will be determined based on prudent fiscal and monetary policies, among others by prioritizing the Government’s plan to fulfill the 2021 State Budget financing from its own funds, foreign debt, issuance of global and domestic bonds; market capacity to absorb primary market SBN auctions; and the impact of monetary expansion from the purchase of SBN by Bank Indonesia on inflation. Meanwhile, the direct purchase of SBN by Bank Indonesia in accordance with the Joint Decree on 7 July 2020 only applies to the 2020 State Budget and will not be continued for the 2021 State Budget. The purchase of SBN by Bank Indonesia through the primary market mechanism allows the Government to focus on accelerating the realization of the APBN 2021 to accelerate national economic recovery. The impact of monetary expansion from the purchase of SBN on the primary market in 2020 and 2021 on inflation will still be considered. With the improving global financial market conditions and the high attractiveness of investment in Indonesia, it is expected that most of the issuance of SBN for financing the 2021 State Budget will be absorbed by the market and therefore will reduce the size of the purchase of SBN from the primary market by Bank Indonesia. The close synergy between fiscal stimulus and monetary stimulus is a manifestation of Bank Indonesia’s strong commitment to work with the Government to strengthen the national economic recovery, even though it has an impact on Bank Indonesia’s large balance deficit starting in 2021 and the following years.

Macroprudential Policy Direction

Bank Indonesia continues to strengthen synergy with the KSSK to bring together banks and business to encourage credit and financing for the national economic recovery. As stated above, the problem of low credit growth needs to be addressed jointly by the Government, Bank Indonesia, KSSK, banks and business. Initial priorities need to focus on priority sectors that are capable of providing a boost to high growth and exports, as mentioned in the first and third policies in the above national policy synergy. For these priority sectors, the Government can provide fiscal incentives as well as ease in overcoming problems in the business world such as electricity, logistics, and licensing. OJK can give its own consideration to banks that extend credit to priority sectors, either through microprudential policies or from the supervisory side. Bank Indonesia has taken and will pursue options for easing macroprudential policies that can further boost credit and financing for business.

Macroprudential policy will remain accommodative to continue to encourage credit expansion and financing for the national economic recovery. As stated above, Bank Indonesia maintains a Countercyclical Buffer (CCB) ratio of 0%, a Macroprudential Intermediation Ratio (Rasio Intermediasi Makroprudensial - RIM) in the range of 84-94% with a disincentive parameter of 0%, and a Macroprudential Liquidity Buffer (Penyangga Likuiditas Makroprudensial - PLM) ratio of 6% - which can be used as collateral for repo transaction with Bank Indonesia in the event that the bank requires additional liquidity. Bank Indonesia will continue to assess the possibility of further easing a number of existing and new macroprudential policy instruments to boost credit and financing for the business sector. The transparency policy on bank interest rates will be strengthened to encourage a faster reduction
in loan interest rates. To encourage MSMEs-based growth, Bank Indonesia will issue a Macroprudential Inclusive Financing Ratio (Rasio Pembiayaan Inklusif Makroprudensial - RPIM) policy by expanding the target and coverage of inclusive financing, incentives for banks that encourage the corporatization of MSMEs and priority sectors, as well as encouraging the securitization of MSMEs loans.

Bank Indonesia macroprudential supervision and coordination with microprudential supervision by the OJK will be strengthened to ensure financial system stability is maintained. The integrated banking supervision forum between Bank Indonesia and OJK has been running well, and has even been expanded with the LPS. Regular meetings at the Deputy level are held once a month, and at the Head of Department level every two weeks. The forum discusses the latest individual banking conditions, assessment of liquidity conditions, credit quality, capital and other aspects, including its resilience from developments in financial market, monetary sector, corporation and macroeconomy. Thus, the forum can take the necessary steps according to the authority of each institution to jointly maintain financial system stability. This includes an assessment of the possibility of a solvent bank requiring PLJP / PLJPS from Bank Indonesia as well as bank restructuring efforts that OJK needs to take in coordination with the LPS.

Payment System Policy Direction

Bank Indonesia continues to accelerate the digitalization of payment systems as part of the implementation of the 2025 BSPI in enhancing the role of the digital economy and finance as a source of economic recovery. As stated, since launched in May 2019, various implementation programs of BSPI 2025 have recorded rapid progress and will be improved in 2021 and in the coming years. National and regional QRIS campaigns continue to be intensified to reach 12 (twelve) million MSME merchants digitally registered nationally. The current QRIS with Merchant Presented Mode (MPM) will be expanded with Customer Presented Mode (CPM) so that it will further expand digital payment transactions according to consumer’s preferences with low costs, fast, and safe. Digital banking continues to be encouraged to expand and simplify retail financial services, both stand-alone and in collaboration with FinTechs. Innovation in digital payment transactions continues to be encouraged through Sandbox 2.0., so that it is expected to spur more start-ups, especially for the retail and MSME sectors. The electronification of social assistance, transportation sector, local governments, and municipalities financial transactions continues to be improved. The digitalization, centralized distribution, and efficiency of the management of Rupiah currency throughout the Republic of Indonesia jurisdiction continues to be accelerated, including in the frontier, outer, and most remote (terdepan, terluar, dan terpencil - 3T) areas.

Payment system regulatory reform is underway to further encourage industrial development, spur innovation, and integrate the ecosystem of digital economy and finance nationally. Regulatory reform in accordance with BSPI 2025 is directed at the establishment of an end-to-end digital economy and finance ecosystem between digital banking.

Scheme 17. Digital Ecosystem: Open Banking, FinTech, E-Commerce, Merchants, and Consumers

Source: Bank Indonesia
FinTech, e-commerce, merchants, and consumers. Through the restructuring of the payment system service industry within the integrated ecosystem of national digital economy and finance, the regulatory reform will also provide a clear direction and be more industry-friendly and flexible, inline with the rapid development of technological cycle (Scheme 17). As part of the formation of the above ecosystem, in addition to expanding the use of QRIS starting in 2021, important initiatives that will also be implemented are the Open API and the development of the retail payment system infrastructures. The implementation of the Open API is aimed at strengthening the interlink between open banking and FinTech so as to prevent shadow banking. Bank Indonesia published a consultative paper on the Open API in March 2020 of which is currently being developed together with the Indonesian Payment System Association (Asosiasi Sistem Pembayaran Indonesia - ASPI) representing from both banking and FinTech (Scheme 18). Through the Open API standardization, various payment transaction services can be provided by digital banking and FinTech by means of interlink and interconnection so that they can further expand and increase the volume and value of transactions as well as services to consumers more broadly, quickly, safely, and at a low cost.

The development of retail and large value payment system infrastructures plays an important role in accelerating the digitalization of the national economy and finance. To reform the retail payment system infrastructures, Bank Indonesia is building BI-FAST to replace the Bank Indonesia National Clearing System (Sistem Kliring Nasional Bank Indonesia - SKNBI). BI-FAST will become a payment system infrastructure that can facilitate retail payment transactions using a variety of instruments and channels in real time and 24/7 operation, strengthened by robust security features and the use of digital identities (Scheme 19). Thus, every retail transaction can be digitally and immediately settled end-to-end, starting from QRIS at the merchant level, continue to FinTech and/or digital banking, and then promptly cleared and settled through BI-FAST system quickly, easily, cheaply, and safe. BI-FAST will begin to be implemented in 2021 for credit transfer transactions, and will then be followed by debit transfers and other transactions. Bank Indonesia is also planning to upgrade the infrastructure of a large value payment system, Real Time Gross Settlement (RTGS), with a newer generation equipped with settlement features for multi-currency transactions and enhanced security including to counter cyber attacks. In addition, Bank Indonesia will also build a Payment Data Hub, which is a public payment portal/data hub that integrates the acquisition of granular data as public goods. The availability of granular data for public payment systems can be processed and analyzed, including with AI and machine learning, for policy formulation and new products and business innovations to further accelerate the digital financial economy.

**Acceleration of Money Market Deepening**

Bank Indonesia is accelerating money market deepening in accordance with the 2025 Money Market Deepening Blueprint (Blueprint Pendalaman Pasar Uang - BPPU) to strengthen the effectiveness of monetary policy transmission and support the financing of the national economy. Therefore, the development of an efficient, safe, reliable, and
international standard money market infrastructure is the focus of Bank Indonesia’s reform policy in 2021. The development of money markets is carried out end-to-end, from trading platforms, clearing and settlement, to the trade repository (Scheme 20a). For the trading venue, Bank Indonesia will follow up on the PBI Market Operator that was enacted in 2019 with the development of an electronic trading platform (ETP) both in the market, with the availability of a multimatching trading system on the money market in 2021, and modernization of BI-ETP for monetary operations in 2022. Likewise, following up on the PBI that we have enacted, the Central Counterparty (CCP) infrastructure development is targeted to be operational starting in 2021 (Scheme 20b). We believe that the development of ETP and CCP will increase interest rate derivative transactions, particularly interest rate swaps (IRS) and SBN repos, as well as exchange rate derivatives, particularly DNDF and foreign currency swaps. The money market infrastructure development is also integrated and interconnected with the payment system infrastructures, both BI-RTGS and BI-FAST, as well as the BI-SSSS infrastructure which will also be modernized and complied with international standards. We believe that such financial market infrastructure (FMI) will increase the transaction volume, lower interest rates, and lower transaction costs so that it is more liquid, efficient, developed, and supporting the effectiveness of monetary policy transmission and the provision of financing to the economy.

The development of money market instruments will be further expanded to increase the volume, liquidity, and efficiency of transactions, including instruments for hedging. In the money market, instrument development is focused on the repurchase agreement (repo) transaction instruments, interest rate derivatives such as Overnight Index Swaps (OIS) and Interest Rate Swaps (IRS), as well as financing instruments such as
Scheme 20a. The Development of Financial Market Infrastructure Ecosystem

Supporting the National Economy towards Indonesia as an Advanced Country in 2045

Real Sector

Financial Sector

Financial Market Development that Supports Monetary Policy Transmission

The Development of Economic Financing Resources Instruments

Source: Bank Indonesia

Scheme 20b. Roadmap for Money Market Infrastructure Development

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<tr>
<th>CURRENT STATE</th>
<th>2020</th>
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<td>TR Academic Manuscripts &amp; Regulations</td>
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<td>Recommendations</td>
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Source: Bank Indonesia
Negotiable Certificate Deposits (NCD), Commercial Securities (*Surat Berharga Komersial* - SBK), Asset Backed Securities (ABS), and retail money market instruments. In the FX market, instrument development is focused on exchange rate derivative instruments such as Domestic Non-Deliverable Forward (DNDF), Cross Currency Swap (CCS), and Local Currency Settlement (LCS). The development of the LCS is integrated with cooperation agreements with a number of countries, including China, Japan, Malaysia and Thailand, so that it will not only deepen the domestic money market but also increase the use of local currencies for trade and investment among countries in Asia. This step is also a joint effort in the Asian region to reduce dependence on the US dollar currency and support the stability of the Rupiah exchange rate.

**The development of money market instruments and infrastructure is also directed at supporting financing for the economy.** In this regard, policies are directed at 4 (four) main areas (Scheme 21).

First, encouraging the development of alternative sources of financing through innovative instruments such as asset securitization, ABS, green and sustainable financing, and hedging instruments for risk mitigation. Second, encouraging the use of digital technology in developing financing through digital platforms in issuance, offerings to investors, and capacity building for both wholesale instruments, such as DINFRA and DIRE, as well as for retail investors. Third, supporting financial literacy education and development of the investor base through the development, socialization and education of retail financial instruments in collaboration with the financial industry (FinTech, digital banking, and other digital platforms) as well as with educational institutions, financial market associations, and digital media. Fourth, strengthen the coordination of financial market development between Bank Indonesia, OJK, and the Ministry of Finance through synergy and coordination in the Forum on Development Financing by means of Financial Market (*Forum Koordinasi*)
Pembiayaan Pembangunan melalui Pasar Keuangan (FK-PPPK), including harmonizing regulations on macroprudential, microprudential and taxation policies.

MSMEs Policy and Sharia Economy and Finance

Bank Indonesia continues to expand its MSME development program, both under its own guidance and in collaboration with the Government and other partners at central and regional levels. The development of MSMEs is carried out through corporatization, capacity building, and financing to increase the economic scale of MSMEs, especially in priority sectors so that they can increase the contribution of MSMEs to GDP and encourage MSMEs to “Go Export” and “Go Digital”. The corporatization program is aimed at encouraging MSMEs to enter the digital ecosystem by facilitating easy licensing, forming productive clusters, and digital infrastructure for MSMEs. The capacity building program is aimed at improving the capacity of MSMEs end to end; starting from product development, management and financial training programs, to preparing market access, through the UMKM on Boarding Program (e-payment, e-commerce, and e-financing). Meanwhile, the financing program was pursued through the implementation of provisions regarding the achievement of MSME credit fulfillment for banks and non-banks, as well as expanding MSME access in empowering subsidized credit / KUR to accelerate the integration of economic inclusion and digital finance nationally. The implementation of Indonesian Creative Works (Karya Kreatif Indonesia - KKI) which is increasingly successful in elevating UMKM “Go Export” and “Go Digital” will be further enhanced in 2021, as well as strengthening synergies with the Government in the success of the Proudly of Indonesian Product National Movement (Gerakan Nasional Bangga Buatan Indonesia - GerNas BBI).

The important role of Bank Indonesia in the development of the sharia economy and finance will continue to be enhanced as a new source of growth for the Indonesian economy as well as to become a reliable global player. To that end, Bank Indonesia continues to strengthen synergies with relevant parties, both within the Sharia Financial Economy National Committee (Komite Nasional Ekonomi Keuangan Syariah - KNEKS) as well as Islamic boarding schools, business associations, banks, as well as sharia scholars, academics and the wider community. The acceleration of the implementation of the halal value chain ecosystem (local and global halal value chain) continues to be improved, including with the aspects of actors and economic sectors, institutions, and supporting infrastructure. Sharia economic empowerment is focused on priority sectors, namely agriculture for halal food, fashion, Muslim friendly tourism, and renewable energy. Islamic finance is expanded both in the financial sector and the mobilization of productive ZISWAF. This includes the development of Islamic financial instruments, such as foreign exchange instruments and long-term financing instruments, as well as the development of Islamic social finance and its integration with commercial finance as an alternative to financing. The campaign for Islamic economic and financial literacy continues to be expanded through the holding of three Sharia Financial Economic Festivals (Festival Ekonomi Keuangan Syariah - Fesyar) at the regional level, and the ISEF on a national and international scale.

International Policy

On international policy, we will continue to be active in various international forums to further increase investment and trade in support of the national economic recovery. In synergy with the Government and various parties, Bank Indonesia continues to increase positive perceptions of investors and rating agencies through more proactive
engagement activities. We also continue to play an important role in facilitating trade and investment promotion in priority sectors through the support of the Investor Relations Unit (IRU) at the regional, national, and international levels. In this regard, a number of policies were strengthened, including mapping project availability according to investor preferences and organizing joint promotional activities both abroad and domestically for products / projects in priority sectors. In particular, we need to strengthen collaborated actions in the use of the FTA / CEPA and Local Currency Settlement (LCS) agreements to optimize the foreign trade and investment. Foreign cooperation is also continuously strengthened with a number of central banks and international institutions.

Moving Forward with Optimism

Indonesia’s economic prospects in 2021 will improve, and Bank Indonesia will continue to strengthen synergies to build optimism for economic recovery. Growth is projected to be higher and macroeconomic and financial system stability to be maintained. Mobility and economic activities are expected to increase with vaccination and discipline in implementing COVID-19 protocols. Bank Indonesia will strengthen synergies with the Government (Central and Regional), KSSK, banks, and the business sector in building optimism for the national economic recovery. Policy synergies are also relentlessly build to support the opening of productive and safe sectors, relatively large fiscal stimulus, increased credit and financing, continued monetary and macro prudential stimuli, and rapidly developing digital economy and finance. We will also continue to work together with the DPR, especially Commission XI, the banking and financial sectors, the businesses sector, scholars, the media, and relevant parties.

With this synergy, Indonesia has shown demonstrated and momentum for economic recovery from the COVID-19 pandemic. Also with synergy, Indonesia’s economic prospects will be better in the future, supported by a national economic policy mix that is closely coordinated, with economic transformation and the development of digital economy and finance innovation. This is toward an increasingly prosperous Advanced Indonesia.

That is all, and thank you
Wassalamualaikum Warahmatullahi Wabarakatuh,
Jakarta, 3 December 2020

Perry Warjiyo
Governor of Bank Indonesia