BANK INDONESIA
BANK SENTRAL REPUBLIK INDONESIA

RISE AND BE OPTIMISTIC:
SYNERGY AND INNOVATION FOR ECONOMY RECOVERY

BANK INDONESIA'S
ANNUAL MEETING 2021

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TABLE OF CONTENT

RISE AND BE OPTIMISTIC:
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Speech of the Governor of Bank Indonesia
BANK INDONESIA'S ANNUAL MEETING
Jakarta, 24th November 2021

We are honored to welcome,
The President of the Republic of Indonesia, Joko Widodo,

Distinguished guests,

- Leaders and Members of DPR and DPD RI,
- Leaders of State Institutions,
- Ministers of the Advanced Indonesia Cabinet,
- Chairman and Members of the OJK and LPS Board of Commissioners,
- Former Governors and fellow Members of the Board of Governors of Bank Indonesia,
- Governors, Mayors and Regents from all over Indonesia,
- National Banking, Corporate and Media Leaders,
- Recipients of the 2021 Bank Indonesia Awards,
- Invitees.

Assalamu'alaikum Warahmatullahi Wabarakaatuh,
Greetings to everyone, Shalom,
Om Swastyastu, Namo Buddhaya,
Greetings of Virtue.

First, let us express our gratitude to the presence of Allah *subhanahu wa ta'ala*,one Almighty God, because only with His grace and blessing can we gather today at the **2021 Bank Indonesia Annual Meeting**. With all humility, we would like to express our **gratitude to the President** who was willing to attend along with all invitees.

We congratulate the banks, corporations, and individuals who have received the **Bank Indonesia Awards 2021** a number of 57 awards in 4 areas and 17 categories in the fields of managing monetary stability and financial systems, payment systems, MSME development and Islamic finance and economy, as well as supporting Bank Indonesia policies. The awards are presented annually, in conjunction with the Bank Indonesia Annual Meeting, as a form of appreciation and, at the same time, national recognition of business partners who have supported task implementation at Bank Indonesia.

At this auspicious opportunity, allow us to present an evaluation of economic performance in 2021 as well as the economic outlook and direction of Bank Indonesia's policy in 2022, which we summarize under the theme **"Rise and be Optimistic: Synergy and Innovation for Economic Recovery"**. A theme we think is appropriate to show our shared enthusiasm to rise from the impact of the Covid-19 pandemic, with the national economy continuing to improve in 2021. Optimistically, the national economy, God willing, will be even stronger in 2022. Synergy, through strong policy coordination between the Government (Central and Regional), Bank Indonesia, and the Financial System Stability Committee (KSSK - *Komite Stabilitas Sistem Keuangan*), the banking industry and payment system, the business community, and all parties to continue accelerating the national economic recovery, while maintaining macroeconomic and financial system stability. Innovation, both in the coordination of national economic policies that includes fiscal-monetary coordination for financing the State Budget during the pandemic, as well as in expediting digitalization and national economic-financial inclusion by digitizing the payment system, the National Movement (Gernas - *Gerakan Nasional*) in Proudly Made in Indonesia (BBI - *Bangga Buatan Indonesia*) and Proud to Travel in Indonesia (BWI - *Bangga Berwisata di Indonesia*). It is this national economic policy synergy and innovation that we need to continue to strengthen going forward in order for us to remain optimistic about the national economic recovery in 2022 and subsequent years, towards an advanced Indonesia.

Our presentation consists of 5 (five) parts, namely: (i) Global economic performance and outlook, which shows a divergent and asynchronous recovery, with persistently elevated global financial market uncertainty; (ii) National economic performance and outlook that continues to improve towards recovery with maintained macroeconomic and financial system stability; (iii) Bank Indonesia's pro-growth 2021 policy mix while maintaining monetary and financial system stability; (iv) Increasing national economic policy synergy and innovation and optimism about future economic recovery; and (v) The direction of Bank Indonesia's policy mix in 2022 to encourage acceleration and foster innovation of the national economic recovery, while maintaining monetary stability from the impact of global policy normalization. **This explanation also serves as the fulfillment of Bank Indonesia's accountability and transparency responsibilities as mandated in the Bank Indonesia Act**.

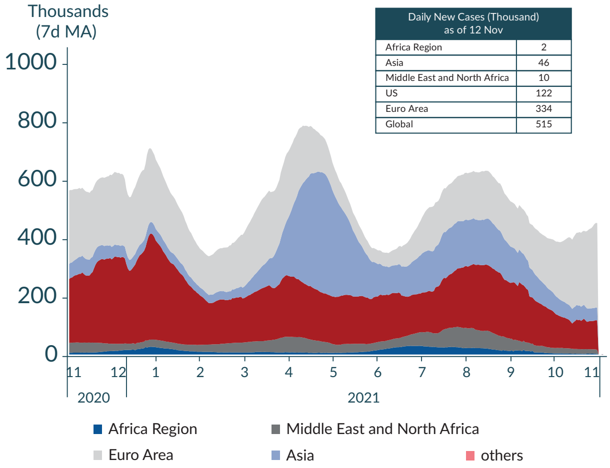
Global Economic Performance and Outlook: Divergent Recovery, Persistent Financial Market Uncertainty

The global economy continues to recover from the deleterious effects of the Covid-19 pandemic. The world has been living with Covid-19 for twenty one months. From living in fear and panic, then surviving, until now - rising and optimistic for a better life, with new habits, cultures, and civilizations. Likewise, economic developments, after surviving last year's recession, are now steadily improving and heading towards recovery. Macroeconomic stability and the financial system, which were threatened by the crisis at the beginning of the pandemic, have since improved and been maintained. However, we cannot be careless. The pandemic has not ended, and may become endemic with the emergence of several new Covid-19 variants. Vaccine distribution and ability to achieve herd immunity remain asynchronous throughout the world; with fast roll outs in advanced economies (AEs) but more sluggish progress in many emerging markets and developing economies (EMDEs). Uncertainty continues, with many unknown unknowns. We must remain vigilant, therefore, to better anticipate the risks that may arise and take appropriate containment measures by approaching and praying to God Almighty.

The pandemic raises several issues and challenges that demand vigilance and must be anticipated properly, now and moving forward. There are at least seven important aspects we need to pay attention to. *First*, vaccinations are still not evenly distributed to achieve herd immunity, thus increasing the risk of Covid-19 becoming endemic. *Second*, the imbalances in the global economic recovery process, which is progressing more quickly in AEs yet slowly in EMDEs. *Third*, the occurrence of disruptions in the global supply chain and the emerging threat posed by energy scarcity. *Fourth*, the asynchronous plan for monetary and fiscal policy to return to a new normal (exit policy) between AEs and EMDEs, as well as the ensuing impact of global financial market uncertainty. *Fifth*, the scarring effect impact of the pandemic on corporate conditions and the risks that may occur to economic recovery sustainability and maintaining financial system stability. *Sixth*, the fast-paced digitalization of the financial economy with the dominance of several global big technology (BigTech) players and the expansion of cross-border payment systems. *Seventh*, growing demand for the green economy and sustainable finance in AEs must be well prepared concerning the transition by EMDEs. The following is an explanation of the seven challenges and anticipatory policy measures in Indonesia.

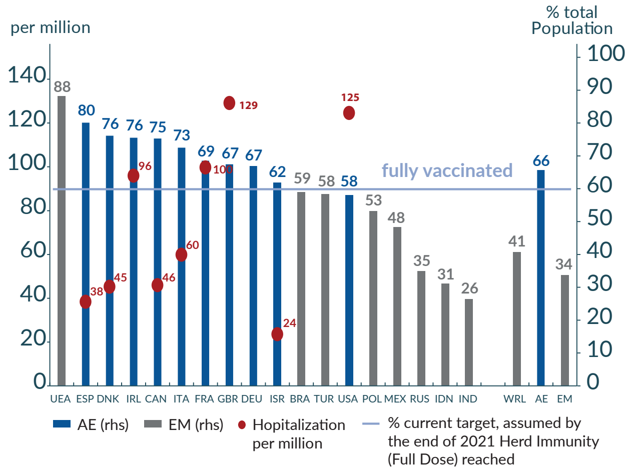
The Covid-19 pandemic, which subsided at the end of 2020, re-emerged with the Delta variant in India in February 2021 and quickly spread to Asia and various other parts of the world, threatening health and humanity. The Delta variant is highly contagious and has a more virulent impact on human health and mortality than the Alpha and other variants. In 2021 more than 95% of Covid-19 transmission cases in various countries, including Indonesia, were due to the Delta variant with a viral load 1,260 times higher than the original variant. Furthermore, the incubation period for Delta is also shorter, at about 4 days after exposure, compared to an average of 6-14 days in the original variant. It is this combination of a high viral load and short incubation period that has resulted in very fast transmission rates and a higher mortality rate. Transmission in Asia peaked in early May, before decreasing slightly in June but re-emerging in August 2021 (Graph 1). In the Americas and Europe, the spread of Delta peaked in August 2021 yet, until now,remains high. The impact on health has also been more severe, leading to a rapid rise in fatalities in Asia - 1.54 % in late August and more steeply thereafter,

Graph 1. Additional Global Covid-19 Cases



Data as of 12 November 2021
Source: WHO, calculated

Graph 3. Global Vaccination and Hospitalization Rate

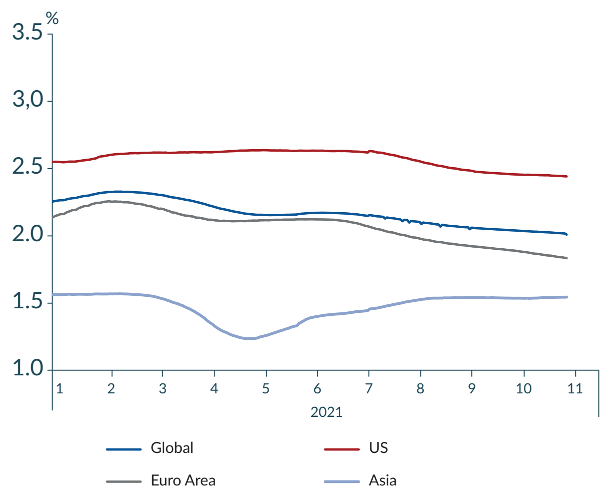


Data as of 8 November 2021
Source: Our World in Data, calculated

having hit a low in early May 2021 (Graph 2). The impact on mortality rates in the United States and Europe is not significant, however, partly because of relatively high vaccination rates and herd immunity in both parts of the world.

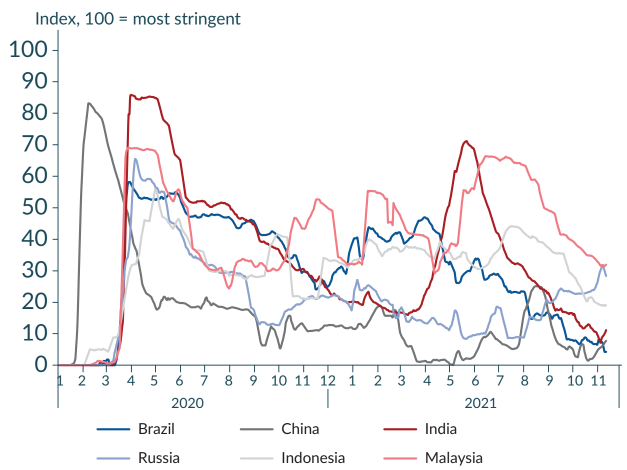
The vaccination rate and restrictions on community mobility determine transmission of the Covid-19 Delta variant, as well as its impact on health and humanitarian problems, including economic activity. Here in lies one of the fundamental problems of the Covid-19 impact in different parts of the world, namely the inequality of vaccination rates between AEs and EMDEs. In developed countries, given the availability of vaccine supplies and the large fiscal capacity of the government, vaccination rates have reached an average of 66% of total population, leading to lower rates of Delta variant transmission and mobility restrictions (Graph 3). Overall, herd immunity has begun to form in the community against Covid-19, with vaccination rates above 61% of the population, with the highest rates recorded in the United Arab Emirates (UAE) at 88% to the US at 58%. Meanwhile in EMDEs, with limited vaccine

Graph 2. Global Covid-19 Fatality Rates



Data as of 12 November 2021
Source: WHO, calculated

Graph 4. Mobility Restrictions EMDEs



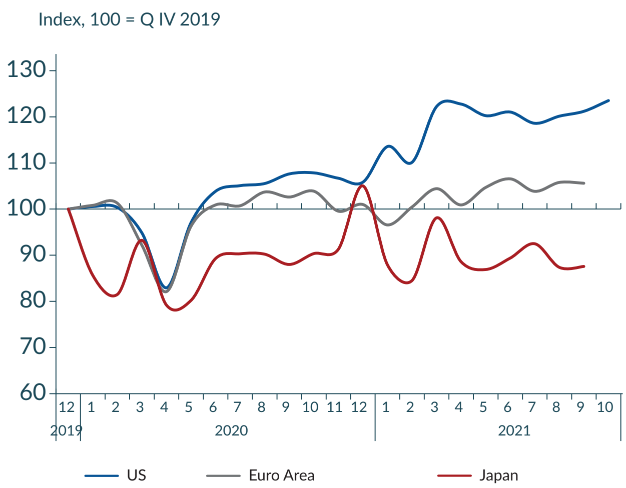
Data as of 15 November 2021
Source: Goldman Sachs Research
Goldman Sachs ELI : Oxford Stringency Index + Google Mobility Report

supply and fiscal capacity, the vaccination rate has only reached an average of 34% and, therefore, the spread of the Delta variant is more extensive. Moreover, the level of mobility restrictions that must be enforced to prevent Covid-19 transmission is higher in EMDEs, though differing in terms of time and duration (Graph 4). Disparity between vaccination rates in AEs and EMDEs also explains the different negative effects of the Delta variant on the pace of economic recovery.

Several indicators point to a relatively rapid increase in economic activity in early 2021 before decelerating with the spread of the Delta variant. The level of restrictions on public mobility due to the second wave of the Delta variant and concerns about a possible third wave have affected the Consumer Confidence Index and retail sales in various countries. Again, the effects differ from country to country, depending on vaccination rates as well as consumer perception and fears of a third wave of infections. In advanced economies, for example, the Retail Sales Index, which had been increasing rapidly since the end of 2020, has declined since March 2021 in the US and July 2021 in Europe (Graph 5a). In fact, the Consumer Confidence Index declined more sharply in the US than in Europe. In China, the Retail Sales Index and consumer confidence have been retreating since June 2021 (Graph 5b), while the Consumer Confidence Index in India, which had been decreasing since the emergence of the Delta variant in February, has rebounded since July 2021. This pattern of increasing retail sales will also have an impact on the downward trend in the rate of increasing consumption. Delta variant transmission and mobility restrictions have also affected the Business Confidence Index and Purchasing Managers' Index (PMI), which in turn affects the level of production and investment. Economic activity has gradually improved since the third quarter of 2021 in line with the decline in Delta variant cases and greater public mobility. Nevertheless, the possible emergence of new Covid-19 variants and the risk that the pandemic will last for a long time, potentially becoming endemic,with the inherent impact on the world economic recovery, must be considered.

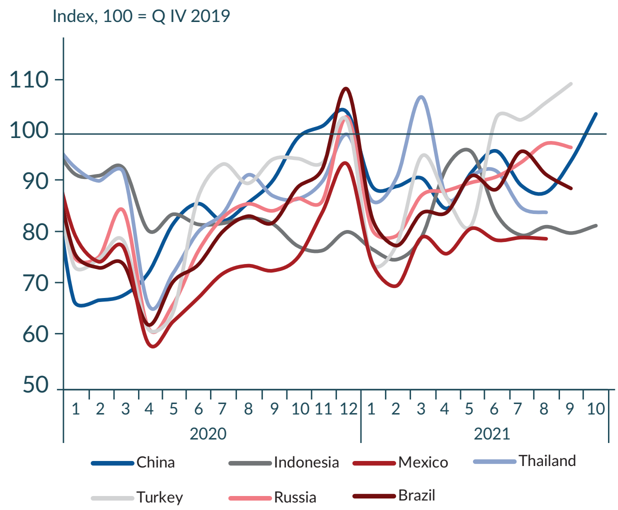
Global economic improvements will continue throughout 2021, though uneven, with recovery expected in 2022. The speed of a country's economic improvement is strongly influenced by the vaccination rate to achieve herd immunity, the magnitude of fiscal and monetary policy stimuli, as well as resilience in the face of Delta variant transmission. In advanced economies, particularly

Graph 5a. Retail Sales AE



Source: CEIC, calculated

Graph 5b. Retail Sales EMDEs



Source: CEIC, calculated

the US, economic recovery is progressing more rapidly, supported by unprecedented fiscal and monetary stimuli. The stimulus package from the government and central bank is funneled into vaccination programs, social and business assistance, as well as the injection of massive liquidity (quantitative easing) to the financial system. On the other hand, most EMDEs, except China, are still struggling to improve their domestic economic conditions towards economic recovery. In addition to limited vaccine supply, finite fiscal and monetary stimulus capacity has also undermined the economic recovery process. Most EMDEs have restrained ability to raise larger budgets, primarily as a corollary of lower tax revenues reduced by declining business activity, as well as limited debt capacity to finance larger fiscal deficits. Meanwhile, monetary policy effectiveness to boost the economy has been hampered by the suboptimal condition of the banking and financial sectors, which have also been affected by the pandemic.

Overall, after experiencing a 3.1% contraction in 2020, the world economy is expected to grow by around 5.7% in 2021 and 4.4% in 2022 (Table 1). Economic recovery has occurred in the two largest global economies, namely China with 8.0% and 5.4% growth in 2021 and 2022 after growing 2.3% in 2020, and the US with 5.9% and 3.9% growth in 2021 and 2022 after a 3.4% contraction in 2020. Meanwhile, economic recovery in other countries is expected to occur in 2022 with continued economic improvements in 2021. Among the advanced economies, Europe is expected to grow 4.8% and 4.4% in 2021 and 2022 after a 6.3% contraction in 2020, similarly Japan will grow 2.4% and 2.5% in 2021 and 2022 after a 4.6% contraction in 2020. Among Asian countries, India is estimated to grow at around 8.8% and 8.1% in 2021 and 2022 after a 7.1% contraction in 2020. Likewise, ASEAN-5 will grow 3.9% and 5.4% in 2021 and 2022 after a 3.4% contraction in 2020. The increase in world trade volume and international commodity prices will continue, thus underpinning the outlook for exports and economic

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

	2019	2020	2021*	2022*
Global Economic Growth	**2.8**	**-3.1**	**5.7**	**4.4**
Advanced Economies	**1.6**	**-4.5**	**5.1**	**3.9**
US	2.2	-3.4	5.9	3.9
Euro Area	1.3	-6.3	4.8	4.4
Japan	0.0	-4.6	2.4	2.5
Emerging Economies	**3.7**	**-2.1**	**6.1**	**4.9**
China	6.0	2.3	8.0	5.4
India	4.8	-7.1	8.8	8.1
ASEAN 5	4.9	-3.4	3.9	5.4
Latin America	0.1	-7.0	5.1	2.8
Emerging Europe	2.5	-2.0	4.7	3.7
Middle East dan Asia	1.4	-2.8	3.9	3.8
World Trade Volume	**-0.4**	**-5.3**	**8.3**	**3.8**
Indonesia Export Commodity Price Index	**-3.0**	**-0.8**	**60.3**	**2.5**

Source: IMF WEO *Database* October 2021, Bank Indonesia's Projection

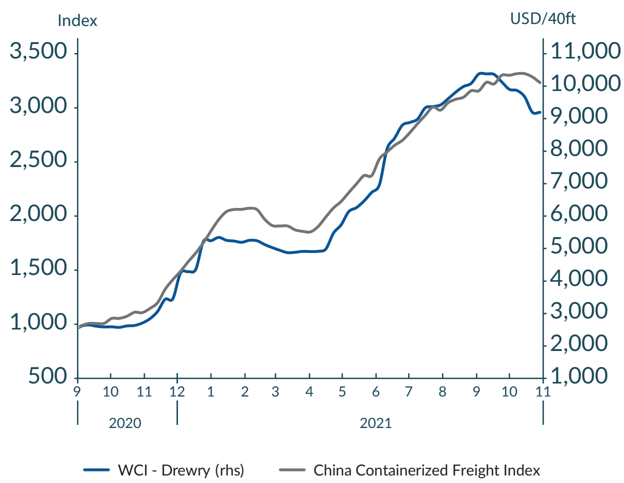
Description: * projection

recovery in various EMDEs. The world economic recovery is expected to gain momentum in the second half of 2022 and 2023 and beyond.

Increasing demand fueled by the economic recovery that has exceeded supply capacity owing to limited mobility caused by the Covid-19 pandemic has disrupted global supply chains and created energy scarcity. Delta variant transmission has caused numerous problems in the distribution and supply of energy and production globally, as reflected in the scarcity of containers, backlogs at many ports, longer delivery times, and rising shipping costs between countries, especially since April 2021 (Graph 6). In the US, gaps are also appearing in the labor market, as seen in the voluntary unemployment rate that is still increasing, and also in increasing wages in the hospitality and restaurant service sectors, education and health, retail sales, manufacturing, as well as trade. Meanwhile, in producing countries, particularly China and other Asian countries, the enforcement of mobility restrictions to break the domestic chain of Delta variant transmission has resulted in production and inventory declines, as well as the ability to ship, both for production and energy inputs such as oil, coal, and others. Concerning oil, inventories in the US have fallen below the 5-year average despite indications of an increase in exploration and production (Graph 7).

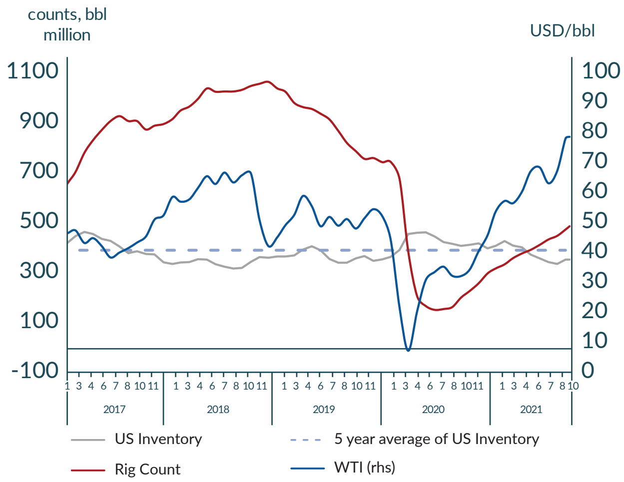
Disturbances in the distribution and supply of goods, exacerbated by energy scarcity, have impact ed inflation globally. In addition to the divergent economic recovery and mobility restrictions due to Covid-19, the problem is also driven by policy factors, namely stronger demand for a green economy in Europe and the US amid production restrictions in China and a number of other producing countries that require a transition period towards more environmentally friendly production (Scheme 1). At the same time, demand for energy is increasing in advanced economies in anticipation of supplies for winter. These factors have resulted in a production-demand gap and higher international commodity prices, such as oil, coal, and food prices (Graph 8). Next is the impact on increasing actual inflation as well as forecasts of future inflationary pressures in AEs, particularly the US, Europe, UK, Canada, and Japan (Graph 9). The pertinent question, therefore,is whether such inflationary pressures are temporary or permanent? Graph 9 shows that the inflation forecast in several developed countries, as a whole, will be transient in nature, i.e., it will rise for the remainder of 2021 until at least mid-2022, and then move downwards. Consequently, we need to be aware of

Graph 6. Shipping Rate Index: World and China



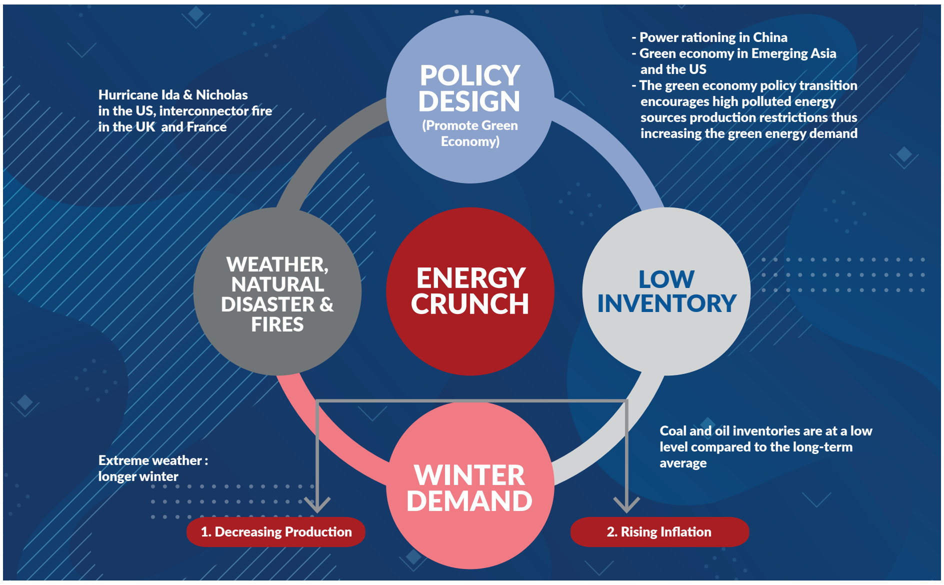
*Data as of 11 November 2021
Source: Bloomberg

Graph 7. Oil Inventories in the US and World Oil Prices



Data as of 12 November 2021
Source: Bloomberg, calculated

Scheme 1. Energy Crisis and Inflation Pressure

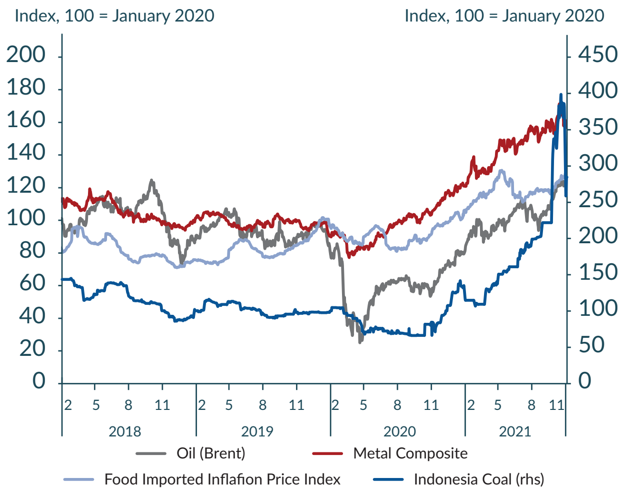


Source: Bank Indonesia

these developments over time to anticipate the positive and negative impacts on the Indonesian economy.

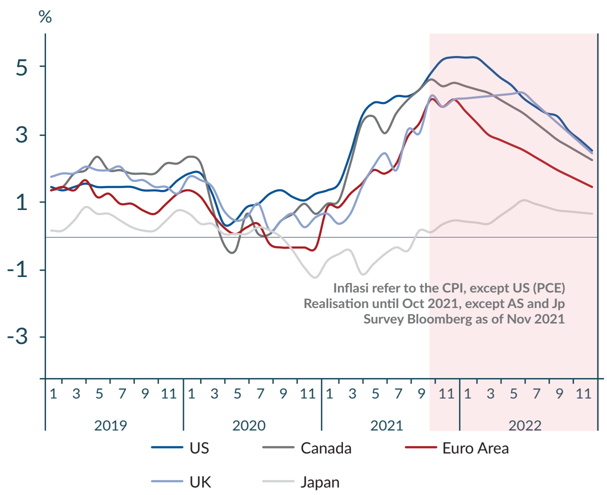
The asynchronous global economic recovery, coupled with supply disruptions and energy scarcity, have led to a misalignment of fiscal and monetary exit policy plans between AEs and EMDEs. In general, all countries will normalize fiscal policy, with deficits starting to reduce from 2021, although the pace is much faster in AEs to around 3.6% in 2023, while in EMDEs it will be more gradual to around 4.8% in 2024 (Graph 10). Likewise for monetary policy, it is likely that normalization will be quicker in AEs and slower in EMDEs, reflecting the pattern of economic growth and the intensity of inflationary pressures in each country. This can be seen from market expectations concerning policy

Graph 8. World Commodity Prices: Oil, Coal, and Metal Composite



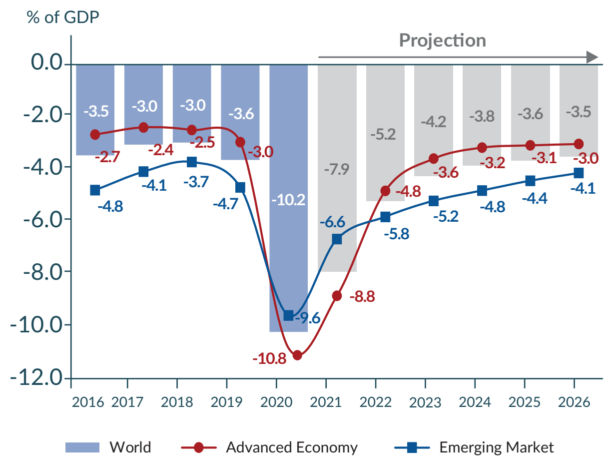
Data as of 12 November 2021
Source: Bloomberg, calculated

Graph 9. Actual and Forecasted Inflation: US, Europe, Japan, UK, and Canada



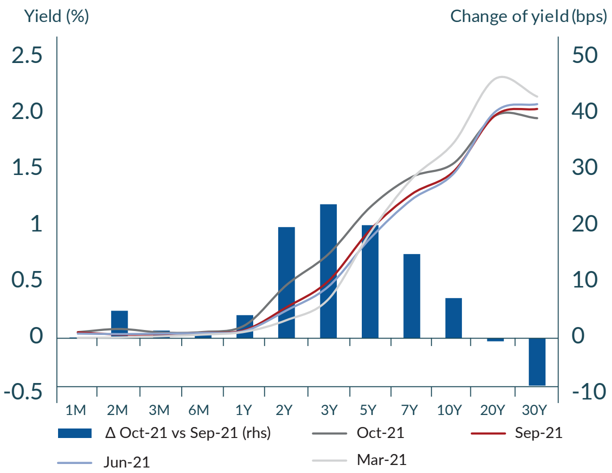
Source: Survey Bloomberg, Bank Indonesia's Projection, calculated

Graph 10. Fiscal Policy Normalization Plan: AEs and EMDEs



Source: IMF Fiscal Monitoring October 2021

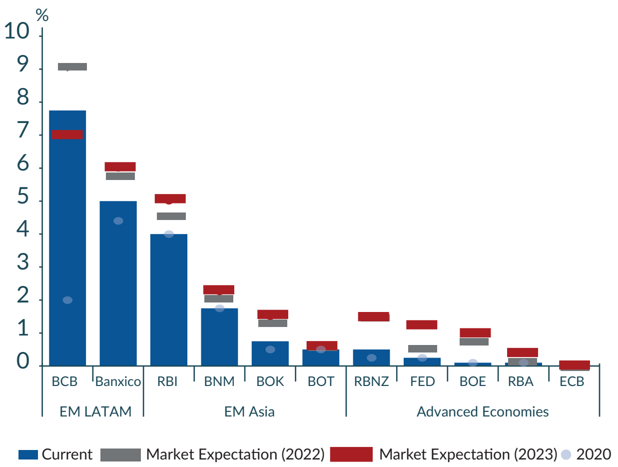
Graph 12. US Treasury Yields by Tenor



Source: Bloomberg, calculated

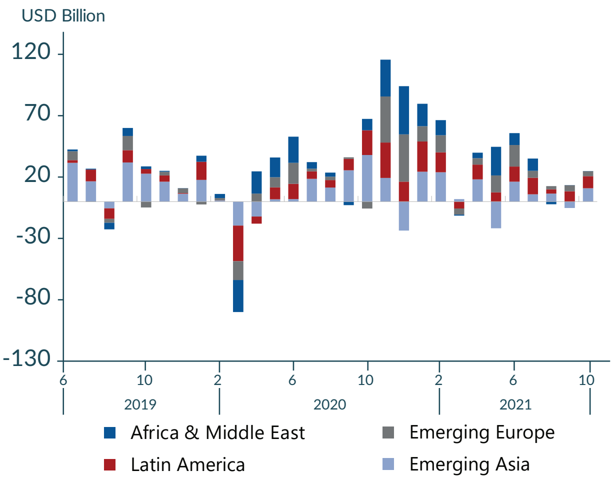
interest rates, which are generally higher than the current situation (Graph 11). Even in the US, with the economic recovery running faster, as evidenced by rising inflation and declining unemployment, the Fed has regularly conveyed plans to start reducing monetary liquidity (tapering) in early 2022 and this will likely be followed by a Fed Funds Rate (FFR) hike in the third quarter of 2022. This plan to normalize monetary policy by the Fed has pushed up US Treasury yields (Graph 12), although the effect was lower in September 2021 compared with March 2021 in response to unambiguous communication by The Fed. Nevertheless, uncertainty in global financial markets persists and has increased, influenced by the spread of the Delta variant as well as the impact of global supply chain disruptions and energy scarcity on rising inflation in the US and several other advanced economies. As a result, the relatively high inflow of portfolio investment into EMDEs in early 2021 has decreased rapidly, especially since March2021 (Graph 13) and the impact on currency pressure and exchange rate volatility in EMs has

Graph 11. Monetary Policy Normalization Plan: AEs and EMDEs



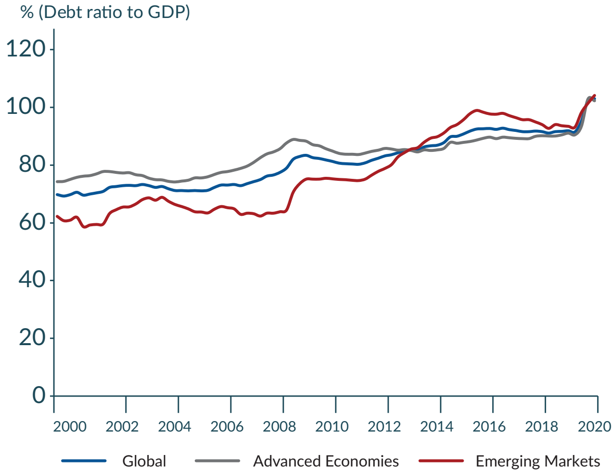
Data as of 16 November 2021
Source: Bloomberg

Graph 13. Portfolio Investment Flows to Emerging Markets (EMs)



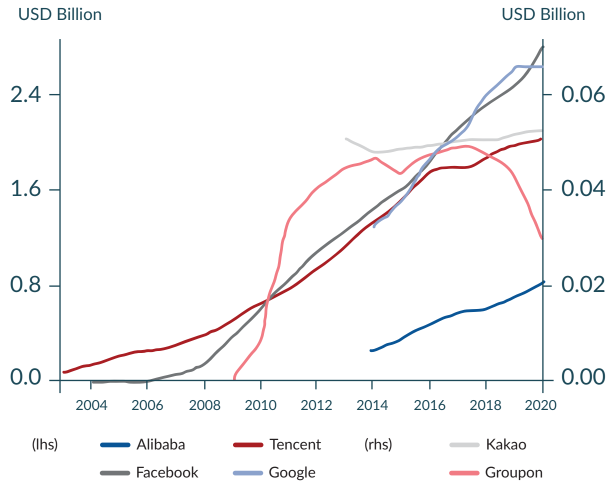
Source: IIF

Graph 14. Leverage of Non-Financial Corporations: Global, AEs and EMs



Source: IMF GFSR April 2021

Graph 16. BigTech Active Users

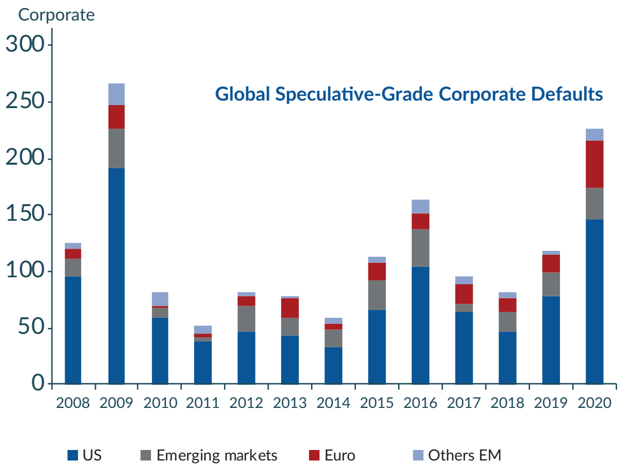


Source: BIS

also increased. This asynchronous normalization of fiscal and monetary policies as well as increasing uncertainty in global financial markets have further complicated efforts to improve economic recovery in EMDEs, including Indonesia.

The prolonged Covid-19 pandemic has had a scarring effect on corporate conditions and poses risks to financial system resilience. Restrictions on public mobility as part of Covid-19 pandemic handling have squeezed business activity, resulting in declining sales, liquidity, profitability, and corporate

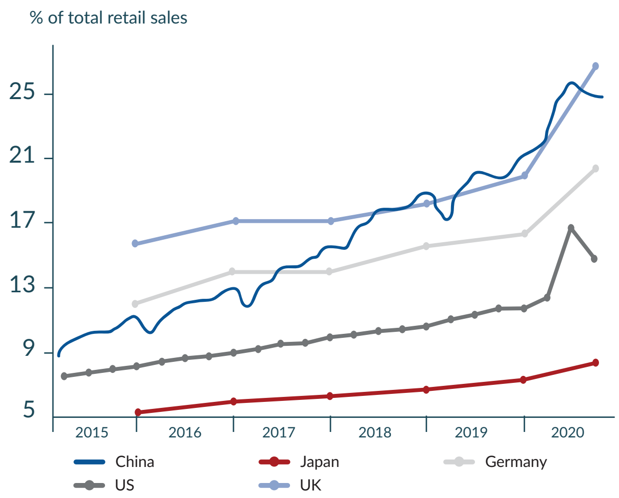
Graph 15. Total Corporate Defaults: Global, US, Europe, EMs



Source: IMF GFSR April 2021

capital. The level of debt (leverage) has increased since the Covid-19 pandemic, both in AEs and EMDEs (Graph 14). In fact, the number of corporate defaults has soared to almost global financial crisis levels, dominated by the US, then Europe and EMs (Graph 15). Cases of corporate default that have occurred in both the US and China are clear examples. Not all companies have been affected similarly, however, depending on the impact mobility restrictions have had on their respective economic sectors. Notwithstanding, corporate damage demands continuous monitoring for risks that could spread and have an adverse impact on individual banking conditions and the stability of the financial system as a whole. That is why the normalization of regulations concerning the relaxation of credit restructuring provisions in many countries is meticulously carried out. In fact, financial sector supervisory authorities in many countries have extended the regulatory relaxation period for delays in principal and interest installment payments, thereby providing concessions for the recognition of non-performing loans (NPLs) in the banking industry. The problem of corporate damage and its impact on financial institutions and financial system stability still needs to be observed during the ongoing Covid-19 pandemic. In fact, even though the overall economy has recovered, corporate damage from the Covid-19 pandemic requires more time to heal.

Graph 17. Share of E-Commerce

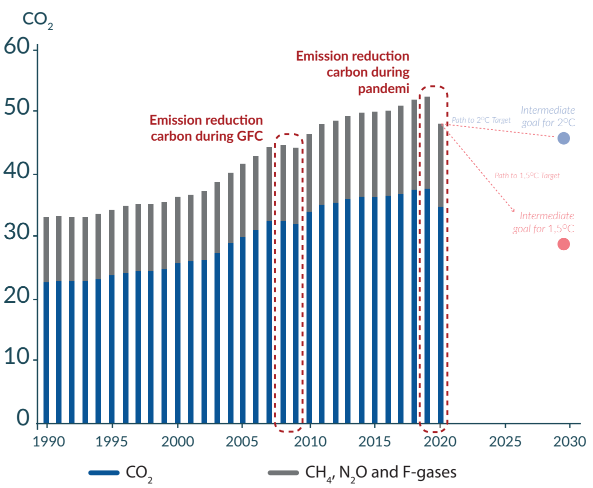


Data as of Nov 2020 (US), Oct 2020 (China), Sep 2020 (Germany, Japan and UK)
Source: BIS

On the other hand, payment system digitalization and the financial economy are expanding with rapidity, increasingly dominated by BigTech and e-commerce. Digitalization occurred before Covid-19, driven by advances in digital technology, including artificial intelligence,as well as BigTech that was able to provide personal and economic-financial services through mobile phones and other devices, anytime and anywhere (Graph 16). Artificial intelligence technology that can process personal behavioral data is becoming increasingly sophisticated, offering consumer experiences to meet various needs for faster and more frequent economic-financial transactions through e-commerce platforms at massive volumes and frequencies despite low value per transaction (retail) (Graph 17). Since the onset of the Covid-19 pandemic, however, with restrictions on public mobility and activity, digitalization of the financial economy and payment system has accelerated quickly. Digital economy-financial transactions, previously dominated by young people and millennials, have now spread to various levels of society, becoming ubiquitous and the new norm because of the convenience, speed, as well as low prices and transaction fees afforded. This is not restricted to urban areas, yet extends to smaller regions and across national boundaries. The digital financial economy represents a new source of economic growth and is accelerating economic and financial inclusion. On the other hand, however, a number of new problems are emerging, including personal data ownership, digital economic-financial transaction taxes, financial services by non-financial entities (shadow banking), the spread of privately created currencies (crypto currencies), and regular cyber-attacks. In response to the various opportunities and challenges posed by expansion of the digital financial economy, appropriate policy measures are required to re-position the role of the state, including the finance ministry, central bank, supervisory bodies for financial institutions, technology and information, as well as security and defense, in a new - digital - civilization.

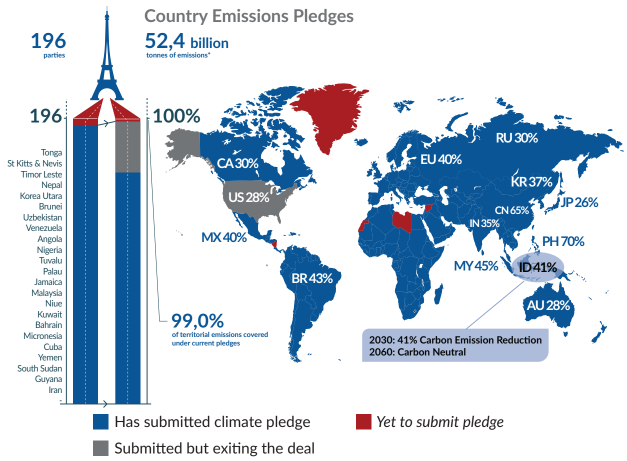
In addition to the rapid pace of digitalization, the Covid-19 pandemic has also increased demands for the need to accelerate the green economy and finance. In fact, country commitments to the problem of climate change and the need to immediately adopt a green economy-finance model existed before the Covid-19 pandemic, as stipulated in the 2015 Paris Climate Agreement. Various negotiations and agreements for trade and investment cooperation, both between countries and regions, have also included the need for adoption of the green economy-finance. Even in financial investor relations, including portfolio investment, the preferences and demands of fund owners (large and small) color the formation of investment portfolios by global investment managers, including choices that tend to favor EMs that are more pro-economy and green finance. Since the Covid-19 pandemic, demands for a green economy-finance have been getting stronger from advanced economies, with, among others, efforts to reduce carbon emissions that are much larger, namely 8-9%,than around 2-3% during the 2007/2009 global financial crisis (Graph 18). Various countries, therefore, especially EMDEs including Indonesia, must seriously develop carbon emission reduction programs in order to fulfill the Paris commitments above

Graph 18. Carbon Emissions and Reduction Targets: Towards Zero Emissions



Source: UNCTAD (April 2020)

Graph 19. Paris Climate Agreement: Emission Reduction Targets by Country



*of greenhouse gases in 2012 excluding international aviation and shipping
Source: UNCTAD (April 2020)

(Graph 19). This includes incentives provided by the Government and central bank for projects and financial products that are environmentally friendly, both through tax incentives and carbon taxes as well as macroprudential policies that provide incentives for green financing. Investment managers and financial institutions worldwide are also increasingly able to offer investment product options in EMs that are environmentally friendly, based on a country's commitment to reducing carbon emissions and also financial investment projects, called Sustainable Finance. In fact, trading with carbon emission reduction programs has started and is known as Carbon Trading.

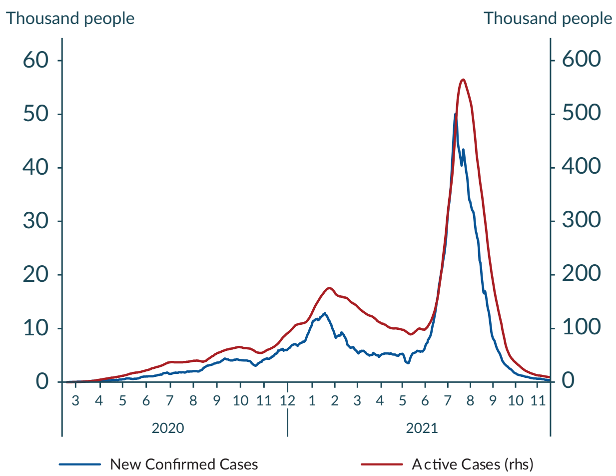
A number of international policy coordination steps have been taken to strengthen the global economic recovery and address emerging problems. Several important agendas have surfaced in the G20, IMF, FSB, BIS, and other forums. *First*, the need to further expand the supply and distribution of vaccines from AEs to EMDEs, including the provision of soft loans and debt relief for Less Developed Countries (LDCs) as well as additional Special Drawing Rights (SDR) allocations with a request that AEs and EMs participate in assisting LDCs. *Second*, the need for clarity of communication and phasing in the normalization of fiscal and monetary policy (exit policy) to address the global economic recovery imbalances and the impact on global financial market stability. *Third*, the need for joint measures to overcome global supply chain disruptions and energy scarcity in order to support economic recovery and overcome the global inflation spike. *Fourth*, the need for fiscal, monetary, macroprudential, and real sector policies (such as structural and labor reforms) as well as financial institution regulation to overcome the scarring effect of the pandemic on corporate conditions so as not to disrupt the sustainability of economic recovery and prevent spillover risks to financial system stability. *Fifth*, the need to expand international cooperation in terms of increasing economic-financial digitalization, including cross-border payment system cooperation, development of Central Bank Digital Currency (CBDC), regulation and supervision of BigTech, data, cyber-attacks, and accelerating digitalization towards economic-financial inclusion, such as remittances, retail trade, and MSMEs. *Sixth*, the need for a transition period towards a green finance-economy, including the fulfillment and transparency of carbon emission data, preparation of a carbon emission transition program, and carbon taxes, to the development of green financial products (sustainable finance). *Seventh*, the need to observe and anticipate the formulation of necessary policy measures in

Indonesia towards various international agendas that dominate discussions in international cooperation forums, including the G20, IMF, FSB, and BIS. This is more pertinent than ever with Indonesia's G20 Chairmanship in 2022.

National Economic Performance and Outlook: The Recovery Process Continues, Stability is Maintained

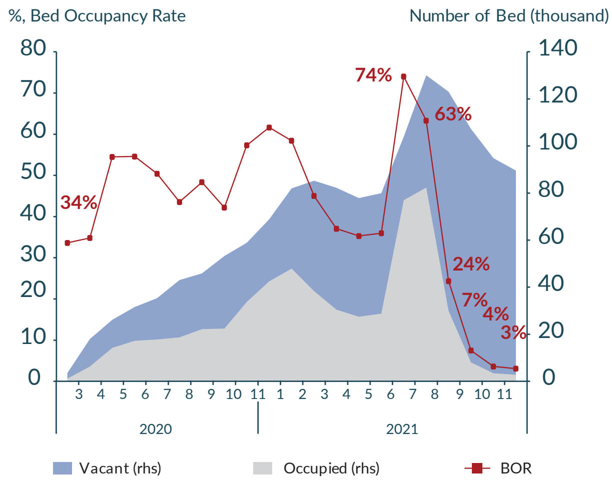
Transmission of the highly contagious Delta variant of Covid-19, which peaked in July 2021, has decreased in response to rapid Government action and community support. The Delta variant reached its peak around July-August 2021 and we are grateful that Indonesia has again survived through the quick handling and prevention measures taken by the Government, including the imposition of strict Community Activity Restrictions (PPKM - *Pemberlakukan Pembatasan Kegiatan Masyarakat*) in Java-Bali, acceleration of the vaccination program, as well as the preparation of more treatment facilities with hospitals and other infrastructure. Thanks be to God, positive Covid-19 cases have quickly declined to an average of below 500 per day, compared with an average of 50,000 cases per day in the third week of July 2021 (Graph 20). The use of treatment

Graph 20. Covid-19 Cases in Indonesia



Data as of 16 November 2021
Source: Gugus Tugas Percepatan Penanganan Covid-19 calculated

Graph 21. National Bed Occupancy Rate (BOR)

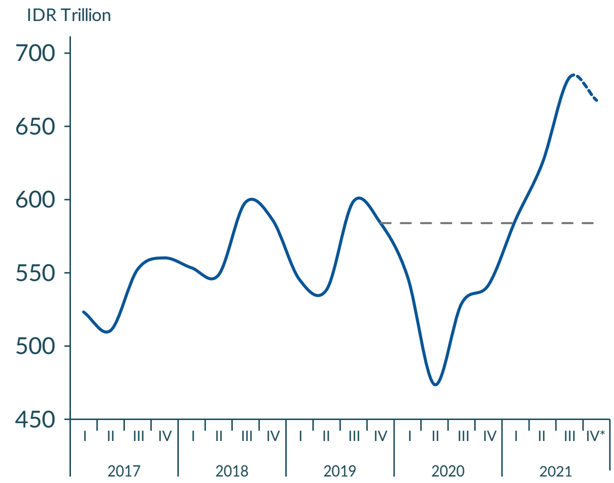


Data as of 16 November 2021
Source: Ministry of Health

rooms in hospitals and other healthcare facilities (bed occupancy rate) has also decreased dramatically from around 74% in June 2021 to only 5% today (Graph 21). The vaccination program is also accelerating,with approximately 38% of the Java-Bali population vaccinated and 22% in other areas, thus averaging 31% of the Indonesian population. Therefore, the Government plans to gradually start reopening sectors and/or areas where there area low number of severe cases, low hospital utilization rates, and low mortality rates.

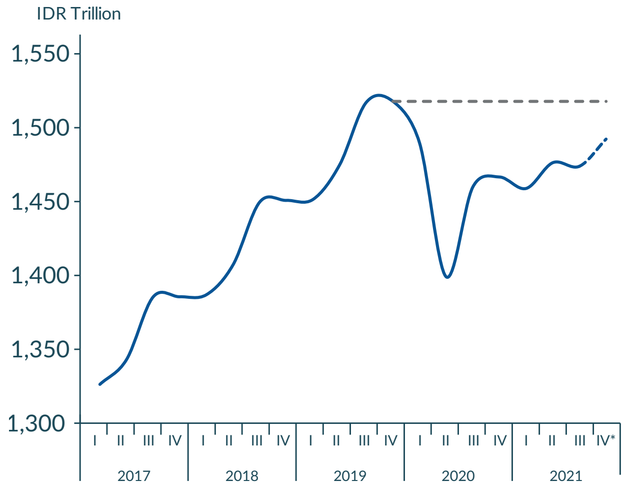
Several indicators show that national economy improvement shave resumed after experiencing a slowdown caused by Delta variant transmission in July and August 2021. This is reflected by increasing indicators until early November 2021, such as community mobility, retail sales, consumer expectations, Manufacturing PMI, and the realization of exports and imports. Rising demand and high commodity prices prompted a rapid export (Graph 22) recovery, not only limited to natural resource commodities but also downstream products that the Government continues to push. Accelerating domestic demand was also supported by household consumption, especially food (Graph 23), in line with the relaxing of PPKM restrictions and export performance, especially in Eastern Indonesia

Graph 22. Indonesia's Export Value



Source: BPS, *Bank Indonesia's Projection

Graph 23. Value of Household Consumption

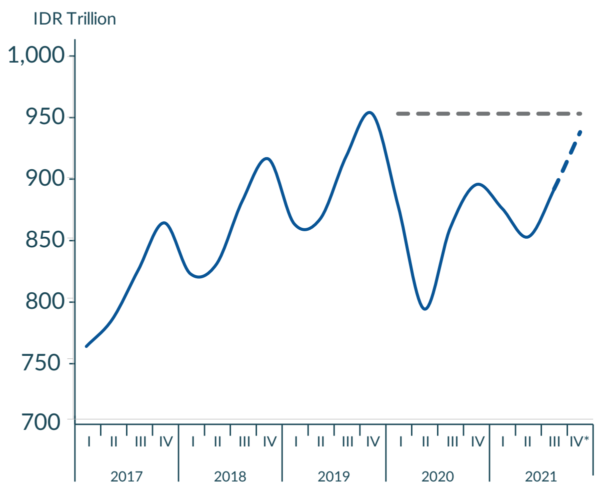


Source: BPS, *Bank Indonesia's Projection

and Sumatra, although the increase in private consumption was subdued, especially in Java and Bali due to the impact of PPKM as a countermeasure to break Delta variant transmission. Likewise, the increase in investment, especially non-construction, was consistent with improvements in exports and ease of foreign investment in accordance with the Job Creation Act (Graph 24). Overall, after a delay during July-August 2021, the Indonesian economy has gradually returned to pre-pandemic levels (Graph 25).

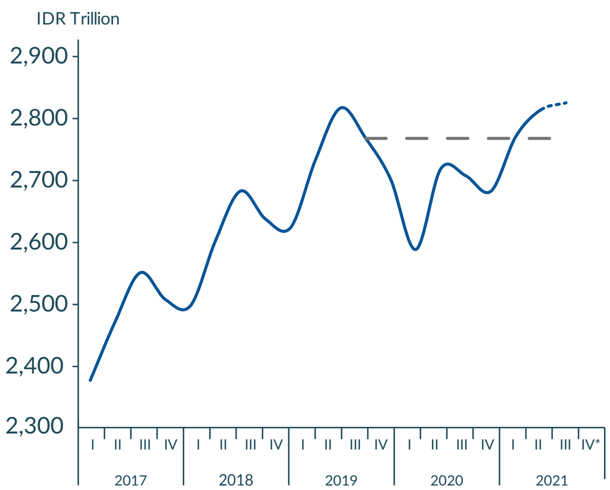
National economic growth has continued to improve since the second quarter of 2021 and will increase significantly in 2022. In the third quarter of 2021, economic performance continued to grow positively at 3.51% compared with a 3.49% contraction in the same period last year (Table 2). This growth is below, however, the 7.07% recorded in the second quarter of 2021. Transmission of the Delta variant and tighter measures, especially in the Java and Bali regions, which the Government

Graph 24. Indonesia's Investment Value



Source: BPS, *Bank Indonesia's Projection

Graph 25. Indonesia's GDP Value



Source: BPS, *Bank Indonesia's Projection

Table 2. GDP by Expenditure

Component	2019*	2020**				2020	2021***		
		I	II	III	IV		I	II	III
GDP	**5.02**	**2.97**	**-5.32**	**-3.49**	**-2.19**	**-2.07**	**-0.71**	**7.07**	**3.51**
Private Consumption	**5.04**	2.83	-5.52	-4.05	-3.61	**-2.63**	-2.21	5.96	1.03
Government Consumption	**3.26**	3.77	-6.90	9.76	1.76	**1.94**	2.58	8.03	0.66
Investment	**4.45**	1.70	-8.61	-6.48	-6.15	**-4.95**	-0.23	7.54	3.74
Building Investment	**5.37**	2.76	-5.26	-5.60	-6.63	**-3.78**	-0.74	4.36	3.36
Non Building Investment	**1.83**	-1.46	-18.62	-8.99	-4.71	**-8.38**	1.39	18.58	4.89
Exports	**-0.86**	0.36	-12.02	-11.66	-7.21	**-7.70**	7.09	31.98	29.16
Imports	**-7.39**	-3.62	-18.29	-23.00	-13.52	**-14.71**	5.38	31.72	30.11

Source : BPS

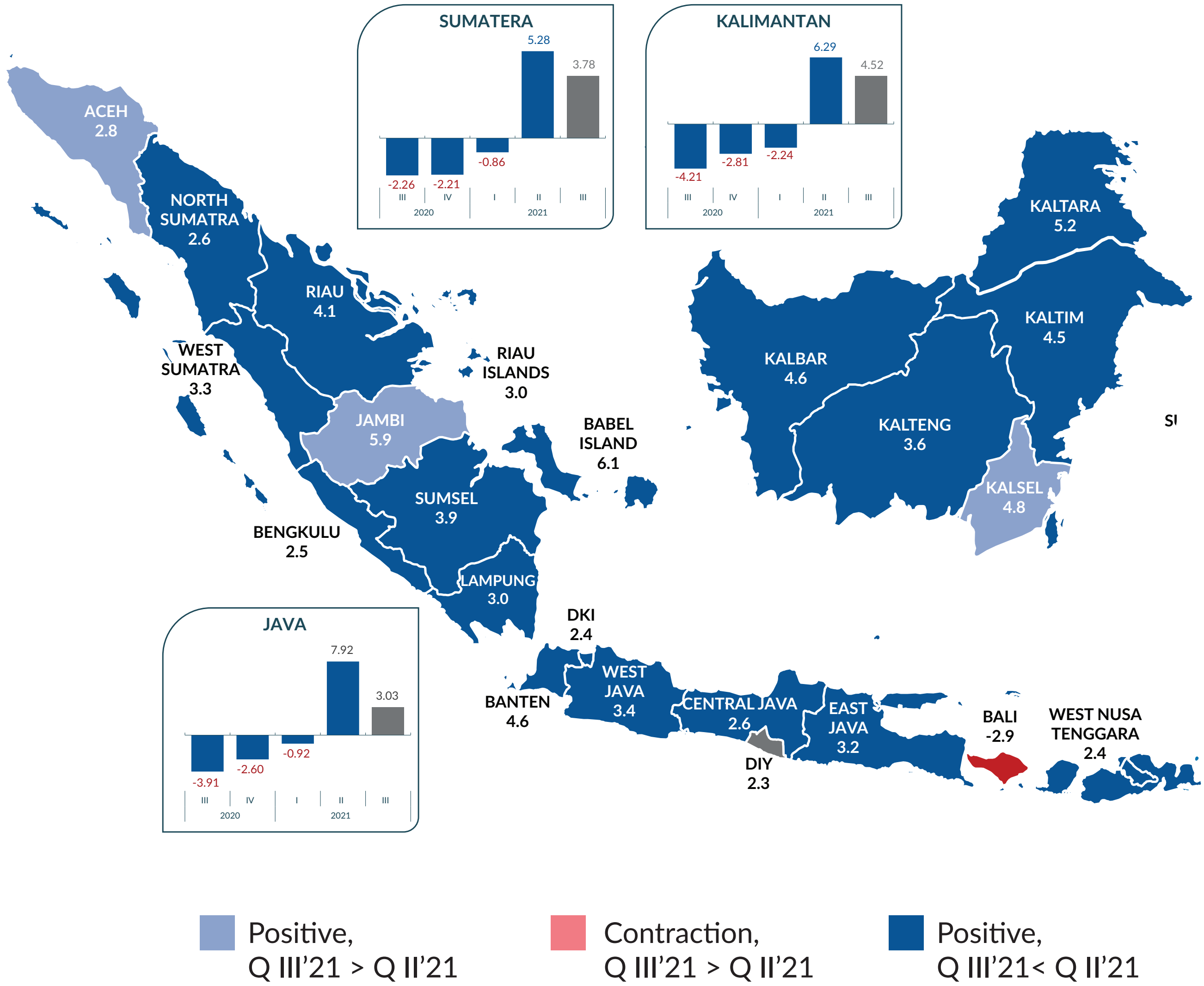
Description: *Preliminary figures; ** Figures are very provisional; *** Figures are very, very provisional

had to take, undoubtedly had an impact on the economy, especially private consumption that grew by just1.03% in the third quarter of 2021. Similarly, restrictions on mobility resulted in a lower-than-expected increase in investment at 3.74% in the third quarter of 2021. Growth support from export performance remained high, namely 29.16% in the third quarter of 2021, in line with persistently solid demand from major trading partners, yet has been unable to compensate the decline in private consumption and investment growth. In terms of major economic sectors (LU - *Lapangan Usaha*), the performance of Manufacturing, Trade and Mining grew positively. National economic growth in Indonesia is predicted to improve again in the fourth quarter of 2021 and beyond, propelled by increasing mobility together with a faster vaccination rollout, strong export performance, the broader reopening of priority sectors, as well as maintained policy stimuli.

Overall, in 2021 economic growth will remain within the range of Bank Indonesia's 3.2%-4.0%projection, before accelerating in 2022 to 4.7%-5.5%.

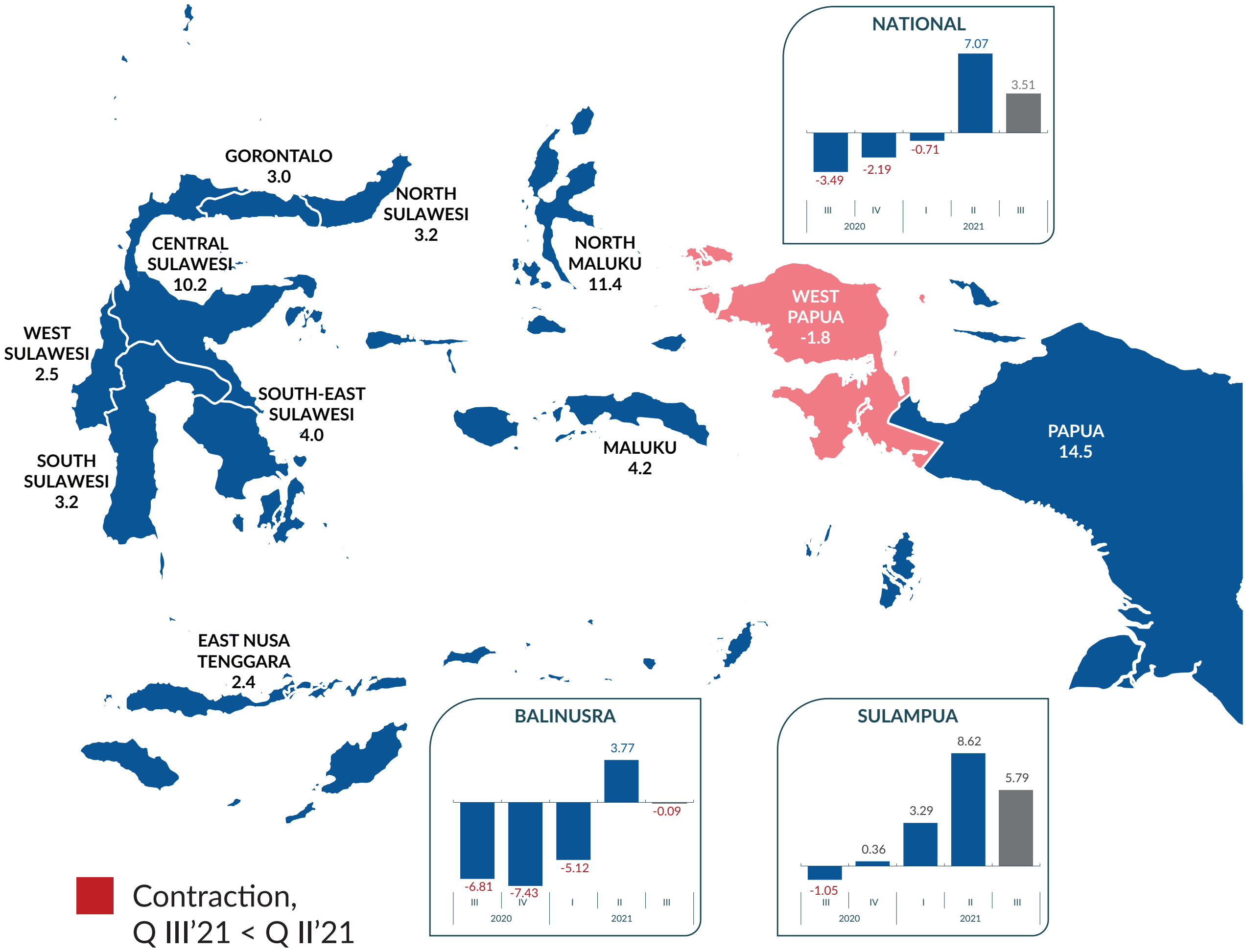
Spatially, national economic growth is supported by almost all regions. The economy in nearly all regions continued to expand in the third quarter of 2021, with the highest growth recorded in the Sulawesi-Maluku-Papua (Sulampua) region, followed by Kalimantan and Sumatra. Several regions, namely Aceh, Jambi and South Kalimantan, grew higher than the previous quarter, primarily supported by export performance in line with Mining sector improvements, particularly coal (Graph 26). Economic growth in Papua also increased on the back of continued investment activity for underground mining and final construction of the PON XX (National Sports Week) venues. Externally, improving global demand and rising prices of key

Graph 26. Regional Economic Growth in Q3/2021 (%, yoy)



Source: BPS, calculated

export commodities have supported regional economic performance, particularly in Sumatra and Kalimantan. From a foreign sector perspective, external demand has boosted performance of the main export-oriented regional foreign countries. In line with export performance and rising commodity prices, Mining sector performance improved and supported the production-based regional economy. Coal mining performance in Sumatra and Kalimantan remains solid, driven by strong Chinese demand. In contrast, the performance of domestically-oriented Manufacturing Industry subsectors has moderated, particularly in Java, in line with restrictions on production activities in essential sectors. However, external demand is still strong enough to support the Processing Industry, particularly the CPO (crude palm oil)industry in Sumatra and the base metal industry in Sulampua. Restrictions on community mobility have also hindered Trade sector performance, especially in Java and the Balinusra region. Improvements in regional economic growth are expected to continue in 2021, with the regions of Java, Sumatra, Kalimantan, Balinusra, and Sulampua growing3.1-3.9%; 2.7-3.5%; 2.8-3.6%; 0.2-1.0%, and 5.8-6.6%.



Indonesia has maintained external sector resilience, supported by a solid and improving Balance of Payments (BOP). A positive current account was recorded in the third quarter of 2021, bolstered by strong export performance in line with growing global demand and higher international commodity prices (Table 3). A capital and financial account surplus was maintained by foreign capital in flows in the form of direct investment and portfolio investment. In the fourth quarter, the trade balance recorded a USD5.7 billion surplus in October 2021, the highest in recorded history, underpinned by the export performance of key commodities, such as coal, CPO, as well as iron and steel. Meanwhile, portfolio investment in the fourth quarter of 2021 (as of 16th November 2021) recorded a net inflow of USD0.14 billion. The position of Indonesia's foreign exchange reserve assets at the end of October 2021 stood atUSD145.5 billion, equivalent to 8.5 months of imports or 8.3 months of imports and servicing government foreign debt, which is well above the 3-month international adequacy standard. Looking ahead, the current account is fore casted in a range

Table 3. Indonesia's Balance of Payments

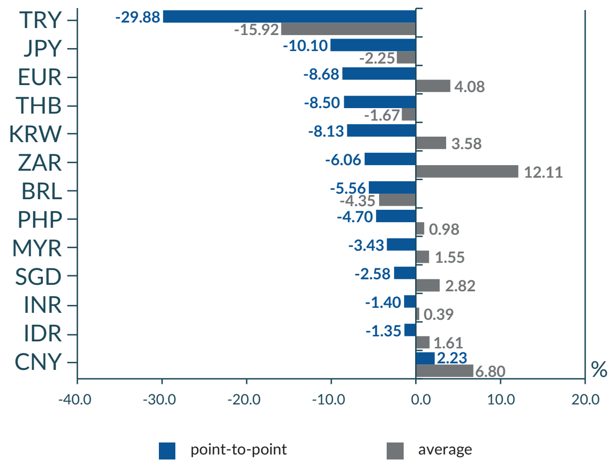
Component (USD billion)	2019	2020*				2020	2021**		
		I	II	III*	IV*		I*	II*	III**
Current Account	**-30.3**	**-3.5**	**-2.9**	**1.0**	**0.8**	**-4.5**	**-1.1**	**-2.0**	**4.5**
A. Goods	3.5	4.5	4.0	9.8	10.0	28.2	7.6	8.3	15.0
- Export, fob	168.5	41.7	34.6	40.8	46.2	163.4	49.4	54.3	61.7
- Import, fob	-164.9	-37.2	-30.7	-31.0	-36.2	-135.1	-41.7	-46.0	-46.7
a. Non Oil & Gas (Net)	12.0	5.8	3.3	9.4	11.3	29.9	10.0	11.6	18.1
b. Oil & Gas (Net)	-10.3	-2.6	-0.8	-0.7	-1.2	-5.4	-2.3	-3.1	-2.9
B. Services	-7.6	-1.7	-2.1	-2.8	-3.1	-9.7	-3.4	-3.7	-3.6
C. Primary Income	-33.8	-7.9	-6.2	-7.4	-7.4	-28.9	-6.7	-8.1	-8.3
D. Secondary Income	7.6	1.7	1.4	1.4	1.4	5.9	1.4	1.5	1.4
Capital and Financial Account	**36.6**	**-3.0**	**11.0**	**0.9**	**1.0**	**7.9**	**5.7**	**1.6**	**6.1**
1. Direct Investment	**20.5**	**4.3**	**4.5**	**1.0**	**4.3**	**14.1**	**4.4**	**5.3**	**3.3**
2. Portfolio Investment	**22.0**	**-6.3**	**9.7**	**-2.0**	**2.0**	**3.4**	**4.9**	**4.0**	**1.1**
3. Other Investment+	**-6.1**	**-0.6**	**-3.4**	**1.9**	**-7.4**	**-9.6**	**-3.7**	**-7.7**	**1.5**
Overall Balance	**4.7**	**-8.5**	**9.2**	**2.1**	**-0.2**	**2.6**	**4.1**	**-0.4**	**10.7**
Memorandum:									
- Reserve Assets Positions	**129.2**	**121.0**	**131.7**	**135.2**	**135.9**	**135.9**	**137.1**	**137.1**	**146.9**
In Month of Import and Official Debt Repayment	7.3	7.0	8.1	9.1	9.8	9.8	9.7	8.8	8.6
- Current Account (% GDP)	-2.7	-1.3	-1.2	0.4	0.3	-0.4	-0.4	-0.7	1.5

Description:* Preliminary figures; ** Figures are very provisional
Source: Bank Indonesia

of 0.3% of GDP surplus to 0.5% of GDP deficit in 2021, and will remain low within a manageable deficit of 1.1% to 1.9% of GDP in 2022, thus supporting external sector resilience in Indonesia.

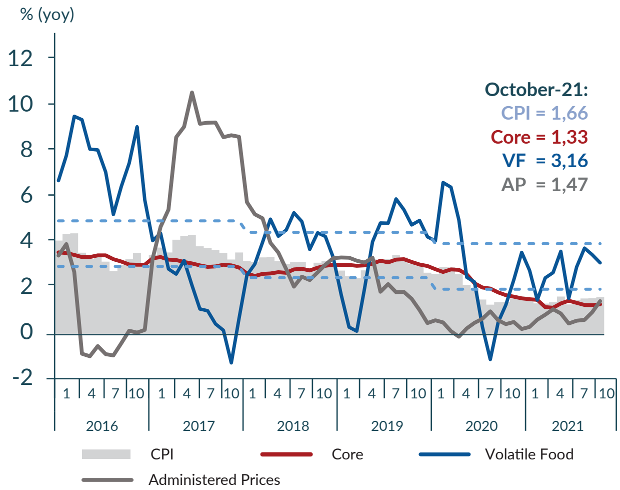
The rupiah is stable with potential to appreciate, supported by domestic economic fundamentals, particularly export and external performance, foreign capital inflows, and the exchange rate stabilization policy measures taken by Bank Indonesia. As of 17th November 2021, the rupiah depreciated 0.53% point-to-point and 0.56% on average compared to October 2021 levels. The weaker rupiah was attributable to restrained foreign capital inflows despite positive perception concerning the domestic economic outlook and maintained domestic foreign exchange supply. As of 17th November 2021, therefore, the rupiah has depreciated 1.35% (ytd) compared with the level recorded at end of 2020, lower than the currency depreciation experienced in other developing economies, such as India, Malaysia,Philippines and Thailand (Graph 27a). Rupiah stability is also supported

Graph 27a. Rupiah Exchange Rate vs Multiple Currencies



Data as of 17 November 2021
Source: Reuters dan Bloomberg

Graph 28. Inflation: Core, Volatile Food and Administered Prices



Source: BPS

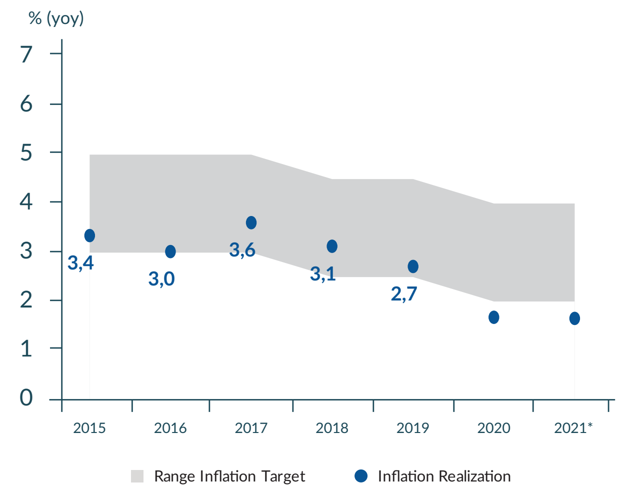
by the low risk perception of global investors regarding portfolio investment in Indonesia, as reflected in relatively stable Credit Default Swap (CDS) performance (Graph 27b). Bank Indonesia continues to strengthen rupiah exchange rate stabilization policy in accordance with the currency's fundamental value and market mechanisms through effective monetary operations and loose market liquidity.

Inflation remains low, thus supporting economic stability. The Consumer Price Index (CPI) in October 2021 recorded inflation of 0.12% (mtm), bringing headline inflation for the calendar year to0.93% (ytd). Annually, CPI inflation stood at 1.66% (yoy), up marginally from 1.60% (yoy) in September 2021 (Graph 28). Core inflation remains low despite growing domestic demand, supported by maintained supply, a stable exchange rate, and anchored inflation expectations. Volatile food (VF) inflation slowed due to adequate goods supply. Inflationary pressures on administered prices (AP) intensified marginally in line with the continuing knock-on effect of higher tobacco excise duty. Consequently, inflation is predicted below the lower point of the 3.0±1% target corridor in 2021

Graph 27b. EMs and Indonesian CDS Risk Perception

Data as of 16 November 2021
Source: Bloomberg

Graph 29. National Inflation Realization and Targets



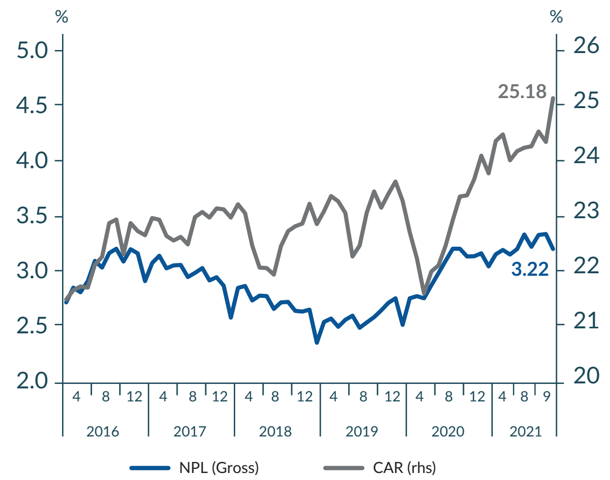
Data as of October 2021
Source: BPS

and within the target range in 2022 (Graph 29). Bank Indonesia is committed to maintaining price stability and strengthening policy coordination with the Central and Regional Governments through the Inflation Control Teams (TPIP and TPID - *Tim Pengendalian Inflasi Pusat dan Daerah*) to maintain CPI inflation within the target range.

Liquidity conditions remain very loose in line with Bank Indonesia's accommodative monetary policy stance and the impact of synergy between Bank Indonesia and the Government to support the national economic recovery. Bank Indonesia has again injected liquidity through quantitative easing into the banking industry totalingRp137.24 trillion as of 16th November 2021. Since 2020, therefore, quantitative easing policy has reached Rp863.8 trillion or around 5.3% of GDP, one of the largest liquidity injections amongst developing economies. The expansive monetary policy stance supported very loose liquidity conditions in October 2021, as reflected by the high ratio of liquid assets to deposits(AL/DPK - *Alat Likuid terhadap Dana Pihak Ketiga*) at 34.05%, with deposit growth recorded at 9.44% (yoy). Liquidity in the economy has also increased, as indicated by narrow (M1) and broad (M2) money supply aggregates, which grew 14.6% (yoy) and 10.4% (yoy), primarily driven by fiscal expansion and growth of outstanding loans disbursed by the banking industry.

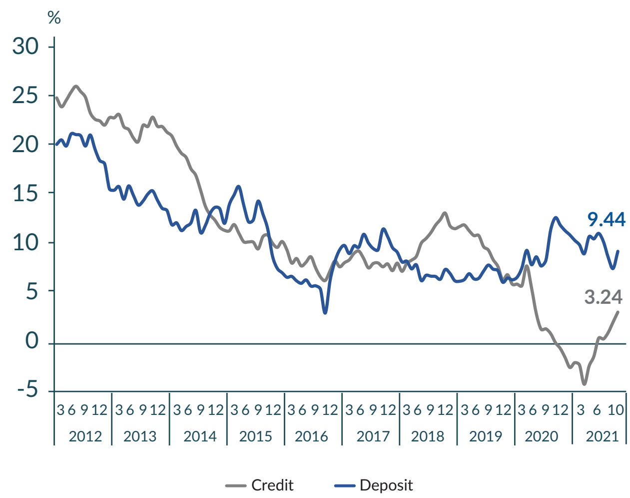
Bank Indonesia's decision to maintain a low policy rate, coupled with very loose liquidity conditions in the banking industry, have prompted lower lending rates. In the markets, the overnight interbank rate and 1-month deposit rate have fallen 52bps and 151bps respectively since October 2020 to 2.80% and 3.17% in October 2021. In the credit market, the banking industry continues to lower prime lending rates (PLR), accompanied by low interest rates on new loans. Increasing economic activity and public mobility have improved risk perception in the banking industry, prompting lower interest rates on new loans. Bank Indonesia expects the banking industry to continue lowering lending rates as part of the joint efforts to revive lending to the corporate sector. **Financial system resilience is solid, accompanied by a gradual revival of the banking intermediation function.** The Capital Adequacy Ratio (CAR) in the banking industry remained high September 2021 at 25.18%, with persistently low NPL ratios of 3.22% (gross) and 1.04% (nett) (Graph 30). Boosted by growing supply and demand, the bank intermediation function expanded 3.24% (yoy) in October 2021 (Graph 31). Demand for

Graph 30. Bank Capital and Non-Performing Loans



Source: OJK

Graph 31. Credit Growth and Bank Deposits

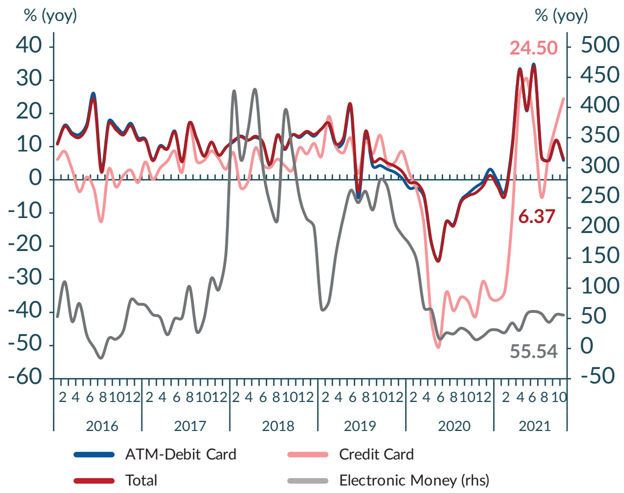


Source: Bank Indonesia

loans is increasing in line with business activity and consumption as restrictions on public activity are relaxed. On the supply side, the banking industry loosened lending standards in line with lower risk perception. All loan types recorded positive growth, led by consumer loans and working capital loans, while housing loans (KPR - *Kredit Pemilikan Rumah*) posted higher growth at 8.87% (yoy). Meanwhile, growth of MSME loans accelerated to 3.04% (yoy) in the reporting period. Such developments demonstrate ongoing gains in the real and corporate sectors, micro, small and medium enterprises (MSMEs) in particular. Bank Indonesia will maintain an accommodative macro prudential policy stance as well as policy synergy with the Government and other financial sector authorities to revive bank lending. Therefore, credit and deposit growth in 2021 is predicted to be in the range of 4.0-6.0% and 8.0-10.0%, respectively, and increases to be in the range of 6.0-8.0% and 7.0- 9.0% by 2022.

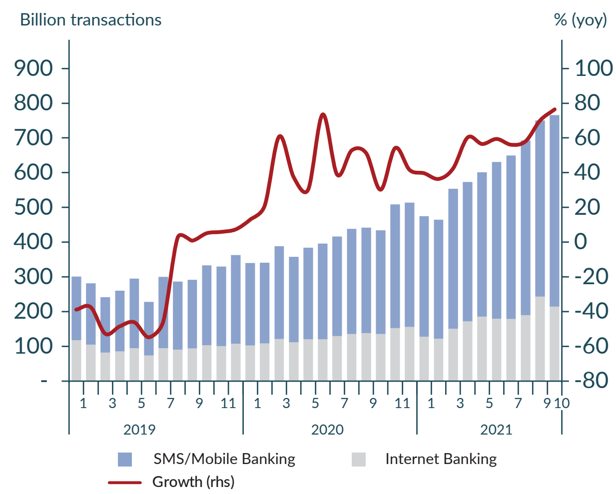
Bank Indonesia continues to accelerate payment system digitalization and expedite the national digital economy and finance. Various payment system digitalization programs, such as expansion of QRIS (Quick Response Code Indonesian Standard), the National Open API Payment Standard (SNAP - *Standar Nasional Open API Pembayaran*) and regulatory reforms, as well as the BI-FAST implementation plan, remain an ongoing priority. Digital economic and financial transactions continue to proliferate given greater public acceptance and growing public preference towards online retail as well as the expansion of digital payments and digital banking. The value of e-money transactions increased 55.54% (yoy) to Rp29.23 trillion in October 2021. Similarly, the value of digital banking transactions increased 63.31% (yoy) to Rp3,910.25 trillion in the same period and the value of payment transactions using ATM cards, debit cards and credit cards grew 6.37% (yoy) to Rp664.26 trillion(Graphs 32 and 33). Such achievements were reinforced by expansion of the QRIS ecosystem, with QRIS now accepted by over 12 million merchants, thus exceeding the target for 2021. This achievement is the result of collaboration and synergy between the central and regional governments, government ministries and agencies, associations/organizations and the industry as well as all elements of the public. On the cash side, currency in circulation in October 2021 grew 5.9% (yoy) to reach Rp854.3 trillion. Bank Indonesia continues to ensure cash availability in all regions of Indonesia, while digitalizing rupiah currency management and providing educational activities concerning love, pride and understanding the rupiah (*Cinta Bangga Paham* (CBP) *Rupiah*).

Graph 32. Growth of ATM, Credit Cards and Electronic Money



Source: Bank Indonesia

Graph 33. Digital Banking Growth



Source: Bank Indonesia

The national economic outlook is expected to improve further in 2022 with stability maintained. As stated, national economic growth in 2022 is projected to reach around 4.7%-5.5%, beyond projected growth of approximately 3.2%-4.0% in 2021. Assuming no third wave of Covid-19, the achievement of herd immunity, and the gradual recovery of community mobility, private consumption is expected to recover and grow by around 5% in the second half of 2022. Exports shall remain a source of economic growth on the back of high demand and rising international commodity prices, although with a lower growth rate than in 2021 due to the base effect. Growing domestic demand, solid export performance, higher foreign investment due to implementation of the Job Creation Act, as well as restarting postponed national strategic infrastructure projects will encourage high investment growth. By sector, the economy will be supported by several growth drivers, such as Mining, Manufacturing, Trade and Agriculture. Meanwhile, inflation is expected to remain under control and within the target corridor of 3%±1%, with sufficient national production capacity to meet the increase in aggregate demand until the end of 2022, although the impact of rising global energy prices demands vigilance. External stability is also expected to be maintained with a manageable current account deficit at around 1.1%-1.9% of GDP, as well as a wider capital and financial account surplus, boosted by foreign capital inflows, especially in the form of foreign investment with implementation of the Copyright Law. Solid economic fundamentals in Indonesia will support rupiah stability despite potentially higher global financial market uncertainty stemming from tapering policy by the Fed and in several other advanced economies. Bank Indonesia will continue to take the policy measures necessary to achieve the inflation target and rupiah stability, while continuing to support joint efforts to accelerate the national economic recovery.

Financial system stability will be maintained with stronger growth of outstanding loans disbursed by the banking industry in 2022. The Capital Adequacy Ratio (CAR) remains high and the ratio of NPL low, including the credit restructuring arrangements of the Financial Services Authority (OJK - *Otoritas Jasa Keuangan*). Bank intermediation will continue to improve, with credit and deposit growth expected to reach 6%-8% and 7%-9% compared with4%-6% and 8%-10% in 2021,as discussed previously. Demand for loans is expected to continue improving given increased growth of consumption, investment, and exports in line with the incremental recovery of economic activity from the Covid-19 pandemic. On the supply side, credit growth is supported by very loose liquidity conditions and lower risk perception in the banking industry, in addition to the current accommodative macroprudential policies. The very high ratio of liquid assets to deposits (LA/DPK - *alat likuiditas/dana pihak ketiga*)will not affect the banks' ability to disburse loans or purchase Government Securities (SBN - *Surat Berharga Negara*), although Bank Indonesia will likely taper liquidity as part of monetary policy normalization.

The national digital economy and finance will continue to grow rapidly in 2022, supported by faster payment system digitalization implemented by Bank Indonesia. E-commerce transactions in 2022 are projected to increase, supported by expansion of the e-commerce ecosystem, an ongoing shift in consumer preferences for online retail, as well as various innovations and promotions by the private sector, as well as Government and Bank Indonesia programs. The rapid increase of electronic money (e-money) transactions is also expected to continue, driven by greater e-money use in e-commerce and various other online platforms. Growth is slowing, however, in line with the convenience and efficiency of other digital payment methods, as well as limited promotions for consumers. Likewise, digital banking transactions in 2022 are projected to continue growing, supported by greater convenience and digital innovations by the banking industry. Various Bank Indonesia initiatives to digitize the payment system will be accelerated to create fast, convenient, affordable, secure and reliable payment system transactions, thus improving the national digital economy and finance.

Based on experience from 2021, several factors demand attention to nurture Indonesia's economic recovery. *First*, synergy needs to be strengthened to accelerate the vaccination roll out and Covid-19 containment with the reopening of priority sectors and further bolster the national economic recovery. Synergy must be directed towards growth drivers with a multiplier effect to economic growth, particularly the export sector and to meet rising domestic demand, including MSMEs. Synergy must also be extended to sectors reeling from the scarring effect of Covid-19 and that pose a relatively high risk to financial system stability, tourism in particular. *Second*, amid global financial market uncertainty along with plans to normalize monetary policy by the Fed and several other central banks, synergy to strengthen the national economic policy mix must be strengthened to maintain stability and accelerate the national economic recovery. Policy synergy is required to accelerate structural reforms in the real sector, particularly the continuation of infrastructure projects and the implementation of the Job Creation Act, fiscal sustainability and State Budget (APBN - *Anggaran Pendapatan dan Belanja Negara*) funding from Bank Indonesia for the national economic recovery, and Financial System Stability Committee (KSSK - Komite Stabilitas Sistem Keuangan) synergy to encourage financing for the corporate sector. *Third*, innovation must be strengthened, in terms of synergy regarding the intended national economic policies, as well as to expedite national economic and financial digitalization and inclusion through payment system digitalization as well as MSME development programs and the local economy. Moreover, policy and program innovation are also required in development of the green economy and finance for sustainable national economic development and in response to increasing demands from developed countries.

Bank Indonesia Policy Mix 2021: Encouraging National Economic Recovery, Maintaining Stability

Close national policy synergy to overcome the Covid-19 pandemic since 2020 has been strengthened in 2021 to maintain stability and foster further improvements. In this regard and as conveyed at the Bank Indonesia Annual Meeting last year, there is one prerequisite, namely a fast and comprehensive vaccination program roll out, coupled with disciplined application of the Covid-19 protocols, as well as 5 (five) policies as necessary preconditions, namely: (i) reopening productive and safe sectors, (ii) accelerating fiscal stimulus realization, (iii) boosting credit growth on the supply and demand sides, (iv) sustaining monetary and macro prudential stimuli, and (v) digitizing the economy and finance, particularly MSMEs. The vaccination roll out, as a prerequisite, accelerated in 2021 given greater supply and orderly distribution of global vaccines, especially since the outbreak of the Delta variant. Productive and safe sectors continued to reopen amid relentless efforts to overcome the pandemic, specifically the property and automotive sectors, accompanied by close coordination with the Financial System Stability Committee to revive lending to the corporate sector. Meanwhile, synergic payment system digitalization with Gernas BBI and BWI between Bank Indonesia, the Government, banking industry, payment service providers, FinTech, and e-commerce accelerated the national digital economy and finance to support inclusive economic growth.

Strong national economic policy synergy between the Government, Financial System Stability Committee, and Bank Indonesia turned the national economy around, while maintaining macroeconomic and financial system stability. In 2021, the Government maintained an extraordinary fiscal stimulus to mitigate the health and economic impacts of Covid-19. The fiscal deficit in 2021 is estimated to have reached Rp961.49 trillion or 5.82% of GDP, comprising the Covid-19 containment budget and the national economic recovery program totalingRp744.77 trillion, including a health budget of Rp214.96 trillion and social protection budget of Rp186.64 trillion. Close coordination with the Financial System Stability Committee was pursued to improve the property and automotive sectors through fiscal incentives by the Government and the relaxation of macroprudential policies by Bank Indonesia to maintain financial system stability and revive financing to the corporate sector. Meanwhile, the Financial Services Authority continued to relax credit restructuring requirements in the banking industry by delaying principal and interest installments to avoid increasing non-performing loans and eroding capital by extending Consumer Protection in the Financial Services Sector (POJK - *Perlindungan Konsumen Sektor Jasa Keuangan*) through OJK Regulation (POJK) No. 48 of 2021, valid until March 2023. Likewise, the Indonesia Deposit Insurance Corporation (LPS-*Lembaga Penjamin Simpanan*) guaranteed private deposits in the banking system, thus helping to maintain financial system stability, and lowered the guaranteed interest rate to support the national economic recovery.

Fiscal and monetary policy coordination have been strengthened, not only to maintain macroeconomic stability and reinforce the national economic recovery, but also through Bank Indonesia's participation in State Budget funding through purchases of Government Securities in the primary market in accordance with Act No. 2 of 2020. In 2020, Bank Indonesia supported State Budget financing to the tune of Rp473.2 trillion by purchasing Government Securities through primary auction (Joint Decree - KB I) totalingRp75.86 trillion and direct purchases of Government Securities as part of a burden sharing mechanism in the State Budget (Joint Decree - KB II) totalingRp397.56 trillion. In 2021, Bank Indonesia is again supporting State Budget funding through the purchase of Government Securities in the primary market in accordance with KB I amounting to Rp143.32 trillion as of 31stOctober 2021, consisting of Rp67.87 trillion through primary auction and Rp75.46 trillion through Greenshoe Options (GSO). Furthermore, addressing the growing need for a state budget focusing of health and humanitarian financing due to the rapid spread of the Delta variant, Bank Indonesia also committed to purchasing Government Securities directly from the Government in accordance with Joint Decree III (KB III), totaling Rp215 trillion in the 2021 State Budget and Rp224 trillion in2022, with a low interest rate commensurate with the 3-month BI 7-Day Reverse Repo Rate (BI7DRR). In addition to low interest rates, Bank Indonesia also returned some of the coupon payments received from the purchase of Government Securities worth Rp58 trillion for the 2021 State Budget and Rp40 trillion for the 2022 State Budget, thus avoiding an interest expense in the State Budget for the Government. This demonstrates the strong commitment of Bank Indonesia to support state budget funding in terms of health and humanitarian financing and accelerating the national economic recovery with implementation carried out in accordance with applicable regulations.

Bank Indonesia has maintained a pro-growth policy stance, directing the full panoply of monetary, macroprudential and payment system policy mix instruments towards supporting the national economic recovery in close coordination with the Government. The salient points of the policy mix implemented by Bank Indonesia include:

i. **In the monetary sector, an historically low policy rate has been maintained along with rupiah exchange rate stability and liquidity injections through quantitative easing.** The low policy rate will be maintained until there are indications of rising inflation. Since 2020, Bank Indonesia has lowered the BI7DRR policy rate 6 (six) times to 3.50%, the lowest in history. The rupiah exchange rate stabilization policy was implemented using triple intervention in the spot market, DNDF (Domestic Non-Deliverable Forwards), and the purchase of Government Securities in the secondary market, amid persistent global financial market uncertainty. Likewise, Bank Indonesia continued to inject liquidity via quantitative easing to strengthen the banks' ability to extend credit/financing to the corporate sector. From 2020 to 16thNovember 2021, the quantitative easing policy reached Rp863.8 trillion, or 5.3% of GDP, through liquidity injections into the banking industry to support the national economic recovery program, which we will explain in more detail later.

ii. **Accommodative macroprudential policies continue to revive bank financing disbursed to the corporate sector** in synergy with Financial System Stability Committee policy. This includes loosening the down payment requirements on automotive loans,Loan/Financing-to-Value (LTV/FTV) Ratio on Property Loans and(sharia) Macroprudential Intermediation Ratio (MIR), encouraging the banks to lower Prime Lending Rates, as well as other accommodative macroprudential policies. Bank Indonesia has also refined and modernized the MSME Credit Ratio policy into the Macroprudential Inclusive Financing Ratio (RPIM - *Rasio Pembiayaan Inklusif Makroprudensial*).

iii. **Bank Indonesia continues to accelerate payment system digitalization for integration of the national digital economy and finance**, including expansion of QRIS (Quick Response Code Indonesian Standard) acceptance to 12 million merchants by the end of 2021, including cross-border QRIS, implementation of the National Open API Payment Standard (SNAP), as well as electronification of social aid program (bansos) disbursements, transportation modes, and government financial operations. Various agendas in the Indonesia Payment System Blueprint (BSPI - *Blueprint Sistem Pembayaran Indonesia*) 2025 have also been accelerated, including development of BI-FAST as a real-time retail payment system available 24/7, along with interlinkages between digital banking and FinTech, as well as payment system regulatory reform.

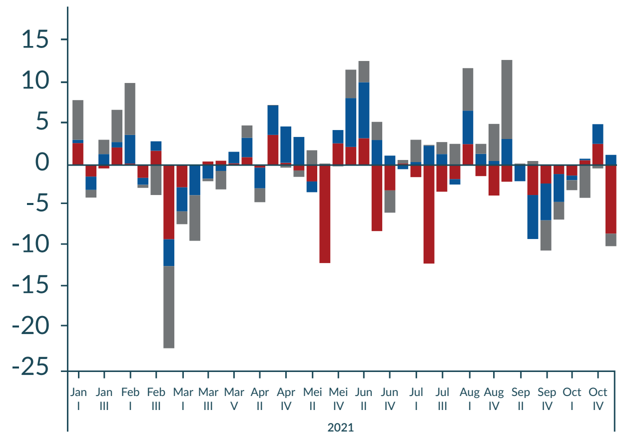
iv. In addition to the three main policy initiatives above, Bank Indonesia also oriented all four supporting policies towards the national economic recovery. Close synergy with the Government, banks, and other institutions has been enhanced to **develop MSMEs as well as the Islamic Economy and Finance** as a new source of national economic growth in Indonesia. **Financial market deepening** has also accelerated, particularly the rupiah and foreign exchange money markets, to strengthen monetary policy transmission, support financial system stability, and finance development, including infrastructure. **International policy** has been directed towards not only strengthening Bank Indonesia's policy diplomacy, but also to support the Government in facilitating and promoting trade and investment in various countries.

v. Besides, Bank Indonesia also **adjusted its operational activities and public services to support Government restrictions on public mobility during the Covid-19 pandemic**, including cash services, payment systems, monetary operations, and central banking services to the Government. In addition, Bank Indonesia also **temporarily increased the maximum limit on cash withdrawals through ATM machines using chip technology** until 30th September 2021.

Rupiah Exchange Rate Stabilization Policy

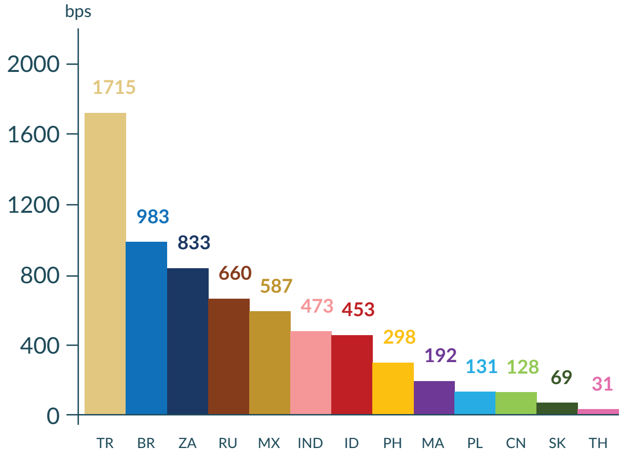
The rupiah has appreciated significantly thanks to the stabilization policy adopted by Bank Indonesia, which was conducive to the national economic recovery. Triple intervention exchange rate stabilization policy,targeting the spot market, Domestic Non-Deliverable Forwards (DNDF), and purchases of Government Securities in the secondary market, was reinforced via intensive communication with investors

Graph 34. Foreign Investment Flows to Government Securities



Source: Bank Indonesia

Graph 35. Government Securities Yield Spread with UST



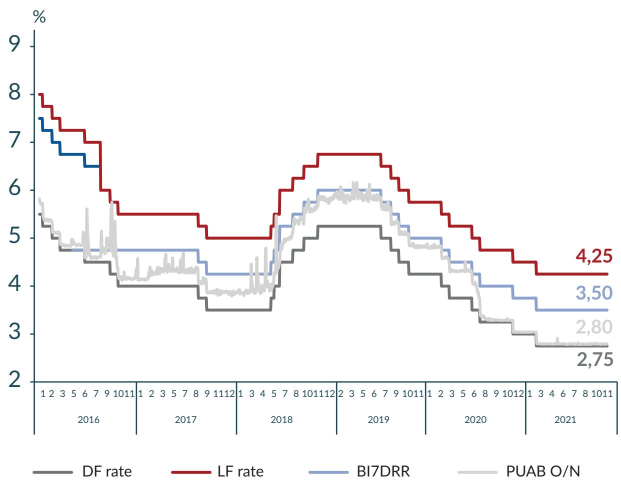
Source: Bloomberg, calculated

as well as domestic and overseas market players. As mentioned, the rupiah has regained lost value, hitting Rp14,610 per US dollar on 15th April 2021 before strengthening to Rp14,243 on 17th October 2021. Investor confidence has drawn foreign portfolio in flows into Indonesia. From April 2021 to October 2021, foreign capital inflows to the government securities market stood at Rp6.7 trillion (Graph 34), while the position of reserve assets increased to USD145.5 billion at the end of October 2021, surpassing the USD135.9 billion position recorded at the end of 2020. Looking ahead, the rupiah is expected to remain relatively stable, supported by controlled inflation within the target corridor, a manage able current account deficit, attractive returns on domestic financial assets for investment and a stable risk premium (Graph 35).

Monetary Policy Stimuli

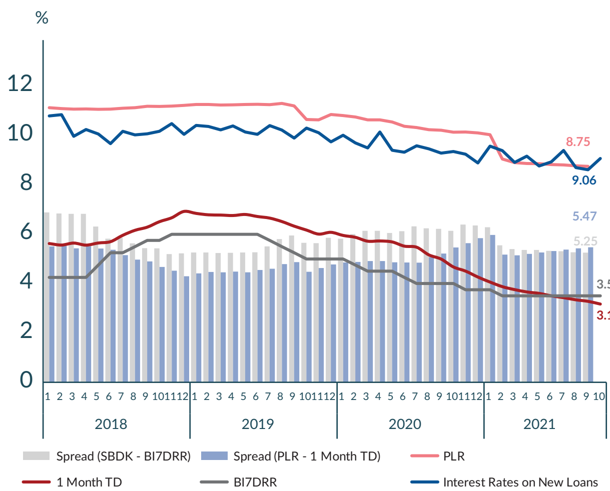
A historically low policy rate and loosening of Bank Indonesia's monetary policy stance have prompted further declines in bank lending rates, while maintaining financial market stability. As stated, since 2020 Bank Indonesia has lowered the BI7DRR policy rate 6 (six) times to 3.50%. The low

Graph 36. Interest Rate on Interbank Money Market



Source: Bank Indonesia

Graph 37. Prime Lending Rate (SBDK- Suku Bunga Dasar Kredit) Transmission



Source: OJK, Bank Indonesia, calculated

BI7DRR and loose liquidity were accompanied by lower market rates. In the markets, as mentioned earlier, the overnight interbank rate and banking 1-month deposit rate have decreased 52bps and 151bps respectively since October 2020 to 2.80% and 3.17% in October 2021 (Graph 36). Likewise, the benchmark yield on 10-year government securities also fell 228bps from a high of 8.31% at the end of March 2020 to 6.02% on 18th November 2021. In the credit market, the decline in bank prime lending rates continued, followed by a decline in interest rates on new loans (Graph 37).

Bank Indonesia also continued the monetary stimulus in the banking industry in the form of massive quantitative easing (QE) to revive financing to the corporate sector and support the national economic recovery. As of 16th November 2021, Bank Indonesia has injected liquidity via quantitative easing to the banking industry totaling Rp137.2 trillion. Since 2020, therefore, quantitative easing policy has reached Rp863.8 trillion or around 5.3% of GDP, one of the largest liquidity injections in developing economies. Though massive liquidity injections to the banking industry have thus far failed to fully revive bank lending due to softness on the demand side from the corporate sector, very loose liquidity conditions play an important role in maintaining overall financial system stability. In addition to injecting liquidity to the banking industry, Bank Indonesia also continued to purchase government securities in the primary market to fund the 2021 State Budget to the tune of Rp143.32 trillion, consisting of Rp67.87 trillion through primary auction and Rp75.46 trillion through Green Shoe Options (GSO). The purchase of government securities to fund the State Budget also increased liquidity in the economy in line with government spending realization.

Macroprudential Policy Easing

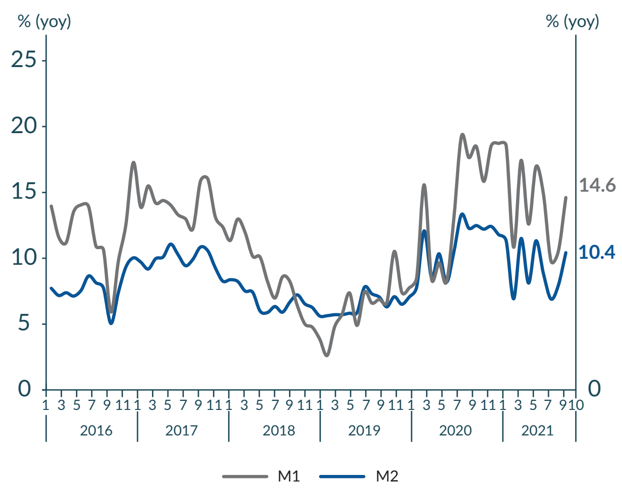
The macroprudential policy stance remains accommodative and synergized with Financial System Stability Committee policy to revive financing to the corporate sector and accelerate the national economic recovery. Bank Indonesia has loosened several macroprudential policies. *First*, relaxing the loan-to-value (LTV) ratio on property loans and down payment requirements on automotive loans to 0%, effective from 1st March 2021. Bank Indonesia initiated the policy in synergy with the Government and Financial Services Authority (OJK), which issued a separate policy package to stimulate the property and automotive sectors – as sectors with strong (backward and forward) linkages to other economic sectors. *Second*, conducting and publishing in-depth assessments of Prime Lending Rate (PLR) transparency in the banking industry since February 2021 to strengthen the transmission of accommodative monetary and macroprudential policies. *Third*, the gradual reactivation of the Macroprudential Intermediation Ratio (RIM - *Rasio Intermediasi Makroprudensial*) by raising the lower limit to 75% in May 2021, 80% in September 2021, and 84% in January 2022. Strengthening efforts were also achieved by including letters of credit (L/C) heldby banks into MIRcalculations. Bank Indonesia has synergized these policy measures with efforts to maintain adequate banking liquidity through a Countercyclical Buffer (CCyB) held at 0% and a Macroprudential Liquidity Buffer (MPLB) (*Penyangga Likuiditas Makroprudensial*) of 6% - which are eligible for repurchase with Bank Indonesia.

Bank Indonesia has also refined and modernized the MSME Credit Ratio into the Macroprudential Inclusive Financing Ratio (RPIM). To promote inclusiveness, Bank Indonesia has improved policy by expanding the financing target beyond MSMEs to include low-income individuals (PBR - *Perorangan Berpenghasilan Rendah*). In addition, Bank Indonesia provides flexibility to allow banks to participate in financing MSMEs and low-income individuals based on their expertise and business model by expanding the financing options for MSMEs and low-income individuals. In this case, banks can contribute to inclusive financing through 3 (three) modality schemes, namely: (1) direct supply chain inclusive financing, (2) financing through financial institutions and service agencies, including (sharia) rural banks, FinTech, Permodalan Nasional Madani (PNM), and Sarana Multi Finance (SMF), and (3) financing through the purchase of inclusive financing securities, such as Inclusive Government Securities, Inclusive Medium-Term Notes (MTN), and Inclusive Asset-Backed Securities (EBA - *Efek Beragun Aset*). Moving forward, expansion of the inclusive financing scheme is expected to indirectly foster banking innovation and financial market deepening. RPIM implementation will be incremental to achieve a target portion of MSMEs and other inclusions in bank loans of at least 30% (thirty percent) by the end of June 2024.

Bank Indonesia has held a low policy rate as well as an accommodative monetary and macroprudential stance to also support financial system stability. Bank liquidity conditions in October 2021 were very loose, as reflected by a high ratio of liquid assets to deposits(AL/DPK - *Alat Likuid/Dana Pihak Ketiga*) at 34.05%, with deposit growth recorded at 9.44% (yoy), moderating on the previous period in line with the recovery of business activity and private consumption. Bank intermediation charged into positive territory in October 2021 at 3.24% (yoy), supported by growing demand for loans, especially in the corporate and consumption sectors in response to increasing public activity and the looser bank credit supply in accordance with lower lending standards,lower risk perception, loose liquidity conditions as well as lower interest rates on new loans. Liquidity in the economy has increased, as reflected in the narrow (M1) and broad (M2) money supply aggregates, which expanded by 14.6% (yoy) and 10.4% (yoy) respectively (Graph 38). Bank lending was the main driver of money supply growth, indicating increasing financing for the national economic recovery.

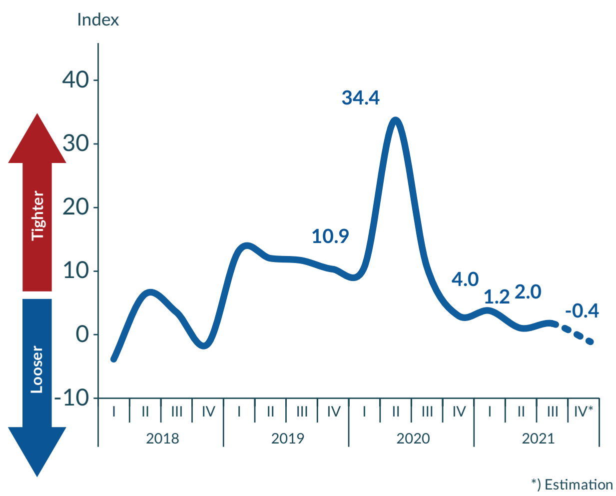
Demand and supply-side improvements are reviving the bank intermediation function. Demand for loans has improved, particularly from the business and consumption sectors, in response to increasing public activity. On the supply side, the banking industry has eased lending standards in line with lower risk perception, in addition to very loose liquidity conditions and lower interest rates on new loans (Graph 39). All loan types recorded positive growth, led by consumer loans and working capital loans, while housing loans (KPR - *Kredit Pemilikan Rumah*) posted higher growth at 8.87% (yoy) in

Graph 38. Money Supply



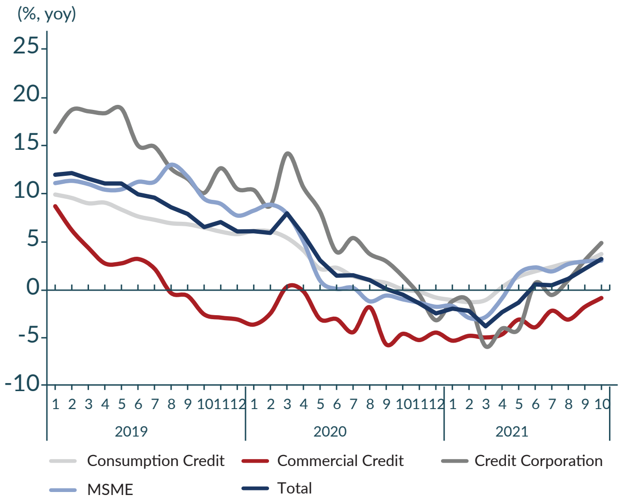
Source: Bank Indonesia

Graph 39. Lending Standards Index



Source: Bank Indonesia's Bangking Survey Q3 2021

Graph 40. Loans by Segment



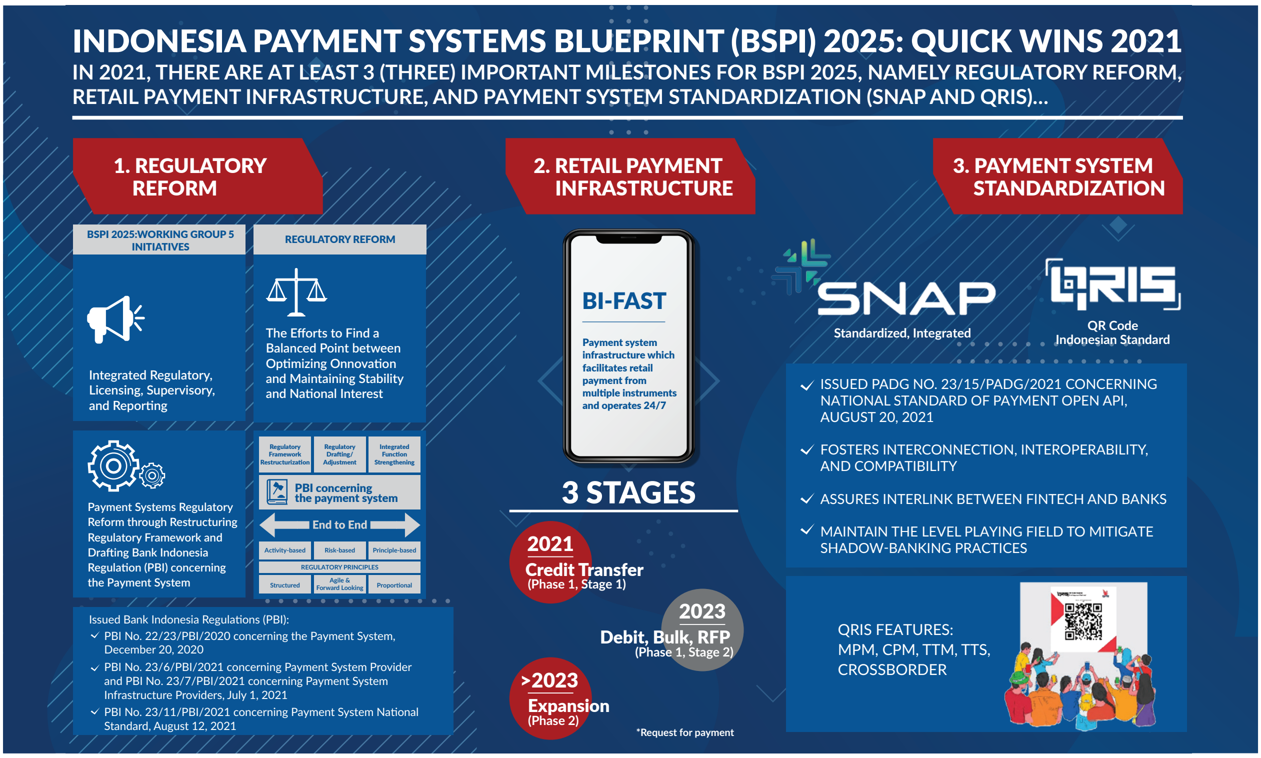
Source: Bank Indonesia

October 2021 in line with KSSK policy to stimulate the property sector. Meanwhile, growth of MSME loans accelerated to 3.04% (yoy) in the reporting period. Such developments demonstrate ongoing gains in the real and corporate sectors, micro, small and medium enterprises (MSMEs) in particular (Graph 40). Moving forward, Bank Indonesia predicts gradual improvements in bank lending and financing from the capital market in line with national economic recovery momentum after the Covid-19 pandemic, increased public mobility and economic activity, faster State and Regional Budget realization, an accommodative monetary and macroprudential policy mix, including very loose liquidity in the banking industry, and progress in terms of credit restructuring by banks.

Acceleration of Payment System Digitalization

Bank Indonesia continues to accelerate payment system digitalization and integrate the national digital economy and finance. Concerning implementation of the Indonesian Payment System Blueprint (BSPI - *Blueprint Sistem Pembayaran Indonesia*) 2025, Bank Indonesia in 2021 focused payment system digitalization based on 3 (three) priorities and important achievements, namely regulatory reform, retail payment system infrastructure, and payment system standardization

Figure 1. Development of BSPI 2025



Source: Bank Indonesia

(Figure 1). In terms of regulatory reform, policy transformation is key to consolidate the national payment system industry, while streamlining licensing procedures. To that end, Bank Indonesia is strengthening the Bank Indonesia Payment System Regulation issued at the end of 2020, with promulgation of the Payment Service Provider PBI (PJP) and the Payment Infrastructure Provider PBI (PIP) on 1st July 2021. The two BI regulations intend to strengthen the Indonesian payments ecosystem end-to-end and encourage healthy business practices through industry collaboration to accelerate an inclusive digital economy and finance. Licensing has been simplified by applying principle-based rules and granting permits to groups of payment service types rather than the previous arrangement with rigid (rules-based) requirements for each service type. This has been applied to processing licenses for payment service providers (PSP),designating payment system infrastructure operators (PIP)as well as processing the development of risk-based activities, products, and/or cooperation.

Bank Indonesia also continues to develop integrated, interoperable, and interconnected payment system infrastructure to support the national digital economic and financial ecosystem. In this case, Bank Indonesia has modernized retail payment infrastructure to operate in real-time (as it happens) non-stop (24/7) by launching BI-FAST in December 2021. BI-FAST was built to support the industry by integrating and consolidating the digital economy and finance (EKD -*Ekonomi dan Keuangan Digital*) nationally end-to-end, with implementation of BSPI 2025, and supporting a fast, affordable, convenient, secure and reliable payment system (CEMUMUAH). At the initial stage, BI-FAST services are focused on individual credit transfer services. There are various implementation policies to prepare for the BI-FAST roll out, such as open participation, the option of providing infrastructure independently or jointly/sharing, setting a maximum limit of Rp250 million and a BI-FAST price scheme limit of Rp2,500 to bank customers with a Bank Indonesia fee to participants of just Rp19 per transaction. The first batch of 22 BI-FAST participants is set for December 2021 and a second batch of 22 participants in January 2022. BI-FAST implementation is also consistent with Bank Indonesia's monetary, macroprudential and payment system policy direction moving forward, while modernizing national payment infrastructure according to international standards and in accordance with the principles issed by the Committee on Payments and Market Infrastructures (CPMI), and simultaneously supporting the creation of an integrated, interoperable, and interconnected digital ecosystem (3 "i").

In addition to BI-FAST, Bank Indonesia has also launched the National Open API Payment Standard (SNAP)to standardize the EKD ecosystem. SNAP is a national standard for protocols and instructions that facilitate open interconnection between applications in processing payment transactions, prepared by Bank Indonesia in collaboration with the Indonesia Payment System Association (ASPI - *Asosiasi Sistem Pembayaran Indonesia*). SNAP intends to create a healthy, competitive, and innovative payment system industry that can provide efficient, secure and reliable payment system services to the public. SNAP was launched on 17th August 2021 and will be adopted gradually, commencing in June 2022 for first mover payment service providers and in December 2022 for other PJPs. Bank Indonesia is confident that SNAP implementation will facilitate interconnection, interoperability, and compatibility between Open API payment providers, thereby strengthening the links between PJP banks and non banks. In addition, SNAP also establishes a level playing field between payment industry players, thus minimizing fragmentation and accelerating the digital economy and finance in Indonesia.

Payment system digitalization is also supported by QRIS extensification as the national standard for QR Payments in various digital economic and financial transactions. QRIS expansion has been realized through a massive national campaign to onboard 12 million connected merchants using QRIS in the national ecosystem by the end of 2021. Bank Indonesia used several incentives, such as extending the 0% merchant discount rate (MDR) for micro businesses until 31st December 2021, as well as increasing the QRIS transaction limit from Rp2 million per transaction to Rp5 million per transaction to increase QRIS transactions in the middle segment, since 1st May 2021. Synergy and coordination with the Government continues to be strengthened through QRIS use in the BBI and BWI. QRIS expansion in the local government environment was also expanded as part of the Regional Digitalization Expansion and Acceleration Team (TP2DD). Thanks be to God, the various policies and close coordination have produced positive results. The target of 12 million merchants (Table 41) connected to QRIS was achieved on 1st November 2021. Furthermore, QRIS, which operates in 34 provinces and 480 regencies/cities, is used by 88% of micro and small businesses, and is operated by 68 payment service providers, both banks and nonbank institutions. Moreover, the use of QRIS is also increasing both in terms of volume and value, which demonstrates burgeoning public acceptance of QRIS (Graph 41).

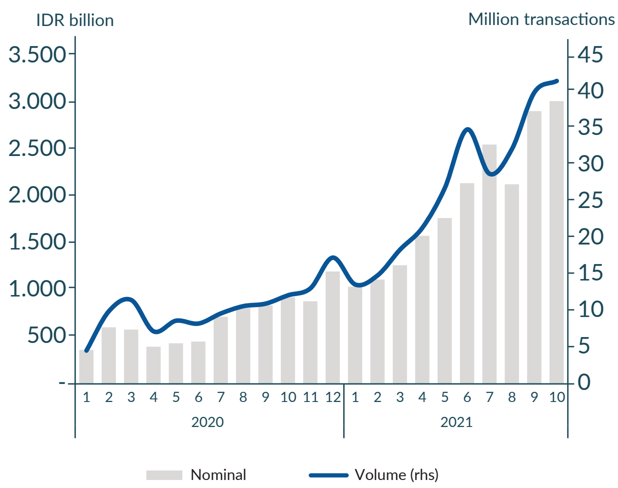
Bank Indonesia continues to expand the payment electronification program for social aid program (bansos) disbursements, transportation modes, and regional government financial transactions to support acceleration of the digital economy and finance. Bank Indonesia fully backs government efforts to disburse social assistance more quickly, on target, and with good governance through the social assistance electronification program. To that end, Bank Indonesia continues to encourage the digitalization of social assistance 4.0 by strengthening business models, regulations and payment methods that are in line with prevailing needs, including improving data quality. Meanwhile, in terms of transportation electronification, Bank Indonesia encourages the integration of payment systems and data in the transportation sector. Bank Indonesia provides support for the preparation of a payment aspect business model for integrated transportation modes as well as multi-lane, free-flow toll roads that will gradually begin operating in 2022. Furthermore, to strengthen the electronification of regional government transactions, Bank Indonesia in 2021 strengthened synergy with the Acceleration and Expansion Regional Digitalization Task Force. As of 14th October 2021, a total of 482 TP2DD have been established, accounting for 88% of local

Table 4. QRIS Registered Merchants

Merchant	22/03/2020	05/11/2021	Growth (%)
Big Enterprise	129,834	449,311	246%
Medium Enterprise	265,077	928,005	250%
Small Enterprise	304,420	3,203,652	952%
Usaha Mikro	2,378,026	7,532,134	217%
Social/Donation	3,996	124,484	3015%
TOTAL	3,081,353	12,237,586	297%

Source: Bank Indonesia

Graph 41. Development of QRIS



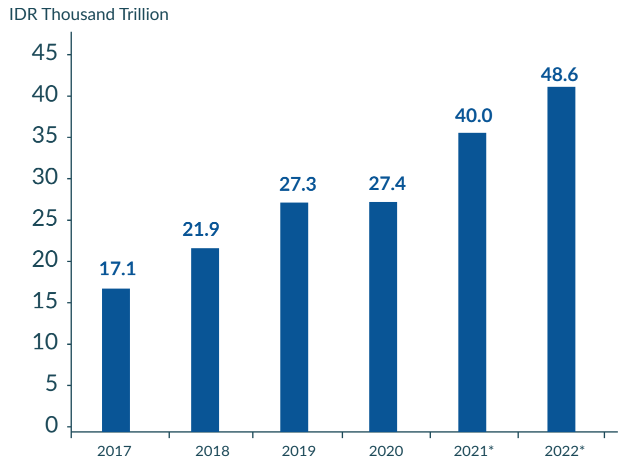
Source: Bank Indonesia

governments in Indonesia, comprised of 33 provincial governments, 360 districts and 89 cities. Synergy between the relevant authorities and stakeholders is continuously built through, among others, the successful Indonesia Digital Economy and Finance Festival in 2021 (FEKDI - *Festival Ekonomi Keuangan Digital Indonesia*), as a forum for policy synergy and the basis for implementing various development and expansion initiatives for the digital economy and finance in order to accelerate digital transformation and accelerate national economic recovery.

The various payment system digitalization programs (above) are accelerating and integrating the national digital economy and finance today and moving forward. E-commerce transactions, which are estimated to have grown 51.6% in 2021, will continue to increase in 2022 to reach Rp530 trillion, or grow 31.4% (Graph 42). In line with these developments, digital banking payment transactions in 2021 are projected to increase by 46.1% (yoy) and increase again by 21.8% to reach Rp48.6 quadrillion in 2022 (Graph 43). Meanwhile, the use of Electronic Money in 2021 is also estimated to increase by 41.2% (yoy) and will again grow at a high level of 16.3% (yoy) to reach Rp337 trillion in 2022 (Graph 44). Increasingly rapid development of digital economic and financial transactions is in line with growing public acceptance and preference for online shopping, expansion of the e-commerce ecosystem, development of digital payment services, improving domestic economic conditions, and the acceleration of various payment system digitalization programs in accordance with BSPI 2025.

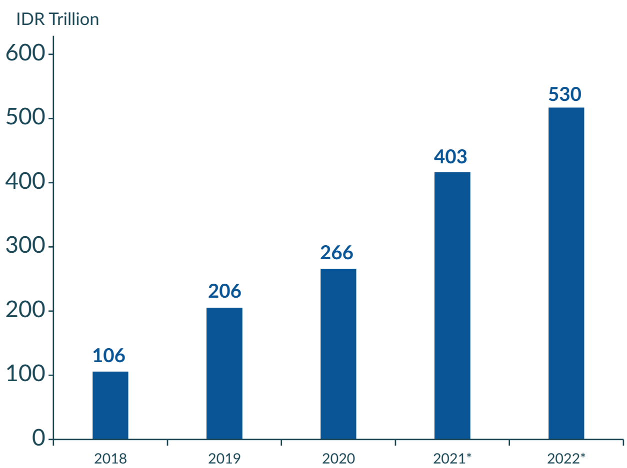
Concerning rupiah currency management, Bank Indonesia continues transformation efforts through centralization, automation, and efficiency in the printing and circulation of money throughout the territory of the Republic of Indonesia. Transformation is oriented

Graph 43. Development of Digital Bangking



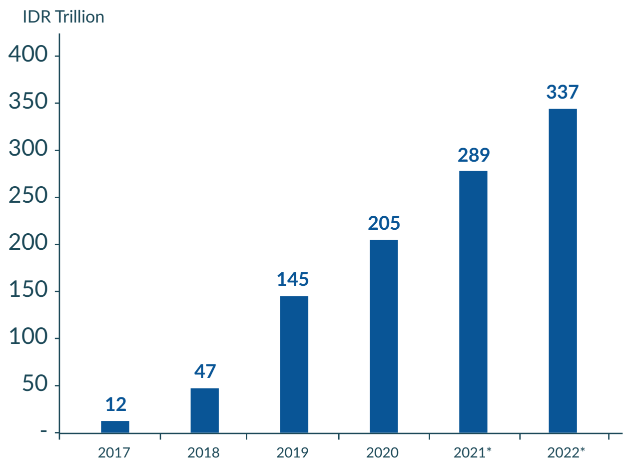
Source: Bank Indonesia; *Bank Indonesia's Projection

Graph 42. Development of E-Commerce



Source: Bank Indonesia; *Bank Indonesia's Projection

Graph 44. Development of E-Money

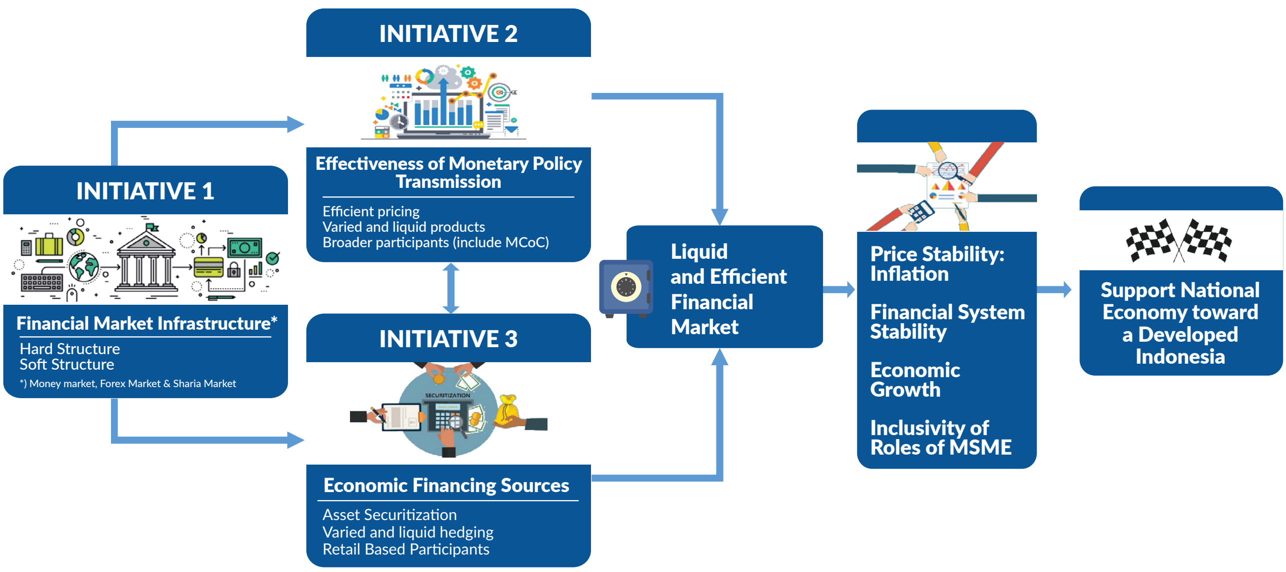


Source: Bank Indonesia; *Bank Indonesia's Projection towards providing money fit for circulation in appropriate denominations, just in time through the central bank, aligning the direction of non-cash policies, and paying attention to efficiency and the national interest based on the 2025 Rupiah Currency Management Blueprint (BPPUR - *Blueprint Pengelolaan Uang Rupiah*). Transformation is based on 3 (three) keys milestones, namely distribution centralization, digitalization, and efficiency supported by strengthening information systems, regulations, organization, and human resources. Distribution centralization is achieved by aligning distribution lines and layers, strengthening command centers, centralizing cash inventory management, and optimizing the use of infrastructure and transportation modes based on 4.0. Meanwhile, end-to-end digitalization of rupiah currency management begins with planning and printing, to issuing, circulating, removing and destroying rupiah currency. In the context of efforts to increase efficiency, Bank Indonesia continues to make various improvements in rupiah currency management, including the efficient management of currency supply, distribution and cash services, meeting spatial-based cash needs, as well as strengthening the quality of currency materials and security features. The transformation of rupiah currency management based on the three key milestones represents a manifestation of Bank Indonesia's firm commitment to maintaining the rupiah integrity and credibility as legal tender, as well as a unifying and instilling a sense of pride for the Republic of Indonesia and the Indonesian nation.

Accelerating Money Market Deepening

Bank Indonesia is accelerating money market deepening to strengthen monetary policy effectiveness and support economic recovery. Various programs were carried out as part of the Blueprint for Money Market Development (BPPU) 2025 based on three main initiatives, namely: (i) encouraging digitalization and strengthening financial market infrastructure, (ii) strengthening the effectiveness of monetary policy transmission, and (iii) developing financial instruments as a source of economic financing and strengthening risk management (Scheme 2). In an effort to strengthen the monetary policy transmission effectiveness, Bank Indonesia focused on accelerating the development of repo and DNDF transactions between market participants in 2021. To that end, Bank Indonesia strengthened the Jakarta Interbank Spot Dollar Rate (JISDOR) as a reference rate for the rupiah against the US dollar. Strengthening efforts carried out both during the transaction monitoring period and at the time of

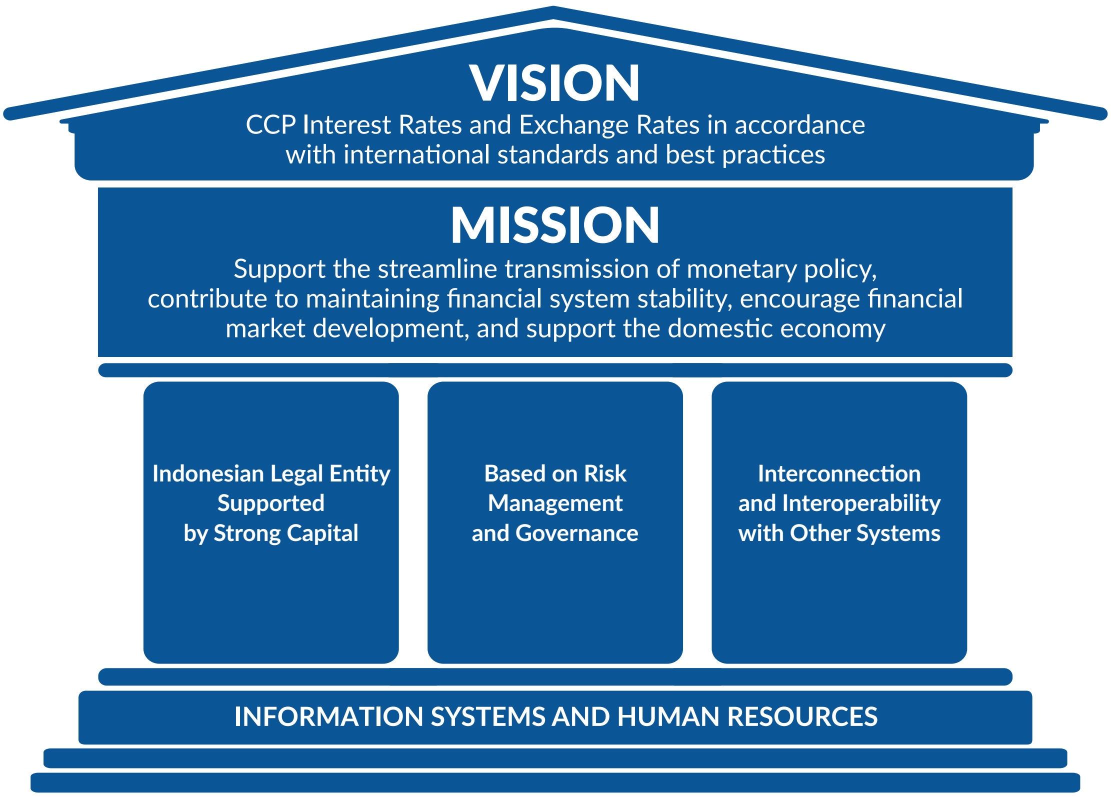
Scheme 2. Linkages Between BPPU Initiatives 2025



JISDOR issuance intend to increase forex market credibility and reinforce exchange rate stability. The development of DNDF instruments continued through efforts to increase supply in the market and balance the supply and demand sides, including by allowing DNDF participants to rollover maturing DNDF. In addition, the Local Currency Settlement (LCS) scheme has been strengthened continuously and expanded to alleviate dependence on specific currencies. The LCS framework has been strengthened between Indonesia-Malaysia and Indonesia-Japan, while expansion of LCS partner countries was followed by the implementation of the Indonesia-China LCS in September 2021. The development of JISDOR, DNDF, and LCS also forms part of Bank Indonesia's efforts to enrich financial instruments as a source of economic financing and strengthen risk management. In addition, Bank Indonesia in synergy with the Ministry of Finance and OJK,through the Financial Market Deepening Development Forum (FP-PPK), continue to develop financial instruments for economic financing, including Commercial Securities (SBK - *Surat Berharga Komersial*) and expanding interbank repo transactions with SBN as the underlying transaction, while campaigning to mobilize SBN retail investors.

Bank Indonesia has created a regulatory framework through promulgation of money market regulations (PBI) with the industry to hasten digitalization and strengthen money market infrastructure. This includes development of a Multimatching Electronic Trading Platform (ETP) with money market and forex market transactions executed jointly by standardizing instruments and determining prices more transparently among market participants, shifting from bilateral OTC transactions. Implementation of ETP Multimatching will encourage efficient and transparent pricing and better risk management. In the early stages, ETP Multimatching will be implemented for foreign exchange transactions, especially spot transactions, before being extended to cover other types, including repo, swap, and DNDF transactions. In addition, Bank Indonesia is coordinating with the relevant authorities and industry to accelerate the establishment of a central counter party (CCP) to improve transaction

Scheme 3. Development of Indonesian CCP SBNT



Source: Bank Indonesia

efficiency, strengthen transparency, and reduce the risks associated with repo transactions using SBN as underlying transactions (Scheme 3). In contrast to bilateral OTCSBN repo transactions, repo transactions through CCP are performed jointly through ETP Multimatching with product standardization, transaction contracts, price transactions, as well as a closed-out netting mechanism on the basis of SBN submitted as the underlying transaction from market participants to the CCP agency. Therefore, CCP-SBN NT will increase the volume and liquidity of interbank SBN repo transactions, strengthen transparency in the formation of marketrates, and eliminate counterparty risk arising in bilateral OTCrepo transactions. The CCP-SBN NT will reduce the large disparity between SBN yields (approximately 5.2% ona 5-year tenor) and money market interest rates (approximately 3.7% ona 12-month tenor) and, therefore,support government efforts to reduce the interest burden on government debt. Efforts to strengthen market infrastructure will not only deepen the Indonesian money market yet are also consistent with the G20 OTC Derivative Market Reform agenda. To that end, the modernization of Indonesia's money market infrastructure requires the support of all Bank Indonesia stakeholders, including market players, the Government, OJK, and the DPR-RI.

Empowerment of Sharia Economy and Finance and MSMEs

Bank Indonesia continues to accelerate development of the national sharia economy and finance as a new source of inclusive and sustainable economic growth, and part of the structural reforms towards an Advanced Indonesia (Onward Indonesia). Bank Indonesia continues to strengthen and expand the halal value chain ecosystem through three development pillars, namely institutional strengthening, expanding implementation, and strengthening the supporting infrastructure, including digitalization. In the first pillar of sharia economic empowerment, the institutional arrangements of the halal value chain ecosystem are being strengthened by accelerating the corporatization of pesantren (Islamic boarding school) holding business units. This is achieved through the establishment of the Pesantren Economy and Business Association (HEBITREN - *Himpunan Ekonomi dan Bisnis Pesantren*) in various provinces. Meanwhile, sectoral strengthening is carried out by accelerating the Halal Assurance System for the halal food sector with the Halal Certification Agency (BPJPH) as well as government ministries and agencies as well as other stakeholders, while supporting the implementation of Halal Industrial Estates (KIH - *Kawasan Industri Halal*). The sectoral performance of the sharia economy is also supported by strengthening the halal value supply chain in the agricultural sector, as well as implementing business matching, business intermediaries, and on boarding domestic and global e-commerce. Likewise, the modest fashion sector is being strengthened in terms of the capacity of sharia business players who are ready to export and unlock market access.

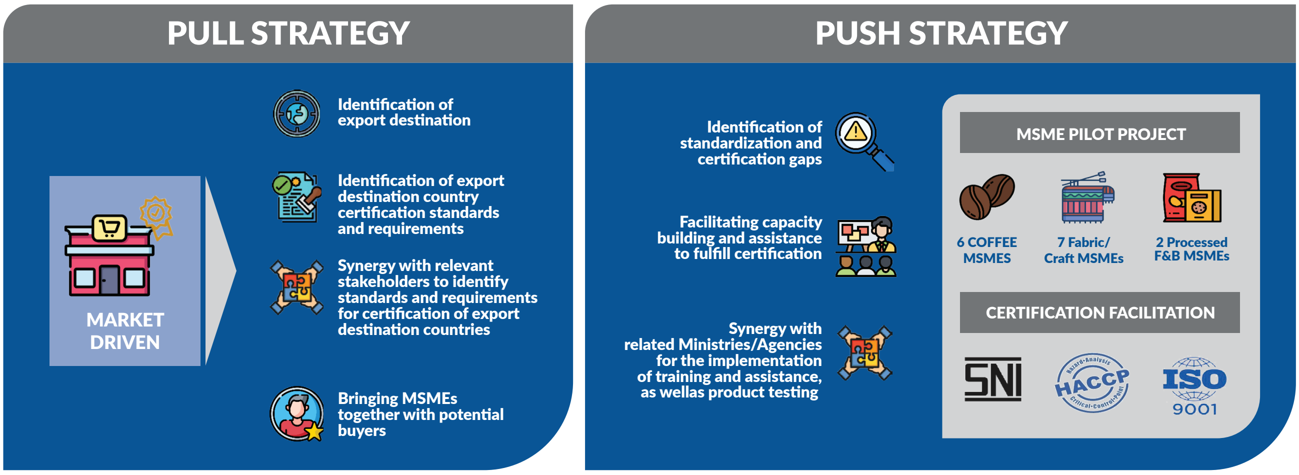
The second pillar of Islamic finance entails strengthening monetary operations and Islamic money market deepening to support financing. This is achieved, among others, by expanding BI Sukuk (SukBI). In addition, preparations for RPIM implementation in the sharia banking industry are carried out in coordination with the Ministry of Finance for the underlying project of Inclusive SukBI in order to encourage sharia financing for MSMEs as part of the efforts to recover the national economy. Furthermore, measures to optimize Islamic social finance as an alternative financing source are also continuously encouraged by strengthening productive waqf with relevant government ministries/agencies. As mandated by Act No. 2 of 2020, improvements were made to the provisions of sharia-compliant short-term liquidity assistance in order to maintain financial system stability during economic recovery.

The third pillar is education and socialization, with the national contribution of the Sharia Economic Festivals (FESyar) in 2021 and Indonesia Shari'a Economic Festival (ISEF) to the sharia economy and finance increasingly evident. A series of Road to ISEF activities, including three FESyar events in Java, Sumatra, and Eastern Indonesia, covering various activities, from webinars to business matching and business deals, were again held in 2021. Market expansion, domestically and to unlock global markets, includes on boarding to global e-commerce platforms. From sharia finance, the collaborative “Sharia Financing Month” was organized with OJK and various other relevant stakeholders, including productive waqf. The series of hybrid virtual FESyar activities with ISEF attracted more than 290 thousand participants and 970 exhibitors (Scheme 4). At the 8th ISEF, activities to accelerate the sharia economy focused on the halal food and modest fashion sectors,including “Global Halal Dialogue”, as well as the “Indonesia Sustainable Modest Fashion Show” by 420 designers throughout Indonesia. The series of FESyar and ISEF activities generated transactions totaling Rp25.8 trillion and collected Rp669 billion worth of zakat, infaq, sadaqah and waqf (ZISWAF) funds. Overall, this achievement is much improved on previous years. What is even more encouraging is the increasing number of institutions, associations, and various parties, national and international, that have joined ISEF to accelerate the sharia economy and finance in support of the national economic recovery.

Bank Indonesia continues to strengthen its MSME development program to promote digital and exporting MSMEs. Bank Indonesia consistently implements MSME development programs through 3 (three) policy pillars, namely corporatization, capacity building, and financing in order to create productive, innovative, and adaptive MSMEs (Scheme 5). The strengthening of corporatization is carried out through the formation of groups based on strong social capital and the strengthening of formal and modern institutions. MSMEs are encouraged to collaborate with other MSMEs,large businesses and financial institutions to increase economies of scale. Capacity building is focused on increasing productivity through innovation and digitalization of business processes to improve MSME competitiveness. The MSME digitalization program aims to increase productivity and efficiency, expand MSME marketing access both nationally and globally, facilitate MSME access to finance, and facilitate MSME transactions as entry points into the digital economic and financial ecosystem through greater QRIS adoption. In terms of financing,

Scheme 4. Fesyar and ISEF 2021: Indonesia is the Center of the World Islamic Financial Economy

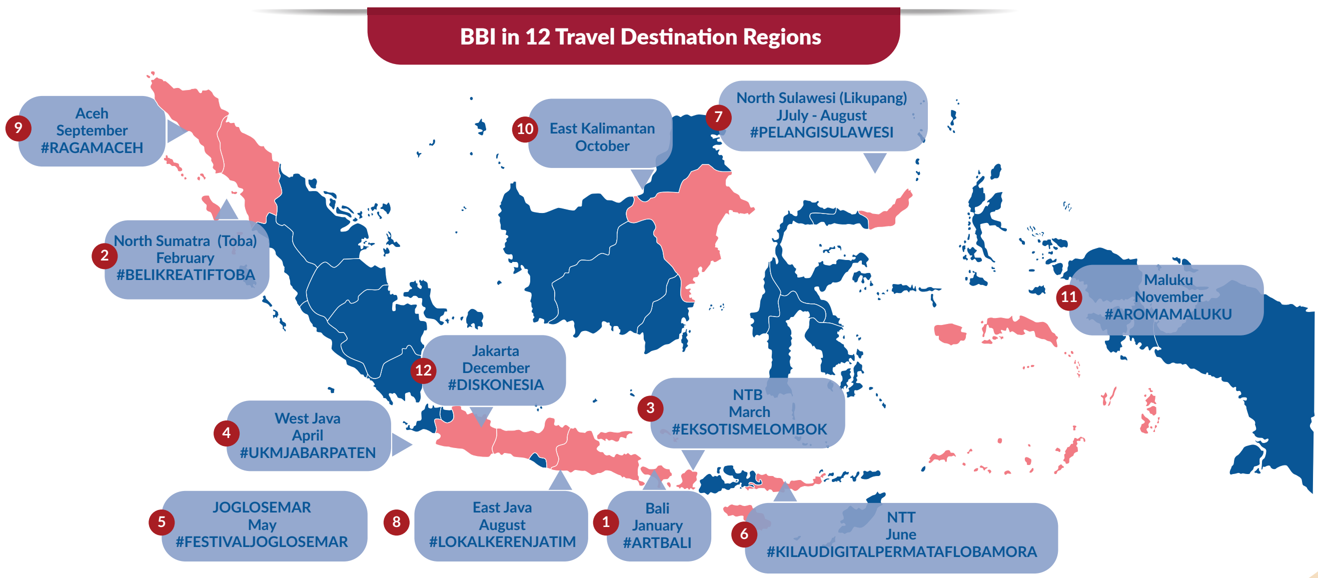
Scheme 5. Export MSME Development Strategy



broader access will facilitate business expansion with healthier MSME financing. Bank Indonesia also continues to promote MSME exports through 2 (two) strategies, namely a pull strategy (market driven) to identify standards and requirements according to export destination countries and a push strategy by facilitating the fulfillment of certification required by MSMEs.

Bank Indonesia strengthens synergy with ministries, institutions, associations, and communities to increase MSME competitiveness. Synergy intends to increase MSME capacity, MSME onboarding, business matching, facilitating access to finance, exhibitions, and promoting international trade. Bank Indonesia has also consistently supported the Gernas BBI and BWI by involving all Bank Indonesia representative offices in an effort to boost economic recovery, including through a retail program for MSME products, expanding the use of MSME QRIS and organizing various strategic Bank Indonesia events (Figure 2). In line with Bank Indonesia's strategic role in the Gernas BBI Team, Bank Indonesia will continue to strengthen its active role in supporting the success of Gernas BBI and BWI.

Figure 2. Distribution of Gernas BBI



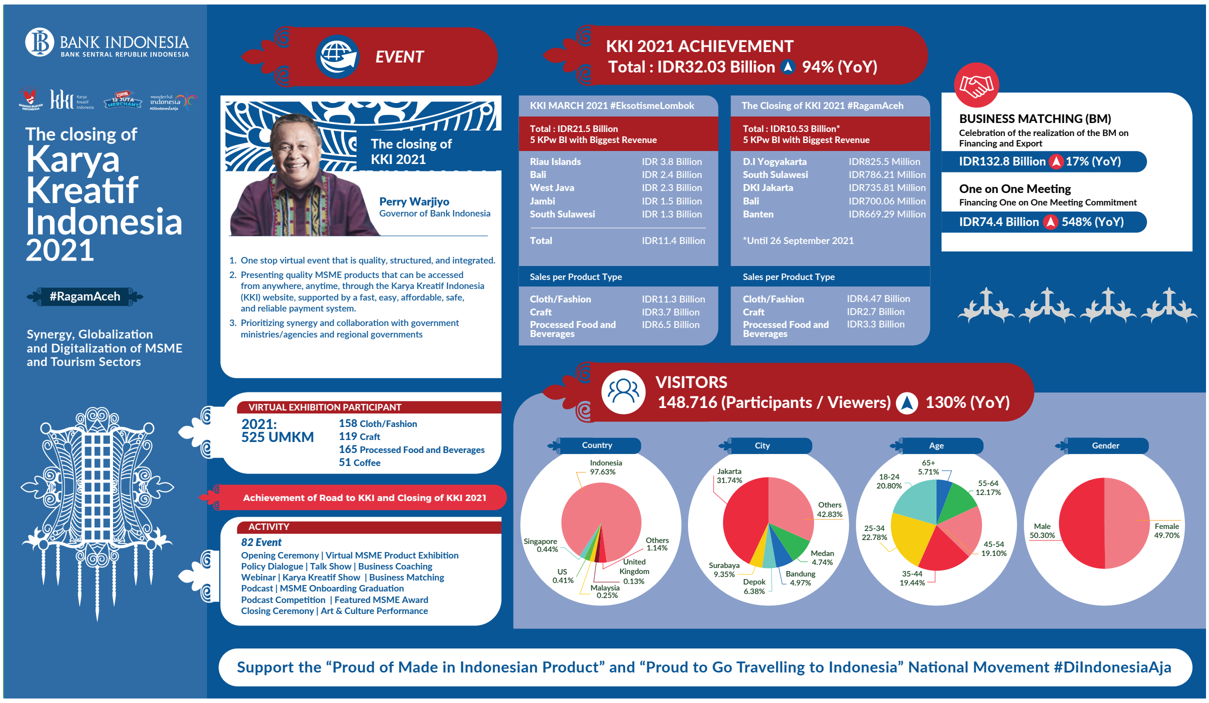
Source: Bank Indonesia, The Coordinating Ministry of Maritime and Investment Affairs (Kemenkomarves), The Ministry of Tourism and Creative Economy (Kemenparekraf)

Through close synergy, a series of activities for the Indonesian Creative Works exhibition (KKI - *Karya Kreatif Indonesia*) in 2021, organized by Bank Indonesia, represented a moment or turning point for the rise of MSMEs in the Covid-19 era. KKI 2021 had the theme "Synergy, Globalization, and Digitalization of MSMEs and the Tourism Sector". Series 1 of KKI in March 2021 was aligned with Bank Indonesia's role as movement manager for Gernas BBI 2021 with the hashtag #EksotismeLombok, synergizing with relevant government ministries/ agencies and the West Nusa Tenggara Regional Government. The 2021 KKI peaked on 23rd–26th September with the hashtag #RagamAceh, which was opened by the First Lady, successfully becoming a moment in the revival of MSMEs during the pandemic to encourage digital MSMEs and export MSMEs. The scale of KKI 2021 increased significantly on the previous year, both in terms of turnover (94%), number of visitors (130%), as well as commitments created from export business matching (17%) and financing (548%), reflecting the improving performance of MSMEs and optimism to rebound after riding the pandemic storm (Figure 3). Closer and more intensive coordination with government ministries/agencies provided value added in capacity building, marketing access, and access to MSME financing, while increasing public awareness and garnering public interest in MSME products.

Strengthening International Policy

Bank Indonesia's international policies are implemented in close coordination with the Government, aimed at supporting the main policies of Bank Indonesia to achieve macroeconomic and financial system stability, while campaigning for the interests of Bank Indonesia and the Indonesian economy. International and regional cooperation in Asia continues to strengthen to increase economic resilience and support growth. Bank Indonesia also strengthens international cooperation, including in the framework of the International Financial Safety Net (JPKI - *Jaring Pengaman Keuangan Internasional*). Currently, Bank Indonesia has a Bilateral Currency Swap Arrangement (BCSA) with China, Japan, South Korea, Australia, and Singapore, as well as repo agreements with

Figure 3. Achievements of KKI 2021



the New York Fed and BIS. Efforts to increase the positive perception of global investors and rating agencies on the Indonesian economy will continue. Bank Indonesia also encourages faster implementation of Local Currency Settlement (LCS) to facilitate trade and investment with partner countries by strengthening synergy with the Government, Financial System Stability Committee, banking industry, and business community. In addition, the SCS framework has been strengthened between Indonesia-Malaysia as well as the LCS scheme between Indonesia-Japan, while expanding SCS partner countries through implementation of the Indonesia-China LCS in September 2021. Bank Indonesia is also increasing cooperation in the development of the financial system and/or financial system payments to support efficient and secure transactions as well as digital financial innovation. In addition, Bank Indonesia has strengthened the Anti-Money Laundering and Prevention of Terrorism Financing (APU PPT) framework through agreements with the central banks of Thailand, Malaysia, the Philippines, and Brunei Darussalam.

Bank Indonesia plays an active role in strengthening positive international perception of the Indonesian economy, particularly rating agencies and foreign investors,. This is done through intensive communication and engagement with rating agencies and foreign investors on a regular basis, especially the Investor Conference Call at the monthly Board of Governors Meeting (RDG - *Rapat Dewan Gubernur*), and when there is a strategic policy that needs to be communicated. Investment and trade are promoted by the Investor Relations Unit (IRU) nationally, regionally, and globally, through Bank Indonesia representative offices at home and abroad in collaboration with the (Central and Regional) Government as well as Indonesian embassies abroad. During 2021, for example, Bank Indonesia cooperated and actively participated in investment promotional activities at the Indonesia Business and Investment Forum in Shanghai, the Indonesia Investment Forum in London, New York Now and the London Coffee Festival.

Bank Indonesia also continues to enhance international recognition as the best central bank among emerging market countries. This is achieved by increasing Bank Indonesia representation, either through membership or chairmanship, in various international cooperation forums. In addition, Bank Indonesia's reputation has been improved by receiving international awards from prominent and reputable international institutions, implementing a number of international standards, publishing research and international journals, as well as serving as a reference and resource at various strategic international events. In 2021, Bank Indonesia won an international award as Reserve Manager of the Year from the Central Banking Awards, a gold medal at the 15th Annual Next Generation Contact Center & Customer Engagement Conference, and Best Systemic and Prudential Regulator in Asia Pacific from The Asian Banker Regulation and Supervision Awards 2021, and a gold medal in the Annual Report Competition, and a gold medal at the International Business Awards (IBA) Stevie Winner.

Policy synergy still faces tough challenges in handling Covid-19 amid the outbreak of new variants, thus impacting domestic demand that has not fully recovered. Several factors have become challenges to accelerating domestic demand and the economic recovery. *First*, the relatively limited global supply and distribution of vaccines has hampered efforts to accelerate the vaccination roll out as a prerequisite for economic recovery. *Second*, the subsequent waves of Covid-19, especially the emergence of new variants, including the faster and more virulent Delta variant, entail the reintroduction of mobility restrictions accompanied by muted economic activity. *Third*, discipline in implementing Covid-19 protocols needs to be continuously improved as part of the efforts to mitigate the risk of further Covid-19 transmission. The spread of Delta amid ongoing efforts to strengthen the vaccination and containment of Covid-19 has had an impact on economic actors, namely households, corporations, and banks, forcing extreme caution and delaying economic decisions in terms of consumption, production, and investment. This compressed domestic demand and, in turn, resulted in a limited increase in bank lending despite ample banking capacity to disburse loans in line with looser monetary policy in the form of lower interest rates and large liquidity injections, as well as accommodative macroprudential policy. Further measures to accelerate vaccinations and mitigateCovid-19,accompanied by the reopening of priority sectors, are expected to have a net positive impact on controlling the spread of Covid-19, thus allowing for the broader reopening of priority sectors to further revive economic activity.

Bank Indonesia Transformation

The overall transformation that has been undertaken by Bank Indonesia since 2018 has continued to expand and strengthen, both in terms of policy transformation and institutional transformation, including in response to rapid digitalization. To that end, Bank Indonesia has prepared a strategic business plan (SBP) through to 2025, for Bank Indonesia as a whole and for each of the 12 strategic programs. Bank Indonesia's policy transformation is achieved by strengthening the policy mix to discharge the mandate of maintaining the rupiah stability (inflation and exchange rates), preserving financial system stability, and promoting sustainable economic growth. Bank Indonesia's independence is a central part of the synergy and coordination to strengthen national economic policy. In its application, Bank Indonesia has pioneered the implementation of a central bank policy mix of monetary and macroprudential policy to more optimally achieve monetary, financial system and macroeconomic stability as well as support sustainable economic growth. In the payment system, policy transformation entails BSPI 2025 implementation to accelerate and integrate the digital economy and finance as a source of national economic growth. Money market deepening has been expedited in accordance with BPPU 2025 through the development of money market instruments and financial market infrastructure to create a modern and advanced money market. Synergy and policy coordination with the Government continue to be strengthened, both between monetary and fiscal policies and accelerating real sector reform. In addition, the synergy and coordination under the auspices of the Financial System Stability Committee focuses on maintaining financial system stability and reviving financing to the corporate sector. Synergy and coordination with the Government, Financial System Stability Committee, the banking industry and payment systems are constantly enhanced to deepen the financial markets and hasten the integration of the digital economy and finance nationally.

Bank Indonesia continues to strengthen institutional transformation as a concrete step to develop Bank Indonesia as a leading central bank. This ensures the implementation of Bank Indonesia's mandate in a credible manner. Institutional transformation through an institutional policy mix aims to enhance performance based on effectiveness, efficiency, and governance (2EG) (Scheme6.). This is necessary as a step in creating a balance between ensuring the achievement of Bank Indonesia's mandate through effective performance with efforts to promote efficient resource productivity, coupled with legal compliance and accountability through good governance. Institutional transformation encompasses the work areas and processes, human resources and work culture, as well as digital transformation. Organizational transformation entails: (i) formulation of an institutional policy mix based on effective, efficient, and governance principles, (ii) integration of strategic institutional functions, namely Strategic Management, Strategic Finance, Strategic Risk Management and Strategic Risk-Based Internal Audit, as well as the function of managing non-financial resources, (iii) improvement of the audit framework for internal control, (iv) strengthening risk management, and (v) strengthening the functions of procurement and asset management.

Bank Indonesia continues the transformation of human resources to achieve excellent performance in the digital era, accompanied by digital transformation

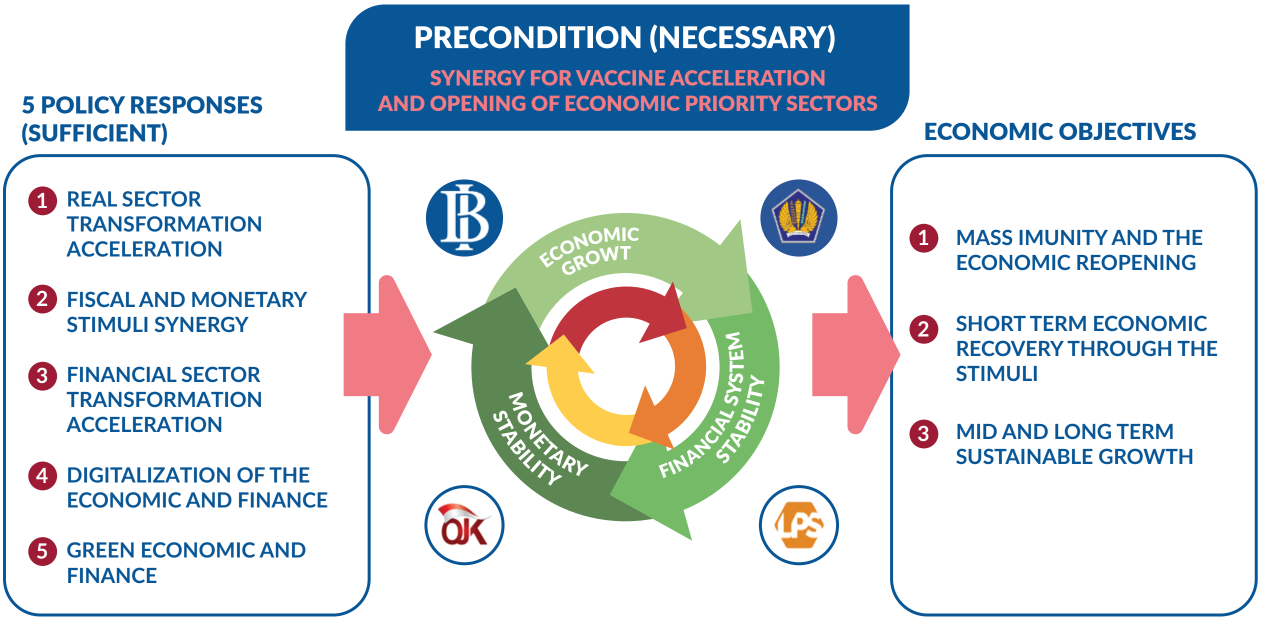
Scheme 6. Institutional Transformation

of both the policy and institutional arrangements. HR transformation focuses on four aspects, namely HR Planning, Fulfillment, Development, and Maintenance. Transformation in the planning space means HR planning no longer only focuses on quantity but also on quality. In terms of fulfillment, transformation implies compliance with organizational needs in a Transparent, Programmed and Scheduled manner. In the development area, transformation applies the concept of a new Learning Task Program (PTB - *Program Tugas Belajar*) with institutionally driven principles, managed end-to-end in line with employee career management. Regarding maintenance, transformation aims to maintain motivation and engagement. Meanwhile, digital transformation is implemented comprehensively in both the institutional and policy areas through system development (toolset), human resource development (mindset and skillset) and maintaining the quality and reliability of information system (IS) services. In general, the transformation intends to fulfill Bank Indonesia's vision of becoming a leading digital central bank and creating a tangible contribution to the national economy as the best emerging market central bank towards an Advanced Indonesia.

Rise and be Optimistic: Synergy and Innovation for Economic Recovery

Close policy synergy and economic performance in 2021 form the basis for a further revival and stronger optimism for a better national economic recovery in 2022. Therefore, the domestic economic recovery must constantly be accelerated by strengthening synergy and innovation based on a strong spirit to rise, coupled with upbeat optimism. Synergy and innovation are focused on achieving herd immunity from Covid-19 and reopening priority sectors, promoting economic recovery in the near term through demand-boosting policies, and strengthening higher growth in the medium term through structural reforms (Figure 4). In this regard, we consider the framework presented at the annual meeting in 2020 still relevant, namely the need to strengthen 1 (one) prerequisite and accelerate implementation of 5 (five) policy responses necessary for the national economy to return to a normal long-term trajectory. In this case, policy synergy is required to accelerate the vaccination rollout and Covid-19 response by reopening priority economic sectors as a prerequisite to maintain national economic recovery momentum.

Figure 4. Synergy of National Policy

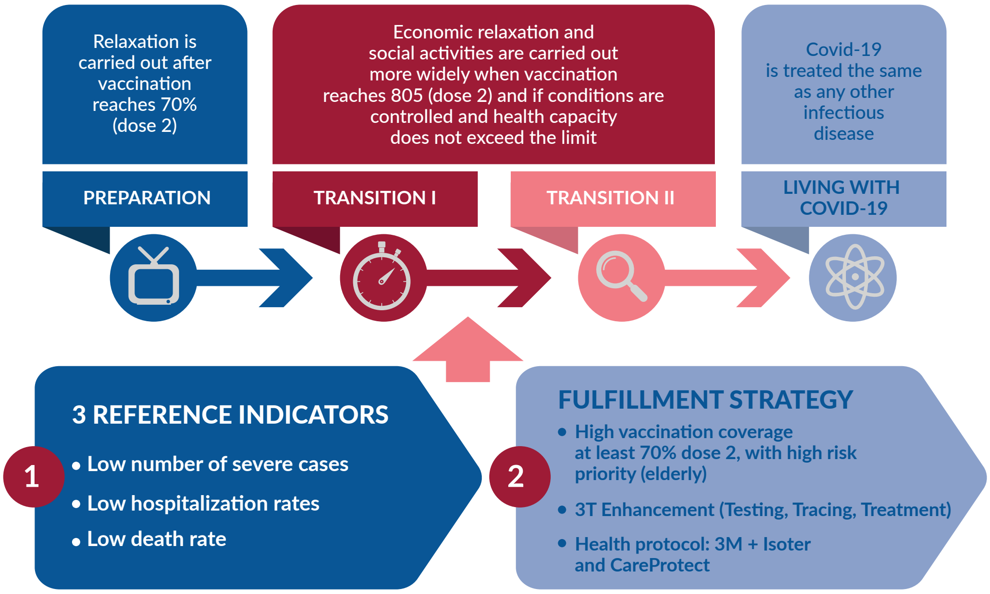


Source: Bank Indonesia

Furthermore, 5 (five) policy measures are needed to accelerate the national economic recovery, namely: (i) faster real sector transformation and reform, (ii) synergy between monetary stimuli, macroprudential policy and fiscal policy, (iii) faster financial sector transformation, (iv) economic and financial digitalization, and (v) green economy and finance. Stronger synergy and innovation will build optimism in accelerating the national economic recovery moving forward, while elevating the growth rate in the medium-long term towards an Advanced Indonesia in 2045 (Onward Indonesia).

Synergy in terms of a faster vaccination roll out and reopening priority sectors is a prerequisite for a sustainable national economic recovery process. A valuable lesson gleaned from experience in 2021 is that a rapid and measurable policy response through synergy to accelerate the vaccination program and Covid-19 response with the reopening of priority sectors is decisive for economic recovery. Lest we forget, the current epicenter of economic woe is the Covid-19 pandemic and ensuing restrictions on mobility and community activities. By accelerating the vaccination roll out, Indonesia will again survive the latest Covid-19 attack, this time the Delta variant. After witnessing a significant spike in June-July 2021, daily new cases of Covid-19 have tracked a downward trend since August 2021. Therefore, the Government plans to gradually start reopening sectors and/or regions with low numbers of severe cases, where hospital utilization rates are low, and mortality rates are low. Economic sectors will be reopened in stages, including preparations for the first and second transitions of living with Covid-19, taking into account also the strategy to fulfill the pandemic response, namely by accelerating the vaccination program, increasing 3Ts (testing, tracing, treatment), and implementing strict health protocols and concern for the environment (Figure 5). Irrespectively, the vaccination program must be accelerated to achieve herd immunity, thus boosting resilience against the possible spread of new Covid-19 variants and to ensure the sustainability of further national economic gains. This reaffirms the importance of synergy when accelerating the vaccination program and reopening priority sectors as prerequisites of economic recovery as well as the

Figure 5. Preparation Plan for the New Normal, Living with the Endemic



Source : Kemenko Marves

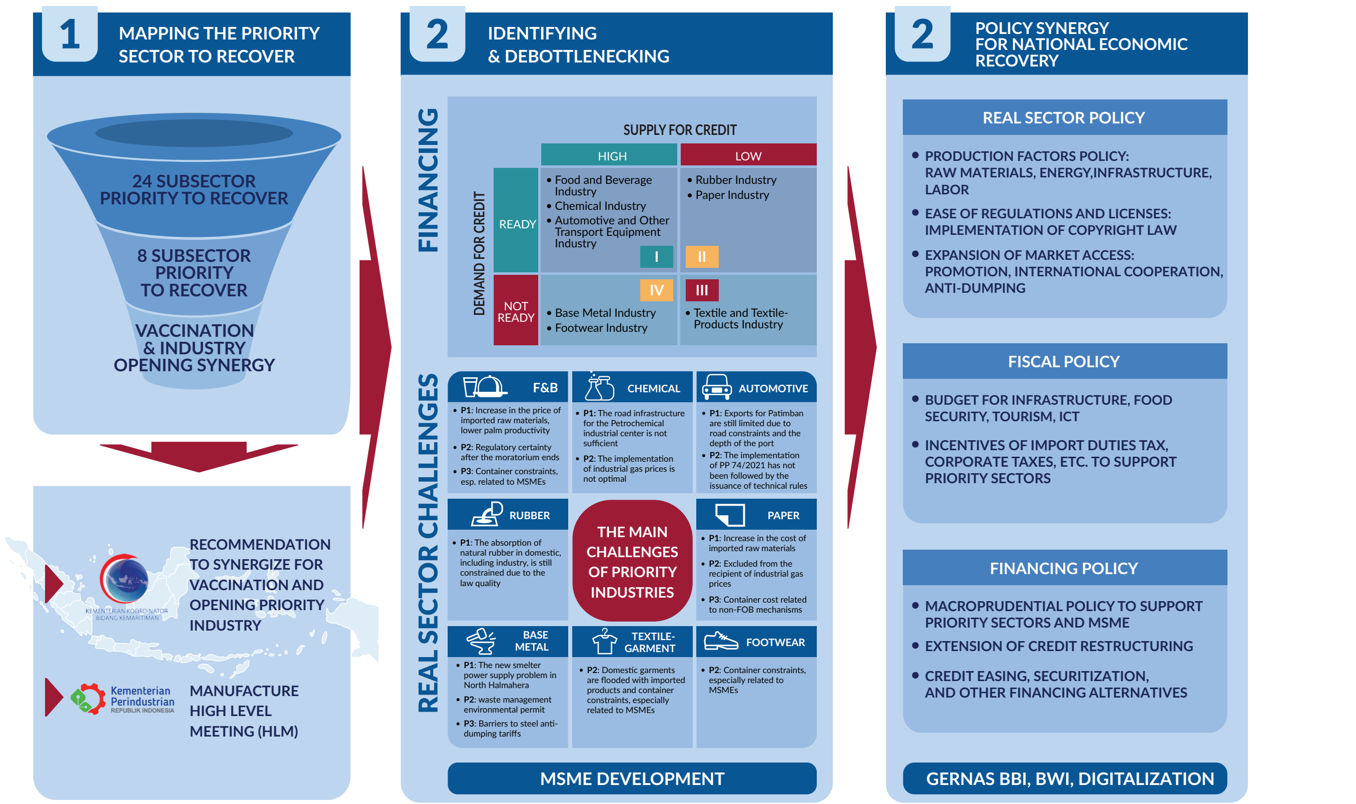
impact on the financial and monetary sectors. Bank Indonesia is confident that the fulfillment of these prerequisites will continue to propagate enthusiasm and optimism towards the economic recovery.

Bank Indonesia fully supports Government efforts and actively funds the State Budget to accelerate the vaccination roll out as well as the health and humanitarian response to Covid-19. As stated, the vaccination program and Covid-19 response are prerequisites for economic recovery and, therefore, must be synergized with the reopening of priority sectors. Rapid transmission of the Delta variant in June-August 2021 triggered a spike in positive cases and the mortality rate. At the same time, the supply, capacity, and distribution of vaccines as well as the ability of hospitals, medical personnel, and treatment needs were very limited and incurred massive costs. Consequently, Bank Indonesia was called upon to participate in joint measures to provide healthcare and save lives from the Delta variant as a state duty for humanity, health, and public security. This call prompted Bank Indonesia to take the extraordinary initiative of funding the 2021 and 2022 State Budget through the purchase of SBN in the primary market via private placement in accordance with the Joint Decree issued by the Minister of Finance and Governor of Bank Indonesia on 23rd August 2021. The SBN purchased directly by Bank Indonesia to cover health costs in the State Budget amounted to Rp215 trillion in 2021 and Rp224 trillion for 2022, and applied a very low interest rate 3-month BI 7-Day Reverse Repo Rate. Bank Indonesia's participation also contributes to the interest costs incurred for financing the vaccination program and healthcare, capped at Rp58 trillion (in 2021) and Rp40 trillion (in 2022) based on the financial capacity of Bank Indonesia. With full funding from Bank Indonesia for all health costs in the 2021 and 2022 State Budgets, the Government responded to the Delta variant with rapidity and is accelerating the vaccination roll out to achieve herd immunity towards greater resilience against the spread of potential new viruses and strains. This is critical to ensure that economic sectors and activities can restart with adequate risk mitigation concerning the Covid-19 pandemic.

By accelerating the vaccination program to achieve herd immunity, the national economic policy response must focus on the immediate recovery of priority sectors capable of driving growth and creating jobs. Synergy and policy innovation are essential to overcome the emergent issues, such as debottlenecking the real sector as well as providing fiscal policy incentives and macroprudential policy support in the financial sector. This approach has been initiated through KSSK policy synergy targeting the property and automotive sectors prior to Delta variant outbreak, encompassing three stages. *First*, map priority sectors as resilient, growth drivers or slow starters to support the economic recovery. In this regard, eight priority sub-sectors have been identified that can support economic growth and exports, namely: (1) Food and Beverages, (2) Leather, Leather Goods and Footwear, (3) Textiles and Apparel; (4) Chemicals, Pharmaceuticals, and Traditional Medicaments; (5) Paper and Paper Products; (6) Basic Metals; (7) Transportation Equipment; and (8) Rubber, Rubber Products and Plastics (Figure 6). In addition to the industrial sector, MSME development remains a priority agenda because of the significant contribution to economic growth and job creation, not to mention economic and financial inclusion. The reopening of these priority recovery sectors needs to be synergized with integrated measures to accelerate vaccination and strengthen the Covid-19 response.

Second, identify the obstacles faced in the recovery of priority sectors, both in the real sector and in terms of financing. For this reason, it is necessary to conduct joint discussions through coordination forums with the Central Government (relevant ministries and agencies), the Financial System Stability Committee, industry players, the banking industry, and regional governments. Various real sector issues relate to improving the factors of production, such as raw materials, energy and labor, regulatory and institutional arrangements, especially policy clarity and licensing, as well as promotional aspects and market access at home and abroad. In terms of finance, problems can arise on the demand and supply sides. Several sectors,

Figure 6. Synergy of National Economic Policies to Accelerate Recovery of Priority Sectors



Source: Bank Indonesia

particularly export-oriented sectors, have expanded and, therefore, lending has increased, while other sectors still require an appropriate policy response to increase demand for loans in the real sector and to address the perception of credit risk in the banking industry.

Third, national economic policy synergy and coordination must be planned and implemented according to the conditions prevalent in each productive sector. Overall, the required policies relate to the real sector, fiscal policy, and financing policy. In terms of the real sector, policies relate to the production factors, such as raw materials, energy, infrastructure, and labor; policies to facilitate regulations and licensing, including implementation of the Job Creation Act; and policies to expand market access, such as promotional activities and international cooperation. In the fiscal sector, policies involve budget allocations for infrastructure, food security, tourism, ICT, as well as import duty incentives, corporate taxes, and others for priority sectors. On the financing side, this includes macroprudential policies targetting priority sectors and MSMEs by Bank Indonesia, extending credit restructuring by OJK, as well as facilitating bank credit, securitization, and other financing alternatives.

The second policy response for the national economic recovery relates to synergy between the Government's fiscal policy and the monetary and macroprudential stimuli from Bank Indonesia to boost demand, particularly in the near term. A relatively large fiscal stimulus will support the national economic recovery process. To revive the economy and hit development targets, the 2022 State Budget includes planned state revenues of Rp1,846.1 trillion and state expenditures of Rp2,714.2 trillion, resulting in a deficit of Rp868 trillion or 4.85% of GDP. Most of the budget, amounting to Rp1,711,5 trillion (63%) was allocated to strategic programs in the 2021 State Budget to support a faster recovery and economic transformation towards Advanced Indonesia (Figure 7). Meanwhile, Bank Indonesia is strengthening its funding role in the 2021 and 2022 State Budgets through contributions to the cost of financing the vaccination drive and healthcare, capped according to Bank Indonesia's financial capacity. Through such synergy, the Government can focus more on efforts to accelerate the 2021 and 2022 State Budget and build national economic recovery momentum. Accommodative macroprudential policies have continued to revive the intermediation function through CCyB, RIM, LTV/downpayment ratios

Figure 7. Fiscal Stimulus

Source: Ministry of Finance

and other policy tools conducive to stimulating intermediation, including priority sectors, exports as well as financial and economic inclusion.

The third policy response towards acceleration involves improving the ease of financing from the financial sector to the corporate sector. In the near term, policies to revive bank lending are needed by addressing supply and demand-side issues. Mapping the priority sectors is crucial to understand which factors are more dominant and, thus, the appropriate policy response. As stated, problems have arisen in terms of demand for corporate loans and supply or bank loans. For Food and Beverages, Chemicals, Automotive and Transportation, loans disbursed by the banking industry have increased in line with corporate demand and the banks' willingness to lend. For other sectors, however, incentives are needed to revive credit, including incentives in the real sector for better business prospects, and incentives for banks in the form of credit guarantees and interest rate subsidies. In addition to bank credit, more financing from the capital market is also needed through issuances of shares or corporate bonds. Asset-backed and earning-backed securities need to be developed further. In this regard, the role of the Indonesia Investment Authority (INA) is indispensable as a pioneer in the securitization of assets and revenues from infrastructure projects that have been performing well with promising corporate financial conditions. In addition, money market and foreign exchange market development by Bank Indonesia in accordance with BPPU 2025 also plays an important role in the issuance of short-term securities, such as Commercial Papers (SBK), expansion of repo transactions, as well as the provision of hedging instruments for rupiah exchange rates, such as DNDF, and hedging interest rates, such as Interest Rate Swaps (IRS). Financial market transformation is urgently required to further expand financing alternatives to the corporate sector and reinforce the national economic recovery.

The fourth policy response is to accelerate digitalization, accompanied by national economic and financial inclusion. Successful policy synergy in 2020 and 2021 must be improved and expanded continuously. Gernas BBI and BWI have proven to expand the economic role of MSMEs, including the MSME retail program, while expanding the use of MSME QRIS to encourage national economic and financial inclusion. Bank Indonesia has consistently supported the Gernas BBI and BWI movements in close synergy with the (central and regional) Government as well as with the business community, holding various monthly joint activities in diverse regions and strategic events initiated by Bank Indonesia, such as the annual Indonesian Creative Works exhibition (KKI - *Karya Kreatif Indonesia*). Bank Indonesia's strategic role in supporting Gernas BBI and BWI implementation was confirmed by promulgation of Presidential Decree No. 15 of 2021 concerning the Proudly Made in Indonesia National Movement Team. The decree appoints the Governor of Bank Indonesia as Deputy Chair in conjunction with the Coordinating Minister for Economic Affairs and Chairman of the OJK Board of Commissioners. This clearly demonstrates government appreciation for Bank Indonesia's active role in supporting Gernas BBI and BWI. Bank Indonesia's firm commitment to economic and financial inclusion is also apparent by accelerating payment system digitalization in accordance with BPSI 2025 towards the efficient and inclusive integration and strengthening of the national digital economy and finance. In addition, payment system digitalization is oriented towards supporting Government programs through the electronification of social aid program (bansos) disbursements, various transportation modes and regional government finances.

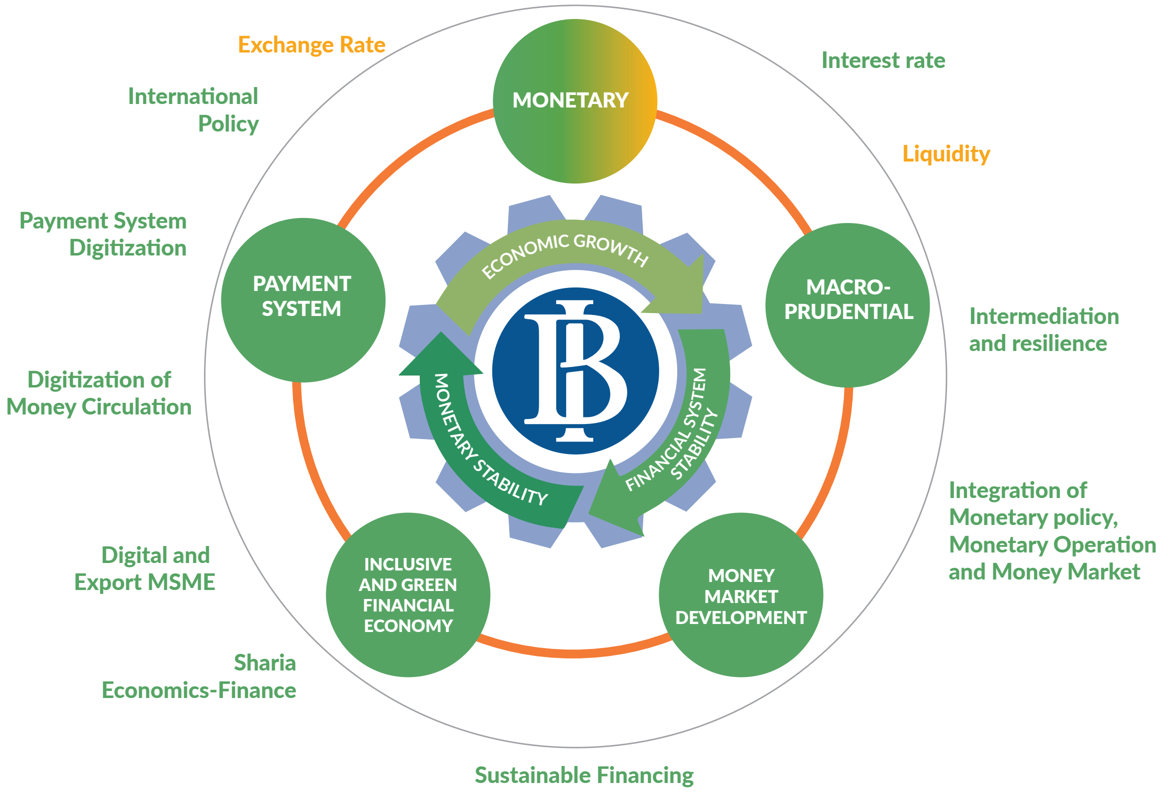
The fifth policy response relates to the green economy and finance in the pursuit of sustainable economic growth. Environmental degradation and climate change pose physical risks and transition risks with implications on monetary stability and financial system stability. The transition to a green economy, namely a low-carbon economy, needs to be gradual and moderate to optimize the policy response to climate change. In this regard, Bank Indonesia will continue to strengthen green finance policies and encourage the creation of a sustainable financial system through close coordination with the relevant authorities and active involvement in various international forums focusing on green finance. Bank Indonesia has taken several initiatives in the form of policies and the application of sustainable investment principles in the allocation of the foreign exchange reserve portfolio in line with the strengthening of global financial policies that lead to sustainability. In addition, Bank Indonesia supports transformation towards a green financial system to increase the domestic financial sector's contribution to reducing carbon emissions. The initiative was implemented to support Indonesia's carbon emission reduction target in the spirit of the Paris Agreement, ratified by various governments to limit the rise in mean global temperature.

The five policy responses for economic recovery are consistent with Indonesia's G20 Presidency in 2022, themed "Recover Together, Recover Stronger". Indonesia's G20 Presidency will focus on boosting productivity, increasing economic resilience and stability, and ensuring sustainable and inclusive growth. To that end, the G20 Presidency of Indonesia has 6 (six) priority agendas in the financial track. *First*, the formulation of policy normalization (exit strategy), especially in the US and several other AEs, thereby remaining conducive to a shared and less divergent global economic recovery ("recover together") and to mitigate the risk of potential global financial market uncertainty: well calibrated, well planned and well communicated. *Second*, the formulation of a structural reform policy response in the real sector to overcome the scarring effect of the Covid-19 pandemic by increasing productivity and overcoming problems in employment, households, corporations and the financial sector, thus restoring the long-term economic growth trajectory. *Third*, to encourage cooperation between countries in digital payment systems through implementation of the entire G20 Roadmap for Enhancing Cross-Border Payments (CBP) and development of the General Principles for Developing CBDC. *Fourth*, the formulation of steps towards a green economy and sustainable finance by addressing the risks associated with climate change and the transition towards a low-carbon economy, especially from a macroeconomic and financial stability perspective. *Fifth*, to enhance productivity, economic expansion and financial inclusion by increasing entrepreneurial capacity and utilizing open banking, particularly for MSMEs, women, and the youth, including cross-border aspects. *Sixth*, international coordination in the tax agenda to achieve a fair, sustainable and modern international taxation system, including implementation of the global agreement on digital taxation and carbon tax that was achieved in 2021.

Bank Indonesia Policy Mix Direction for 2022: Accelerating Economic Recovery, Maintaining Stability

Bank Indonesia's policy mix for 2022 will continue to be synergized as part of the national economic policy mix to accelerate economic recovery, while maintaining stability. The direction of Bank Indonesia's policy mix will continue to observe the global economic outlook, along with the six issues on the international policy coordination agenda, with Indonesia as Chair of the G20 in 2022. Bank Indonesia will perform meticulous calculations, careful planning, and clear communication regarding the mix of 5 (five) key policy instruments, namely: monetary policy, macroprudential policy, payment system digitalization, money market deepening, as well as inclusive and green finance and the economy (Figure 8). Given the risk of increasing global financial market instability pressures stemming from monetary policy normalization by the Fed and

Figure 8. The Policy Mix of Bank Indonesia in 2022



Source: Bank Indonesia

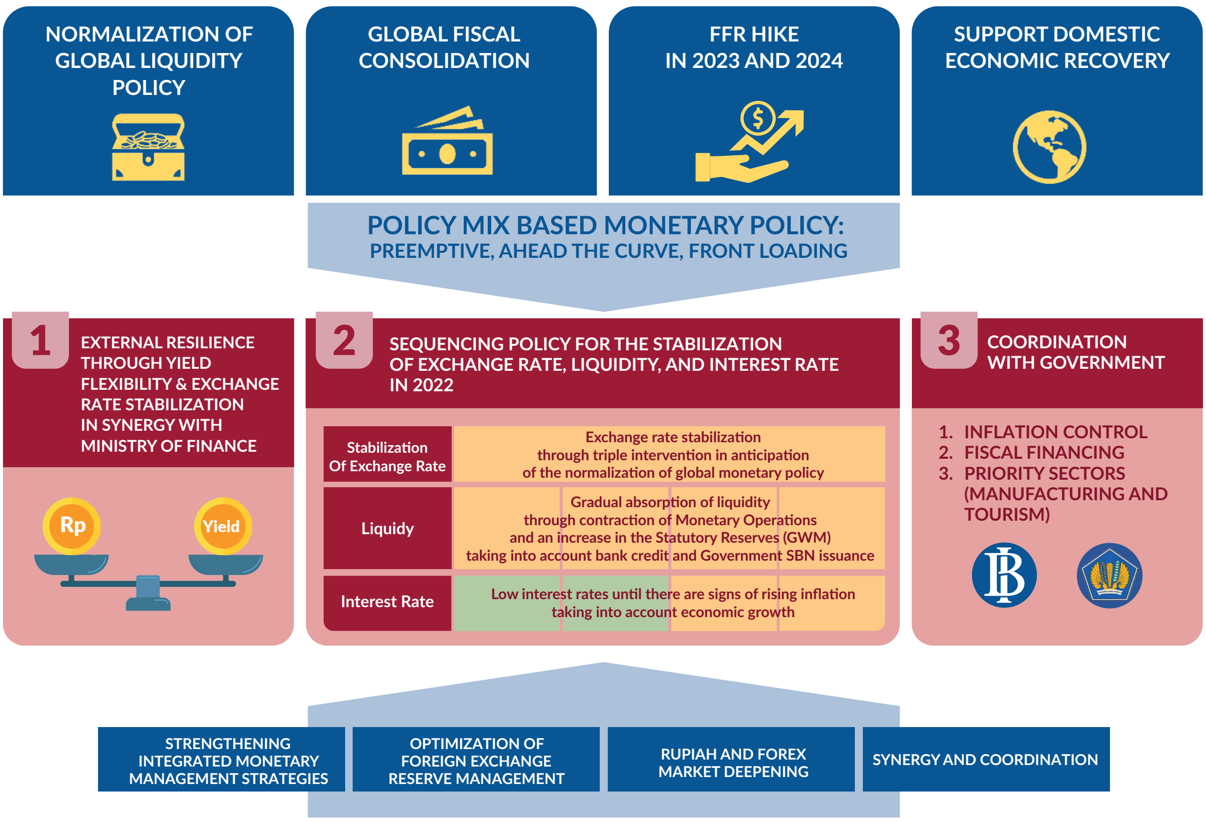
in several AEs, Bank Indonesia's monetary policy in 2022 will be oriented towards maintaining inflation and rupiah stability, as well as macroeconomic and financial system stability. Monetary policy tapering will be prudent and measured to avoid disrupting the national economic recovery. Meanwhile, 4 (four) Bank Indonesia policies in 2022 will be directed at joint efforts to accelerate national economic recovery momentum (pro-growth). Bank Indonesia will maintain an accommodative macroprudential policy stance to revive bank lending to priority sectors and MSMEs and accelerate the national economic recovery, while maintaining financial system stability and developing the green economy and finance. Payment system digitalization based on BSPI 2025 will continue to accelerate end-to-end integration of the digital economy and finance as a new source of economic growth. Money market and foreign exchange market deepening in accordance with BPPU 2025 will strengthen policy transmission effectiveness, money market infrastructure modernization in accordance with international standards, and the development of instruments of sustainable finance. Inclusive economic and financial development programs for MSMEs and sharia-compliant finance will be expanded, including digitalization and unlocking domestic and export market access. Synergy and close coordination between the Bank Indonesia policy mix and the policies of the Government and Financial System Stability Committee, with the financial industry, corporate sector, and relevant associations will be strengthened to ensure the national economy rises quickly and recovers fully from the impact of Covid-19, thereby returning to the medium-long-term growth trajectory towards an Advanced Indonesia.

Monetary Policy Direction

Bank Indonesia's monetary policy in 2022 will be more focused on maintaining stability, while still supporting the national economic recovery. The direction and phasing of monetary policy will be pre-emptive, ahead of the curve and front-loading to maintain stability in anticipation of tapering policy, global fiscal policy consolidation and Fed Funds Rate (FFR) hikes, while still supporting the national economic recovery (Figure 9). The low policy rate will be maintained until there are early signals of rising inflation. As stated, Bank Indonesia's current policy rate is the lowest in history at 3.50%. The focus of interest rate policy is oriented towards strengthening monetary policy transmission effectiveness to lower bank lending rates through a policy of interest rate transparency and money market deepening to reduce the high disparity between medium-long-term SBN yields and interbank rates. The normalization of Bank Indonesia's monetary policy will be gradual by absorbing the huge excess liquidity in the banking system. The liquidity adjustment will be carried out in a measurable and very prudent manner so as not to interfere with the banks' ability to channel credit and purchase SBN, while continuing to maintain monetary and financial system stability as well as the ongoing national economic recovery process.

Meanwhile, the policy response to the impact of monetary policy normalization by the Fed and several other AEs focuses on exchange rate policy to maintain external stability and avoid disrupting monetary and financial system stability and the national economic recovery process. In this regard, room for adjustments in rupiah exchange rates and SBN yields in line with movements in global exchange rates and US Treasury yields will remain possible in a measured manner and within normal limits to maintain attractive SBN yields and a competitive interest rate differential. Bank Indonesia will continue to monitor and maintain market

Figure 9. Monetary Policy Direction in 2022



Source: Bank Indonesia

presence, while poised to take the rupiah exchange rate stabilization policy measures necessary, through triple intervention in the spot market, DNDF market, and the purchase of SBN in the secondary market, to maintain exchange rate stability in line with the currency's fundamental value and market mechanisms. Close coordination with the Ministry of Finance will be strengthened further to maintain rupiah and SBN market stability as well as manage adjustments according to prevailing global developments. The monetary operations strategy will also be strengthened to support monetary policy effectiveness.

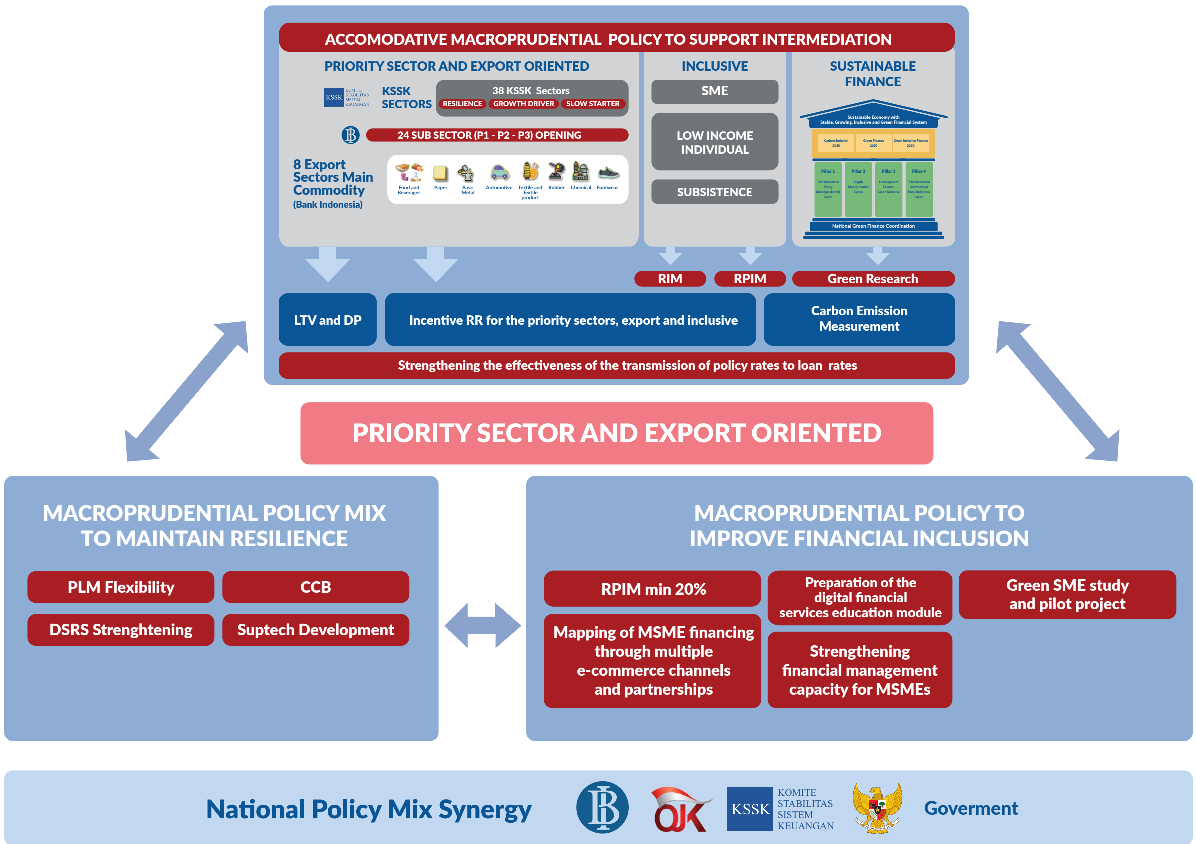
Bank Indonesia will continue to strengthen coordination between monetary policy and fiscal policy to recover the national economy and maintain macroeconomic stability. In this case, coordination is carried out at several levels. *First*, monetary and fiscal policy coordination to stimulate economic growth on the aggregate demand side in the discussion concerning macroeconomic assumptions in the State Budget and in the meeting between the Ministry of Finance and Bank Indonesia to assess the latest economic developments, taking into account the realization of State Budget expenditures and monetary management. Quarterly discussions on macroeconomic, monetary and financial system stability are also facilitated through the Financial System Stability Committee. *Second*, monetary and fiscal policy coordination to issue SBN, domestically and globally, in terms of meeting State Budget financing based on global financial market developments and the impact on monetary stability and domestic financial markets. *Third*, coordination in the purchase of SBN in the primary market by Bank Indonesia to fulfill State Budget funding in accordance with Act No. 2 of 2020 until the end of 2022. Bank Indonesia will continue to purchase SBN through primary auction in 2022 for State Budget financing as a standby buyer in pursuance of the Joint Decree issued by the Minister of Finance and Governor of Bank Indonesia on 16th April 2020. In addition, Bank Indonesia will continue to purchase government securities directly, amounting to Rp224 trillion in 2022, to finance the health and humanitarian budgets in the 2022 State Budget due to Covid-19, as stipulated in the Joint Decree issued by the Minister of Finance and Governor of Bank Indonesia on 23rd August 2021. Close fiscal and monetary policy coordination will become increasingly important in 2022 as a joint step in managing the national economy amid the tangible possibility of elevated global uncertainty due to the normalization of monetary and fiscal policies in the US and several other AEs.

Coordination between BI policy and Government policy will be strengthened to control inflation and revive priority sectors towards national economic recovery. Overall inflation in 2022 is expected to remain under control and within the 3%±1% target corridor with adequate aggregate supply to meet increasing aggregate demand, anchor inflation expectations and stabilize the rupiah, including the policy response taken by Bank Indonesia and the Government. Inflation control will still be coordinated through the (central and regional) inflation control teams, particularly the possible increase in global energy commodity prices as well as price pressures on basic necessities. Meanwhile, coordination to stimulate priority sectors is strengthened with support from Bank Indonesia to assess developments and identify issues occurring at both the central and regional levels, as well as to provide national economic policy recommendations, including results of the Regional Financial-Economic Study (KEKDA - *Kajian Ekonomi Keuangan Daerah*) conducted by Bank Indonesia offices in various regions. Full coordination and support from Bank Indonesia will be strengthened in the development and improvement of MSMEs and Islamic finance, both nationally and in various regions.

Macroprudential Policy Direction

Bank Indonesia will maintain loose macroprudential policy in 2022 to revive bank loans/financing and support the national economic recovery, while maintaining financial system stability. Macroprudential policy has been relaxed by holding the 0% CCyB, providing flexibility in fulfilling the PLM ratio of 6% with SBN that can be repurchased with Bank Indonesia, as well as the 100% FLTV/LTV ratio on housing loans and 0% downpayment requirements on automotive loans for banks that meet the NPL/NPF criteria, which will remain effective until the end of December 2022 (Figure 10). Macroprudential policies to increase bank financing, such as the Macroprudential Intermediation Ratio (MIR) and prime lending rate transparency, will be continued and their effectiveness strengthened by the macroprudential supervision of banks. Moreover, loose macroprudential policy will be expanded to revive sectoral credit/financing as part of KSSK policy coordination for the national economic recovery. The formulation and implementation of macroprudential policy will be adjusted to the conditions of priority sectors and the disbursement constraints faced by banks, including incentives/disincentives for Statutory Reserves and others. Meanwhile, to support an inclusive economy and finance, especially MSMEs, the Macroprudential Inclusive Financing Ratio Policy (RPIM) will continue to improve in terms of implementation effectiveness through MSME clustering and corporatization in synergy with the Government, while encouraging bank collaboration with MSME partner institutions to channel funds, and developing securities appropriate for MSME financing. Bank Indonesia also cooperates in synergy with the Government to unlock access to finance

Figure 10. Macroprudential Policy Direction in 2022



Source: Bank Indonesia

and develop MSMEs, including low-income and subsistence groups. Furthermore, Bank Indonesia is also synergizing with the Financial System Stability Committee and related government ministries/ institutions to development of sustainable finance and support transformation of the green financial system, including macroprudential policies that support green finance.

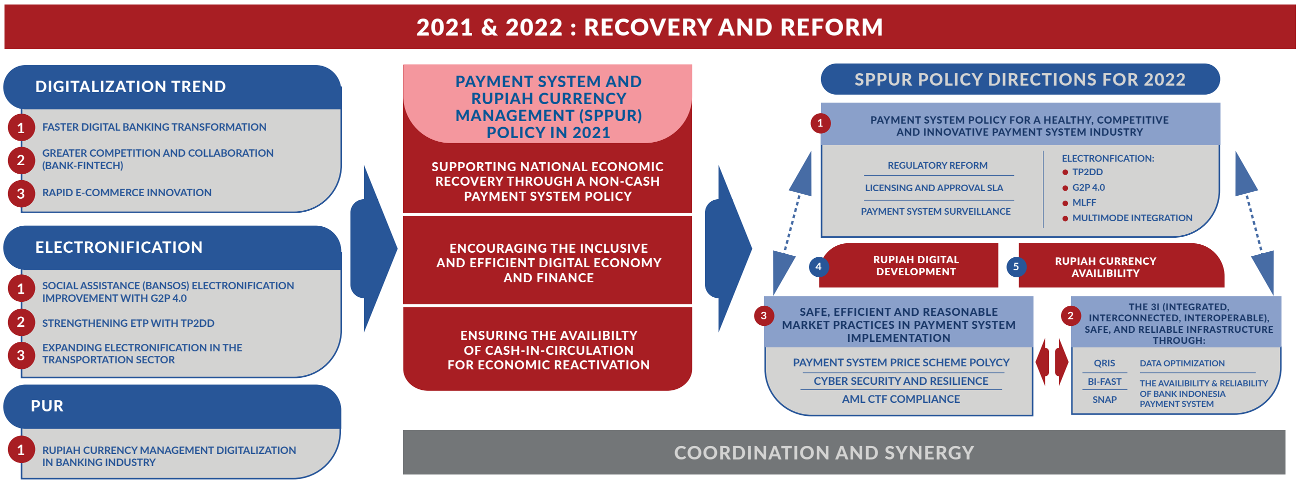
Bank Indonesia continues to strengthen policy synergy with the Financial System Stability Committee to revive lending from banks and other financial institutions to the corporate sector to support the national economic recovery. As mentioned, the national economic recovery process is highly dependent on the availability of corporate financing. Moreover, bank financing is necessary to overcome the scarring effect of the Covid-19 pandemic, which will also influence the sustainability of short-term and medium-long-term economic growth. Therefore, synergy and policy coordination are required to mitigate various real sector issues, focusing on priority growth drivers. Synergy and policy coordination are also need under the auspices of the Financial System Stability Committee to overcome lending issues on the supply and demand sides. The effectiveness of loose macroprudential policy is strongly influenced by the synergy and coordination of these policies. From a government perspective, policy support includes utilizing state budget instruments to overcoming the pandemic, providing social protections and fiscal incentives, as well as various other business facilities. OJK uses various microprudential instruments, such as stimulus policies for financial institutions and adjustments to Risk-Weighted Assets and Advances for Financing Companies, while LPS is pursuing a policy of strengthening the deposit guarantee program in the form of a low guaranteed interest rate and incentives to relax late fees for guaranteeing premiums. In addition to focusing on the economic recovery, Bank Indonesia and the Financial System Stability Committee will strengthen coordination to anticipate the potential risk of a spike in cases of new Covid-19 variants.

Coordination between macroprudential supervision by Bank Indonesia, microprudential supervision by OJK and deposit insurance by LPS will be strengthened to maintain financial system stability. Within the framework of the Integrated Banking Supervision Forum between Bank Indonesia, OJK and LPS, regular coordination is implemented at both the Deputy and Head of Department levels. Some of the salient discussions in the forum include the latest individual banking conditions, the assessments of liquidity conditions, credit quality, capital and other aspects, such as developments in monetary conditions, financial markets, corporations and the macroeconomy. In addition to macroprudential-microprudential policy synergy, Bank Indonesia and OJK continue to strengthen the basis for cooperation in the disbursement of (sharia-compliant) short-term liquidity assistance. In addition, Bank Indonesia and LPS intensively and continuously coordinate to strengthen the resolution of troubled banks as necessary.

Payment System Policy Direction

Bank Indonesia will continue to expand payment system digitalization in 2022 to accelerate integration of the digital economic and financial ecosystem, including financial and economic inclusion. Various programs announced in BSPI 2025 will be implemented, in addition to payment system digitalization programs according to the stipulated schedule and targets. Payment system policy in 2022 will remain focused on five main strategic areas (Figure 11). *First*, accelerating healthy, competitive, and innovative payment system industry consolidation through regulatory reform in accordance with industry-friendly policies and regulations in the Payment System Bank Indonesia Regulation (PBI), along with ease of licensing and approval with service level agreements (SLA) between Bank Indonesia and the payment system industry, as well as strengthening payment system supervision, particularly in terms of capital compliance, risk management, and cyber security.

Figure 11. Payment System Policy Direction in 2022



Source: Bank Indonesia

This strategy is oriented towards establishing an end-to-end ecosystem from digital banking, FinTech, and e-commerce through business cooperation, ownership, or other forms.

***Second*, the development of 3I (interoperable, interconnected, and integrated) payment system infrastructure that is secure and reliable will continue, thus increasing economic and financial inclusion, including MSMEs and retail transactions.** The expansion of QRIS uptake continues as a contactless payment tool that complies with health protocols through the QRIS READY program at markets/shopping centers, including the service features for greater convenience in the community. The expansion of the use of QRIS is carried out to increase the number of transactions so that MSME merchant credit profiles can be compiled to support increasing banking credit to MSMEs, reducing the space for illegal online lending activities, and to achieve the target of 15 million QRIS users by 2022. SNAP implementation to connect payment transaction services between banks and FinTech will be accelerated to expand integration of the national digital economic and financial ecosystem. Likewise, the operationalization of BI-FAST and expansion of participants will continue, with the goal of connecting all banks as participants to provide retail payment services in real time available continuously (24/7). Connected banks can take full advantage of BI-FAST to provide the best retail payment services to the public. In addition to the three flagship programs, namely QRIS, SNAP and BI-FAST, Bank Indonesia will also strengthen digital payment system reforms with development programs to optimize data and maintain the availability and reliability of the Bank Indonesia Payment System.

***Third*, development of safe, efficient and fair market conduct to further realize a fast, convenient, affordable, secure and reliable payment system.** To that end, a pricing policy will be adopted to simplify, harmonize, and simultaneously reduce transaction costs in the digital payment system. The current payment system service price scheme contains too much variation in the types of service from one payment service company to another as well as the speed at which merchant sellers receive payments from buyers. Of course, the price scheme must continue to incentivize the industry to invest and innovate without burdening the consumer. Strengthening risk management and monitoring payment systems will also continue, particularly in the implementation of cyber security and resilience as well as strengthening compliance with the anti-money laundering/combating the financing of terrorism (AML/CFT) principles.

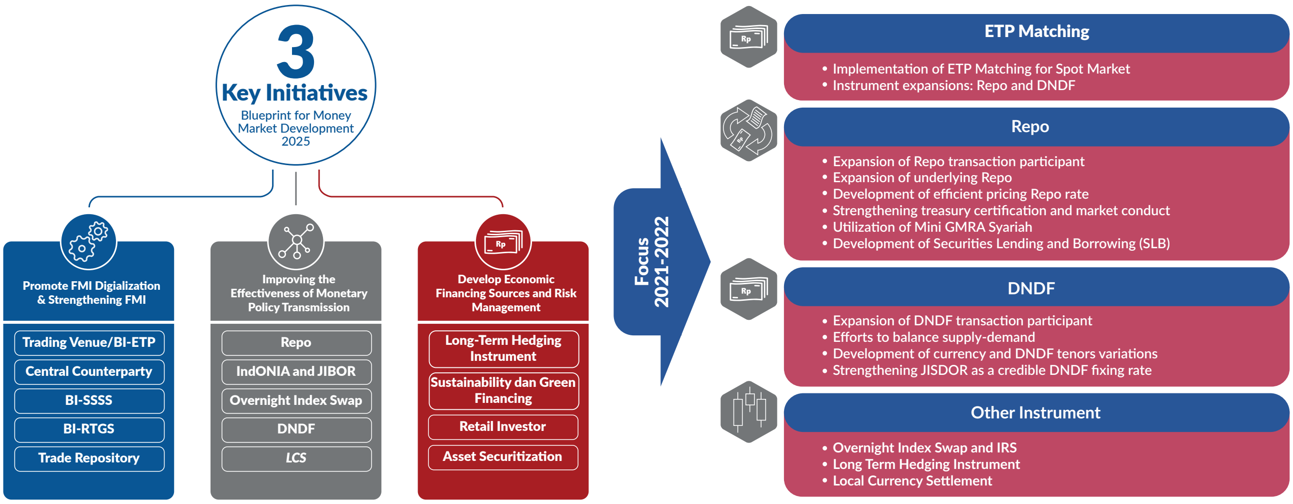
Bank Indonesia will also accelerate preparations to issue digital rupiah and rupiah currency management digitalization. Bank Indonesia continues to develop digital rupiah as a legal payment instrument and supports the mandate and task implementation of central banks in the digital era, while accelerating and integrating the national digital economic and financial ecosystem. Plans to issue digital rupiah are based on at least three main considerations, namely: (i) Digital rupiah as legal tender in the Republic of Indonesia issued and circulated by Bank Indonesia as the central bank institution mandated in the Constitution and Law, (ii) Readiness of payment system infrastructure and financial markets that are integrated, interconnected, and interoperable, which in time will become wholesalers of digital rupiah, and (iii) Choice of technology platforms that support the issuance and circulation of digital rupiah, such as Distributed Ledger Technology (DLT) or Centralized Ledger. In 2022, Bank Indonesia will issue a conceptual design for digital rupiah. In terms of the cash payment system, the policy direction will focus on providing quality rupiah currency and maintaining adequate cash throughout the territory of the Republic of Indonesia in accordance with BPUR 2025. This policy direction is pursued to achieve 3 (three) key milestones at once, namely (i) efficiency in the printing and circulation of banknotes and coins, (ii) centralizing currency distribution and circulation from central to remote areas, including 3T territories (*Terdepan, Terluar dan Terpencil* - Frontier, Outermost, and Isolated), and (iii) digitalization based on harmony with the ongoing economic and financial digitalization.

Bank Indonesia will continue to strengthen synergy and coordination with the (central and regional) Government, banks, and associations in the payment system, FinTech and e-commerce. Coordination with the Government will primarily focus on expanding the electronification of regional government financial transactions by strengthening TP2DD, encouraging the distribution of Government to Private (G2P) 4.0 social assistance, expanding electronification and integration between transportation modes and implementing Multi-Lane Free-Flow (MLFF), while expanding MSME and tourism digitalization through Gernas BBI and BWI in various regions and in the main tourism destinations that have been determined. Synergy and coordination between payment system digitalization policies from Bank Indonesia and financial institution digitalization from OJK specifically relates to FinTech development through sandboxes and digital banks. Synergy with banks, payment system associations, FinTech associations and other associations will be strengthened by expanding the various payment system digitalization programs that are already running, such as QRIS, SNAP and BI-FAST, as well as expanding services to the wider community.

Accelerating Money Market Deepening

Accelerating financial market deepening to strengthen the monetary policy transmission effectiveness as well as infrastructure and business financing to support the national economic recovery. Money market deepening in 2022 will still be directed towards building a modern money market in accordance with international standards, as well as supporting the transformation of monetary management that is more supportive of market development in terms of the instruments (products), participants as well as pricing mechanisms, with integrated, interconnected and interoperable infrastructure between money markets and payment systems. Development of the main BPPU 2021 initiatives will continue based on three policy pillars (Figure 12). In the first pillar, money market infrastructure development will focus on implementation of the central counterparty (CCP), which is expected to start operating in 2022, in addition to expanding money market transactions through ETP multi-matching for the rupiah and foreign exchange money markets. In addition, Bank Indonesia will also finalize the Conceptual Design (CD) for the development of money market infrastructure as well as integrated, interconnected,

Figure 12. Acceleration of Money Market Deepening in 2022



Source: Bank Indonesia

and interoperable payment systems, including BI-APS, BI-SSSS, BI-RTGS Gen 3, and the Trade Repository.

Based on the second pillar, strengthening monetary policy transmission effectiveness will focus on the implementation of money market instruments using the ETP multi-matching system, as well as development of Repo, DNDF, and LCS transactions. In this regard, various programs continue to be improved to accelerate the increased use of the Local Currency Settlement (LCS) framework to facilitate trade and investment with partner countries by strengthening synergy and coordination with other relevant authorities. The LCS campaign continues to broadly extend the use of Appointed Cross Currency Dealers (ACCD) to banks, corporations, and other potential users in collaboration with relevant domestic agencies and in partner countries. The program includes implementation of the non-USD/IDR reference rate for the development of derivative instruments within the LCS framework. In addition, Bank Indonesia will also strengthen transaction regulations in the foreign exchange market by simplifying and integrating regulations to foster market deepening and support financial system stability. This money market regulatory reform will simplify provisions through a principles-based approach to increase implementation flexibility and effectiveness for market participants.

Under the third pillar, economic financing will continue to be strengthened through 3 (three) policy strategies, namely (i) encouraging the development of asset securitization through the KIK-EBA and EBA-SP programs, (ii) encouraging the development of retail investors and financial literacy on a regular basis, and (iii) strengthening coordination and communication related to the Sustainable Green Finance (SGF) program. The financial market deepening policies will be supported by close synergy between Bank Indonesia, the Ministry of Finance, OJK and LPS within the Coordination Forum for Financial Market Development Financing (FK-PPPK). Various derivative products in the money and foreign exchange markets will be developed by Bank Indonesia, particularly relating to exchange rate hedging instruments (such as DNDF), interest rate swaps, repo and LCS, which will also catalyze medium- to long-term financing.

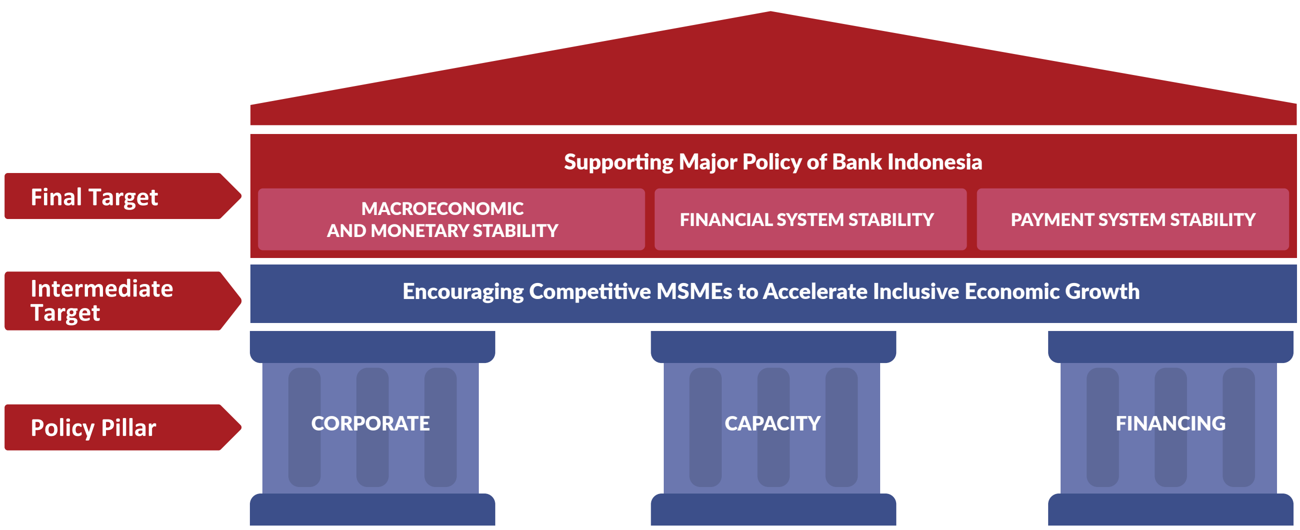
Inclusive and Green Economic-Financial Policy

Bank Indonesia will continue to expand and strengthen MSME development programs through corporatization, capacity building, and access to finance, while improving MSME competitiveness.

Corporatization involves institutional strengthening, expanding partnerships, and developing business models for nascent subsistence groups to create new entrepreneurs. End-to-end MSME capacity building will focus on digitalization to increase production, enhance financial management, and expand market access. Market access will be unlocked by facilitating product certification and curation, promoting of international trade, and encouraging interlinkages with local value chains (LVC) and global value chains (GVC). Bank Indonesia will also support the Green MSME movement, beginning with studies and pilot projects to hone current practices. Access to MSME financing will be facilitated to fulfil inclusive financing regulations, among others by mapping patterns of MSME financing through multiple e-commerce channels and partnerships, as well as facilitating business meetings (business matching). The Indonesian Creative Works (KKI) exhibition to encourage Go Export and Go Digital MSMEs will be improved in 2022, while strengthening synergy with the Government towards the success of the GerNas BBI and BWI with the involvement of all Bank Indonesia offices (Figure 13).

Bank Indonesia will continue to develop the Islamic economy and finance as a new source of economic growth. The halal value chain ecosystem will be expanded locally and globally in terms of the actors, institutions, and supporting infrastructure. Developing the halal value chain ecosystem will continue to prioritize the leading sectors of halal food and Muslim fashion (modest fashion). In terms of sharia finance, sharia money market deepening to support sharia financing will be pursued through, among others, development of foreign exchange transaction instruments and inclusive BI Sukuk. Optimizing Islamic social finance as an alternative source of financing for the leading sharia economic sectors will continue, especially through productive waqf. In addition, Bank Indonesia will continue to increase business linkages through a series of national Fesyar activities in three regions (Java, Sumatra, Eastern Indonesia) and thhe international ISEF event. Bank Indonesia will strengthen the Center for Excellence in Islamic Economics and Finance through higher education as an integral part of implementing strategies to raise public literacy. To that end, Bank Indonesia will continue to strengthen synergy with various parties, including the National Islamic Economy and Finance Committee (KNEKS), Islamic boarding schools (pesantren), the Islamic Economic Community (MES), business associations, banks, as well as scholars, academics, and the wider community.

Figure 13. Strengthening the MSME Development Program



Bank Indonesia continues to strengthen green finance policies towards realizing a sustainable economy with a stable, inclusive and green financial system. In response to the challenges of future climate change that could threaten economic stability, and as part of Bank Indonesia's active contribution to achieving a Indonesia's low carbon target, Bank Indonesia will undertake a comprehensive transformation by strengthening green finance policies. Studies on green macroprudential policies to support sustainable finance continue to be performed. Bank Indonesia also continues to encourage financial market deepening through the development of green money market instruments. The development of a green inclusive economy and finance continues through, among others, the development of a circular economy business model, green farming, and green financial reports for MSMEs and sharia economic players. In addition, Bank Indonesia will continue institutional transformation, encompassing governance, risk management, strategies, and green performance indicators. In its development and implementation, Bank Indonesia will continue to synergize and coordinate closely with the Financial System Stability Committee, government ministries/agencies and relevant stakeholders.

International Policy

On the international policy side, Bank Indonesia will remain active in various international cooperation forums to support the national economic recovery. Indonesia's G20 Presidency in 2022 will be optimized to support the interests of Indonesia and the global economy through substance formulation and the best possible implementation. Beyond the G20 Presidency, substance formulation that support the interests of Indonesia and the region will be the focus of Indonesia's ASEAN Chairmanship in 2023. Strengthening international cooperation will also continue at the multilateral, regional and bilateral levels relating to the International Financial Safety Net, SCS, Payment Systems and Digital Financial Innovation, anti-money laundering/combating the financing of terrorism (AML/CFT), as well as Structured Bilateral Cooperation with central banks and other international institutions. Bank Indonesia continues to improve the positive perception of investors and rating agencies through proactive engagement activities. Bank Indonesia will also play an important role in promoting trade and investment in priority sectors through the support of the Investor Relations Unit (IRU) at the regional, national and international levels. Bank Indonesia will conduct a massive campaign to encourage and expand the use of LCS, including outreach activities to potential business actors in collaboration with Foreign and Domestic Representative Offices and other strategic partners of Bank Indonesia.

Bank Indonesia's policy response in synergy with the national economic policy mix will accelerate economic growth in 2022 and moving forward towards the medium-term trajectory in pursuit of an Advanced Indonesia. As stated, Bank Indonesia predicts national economic growth in 2022 to reach 4.7-5.5%, driven by the ongoing global economic recovery, which will impact strong export performance, as well as increasing domestic demand from higher consumption and investment. Economic recovery will take place, supported by increased mobility after controlling the spread of Covid-19 and accelerating the vaccination roll out, broader reopening of priority sectors accompanied by optimizing the KSSK Integrated Policy Package, as well as the fiscal policy stimuli and Bank Indonesia policy mix. In the medium to long term, the economic outlook will improve on track to an advanced Indonesia, driven by the promising global economic outlook as well as increases in investment and productivity through structural reform policies in the real sector and accelerating the national digital economy and finance. Increasing economic competitiveness as well as industrial capacity and capability will support solid and resilient economic growth with a stronger economic structure. In addition, a conducive business and investment climate, including the Job Creation Act, will strengthen sources of higher economic growth. Bank Indonesia predicts that, in the medium term, national economic growth will continue to accelerate to 4.9-5.7% in 2026. Inflation is predicted to remain low and under control at 1.5-3.5%, supported by higher national production capacity through efficiency and productivity gains to meet rising aggregate demand. The current account deficit will remain manageable at 1.5-2.3% of GDP, thereby underpinning external sector resilience in Indonesia. Based on the current outlook, Indonesia is set to become a high-income developed economy by 2045.

Rise and be Optimistic for an Advanced Indonesia

The national economic outlook in 2022 will improve, and Bank Indonesia will continue to maintain revival momentum and build optimism surrounding the national economic recovery. Economic stability will be maintained amid the ongoing economic recovery process. Mobility and economic activity will continue to improve in line with the Covid-19 response and accelerated vaccination roll out. Synergy between Bank Indonesia the (central and regional) Government, Financial System Stability Committee, banking industry, and business community will continue to be strengthened to improve sustainable national economic performance. Bank Indonesia will also continue to maintain good synergy with the People's Representative Council (DPR), especially Commission XI, the banking and financial industries, academia, media, and various other parties. Policy mix innovations that include monetary, macroprudential and payment systems will be aligned with global and domestic developments as well as fiscal conditions to support ongoing structural reforms in the national economy.

In closing, through synergy and innovation, Indonesia has been able to survive the deleterious impact of the Covid-19 pandemic and is now rising again with optimism that the economic recovery will gain momentum in 2022 and moving forward. Through synergy and innovation, Indonesia's economic outlook is improving, supported by national economic policy mix synergy, accelerated transformation in the real and financial sectors, as well as innovation and acceleration of the digital economy and finance. Towards that end, let us continue to strengthen synergy and innovation for national advancement. Let us continue to work and create together, to build and spread hope, confidence, and optimism for the national economic recovery towards an Advanced Indonesia. May Allah *SWT*, God Almighty, always provide guidance, convenience, perfection, and blessings to the Indonesian nation and to us all.

That is all, and thank you
Wassalamualaikum warahmatullahi wabarakatuh,
Jakarta, 24 November 2021

Perry Warjiyo
Governor of Bank Indonesia