BANK INDONESIA

SYNERGY TO STRENGTHEN STABILITY AND NATIONAL ECONOMIC TRANSFORMATION

BANK INDONESIA
ANNUAL MEETING 2024

TABLE OF CONTENT

SYNERGY TO STRENGTHEN STABILITY AND NATIONAL ECONOMIC TRANSFORMATION

Remarks of the Governor of Bank Indonesia
BANK INDONESIA ANNUAL MEETING
Jakarta, 29th November 2024

We are honoured to welcome,

The President of the Republic of Indonesia, Gen (Ret.) Prabowo Subianto

With respect to the honourable,

- Leaders and Members of DPR and DPD RI,
- Leaders of State Institutions,
- Excellencies, Ambassador of friendly countries,
- Ministers of the Red and White Cabinet,
- Chairman and Members of the OJK and the LPS Board of Commissioners,
- Former Governors and fellow Members of the Board of Governors of Bank Indonesia,
- Regional Governors, Mayors and Regents from throughout Indonesia,
- Leaders of the National Banking Industry, Corporate Sector, and National Media,
- Recipients of the 2024 Bank Indonesia Awards,
- Esteemed guests.

Assalamu'alaikum Warahmatullahi Wabarakaatuh,
Peace and prosperity be upon us all, Syalom,
Om Swastyastu, Namo Buddhaya,
Greetings of virtue,

First of all, let us express our gratitude for the presence of Allah Subhanahu Wa ta'ala (SWT), God Almighty, for His mercy and blessing that allow us to gather at the 2024 Bank Indonesia Annual Meeting this evening. With all humility, we would like to express our utmost gratitude to the President, for his presence, along with all distinguished guests, and for providing direction to strengthen policy synergy to enhance stability and national economic transformation moving forward.

We extend our congratulations to the banks, corporations, and individuals that received Bank Indonesia Awards 2024, totaling 51 (fifty-one) recipients in 5 (five) areas and 20 (twenty) categories in the fields of monetary stability management, macroprudential, payment system, MSMEs development and the sharia economy, as well as supporters of Bank Indonesia policy. The awards are presented annually in conjunction with the Bank Indonesia Annual Meeting as a form of appreciation and national recognition to our partners that have supported the implementation of Bank Indonesia's tasks.

On this auspicious occasion, allow me to present the evaluation of Indonesia's economic performance for 2024, the economic prospects and policy direction of Bank Indonesia in 2025, which summarized under the theme **Synergy to Strengthen Stability and National Economic Transformation**. We should be grateful that Indonesia's economy performed well in 2024. Economic growth was relatively high with maintained stability. This performance was achieved amidst highly dynamic global economic uncertainty. Strong synergy of national economic policy mix between Government and Bank Indonesia is the key aspect of achieving robust national economic performance. This policy mix synergy must be enhanced to strengthen stability and national economic transformation toward the 2045 Golden Indonesia (Indonesia Emas 2045) vision.

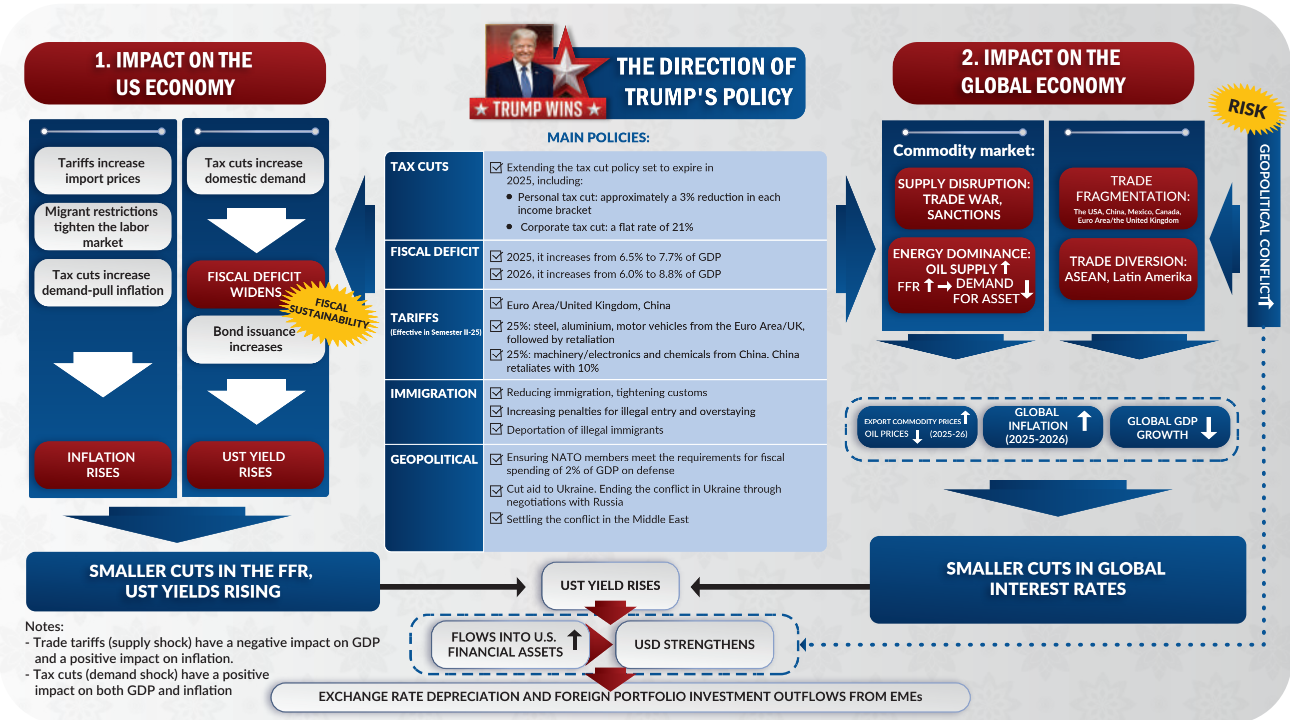
I will deliver my presentation in 5 (five) main parts. First, an evaluation of global economic performance and the outlook, which are full of dynamics, risks and uncertainties. Second, an evaluation of domestic economic performance and the outlook, which has demonstrated resilience and continued recovery. Third, a report and evaluation of the policy mix implemented by Bank Indonesia in 2024 to maintain stability and support sustainable economic growth. Fourth, synergy of national economic policy mix between the Government and Bank Indonesia to strengthen stability and national economic transformation moving forward. Fifth, Bank Indonesia's policy direction in 2025 to strengthen stability and foster sustainable economic growth. This explanation also serves as the fulfillment of Bank Indonesia accountability and transparency as mandated by Bank Indonesia Act.

I. Global Economic Performance and Outlook: Slowing Growth, High Uncertainty

Global economic dynamics changed rapidly accompanied by heightened uncertainty. At the beginning of 2024, geopolitical tensions remained high given the ongoing conflict between Russia and Ukraine. After a brief respite, geopolitical tensions have marked another round of escalation, triggered by Israeli attack on Palestine. Toward the end of 2024, the re-election of President Trump in the United States (US), with his America First policy, could lead to a significant change in the geopolitical landscape and world economy moving forwards. Initial assessments indicate the possibility that the new US Administration under President Trump will impose high tariffs on countries maintaining a large trade surplus with the US as part of its international policy (Figure 1.). Such countries could include China, Mexico, Japan, and Vietnam, and several European countries. For instance, high tariffs may be imposed on imports of machinery/electronic goods and chemicals from China as well as imports of iron, aluminium, and motor vehicles from the European Union and the UK, which could spur retaliation from these countries. Strict immigration policies will also be introduced against illegal foreign workers, while foreign policy toward NATO, Russia-Ukraine and the Middle East could reshape the global geopolitical landscape. To stimulate domestic economic growth, the new US Administration is predicted to cut corporate tax and personal income tax, thereby increasing the fiscal deficit from 6.5% to 7.7% of GDP in 2025 and raising US government debt going forward. The result of the US Presidential Election undermined global financial market conditions in the fourth quarter of 2024 and is anticipated to trigger global economic slowdown moving forwards along with the growing risk of trade and investment fragmentation.

Volatile geopolitical dynamics have shaped global economic and financial market performance throughout 2024, and are expected to persist in 2025 and beyond. Overall, global economic growth in 2024 is expected to moderate to 3.2%, from 3.3% in 2023, with a further slowdown projected to 3.1% in 2025 and 3.0% in 2026

Figure 1. Initial Assessment of the Impact of Trump's Victory on the US and Global Economy



Source: Bank Indonesia, adapted from various sources

Table 1. Global Economic Growth Performance and Outlook (%)

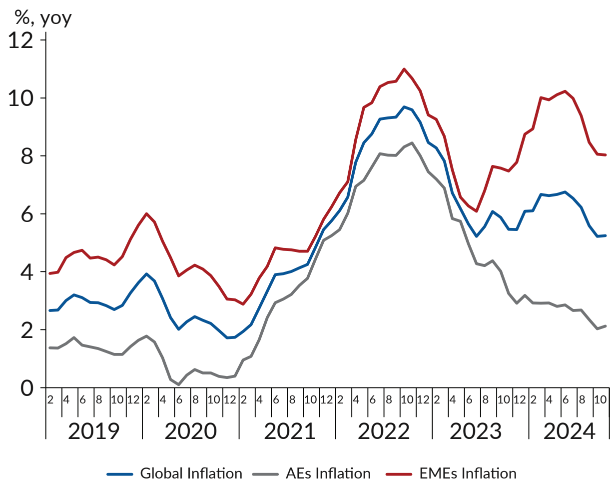
	2022	2023	2024*	2025*	2026*
World	**3.5**	**3.3**	**3.2**	**3.1**	**3.0**
Advanced Economies	**2.6**	**1.7**	**1.8**	**1.7**	**1.8**
United States	1.9	2.9	2.7	2.1	2.3
Euro Area	3.4	0.4	0.8	1.2	1.3
Japan	1.0	1.9	0.0	1.2	0.6
Emerging Economies	**4.1**	**4.4**	**4.2**	**4.1**	**4.0**
China	3.0	5.2	4.8	4.5	3.9
India	6.8	7.7	7.0	6.7	6.7
ASEAN-5	5.5	4.0	4.8	4.8	4.8
Latin America	4.2	2.2	2.1	2.4	2.5

Source: WEO-IMF, Bank Indonesia

Note: *Bank Indonesia's Projection

(Table 1.). Divergence in growth patterns across countries continues, accompanied by increasing global economic and trade fragmentation. The US economy, which is expected to moderate in 2024, is forecasted to rebound in 2025, although the risk of economic overheating looms with the widening fiscal deficit and growing government debt. GDP growth in China and Euro Area are expected to moderate in response to persistently sluggish domestic demand and the potential impact of high trade tariffs imposed by the new US Administration. Economic growth in Indonesia, India, and several other emerging market economies (EMEs) remain relatively strong on the back of domestic demand despite export constraints as a corollary of economic moderation and global trade fragmentation. Global inflation eased from 6.2% in 2023 to 5.2% in 2024 and 4.5% in 2025, yet is projected to rise to 4.8% in 2026 amidst potential trade war between the US and several of its key trading partners, coupled with global supply chain disruptions (Graph 1.).

Graph 1. Global Inflation Trends

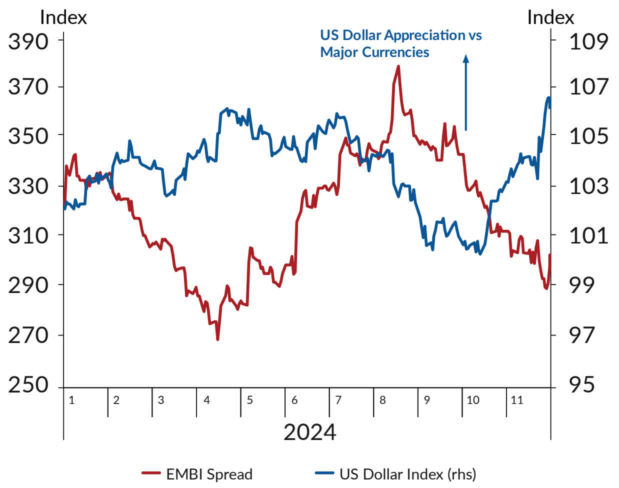


Source: Bloomberg, IMF

Geopolitical and global economic dynamics have a substantial impact on the monetary policy of central banks and global financial market developments. Financial market uncertainty remained elevated in the first half of 2024 due to geopolitical tensions between Russia and Ukraine as well as the Israeli attack on Palestine. Sovereign risk premia in EMEs, as reflected by Emerging Market Bond Index (EMBI) spread, increased sharply from 270 in April 2024 to 380 in August 2024 (Graph 2.a.). Similarly, global financial market volatility (VIX) and Credit Default Swap (CDS) in Indonesia also tracked upward trends (Graph 2.b.). In the third quarter of 2024, as geopolitical tensions eased and the global disinflation process continued, central banks began lowering monetary policy rates, including the Federal Reserve which eventually started reducing the Federal Funds Rate (FFR) in September 2024. Monetary policy easing had a positive impact on global financial markets. The US dollar index against global currencies (DXY), which hit 105 at the beginning of 2024 subsequently retreated to around 101 in September 2024, along with a similar downward trend observed in EMBI spread (Graph 2.a.). Nevertheless, the results of the US Presidential Election and unresolved geopolitical tensions in the Middle East adversely affected financial markets and the monetary policy direction of central banks. Smaller reductions in the FFR and other monetary policy rates are expected moving forward. The US dollar faced sharp, broad-based appreciation, with the DXY index recorded at 107 recently (Graph 2.a.). Similarly, US Treasury yields, which had tracked a downward trend in line with the lower FFR, rebounded strongly across all maturity periods. Sovereign risk premia in EMEs and global financial market volatility saw a renewed increase. Such developments triggered a reversal of portfolio flows and exchange rate depreciation in EMEs, forcing a stronger national policy responses to address the adverse impact of deteriorating global economic dynamics.

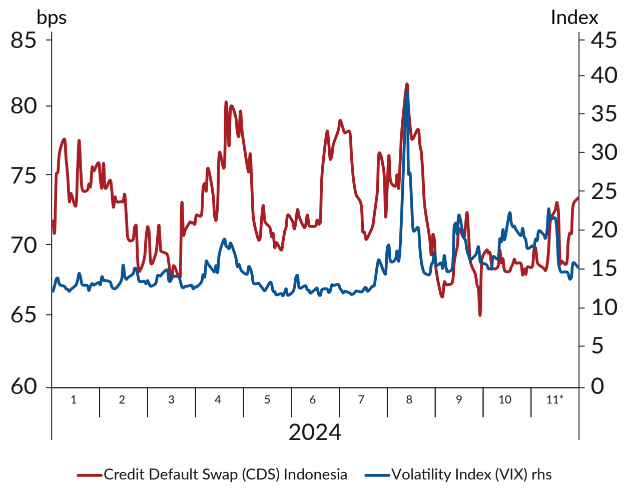
The US economy exhibited slight softening in 2024 yet is expected to rebound moving forward given the policies of the incoming Administration. US economic performance remained comparatively solid until the middle of 2024, yet subsequently slowed down and is projected to moderate to 2.1% in 2025. However, US economic growth could potentially rebound with the policies of the incoming Administration. The primary source of economic growth is domestic demand, particularly the services sector and investment in information technology and financial services. Incrementally milder inflationary pressures have prevailed, with disinflation moving toward the medium-term target of approximately 2%. Such developments prompted a 50bps cut in the Federal Funds Rate from 5.5% to 5.0% in September 2024, with a further 25bps decrease to 4.75% in November 2024 and a similar 25bps reduction expected in December 2024, bringing the FFR to 4.5% at the end of 2024. FFR cuts are expected to persist with another 50bps adjustment to 4.0% anticipated in 2025 (Graph 3.a.). The downward FFR trend spurred lower US Treasury yields on short-term maturities, contrasting the upward trend of medium-long-term US Treasury yields due to the widening fiscal deficit and massive debt burden of the US Government (Graph 3.b.). Notwithstanding, the re-election of President-elect Trump, complemented by Republican victories in the Senate and House, could change US economic dynamics significantly in the near future. Economic growth in the US could regain momentum on higher demand for investment and domestic consumption given the proposed cuts to corporate tax and personal income tax. Likewise, external sources of growth will also increase due to lower imports caused by high tariffs imposed on countries maintaining a large trade surplus with the US. On the other hand, inflationary pressures are

Graph 2.a. Trends in the US Dollar and EMEs Risk Premium



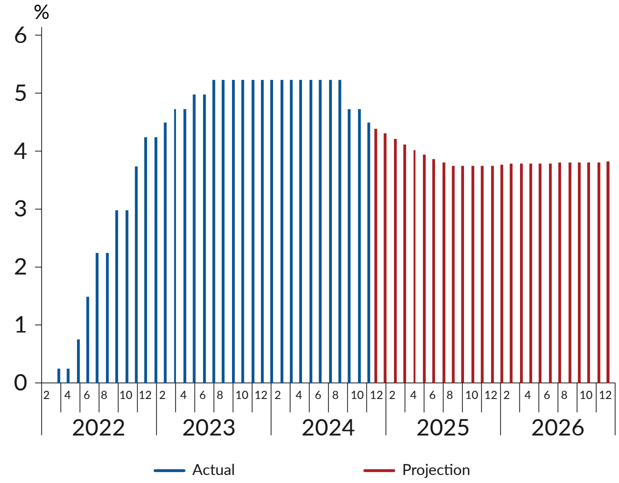
Note: *Data as of 18 Nov'24
Source: Bloomberg

Graph 2.b. Trends in Global Financial Market Volatility



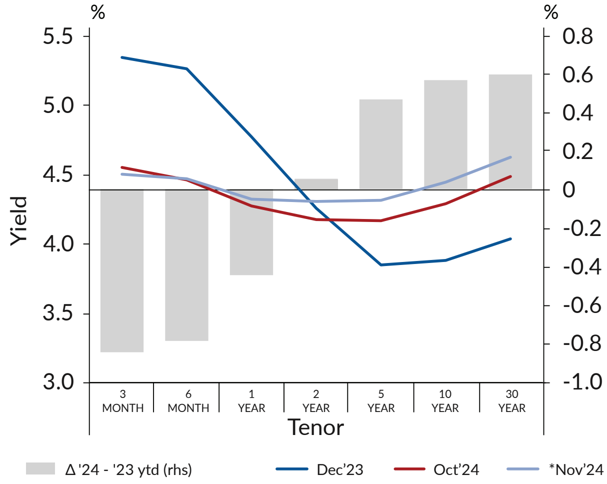
Note: *Data as of 18 Nov'24
Source: Bloomberg

Graph 3.a. Projection of the Federal Funds Rate (FFR)



Note: FFR uses the lower bound. Projections use the Taylor and Yellen Rules.
Source: FRED, Bank Indonesia's Calculation

Graph 3.b. Structure of the US Treasury Yield



Note:*Data as of 15 Nov'24
Source: Bloomberg

expected to return as a result of increasing domestic demand, higher import prices due to higher tariffs, and rising wages given highly stringent immigration policy. Furthermore, the US economy will be overshadowed by the risk of economic overheating in response to the widening fiscal deficit and growing government debt. The impact of US economic dynamics is already perceptible in the financial markets, as reflected by higher US Treasury yields for all maturities, sharp and broad-based US dollar appreciation, as well as smaller FFR reductions than previously expected.

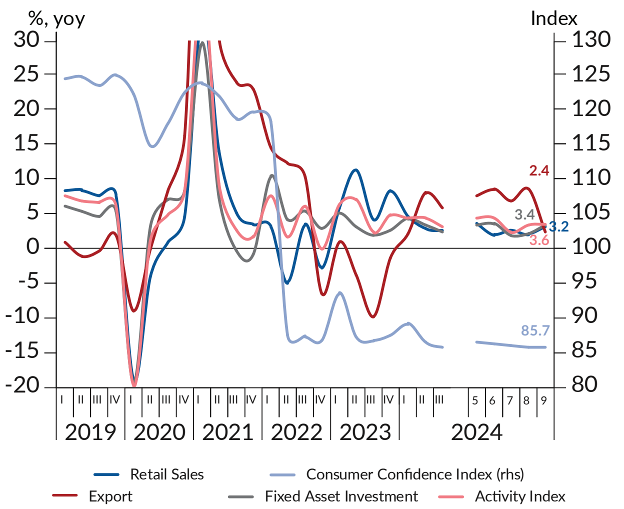
Meanwhile, a sluggish economic recovery is lingering in the Euro Area. Growth in 2024 is expected to remain below the historical average at 0.8%, and is forecasted to reach 1.2% in 2025. Weak growth stemmed from subdued consumption in line with the saving and investment preferences of households that prioritise financial assets for investment. Consequently, Euro Area registered a faster disinflation process than the US, with the European Central Bank (ECB), therefore, cutting its policy rate earlier and deeper than the US Federal Reserve. Hitherto, the ECB has lowered its policy rate by 75bps from 4.00% to 3.25%, with a further reduction of around 25bps to 3.00% expected at the end of 2024 before decreasing another 100bps to 2.00% by the end of 2025 in line with the ongoing inflation deceleration process toward the 2% inflation target in the medium term. Nonetheless, as mentioned previously, the results of the US Presidential Election are expected to spur economic moderation and a build-up of inflationary pressures in Europe due to the possible imposition of trade tariffs by the US Administration, resulting in smaller reductions expected by the ECB to its key interest rates.

In the Asian region, China's economy is in a declining trend. Economic growth in China is expected to decelerate from 5.2% in 2023 to 4.8% in 2024, with a further decline to 4.5% in 2025. Inflation in 2024 is lower than projected, however, at just 0.4%, which is expected to remain low at approximately 1.7% in 2025 on the back of weak domestic demand. Domestic economic moderation is resulted from muted consumption in response to deteriorating consumer confidence and low exports given declining manufacturing performance globally and the ongoing trade tensions with the US (Graph 4.a.). A slowdown has been experienced across nearly all economic sectors, particularly the ongoing decline in the property market, accompanied by slower manufacturing and services growth. Monetary and fiscal stimulus from the central bank and government have, thus far, been insufficient to offset economic decline. The People's Bank of China (PBoC) has introduced monetary stimulus by lowering interest rates on housing loans and reducing the minimum statutory reserve requirements, while providing swap facilities with property shares as collateral. On the other hand, the Chinese Government has introduced fiscal stimulus by raising social assistance for public consumption and allocating funds to regional governments, among others. Looking ahead, the fiscal stimulus could potentially be increasingly constrained due to large fiscal deficit in both on-budget and off-budget, which are projected to reach 3.1% and 10.0% of GDP, respectively (Graph 4.b.). As stated previously, the results of the US Presidential Election could intensify pressures on economic moderation in China with the possible imposition of trade tariffs by the incoming US Administration.

The economic recovery in Japan remains weak. Japan's economy in 2024 is expected to be stagnant, with growth of 0.0%, down from 1.9% in 2023, primarily dampened by a manufacturing and export downturn in line with the global economy, while consumption has remained solid owing to real wage improvements. Inflation in 2024 remains high at approximately 2.2% due to rising wages and a weaker yen exchange rate, which is projected to fall to 2.0% in 2025. The inflation trend has compelled the Bank of Japan (BoJ) to raise interest rates and continue tightening monetary policy to bring inflation back to its medium-term target. From a fiscal perspective, the election of a new Prime Minister in Japan will sustain gradual fiscal consolidation until 2026. Fiscal and monetary policy coordination in Japan is expected to boost national economic performance, with inflation projected to fall to 2.0% and GDP growth to accelerate to 1.2% in 2025. Nevertheless, the impact of the US Presidential Election will demand vigilance in terms of the trade relationship between Japan and the United States.

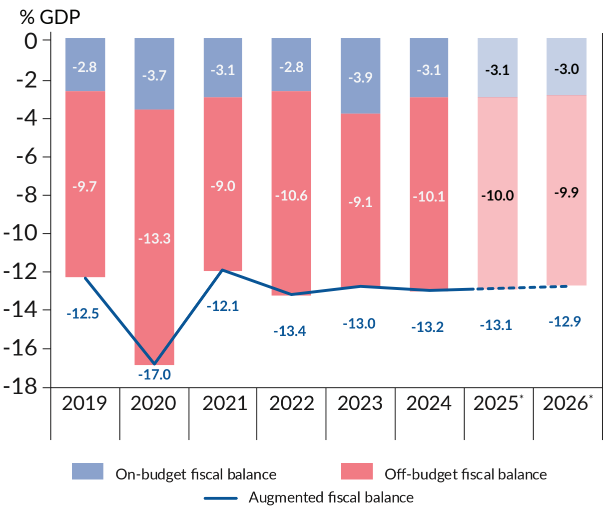
Amidst the broad-based economic moderation, the Indian economy has performed well and supported global economic growth. India's GDP in 2024 and 2025 is projected to remain high at 7.0% and 6.7%, respectively, despite moderating from 7.7% in 2023 in response to the global economic downturn. Consumption has maintained robust growth, underpinned by urban and rural labor absorption. Private investment, including building and non-building investment, and the service sector are projected to improve in line with domestic consumption. Meanwhile, export performance weakens, consistent with the global slowdown, which subsequently leads to a slowdown in manufacturing expansion (Graph 5.a.). Economic easing in 2025 will also stem from the direction of fiscal consolidation implemented by the

Graph 4.a. Domestic Demand of China



Source: Bloomberg, NBS

Graph 4.b. Fiscal Consolidation of China



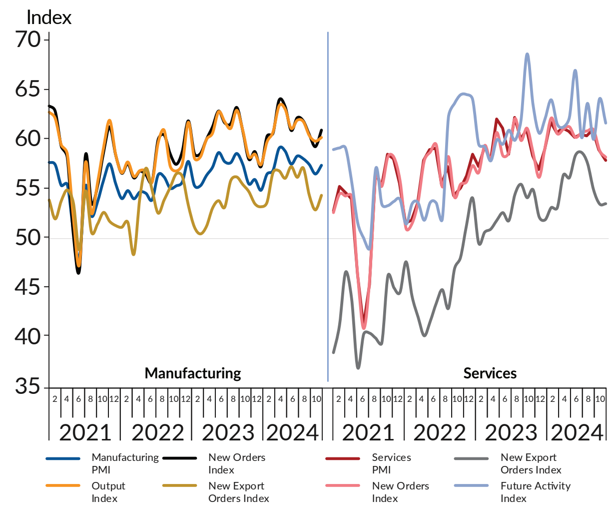
Note: *IMF Projection (Article IV 2024)
Source: Ministry of Finance of China, IMF

Government, with the fiscal deficit narrowing from 5.6% to 4.9% of GDP, coupled with lower subsidies and increasing capital expenditures (Graph 5.b.). Inflation peaked at 5.1% in the middle of 2024 due to rising food prices and the impact of El Niño, which is expected to fall to 4.4% at the end of 2024 and 4.1% in 2025 given the response of the Reserve Bank of India (RBI) to hike its policy rate to 6.5%. In response to low inflation, however, the RBI is expected to lower its monetary policy rate in the future.

Similarly, economic performance in the ASEAN-5 region (Indonesia, Singapore, Malaysia, Thailand, and the Philippines) points to higher growth. Economic growth in ASEAN-5 is projected to accelerate from 4.0% in 2023 to 4.8% in 2024 and 2025. Inflation also decreases from 3.5% in 2023 to 2.3% in 2024 and 2025. Overall, such developments indicate solid economic resilience in ASEAN-5 against the impact of global spillovers, and achieving economic growth. In particular, the results of the U.S. Presidential Election need to be closely examined for its impact on the trade relations between ASEAN countries and the U.S. going forward, especially for Vietnam, which has a large trade surplus with the U.S.

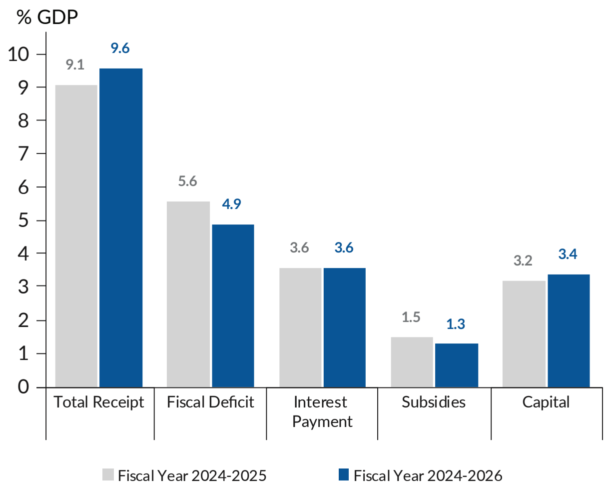
Volatile global economic dynamics and high uncertainty have forced EMEs to strengthen economic resilience in order to sustain economic recovery over the next two years. As mentioned, the re-election of President-elect Trump in the US is expected to bring significant changes to the geopolitical landscape and global economy moving forwards. The impact has been seen in the increased global financial market uncertainty in the fourth quarter of 2024 after improving in the previous period. The US dollar experienced sharp, broad-based appreciation, accompanied by higher US Treasury yields across all maturities as well as increasing sovereign risk premia in EMEs. The convergence of monetary policy rate cuts, including the FFR, which previously bolstered global financial market stability in the third quarter of 2024, could shift direction in the future. Further reductions to the FFR and monetary policy rates by other central banks are expected to be smaller. Volatile global financial market dynamics since the US Presidential Election could also trigger a portfolio rebalancing among global investors toward US in pursuit of high US Treasury yields and the strong US dollar. Consequently, the high fluctuation of portfolio inflows to EMEs throughout 2024, affecting bonds and shares (Graph 6.a.), is expected to intensify in the coming period, alongside the growing risk of a sudden capital reversal. Furthermore, sharp US dollar appreciation since the US Presidential Election spurred widespread depreciation among

Graph. 5.a. Domestic Demand of India



Source: IHS Markit

Graph. 5.b. Fiscal Consolidation of India



Source: Reserve Bank of India

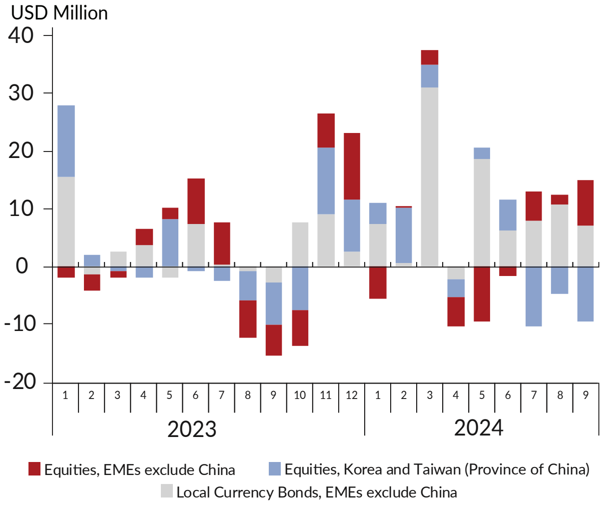
several currencies in advanced economies and EMEs in the fourth quarter of 2024 (Graph 6.b.).

Global spillovers have compelled many EMEs to prioritize the mix of national economic policies on stability, which limits the policy space for driving growth. First, central banks must reassess the plans to lower interest rates in order to boost growth, and instead, must focus monetary policy on maintaining exchange rate stability and preventing another build-up inflationary pressures, which have been painstakingly managed thus far. Second, the space available for fiscal policy to stimulate economic growth is more limited given the need to manage deficits for fiscal consolidation and reduce the risk of larger debt financing caused by high global interest rates, particularly higher US Treasury yields after the US Presidential Election. Third, the impact of global spillovers require authorities to focus on maintaining financial system stability and resilience, thereby limiting the room available to institute pro-growth policies. And fourth, EMEs governments must become more proficient to boost domestic demand, including consumption and investment, and accelerate structural reforms to increase aggregate supply capacity for economic growth. This is important, considering the space for increasing exports may be constrained due to global economic moderation, together with increasing trade fragmentation and the growing possibility of high tariffs imposed by the US along with inward-looking trade policies in other countries.

Over the next five years, the global economy is expected to be characterized by high dynamics and challenges. There are at least 5 (five) challenges that demand vigilance as follows:

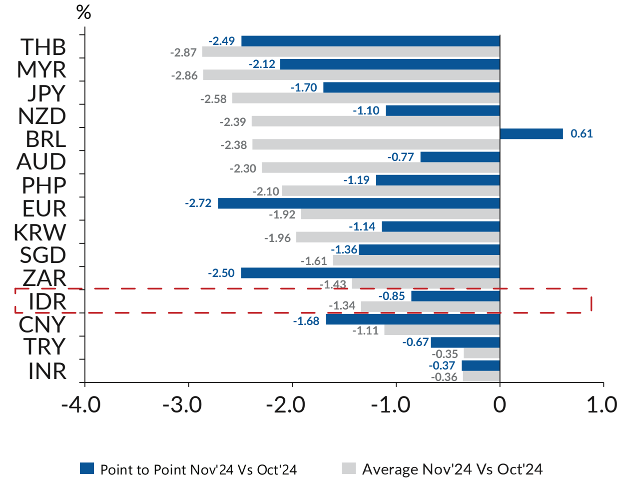
i. *First*, high geopolitical risk and ongoing world trade fragmentation. General elections in more than 50 countries in 2024 have altered political preferences and the economic policies of incoming administrations. In the US, the incoming Administration is expected to cut corporate tax and personal income tax, which implies a ballooning fiscal deficit and government debt to stimulate the domestic economy. In many countries, populism and expansionary fiscal policy are becoming more prevalent, thereby expanding fiscal deficits and government debt. This tendency is increasing competition in terms of financing fiscal deficits and government debt, which is projected to edge up interest rates globally, thus increasing portfolio flows to advanced economies and the fiscal burden borne by EMEs. Meanwhile, inward-looking trade policies will exacerbate the current increasingly fragmented world trade pattern. Specifically, the new US Administration has conveyed plans to impose high trade tariffs to all

Graph 6.a. Portfolio Flows to EMEs



Source: IMF, Global Financial Stability Report, October 2024

Graph 6.b. Depreciation of EMEs Currencies Post-US Election Results



Note: Data as of 19 Nov'24
Source: Reuters, Bloomberg

countries maintaining a large trade surplus with the US. Consequently, world trade and economic fragmentation is expected to worsen. Multilateral trade will gradually be replaced by bilateral trade, with the growing risk of international trade wars. Such inauspicious conditions could disrupt world trade distribution channels and global supply chains, which have been centered in China.

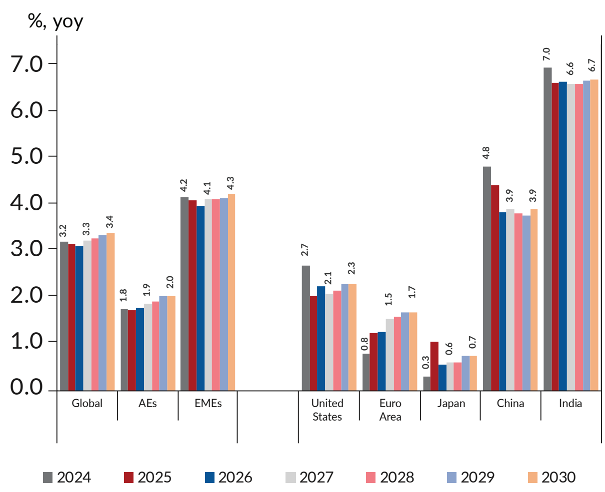
ii. *Second*, a spatial rebalancing in the centers of world economic growth. Economic growth in the US is expected to rebound despite the risk of economic overheating due to high interest rates and government debt burden. Meanwhile, economies in Europe and China face the risk of slowdown. Notwithstanding, economic growth in Indonesia, India, and several other EMEs, which is supported by domestic demand, is projected to remain solid (Graph 7.a.). In addition to increasing trade fragmentation and unresolved global geopolitical tensions, economic growth will also be determined by the issues associated with an aging population along with strong calls in advanced economies for an immediate transition toward the green economy.

iii. *Third*, high interest rates and debt risk. Overcoming the deleterious impact of the Covid-19 pandemic incurred massive fiscal burdens and higher government debt in many countries. The latest dynamics indicate that the Presidential Election in the US and general elections in various other countries, which have heralded a shift toward inward-looking policies and populist politics, will increase fiscal deficits and government debt moving forward. This trend will increase international competition to finance fiscal deficits and government debt in the global financial markets and, therefore, push up interest rates globally. Consequently, portfolio inflows will be attracted to advanced economies, particularly the US, which will intensify pressures on external resilience and increase the fiscal burden for EMEs. The adverse impact of global spillovers will make it increasingly difficult for EMEs, not only in terms of monetary policy to maintain exchange rate stability, but also in terms of fiscal policy to stimulate economic growth.

iv. *Fourth*, persistent uncertainty and a shift in the pattern of global financial investment. As mentioned previously, a rebalancing in the portfolio investment preferences of global investors toward the US due to high US Treasury yields will complicate EMEs' capacity to attract portfolio inflows and, therefore, challenging EMEs' economic stability. The ability to attract foreign direct investment (FDI) will also be affected. Investors will apply more selective investment strategies due to high risk premia globally, thus favouring EMEs that have been successful in terms of real sector transformation and maintaining macroeconomic stability. An investment-friendly environment, government policy assurance, and investment project feasibility will become prerequisites for investment. Furthermore, political and economic fragmentation will also necessitate a country's ability to establish bilateral trade and investment cooperation with the US and other economic trade partners.

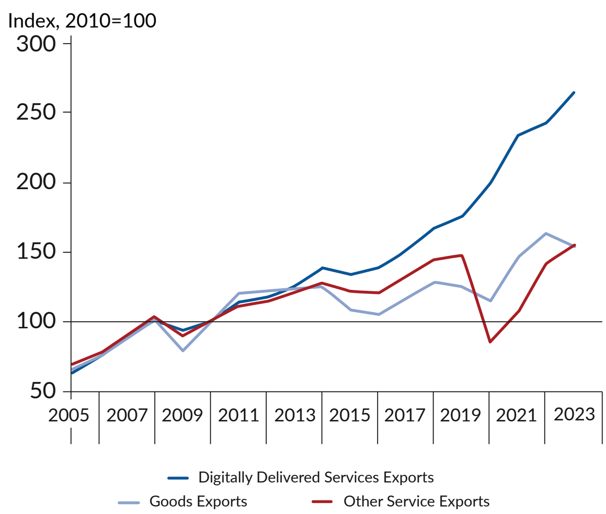
v. *Fifth*, the rapid pace of cross-border digitalization and increasing operational risk (cyber). Rapid digital technological advancement will continue to accelerate innovation, preferences, and the efficiency of various digital economic and financial transactions. In addition, digitalization will continue to propagate globally with rapidity due to the persistent march of technology and digital innovation. Various forms of international and cross-border cooperation, particularly between central banks, will also accelerate digital cross-border payment system transactions. Consequently, digital-based service transactions, including financial services, corporate services, and other intermediary services, domestically and exported to other countries, will increase exponentially. The positive digitalization outlook will unlock compelling opportunities to drive economic growth in countries that can accelerate its economic and financial digitalization programs

Graph 7.a. Global GDP Projections for 2025-2030



Source: Bank Indonesia's Projection

Graph 7.b. Digitalization and Service Exports



Source: Citi Research

(Graph 7.b.). Digital globalisation will play an increasingly significant role, thereby replacing the decline of trade globalization and change the pattern of financial digitalization, which will be a key characteristic of the world economy in the new era ahead.

The dynamics and direction of the global economy in 2025-2026 and for the upcoming five years will have massive implications for the Indonesian economy, thereby necessitating anticipatory measures through optimal national economic policy mix responses. There are at least 5 (five) important aspects that must be considered. *First*, the importance of maintaining macroeconomic and financial system stability as the first and main line of defence against volatile global economic and financial dynamics replete with uncertainty. *Second*, the need to increase domestic sources of growth, particularly consumption and investment, while expanding exports through international trade cooperation. *Third*, accelerating real sector transformation to increase competitiveness and productivity in terms of capital, labor, innovation and efficiency. Improving the investment climate to compete and attract inward FDI, driving growth of capital- and labor-intensive sectors, as well as increasing skills and professional certification, are becoming even more important. *Fourth*, the need to increase financial market deepening as a source of national economic financing by attracting foreign capital inflows in the form of portfolio investment and FDI. *Fifth*, the need to accelerate digitalization of the payment system and financial sector, while fostering innovation in various national and cross-border economic and financial transactions. Digitalization will drive economic growth as the financial and intermediary services sector develop while simultaneously increasing national economic efficiency and productivity.

II. National Economic Performance and Outlook: Maintained Stability, Rising Growth

Indonesia's economy has demonstrated strong resilience in mitigating the impact of global spillovers, with its economic performance being recognized internationally. First, Indonesia's economic performance is considered one of the best among emerging market economies (EMEs), maintaining macroeconomic stability alongside robust growth. Moreover, Indonesia effectively averted an economic crisis precipitated by the Covid-19 pandemic and has continued its economic recovery to this day. Second, strong macroeconomic policy coordination, particularly the fiscal policy of the Government and the monetary policy of Bank Indonesia, has been the key pillar in maintaining national economic resilience by striking an optimal balance between stability and growth. Furthermore, Indonesia is firmly committed to economic transformation, including improving the investment climate, developing infrastructure, and downstreaming natural resources. And third, Indonesia has demonstrated strong leadership in international cooperation. Indonesia's highly successful G20 Presidency in 2022, during a time of escalating global conflict, was recognized as 'making possible the impossible'. Indonesia successfully advocated for several important agendas, including the need for close fiscal-monetary coordination, cooperation to address global health challenges, resolutions to the debt issues plaguing poor countries, as well as cooperation for cross-border payment system digitalization. Additionally, Indonesia's leadership was widely praised for its successful ASEAN Chairmanship in 2023.

Developments over the past five years have shown that Indonesia's economic performance is among the best in Emerging Market Economies (EMEs), maintaining stability alongside relatively high growth. Since 2018, economic growth has been maintained above 5%, except during the pandemic (Table 2.). In fact, the economic contraction triggered by the Covid-19 pandemic was relatively shallow compared to other countries. Macroeconomic and financial system stability have been maintained, inflation remains low (averaging less than 3% from 2018-2023), and Rupiah stability has also been maintained, supported by Bank Indonesia's strong monetary policy commitments. The fiscal deficit was well managed at less than 3% of GDP, except during the peak of the Covid-19 pandemic in 2020 and 2021, which was immediately resolved through prudent fiscal consolidation by the Government. Moreover, the current account deficit remained manageable and even recorded a surplus in 2021 and 2022, primarily driven by the downstreaming of natural resources. These developments reflect Indonesia's increasingly strong external economic resilience. Similarly, the stability of the financial system was preserved, with the banking industry maintaining a high Capital Adequacy Ratio (CAR) above 20%. Loans disbursed by the banking industry recorded high growth, significantly contributing to financing economic growth. These positive economic achievements were accompanied by the rapid digitalization of the payment system, which helped drive inclusive economic growth through the continued expansion of the national digital economic and financial ecosystem.

Table 2. Indonesia's Economic Performance: 2018-2023

Indicator	Unit	2018	2019	2020	2021	2022	2023
Economic Growth	%	5.17	5.02	-2.07	3.70	5.31*	5.05**
Current Account	%GDP	-2.94	-2.71	-0.42	0.30	1.00	-0.16*
Fiscal Deficit	%GDP	-1.82	-2.20	-6.14	-4.57	-2.35	-1.61
CPI Inflation	%	3.13	2.59	1.68	1.87	5.51	2.61
Rupiah Exchange Rate	IDR/USD (average)	14,246	14,139	14,525	14,296	14,873	15,247
BI-Rate	%	6.00	5.00	3.75	3.50	5.50	6.00
Bank Lending	%	11.75	6.08	-2.41	5.24	11.35	10.38
Banking Capital (CAR)	%	22.89	23.31	23.81	25.67	25.63	27.66

Source: BPS, Bank Indonesia

Note: *Preliminary figure. **Very preliminary figure

Indonesia's positive economic performance from 2018-2023 was the result of close synergy between the Government and Bank Indonesia. Fiscal policy was oriented toward economic stimulus through capital expenditures to nurture investment as well as social protection programs to encourage private consumption. Bank Indonesia prioritized a pro-stability monetary policy to mitigate the impact of global spillovers, while macroprudential policy and payment system policy aimed to foster sustainable economic growth. Several sectoral transformation programs were implemented during the 2018-2023 period. Infrastructure development remained a priority through various national strategic projects (PSN) for transportation, irrigation, housing, telecommunications, and others. The investment climate was also improved through the enactment of Act Number 6 of 2023 concerning Job Creation, while financial system stability was strengthened through Act Number 4 of 2023, namely the Financial Sector Development and Strengthening Act (P2SK Act). Moving forward, the synergy of national economic policy mix must be strengthened and expanded to continue maintaining stability and strengthening national economic transformation. Indonesia's numerous economic achievements provide a strong foundation for solidifying national economic performance. The synergy of the policy mix will be further strengthened to address emerging issues and anticipate the highly dynamic opportunities and challenges of the global economy. Policy synergy will also drive national economic performance toward the ultimate goal of the Golden Indonesia Vision 2045 - Indonesia Emas 2045 Vision - for the prosperity of the Indonesian people.

The economic recovery process has remained intact in Indonesia throughout 2024, as reflected by solid growth that is expected to persist in 2025 and 2026. In the third quarter of 2024, economic growth remained robust on the back of domestic demand, despite moderating from 5.11% in the first quarter of 2024 to 5.05% in the second quarter of 2024 and 4.95% in the third quarter of 2024 (Table 3.). Investment has remained solid, particularly building investment, supported by the completion of various national strategic projects (PSN). Household consumption, particularly among the upper-middle class, has been maintained. Non-oil and gas exports remain comparatively high despite global economic moderation and lower international commodity prices. Meanwhile, imports have increased to meet export needs and fulfill domestic demand, which has contributed to a slowdown in economic growth. In the fourth quarter of 2024, solid economic growth is projected, primarily underpinned by higher investment and maintained household consumption, accompanied by increasing government spending toward the end of the year. Overall, Bank Indonesia projects economic growth in 2024 in the 4.7-5.5% range before accelerating in 2025 and 2026 to 4.8-5.6% and 4.9-5.7%, respectively. Moving forward,

Table 3. Indonesia's Economic Growth by Expenditure (%, yoy)

Component	2022*	2023**	2024***			2024P	2025P	2026P
			I	II	III			
Economic Growth	**5.31**	**5.05**	**5.11**	**5.05**	**4.95**	**4.7-5.5**	**4.8-5.6**	**4.9-5.7**
- Private Consumption	4.94	4.82	4.91	4.93	4.91	4.7-5.5	4.5-5.3	4.8-5.6
- Government Consumption	-4.47	2.95	19.90	1.42	4.62	7.0-7.8	4.6-5.4	3.7-4.5
- Investment	3.87	4.40	3.79	4.43	5.15	4.2-5.0	4.4-5.2	4.7-5.5
- Exports	16.23	1.32	1.44	8.18	9.09	4.1-4.9	4.8-5.6	5.7-6.5
- Imports	15.00	-1.65	1.46	7.79	11.47	4.0-4.8	5.1-5.9	5.5-6.3

Source: BPS, Bank Indonesia

Note: *Preliminary Figure. **Very Preliminary Figure. ***Very Very Preliminary Figure; PBank Indonesia's Projection various efforts to revive economic growth must be continued from both the demand and supply sides. To that end, Bank Indonesia is strengthening its pro-growth policy mix in close synergy with the fiscal stimulus of the Government. On the supply side, structural reform policies must be continuously strengthened to promote economic sectors that can increase labor absorption. This must be supported by optimizing macroprudential policy stimulus and accelerating the digitalization of payment transactions by Bank Indonesia.

By sector, domestic economic growth has primarily been supported by capital-intensive economic sectors and therefore, labor-intensive sectors must receive more attention moving forward. This trend is reflected in the comparatively high growth of export-oriented sectors and sectors associated with the downstreaming of natural resources, such as mining and quarrying, as well as the manufacturing industry (Table 4.). Sectors related to infrastructure development and connectivity, such as construction, transportation, and storage,

Table 4. Indonesia's Economic Growth by Sectors (%, yoy)

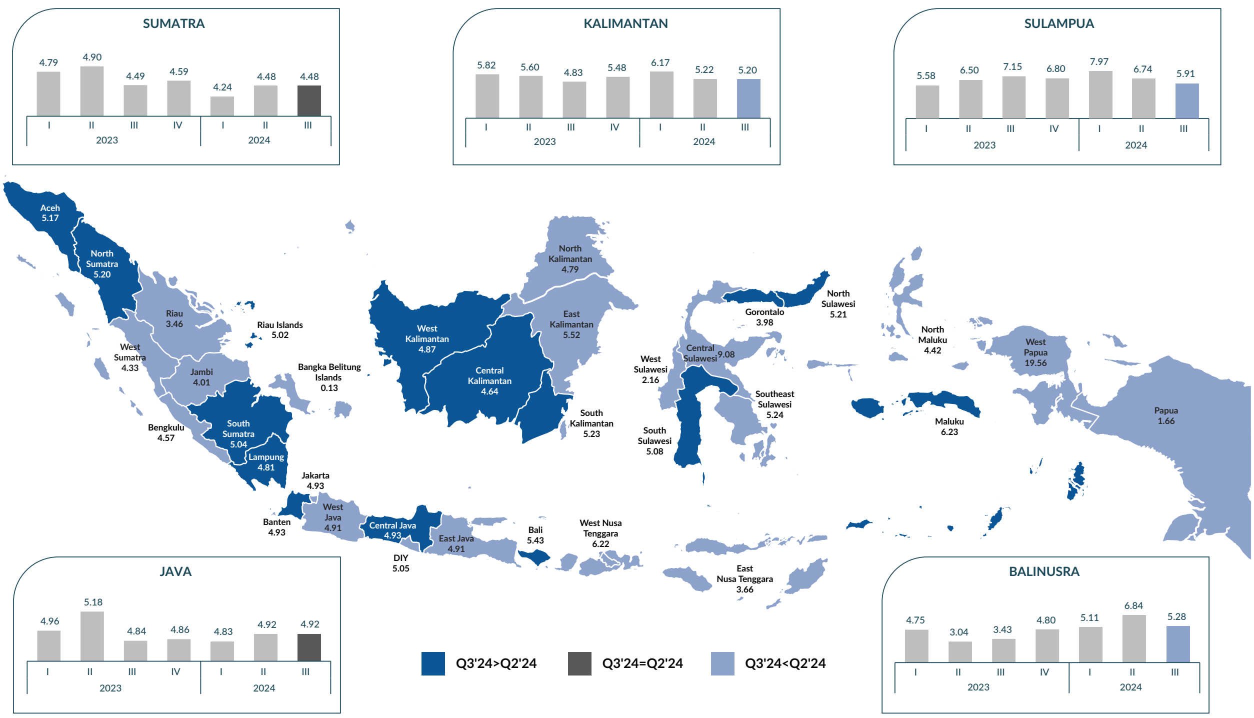
Sector	2022*	2023**	2024***			2024P	2025P	2026P
			I	II	III			
Economic Growth	**5.31**	**5.05**	**5.11**	**5.05**	**4.95**	**4.7-5.5**	**4.8-5.6**	**4.9-5.7**
Agriculture, Forestry, and Fisheries	2.25	1.30	-3.5	3.2	1.7	0.2-1.0	4.8-5.6	5.1-5.9
Mining and Quarrying	4.38	6.12	9.3	3.2	3.5	5.2-6.0	4.9-5.7	5.4-6.2
Manufacturing Industry	4.89	4.64	4.1	3.9	4.7	3.6-4.4	4.2-5.0	4.3-5.1
Electricity and Gas	6.61	4.91	5.3	5.4	5.0	4.4-5.2	2.3-3.1	3.9-4.7
Water Supply, Waste Management, Waste and Recycling Management	3.23	4.90	4.4	0.8	0.0	2.1-2.9	3.8-4.6	4.3-5.1
Construction	2.01	4.91	7.6	7.3	7.5	6.9-7.7	5.9-6.7	6.2-7.0
Wholesale and Retail Trade, Motor Vehicle and Motorcycle Repair	5.53	4.85	4.6	4.9	4.8	4.2-5.0	4.4-5.2	4.5-5.3
Transportation and Warehousing	19.87	13.96	8.7	9.6	8.6	8.8-9.6	8.9-9.7	10.1-10.9
Accommodation and Food Services	11.94	10.01	9.4	10.2	8.3	8.3-9.1	5.5-6.3	5.8-6.6
Information and Communication	7.73	7.59	8.4	7.7	6.9	7.5-8.3	8.4-9.2	10.2-11.0
Financial and Insurance Services	1.93	4.77	3.9	7.9	5.5	6.3-7.1	6.6-7.4	7.0-7.8
Real Estate	1.72	1.43	2.5	2.2	2.3	1.7-2.5	1.6-2.4	2.8-3.6
Business Services	8.77	8.24	9.6	8.0	7.9	8.9-9.7	7.1-7.9	5.6-6.4
Public Administration, Defense, and Mandatory Social Security	2.51	1.50	18.9	2.8	3.9	9.0-9.8	-1.7--0.9	4.0-4.8
Education Services	0.57	1.78	7.3	2.4	2.5	4.3-5.1	3.5-4.3	7.1-7.9
Health Services and Social Activities	2.75	4.66	11.6	8.6	7.6	7.1-7.9	4.4-5.2	4.5-5.3
Other Services	9.47	10.52	8.9	8.9	9.9	7.3-8.1	5.1-5.9	6.5-7.3

Source: BPS, Bank Indonesia

Note: *Preliminary Figure. **Very Preliminary Figure. ***Very Very Preliminary Figure; PBank Indonesia's Projection have also supported national economic growth. In addition, sectors associated with higher private consumption and digitalization, including wholesale and retail trade, accommodation and food service activities, as well as information and communication, have also posted stronger growth. Similarly, various service sectors, such as insurance and financial services, corporate services, as well as human health and social work activities, have also recorded gains. Sectoral performance in Indonesia highlights a solid post-pandemic economic recovery, ranging from sectors recovering from the scarring effects of the Covid-19 pandemic in 2021-2022 to export-oriented sectors in 2022-2024, as well as those driving future domestic demand. Moving forward, the development of agriculture, retail trade, accommodation and food services, information and communication (digitalization) and various service sectors must be accelerated, not only in pursuit of sustainable growth but also to increase labor absorption. Such growth that balances capital-intensive and labor-intensive sectors must be increased and expanded to strengthen resilience and drive national economic transformation moving forward.

Spatially, economic growth across nearly all regions of Indonesia performed solidly. In 2024, economic growth in the Bali and Nusa Tenggara (Balinusra) region is expected to improve to approximately 5.5% from 4.0% driven by tourism and mining exports. Economic performance in Kalimantan also improved from 5.4% in 2023 to around 5.5% in 2024 in response to the development of the new Nusantara Capital City (IKN) and mining exports. Similarly, economic growth in the Sulawesi, Maluku and Papua (Sulampua) region accelerated from 6.5% in 2023 to approximately 6.9% this year, supported by manufacturing and mining investment related to the downstreaming of natural resources. In the Java region, growth is projected at 4.9%, driven by manufacturing and trade activity, in contrast to the Sumatra region, where economic growth is expected to moderate from 4.7% to 4.5% due to slower manufacturing and mining activity (Figures 2.). In 2025, economic growth in Java and Sumatra is expected to rebound on the back of trade activity

Figure 2. Indonesia's Regional Economic Growth (%, yoy)



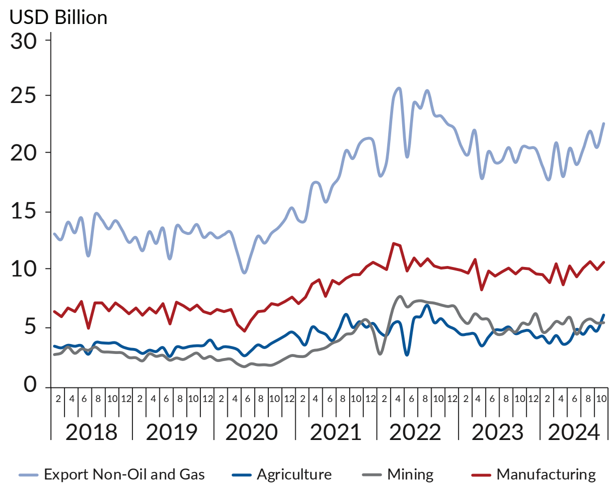
Source: BPS

and plantation crop exports. Conversely, economic moderation is anticipated in the Sulampua and Balinusra regions due to reduced mining activity, as well as in Kalimantan due to reduced activity in the new Nusantara Capital City (IKN).

Indonesia's external stability has been maintained, accompanied by a solid Balance of Payments (BOP). Overall, the BOP is expected to maintain a surplus supported by a low current account (CA) deficit and growing capital and financial account surplus. A manageable current account deficit has been maintained within the 0.1-0.9% of GDP range, supported by a non-oil and gas trade surplus which was recorded at USD36.0 billion in the third quarter of 2024 (Graph 8.a.). Indonesia's non-oil and gas exports, including manufacturing, agricultural, and mining exports, maintained robust growth despite global economic moderation. Mining exports of downstream natural resources have continued tracking an upward trend, particularly nickel and copper (Graph 8.b.). Meanwhile, portfolio investment inflows up to the third quarter of 2024 were recorded at a high level of USD11.0 billion, amid heightened uncertainty in the global financial markets (Table 5.). The largest portfolio inflows were attracted to Bank Indonesia Rupiah Securities (SRBI), along with (domestic and global) government securities (SBN) and shares. A high position of reserve assets at the end of October 2024 was recorded at USD151.2 billion, equivalent to 6.6 months of imports or 6.4 months of imports and servicing government external debt, which is well above the international adequacy standard of around 3 months of imports. In 2025, Indonesia's BOP is projected to remain sound, with a manageable current account deficit in the 0.5-1.3% of GDP range. Furthermore, the capital and financial account surplus is expected to widen, primarily driven by portfolio inflows, thereby supporting a healthy BOP and external economic resilience in Indonesia moving forward.

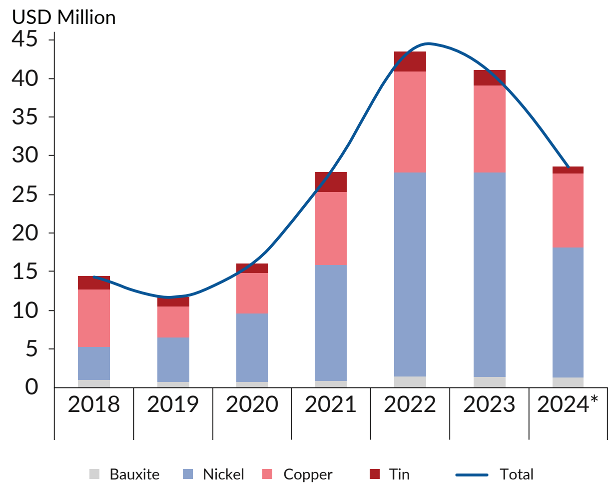
The stability of the Rupiah has been maintained, supported by Bank Indonesia's firm monetary policy commitments. As mentioned, highly dynamic geopolitics and global financial markets, accompanied by high uncertainty, have pushed up US Treasury yields and strengthened the US dollar, with significant implications on portfolio inflows and exchange rates in EMEs, including Indonesia. In the middle of 2024, the DXY index experienced a broad-based increase, rising to 105.2 in June 2024 from 102.7 at the end of 2023 (Graph 9.a.). Following to a clear policy direction and subsequent FFR reductions, the DXY index decreased to around 101.0 in September 2024. Notwithstanding, the US dollar experienced further appreciation as geopolitical tensions began escalated in the Middle East, coupled with

Graph 8.a. Indonesian Non-oil and Gas Exports



Source: DJBC

Graph 8.b. Exports of Downstream Mineral and Coal Mining Products



Note: *Data as of Sept'24 (Cumulative)
Source: DJBC

Table 5. Indonesia's Balance of Payments (USD Billion)

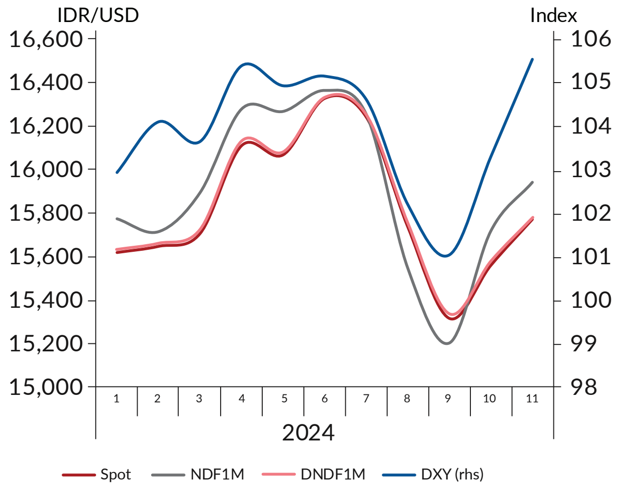
Component	2020	2021	2022	2023*					2024		
				I	II	III	IV	Total	I*	II*	III**
Current Account	**-4.4**	**3.5**	**13.2**	**2.8**	**-2.5**	**-1.2**	**-1.3**	**-2.1**	**-2.5**	**-3.2**	**-2.2**
A. Goods	28.3	43.8	62.7	14.8	10.0	10.2	11.4	46.3	9.3	10.0	9.3
Exports, fob	163.4	232.8	292.5	66.8	61.6	63.5	65.9	257.7	61.7	62.1	67.2
Imports, fob	-135.1	-189.0	-229.9	-52.1	-51.6	-53.3	-54.5	-211.4	-52.4	-52.0	-57.9
a. Non-oil and Gas	30.0	57.8	89.8	19.0	15.2	16.0	17.7	67.8	15.1	15.2	14.8
b. Oil and Gas	-5.4	-13.0	-24.8	-3.9	-4.7	-5.4	-5.9	-19.9	-5.5	-4.6	-4.4
B. Services	-9.8	-14.6	-20.0	-4.5	-4.6	-3.9	-4.8	-17.8	-4.1	-5.1	-4.2
C. Primary Income	-28.9	-32.0	-35.3	-8.9	-9.3	-8.7	-9.1	-36.0	-8.9	-9.6	-8.9
D. Secondary Income	5.9	6.3	5.8	1.4	1.4	1.3	1.2	5.4	1.3	1.5	1.6
Capital and Financial Account	**7.9**	**12.5**	**-9.2**	**4.2**	**-5.1**	**-0.6**	**11.0**	**9.5**	**-2.1**	**3.0**	**6.6**
1. Direct Investment	14.1	17.3	18.1	4.5	4.0	2.7	3.4	14.6	4.6	2.1	5.2
2. Portfolio Investment	3.4	5.1	-11.6	3.0	-2.6	-3.0	4.9	2.2	-1.8	3.2	9.6
3. Other Investments	-9.6	-10.2	-15.6	-3.5	-6.3	-0.2	2.6	-7.4	-4.5	-2.8	-8.6
Overall Balance	**2.6**	**13.5**	**4.0**	**6.5**	**-7.4**	**-1.5**	**8.6**	**6.3**	**-6.0**	**-0.6**	**5.9**
Memorandum:											
Reserve Assets	**135.9**	**144.9**	**137.2**	**145.2**	**137.5**	**134.9**	**146.4**	**146.4**	**140.4**	**140.2**	**149.9**
(In Months of Imports and Official Debt Repayment)	9.8	7.8	5.9	6.2	6.0	6.0	6.5	6.5	6.2	6.1	6.4
Current Account / GDP (%)	**-0.4**	**0.3**	**1.0**	**0.8**	**-0.7**	**-0.3**	**-0.4**	**-0.2**	**-0.7**	**-0.9**	**-0.6**

Source: Bank Indonesia

Note: *Preliminary figure. **Very preliminary figure

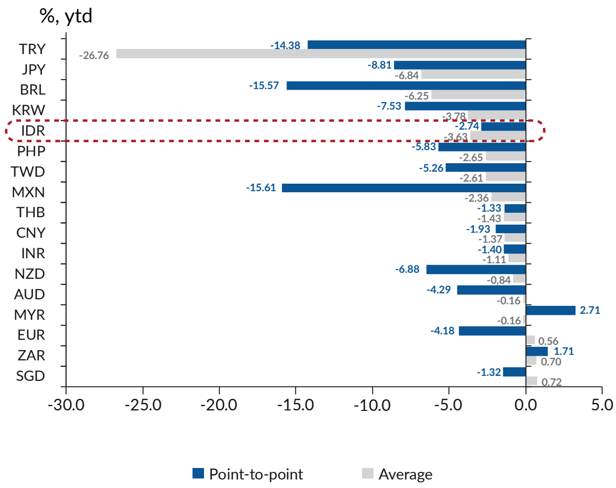
the results of the US Presidential Election, thus nudging the index up to 106.3 recently. Broad-based US dollar appreciation triggered a build-up of depreciatory pressures on global currencies, including the Rupiah. At the end of 2023, the value of the Rupiah against the US dollar was recorded at around Rp15,500 per US dollar before depreciating to Rp16,328 in June 2024 and subsequently regaining lost value to around Rp15,319 in September 2024. Recently, however, global turmoil has intensified pressure on the Rupiah, which depreciated to around Rp15,800 per US dollar. To mitigate the adverse impact of global spillovers, Bank Indonesia intensified its monetary policy efforts to stabilize the Rupiah exchange rate by intervening in the spot and DNDF markets, and purchasing SBN in the secondary market. The monetary operations (MO) strategy using SRBI instruments was also stepped up, which successfully attracted portfolio inflows and, therefore, strengthened the stabilization of the Rupiah exchange rate. Overall, the Rupiah has depreciated by 2.74% (ptp) or 3.63% (average), as of 19th November 2024, compared to the end of 2023 (Graph 9.b.). The magnitude of Rupiah depreciation is on par with or less severe than that of several peer currencies, including the Philippine peso, Korean won, Mexican peso, Brazilian real, Japanese yen and Turkish lira. Moving forward, the Rupiah exchange rate is expected to remain stable and tend to appreciate, in line with Indonesia's positive economic

Graph 9.a. Rupiah and US Dollar Exchange Rates



Note: Data as of 19 Nov'24
Source: Reuters, Bloomberg

Graph 9.b. Exchange Rates of the Rupiah and Other Currencies against US Dollar

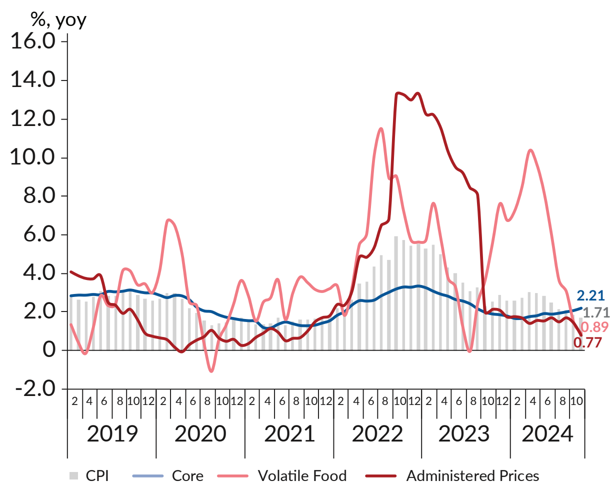


Note: Data as of 19 Nov'24
Source: Reuters, Bloomberg

fundamentals, including attractive yields, low inflation, and increasing economic growth, as well as Bank Indonesia's firm monetary policy commitments.

Price stability has been maintained through consistent monetary policy by Bank Indonesia and close coordination with government policy. Consumer Price Index (CPI) inflation has declined in 2024 and remains within the 2.5±1% target corridor. CPI inflation was low in October 2024, recorded at 1.71%, with all components showing similarly subdued inflation (Graph 10.). Low core inflation was recorded at 2.21% (yoy), while volatile food (VF) inflation fell to 0.89% (yoy). Core inflation has been successfully managed through consistent monetary policy by Bank Indonesia to anchor inflation expectations to the 2.5±1% target corridor, while considering the state of economic growth. The Rupiah stabilization policy has also helped control imported inflation. The decline in VF inflation has been supported by an increase in food supply during the ongoing harvesting season, together with close synergy with the Central and Regional Government Inflation Control Teams (TPIP and TPID), and further reinforced by the National Movement for Food Inflation Control (GNPIP), as well as the base effect of high food prices. Moving forward, Bank Indonesia is confident that headline inflation will remain under control and within the target range. Furthermore, Bank Indonesia also expects core inflation to remain stable, supported by anchored inflation expectations within the target range, ample economic capacity to accommodate domestic demand, controlled imported inflation in line with Bank Indonesia's Rupiah stabilization policy, as well as the positive impact of growing digitalization. VF inflation is expected to remain under control, supported by the close synergy in inflation control efforts between Bank Indonesia and both the central and regional governments. Bank Indonesia remains firmly committed to strengthening monetary policy effectiveness to manage inflation in 2025 and 2026 within the target set by the government at 2.5±1%.

Graph 10. CPI, Core, VF and AP Inflation

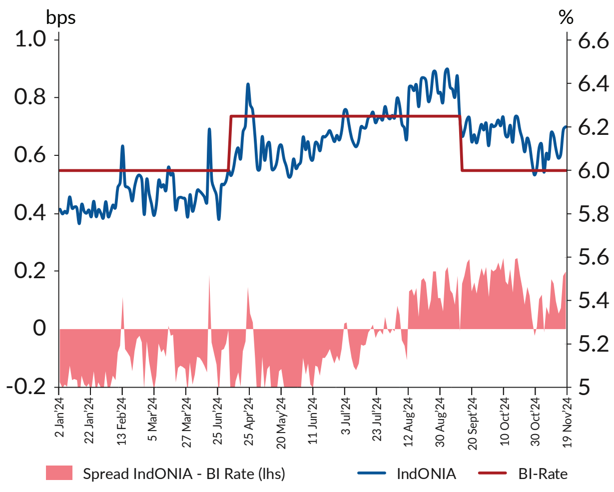


Source: BPS

As mentioned, Bank Indonesia consistently implements monetary policy to anchor and manage inflation expectations, guiding projections for the upcoming two years to the 2.5±1% target corridor set by the Government. The US dollar experienced a sharp appreciation in the first half of 2024, triggering a build-up of depreciatory pressures on the Rupiah that were expected to exacerbate imported inflation. Consequently, in addition to strengthening the Rupiah stabilization policy, Bank Indonesia also decided to raise the BI-Rate by 25 bps from 6.00% to 6.25% at the monthly Board of Governor's Meeting (RDG) in April 2024. After the Fed provided clarity concerning the direction of FFR policy and the strengthening of the Rupiah Exchange rate, the Bank Indonesia Board of Governors decided at the RDG meeting in September 2024 to lower the BI-Rate by 25 bps back to 6.00%, while acknowledging room for further reductions provided Rupiah stability is maintained with an appreciatory trend. Monetary policy consistency is supported by clear public communication to anchor inflation expectations and to ensure effective monetary policy transmission. The IndONIA money market reference rate is still moving within the BI-Rate range, recorded at 6.20% on 19th November 2024 (Graph 11.a.). SRBI rates remain attractive to support foreign capital inflows at 6.79%, 6.85% and 7.07% for tenors of 6, 9, and 12 months, respectively, as of 15th November 2024. SBN yields on tenors of 2 and 10 years increased to 6.44% and 6.86%, respectively, as of 19th November 2024, in line with higher US Treasury yields. The 1-month term deposit rate and lending rate were recorded at 4.73% and 9.16%, respectively, slightly lower than the previous month (Graph 11.b.). Adequate liquidity and improved banking efficiency in pricing, supported by the transparency policy of the Prime Lending Rate (PLR), have had a positive impact on maintaining stable bank interest rates.

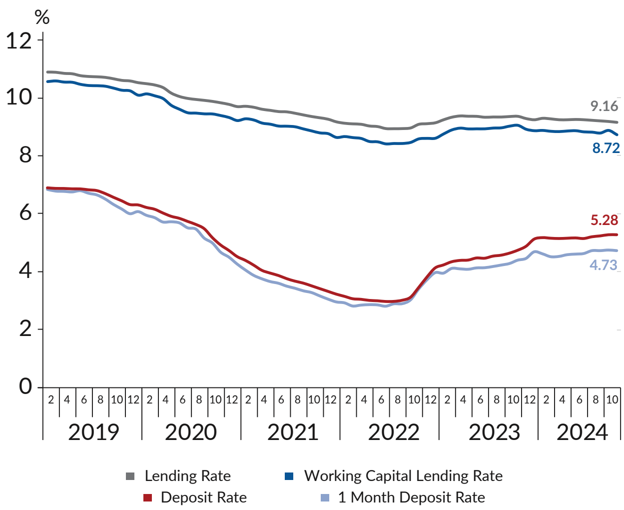
Bank Indonesia continues optimizing various pro-market monetary instruments to support the strengthening of interest rate policy and foreign exchange interventions aimed at stabilizing the Rupiah exchange rate and achieving the inflation target. Bank Indonesia continues optimizing the full range of monetary instruments available, including Bank Indonesia Rupiah Securities (SRBI), Bank Indonesia Forex Securities (SVBI) and Bank Indonesia Forex Sukuk (SUVBI) instruments, to enhance the effectiveness of monetary policy transmission, accelerate money market and foreign exchange market deepening, and attract foreign capital inflows. As of 18th November 2024, the respective positions of SRBI, SVBI and SUVBI instruments stood at Rp968.82 trillion, USD3.39 billion and USD387 million (Graph 12.a.). SRBI issuances have attracted portfolio inflows to Indonesia and strengthened the Rupiah exchange

Graph 11.a. BI-Rate and IndONIA



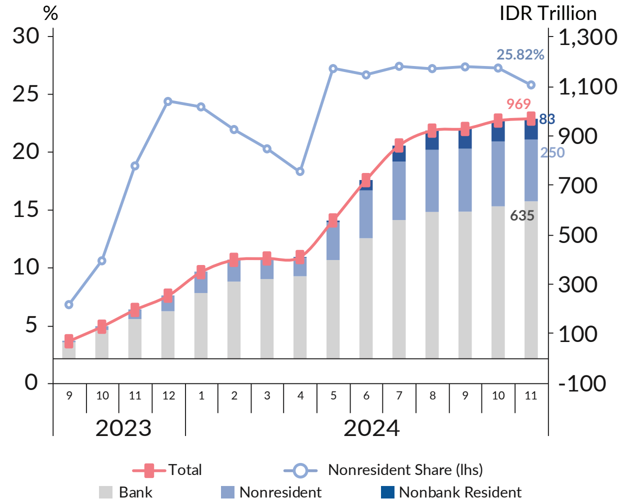
Source: Bank Indonesia

Graph 11.b. Bank Interest Rates



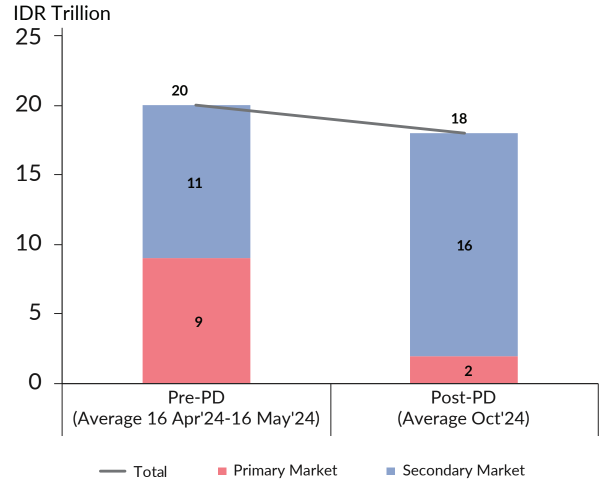
Source: Bank Indonesia

Graph 12.a. SRBI Position: Banks, Nonresidents and Nonbank Residents



Note: Data as of 18 Nov'24
Source: Bank Indonesia

Graph 12.b. Role of Primary Dealers (PD) in SRBI Transactions on Primary and Secondary Markets

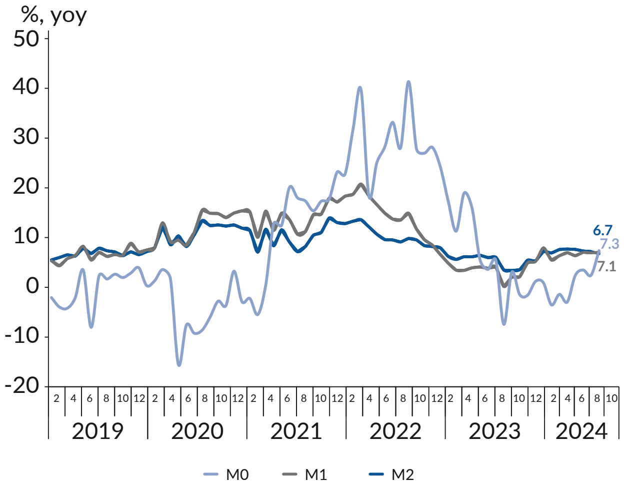


Source: Bank Indonesia

rate, as reflected by significant non-resident holdings of SRBI totaling Rp250.18 trillion (25.8% of total outstanding). The implementation of Primary Dealers (PD) since May 2024 has also increased SRBI transactions in the secondary market along with repurchase agreement (repo) transactions among market players. The participation of primary dealers in SRBI transactions on the secondary market increased from an average of 55% in April-May 2024 to 89% in October 2024 (Graph 12.b.), thereby strengthening the effectiveness of monetary instruments that support Rupiah exchange rate stability and help to control inflation. Moving forward, Bank Indonesia will continue optimizing various innovative pro-market instruments in terms of volume and attractive yields to further deepen the money market and strengthen the effectiveness of monetary policy transmission. Supported by solid economic fundamentals, this will maintain portfolio inflows to domestic financial markets and further strengthen Rupiah stability.

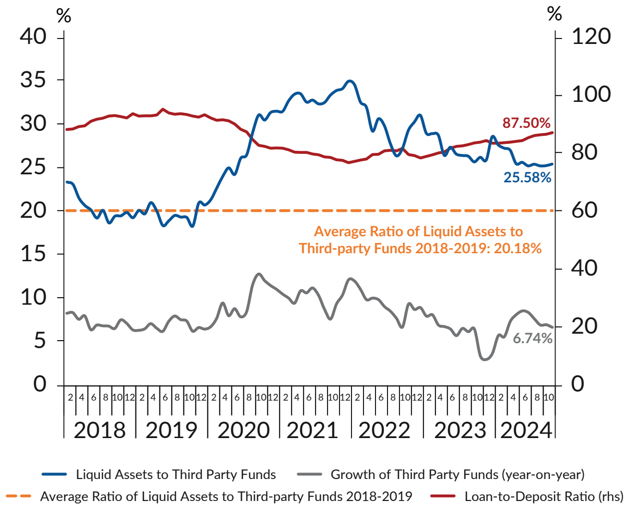
Bank liquidity remains ample in line with Bank Indonesia policy, while economic security is consistent with real sector activity. Liquidity can be measured by the amount of liquidity in the banking sector and that circulating in the economy. Usually, money supply is used as a measure of economic liquidity, including narrow money (M0) for consumption purposes, as well as broad money (M1 and M2), which includes deposits. Consequently, economic liquidity reflects the level of economic growth in nominal terms. In October 2024, growth of the M0, M1, and M2 aggregates stood at 7.3%, 7.1%, and 6.7%, respectively, reflecting a nominal level of growth at approximately 6.7%, comprising real GDP at 4.9% and CPI inflation at 1.7% (Graph 13.a.). Economic liquidity will increase if real economic growth accelerates. Meanwhile, bank liquidity represents liquid activity excluding new loan disbursements, which is held in the form of cash and invested in securities as part of the bank asset portfolio strategy. Typically, this is measured in terms of the Ratio of Liquid Assets to Third-Party Funds, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Liquid assets originate from the accumulation of funds collected from deposits, the issuance of securities, and foreign loans. As an accumulation of funds not disbursed as loans, measurement is also possible using the Loan-to-Deposit Ratio (LDR) but not deposit growth. As of October 2024, the ratio of liquid assets to third-party funds and the LDR ratio stood at 25.58% and 87.50%, respectively, indicating loose liquidity conditions in the banking industry (Graph 13.b.). The liquidity condition of each specific bank is determined by the level of bank prudence in terms of managing liquidity and disbursing loans.

Graph 13.a. Economic Liquidity



Source: Bank Indonesia

Graph 13.b. Bank Liquidity

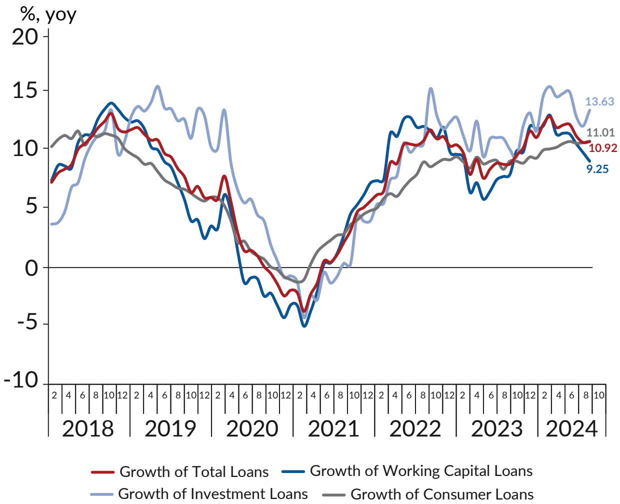


Source: Bank Indonesia

Loans disbursed by the banking industry have maintained solid growth to support economic financing and maintain the stability of the financial system. In October 2024, credit growth was recorded at 10.92% (yoy). By segment, growth of working capital loans, consumer loans and investment loans stood at 9.25% (yoy), 11.01% (yoy) and 13.63% (yoy), respectively (Graph 14.a.). Sharia-compliant financing posted 11.93% (yoy) growth, while MSME loans grew 4.76% (yoy). New loan disbursements are influenced by bank's appetite to lend on the supply side as well as corporate demand for loans. On the supply side, solid credit growth has been supported by strong bank's appetite to lend, ample liquidity and the reallocation of liquid assets to credit, together with Macroprudential Liquidity Incentive (KLM) Policy introduced by Bank Indonesia. As of October 2024, Bank Indonesia has disbursed KLM incentives totaling Rp259 trillion to the banking industry, including state-owned banks (Rp120.92 trillion), national private commercial banks (Rp110.85 trillion), regional government banks (Rp24.66 trillion), and foreign bank branches (Rp2.56 trillion). The KLM incentives are disbursed to banks extending loans/financing to priority sectors, namely downstream Mineral and Non-mineral, the Automotive sector, Electricity, Gas and Water Supply, and Social Services, Housing, Tourism and the Creative Economy, ultra-micro enterprises as well as inclusive and green finance. On the demand side, loan growth is supported by robust corporate demand. By sector, credit growth remains high in most economic sectors, particularly the Manufacturing Industry, Mining, Trade, Transportation, and Corporate Services. Loans disbursed to capital-intensive sectors recorded higher growth at 13.17% (yoy) compared to labor-intensive sectors at 9.43% (yoy) - (Graph 14.b.), indicating that economic growth in the post-pandemic recovery period is dominated by capital-intensive sectors, which are typically oriented toward international exports. Moving forward, as demand for credit grows, particularly household consumption, Bank Indonesia projects credit growth to be 10-12% in 2024 before accelerating to 11-13% in 2025.

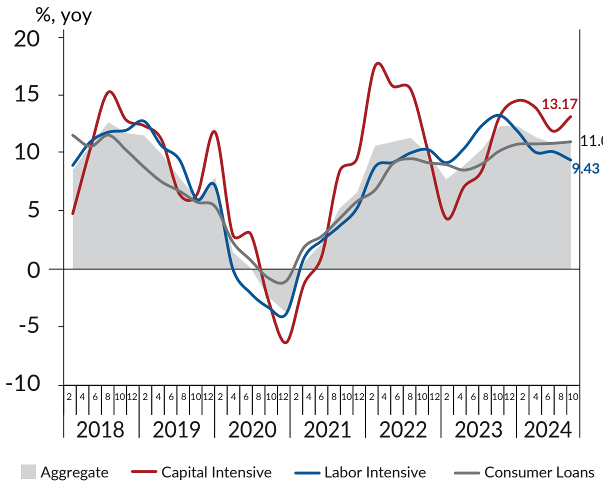
Financial system stability remains solid, supported by strong capital adequacy and low credit risk. The Capital Adequacy Ratio (CAR) remained high in September 2024 at 26.78%, thereby absorbing risk and supporting credit growth effectively (Graph 15.a.). Meanwhile, non-performing loans (NPL), as a proxy for credit risk, were also low in September 2024, as indicated by NPL ratios of 2.21% (gross) and 0.78% (net). Mitigated credit risk was also reflected in the downward Loan at Risk (LaR) ratio. In general, the banking industry has allocated adequate

Graph 14.a. Credit Growth by Segment: Investment, Working Capital and Consumer Loans



Source: Bank Indonesia

Graph 14.b. Credit Growth to Capital Intensive Sectors, Labor Intensive Sectors and Consumer Loans

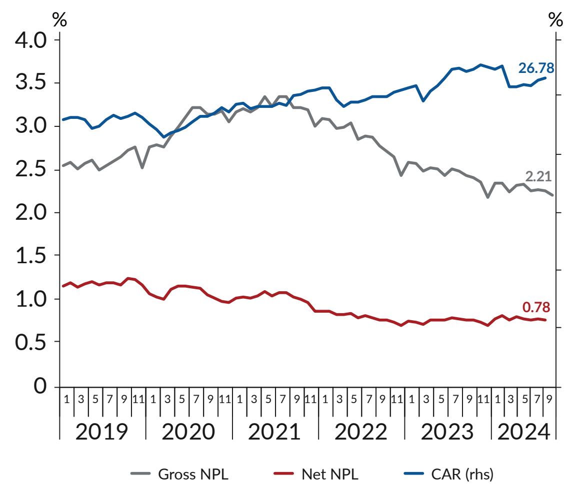


Source: Bank Indonesia

provisions for impairment losses to mitigate credit risk. The results of the stress-tests indicate that the resilience of the banking industry in Indonesia is solid, as reflected by a resilient Capital Adequacy Ratio (CAR) above 25% across various scenarios. Capital and liquidity resilience in the banking industry are also supported by maintained corporate repayment capacity (Interest Coverage Ratio, ICR) and profitability (Graph 15.b.), as confirmed by the latest stress tests. Moving forward, the stability of the financial system will be maintained as national economic performance improves. Meanwhile, Bank Indonesia will continue strengthening synergy with the KSSK to preserve financial system stability.

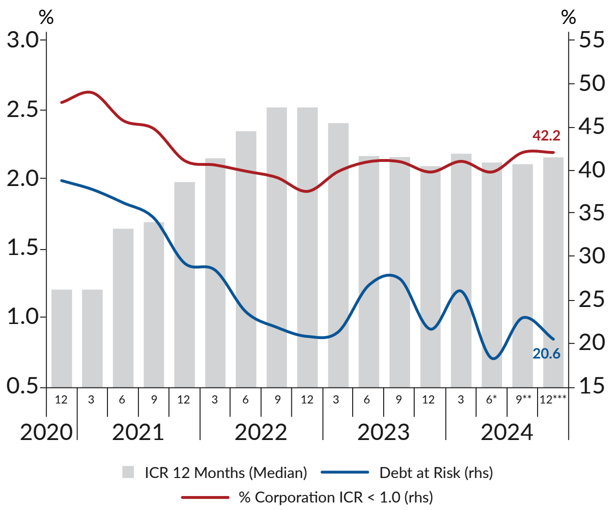
Digital economic and financial transactions remain solid, supported by secure, seamless, and reliable payment systems. On the wholesale or high-value side, BI-RTGS transactions in October 2024 increased by 21.1% (yoy) to reach Rp16,683 trillion. On the other hand, the volume of retail transactions processed through BI-FAST increased by 54.23% (yoy) to 339 million transactions. The volume of digital banking transactions was

Graph 15.a. CAR and NPL in Banking Industry



Source: OJK, Bank Indonesia

Graph 15.b. Interest Coverage Ratio (ICR)



Source: OJK, Bank Indonesia

recorded at 1,960.8 million, growing 37.1% (yoy), while electronic money transactions grew 27.0% (yoy) to reach 1,365.4 million. The volume of card-based payments using ATM/debit cards retreated by 11.4% (yoy) to 558.8 million transactions, while credit card transactions increased 19.6% (yoy) to reach 39.7 million. QRIS transactions saw an impressive 183.9% (yoy) growth, with QRIS users and merchants totaling 54.21 million and 34.7 million, respectively. In terms of Rupiah currency management, total currency in circulation grew by 11.8% (yoy) to Rp1,070.6 trillion in October 2024. Payment system stability has been maintained, supported by a stronger structure and resilient infrastructure. In terms of infrastructure, Bank Indonesia maintains a seamless and reliable payment system. Regarding the structure of the payments industry, payment system interconnection and the digital economy and finance ecosystem continue to expand.

Table 6. Indonesia Payment System Projections

Component		Growth (%)				Transaction			
		2023	2024*	2025*	2026*	2023	2024*	2025*	2026*
I. Cashless									
1. Digital Payment	Nominal (IDR Trillion)	14.1	19.6	48.7	48.0	59,411.1	71,038.0	105,664.5	156,365.9
	Volume (IDR Million)	38.6	43.5	52.3	51.6	25,331.0	36,346.9	55,351.1	83,884.6
a. Mobile Banking	Nominal (IDR Trillion)	33.3	47.1	53.6	52.2	16,647.8	24,486.8	37,612.9	57,256.8
	Volume (IDR Million)	38.7	47.1	53.6	52.2	13,979.0	20,561.3	31,583.2	48,078.0
b. Internet Banking	Nominal (IDR Trillion)	7.5	8.1	46.1	45.5	41,969.9	45,389.3	66,293.0	96,444.2
	Volume (IDR Million)	29.6	8.1	46.1	45.5	2,190.3	2,368.8	3,459.7	5,033.3
c. UE Server Based	Nominal (IDR Trillion)	44.5	46.4	51.4	51.5	793.4	1,161.9	1,758.6	2,664.9
	Volume (IDR Million)	40.8	46.4	51.4	51.5	9,161.7	13,416.8	20,308.2	30,773.4
2. QRIS	Nominal (IDR Trillion)	126.3	145.8	14.7	17.6	226.3	556.3	638.2	750.3
	Volume (IDR Million)	166.2	145.8	14.7	17.6	2,138.2	5,256.2	6,030.1	7,089.4
3. BI-FAST	Nominal (IDR Trillion)	8.3	57.9	34.1	17.7	6,236.5	9,846.6	13,205.3	15,539.9
	Volume (IDR Million)	226.6	57.9	34.1	17.7	2,112.3	3,335.0	4,472.6	5,263.3
4. BI-RTGS System	Nominal (IDR Trillion)	9.5	17.3	9.4	8.0	106,835.7	125,285.0	137,057.0	148,070.0
	Volume (IDR Million)	-2.5	17.3	8.0	8.0	9.8	11.5	12.4	13.4
5. Card-Based Payment Instruments	Nominal (IDR Trillion)	-0.3	8.4	7.7	7.7	8,255.3	8,947.7	9,637.1	10,379.6
	Volume (IDR Million)	5.1	8.7	7.7	7.7	10,611.3	11,532.3	12,420.8	13,377.7
II. Cash									
Currency in Circulation	Nominal (IDR Trillion)	7.3	6.7	5.4	5.2	1,101.7	1,175.9	1,239.0	1,303.6

Source: Bank Indonesia

Note: *Projection

Payment transactions based on the National Open API Payment Standard (SNAP) continue to grow as SNAP adoption expands among various industry players. Meanwhile, Bank Indonesia continues to ensure the adequate availability of Rupiah currency fit for circulation in suitable denominations throughout all regions of the Republic of Indonesia, including frontier, outermost, and remote (3T) regions.

Positive domestic economic performance is the result of close policy coordination between the Government and Bank Indonesia to maintain stability and revive growth. Closer fiscal and monetary policy coordination to maintain macroeconomic stability is an important pillar of nurturing economic growth. Prudent fiscal policy, with a fiscal deficit in 2024 projected at just 2.7% of GDP, indicates that the post-pandemic Covid-19 consolidation process is progressing well. Bank Indonesia's monetary policy is directed toward ensuring that inflation now and over the next two years remains within the target range of 2.5±1% set by the Government. Policy synergy to control inflation between Bank Indonesia and the (central and regional) Government through the Central and Regional Government Inflation Control Teams (TPIP and TPID) is also being strengthened through the National Movement for Food Inflation Control (GNPIP) in various regions. In pursuit of sustainable economic growth, fiscal policy in 2024 is oriented toward providing economic stimulus through social protection programs for private consumption, spending allocation for general and local elections, as well as capital expenditures for ongoing investment in national strategic projects (PSN), including the development of the new Nusantara Capital City (IKN). The downstreaming program for the mineral and mining sector continues to improve and evolve, accompanied by fiscal incentives to foster priority sectors that drive economic growth. On the other hand, Bank Indonesia has disbursed Macroprudential Liquidity Incentive (KLM) totaling Rp259 trillion to banks extending loans/financing to priority sectors, namely downstream Mineral and Non-mineral, the Automotive sector, Electricity, Gas and Water Supply and Social Services, Housing, Tourism and the Creative Economy, ultra-micro enterprises as well as inclusive and green finance. The Government and Bank Indonesia are also collaborating in close synergy to develop the national digital economy and finance, which includes the electrification of social aid program (*bansos*) disbursements and (central and regional) government financial transactions. The close coordination within the KSSK between the Ministry of Finance, Bank Indonesia, the Financial Services Authority (the OJK), and the Indonesia Deposit Insurance Corporation (the LPS) also aims to maintain the stability of the financial system and increase economic financing from the financial sector. The close policy coordination between the Government, Bank Indonesia, and the KSSK to maintain macroeconomic and financial system stability has been recognized internationally as an important pillar of national economic performance and, therefore, must be strengthened continuously moving forward.

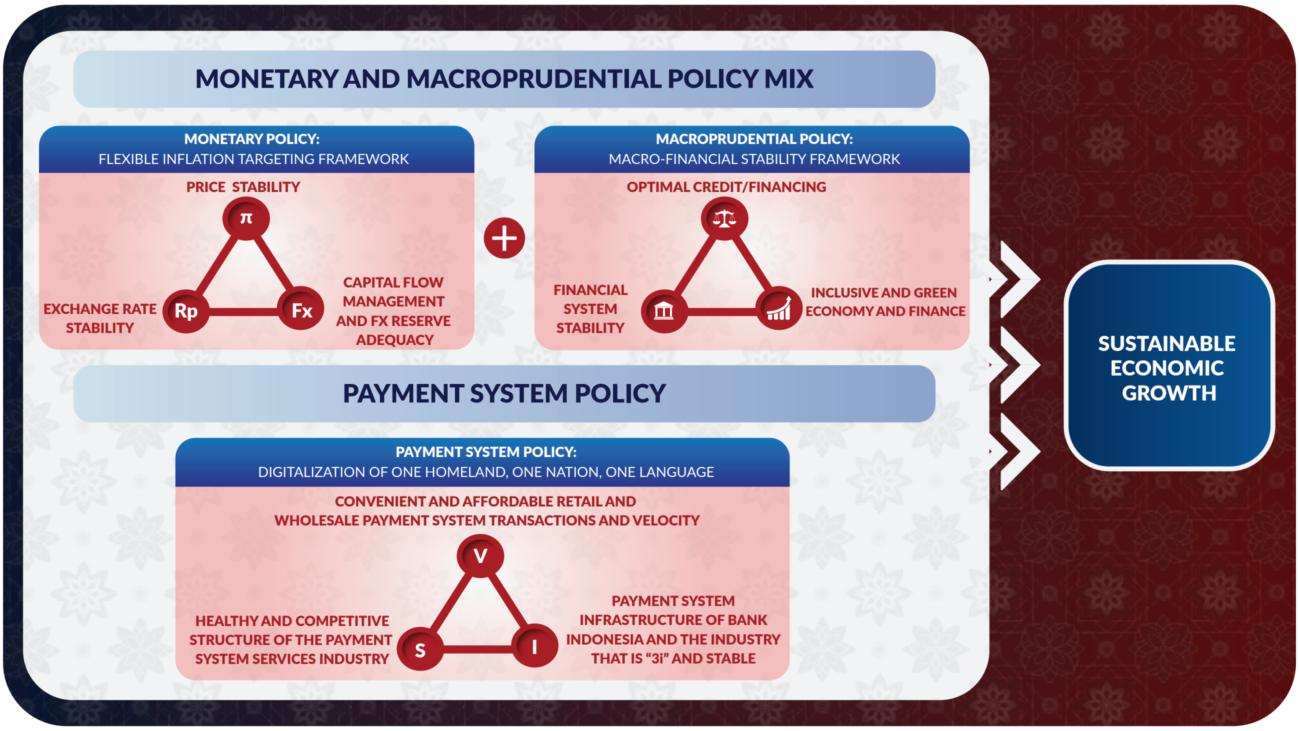
III. Bank Indonesia Policy Mix 2024: Maintaining Stability, Supporting Sustainable Growth

The Bank Indonesia Policy Mix in 2024 was oriented toward strengthening stability and supporting sustainable growth in close synergy with the national economic policy mix. As mentioned at the Bank Indonesia Annual Meeting in 2023, monetary policy in 2024 was focused more on maintaining stability (pro-stability), while macroprudential and payment system policies remain directed toward fostering economic growth (pro-growth). This stance strikes an optimal balance between maintaining stability against the adverse effects of global spillovers and sustaining recovery momentum of the economic and financial cycles, which are currently expanding. This monetary policy objective aims to manage inflation within the target corridor set by the Government, namely 2.5±1% in 2024, as well as maintain Rupiah exchange rate stability against the impact of global turmoil consistent with inflation control policy, while underpinning macroeconomic and financial system stability. Meanwhile, to support sustainable national economic growth, accommodative macroprudential policy sought to revive bank lending to priority sectors, while maintaining the stability of the financial system. Similarly, Bank Indonesia continued accelerating payment system digitalization to support inclusive economic growth through the expansion of the digital economy and finance, particularly among retailers and micro, small and medium enterprises (MSMEs), the electronification of government financial transactions as well as strengthening financial system stability. Bank Indonesia's policy mix, consisting of monetary, macroprudential, and payment system policies, was further supported by strengthened efforts to deepen the money market and foreign exchange market, development programs for MSMEs, the sharia economy and finance, as well as international policy.

Conception of the Bank Indonesia Policy Mix

In accordance with the Bank Indonesia Act, which has been amended several times and most recently by the Financial Sector Development and Strengthening Act (P2SK Act), the overarching goal of Bank Indonesia as the central bank of the Republic of Indonesia is to achieve Rupiah stability, maintain payment system stability and contribute to preserving financial system stability in support for sustainable economic growth. Rupiah stability is measured by achieving the inflation target set by the Government and maintaining Rupiah exchange rate stability to achieve the intended inflation target and for the economy overall, supported by adequate reserve assets (Figure 3.). Payment system stability is reflected in the velocity of money, including banknotes, account-based money and digital money, in line with economic needs, a healthy and efficient structure of the national payment system industry as well as the availability of secure and reliable payment system infrastructure. Meanwhile, financial system stability is reflected in the optimal disbursement

Figure 3. Bank Indonesia Policy Mix



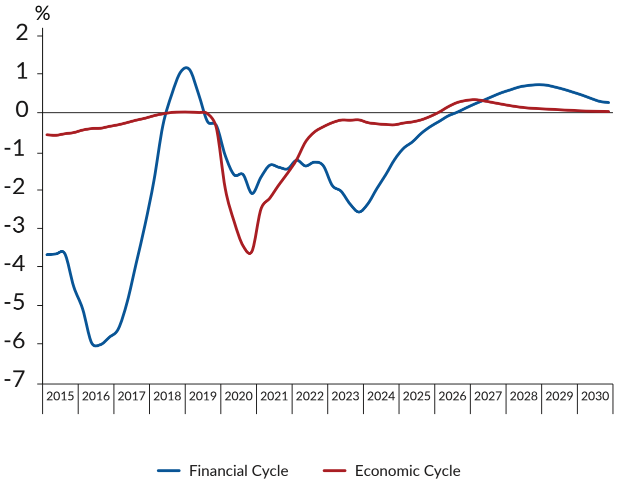
Source: Bank Indonesia

of loans/financing, mitigated risk in the financial system as well as a financial and economic inclusion. To that end, Bank Indonesia also maintains financial system stability through macroprudential policy in the banking sector and in terms of macroeconomic-financial linkages, considering that financial system stability is a shared responsibility of the Ministry of Finance, Bank Indonesia, the OJK and the LPS within the Financial System Stability Committee (the KSSK). Those three aspects of Bank Indonesia's stability objectives are crucial and, therefore, oriented toward supporting sustainable economic growth.

In pursuit of its goals, Bank Indonesia is mandated with three main duties that are concurrently oriented toward achieving the three aforementioned aspects of stability to support sustainable economic growth. In accordance with the Bank Indonesia Act, the three tasks and targets are as follows: (i) determining and implementing monetary policy sustainably, consistently and transparently to achieve Rupiah stability; (ii) regulating and maintaining a seamless payment system to preserve payment system stability; and (iii) determining and implementing macroprudential policy to maintain financial system stability. Thus, Bank Indonesia's support for sustainable economic growth is pursued through these three duties, which can be elaborated as follows. First, through monetary policy, achieving the inflation target and Rupiah exchange rate stability is very important for the growth and development of various economic and financial activities by the government, financial sector, businesses, and the public. Low inflation increases the purchasing power of the public and strengthens certainty for businesses. Similarly, Rupiah exchange rate stability is very important for controlling inflation, maintaining financial system stability, stability of the government securities (SBN) market and government fiscal financing, and maintaining certainty for businesses. Second, through payment system policy, innovative payment instruments, seamless transactions, a healthy industry and stable payment system infrastructure determine the velocity, efficiency, and productivity of various economic and financial activities, including account-based and digital. Similarly, the circulation of currency to ensure the availability of banknotes of sufficient quantity and quality is essential for the community, including outermost, frontier, and remote (3T) regions. Third, through macroprudential policy, optimal growth of bank credit/financing, supported by maintained banking system stability with close synergy within the KSSK, plays an important role in promoting sustainable economic growth. To support the implementation of these three duties, Bank Indonesia is also given authority in money market deepening and international policy, in addition to participating in the development of MSMEs and the sharia economy and finance.

When formulating its duties and authority, Bank Indonesia institutes an optimal policy mix to strike a balance between maintaining stability and supporting national economic growth, while taking into consideration the impact of the global economy. The policy mix is based on Bank Indonesia's assessments, projections, and simulations of movements in the national economic and financial cycles. In this case, accomodative policy mix stance is applied when the cycle is contracting and below potential economic capacity (stagnation or recession) and, alternatively, a tight policy stance is adopted when the cycle is expanding above potential capacity (boom period or overheating). For example, the economic and financial cycles in Indonesia have recently tracked expansionary trends yet remain below potential economic capacity (Graph 16.). This is reflected in low core inflation, a narrow current account deficit, and economic growth that has not yet spread to most economic sectors. Conceptually, therefore, Bank Indonesia has been inclined to maintain an accommodative policy mix stance to strike an optimal balance between stability and sustainable economic growth. However, as a country with an open economy, the impact of global spillovers influences national economic stability and resilience. As explained previously, the impact of global turmoil primarily manifests as

Graph 16. Indonesia's Economic and Financial Cycles



Source:: Bank Indonesia

instability in terms of Rupiah exchange rates and portfolio inflows due to high interest rates and a strong US dollar. These considerations underlie the posture of the Bank Indonesia policy mix in 2024, namely pro-stability monetary policy, coupled with pro-growth payment system and macroprudential policies, and supported by money market deepening policy as well as economic and financial inclusion programs.

Based on the current stance of the Bank Indonesia policy mix, the following policy instruments were implemented in 2024.

i. **In terms of monetary policy, inflation control and Rupiah stability were achieved through a consistent and well-calibrated policy rate, underpinned by foreign exchange market intervention, a pro-market monetary operations (MO) strategy, and adequate reserve assets.** This was pursued to optimize the monetary policy trilemma, namely maintaining price stability, exchange rate stability, and adequate reserve assets. To that end, Bank Indonesia consistently orients BI-Rate policy toward achieving the inflation targets in 2024 and 2025. Meanwhile, Rupiah stabilization efforts aim to dampen short-term volatility and control the impact on imported inflation through triple intervention in the spot, Domestic Non-Deliverable Forward (DNDF) and SBN markets as required. The effectiveness of monetary policy transmission was strengthened by a pro-market monetary operations strategy through optimization of Bank Indonesia Rupiah Securities (SRBI), Bank Indonesia Forex Securities (SVBI) and Bank Indonesia Forex Sukuk (SUVBI) to attract portfolio inflows and maintain Rupiah stability, while simultaneously deepening the money market and foreign exchange market. Inflation control, particularly food prices, was supported by close coordination with the (central and regional) Government through the Central and Regional Government Inflation Control Teams (TPIP and TPID) and the National Movement for Food Inflation Control (GNPIP) in all regions of the Indonesian archipelago.

ii. **In terms of macroprudential policy, Bank Indonesia increased the liquidity incentives and loosened all macroprudential instruments to revive bank lending/financing and maintain financial system stability**. The three targets of the macroprudential policy trilemma, namely optimal credit, financial system stability and financial inclusion, were aligned and strengthened. Additional liquidity incentives were provided to banks through implementation of the Macroprudential Liquidity Incentive (KLM) Policy to revive bank lending/financing to priority sectors, including downstream sectors (mineral and coal mining, agriculture, plantation crops and fishing), housing (including public housing), tourism and the creative economy, as well as increasing financial inclusion (MSMEs, people's business credit program (KUR), ultra-micro), and the green economy and finance. The flexibility of liquidity management in the banking industry was also enhanced by loosening the Macroprudential Liquidity Buffer (MPLB). Likewise, all other macroprudential policy instruments remained loose, including the Countercyclical Capital Buffer (CCyB), Macroprudential Intermediation Ratio (MIR), Loan/Financing-to-Value (LTV/FTV) ratio for property loans/financing and downpayment requirements on automotive loans/financing. Macroprudential and money market surveillance of the banking system was also strengthened to help maintain financial system stability in close coordination with the KSSK.

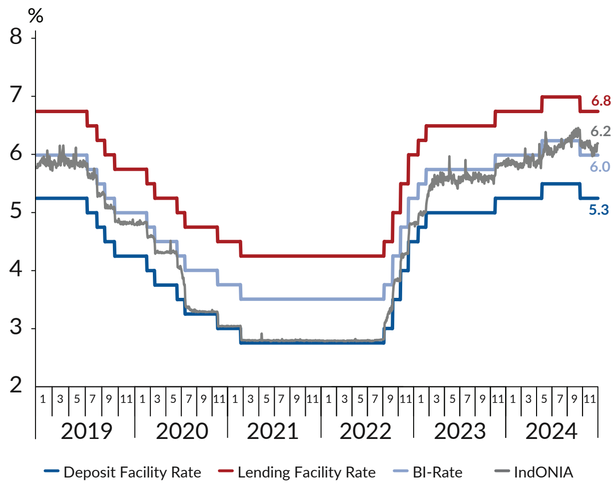
iii. **In terms of payment system policy, Bank Indonesia continued accelerating payment system digitalization and ensuring adequate currency in circulation for seamless, efficient and productive economic and financial transactions**. Digitalization was implemented through the innovation of various instruments and expansion of digital payment services, while strengthening the structure of the industry and stability of payment system infrastructure, including integration of the national digital economy and finance ecosystem. To that end, the three targets of the payment system policy trilemma, namely velocity, industry structure and infrastructure stability were aligned and strengthened. Implementation of the Indonesia Payment System Blueprint (BSPI) 2025 since 2019 has successfully accelerated digital transformation nationally and achieved various milestones, encompassing the standards, regulations and infrastructure, such as greater acceptance of Quick Response Code Indonesia Standard (QRIS), BI-FAST, and National Open API Payment Standard (SNAP), which have become popular with the public. Seeking to increase transaction value and the velocity of digital payments, Bank Indonesia in 2024 enhanced QRIS by expanding the user base and participating merchants, while extending the 0% Merchant Discount Rate (MDR) for micro merchants. The structure of the payment system was strengthened by expanding SNAP for greater interconnection of payment services and strengthening the surveillance of payment system providers, including monitoring for illegal transactions and enhancing cyber security. BI-FAST acceptance and stability were improved as retail payment system infrastructure that has become increasingly popular with the public. Similarly, the electronification of social aid program (*bansos*) disbursements and government financial transactions increased, particularly to accelerate and expand local regional digitalization (P2DD) and increase acceptance of the Indonesia Credit Card (KKI) for the government segment. In addition, Bank Indonesia also expanded cross-border payment cooperation through implementation of the Regional Payment Connectivity (RPC) initiative in the ASEAN along with several other important economic partners of Indonesia.

Monetary Policy

The policy rate in 2024 was set at each monthly Board of Governors Meeting (RDG) as a forward-looking and pre-emptive measure to steer inflation forecasts for the upcoming two years toward the 2.5±1% target in 2024 and 2025 set by the Government. As explained in the previous section, dynamic world geopolitics and global financial market uncertainty edged up US Treasury yields and strengthened the US dollar, which prompted portfolio outflows and currency depreciation in emerging market economies (EMEs), including Indonesia. In the middle of 2024, the DXY index experienced a broad-based increase to 105.2 in June 2024 from 102.7 at the end of 2023. At the end of 2023, the value of the Rupiah against the US dollar was recorded at approximately Rp15,500 per US dollar before depreciating to Rp16,328 in June 2024. Persistent depreciatory pressures on the Rupiah triggered imported inflation and posed the risk of inflation exceeding the upper bound of the 2.5±1% target in 2024. In response, Bank Indonesia in April 2024 hiked the BI-Rate 25 bps to 6.25% (Graph 17.a.). The increase aimed to strengthen Rupiah stability against the adverse impact of global spillovers as a pre-emptive and forward-looking measure to ensure inflation in 2024 and 2025 remain within the 2.5±1% target corridor. Furthermore, the BI-Rate also succeeded in re-anchoring inflation expectations within the target range (Graph 17.b.).

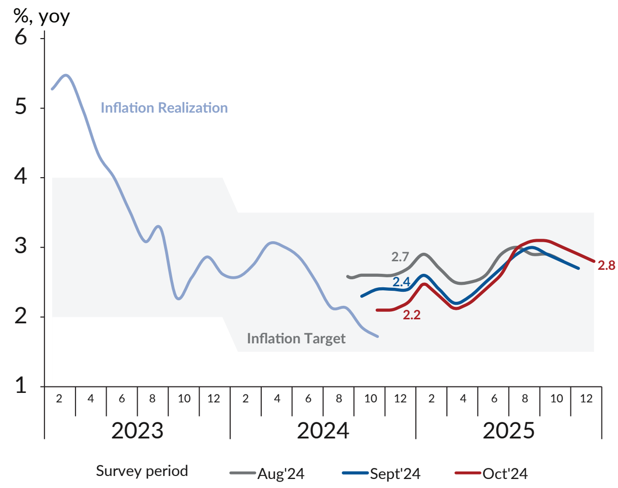
After the Fed provided clarity concerning FFR policy and subsequently lowered the Federal Funds

Graph 17.a. BI-Rate and IndONIA



Note: Data as of 20 Nov'24
Source: Bank Indonesia

Graph 17.b. Inflation Expectations



Source: Consensus Forecast

Rate, the US dollar experienced depreciation in September 2024, as indicated by DXY index of 101.0, and the Rupiah regained some lost value to around Rp15,319 in the same period. As the global turmoil eased, one day before the Fed's decision to lower the FFR in September 2024, Bank Indonesia decided to reduce the BI-Rate by 25 bps to 6.0%. The BI-Rate reduction was consistent with the pre-emptive and forward-looking measures to ensure inflation in 2024 and 2025 remains under control and within the 2.5±1% target corridor. Bank Indonesia also acknowledged space for further reductions in line with low inflation and the need to foster sustainable economic growth. Further decisions concerning the BI-Rate will be determined at future RDG meetings based on global and domestic economic dynamics (data dependent).

Rupiah stabilization policy was implemented to dampen short-term volatility and control the direction of future movements in line with achieving the inflation target as well as macroeconomic and financial system stability. Fundamentally, Rupiah exchange rate movements are determined by market mechanisms. Under conditions of market distress, however, particularly the impact of global spillovers, Rupiah volatility tends to be excessive and could disrupt monetary, financial market and financial system stability.

World geopolitical dynamics and global financial market uncertainty led to high US Treasury yields and a strong US dollar and, therefore, heighten the volatility of foreign portfolio inflows and intensify currency pressures in EMEs, including Indonesia, throughout 2024. The DXY index strengthened from around 102.7 at the end of 2023 to 105.2 in June 2024 before sliding back to 101.0 in September 2024 and recently rebounding to 106.3 given geopolitical tensions in the Middle East and the results of the US presidential election. The build-up of currency pressures and portfolio investment volatility had a massive impact on liquidity risk, market risk and credit risk in the financial market and financial sector, as well as the SBN market and fiscal financing. In addition, persistent currency pressures on the Rupiah also impacted inflation control measures through imported inflation. Those two primary considerations underlie foreign exchange market intervention by Bank Indonesia as an integral part of the monetary policy instruments available to achieve Rupiah stability as mandated by the Bank Indonesia Act.

Bank Indonesia's foreign exchange interventions are carried out through spot transactions, DNDF, and the secondary market for the government securities (SBN), commonly referred to as triple intervention, to strengthen Rupiah exchange rate

stability. Intervention primarily seeks to dampen short-term Rupiah volatility and provide signals concerning the direction of Rupiah movements to remain in line with economic fundamentals. Intervention in the government securities (SBN) market is necessary considering that Rupiah pressures typically coincide with foreign portfolio investment outflows from SBN. Therefore, such intervention is an integral part of close monetary-fiscal coordination to stabilize the Rupiah and support Government fiscal financing. Through firm commitment by Bank Indonesia to stabilize the Rupiah, the currency, which slumped to Rp16,328 per US dollar in June 2024, regained lost value to reach Rp15,319 in September 2024 and has remained relatively stable despite depreciating to Rp15,800 recently. It is important to note that Bank Indonesia intervention is implemented symmetrically, namely by selling (or buying) foreign exchange during periods of excessive Rupiah depreciation (or appreciation), which has implications on lower (or higher) forex reserves. Bank Indonesia constantly maintains adequate reserve assets in accordance with international standards. The position of reserve assets was recorded at USD151.2 billion at the end of October 2024 to support the servicing of government external debt and Rupiah stabilization policy.

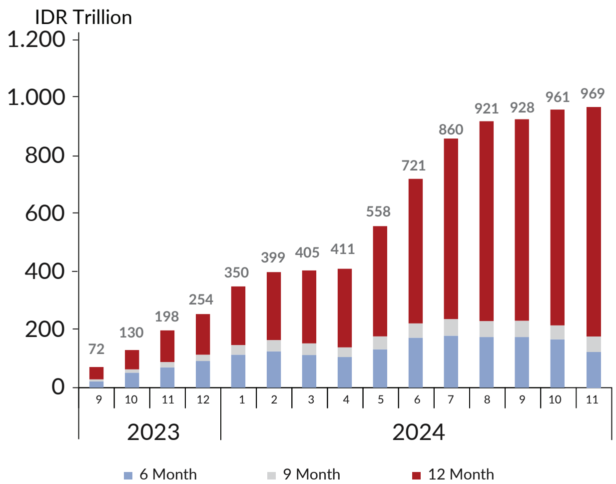
Interest rate policy and Rupiah stability were strengthened through a pro-market monetary operations strategy to reinforce monetary policy independence from the impact of global spillovers, to increase the effectiveness of monetary policy transmission and simultaneously to accelerate money market and foreign exchange market deepening. As explained at the Bank Indonesia Annual Meeting in 2023, Bank Indonesia issued 3 (three) innovative pro-market monetary operation instruments, namely SRBI, SVBI, and SUVBI. There are at least 3 (three) advantages of using such innovative monetary instruments developed by Bank Indonesia. First, all three instruments can be traded on the secondary market, thereby accelerating money market and foreign exchange market deepening, strengthening monetary policy effectiveness, and facilitating more flexible liquidity and investment portfolio management by the banking industry and investors at home and abroad. Second, the three monetary instruments can be traded by non-residents, thus indicating their effectiveness as instruments to manage foreign portfolio flows and Rupiah stability against the impact of global spillovers on the domestic economy. Third, strengthening the independence of monetary policy by Bank Indonesia from the interest rate policies of central banks in advanced economies in terms of directing the BI-Rate and Rupiah stability consistently in line with the domestic goals of controlling inflation and supporting sustainable economic growth. Close monetary and fiscal policy coordination between Bank Indonesia and the Government has been maintained, which includes coordination between issuances of monetary instruments and SBN for fiscal financing. Close coordination between monetary and fiscal instruments began with the plan to issue SBN at the beginning of the year, including implementation from month to month, and even week to week, particularly during highly dynamic global financial market conditions. In terms of SBN issuances, coordination covers the total, timing, target market (domestic or global) and even the fairness of yield performance in the market. The current developments are also reported at the quarterly the KSSK meeting as part of the assessment and coordination of policies to maintain financial system stability.

Since the first issue in September 2023, the three instruments have played an increasingly important role in strengthening monetary policy transmission and deepening the money market and foreign exchange market nationally despite the deleterious impact of global spillovers. As mentioned in the previous section, as of 18th November 2024, Bank Indonesia has issued SRBI, SVBI and SUVBI instruments to the tune of Rp968.82 trillion, USD3.39 billion and USD387 million. SRBI issuances support efforts to increase portfolio inflows and strengthen the Rupiah, with significant non-resident holdings of SRBI totaling

Rp250.18 trillion (25.8% of total outstanding). The implementation of Primary Dealers (PD) since May 2024 has also increased SRBI transactions in the secondary market along with repurchase agreement (repo) transactions between market players. The composition of SRBI is dominated by 12-month tenors at Rp791.51 trillion, with tenors of 6 and 9 months totaling Rp123.33 trillion and Rp53.97 trillion, respectively, as of 18th November 2024 (Graph 18.a.). The current composition of SRBI is consistent with the preferences of the banking industry, market participants and investors against a backdrop of lower interest rates, in addition to the convenience provided in terms of liquidity management through a deeper secondary money market. SRBI yields are moving in line with market mechanisms, particularly US Treasury yields, specifically 2-year tenors, considering the spread between yields in Indonesia and other EMEs. Consistent with the inverted US Treasury yield, where yields on 2-year tenors are higher than the benchmark 10-year tenor, and high-risk premiums in response to increasing global financial market uncertainty, SRBI yields on 12-month tenors also tracked an upward trend from 6.90% at the end of 2023 to 7.26% at the end of July 2024 (Graph 18.b.). In the subsequent period, given a flattening of US Treasury yields on tenors of 2 years due to clarity from the Fed concerning the direction of FFR policy and the subsequent FFR reduction, SRBI yields also tracked a downward trend. For example, the yield of 12-month tenors decreased to 7.00% in October 2024. SRBI yields subsequently rebounded in line with US Treasury yields as a corollary deepening geopolitical tensions in the Middle East and the results of the US presidential election.

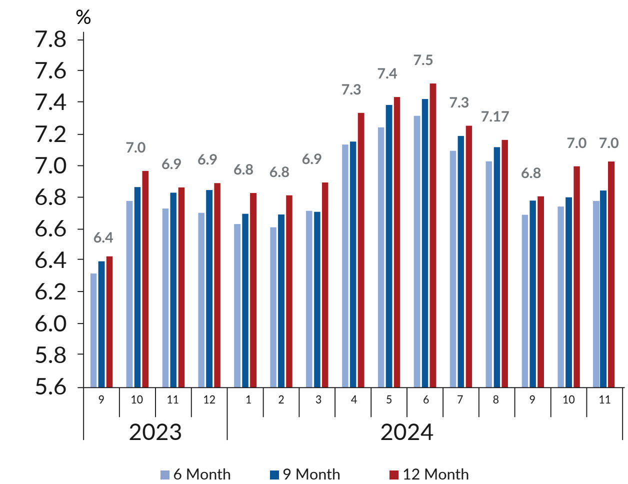
The three aforementioned instruments of monetary policy, namely the BI-Rate, Rupiah stabilization policy and the pro-market monetary operations strategy, are supported by adequate international reserves and foreign exchange flow management. Bank Indonesia constantly maintains adequate forex reserves in accordance with international standards to support the servicing of government external debt and Rupiah stabilization policy. At the end of October 2024, the position of reserve assets was recorded at USD151.2 billion, equivalent to 6.6 months of imports or 6.4 months of imports and servicing government external debt, which is well above the international adequacy standard of around 3 months of imports. Bank Indonesia is confident that the current level of reserve assets can maintain external sector resilience, as well as macroeconomic and financial system stability. In terms of forex flow management, Bank Indonesia also issued an innovative MO instrument in the form of Foreign Currency Term Deposits (TD Valas) to retain the foreign exchange proceeds of natural

Graph 18.a. SRBI Performance



Note: Data as of 18 Nov'24
Source: Bank Indonesia

Graph 18.b. SRBI Rate by Tenor 6, 9, and 12 months

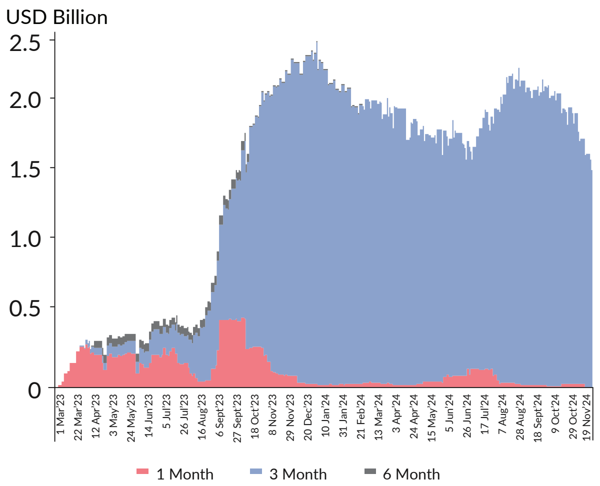


Note: Data as of 15 Nov'24
Source: Bank Indonesia

resource exports through banks to Bank Indonesia at competitive rates. The TD Valas instrument is one of 7 (seven) alternative foreign currency asset placement instruments based on Bank Indonesia Regulation (PBI) No. 7 of 2023 as implementation of the requirements to retain the foreign exchange proceeds of natural resource exports (DHE SDA) in accordance with Government Regulation (PP) No. 36 of 2023. The latest developments indicate that exporter interest in the TD Valas instrument continues to grow. As of 19th November 2024, outstanding TD Valas reached USD1.55 billion, dominated by 3-month tenors (Graph 19.a.). In addition, TD Valas also represent an alternative investment instrument that is attractive to exporters and the banking industry, as reflected by the stable level of placements in nostro accounts abroad (Graph 19.b.).

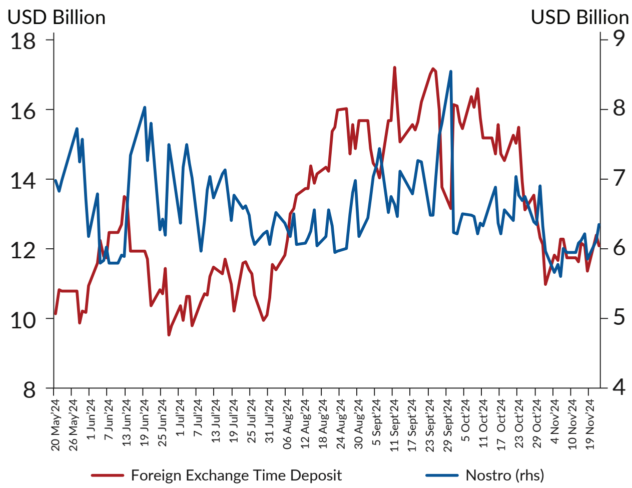
Bank Indonesia continued strengthening coordination with the Government to control inflation and bolster the external resilience of the national economy. As discussed previously, close policy coordination encompasses the fiscal policies of the Government and policies of Bank Indonesia. In terms of controlling inflation, particularly volatile food (VF) inflation, close coordination with the (central and regional) Government in the Central and Regional Government Inflation Control Teams (TPIP and TPID) through the National Movement for Food Inflation Control (GNPIP) is fully supported by Bank Indonesia at head office and 46 regional offices throughout Indonesia. Coordination to control food inflation is implemented in accordance with the 4K strategy, namely price affordability (*Keterjangkauan Harga*), supply availability (*Ketersediaan Pasokan*), uninterrupted distribution (*Kelancaran Distribusi*), and effective communication (*Komunikasi Efektif*). Bank Indonesia support for the success of the GNPIP movement, including food security programs, self-sufficient food cultivation, interregional cooperation, food distribution facilitation, operating affordable markets, data digitalization, as well as ongoing coordination and communication with the public (Table 7.). In terms of coordination, the Government ensures the availability and distribution of food supply nationally, particularly for rice, including social assistance for food, observing food inflation control measures by regional governments, as well as providing awards and fiscal incentives to local governments that are successful in managing food inflation. The success of inflation control measures through the GNPIP movement was reflected in low food inflation throughout 2024. Meanwhile, coordination to maintain macroeconomic stability against the impact of global turmoil involved monetary and fiscal policy coordination between Bank Indonesia and the Government, including domestic and global SBN issuances by the Ministry

Graph 19.a. Foreign Currency TD DHE



Note: Data as of 19 Nov'24
Source: Bank Indonesia

Graph 19.b. Foreign Currency TD vs Nostro



Note: Data as of 19 Nov'24
Source: Bank Indonesia

Table 7. Bank Indonesia's Support in GNPIP for Inflation Control in 2024

GNPIP Flagship Program	Target	Achievement	% Implementation
Food Security			
a. Optimization of Good Agriculture Practices	114	186	163.1%
b. Replication of Best Practices	114	117	102.6%
c. Food Downstreaming	100	91	91.0%
Self-Sufficient Food Cultivation	**67**	**100**	**149.2%**
Interregional Cooperation	**116**	**167**	**143.9%**
Food Distribution Facilitation	**208**	**369**	**177.4%**
Affordable Markets	**13,800**	**11,933**	**86.4%**
Data Digitalization	**60**	**49**	**81.6%**
Coordination and Communication			
a. Institutional Coordination	572	748	130.7%
b. TPID Capacity Building	120	164	136.6%
c. Managing Inflation Expectation	438	500	114.1%
d. Food Diversification and Processing	152	135	88.8%

Source: Bank Indonesia

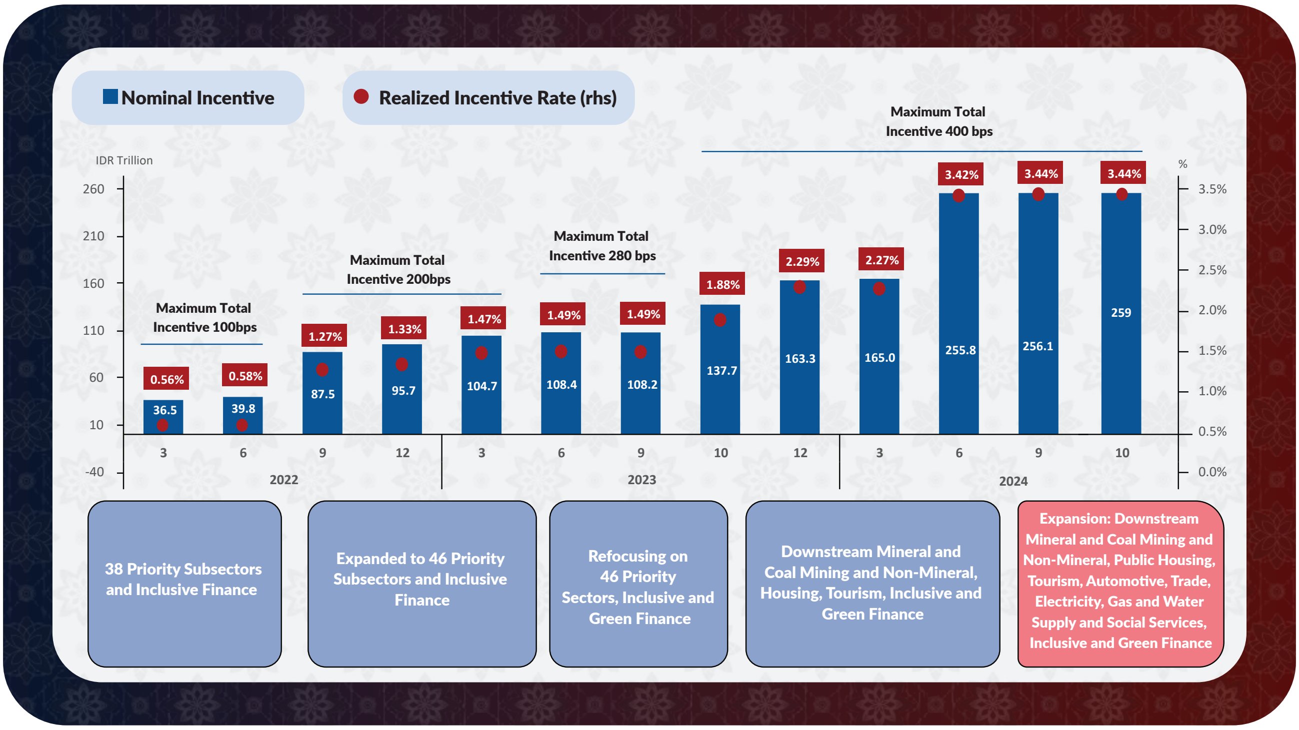
Data as of 11 Nov'24

of Finance to finance the budget deficit in the State Revenue and Expenditure Budget (APBN), as mentioned earlier. Bank Indonesia coordination to maintain financial system stability with the Ministry of Finance, the OJK, and the LPS was also implemented under the auspices of the Financial System Stability Committee (the KSSK).

Macroprudential Policy

To further encourage bank lending/financing to priority sectors, Bank Indonesia in 2024 expanded the scope of liquidity incentives for the banking industry through implementation of Macroprudential Liquidity Incentive (KLM) Policy. As mentioned at the Bank Indonesia Annual Meeting in 2022 and 2023, innovative and accommodative macroprudential policies have been implemented by Bank Indonesia since March 2022 as part of the Bank Indonesia policy mix to support sustainable growth, specifically the economic recovery process from the adverse impact of the Covid-19 pandemic. Liquidity incentives are provided to banks in the form of a return of the Minimum Reserve Requirement (GWM) to foster credit/financing growth to businesses. Bank Indonesia views the return of GWM in the form of KLM liquidity incentives as more productive for the economy, compared to reducing the GWM requirement for all banks which may be used for exchange rate speculation or other uses rather than credit/financing for businesses. Based on this consideration, Bank Indonesia regularly reviews KLM implementation concerning the scope of sectors and size of incentives and strengthens its effectiveness in terms of encouraging the banking industry to disburse loans/financing (Graph 20.). Regarding the scope of priority sectors, KLM policy was initially provided to support the recovery of sectors experiencing the

Graph 20. Evolution of Macroprudential Liquidity Incentive (KLM) Policy

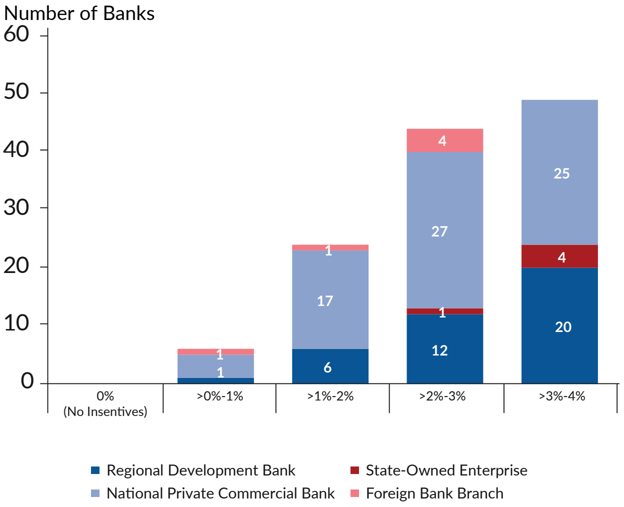


Source: Bank Indonesia

scarring effect of the Covid-19 pandemic, which was subsequently expanded to sectors with high leverage for economic growth. The scope of priority sectors was expanded in line with the Government's program to downstream the mineral sector and mining. Furthermore, Bank Indonesia also increased the size of the KLM incentives, namely from 1.0% to 2.8% of third-party funds (TPF) in April 2023, while the scope was expanded beyond the 46 priority subsectors to also include MSMEs and the green economy. In October 2023, Bank Indonesia decided to again increase the size of the incentives to 4.0% of third-party funds, while expanding the scope of priority sectors to downstream sectors (mineral and coal mining, agriculture, animal husbandry, plantation crops, and fishing), housing (including public housing), tourism (including hotels, restaurants and cafeterias), as well as enhancing economic inclusion (MSMEs, KUR, ultra-micro), and the green economy and finance.

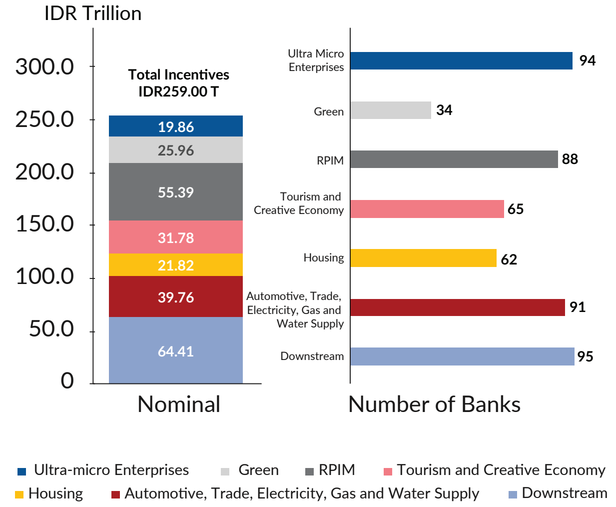
The utilization of KLM liquidity incentives by banks has continued to increase in line with the rise in loan/financing growth aimed at supporting sustainable economic growth. As mentioned in the previous chapter, as of the end of October 2024, Bank Indonesia disbursed KLM incentives totaling Rp259.0 trillion to the banking industry, including to state-owned banks (Rp120.92 trillion), national private commercial banks (Rp110.85 trillion), regional government banks (Rp24.66 trillion), and foreign bank branches (Rp2.56 trillion). In total, 123 banks have received KLM liquidity incentives. Of these, 49 banks received amounts equivalent to 3–4% of their third-party funds (DPK), and 44 banks received amounts equivalent to 2–3% of their DPK (Graph 21.a.). In terms of the priority sectors, as illustrated in Graph 21.b, most KLM incentives have been disbursed for loans/financing extended to the downstream mineral and non-mineral sector (Rp64.41 trillion), followed by inclusive financing obligations for MSMEs (Rp55.39 trillion) and ultra-micro enterprises (Rp19.86 trillion) in accordance with fulfilling the Macroprudential Inclusive Financing Ratio (RPIM), the automotive, trade, electricity, gas and water supply, and social services sector (Rp39.76 trillion), tourism and the creative economy (Rp31.78 trillion), the green economy (Rp25.96 trillion), and housing (Rp21.82 trillion). Therefore, the provision of KLM liquidity incentives is considered effective in encouraging

Graph 21.a. Number of Banks Receiving KLM Incentives



Source: Bank Indonesia

Graph 21.b. KLM Disbursements by Priority Sector



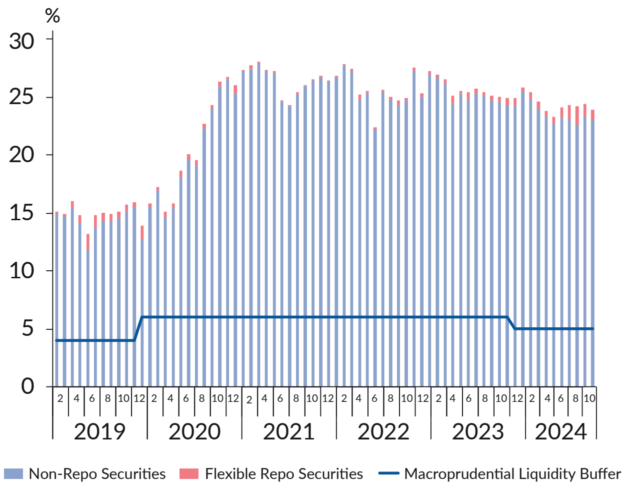
Source: Bank Indonesia

the banking industry to extend loans and financing in pursuit of sustainable economic growth. Moving forward, Bank Indonesia will regularly assess the scope of priority sectors to remain in line with government programs, including sectors that create jobs.

Bank Indonesia continues to maintain the adequacy of banking liquidity, including a flexible Macroprudential Liquidity Buffer (MPLB), to support lending while simultaneously maintaining financial system stability. As discussed previously, loose liquidity conditions in the banking industry are reflected in the ratio of liquid assets to third-party funds and the loan-to-deposit ratio (LDR), which were recorded at 25.58% and 87.50%, respectively in Oktober 2024. (Graph 22.a.). The loose liquidity conditions in the banking sector for credit/financing distribution are also reflected in the fulfillment of the Macroprudential Liquidity Buffer (MPLB) ratio requirement, which obliges banks to allocate a portion of their liquid assets in high-quality securities, such as the SBN. As outlined in the Bank Indonesia's Annual Meeting 2023, to enhance banks' flexibility in managing their liquidity, Bank Indonesia has reduced the MPLB ratio by 100 bps to 5% for Conventional Commercial Banks (BUK) and 3.5% for Sharia Commercial Banks/Sharia Business Units (BUS/UUS). Additionally, the flexibility of the designated securities allows them to be used in repo transactions with Bank Indonesia should banks require short-term liquidity (Graph 22.a). In October 2024, all banks maintained a MPLB ratio above 5% of TPF, with 73 banks exceeding 20% and 28 banks with a MPLB ratio in the 10-20% range (Graph 22.b.). Nearly all securities used to meet the MPLB ratio were held by the banking industry and only a small portion were used in repo transactions with Bank Indonesia. This demonstrates loose liquidity conditions in the banking industry to support lending/financing for the economy. As mentioned in the previous section, the banks tended to place the excess liquidity in securities as an alternative instrument amid sluggish demand for credit from businesses that meet the lending standards. Moving forward, as the national economy continues to recover, the growth of credit/financing extended by the banking industry is expected to accelerate.

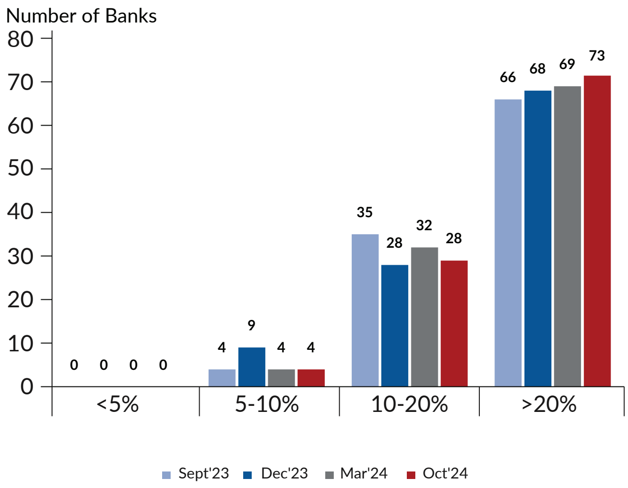
In addition to the KLM liquidity incentives and MPLB flexibility, Bank Indonesia extended all other accommodative macroprudential policy instruments to maintain financial system stability to support sustainable economic growth. Bank Indonesia maintained various accommodative macroprudential policy instruments, including a Loan/Financing-to-Value (LTV/FTV) ratio of 100% for all residential property types (including public housing) and a 0% downpayment requirement for automotive loans, which was initially set to end on 31 December 2023 but has been extended to 31 December 2024.

Graph 22.a. Macroprudential Liquidity Buffer (MPLB)



Source: Bank Indonesia

Graph 22.b. Distribution of the Macroprudential Liquidity Buffer (MPLB)



Source: Bank Indonesia

Similarly, Bank Indonesia maintained a Countercyclical Capital Buffer (CCyB) of 0%, and a Macroprudential Intermediation Ratio (RIM) of 84–94% to provide liquidity flexibility and revive bank lending and financing. Additionally, the Macroprudential Inclusive Financing Ratio (RPIM) was implemented to support an inclusive economy and finance, specifically for MSMEs, along with the prime lending rate (PLR) transparency policy to bolster the effective transmission of monetary and macroprudential policies.

Bank Indonesia continues to strengthen macroprudential and money market surveillance of the banking system to maintain financial system stability. Macroprudential surveillance focuses on the macroeconomic-financial linkages of large banks, which play an important role in lending/financing, and maintaining financial system stability. The surveillance assesses liquidity risk, market risk (interest rates and exchange rates) and credit risk, which can arise from domestic and global macroeconomic dynamics. Risk assessment is conducted on individual large banks as well as interlinkages within the banking system, both in the near term (cross-sectional) and dynamically over the next two years (forward-looking). The three aspects of risk are also stress-tested based on macroeconomic projections in Indonesia as well as the impact of global economic dynamics. Meanwhile, market surveillance focused on assessing the three risks arising from transactions and the interconnectedness of large banks in the money and foreign exchange markets. In addition to risk assessments, macroprudential and market surveillance also focus on the capabilities of human resources, risk management, and the technology used in large banks. Both forms of surveillance are mandated by the Financial Sector Development and Strengthening Act (P2SK Act), which enhances Bank Indonesia's mandate in macroprudential policy, as well as in deepening the money and foreign exchange markets. The results of macroprudential and market surveillance serve as important considerations for formulating Bank Indonesia's policy mix and are an integral part of bilateral supervisory coordination with the OJK, as well as broader coordination to maintain financial system stability within the KSSK.

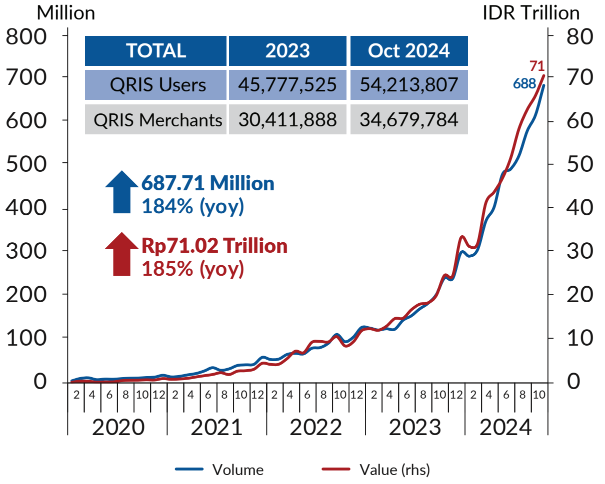
Bank Indonesia continues to strengthen policy synergy with the KSSK to maintain financial system stability. In 2024, the KSSK held quarterly meetings as well as ad hoc meetings as required. First, coordination to conduct joint assessments of conditions and policy coordination to maintain financial system stability. Overall, financial system stability was preserved, demonstrating resilience against global and domestic pressures. Bank Indonesia maintained financial system stability and Rupiah stability, optimal credit/financing growth, surveillance of large banks focusing on liquidity and market risks, as well as payment system stability. Joint stress-tests of financial system stability were conducted along with coordinated simulations to prevent and manage the possibility of a crisis. Second, coordination to follow up on regulations and provisions that must be issued as part of P2SK Act implementation. To that end, Bank Indonesia has issued 12 of 17 Bank Indonesia Regulations (PBI), with the remainder to be completed within the timeframe specified. Third, coordination in the implementation of the Financial Sector Assessment Program (FSAP) by the IMF and World Bank to assess the progress of financial sector development and supervision in accordance with international standards. This year was the third time the FSAP had been conducted after successful assessments performed in 2010 and 2017. In general, the assessment found that the economy and financial sector in Indonesia are healthy, accompanied by strong, stable, and resilient growth in the face of external shocks. The assessment looked at aspects of financial system stability with a focus on vulnerabilities (systemic risk analysis), the regulatory and supervisory framework for the financial sector, crisis management, financial system safety nets, and aspects of financial sector development. The FSAP positively assessed the P2SK Act as an important factor in increasing resilience, strengthening financial sector safety nets and the crisis management framework, as well as fostering financial sector development in Indonesia. Indonesia's achievements were the result of close synergy and the contributions of the Ministry of Finance, Bank Indonesia, the OJK, the LPS, and other relevant authorities, as well as business players in the financial services sector.

Payment System Policy

Bank Indonesia has continued to accelerate payment system digitalization through innovation in instruments and the expansion of digital payment services to strengthen integration of the national digital economy-financial ecosystem (EKD). The use of Quick Response Code Indonesia Standard (QRIS), as the only national QR standard for EKD transactions in Indonesia, has been expanded continuously through a broad acceptance campaign, coupled with innovative ease and convenience features for the public. A wide-ranging campaign to expand QRIS acceptance in 2024 was implemented nationally and in various regions through the 46 representative offices of Bank Indonesia. Bank Indonesia innovated QRIS features in conjunction with the Indonesia Payment System Association (ASPI) in the form of national standards for QRIS Withdrawal, Transfer and Deposit (TUNTAS), thereby facilitating users to withdraw, transfer and deposit cash. To further increase digital payment transactions for the people's economy, Bank Indonesia in 2024 continued providing incentives in the form of a 0% MDR for QRIS micro enterprises. As of October 2024, QRIS users totaled 54.2 million of the 55 million target along with 34.7 million merchants, dominated by MSMEs. Spatially, most QRIS users are in the Java region, totaling 37.2 million, followed by Sumatra (9.4 million), Sulawesi, Maluku and Papua (3.0 million), Kalimantan (2.7 million) and Bali-Nusa Tenggara (1.9 million). Meanwhile, QRIS transactions accelerated, with transaction volume increasing 183.9% (yoy) and transaction value growing 184.5% (yoy), supported by 34.7 million merchants (Graph 23.a.). QRIS transaction value was dominated by spending on food and beverages, followed by transportation and communication, restaurants and hotels as well as other consumer spending (Graph 23.b.). The increasing popularity of QRIS among the public indicates the growing benefits of faster payment system digitalization by Bank Indonesia to support sustainable and inclusive economic growth.

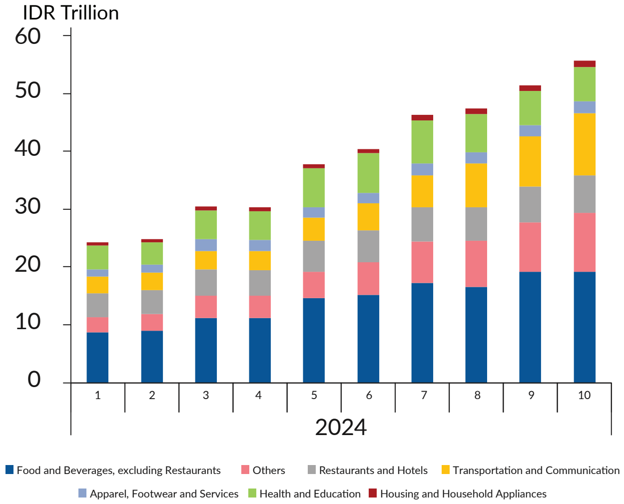
The expansion of acceptance and stability of BI-FAST has been enhanced as the retail payment system infrastructure increasingly favored by the public. As is known, BI-FAST was introduced in late December 2021 as nationally driven retail payment system infrastructure, with real-time features operating 24/7, to meet the rapidly growing needs of retail transactions. Bank Indonesia also offers several benefits, such as open participation, the option for independent or shared infrastructure, a

Graph 23.a. QRIS Performance: Users, Transaction Volume and Value



Source: Bank Indonesia

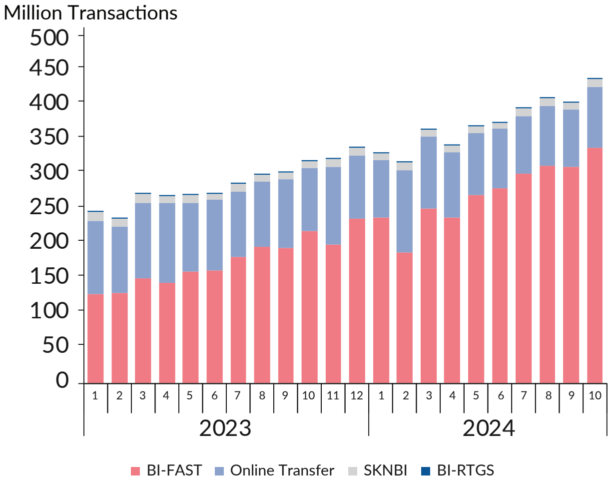
Graph 23.b. QRIS Transaction Value by Segment



Source: Bank Indonesia

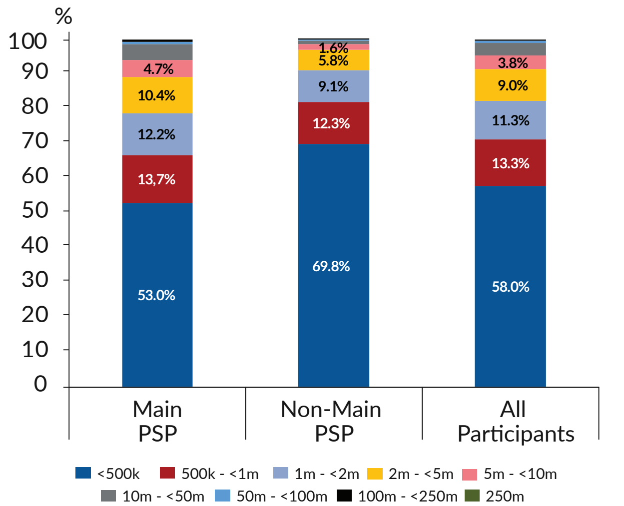
transaction limit of Rp250 million per transaction and competitive pricing up to a maximum of Rp2,500 per transaction for consumers and Rp19 per transaction paid by the participants to Bank Indonesia. In total, BI-FAST participation currently includes 122 banks, 2 nonbank payment system service providers and the Indonesian Central Securities Depository (KSEI), accounting for 94% of retail payment system transactions. Participation in BI-FAST services can be direct or indirect, depending on participants' technological capabilities, risk management, and human resource capacity. As of October 2024, the volume of retail payment system transactions below Rp250 million via BI-FAST reached 2.7 billion transactions with a value of Rp7,114 trillion, accounting for 72.8% and 64.0% of retail payment transaction volume and value, respectively (Graph 24.a.). The value of BI-FAST transactions is relatively small, namely below Rp500,000 per transaction, accounting for 58% of transactions. Among these transactions, services provided by Non-Main PSPs accounted for 69.8%, compared to 53% by Main PSPs (Graph 24.b.). These developments indicate that BI-FAST is increasingly capable of providing inclusive digital payment services to the public, while nurturing cooperation Main PSPs and Non-Main PSPs. As public acceptance grows, Bank Indonesia is strengthening service

Graph 24.a. BI-FAST Transaction Volume vs Other Retail Payments



Source: Bank Indonesia

Graph 24.b. BI-FAST Transaction Volume by Transaction Value Bracket



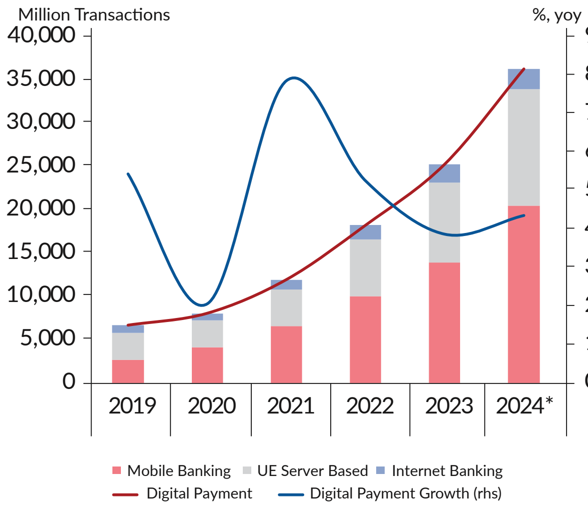
Source: Bank Indonesia

stability end-to-end, from the stability of payment system infrastructure in Bank Indonesia to the technology and risk management in PSPs, and the services provided by PSPs to the public. The main concerns of Bank Indonesia policy and supervision include aspects of consumer protection, security against illegal transactions and the reliability of cyber security technology.

Digital payment system services offered by the banking industry and nonbank PSPs have increased rapidly given the increasing interconnection of services. As explained in the previous chapter, digital payments in 2024 are projected to reach 36.3 billion transactions with a value of approximately Rp71.0 trillion. Most digital payments are serviced through mobile banking, totaling 20.6 billion transactions with a value of Rp24.5 trillion, followed by electronic money, totaling 13.4 billion transactions with a value of Rp1.2 trillion, and internet banking, totaling 2.4 billion transactions with a value of Rp45.4 trillion (Graph 25.a.). Such rapid growth indicates increasing public acceptance and preference for digital payment services, which provide greater convenience in the form of fast, simple and cheaper economic and financial transactions. To further facilitate digital payments for the public and simultaneously strengthen the structure of the payment industry, Bank Indonesia has expanded implementation of the National Open API Payment Standard (SNAP) to support interconnected digital banking services between banks and the FinTech industry. After SNAP implementation for the first movers and second movers in 2022 and 2023, respectively, Bank Indonesia in 2024 expanded PSP participation to further accelerate the digital economy and finance in synergy with the Indonesia Payment System Association (ASPI). As a result, SNAP participation currently involves 10 first movers, 71 second movers and 32 new participants in terms of SNAP interconnection. SNAP adoption for interconnected payment services by the payment system industry has increased significantly, currently accounting for approximately 73% of payment transaction volume (Graph 25.b.). To strengthen a healthy, efficient and stable PSP industry structure, Bank Indonesia continues strengthening payment system surveillance in terms of HR competencies, risk management and the reliability of the technology deployed. The results of the surveillance are used as the basis for determining the health and classification of PSPs participating in BI-FAST and the payment services offered to the public, which includes coaching if required.

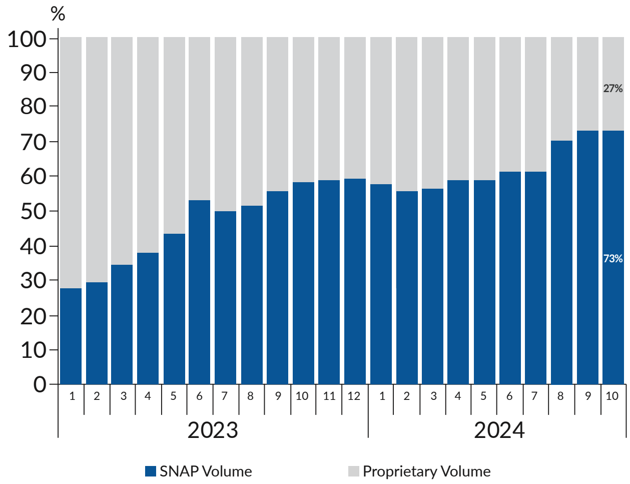
Bank Indonesia continued strengthening policy synergy with the (central and regional)

Graph 25.a. Digital Payment Transaction Volume



Note: * Projection
Source: Bank Indonesia

Graph 25.b. Composition of Transaction Volume among SNAP Participants



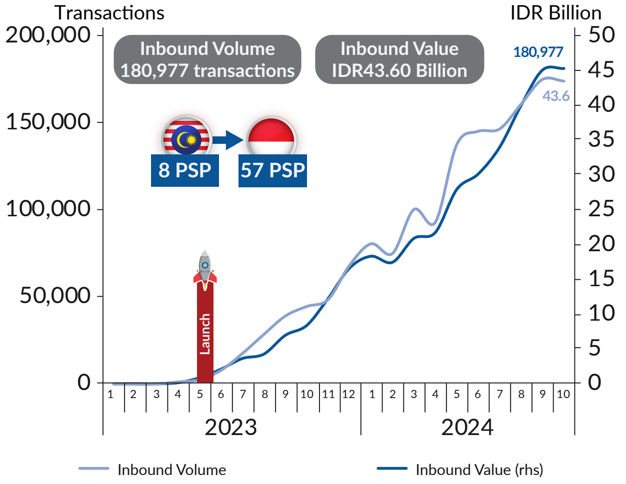
Source: Bank Indonesia

Government in the electronification of social aid program (*bansos*) disbursements and government financial transactions. Seamless social aid program (*bansos*) disbursements to Beneficiary Families (KPM) were maintained through coordination/facilitation, socialization/education and monitoring involving all Bank Indonesia representative offices. The implementation and acceptance of the Indonesia Credit Card (KKI) for the government segment was further expanded to support government financial transaction efficiency, inclusive finance and economic recovery. Launched in August 2022, the KKI for the government segment is a national credit card scheme for domestic purposes, beginning with transactions in the government segment. After the success of integrating QRIS features into the KKI for the government segment, Bank Indonesia in 2024 focused on efforts to expand use of the KKI for the government segment in order to boost acceptance. Given the various benefits and consistency of Bank Indonesia in synergy with the Indonesia Payment System Association (ASPI) to strengthen implementation and acceptance of the KKI for the government segment, the number of regional governments participating has increased. Likewise, KKI transactions continue to rise both in volume and nominal value, dominated by transactions by Regional Governments through the QRIS feature. Most KKI transactions are made in the transportation and accommodation sectors. Implementation of the Regional Government Transaction Electronification (ETPD) program was also expanded in conjunction with the Task Force for Accelerating and Expanding the Electronification of Central and Regional Government Transactions (P2DD), including the TP2DD Championship Program at the National Coordination Meeting (Rakornas) for P2DD held in September 2024. In addition, synergy with government ministries/agencies and other authorities was maintained through the Indonesia Digital Economy and Finance Festival (FEKDI), which was hosted in conjunction with Karya Kreatif Indonesia in August 2024.

Bank Indonesia continued expanding cross-border payment cooperation through implementation of the Regional Payment Connectivity (RPC) initiative in the ASEAN region along with several other important economic partners of Indonesia. QRIS cross-border payments have been implemented between Bank Indonesia and the Bank of Thailand (BoT), Bank Negara Malaysia (BNM) and Monetary Authority of Singapore (MAS). The latest developments indicate that more and more residents in both countries are using QR to facilitate transactions, particularly retail transactions for tourism. For example, QR cooperation between Bank Indonesia and Bank Negara Malaysia (BNM) is facilitated by 8 PSPs in Malaysia and 57 PSPs in Indonesia, with 181,000 transactions recorded in Indonesia to the tune of approximately Rp43.6 billion (Graph 26.a.). Furthermore, cross-border QRIS cooperation will be expanded to other partners, including Japan, India and South Korea, to nurture faster, cheaper, more transparent, and more inclusive cross-border payments, particularly for MSMEs. This initiative is expected to foster economic activity, including the tourism sector, as well as encourage the use of local currencies and bilateral transactions within the local currency transaction (LCT) framework. As of October 2024, LCT totaled USD12.2 billion (with share to total trade amounting to 9.5%), averaging USD1,222 million per month, increasing 133.3% from an average of USD524 million per month in 2023. Most local currency transactions were between Indonesia and China, followed by transactions with Japan, Malaysia, and Thailand (Graph 26.b.).

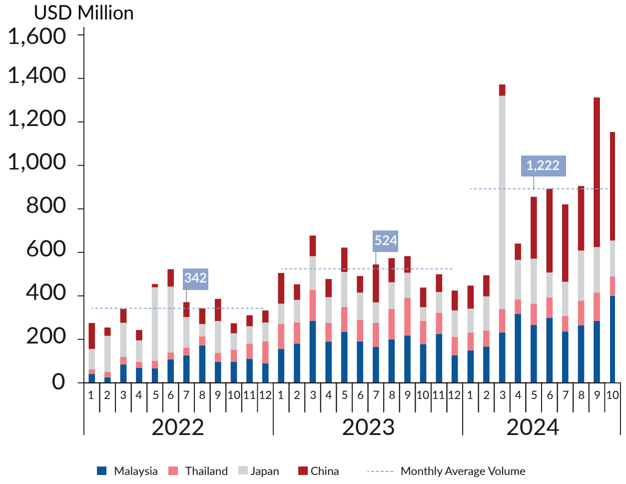
Bank Indonesia also continues to develop the Digital Rupiah through Project Garuda to ensure the Rupiah remains the sole legal tender in Indonesia in the digital era. This is in accordance with implementing the mandate pursuant to Act Number 4 of 2023 concerning Financial Sector Development and Strengthening (P2SK Act), which stipulates Bank Indonesia as the only institution authorized to issue Rupiah currency in Indonesia. After receiving feedback from the industry and associations, government ministries/agencies, academics, and the public, Bank Indonesia is currently in the process of experimenting with technology

Graph 26.a. Cross-Border QRIS Transactions between Indonesia and Malaysia



Source: Bank Indonesia

Graph 26.b. Local Currency Transactions (LCT)



Source: Bank Indonesia

through the proof of concept (POC) with a focus on issuing and circulating the Digital Rupiah. Alternative technological solutions are currently being tested by Bank Indonesia, namely the choice between centralized and decentralized solutions considering the speed and security of issuing Digital Rupiah moving forward. The POC output will underlie the subsequent process, namely prototyping and piloting/sandboxing during the immediate phase, which focuses on issuing and circulating the Digital Rupiah from Bank Indonesia to banks appointed as wholesalers as the starting point of the intermediate phase that focuses on using the Digital Rupiah for digital financial securities.

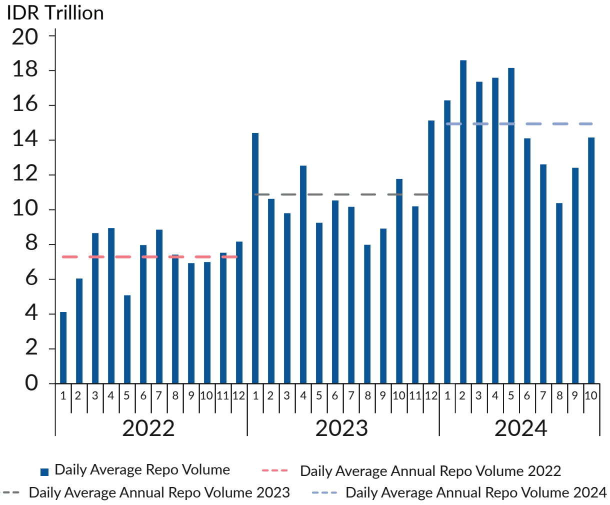
In terms of Rupiah currency management, Bank Indonesia continued the transformation of Rupiah currency management, based on the Rupiah Currency Management Blueprint (BPPUR) 2025. The implementation of this transformation has been carried out by increasing the efficiency of the currency distribution system and premium cash services in frontier, outermost and remote (3T) regions. Bank Indonesia optimized the distribution routes by leveraging better regional connectivity infrastructure to increase efficiency in the distribution process, human resources and costs. Synergy with strategic partners was also improved to extend the reach, timeliness, and security of currency distribution throughout all regions in the territory of the Republic of Indonesia. Furthermore, Bank Indonesia strengthened the capabilities of the Rupiah Currency Management Command Center through the development of a currency distribution application along with dashboard analytics for near real-time monitoring as well as to project and monitor currency stock levels at all cash-related work units. Bank Indonesia continued optimizing currency distribution through cash deposit services, while increasing cash services in remote regions, including currency exchange services in frontier, outermost and remote (3T) regions through the Sovereign Rupiah Expedition (ERB) to ensure the equitable distribution of currency fit for circulation in the community. Bank Indonesia also began initiating the application of green Rupiah currency management through collaborative research with strategic partners, especially to study the development of a green waste processing network for the Rupiah currency.

Money Market and Foreign Exchange Market Deepening

Bank Indonesia continued accelerating the deepening of modern, efficient and advanced money and foreign exchange markets referring to international best practices. This is in accordance with P2SK Act implementation, which mandates Bank Indonesia with regulating, deepening, and supervising the money market and foreign exchange market. The implementation of various programs refers to the Money Market Development Blueprint (BPPU) from 2020-2025, covering 4 (four) aspects, namely the financial market products, pricing, participants, and infrastructure. Regulatory strengthening was continued oriented toward accelerating the development of modern, efficient, and advanced money and foreign exchange markets in close synergy with the Government and the KSSK, as well as involving the industry, namely banks and market participants. In accordance with P2SK Act implementation, Bank Indonesia promulgated Bank Indonesia Regulation (PBI) No. 6 of 2024 concerning the Money Market and Foreign Exchange Market, which regulates general provisions, the regulatory framework, market development and supervision, market products, pricing, market participants, financial market infrastructure, market transactions, licensing, data and information, potential principles, risk management and governance, consumer protection, transitional regulations, and closing provisions. Bank Indonesia is confident that modern, efficient and advanced money and foreign exchange markets are critical to strengthen operational effectiveness and monetary policy transmission, financial system stability, fiscal financing, as well as financing for businesses and the economy.

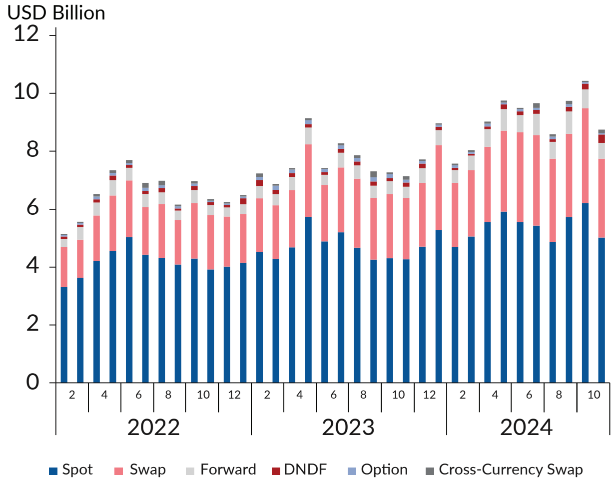
Since BPPU 2025 implementation, money market and foreign exchange market transactions in Indonesia have developed rapidly, particularly repurchase agreement (repo) transactions in the money market. In terms of product development, for instance, average daily repo transaction value has increased 34-fold since initial BPPU 2025 implementation in 2020. Data as of October 2024 indicates that average daily repo transaction value reached Rp14.9 trillion in 2024, up 36.7% from Rp10.9 trillion in 2023 and more than a twofold increase on the Rp7.3 trillion recorded in 2022 (Graph 27.a.). This indicates that repo transactions are helping market participants manage bank liquidity in terms of the securities (specifically SBN and SRBI) held as collateral for repo transactions without the need to resell. This also benefits the SBN market in terms of liquidity and yield and, therefore, lowers the cost of fiscal financing for the Government. On the other hand, transactions in the foreign exchange market are increasing at a slower pace. Average daily foreign exchange transactions as of October 2024 were recorded at USD9.1 billion, up 19.7% from USD7.6 billion in 2023 and 40.0% from USD6.5 billion in 2022 (Graph 27.b.). The foreign exchange market is dominated by spot transactions, with DNDF transactions increasing more slowly. Moving forward, Bank Indonesia will continue developing money market and foreign exchange market

Graph 27.a. Daily Average Repo Transactions



Note: Data as of Oct'24
Source: Bank Indonesia

Graph 27.b. Daily Average Foreign Exchange Transactions

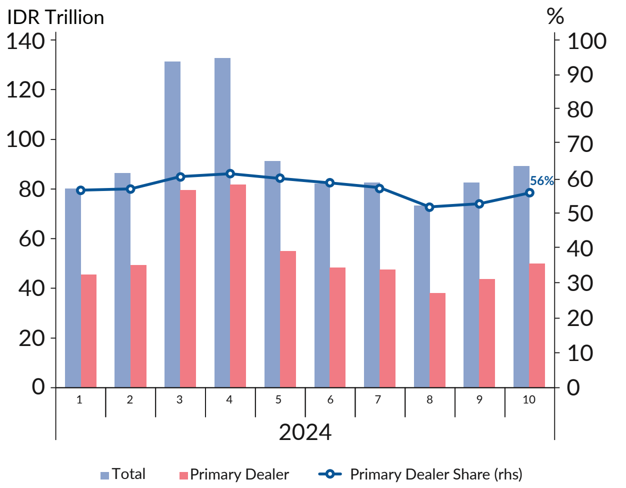


Source: Bank Indonesia

products by deepening repo and DNDF transactions, while expanding other products, such as interest rate swaps (IRS) and cross-currency swaps (CCS). In terms of the pricing mechanism, Bank Indonesia publishes IndONIA as the daily reference rate for the money market and JISDOR for the foreign exchange market referring to international best practices. In addition, Bank Indonesia will publish regulations concerning overnight index swaps (OIS) as a reference for the formation of the interest rate structure in the money market for tenors of 2 weeks to 12 months. Similarly, FX swaps with longer tenors will be developed as hedging instruments for the banking industry, market participants and corporate sector, particularly exporters, importers and foreign direct investment (FDI) companies.

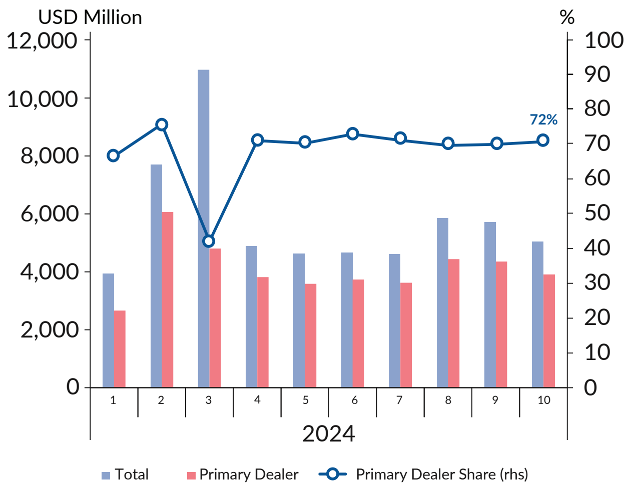
Bank Indonesia continued strengthening market participants and the role of associations in terms of accelerating money market and foreign exchange market deepening to be more modern, efficient, and advanced. The structure of market participants is determined through the selection of Primary Dealers (PD) based on transaction value, interconnected transactions with other participants, human resources capacity, risk management, and the reliability of the technology used. The four selection criteria are also applied when determining the structure of the payment system industry. According to Bank Indonesia Regulation (PBI) No. 6 of 2024, PDs are required to operate as market-makers, remain active in Bank Indonesia monetary operations, actively transact in the money market and foreign exchange market and fulfill other obligations set by Bank Indonesia in terms of money market and foreign exchange market activity. As of October 2024, Bank Indonesia has approved 20 banks as PD, with the opportunity still open for other banks to become PD providing they meet the prevailing regulations. All PDs are evaluated regularly by Bank Indonesia based on the four criteria mentioned, with coaching offered for any requirements that must be improved. As of October 2024, average daily transactions by PDs accounted for around 56% of the money market (Graph 28.a.) and approximately 72% of the foreign exchange market (Graph 28.b.). Gradually, this structure of market participants will ensure direct transactions in the money market and foreign exchange market and monetary operations transactions with Bank Indonesia will be limited to and between PDs, while other market participants will transact through the PDs. Strengthening the structure of market participants intends to accelerate future money market and foreign exchange market deepening with larger transactions and more efficient pricing. Bank Indonesia will continue to provide standing facilities, including a deposit facility and a lending facility, for all banks to manage their daily liquidity. Meanwhile, market associations will be strengthened

Graph 28.a. Primary Dealer Transactions in the Money Market



Source: Bank Indonesia

Graph 28.b. Primary Dealer Transactions in the Foreign Exchange Market

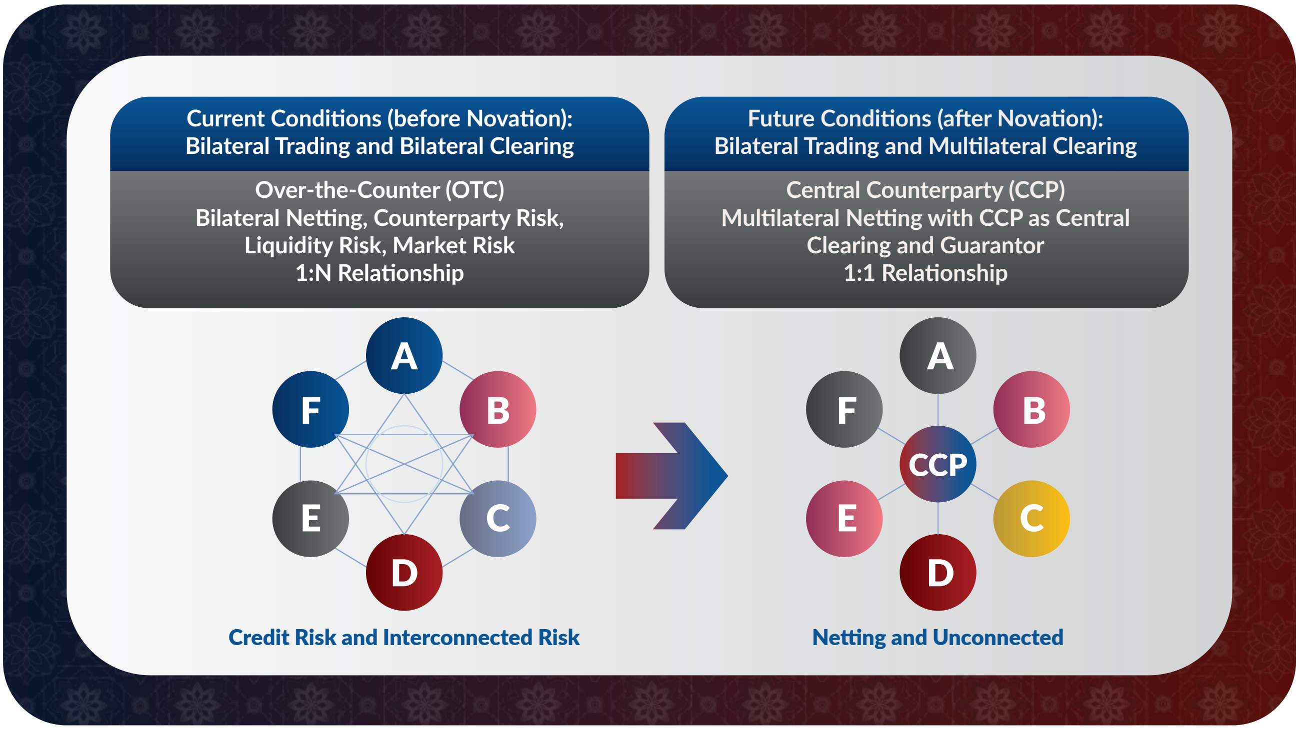


Source: Bank Indonesia

through the formation of the Indonesia Money Market and Foreign Exchange Market Association (APUVINDO) as the only association representing the industry in coordination with Bank Indonesia to develop and deepen the money market and foreign exchange market. With the formation of APUVINDO, Bank Indonesia will focus more on principle-based regulations, while the actual implementation will be carried out through the APUVINDO association. The work program of APUVINDO, therefore, is similar in operation to Bank Indonesia's programs contained in BPPU 2025.

Money market and foreign exchange market development in Indonesia made history with the operation of the Central Counterparty for Interest Rate and Exchange Rate Derivatives (CCP-SBNT) on 30th September 2024. Modern and advanced money and foreign exchange markets facilitate large volumes and adequate liquidity, a variety of participants, as well as stability and efficiency, supported by interconnected infrastructure. To that end, in synergy with the OJK, Indonesia Stock Exchange (IDX), Indonesia Stock Market Clearing House (KPEI), and banking industry, Bank Indonesia created and developed CCP-SBNT for the money market and foreign exchange market in Indonesia. The central counterparty (CCP) was launched to fulfill the mandate of the P2SK Act, which mandates Bank Indonesia with regulating, developing, and supervising the money market and foreign exchange market, including financial market infrastructures (FMIs). The CCP launch also aimed to fulfill the G20 Over the Counter (OTC) Derivatives Market Reform commitments as an integral part of BPPU 2025 implementation. The CCP is a systemic financial market infrastructure responsible for clearing and novation the transactions of its members (Figure 4.). At the initial stage of CCP implementation, eight banks are participating with the IDX as existing shareholders of the KPEI, namely Mandiri, BRI, BNI, BCA, CIMB Niaga, Permata, Danamon, and Maybank. Bank Indonesia conferred the status of Qualifying CCP (QCCP) after fulfilling international standards, namely the Principles for Financial Market Infrastructures, while also accommodating settlement through close-out netting. Initially, the CCP will focus on DNDF and repo instruments, with the products

Figure 4. Money Market and Foreign Exchange Market Transactions Before and After Novation through the Central Counterparty (CCP)



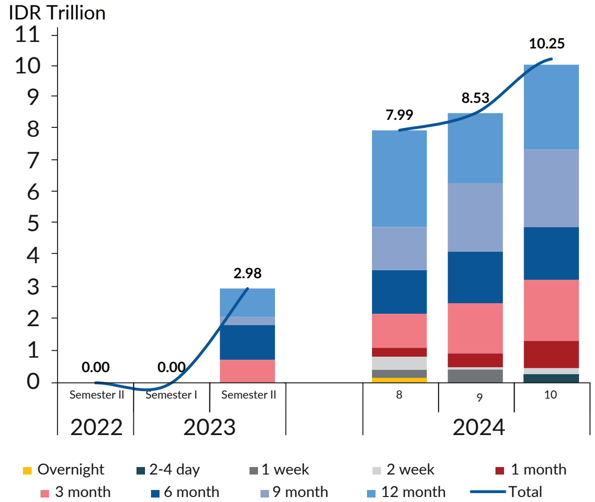
Source: Bank Indonesia

expanded gradually based on transaction volume and market readiness, including the infrastructure. CCP implementation is expected to increase average daily repo transactions in the money market to Rp30 trillion and DNDF transactions in the foreign exchange market to exceed USD1 billion in 2030.

Money market and financial market deepening was also strengthened by the pro-market monetary operations strategy applied by Bank Indonesia. This strategy was deployed by issuing SRBI, SVBI, and SUVBI instruments to replace monetary operations based on repo and reverse repo (RR) auctions using SBN as the underlying. Since issuing SRBI, Bank Indonesia has discontinued SBN RR auctions for monetary operations across all tenors, excluding the 1-week tenor for the operationalization of the BI-Rate in the money market and some of the 3-month tenors as a reference for calculating burden sharing with the Government in accordance with the Joint Decree (KB) concerning State Budget (APBN) financing by Bank Indonesia during the Covid-19 pandemic. This pro-market monetary operations strategy aims to ensure that more SRBI are traded in the secondary market, thereby accelerating money market and foreign exchange market deepening in Indonesia. Its development is truly impressive, as reflected in the rapid increase of SRBI transactions in the secondary market. Average daily SRBI transactions in the secondary market in the second semester of 2023 reached just Rp3 trillion before increasing rapidly to Rp10 trillion as of October 2024 (Graph 29.a.). This indicates that SRBI issuances have effectively deepened the money market and foreign exchange market by significantly increasing transactions in the secondary market, while also demonstrating the ability of the banking industry and other market participants to manage their liquidity and investment portfolios, which previously depended upon monetary operations with Bank Indonesia. Furthermore, the rapid proliferation of SRBI transactions in the secondary market has successfully reduced PDs transactions in the money market and foreign exchange market, which currently account for approximately 47% of Bank Indonesia's monetary operations (Graph 29.b.). Such positive developments are inextricably linked to Bank Indonesia policy to restructure market participants through the selection of PDs to boost transactions and interconnections between participants in the money market and foreign exchange market.

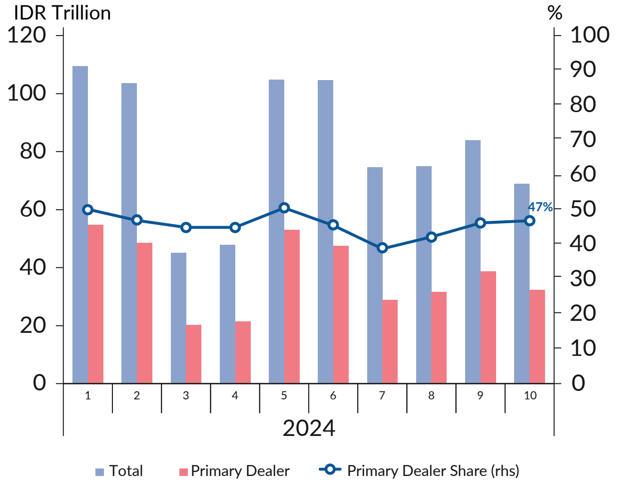
Bank Indonesia continued strengthening synergy with the Government and the KSSK for financial market development in terms of financial education and literacy, as well as enhancing sources of economic financing. Synergy through the Coordination Forum for Development Financing through Financial Markets (FK-PPPK) continued by following up various regulations as mandated by the P2SK Act. Furthermore, FK-PPPK synergy was also directed at expanding the retail

Graph 29.a. SRBI Transactions in the Secondary Market by Tenor



Source: Bank Indonesia

Graph 29.b. Primary Dealer Transactions in Monetary Operations with Bank Indonesia



Source: Bank Indonesia

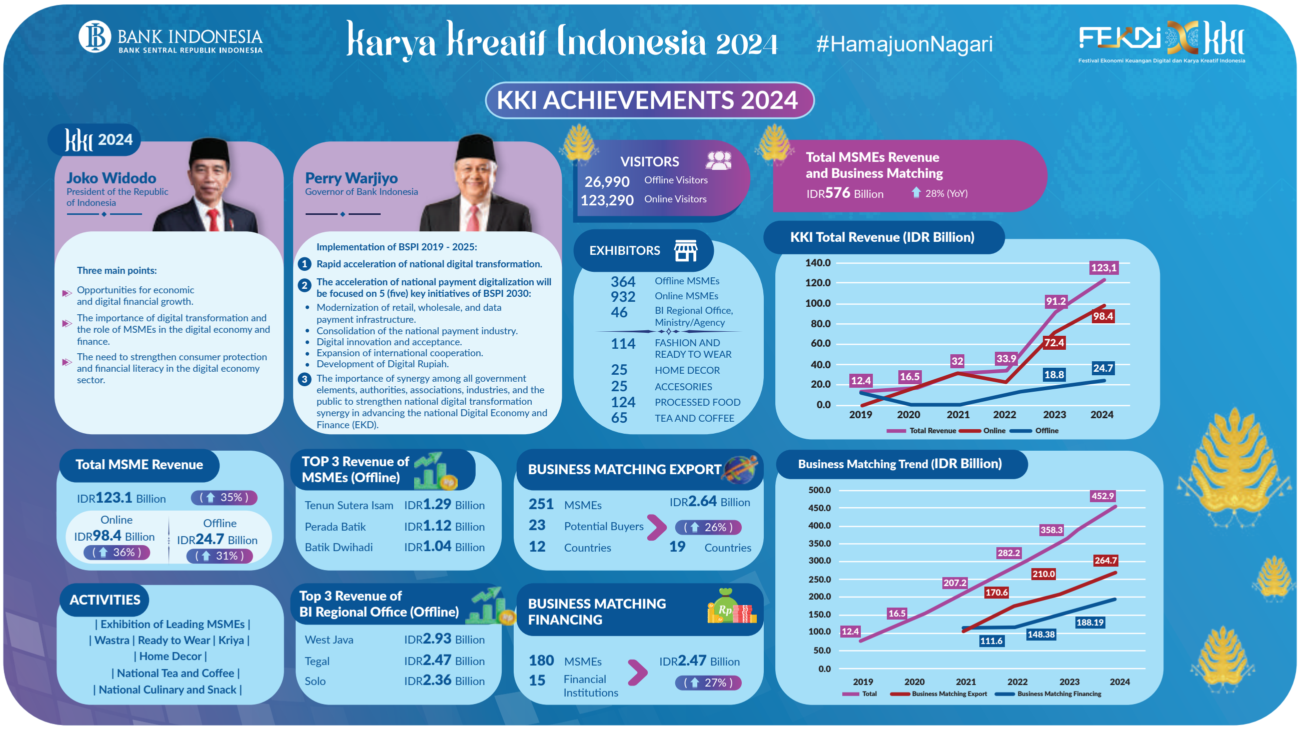
investor base through the LIKE IT financial literacy campaign. In 2024, the financial education and literacy program targeted the younger generation to increase their participation in terms of investment in the financial market as part of their financial planning education and simultaneously how the investment will subsequently play an important role in terms of increasing the savings and financing of the national economy. The ease of investing in the financial market is also supported by faster payment system digitalization and retail investment innovation, which the banking industry and securities companies continue to develop and offer. In addition to the younger generation, the financial literacy program also targeted businesses in the MSMEs sector, piloting sustainable finance and derivative transaction instruments (environmental, social and governance, or ESG). In addition, synergy and strengthening were both used to harmonize tax regulations in the money market, supporting the development of money market instruments as a source of national economic development financing.

Development of the Sharia Economy and Finance and MSMEs

Bank Indonesia continued strengthening synergy to accelerate development of the green and inclusive economy and finance in pursuit of sustainable economic growth. In this regard, MSME development is carried out through three strategic pillars, as follows: (i) inclusive economic and financial empowerment; (ii) development of the green economy and finance; and (iii) synergy and collaboration. Inclusive economic and financial empowerment is achieved through programs to level up MSMEs, increase the subsistence level, expand market access, expand access to finance, and increase financial literacy. Meanwhile, development programs for the green economic-finance aim to increase green financial literacy, strengthen the green economy and finance ecosystem, and increase access to green finance. Both programs extend beyond studies and reviews to include the development of business models, pilot projects, replication efforts for business expansion, entrepreneurship education as well as the expansion of access to markets and finance. Implementation is conducted through MSMEs development programs at all 46 Bank Indonesia representative offices across Indonesia. The products of MSMEs under the mentorship of Bank Indonesia, including fabrics and modern fashion as well as food and beverages, including coffee, are recognized as national flagship products that have been marketed internationally. In implementing these inclusive and green economic-finance programs, Bank Indonesia collaborates in close synergy with the Government and the OJK, and play an active role nationally and internationally.

The synergy between Bank Indonesia and ministries/agencies, as well as all other strategic partners, continues to be strengthened to promote the development of competitive MSMEs. Bank Indonesia has consistently supported the National Movement of Promoting Pride in Indonesian-made Products and the Proud to Travel in Indonesia (BBI and BBWI) to increase the use of quality MSME products throughout the community. Bank Indonesia has proactively and consistently initiated various programs and activities at all regional Bank Indonesia representative offices, including business matching for financing and exports, MSMEs onboarding and MSMEs capacity building. Close synergy in MSMEs development also manifested in the Karya Kreatif Indonesia (KKI) 2024, which was held in conjunction with the Indonesia Digital Economy and Finance Festival (FEKDI) in August 2024. Through close synergy between Bank Indonesia, government ministries/agencies, associations, the industry, and potential buyers/aggregators, the KKI exhibition in 2024 performed impressively. Nearly 27,000 visitors attended the event in person and approximately 123,000 visited the event virtually, with MSMEs revenue and business matching increasing by 28% to reach Rp576 billion (Figure 5.). The success of the KKI event in 2024 is expected to motivate MSMEs to increase their creativity, innovation, and spirit of growth to become Indonesian MSMEs that can level up, being digitally savvy, and go global, thereby supporting sustainable economic growth.

Figure 5. Karya Kreatif Indonesia (KKI) 2024 Achievements at a Glance



Source: Bank Indonesia

Bank Indonesia continued to develop an inclusive and green national sharia economy and finance. The development was implemented through 3 (three) strategic pillars as follows: (i) strengthening the halal product ecosystem (halal value chain); (ii) strengthening Islamic finance; and (iii) strengthening application of the halal lifestyle. In 2024, strengthening the ecosystem for halal products remained focused on halal food and beverages, as well as modest Muslim fashion. The development of halal food and beverages was pursued through coordinating the development of community-based food commodity business models, including pesantren communities, and assisting in the acceleration of halal product certification processes. Meanwhile, the development of modest Muslim fashion was pursued by strengthening synergy between Bank Indonesia with designers and curators to use flagship MSME products under the mentorship of Bank Indonesia to be featured at various prominent fashion shows, such as the Indonesia International Modest Fashion Festival (IN2MOTION) held in conjunction with the 11th Indonesia Sharia Economic Festival (ISEF) in 2024. Meanwhile, Bank Indonesia has strengthened Islamic finance through KLM liquidity incentives targeting sharia banks to nurture financing to more inclusive and green sectors. The digitalization of zakat, infaq, sadaqah and waqf (ZISWAF) was supported by further development of the halal certification process and Satu Wakaf Indonesia (SWI) application that was launched in 2023. Strengthening the halal lifestyle, Bank Indonesia was fully committed to hosting Sharia Economic Festivals (FESyar) in three regions, namely Java, Sumatra and Eastern Indonesia, as part of the 'road-to' activities for the 11th ISEF in 2024, held in Jakarta.

The close synergy of all stakeholders in the development of Islamic economics has successfully supported the flagship programs FESyar and ISEF 2024. Solid synergy between Bank Indonesia and the National Islamic Economy and Finance Committee (KNEKS), relevant government ministries/agencies and other strategic partners, including international organisations, such as the Islamic Development Bank (IsDB), International Islamic Financial Market (IIFM), International Islamic Liquidity Management Corporation (IILM) and Islamic Financial Services Board (IFSB), again realized a successful series of FESyar and ISEF activities in 2024

Figure 6. Achievements of the 11th Indonesia Sharia Economic Festival (ISEF) 2024

Source: Bank Indonesia

for the 11th consecutive year. In 2024, a total of 71 ISEF activities attracted nearly 1.5 million visitors, 5,143 businesses that realized revenue totaling Rp115 billion, as well as 218 designers putting on 20 parades and 1,622 looks at the IN2MOTION Festival (Figure 6.). Total transaction value during the ISEF increased to Rp1.9 trillion, consisting of Rp641 billion in financing commitments and realization, Rp295 billion in trade commitments and realization, and Rp1 trillion in the form of Islamic finance ecosystem cooperation. Bank Indonesia expressed its utmost appreciation to all parties that collaborated in synergy to support the success of the flagship FESyar and ISEF program in 2024 and advance the Islamic economy and finance in Indonesia.

International Policy

Bank Indonesia continued implementing international policy in close synergy with the Government to strengthen macroeconomic stability and resilience in pursuit of Indonesia's economic interests on the international stage. Against a backdrop of persistently high global uncertainty, cooperation with international partners through the Global Financial Safety Net (GFSN) continues to be strengthened. In 2024, the Local Currency Bilateral Swap Arrangement (LCBSA) with Bank Negara Malaysia (BNM) was strengthened by increasing the value of the facility to MYR24 billion or Rp82 trillion for the upcoming five-year period. In addition, the LCBSA and Bilateral Repo Agreement (BRA) with the Monetary Authority of Singapore (MAS), and the Bilateral Swap Arrangement with the Bank of Japan (BoJ) were also extended. In synergy with ASEAN+3 members, Bank Indonesia also agreed the settings of the new Regional Financing Arrangement (RFA) in the form of Rapid Financing Facilities (RFF). Such cooperation has strengthened the external resilience buffer in Indonesia that was previously developed through cooperation with the Federal Reserve and Bank for International Settlements (BIS). Bank Indonesia continues to highlight three important aspects at various international forums in response to the rapid changes in global uncertainty dynamics as follows: (i) emphasizing the importance of a central bank policy mix to maintain macroeconomic stability; (ii) emphasizing the important role of international financial institutions in providing guidance to emerging markets and developing economies using the policy instruments available; and (iii) encouraging the strengthening fiscal and monetary policy coordination as well as structural reforms.

Bank Indonesia also continued expanding agreements and promoting the implementation of local currency cooperation to support efforts to maintain exchange rate stability. Bank Indonesia has expanded LCT cooperation with the Reserve Bank of India (RBI) and Central Bank of the United Arab Emirates (CBUAE), following previous agreements with China, Japan, Malaysia, Thailand, South Korea, and Singapore. In September 2024, LCT cooperation with the Bank of Korea (BoK) entered a new phase with the commencement of LCT implementation stages. Businesses, therefore, have the option to settle their cross-border payment transactions based on direct exchange rate quotations provided by Appointed Cross Currency Dealers (ACCD). LCT cooperation also works in synergy to facilitate QR transactions with partner countries. Moreover, Bank Indonesia initiated the preparation of an ASEAN LCT Framework as a follow-up action to Indonesia's ASEAN Chairmanship in 2023. The framework will serve as guidance in the implementation and promotion of LCT as well as mitigating exchange rate stability risk in the ASEAN region. Domestically, the role of the National Task Force (Satgas) LCT, established since 2023, has also been strengthened to accelerate LCT implementation.

Bank Indonesia actively enhanced bilateral non-financial corporation to accelerate central banking capacity and nurture cooperation in the payment system space. Bilateral cooperation with partner central banks in the area of Structured Bilateral Cooperation (SBC) continues to be implemented by focusing on various central banking duties (monetary, macroprudential, payment system) and other specific areas, such as the sharia economy and finance, green economy, anti-money laundering (AML), combating the financing of terrorism (CFT) and financing the proliferation of weapons of mass destruction (WMD). Since initiation in 2015, Bank Indonesia has implemented SBC cooperation with 12 partner central banks, including the Federal Reserve (the Fed), Bank of England (BoE) and People's Bank of China (PBoC). SBC is cooperation is essential as it enhances Bank Indonesia's capacity in central banking and reflects Bank Indonesia's institutional leadership role among regional central banks.

Cooperation in the field of payment systems is also continuously strengthened to increase cross-border payment connectivity. In 2024, bilateral payment system corporation was strengthened with the BoK and CBUAE to establish cross-border payment connectivity. At the regional level, Bank Indonesia and other ASEAN members expanded RPC cooperation. RPC was initially signed in November 2022 by ASEAN-5 central banks (Bank Indonesia, Bank Negara Malaysia, Monetary Authority of Singapore, Bank of Thailand, and Bangko Sentral ng Pilipinas). RPC members now total eight countries after the State Bank of Vietnam, Brunei Darussalam Central Bank and Bank of Laos joined the initiative. Central banks from ASEAN-5 countries and the Bank for International Settlements Innovation Hub (BISIH) also achieved progress by completing in-depth studies on fast payment connectivity in phase 3 of the NEXUS project. Cross-border payment connectivity must be nurtured to encourage faster, cheaper, transparent, and inclusive cross-border payments.

Bank Indonesia has consistently strengthened synergy with government ministries/agencies in managing positive stakeholder perception toward the Indonesian economy. Synergy has been achieved through intensive engagement and communication with rating agencies and international stakeholders. In addition, Bank Indonesia strengthened trade and investment promotion in 2024 through outreach activities for portfolio investors through targeted, thematic, and transparent strategies. Such strategies supported Indonesia in terms of maintaining its sovereign credit rating at one level above investment grade with a stable outlook from Moody's (Baa2), Standard & Poor's (BBB) and Fitch (BBB). Indonesia has even maintained a rating two levels above investment grade (BBB+) with a positive outlook from the R&I rating agency in Japan.

Bank Indonesia's increasingly strong international reputation was reflected in its chairmanship in several international cooperation forums. Bank Indonesia served as Chair of the BIS Asian Consultative Council (ACC), EMEAP Deputies Meeting, ASEAN Senior Level Committee (SLC), as well as IILM and IFSB Islamic forum. Three priority agendas of Bank Indonesia's Chairmanship of BIS are as follows: (i) Policy Mix/Integrated Policy Framework/Monetary and Financial Stability; (ii) Artificial Intelligence (AI) and cross-border payment innovations; and (iii) Sustainable finance. Discussions at the BIS ACC emphasized the need for structural reforms to increase productivity and the importance of monitoring market volatility that could be triggered by non-traditional factors, such as artificial intelligence (AI) and cross-border payment innovations. At the ASEAN SLC, Bank Indonesia led discussions on the progress of financial integration in the ASEAN region, which covers banking integration, the payment system, trade, financial inclusion, financial market development and capital flow liberalization. Bank Indonesia also served as Chair of the SLC Task Force on Sustainable Finance, which discussed the ongoing green agenda of ASEAN, including the ASEAN Taxonomy on Sustainable Finance and ASEAN Green Map. At the IILM and IFSB Islamic forum, specifically in terms of the organizational transformation and business strategy agenda, Bank Indonesia's Chairmanship was oriented toward institutional strengthening and nurturing efforts to accelerate development of the sharia economy and finance in Indonesia.

The various milestones accomplished by Bank Indonesia have further increased international recognition for Bank Indonesia as the best central bank, as reflected in the number of international awards received in 2024. The Central Banking Award presented an award for money circulation policies to 3T areas through the Sovereign Rupiah Expedition (ERB). Bank Indonesia also received the Global Islamic Finance Award in recognition of its development initiatives and leadership for the sharia economy and finance. Building on the successes of the previous year, the Bank Indonesia contact center in 2024 received various awards, including the Contact Center Award Asia Pacific (3 Gold and 1 Silver medals), and the Global Top Ranking Performers Award (2 Gold and 2 Silver) from the Contact Center World. In recognition of consistency for receiving the awards for three consecutive years, the Contact Center World presented three Certified World-Class Contact Center Awards in the categories of Helpdesk, Customer Service and Employee Wellness. Awards were also presented by HR Asia as the Best Company to Work for in Asia 2024, thereby reflecting international recognition for HR management as one of the best companies to work for. The trove of international awards received have strengthened Bank Indonesia's image as the best central bank among emerging markets.

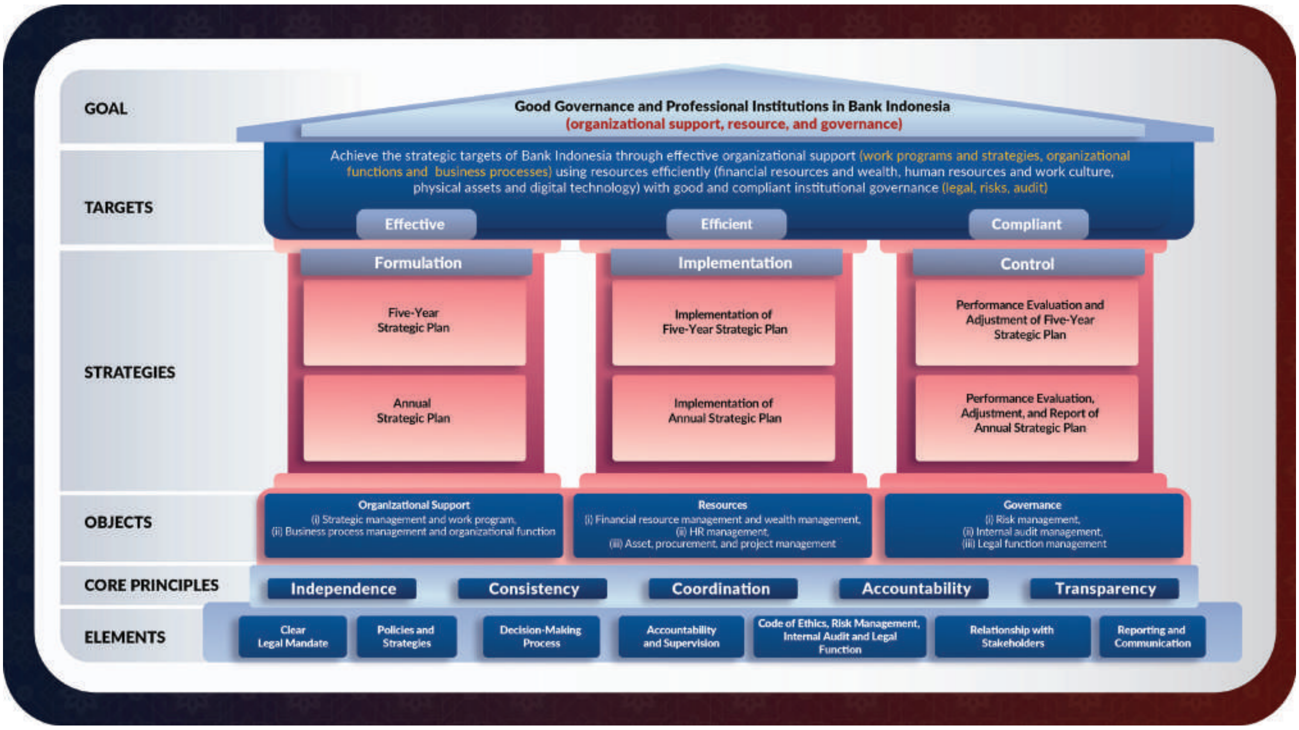
Bank Indonesia Transformation

Bank Indonesia continued implementing comprehensive transformation, which began in 2018, as a commitment in carrying out the mandate stipulated by the Bank Indonesia Act, which has been amended several times, most recently by the Financial Sector Development and Strengthening Act (P2SK Act). Transformation aims to create a credible, professional, accountable, and transparent central bank with good governance. In the policy area, Bank Indonesia continued strengthening its Main Policy Mix (BKU) framework to ensure integration of the monetary, payment system and macroprudential policy frameworks, underpinned by supporting policies to achieve Bank Indonesia's goals. Bank Indonesia strengthened its BKU framework by revisiting and amending Bank Indonesia regulations (PBI), including the PBI concerning the Bank Indonesia Policy Mix and regulations on supporting policies. Strengthening the policy framework was accompanied by business process re-engineering (BPR) to create simpler, streamlined, and standardized business processes. Policy transformation at Bank Indonesia focused on various policy functions, including development of a blueprint framework, instruments, and infrastructure. In terms of monetary policy, transformation entailed reformulating money market and foreign exchange market regulations, optimizing the implementation of integrated pro-market monetary operations, as well as forming the institutional arrangements and developing the CCP. Macroprudential policy transformation focused on strengthening instrument regulations, developing inclusive and green finance, and developing supervisory technology (SupTech). Payment system policy transformation was implemented in accordance with BSPI 2025-2030, covering infrastructure development to support the digital economy and finance ecosystem, strengthening industry competitiveness, fostering innovation, and expanding acceptance, developing cross-border payment system connectivity, and developing the Digital Rupiah.

The transformation in the institutional area focused on 4 (four) strategic areas. First, organizational and work process transformation focused on strengthening the institutional policy mix framework and improving institutional regulations as a follow-up to the P2SK Act, supported by streamlining the digital-based business processes and work processes (Figure 7.). The strengthening of the institutional policy mix framework aimed to integrate all institutional policies in order to achieve Bank Indonesia's goals. The achievement of these goals is reflected in Bank Indonesia's strategic targets through effective organizational support with the efficient use of resources and good institutional governance operationally. In its implementation, the stages of each Institutional Policy Mix (BKK) process continues to be refined and supported by the gradual implementation of digital business process re-engineering (Digital BPR) in line with the dynamic needs of the digital era. Furthermore, Bank Indonesia has also issued several regulations concerning the Bank Indonesia's Institutional Report, regulations concerning the organization, work procedures, and budget of the Bank Indonesia Supervisory Board (BSBI), as well as regulations concerning the security of information systems and cyber resilience.

Second, strengthening of organizational functions to support the effective, efficient, and compliant execution of Bank Indonesia's duties and achievement of its goals. Bank Indonesia strengthened its organizational function by focusing on the strategic framework in each area, maintaining

Figure 7. Institutional Policy Mix Framework



Source: Bank Indonesia

organizational continuity with the business processes of all work units at Bank Indonesia, current best practices as well as the infrastructure and technology support required based on the 3S Principles of Simplification, Standardization, and Systematization. In 2024, Bank Indonesia assessed its strengthening efforts in terms of organizational functions in accordance with the mandate of the P2SK Act and Bank Indonesia's efforts to promote an inclusive and green economic-financial development nationally in pursuit of sustainable economic growth. In addition, Bank Indonesia continued strengthening its organizational functions for coordination and operational support of task implementation as well as Bank Indonesia's jurisdiction in the new Nusantara Capital City (IKN).

Third, improving digital-based business process re-engineering (Digital BPR) in formulation of the Bank Indonesia's policy mix and institutional policy mix. Bank Indonesia continued refining the Digital Workplace platform to strengthen the decision-making process from the work unit level to the committee level and RDG level, ensuring aspects of effectiveness, efficiency, and compliance. This effort aimed to strengthen the Bank Indonesia's policy mix and institutional policy mix formulation and decision-making process, including the reformulating the RDG materials. In 2024, Bank Indonesia continued refining the Digital Workplace by identifying the needs, design, testing, and incremental development to support digitalization of the decision-making process.

Fourth, Digital BPR implementation was also supported by strengthening the people aspect by improving leadership, developing new capabilities and strengthening the employee value proposition (EVP). HR transformation was carried out by applying a new flagship 'work in the digital era' system, supported by various elements, such as physical and digital facilities to achieve optimal organizational performance by increasing work effectiveness, efficiency, and productivity. The new work system in the digital era is expected to improve Bank Indonesia's employee value proposition (EVP) and, ultimately, improve Bank Indonesia efforts to attract and retain the best talent. In 2024, Bank Indonesia's optimized the human resources management strategy, underpinned by the Digital Business Process (DBP) to create professional future leaders based on the 3-Smart aspects, namely competency (book smart), experience (street smart), and noble behavior (spiritual smart). In addition, human resources fulfillment transformation improved the recruitment strategy and strengthened employee career management, which aims to provide employees with solid leadership capabilities to work optimally in the digital era. Furthermore, Bank Indonesia continued strengthening its human resources capabilities through various development programs to support central bank task implementation in the digital era.

Bank Indonesia's digital transformation will continue to be strengthened in the future to support policy and institutional transformation in pursuit of Bank Indonesia's vision of becoming the foremost digital central bank. The digital transformation is undertaken through 4 (four) strategies as follows: (i) developing digital business platforms to support the policies and institutional arrangements; (ii) developing data centers to build innovative and sophisticated data analytics and create a data-driven institution; (iii) using data and artificial intelligence to drive business process transformation; and (iv) increasing the capabilities and capacity of technology infrastructure and security end-to-end. In 2024, Bank Indonesia was undertaking various development initiatives for payment system digitalization, including the development and expansion of BI-FAST features as well as the digitalization of work processes through digitalization of the Decision-Making Process (DMP). Bank Indonesia also continued the end-to-end development of its data centers by continuing to enrich content and data flow automation to support data analytics use cases in the policy and institutional area. The use of artificial intelligence (AI) and machine learning was expanded to the analysis of various monetary, macroprudential, and payment system indicators. This was done concurrently with the strengthening of data flow automation using straight-through processing (STP). Finally, Bank Indonesia continued improving the capabilities of technology infrastructure to support task implementation. Overall, broad institutional transformation will be strengthened to establish Bank Indonesia as the foremost digital central bank with strong governance, significantly contributing to the national economy and being the best central bank among emerging markets.

IV. Synergy of Policy Mix for National Economic Transformation: Strengthening Stability, Driving High Growth

The positive milestone of Indonesia's strong national economic policy mix over the past decade serves as a solid foundation for maintaining stability and accelerating higher economic growth moving forward. As mentioned in previous chapters, Indonesia's economy has maintained strong resilience, accompanied by sustainable growth. Macroeconomic and financial system stability have been maintained despite the deleterious impact of the Covid-19 pandemic and unrelenting global spillovers. Indonesia's economic growth is considered one of the best among emerging market economies (EMEs), with expansionary economic and financial cycles. These positive economic milestones in Indonesia are the outcomes of strong synergy within the national economic policy mix. Maintained stability and solid economic resilience are a corollary of close fiscal and monetary policy coordination between the Government and Bank Indonesia as well as policy coordination within the Financial System Stability Committee (KSSK). Structural transformation remains an ongoing priority to improve the investment climate, infrastructure development, mineral and mining downstreaming, as well as social protection programs for low-income earners. Close synergy within the national economic policy mix must be further strengthened to enhance national economic performance.

Moving forward, several global and domestic challenges must be anticipated to sustain higher national economic growth. Globally, there are at least 5 (five) challenges that demand vigilance. *First*, escalating geopolitical tensions and trade fragmentation could potentially trigger a trade war and disrupt international distribution channels and supply chains. *Second*, a geographical shift in global economic growth to the US and India given moderation in China and the European Union, accompanied by persistently high international commodity price volatility. *Third*, high interest rates, debt risks, and US dollar appreciation in global financial markets, which could burden EMEs heavily in terms of fiscal policy to promote economic growth and monetary policy to maintain stability. *Fourth*, a rebalancing of investment in global financial markets toward advanced economies, thus restraining portfolio investment and foreign direct investment (FDI) in EMEs. *Fifth*, the rapid pace of digital globalization that is unlocking compelling export opportunities for digital services exports and cross-border payment system cooperation, accompanied by increasing operational risks (cyber risks), which must be mitigated.

At home, there are at least 5 (five) domestic challenges that demand an optimal response in the national economic policy mix agenda to strengthen resilience and accelerate national economic performance moving forward (Figure 8.), as follows:

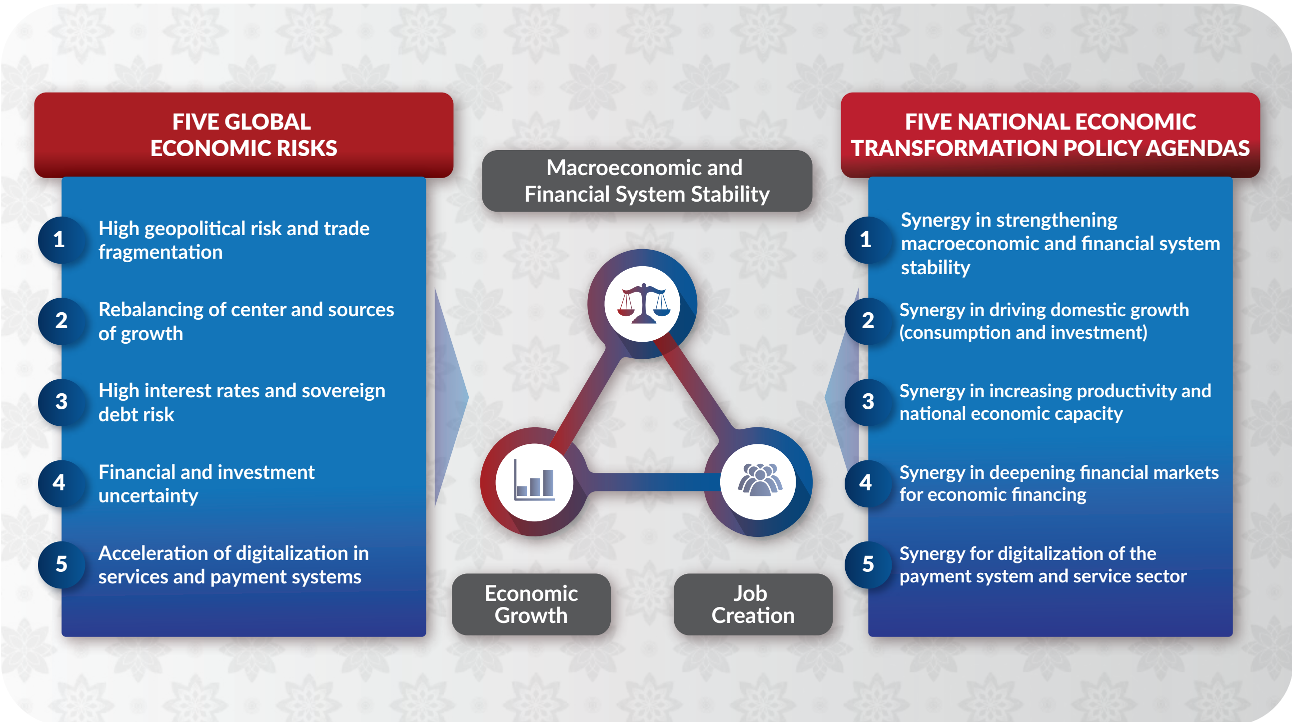
i. *First*, the importance of maintaining macroeconomic and financial system stability. As mentioned above, the dynamics of the global economy and finance will continue to change rapidly and remain full of uncertainties. Against such an inauspicious backdrop, macroeconomic and financial system stability, which has remained a pillar of resilience and economic advancement in Indonesia, must remain a top priority in the national economic policy mix moving forward. Therefore, a close fiscal and monetary policy coordination between the Government and Bank Indonesia, and coordination within the KSSK, which have remained solid, must be strengthened on an ongoing basis.

ii. *Second*, the importance to continue expanding domestic sources of growth, particularly consumption and investment, while still promoting exports underpinned by international trade cooperation. Household consumption has been more reliant on the upper-middle income groups, therefore consumption among lower-income groups need to be further increased. Economic growth has also been predominantly driven by capital-intensive sectors, while labor-intensive sectors need to be further improved, not only to support growth but also to create jobs. This can be achieved through fiscal stimulus that strike an optimal balance between productive social programs and capital spending. From Bank Indonesia's perspective, macroprudential policy will remain oriented toward accelerating bank lending to priority sectors which are drivers of growth as well as job creation.

iii. *Third*, the importance to accelerate transformation policies in the real sector to increase competitiveness and productivity, including capital, labor, as well as innovation and efficiency to achieve higher economic growth. Investment and capital must be increased by improving the investment climate, developing physical and digital connectivity infrastructure, as well as implementing development programs targeting priority sectors that support economic growth. Enhacing the quantity and quality of labor absorption must be pursued by fostering growth in labor-intensive sectors, providing fiscal stimulus for labor-intensive programs, and offering vocational education and training along with entrepreneurship.

iv. *Fourth*, the importance to accelerate financial market deepening to increase sources of national economic financing and continue attracting foreign capital inflows. Economic financing, which has relied on bank lending, must be expanded through financing from the capital market including stocks and bonds. Improving the investment climate along with bilateral trade promotion and cooperation with Indonesia's main economic partners must be intensified to attract FDI to Indonesia. Money market and financial market deepening are also critical, not only for increasing liquidity, developing hedging instruments, and lowering interest rates, but also for attracting portfolio inflows

Figure 8. Five Agendas of the National Economic Transformation Mix



Source: Bank Indonesia

and maintaining Rupiah exchange rate stability. To that end, close coordination within the KSSK Committee is vital.

v. *Fifth*, the importance to accelerate digitalization of the payment system and financial sector as well as innovative services transactions nationally and internationally. Indonesia has become one of the fastest countries in digitalization, particularly digitalization of the payment system, banking and financial services, as well as retail economic and financial transactions, which must be accelerated moving forward. Similarly, the digital innovation capabilities of Indonesia's younger generation continue to flourish and show great potential. Therefore, the development of digital-based service enterprises in various segments, including trade, micro, small, and medium enterprises (MSMEs), office and intermediary services, telecommunications and information, hotel and restaurant, and tourism, must be expanded to drive national economic growth. Moreover, programs to develop digital services transactions have significant export potential to advanced economies. Existing cross-border cooperation in digital payment systems must also be expanded moving forward.

Policy Mix Synergy for Stability

Moving forward, strengthening the macroeconomic and financial system policy mix must be continued to maintain stability in achieving sustainable economic growth. The risks posed to national economic stability and resilience stemming from the adverse impact of global spillovers are expected to increase. A strong US dollar, coupled with high US Treasury yields and risk premiums in global financial markets will intensify pressures on Rupiah exchange rate stability and prompt potential capital reversal of portfolio inflows. The external resilience of Indonesia's economy could also be disrupted by a wider current account deficit or narrower capital and financial account surplus in the balance of payments (BOP). In terms of internal stability, inflationary pressures particularly from imported inflation, are expected to rise in line with higher international commodity prices and Rupiah depreciation amid increasing domestic demand. Fiscal deficit financing could be undermined by high SBN yields and restrained portfolio inflows to Indonesia. Similarly, the adverse impact of global spillovers could exacerbate market risks (exchange rates and interest rate), liquidity risks, and credit risks in Indonesia's financial system.

Close fiscal and monetary policy coordination between the Government and Bank Indonesia must be strengthened to maintain macroeconomic stability. Fiscal policy must remain prudent by maintaining a manageable deficit of not more than 3% of gross domestic product (GDP), which has been a legacy of Indonesia's economic credibility at the international level. To that end, the fiscal deficit in the 2025 State Budget (APBN) remains prudent at just 2.53% of GDP, indicating sustainability, strengthening, and acceleration during the transition to a new government administration, while setting a solid foundation toward the 2045 Golden Indonesia (Figure 9.). State revenues in 2025 increases by 7.2% from 2024 to Rp3.005,1 trillion, supported by higher tax revenues and non-tax state revenues (PNBP). State expenditures will increase by 8.9% in 2025 to Rp3,621.3 trillion, striking an optimal balance between budget allocations for social programs and capital expenditure as well as balance between stability and economic growth. Similarly, budget financing for the fiscal deficit totaling Rp616.2 trillion will be pursued sought by optimizing program loans and issuing SBN in domestic and global financial markets. Meanwhile, monetary policy will remain focused on achieving the inflation target set by the Government at 2.5±1% in 2025 and 2026. Rupiah exchange rate stability will be maintained to achieve the inflation target and to sustain macroeconomic and financial system stability, to develop business, as well as to drive national economic growth. Fiscal and monetary policy coordination is reinforced in the formulation of realistic macroeconomic assumptions in the 2025 APBN, balancing between stability and growth targets, with economic growth set at 5.2%, inflation within the 2.5±1% target corridor, average benchmark 10-year SBN yield at 7.0%,

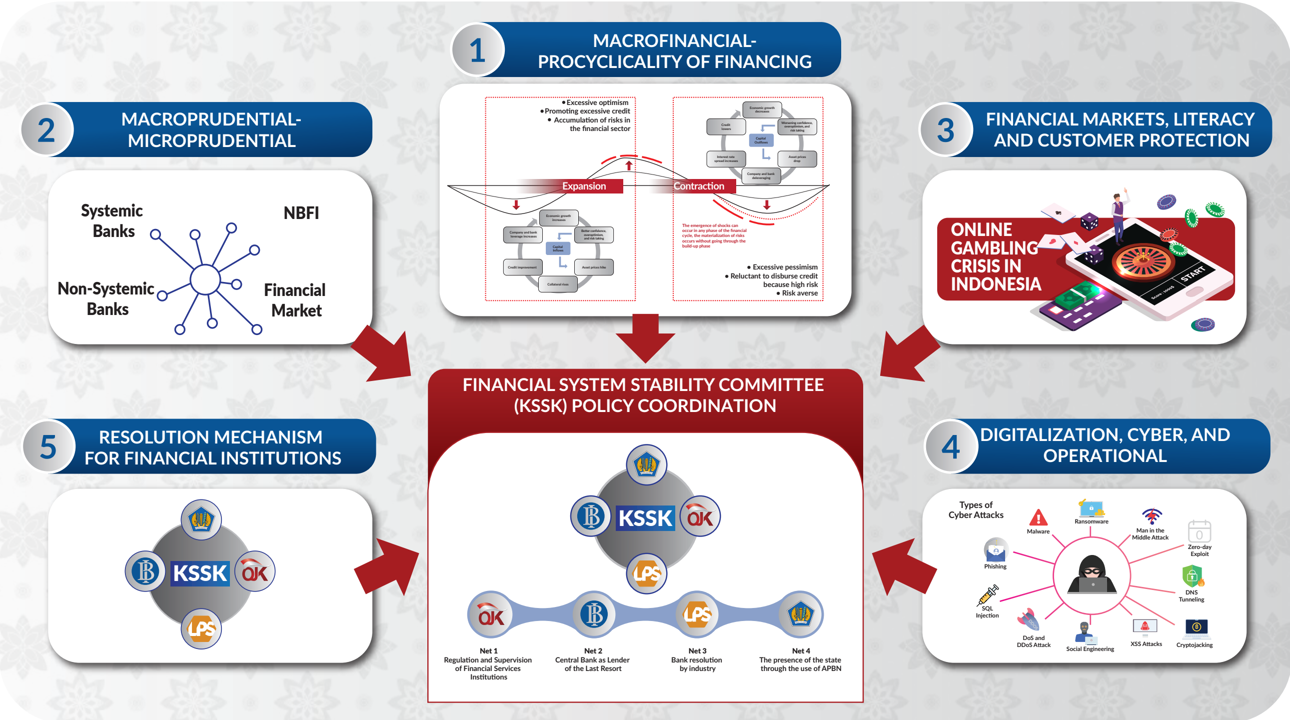
Figure 9. State Budget (APBN) in 2025

Source: Ministry of Finance

and an average exchange rate of Rp16,000 per US dollar. Close policy coordination is also important in government bond issuance policy (domestic and global) for budget deficit financing, as well as to serve as consideration for monetary policy in inflation control and exxchange rate stability, based on global financial market conditions. This close coordination is carried out in annual planning and its monthly implementation, covering the amount, interest rates, and timing according to the dynamics in the domestic and global financial markets. Monetary and fiscal policy coordination between Bank Indonesia and the Government is also close in terms of inflation control, particularly in managing administered prices and volatile food inflation through the Central and Regional Government Inflation Control Teams (TPIP and TPID).

Policy synergy within the KSSK is oriented toward strengthening financial system stability to ensure a greater resilience against the impact of global spillovers and to increase economic financing, including inclusive and green finance. The KSSK meetings (Ministry of Finance, Bank Indonesia, the OJK, and the LPS) are held on a quarterly basis to assess the condition of financial system stability in Indonesia and institute the necessary coordinated policy measures. The focus of policy coordination is oriented toward five critical aspects, namely: (i) coordination of economic financing; (ii) coordinated macroprudential and microprudential supervision; (iii) coordination of financial market deepening as well as financial education and literacy; (iv) coordination of operational risk and cyber attack surveillance; (v) coordination of resolution for financial institutions (Figure 10.). To that end, monetary and fiscal policy synergy between Bank Indonesia and the Government to maintain financial system stability is oriented toward inflation control, Rupiah exchange rate stability, SBN rates and issuances for budget financing against the negative impact of global spillovers. In preserving the stability of the banking system, close coordination is maintained between the macroprudential supervision policy of Bank Indonesia in terms of macro-financial linkages among large banks and the microprudential supervision policy of the OJK to maintain the health of all individual banks. The OJK is also strengthening its supervision of nonbank financial institutions, the capital market, FinTech industry, and consumer protection in financial services. The LPS continues

Figure 10. Policy Coordination within the KSSK Maintains Financial System Stability



Source: Bank Indonesia

strengthening deposit guarantees and bank resolution in close coordination with the OJK and Bank Indonesia in accordance with respective authority and jurisdiction. The simulation of coordination readiness among the four KSSK institutions, as well as bilaterally in handling issues in the financial sector, continue to be enhanced. Furthermore, the KSSK coordination is enhanced to complete all regulations in accordance with the P2SK Act. Overall, P2SK Act implementation is bolstering the development and the strengthening of financial sector, to support financial system stability and economic financing for sustainable economic growth moving forward.

Policy coordination between the Government and Bank Indonesia will also be intensified in the management of foreign exchange flows to strengthen external resilience against the impact of global spillovers in line with national goals for economic stability and growth. In principle, Indonesia implements a free foreign exchange regime, allowing residents to obtain, hold, and use foreign currencies freely. As a member of the International Monetary Fund (IMF), Indonesia is also required to maintain free movement of foreign exchange originating from international trade and investment. As an EME with an open economy, such a foreign exchange regime influences macroeconomic and financial system conditions in Indonesian. Therefore, external resilience to the adverse impact of foreign exchange flows is strengthened through prudent fiscal and monetary policy coordination between the Government and Bank Indonesia. Macroeconomic policy is also accompanied by the trade and investment policies of the Government. If the macroeconomic policies instituted by the Government and Bank Indonesia are no longer effective in mitigating the negative risks posed by foreign exchange flows leading to potential macroeconomic and financial system instability, further administrative regulations and policies may be adopted, including taxes, mandatory retention and repatriation of foreign exchange as well as restrictions on foreign exchange. The Government may issue policies to optimize the foreign exchange proceeds of natural resources exports, as implemented in Government Regulation Number 36 of 2023 concerning the Foreign Exchange Proceeds of Exports and the Exploitation, Management and/or Processing of Natural Resources

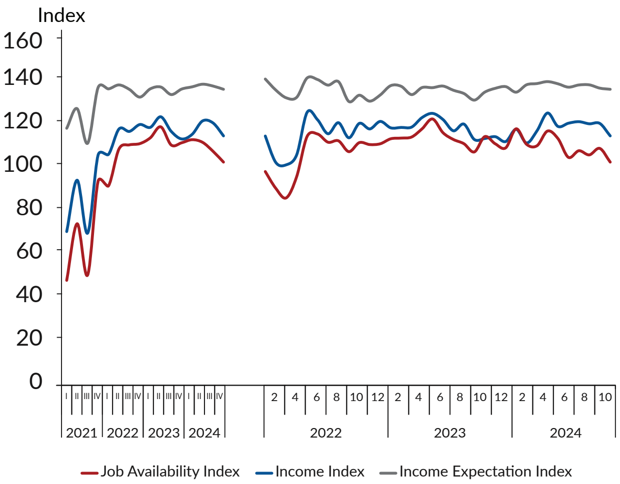
(PP DHE SDA). The implementation of this Government Regulation has several advantages, which include retaining a larger amount of foreign exchange in the domestic banking industry for economic financing and financial market deepening. It is important to note that this regulation only applies to the export activities of residents in terms of natural resources and remains consistent with the foreign exchange regime adopted by Indonesia.

Policy Mix Synergy for Domestic Demand

National economic policy mix synergy must be strengthened to drive domestic demand, both consumption and investment, to pursue higher economic growth prospect. As elucidated in chapter two, economic performance in Indonesia is considered one of the best among EMEs. Nevertheless, consumption growth has remained below 5% and, thus, requires stronger economic policy synergy to stimulate consumption. This was also reflected in the Bank Indonesia Consumer Survey, indicating that economic growth has relied on high-income earners (upper income group). The survey shows that the current income index among this income group is supported by job availability. Notwithstanding, their future expectations of income are expected to moderate, leading to a higher propensity to place savings in financial assets for investment, specifically SBN. Regarding the middle-income group, the survey points to an improving current income index yet declining job availability index and income expectation index (Graph 30.a). In the lower income group, the current income index is moderating despite an improvement in the farmers' terms of trade (NTP), accompanied by a decline in the job availability index and income expectation index (Graph 30.b). This heterogeneous consumption trend explains how corporate sales activities increasingly rely on food and basic services to meet essential needs. This has led to weaker residential and commercial property investment (Graph 31.a). Similarly, the Purchasing Managers Index (PMI) in new orders, including exports, is also moderating (Graph 31.b). Such developments demonstrate the need for national economic policy synergy to drive private consumption, particularly among the lower-middle income groups, by ensuring job availability and thereby increasing incomes in the future.

National economic policy mix synergy is also required to expand sectors driving economic growth in the future. As explained in chapter two, economic growth since the Covid-19 pandemic has not fully recovered and continues to rely on export and consumption from upper-middle income groups. This condition is reflected in the growth contribution of sectors such as mining, manufacturing industry,

Graph 30.a. Survey of Consumer Expectations in Middle Income Group

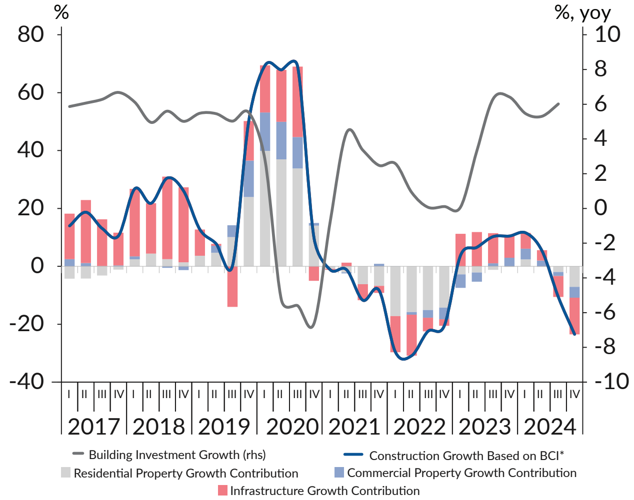


Source: Bank Indonesia

Graph 30.b. Survey of Consumer Expectations in Lower Income Group

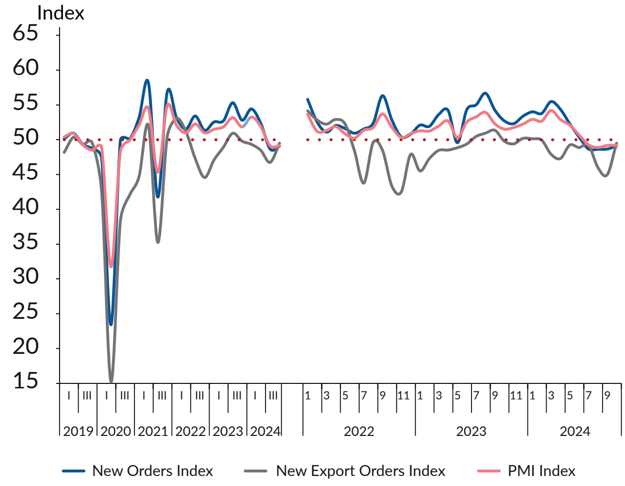
Source: Bank Indonesia

Graph 31.a. Investment Growth in Construction and Property Sector



Note: *Data as of Oct'24
Source: Building Construction Information (BCI), BPS

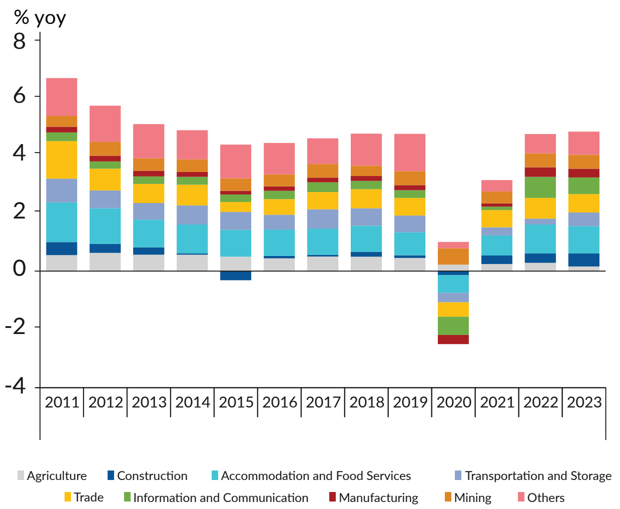
Graph 31.b. Purchasing Managers Index (PMI): Export and Domestic Orders



Source: PMI Markit

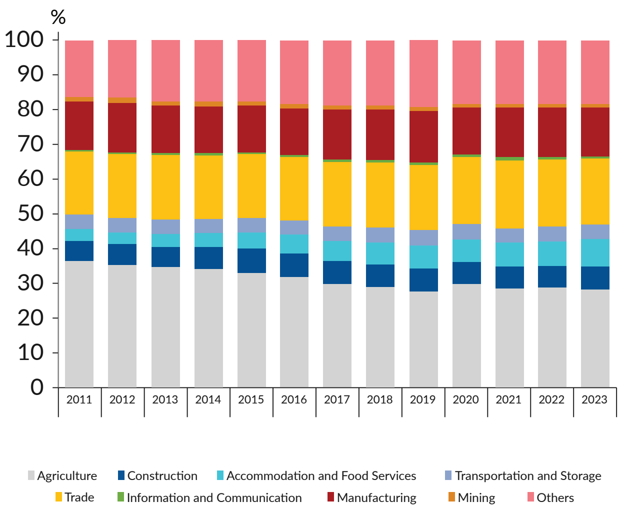
wholesale trade, and construction (Graph 32.a) with relatively low labor absorption (Graph 32.b). Meanwhile, labor-intensive sectors, such as agriculture, accommodation and food service activities, the manufacturing industry, retail trade, information and communication, and other service sectors have not fully recovered due to the lasting scarring effect from the pandemic. As a corollary of effective downstream mineral and coal mining policy, for example, the growth contribution of the mining sector recorded a threefold increase to 0.39% in 2022-2023, from 0.13% in 2011-2019 period. Notwithstanding, labor absorption in the mining sector remains comparatively low and unchanged since the pre-pandemic period at 1.16% of the national total. In the same period, the agricultural sector has in fact experienced declines in terms of growth contribution (from 0.52% to just 0.22%) and labor absorption (from 32.35% to 28.41%). Absorbing 14.0% of the national workforce, the growth contribution of the manufacturing industry has fallen from 1.01% to 0.98% due to a reliance on large-scale industries. Similarly, trade sector growth, with labor absorption of 19.17%, has not fully recovered, as indicated by a slightly lower growth contribution of approximately

Graph 32.a. Growth Contribution by Sectors



Source: BPS

Graph 32.b. Labor Composition by Sectors



Source: BPS

0.68% as most labor is still absorbed in the wholesale trade subsector. Absorbing 6.44% of the labor, the construction sector has experienced a significant decline in growth contribution from 0.63% to just 0.34% in the same period. Likewise, growth of accommodation and food service activities as well as the others sector must be accelerated due to the sectors' ability to absorb 7.41% and 18.34% of total labor, respectively.

The Asta Cita government program contains several priority programs formulated to develop economic sectors that can create job opportunities. This program is expected to simultaneously increase private consumption lower-middle income groups. The priority sectors include downstream agriculture and fishery, housing (public housing), micro, small and medium enterprises (MSMEs), tourism and the creative economy. More specifically, downstreaming the food subsector is a priority government program based on three important considerations. First, food downstreaming can further accelerate agricultural sector growth, create massive job opportunities and, therefore, increase private income and consumption. Second, food downstreaming would strengthen price stabilization and inflation control policies, which are critical for macroeconomic stability nationally, public purchasing power and prosperity. And third, food downstreaming would also lower the need for food imports, which have tracked an upward trend over the past five years, conserve foreign exchange, and thus strengthening external economic resilience in Indonesia against international commodity price shocks (Table 8). The main challenge is that harvest area and productivity are declining, thereby requiring an agricultural downstreaming program to overcome these economies-of-scale issues. Therefore, an agricultural downstreaming program is required with integrated end-to-end business models from cultivation by the farmers supported by the provision of inputs and technology, to post-harvest management, processing into downstream products to increase value added, and marketing at the consumer level (Graph 33). Furthermore, the food downstreaming program must be implemented in the form of business models based on the core concept of parent business entities for subsidiary farmer groups with unambiguous rules and regulations. Implementable business models are needed that fulfill business and financial feasibility requirements to ensure access to finance from the banking industry and other sources. The use of digital technology can be applied from the cultivation process to post-harvest management and marketing to consumers (Figure 11.). It is important to note that Bank Indonesia has already developed a small-scale food downstream business

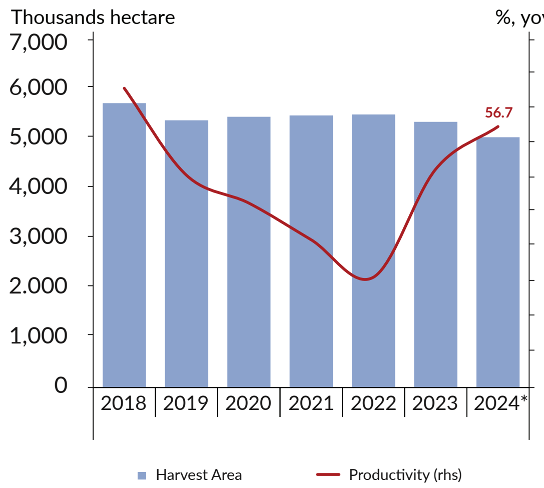
Table 8. Major Food Imports from 2018-2023

In Thousand Tons

Commodity	2019	2020	2021	2022	2023	2024*
Rice	444.5	356.3	410.4	429.2	3,062.85	3,227.75
Wheat Kernels	10.7	10.3	11.4	9.5	10.9	9.5
Maize	1,016.68	869.87	996.00	1,094.22	1,235.84	1,220.40
Soybean	2,670.64	2,475.48	2,489.17	2,325.06	2,274.95	2,162.23

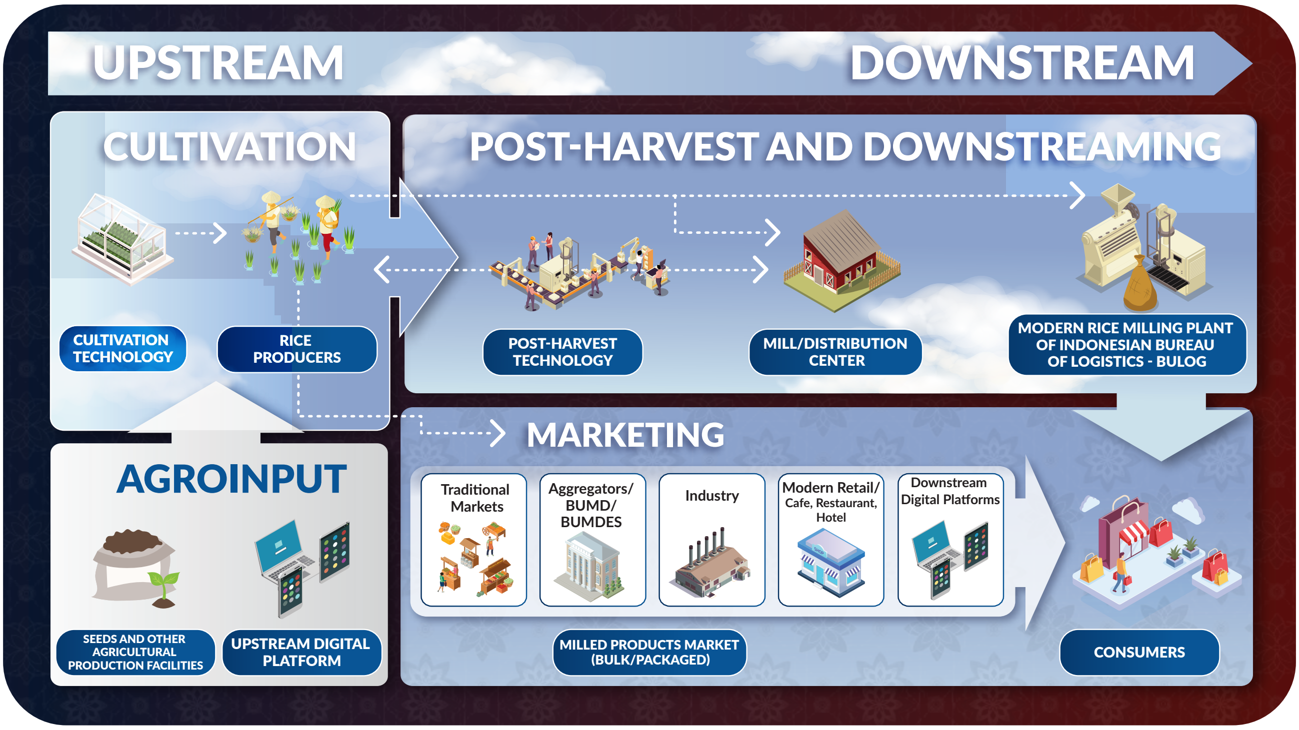
Note: *Data as of Sept'24
Source: BPS

Graph 33. Harvest Area and Agricultural Productivity in Java Region



Note: *Data as of Sept'24
Source: BPS

Figure 11. Generic Food Downstreaming Business Model



Source: Bank Indonesia

model based on this concept for commodities high contribution to inflation, namely rice, shallots, and various chili varieties at several regional representative offices.

The Government has oriented fiscal policy toward supporting several priority programs to improve public welfare and accelerate agricultural downstreaming. In the 2025 State Budget (APBN), for example, Rp71.0 trillion has been allocated to the free nutritious meal program through the formation of a National Nutrition Board. This program is expected to improve public welfare, particularly for expectant and breastfeeding mothers, toddlers, and students from preschool to secondary school. The Government has also allocated Rp20 trillion to the school renovation program to rehabilitate classrooms, furniture, and sanitation facilities, in addition to Rp2 trillion for the Integrated Flagship School program to develop and build flagship schools in four locations. In terms of agricultural downstreaming, the Government has earmarked Rp15 trillion for the national, regional, and village food reserves program through agricultural intensification and extensification (Figure 12.). In addition to public prosperity programs, the Government has also directed fiscal policy toward nurturing priority sectors with high job creation through fiscal incentives to improve financial feasibility and obtain funding/financing from the banking industry. Such policies can also be applied to development programs targeting MSMEs, the creative economy, tourism industry as well as downstream agricultural and fishing sectors. This will require clear business models as well as business and financial feasibility to meet the financing requirements of the banking industry through fiscal incentives.

Fiscal and macroprudential policy synergy between the Government and Bank Indonesia must be strengthened in the implementation of priority programs to foster economic sectors that create job opportunities and simultaneously increase private consumption. To that end, the Government must design concrete programs with clear business models to meet the business and financial feasibility requirements to apply

Figure 12. New Government Quick Wins Program 2025

New Government Quick Wins Program 2025
to be implemented by government ministries/agencies

Free Nutritional Food IDR71.0 Trillion	Free Health Checks IDR3.2 Trillion	School Renovation IDR20 Trillion	National, Regional, and Village Granaries IDR15 Trillion*
Provide lunches for expectant mothers, breastfeeding mothers, toddlers and students at all education levels (preschool, primary and secondary, including public, vocational and religious education)	Free health checks for 52.2 Million residents, including hypertension, blood sugar and x-rays to screen for catastrophic illnesses **Development of Quality Regional Hospitals IDR1.8 Trillion** Improving Type-D hospitals to Type-C hospitals, including infrastructure and medical equipment	**Renovating classrooms, furniture, and bathroom facilities** Ministry of Public Works and Housing will coordinate with Ministry of Education, Culture, Research and Technology and the Ministry of Religious Affairs concerning the location ofschools to renovate **Integrated Flagship Schools IDR2 Trillion** Development and Construction of flagship schools at four locations	**Ministry of Public Works and Housing IDR7.5 Trillion** **Ministry of Agriculture IDR7.5 Trillion** • Intensification of 80,000 ha • Extensification of 150,000 ha
National Nutrition Board	**Ministry of Health**	**Ministry of Public Works and Housing, Ministry of Education, Culture, Research and Technology, Ministry of Religious Affairs**	**Ministry of Public Works and Housing Ministry of Agriculture**

Source: Ministry of Finance

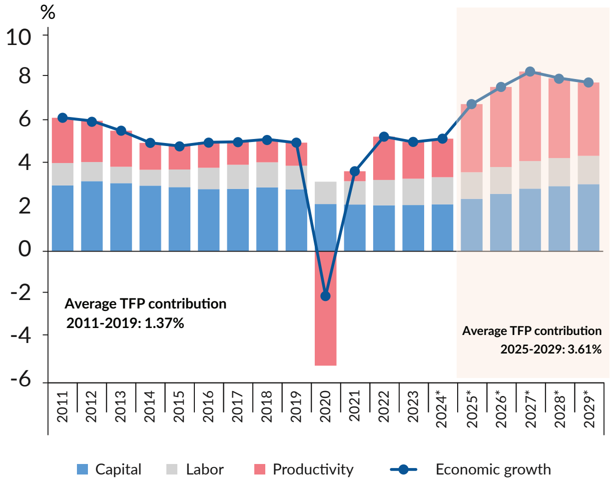
Note: *Excluding Extensification by State-Owned Enterprises and Other Appointed Institutions

for loans/financing from the banking industry and/or other financial institutions through fiscal incentives in the form of subsidized interest rates and/or other incentives. Meanwhile, Bank Indonesia can orient Macroprudential Liquidity Incentive (KLM) Policy toward encouraging banks to offer loans/financing to priority sectors that meet the requirements in line with prudent credit disbursement rules. Such fiscal and macroprudential policy coordination between the Government and Bank Indonesia has already been applied to MSMEs and the housing sector, specifically public housing. In terms of KUR disbursements, for instance, the Government can set which sectors are eligible for financing, the requirements, and fiscal incentives in the form of subsidized interest rates. For the public housing program, the Government provides fiscal incentives in the form of subsidized interest rates and assistance for the administration costs, which are adjusted based on the type of residence to be financed. Meanwhile, Bank Indonesia provides KLM to banks extending KUR and loans/financing to the public housing sector in accordance with government regulations. Such fiscal and macroprudential policy synergy can be expanded to other sectors that create job opportunities and, therefore, increase private income and consumption in pursuit of sustainable economic growth.

Policy Mix Synergy for Economic Capacity

Broad-based synergy in terms of national economic transformation policy is required by the Government to achieve high growth without triggering instability. The current level of economic growth achieved by Indonesia, at around 5%, predominantly stems from the contributions of capital, labor, and productivity, which remain relatively low. According to the Ministry of National Development Planning/National Development Planning Agency (PPN/Bappenas), total factor productivity (TFP) to GDP growth from 2011-2019 averaged just 1.37% and, consequently, must be increased threefold to 3.61% from 2025-2029 to achieve economic growth of around 8% in 2029 (Graph 34). This is an enormous task as it requires increased investment, productivity, and economic

Graph 34. Sources of Growth: Contribution of Capital, Labor, and Productivity

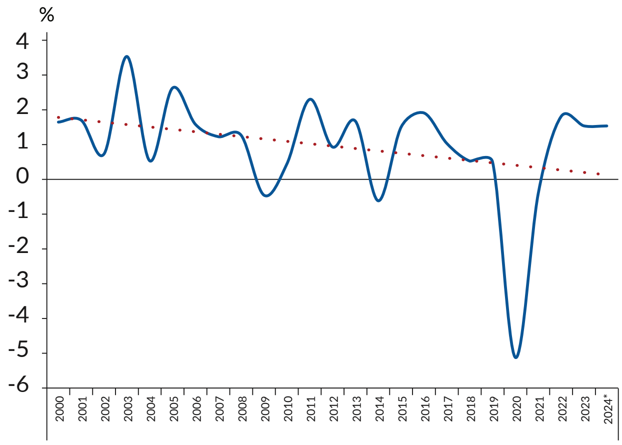


Note: *Projection
Source: Ministry of National Development Planning/National Development Planning Agency (PPN/Bappenas)

efficiency in Indonesia. Regarding productivity, the contribution of TFP to GDP since 2000 tracked a downward trend before turning a corner in 2022, primarily due to progress in terms of downstreaming mineral and coal mining (Graph 35.a). Furthermore, efficiency and investment are also low, as reflected by a high trending Incremental Capital Output Ratio (ICOR), which restrains the contribution of capital to GDP growth (Graph 35.b). In addition, the value of FDI in Indonesia is relatively low, resulting in a ratio of capital to GDP of less than 20%, which is far below Malaysia, Thailand and Vietnam, which have reached approximately 50% of GDP (Graph 36.a). Compared to Vietnam, the value of inward FDI to Indonesia, specifically from South Korea, Japan, and Taiwan to the textiles industry, electronics, retail trade, as well as consumer goods and services, is also low (Graph 36.b). Investment in these labor-intensive sectors is required to strike an optimal balance with capital-intensive sectors for high growth by increasing national economic capacity or, on the demand side, boosting consumption and investment.

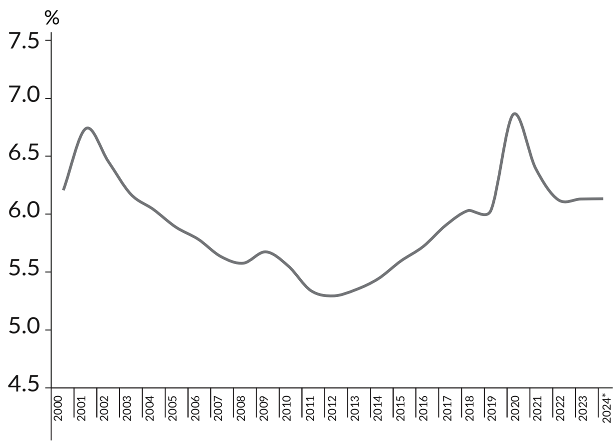
End-to-end implementation of a comprehensive national economic transformation policy is required in terms of increasing capital, job creation, and productivity. This is important for achieving high economic growth and creating job opportunities sustainably (Figure 13.). Transformation policy must be directed toward improving the investment climate, accelerating investment realization, and fostering investment in capital-intensive sectors to increase the value of investment and ratio of capital to GDP. Programs must be implemented to increase mean years of schooling (MYS), the availability and quality of vocational education, which includes expanding professional certification, as well as investment and growth in labor-intensive sectors to create job opportunities and simultaneously nurture private consumption. Meanwhile, various policies are also required to increase economic

Graph 35.a. Total Factor Productivity (TFP)



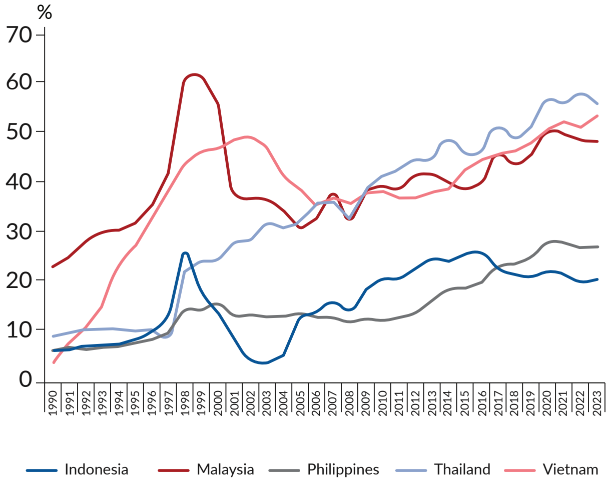
Note: *Projection
Source: Bank Indonesia

Graph 35.b. Incremental Capital Output Ratio (ICOR)



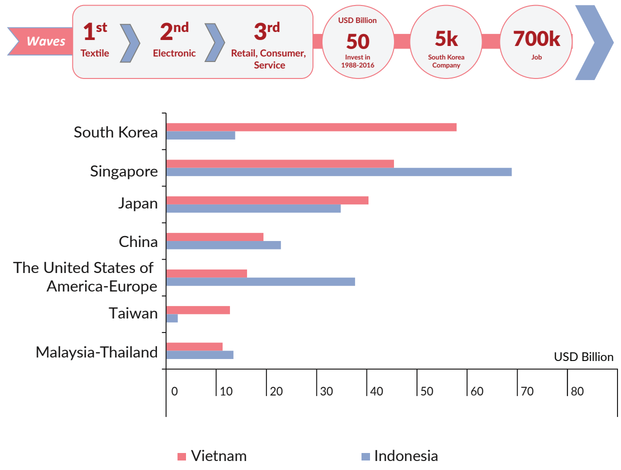
Note: *Projection
Source: Bank Indonesia

Graph 36.a. Ratio of FDI Stock to GDP: Indonesia vs Peers



Source: United Nation Conference on Trade and Development (UNCTAD)

Graph 36.b. Foreign Direct Investment: Indonesia vs Vietnam

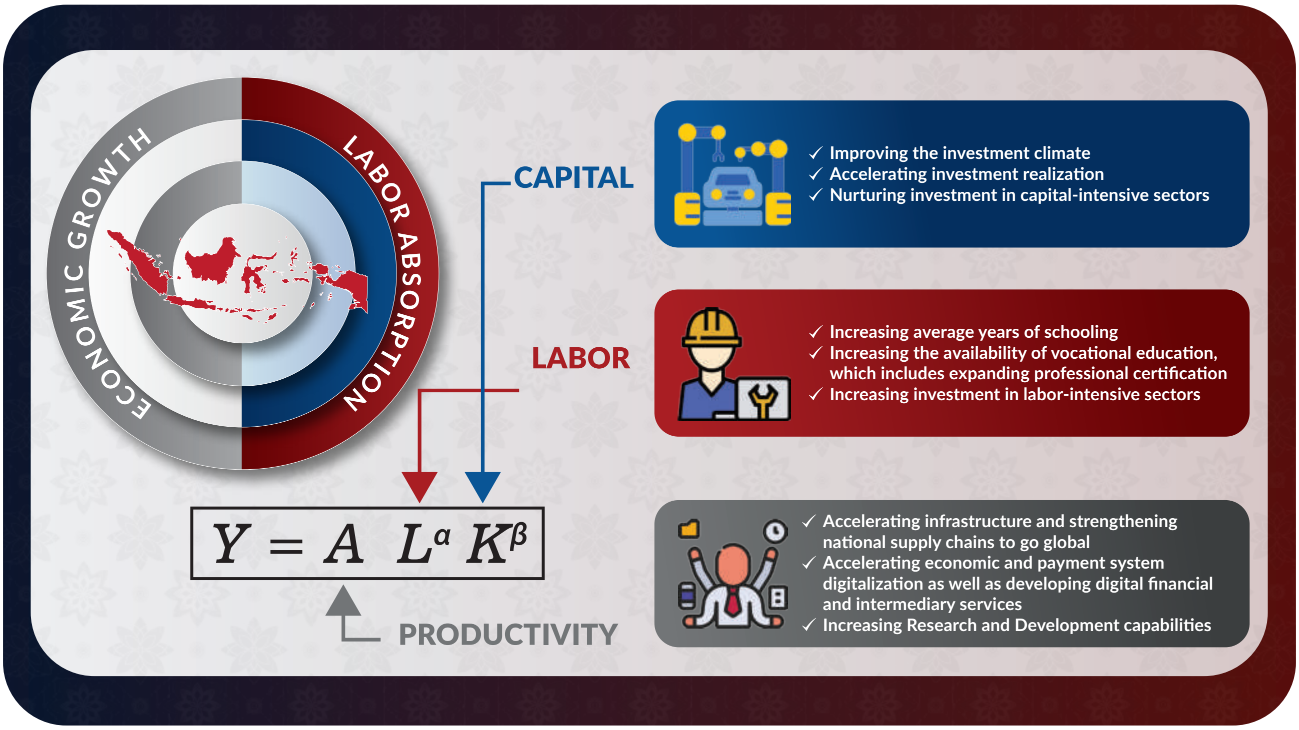


Note: Cumulative Data 2013-2021
Source: Indonesian Investment Coordinating Board, Vietnam Ministry of Planning and Investment

productivity, namely accelerating the development of physical and digital connectivity infrastructure, strengthening national supply chains to global markets, accelerating economic and payment system digitalization as well as developing digital financial and intermediary services, while increasing the research and development (R&D) capabilities of universities and large corporations. Those three sources that can expand national economic capacity must be supported mutually for further improvement in pursuit of higher economic growth.

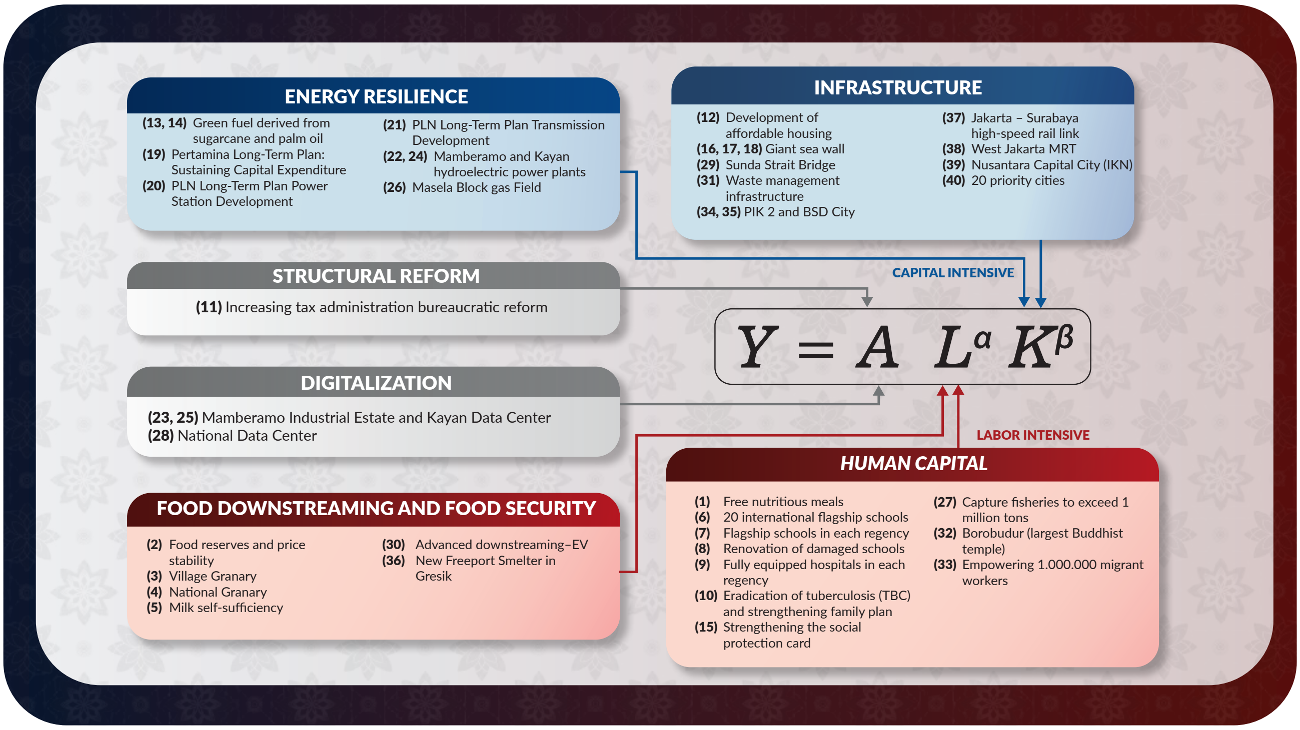
Within the Asta Cita program, the Government has formulated 40 strategic projects which are expected to increase high economic growth, while maintaining macroeconomic stability. Within the concept of increasing national economic capacity, these projects can accelerate economic growth

Figure 13. Transformation Policy to Increase National Economic Capacity



Source: Bank Indonesia

Figure 14. Impact of 40 Government Strategic Projects on Increasing National Economic Capacity



Source: Ministry of National Development Planning/National Development Planning Agency (PPN/Bappenas), Bank Indonesia

in terms of increasing investment and capital, as well as job creation and higher productivity. The Government has designed 12 infrastructure projects and 8 energy resilience projects to increase investment and capital (Figure 14.). Regarding job creation, the Government has prepared 6 downstream and food security projects as well as 10 projects for HR empowerment. Meanwhile, 3 projects on digitalization and 1 project on structural reform are expected to increase national economic productivity. The impact of the 40 government projects on increasing national economic capacity and accelerating economic growth will depend on the speed and accuracy of implementation.

From these various programs, the Government has planned policies to increase investment for higher capital in the economy. The Government will improve the investment climate by streamlining the licensing process through Online Single Submission (OSS), simplifying the regulations, as well as central and regional regulatory harmonization. The Government will also strengthen international and bilateral cooperation. Fiscal incentives must also be provided for export-oriented industries, including tax holidays and tax allowances for investment in priority sectors and specific regions. The implementation of government projects will also be prioritized to increase foreign direct investment (FDI) and domestic direct investment (DDI) as well as sources of finance for the manufacturing industry, mining, information and communication, agriculture, and services. Attractive special economic zones (KEK) are also needed, as well as supports for green and sustainable investment, which includes issuing Green Bonds and Green Sukuk to fund environmentally friendly projects. Meanwhile, investment in capital-intensive sectors will be increased through mineral and food downstreaming to enhance value addition and strengthen the structure of these industries, while maintaining investment in the tourism sector and the creative economy. Overall, there are 40 priority government projects to stimulate economic growth in areas such as infrastructure, energy resilience, food downstreaming and security, digitalization, and education.

The Government has also planned policies to increase job creation through education, vocational

training and by accelerating growth in labor-intensive sectors. Programs designed to increase public access to education will be expanded, including the Bidikmisi-Smart Indonesia Card (KIP), endowment funds for education and scholarships, as well as free education programs up to secondary education in all regions. Vocational education programs will be expanded based on industry needs, including the Independent Vocational Campus Program (*Program Kampus Merdeka Vokasi*), while expanding job training centers (BLK) and vocational high schools (SMK). BLK revitalisation and the vocational curriculum will be improved in line with industry needs. Fiscal incentives will be provided to corporations contributing to vocational education. Labor absorption will be increased by expanding export markets for priority sectors and micro, small and medium enterprises (MSMEs) to absorb more labor. Similarly, the Pre-Employment Card program will be continued to enhance work competencies as well as facilitate traineeships and job matching platforms, particularly in the manufacturing industry, labor-intensive tourism, and food security. In addition, worker rights protection will be addressed by encouraging companies to provide good working conditions, which will increase worker productivity and labor retention.

Meanwhile, productivity will be increased through the development of infrastructure, digitalization, and R&D. Infrastructure development includes expanding 4G networks, operating the SATRIA Multifunction Satellite, developing government data centers, developing 5G networks, and continuing to develop connectivity infrastructure to improve the efficiency of logistics costs along with infrastructure to support tourism at priority tourism destinations. Digitalization to increase agricultural and labor-intensive industrial productivity, particularly in the textile and textile product industry, will involve applying digital technology and automation in the production process, including smart-farming and the Making Indonesia 4.0 initiative. The Government will also develop the digital economy and finance (EKD) by accelerating the development of digital infrastructure, while providing tax incentives for digital technology companies. State budget support to prepare digital spatial planning and priority investment areas includes implementation for business licensing, procurement (e-catalogue), as well as mineral and coal mining management (Mineral and Coal Information System – Simbara). In terms of R&D, the Government will allocate subsidies and other fiscal support to process technology imports for the manufacturing industry as well as simplify the application process for fiscal incentives for R&D, while strengthening digitalization as well as science and technology through collaboration with the private sector and foreign parties for new technologies through investment, particularly for of education. Furthermore, national resilience against cyber-attacks through R&D will also be increased.

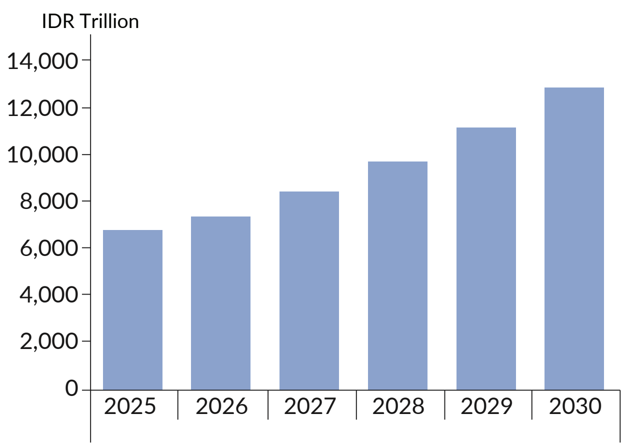
Government policies to stimulate economic growth by increasing capital, labor, and productivity require policy support and synergy with Bank Indonesia. Most importantly, Bank Indonesia must continue to maintain macroeconomic stability, particularly regarding inflation, exchange rates, adequate liquidity, and adequate reserve assets. Through macroprudential policy, Bank Indonesia can allocate liquidity incentives to the banking sector for extending loans/financing to the Government's priority sectors. Bank Indonesia will also accelerate payment system and financial sector digitalization to increase the productivity and efficiency of economic and financial transactions in pursuit of sustainable economic growth. Bank Indonesia will expand electronification of the social protection program and the electronification of (central and regional) government financial transactions. Digital innovation programs in payment services and financial services will also be developed, while strengthening consumer protection and cyber security. Bank Indonesia will also improve the investment climate and external financing by: (i) promoting trade and investment in priority sectors, (ii) managing the positive perception of international stakeholders, and (iii) facilitating efforts to optimize/internalize international trade/investment cooperation.

Policy Mix Synergy for Financial Sector Deepening

Policy synergy between the Government, the KSSK, and Bank Indonesia must be strengthened to explore domestic and external financing sources to meet the massive investment needs for high economic growth moving forward. Bank Indonesia's (optimistic) initial estimate indicates the total additional need for investment in the 2025-2030 period is approximately Rp56.9 thousand trillion (Graph 37.a). This estimate assumes that all national economic transformation programs implemented by the Government to increase investment, labor and productivity, as mentioned above, are successful in terms of increasing TFP, lowering ICOR, and optimizing investment needs. In accordance with the existing sources of finance, approximately 63.1% or Rp35.9 thousand trillion will originate from internal funds, including retained earnings or paid-up capital. The next source of financing is in the form of additional bank loans/financing at approximately 13.4% or Rp7.6 thousand trillion, and from external financing in the form of FDI or foreign loans at approximately 11.8% or Rp6.7 thousand trillion. Meanwhile, sources of finance from the Government in the form of capital expenditures in the State Budget or capital investment account for approximately 7.5% or Rp4.3 thousand trillion (Graph 37.b). Therefore, the mobilization of financing from the four main sources mentioned, namely internal funds, the banking industry, FDI, and government budget, must be optimized to achieve high growth in the next five years.

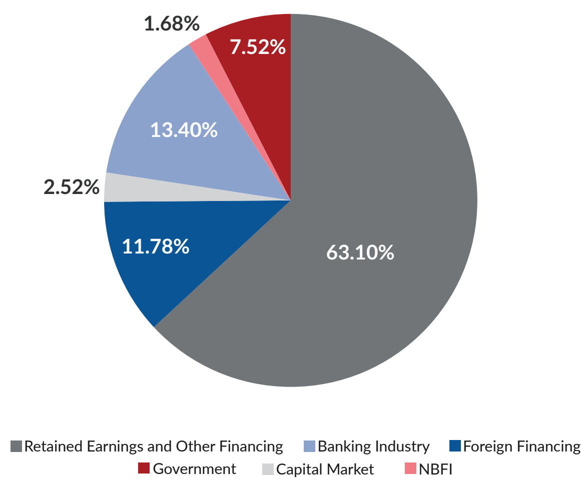
The preparation process, licensing, and feasibility studies are the most decisive stages in the realization of investments, and therefore, also critical for achieving high economic growth. This is the case for both government projects and private FDI and DDI. Thus, it is important to improve the investment climate and implement bureaucratic reform, which are key to achieving high economic growth, alongside streamlined new business registration and licensing procedures, while minimizing the cost of starting a business. To that end, however, Indonesia is still less competitive than other countries in the region and, therefore, serious measures are needed to improve the investment climate and implement bureaucratic reform centrally and regionally. According to the Business Environment Index issued by the United Nations - World Intellectual Property Organization (UN-WIPO), for example, Indonesia received the low score of 82.1, which must be improved to at least 87.6 or higher. Several important measures need to be taken immediately as follows: resolving the technical constraints impeding the digitalization of OSS licensing, including the data input, verification, payment, and validation processes, expanding integrated one-stop licensing services (PTSP) to all

Graph 37.a. Projected Total Investment and Sources of Finance: 2025-2030



Source: Bank Indonesia

Graph 37.b. Projected Composition of Sources of Investment Financing: 2025-2030



Source: Bank Indonesia

regions and incentives to reduce licensing costs, as well as central and regional regulatory harmonization and between sectors, while strengthening legal assurance. The effectiveness of government programs that specifically support new and emerging entrepreneurs must be ensured, including direct government support in the form of tax incentives, subsidies, or reductions to certain costs related to entrepreneurship. Improvements to the investment climate and bureaucratic reform will facilitate the preparation of new business models and feasibility studies for investment projects and, therefore, in the calculation and mobilization of financing sources as required. The feasibility of green projects must also receive special attention due to increasingly stringent requirements from investors for projects associated with the green economy and finance. In addition to improving the investment climate, bureaucratic reform, and project feasibility, concrete measures from the (central and regional) Government are required to increase FDI and DDI investment realization from around 6.75% of GDP currently to at least 8.0% of GDP, particularly in priority sectors, such as agriculture, manufacturing, mining, information and communication, services (health and education), construction, electricity, water and gas supply, as well as tourism. The focus is on investment realization, not on FDI and PMDN approval.

Policy synergy between the Government, Bank Indonesia, and the KSSK must be strengthened to increase economic financing from the financial sector. Such coordination is an integral part of refining the national financial market development and deepening strategy by optimizing the Coordination Forum for Development Financing through Financial Markets (FK-PPPK), involving the Ministry of Finance, Bank Indonesia, the OJK, and the LPS. In this case, the focus of coordination covers four salient aspects, namely: (i) an optimal structure of project financing, (ii) appropriate financing sources, (iii) liquidity and hedging needs, and (iv) financial education and literacy. Investment project feasibility will determine the optimal financing structure. More profitable investment projects will facilitate a broader financing structure from the private sector, including bank loans/financing, issuances of bonds and other securities in the domestic capital market, or loans from foreign investors. Numerous projects fulfill these requirements, including infrastructure projects, downstreaming natural resources, the manufacturing industry, electricity gas and water supply, as well as construction. Several other projects, however, such as downstreaming agriculture and fishery, tourism, MSMEs, and the creative economy, require fiscal incentives and/or other policies to meet feasibility requirements for financing sources, including favorable tax rates, subsidized interest rates and government policy assurance, particularly in providing a grace period from the construction phase until initial operational phase. To reiterate, feasibility studies, improving the investment climate, and bureaucratic reform are critical.

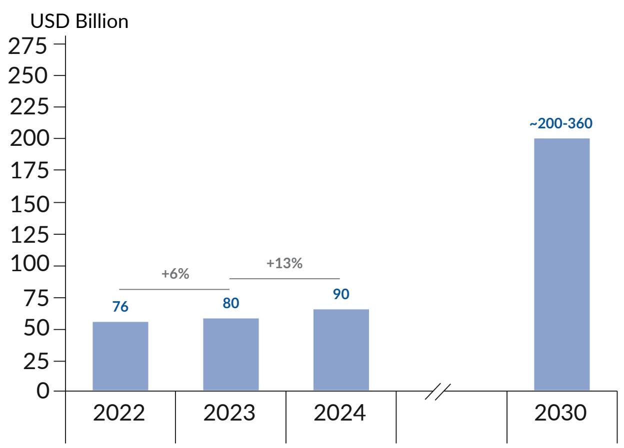
Synergy within the FK-PPPK forum (Ministry of Finance, Bank Indonesia, the OJK, and the LPS) to coordinate the mobilization of financing sources to meet investment needs will support high economic growth. To that end, Bank Indonesia will continue collaborating in synergy with the three institutions in the KSSK to formulate joint measures to fulfill the sources of finance required. Bank Indonesia will continue optimizing Macroprudential Liquidity Incentive (KLM) Policy to revive bank lending to priority sectors supporting growth and job creation. In addition to macroprudential policy and microprudential supervision coordination to optimize credit and mitigate risk in the banking system, the coordination between Bank Indonesia and the OJK also includes regulatory harmonization concerning bond issuances and transactions as well as commercial securities, while harmonizing financial market licensing, such as inter-market infrastructure and supporting professions in the financial sector. In addition to fiscal, monetary, and macroprudential policy coordination, as explained previously, policy synergy between Bank Indonesia and the Ministry of Finance relates to government bond market deepening (government securities - SBN) as well as tax harmonization for financial transactions in the capital market, money market, and foreign exchange market. Financial market deepening synergy within the KSSK and with government ministries/agencies, authorities, and market participants will be continued to develop innovative economic financing and hedging instruments, such as debt securities, as well as interest rate and exchange rate swaps, and optimizing local currency transactions (LCT).

Policy Mix Synergy for Accelerating Digitalization

The digitalization of the Indonesia's economic-finance and services sectors has massive potential to drive higher economic growth through increased investment and productivity. According to the latest e-Conomy SEA 2024 report published by Google, Temasek, and Bain & Company, Indonesia's digital economy will achieve gross merchandise value (GMV) totaling USD90 billion in 2024, a 13% increase compared to 2023, which is the largest GMV in Southeast Asia. In the next five years, the digital economy in Indonesia will increase to approximately USD200-360 billion by 2030 (Graph 38.a). Rapid advancement primarily stems from prolific digitalization of economic and financial transactions through e-commerce in 2024, reaching USD65 billion and expected to increase to USD150 billion by 2030 (Graph 38.b). Digitalization is also accelerating through transportation and food services, online travel, and online media. Digitalization has accelerated even faster through the payment system and financial sector. The latest e-Conomy SEA 2024 report also projects digital payment transactions in Indonesia to reach USD404 billion in 2024, before rapidly increasing to approximately USD900 billion by 2030 (Graph 39.a). In the same period, digital loan transactions from the banking industry will accelerate even faster from approximately USD9 billion in 2024 to USD40 billion by 2030 (Graph 39.b). The digitalization of other financial services, such as wealth management and insurance, is also developing quickly, though its value remains below that of the payment system and bank loans. Rapid acceleration of the digital economy and finance in Indonesia is the result of digitalization programs launched by Bank Indonesia in accordance with the Indonesia Payment System Blueprint (BSPI) and in close synergy with the Indonesia Payment System Association (ASPI), providing a compelling opportunity to support high and inclusive economic growth moving forwards.

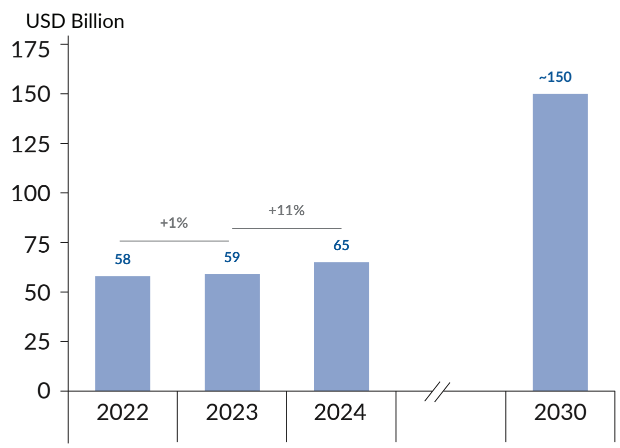
Government policies are required to accelerate economic digitalization in Indonesia moving forward, specifically digitalization of the services sector, the creative economy, MSMEs, corporate services, and tourism. To that end, infrastructure development for digital connectivity must be continued by expanding 4G networks and operating the SATRIA

Graph 38.a. Indonesia's Digital Economy Performance and Outlook



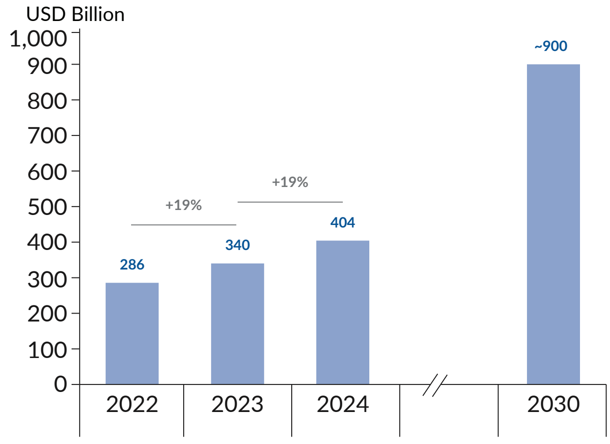
Source: e-Conomy SEA 2024

Graph 38.b. Indonesia's E-Commerce Performance and Outlook



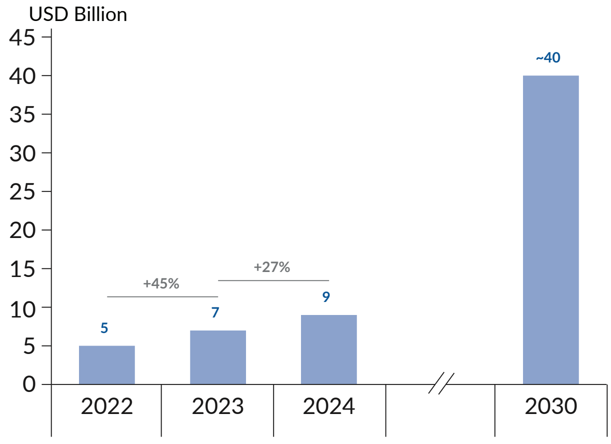
Source: e-Conomy SEA 2024

Graph 39.a. Indonesia's Digital Payments Performance and Outlook



Source: e-Conomy SEA 2024

Graph 39.b. Indonesia's Digital Lending Performance and Outlook



Source: e-Conomy SEA 2024

multifunction satellite along with the development of government data center infrastructure and 5G networks. Policies to support the digital economy and finance (EKD) can be implemented by accelerating digital infrastructure development and providing tax incentives to digital technology companies. Policies to increase productivity in the agricultural sector and labor-intensive industries, particularly in the textile and textile product (TPT), can be implemented by applying digital technology and automating the production process, including smart-farming technology and the Making Indonesia 4.0 initiative. In terms of fiscal policy, the Government can provide State Budget support to establish digital spatial planning in priority investment areas, which includes implementation for business licensing, procurement (e-catalogue), as well as mineral and coal mining management (Mineral and Coal Information System – Simbara).

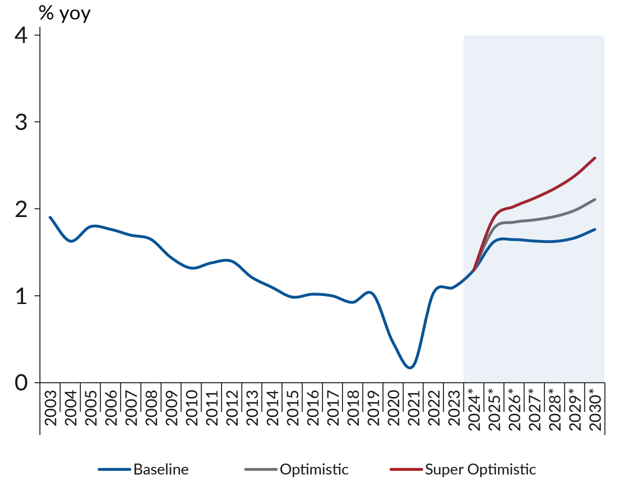
Bank Indonesia will continue accelerating payment system digitalization to support the realization of compelling opportunities in the national digital economy and finance in pursuit of high and inclusive economic growth. This will be achieved through programs in the Indonesia Payment System Blueprint (BSPI) 2030 for developing payment infrastructure (retail, wholesale, and data), strengthening the industry, fostering innovation, and international cooperation. Bank Indonesia will accelerate payment system and financial sector digitalization as leverage to increase payment services and financial productivity for the economy, which includes strengthening the role of MSME digitalization through MSME transformation to Go Digital and Go Export. Bank Indonesia will also establish a Digital Innovation Center to strengthen public digital literacy and acceptance. Payment system electronification in social program disbursements and government financial transactions will also be expanded. Likewise, bilateral and international cooperation in cross-border payment systems will also be expanded not only among ASEAN-5 countries but also with Japan, China, South Korea, and India.

Medium-Term Economic Outlook for Indonesia

Overall, the programs formulated by the Government are expected to accelerate higher economic growth, while maintaining macroeconomic stability. The extent to which economic growth can be increased will depend on the speed, accuracy, and effectiveness of the programs. To that end, three scenarios can be simulated. First, a "Baseline" scenario, where the government programs are implemented on schedule, in addition to preparing projects by strengthening the synergy between capital-intensive and labor-intensive sectors. Financing will primarily be sourced from the State Budget (APBN) as well as the domestic banking industry and foreign financing for projects that are ready to proceed. Bank Indonesia will also maintain development programs for the digital economy and finance in accordance with BSPI, while deepening the money market and foreign exchange market in line with the Money Market Development Blueprint (BPPU) 2030. Second, an “Optimistic” scenario, which is the baseline scenario with additional strategies to accelerate the preparation and implementation of government and private projects that meet business feasibility requirements with moderate financing needs. Business climate improvements are accelerated in terms of implementation at the central and regional levels, with fiscal incentives in the form of lower licensing costs and other fiscal incentives to strengthen business feasibility and financing requirements. Financial market development policy will also be further implemented to increase financing capacity for the implementation of feasible government and private projects from the domestic banking industry, FDI, and foreign loans. Third, a “Super Optimistic” scenario, which is the optimistic scenario with additional government and private projects with massive financing needs that have met business feasibility requirements. The business climate is stronger due to legal assurance and faster settlement procedures. Greater expansion of financing capacity is achieved through the development of from nonbank financial institutions and the capital market in the form of shares, securities, insurance, and others, including inclusive, green, and Islamic finance.

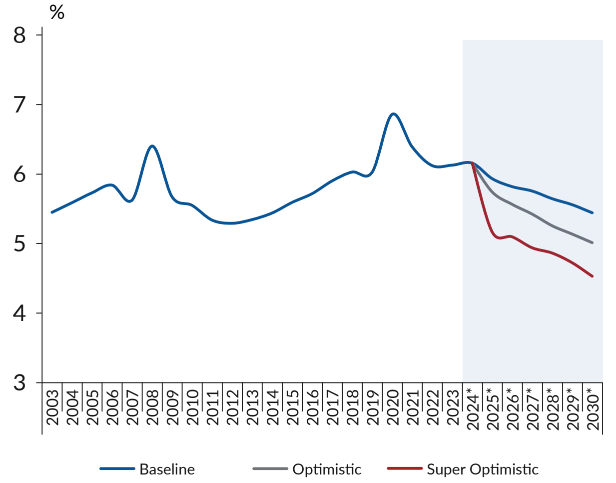
The three scenarios outlined above can accelerate economic growth outlook to different degrees. The key lies in the speed and effectiveness of the implementation of various government and private programs and projects to drive growth, in terms of consumption and investment demand as well as increasing the capacity of the national economy. The five national economic transformation policy agendas are interrelated and support higher investment in capital, labor absorption and private income, as well as increasing economic productivity and efficiency. This will be reflected in upward productivity growth (TFP), with the largest gains achievable under the Super Optimistic scenario (Graph 40.a). This implies that with the same level of capital investment and labor absorption, economic growth will be higher. To achieve higher economic growth, an optimal balance must be struck between capital-intensive sectors to increase economic capacity (aggregate supply side) and labor-intensive sectors to increase income and consumption (aggregate demand side). Likewise, ICOR will decrease most under the Super Optimistic scenario (Graph 40.b). With a lower ICOR, the national economy will be more efficient because achieving higher growth will require lower investment.

Graph 40.a. Projected Productivity Growth: 2024-2030



Note: *Projection
Source: Bank Indonesia

Graph 40.a. Projected ICOR Decline: 2024-2030



Note: *Projection
Source: Bank Indonesia

Higher TFP and lower ICOR from the implementation of the national economic transformation policy mix will simultaneously accelerate higher economic growth, while maintaining macroeconomic stability. Economic growth, which in 2024 is projected at around 4.7-5.5%, is forecast to accelerate to 4.8-5.6% in 2025 and 4.9-5.7% in 2026. With implementation of the national economic transformation policy mix, however, the projected economic in 2030 under Baseline scenario at 5.3-6.1%, will increase to 5.8-6.6% for the Optimistic scenario, and 6.7-7.5% for the Super Optimistic scenario. Price stability will be maintained with inflation controlled within the 2.5±1% target corridor, accompanied by a narrow current account deficit of approximately 1.1-1.9% of GDP in 2030 (Table 9). Internal and external economic stability in Indonesia will be maintained due to sufficient increases on the aggregate supply side to meet increasing demand through implementation of the national economic transformation policy mix. Loans/financing disbursed by the banking industry will maintain optimal growth of approximately 11-13% per year. The fiscal deficit will also be maintained at below 3% of GDP in line with Indonesia's credibility on fiscal discipline. As explained previously, additional financing to support higher investment and economic growth will come from internal funds given broader business opportunities, accompanied by a stable and conducive investment climate, and higher growth.

Simulations of economic performance due to implementation of the national economic transformation policy mix must be evaluated continuously based on emerging dynamics and the necessary policy mix responses. Several assumptions underlie the simulations. First, world economic growth is assumed to increase from 3.2% in 2024 to 3.4% in 2030, with stable global inflation and international commodity prices and a decline in the US monetary policy rate from 4.5% to 3.5%. These assumptions could change with the policies of the new US Administration under President Trump. US economic growth could accelerate, contrasting lower growth in China, the European Union, and several other countries. US inflation could increase, thereby delaying further FFR reductions yet leading to higher UST yield in line with higher US government debt, and a strong US dollar. Volatile geopolitics and global economic dynamics will potentially disrupt economic stability and growth in Indonesia. Trade and investment policy in Indonesia, therefore, must be calibrated to strengthen bilateral cooperation with global sources of economic growth, such as the US, India, and Saudi Arabia. Second, in addition to government programs and projects to stimulate growth, the role of the private sector, including large companies, MSMEs, the creative economy, the digital economy and financial services, as well as tourism, is critical to drive economic growth and job creation. Improving the investment climate, developing infrastructure, and providing business assurance are key to economic growth and job creation. Maintaining macroeconomic and financial system stability is also crucial, which have established credibility in Indonesia in terms of economic performance that is recognized internationally. To that end, close policy coordination

Table 9. Indonesia's Economic Projections: 2024-2030

Indicator	Unit	2024	2025	2026	2030		
					Baseline	Optimistic	Super Optimistic
Economic Growth	%	**4.7–5.5**	**4.8–5.6**	**4.9–5.7**	**5.3-6.1**	**5.8-6.6**	**6.7-7.5**
CPI Inflation	%	2.5 ± 1	2.5 ± 1	2.5 ± 1	2.5 ± 1	2.5 ± 1	2.5 ± 1
Current Account	% PDB	-0.1 to -0.9	-0.5 to -1.3	-0.6 to -1.4	-0.5 to -1.3	-0.9 to -1.7	-1.1 to -1.9
Credit Growth	%	10–12	11–13	11–13	11-13	11-13	11-13

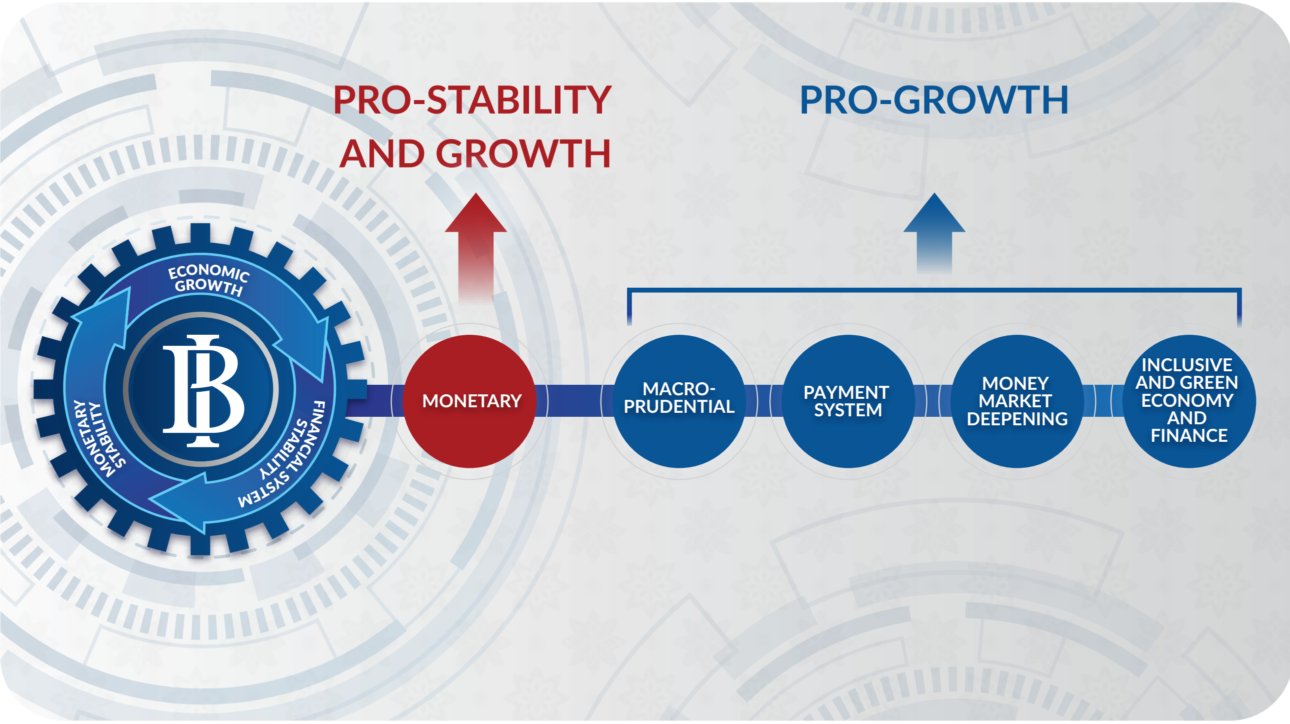
Source: Bank Indonesia's Projection

between the Government, Bank Indonesia, and the KSSK is a prerequisite in the face of volatile geopolitical and global economic dynamics and will serve as a solid foundation for the success of the national economic transformation policy mix in achieving higher and sustainable economic growth toward the 2045 Golden Indonesia.

V. Direction of Bank Indonesia Policy Mix in 2025: Maintaining Stability, Driving Sustainable Growth

The Bank Indonesia policy mix in 2025 will continue to be directed at maintaining stability and fostering sustainable economic growth, in close synergy with national economic policy. Considering the dynamics of the global and national economies over the next two years, Bank Indonesia's monetary policy in 2025 will be aimed at balancing stability and growth (pro-stability and growth), while continue to examine further room to support economic growth. The objectives are to achieve the inflation target and Rupiah exchange rate stability, particularly against the adverse impact of global spillovers (Figure 15.). Meanwhile, macroprudential policy and payment system policy remains directed toward driving sustainable economic growth (pro-growth). Bank Indonesia will hold an accommodative macroprudential policy stance to stimulate bank lending/financing to priority sectors aiming for supporting economic growth and job creation, MSMEs development, economic inclusion and green finance. Bank Indonesia will continue accelerating payment system digitalization in accordance with Indonesia Payment System Blueprint (BSPI) 2030 to strengthen the payment service industry and support national digital economy and finance, in addition to expanding cross-border payment system cooperation and ongoing development of the Digital Rupiah. The policy mix of monetary, macroprudential, and payment system will continue be supported by accelerating money market and foreign exchange market deepening in accordance with the Money Market Development Blueprint (BPPU) 2030 to strengthen the effectiveness of monetary policy transmission, develop a modern secondary market in line with international standards, and develop instruments of economic financing. Programs to develop inclusiveness for MSMEs and sharia

Figure 15. Direction of Bank Indonesia Policy Mix in 2025



Source: Bank Indonesia

economic and finance will also be expanded, including the use of digitalization, as well as expansion of market, both in domestic and exports. Bank Indonesia will continue to strengthen synergy and coordination with the Government and the Financial System Stability Committee (KSSK), as well as with the financial industry, businesses, and industry associations to strengthen stability and drive national economic transformation toward the 2045 Golden Indonesia (Indonesia Emas 2045).

The above-mentioned policy mix also serves as an implementation of Bank Indonesia's mandate in accordance with Act Number 4 of 2023 concerning Financial Sector Development and Strengthening (P2SK Act), which strengthens the goals and duties of Bank Indonesia. According to to the P2SK Act, the goal of Bank Indonesia is to achieve Rupiah exchange rate stability, maintain payment system stability, and contribute to financial system stability to promote sustainable economic growth. This is achieved through three main duties: (i) setting and implementing monetary policy in a sustainable, consistent, and transparent manner; (ii) regulating and maintaining a seamless payment system; and (iii) regulating and implementing macroprudential policy. As mentioned previously, Bank Indonesia's support for sustainable economic growth through the following measures. First, through monetary policy, contained inflation and Rupiah exchange rate stability, which serve as a prerequisite to ensure the development of economic and financial activities by the Government, banking industry, businesses, investors, and the public. Second, through payment system digitalization, the expansion of transaction value and volume in the digital economy-finance are nurtured to increase payment velocity and efficiency in the productivity of various economic and financial activities, supported by the development of a healthy national payment service industry. Third, by increasing bank lending/financing, which is essential for promoting economic financing, supported by maintained financial system stability. Supporting the three policies in terms of maintaining stability and sustainable economic growth, Bank Indonesia also pursues money market and foreign exchange market deepening policy, international policy, and supporting MSME and sharia economy-finance programs.

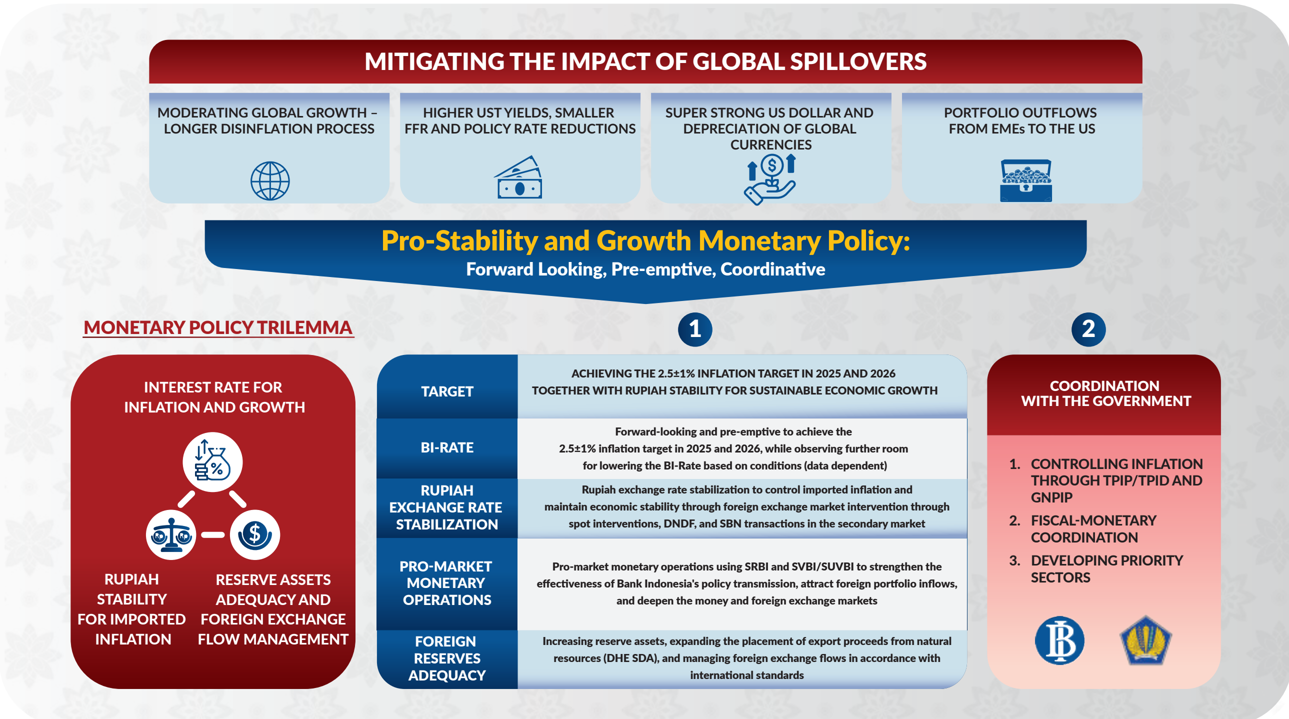
Direction of Monetary Policy

Bank Indonesia's monetary policy direction in 2025 will be oriented toward achieving the inflation target and maintaining Rupiah exchange rate stability, while supporting national economic growth. As explained in the first section, geopolitical tensions and global economic uncertainty will remain high in 2025 and 2026. Specifically, the re-election of President Trump, supported by the Republican victories in the US House of Representatives and Senate, could trigger major changes in the global geopolitical landscape and global economic risk. The imposition of high tariffs, trade wars, and supply chain disruptions will lead to a decline in global economic growth and raise global inflation, thereby delaying further potential monetary policy rate reductions by central banks, including the Federal Funds Rate (FFR) in the US, which may not be as large as previously anticipated. In the US, to drive economic growth, the widening fiscal deficit through tax cuts and higher government debt has edged up US Treasury yields across all maturities and triggered a significant and broad-based US dollar appreciation. Such a shift in the global geopolitical landscape will prompt higher global uncertainty, portfolio outflows from EMEs to the US and a build-up of currency pressures globally, including on the Rupiah. Therefore, Bank Indonesia's monetary policy will remain focused on Rupiah exchange rate stability to mitigate the adverse impact of global spillovers on higher inflation, macroeconomic and financial system stability, and the national economic recovery process. Consistent and calculated monetary policy will be applied to achieve the inflation target and support economic growth in 2025 and 2026. Striking a balance between stability and growth (pro-stability and growth) will be the monetary policy direction pursued in 2025.

The direction of monetary policy in 2025 for stability and economic growth will be pursued with four primary instruments (Figure 16.). First, forward looking and pre-emptive interest rate policy to achieve the inflation target set by the Government, while remain vigilant and continue to examine room to support economic growth. Second, Rupiah exchange rate stabilization policy will remain in line with achieving the inflation target and supporting external economic stability from the impact of global spillovers. Third, pro-market monetary operations to enhance the effectiveness of Bank Indonesia monetary policy transmission, the portfolio inflows, the Rupiah exchange rate stability, as well as money market and foreign exchange market deepening. And fourth, maintaining adequate reserve assets to support Rupiah exchange rate stabilization policy and government external debt repayment, supported by foreign exchange flow management in accordance with international rules. Policy coordination with the Government will be strengthened for macroeconomic stability and with the KSSK for financial system stability.

First, Bank Indonesia's interest rate policy will be continued to be directed in a forward-looking and pre-emptive manner to achieve the Government's inflation target of 2.5±1% in 2025 and 2026. Low inflation and the need to support economic growth provide room for further BI-Rate reductions, following a 25 bps cut to 6.00% in September 2024. This is considering the core inflation pressure, which is expected to remain controlled in line with anchored inflation expectations and the economy's output capacity that can still meet increasing demand. However, the risk of inflationary pressures stemming from global turmoil, specifically the impact of Rupiah depreciation on imported good prices (imported inflation), requires continued vigilance. Accordingly, the near-term focus of monetary policy aims to stabilize the Rupiah against the effects of global shocks. Therefore, policies to leverage room for further BI-Rate reductions will be based on assessments of data and evolving conditions (data dependent). Meanwhile, coordination with the (central and regional) Government through the Central and Regional Government Inflation Control Teams (TPIP and TPID) to control inflationary pressures on volatile food and administered prices will be strengthened through the National Movement for

Figure 16. Direction of Bank Indonesia Monetary Policy in 2025



Source: Bank Indonesia

Food Inflation Control (GNPIP) involving all 46 Bank Indonesia representative offices.

Second, Rupiah exchange rate stabilization policy will continue to focus on mitigating the impact of global spillovers on achieving the inflation target, while maintaining macroeconomic and financial system stability to support national economic recovery momentum. From fundamental perspective, the Rupiah exchange rate should track a stable appreciating trend, in line with low inflation, attractive return on domestic financial assets, and comparatively high economic growth. Nevertheless, elevated US Treasury yields and the strong US dollar intensify pressure on the risk of portfolio outflows from emerging market economies (EMEs) and weaken various global currencies, including the Rupiah. Consequently, Rupiah exchange rate stability must be maintained to control imported inflation and sustain Indonesia's external economic stability. Rupiah stability is also crucial to sustain fiscal performance, particularly in terms of preserving the attractiveness of SBN yields for State Budget financing. In addition, Rupiah stability will also determine financial system stability, particularly the exchange rate risk posed to balance sheets in the banking and corporate sectors, and its importance in ensuring business and public confidence. To that end, Bank Indonesia will continue to maintain its presence in the market and implement Rupiah exchange rate stabilization policy through foreign exchange market intervention with spot and Domestic Non-Deliverable Forward (DNDF) transactions, as well as purchasing government securities (SBN) in the secondary market.

Third, Bank Indonesia will continue refining its pro-market monetary operations strategy to enhance monetary policy effectiveness, including attracting portfolio inflows and maintaining Rupiah exchange rate stability. To that end, Bank Indonesia will continue issuing Bank Indonesia Rupiah Securities (SRBI) with tenors of 6, 9, and 12 months, as well as Bank Indonesia Forex Securities (SVBI) and Bank Indonesia Forex Sukuk (SUVBI) with tenors of 1 and 3 months. The pro-market monetary operations strategy implemented by Bank Indonesia has provided many benefits for the national economy. *First*, a deeper money market and foreign exchange market, with higher transaction volume and liquidity, more participants and more efficient interest rate and exchange rate price formation in the market. *Second*, the SRBI, SVBI, and SUVBI instruments can be owned and traded on the secondary market by both residents and non-residents and, therefore, attract portfolio inflows. *Third*, more flexible liquidity management in the banking industry and larger investment portfolios by investment managers with the introduction of SRBI, SVBI, and SUVBI instruments that are actively traded in the secondary market. And *fourth*, the pro-market monetary operations strategy, using the three aforementioned policy instruments, has further improved the effectiveness of monetary policy transmission to the financial sector, as well as maintaining market and financial system stability.

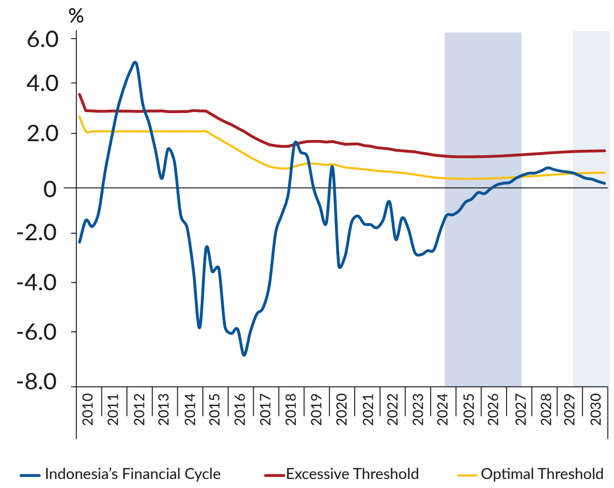
Fourth, Bank Indonesia will maintain adequate reserve assets to support Rupiah exchange rate stabilization policy and service government external debt, strengthened by capital flow management consistent with international principles. Bank Indonesia will continue improving the adequacy of reserve assets, through a surplus balance of payments and foreign exchange monetary operations, as well as optimizing reserve assets management. In this regard, Bank Indonesia will continue optimizing reserve assets management through the application of Strategic Asset Allocation (SAA) in pursuit of optimal returns on investment and meeting liquidity needs to service government external debt and implement Rupiah exchange rate stabilization policy. Bank Indonesia will also expand instruments to retain foreign exchange proceeds of natural resource exports (DHE SDA) as mandated by Government Regulation Number 36 of 2023. International cooperation will also be strengthened multilaterally with the Bank for International Settlements (BIS) for foreign exchange management, as well as through bilateral swap arrangements with several central banks, including the US, Japan, China, and ASEAN, and regionally with ASEAN+3 (Japan and South Korea) under the Chiang Mai Initiative Multilateralization (CMIM) framework to strengthen Regional Financial Arrangements (RFA) in Asia. Implementing the P2SK Act, Bank Indonesia has issued Bank Indonesia Regulations (PBI) on foreign exchange flow management to bolster Indonesia's external economic resilience, consistent with a free foreign exchange system and international principles in accordance with guidelines published by the IMF. The regulations cover the management of foreign exchange flows under normal, distress, and crisis conditions, as well as the coordination mechanism between Bank Indonesia, the Government, and the KSSK to maintain macroeconomic and financial system stability.

Policy coordination between Bank Indonesia and the Government will be strengthened to bolster external resilience against global turmoil, to control inflation and to drive sustainable economic growth. Strengthening external resilience against global shocks, monetary and fiscal policy coordination between Bank Indonesia and the Government in the area of managing aggregate demand to maintain macroeconomic stability, as well as issuance of government bond in the domestic and global markets related to annual planning and its implementation. Controlling volatile food inflation, Bank Indonesia also collaborates in close synergy with the Government through the Central and Regional Government Inflation Control Teams (TPIP and TPID) as well as through the National Movement for Food Inflation Control (GNPIP), implemented on a large scale across various regions. Meanwhile, coordination to foster priority sectors will be strengthened through Bank Indonesia support in assessing the latest developments and issues emerging centrally and regionally, while providing national economic policy recommendations as needed, including from the results of the Regional Economic and Financial Review (KEKR) conducted by various Bank Indonesia regional offices.

Direction of Macroprudential Policy

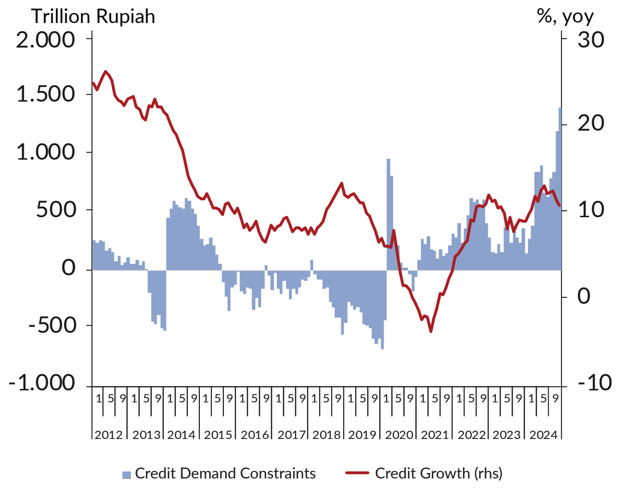
Bank Indonesia will continue strengthening accommodative macroprudential policy in 2025 to support sustainable economic growth, while maintaining financial system stability. Bank Indonesia will maintain accomodative macroprudential policy stance to support growth (pro-growth) based on three key considerations. *First*, Indonesia's financial cycle in 2025 and 2026 is expected to remain below its optimal financing capacity during the expansionary phase, which is projected to peak in 2028 (Graph 41.a.). This is associated with national economic growth in Indonesia that remains below its potential output, primarily due to sluggish consumption and investment demand, as well as slower exports due to slowdown in global economy. Consequently, an accommodative macroprudential policy is required to boost bank lending/financing, especially targeting sectors that can create growth and jobs. *Second*, real sector policies from the Government to increase growth and job opportunities are vital to improve the demand for bank lending. Various programs have been planned by the Government to foster specific sectors, such as agriculture downstreaming, public housing, MSMEs, the creative economy and tourism, accompanied by fiscal incentives as required. Therefore, synergy between Bank Indonesia's macroprudential policy and the Government's fiscal policy along with structural reforms is crucial to address the significant constraints on credit demand from businesses and households (Graph 41.b.). *Third*, such accommodative macroprudential policy is also consistent with the importance of maintaining financial system stability from the vulnerabilities that could emerge from global and domestic economic dynamics. As mentioned, global spillover effects exert pressure on the Rupiah exchange rate, increase SBN yields, tightening liquidity due to capital outflows, and reducing business activity. Close synergy is required, therefore, between the accommodative macroprudential policies and enhanced banking system surveillance undertaken by Bank Indonesia and the microprudential supervision

Graph 41.a. Indonesia's Financial Cycle



Source: Bank Indonesia

Graph 41.b. Credit Demand Constraints



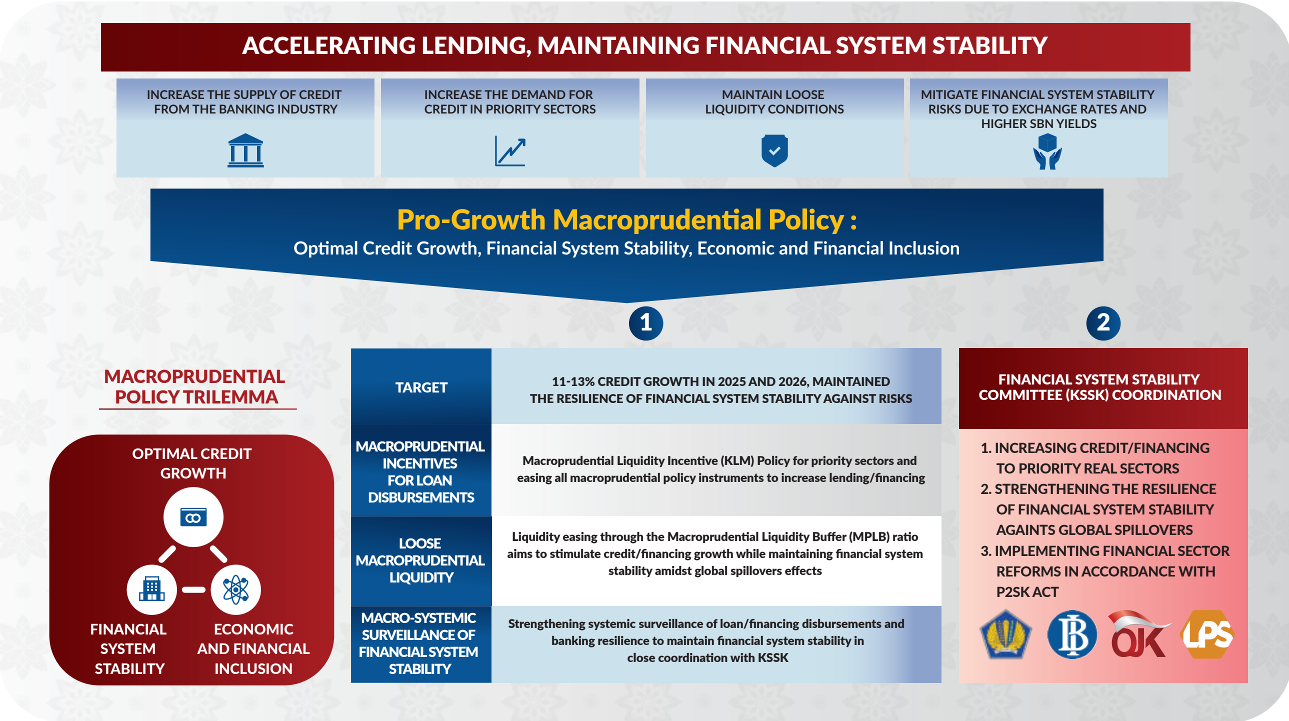
Source: Bank Indonesia

conducted by the OJK. Coordination between the two authorities is important to mitigate market risk (exchange rate and interest rate), liquidity risk, and credit risk to ensure the stability of the financial system is preserved. Close coordination in the KSSK will also be strengthened to maintain financial system stability, while strengthening the implementation of financial sector reforms as mandated by the P2SK Act.

The easing of all macroprudential policy instruments is directed toward achieving credit/financing growth of 11-13% in 2025 and 2026, while maintaining financial system stability. The direction of macroprudential policy is based on striking a balance between three targets, namely optimal credit growth, maintained financial system stability, as well as economic and financial inclusion, in line with the current expansionary trend observed in the financial cycle (Figure 17.). The three targets must be optimized to maintain conducive macro-financial linkages, including the credit supply capacity of banks, the demand for credit from priority sectors, adequate liquidity, and mitigating financial system stability risk that can emerge from high Rupiah exchange rate volatility and higher SBN yields. The accommodative macroprudential policy stance, therefore, is implemented through the following three principal instruments. *First*, increasing the effectiveness of Macroprudential Liquidity Incentive (KLM) Policy and other macroprudential policy instruments to accelerate bank lending/financing, particularly to priority sectors that support economic growth and create job opportunities. *Second*, accommodative liquidity policy through the Macroprudential Liquidity Buffer (MPLB) and other macroprudential policy instruments to maintain financial system stability against the downside of global spillovers. *Third*, strengthening systemic surveillance of the banking industry resilience in the face of market risk, liquidity risk, and credit risk stemming from global and domestic economic dynamics to maintain financial system stability. Policy coordination with the Government and the KSSK is also strengthened to increase loans/financing to the real sector, bolster the resilience of financial system stability against global shocks and continue financial sector reforms as mandated by the P2SK Act.

First, enhancing the effectiveness of Macroprudential Liquidity Incentive (KLM) Policy and easing other macroprudential policy instruments to revive bank lending/financing to priority sectors in the national economy. This is the manifestation of Bank Indonesia's firm commitment to support sustainable economic growth. Commencing in January 2025, KLM policy will be oriented toward reviving bank lending/financing to sectors that can increase economic growth and job creation, namely: (i) agriculture, trade, and the manufacturing

Figure 17. Direction of Macroprudential Policy in 2025



Source: Bank Indonesia

industry; (ii) transportation, storage, tourism, and the creative economy; (iii) construction, real estate, and public housing; (iv) MSMEs; (v) ultra-micro enterprises (UMi); and (vi) green economy. The size of the liquidity incentives will also be increased from Rp259 trillion in October 2024 to Rp282.81 trillion starting January 2025 (Table 10.). The incentives are largest for the trade sector, agriculture, and manufacturing industry at Rp115.95 trillion, which absorb a 57.68% share of the labor market, followed by the transportation sector, tourism and creative economy with a value of Rp26.91 trillion and 23.94% share, and the construction sector, including public housing, with a value of 21.77 trillion and a 6.64% share. The MSME sector, UMi, and green sector will receive the same KLM incentives, totaling Rp118.18 trillion. More banks will also receive larger incentives, with 102 banks receiving KLM incentives above 3% of third-party funds (Graph 42.). Bank Indonesia will periodically assess the effectiveness of KLM liquidity incentives to further encourage bank lending/financing disbursement to priority sectors. In addition, all macroprudential policy instruments will remain accommodative to support loan/financing disbursements and maintain financial system stability for sustainable economic growth. To that end, Bank Indonesia has extended the period for other accommodative macroprudential policies to the end of December 2025. The Loan/Financing-to-Value (LTV/FTV) ratio will be held at 100% to revive property/housing loans as well as 0% downpayment requirements on automotive loans. The Macroprudential Intermediation Ratio (MIR) will also be held at 84-94% considering that the MIR position was recorded at 85.69% in October 2024. Similarly, the Countercyclical Capital Buffer (CCyB) will be held at 0% and will not be increased before December 2025. Furthermore, Bank Indonesia's prime lending rate transparency policy will be continued and its effectiveness be further strengthened.

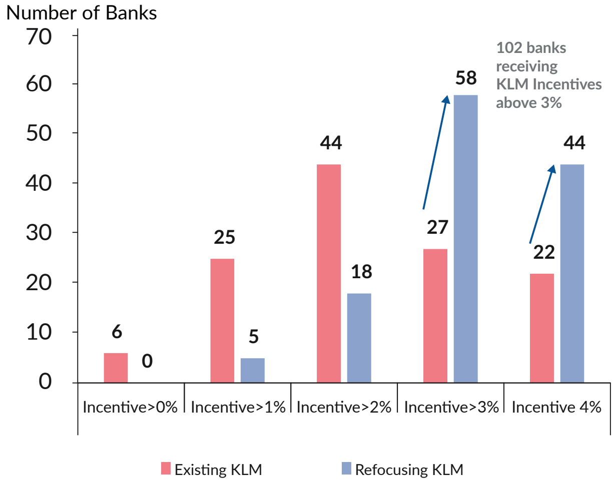
Second, Bank Indonesia will maintain an accommodative liquidity policy through the Macroprudential Liquidity Buffer (MPLB) to safeguard financial system stability against the impact of global spillovers. As explained in the previous section, there is ample liquidity in the banking system in line with the accommodative liquidity policies instituted by Bank Indonesia. Among others, this is reflected in the relatively high ratio of liquid assets to third-party

Table 10. KLM Incentive Value by sectors

KLM Sector	Share of Labor (% of Total Labor)	Incentive Value (IDR Trillion)
Trade, Agriculture and Manufacturing Industry	57.68%	115.95
Transportation, Tourism and Creative Economy	23.94%	26.91
Construction, including Public Housing	6.64%	21.77
MSMEs		69.2
Ultra-micro Enterprises		19.63
Green		29.35
Total		**282.81**

Source: Bank Indonesia

Graph 42. Number of Banks Receiving KLM Incentives



Source: Bank Indonesia

funds in the banking industry at 25.58% in October 2024. This accommodative liquidity policy will be maintained in 2025. To provide greater flexibility in liquidity management in the banking industry, Bank Indonesia has extended MPLB policy to conventional commercial banks and shariah commercial banks/sharia business units at 5% and 3.5%, respectively, until the end of December 2025 with the flexibility that all instruments can be used as collateral in repurchase agreement (repo) transactions with Bank Indonesia for bank liquidity management. Bank Indonesia expects the banking industry to utilize this liquidity flexibility to further encourage credit/financing disbursement so that economic growth can be higher. Bank Indonesia will continue monitoring overall liquidity conditions in the banking industry to strengthen the policy response as required. This accommodative liquidity policy will also be implemented through monetary operations by Bank Indonesia. Such policies are expected to strengthen the resilience of financial system stability, which includes mitigating the risks posed by global spillovers.

Third, strengthening systemic surveillance on credit/financing disbursement and banking resilience to help maintain financial system stability, in close coordination with the KSSK. Systemic surveillance by Bank Indonesia, as an integral part of macroprudential supervision, focuses on large banks in terms of the macro-financial linkages, which are deemed influential in determining loan/credit disbursements and financial system stability overall. There are several key aspects of Bank Indonesia's systemic surveillance, including loan/financing performance, resilience to liquidity risk, market risk (exchange rates and SBN yields), and credit risk, as well as interconnectedness in terms of funding, money market, and payment systems. In its implementation, Bank Indonesia closely coordinates with the KSSK to jointly manage financial system stability and bilaterally with the microprudential supervision conducted by the OJK. In this regard, policy coordination and the KSSK supervision are continuously strengthened to increase economic financing and maintain financial system stability, including from the impact of global turmoil.

As mentioned previously, the impact of global spillovers can create excessive pressures on Rupiah exchange rates, increase SBN yields substantially, tighten liquidity due to capital outflows, and reduce business activity. Consequently, Bank Indonesia will strengthen synergy between the macroprudential surveillance of the banking and the microprudential supervision conducted by the OJK in accordance with the well-established coordination mechanisms. This type of coordination is critical to mitigate market risk (exchange rate and interest rate), liquidity risk, and credit risk to ensure the stability of the financial system. Strengthening close coordination within the KSSK is also necessary to maintain financial system stability and strengthen implementation of financial sector reforms as mandated by the P2SK Act.

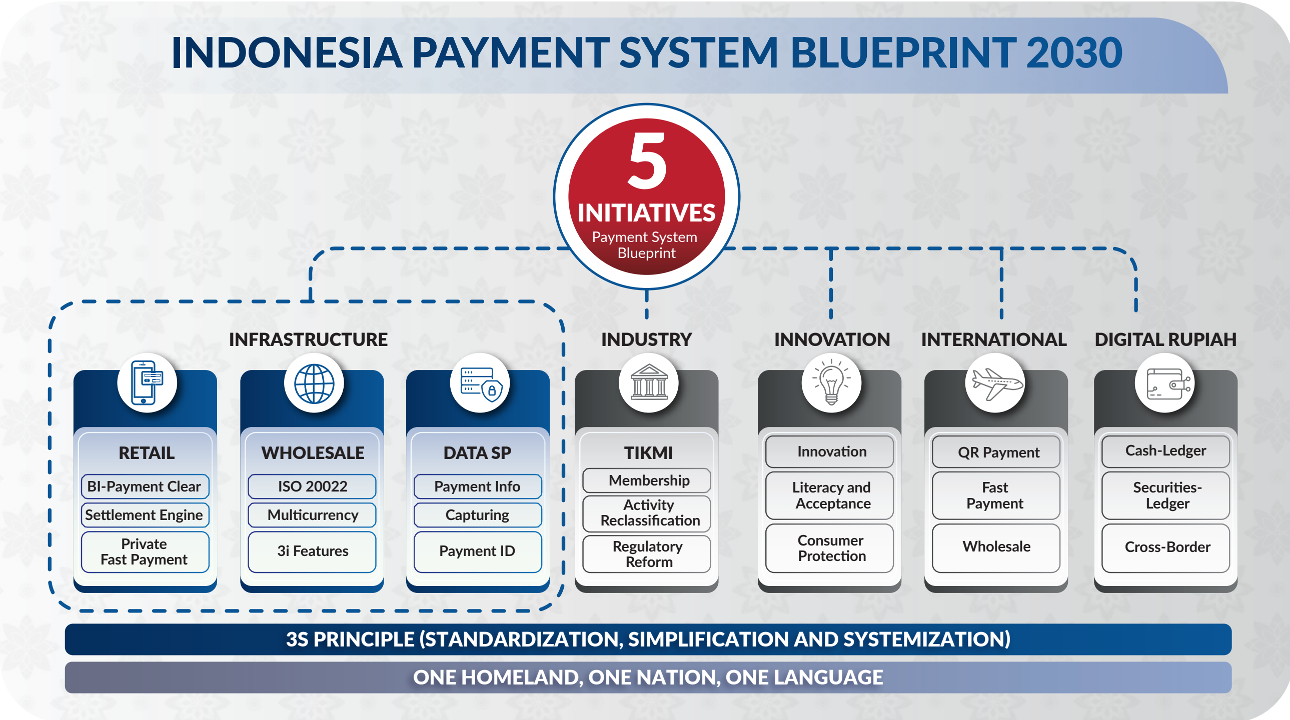
Direction of Payment System Policy

Digital payment systems are key to accelerating the growth of digital economy and finance in the future. The volume of retail fund transfers originating from fast payment transactions is expected to grow exponentially and record 10.05 billion transactions in 2030, representing a 14-fold increase compared with the numbers in 2022. Rapid growth of digital transactions is driven by Millennials, Gen Z, and Generation Alpha, who will be the dominant driver of the digital economy. This is also supported by the promising economic outlook for Indonesia, with economic growth projected to accelerate toward 2030, including MSMEs and the creative economy. Payment technology innovation is expected to advance rapidity toward a cashless, cardless, and contactless transaction focusing on consumer need and preference (consumer centric), and incorporating the use of Artificial Intelligence (AI). On the other hand, the rapid pace of digital innovation must be balanced with adequate consumer protection and literacy, as well as security against cyber attacks and personal data protection. In addition, while digitalization of the banking industry is progressing rapidly, it has not been accompanied by strong linkages between banks and nonbank players (FinTech).

Bank Indonesia has updated its roadmap to accelerate the national digital economy and finance for the next generation in the Indonesia Payment System Blueprint (BSPI) 2030, which was launched at the Indonesia Digital Economy and Finance Festival (FEKDI) on 1st August 2024. BSPI 2030 is designed to create an Indonesian payment system that support integration of the digital economy-finance nationally, ensuring safeguarding the central bank functions in currency circulation, monetary policy, and financial system stability. BSPI 2030 is a continuation of BSPI 2025 and, simultaneously, the manifestation of Bank Indonesia's commitment to fulfill its mandate in accordance with the P2SK Act. That mandate is realized through 3 (three) policy objectives. First, the **Velocity** of payment system transactions, namely fast, simple, and affordable in retail and wholesale transactions to ensure greater efficiency in economic and financial transactions and, ultimately, increase productivity and support sustainable economic growth. Second, **Structure** in the form of a healthy, competitive, and innovative payment service industry with solid risk management, as well as efficient and fair market practices. Third, stable, modern, and secure **Infrastructure** in line with international standards and 3i principles (interconnection, interoperability, and integration), for both infrastructures managed by Bank Indonesia and the industry. The vision of BSPI 2030 will be achieved through 5 (five) initiatives, namely **Infrastructure, Industry, Innovation, International, and Digital Rupiah (4I-RD)**, which simultaneously serves as the main strategy (Figure 18.). First, strengthening and modernizing retail and wholesale infrastructure as well as payment system data. Second, consolidating and restructuring the industry. Third, expanding innovation and digital acceptance. Fourth, expanding interconnection and international cooperation. Fifth, developing the Digital Rupiah. These five main strategies have been translated into flagship programs, along with a timeframe for completion.

Payment system policy in 2025, as the first year of BSPI 2030 implementation, will accelerate the existing progress of digitalization to support sustainable economic growth. As previously shown in Table 6 of section 2, the target is to increase digital payment transactions through mobile banking, internet banking, and server-based electronic money from 36.4 billion transactions with a value of Rp71,038.0 trillion in 2024 to 55.4 billion transactions (52.3%) with a value of Rp105,664.5

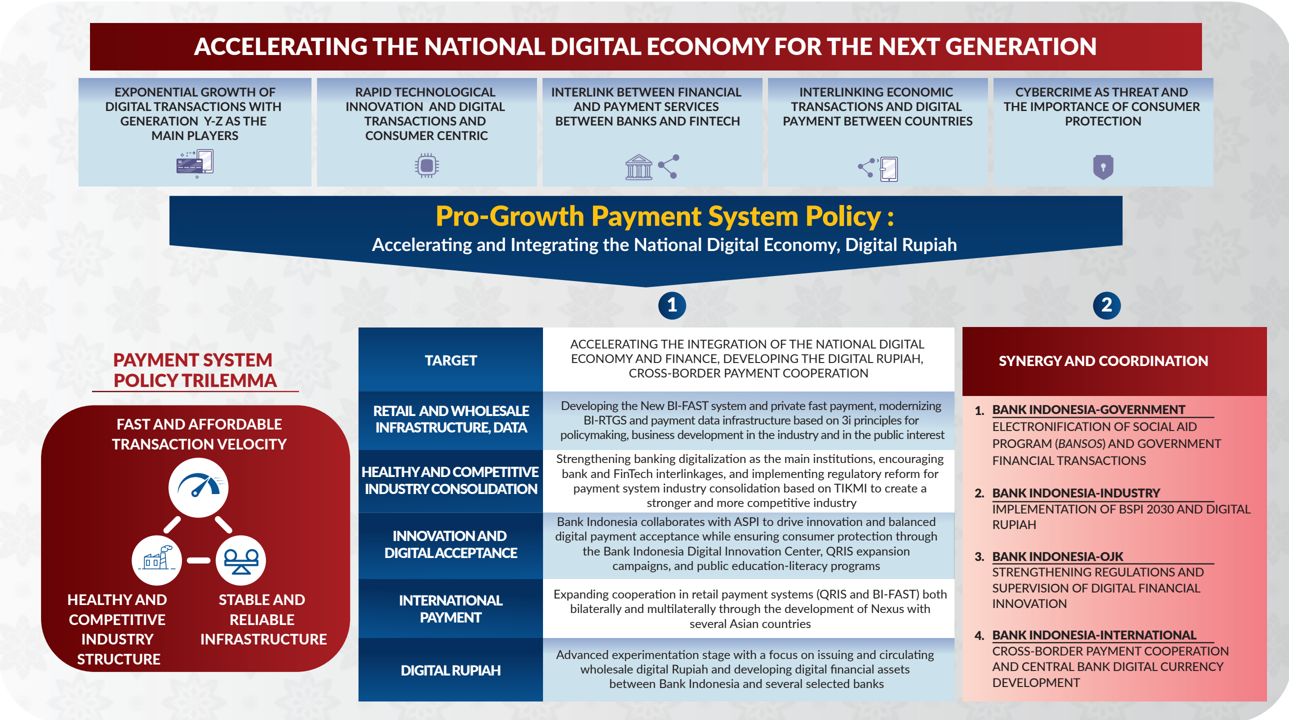
Figure 18. Five Initiatives of Indonesia Payment System Blueprint (BSPI) 2025-2030



Source: Bank Indonesia

trillion (48.7%) in 2025. QRIS transactions are expected to increase from 5.3 billion in 2024 to 6.0 billion transactions (14.70%) in 2025, with the number of users increasing to 58 million along with 40 million merchants, dominated by MSMEs. BI-FAST services are projected to increase from 3.3 billion transactions in 2024 to 4.5 billion transactions (34.1%) in 2025, while Bank Indonesia – Real Time Gross Settlement (BI-RTGS) system transactions are expected to increase from 11.5 million with a value of Rp125,285.0 trillion in 2024 to 12.4 million transactions (8.0%) with a value of Rp137,057.0 trillion (9.4%) in 2025. This direction of payment system policies in 2025 will be implemented to support growth (pro-growth) through five key measures (Figure 19.). First, in terms of payment system infrastructure, Bank Indonesia will develop New BI-FAST and fast payment industry, modernize BI-RTGS, and integrated payment data infrastructure with 3i (interconnection, interoperability, and integration) for policy formulation, business development, and public interest. Second, in terms of industry consolidation, Bank Indonesia will strengthen payment system digitalization in the banking industry as the dominant institution and encourage interlinked digital payment services between banks and FinTech, while implementing regulatory reform for payment system industry consolidation based on TIKMI (Transactions, Interconnection, Capacity, Risk Management, and Information Technology) to create a stronger and more competitive industry. Third, in terms of innovation and digital acceptance, Bank Indonesia will collaborate with the Indonesia Payment System Association (ASPI) to nurture innovation and expand acceptance of digital payments while balancing this with consumer protection through the Bank Indonesia Digital Innovation Centre (BIDIC), campaigns to expand QRIS, as well as public education and literacy. Fourth, in terms of payment internationalization, Bank Indonesia will expand international cooperation on retail payment systems (QRIS and BI-FAST) bilaterally and multilaterally through development of the Nexus project with several other Asian countries. And fifth, in terms of Digital Rupiah development, Bank Indonesia will continue the advanced experimentation stage with a focus on issuing and circulating wholesale

Figure 19. Direction of Bank Indonesia Payment System Policy in 2025

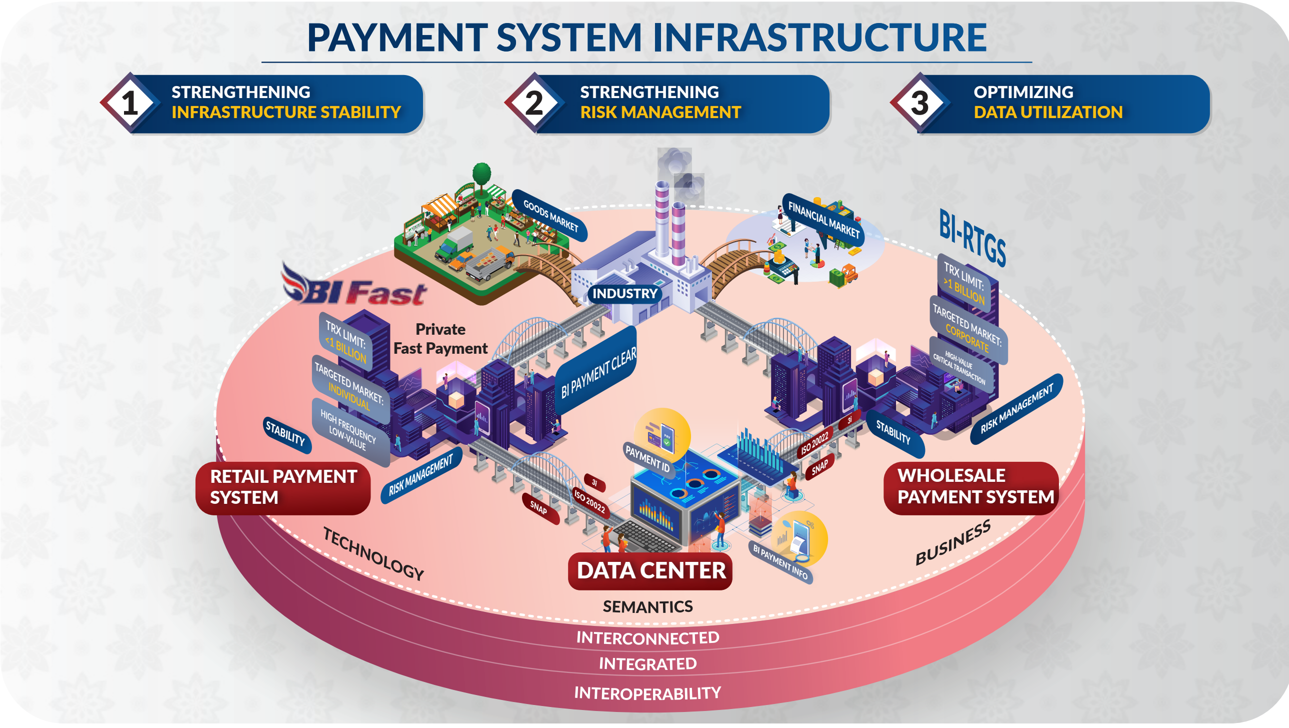


Source: Bank Indonesia

Digital Rupiah and developing digital financial assets between Bank Indonesia and several selected banks.

First, the development of retail and wholesale payment system infrastructure, and data will be oriented toward the interconnection, interoperability, and integration (3i) of payment transaction digitalization, industry consolidation, innovation, and acceptance as well as internationalization of the national digital economy-finance (Figure 20.). In terms of the retail payment system, Bank Indonesia will develop New BI-FAST in anticipation of future digital transaction needs regarding stability and scalability with the development of modular system architecture within the application for processing payment enquiries, clearing and settlement. The modular system architecture is considered to be more capable of responding to the development of service features in line with the needs of the public and businesses. Bank Indonesia will also nurture the development of fast payment infrastructure by the industry that is interconnected, interoperable, and integrated (3i) with BI-FAST, in terms of business and governance to ensure more effective synergy. To that end, BI-Payment Clear will be developed to maintain secure payment transactions against the risk of fraud by strengthening risk management capacity in the industry. Through BI-Payment Clear, the integrity of online retail payment transactions can be curated in advance in terms of validity and security prior to settlement in the fast payment infrastructure. Industry players can flag and reject suspicious transactions suspected of fraud. In terms of wholesale payment system infrastructure, Bank Indonesia is modernizing the RTGS system with the adoption of ISO 20022, the development of multicurrency features and other features that strengthen 3i principles with financial market infrastructure end-to-end. The multicurrency feature will enhance the effectiveness of foreign currency transaction settlements, including domestic and cross-border transactions. The adoption of ISO 20022 aims to make Rupiah and foreign currency transactions more efficient by providing greater seamlessness and granularity. Risk management will be strengthened through the Liquidity

Figure 20. Direction of Retail and Wholesale Payment System Infrastructure and Data Development in BSPI 2030

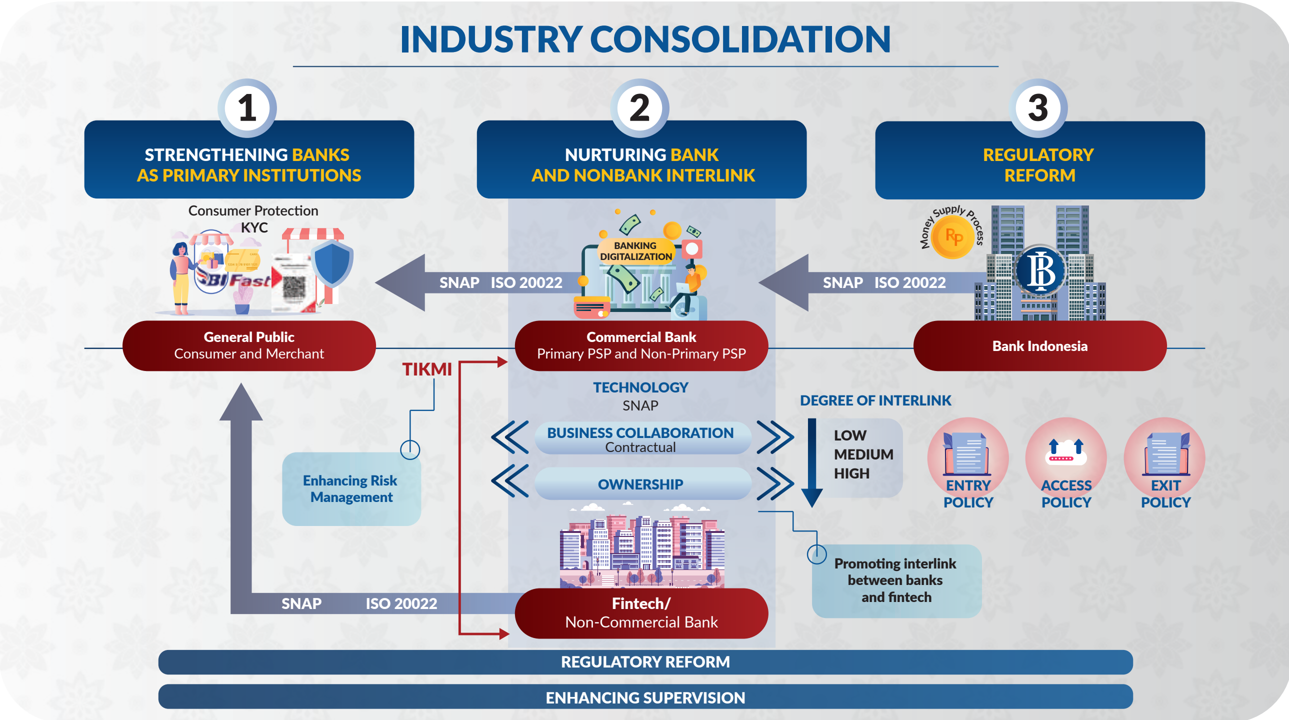


Source: Bank Indonesia

Saving Mechanism (LSM) feature, including fraud management/endpoint security. Bank Indonesia will also begin development of data centers to ensure end-to-end payment system data flows from the consumers to merchants and banking industry to nonbanks, as well as settlement in the Bank Indonesia payment system infrastructure. This is important to safeguard the continuity of central bank tasks in terms of maintaining price stability, financial system stability, and payment system stability. This payment system data infrastructure will be developed to strengthen transaction integrity and policymaking through development and optimization of Payment ID and Payment Info. Payment ID will function as a payment unique identifier, thereby facilitating the system to collect and process granular digital data for the purposes of policymaking, business development within the industry and public services. The processed data will be uploaded to the BI-Payment Info platform as public infrastructure from Bank Indonesia that provides processed data products of the digital payment system for the national interest.

Second, Bank Indonesia will orient payment system industry structure policy toward strengthening a healthy and competitive industry structure, while safeguarding the currency circulation function of the central bank. This will be achieved through three strategies, namely: (i) strengthening banks as the primary institutions; (ii) nurturing interlinks between banks and FinTech; and (iii) regulatory reform (Figure 21.). As the primary institution providing payment services, banks function as the axis of money supply in an effective monetary system and financial system. Nonbanks are encouraged to establish interlinks with the banking industry in two key aspects, namely technical aspects through National Open API Payment Standard (SNAP) and business aspects through contractual standards concerning the technology, business, and ownership. This consolidation and strengthening of the industry aim not only to enhance end-to-end integration of payment services within the national digital economy-finance ecosystem, but also to increase the competitiveness and efficiency of payment services for the public. To that end, Bank Indonesia

Figure 21. Direction of Payment System Industry Consolidation in BSPI 2030



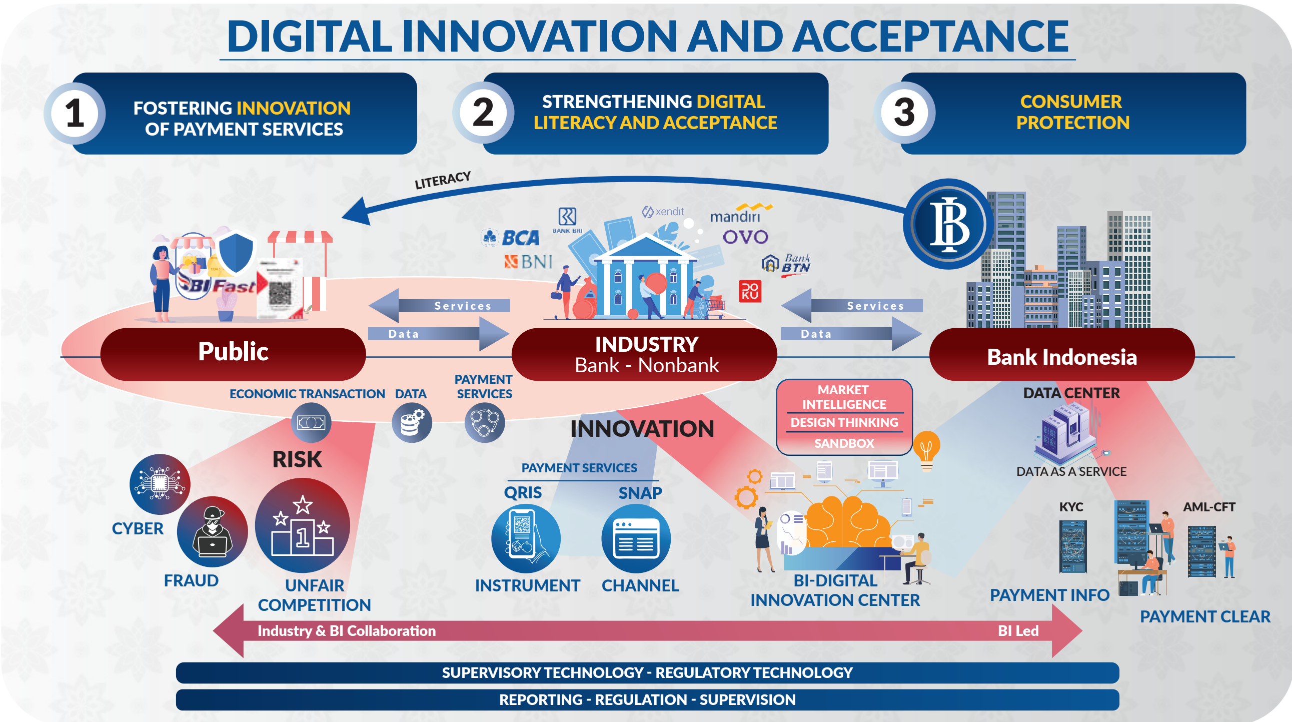
Source: Bank Indonesia

has formulated several criteria that measure the level of contribution and risk management of industry players, consisting of Transactions, Interconnection, Competency, Risk Management, and Information Technology (TIKMI). TIKMI assessments of industry players are evaluated periodically as a reference in the licensing requirements, structuring the line of business, evaluating the license and developing activities, products and/or business cooperation, as well as a reference for Bank Indonesia supervision. For instance, direct access to BI-FAST is only granted to Primary Payment System Providers (PSP) that meet the minimum parameters in terms of Competency, Risk Management, and Information Technology (KMI) within TIKMI, as set by Bank Indonesia. This assessment is undertaken to ensure operational risk, liquidity risk, and credit risk mitigation are in accordance with the recommendations contained in the Principles for Financial Market Infrastructures (PFMI) for individual PSPs and the industry. Non-Primary and Primary PSPs that fail to meet the KMI criteria are directed toward participation in the private fast payment. In addition, Bank Indonesia is also committed to supporting the development of competent human resources in the payment system through competency certification programs implemented in collaboration with the Indonesia Payment System Association (ASPI).

Third, Bank Indonesia will continue collaborating with the industry to foster innovation and digital payment system acceptance while balancing it with consumer protection, integrity, stability, and healthy business competition. This will be achieved through three main policies, namely: (i) fostering innovation of payment services; (ii) strengthening digital literacy and acceptance of the public; and (iii) strengthening risk management and consumer protection (Figure 22.). The three main strategies will be implemented collaboratively between Bank Indonesia and the Indonesia Payment System Association (ASPI). Bank Indonesia will foster the innovation of payment services in a corridor of healthy business competition that guarantees end-to-end integration in the digital economy and finance. Standardization of payment methods in terms of payment instruments and delivery channels will focus on the types of innovation with potential for massive adoption based on the one language principle. In addition to preventing the risk of unhealthy competition, standardization also aims to maintain the continuity of end-to-end integration in the digital economy-finance as the ultimate goal of BSPI 2030. An effective collaborative process with industry players will be optimized through the establishment of the Bank Indonesia Digital Innovation Centre (BIDIC). BIDIC will be developed on 3 (three) pillars of functionality: (i) in-depth sandboxing or effective innovation testing environment; (ii) market intelligence or monitoring industry developments; and (iii) design thinking or iterative processes, including research/assessments in collaboration with the industry and involving experts in their field. The implementation of these functions will accommodate efforts to safeguard aspects of consumer protection, stability, including risk management, integrity or compliance, and healthy competition. Meanwhile, digital acceptance, which has progressed effectively over the past few years, will be continued and strengthened through digital literacy programs. QRIS acceptance in 2025 is targeted to achieve 58 million users and 40 million merchants, dominated by MSMEs. This program will be implemented through socialization, education, and campaign activities to accelerate adoption balanced with fulfillment of risk management and consumer protection principles, particularly on the user side. The Jelajah Nusantara QRIS program will be held regularly with a broad scope and organized collaboratively with the industry and other relevant stakeholders to optimize the achievement of educational and literacy goals. Similarly, consumer protection will be strengthened through enhancing the regulatory framework and designing mechanisms that can bridge the needs of all elements (public, businesses, payment system industry players). Public awareness of their rights and responsibilities as consumers of payment services will also be strengthened through various digital literacy programs.

Fourth, Bank Indonesia will expand international cooperation for cross-border payment system connectivity to support regional economic integration, particularly in the ASEAN region. International payment connectivity is critical to assist cross-border economic and financial transactions, maintain stability and build sustainable economies, while prioritizing national interests. This initiative will be realized through

Figure 22. Direction of Innovation and Digital Payment System Acceptance in BSPI 2030

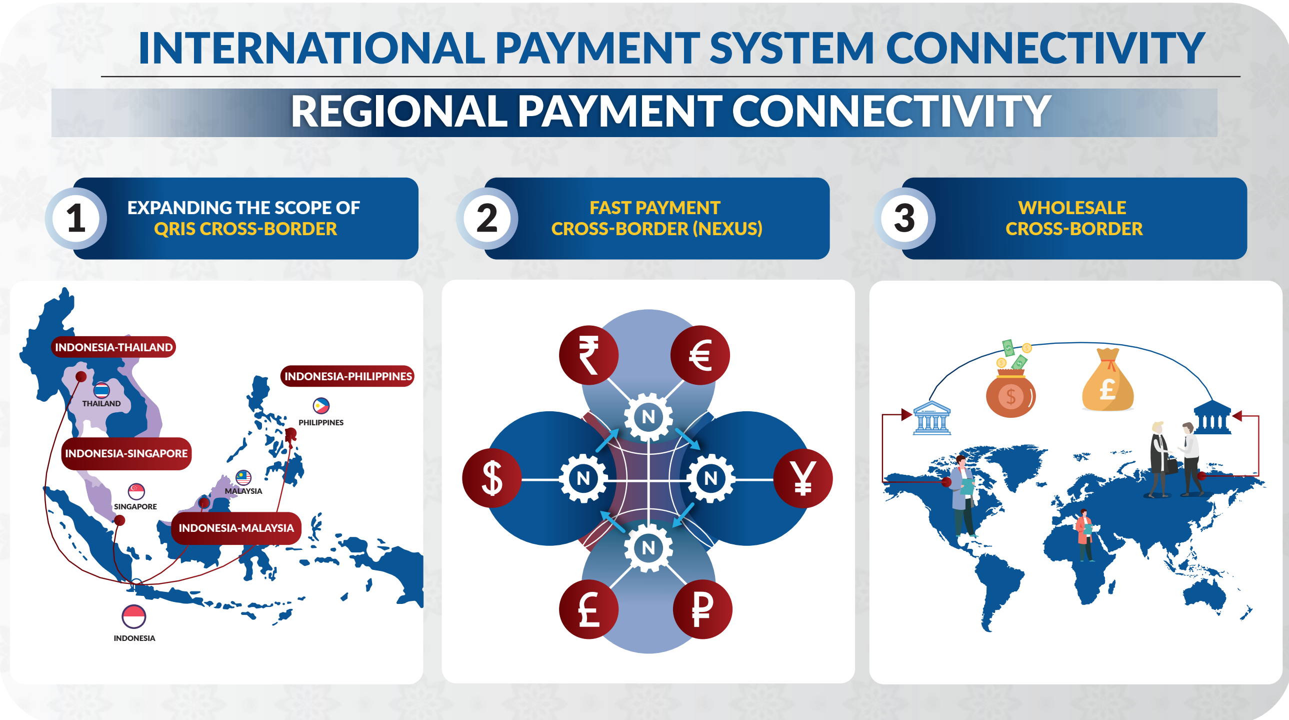


Source: Bank Indonesia

two programs, namely: (i) expanding the scope of cross-border QRIS cooperation; and (ii) preparing national payment system infrastructure that is ready to connect internationally (Figure 23.). Existing QRIS cooperation between Indonesia and Malaysia, Thailand, and Singapore will be expanded to Japan, South Korea, India, United Arab Emirates (UAE) and Saudi Arabia. Cross-border payment connectivity will also be driven through interconnected payment system infrastructure channels, both bilaterally and multilaterally. On the retail side, Bank Indonesia is pursuing BI-FAST interconnection multilaterally through project Nexus with Malaysia, Thailand, Singapore, the Philippines, and India with the involvement of the Bank for International Settlements (BIS). Bank Indonesia is actively involved in the Stage III development of project Nexus by preparing a roadmap for multilateral interconnection between five ASEAN member states and India for the use case of remittances. In terms of wholesale payment system infrastructure connectivity, the BI-RTGS modernization, as previously mentioned, is being prepared from the outset to anticipate and meet future cross-border interconnection demand. RTGS interconnection has also become a G20 agenda promoted through the initiative of enhancing cross-border payments, which needs to be anticipated early, considering Indonesia's position as a G20 member.

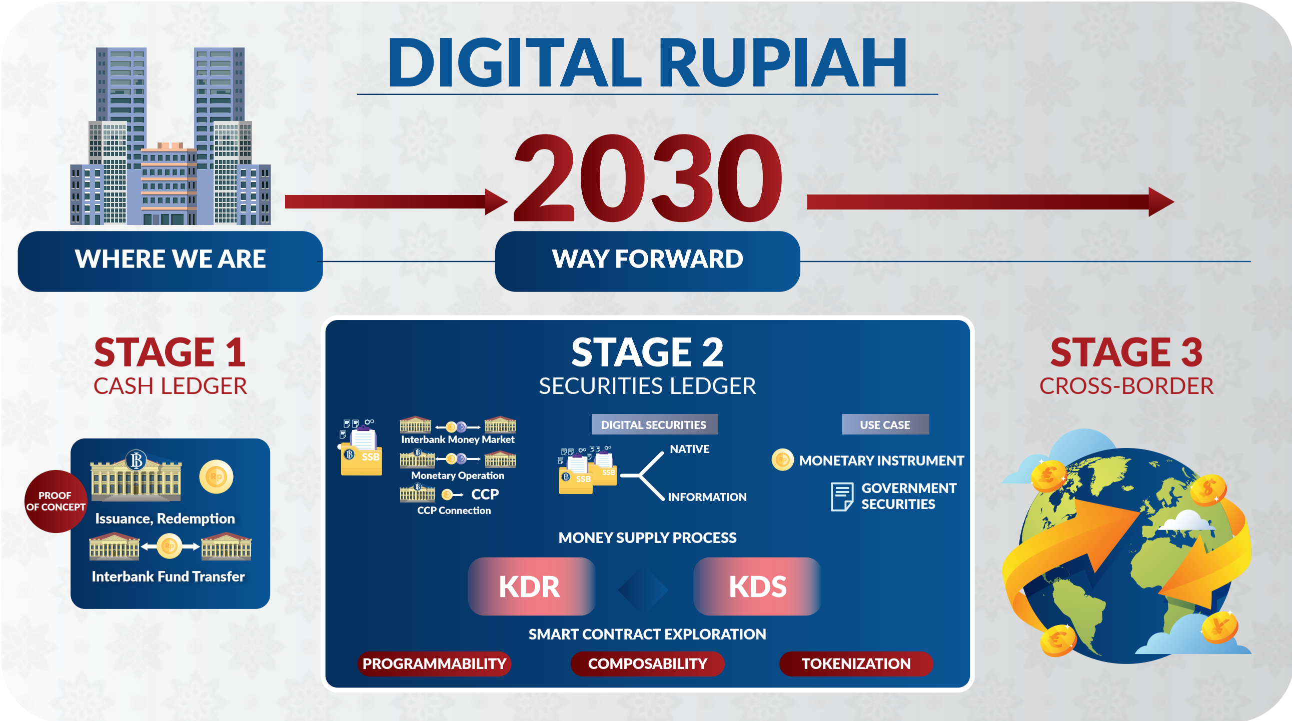
Fifth, Bank Indonesia will continue Digital Rupiah development in the advanced experimentation stage with a focus on replicating the function of the wholesale market and financial market deepening. This will be achieved through three main programs as follows: (i) experimentation in terms of issuance, transference, and redemption of the securities ledger; (ii) experimentation in terms of using digital securities for the use cases of monetary operations and other financial transactions; and (iii) exploration in terms of exploiting the advantages of programmability, composability, and tokenization for financial market deepening (Figure 24.). The exploration initiative for the design of Indonesia's Central Bank Digital Currency (CBDC), or Digital Rupiah, is under the umbrella of Project Garuda, with the aims of: (i) maintaining Rupiah sovereignty as mandated by the Currency Act and P2SK Act; (ii) strengthening its role internationally; and (iii) accelerating national integration of the digital economy and finance.

Figure 23. Direction of International Payment System Connectivity in BSPI 2030



Source: Bank Indonesia

Figure 24. Direction of Digital Rupiah Development in BSPI 2030



Source: Bank Indonesia

Through this project, Bank Indonesia will develop the most accurate Digital Rupiah design to ensure its function as: (i) digital legal tender in the territory of the Republic of Indonesia; (ii) a core instrument for Bank Indonesia to discharge its mandate as a central bank in the digital era; and (iii) a means to support financial inclusion and innovation as well as driving end-to-end efficiency. The implementation of Project Garuda is divided into three stages. In the first stage (immediate), development began with the w-Digital Rupiah for the use cases of issuance, destruction, and transfers, which was completed in 2024. In 2025, as part of the advanced experimentation stage between Bank Indonesia and several selected banks, the focus is on replicating the function of the wholesale market and deepening the financial markets. In the subsequent phase (intermediate), the use cases for w-Digital Rupiah will be expanded to include additional use cases that support financial market transactions. In the final stage (end state), the concept of end-to-end integration of w-Digital Rupiah with r-Digital Rupiah will be tested.

In addition to the five programs mentioned above, Bank Indonesia will also continue strengthening synergy and coordination with the (central and regional) Government as well as payment system industry. Coordination with the (central and regional) Government will primarily be oriented toward expanding the electronification of regional government financial transactions by strengthening the Regional Digitalization Acceleration and Expansion Team (TP2DD), fostering social aid program (*bansos*) disbursements and expanding the use of the Indonesia credit card (KKI) for the government segment. Similarly, digitalization of MSMEs and the tourism industry will be amplified through the National Movement promoting pride in Indonesian-made products (GBBI) and Proud to Travel in Indonesia National Movements (GBWI) in various regions. Synergy and coordination in terms of regulation and supervision of payment system digitalization by Bank Indonesia with the digitalization of financial institutions by the OJK will be strengthened as mandated by the P2SK Act, which encompasses crypto assets and the Financial System Technology Industry (ITSK), digital financial literacy and consumer protection, as well as cybersecurity. Synergy with the banking industry, payment system association, FinTech association and other associations will also be strengthened constantly by expanding various existing payment system digitalization programs, such as QRIS, SNAP, and BI-FAST, as well as expanding services to the public. Bank Indonesia abides by the principles of industry-friendly policy, where payment system policies, regulations, and supervision are formulated and implemented together with the industry.

Money and Foreign Exchange Market Deepening Policy

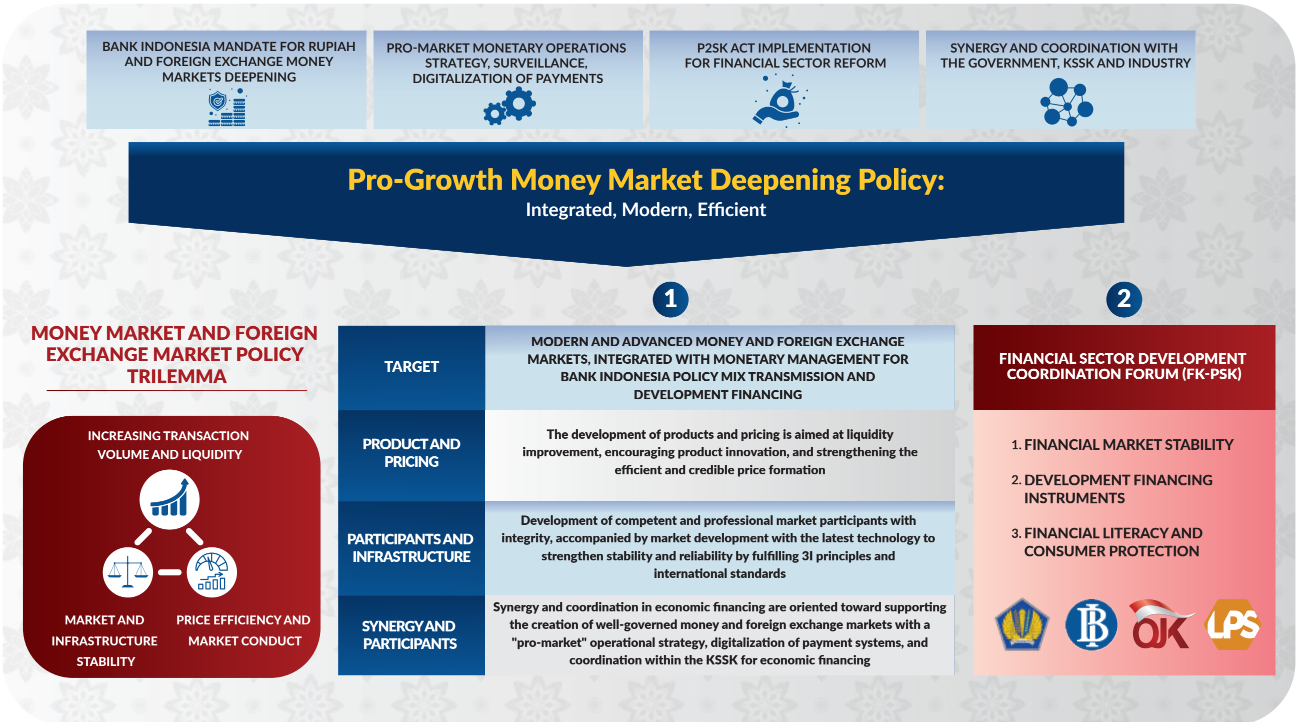
Money and foreign exchange market deepening plays an important role in the effectiveness of Bank Indonesia policy transmission, financial system stability, as well as fiscal and economic financing. Significant progress has been achieved through the implementation of the Money Market Development Blueprint (BPPU) 2020-2025. In the money market, for example, average daily repurchase agreement (repo) transactions have increased from merely Rp0.5 trillion in 2020 to Rp14.9 trillion as of October 2024. Similarly, average daily SRBI transactions in the secondary market have reached approximately Rp10 trillion per day. In the foreign exchange market, average daily transactions have increased from USD4.8 billion to USD9.1 billion, although Domestic Non-Deliverable Forward (DNDF) transactions have only reached USD143.80 million per day. In terms of the market participants and infrastructure, as explained in the third section, the Indonesian Money Market and Foreign Exchange Association (APUVINDO) has been established, and the Central Counterparty for Interest Rate and Exchange Rate Derivatives (CCP-SBNT) has also been operational. Such progress serves as a foundation to accelerate money and foreign exchange market deepening and close the gap with Malaysia, Thailand, and South Korea. Money and foreign exchange market deepening in terms of the products, pricing, participants, and infrastructure (3P+I) is critical for effective interest rate and exchange rate policy transmission as well as Bank Indonesia's pro-market monetary operations to influence the financial system and economy. Liquidity and asset portfolio management by the banking industry and investors will also become more efficient and flexible and, therefore, support financial system stability.
The SBN market will also improve and facilitate government fiscal financing. Similarly, a deep and efficient money and foreign exchange market will facilitate liquidity management and hedging needs against interest rate and exchange rate risks for businesses and economic financing.

Bank Indonesia today launched the Money Market Development Blueprint (BPPU) 2030 as a continuation of BPPU 2025. BPPU 2030 is a clear roadmap to navigate the direction of money and foreign exchange market deepening to create modern and advanced money and foreign exchange markets in the 2025-2030 period, thereby supporting monetary policy transmission, financial system stability and national economic financing as well as implementation of Bank Indonesia's mandate and authority in accordance with the P2SK Act. Money and foreign exchange market deepening focuses on 3 (three) aspects, namely 3P+I: products, participants, and pricing, as well as 3i market infrastructure (integrated, interoperable, interconnected) between money and foreign exchange market and the payment system. The direction of money and foreign exchange market transformation in BPPU 2030 is a strengthening of BPPU 2025, particularly in terms of integration with the pro-market monetary operations (MO) strategy, the strategic 3P+I targets, the development of money and foreign exchange market infrastructure based on 3i principles and data digitalization, as well as underscoring money and foreign exchange market regulation, and supervision based on best principles and practices. Product development prioritizes increasing repo and DNDF transactions, with average daily targets of Rp30 trillion and USD1 billion, respectively, as the benchmark for derivative product development, including Interest Rate Swaps (IRS) and FX Swaps. The pricing aspect is oriented toward creating an efficient term structure for money and foreign exchange market product prices from tenors of 2 weeks to 12 months, interconnecting larger and more active transactions between Primary Dealers (PD) and other market participants, supported by CCP-SBNT infrastructure that is '3i'-connected with the electronic trading platform (ETP) in the markets, the ETP and BI-SSSS in Bank Indonesia, as well as the BI-FAST and BI-RTGS payment system infrastructure as previously explained.

Money market deepening policy in 2025 will remain focused on pro-growth through the development of a modern money market based on international standards, while strengthening the effectiveness of Bank Indonesia policy mix transmission and supporting financing for sustainable economic growth (Figure 25.). Money market and foreign exchange market deepening policy in 2025 will focus on 5 (five) main programs as follows. First, product development to increase transaction volume and liquidity in the secondary market for Bank Indonesia Rupiah Securities (SRBI), Bank Indonesia Forex Securities (SVBI) and Bank Indonesia Forex Sukuk (SUVBI), supported by issuances of Interest Rate Swaps (IRS) and Foreign Exchange Swaps (FX Swaps) for effective monetary transmission, Rupiah stability, hedging and short-term liquidity management. Second, strengthening efficient market mechanisms to create an effective term structure for interest rate (IndONIA, OIS and repo), exchange rate (Domestic Non-Deliverable Forwards, DNDF) and hedging instruments (IRS and FX Swaps). Third, strengthening the consolidation of market participants through the implementation of Primary Dealers (PD) and establishment of the Indonesia Money Market and Foreign Exchange Market Association (APUVINDO) as key partners of Bank Indonesia in terms of implementing the monetary operation strategy and money market deepening. Fourth, infrastructure development for the money market, monetary operations and payment system that is '3i' mutually as a prerequisite for the future issuance of Digital Rupiah. Fifth, synergy and coordination in terms of economic financing to support the formation of money and foreign exchange market with good governance.

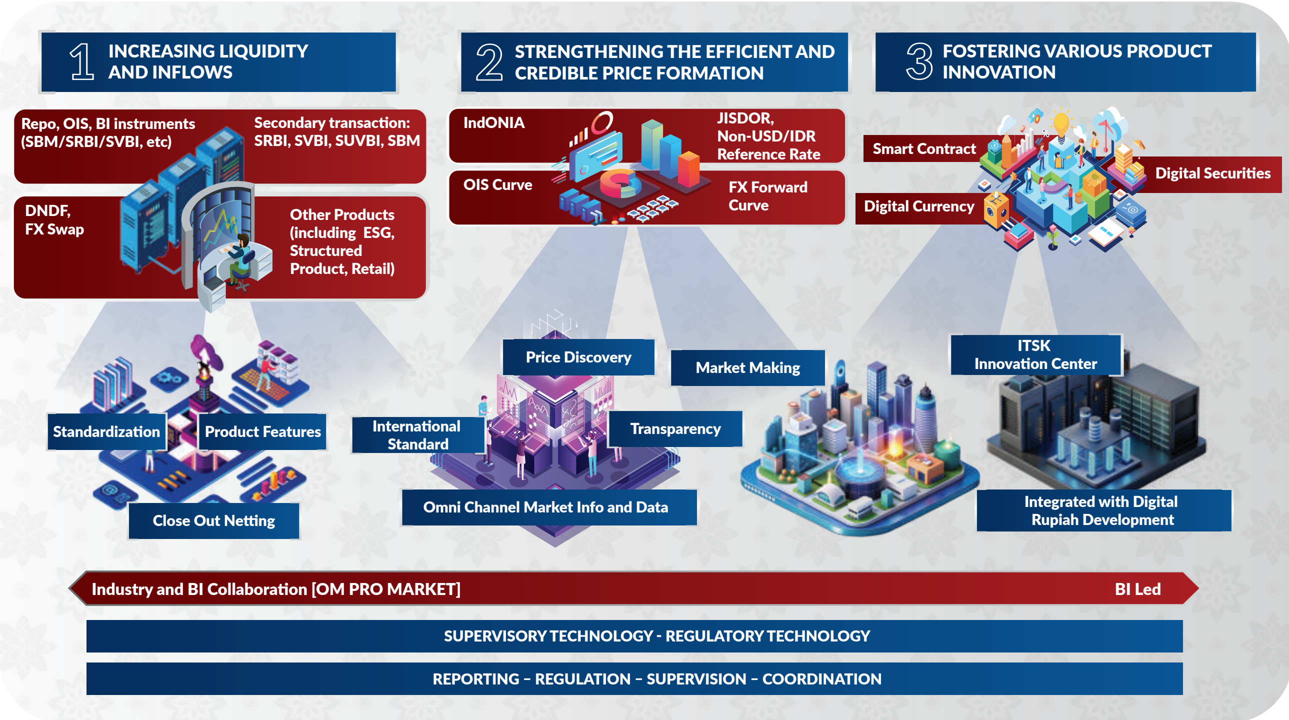
First, product and pricing development will be aimed at increasing liquidity, nurturing product innovation and strengthening efficient and credible pricing formation (Figure 26.). In the money market,

Figure 25. Direction of Money Market and Foreign Exchange Market Deepening Policy in 2025



Source: Bank Indonesia

Figure 26. Direction of Product and Pricing Development in BPPU 2030

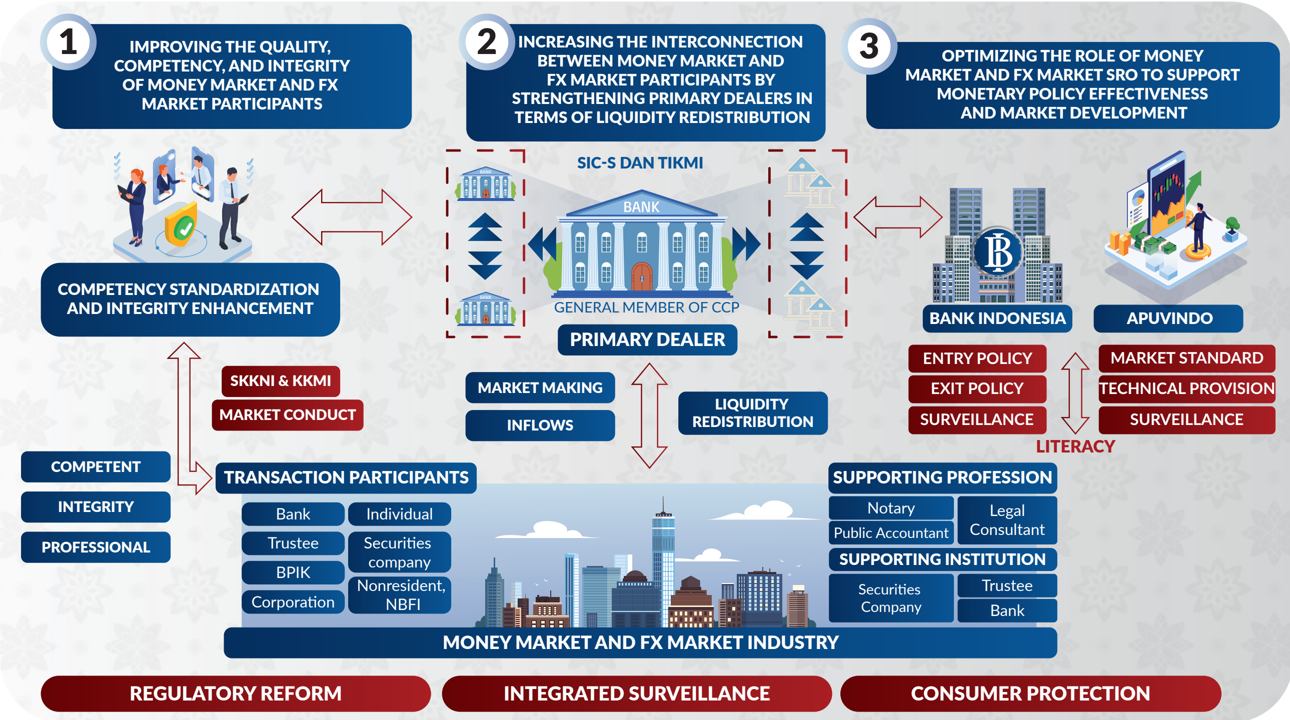


Source: Bank Indonesia

product development will focus on increasing transaction volume for repo and Overnight Index Swap (OIS) liquidity, accompanied by efficient and credible pricing based on the IndONIA and OIS Curve as reference to form the term structure for tenors from 2 weeks to 12 months. In the foreign exchange market, product development will focus on increasing transaction volume for DNDF and FX Swap (OIS) liquidity, accompanied by efficient and credible pricing for JISDOR and non-USD/IDR reference rates to form the term structure for tenors from 2 weeks to 12 months. Bank Indonesia will integrate product and pricing development in the money market and foreign exchange market with the pro-market monetary operations strategy to increase liquidity for SRBI, SVBI and SUVBI transactions in the secondary market by developing Money Market Curve and FX Forward Curve prices based on BI-SBM (Floating Rate Certificate) issuances as floating-rate notes to form the OIS Curve as a reference for market prices. Bank Indonesia will increase repo and DNDF liquidity in the money market and foreign exchange market by strengthening the role of primary dealers as market-makers, developing features and standardizing products, as well as expanding the investor base in coordination with relevant authorities and financial market associations.

Second, the development of competent and professional money market and foreign exchange market participants with integrity, accompanied by market infrastructure development using the latest technology to strengthen stability and reliability by fulfilling 3i principles and international standards (Figure 27.). Bank Indonesia will collaborate with the Indonesia Money Market and Foreign Exchange Market Association (APUVINDO) to develop the money market and foreign exchange market, which includes enhancing the quality of human resources. Competencies will be developed through mandatory treasury competency certification issued by registered providers with Bank Indonesia. The application of market code of ethics will be initiated by Bank Indonesia issuing a Market Code of Conduct (MCoC) and Islamic Financial Market Code of Conduct (ICoC) as ethical guidelines for market participants. Meanwhile, strengthening money and foreign exchange market infrastructure consists of 3 (three) aspects: front-end, middle-end, and back-end.

Figure 27. Direction of Market Participant and Infrastructure Development in BPPU 2030

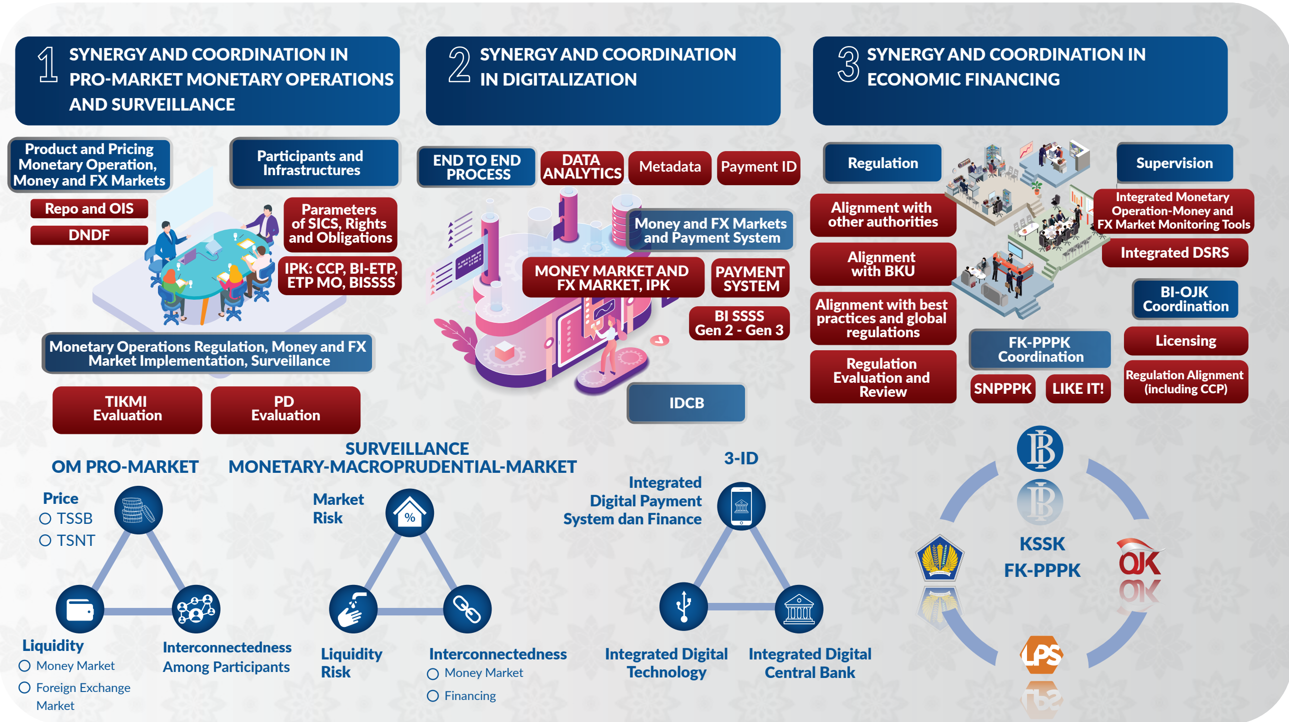


Source: Bank Indonesia

First, the front-end will be strengthened through enhancement of trading venues, consisting of the Bank Indonesia-Electronic Trading Platform (BI-ETP) and market operators (MO). *Second*, the middle-end will be strengthened by developing a clearing system that utilizes the CCP-SBNT. *Third*, the back-end will be strengthened through strategies targeting the Securities Settlement System/Central Securities Depository (SSS/CSD) through development of the Bank Indonesia – Scripless Securities Settlement System (BI-SSSS), payment system through development of the Bank Indonesia – Real Time Gross Settlement (BI-RTGS) system in accordance with BSPI 2030, and the development of reporting focused on establishing a Trade Repository (TR). Money and foreign exchange market infrastructure development will also apply ISO 20022 international messaging standards to increase transaction efficiency, transparency and security, while simultaneously preparing for the future money and foreign exchange market digitalization process.

Third, synergy and coordination in economic financing will be oriented toward supporting the creation of money and foreign exchange market with good governance (Figure 28.). Synergy with the pro-market monetary operations strategy and macroprudential surveillance will be oriented toward increasing transaction liquidity in the money market and foreign exchange market, market stability and infrastructure, as well as efficient pricing in accordance with market conduct. An integration strategy will be implemented in terms of products and price development, market participants and infrastructure, as well as regulatory harmonization between monetary operations, money and foreign exchange market deepening, and monetary and macroprudential market surveillance to support financial system stability. Digitalization synergy for money and foreign exchange market deepening in accordance with the BSPI 2030 initiative aims to strengthen infrastructure and data digitalization. This will commence with the alignment of money and foreign exchange market unique identifiers with payment ID, followed by the development of data capturing and data analytics infrastructure, and extending their application across various use cases. Infrastructure will be harmonized with the

Figure 28. Direction of Development of Synergy and Coordination of the Money and Foreign Exchange Markets in BPPU 2030



Source: Bank Indonesia

ISO 20022 message format, including: (i) BI-RTGS Generation III; (ii) BI-SSSS Generation III; (iii) Trade Repository; and (iv) Central Counterparty. Synergy in terms of maintaining financial system stability and economic financing will be implemented through regulation and supervision in accordance with international principles through bilateral coordination between Bank Indonesia and the OJK. Meanwhile, synergy within the Financial Sector Development Coordination Forum (FK-PSK), as implementation of Article 11 of the P2SK Act, between the Ministry of Finance in developing the Government bond market for development financing, Bank Indonesia in money and foreign exchange market deepening, and the OJK in capital market development. Synergy within the Sustainable Finance Committee (KKB), as mandated by Article 224 of the P2SK Act, for coordinated development of sustainable finance for the green economy and achieving the Sustainable Development Goals (SDGs) is carried out between the Ministry of Finance in financing government projects and programs, Bank Indonesia in formulating macroprudential policies, deepening money market and foreign exchange market, and the OJK in financing through the banking industry and capital market. The formation of FK-PSK has strengthened financial sector development synergy and efficiency to comprehensively (end-to-end) cover the various forms of financing required in the economy.

Inclusive and Green Economy-Finance Policy

Bank Indonesia will continue expanding and strengthening development programs targeting the inclusive and green economy and finance to support sustainable economic growth (pro-growth). In this regard, MSME development programs will be oriented toward supporting the downstreaming of agriculture and fishing to help control inflation, developing MSMEs specializing in traditional fabrics (*wastra nusantara*) as the pride of Indonesia along with "Go Export" and "Go Digital" MSMEs, and development to support tourism as a source of national foreign exchange.

Program implementation involves the role of 46 Bank Indonesia offices in various regions as well as international offices. The MSME program to control inflation focuses on downstreaming production, the development of integrated business models from market to consumer as well as interregional cooperation, particularly for major inflation-contributing food commodities, such as rice, various chili varieties, shallots, beef, chicken, and fish. Implementation is performed in synergy with the National Movement for Food Inflation Control (GNPIP) and the (central and regional) Government. Similarly, the development program for MSMEs specializing in traditional fabrics, assortment of food products, and tourism emphasizes its value to support inflation control, increase foreign exchange, and ameliorate public prosperity. Bank Indonesia will increase access to markets and financing by facilitating product certification and curation, trade promotion and business matching through the annual Karya Kreatif Indonesia national event, and international MSME exhibitions in various countries in cooperation with the local embassy of the Republic of Indonesia. Enabling financial institutions to fulfill inclusive and green financing obligations, Bank Indonesia will also provide Macroprudential Liquidity Incentive (KLM) Policy to banks extending MSME loans, People's Business Loans (KUR) and ultra-micro (UMi) loans.

Bank Indonesia will continue strengthening its role as a pioneer and driver of the sharia economy and finance as a new source of economic growth, while establishing Indonesia as one of the major players globally. Halal value chain ecosystem development will remain focused on flagship sectors, namely halal food, modest fashion, Muslim-friendly tourism and the green economy. Bank Indonesia will accelerate halal ecosystem implementation end-to-end in terms of the participants, institutions, and supporting infrastructure through economic development programs targeting "pesantren" (Islamic boarding schools) and MSMEs through 46 Bank Indonesia offices in various regions, strengthening the Pesantren Economy and Business Association (Hebitren), and facilitating business matching with international business partners. Bank Indonesia will also continue supporting government programs to implement halal certification in synergy with the Halal Certification Agency (BPJPH) and Indonesian Council of Ulema (MUI) centrally and regionally, including through supporting of the automation of halal certification services. In terms of Islamic commercial finance, Bank Indonesia will continue sharia money market deepening policy to support sharia-based financing by expanding BI Sukuk (SUKBI) and Bank Indonesia Forex Sukuk (SUVBI) transactions in the money market and providing Macroprudential Liquidity Incentive (KLM) to banks extending sharia-based and inclusive financing. In addition, Bank Indonesia will continue hosting the series of activities associated with the Sharia Economic Festivals (FESyar) in three regions (Java, Sumatra, and eastern Indonesia) and the international Indonesia Sharia Economic Festival (ISEF) in Jakarta to showcase the development progress of the sharia economy and finance, while also featuring local businesses, facilitating business matching and providing education and literacy for the public. Bank Indonesia constantly strengthens synergy with various parties, including the National Sharia Economy and Finance Committee (KNEKS) and pesantren, Sharia Economic Society (MES), business associations, the banking industry, ulema, academics and the general public.

International Policy

Bank Indonesia will continue collaborating in close synergy with the Government to strengthen Indonesia's position in bilateral relation, within Asian region, as well as globally. International policy aims to support the national interest in strengthening economic resilience against global impacts, while expanding cooperation to support sustainable economic growth. In accordance with its authority, the international policy of Bank Indonesia covers various aspects of the central bank and national economic policy mix, cross-border payment system cooperation, and the expansion of Local Currency Transactions (LCT), in addition to aspects of the green and inclusive economy and finance as well as promoting trade and investment in synergy with the Government and the KSSK. In 2025, international policy will focus on 3 (three) main aspects. First, strengthening and expanding bilateral cooperation with key partner central banks in the areas of central banking, payment systems, LCT, and Bilateral Swap Arrangements (BSA). Second, expanding regional cooperation, particularly ASEAN Financial Integration, ASEAN Payment Connectivity (APC) and strengthening the Chiang Mai Initiative Multilateralization (CMIM) as a form of regional financial cooperation among ASEAN+3 countries. Third, Bank Indonesia's active participation in championing the national interest in various economic, monetary and international financial agendas, including the G20, IMF, Financial Stability Board (FSB) and Bank for International Settlements (BIS), as well as in terms of sharia-based finance in the Islamic Financial Services Board (IFSB) and International Islamic Liquidity Management Corporation (IILM). In addition, Bank Indonesia will continue improving positive perception management among investors and rating agencies, while promoting trade and investment through the Bank Indonesia Investor Relations Unit, nationally (IRU), regionally (RIRU) and globally (GIRU) by further empowering and leveraging the network of Bank Indonesia offices in various regions and abroad. Bank Indonesia will also continue enhancing institutional leadership and international recognition in terms of the policy mix, research, innovation, institutional arrangements, leadership, payment system digitalization and currency circulation.

Bank Indonesia will continue strengthening cooperation with other main partner central banks in the formulation of a monetary and macroprudential policy mix as well as payment system cooperation, LCT and BSA. Existing structured bilateral cooperation (SBC) and MoUs with central banks in Malaysia, Thailand, Singapore, Japan, China, South Korea, US, UK, and India will be expanded to other countries. Payment system cooperation through QR interoperability and fast payments with Malaysia, Thailand, and Singapore will be expanded to Japan, South Korea, China, India, UAE, and Saudi Arabia. Similarly, the bilateral use of local currencies through LCT with Malaysia, Thailand, Japan, South Korea, UAE, China and Singapore will be expanded in terms of the partner countries and scope of transactions that include trade and investment, portfolio investment and payment transactions, as well as in terms of the number of appointed participating banks. To ease the aforementioned LCT, Bank Indonesia is conducting the cooperation under Local Currency Bilateral Swap Arrangements (LCBSA) with Bank Negara Malaysia (value of MYR24 billion or Rp82 trillion), Bank of Korea (value of KRW10.7 trillion or Rp115 trillion), People's Bank of China (value of CNY250 billion or Rp550 trillion), Monetary Authority of Singapore (value of SGD9.5 billion or Rp100 trillion) and the Reserve Bank of Australia (value of AUD10 billion or Rp100 trillion). In addition, Bank Indonesia will maintain bilateral cooperation to strengthen reserve assets in the face of global turmoil through a bilateral swap agreement (BSA) with the Bank of Japan (value of USD22.76 billion) and bilateral repo agreement (BRA) with the Monetary Authority of Singapore (MAS) (value of USD3 billion).

Institutional Transformation Policy

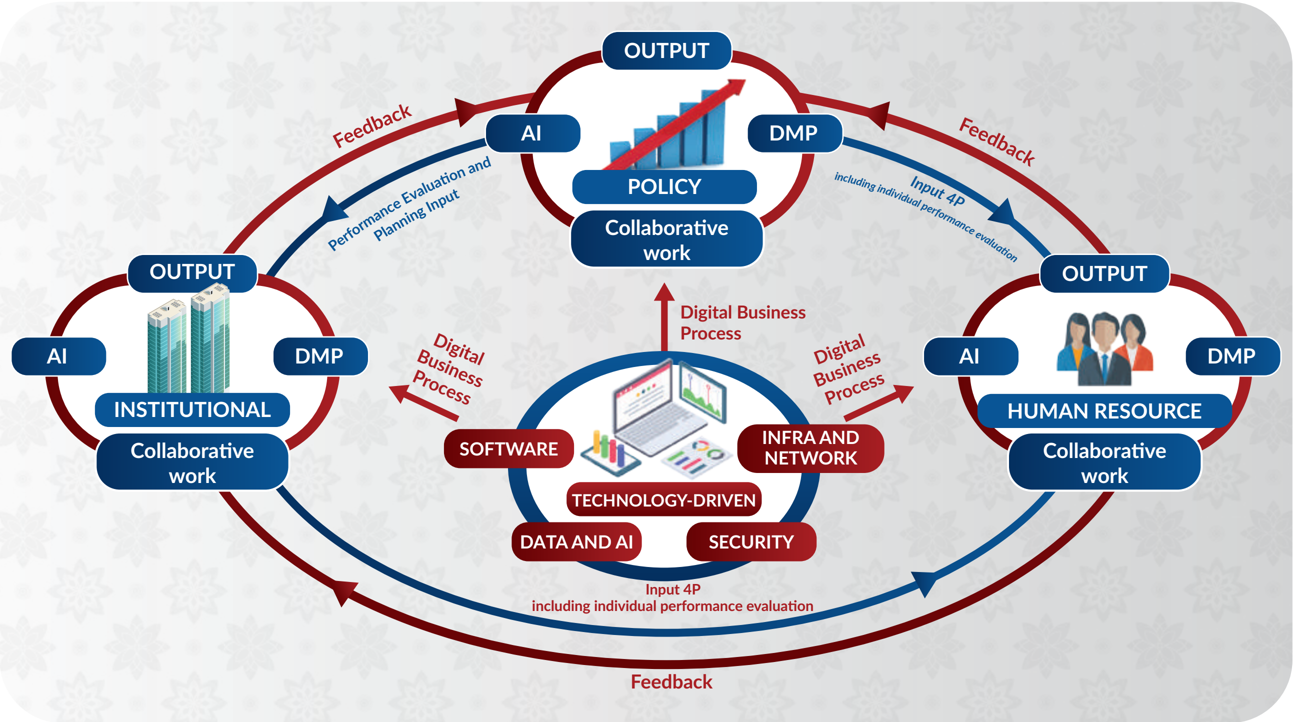
Bank Indonesia will continue implementing comprehensive institutional transformation policy to build a credible, professional, well-governed, and transparent central bank institution. Transformation of the policy mix, institutional governance, organization and work processes, and human resources as well as digital transformation, which began in 2018, will be strengthened and refined. In addition to being more capable of safeguarding the national economy from the impact of global turmoil and strengthening the duties and authority of Bank Indonesia in the digital era, strengthening institutional transformation is also an integral part of implementing Bank Indonesia's mandate in accordance with the Bank Indonesia Act, as amended several times and most recently by the P2SK Act.

In addition to transformation of the Bank Indonesia policy mix, as described in section three and four previously, strengthening institutional transformation will focus on 3 (three) main agendas. First, strengthening the central bank policy governance and institutional governance systems based on the principles of independence, consistency, coordination, accountability, and transparency (IKKAT). Second, digitalization of the policy and institutional work processes with clear outputs and division of labor, streamlined processes and collaborative work, supported by the development of data centers as well as artificial intelligence (AI) capabilities, specifically utilizing data analytics and data science. Third, strengthening Bank Indonesia's professional leadership with high competence (book-smart), strong experience (street-smart), and noble character (spiritual smart) through the "Aku Bangga BI Bermakna (AB3)" work culture program. Bank Indonesia will also continue to strengthen institutional accountability to the Indonesian House of Representatives (DPR-RI) and maintain an unqualified opinion (WTP) on financial reports from the Indonesian Supreme Audit Agency (BPK-RI), and enhance public transparency. In its implementation, institutional transformation will still consider the principles of 2EG (effective, efficient, and governance) to strike a balance between effective duties and authority, efficient resource management, and professional and strong governance.

First, strengthening the central bank policy governance and institutional governance systems based on the principles of independence, consistency, coordination, accountability and transparency (IKKAT). In line with Bank Indonesia's mandate in the Bank Indonesia Act and P2SK Act, Bank Indonesia has strengthened its vision, which has now become "the Foremost Digital Central Bank with Strong Governance that makes Tangible Contributions to the National Economy and the Best among Emerging Markets toward Indonesia Maju." That vision is implemented by strengthening 7 (seven) missions as implementation of the main policies in monetary, payment system, and macroprudential policies, supported by money market and foreign exchange market deepening, inclusive and green economy-finance policy, international policy, as well as digitalization, strengthening governance along with organizational and human resource management. To that end, Board of Governors Regulations (PDG) have been issued to regulate the Bank Indonesia governance system as a central bank and institutional entity. As a central bank, prevailing laws afford Bank Indonesia independence to discharge policy duties and authority along with the policy budgeting to achieve the inflation target set by the Government. Strengthening Bank Indonesia's credibility, the policy governance system regulates aspects concerning policy consistency, coordination with the Government, as well as transparency to the public. In this regard, policymaking in Bank Indonesia is discussed at various levels through committees for each policy before being discussed jointly within the Main Policy Mix Committee (KBKU) and then submitted to the Board of Governors Meeting (RDG) for approval. Meanwhile, the Bank Indonesia institutional governance system covers planning process and work program consistency, approval of the operational budgets by DPR-RI, and institutional performance accountability to the President and DPR-RI. Bank Indonesia has already submitted its quarterly and annual institutional performance reports to the President and DPR-RI as a part of P2SK Act implementation. Internally, the institutional performance of Bank Indonesia as an entity is discussed at the Institutional Governance Committee (KTKK) on a quarterly basis and submitted to the Board of Governors Meeting (RDG) for approval. Bank Indonesia will continue strengthening its Institutional Policy Mix (BKK) framework based on effective , efficient, and governance. BKK aims to strengthen the institutional performance of Bank Indonesia and support the achievement of Bank Indonesia's goals in accordance with its legal mandate through sound and professional institutional performance. To that end, Board of Governors Regulations (PDG) are formulated for end-to-end BKK implementation, integrated with the salient aspects of institutional governance, namely strategic planning and performance evaluation, business processes and organization, financial and human resource management, and the control function in terms of legal aspects, risk management and strengthening the internal audit. These measures aim to ensure the rules are aligned and accentuating the principles contained in the Bank Indonesia's Governance System.

Second, Bank Indonesia will accelerate the digitalization of policy and institutional work processes toward achieving the vision of becoming the foremost digital central bank with strong and professional governance that contributes tangibly to the national economy. Bank Indonesia will continue the development of integrated digital business platforms within the Integrated Digital Central Bank (IDCB) program, supported by the Digital Workplace Platform (DWP) for digitalization of the policy, institutional and human resource business processes with integrated input-output interconnection. Through IDCB, for example, the output of policy processes will digitally become input for institutional and human resources processes to measure institutional and individual employee performance (Figure 29). Conversely, the output of digitalized institutional and human resources processes will serve as input to improve policy work processes. Bank Indonesia has begun DWP development to digitalize the work process and decision-making process for the monetary, macroprudential, and payment system policy mix from the work unit to committee level and then to the monthly RDG that fulfills the aspects of effectiveness, efficiency, and governance. The DWP work process, which previously required 8 (eight) stages, has been streamlined to just 4 (four) stages from the department level up to the decision-making level at the RDG meeting. The decision-making process, which entails initiation, verification, recommendations, and approval, is facilitated within an integrated end-to-end digital platform to which all employees and leadership have access in accordance with their access rights and authority. DWP and IDCB development will be further improved in 2025 and expanded to other policy, institutional and human resource processes.

Figure 29. Direction of Digital Transformation at Bank Indonesia



Source: Bank Indonesia

IDCB and DWP development is supported by the aspects of processes, people, and technology that are aligned with the seven guiding principles of one input, one process, multi-purposes as follows: (i) good governance; (ii) collaborative works; (iii) digital; (iv) streamlined; (v) agile; (vi) data-driven; and (vii) green. Therefore, to support the above IDCB and DWP, the development of omni data centers and data digitization is carried out for end-to-end data management and innovation, from data input to the utilization of Big Data in metadata processing and storage in an omni data lake. Bank Indonesia is enhancing the digital capabilities of human resources through education and training for using data analytics and data science in analysis, projections, and formulating policy recommendations. In addition, the development of omni-technology platforms, which allow data digitalization and innovation as well as policy and institutional digital BPR with several core applications that can mutually connect and integrate with the support of cybersecurity. With such implementation of digital transformation, the effectiveness and efficiency of work processes and decision-making at Bank Indonesia will be strengthened by eliminating redundancies and streamlining the processes, while still prioritizing governance together with work process collaboration between work units, supported by secure end-to-end information systems.

Third, strengthening highly competent and professional leadership with strong experience and integrity through the "Aku Bangga BI Bermakna (AB3)" work culture program. Since 2018, the human resouce transformation program has been extremely successful with mature merit-based human resouce planning, clear and transparent career management, stringent selection from the talent pool in accordance with person-to-job fit, a tiered leadership program from non-officer to officer and the highest leadership levels, education and training programs to develop technical competencies and scholarship programs for master's and doctorate degrees, all of which are supported by competitive remuneration, welfare facilities and post-employment benefits. In addition to further strengthening these programs, future human resource transformation will remain focused on enhancing visionary leadership character with "strategic spiritual leadership" capabilities, combining high competence (book-smart), strong experience (street-smart), and noble character (spiritual-smart). This is critical to build leadership character that is innovative and creative, agile to change, highly motivated and perseverance, as well as morals in accordance with the national values and individual spiritual beliefs. Competency enhancement will also emphasize adaptability to digitalization, including technical competencies in Artificial Intelligence (AI), as well as behavioral and mindset aspects. Strengthening the Employee Value Proposition (EVP) and "Aku Bangga BI Bermakna (AB3)" work culture program also emphasizes leadership character that is book-smart, street-smart, and spiritual-smart through 9 (nine) programs across three pillars namely leadership, family, and well-being. Equally important is the development of a modern office atmosphere, relationships, and work facilities that better support digitalization and the behavioral traits of millennial employees.

VI. Moving Forward with Optimism and Vigilance: Stability and National Economic Transformation toward the 2045 Golden Indonesia (Indonesia Emas 2045)

Synergy is the key to Indonesia's economic resilience, whether from crisis threats due to the Covid-19 pandemic and global turmoil, or from current conditions in strengthening optimism with vigilance for enduring economic revival into 2025 and beyond. Optimism that economic stability will be maintained and sustainable economic growth will accelerate by strengthening the national economic policy mix. We must remain vigilant of the dynamic global turmoil that could persist and evolve rapidly with all the negative spillover effects on national economic performance. Therefore, synergy between Bank Indonesia, the (central and regional) Government, and the KSSK will continuously be improved to strengthen national economic stability and future transformation. Bank Indonesia will also strengthen synergy with DPR-RI, specifically Commission XI, the banking industry, business community, academia, media and various other parties. In response to global dynamics, Bank Indonesia will continue developing innovation in monetary, macroprudential, and payment system policy mix, supported by money market deepening policy, international policy, and development programs for the inclusive and green economy, to strengthen stability and national economic transformation.

In closing, let us continue the collaborative synergy as we move forward with optimism and caution. In the interest of national economic resilience and revival toward the 2045 Golden Indonesia. May Allah SWT, God Almighty, always provide guidance, ease, perfection, and blessings to the Indonesian nation and state, and to all of us.

Thank you,
Wassalamualaikum warahmatullahi wabarakatuh,
Jakarta, 29th November 2024

Perry Warjiyo
Governor of Bank Indonesia

BANK INDONESIA