

# The Role of Bank Indonesia in Promoting Financial System Stability

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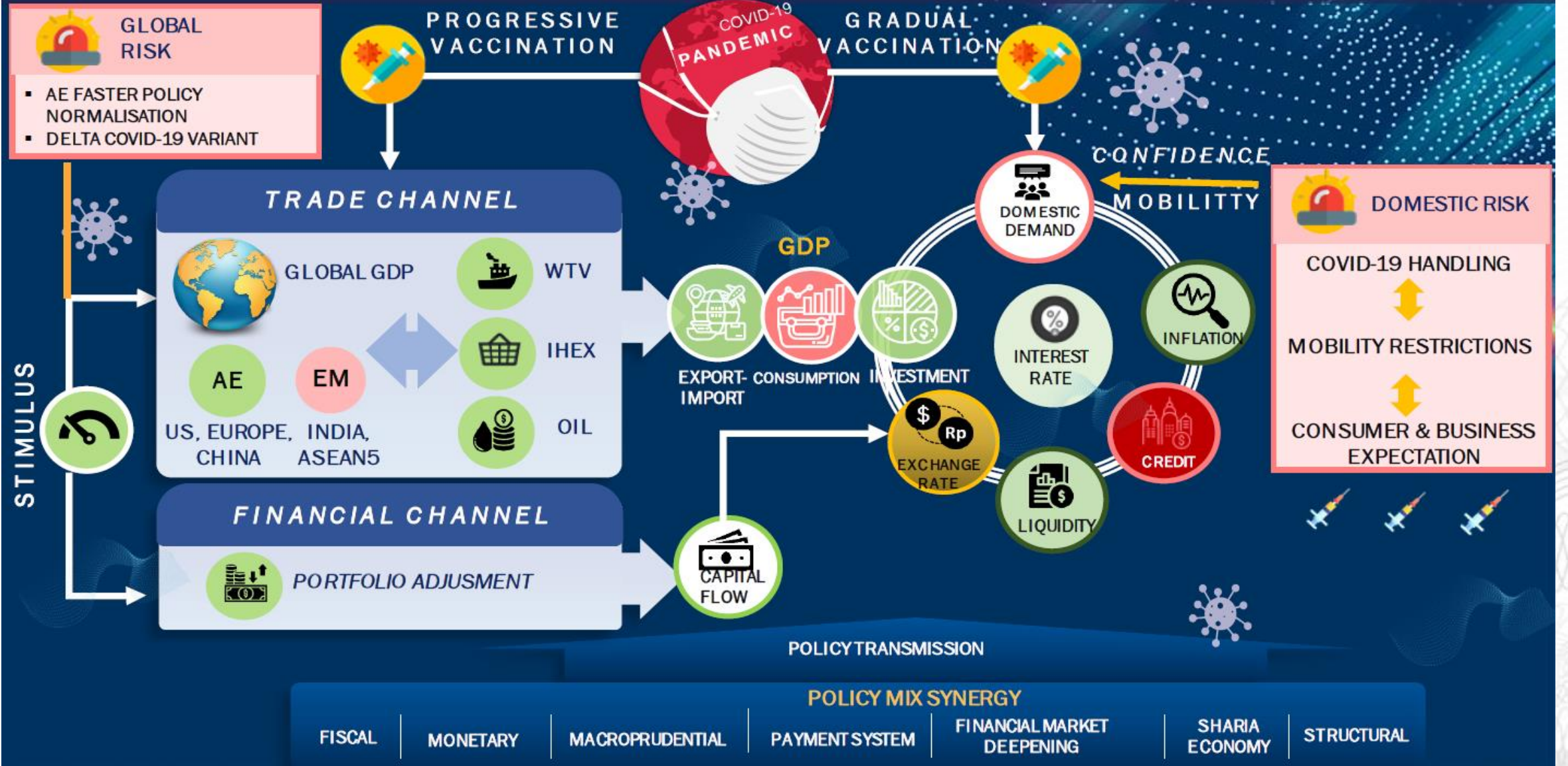
# Outline

- A Snapshot of Recent Economic Development
- Central Bank Reform
- Financial System Stability, Systemic Risk, and Macroprudential Policy
- Digital Transformation and Financial System Stability
- Islamic Economic and Finance

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# MAINTAINING STABILITY AND STRENGTHENING RECOVERY



# The Global Economic Recovery is Expected to Exceed Previous Projections Despite The Recent Uptick of Global Financial Market Uncertainty

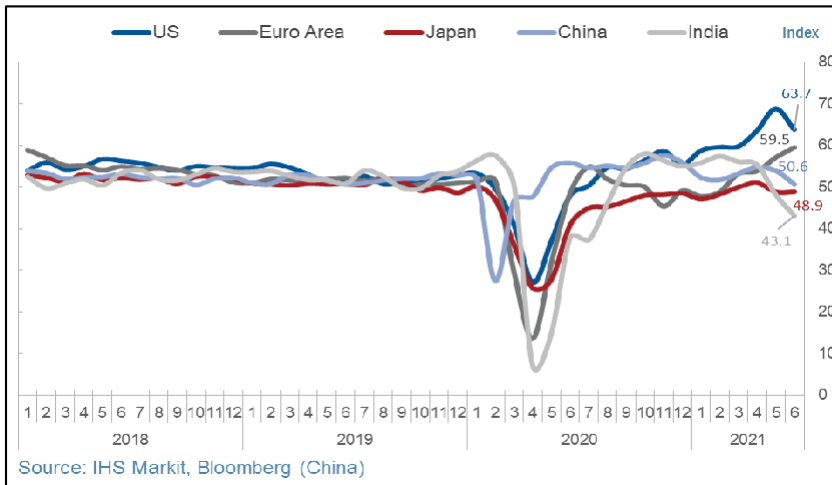
## Global GDP Growth

Country	2018	2019	2020	2021*
<b>World</b>	<b>3.6</b>	<b>2.8</b>	<b>-3.3</b>	<b>5.8</b>
<b>Advanced economies</b>	<b>2.3</b>	<b>1.6</b>	<b>-4.7</b>	<b>5.4</b>
United States	3.0	2.2	-3.5	6.8
Europe	1.9	1.3	-6.8	4.5
Japan	0.6	0.3	-4.7	2.8
<b>Emerging economies</b>	<b>4.5</b>	<b>3.6</b>	<b>-2.2</b>	<b>6.0</b>
China	6.7	5.8	2.3	8.4
India	6.5	4.7	-7.1	8.8
ASEAN-5	5.3	4.8	-3.4	4.8
Latin America	1.2	0.2	-7.0	3.6
Emerging Euro	3.4	2.4	-2.0	3.7
Middle East & Central Asia	2.0	1.4	-2.9	3.7

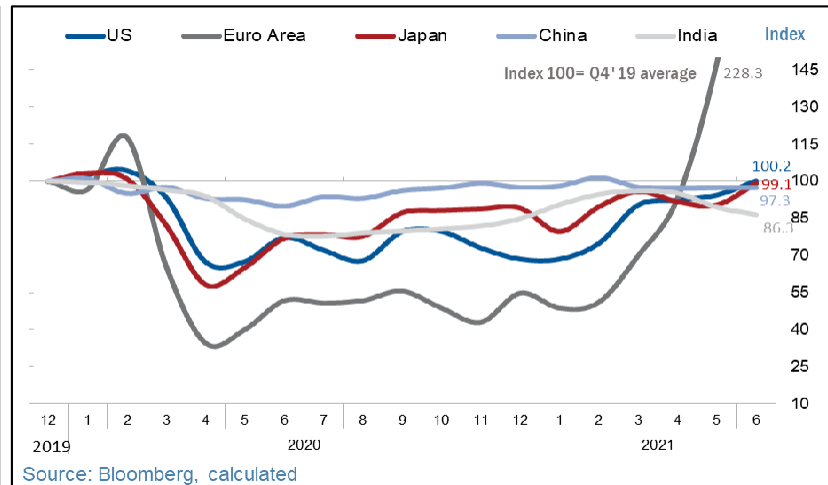
Source: IMF WEO. \*Bank Indonesia Projection

- Economic growth is accelerating in the US and Europe given the rapid vaccination rollout, coupled with fiscal and monetary stimuli, while growth in China remains solid
- The economic outlooks for India and ASEAN have been downgraded, however, in line with the reintroduction of mobility restrictions to overcome a new wave of Covid-19 cases
- In line with the recovery, Bank Indonesia has upgraded its global economic growth outlook for 2021 to 5.8% from 5.7%

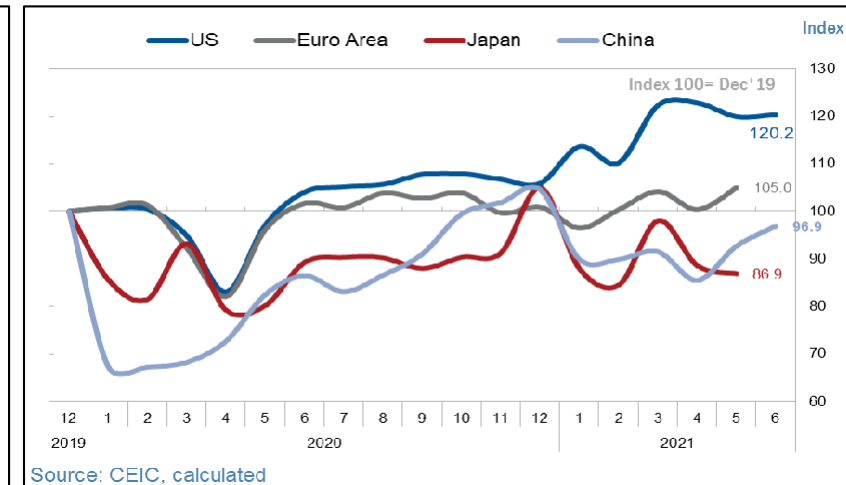
## Global PMI



## Consumer Confidence Index

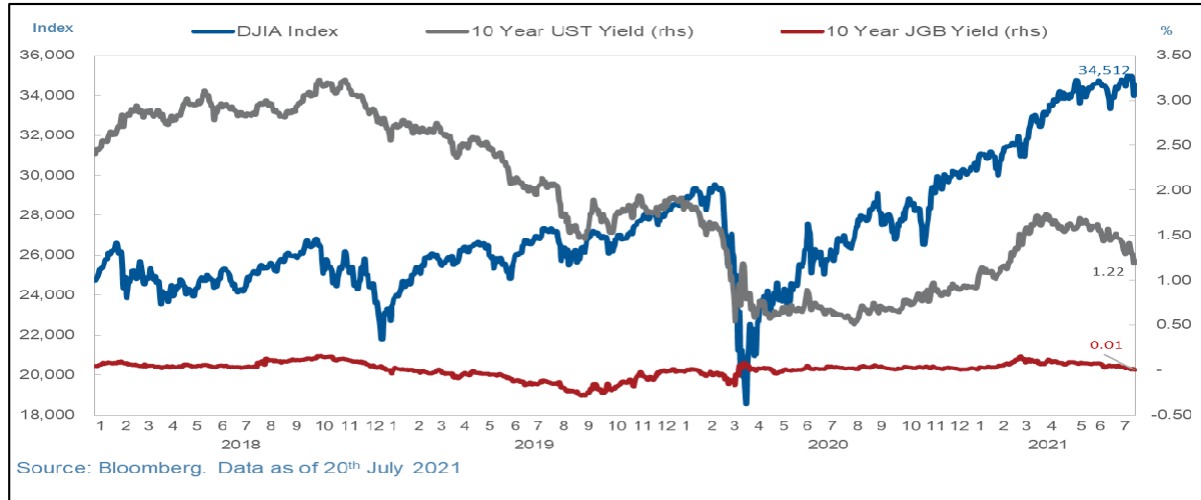


## Retail Sales



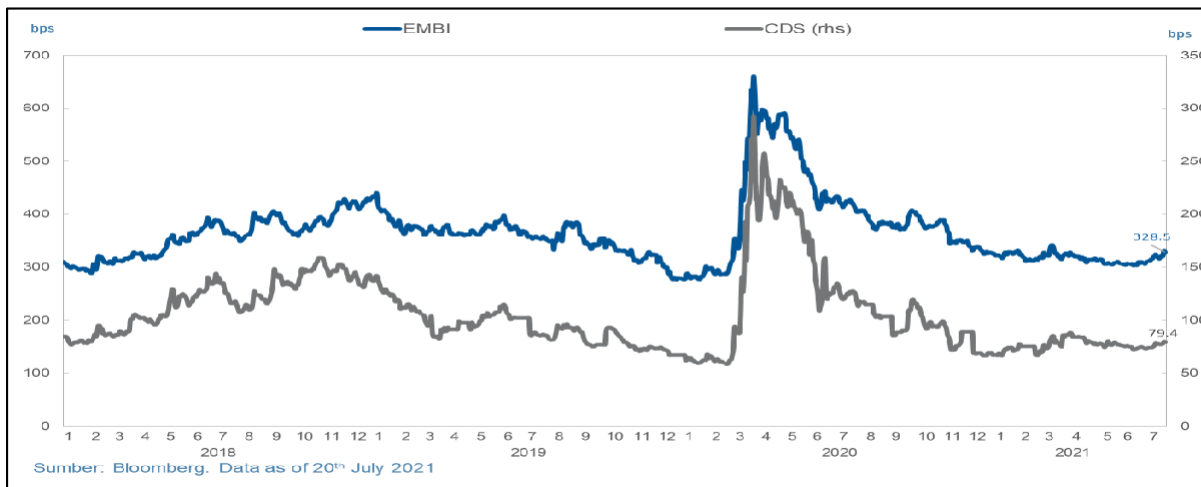
# Global Financial Market Uncertainty Elevated, Restraining Capital Flows to Developing Economies

## 10 Yr UST & JGB Yield and DJIA Index

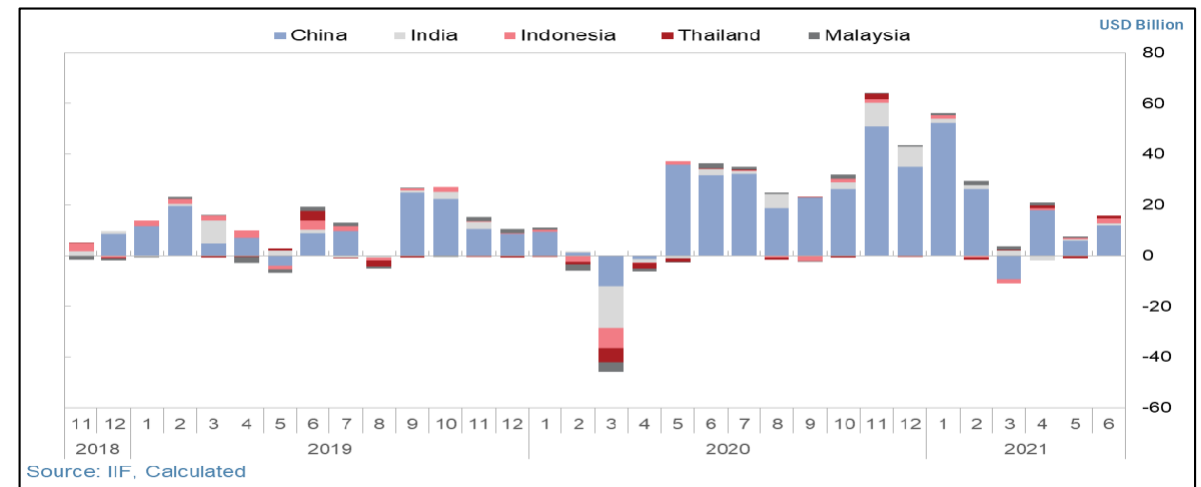


- Elevated global financial market uncertainty has been stoked by market concerns over the latest wave of Covid-19 infections and potential fallout in the global economy, together with anticipation of the US Federal Reserve's tapering policy
- In response, investors are pursuing the flight to quality, hence restraining capital flows and intensifying currency pressures in developing economies, including Indonesia

## Risk Perception on EM and Indonesia



## EM Capital Flows



# Domestic Economy is Expected to Improve in The Fourth Quarter of 2021

- Economic growth is predicted to regain upward momentum in the fourth quarter of 2021 as the vaccination rollout and strict compliance to health protocols allow for greater public mobility along with ongoing stimuli and improving export performance
- Regionally, less economic moderation has been recorded outside Java, particularly in Sulawesi-Maluku-Papua (Sulampua), supported by strong export performance
- Consequently, Bank Indonesia has revised down its national economic growth projection for 2021 to 3.5-4.3% from 4.1-5.1% previously

## Economic Growth by Expenditure (% , yoy)

Components	2019				2019	2020				2020	2021
	I	II	III	IV		I	II	III	IV		
Household Consumption	5.02	5.18	5.01	4.97	5.04	2.83	-5.51	-4.05	-3.61	-2.63	-2.23
Non-Profit Institution Serving Household (NPISH) Consumption	16.96	15.29	7.41	3.53	10.62	-5.09	-7.76	-1.97	-2.14	-4.29	-4.53
Government Consumption	5.22	8.23	0.98	0.48	3.25	3.75	-6.90	9.76	1.76	1.94	2.96
Investment (GFCF)	5.03	4.55	4.21	4.06	4.45	1.70	-8.61	-6.48	-6.15	-4.95	-0.23
Building Investment	5.48	5.46	5.03	5.53	5.37	2.76	-5.26	-5.60	-6.63	-3.78	-0.74
NonBuilding Investment	3.69	1.96	1.95	-0.13	1.80	-1.46	-18.62	-8.99	-4.71	-8.38	1.39
Exports	-1.58	-1.73	0.10	-0.39	-0.87	0.23	-11.66	-11.66	-7.21	-7.70	6.74
Imports	-7.47	-6.84	-8.30	-8.05	-7.69	-2.19	-16.96	-23.00	-13.52	-14.71	5.27
<b>GDP</b>	<b>5.07</b>	<b>5.05</b>	<b>5.02</b>	<b>4.97</b>	<b>5.02</b>	<b>2.97</b>	<b>-5.32</b>	<b>-3.49</b>	<b>-2.19</b>	<b>-2.07</b>	<b>-0.74</b>

Source: BPS

## Realization of State Budget (APBN)

ITEMS	2020		2021	
	Realization (IDR Trillion)	% Realization PERPRES 72	Budget (IDR Trillion)	Realization as of May 2021 (IDR Trillion)
<b>A. State Income and Grants</b>	<b>1,633.6</b>	<b>96.1%</b>	<b>1743.6</b>	<b>726.5</b>
<b>I. Domestic Income</b>	<b>1,621.3</b>	<b>95.4%</b>	<b>1742.7</b>	<b>726.5</b>
1. Tax Income	1,282.8	91.3%	1444.5	558.9
2. NonTax Income	338.5	115.1%	298.2	167.6
<b>II. Grant</b>	<b>12.3</b>	<b>946.2%</b>	<b>0.9</b>	<b>0.0</b>
<b>B. State Expenditures</b>	<b>2,589.9</b>	<b>94.6%</b>	<b>2750.0</b>	<b>945.7</b>
<b>I. Central Government Expenditures</b>	<b>1,827.4</b>	<b>92.5%</b>	<b>1954.5</b>	<b>647.6</b>
1. Employee Spending	380.5	94.3%	421.1	164.9
2. Spending for Goods	421.5	154.3%	362.5	132.5
3. Capital Expenditures	187.3	136.3%	246.8	59.3
4. Payment of Debt Obligations	314.1	92.7%	373.3	151.7
5. Subsidies	196.2	102.2%	175.4	56.6
6. Grant Expenditure	6.3	123.7%	6.8	0.3
7. Social Assistance	202.5	116.1%	161.4	71.5
8. Other Expenditures	119.5	26.5%	207.3	10.8
<b>II. Transfer to Regions and Village Funds</b>	<b>762.5</b>	<b>99.8%</b>	<b>795.5</b>	<b>298.0</b>
1. Transfer to Regions	691.4	99.8%	723.5	275.7
2. Village Funds	71.1	99.9%	72.0	22.3
<b>C. Primary Balance</b>	<b>(642.2)</b>		<b>(633.1)</b>	<b>(67.4)</b>
<b>D. Budget Surplus/Deficit</b>	<b>(956.3)</b>		<b>(1006.4)</b>	<b>(219.2)</b>
<b>Surplus/Deficit (%GDP)</b>	<b>(6.2)</b>		<b>-5.7</b>	<b>(1.7)</b>

Source: Ministry of Finance

## Economic Growth by Sectors (% , yoy)

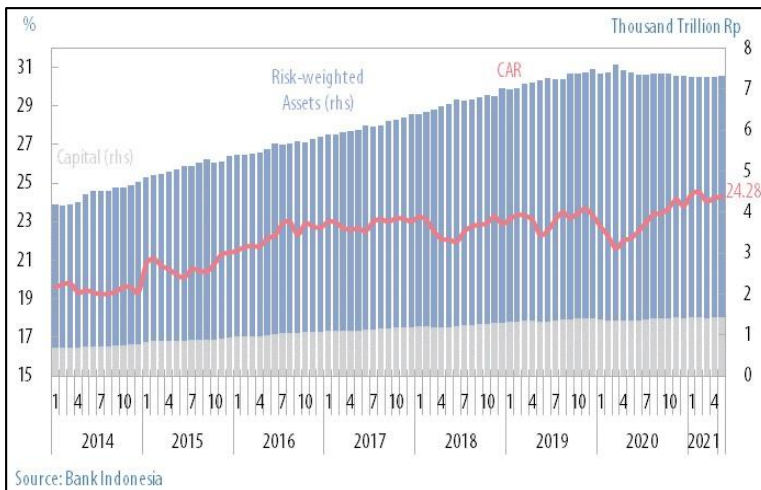
Components	2019				2019	2020				2020	2021
	I	II	III	IV		I	II	III	IV		
Agriculture, Forestry, and Fisheries	1.82	5.33	3.12	4.26	3.64	0.02	2.19	2.16	2.59	1.75	2.95
Mining and excavation	2.32	-0.71	2.34	0.94	1.22	0.45	-2.72	-4.28	-1.20	-1.95	-2.02
Manufacture	3.85	3.54	4.14	3.66	3.80	2.06	-6.19	-4.34	-3.14	-2.93	-1.38
Electricity and Gas Procurement	4.12	2.20	3.75	6.01	4.04	3.85	-5.46	-2.44	-5.01	-2.34	1.68
Water Supply	8.95	8.33	4.85	5.41	6.83	4.56	4.56	5.94	4.98	4.94	5.49
Construction	5.91	5.69	5.65	5.79	5.76	2.90	-5.39	-4.52	-5.67	-3.26	-0.79
Wholesale Retail, Car and Motorcycle Repairs	5.21	4.63	4.43	4.24	4.62	1.60	-7.57	-5.05	-3.64	-3.72	-1.23
Transportation and Warehousing	5.45	5.88	6.66	7.55	6.40	1.29	-30.84	-16.71	-13.42	-15.04	-13.12
Provision of Accommodation, Food and Beverages	5.87	5.53	5.41	6.41	5.80	1.95	-22.02	-11.81	-8.88	-10.22	-7.26
Information and Communication	9.06	9.60	9.24	9.71	9.41	9.80	10.88	10.72	10.91	10.58	8.72
Financial Services and Insurance	7.23	4.49	6.15	8.49	6.60	10.62	1.03	-0.95	2.37	3.25	-2.99
Real Estate	5.40	5.71	5.97	5.85	5.74	3.79	2.30	1.96	1.25	2.32	0.94
Corporate Services	10.36	9.94	10.22	10.49	10.25	5.39	-12.09	-7.61	-7.02	-5.44	-6.10
Government Administration, Defence and Compulsory Social Security	6.41	8.85	1.87	2.06	4.67	3.16	-3.22	1.82	-1.55	-0.03	-2.94
Education Services	5.64	6.31	7.81	5.46	6.29	5.89	1.21	2.41	1.36	2.63	-1.61
Health Services and Other Social Activities	8.64	9.13	9.18	7.82	8.68	10.39	3.71	15.29	16.54	11.60	3.64
Other Services	9.97	10.72	10.71	10.78	10.55	7.09	-12.60	-5.55	-4.84	-4.10	-5.15
<b>GDP</b>	<b>5.07</b>	<b>5.05</b>	<b>5.02</b>	<b>4.97</b>	<b>5.02</b>	<b>2.97</b>	<b>-5.32</b>	<b>-3.49</b>	<b>-2.19</b>	<b>-2.07</b>	<b>-0.74</b>

Source: BPS

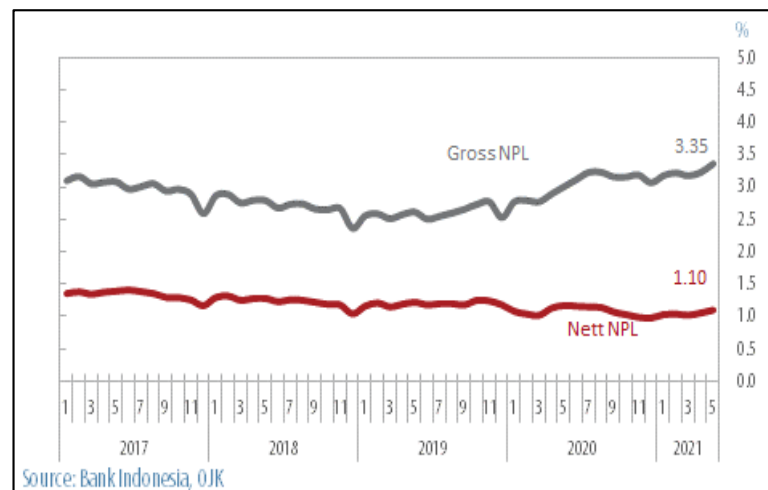
# Financial System Resilience is Still Solid Despite Further Opportunities to Stimulate The Bank Intermediation Function

- The Capital Adequacy Ratio in the banking industry remained high in May 2021 at 24.28% accompanied by persistently low NPL ratios of 3.35 % (gross) and 1.10% (nett)
- Boosted by loose liquidity conditions and lower interest rates on new loans, the bank intermediation function charged into positive territory in June 2021 at 0.59% yoy although the opportunity for further growth remains. The recent gains stem from stronger demand for loans driven by the ongoing recovery in the corporate, household and MSME sectors. On the supply side, banking industry propensity to loosen lending standards, as reflected by a lower Lending Standards Index (LSI), contributed to positive credit growth
- Bank Indonesia continues to strengthen policy synergy with the Financial System Stability Committee to implement the Integrated Policy Package, maintain financial system stability and stimulate loans/financing to the corporate sector and other priority sectors, including MSMEs

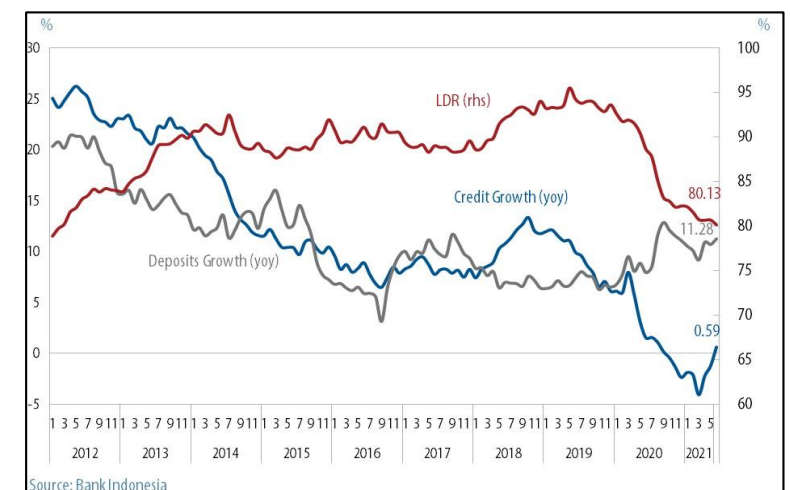
## Banking Industry's Capital



## Credit Risk (NPL)



## Credit and Deposit Developments





# Outline

- A Snapshot of Recent Economic Development
- **Central Bank Reform**
- Financial System Stability, Systemic Risk, and Macroprudential Policy
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# BI Objectives and Tasks

## Single Objective

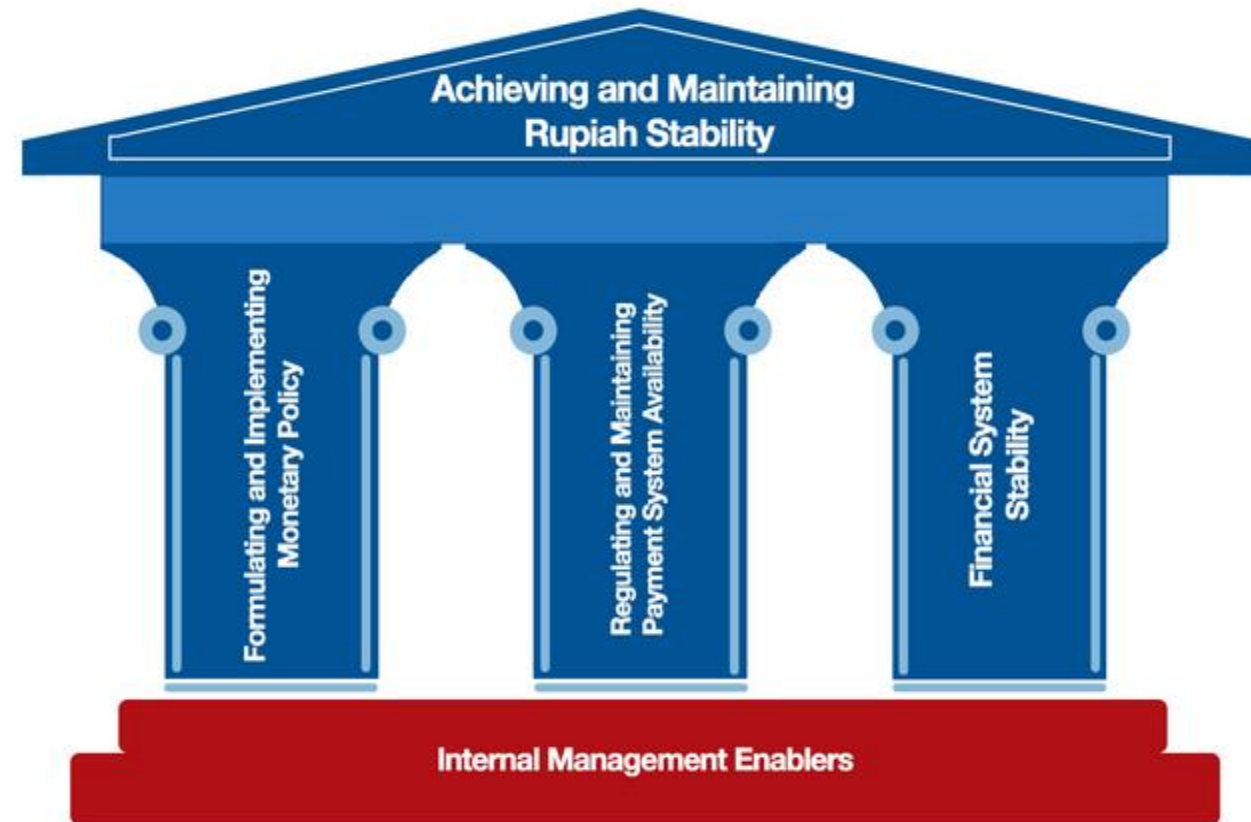
In its capacity as central bank, Bank Indonesia has one single objective of achieving and **maintaining stability of the Rupiah value**. The stability of the value of the Rupiah comprises two aspects, one is stability of Rupiah value against goods and services and the other is the stability of the exchange rate of the Rupiah against other currencies. The first aspect is as reflected by the rate of inflation and the second aspect is as reflected by the development of Rupiah exchange rate against other currencies.

## The Three Main Pillars

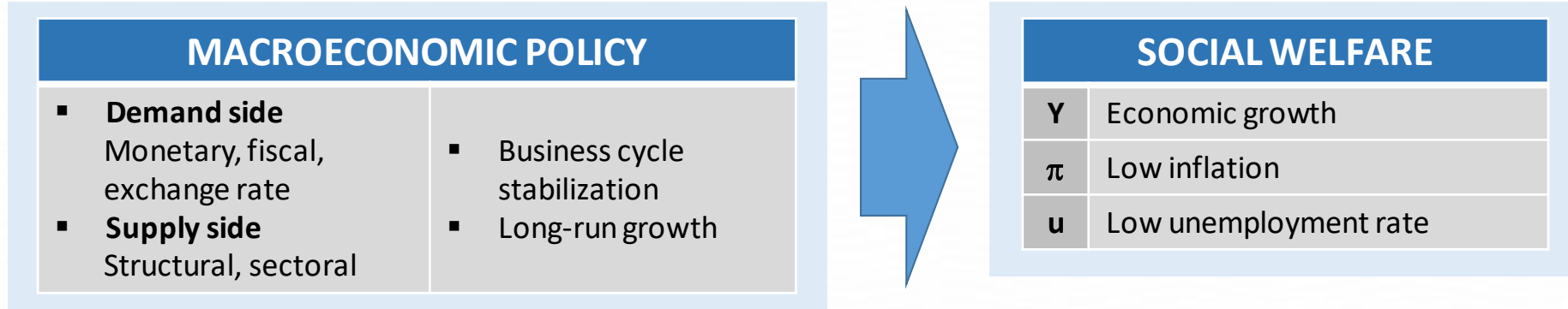
In the pursuit of the objective, Bank Indonesia is supported by three pillars, representing its three sectors of task. These three sectors have to be integrated to ensure that the objective of achieving and maintaining a stable value of Rupiah can be achieved effectively and efficiently.



## Three Main Pillars



# Macroeconomic Policy & BI Policy Mix



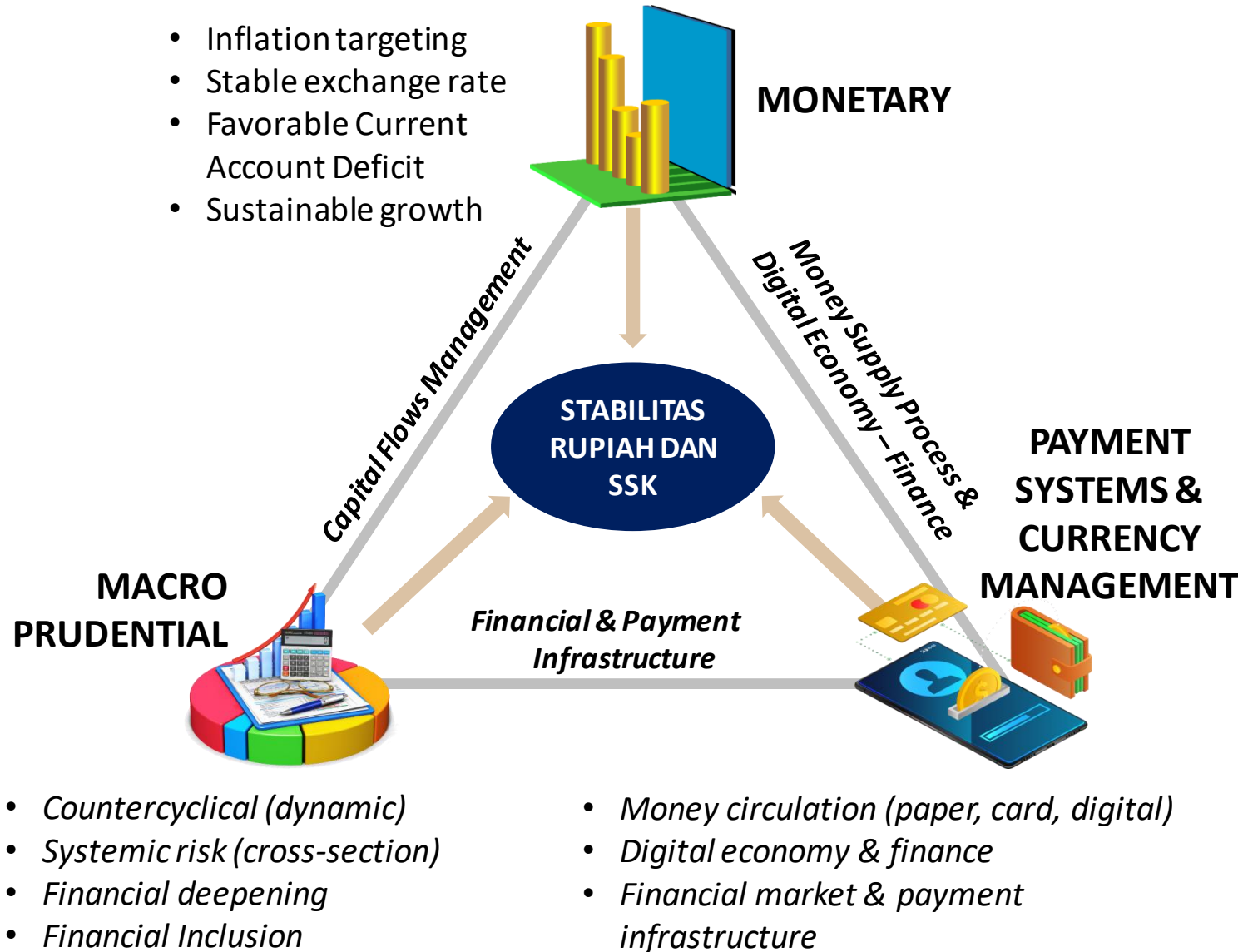
**STRONG, SUSTAINABLE, BALANCED, INCLUSIVE GROWTH**



## POLICY MIX DESIGN



**SUPPORTING POLICIES**



## MONETARY POLICY

Intended to create price and exchange rate stability to support sustainable economic growth through interest rate policy, foreign exchange intervention in accordance with economic fundamental and market mechanism, and capital inflow management.

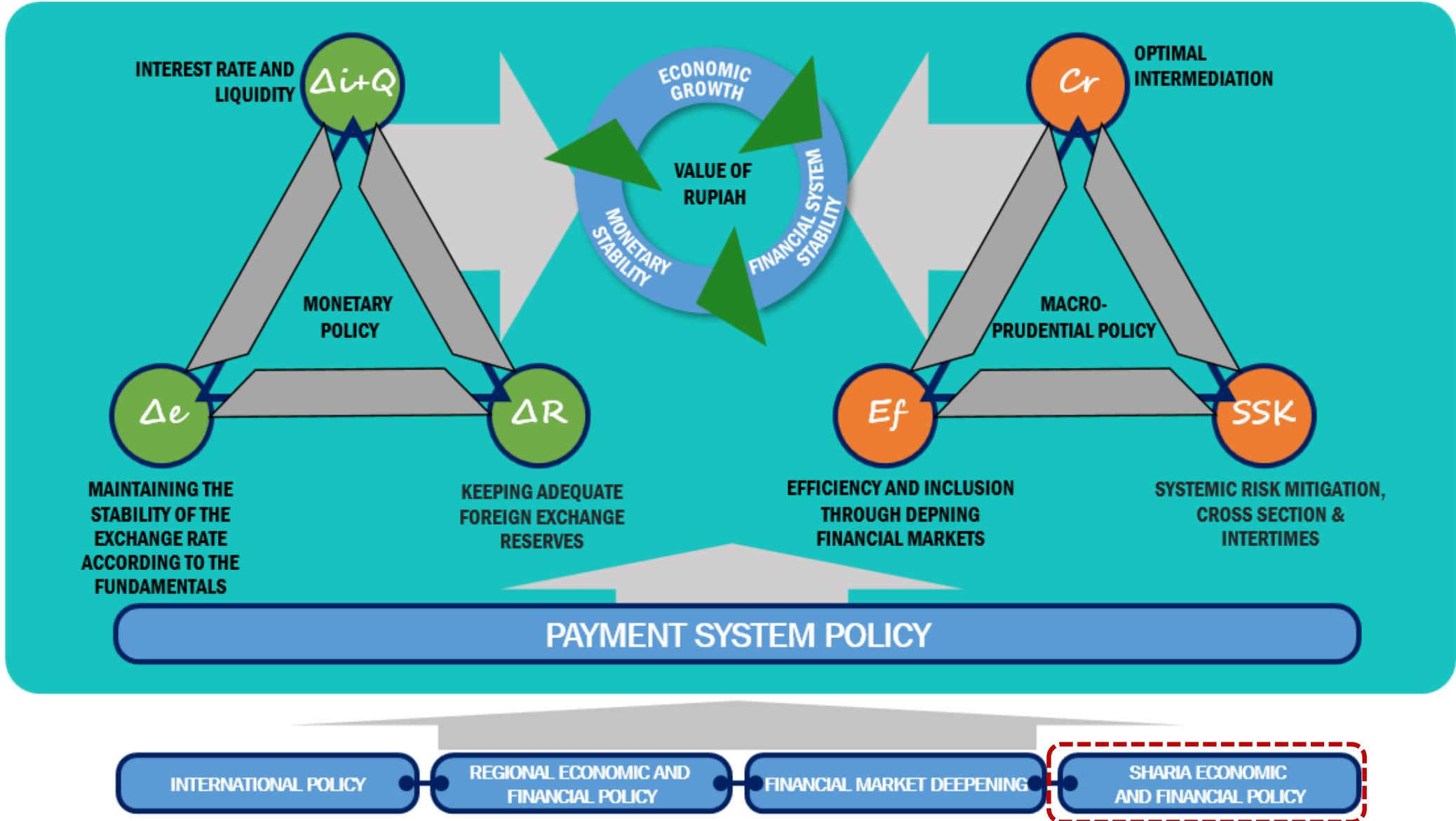
## MACROPRUDENTIAL POLICY

Intended to support the stability of financial system through balanced intermediation, systemic risk mitigation, and economic and financial inclusion.

## PAYMENT SYSTEMS POLICY

Intended to expedite money circulation processes (fiat, card, and digital), and digitalization of payment systems to facilitate the integration of digital economy and finance.

# Bank Indonesia Policy Mix Framework



*A well-functioning payment system, monetary system as well as financial system will act as a basis for economic growth, prosperity and financial system stability (Bank Indonesia, 2019)*

“Achieve and maintain price stability and to contribute to maintaining financial system stability”

The payment system plays a role in the transmission of effective monetary policy, supporting efficiency of intermediation and resilience of financial system.

**PRICE AND MAINTAIN FINANCIAL STABILITY**

**MONETARY**

**PAYMENT SYSTEM**

**FINANCIAL SYSTEM**

“Velocity of money”  
 $M.V = P.T$

- Transmission of effective monetary policy
- Guarantee the velocity of money in the economy (V) as needed and run safely, efficiently and reliably

A smooth, efficient, safe and reliable payment system

- High value : interbank market
- Retail value : efficiency of the economy (monetary transaction cost), financial inclusion

- Efficiency of Financial system intermediation
- Resilience of financial system

Subprime mortgage crisis in the US sparked global financial crisis in 2008/2009 that resulted in huge financial losses in the US and Europe territory.

- IIF (2008) suggests that cost of crisis in the US could reach more than 43% of GDP.
- Deutsche Bank Research (2012) calculates that cost of crisis approximately around 30% of GDP.

▪ In addition to huge economic losses, crisis in financial sector could also resulted in enormous social and political cost.

- **Macroeconomic stability could not be reached without financial system stability**

Global crisis has revealed that keeping inflation low without maintaining financial system stability are not sufficient to craft macroeconomic stability

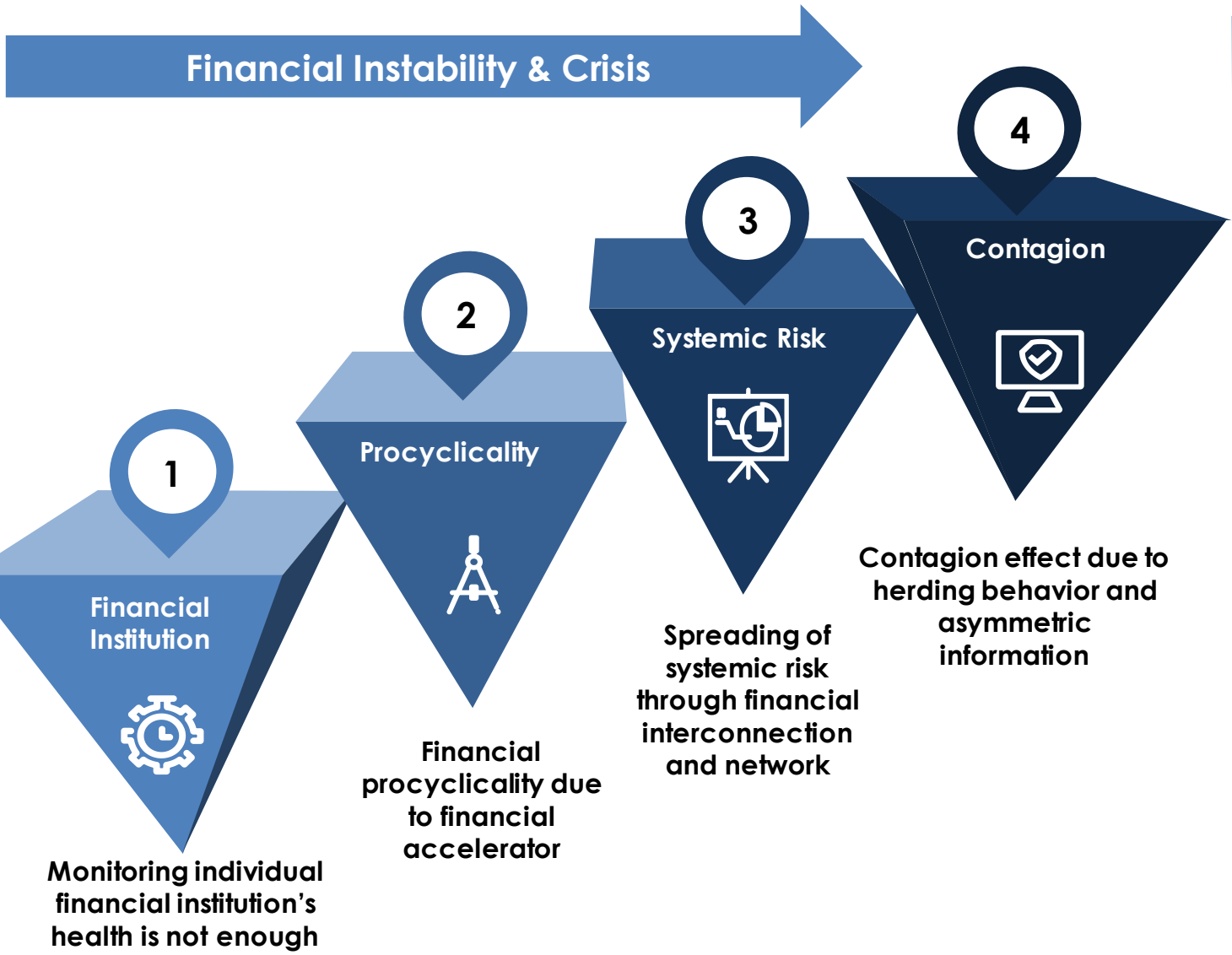
- **Challenges Vs Policy Mix Instruments**

In a small open economy, capital flow dynamics implied that monetary authority has to utilize variety of instruments.

Considering the impact of 2008 GFC, the Financial Stability Board urged central banks to complement their macroeconomic policy with macroprudential policy

***“We will amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system”***

*(G20 declaration on strengthening the financial system, 2 April 2009)*



## Reform on Central Bank Policy & Mandate:

### Financial Stability Mandate

- Without taking into account financial stability, monetary policy may cause instability in financial system and economy --"stability is destabilizing".
- Financial stability strengthens the effectiveness of monetary policy transmission.

### Macroprudential Policy

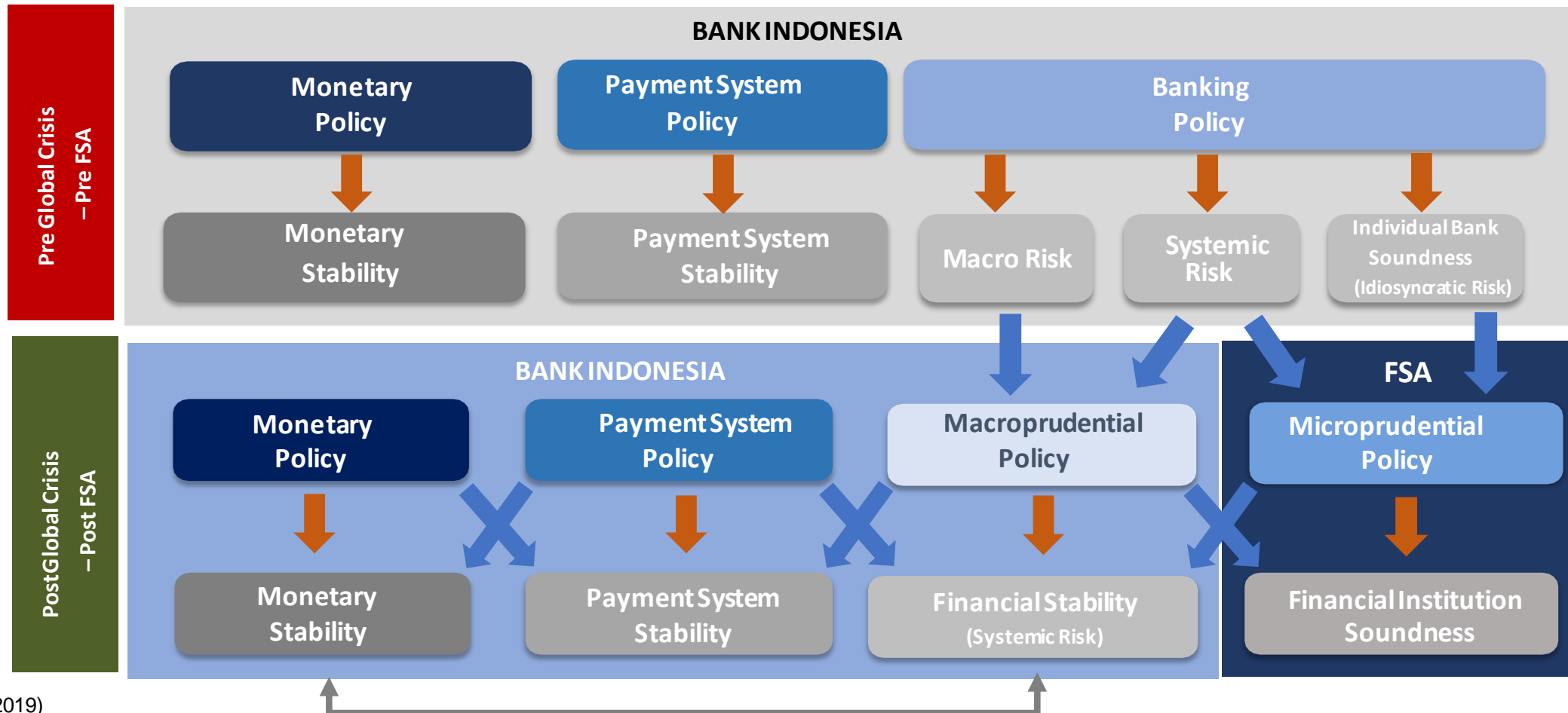
- Monetary policy cannot fully address procyclicality and systemic risk
- Microprudential is not able to address macro-financial linkages, and only focusing on individual bank soundness

### Capital Flow Management

- Macroeconomic risk: excessive lending, BoP imbalances, volatile exchange rate.
- Financial system instability due to exchange rate and maturity risk.
- Risk of capital reversal and sudden stops.



Post GFC, central bank policy should consider stronger interlinkages between monetary stability, financial system stability, and payment systems. A policy mix would be required, including coordination with other relevant authorities.



# Policy Coordination: Demand-Supply Management

Central bank policy coordination with fiscal policy and structural reform, support high and inclusive growth, also maintaining macroeconomy stability and financial stability.

## Central Bank Policy

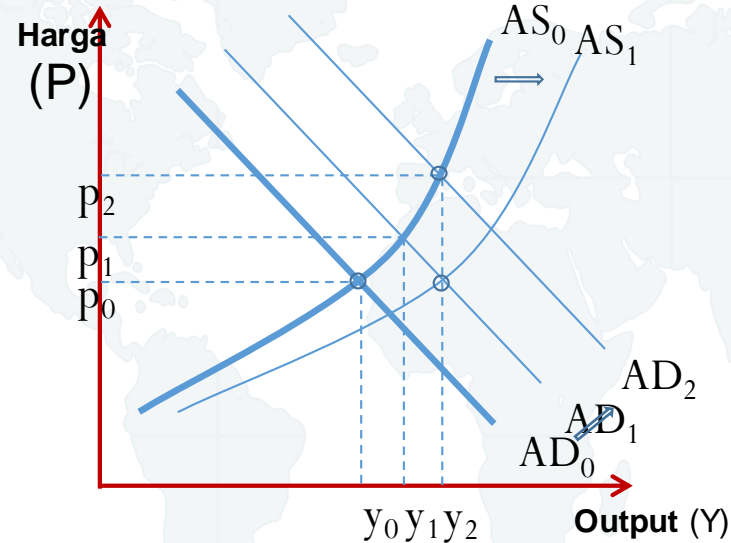
- Maintain price stability and support financial system stability
- Policy Mix : interest rate, foreign exchange, capital flow, macroprudential policy

## Fiscal Policy

- Maintain macroeconomy stability through fiscal deficit and credible policy.
- Tax policy and productive spending allocation for high growth and inclusion.

## Structural Reform

- Achieve high economic growth through capital productivity, labour force, and technology.
- Reformation in infrastructure, investment, commerce, and labour sector.



Macroeconomy Policy  
**Supply Side Management**

**POLICY  
COORDINATION**

- Inflation (VF, AP)
- Structural Reform
- Financial Stability

Macroeconomy Policy  
**Demand Side Management**

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# Elements of Indonesian Financial System

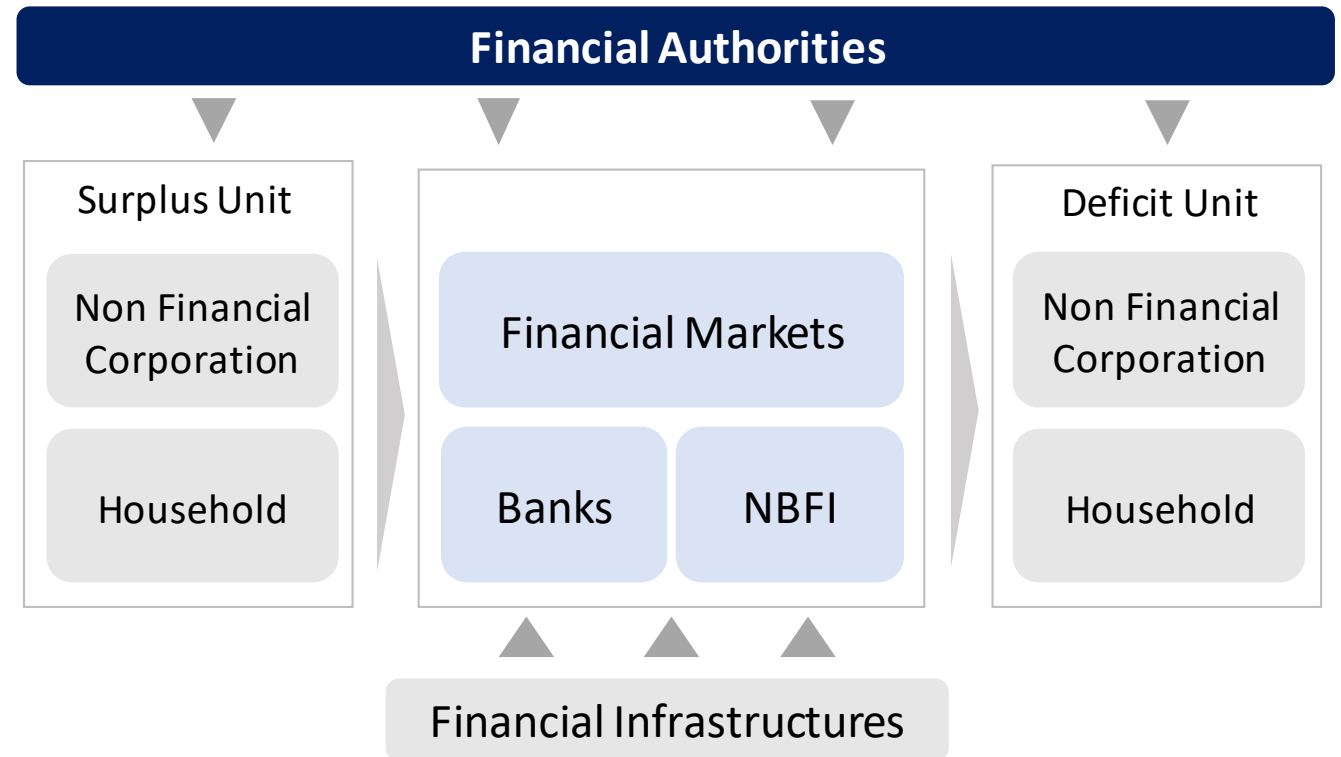


## Elements of financial system:

1. Financial services provider: Bank and NBF
2. Financial Services customer: Corporate and household
3. Financial market instruments: Securities, shares, Bank Indonesia Certificate
4. Financial market: Money market and Capital market
5. Infrastructure: Payment systems infrastructure

“**Financial System** is a system that consists of financial institutions, markets, infrastructures, non financial corporation and household that are interacts to each other in form of funding and/or lending to the economy”

(Bank Indonesia Regulation No.16/11/PBI/2014)





**SHOCK:** certain event that creates pressures

**VULNERABILITIES:** condition of financial system that could amplify and accelerate shock spillover

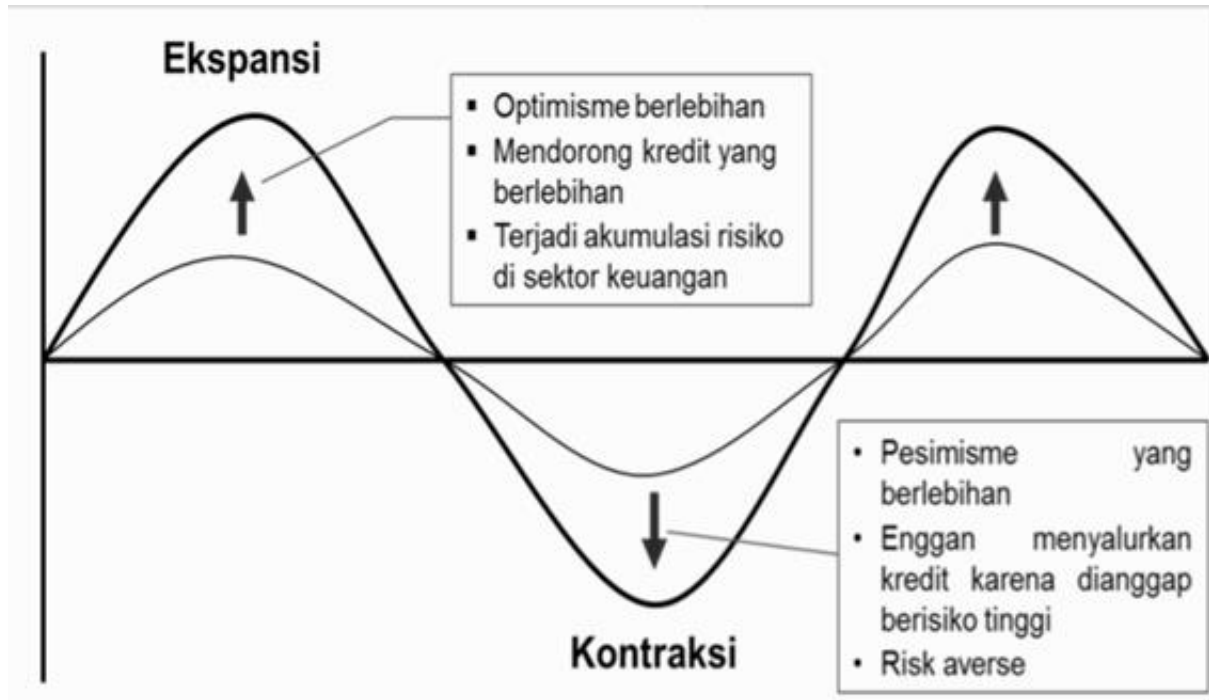
**SYSTEMIC RISK:** probability of instability in the financial system. The risk is increased in parallel with the increase in vulnerabilities and become materialized when shock exists.

**CRISIS MITIGATION:** conducted in accordance with predetermined procedures in Crisis Management Protocol that includes crisis prevention and mitigation as well as decision making processes and coordination with other related institutions

# Systemic Risk: Time Varying vs Cross-Section

Eventhough financial institution's performance is considered sound, activity and characteristics of financial institutions in the financial systems could induce systemic risk.

**Financial institutions activity tend to be *procyclical***



**Time Varying Dimension**

**Characteristics of financial institutions could contribute to systemic risk**



**Interconnectedness**



**Too Big To Fail**  
(size & complexity)



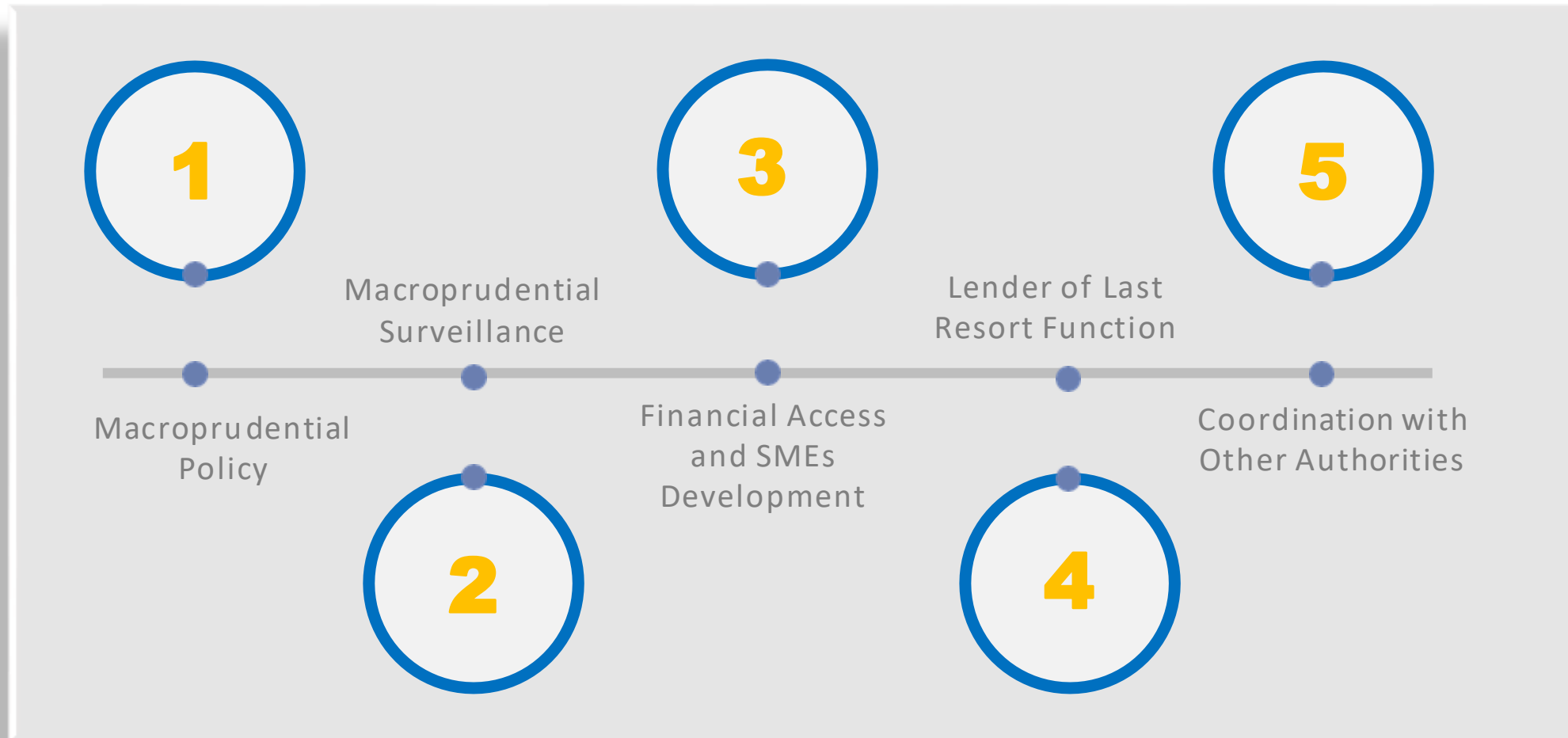
**Common Risk Factor**

**Cross-Section Dimension**

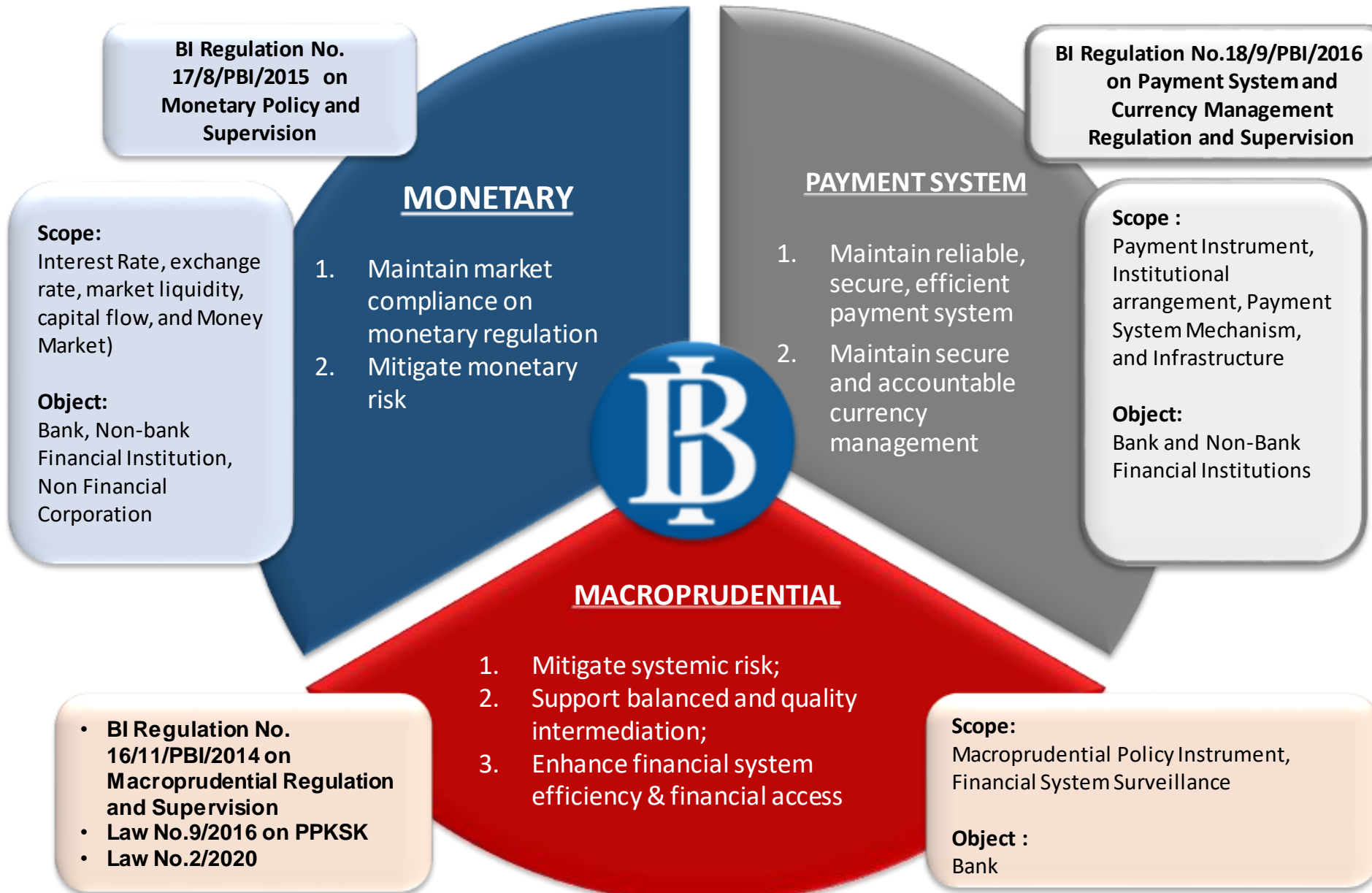
# Types of Macroprudential Instrument

Source of Vulnerabilities	Macroprudential Instruments	Objective
Credit Boom	Broad-based tools; i.e CCB, Leverage Ratio, Dynamic Provisioning	<ul style="list-style-type: none"> <li>• Improve resiliency to shock</li> <li>• Mitigate procyclicality behavior</li> </ul>
Excessive credit to household – procyclicality exists between credit and asset prices	Household sector tools; i.e. Loan to Value (LTV) ratio, Debt Service to Income (DSTI) ratio, sectoral capital requirement (risk weighted)	<ul style="list-style-type: none"> <li>• Limit credit growth on certain sector</li> <li>• Mitigate vulnerabilities arising from household speculative behavior</li> <li>• Avoid asset price bubble</li> </ul>
Increased risk exposures of corporations; i.e. higher leverage, higher amount of credit including foreign exchange	Corporate sector tools; i.e. Loan to Value (LTV) ratio, Debt Service to Income (DSTI) ratio, sectoral capital requirement (risk weighted)	<ul style="list-style-type: none"> <li>• Limit credit growth on certain sector</li> <li>• Mitigate vulnerabilities arising from corporation speculative behavior</li> </ul>
Increased vulnerabilities that is related to systemic liquidity and currency risks	Liquidity tools; i.e. Liquid Asset Buffer, Stable Funding Requirements, Liquidity charge, Reserve Requirement, Net Open Position limit	<ul style="list-style-type: none"> <li>• Mitigate systemic liquidity risk</li> <li>• Improve resiliency to liquidity and exchange rate shocks</li> </ul>
Structural risk; contagion through interlinkages among financial system components	Structural tools; i.e. Capital Surcharge (DSIB), Sectoral Capital Requirement, Liquidity Instrument, Market Infrastructure (e.g. Central Counterparty).	<ul style="list-style-type: none"> <li>• Improve resiliency of too-important-to-fail institutions</li> <li>• Limit excessive exposure in financial system</li> </ul>

# Bank Indonesia's Tools in Maintaining Financial System Stability







# Bank Indonesia's Macroprudential Instruments

	<b>Time Varying Instrument</b>				<b>Cross Section Instrument/ Struktural</b>			<b>Inklusi</b>
	<b>Credit related</b>	<b>Liquidity related</b>	<b>Capital related</b>	<b>Market Risk Related</b>	<b>Credit related</b>	<b>Liquidity related</b>	<b>Capital related</b>	<b>Credit Related</b>
<b>Broad based instrument</b>	<b>RIM</b>	<b>PLM</b>	<b>CCyB</b>	<b>PDN</b>	<b>CCP</b>		<b>Surcharge u/DSIBs</b>	
	<i>Debt to Income Ratio (DTI)</i>	<i>Time varying LCR &amp; NSFR</i>	<i>Dynamic Provisioning</i>		<i>Transparansi Suku Bunga</i>		<i>Systemic Risk Buffer</i>	
			<i>Time varying Leverage Ratio Caps</i>					
<b>Targeted instrument</b>	<b>Rasio LTV &amp; Uang Muka</b>	<b>GWM Targeted</b>			<b>Sustainable finance</b>			<b>RPIM/ Rasio Pembiayaan Inklusif</b>

<b>Financial Deepening</b>	<i>Market Operator, NCD, IRS &amp; OIS, IndoNIA</i>
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## Ministry of Finance



## Bank Indonesia



## Financial Services Authority



## Indonesia Deposit Insurance Corporation

### Mandate

- Fiscal authority
- State finances management
- General policy for financial sector

- Independent Monetary Authority
- Macroprudential Authority
- Payment Systems Authority
- Lender of Last Resort

Integrated Financial Services Industry Authority

- Deposit guarantee scheme
- Bank Resolution Authority

### Legal Bases

(among others)

- Law No. 17/2003 on State Finances
- Law No. 1/2004 on State Treasury
- Law No. 2/2020

- Law No. 23/1999 on Bank Indonesia
- Law No. 9/2016 on PPKSK
- Law No. 2/2020

- Law No. 21/2011 on Financial Services Authority
- Law No. 9/2016 on PPKSK
- Law No. 2/2020

- Law No. 24/2004 on Indonesia Deposit Insurance Corporation
- Law No. 9/2016 on PPKSK
- Law No. 2/2020

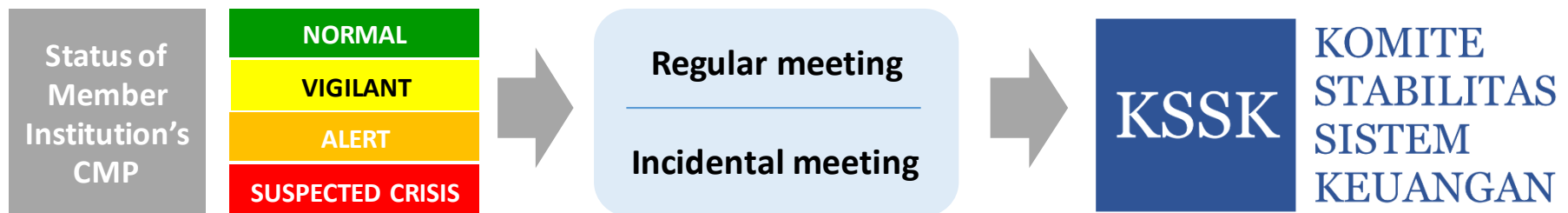
## Duties of the Financial System Stability Committee

- |  |   |
|--|---|
| <p><b>Crisis Prevention:</b></p> <ul style="list-style-type: none"> <li>• Coordinate monitoring and maintenance of financial system stability</li> </ul> | <p><b>Crisis Mitigation:</b></p> <ul style="list-style-type: none"> <li>• Mitigate financial system crisis</li> <li>• Mitigate systemically important bank's problem</li> </ul> |
|--|---|

## Monitoring based on FSSC Member Institution's Authority



- Tools of Crisis Management Protocol:**
1. Member Institution: on-going monitoring based on respective institutional authority
  2. FSSC: status of Financial System Stability



# Policy Synergy for Strengthening National Economic Recovery



- Buy government securities in primary and secondary markets
- Stabilization of Rupiah exchange rate
- Lowering policy rate (BI-7DRR)
- Increase liquidity i.e. Repo on Govt. Securities, lower reserve requirement.
- Relaxation on macroprudential policy
- Cash and non-cash payment systems.



**PERBANKAN**

- Intermediation: fund raising and lending to the real sector.
- Implementation of loan restructuring program for business entities (MSMEs, corporation, commercial).



- Govt. spending: social assistance/subsidy, tax incentive, interest subsidy, State Owned Enterprises compensation scheme.
- Financing: State Equity Participation, fund placement in banks, investments.
- Govt. institutions spending, tourism, housing, aggregate demand.



- Banking deposit guarantee
- Problem bank resolution
- Repo/sell Govt Securities to BI
- Fund placement in commercial banks



**SEKTOR RIIL**

- Demand: consumption, investment, export, and import
- Expenditure: production and investments in economic sectors
- Creation of employment.



- Bank and non bank financial institutions soundness and supervision
- Loan restructuring policy for bank and non bank financial institutions



*All instruments of Bank Indonesia's policy mix - monetary, macroprudential, and payment systems - are directed to support national economic recovery, in close coordination with the Government and KSSK KSSK.*

1

## MONETARY POLICY

- i. Stabilization of the Rupiah exchange rate through a **triple intervention strategy** (spot, DNDP, and SBN purchases). SBN purchases from the secondary market for stabilization will reach IDR 8.6 trillion in 2021. The rupiah is at a level of around IDR 14,400 at the moment.
- ii. **The policy rate was lowered 6 (six) times** since 2020 by 150 bps to 3.50%, the lowest in history.
- iii. **Conducted a large liquidity injection (Quantitative Easing, QE)** of IDR 827.7 trillion (5.35% of GDP) from 2020 s.d. 19 JParticipate in APBN financing July 2021.
- iv. through the purchase of SBN in the primary market. For the 2020 State Budget it reaches Rp.473.42 trillion, while for 2021 it is around Rp.124.13 trillion (as of July 19, 2021).

2

## MACROPRUDENTIAL POLICY RELAXATION

- i. **Relaxing the provisions for Advances for Credit/Motorized Vehicle Financing** to a minimum of 0% for all types of new motorized vehicles; 100% LTV/FTV ratio of property credit/financing, effective March 1 to March. December 31, 2021.
- ii. **Publish transparency of basic lending rates (SBDK)** to support the acceleration of monetary policy transmission.
- iii. Maintaining an **accommodative macroprudential policy**; Macroprudential Intermediation Ratio (RIM) 84-94%, Macroprudential Liquidity Buffer (PLM) 6%, & Countercyclical Capital Buffer (CCB) 0%.
- iv. **Strengthening the Macroprudential Intermediation Ratio (RIM/RIM Syariah)** policy by including export notes as a financing component, and gradually enforcing disincentive provisions in the form of RIM/RIMS Current Accounts.
- v. Improving the MSME Credit Ratio policy into a **Macroprudential Inclusive Financing Ratio (RPIM)** policy a.l. through the expansion of bank partners in the distribution of inclusive financing, inclusive financing securitization, and other business models model

3

## DIGITALIZATION OF PAYMENT SYSTEMS

- i. Expansion of **QRIS acceptance to 12 million merchants** in 2021. Continuing electronification of social assistance, modes of transportation, and Government financial operations.
- ii. Develop **BI FAST payment system**, interlink Digital Banking and Fintech, reform payments regulatory, and various agendas in the Indonesian Payment System Blueprint (BSPI) 2025.

4

## DEVELOPING MSMEs, SHARIA ECONOMY AND FINANCE, FINANCIAL MARKET DEVELOPMENT, IN COORDINATION WITH THE GOVERNMENT AND OTHER INSTITUTIONS

# Bank Indonesia Recent Macroprudential Policy

## Down Payment Ratio and Loan to Value / Financing to Value Ratio

- Relaxing **down payment requirements on automotive loans/financing to minimum 0%** for all new motor vehicles, while maintaining prudential principles and risk management, **effective from 1st March 2021 until 31st December 2021**
- Relaxing the **Loan/Financing-to-Value (LTV/FTV) ratio on housing loans/financing to maximum 100%** on all residential property (landed houses, apartments and shop houses/office houses) for banks meeting specific NPL/NPF criteria, and repealing regulations on the gradual liquidation of partially prepaid property, while maintaining prudential principles and risk management, **effective from 1st March 2021 until 31st December 2021**

## Countercyclical Capital Buffer & Macroprudential Liquidity Buffer

Maintaining accommodative macro-prudential policy by holding the **countercyclical capital buffer (CCyB) at 0%**, the **Macroprudential Liquidity Buffer (MPLB) at 6%** with repo flexibility at 6%, as well as the **Sharia Macroprudential Liquidity Buffer at 4.5%** with repo flexibility also at 4.5%.

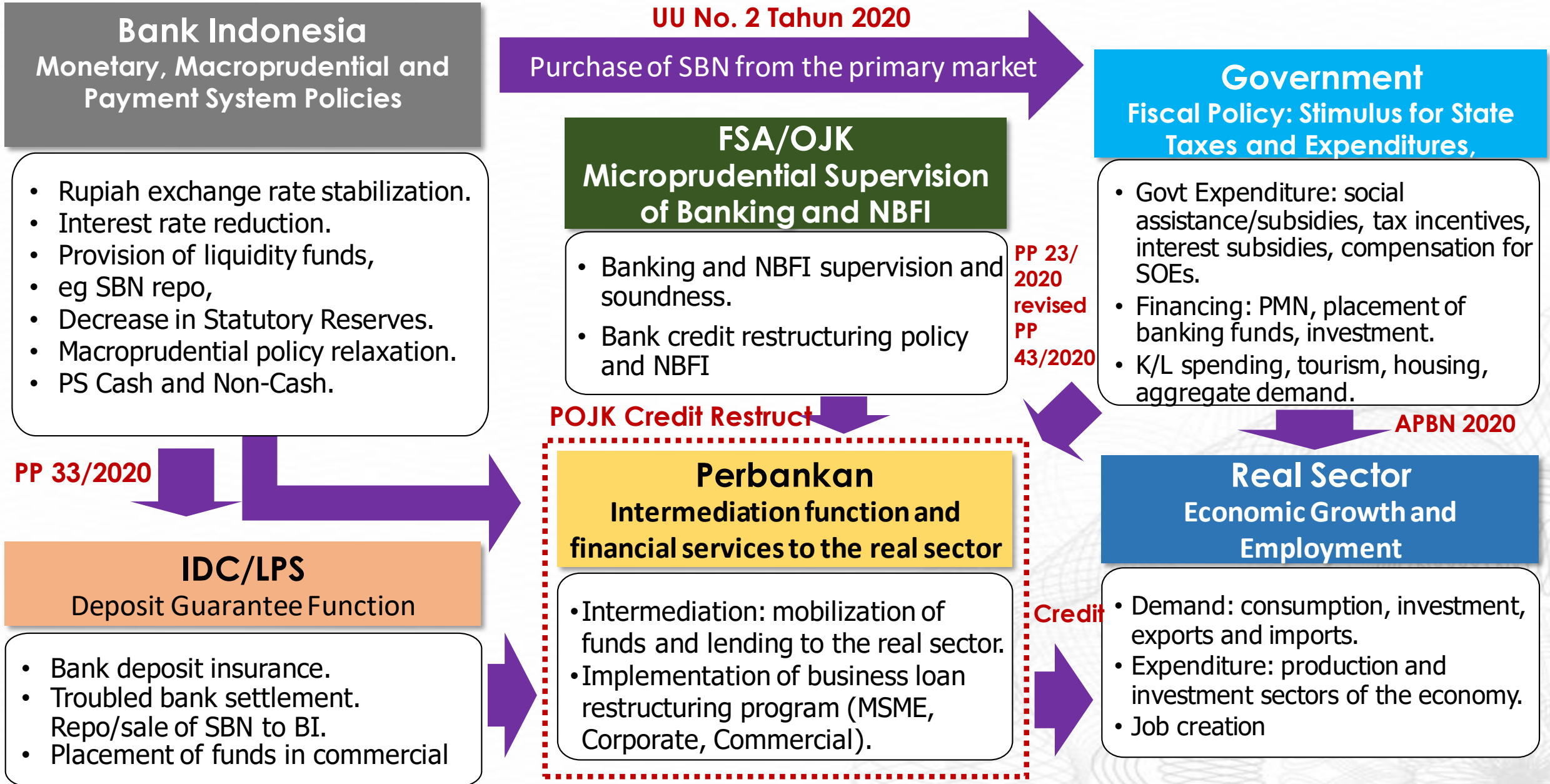
## Prime Lending Rate Transparency

**Strengthening Prime Lending Rate (SBDK) transparency in the banking industry**, while coordinating with the Government and other relevant authorities to: (i) accelerate monetary policy transmission to lending rates in the banking industry; and (ii) stimulate lending/financing to the corporate sector

## Macroprudential Intermediation Ratio

Strengthening Macroprudential Intermediation Ratio (MIR/Sharia MIR) policy through the **inclusion of export L/C as a financing component, while incrementally introducing regulatory disincentives in the form of MIR related reserve requirement**, to stimulate bank lending to the corporate sector and export-oriented businesses, which will accelerate the economic recovery.

# POLICY COORDINATION IN NATIONAL ECONOMIC RECOVERY





# Outline

- A Snapshot of Recent Economic Development
- Central Bank Reform
- Financial System Stability, Systemic Risk, and Macroprudential Policy
- **Digital Transformation and Financial System Stability**
- Islamic Economic and Finance

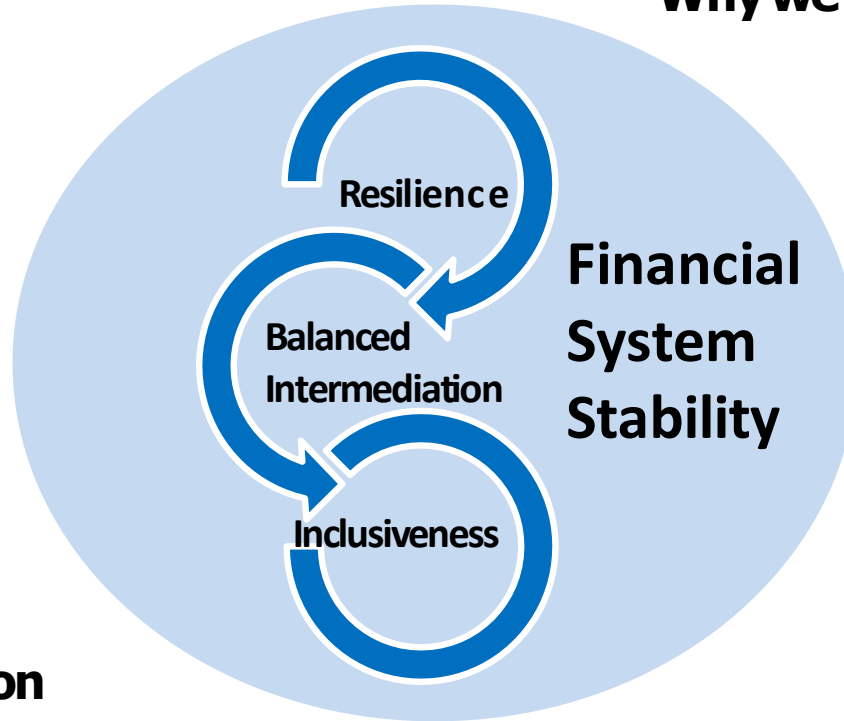
# Digital Transformation and Financial System Stability

Digital Transformation



What issues in digital transformation

Why we concern



	Creative Destruction
Financial Risk	
	Operational Risk
Increased Financial and Non Financial Linkages	
	Legal, Ethical, Regulatory Issues

Emerging Risks

How Central Bank Respond

Central Bank Responses to Maintain Financial Stability

# Emerging Risks in Digital Financial System

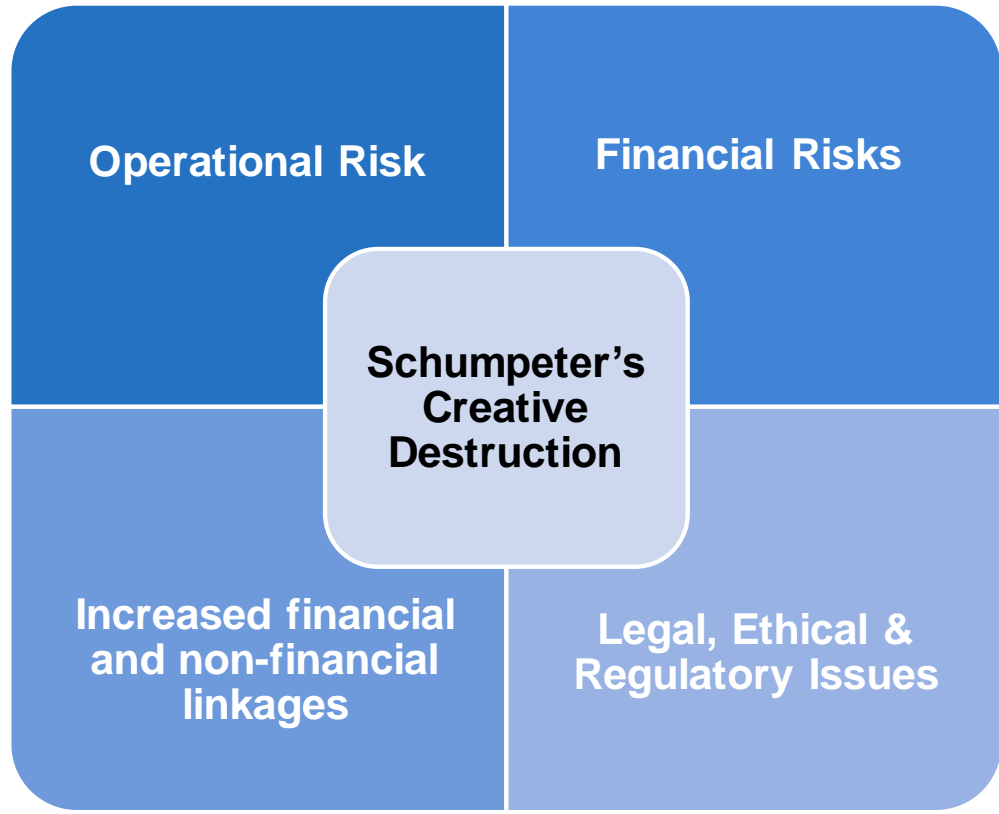
## Emerging Risks

### Operational Risks

- Systemic: Cyber Security issues, Infrastructure Reliability
- Idiosyncratic: Application functionality, Third Party Reliance

### Increased financial and non financial linkages

- Economics of Scope and Scale: too interconnected to fail
- Pronounced procyclicality



### Financial Risks

- Credit Risk: for loan products
- Market risk: for portfolio placement
- Liquidity Risk: mismanagement of fund
- Reputation Risk: bad news from the digital industry or BigTech

### Regulatory Issues

- Data Privacy
- AML & CTF
- KYC
- Contract enforcement
- Regulatory gap
- Consumer protection

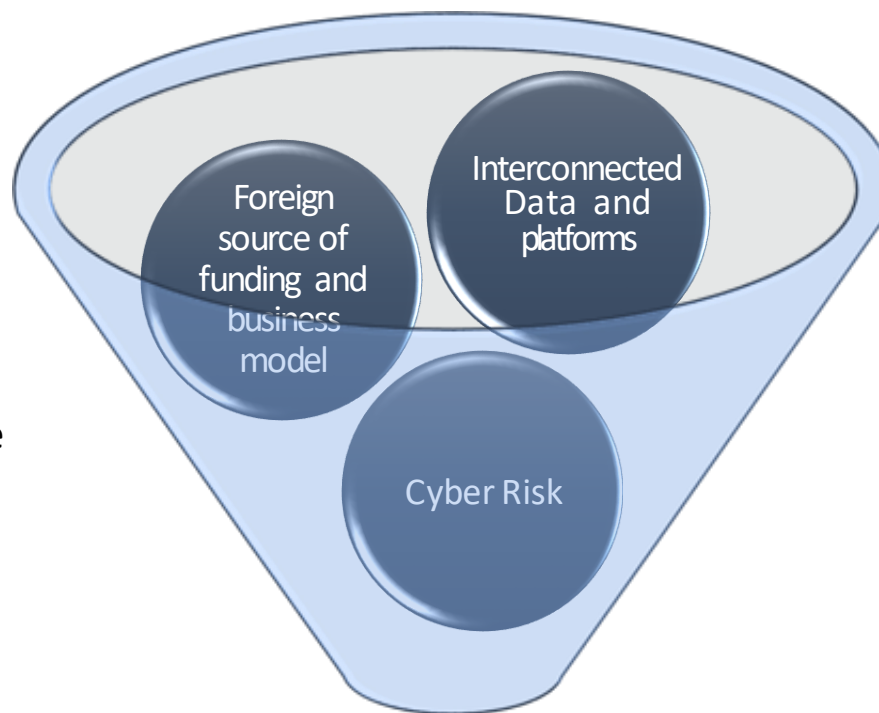
### Creative Destruction

Strategic risk : Business sustainability when a new technology is more appealing

# Systemic Risk Potential of Digital Finance

Systemic risk potential of digital finance in financial system stability could take form cyber risk, capital inflow risk, and interconnected risk.

Despite its relatively small amount, foreign funding to Indonesian startup companies has surged, especially those from China that also introduce integrated fintech business model.



Interlinkages between bank, fintech, and digital finance ecosystem has increased the risk exposure exponentially, especially when the fintech facilitate transaction in e-commerce or social media. Other form of risk may also exists when there is a failure in one of the interconnected platforms.

The emergence of cyber attack and vulnerabilities in data privacy have to be carefully responded. In addition, dependence on one single communication network must also be mitigated.

# Balancing Digital Opportunities and Risk Mitigation

Strengthen the interlinkages between digital finance and digital economy

Encourage end-to-end digital transformation in banking

Strengthen and broaden the collaboration between bank and fintech



Improve regulation, entry policy, reporting and supervision in line with challenges of digital era

Economic openness that is aligned with national interests

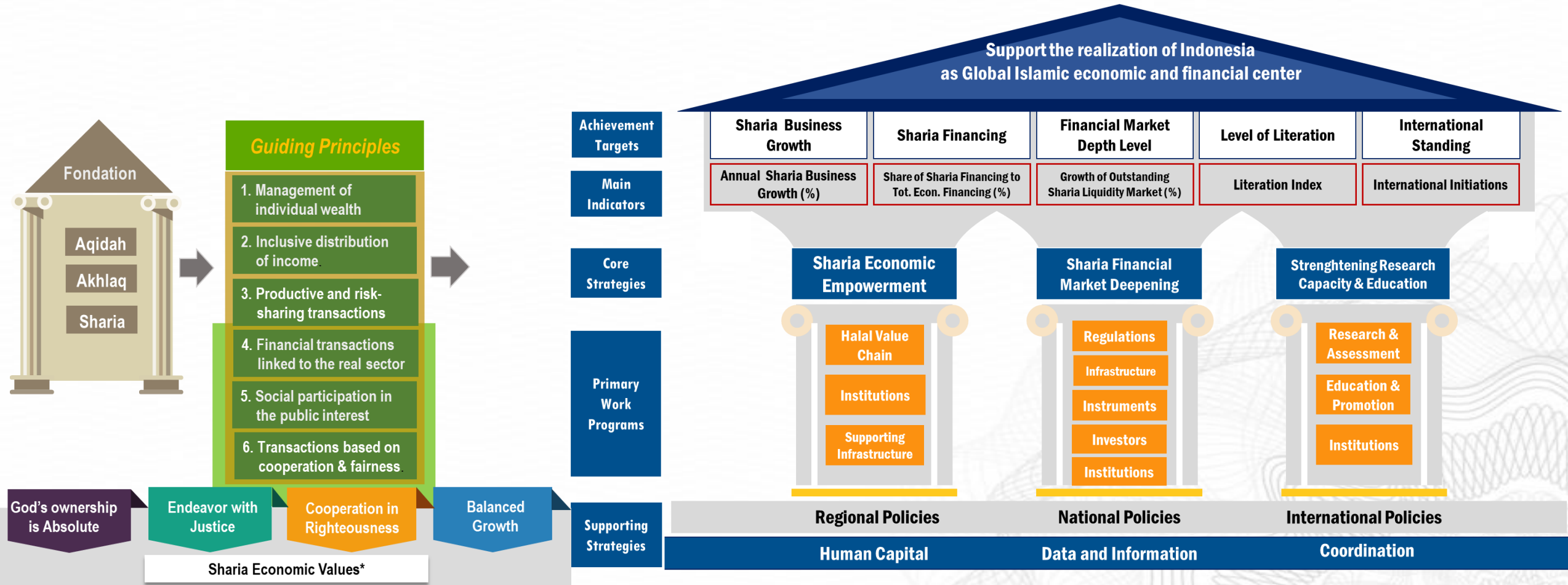
Encourage broader digital acceptance

# Outline

- A Snapshot of Recent Economic Development
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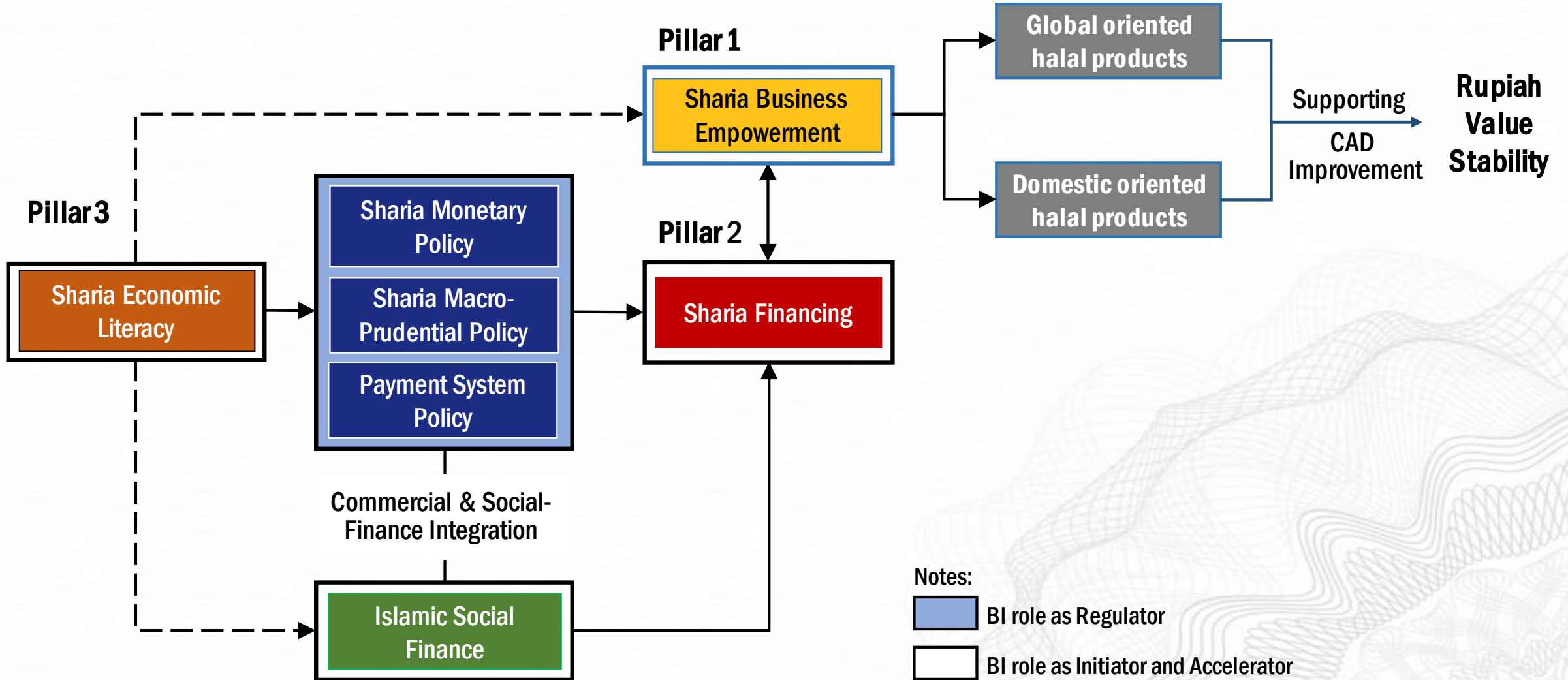
# BI Sharia Economic and Finance Blueprint

The policy of developing sharia economy and finance is an effort by Bank Indonesia to support national sharia economic and finance policies that aim to make Indonesia the Global Sharia Economic and Financial Center.



Source: DEKS, Bank Indonesia

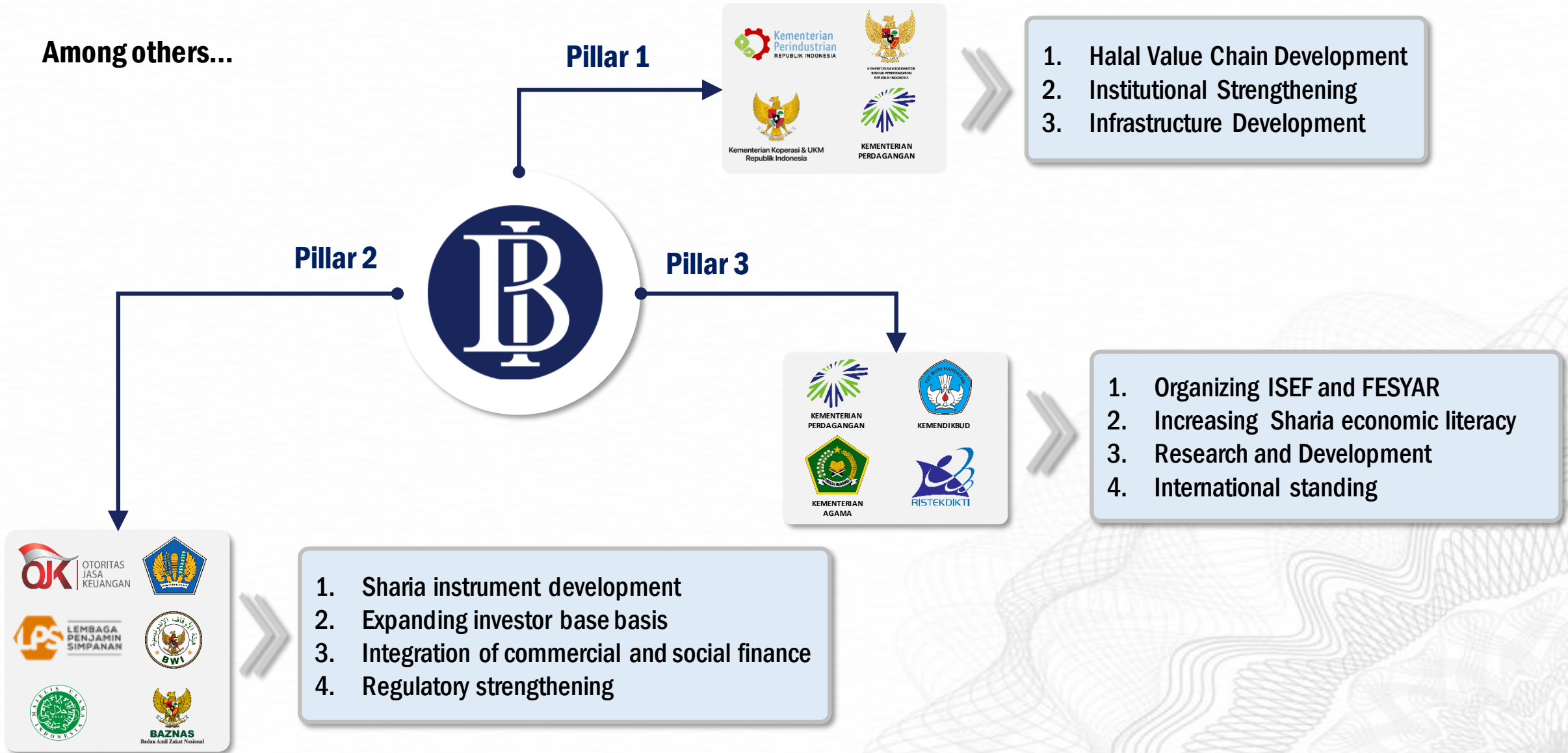
# Urgency & Role of BI Sharia Economic and Financial Policy



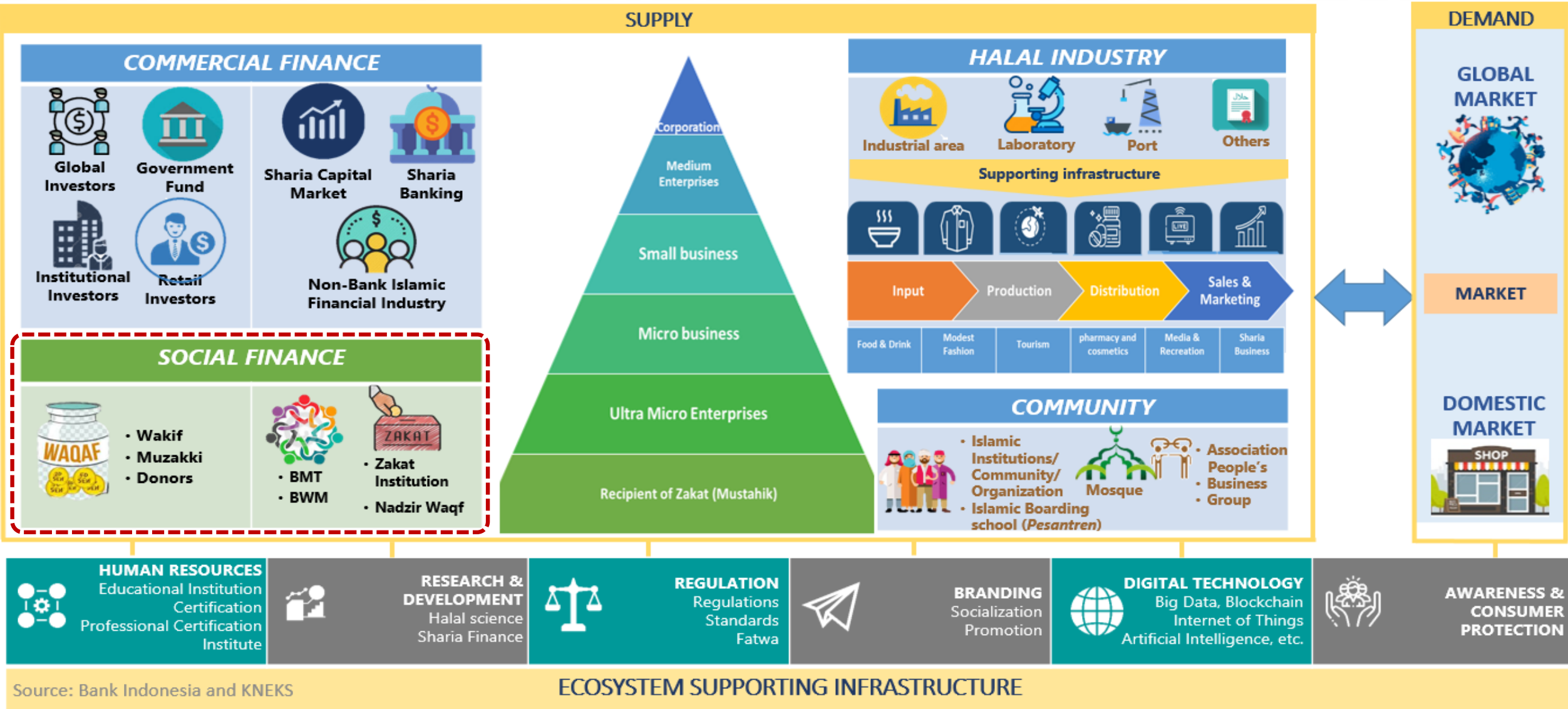


# Sharia Economic & Finance Sinergy

Among others...



# Ecosystem Components of Indonesia Sharia Economic and Finance



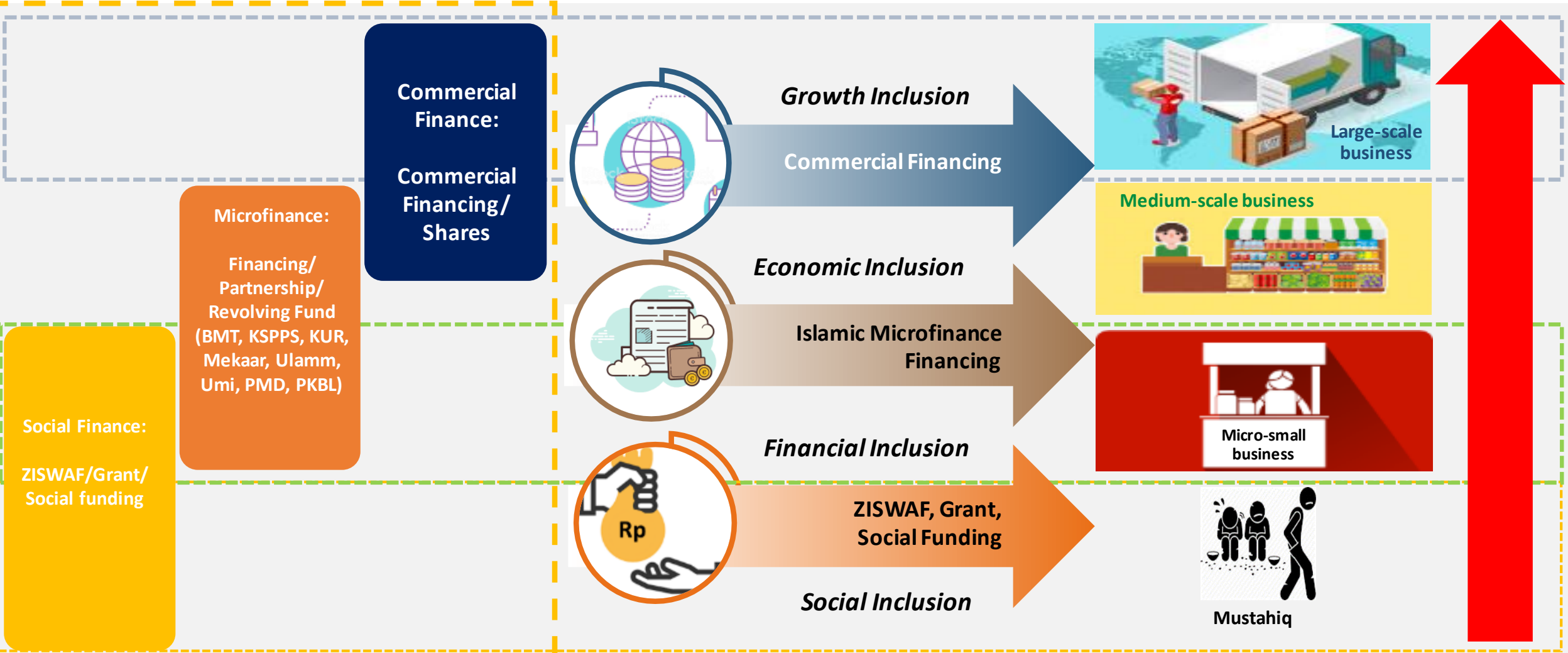
Source: Bank Indonesia and KNEKS

ECOSYSTEM SUPPORTING INFRASTRUCTURE

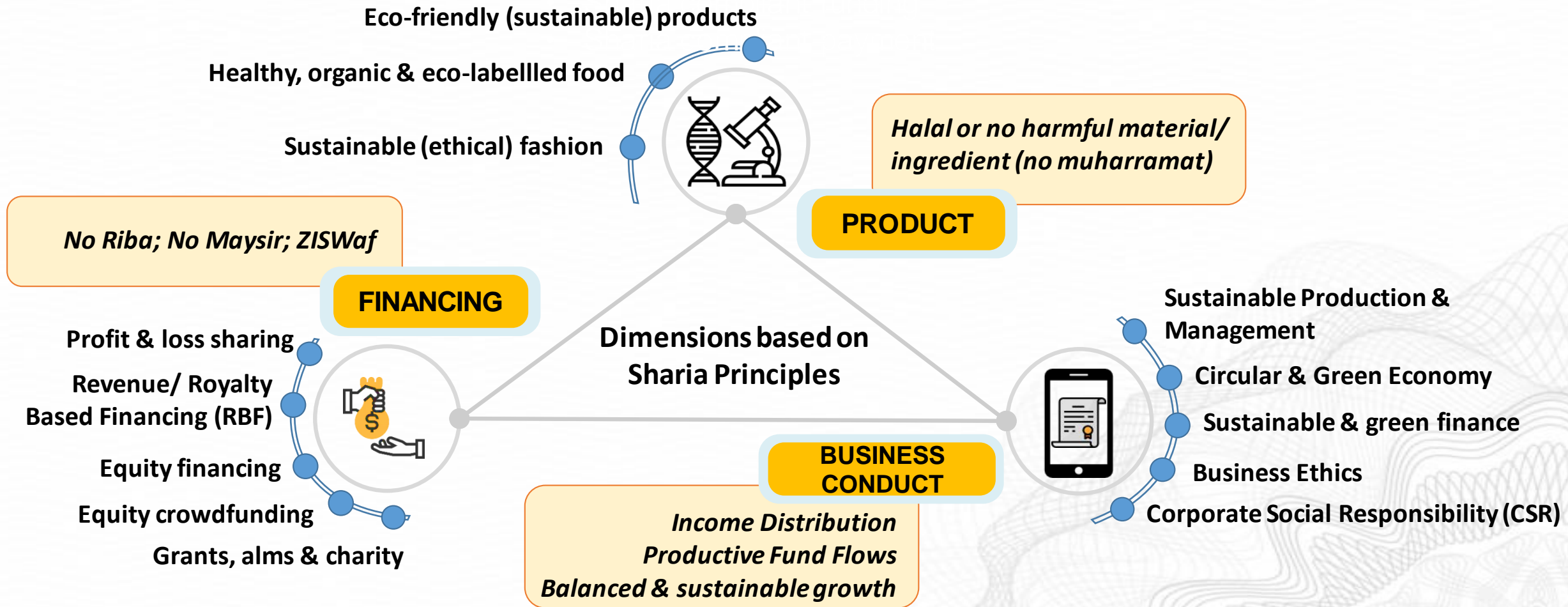
# Islamic Economic and Finance: Integrating Social Finance and Commercial Finance

## Islamic Finance

## Islamic Economy



# Dimension of Sharia Business Activities



: Sharia Principles

⤵ : Mainstream business activities examples

# Halal Value Chain Ecosystem Development

## HALAL VALUE CHAIN

Integrated Farming | Food | Fashion  
Halal Tourism | New and Renewed Energy

 <p><b>INFRATANI</b> Society and IT-based Integrated Farming Reinforcement Program</p>	 <p><b>IKRA</b> Indonesia Islamic Creative Industry Program</p>
 <p><b>PIKAT</b> Integrated Coconut Processing Industry Program</p>	 <p><b>KUPASTALAS</b> Islamic Entrepreneur Capacity and Quality Reinforcement Program</p>
 <p><b>JUARA EKSPOR</b> Export Oriented Business Network Program</p>	 <p><b>SMART</b> Sustainable Muslim-Friendly and Attractive Tourism Program</p>
 <p><b>HEBITREN</b> Islamic Boarding School Economic and Business Holding</p>	 <p><b>HALKIT</b> Halal Kitchen Reinforcement Program</p>

## INSTITUTIONAL



**PRISMA**  
Masjid Community Empowerment Program



**DESA BERDIKARI**  
Empowered, Creative, Religious, and Inspired Village Program



**DASYARMAS**  
Mass Organizations Based Islamic Economic Empowerment



**INSTITUTIONAL COOPERATION**  
HEBITREN, MES

## INFRASTRUCTURE



**KESTRI**  
Integrated Islamic Economic Zone Program



**SKALA**  
Halal Food Certification Program



**SHARIA GLOBAL PLAYER FORUM**  
(ISEF, global promotion)



**SHARIA DOMESTIC PLAYER FORUM** (Fesyar, domestic promotion)

# Thank You

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