KSSK KOMITE STABILITAS SISTEM KEUANGAN

PRESS RELEASE

FINANCIAL SYSTEM STABILITY CONTINUES TO IMPROVE, SUPPORTED BY DOMESTIC FINANCIAL SYSTEM AND ECONOMIC RECOVERY OPTIMISM, WHILE REMAINING VIGILANT OF VARIOUS GLOBAL RISKS

Number: 01/KSSK/Pers/2023

Jakarta, 31 January 2023.

1. **The stability of the financial system (financial system stability or FSS) in the fourth quarter of 2022 continued to improve amid optimism surrounding the intact and stronger economic recovery in line with improving the domestic financial system and economic indicators**. At the first KSSK meeting of 2023, held on Monday 30th January 2023, the Minister of Finance, Governor of Bank Indonesia (BI), Chairman of the OJK Board of Commissioners, and Chairman of the Indonesia Deposit Insurance Corporation (IDIC) Board of Commissioners committed to strengthening coordination and remaining vigilant of developing global risks.
2. **Global pressures began to dissipate towards the end of the fourth quarter of 2022, despite several risks that demand vigilance**. There are indications of milder global inflationary pressures despite remaining elevated in line with persistently high food and energy prices, ongoing supply chain disruptions as well as tight labor markets, particularly in the United States (US) and Europe. Accordingly, monetary policy tightening in advanced economies is expected to be approaching its peak, with higher for longer policy rates predicted throughout 2023. Global financial market uncertainty has also begun to subside, thereby benefiting developing economies by increasing global capital flows and easing depreciatory currency pressures. Moving forward, global economic moderation is projected, given geopolitical fragmentation and recession risk in the US and Europe. Notwithstanding, the promising economic outlook in China after unwinding the zero-Covid policy will alleviate the risk of a deeper global economic downturn.
3. **At home, national economic growth in Indonesia continues to improve on the back of solid household consumption accompanied by lower inflation than projected**. Several early indicators in December 2022 confirmed that positive economic performance remains intact, including the Consumer Confidence Index (CCI) and Real Sales Index (RSI), which continued to signal optimism. In addition, the Manufacturing Purchasing Managers Index (PMI) maintained an expansionary trend at a level of 50.9. A positive trade balance was also recorded with a total surplus in 2022 reaching USD54.46 billion, which is a historical high. Economic growth in 2022 is projected to reach 5.2-5.3%. Looking ahead, solid national economic growth in 2023 is projected to persist in line with the complete removal of community activity restrictions (PPKM), an influx of foreign direct investment (FDI), and the ongoing completion of various national strategic projects (PSN), despite moderating slightly due to slower global economic growth.
4. **Inflation is falling faster than expected**. At the end of 2022, Consumer Price Index (CPI) inflation was recorded at 5.51% (yoy), considerably lower than the projection after the subsidized fuel price adjustment in September 2022. Similarly, low core inflation was recorded at the end of 2022, namely 3.36% (yoy), significantly lower than the BI projection of 4.61% (yoy). Lower CPI and core inflation stemmed from close coordination between the Government and BI through a front-loaded, pre-emptive, and forward-looking monetary policy

response, supported by managing volatile food inflation through the National Movement for Food Inflation Control (GNPIP). Moving forward, core inflation is forecast to remain within the 3.0%±1% target corridor in the first semester of 2023, with CPI inflation returning to 3.0%±1% in the latter half of the year.

5. **The rupiah has regained lost value, thereby supporting economic stability**. At the beginning of 2023, the rupiah experienced appreciation, gaining 3.89% (ytd) as of 27th January 2023, compared with the level recorded at the end of December 2022. Rupiah appreciation outpaced the currencies of several other developing economies, including Malaysia (3.83% ytd), the Philippines (2.30% ytd), and India (1.46% ytd). The stronger rupiah was driven by foreign capital inflows to domestic financial markets given positive investor perception of the promising domestic economic outlook, with stability maintained, attractive domestic financial assets for investment and slightly lower global financial market uncertainty.

6. **From a fiscal perspective, the State Revenue and Expenditure Budget (APBN) in 2022, as part of the series of fiscal policies instituted during the Covid-19 pandemic, worked indefatigably to protect the public and maintain economic recovery momentum with a healthy and sustainable State Budget**. Positive State Budget performance in 2022 was reflected in the realization of state expenditures totaling IDR3,090.75 trillion, with growth of 10.92% (yoy). The State Budget has been used meticulously to protect public purchasing power and shore up the economic recovery through subsidy support and compensation, increasing social assistance disbursements, support for national strategic projects, ameliorating stunting and eradicating extreme poverty, support for social security programs and other regional public services.

7. **The economy has recovered quickly and the corporate sector has bounced back stronger in line with solid government expenditure support**, thereby bolstering state revenues totaling IDR2,626.42 trillion, up 30.58% (yoy) and achieving 115.90% of the State Budget target (Presidential Regulation No. 98/2022). The realization of state revenues included tax revenues totaling IDR2,034.54 trillion (114.04% of Presidential Regulation No. 98/2022), up 28.32% (yoy). Optimal revenue performance was primarily attributable to recovering economic activity, persistently high commodity prices as well as the fruits of tax reforms.

8. **A combination of achieving strong revenue growth and positive government spending performance has resulted in solid fiscal risk control**, as reflected in the state budget deficit of IDR464.33 trillion or 2.38% of GDP, far below the 4.50% of GDP targeted in accordance with Presidential Regulation No. 98/2022. With a narrower state budget deficit than initially targeted, the ratio of government debt has shrunk from 40.74% at the end of 2021 to 39.57% of GDP at the end of 2022. In addition, the negative and significant primary balance has reversed direction into positive territory.

9. **The government securities (SBN) market continued to rally at the beginning of 2023 as non-resident investors began to purchase SBN again**. As of 27th January 2023, non-resident investors booked a net buy totaling IDR48.53 trillion, with the banking industry booking IDR121.98 trillion and non-bank financial investors IDR3.63 trillion. The trend was also supported by a 20bps (ytd) decrease in the yield of benchmark 10-year SBN to a level of 6.74%. Despite early signs of more conducive SBN market conditions, persistently high global inflationary pressures in several jurisdictions demand vigilance due to potentially triggering higher central bank policy rate hikes than expected.

10. **Excellent State Budget performance implies that the shock absorber role implemented in 2022 functioned optimally in terms of dampening escalating global economic**

turmoil, maintaining public welfare and prosperity as well as supporting various development agendas. The State Budget controlled risk solidly, thus providing robust foundations to continue implementing fiscal consolidation in 2023 while supporting economic transformation efforts.

11. **BI continued strengthening its policy mix to maintain economic recovery momentum and stability**. Monetary policy will remain focused on maintaining stability (pro-stability), while macroprudential policy, payment system digitalization, money market deepening, as well as the inclusive and green economy and finance will still be oriented towards stimulating growth (pro-growth).
12. **In line with the policy mix direction, BI bolstered monetary policy** to maintain stability by strengthening interest rate policy, rupiah stabilization, and FX reserves. Since August 2022, BI has prudently raised the BI 7-Day Reverse Repo Rate (BI7DRR) as a front-loaded, pre-emptive, and forward-looking measure to rein in inflation expectations and lower inflation moving forward. BI is confident that raising the BI7DRR by 225bps to 5.75% in January 2023 will be sufficient to ensure core inflation remains within the 3.0%±1% target corridor in the first semester of 2023 and CPI inflation returns to the 3.0%±1% target in the second semester of 2023. The Rupiah stabilization policy to control imported inflation has been strengthened using foreign currency monetary operations, including the implementation of foreign currency term deposits (TD) from foreign exchange proceeds of exports (DHE) in accordance with market mechanisms.
13. **BI continues to strengthen accommodative, inclusive, and sustainable macroprudential policy** by honing macroprudential incentives through lower reserve requirements (RR) to revive bank lending, particularly to priority sectors still in the recovery process, MSME loans, including People's Business Loans (KUR), as well as green finance, to support the economic recovery. The macroprudential incentives offered to banks disbursing KUR and MSME loans have been raised twofold up to a maximum of 1%. In addition, incentives are also available for green finance disbursements, namely green property and/or automotive loans/financing, of up to 0.3%. The increase raises the total macroprudential incentive that can be received by an eligible bank from a maximum of 200bps previously up to 280bps.
14. **BI continues to strengthen payment system policy in order to maintain economic recovery momentum** as follows: (i) accelerating BI-FAST implementation by expanding BI-FAST participants in the form of banks and non-bank financial institutions, expanding service channels and implementing Phase I Stage II services (Bulk Credit, Direct Debit, and Request for Payment); (ii) accelerating the implementation and socialization of the Domestic Government Credit Card in accordance with the timeline in 2023; and (iii) continuing the expansion of QRIS implementation through strategies to achieve 45 million users and 1 billion transactions in 2023, while developing additional QRIS features and cross-border QRIS payment linkages.
15. **BI increased international cooperation** by expanding collaborative efforts with other central banks and authorities in partner countries while promoting investment and trade in priority sectors in synergy with relevant institutions. In addition, BI coordinates with relevant government ministries/agencies to ensure the success of Indonesia's ASEAN Chairmanship in 2023, particularly in terms of the finance track.
16. **BI continues to strengthen policy coordination with the Central Government, Regional Government, and strategic partners**. Coordination under the auspices of the Central and Regional Inflation Control Teams has been continued by strengthening the National

Movement for Food Inflation Control (GNPIP) in various regions.

17. **Financial system stability and financial services sector performance have been maintained with the intermediation function expanding beyond expectations in line with improving domestic economic performance**. Loans disbursed by the banking industry in 2022 grew 11.35% (yoy), primarily driven by working capital loans (12.17% yoy) and loans extended to corporate borrowers (15.44% yoy). In addition, third-party funds grew 9.01% (yoy) on the back of demand deposits and savings instruments that increased by 18.78% (yoy) and 7.52% (yoy) respectively.

18. **In line with the bank intermediation function, disbursed financing maintained a positive trend with 14.18% (yoy) growth recorded in December 2022**, supported by working capital financing and investment financing at 36.70% and 23.94% respectively. The insurance industry successfully collected IDR27.63 trillion of additional premiums in December 2022, with life insurance premiums increasing by IDR16.41 trillion and general insurance premiums by IDR11.22 trillion. Fundraising via the capital market reached IDR267.73 trillion in December 2022. On the supply side, 71 new issuers raised funds through the capital market, thereby setting a new record and among the highest in the region.

19. **The Jakarta Composite Index (JCI) rallied 4.09 % (ytd) to a level of 6,850.62 as of 30th December 2022, as one of the best-performing stock markets in the region**. Stock market performance was supported by non-resident investors booking a net buy totaling IDR60.60 trillion (ytd) despite global financial market volatility.

20. **Credit risk is tracking a downward trend in the banking industry and in terms of financing, supported by ample liquidity and solid capital**. As of December 2022, the gross NPL ratio in the banking industry declined to 2.44%, while the NPF ratio of finance companies decreased to a level of 2.32%. Ample liquidity was maintained in the banking industry, as reflected by a ratio of liquid assets to non-core deposits at a level of 137.67% and a ratio of liquid assets to third-party funds of 31.20% in December 2022. Capital resilience in the financial services industry increased as the Capital Adequacy Ratio (CAR) reached 25.68% in line with solid capital in the life insurance and general insurance industries, as indicated by risk-based capital (RBC) at 484.22% and 326.99% respectively. Similarly, the gearing ratio of finance companies stood at 2.07 times. Seeking to maintain financial system stability amid escalating external risk, OJK will proactively strengthen prudential policy and the financial services sector to maintain the stability of the financial services industry.

21. **OJK implemented several anticipative and calibrated policies in 2022 to maintain the stability of the financial services sector, strengthen financial services industry resilience and increase financial sector support for the national economic recovery** as follows.

    a. OJK issued several policies to mitigate external risk to FSS, including:

        - Maintaining several existing policies to manage market volatility that could potentially impact domestic capital market performance.

        - Requesting that financial services institutions constantly maintain capital resilience and adequate liquidity to anticipate future economic uncertainty, encompassing policies to optimize dividend payments and increase reserves, including sectors where policy relaxation has ended.

    b. OJK issued the following policies to support the national economic recovery:

        - Targeted loan/financing restructuring stimulus policy to overcome the scarring effect of the pandemic and maintain the intermediation function. Additional relaxation on loan/financing restructuring for one year until 31st March 2024 was allocated to the MSME segment, accommodation and food service activities as well as labour-intensive industries, namely the textile and footwear industries.

- Proactive policies to support economic recovery, particularly areas impacted by a disaster in accordance with prevailing regulations and prudential principles.
- Relaxation policy in relation to prudential regulations to support the acceleration program for battery-powered electric vehicles (BEV) and the development of upstream industries (battery industry, charging station industry, and component industry) in the banking industry, NBFI, and capital market.

c. OJK strengthened anticipative and calibrated policies by increasing infrastructure, supervision, and governance in the financial sector, as well as consumer protection to maintain the stability of the financial services sector, strengthen financial services industry resilience, and increase financial sector support for the national economic recovery.

22. **In terms of deposit guarantees, the number of customer accounts guaranteed by the Indonesia Deposit Insurance Corporation (IDIC) in December 2022 was 508.21 million, equivalent to 99.93% of total accounts**. In January 2023, IDIC increased the guarantee rate for deposits in rupiah held at commercial banks and rural banks by 25bps to 4.00% and 6.50% respectively, and for foreign currency deposits at commercial banks by 25bps to 2.00%. The guarantee rate is effective from 1st February - 31st May 2023. The guarantee rate was adjusted based on the following considerations:

    a. Potentially higher interest rate hikes by domestic banks in response to central bank monetary policy;

    b. Providing space for the banking industry to manage liquidity amid relatively high financial market volatility risk while supporting the bank intermediation function as a main pillar of economic growth; and

    c. Strengthening policy synergy and direction with domestic financial sector authorities to maintain economic recovery momentum.

IDIC guarantee and resolution policy will continue to support the economic recovery and maintain financial system stability by, among others, strengthening the scope of deposit insurance policy in terms of the nominal guarantee limit (IDR2 billion) and guarantee rate, ensuring the readiness of the early involvement mechanism in terms of bank resolution as required, and evaluating the ongoing relaxation of guarantee premium fines.

23. **KSSK will continue increasing coordination to monitor global dynamics and potential risks moving forward, which includes preparing a coordinated policy response to mitigate the risk of deteriorating domestic economic conditions and financial system stability.**

24. **KSSK welcomes the enactment of the Draft Bill concerning Financial Sector Development and Strengthening (P2SK) into Act Number 4 of 2023 (P2SK Act) as an important moment of the financial sector reforms in Indonesia**. KSSK expressed its utmost appreciation to the People's Representative Council of the Republic of Indonesia (DPR-RI), which initiated the P2SK Draft Bill and cooperated through an open, productive, constructive, and dynamic discussion process. The P2SK Act provides a foundation for financial sector reform to establish a deep, innovative, efficient, inclusive, trusted, solid, and stable financial sector. This is imperative to support strong, balanced, inclusive, and

sustainable economic growth. Financial sector reform in Indonesia is vital to create a just and prosperous society in Indonesia. The Government and financial sector authorities will immediately formulate credible implementation regulations with the involvement of various relevant parties, including DPR-RI, financial industry players, and the public.

25. **KSSK will hold its next regular meeting in April 2023.**

***