About This Report

The Quarterly Report on Indonesia Financial Sector Development is published by the Investor Relations Unit of the Indonesia Financial Services Authority (IRU-OJK) to provide general views on the development of the global and Indonesian economy as well as the financial services sector.

This report consists of 4 (four) main sections, namely:
1. Recent Economic and Financial Development;
2. Special Topics;
3. Policy Update; and
4. Projects Undertaken by the International Department.

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ECONOMIC UPDATES
Indonesia's GDP maintained its favorable growth at 5.03% (yoy) in the first quarter of 2023. Monetary indicators were also relatively steady, while domestic inflation continued to increase.

FINANCIAL DEVELOPMENT UPDATES
The stability of the financial system remained well maintained with positive intermediation function, supported by ample liquidity and sufficient capital.

SPECIAL TOPICS OF THIS QUARTER
This quarterly report raises various topics, including Indonesia's Strategy for FOLU Net Sink 2030 and Global and Domestic Carbon Market Development.
Although the global economy is expected to recover in a slower pace due to heightened inflation and higher interest rates, geopolitical risks were monitored to cool down along with moderated commodity prices.

Meanwhile, the domestic economy showed robust growth along with a trade balance surplus as well as expanding manufacturing activities and private consumption. Indonesia's economy remained resilient despite the dynamics in the global economy.

Likewise, the financial services industry recorded positive growth in intermediation, supported by sufficient liquidity, substantial capital, and a manageable risk profile.
GLOBAL ECONOMIC UPDATES

In 2023, the global economy is expected to grow at a slower pace due to heightened inflation and increased interest rates.

Inflation pressures persist in most countries, but inflation is easing in the US and Europe.

<table>
<thead>
<tr>
<th>Country</th>
<th>Core Inflation (%)</th>
<th>GDP Growth (YoY, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>6.20</td>
<td>5.60</td>
</tr>
<tr>
<td>EU</td>
<td>5.70</td>
<td>5.03</td>
</tr>
<tr>
<td>US</td>
<td>5.60</td>
<td>4.50</td>
</tr>
<tr>
<td>MAL</td>
<td>3.80</td>
<td>2.70</td>
</tr>
<tr>
<td>INDO</td>
<td>2.94</td>
<td>1.80</td>
</tr>
<tr>
<td>THAI</td>
<td>1.70</td>
<td>1.30</td>
</tr>
<tr>
<td>CHN</td>
<td>0.70</td>
<td>0.20</td>
</tr>
</tbody>
</table>

+ Recent updates: IMF (Apr-23), World Bank (Jan-23); OECD (Mar-23)
++ For The World Bank, the differences are from Oct-22 projections while for IMF and OECD are from Jan-23 and Nov-22, respectively.

Rising Policy Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy Rate (%)</th>
<th>Total Change (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-21</td>
<td>0.25</td>
<td>475</td>
</tr>
<tr>
<td>Mar-23</td>
<td>5.00</td>
<td>415</td>
</tr>
<tr>
<td>Sep-21</td>
<td>0.10</td>
<td>350</td>
</tr>
<tr>
<td>Mar-23</td>
<td>4.25</td>
<td>300</td>
</tr>
<tr>
<td>Sep-21</td>
<td>0.50</td>
<td>125</td>
</tr>
<tr>
<td>Mar-23</td>
<td>1.75</td>
<td>100</td>
</tr>
<tr>
<td>Sep-21</td>
<td>1.75</td>
<td>-20</td>
</tr>
<tr>
<td>Mar-23</td>
<td>2.75</td>
<td></td>
</tr>
</tbody>
</table>

Declining commodity prices

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRUDE OIL</td>
<td>-13.71%</td>
</tr>
<tr>
<td>COAL</td>
<td>-43.63%</td>
</tr>
<tr>
<td>LNG</td>
<td>-50.48%</td>
</tr>
<tr>
<td>CPO</td>
<td>-10.07%</td>
</tr>
<tr>
<td>WHEAT</td>
<td>-13.07%</td>
</tr>
<tr>
<td>NICKEL</td>
<td>-22.14%</td>
</tr>
<tr>
<td>GOLD</td>
<td>8.38%</td>
</tr>
<tr>
<td>CORN</td>
<td>-5.23%</td>
</tr>
<tr>
<td>SOYBEAN</td>
<td>-5.99%</td>
</tr>
</tbody>
</table>

PMI Manufacturing is Improving

Source: BlackRock
DOMESTIC ECONOMIC UPDATES

Indonesia’s economic growth in Q1 2023 continued at the 5% level. However, there are potential external headwinds and inflationary pressures.

In the first quarter of 2023, the manufacturing industry contributed the highest share to the growth followed by the wholesale and retail trade at 18.57% and 12.95%, respectively. Meanwhile, four other sectors experienced an increase in the share of growth compared to Q4-2022.

Trade performance maintained stable growth supported by the growth of export

In Q1-2023, trade balance grew by 30.68% (yoy). Moreover, Indonesia’s trade balance has been recording a surplus for 35 consecutive months since May 2020.

Current Account charted surplus, supported mainly by the positive performance of trade balance. Though lower than the previous quarter, the record was higher than pre-pandemic level.
The inflation rate in March, mainly driven by core inflation, began to decline and was under control due to the government’s anticipatory steps in entering the Ramadan period.

By the end of March 2023, monetary indicators were stable with adequate foreign currency reserves and BI/7DRR set higher to 5.75%. Moreover, the exchange rate was also strengthened despite relatively fluctuating since the beginning of the year.

Fiscal condition remained sound as government debt to GDP ratio was consistently well-maintained (below the maximum limit of 60%) and budget deficit realization was recorded below the initial estimation in 2022.

Source: Bank Indonesia, BPS, Coordinating Ministry of Economic Affairs
FINANCIAL INDUSTRY STAYS RESILIENT AMIDST PANDEMIC

Banking Industry

Banking Industry remained solid with strong intermediation growth, mainly driven by investment loans. Mining sector experienced the highest growth in line with the trend of commodity export. The banking industry was also supported with ample liquidity and substantial capital.

Capital Market

Despite the fall in the global stock market, the domestic capital market continued to perform well with positive capital netflow, growing fundraising, and rising number of investors.

Stock Index Performance as of 31st Mar 2023

(compared to 30 Dec’22)

Source: OJK

Loan Growth by Sectors

Wholesale & Retail Trade
Transportation
Agriculture
Mining
Manufacturing
Construction
Other
Accommodation, FnB

Working Capital
Consumption
Investment
Total Loan

YOY
60%
40%
20%
0%
-20%
-40%
-60%

2019
Dec-20
Mar-21
Jun-21
Sep-21
Dec-21
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23

Capital Netflow

Govt Debt Securities
Equity

10,31%
7,49%
5,33%
3,88%
3,68%
3,48%
2,49%
1,84%
1,59%
0,55%

Total Investor (in million)

200
250
300
350
400

2017
2018
2019
2020
2021
2022
2023

12
10
8
6
4
2
0

As of 31 Mar 2023

YTD Mar 2023: IDR 62.96 Tn

Jan-23
Feb-23
Mar-23

4.77
4.71
4.51
4.32
4.8
4.32
4.51
4.32
4.32
4.32

Mar-19
Dec-19
Mar-20
Dec-20
Mar-21
Dec-21
Mar-22
Dec-22
Mar-23

-3,66%
-3,34%
-3,34%
-3,34%
-3,34%
-3,34%
-3,34%
-3,34%
-3,34%
-3,34%

Total Loan
Third-Party Fund (Deposits)

Dec-19
Dec-20
Dec-21
Dec-22
Mar-23

23,31%
23,81%
25,67%
25,63%
24,69%

Dec-19
Dec-20
Dec-21
Dec-22
Mar-23

2,53
3,05
3
2,44
2,49

Dec-19
Dec-20
Dec-21
Dec-22
Mar-23

2,44
1,59
1,84
2,43
2,77

Dec-19
Dec-20
Dec-21
Dec-22
Mar-23

400
300
200
100
0

-10%
-5%
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
50%

RECENT ECONOMIC AND FINANCIAL DEVELOPMENT

FINANCIAL INDUSTRY STAYS RESILIENT AMIDST PANDEMIC

Risk-based capital of general and life insurance remained well above the thresholds with relatively small added insurance premiums.

In the first quarter of 2023, financing intermediation has continued to grow while the gearing ratio and NPF remained steady below the threshold.

P2PL Fintech intermediation grows with a manageable NPL ratio and SCF Fundraising continues to rise.

Source: OJK
1. Indonesia’s Strategy for FOLU Net Sink 2030

Indonesia has set the target to achieve FOLU Net Sink in 2030 as one of the ways to lower national emissions and address the detrimental impacts of climate change.

How will FOLU Net Sink 2030 advance Indonesia towards Net Zero Emission (NZE) and what is its relation with the development of the domestic carbon market?

2. Global and Domestic Carbon Market Development

As many countries around the world have pledged to mitigate and address the impacts of climate change, many are looking at carbon markets as part of the answer to finance the climate targets.

What is the current development of the global carbon market and how will carbon exchange scale up Indonesia’s carbon ecosystem?
INDONESIA’S FOLU NET SINK 2030

As a country vulnerable to the negative impacts of climate change and contributing to global greenhouse gas (GHG) emissions, Indonesia is strongly committed to reducing national emissions. Therefore, it is necessary to strengthen the work in Indonesia’s FOLU Net Sink 2030 Program. **What is FOLU Net Sink 2030, and how does it help Indonesia progress towards Net Zero Emission (NZE)?**

### Overview

**Indonesia’s Net Zero Emission Program**

- **Low Carbon Development Plan**
  Development of strategies to reduce GHG emissions economically, socially, and environmentally.

- **National Energy General Plan (RUEN)**
  Long-term strategic plan for the energy sector in Indonesia.

- **Electricity Supply Business Plan (RUPTL)**
  Regulates the development and supply of sustainable electrical energy.

**What is it?**
The FOLU Net Sink 2030 is a commitment made by the Indonesian government to reduce GHG emissions from deforestation and forest degradation, while promoting sustainable land use practices and forest conservation.

**What is the target?**

**Global Target:**
To achieve greenhouse gas emissions levels at:
- -140 million tons of CO2e by 2030
- -304 million tons of CO2e by 2050

**National Target:**
In September 2022, Indonesia submitted the Enhanced NDC to the UNFCCC that stated to reduce GHG emissions by:
- 31.89% without international support
- 43.20% with international support

**What are the strategies?**
The program uses three working strategies:
- Sustainable Forest Management,
- Environmental Governance,
- Carbon Governance.

### Timeline of FOLU Net Sink 2030 Development

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
</table>
| 2016 | - Regulation No.16 of 2016  
- Submission of the first NDC* |
| 2019 | - Submission of the NDC roadmap |
| 2021 | - Submission of Updated NDC  
- Presidential Decree No. 98 of 2021  
- Submission of LTS-LCCR** |
| 2022 | Indonesia’s FOLU Net Sink 2030 |

*Nationally Determined Contribution  **LTS-LCCR: Long-Term Strategy for Low Carbon and Climate Resilience
CARBON CREDITS: UNLOCKING THE PATH TO FOLU NET SINK

In achieving Indonesia’s ambitious commitment to reducing GHG emissions by 29% in 2030, Carbon Market is essential in supporting the FOLU Net Sink target by providing a financial mechanism that incentivizes and rewards sustainable land use practices and carbon sequestration efforts.

**Indonesia’s FOLU Potential**

Being one of the largest rainforests globally, Indonesia has all the potential to generate carbon credit, especially to reduce GHG emissions through the 3 Scope of FOLU Net Sink

<table>
<thead>
<tr>
<th>Rainforest</th>
<th>Mangrove</th>
<th>Peatland</th>
</tr>
</thead>
<tbody>
<tr>
<td>125.9 Mn Ha</td>
<td>3.31 Mn Ha</td>
<td>7.5 Mn Ha</td>
</tr>
</tbody>
</table>

Absorption Level (Carbon Ton)

<table>
<thead>
<tr>
<th>Rainforest</th>
<th>Mangrove</th>
<th>Peatland</th>
</tr>
</thead>
<tbody>
<tr>
<td>25.18 Bn</td>
<td>33 Bn</td>
<td>55 Bn</td>
</tr>
</tbody>
</table>

To reach the FOLU Net Sink target, Ministry of Environment and Forestry has published its work plan

<table>
<thead>
<tr>
<th>Emission Reduction</th>
<th>Expanding Carbon Stock</th>
<th>Maintaining Carbon Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reducing Degradation and Deforestation Rate of Mineral Land and Peatland</td>
<td>• Plantation Forest Development • Sustainable Forest Management • Rehabilitation With Rotation • Non-Rotation Rehabilitation</td>
<td>• Peat Restoration • Improvement of Peat Water System • Biodiversity Conservation • Social forest</td>
</tr>
</tbody>
</table>

**How could FOLU generate Carbon Credit?**

FOLU could generate carbon credit through the carbon trading mechanism at Voluntary Carbon Market (VCM), where parties, companies and government have the opportunity to buy and sell carbon credits.

**CO² sequestration:**
- Storing CO² in forests and reducing emissions from forestry activities

**Carbon Offset Credits**

**Carbon Trading at VCM**

According to Katadata (2022), not every forest area are eligible for carbon projects; there are at least three basic principles that must be met:

- **Permanency:** Carbon projects must be long-term (minimum 20 years)
- **Additionality:** The forest area that is used for the project must be one that is threatened by deforestation
- **No Leakage:** One area’s emission reduction must not lead to increased emissions elsewhere
A GLOBAL PHENOMENON OF CARBON MARKET

Types of Carbon Markets

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Compliance Carbon Market</th>
<th>Non-Compliance Carbon Market</th>
</tr>
</thead>
</table>
| Market Function    | • Uses a ‘Cap and Trade’ system, or also known as the ‘Emissions Trading System’, such as EU ETS, UK ETS, etc.  
• Regulated entities can buy and sell carbon credits to comply with the greenhouse gas limits (or the ‘Cap’ set by the government) they are allowed to emit.  
• The Cap will be gradually reduced to achieve decarbonization. | • Also known as Voluntary Carbon Market (VCM).  
• Allow participants to purchase carbon offsets to mitigate their emissions.  
• The number of carbon offsets is not limited. |
| Market Participants| Regulated entities that have to comply with ETS and financial players | Businesses, investors, NGOs, etc |
| Market Regulation  | Created and regulated by mandatory national, regional, or international carbon reduction schemes | Function outside of compliance markets and are largely unregulated |
| Issuer of Credits  | National governments/agencies | Independent certification bodies such as VERRA and Gold Standard |

Facts and Figures

28 Emission Trading Systems (ETS)
As of January 23, there were 28 ETS in force and 8 under development (including Indonesia, Vietnam, and Colombia).

Covering Eight Sectors
Sectors covered by ETS are agriculture, forestry, waste, aviation, transport, buildings, industry, and power.

Global GHG Emissions Covered Tripled
The share of global greenhouse gas (GHG) emissions covered by emissions trading increased from 5% in 2005 to 17% in 2023 due to the addition of new sectors and trading systems.

Simplified Illustration – ETS (Cap and Trade)

Source: International Carbon Action Partnership (ICAP), European Commission, Reuters, EDF, Corporate Finance Institute
**LEARNING FROM THE EUROPEAN UNION AND CHINA**

**EU Emissions Trading System (ETS)**
- EU ETS is the oldest ETS in force. It is a cornerstone of the EU's climate policy, which aims to reduce emissions by pricing greenhouse gas (GHG) pollution.
- EU ETS covers over 10,400 industrial and power installations and approximately 350 airlines, across the 27 EU member states, Iceland, Norway and Liechtenstein.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start of Operation</td>
<td>2005</td>
</tr>
<tr>
<td>Sectoral Coverage</td>
<td>1. Domestic aviation</td>
</tr>
<tr>
<td></td>
<td>2. Energy-intensive industry, e.g. oil refineries, steelworks, and</td>
</tr>
<tr>
<td></td>
<td>producers of iron, aluminum, cement, paper, and glass3.</td>
</tr>
<tr>
<td></td>
<td>Electricity sector</td>
</tr>
<tr>
<td>GHG Reduction Targets</td>
<td>• By 2030: at least 55% below year 1990’s levels</td>
</tr>
<tr>
<td></td>
<td>• By 2050: climate neutrality*</td>
</tr>
</tbody>
</table>

Source: International Carbon Action Partnership (ICAP)

**Lessons Learned from the EU ETS**

**Secure and Trusted Registries**
- During its early development, there was a hacking to some registries and carbon credits were stolen in some countries, such as Hungary. As the carbon market was so liquid, it was hard to track who bought and sold the stolen carbon credits.
- Measures have been taken to create more secure registries, including creating a single Union registry.

**Cap and Allocation of Free Allowances**
- Previously, the EU cap was set by summing up the separate national caps set by each member state, which were called National Allocation Plans (NAPs). However, the resulting EU cap was so large and the number of allowances exceeded the emissions of the covered sectors, leading to an oversupply that caused the prices of allowances to drop.
- During Phase 3 (2013-2020), a single EU-wide cap on emissions was established instead of the previous system of national caps. Auctioning became the default method for allocating emission allowances to companies participating in the EU ETS. The free allocation also decreases each year.

China's national ETS is the world's largest by volume, covering annual emissions close to 4.5 billion tons of CO2 per year, or around 40% of China's total emissions.

China's national ETS has a multi-level governance structure that involves central and provincial government bodies with their respective authorities.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Provincial Pilot Projects ETS**</th>
<th>National ETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start of Operation</td>
<td>2013</td>
<td>2021</td>
</tr>
<tr>
<td>Sectoral Coverage</td>
<td>Industrial (power sector is in transition to national ETS), non-industrial, buildings, manufacturing</td>
<td>Current: Power sector Plan; petrochemical, chemical, building materials, iron and steel, nonferrous metals, paper, and domestic aviation.</td>
</tr>
<tr>
<td>GHG Reduction Targets</td>
<td>• By 2025: reduction in emission intensity of 18% compared to year 2020’s levels</td>
<td>• By 2060: carbon neutrality</td>
</tr>
</tbody>
</table>

**Main Challenges**

**Market Data**
- There is a lack of a unified methodology for measuring greenhouse gas emissions that led to low data quality and comparability among regions and entities.

To address the challenges, China’s Ministry of Ecology and Environment plans to improve statistics and accounting of carbon emissions, tighten the monitoring and administration of carbon data verification companies, as well as standardize their consulting, verification, and testing practices.
THE DEVELOPMENT OF CARBON TRADING IN INDONESIA

## Carbon Trading through a Carbon Exchange

Establishing a Carbon Exchange will help Indonesia scale up its carbon ecosystem in meeting NDC targets. Below are regulations concerning carbon exchanges, among others:

### Regulation

<table>
<thead>
<tr>
<th>Details</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Law No. 16/2016 concerning the Ratification of Paris Agreement</strong></td>
<td>Indonesia set a carbon emission reduction target in a Nationally Determined Contribution (NDC) in 2030. There are 5 (five) main sectors to achieve the NDC target, which are Forestry, Energy, Agriculture, Industrial Processes and Product Use (IPPU), and Waste Management.</td>
</tr>
<tr>
<td><strong>Presidential Decree No. 98/2021 concerning Carbon Economic Values</strong></td>
<td>Article 54 Paragraph (1): Carbon trading domestically and/or abroad is carried out through: 1. A carbon market mechanism through a Carbon Exchange; and/or 2. Direct trading.</td>
</tr>
<tr>
<td><strong>Minister of Environment and Forestry Regulation No. 21/2022 concerning Procedures for Implementing Carbon Economic Values</strong></td>
<td>Article 27 Paragraph (2): A Carbon Exchange is a stock exchange or trading operator that has obtained a business license from OJK.</td>
</tr>
<tr>
<td><strong>Act No. 4/2023 (PPSK Act)</strong></td>
<td>• Carbon units are securities. • A Carbon Exchange can only be held by a market operator who has obtained a business license from the OJK.</td>
</tr>
</tbody>
</table>

### Carbon Trading Ecosystem

#### Primary Market

- **Supervisor**
  - Related ministries, such as the Ministry of Environment and Forestry, the Ministry of Energy and Mineral Resources, etc.

- **Aspects regulated, among others**
  - Setting the Cap (Batas Atas Emisi or BAE)
  - Allocation of Carbon Allowance (Persetujuan Teknis Batas Atas Emisi Pelaku Usaha or PTBAE-PU)
  - Managing the National Registry Sistem (Sistem Registri Nasional Pengendalian Perubahan Iklim or SRN PPI)
  - Certification bodies

#### Secondary Market

- **Supervisor**
  - OJK

- **Aspects regulated, among others**
  - Secondary trading
  - Carbon Exchange operator

OJK is currently drafting an OJK Regulation concerning carbon trading in consultation with the Parliament.
OJK plays a crucial role in supporting and maintaining economic recovery and stability through effective policy transmission, adequate supervision, and a supportive regulatory framework.

During the first quarter of 2023, OJK issued 4 Regulations and 9 Circular Letters.

This section highlights OJK policies to maintain financial stability and resilience. There is a highlight of an OJK Regulation regarding financial literacy. In addition, this section also provides information regarding the Act No. 4/2023 on the Developing and Strengthening of the Financial Sector (PPSK Act).
OJK POLICY HIGHLIGHT

OJK POLICY DIRECTIONS IN THE FIRST QUARTER OF 2023

OJK implemented policies to maintain the stability of the financial services sector and address future challenges while keeping the national economic growth.

### Maintaining Financial System Stability

1. OJK required banks to anticipate the downside risks from the dynamics in the global economy through:
   - Strengthening governance, risk management, and prudential principles;
   - Conducting periodical stress test exercises;
   - Monitoring asset and liabilities portfolio, including credit concentration risk;
   - Maintaining capital adequacy ratio and availability of high-quality liquid assets; and
   - Avoiding excessive risk-taking behavior in the form of speculative practices.
2. Requiring insurance companies to carry out the underwriting process, establish technical reserves, and manage investments prudently.
3. Ensuring that financial institutions have established and evaluated adequate reserves.
4. Closely monitoring the sufficiency of banking liquidity, particularly the availability and composition of the securities portfolio classified as High-Quality Liquid Asset (HQLA).

### Strengthening the Financial Sector and Market Infrastructure

1. Supporting the implementation of the Natural Resources Export Proceeds (DHE SDA) policy.
2. Seeking to develop the Islamic banking industry by strengthening, accelerating, and improving the conversion of conventional banks into Islamic banks.
5. Completing the development of an application called PRIME (Securities Information and Monitoring Portal for NBFIs).
6. Consulting with the relevant stakeholders to establish a regulatory framework for compulsory insurance products.
7. Reviewing the optimal capital requirements for insurance companies.
8. Supporting sustainable development activities and investments through an active role as the principal representative in the ASEAN Taxonomy Board to voice out the importance of support for gradual energy transition and ensures, at the same time, that social and economic developments are not sidelined.

### Handling Financial Institutions under Special Mention

1. Regularly coordinating with other institutions and law enforcement agencies to build a credible criminal justice system. OJK investigators completed a total of 101 cases between 2014 and the first quarter of 2023:
   - 79 cases in the banking sector
   - 5 cases in the capital market sector
   - 17 cases in the non-bank sector
2. OJK imposed a sanction of canceling the registration of Public Accountants (AP) and Public Accounting Firm (KAP) that were implicated in the case of PT WAL.
3. OJK imposed administrative sanctions, restrictions of business companies, and suspension of business activities to some companies.

### Strengthening OJK’s Governance

1. Encouraging stronger integrity of OJK personnel and increasing the commitment of the leaders in OJK Work Units to make sure that the code of ethics is implemented along with the application of Know Your Employee (KYE).
2. Strengthening the Quality Assurance Quality Control (QAQC) mechanism and advancing the effectiveness of internal control.
3. Ensuring that the transformation process continues and encouraging that integrated governance, risk, and compliance (GRC) is established.
4. Proactively collaborating with professional associations in the governance aspect to strengthen the governance of the financial services industry.
5. Carrying out internal transformation both in terms of business processes and governance as an effort to improve public service and supervision in the financial services sector.

### Financial Literacy, Inclusion, and Consumer Protection

1. Encouraging support from the financial services industry to strengthen the Alternative Dispute Resolution Agency (LAPS).
2. Issuing OJK Regulation (POJK) No. 3 of 2023 on Financial Inclusion and Literacy Enhancement in the Financial Services Sector for Consumers and the Public to increase financial inclusion and literacy.
OJK REGULATION NUMBER 03/2023 CONCERNING FINANCIAL INCLUSION AND LITERACY ENHANCEMENT IN THE FINANCIAL SERVICES SECTOR FOR CONSUMERS AND THE PUBLIC

Background
This regulation was enacted to strengthen the commitment, awareness, and responsibility of financial services providers (PUJK) to improve financial literacy and inclusion of consumers and the public. The regulation was also enacted to amend OJK Regulation 76/2016 as well as support the dynamic and rapid development of information technology and the government’s target of achieving a financial inclusion index of 90% in 2024.

Financial Literacy

- Financial services providers (PUJK) must conduct activities to enhance the financial literacy of consumers and/or the public through an annual program. These activities must be recorded and conducted at least once every semester.
- PUJK must have a written guideline on activities to improve financial literacy.
- Activities to increase financial literacy include:
  - Financial Education
  - Developing infrastructure to support financial literacy
  - PUJK is allowed to cooperate with other parties to perform activities to enhance financial literacy.
  - When conducting a Financial Education program, PUJK must distribute materials, which cover at least:
    - Characteristics of the financial services sector
    - Characteristics of products services, including digital products/services
    - Financial management
    - Taxation related to products and/or services
  - Financial Education can be delivered through socialization activities, workshops, mentoring, community training, outreach programs, and/or games.
  - Activities to develop infrastructure to support financial literacy include:
    1. The development of infrastructure and media to access Financial Education materials;
    2. Providing Financial Education materials; and/or
    3. Providing human resources training.
  - PUJK must not charge fees to consumers and/or the public in conducting activities to improve Financial Literacy.

Financial Inclusion

- PUJK must conduct activities to increase financial inclusion for consumers and/or the public as an annual program. These activities must be recorded and conducted at least once every semester.
- Activities to increase financial inclusion can be done in an in-person or digital method, which include:
  - Expansion of access to institutions, products, and/or services to targeted consumers by providing infrastructure
  - Provision of products and/or services, including by creating new or enhancing products and/or services according to the public’s needs and capability
  - A sustainable access to institutions, products, and/or services to be used by consumers and the public
- PUJK must have a written guideline on activities to improve financial inclusion.

Infrastructure

- PUJK must have a function or unit to implement the provisions regarding financial literacy and inclusion.
- The Board of Directors is responsible for the implementation of compliance with this regulation and PUJK must have a reporting mechanism to the Board of Directors regarding compliance with the provisions of this regulation.

Miscellaneous Provisions

- OJK can request information and/or data regarding activities to improve financial literacy and inclusion from PUJK.
- PUJK may request for an exemption from the obligation to conduct activities to enhance financial literacy and education under the criteria:
  1. There are risks that impact the sustainability and ability of the PUJK to fulfill their obligations; and
  2. If the PUJK has experienced losses for 2 (two) consecutive years. This exemption is applicable for 1 (one) year. PUJK can apply for an extended period of the exemption and OJK can accept or reject the request.
- This regulation is exempted for:
  1. Microfinance Institutions
  2. Infrastructure Financing Companies
  3. Reinsurance Companies
  4. Employer Pension Funds

OJK sets strategies and/or programs to increase financial literacy and inclusion, and PUJK plays an active role in implementing such strategies/programs.

Report

- PUJK must prepare and submit reports about financial literacy and inclusion to OJK. These reports are part of the business plans and the realization report of such business plans.
- PUJK may publicize the activities conducted to increase financial literacy and inclusion in the annual report.

Strategy and Program by OJK

OJK sets strategies and/or programs to increase financial literacy and inclusion, and PUJK plays an active role in implementing such strategies/programs.
**ACT NO. 4 YEAR 2023 CONCERNING THE DEVELOPING AND STRENGTHENING OF THE FINANCIAL SECTOR**

**Background**

- Short-term financing is still dominated by Banks
- Small non-bank asset portion should be enlarged to finance development
- Limited financial instruments – huge potential for market deepening
- Digital assets: high risk and complex financial instruments
- Weak governance and law enforcement in the financial sector

**FUNDAMENTAL ISSUES**

**EXTERNAL CHALLENGES**

- Technology disruptions
- New financial risks from climate change and current geopolitical situation

**Financial Sector Reform**

**OBJECTIVES**, among others:

1. Optimizing financial intermediation and financing portfolio for productive sectors;
2. Improving financial access, inclusion and literacy, and consumer protection;
3. Expanding long-term financing resources;
4. Enhancing competitiveness and efficiency of the financial sector;
5. Strengthening financial system stability;
6. Developing the financial sector’s ecosystem;
7. Strengthening authorities and responsibilities of financial regulators; and
8. Increasing people’s competitiveness.

**Substances**


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SOME HIGHLIGHTS OF THE ACT NO. 4 YEAR 2023

Banking Sector

Accelerating banking consolidation

- Conventional commercial banks (BUK) owning Islamic business units (UUS) must conduct spin-off after fulfilling requirements set by OJK.
- Provisions on spin-off, consolidation, and sanctions will be regulated under a POJK, after being consulted with the Parliament.

Strengthening the role of rural banks in supporting regional economy

- Commercial banks can operate with rural banks to disburse loans/financing for SME players.
- Provisions on such cooperation will be regulated under a POJK.

Strengthening law enforcement in the banking sector

There are new provisions on:
1. criminal acts of corporations/business entities in the form of legal or illegal entities or other entities (including principal and additional crimes)
2. banking crimes committed by parties other than Members of the Board of Commissioners, Directors or Bank employees, including fraudsters

Strengthening provisions on digital banks and the use of technology

- Commercial banks can operate as digital banks. Provisions on digital banks will be regulated under a POJK, after being consulted with the Parliament.
- Commercial banks, rural banks, and Islamic business units can use IT in their operations.

Expanding Islamic banking’s business activities to support the national economy

Islamic banks and Islamic business units can manage wakaf.

Law enforcement (Restorative Justice)

- OJK will stop an investigation process if the agreement has been fully achieved, including the payment of compensation.
- Compensation becomes the right of the aggrieved party and does not constitute OJK’s revenues.
**SOME HIGHLIGHTS OF THE ACT NO. 4 YEAR 2023**

### Capital Market

**Expansion of investment portfolio other than mutual funds and alternative problem solving of mutual funds problems other than cash settlement**

- Purchase of mutual fund participation units by other mutual funds (fund to fund)
- Investment portfolio expansion other than mutual funds
- Alternative problem solving of mutual funds apart from cash settlement

**Strengthening securities crowdfunding as an alternative source of funding**

OJK regulates the collection of public funds through securities offerings using the securities crowdfunding system.

**Supporting the implementation of carbon exchange trading in the capital market**

OJK and the Carbon Exchange are given the authority to develop products and activities related to carbon trading, including carbon derivative instruments.

**Developing the capacity and competitiveness of Stock Exchange**

- A Stock Exchange can provide other services based on the requirements or the approval by OJK. This is to support market interoperability and increase the effectiveness and efficiency of transactions on financial markets.
- Demutualization: Besides Securities Companies, other parties can own shares of the Stock Exchange. This will be regulated under a Government Regulation after obtaining an approval from the Parliament.

**Improving the effectiveness of law enforcement and capital market integrity: Una Via principle and disgorgement fund**

An addition of provisions that allow part of the funds obtained from administrative sanctions in the form of fines accompanying a written order for Return of Unauthorized Profits (PKTS) can be used to increase the amount of funds in the disgorgement fund apart from funds from the PKTS.
SOME HIGHLIGHTS OF THE ACT NO. 4 YEAR 2023

Non-Bank Sector

Insurance

Expanding business scope of insurance companies

The business scope of insurance companies can be expanded based on the needs of the public. The business expansion includes:
1. Provision of benefits related to credit/financing activities (including credit insurance activities with a more general formulation); and
2. Suretyship.

Strengthening insurance companies’ business

- Obligations to implement good governance.
- Additional provisions for shareholders, Board of Directors, Board of Commissioners, employees and affiliated parties regarding the prohibition of making or causing false records.

Adding OJK’s authority to apply for Postponement of Debt Payment Obligations (PKPU) to insurance companies

An application for a declaration of bankruptcy or postponement of debt payment obligations (PKPU) to an insurance or reinsurance company can only be submitted by OJK.

Policy Guarantee

- The Policy Guarantee Program is carried out by the Indonesia Deposit Insurance Corporation (LPS).
- The Policy Guarantee Program comes into effect 5 years after the promulgation of this Act.
- Every insurance company is required to be a participant in the program, with the obligation to meet certain health level requirements.

Cooperative in the Financial Sector

- Cooperatives can carry out activities in the financial services sector, including collecting funds, disbursing loans, etc.
- Licensing, regulation, and supervision of cooperatives operating in the financial services sector are carried out by OJK.

Bullion Activities

- Financial institutions conducting bullion business activities must obtain a license from OJK.
- Further aspects regarding bullion activities will be regulated under a POJK.

Microfinance Institutions

- Strengthening mentoring and supervision
  - Mentoring and supervision of small-scale multi-finance institutions are carried out by regional governments.
  - Mentoring and supervision of medium and large scale multi-finance institutions are carried out by OJK.

Pension Funds

Improving Old Age Protection for Workers

- Pension Funds can provide other benefits in addition to the pension program.
- Implementation of the Pension Programs and other benefits can be given tax incentives.

Improving confidence of the public

Certain investment activities must be carried out using the fair market as evidenced by the results of an independent assessment.
## Financial Literacy and Inclusion and Consumer Protection

### Improving Financial Literacy and Inclusion
- Coordination between the Government, BI and OJK to improve Financial Literacy and Financial Inclusion as well as to formulate strategies and evaluate the implementation of sustainable Financial Literacy and Financial Inclusion strategies.
- Financial services providers carry out activities to increase Financial Literacy and Financial Inclusion for consumers and the community.
- Formation of a national committee to coordinate the improvement of Financial Literacy and Financial Inclusion.

### Principles of consumer protection, regulation and market conduct supervision
- Financial services providers apply the principles of Consumer Protection: (a) adequate education; (b) product and/or service information disclosure and transparency; (c) fair treatment and responsible business conduct; (d) protection of assets, privacy and consumer data; (e) effective and efficient complaint handling and dispute resolution; (f) compliance enforcement; and (g) fair competition.
- Affirming the authority of the financial sector authorities in regulating and supervising market conduct in the context of consumer and public protection.

### Strengthening the authority of financial sector authorities in giving orders or requiring financial services providers to take certain actions
- In the context of Consumer Protection, the financial sector authority has the authority to issue orders or require financial services providers to take certain actions.
- Provisions regarding the exercise of this authority are regulated by regulations of the financial sector authority.

### Improving consumer data protection
- Financial services providers maintain the security of consumer information.
- Financial services providers can exchange Consumer data and/or information with other parties and adhere to the provisions of laws and regulations regarding the protection of personal data and other laws and regulations stipulated by the financial sector authorities.

### Strengthening efforts to resolve disputes and establish LAPS SK
- Financial services providers own and implement a consumer complaint handling mechanism.
- The P2SK Law became the legal basis for the establishment of an Alternative Financial Sector Dispute Settlement Institution (LAPS SK) as an institution that settles disputes at PUSK through outside the court.

### Strengthening the prohibition of carrying out financial business activities without a permit
- Prohibiting everyone from carrying out financial business activities other than those regulated in statutory provisions and based on statutory regulations is required to have a permit from the financial sector authority.
Some Highlights of the Act No. 4 Year 2023

OJK’s Institutional Aspects

Reaffirming OJK’s status as an independent state institution

Strengthening the Board of Commissioners

OJK Supervision Body
An OJK Supervision Body will be established to increase the transparency, accountability, and credibility of OJK in performing its functions.

Addition of OJK duties and authorities, among others:
1. Financial derivate and carbon exchange;
2. Bullion business activities;
3. Cooperative in the financial sector;
4. Affirming market conduct supervision; and
5. Financial sector technology innovation

Other Aspects

Financial Conglomerates

- OJK determines 1 (one) significant financial institution that is in 1 (one) group due to ownership and/or control linkages as a Financial Conglomerate.
- OJK has the authority to request data and information including conducting examinations of related parties in the Financial Conglomerate and/or other parties related to the Financial Conglomerate.

Financial Sector Technology Innovation (ITSK)

Scope
- ITSK is defined as a technology-based innovation that has an impact on products, activities, services and business models in the digital financial ecosystem.
- ITSK includes: (a) payment systems, (b) settlement of securities transactions, (c) capital raising, (d) investment management, (e) risk management, (f) funds raising/distribution, (g) market support, (h) activities related to financial assets (including crypto assets), and (i) other digital financial services activities.

Legal entity
- ITSK Operators are in the form of a limited liability company (PT) or other legal entities in accordance with laws and regulations.
- ITSK Operators are required to comply with licensing requirements regulated by BI or OJK in accordance with their respective authorities.

Strengthening regulatory coordination and supervision for market efficiency
- OJK and BI can coordinate in terms of regulation, supervision and operation of ITSK.
- In the context of regulation, supervision, and operation of ITSK, OJK and BI can coordinate with other ministries, institutions, and parties.

Strengthening the role of associations to support oversight by authorities
- ITSK association conducts mentoring and monitoring of each ITSK Operator registered as an association member.
- Arrangements related to coordination between OJK and BI and associations are regulated by OJK and BI in accordance with their respective authorities.

Sustainable Finance

Strengthening the support of the Government and financial sector authorities in developing Sustainable Finance

- The Ministry of Finance, OJK and BI carry out: (a) coordination in preparing and establishing strategies, policies and programs for Sustainable Finance; (b) optimizing support for fiscal, microprudential, monetary, payment system and macroprudential policies; (c) development of databases and supporting infrastructure for the implementation of Sustainable Finance; and (d) coordination in developing a sustainable taxonomy.
- The Ministry of Finance, OJK and BI form a Sustainable Finance committee, with the Minister of Finance as the coordinator.
OJK, through the International Department, is actively engaged in numerous bilateral discussions and international forums discussing reforms in the financial services sector, among others.

In synergy with relevant ministries and institutions, OJK consistently disseminates information to maintain a positive perception of the Indonesian economy and the financial services sector. In addition, OJK also performs active communication regarding Technical Assistance programs.

During the first quarter of 2023, OJK held meetings and events to support Indonesia’s Chairmanship in ASEAN as well as prepared for the Financial Sector Assessment Program (FSAP) 2023/2024.
**INVESTOR RELATIONS UNIT**

As part of the national Investor Relations Unit (IRU), IRU OJK closely coordinates and communicates with relevant government bodies and stakeholders to maintain investors' confidence in Indonesia’s economy and the financial services sector, through:

- **Facilitating meetings with credit rating agencies and foreign investors/stakeholders**

- **Global Rating Agency**
  1. **Moody’s Investors Service**
     OJK Chairman led OJK delegates during a meeting with representatives from Moody’s as part of Indonesia’s sovereign credit annual assessment. The topics discussed were:
     - Financial Sector’s Performance
     - Banking Credit Growth
     - Covid-19 Restructured Credit Trend and Policy
     - Digital Banks and Cyber Risks
     - P2SK Law Implementation

- **Other Foreign Stakeholders**
  2. **American Chamber of Commerce (AmCham) in Indonesia**
     A meeting was held between OJK Chairman and AmCham Indonesia to discuss several issues, such as updates on the financial services sector, reforms in the insurance and reinsurance industry, as well as efforts to enhance financial literacy.Lending industry
     OJK Vice Chairman met with representatives from GFANZ to discuss issues related to energy transition in Indonesia as well as partnership to accelerate the transition.
  4. **US Treasury Attaché**
     The topics discussed were Indonesia’s macroeconomic condition and outlook of the financial services sector in 2023.
     In addition, OJK also received meeting requests from Sands Capital and several securities companies to exchange views on digital transformation in the financial sector, OJK key policies, as well as the implementation of the P2SK Law.

- **Providing the latest information on the performance of financial institutions and OJK policies/regulations**

- **Meetings**

- **Information Dissemination**

  - **Republic of Indonesia Presentation Book**
    IRU OJK contributed to drafting the Republic of Indonesia Presentation Book, published monthly by the national IRU to provide information on the development of Indonesia’s economy.

  - **IRU Newsletter**
    Email blast about OJK’s recent policies/regulations and critical issues in the financial sector to around 75 institutions/organizations.

  - **OJK International Information Hub (OJK IIH)**
    An information hub for foreign investors/stakeholders to get updated information on the financial services sector’s data, OJK policies, summaries of some OJK Regulations, publications, and etc.
    OJK IIH can be accessed through https://ojk.go.id/iru

- **Non-Deal Roadshow in Singapore**

  - OJK took the initiative to meet with equity, fixed income, and private equity investors to provide the latest information about the financial services sector, OJK’s future policy direction and reforms, as well as the implementation of the PPSK Act.
  - As part of the roadshow, OJK Vice Chairman also met with the Monetary Authority of Singapore to strengthen the existing and future cooperation of both regulators.
  - During another meeting, credit rating agencies expressed their optimism about Indonesia’s economic recovery and highlighted several issues related to the insurance industry, consumer protection, energy transition, and illegal financial activities in Indonesia.
## Bilateral and Regional Affairs

### International Trade Agreement

#### Regional

1. **ASEAN-Canada Free Trade Agreement (ACFTA)**
   
   Together with relevant ministries/institutions, OJK has been preparing for the third round of ACFTA negotiation in May 2023.
   
   For the negotiation, OJK participated in several working groups such as Working-Group Trade in Services/Cross Border Trade In Services, as well as the second Meeting of the ACFTA Sub-Working Group on Financial Services (SWG-Fin) in February 2023.

#### Bilateral

   
   Between January and March 2023, OJK together with relevant ministries/institutions participated in preparing and attending the 13th round of IEU-CEPA negotiation.
   
   OJK participated in the Working Group on Investment and Working Group on Trade in Services negotiation and also attended the Digital Trade/E-Commerce intercession meeting.

2. **Indonesia-Canada Comprehensive Economic Partnership Agreement (ICA-CEPA)**
   
   OJK carried out various internal and external coordination to prepare positions and participated in the fourth round of ICAEP A negotiation in February 2023.
   
   A Comprehensive Economic Partnership Agreement or CEPA is related to tariff reduction, market access, capacity building and trade facilitation, as well as investment. The objectives of each regulation are to eliminate tariffs and deal with non-tariff barriers, maintain market access and ensure conducive conditions for service product providers, as well as protect and encourage investment.

### Others

1. **Indo-Pacific Economic Framework for Prosperity (IPEF)**
   
   OJK is involved in Pillar I (Trade) negotiation, particularly in relation to several clusters relating to the financial services sector such as the Digital Economy and Services Domestic Regulation (SDR), as well as in Pillar IV (Fair Economy).

2. **Completion of Anti-Subsidy of Fatty Acid Verification from EU Authority**
   
   OJK contributed to the preparation of written responses to fatty acids anti-subsidy investigations, which were carried out by the EU Authority (European Commission).
   
   On March 27th, 2023, the Directorate General of Foreign Trade of the Ministry of Trade of the Republic of Indonesia informed related ministries and institutions that EU Authority stopped the anti-subsidy investigation.

### International Institutional Cooperation

#### MoU Implementation

1. **High-Level Bilateral Meeting between OJK Chairman, Financial Services Commission Korea (FSC) Chairman, and Financial Supervisory Services Korea (FSS) Governor**
   
   To develop a closer partnership between the Republic of Korea and Indonesia through enhanced financial cooperation, OJK Chairman had bilateral meetings with the FSC Chairman and the FSS Governor in Seoul on 20-21 February 2023.

2. **Courtesy Visit of Japan Financial Services Agency (JFSA)**
   
   As the inception of a cooperation program in 2023, the JFSA paid a courtesy visit to OJK to discuss ways of promoting supervision in the financial sector of both Japan and Indonesia through capacity-building programs for employees of both authorities.

### Others

1. **Study Visit of Bank of Uganda**
   
   The purpose of the visit was to exchange OJK and Bank of Uganda’s best practices concerning the following:
   
   - SupTech & Regtech in the financial sector,
   - International cooperation and arrangement,
   - The development of data collection, synthesis, analysis, and reporting in the financial sector.
PROJECTS UNDERTAKEN BY INTERNATIONAL DEPARTMENT

ASEAN CHAIRMANSHIP 2023

1. Side Events of ASEAN Chairmanship 2023
On 29th-30th March 2023, OJK and the Ministry of Finance of the Republic of Indonesia held 2 (two) ASEAN Finance Ministers and Central Bank Governors’ Meeting (AFMGM) side events in Bali, which were the High Level Dialogue on Promoting Digital Financial Inclusion and Literacy for MSMEs (international seminar and workshop) as well as the Seminar on Financing Transition in ASEAN.

High-Level Dialogue on Promoting Digital Financial Inclusion and Literacy for MSMEs
During her closing remarks, OJK Chief Executive of Market Conduct Supervision, Education, and Consumer Protection conveyed the institution’s continuous support to build a healthy ecosystem for digital financial innovation as well as simplify and provide financing alternatives for MSMEs by digitalizing various financial activities. OJK also presented as a speaker at the High-Level Dialogue on the Seminar on Financing Transition in ASEAN.

2. OJK as the Chair of ASEAN Capital Market Forum (ACMF) 2023
Indonesia, represented by the OJK, is the Chair of ACMF in 2023. There are 2 (two) chair meetings and 2 (two) deputies meetings, in addition to working group meetings.

OJK held ACMF Deputies Meeting in Jakarta on February 14 and ACMF Chair Meeting in Yogyakarta on March 20. The next meeting will be held around September or October 2023.

3. OJK as Co-Chairs of Working Committee on ASEAN Banking Integration Framework (WC-ABIF) 2022-2024
Indonesia (OJK and Bank Indonesia) and Vietnam (State Bank of Vietnam) are co-chairs of the WC-ABIF for the 2022-2024 period.

OJK held and chaired the 13th WC-ABIF meeting in Bali on February 9, 2023.

Seminar on Financing Transition in ASEAN
During the press conference, OJK Chairman conveyed that OJK is committed to encouraging the implementation of the renewable energy transition in ASEAN, in particular the phase-out of coal-fired power plants and simultaneously ensuring that ASEAN’s social and economic growth is taken into account.
INTERNATIONAL COOPERATION

OJK is actively engaged in several international fora and standard-setting bodies to support the global financial sector reform. Cooperation has been established with international organizations through Technical Assistance to escalate the effective implementation of OJK’s programs and initiatives.

Global Financial Sector Reform

Financial Stability Board

FSB Standing Committee on Supervisory and Regulatory Cooperation (SRC) Virtual Meeting on 17th March 2023, discussing the following agenda:
1. Updates on Silicon Valley Bank
2. Climate-related financial risks
3. Cyber-incident reporting
4. Enhancing the resilience of non-bank financial intermediation – Open ended funds
5. Finalizing the crypto-asset and stablecoin recommendations and scope for DeFi work

International Monetary Fund

2023 Article IV Consultation, alongside Bank Indonesia.
Under Article IV of its Articles of Agreement, the IMF has the mandate to exercise surveillance over the economic, financial, and exchange rate policies of its members.
During the 2023 Article IV, IMF focused on the outlook of financial reforms and the implementation of the PPSK Law, among others.

Islamic Financial Services Board

1. Survey - Macroprudential Tools in Islamic Banking
2. Implementation Project Officer Secondment to the IFSB
3. Data Publication on the Prudential and Statistical Islamic Financial Indicators (PSIFIs)

Cooperation in Technical Assistance

In the first quarter of 2023, there were several Technical Assistance (TA) programs in accordance with 6 (six) OJK TA’s area priorities with the following details:

1. Indonesia Financial Sector Reform Development Financing Loan (DPL-3). As one of the implementing agencies of the World Bank Development Policy Loan (WB DPL), OJK received assistance in areas such as market conduct.
2. TA on Capital Market
3. PROSPERA Assistance for Project Management Office (PMO). PROSPERA opened the path to holding sharing knowledge session to further support OJK’s reformation effort in simplifying the current OJK’s business process.
4. TA on Consumer Education and Protection

Highlights

As of 28th March 2023, the World Bank approved the disbursement of the Third Financial Sector Development Policy Loan (DPL).
As a G20 member and a systemically important financial sector, Indonesia must undergo the Financial Sector Assessment Program (also known as the FSAP).

### What is FSAP?

- The FSAP is a joint program of the IMF and World Bank launched in 1999 in the wake of the Asian financial crisis.
- The FSAP provides a comprehensive framework through which assessors and authorities in participating countries can identify financial system vulnerabilities and develop appropriate policy responses.

### What about Indonesia?

- In the FSAP 2023/2024, Bank Indonesia and OJK act as Co-Chair, supported by the Ministry of Finance and Indonesia Deposit Insurance Corporation as members. In addition to Indonesian authorities, assessors will also discuss with industry players and other relevant stakeholders on issues related to the financial sector.

### Timeline*

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<td><strong>Scoping Mission</strong>&lt;br&gt;Assessors from the World Bank and IMF discuss with Indonesian authorities regarding the coverage and depth of assessment areas of the FSAP.</td>
<td><strong>Main Mission</strong>&lt;br&gt;Assessors from the World Bank and IMF conduct the assessment on the agreed areas.</td>
<td><strong>Article IV Mission</strong>&lt;br&gt;Assessors from the World Bank and IMF keep an update on the FSAP progress, as well as other issues related to the financial sector.</td>
<td><strong>Publication</strong>&lt;br&gt;FSAP results publication in main and supporting documents (subject to authorities’ request).</td>
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*subject to future changes
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### LIST OF NEW REGULATIONS IN Q1-2023

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<td>OJK Regulation Number 02/2023</td>
<td>Amendment to OJK Regulation Number 10/POJK.04/2018 concerning Governance Implementation for Investment Managers</td>
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<td>3</td>
<td>OJK Regulation Number 03/2023</td>
<td>Improving Financial Literacy and Inclusion in the Financial Services Sector for Consumers and the Public</td>
<td>28 February 2023</td>
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<td>4</td>
<td>OJK Regulation Number 04/2023</td>
<td>Second Amendment to OJK Regulation Number 23/POJK.04/2016 concerning Mutual Funds in the Form of Collective Investment Contracts</td>
<td>31 March 2023</td>
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# LIST OF NEW CIRCULAR LETTERS IN Q1-2023

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<td>Monthly Reports of Guarantee Companies, Sharia Guarantee Companies, and Sharia Business Units</td>
<td>06 January 2023</td>
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<td>3.</td>
<td>Circular Letter Number 03/SEOJK.03/2023</td>
<td>Monthly Reports of Shariah Rural Banks</td>
<td>12 January 2023</td>
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<td>5.</td>
<td>Circular Letter Number 05/SEOJK.05/2023</td>
<td>Minimum Capital Requirement of Indonesian Export Financing Institution</td>
<td>21 February 2023</td>
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<td>6.</td>
<td>Circular Letter Number 06/SEOJK.03/2023</td>
<td>Business Activities Conversion of Conventional Commercial Banks into Sharia Commercial Banks</td>
<td>21 February 2023</td>
</tr>
<tr>
<td>7.</td>
<td>Circular Letter Number 07/SEOJK.03/2023</td>
<td>Business Activities Conversion of Rural Banks into Sharia Rural Banks</td>
<td>21 February 2023</td>
</tr>
<tr>
<td>8.</td>
<td>Circular Letter Number 08/SEOJK.04/2022</td>
<td>Submission of Information by Issuers and Public Companies in the Context of Preparing the Islamic Securities List</td>
<td>02 March 2023</td>
</tr>
</tbody>
</table>
HIGHLIGHTS OF THE CAPITAL MARKET SECTOR

IHSG/JCI
(31 MAR’23)
6,805.28 ▼ 0.66% (YTD)
(30 DEC’22)
6,850.62 ▲ 4.09% (YTD)

ICBI
(31 MAR’23)
353.19 ▲ 2.44% (YTD)
(30 DEC’22)
344.78 ▲ 3.60% (YTD)

APPENDIX

CAPITAL INFLOW/OUTFLOW

<table>
<thead>
<tr>
<th>Type</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity (IDR T)</td>
<td>49.20</td>
<td>-47.81</td>
<td>37.97</td>
<td>60.58</td>
<td>6.62</td>
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<tr>
<td>Government Bond (IDR T)</td>
<td>168.61</td>
<td>-87.95</td>
<td>-82.57</td>
<td>-128.98</td>
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LOCAL INVESTOR DEVELOPMENT

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<th>Mar-23</th>
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<tbody>
<tr>
<td>No. of Capital Market Investor (Mn)</td>
<td>2.48</td>
<td>3.9</td>
<td>7.5</td>
<td>10.31</td>
<td>10.76</td>
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<tr>
<td>Growth (% yoy)</td>
<td>53</td>
<td>56.21</td>
<td>92.99</td>
<td>37.68</td>
<td>28.25</td>
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<tr>
<td>Local % of Equity Ownership</td>
<td>46.88</td>
<td>50.79</td>
<td>54.15</td>
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SECURITIES CROWD FUNDING (SCF)*

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<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Issuer</td>
<td>49</td>
<td>127</td>
<td>195</td>
<td>304</td>
<td>376</td>
</tr>
<tr>
<td>No. of Investors</td>
<td>5,063</td>
<td>51,414</td>
<td>93,777</td>
<td>127,810</td>
<td>145,908</td>
</tr>
<tr>
<td>Fundraising (IDR Bn)</td>
<td>64.14</td>
<td>184.89</td>
<td>413.18</td>
<td>640.57</td>
<td>817.68</td>
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</table>

PUBLIC OFFERING

<table>
<thead>
<tr>
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<th>2019 Nom (IDR T)</th>
<th>2020 Nom (IDR T)</th>
<th>2021 No. of Issuers</th>
<th>2022 Nom (IDR T)</th>
<th>2023** Nom (IDR T)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPO</td>
<td>14.7</td>
<td>6.1</td>
<td>52</td>
<td>61.66</td>
<td>22</td>
</tr>
<tr>
<td>Rights Issue</td>
<td>29.17</td>
<td>20.3</td>
<td>44</td>
<td>197.27</td>
<td>8</td>
</tr>
<tr>
<td>Corp Bonds /Sukuk</td>
<td>122.98</td>
<td>92.3</td>
<td>96</td>
<td>104.4</td>
<td>24</td>
</tr>
<tr>
<td>TOTAL</td>
<td>166.85</td>
<td>118.7</td>
<td>192</td>
<td>363.29</td>
<td>54</td>
</tr>
</tbody>
</table>

*Cumulative since 2018. There were 16 SCF Providers as of March 2023

*Data as of 31st March 2023

*Data as of 31st March 2023

PUBLIC OFFERING

<table>
<thead>
<tr>
<th>Type</th>
<th>2019 Nom (IDR T)</th>
<th>2020 Nom (IDR T)</th>
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<td>54</td>
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</table>

*Data as of 31st March 2023

APPENDIX

SECURITIES CROWD FUNDING (SCF)*

<table>
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<th></th>
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<td>118.7</td>
<td>192</td>
<td>363.29</td>
<td>54</td>
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</table>

*Data as of 31st March 2023
## HIGHLIGHTS OF THE BANKING SECTOR

### INTERMEDIATION

<table>
<thead>
<tr>
<th></th>
<th>Dec-19</th>
<th>Dec-20</th>
<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loan (IDR T)</strong></td>
<td>5,617</td>
<td>5,482</td>
<td>5,769</td>
<td>6,423</td>
<td>6,446</td>
</tr>
<tr>
<td>Mtm (%)</td>
<td>1.68</td>
<td>0.63</td>
<td>1.02</td>
<td>1.20</td>
<td>1.10</td>
</tr>
<tr>
<td>Yoy (%)</td>
<td>6.08</td>
<td>-2.41</td>
<td>5.24</td>
<td>11.35</td>
<td>9.93</td>
</tr>
<tr>
<td>Ytd (%)</td>
<td>8.3</td>
<td>-2.41</td>
<td>5.24</td>
<td>11.35</td>
<td>0.34</td>
</tr>
<tr>
<td><strong>Deposits (IDR T)</strong></td>
<td>5,999</td>
<td>6,665</td>
<td>7,479</td>
<td>8,153</td>
<td>8,006</td>
</tr>
<tr>
<td>Mtm (%)</td>
<td>0.85</td>
<td>0.46</td>
<td>2.03</td>
<td>2.25</td>
<td>0.21</td>
</tr>
<tr>
<td>Yoy (%)</td>
<td>6.54</td>
<td>11.11</td>
<td>12.21</td>
<td>9.01</td>
<td>7.00</td>
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<tr>
<td>Ytd (%)</td>
<td>6.54</td>
<td>11.11</td>
<td>12.21</td>
<td>9.01</td>
<td>-1.82</td>
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<tr>
<td><strong>LDR</strong></td>
<td>93.64</td>
<td>82.24</td>
<td>77.13</td>
<td>78.78</td>
<td>80.51</td>
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### RISK PROFILE

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<tr>
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<th>Dec-20</th>
<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
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</thead>
<tbody>
<tr>
<td><strong>Credit Risk</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross NPL (%)</td>
<td>2.53</td>
<td>3.06</td>
<td>3</td>
<td>2.44</td>
<td>2.49</td>
</tr>
<tr>
<td>Net NPL (%)</td>
<td>1.18</td>
<td>0.98</td>
<td>0.88</td>
<td>0.71</td>
<td>0.72</td>
</tr>
<tr>
<td>Loan at Risk (%)</td>
<td>9.93</td>
<td>23.38</td>
<td>19.48</td>
<td>14.05</td>
<td>13.94</td>
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<table>
<thead>
<tr>
<th></th>
<th>Dec-19</th>
<th>Dec-20</th>
<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Risk</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NOP (%)</td>
<td>1.63</td>
<td>1.58</td>
<td>1.23</td>
<td>1.23</td>
<td>1.44</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Dec-19</th>
<th>Dec-20</th>
<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity Risk</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquid Asset (IDR T)</td>
<td>1,251</td>
<td>2,111</td>
<td>2,627</td>
<td>2,543</td>
<td>2,314</td>
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<tr>
<td>LA/Deposits (%)</td>
<td>20.86</td>
<td>31.67</td>
<td>35.12</td>
<td>31.20</td>
<td>28.91</td>
</tr>
<tr>
<td>LA/NCD (%)</td>
<td>97.61</td>
<td>146.7</td>
<td>157.9</td>
<td>137.67</td>
<td>128.87</td>
</tr>
<tr>
<td>LCR (%)</td>
<td>209.16</td>
<td>267.91</td>
<td>257.79</td>
<td>242.58</td>
<td>244.28</td>
</tr>
<tr>
<td>NSFR (%)</td>
<td>128.65</td>
<td>140.57</td>
<td>142.50</td>
<td>140.42</td>
<td>137.36</td>
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### PROFITABILITY

<table>
<thead>
<tr>
<th></th>
<th>Dec-19</th>
<th>Dec-20</th>
<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NIM (%)</strong></td>
<td>4.8</td>
<td>4.32</td>
<td>4.51</td>
<td>4.71</td>
<td>4.77</td>
</tr>
<tr>
<td><strong>ROA (%)</strong></td>
<td>2.33</td>
<td>1.59</td>
<td>1.84</td>
<td>2.43</td>
<td>2.77</td>
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### CAPITAL

<table>
<thead>
<tr>
<th></th>
<th>Dec-19</th>
<th>Dec-20</th>
<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
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<tbody>
<tr>
<td><strong>CAR (%)</strong></td>
<td>23.31</td>
<td>23.81</td>
<td>25.67</td>
<td>25.63</td>
<td>24.69</td>
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# Highlights of the Non-Banking Sector

## Insurance

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<tr>
<th></th>
<th>Dec-19</th>
<th>Dec-20</th>
<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
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</thead>
<tbody>
<tr>
<td>Insurance Premium Income (IDR T)</td>
<td>281.2</td>
<td>293.29</td>
<td>308.11</td>
<td>311.48</td>
<td>78.5**</td>
</tr>
<tr>
<td>RBC Gen. Insurance (%)</td>
<td>345.3</td>
<td>343.47</td>
<td>327.3</td>
<td>326.99</td>
<td>315.79</td>
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<tr>
<td>RBC Life Insurance (%)</td>
<td>789.4</td>
<td>528.59</td>
<td>539.8</td>
<td>484.22</td>
<td>460.06</td>
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<tr>
<td>Investment Adequacy Ratio Gen. Insurance (%)</td>
<td>203.3</td>
<td>200.15</td>
<td>195.29</td>
<td>195.29</td>
<td>195.62</td>
</tr>
<tr>
<td>Investment Adequacy Ratio Life Insurance (%)</td>
<td>105.7</td>
<td>105.7</td>
<td>120.64</td>
<td>120.64</td>
<td>121.3</td>
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## Multi-Finance Company

<table>
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<tr>
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<th>Dec-19</th>
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<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing (IDR T)</td>
<td>452.2</td>
<td>369.76</td>
<td>364.23</td>
<td>415.8</td>
<td>435.5</td>
</tr>
<tr>
<td>Growth Yoy (%)</td>
<td>3.66</td>
<td>-18.23</td>
<td>-1.49</td>
<td>14.18</td>
<td>16.35</td>
</tr>
<tr>
<td>Gross NPF (%)</td>
<td>2.4</td>
<td>4.01</td>
<td>3.53</td>
<td>2.32</td>
<td>2.37</td>
</tr>
<tr>
<td>Gearing Ratio (x)</td>
<td>2.61</td>
<td>2.15</td>
<td>1.98</td>
<td>2.07</td>
<td>2.11</td>
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</table>

## Pension Fund

<table>
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<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Value (IDR T)</td>
<td>277.34</td>
<td>307.74</td>
<td>316.86</td>
<td>333.49</td>
<td>339.13</td>
</tr>
<tr>
<td>Asset Value (IDR T)</td>
<td>291.65</td>
<td>314.67</td>
<td>329.55</td>
<td>342.64</td>
<td>350.08</td>
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## Fintech P2P Lending

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<thead>
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<th>Dec-19</th>
<th>Dec-20</th>
<th>Dec-21</th>
<th>Dec-22</th>
<th>Mar-23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding Loan (IDR T)</td>
<td>13.16</td>
<td>15.32</td>
<td>29.88</td>
<td>51.12</td>
<td>51.02</td>
</tr>
<tr>
<td>Growth Yoy (%)</td>
<td>-41.95</td>
<td>16.43</td>
<td>95.05</td>
<td>71.1</td>
<td>36.45</td>
</tr>
<tr>
<td>P2P NPL (%)</td>
<td>3.65</td>
<td>4.78</td>
<td>2.29</td>
<td>2.78</td>
<td>2.81</td>
</tr>
</tbody>
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---

* Including General Insurance, Life Insurance and Reinsurance
** Accumulated yearly
*** Default rate for loan payment ≥ 90 days

Thresholds of RBC (120%) and Investment Adequacy Ratio (100%)
OTHER BANKING INDUSTRY INDICATORS

Total Deposits Growth

Credit Growth by KBMI

Credit Growth by Ownership

Source: OJK
## DEVELOPMENT OF FINTECH LENDING

### REGISTERED/ LICENSED COMPANIES

<table>
<thead>
<tr>
<th>Total:</th>
<th>Conventional:</th>
<th>Sharia:</th>
</tr>
</thead>
<tbody>
<tr>
<td>102</td>
<td>95</td>
<td>7</td>
</tr>
</tbody>
</table>

(As of March 2023)

### ACTIVE BORROWERS

- **25.53%** Java
- **74.47%** Outside Java

- **17,599,467** Entities as of March 2023

### Outstanding Loan

- **IDR 51.01 Trillion;**
  - (▲ 36% YoY)

### Success rate for ≤ 90 days loan payment (TKB90):

- **Mar-22:** (97.68%)
- **Mar-23:** (97.19%)

### LENDER ACCOUNT

- **Total Account Accumulation:**
  - **1,021,273** entities (Mar-23)
  - (▲ 18.62% YoY)

### BORROWER ACCOUNT

- **Total Account Accumulation:**
  - **108,890,010** entities (Mar-23)
  - (▲ 38.61% YoY)

### LENDING DISTRIBUTION

- **Total Loan Accumulation:**
  - **IDR 583 Trillion**
  - (Mar-23)
  - (▲ 18.62% YoY)

Source: OJK
## History of Indonesia Sovereign Credit Ratings

<table>
<thead>
<tr>
<th>STANDARD &amp; POOR'S</th>
<th>MOODY'S</th>
<th>FITCH</th>
<th>RATING AND INVESTMENT</th>
<th>JAPAN CREDIT RATING AGENCY</th>
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<tbody>
<tr>
<td>July 7, 1992</td>
<td>BBB-</td>
<td>Baa3</td>
<td>June 1, 1997</td>
<td>BBB-</td>
</tr>
<tr>
<td>April 18, 1995</td>
<td>BBB</td>
<td>Ba1</td>
<td>December 23, 1997</td>
<td>BB+</td>
</tr>
<tr>
<td>October 10, 1997</td>
<td>BBB-</td>
<td>B2</td>
<td>January 8, 1998</td>
<td>BBB-</td>
</tr>
<tr>
<td>December 31, 1997</td>
<td>BB+</td>
<td>B3</td>
<td>January 21, 1998</td>
<td>B+</td>
</tr>
<tr>
<td>January 9, 1998</td>
<td>BB</td>
<td>B2</td>
<td>March 16, 1998</td>
<td>B-</td>
</tr>
<tr>
<td>May 15, 1998</td>
<td>CCC+</td>
<td>Ba3*</td>
<td>January 27, 2003</td>
<td>BBB-</td>
</tr>
<tr>
<td>March 29, 1999</td>
<td>SD</td>
<td>Ba3***</td>
<td>February 14, 2008</td>
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<tr>
<td>March 30, 1999</td>
<td>CCC+</td>
<td>Ba2</td>
<td>January 21, 2009</td>
<td>BB+</td>
</tr>
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* rating affirmation
** outlook revised from positive to stable
*** outlook revised from stable to positive
**** outlook revised from stable to negative
***** outlook revised from negative to stable

Note: Foreign Currency Long Term Debt

Source: BI
## MACROECONOMIC INDICATORS (GDP)

### GDP Growth (YoY, %)

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### Indonesia GDP Growth by Sector (YoY, %)

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*Annual projection by World Bank
### OTHER MACROECONOMIC INDICATORS

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GLOSSARY

ACFTA: ASEAN-Canada Free Trade Agreement
ACMF: ASEAN Capital Market Forum
AMCHAM: American Chamber of Commerce
AP: Akuntan Publik (Public Accountants)
ASEAN: Association of Southeast Asian Nations
BAU: Business-As-Usual
BITDRR: Bank Indonesia-7 Days Reverse Repo Rate
BUK: Bank Umum Konvesional (Conventional Commercial Banks)
CAR: Capital Adequacy Ratio
CPO: Crude Palm Oil
Climate Neutrality: When the same amount of CO2 is released into the atmosphere as is removed by various means, leaving a zero balance
DHE SDA: Devisa Hasil Ekspor Sumber Daya Alam (Natural Resources Export Proceeds)
ETS: Emission Trading System
EU: European Union
FOLU: Forestry and Other Land-Use
FSB: Financial Stability Board
FX Reserves: Foreign currency reserves
GDP: Gross Domestic Product
GFANZ: Glasgow Financial Alliance for Net Zero
GHG: Greenhouse Gas
GRC: Governance, Risk, and Compliance
HQLA: High-Quality Liquid Asset
ICBI: Indonesia Composite Bond Index
IEU-CEPA: Indonesia-European Union Comprehensive Economic Partnership Agreement
IFSB: Islamic Financial Services Board
IHSG: Indeks Harga Saham Gabungan (Jakarta Composite Index)
IMF: International Monetary Fund
IPF: Indo-Pacific Economic Framework for Prosperity
IPO: Initial Public Offering
ITSK: Inovasi Teknologi Sektor Keuangan (Financial Sector Technology Innovation)
JCI: Jakarta Composite Index
JFSA: Japan Financial Services Agency
KAP: Kantor Akuntan Publik (Public Accounting Firm)
KBMI: Kelompok Bank berdasarkan Modal Inti (Bank Group based on Core Capital)
KYE: Know Your Employee
LAPS SJK: Lembaga Alternatif Penyelesaian Sengketa Sektor Jasa Keuangan (Alternative Financial Sector Dispute Settlement Institution)
LNG: Liquefied natural gas
LPEI: Lembaga Pembiayaan Ekspor Indonesia (Indonesian Export Financing Institution)
LTS-LLCR: Long-term Strategy on Low Carbon and Climate Resilience
LTV/FTV: Loan/Financing-to-Value
MTM: Month to month
NDC: Nationally Determined Contribution
NGO: Non-Governmental Organization
NIM: Net Interest Margin
NOP: Net Open Position
NPF: Non-performing financing
NPL: Non-performing loans
NZE: Net Zero Emission
OECD: Organization for Economic Cooperation and Development
P2PL: Peer-to-peer Lending
PKPU: Penundaan Kewajiban Pembayaran Utang (Postponement of Debt Payment Obligations)
PKTS: Pengembalian Keuntungan Tidak Sah (Return of Unauthorized Profits)
PMI Manufacturing: Purchasing Managers’ Index Manufacturing
POJK: Peraturan Otoritas Jasa Keuangan (OJK Regulation)
PRIME: Securities Information and Monitoring Portal for NBFI
PUJK: Pelaku Usaha Jasa Keuangan (Financial Services Providers)
QAQC: Quality Assurance Quality Control
RAN API: Rencana Adaptasi Perubahan Iklim (National Plan for Climate Change Adaptation)
RBC: Risk-based Capital
ROA: Return On Assets
RPJMN: Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan)
RUEN: Rencana Umum Energi Nasional (National Energy General Plan)
RUPTL: Rencana Usaha Penyediaan Tenaga Listrik (Electricity Supply Business Plan)
SCF: Securities Crowdfunding
SIDES: Sistem Informasi Daftar Efek Syariah (Sharia Securities Information System)
SME: Small Medium Enterprise
TA: Technical Assistance
UNFCCC: United Nations Framework Convention on Climate Change
UUS: Unit Usaha Syariah (Islamic Business Units)
VCM: Voluntary Carbon Market
WTI: West Texas Intermediate
YOY: Year on year
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