KSSK KOMITE STABILITAS SISTEM KEUANGAN

PRESS RELEASE

FINANCIAL SYSTEM STABILITY WAS MAINTAINED, SUPPORTED BY DOMESTIC ECONOMIC AND FINANCIAL SECTOR PERFORMANCES, WITH CONSTANT VIGILANCE AGAINST THE DYNAMICS OF GLOBAL RISKS

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1. **Financial System Stability in Q2-2023 was maintained amidst the dynamics in the global economy and financial markets.** This development was in line with the country's resilient domestic economy and financial system and was supported by strengthened coordination within the Financial System Stability Committee (KSSK). At the 3rd regular meeting of KSSK in 2023 on Friday (28/07), the Minister of Finance, the Governor of Bank Indonesia, the Chairman of the OJK Board of Commissioners, and the Chairman of the Board of Commissioners of the Indonesian Deposit Insurance Corporation (LPS) committed to continuously strengthen coordination and increase vigilance against the forthcoming developments of global risks, including their transmission to the domestic economy and financial sector.

2. **Global economic uncertainties remained high.** The IMF revised its global growth projection to 3.0% yoy in 2023, slightly better than the projection in April 2023 (2.8% yoy). The United States (US) and a number of advanced economies in Europe are predicted to achieve better growth compared to the previous projections. Meanwhile, China's economic growth is projected to remain the same, but the risk of restricted consumption and investment, particularly in the country's property sector, must be observed closely. Inflationary pressures in developed countries were relatively high due to stronger economies and tight labor markets. This was predicted to drive further increases in monetary policy interest rates in developed countries, including the Federal Funds Rate (FFR). These developments caused more selective capital flows to developing countries and hence increased the pressure on exchange rates in developing countries, including Indonesia. Therefore, it is necessary to strengthen policy responses to mitigate the global transmission risk.

3. **Indonesia's economic growth remained solid, supported by domestic demand.** The economic growth in Q2-2023 was expected to remain strong, supported by the increase in household consumption and the expansionary trend in manufacturing activities as shown by the Purchasing Managers' Index (PMI) of the manufacturing sector, which increased to 53.3 in July 2023 (June 2023: 52.5). An increase in household consumption was driven by a continued increase in mobility, better expectations of income, and controlled inflation, as well as the positive impact of the National Religious Holidays (HBKN) and the 13th salary payment to civil service personnel. These developments were followed by the growing Consumer Confidence Index and Retail Sales Index. Although construction investment was relatively restrained, non-construction investment remained expansive. This was in line with positive export performance and ongoing downstream (value-added processing). By the business sector, economic growth was primarily supported by the Manufacturing Industry, Wholesale and Retail Trade, and Information and Communication. By region, economic growth was primarily supported by strong growth in Kalimantan and Java as domestic demands were sustained. With such developments, economic growth in 2023 was expected to reach 5.0-5.3%.

4. **Inflation returned to the target range, faster than expected.** Consumer Price Index (CPI) inflation fell from 4.97% yoy in Q1-2023 to 3.52% yoy in Q2-2023, returning to within the target range of 3.0±1%. Core inflation continued to slow down to 2.58% yoy, influenced by stable exchange rates, falling global commodity prices, low follow-on effects of volatile food inflation, and controlled inflation expectations. Meanwhile, administered price inflation was down to 9.21% yoy as domestic energy prices were properly managed. The trend of moderated inflation continued into July 2023, with CPI inflation down to 3.08% yoy, core inflation down to 2.43% yoy, and administered price inflation down to 8.42% yoy. Various policies, including policies for price intervention and supply stabilization, the government's food assistance, measures to facilitate and monitor food distribution, and strengthening the National Movement for Food Inflation Control (GNPIP) in various regions, were able to manage the volatile food prices drop (deflate) by 0.03% yoy. Bringing back inflation within its target range was a positive outcome from the consistent implementation of the fiscal policy mix as a shock absorber and monetary policies, as well as a close synergy in controlling food inflation between Bank Indonesia and the Government (Central and Regional/Local) in the Central and Regional Inflation Control Teams (TPIP and TPIDs). With such developments, inflation was expected to remain under control within the range of 3.0±1% in the remainder of 2023 and within 2.5±1% in 2024.

5. **The Rupiah exchange rate was manageable, supporting economic stability.** As of 28 July 2023, the Rupiah exchange rate was stronger by 3.13% ptp on a year-to-date basis from the end of December 2022, stronger than the appreciation of the Philippines Peso (1.55%), Indian Rupee (0.57%), and Thailand Baht (0.28%). Going forward, as the global financial market uncertainties ease, the Rupiah exchange rate is expected to strengthen, supported by strong economic fundamental indicators, attractive returns on domestic financial assets, and positive outcomes from the implementation of Government Regulation (PP) 36/2023 on Export Proceeds from Natural Resources Operations, Management, and/or Processing Activities. Investors' perceptions of Indonesia's economic outlook have also improved, as reflected in Indonesia's upgraded sovereign credit rating outlook by the R&I rating agency, from stable to positive, with the rating level maintaining at BBB+ (2 notches above the lowest investment grade).

6. **The performance of the State Budget (APBN) in the first semester of 2023 remained solid.** Despite being moderated amidst normalized commodity prices, state revenue continued to grow positively. State expenditure also continued to expand, supported the country's development agenda, and maintained the stability of macroeconomic conditions. As of the end of June 2023, fiscal health was well maintained, as reflected in a primary balance surplus of IDR368.2 trillion and a fiscal budget surplus of IDR152.3 trillion, or equal to 0.71% GDP.

7. **State Revenue continued to grow positively by 5.4%, reaching IDR1,409.7 trillion or 57% of the target in the State Budget (APBN).** Tax revenue reached IDR1,105.6 trillion (54.7% of the target) or grew by 5.4% yoy, supported primarily by Corporate Income Tax (26.2% yoy) and Domestic VAT (23.5% yoy). By sector, such performance was supported by the manufacturing industry, trade, mining, financial services, and transportation warehousing sectors. This performance was mainly influenced by a stronger recovery of economic activities and the positive impact of tax reform amidst a moderation in commodity prices.

8. **Non-tax Revenue (PNBP) reached IDR302.1 trillion (68.5% of the target) or grew 5.5% yoy.** Such performance was influenced, among others, by non-tax revenue from

non-oil and gas natural resources, which grew by 94.7% yoy amidst moderation in commodity prices, and non-tax revenue from Restricted State Assets (KND) which grew by 19.4% yoy. The growth in the former was influenced by the rates of production contributions/royalties, while the latter was mainly contributed by dividend payments from State-Owned Enterprises (BUMN), particularly from the banking sector.

9. **State expenditure in semester I 2023 reached IDR1,255.7 trillion (41.0% of the budget ceiling).** This realized amount was used for spending that provided direct benefits for the people, among others, delivery of the Conditional Cash Transfer Program (PKH), distribution of basic commodities (sembako), subsidized contribution for members of the National Health Insurance (PBI JKN), Assistance Program for Job-seekers (Kartu Prakerja), Smart-Indonesia Program for Primary and Secondary Education (PIP), Smart-Indonesia Program for Tertiary Education (KIP Kuliah), School Operational Fund (BOS), assistance program for seeds, subsidies, and energy compensation. In addition, government spending related to other national priority agendas will continue to be distributed, particularly in stunting reduction, eradication of extreme poverty, support for General Election preparation, development of the new capital city (IKN), and accelerating the completion of priority infrastructures. Central Government spending reached IDR891.6 trillion (39.7% of the budget ceiling) or grew by 1.6% yoy. Meanwhile, fiscal transfers to the regions reached IDR364.1 trillion or 44.7% of the budget ceiling. Despite having limited growth, state expenditure played an important role in boosting national economic performance by maintaining people’s purchasing power through several measures such as price controls and various social assistance programs that provide direct benefits for the people while at the same time boosting aggregate demand.

10. **Budget financing reached IDR135.1 trillion (22.6%), continuing to be more prudent and efficient while staying productive.** Debt financing reached IDR166.5 trillion or down by 15.4% yoy. Debt procurement was exercised carefully by taking into account cash conditions and financial market volatility. Net investment financing reached IDR33.4 trillion (19.0%), with proceeds allocated to support strategic projects, improve the quality of human resources, and revitalize State-Owned Enterprises (BUMN). As of the end of Semester I of 2023, the debt-to-GDP ratio had reached 37.93%. The Government Securities (SBN) market performance as of July 2023 continued to show an uptrend, with the yield on the 10-year benchmark series of SBN decreasing by 66 bps on a year-to-date basis, to 6,28% as of 28 July 2023. This uptrend was supported, among others, by a controlled domestic inflation rate and the policy to reduce the target issuance of Government Securities, as the State Budget demonstrated strong performance. Further, solid economic performance and favorable conditions of the domestic financial market were driving foreign investors to enter the SBN market, with an inflow of IDR91.86 trillion ytd amidst the volatile condition of the global financial markets.

11. **Amidst the trend of global economic slowdown and uncertainties in geopolitical dynamics, the 2023 State Budget (APBN) is striving to support economic recovery and national priority agendas.** The government continues to optimize the role of the State Budget (APBN) as a shock absorber to protect people’s welfare. The State Budget’s role to reinforce economic fundamentals and support and promote economic transformation was also strengthened and made effective. By the end of 2023, the Government will continue working on the development activities as planned and have them completed, e.g., infrastructure, general elections, and social

assistance. Energy subsidies will continue to be distributed to maintain people's purchasing power. Therefore, the state budget will continue to be managed responsively and adaptively by putting forward the principle of prudence. To support domestic foreign exchange liquidity, the Government provides fiscal incentive facilities to attract more interest in investing export proceeds from natural resources (DHE SDA) in Indonesia.

12. **In the medium to long term, the Government will optimize the role of fiscal policies to support increased productivity and green, inclusive economic growth.** This role is carried out, among others, by improving the quality of human resources, accelerating infrastructure development, transitioning towards low-emission energy sources, and improving the quality of bureaucracy and regulations to create a conducive investment climate as well as strong business competitiveness.

13. **The Bank of Indonesia (BI) continues to strengthen its policy mix response to maintain stability and promote economic growth.** Monetary policies will remain focused on maintaining stability (pro-stability), while macroprudential policies, payment systems of digitalization, deepening of the financial market, and an inclusive green financial-economic program will continue to be directed at promoting growth (pro-growth).

14. **In line with the policy mix direction, BI maintained the BI7DRR at 5.75% throughout Q2-2023 and in July 2023.** The decision was consistent with the monetary policy stance to ensure that inflation remained under control within the range of 3.0±1% in the remaining years of 2023 and 2.5±1% in 2024. The BI7DRR interest rate policy, which remained unchanged, was **supported by a stronger policy of stabilizing the Rupiah exchange rate** to control imported inflation and mitigate the transmission impact of global financial market uncertainties, through: (i) intervention in the foreign exchange market with spot transactions, Domestic Non-Deliverable Forward (DNDF), and buying/selling of Government Securities (SBN) in the secondary market; (ii) twist operation through the sale of SBN in the secondary market for short tenors to make the SBN yields more attractive for foreign portfolio investors; and (iii) optimizing the Foreign Exchange Term Deposit (TD) for export proceeds and increasing the frequency and tenor of short-term Foreign Exchange Term Deposit auctions with competitive interest rates.

15. **BI issued a regulation concerning the establishment and provision of the instruments for placing the export proceeds from natural resources (DHE SDA) and assumed the regulatory and supervisory role on this matter, as a follow-up action on the implementation of the Government Regulation (PP) on DHE SDA.** In this case, the instruments for placing the export proceeds and the instruments for using the placed funds shall refer to 3 (three) principles, i.e., (i) consistency with the regulatory provisions in the relevant Government Regulation (PP DHE SDA); (ii) the export proceeds are used for domestic needs; and (iii) other allowable instruments will be further regulated in due course in adherence to principles (i) and (ii) and in accordance with economic and financial market developments.

16. **BI strengthened macroprudential policy stimulus to encourage lending/financing and to maintain financial system stability.** BI continued its loosening macroprudential policies, among others:

a) Maintaining a Countercyclical Capital Buffer (CCyB) ratio of 0%; Macroprudential Intermediation Ratio (MIR) within the range of 84-94%; and Macroprudential Liquidity Buffer (MPLB) ratio of 6% with repo flexibility of 6%, and Sharia MPLB of 4.5% with repo flexibility of 4.5%;
b) Maintaining the Loan to Value/Financing to Value (LTV/FTV) ratio of Property Loan/Financing at a maximum of 100% for all types of property, for banks that meet the NPL/NPF criteria; and
c) Maintaining the Motorized Vehicle Loan/Financing Down Payment to at least 0% for all types of new motorized vehicles.

To boost the momentum for economic recovery, BI strengthened its macroprudential liquidity incentive policy to increase loan/financing with a focus on sectors that have higher leverage for economic growth and job creation, particularly in the downstream (value-added processing) of coal and minerals and non-coal and minerals (agriculture, livestock farming, and fisheries), housing (including public housing), tourism, inclusive financing (MSMEs, People's Business Credit/KUR, and Ultra-Micro/UMi financing) and green financing. The macroprudential liquidity incentive was also increased, from a maximum of 280 bps to a maximum of 400 bps, consisting of:

a) Incentives for disbursing loan/financing to sectors that are designated by BI for a maximum of 2%, from previously 1.5%;
b) Incentives for banks that disburse inclusive loan/financing, from 1% to 1.5%, where 1% incentive would apply for MSMEs/KUR and 0.5% for UMi (ultra-micro) financing; and
c) Incentives for green loan/financing, for a maximum of 0.5%, from previously 0.3%.

These macroprudential liquidity incentive policies (KLM) will be applicable for Conventional Commercial Banks (BUK) and Sharia Commercial Banks (BUS)/Sharia Business Units (UUS) starting from 1 October 2023 by lowering the minimum reserves to be deposited by banks at BI in the context of Minimum Statutory Reserves (GWM) in Rupiah on an average basis.

17. **BI continued to strengthen payment system policies to support sustainable economic growth.** BI sharpens its strategies for digitizing the payment systems to support economic recovery and the expansion of the Digital Financial Economy (EKD) ecosystem, as follows:

a. Extend the policy related to Credit Cards until 31 December 2023, i.e.: (i) minimum payment by credit card holders of 5% of the total bills, and (ii) late payment penalty of a maximum of 1% of the total bills and not exceeding IDR100,000;
b. Extend the policy related to the Bank Indonesia National Clearing System (SKNBI) tariff until 31 December 2023, i.e.: (i) SKNBI fee of IDR1 from BI to banks, and (ii) a maximum SKNBI fee of IDR2,900 from banks to customers;
c. Strengthen the Merchant Discount Rate (MDR) policy for QRIS usage among micro-businesses will be implemented progressively based on value per transaction, i.e.: (i) transactions with a value of up to IDR100,000 (one hundred thousand Rupiah) are subject to 0% MDR, and (ii) transactions with a value above IDR100,000 (one hundred thousand Rupiah) are subject to 0.3% MDR, effective by at least 1 September 2023 and no later than 30 November 2023 in accordance with the industry's system readiness; and
d. National QRIS Week and Indonesian Rupiah Sovereignty Festival (FERBI) will be held as part of Indonesia's Independence Day Celebration.

18. **BI also continues all supporting policies to boost economic growth.** BI continues to closely synergize with the Government, the banking sector, and other institutions to continue supporting the development of MSMEs and the Islamic Economy and Finance as a new source for Indonesia's economic growth. BI continues the deepening of the foreign exchange market to support Rupiah stability, expanding the hedging instruments, and facilitating cross-border trade investment, including by expanding the use of Local Currency Transactions (LCT). BI enhances its international cooperation with central banks and financial authorities of partner countries, facilitates the organization of trade and investment promotion in priority sectors in coordination with relevant agencies, and strengthens synergy with the relevant ministries/agencies to bring successful outcomes of Indonesia's Chairmanship of ASEAN in 2023, particularly on the finance track.

19. **BI policy coordination with the Central Government, Regional Governments, and strategic partners continued to be strengthened.** The coordination of Central and Regional Inflation Control Teams (TPIP and TPIDs) continued towards strengthening the National Movement for Food Inflation Control (GNPIP) program in various regions. Coordination in the Regional Digitalization Acceleration and Expansion Team (TP2DD) also continued through, among others, the Championship program to boost the acceptance of Indonesian Credit Cards.

20. **The stability of the financial services sector was maintained, with solid intermediation performance of Financial Institutions (FIs) and supported by adequate capital and liquidity.** The banking sector remained resilient, as indicated by a well-maintained banking intermediation function and adequate capital amidst the challenges of the global economy and financial markets and the downward trend of main export commodity prices. In June 2023, banking loans grew by 7.76% yoy (May: 9.39%), mainly supported by investment credit, which grew by 9.60% yoy (May: 12.69%). In line with global liquidity tightening, Third Party Funds (DPK) grew by 5.79% yoy (May: 6.55%) which was mainly driven by deposits. Despite a slight decline in banking liquidity, it still remained above the thresholds, as indicated, among others, by the ratios of Liquid Assets/Noncore Deposits *(*AL/NCD) and Liquid Assets/Third Party Deposits (AL/DPK) which grew by 119.04% and 26.73% (May: 123.27% and 27.55%), respectively, as compared to their thresholds of 50% and 10%, In addition, the Liquidity Coverage Ratio (LCR) was adequate at 230.24% (May: 233.63%), exceeding the 100% threshold. In terms of capital, the Capital Adequacy Ratio (CAR) remained solid at 25.41% (May: 26.07%). Credit risk showed some improvements, as gross Non-performing Loan (NPL) decreased to 2.44% (May: 2.52%) and net NPL was steady at 0.77% (May: 0.77%). Loan restructuring related to Covid-19 continued to decline to IDR361.04 trillion (May: IDR372.07 trillion) and the number of debtors also decreased to 1.57 million (May: 1,.64 million).

21. **In the NBFI sector, the accumulated premium income in the insurance sector as of June 2023 reached IDR150.09 trillion.** The growth of the accumulated life insurance premiums was down to 9.81% yoy (May: -8,08%) with a value of IDR86.03 trillion. However, the accumulated premiums in general insurance grew positively by 7.57% yoy (May: 11.95%) to IDR50.79 trillion. The outstanding receivables in financing were trending up to 16.37% yoy in June 2023 (May: 16.38%) to IDR444.52 trillion, supported by financing for working capital and investment that grew by 32.52% and 17.57% yoy (May: 37.65% and 17.55%), respectively. The risk profile of Financing Companies was maintained, with a Non-Performing Financing (NPF) ratio of 2.67% (May: 2.63%). Capital in the NBFI sector was maintained, as the life

insurance and general insurance industries each recorded Risk-Based Capital (RBC) of 467.85% and 314.08% (May: 462.80% and 307.07%), respectively, both above their thresholds. The gearing ratio of financing companies was 2.27 times (May: 2.20 times).

22. **In the capital market, the Jakarta Composite Index (JCI) as of 28 July 2023 increased by 0.72% ytd with an inflow of IDR20.40 trillion ytd from non-resident investors as well as a continuing uptrend in the number of investors of 10.55% ytd reaching 11.40 million investors as of 27 July 2023.** Fundraising through the capital market as of 28 July 2023 increased to IDR157.16 trillion, with 48 new issuers. The value of shares issued in the IPOs within that period was higher than the total value reached in 2022, making it the largest in Southeast Asia and the 4th largest globally in the first semester of 2023. As many as 105 Public Offerings were in the pipeline, with a value of IDR74.86 trillion and 71 IPOs by new issuers.

23. **In response to the global and domestic economic dynamics and challenges, OJK continued to maintain stability and support the development of the financial services sector that grows sound and sustainably.** In this regard, OJK policies for strengthening the financial services sector and market infrastructure include:
    1. Strengthen the integrity of FIs' financial statements by enhancing the role of management and public accountants, as outlined in OJK Regulation (POJK) on the Use of Public Accountants and Public Accounting Firms in Financial Services Activities.
    2. Strengthen the integrity of financial services sector through the issuance of OJK Regulation (POJK) No. 8 of 2023 on the Implementation of Anti-Money Laundering (AML), Counter-Terrorist Financing (CFT), and Counter-Proliferation Financing of Weapons of Mass Destruction (CPF) Programs in the Financial Services Sector, in line with international principles such as those issued by the Financial Action Task Force (FATF).
    3. Strengthen the resilience, regulation, and supervision of FIs through the spin-off provisions of Sharia Business Units (UUS) for underwriting companies, insurance companies, and reinsurance companies as well as banks, as a follow-up to the mandate of Law No.4/2023 on Financial Sector Development and Strengthening (UU P2SK).
    4. OJK is also committed to continuing to take progressive steps in improving public access to finance, particularly in rural areas, through the Inclusive Financial Ecosystem (EKI) program, which is expected to accelerate developments and improve the welfare of rural communities.

24. **OJK will prepare regulations on Know-Your-Customer Administration (KYC Administration) which allow customers' data to be managed in a centralized platform** to facilitate and expedite Financial Services Providers and Customers in registering their accounts in the capital market industry as well as in updating their data. Further, with regards to the operation and management of carbon exchange to reduce emissions through carbon trading as well as achieve net zero emission by 2060, OJK will release OJK Regulation (POJK) on carbon exchange to support the operations of the carbon exchange for particular sectors, targeted to commence in the second semester of 2023.

25. **In terms of deposit insurance, the proportion of customer accounts in Commercial Banks whose deposits were insured in their entirety by the Indonesian Deposit Insurance Corporation (LPS) in June 2023 was 99.94% of**

the total accounts, or equal to 520,526,539 accounts. LPS has maintained the Deposit Insurance Interest Rate (TBP) from 1 June 2023 until 30 September 2023 at 4.25% for Rupiah-denominated deposits, 2.25% for foreign-currency-denominated deposits in Commercial Banks, and 6.75% for Rupiah deposits in Rural Banks (BPR). The decision was taken to keep the momentum of economic recovery and to strengthen the financial system stability; to anticipate the risk of uncertainties from external factors and financial market volatility; to provide headroom for banks in managing their liquidity; and to maintain policy synergy across different authorities in supporting the recovery of banking intermediation performance. Going forward, LPS will continue its ongoing monitoring and evaluation to ensure that the Insurance Interest Rate (TBP) stays in line with the developments in the banking industry and economic recovery. As part of the follow-on response, LPS has made policy adjustments, i.e., unwind the relaxation of premium-related penalties, which will be applicable in the first period of premium payment in 2024. Information about this matter will be conveyed to all banks that are covered by LPS.

26. **In terms of deposit insurance and resolution, LPS policies will continue to be directed at supporting economic recovery and increasing public trust in banks, and maintaining the stability of the financial system**. Measures to maintain financial system stability include, among others, monitoring the adequacy of deposit insurance coverage in line with the Law on LPS, ensuring an effective mechanism of early involvement, and coordinating with members of the Financial System Stability Committee (KSSK) in resolutions. This includes measures to increase public awareness of the duties and functions of LPS in bank deposit insurance and resolutions.

27. **The Financial System Stability Committee (KSSK) is committed to continuously increasing synergy in anticipating global dynamics, particularly the potential transmission to the domestic economy and financial sector, including by strengthening coordinated policy responses and vigilance to mitigate various risks to the economy and financial system stability.**

28. **With the promulgation of the Law on Financial Sector Development and Strengthening (UU P2SK)**, the Government, Bank of Indonesia, the Financial Services Authority (OJK), and the Deposit Insurance Corporation (LPS) are committed to finalizing the implementing regulations of the Law in a credible manner, by engaging relevant stakeholders, including the financial industry players and the public.

29. **KSSK will hold the next regular meeting in October 2023.**