CONTINUOUS REFORMS IN A CHALLENGING TIME

West Java Investment Summit

KEYNOTE SPEECH

Romsaya Hadi
Deputy Governor

18 Oktober 2019
GLOBAL ECONOMIC SLOWDOWN

Prolonged trade tensions between US and China: Quo Vadis?

USA
2017: 2.2
2018: 2.9
2019: 2.3
2020: 2.0

Euro Area
2017: 2.4
2018: 1.8
2019: 1.1
2020: 1.4

Japan
2017: 1.9
2018: 0.9
2019: 0.6
2020: 0.6

China
2017: 6.9
2018: 6.6
2019: 6.2
2020: 6.1

India
2017: 6.7
2018: 7.1
2019: 6.9
2020: 7.2

Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff calculations.
Note: PMI = purchasing managers’ index.
1Euro area 4 comprises France, Italy, the Netherlands, and Spain.
Capital inflows to emerging markets continued, although with higher volatility.

*Data as of September 17, 2019
Source: Bloomberg

*Data as of September 11, 2019
Source: EPFR

EM : EMERGING MARKET
DC : DEVELOPED COUNTRY
Monetary relaxation took place both in advanced and emerging economies.

### GLOBAL MONETARY EASING

<table>
<thead>
<tr>
<th>CENTRAL BANK</th>
<th>YTD’19 (bps)</th>
<th>FREQ.</th>
<th>QI 19 (%)</th>
<th>QII 19 (%)</th>
<th>QIII 19 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RBI</td>
<td>110</td>
<td>4</td>
<td>6.25</td>
<td>5.75</td>
<td>5.40</td>
</tr>
<tr>
<td>BSP</td>
<td>50</td>
<td>2</td>
<td>4.75</td>
<td>4.50</td>
<td>4.25</td>
</tr>
<tr>
<td>BOT</td>
<td>25</td>
<td>1</td>
<td>1.75</td>
<td>1.75</td>
<td>1.50</td>
</tr>
<tr>
<td>RBNZ</td>
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<td>2</td>
<td>1.75</td>
<td>1.50</td>
<td>1.00</td>
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<tr>
<td>RBA</td>
<td>50</td>
<td>2</td>
<td>1.50</td>
<td>1.25</td>
<td>1.00</td>
</tr>
<tr>
<td>BdeM</td>
<td>25</td>
<td>1</td>
<td>8.25</td>
<td>8.25</td>
<td>8.00</td>
</tr>
<tr>
<td>BCB</td>
<td>50</td>
<td>1</td>
<td>6.50</td>
<td>6.50</td>
<td>6.00</td>
</tr>
<tr>
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<td>2.50</td>
<td>2.50</td>
<td>1.75</td>
</tr>
<tr>
<td>BNM</td>
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<td>3.25</td>
<td>3.00</td>
<td>3.00</td>
</tr>
<tr>
<td>BOK</td>
<td>25</td>
<td>1</td>
<td>1.75</td>
<td>1.75</td>
<td>1.50</td>
</tr>
<tr>
<td>ECB</td>
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<td>1</td>
<td>-0.40</td>
<td>-0.40</td>
<td>-0.50</td>
</tr>
<tr>
<td>BOJ</td>
<td>0</td>
<td>0</td>
<td>-0.10</td>
<td>-0.10</td>
<td>-0.10</td>
</tr>
</tbody>
</table>

Source: Bloomberg (2 Sept’19), Central Bank News

**Federal Reserve issues FOMC statement**

For release at 2:00 p.m. EDT

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 1 1/4 to 1 1/2 percent. This action supports the Committee’s view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective.
Declining growth path is followed with **moderation of inflation** in 2019

**ECONOMIC GROWTH PATH (%YOY)**

- Source: BPS, calculated

**HEADLINE INFLATION (CPI)**

- Source: BPS
DECLINING TRADE PERFORMANCE

Export growth remains sluggish due to global demand slowdown and lower commodity prices

NON-OIL AND GAS EXPORTS

NON-OIL AND GAS EXPORT PRICE INDEX

Source: BI
Larger net export and capital inflows is expected to improve current account deficit
Rupiah has been managed to appreciate due to positive capital inflows.

**APPRECIATION/DEPRECIATION REGIONAL EXCH. RATE**

<table>
<thead>
<tr>
<th>Currency</th>
<th>September vs August 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRL</td>
<td>-1.66</td>
</tr>
<tr>
<td>TRY</td>
<td>-1.40</td>
</tr>
<tr>
<td>JPY</td>
<td>-1.02</td>
</tr>
<tr>
<td>EUR</td>
<td>-0.96</td>
</tr>
<tr>
<td>CNY</td>
<td>-0.74</td>
</tr>
<tr>
<td>INR</td>
<td>-0.69</td>
</tr>
<tr>
<td>MYR</td>
<td>0.17</td>
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<tr>
<td>PHP</td>
<td>0.21</td>
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<tr>
<td>SGD</td>
<td>0.34</td>
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<tr>
<td>TKB</td>
<td>0.32</td>
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<tr>
<td>IDR</td>
<td>0.89</td>
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<tr>
<td>KRW</td>
<td>0.94</td>
</tr>
<tr>
<td>ZAR</td>
<td>3.82</td>
</tr>
</tbody>
</table>

Data as of September 18, 2019
Source: Reuters, Bloomberg, calculated

**RUPIAH EXCHANGE RATE MOVEMENTS**

Data as of September 18, 2019
Source: Reuters, calculated
Indonesia's economic outlook in the medium term remains solid

**GDP**
- 2019: 5.0 – 5.4%
- 2020: 5.1 – 5.5%

**INFLATION**
- 2019: 3.5 ± 1%
- 2020: 3.0 ± 1%

**CAD**
- 2019: 2.5 – 3.0%
- 2020: 2.5 – 3.0%

**CREDIT**
- 2019: 10-12%
- 2020: 11-13%

**BANK DEPOSIT**
- 2019: 7-9%
- 2020: 8-10%

**Source:** Bank Indonesia Projection
Concentrated efforts to attract investments and achieve sustainable and inclusive growth

**Fiscal**
- Fiscal Performance and Flexibility: Fiscal Stimulus with Prudent Fiscal Management

**Real Sector**
- Strategic Infrastructure Development
- Institutional Improvement & Government Effectiveness
- Efficient, Competitive, and Innovative Real Sectors
- Trade and Investment Policies that support growth, efficiency, and stability

**Monetary and Financial Sector**
- Monetary policy to support Macroeconomic Stability
- Price Stability and Sustainable Current Account Deficit
- Efficient and Credible Financial Sector

INTEGRATED REFORMS TO SUPPORT INVESTMENT-LED-GROWTH
Unprecedented 223 Multiyears Projects and 3 Strategic Programs Nationwide

Source: Committee for Acceleration of Priority Infrastructure Delivery (KPPIP)

Exchange rate: US$ 1 = IDR 13,500
Progress of the Economic Reform Package is promising at the end of Jokowi’s first administration.
Trend of continuous improvement in global competitiveness is a growth momentum


Indonesia has been rated as Investment Grade Country since 2017.

**Fitch Ratings**

March 2019, Rating Affirmed at BBB/Stable

The decision was supported by favorable GDP growth outlook on the back of resilient domestic demand and a small government debt burden compared with its peers. Indonesia’s sovereign credit fundamentals should be resilient to substantial exchange rate volatility.

**S&P Global Ratings**

May 2019, Rating Upgraded at BBB/Stable

“We raised the ratings to reflect Indonesia’s strong economic growth prospects and supportive policy dynamics, which we expect to remain following the re-election of President Joko Widodo recently.”

**Moody’s**

Apr 2018, Rating Upgraded at Baa2/Stable

“The upgrade to Baa2 is underpinned by an increasingly credible and effective policy framework conducive to macroeconomic stability. Together with a build-up of financial buffers, prudent fiscal and monetary policy strengthens Moody’s confidence that the sovereign’s resilience and capacity to respond to shocks has improved.”

**R&I**

April 2019, Rating Affirmed at BBB/Stable

“Indonesia’s economy is growing at a solid pace. The fiscal deficit to GDP ratio narrowed from a year earlier, and the government debt to GDP ratio remains low. While the CAD somewhat widened, foreign reserves are ample relative to short-term external debts. Its economic resilience to external shocks is maintained, supported by the government and central bank’s policies emphasizing macroeconomic stability.”

**JCR**

April 2019, Rating Affirmed at BBB, Outlook Revised to Positive

“The ratings mainly reflect Indonesia’s solid economic growth underpinned by domestic consumption, restrained level of budget deficit and public debt, and resilience to external shocks stemming from flexible exchange rate policies and accumulation of foreign exchange reserves. The administration led by President Joko Widodo has formulated a large-scale infrastructure development plan and is vigorously promoting it to eliminate the infrastructure shortage. In addition, it has succeeded in expanding infrastructure expenditures and expenditures on human capital, and has been curbing the budget deficit by reducing fuel subsidies.”

Indonesia has been rated as Investment Grade Country since 2017.
BI POLICY STRATEGY TO MAINTAIN MACROECONOMIC STABILITY

1. Monetary Policy
   - Pre-emptive, front loading and ahead-of-the-curve policy rate response
   - Stabilize exchange rate consistent with fundamentals
   - Accelerate implementation of reserve requirement averaging
   - Maintaining a monetary operations strategy oriented towards increasing available liquidity (FX swap)

2. Macro-prudential Policy
   - Implementing Macro prudential Intermediation Ratio (RIM)
   - Implementing Macro prudential Liquidity Buffer (MLB)
   - Electronification: Social program, e-payment for Government
   - Financial technology
   - National Payment Gateway (NPG)
   - QRIS (QR Indonesia Standard)
   - Expanding National Clearing System (SKNBI) services

3. Payment System Policy
   - Developing market instruments for financing infrastructure
   - Developing financial market infrastructures
   - Rupiah Interest Rate Swaps (IRS) and Overnight Index Swap (OIS)
   - Domestic non-Deliverable Forward (DNDF)
   - Developing the Commercial Papers (Surat Berharga Komersial)

4. Financial Market Deepening
   - Controlling inflation: TPIP, TPID
   - Structural reforms: Government
   - Financial deepening & stability: KSSK (Financial System Stability Committee), OJK (Financial Services Authority)
   - Coordinating efforts in reducing Current Account Deficit
EASING MONETARY POLICY

Strengthening the policy mix to spur growth momentum, while maintaining external stability

The BI Board of Governors agreed on 18th and 19th September 2019 to:

<table>
<thead>
<tr>
<th>BI 7-DAY REVERSE REPO RATE</th>
<th>DEPOCIT FACILITY (DF) RATE</th>
<th>LENDING FACILITY (LF) RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowered to: <strong>5.25%</strong></td>
<td>Lowered to: <strong>4.50%</strong></td>
<td>Lowered to: <strong>6.00%</strong></td>
</tr>
</tbody>
</table>

- Lowers the BI 7-Day Reverse Repo Rate by 25 bps to **5.25%**.
- Consistent with low inflation projected, sustained external stability and the need to build economic growth momentum.
- Relaxes macroprudential policy in order to increase bank lending capacity and catalyse demand for new loans.
Supporting growth momentum, while maintaining the fundamental of financial stability

BI refined Macroprudential Intermediation Ratio (MIR) for Banks in order to increase bank lending capacity.

BI provided additional LTV/FTV relief on green property loans/financing and down payments on loans for environmentally friendly motor vehicles loans/financing.

BI relaxed LTV/FTV on property loans/financing and down payments on motor vehicle loans/financing in order to catalyse demand for new loans including first time home buyers.
Embracing digitalization in payment system to strengthen monetary and financial stability

Optimizing Non-Cash Retail Payment
- Electronification (Social Assistance, Govt Transaction, and Transportation & Toll Road)
- Expanding noncash acceptance (cards, emoney, online payment)
- QRIS

On Boarding SME
- Information & Data
- Innovation
- Infrastructure
- Advisory

Strengthening Payment System Infrastructures
- Transform the National Clearing System into Real Time Platform
- Provide integrated channel & interconnected platform
- Encourage NPG development toward fast payment mobile based transaction
- Simplify regulation framework to increase efficiency

Sandbox
- Regulatory Sandbox
- Moving towards developmental approach

Regulatory, Supervisory and Reporting Reform
- Integration of regulatory, supervisory, entry policy, and reporting framework
- Risk Management
- Customer Protection
Vision:
To Establish Deep, Liquid, Efficient, Inclusive, and Safe Financial Market

Mission: Financial Market as Sources of National Development Financing

1. ECONOMIC FUNDING & RISK MANAGEMENT
   - Money Market
   - FX Market
   - Fund
   - Instrument
   - Intermediaries

2. MARKET INFRASTRUCTURE DEVELOPMENT
   - Bond Market
   - Stock Market
   - Market Infrastructure
   - Benchmark Rate & Standardization

3. POLICY COORDINATION, HARMONIZATION & EDUCATION
   - Syariah Market
   - Structure Product Market
   - Regulatory Framework
   - Coordination & Education

Strategizing & prioritizing financial market development to support monetary policy transmission
BI strengthened coordination with the Ministry of Finance (MoF), FSA and LPS within the Financial System Stability Framework.

The coordination between these four institutions is to administer the guidelines for legal protection mechanism during financial crisis.

Regular forum to nurture regional financial cooperation amongst ASEAN+3.

In 2019, the forum focuses on strengthening the Chiang Mai Initiative Multilateralization (CMIM) as a regional safety net, in addition to the harmonisation CMIM as a Regional Financing Arrangement (RFA) with IMF facilities (Global Financial Safety Net / GFSN).

Central & Regional Government Meeting is held regularly to discuss the debottlenecking plans that will support investment and export performance.

In the course of 2019, the forum agreed on the strategic plans to strengthen performances of the manufacturing, maritime, and tourism sectors.
In closing, we would like to **affirm** the solid underlying for investing in Indonesia.
THANK YOU

Shukraan Jazilaan
Xièxiè
Arigatōgozaimashita
Gamsahabnida
Terima Kasih

Variation of progressive taxation and fiscal incentives provide stimulus to invest

**AVAILABILITY PAYMENT**
Issuance of regulatory framework to allow annuity payment by the Government during concession period to concessionaire since project operation based on infrastructure service availability

**VIABILITY GAP FUNDING (VGF)**
Increase project financial feasibility by contributing up to 49% of the construction cost (MoF Reg. No. 223/2012)

**LAND REVOLVING FUND**

**RISK-SHARING GUIDELINES**
IIGF has issued risk allocation and mitigation guidelines for PPP project
**INSTITUTIONAL REFORMS**

**PT SARANA MULTI INFRASTRUCTURE**

Merging between PT. SMI and Gov’t Investment Center (PIP) to become an infrastructure funding company

**KPPIP**

KPPIP is actively involved in accelerating delivery of priority infrastructure projects

**PPP UNIT**

Provide facilities to help GCA on preparing PPP project (PDF/TA)

**INDONESIA INFRAS. GUARANTEE FUND (IIGF)**

IIGF has the potential to provide project guarantee for non-PPP projects

**Forming new agencies with specific mandate to accelerate project financing**
Debottlenecking the main challenges in starting investments

**KEY REGULATORY REFORMS**

**DIRECT LENDING**
Allow guarantee for direct lending to SOE to accelerate financial close process for infrastructure projects (Presidential Reg. No. 82/2015)

**LAND ACQUISITION**
Stipulate land acquisition acceleration based on Law No. 2/2012 (Presidential Reg. No. 148/2015) and land acquisition fee payment for impacted community (Presidential Reg. No. 56/2017)

**ECONOMY PACKAGES**
Conduct deregulation for issues hindering infrastructure delivery and develop a task force under CMEA to ensure the effectiveness of economic packages implementation
### SECTORAL REFORMS

**BUSINESS EXPANSION**
- Tax allowance
- Exemption of Import duty and VAT on capital goods, machinery or equipment
- Exemption of import duty on raw materials or auxiliary material
- Depreciation or amortization (part of tax allowance); and
- Property tax relief,
- Combine with Online Single Submission (OSS)

**PIONEER INDUSTRIES**
- Tax holiday

**SPECIAL ECONOMIC ZONE**
- No collection of VAT and Luxury Goods Sales Tax (PPnBM),
- Customs tax exemption,
- Tax Allowance and Tax Holiday,
- Suspension of Import Duty,
- 0% Import Duty for goods produced using local components of a certain level

**INDUSTRIAL ZONE**
- VAT exemption on import or delivery of capital goods,
- Import Duty exemption on machineries/goods/materials,
- Tax Allowance and Tax Holiday

**FREE TRADE ZONE & PORTS**
- Exemption of:
  - Import Duty
  - VAT
  - Luxury Goods Sales Tax (PPnBM)
  - Customs duty

**MICRO, SMALL, MEDIUM ENTERPRISES**
- Lower MSMEs Tax from 1% to 0.5% of gross revenue

Source: Coordinating Ministry for Economic Affairs
Improvement in EODB is in line with the effort to implement deregulations and de-bureaucratization

<table>
<thead>
<tr>
<th>Category</th>
<th>EoDB 2019 Rank</th>
<th>EoDB 2018 Rank</th>
<th>Change in Rank</th>
<th>EoDB 2019 Points</th>
<th>EoDB 2018 Points</th>
<th>Change in Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>73</td>
<td>72</td>
<td><strong>1</strong></td>
<td>67.96</td>
<td>66.54</td>
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<tr>
<td>Starting a business</td>
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<td>144</td>
<td><strong>10</strong></td>
<td>81.22</td>
<td>77.93</td>
<td><strong>3.29</strong></td>
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<tr>
<td>Dealing with Construction Permit</td>
<td>112</td>
<td>108</td>
<td><strong>4</strong></td>
<td>66.57</td>
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<tr>
<td>Getting Electricity</td>
<td>33</td>
<td>38</td>
<td><strong>5</strong></td>
<td>86.38</td>
<td>83.87</td>
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<tr>
<td>Registering Property</td>
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<td>106</td>
<td><strong>6</strong></td>
<td>61.67</td>
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<tr>
<td>Getting Credit</td>
<td>44</td>
<td>55</td>
<td><strong>11</strong></td>
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<td>65.00</td>
<td><strong>5.00</strong></td>
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<td>Protecting Minority Investors</td>
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<td>43</td>
<td><strong>8</strong></td>
<td>63.33</td>
<td>63.33</td>
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<tr>
<td>Paying Taxes</td>
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<td>114</td>
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<td>68.03</td>
<td>68.04</td>
<td><strong>0.01</strong></td>
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<td>Trading Across Borders</td>
<td>116</td>
<td>112</td>
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<tr>
<td>Enforcing Contracts</td>
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<td>47.23</td>
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<tr>
<td>Resolving Insolvency</td>
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<td>38</td>
<td><strong>2</strong></td>
<td>67.89</td>
<td>67.61</td>
<td><strong>0.28</strong></td>
</tr>
</tbody>
</table>

* Higher rank is better, EoDB 2018 was published in October 2019

Source: World Bank