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## **SYNERGY AND INNOVATIONS IN STRENGTHENING RESILIENCE AND ECONOMIC REVIVAL**

Dr. Perry Warjiyo, Governor of Bank Indonesia

I would like to welcome all of you to the 17th Bulletin of Monetary Economics and Banking (BMEB) International Conference and Call for Papers, 15-16 September 2023. The BMEB has become one of the most respected journals in Indonesia and developing markets over a relatively short time period. The BMEB has established the foundation for high quality and impactful research publications and the journal has assumed an important role in strengthening the domestic and international research ecosystem through conducting high-quality and impactful policy research, associating with other high impact journals and institutions, and holding global research conferences and workshops on key topics that dominate policy discourse.

I recall discussing “Synergy of Economic Policies and Innovation for Sustainable Global Economic Recovery in the Era of Digital Transformation” at the same conference last year (2022). The rising risk of stagflation, especially in advanced countries, the digitization megatrend, and the rise of green economy and finance are three major obstacles to global economic development. The Bank Indonesia used the central bank policy mix strategy to stabilize the macroeconomy and boost economic recovery.

Whatever the mandate given to a central bank, the central bank plays a key and leading role when it comes to achieving sustainable economic growth. The leadership role of central banks is accentuated especially when it comes to addressing the global spillovers which leads to greater risk and uncertainty. In today’s lecture, I will talk about my strategic foresight on the future of the central banking practices.

### **STRATEGIC FORESIGHT**

I identify five challenges that we will face and must tackle in an increasingly complex economic and strategic environment. They are: First, the economic and financial cycles are changing more rapidly and are riskier than ever before. Second, the trend of the multipolar in the global economy. This would shift the source of global economic growth not only to come from China and the US, but also from Indonesia and India. Third, is the emanating challenge of demographic changes that would influence the economic structure and growth sources. Fourth is the rapid technological development and digitalization. Fifth, the urgency for economic inclusivity and the low carbon economy that requires a timely and strategic response.

## MAJOR CHALLENGES FROM GLOBAL ECONOMIC DEVELOPMENT

The world continues to grapple with uncertainty as the strains of political fragmentation and the likelihood of an economic recession looms large more so now than ever before. We are unsure when the Russia-Ukraine War will conclude. The US-China decoupling continues, energy and food prices remain high, and the global interest rate will remain higher for much longer than initially anticipated. Consequently, the global economic outlook is projected to deteriorate in 2023 before rebounding in 2024. The COVID-19 pandemic is subsiding, but the global economy is “navigating uncharted waters” amid a series of destabilizing upheavals. It is very important for us to handle this uncertainty in a strategic and efficient manner to ensure that the domestic economy’s performance remains sound and sustainable.

Despite the COVID-19 pandemic and the global turmoil, as reflected in the slowing down of global growth, high inflation, and rising interest rates, the Indonesian economy has shown resilience and promising performance. Strong policy coordination and sound public policy are the keys to Indonesia’s success story. This positive result is accomplished through a national policy mix comprised of five responses: monetary-fiscal coordination, acceleration of financial transformation, acceleration of the real sector, digitalization of the financial economy, and inclusive-green economy.

The Bank Indonesia’s policy mix combines monetary policy to maintain stability and macroprudential policy framework, payment system and supporting policies to support growth. These measures are crucial to foster economic growth and facilitate economic recovery while maintaining sufficient economic stability. In addition, to support Indonesia’s economic potential, structural reforms are implemented. These reforms are realized through the downstream of natural resources into a value-added industrial ecosystem.

Bank Indonesia’s policy mix in the coming years will focus on resilience, recovery, and economic revival in line with national economic plans. The Omnibus Law No 4 of 2023 on Financial Sector Development and Strengthening modified Bank Indonesia’s main goal. The mandate given to the Central bank was formerly focused on Rupiah value stability. Rupiah stability, payment system stability, and actively promoting a stable financial system for sustainable economic growth are now included. It is noteworthy that Bank Indonesia pursues these goals independently. Bank Indonesia’s monetary policy would prioritize stability (pro-stability), while concurrently prioritising macroprudential measures, payment system digitization, money market deepening, and inclusive and green economy financing (pro-growth). The synergy of Bank Indonesia’s policy mix and national economic policies would raise Indonesia’s economic growth to a Golden Indonesia by 2045.

On the one hand, the fragmentation of economics and national boundaries has a detrimental effect on economic progress, particularly in emerging countries. On the other hand, regional integration helps in the removal of barriers that obstruct the free movement of people, capital, goods, and ideas. Therefore, strengthening the cooperation between neighbouring countries, particularly ASEAN and beyond is necessary. In response, the ASEAN leaders agreed to boost the region’s economic

growth and resilience through the implementation of one of their economic pillars, “Rebuilding Regional Growth, Connectivity, and Competitiveness.”

## **DIGITAL PAYMENT AS ONE OF THE DRIVING FORCES OF ECONOMIC RECOVERY**

The economic digitalization and the COVID-19 pandemic have accelerated the social and economic transformations. Big Data, Artificial Intelligence, Machine Learning, and Blockchain have improved efficiency, productivity, inclusiveness, and economic growth. However, individuals and industries that cannot adapt to such changes may face negative externalities, cyber risk, and financial system disruption, including those related to cryptocurrencies and crypto assets.

In a post-pandemic world of global uncertainty and turbulence, regulators and central banks perceive digitalization as essential to inclusive economic financing. This condition is necessary for national economic recovery and financial stability. The Central Bank’s main strategies to achieve those goals are improving banking intermediation to support SME resilience, preparing a green economy with digitalization to boost financial intermediation and inclusion, and formulating and implementing concrete policies to accelerate the digital finance economy and improve the digital payments system.

I believe digital development requires balancing innovation, risk mitigation, and international payments. Collaboration between emerging and established economies is essential and will be beneficial. Bank Indonesia is implementing three initiatives as part of the Indonesian Payment System Blueprint mandate, such as: (i) accelerating the payment system industry consolidation, comprising the interlink between banking and FinTech industries; (ii) developing integrated payment system infrastructure with the launch of BI-FAST, the interoperability and interconnectivity with payment system (SP) standardization initiatives, such as the National Open API Payment Standard (SNAP) and Quick Response Code (QRIS); and (iii) building synergy and coordination, including MSME elektronification, transformation and digitalization.

Digitalization supports ASEAN economic growth and financial inclusion through the theme and Priority Economic Deliverables in Indonesia’s ASEAN Presidency in 2023, namely “ASEAN Matters: Epicentrum of Growth”. Bank Indonesia proposes cross-border QR-based connectivity and Regional Payment Connectivity (RPC) to accelerate ASEAN’s digital transformation pillar. The development of Regional Payment Connectivity by promoting Local Currency Transactions (LCT) will enhance economic integration, maintain domestic economic and financial stability and support cross-border engagement to facilitate bilateral and multilateral payment connectivity arrangements. Digital literacy and inclusion, especially in emerging economies, is another key endeavour.

Furthermore, the acceleration of the digital economy encompasses using government credit cards (KKP) to enhance efficiency, transparency, and accountability in the utilization of public funds. Government credit cards, are utilized by various entities within the government, including the central government, ministries, institutes, and local governments (Pemda), to facilitate regional purchasing transactions without incurring transaction fees.

In today's digital landscape, the Central Bank Digital Currency (CBDC) endeavour offers several benefits. These include improving payment instrument trust, financial inclusion, innovation, monetary and economic stability, and payment efficiency and security. Bank Indonesia also engages in ongoing collaboration with experts and the financial industry to undertake a process of experimentation, prototyping, and learning in relation to Rupiah Digital. Nevertheless, we should also be concerned about the legal implications and regulatory landscape of rapid growth in CBDC implementation, FinTech and banking collaboration ecosystem, and its cyber risk threat.

### **DIGITAL TRANSFORMATION TOWARDS THE LEADING DIGITAL CENTRAL BANK FOR GOLDEN INDONESIA 2045**

My final perspective is that the central bank needs to embark on total transformation, particularly in the areas of policy, institutions, human resources, and digital progress, to move towards Central Bank 4.0. In light of the rapid advancement of technology and the consequential digital disruption, the central bank must sustain its pertinence and adjust to the swiftly evolving strategic landscape it confronts. Policy and institutional reforms, including digital transformation efforts, started before the pandemic, and must remain a focus.

Digital transformation has become essential to policy and institutional change in organizations, work processes, human resources, and work culture. Nevertheless, digital transformation in isolation is insufficient. In response to the aforementioned concerns, Bank Indonesia has implemented the Bank Indonesia Digital Innovation Master Plan as a strategic approach to tackle these issues. In general, the strategy would prioritize three primary strategies: developing digital business platforms, establishing omni-data intelligence, and enhancing resilient digital infrastructures.

The digital business platform development of Bank Indonesia will be prioritized for the enhancement and advancement of payment system (SP) and financial market infrastructure (IPK), with the development of digitalization platforms to facilitate Business Process Reengineering (BRP) and Decision-Making Procedures (DMP). During the implementation phase, efforts are made to enhance and expand the infrastructure of the payment system and financial market infrastructure through a range of initiatives. These initiatives are in line with the Indonesian Payment System Blueprint, the Money Market Development Blueprint, and the Digital Rupiah "Garuda" Project.

The digital transformation process undertaken by Bank Indonesia has had a significant impact on the economy. One notable initiative of this transformation is the deployment of BI-FAST, a system that enhances the efficiency and performance of retail payment transactions, as well as extending the operational period of these services from 12 hours a day, five days a week, to continuous 24/7 availability. QRIS and SNAP have been found to boost the economy. These initiatives promote connectivity and interoperability across various stakeholders in the payment instrument industry, thereby fostering financial inclusion and enhancing economic efficiency.

To attain an ideal data-driven organization, the endeavour will prioritize the enhancement of the Omnidata Intelligence platform as a robust data centre. One notable endeavour is BI-ANTASENA, an integrated reporting system collaboratively developed by Bank Indonesia, OJK, and LPS. This reporting system integrates at least six existing reports from the banking industry. This system operates on metadata principles, enabling the consolidation of disparate data sources into a unified banking dataset. This collaborative reform will increase national effectiveness, efficiency, and governance (2EG) performance and assist the financial sector using a centralized platform.

A resilient technological infrastructure serves as the fundamental basis for constructing a flexible and dynamic digital business platform and omni-data intelligence. The modernization of IT infrastructure is necessary. In addition, organization and human resources are essential to attaining desired results and enhancing the overall experience. Thus, enhancing our training curriculum with digitalization-related topics, establishing a digital school, and implementing a library 4.0 that adheres to international standards are among the initiatives we've undertaken to cultivate digital talent. The public can access our knowledge repository for various physical and digital collections 24 hours a day.

## **CONCLUDING REMARKS**

I am very grateful that over the course of these 17 years, Bank Indonesia has successfully organized and facilitated such an esteemed event such as the BMEB international conferences and the various international policy forums. In the context of the dynamic and uncertain digital landscape, the BMEB has assumed a leadership role in shaping central banking policies in particular and public policies in general. The BMEB, for instance, plays a pivotal role in facilitating the linkage of concepts surrounding public policy discourse, the progression of knowledge, and the facilitation of policy empowerment. In the future, our efforts will persist in the advancement of BMEB as a highly regarded scholarly publication outlet focusing on central bank policy, economics, and finance within emerging markets and developing nations.

To all Call for Papers participants, on behalf of Bank Indonesia, I would like to extend my appreciation for your contributions. Given the mix of authors presenting and the quality of their papers, I am confident that this conference will produce a high value outputs that will have a lasting impact on research. I would like to encourage all of you to submit more papers and participate actively in the conference as well as the parallel call for papers presentation sessions today. This conference is a unique opportunity to engage with leading experts worldwide and contribute to our collective understanding to enhance innovation and synergy in strengthening resilience and economic revival.

Henry Ford, one of the well-known initiators, an innovator and industrialist who revolutionized the assembly line of factory production, conveyed, "Coming together is a beginning; keeping together is progress; working together is success." Therefore, we all need to work together and to enhance synergy. A concentrated effort is needed to identify creative solutions for national economic progress.

I will end my keynote here. I would like to thank the organizers of this conference for their hard work and dedication in bringing us all together. Finally, in the name of the God Almighty, I officially open “The 17th Bulletin of Monetary Economics and Banking (BMEB) International Conference and Call for Papers 2023”. Thank you, and I extend my best wishes that the knowledge acquired during this conference proves to be valuable for each and every participant.