



## Current National Economy and Outlook 2022; Monetary and Financial Sector

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Article Info	ABSTRACT
<p><b>Corresponding Author:</b> Yuliana E-mail: <a href="mailto:yuliana002@gmail.com">yuliana002@gmail.com</a></p>	<p>The national economy is experiencing dynamics influenced by domestic and global factors, particularly during the post-COVID-19 pandemic recovery period. This study aims to analyze developments in Indonesia's monetary and financial sector, including implemented policies and challenges faced in 2022. The research method used is descriptive qualitative with a literature review approach, utilizing data from Bank Indonesia, the Ministry of Finance, the Financial Services Authority (OJK), the IMF, and the World Bank. The research findings indicate that more accommodative monetary policy during the pandemic has contributed to economic stability, with interest rate cuts and loosening of liquidity policies. However, various global challenges, such as the Fed's monetary policy normalization, geopolitical tensions between Russia and Ukraine, and global inflation, have also put pressure on the Rupiah exchange rate and domestic financial markets. Meanwhile, the banking sector has demonstrated considerable resilience, with credit growth starting to pick up again, while the capital market and Government Securities (SBN) sectors have faced pressure from capital outflows. Going forward, synergistic monetary and fiscal policies are expected to maintain the momentum of sustainable economic recovery. Financial sector reforms are also needed to strengthen national economic resilience in the face of global uncertainty.</p> <p><b>Keywords:</b> national economy, monetary policy, financial sector, economic stability, post-pandemic recovery.</p>

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### INTRODUCTION

The national economy continues to experience dynamic changes influenced by a combination of domestic and global factors. The year 2021 marked the beginning of economic recovery after a sharp contraction due to the COVID-19 pandemic. In response, various monetary and fiscal policies were implemented to stimulate growth and restore macroeconomic stability.

However, entering 2022, Indonesia's economic outlook remains uncertain. Although early signs of recovery are evident, persistent challenges such as inflationary pressure, fluctuating exchange rates, interest rate volatility, and global supply chain disruptions pose significant threats to sustained recovery. At the same time, global developments—such as tightening monetary policies in developed economies and geopolitical tensions—exert additional pressure on Indonesia's financial system and economic resilience.

Despite numerous policy responses and macroeconomic analyses, much of the existing literature has focused either on short-term COVID-19 impacts or on sector-specific economic shocks. There remains a gap in comprehensive assessments that integrate macroeconomic indicators with forward-looking outlooks, particularly in the Indonesian context. Moreover, there is limited research that critically evaluates how Indonesia's monetary and financial sector responses align with anticipated global economic shifts in 2022 and beyond.

Given the current economic volatility and the need for agile, data-driven policy, it is urgent to understand how Indonesia's core macroeconomic indicators are performing and what risks or opportunities may shape the near-term outlook. A timely, integrated analysis is crucial to inform government, financial institutions, and investors in strategic planning.

Therefore, the objective of this research is to analyze recent developments in Indonesia's national economy using key indicators—such as inflation, interest rates, exchange rates, and financial sector performance—and to evaluate the country's 2022 economic outlook in light of both internal and external factors.

## **METHOD**

This research uses a qualitative descriptive approach with a literature review to analyze the current dynamics of the national economy, particularly in the monetary and financial sectors. Data used in this study are sourced from official reports from Bank Indonesia (BI), the Ministry of Finance, the Financial Services Authority (OJK), and publications from international financial institutions such as the International Monetary Fund (IMF) and the World Bank.

This study uses secondary data obtained from: Economic and monetary statistical reports from Bank Indonesia. Annual and quarterly reports from the Ministry of Finance regarding fiscal policy and financial sector developments. Official publications from the Financial Services Authority (OJK) regarding the stability of the financial and banking system. Data were collected through documentation techniques, namely tracing, collecting, and analyzing official documents, research reports, and publications related to monetary policy, financial market developments, and external factors affecting the national economy. This study uses descriptive analysis methods to illustrate the relationship between monetary policy, financial sector stability, and domestic economic conditions.

## **RESULTS AND DISCUSSION**

Global economic dynamics and domestic economic challenges influence Indonesia's monetary policy stance. The increasing intensity of the Fed's policy normalization in 2018 has affected foreign capital flows in the Indonesian financial market and the rupiah exchange rate. Furthermore, the tensions between the US and China have also caused turmoil in global and domestic financial markets. Another challenge comes from the increasing Current Account Deficit (CAD) due to high imports to accelerate domestic infrastructure development, posing a new problem for the economy. Current account challenges and capital inflows have put pressure on the exchange rate in 2018.

This combination of developments prompted Bank Indonesia to adjust its benchmark interest rate. To restore stability to the rupiah exchange rate, the BI 7DRR benchmark interest rate was gradually raised by 175 bps, or 6 percent, starting in the second quarter of 2018. Subsequently, starting in mid-2019, monetary policy was gradually relaxed by 100 bps to 5 percent in line with declining inflation and the Fed's move to lower the FFR. This loose monetary policy was necessary to stimulate credit growth and economic activity.

During the Covid-19 pandemic, monetary policy became more accommodative, supporting economic recovery. Throughout 2020, the BI 7DRR benchmark interest rate was gradually lowered by 125 bps to 3.75 percent. Furthermore, BI also relaxed the minimum reserve requirement (GWM) required by banks. The money supply grew strongly, primarily driven by increased third-party funds (TPF). However, weak demand and restrictions on social activities led to a contraction in credit distribution. Loose monetary policy continued in 2021, with a 25 bps interest rate cut and subsequent maintenance at 3.5 percent. As domestic economic activity improved, credit began to grow positively again, while deposit growth remained quite high. Relatively low domestic inflationary pressures, maintained rupiah exchange rate stability, and banking liquidity provided sufficient policy space for monetary authorities to support accelerated economic recovery.



Sumber: BI, DJK, diolah

Graph 1 (a) Development of BI's Benchmark Interest Rate and Money Supply (%); (b) Development of Credit and Deposits (%)

Going forward, escalating global risks will pose a challenge to domestic monetary policy management. The recovery in global demand, which has begun to emerge amidst still-limited supply, has begun to drive a persistent rise in global inflation rates through early 2022. This has prompted monetary authorities in various countries to accelerate monetary policy normalization. The Bank of England began raising its benchmark interest rate in December 2021, while the Fed recently began raising its FFR in March 2022, with this increase expected to continue into 2023. Another significant risk is the escalation of geopolitical tensions between Russia and Ukraine, which has driven up commodity prices, particularly energy and food, leading to increased domestic inflationary pressures.

In response to these global economic dynamics, Bank Indonesia (BI) has begun implementing a liquidity normalization policy. Bank Indonesia has announced plans to progressively increase the reserve requirement (GWM) starting in March 2022. This policy is expected to mitigate monetary expansion and mitigate potential rupiah depreciation pressures. However, monetary policy, which remains accommodative going forward, along with synergy with fiscal and other sector policies, is expected to continue to maintain the recovery trend towards inclusive and sustainable economic growth.

The COVID-19 pandemic has led to a decline in the banking intermediation function, but the national banking sector remains relatively stable and resilient. In line with the decline in economic activity due to the COVID-19 pandemic, bank credit growth slowed from 6.1 percent in early 2020 to a 2.4 percent contraction by year-end. Entering early 2021, the contraction in credit growth continued, reaching its deepest point, at 3.8 percent in March 2021, particularly in working capital and investment loans. As the economy began to recover, credit growth continued to improve and returned to positive growth at the end of 2021.

Meanwhile, third-party funds (TPF) grew quite strongly, averaging double digits, both due to restrained consumption by the upper middle class and the accumulated profits of commodity-based sectors that experienced high price increases during the pandemic. In general, the national banking sector is relatively stable and resilient, as evidenced by the Capital Adequacy Ratio (CAR) maintained above 20 percent, well above the safe limit of 8-10 percent. Bank liquidity is also quite adequate, as evidenced by the liquid assets-to-deposit ratio (AL/DPK) of around 35 percent. Meanwhile, credit risk has not increased significantly, with non-performing loans (NPLs) maintained at around 3 percent, supported by credit restructuring policies. The banking sector's support for the national economic recovery in 2022 is reflected in the significant strengthening of credit growth. As of March 2022, bank credit distribution grew 6.4 percent.

The Indonesian stock market was also significantly impacted by the Covid-19 pandemic. The Jakarta Composite Index (JCI) experienced a significant decline from 6,299.5 in early January 2020 to 4,538.9 at the end of March 2020, a 27.9 percent drop. The decline in the JCI was primarily due to foreign investor outflows due to concerns about the domestic economic performance. Policy responses taken by the Government and monetary and financial services authorities in handling the pandemic and economic recovery encouraged the return of foreign and domestic investor confidence, resulting in the JCI gradually increasing and continuing to strengthen until the end of 2021. Fundraising in the capital market also increased, both through limited initial public offerings (IPOs) and debt securities. In 2021, corporate fundraising in the capital market reached IDR 363.3 trillion, more than triple the IDR 118.7 trillion in 2020. Entering 2022, stock market performance improved sharply in line with the recovery of the national economy. The JCI even reached a historic high, above 7,000. Similarly, fundraising performance continues to improve.

The Government Securities (SBN) market exhibited relatively similar dynamics. In the 2020-2021 period, the SBN market experienced significant pressure due to the Covid-19 pandemic. Foreign capital outflows in the secondary market were quite significant. During 2020, the cumulative amount of foreign capital outflow reached IDR 87.9 trillion. Capital outflows continued in 2021, with a cumulative IDR 82.6 trillion leaving our capital market. These foreign capital outflows over the two years have resulted in a decline in foreign ownership in the SBN market. Foreign ownership, which reached 38.6 percent at the end of 2019, declined sharply to 19.1 percent by the end of 2021.

Despite experiencing pressure at the start of the pandemic, SBN yields declined in 2020-2021. Rising investor confidence in the success of pandemic management and economic recovery, along with a burden-sharing policy between fiscal and monetary authorities, led to the decline in SBN yields. This was also supported by abundant domestic liquidity, while other investment options were limited during the pandemic. This drove high demand for SBN instruments from domestic financial institutions. In 2021, SBN yields remained relatively stable at around 6-6.8 percent, lower than the 6-8 percent seen in 2020.

Entering 2022, pressure on the government securities (SBN) market is increasing. The accelerated tightening of US monetary policy, reflected in increases in the Federal Reserve System (FFR) and Treasury bill yields, has driven up SBN yields. Meanwhile, the Russia-Ukraine war has also led to rising commodity prices, which has further fueled global inflation. Many countries have responded by raising benchmark interest rates, tightening global liquidity. Meanwhile, increased bank lending activity in line with the strengthening national economy is also expected to tighten domestic liquidity. Therefore, the SBN market faces

significant challenges going forward. The government's commitment and consistency in managing the state budget deficit are crucial in responding to this situation.

The role of other financial sectors, such as insurance, pension funds, and mutual funds, remains relatively limited and therefore needs to be continuously enhanced to drive economic growth. Insurance, pension funds, and mutual funds have indeed shown quite positive development, reflected in, among other things, the increase in asset/capital value in recent years. However, judging by the ratio of asset/capital value to GDP, the role of these funding sources remains relatively small compared to several peer countries in the region. Efforts to improve regulations in the financial sector to enhance competitiveness, security, and investor confidence are being undertaken by the government, in collaboration with parliament. Strengthening and developing the financial sector is one of the structural reform agendas to support the national development agenda. Furthermore, the urgency of financial sector reform is also driven by the increasingly rapid development of the financial services sector in line with technological advancements. From a regulatory perspective, several key laws in the financial sector need to be updated to keep pace with current developments.

## CONCLUSION

The national economy is experiencing dynamics influenced by various global and domestic factors. Monetary policy normalization in developed countries, such as the Fed's interest rate hike, as well as global geopolitical tensions, have put pressure on capital flows and the Rupiah exchange rate. Furthermore, the increasing current account deficit due to high imports for infrastructure development also poses a challenge to economic stability. Bank Indonesia has responded to these challenges by adjusting monetary policy, including raising and then lowering the benchmark interest rate according to economic conditions. During the Covid-19 pandemic, monetary policy has been more accommodative to support economic recovery, marked by interest rate cuts and loosening of liquidity policies. Despite weakening banking intermediation during the pandemic, the national financial sector remains stable and resilient, supported by credit restructuring policies and adequate capital resilience. In 2022, global economic pressures continued to increase, primarily due to the accelerated normalization of monetary policy in various countries and rising commodity prices due to geopolitical conflicts. Bank Indonesia has responded with a liquidity normalization policy to maintain exchange rate stability and prevent greater inflationary pressures. Overall, despite facing various challenges, the national economy has demonstrated considerable resilience. Synergy between monetary, fiscal, and financial sector policies is a key factor in maintaining stability and promoting inclusive and sustainable economic growth. Going forward, consistent policies and financial sector reforms are needed to strengthen national economic resilience in the face of global uncertainty.

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