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A Reflection of Sustainable Inclusive Growth Post-pandemic and the Central Bank's Challenges Beyond Stability[1]

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Ladies and Gentlemen, welcome to the *15th Bulletin of Monetary Economics and Banking (BMEB)* International Conference and Call for Papers, 2-3 September 2021. As I recall from my speech at the 14th BMEB Conference in 2020, I am tremendously delighted to see the achievement of BMEB during the last few years. Moreover, since last year, the journal has been widely recognized as one of the most respected journals in Indonesia and the emerging market economies. Such recognition would surely not have been achieved without the BMEB's role notably in providing outlets for outstanding research publications, and hence contributing to the ecosystem for competitive research both domestically and globally.

I also recall mentioning last year that the COVID-19 pandemic calls for a reflection on the paths we have taken, to rethink our macroeconomy as we know it and put forward the practice of central banking in the New Normal. After over one and a half years of battling the pandemic, we have come to realize that this pandemic is unparalleled compared to other crises that we have experienced. The need for reflection has become ever more imminent as we look towards the horizon and ponder the recoveries needed in the face of this unprecedented, prolonged, and ironically, to some extent, recurrent pandemic.

With that in mind, I am gratified to deliver my keynote address at this 15th BMEB International Conference.

A Reflection on Pandemic-era Challenges

The COVID-19 pandemic continues to be the most crucial global calamity of the century; a pandemic that has taken an enormous toll on lives and livelihoods globally. We have, together, experienced how this pandemic has distorted the supply side of the economy and delivered a large shock on the demand side. In developing countries, in particular, shrinking economies, job losses, and falling household income have accelerated poverty, reversing much of the countries' progress of reducing poverty, ending hunger, and sustainable way of life. At least, there are five lessons learned from the pandemic-era policy initiatives, which are as follows.

First, the COVID-19 pandemic impacted the socio-economic aspects of human life through a reduction in income and productivity, and a deterioration in education and health. In light of the pandemic, the must-do lockdown policies also triggered a school-closure ripple effect that may impact the young generation's literacy level, while the uneven distribution of health facilities will likely contribute to the differing magnitude of this pandemic's adverse impacts. For instance, our most recent study shows that the negative impact of mobility restrictions is greater outside Java, more pronounced for households with lower levels of income, and greater for households headed by those with lower levels of education as they notably work in informal sectors, which are highly vulnerable to mobility restrictions. This heterogeneity potentially draws sharper inequality lines between the different income groups, affecting the inclusivity of future development, risking medium-term growth, and undermining long-term sustainable growth potential.

Second, the current pandemic intensifies the environmental issues. The pandemic drives a widening gap between developing and developed countries in the environment, health, and technology. The stay-at-home orders globally have contributed to a reduction of the daily current global carbon emission level compared to the pre-pandemic level. Nevertheless, the current pandemic has also intensified environmental degradation along with the accumulation of medical waste, single-use facemasks, hand gloves, and plastic pollution. This is very alarming considering that environmental degradation is still worsening despite the downturn in economic activities. Moreover, the different capacities to green the economy and the financial system between developed and developing countries may amplify the gap of inequalities between the two country groups.

Third, in the same vein, the uneven condition runs along the lines of digital access within countries, which may lead to the risk of widening socio-economic inequalities and rural-urban development. Many countries have moved toward digital transformation as their engine of growth. However, poor infrastructure, coverage, and the unaffordable internet access make it difficult for the poor and marginalized to catch up with the rich as the speed of global digitalization accelerates. During this pandemic, poor access to the digital world would also mean limited access to health facilities or a higher fatality rate.

Fourth, the COVID-19 crisis has not only put a strain on global trade but also global health cooperation. Like it or not, our world has never been as interconnected and interdependent as before, and so it has become impossible to tackle the COVID-19 crisis at only the national level. Especially, in the case of vaccines, most developing countries still lag behind in inoculation rates relative to developed countries. Indonesia, for example, has successfully vaccinated 31.60 million of its people (as of August 24, 2021), yet this only accounts for around 11.55% of the country's total population. Consequently, the unequal accessibility of the vaccine can be harmful to global citizens in our efforts to recover, as it will only prolong the effects of the pandemic and increase the risk of new variants. Quoting the WHO/UNICEF (2021), "*As the pandemic has shown us, in our interdependent world: no one is safe until everyone is safe*".

Fifth, the prolonged COVID-19 pandemic has also undermined policy effectiveness and presented the dilemma of a trade-off between economic growth and human lives. Massive economic policy measures, including economic stimuli by the fiscal and monetary authorities, work together to endure the economic impacts of the mobility restriction policies aimed at curbing the spread of the virus. Even so, those economic measures have not been able to withstand an economic downturn that exceeded the worst crisis or recession since the Great Depression of the early 20th century. This has shown, in particular, that *a central bank as "the only game in town" is not enough, as it faces continuously growing challenges and complexities* in guarding the price stability, financial and payment system development amidst health, digital, climate change, and possibly other more chaotic disruptions yet to come.

Reshaping Transformation toward Economic Recovery and Sustainable Inclusive Growth

Despite the above-mentioned challenges, this pandemic also brings potentials to radically change development for the better and, hence, accentuate the urgencies for transformation. Despite multiple vaccine breakthroughs, with the spread of the delta variant of COVID-19 to several countries, the outlook for the global economy remains shrouded in high uncertainty. Thus, policy reforms to address structural issues need to be carried out simultaneously with economic recovery. Down-streaming, investments, and exports are key to the structural reform of the economy and thus are encouraged with integration to inclusive and sustainable economic growth.

These are also directed to advancing the agriculture sector towards food self-reliance, in addition to accelerating new and renewable energy sources along with green technologies to develop an innovation-based *green economy*. The Job Creation Law, which is also Indonesia's first Omnibus Law, acts as the pillar of a healthier business climate reform to invite new investments for more quantity and quality job creations. The implementation and integration of Online Single Submission should expedite and ease businesses in administering licenses, incentives, and taxation, in addition to improving transparency.

To be ahead of the curve, Bank Indonesia (BI) implements a central bank policy mix strategy, supported by close coordination with fiscal and structural reforms as well as macroprudential policies, aiming at buttressing national economic recovery while maintaining macroeconomic and financial stability. Following the economic downturn due to COVID-19, BI continues to pursue an accommodative monetary policy strategy by adopting low interest rates and abundant liquidity provisions. During this extraordinary time, BI has also participated in financing the state budget to provide essential public goods as well as health and humanitarian expenditures – reflecting a tight coordination between fiscal and monetary policies. This participation has been implemented by adhering to prudent monetary and fiscal policy principles whilst upholding each institution's independence. Macroprudential measures are relaxed to support and bolster economic recovery, specifically toward inclusive financing policy to especially improve Micro, Small, and Medium Enterprises (MSMEs) performances, while keeping financial stability under control. Given the importance of digitalization as a strategy to propel MSMEs to better contribute to the national economy, BI has linked MSMEs to the digital ecosystem notably using the Quick Response Indonesian Standard, in addition to digitalizing social assistance programs, transportation modes, and local government transactions. For the financial digitalization system, BI aims to promote the adoption of the Open Banking system, building the BI-Fast payment system, as well as establishing Local Currency Settlement to support international trade and investment. In addition, BI is reforming the money market towards the modern needs of the digital era, according to the designs set in the 2025 blueprint for the money market.

Beyond that, we need to acknowledge that every cloud has a silver lining. This pandemic crisis can be viewed as an opportunity to spur innovation and to foist technological and behavioral changes in all aspects of our daily lives. One of these is *digital financial inclusion*, which becomes ever-more paramount considering the digital divide and the risk of a K-shaped (divergent) recovery existing within and between nations. The exponential growth of digital technology and its role in strengthening socio-economic recovery and resilience poses great opportunities to increase productivity and inclusivity of the economy. The double-digit recent growth of e-commerce, fintech, electronic money, and digital banking transactions show the wider appreciation for and application of financial technologies. The ability to transact and trade online is also key to many businesses, particularly MSMEs, during the mobility restrictions.[3] Thus, the 2025 Indonesian Payment System Blueprint designs digital finance technologies, which offer access to secure, affordable, and contactless financial tools, in addition to making people and businesses more visible and reachable. Simply speaking, this pandemic has also transformed the way people use digital technologies and digital platforms to teach, learn, conduct business, and make transactions online – making a *contactless economy* work.

Equipped by technology and digitalization, actions to tackle climate change can also provide extensive economic opportunities and pathways towards green, inclusive, and sustainable growth. Leveraging our endowments, a paradigm shift, technological advancements, and innovation capacity, we can unlock potential chains, new jobs, new learning programs, in order to increase productivity. Many studies suggest that *circular economy* practices have a positive relation with firm productivity, as they create a workable relation between economic growth and the environment. The use of technology and digitalization in producing goods more sustainably and shortening the supply chains would also create a leap towards a green economy. In addition, green financing also plays a central role in allocating resources to sustainable investments. For all these reasons, BI also supports promoting green economy as medium to long-term development goals of Indonesia.

Becoming a Relevant Central Bank: Navigating Challenges Beyond Stability

We are approaching a new civilization era. If central banks are to be leaders in navigating the world in the wake of the complex challenges induced by the pandemic, then we must expand our horizons to move beyond stability. A stronger recovery demands a more comprehensive approach towards fostering more inclusive growth, addressing environmental risks, enhancing the digital ecosystem, and promoting collective action for stronger collaboration. In moving towards this broader responsibility, the institutional capacity of central banks must also be fortified. Let me now lay out some key aspects that I think must feature in the future of central banking.

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[3] In line with this, in 2019 BI has developed the 2025 Indonesia Payment System Blueprint. The Blueprint supports digital national financial and economic integration and banking digitalization. The Blueprint also guarantees the interlinkage between fintech and banking, a balance between innovation and consumers protection, integrity, stability, and healthy competition, along with national interests in international digital financial economy.

First and foremost, a central bank is a vital instrument of the State. A credible and independent central bank is unarguably an equal partner of the government. As such, a central bank must rise to the occasion during extraordinary times, employing all the instruments at its disposal to (a) ensure the long-run economic viability of the State, (b) address key vulnerabilities in the financial system, and (c) look beyond its traditional price stability mandate, without hesitation. Maintaining stability amidst a prolonged pandemic necessitates a more holistic approach that acknowledges the multidimensionality of the threats ahead.

Second, a central bank as a policy-mixer is still relevant yet needs to be strengthened by riding the technology wave and put the mounting environmental risks into consideration. In the digital era, it is as imperative to open up to the boundless opportunities of the data and information as to have a strong digital systemic resilience. A central bank must play a role to optimize the digital dividends amidst the expansion of increasingly hyper-connected network technologies (such as internet of things, artificial intelligence, and blockchain), which further accelerates the paradigm shift from a centralized to a more decentralized financial system. In decentralized financial systems, the emergence of digital currencies issued by the private sector (i.e., cryptocurrencies) will ultimately influence the response, transmission mechanisms, and effectiveness of central bank policy. This is a very logical reason why central banks in many countries need to anticipate such developments, including by designing sound regulations, strengthening infrastructures, and planning the issuance of central bank digital currencies. Furthermore, central banks are tasked with ensuring the achievement of optimal economic welfare—which at its core is people's purchasing power—as influenced by market outcomes of price developments, employment, and labor productivity. These factors are increasingly being affected by climate risks acting as the external factor causing market failures. To guarantee the optimization of economic welfare, the central bank must employ its instruments in a manner that integrates the available dimensions and information sets.

Third, the pandemic has underlined the fundamental need for strong collaboration, and a central bank of the future must be the spark that ignites collective action to recover strongly. Social capital and collective action can potentially serve as a bridge that reduces inequality and accelerates the economic recovery towards more inclusive and sustainable growth. Hence, future central banks must be able to tackle more complex challenges and go beyond their traditional stability mandate to nurture an ecosystem of inclusive collaboration.

Closing Remarks

On this note, I shall end my keynote address here. Let me quote words of the Holy Quran (As Sharh 94: 5-6): *"So verily, with the hardship, there is relief, Verily, with the hardship, there is relief. Let us welcome the arrival of a new chapter of civilization, rest assured that God will bestow ease and blessings….".*

Accordingly, I feel warm-hearted by this event, the 15th BMEB International Conference and Call for Papers. This is the 15th time Bank Indonesia is organizing this annual international conference, bringing together talented researchers from many parts of the world. The BMEB is a catalyst for connecting ideas, advancing knowledge, and empowering policy in today's global era. It is our vision that BMEB shall contribute, in a meaningful and enduring way, to the advancement of economic development in Indonesia and the world. Going forward, we will continue to develop BMEB as a globally respected reference journal on central bank policy, economics, and finance in emerging markets and developing economies. This year's theme of the conference is timely and momentous. The plenary sessions bring together thought leaders that Bank Indonesia is proud to be associated with: Professor Budy Prasetyo Resosudarmo (Australian National University), Professor Ahmet Faruk Aysan (Hamad Bin Khalifa University, Qatar), and Dr. Tetsushi Sonobe (Dean and CEO of Asian Development Bank Institute). I am delighted that they will speak at today's event. To all conference participants, on behalf of Bank Indonesia, I would like to extend our appreciation for your contributions. Given the mix of authors who will present and the quality of papers that will be presented today, I am confident that at the end of this conference, we will have proceedings of high value. Finally, allow me now to officially open the 15th *Bulletin of Monetary Economics and Banking* International Conference and Call for Papers 2021.