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Indonesian Quantitative Easing 2020-2021: Regulation and Comparison with The USA and Japan

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ABSTRACT

This article is intended to find out how the Quantitative Easing model is implemented in Japan and the United States, how the Quantitative Easing model is applied by Bank Indonesia in 2020 to 2021, and how the Quantitative Easing arrangement is implemented by Bank Indonesia within the framework of Indonesian laws and regulations. This research was conducted using the juridical-normative method by reviewing the literature and the laws and regulations relating to Quantitative Easing in Indonesia. This article is written from research process that conducted by the method of normative-judicial approach. The results showed that Japan implemented Quantitative Easing more broadly by involving the Central Bank's monetary actions in the realm of interest rates and the purchase of securities in the public and private spheres. The United States has a narrower scope by only relying on the purchase of securities or bonds. In Indonesia, Bank Indonesia in 2020-2021 will implement Quantitative Easing to increase liquidity in the banking sector based on the authority given in Law No. 2 of 2020 which is more similar to the Japanese model. This model is known only to be regulated in Law No. 2 of 2020 specifically for handling the economic crisis due to the COVID-19 Pandemic.

Keywords: *Quantitative Easing, Monetary Policy, State Finances*



INTRODUCTION

Quantitative Easing is an unusual Central Bank action that is only carried out under certain circumstances and Indonesian laws and regulations do not formally recognize this term. One of the reasons for the urgency of the Quantitative Easing regulation in Indonesia is due to the outbreak of the Coronavirus Disease-2019 (COVID-19) pandemic that has taken place in Indonesia, which until May 14th 2022 has infected 6,050,519 people and caused 156,453 deaths.¹ This disaster not only resulted in a health crisis, but also an economic recession that Indonesia is facing for the first time since the 1998 financial crisis after two consecutive quarters recorded a minus GDP growth in the second and third quarters of 2020 as confirmed by the Head of the Indonesian Central Statistics Agency Suhariyanto.²

To overcome the negative effects of the Pandemic on state finances, the Government issued Government Regulation in Lieu of Law/Perppu No. 1 of 2020 concerning State Financial Policies and Financial System Stability for Handling the 2019 Corona Virus Disease (COVID-19) Pandemic and/or in the Context of Dealing with Threats that Endanger the National Economy and/or Financial System Stability on 31st of March 2020, which was later stipulated as a law or an *undang-undang*.³ The Perppu contains regulations that are quite crucial in the field of state finance, namely the loosening of the limit on the budget deficit which was originally set not to exceed 3% of the value of the Gross Domestic Product (GDP) by Law no. 17 of

¹ “Committee for Handling COVID-19 and National Economic Recovery, 15th Mei 2022 “Indonesia”, available on website: <https://covid19.go.id>. (Accessed on 15th May 2022)

² “Hendra Kusuma, Detikfinance, “Indonesia Resmi Resesi! Ekonomi Kuartal II-2020 Minus 3,49%”, 05th November 2020, <https://finance.detik.com/berita-ekonomi-bisnis/d-5242305/indonesia-resmi-resesi-ekonomi-kuartal-iii-2020-minus-349>, (Accessed on 15th May 2022)

³ “Article 1 of Law No. 2 Year 2020 of Law on Stipulation of Government Regulation in lieu of Law Number 1 of 2020 concerning State Finance Policies and Financial System Stability for Handling the Corona Virus Disease 2019 (COVID-19) Pandemic and/or in the Context of Dealing with Threats that Endanger the National Economy and/or System Stability Finance Becomes Law.”

2003 concerning State Finance.^{4 5} The impact of the easing of the deficit can be directly felt in the realization of the 2020 State Revenue and Expenditure Budget (APBN), where the relaxation of the deficit also has a direct positive correlation with the increase in the state debt position which reached IDR 6,418.15 trillion at the end of May 2021 with a ratio with a GDP of 40.49%.⁶

One of the parties that bought Government Securities in large quantities is Bank Indonesia. As the Central Bank, Bank Indonesia is tasked with establishing and implementing monetary policy.⁷ This was realized in the effort to overcome the COVID-19 Pandemic, which is based on a report by Bank Indonesia that Bank Indonesia purchased Government Securities in the primary market for a total of Rp.473.42 trillion for the 2020 State Budget funding.⁸ March 16, 2021, Bank Indonesia has purchased Government Securities worth a total of Rp. 65.03 trillion with details of Rp. 22.90 trillion obtained through the main auction mechanism and the remaining Rp. 42.13 trillion is carried out through the Greenshoe Option mechanism.^{9 10}

Bank Indonesia then implemented a Quantitative Easing policy. This policy was carried out by Bank Indonesia with a total disbursed fund reaching IDR 776.87 trillion, with details of IDR 726.57 trillion distributed in 2020 and the remaining IDR 50.29 trillion distributed in 2021 at least until March 16 2021.¹¹ The Quantitative Easing Policy itself is a policy monetary transaction that are less commonly carried out by the Central Bank. As explained by Alan S. Blinder, that generally this policy is only carried out when a country experiences

⁴ "Ibid., Article 2 paragraph (1) subsection a number 1."

⁵ "Article 12 chapter (2) of Law No. 17 Tahun 2003 of State Financial Law."

⁶ "Indonesian Ministry of Finance, *APBN Kita: Kinerja dan Fakta Edisi Juni 2021*, Kementerian Keuangan Republik Indonesia, Jakarta, 2021, P. 86."

⁷ "Article 8 of Law No. 23 Tahun 1999 regarding Bank Indonesia."

⁸ "Bank Indonesia, *Tinjauan Kebijakan Moneter: Maret 2021*, Bank Indonesia, Jakarta, 2021, P. 2."

⁹ "Ibid."

¹⁰ "The Greenshoe Option is a mechanism for implementing price stabilization or the realization of purchases of Government Securities which are carried out by purchasing additional Government Securities."

¹¹ "Ibid."

what he calls a liquidity trap.¹² This occurs when the Central Bank has already lowered its benchmark interest rate to or close to 0% but these efforts have not been able to move the economy or increase the inflation rate.¹³ When this happens, the Central Bank, which is no longer able to lower its benchmark interest rate, switches to the Quantitative Easing method.

Basically, "Quantitative Easing is a monetary policy that is not carried by Central Banks under normal conditions. Alan S. Blinder explained that Quantitative Easing is only carried out by the Central Bank when a country experiences a liquidity trap,¹⁴ which occurs when the Central Bank has lowered its benchmark interest rate to or close to 0% as much as possible,¹⁵ but this has not been able to increase the inflation rate according to target or not to increase economic growth, the country implements Quantitative Easing as a last resort because the benchmark interest rate cannot be lowered again.¹⁶"

Bhattarai, et al argue that "Quantitative Easing is a situation when the Central Bank buys long-term government bonds.¹⁷ Meanwhile, Alekseivska and Mumladze view that Quantitative Easing is the purchase of bonds or other debt instruments by the Central Bank.¹⁸ The main objective of implementing Quantitative Easing is to lower the basic interest rate for long-term debt instruments when the benchmark interest rate for short-term debt

¹² "Alan S. Blinder, "Quantitative Easing: Entrance and Exit Strategies", *Federal Reserve Bank of St. Louis Review*, Vol. 92, No. 6, (November/Desember 2010), P. 465-466."

¹³ "Ibid."

¹⁴ "Ibid."

¹⁵ "Conventional efforts made by the Central Bank to control interest rates are through setting the basic interest rate, or the BI 7 days repo rate in Indonesia. In addition to this, other things that can be done to indirectly control interest rates are open market operations, setting discount rates, and setting minimum reserves/reserves."

¹⁶ "Ibid."

¹⁷ "Saroj Bhattarai, et al, "Time Constistency and the Duration of Government Debt: a Signalling Theory of Quantitative Easing", *National Bureau of Economic Research Working Paper Series* 21336, (July 2015), P. 2."

¹⁸ "Halyna Alekseivska dan Anzor Mumladze, "Quantitative Easing as the Main Instrument of Unconventional Monetary Policy", *Three Seas Economic Journal*, Vol. 1, No. 1, (2020), P. 41."

securities cannot be lowered any longer.¹⁹ Through Quantitative Easing, the Central Bank also stimulates the country's economic growth by purchasing various assets owned by financial institutions such as government and corporate bonds.²⁰ Practically, through Quantitative Easing, the Government actually injects money into the economy using money borrowed from the Central Bank with the aim of increasing the value of inflation to achieve the inflation target and economic growth.”

A much broader concept is elaborated by “Michael Joyce, et al. Whereas he argued that Quantitative Easing is a series of actions taken by the Central Bank which indicated a change in focus targeting quantitative variables. This action is generally carried out by purchasing government securities from the banking sector with the aim of increasing the cash reserves owned by the Bank in the hope that the Bank can increase credit extended to the public, thereby increasing asset prices and eliminating the contributing factors that causes deflation.²¹”

Thus, from these concepts it can be understood that the scope of Quantitative Easing includes the purchase of bonds or other debt instruments by the Central Bank, which are generally government bonds, but can include debt instruments issued by other parties, which are carried out with the aim of increasing inflation by increasing the amount of money in circulation through the purchase of these debt securities.

Bearing in mind that Quantitative Easing is an unusual action that is only carried out under certain circumstances, Quantitative Easing is an action that has minimal study,²² especially from a legal

¹⁹ “Bhattarai, et al, “Time Consistency and ...”, P. 3.”

²⁰ “Aleksievska dan Mumladze, “Quantitative Easing as ...”, P. 42.”

²¹ “Michael Joyce, et al, “Quantitative Easing and Unconventional Monetary Policy – An Introduction”, *The Economic Journal*, Vol 122, (November 2017), P. 274.”

²² “Based on the results of the author's search on 15th March 2023 on the website <https://garuda.kemdikbud.go.id/documents?q=quantitative+easing>, it is known that research on Quantitative Easing only amounts to 9 studies, and there has been no recorded legal research conducted on such action.”

perspective, particularly from a public finance law perspective. At least this has been confirmed, because formally the laws and regulations that apply in Indonesia do not recognize the term Quantitative Easing or Quantitative Easing. Also considering that a very large amount of funds has been or will be disbursed by Bank Indonesia through this mechanism, it is necessary to have an in-depth legal study of Quantitative Easing from the perspective of Indonesian public finance law.

Based on these backgrounds, this research will be aimed to find out: 1) how is the Quantitative Easing model implemented in Japan and the United States; 2) how is the Quantitative Easing model implemented by Bank Indonesia in 2020 to 2021; and 3) how is the Quantitative Easing policy implemented by Bank Indonesia within the framework of Indonesian laws and regulations?

This research was carried out with a normative-juridical research approach because it used the basis or data based on laws and regulations and literature review.²³ In this research, the author examines how the Quantitative Easing model is implemented in Japan and the United States, how is the Quantitative Easing model implemented by Bank Indonesia in 2020 to 2021, and how is the Quantitative Easing arrangement implemented by Bank Indonesia within the framework of laws and regulations in Indonesia. In this legal research, the author started the research by point out the current deficit of the state budget which directly caused by the massive state spending and borrowing in the COVID-19 public policy of 2020-2021.

This budget deficits directly correlated with the Bank Indonesia's decision to buying massive amount of government bond to provide liquidity and to replace the state fund that lost due to the swelling of state income. In this regard, the author explains the Quantitative Easing that have been done by Bank Indonesia using the literature written by Alan S. Blinder, Bhattarai, *et al*, Michael Joyce, *et al* and

²³ "Sri Mamudji, *et al*, *Metode Penelitian dan Penulisan Hukum*, cet. 1 Badan Penerbit FH UI, Jakarta, 2015, P. 9-10."

Alekseievskia and Mumladze, while also conclude the general understanding of Quantitative Easing based on these literature.

The research the continued by the explaining the Quantitative Easing in Japan, based on the understanding of Bhattarai, *et al*, and also based on its authority in the Bank of Japan Act, the general history of Bank of Japan and the background of its activity.

Next, the author also examined how the Quantitative Easing is carried out in the United States by points out the history of such action which carried out by the Federal Reserve based on its authority in The Federal Reserve Act and its background from the 2007-2008 housing crisis that causing the Federal Reserve to maintain its Quantitative Easing strategy up until the next decade until the COVID-19 breakout that prompted the Federal Reserve to carry out even more Quantitative Easing actions.

The paper then examines how the practice of Quantitative Easing in Indonesia. Firstly, it points out how the Bank Indonesia's scope of Quantitative Easing that has been carried out in the 2020-2021 to tackle the COVID-19 budget deficit based on the interview with its Executive Director - Head of the Law Department of Bank Indonesia. Then, the paper presented how Bank Indonesia could conduct such activity based on its authority in the Law of Bank Indonesia (Law No. 23/1999) along with its ammendments and the comparation.

Then the paper analyzes the weaknesses of current Quantitative Easing model in Indonesia based on Law No. 4/2023 and correlates it with previous laws' weaknesses along with the legal need of new set of authority of Bank Indonesia to carried out Quantitative Easing in emergency times."

JAPAN'S QUANTITATIVE EASING

The Bank of Japan is the “Central Bank of Japan which was established through the Bank of Japan Act 1882 and began operating on October 10, 1882.²⁴ The Bank of Japan was established to issue banknotes or currency and to implement currency and monetary control policies and to ensure smooth settlement of payments between banks and other financial institutions.²⁵ In the monetary field, the Bank of Japan is authorized to: ²⁶ 1) determine the basic discount amount; 2) determine the basic banking interest rate; and 3) determine the amount of minimum statutory reserves.”

Practically in the “modern era,²⁷ ²⁸Quantitative Easing was first implemented and experimented with by the Bank of Japan, to dispel severe deflation that hit the Japanese national economy and increased inflation again in the period 2001 to 2006.²⁹ It is known that Quantitative Easing has just been adopted *en masse* in various other parts of the world starting in 2008, right at the time of the housing crisis, on a regular basis with the aim of stimulating the economy, increasing bank credit flows, and to increase spending/consumption in the economy which was adopted from Japanese practice.³⁰

²⁴ “Bank of Japan, 2nd October 2019, “Outline of the Bank”,; <https://www.boj.or.jp/en/about/outline/index.htm/>, (Accessed on 14 November 2022).

²⁵ “Article 1 Paragraph (1) and (2) Bank of Japan Act of 1882”

²⁶ “*Ibid.*, Article 15 Paragraph (1).”

²⁷ “The modern era refers to the 21st century, where the history of Quantitative Easing itself can be traced back to 1932 where The Federal Reserve bought United States Government securities up to \$ 1 billion until 1936 to overcome deflation that occurred due to the economic crisis The Great Depression.

²⁸ Ali Ashraf, Walter Lane, dan M. Kabir Hassan, “Monetary Policy Responses to the 2008 Financial Crisis: Quantitative Easing Evidence in the United Kingdom”, *SSRN Electronic Journal*, Vol. 1, No. 1, (2017), P. 3.”

²⁹ “Brett W. Fawley and Christopher J. Neely, “Four Stories of Quantitative Easing”, *Federal Reserve Bank of St. Louis Review*, Vol 95, No. 1, (January/February 2013), P. 52.”

³⁰ “Kjell Hausken and Mthuli Ncube, *Quantitative Easing and Its Impact in the US, Japan, the UK, and Europe*, Springer, New York: Springe, 2015, P. 1.”

Meanwhile, Hiroshi Ugai in his book describes the 3 main pillars of Quantitative Easing implemented by the Bank of Japan as follows:³¹

1. Changing the “main operating target in money market operations from unsecured overnight call tenor rates to current account balances held by financial institutions at the Bank of Japan, and to provide sufficient liquidity to realize the current account balance target threshold above the required reserves;”
2. Make a “commitment that the provision of liquidity will continue to apply until the Japanese consumer price index is stable at 0% or increases from year to year;” and
3. Increase “the purchase of long-term government bonds to reach the upper limit of the maximum balance of banknotes issued if the Bank of Japan considers that the increase in purchases is necessary to provide liquidity.”

In addition to this, if we look at a series of actions of the “Bank of Japan, the following things are also included in Quantitative Easing in Japan, which is the purchase of shares in the capital market owned by Japanese financial institutions which was carried out on February 3, 2009 and the purchase of Exchange Traded Funds³² and Real Estate Investment Trusts on November 5, 2010.³³”

³¹ “Hiroshi Ugai, “Effects of the Quantitative Easing Policy: A Survey of Empirical Analyses”, Bank of Japan, Tokyo, 2013, P. 2.”

³² “Exchange Traded Fund is a mutual fund in the form of a Collective Investment Contract, in which the participation units are traded on the Stock Exchange like stocks. So basically this is a mutual fund that is treated like a stock.”

³³ “Hausken and Nkube, *Quantitative Easing and...*, P. 20-22.”

THE UNITED STATES QUANTITATIVE EASING

The “United States has a central bank known as The Federal Reserve. The Federal Reserve was founded in 1913 through The Federal Reserve Act of 1913. Basically, its function is to:³⁴ 1) carry out monetary policy to seek absorption of the labor force, stable prices, and moderate long-term interest rates; 2) strive for financial system stability and to minimize and overcome systemic risk by monitoring and implementing its functions at home and abroad; 3) work on the security and compliance of financial institutions and monitor their impact on the financial system as a whole; 4) implement a secure and efficient payment and settlement system for the banking industry and the United States government that facilitates transactions in United States Dollars; and 5) implementing consumer protection and community development in the financial sector.

Meanwhile, in the monetary sector, the Federal Reserve's powers include setting deposit reserves (equivalent to minimum statutory reserves in Indonesia), setting discount rates and other credit facilities, and carrying out open market operations.³⁵”

Apart from “Japan, another country that has implemented Quantitative Easing is the United States, which started doing it on a large scale starting from the economic crisis in 2008 due to the domino effect of the bankruptcy of Lehman Brothers Bank. On November 25, 2008, the Federal Reserve began executing the initial phase of Quantitative Easing by purchasing housing bonds related to projects supported by the Federal Government of up to \$100 billion such as Direct Bonds from Fannie Mae and Freddie Mac.³⁶ The aim of these measures was to lower the cost of credit and to immediately cool

³⁴ “The Federal Reserve, “About The Fed”, 20th November 2018, <https://www.federalreserve.gov/aboutthefed.htm>, (Accessed on 15th March 2023.)

³⁵ “Article 11 The Federal Reserve Act of 1913.”

³⁶ “*Ibid.*, p 29.”

credit conditions in the recently collapsed housing market. Not only in the private sector, bond purchases also occurred in the public sector where The Federal Reserve purchased long-term US Treasury Bonds of \$300 billion on March 18, 2009.³⁷

Since 2008, “The Federal Reserve has also started buying mortgage-backed securities³⁸ in large quantities after the housing crisis occurred.³⁹ In order to save the housing market from falling further, The Federal Reserve purchased \$1.7 Trillion of these types of securities through 2018, further bloating its assets by \$4.1 Trillion.⁴⁰

Reisebichler explained that in carrying out Quantitative Easing in the housing market, The Federal Reserve and the European Central Bank also buy other assets in the secondary market such as asset-backed securities⁴¹ or covered bonds,⁴² with the aim of increasing the price of these assets while simultaneously lowering interest rates.⁴³

³⁷ “*Ibid.*, p. 33.”

³⁸ “Mortgage-based securities are the packaging of illiquid assets (in this case housing mortgages) so that they become more liquid or easier to trade, especially on the Exchange. In Indonesia, this term can also be known as the Home Ownership Credit Backed Securities, which was first recognized in 2009, for example, the EBA Danareksa SMF I KPR BTN Class A Collective Investment Contract.”

³⁹ “Alexander Reisebichler, “The Politics of Quantitative Easing and Housing Stimulus by The Federal Reserve and European Central Bank, 2008-2018”, *West European Politics*, Vol. 43, No. 1, (2019), P. 2.”

⁴⁰ “*Ibid.*, P. 4.”

⁴¹ “Asset-backed securities or asset-backed securities are securities or securities consisting of a collection of loans packaged into tradable securities.”

⁴² Covered bonds are securities secured by public sector debt or mortgages.

⁴³ “*Ibid.*, P. 3.”

INDONESIA'S QUANTITATIVE EASING

1. Bank Indonesia's Quantitative Easing Model of 2020-2021

No.	Post	Sub-Post	Amount
1.	Government Obligation	Domestic Government Obligation	IDR 4.822,87 Trillion
		Government Obligation in Foreign Currency	IDR 1.267,44 Trillion
2.	Government Loan	Domestic Loan	IDR 13,25 Trillion
		Foreign Loan	IDR 805,31 Trillion

Table 1.0 The Details of Indonesian Government Debt per 2021⁴⁴

When the COVID-19 Pandemic hit Indonesia and after the Government passed Perppu No. 1 of 2020, it is known that the quantity of Indonesia's debt has increased significantly. Based on Bank Indonesia's report that Bank Indonesia purchased Government Securities on the primary market for a total of IDR 473.42 trillion to fund the 2020 State Budget.⁴⁵

This will continue in 2021 where Bank Indonesia has purchased Government Securities worth a total of IDR 358.32 trillion with the main auction mechanism and the Greenshoe Option mechanism.⁴⁶ Meanwhile, Bank Indonesia plans to purchase more State Securities in the 2021 fiscal year to support the National Economic Recovery program and the handling of the COVID-19 Pandemic as agreed in the Joint Decree signed between the Minister of Finance and the

⁴⁴ Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko Kementerian Keuangan RI, Laporan Kinerja Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko, (Jakarta: Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko Kementerian Keuangan RI, 2021), 18."

⁴⁵ "Bank Indonesia, 2021, Tinjauan Kebijakan Moneter: Maret 2021, Jakarta: Bank Indonesia, P. 2."

⁴⁶ "Ibid."

Governor of Bank Indonesia on 16 April 2020 and which was extended on December 11, 2020.⁴⁷

Bank Indonesia also carried out Quantitative Easing. This policy was carried out by Bank Indonesia with a total disbursed fund reaching IDR 867.76 trillion, with details of IDR 726.57 trillion distributed in 2020 and the remaining IDR 141.19 trillion distributed in 2021 at least until 14 December 2021.⁴⁸ If you review the updated data from Bank Indonesia, throughout 2021 Bank Indonesia has carried out Quantitative Easing of Rp. 147.83 trillion, with a total Quantitative Easing carried out from 2020 to 2021 amounting to Rp. 874.4 trillion, around 5.3% of Indonesia's GDP.⁴⁹

In addition to this, it is known that within the scope of Quantitative Easing, Bank Indonesia in April 2020 decided to adjust the Minimum Statutory Reserves by reducing the Rupiah currency for Conventional Commercial Banks by 200 bps and for Sharia Commercial Banks and Sharia Business Units of 50 bps, which was reported by Bank Indonesia as part of Bank Indonesia's Quantitative Easing policy as an effort to support national economic recovery from the impact of the COVID-19 Pandemic.⁵⁰

It is very interesting to examine further the scope of Quantitative Easing conducted by Bank Indonesia. The first is that Bank Indonesia states that Quantitative Easing is its action to increase liquidity in the banking sector. In its own terminology list, Bank Indonesia defines Quantitative Easing as an addition of liquidity by the central bank to the economy.⁵¹ Regarding Quantitative Easing in 2021, Bank Indonesia stated that Quantitative Easing or liquidity injection into the banking sector is to strengthen banking capabilities

⁴⁷ "Ibid."

⁴⁸ "Ibid."

⁴⁹ "Bank Indonesia, 2021, *Laporan Tahunan 2021*, Jakarta: Bank Indonesia, P. 53."

⁵⁰ "Departemen Komunikasi Bank Indonesia, 30th April 2020, "BI Terbitkan Ketentuan Tindak Lanjut Kebijakan Hadapi Pandemi COVID-19", available on website: <https://www.bi.go.id/id/publikasi/ruang-media/news-release/Pages/BI-Terbitkan-Ketentuan-Tindak-Lanjut-Kebijakan-Hadapi-Pandemi-COVID-19.aspx>, (Accessed on 4th Oktober 2022.)

⁵¹ "Bank Indonesia, *Laporan Tahunan 2021*, P. 168."

in increasing credit/financing to the business world.⁵² This is quite a contrast from the scope of Quantitative Easing based on the opinions of several experts and in practice as previously reviewed, where Quantitative Easing is generally understood to cover the purchase of assets or securities owned by the public or private, not specifically aiming to increase liquidity in the banking sector.

The second is that Bank Indonesia specifically excludes its action of buying Government Securities on the primary market from Quantitative Easing activities as can be seen in the picture. Again, this is very different from the conception of Quantitative Easing, because precisely this action is generally known as an attempt by the Central Bank to buy securities such as Government Securities.

The third is that Bank Indonesia stated that setting the Statutory Reserves is one of its efforts to implement Quantitative Easing. If you pay attention to Ugai's previous research, the Bank of Japan uses 3 main instruments as the pillars of Quantitative Easing. One of them is to focus on managing current account balances owned by banking institutions at the Bank of Japan, and providing sufficient liquidity to realize the target threshold for current account balances above the required reserves.⁵³ What Ugai means by "the balance of a current account at the Bank of Japan" is basically the same as the Minimum Statutory Reserves or *Giro Wajib Minimum* known in Indonesia. Whereas Banking institutions are required to have a Minimum Statutory Reserve as determined by Bank Indonesia.

In addition to this, the author tried to contact Bank Indonesia to obtain information regarding the scope of Quantitative Easing which will be carried out from 2020 to 2021. For this reason, the author was able to obtain information from Ms. Rosalia Suci, Executive Director - Head of the Legal Department of Bank Indonesia.⁵⁴ Basically, she explained that basically Quantitative Easing does not only mean

⁵² "Ibid., P. 9."

⁵³ "Ugai, "Effects of the Quantitative..., P. 2."

⁵⁴ Rosalia Suci H Executive Director - Head of the Legal Department of Bank Indonesia

buying Government Securities, but more broadly, it is a policy to inject liquidity into the market, which Bank Indonesia means as a banking institution itself considering that the subject of Bank Indonesia regulation is banking sector.⁵⁵ According to her, Quantitative Easing was carried out by Bank Indonesia during the COVID -19 Pandemic with the aim of continuing to increase the Indonesian economy so that it grows. According to her, at that time the inflation rate was already very low, while Bank Indonesia's target reference value for inflation was 3% + 1.⁵⁶

Furthermore, according to the source, Quantitative Easing implemented by Bank Indonesia is part of the authority of the Bank Indonesia Law and its amendments.⁵⁷ Some include:⁵⁸ 1) the policy of reducing the Minimum Statutory Reserves; 2) provision of Statutory Reserves incentives for a number of banks extending credit to priority sectors during the COVID-19 Pandemic and Micro, Small and Medium Enterprises; 3) purchase of Government Securities in the secondary market in monetary operations; and 4) more frequent holding of repo auctions in monetary operations.

The source explained that what was not categorized by Bank Indonesia as part of Quantitative Easing was the purchase of Government Securities in the primary market which was carried out based on Perppu No. 1 of 2020 which was ratified by Law no. 2 of 2020. Furthermore, the source explained this because the main purpose of purchasing Government Securities on the primary market is not to inject liquidity into the market/banking, but to bear the burden of financing the State Revenue and Expenditure Budget in the framework of tackling the COVID-19 Pandemic, although the source doesn't deny the fact that this action also had an impact on liquidity in the market and banking.⁵⁹

⁵⁵ "Interview with Executive Director - Head of the Law Department of Bank Indonesia, 5-6 Oktober 2022."

⁵⁶ "Ibid."

⁵⁷ "Ibid."

⁵⁸ "Ibid."

⁵⁹ "Ibid."

Thus, Bank Indonesia is known to have a Quantitative Easing model that is different from the generally accepted model as previously discussed. Bank Indonesia interprets the Quantitative Easing action as an action to increase liquidation in the banking sector, by focusing on a number of Bank Indonesia's authorities in the monetary sector based on the Bank Indonesia Law and its amendments.

2. Bank Indonesia's Authority on Quantitative Easing and the Buying of State Obligation

Bank Indonesia is the Central Bank of Indonesia, which from the beginning of its formation was burdened with the goal of achieving and maintaining stability in the value of the rupiah.⁶⁰ In order to achieve this goal, Bank Indonesia is given the task of establishing and implementing monetary policies under its authority, to regulate and maintain the smooth operation of the payment system in Indonesia, and to regulate and supervise banks.^{61 62} Bank Indonesia carries out its duties with several authorities, such as:⁶³ 1) setting monetary targets by taking into account the inflation rate target; and 2) carry out monetary control by using methods that include but are not limited to: a) open market operations on the money market, both in rupiah and foreign exchange; b) determination of the discount rate; c) determination of minimum mandatory reserves; and d) credit or financing arrangements.

Currently, Bank of Indonesia's goal is to achieve the value stability of rupiah, to maintain payment system stability, and to participate in maintaining Financial System Stability in order support

⁶⁰ "Article 7 Chapter (1), Law No. 3 Year 2004 concerning Law Amendment to Law of the Republic of Indonesia Number 23 of 1999 concerning Bank Indonesia.

⁶¹ "*Ibid.*, Article. 8."

⁶² "The task of regulating and supervising the Bank has shifted to the Financial Services Authority since 2011."

⁶³ "Article 10 Chapter (1) Law No. 23 Year 1999 concerning Bank Indonesia."

sustainable economic growth.⁶⁴ To achieve these goals, Bank Indonesia is tasked to:⁶⁵ 1) establish and implement monetary policy in a sustainable, consistent, and transparent manner; 2) manage and maintain the smooth running of the payment system; and 3) establish and implement macroprudential policies.

Another authority possessed by Bank Indonesia in the monetary sector is to purchase Government Bonds. This authority is attached to Bank Indonesia in the Bank Indonesia Law. In principle, Bank Indonesia is prohibited by the Act from buying Government Bonds in the primary market with two exceptions. The first is that, in principle, Bank Indonesia is allowed to buy Government Securities on the primary market for itself, but this is limited only to the category of short-term Government Securities which it deems necessary to purchase in order to carry out monetary control operations.⁶⁶ The second is for the provision of emergency financing facilities to banks if a bank experiences financial difficulties which have a systemic impact and have the potential to cause a crisis that endangers the Indonesian financial system.⁶⁷

In this regard, it is known that Bank Indonesia is authorized to provide short-term liquidity loans and sharia-based short-term liquidity financing to Systemic Banks or banks other than Systemic Banks.⁶⁸ Bank Indonesia can also provide Special Liquidity Loans to Systemic Banks that experience liquidity difficulties and do not meet the requirements for providing short-term liquidity loans or short-term liquidity financing based on sharia principles guaranteed by the

⁶⁴ Article 7, Law No. 4 Year 2023 Concerning Development and Strengthening of the Financial System.

⁶⁵ *Ibid.*, Article 8.

⁶⁶ "Article 55 chapter (4) of Law No. 3 Year 2004 concerning Act of Amendment to Law of the Republic of Indonesia Number 23 of 1999 concerning Bank Indonesia.."

⁶⁷ "Ibid., Article. 11 Chapter (4) jo. Article. 55 Chapter (5)."

⁶⁸ "Article 16 Chapter (1) Law No. 2 Year 2020 concerning Law on Stipulation of Government Regulation in lieu of Law Number 1 of 2020 concerning State Finance Policies and Financial System Stability for Handling the Corona Virus Disease 2019 (COVID-19) Pandemic and/or in the Context of Dealing with Threats that Endanger the National Economy and/or System Stability Finance Becomes Law."

Government and provided based on KSSK Decrees.⁶⁹ These two authorities can actually be equated with the provision/addition of liquidity to banking institutions as claimed by Bank Indonesia.

When reviewing history, it appears from the previous description that the country's legal politics and regulations regarding this matter have changed. In Law No. 23 of 1999 concerning Bank Indonesia, it is strictly regulated that Bank Indonesia is basically prohibited from buying Government Securities for itself in the primary market.⁷⁰ In fact, the law emphasizes that if Bank Indonesia buys it on the primary market, then the purchase is declared null and void.⁷¹

Easing began to occur with the next amendment to the law, namely that Bank Indonesia could buy government bonds for itself on the primary market specifically for short-term government bonds to carry out monetary control operations and Bank Indonesia could also buy government bonds on the special primary market. for providing banking emergency financing facilities.⁷²

The emergence of the COVID-19 Pandemic gave greater and stronger authority to Bank Indonesia to carry out its duties in the monetary sector while at the same time strengthened the relationship between Bank Indonesia and the Government. Through Law Number 2 of 2020, Bank Indonesia is given further leeway to buy long-term Government Bonds and State Sharia Securities in the primary market specifically for dealing with financial system problems that endanger the national economy, which also includes Government Bonds and/or State Sharia Securities issued with a specific purpose, especially in the context of handling the COVID-19 pandemic. ⁷³This authority is

⁶⁹ "Ibid."

⁷⁰ "Article 55 Chapter (4) Law No. 23 Year 1999 regarding Bank Indonesia."

⁷¹ "Ibid., Article. 55 Chapter (5)."

⁷² "Article. 55 Chapter (4) dan ayat (5) Law No. 3 Year 2004 concerning Law Amendment to Law of the Republic of Indonesia Number 23 of 1999 concerning Bank Indonesia."

⁷³ Article 16 Chapter (1) Law No. 2 Year 2020 concerning Law on Stipulation of Government Regulation in lieu of Law Number 1 of 2020 concerning State Finance Policies and Financial System Stability for Handling the Corona Virus Disease 2019 (COVID-19)

held in the position of the Governor of Bank Indonesia himself as a member of the Financial System Stability Committee.

Under the new Law No. 4 Year 2023 concerning the Development and Strengthening of Financial System, Bank Indonesia is granted the permanent authority to buy long-term government bond in the primary market to handle the problems of financial system that endangers the national economy.

Law	Regulations for Purchase of Securities in the Primary Market
Law "No. 23 of 1999 concerning Bank Indonesia"	Bank "Indonesia is prohibited from purchasing all types of government securities in the primary market."
Law "No. 3 of 2004 concerning The First Amendment of Law No. 23 of 1999 concerning Bank Indonesia"	Bank "Indonesia is allowed to buy short term government bonds on the primary market to carry out monetary control operations and for providing banking emergency financing facilities."
Law "No. 2 of 2020 concerning Stipulation of Perppu No. 1 of 2020 concerning State Financial Policies and Financial System Stability for Handling COVID-19 Pandemic and/or in the Context of Dealing with Threats that Endanger the National Economy and/or Financial System Stability"	Bank "Indonesia is allowed to buy long-term Government Bonds and State Sharia Securities in the primary market specifically for dealing with financial system problems that endanger the national economy (COVID-19 Recovery Program)
Law No. 4 Year 2023 concerning Development and Strengthening Financial System	Bank "Indonesia is allowed to buy long-term Government Bonds and State Sharia Securities in the primary market specifically for dealing with financial system problems that endanger the national economy.

Table 2.0 The Evolution of Regulations for Purchase of Securities in the Primary Market by Bank Indonesia⁷⁴

Pandemic and/or in the Context of Dealing with Threats that Endanger the National Economy and/or System Stability Finance Becomes Law."

⁷⁴ Secondary Data, processed, 1999-2020.

The emergence of the “COVID-19 Pandemic not only increased Bank Indonesia's authority in the field of purchasing Government Securities, but also in other monetary fields which included the following:⁷⁵ 1) to provide conventional or sharia short-term liquidity loans to Systemic Banks or non-systemic Banks; 2) to provide special liquidity loans for Systemic Banks which are in principle trapped in liquidity difficulties and do not fully meet the requirements to obtain conventional short-term liquidity loans or those with sharia principles whose existence is guaranteed by the Government and granted based on a decision from the KSSK; 3) conduct repo or purchase of state securities owned by the Deposit Insurance Corporation to finance efforts to deal with solvency problems of Systemic Banks or non-systemic banks; 4) make arrangements regarding the obligation to receive and use foreign exchange for Indonesian residents, which also includes arrangements related to the transfer, repatriation and conversion of foreign exchange in order to maintain macroeconomic stability and the financial system; and 5) to provide financing opportunities for private parties and corporations through repo of State Debt Instruments or State Sharia Securities owned by private parties and corporations through banking. This authority would later be permanent through Law No. 4 Year 2023.

However, “even though this authority is specifically attributed to tackling the financial crisis during the COVID-19 Pandemic, Bank Indonesia does not categorize the Quantitative Easing measures it carried out in 2020-2021 covering the 5 powers granted in Law No. 2 of 2020 as been discussed in the previous paragraph. Instead, Bank Indonesia categorizes its conventional authority in the monetary sector as regulated in Article 10 of the Bank Indonesia Law as the realm of Quantitative Easing. This authority includes: 1) setting

⁷⁵ “Article 16 Chapter (1) Law No. 2 Year 2020 concerning Law on Stipulation of Government Regulation in lieu of Law Number 1 of 2020 concerning State Finance Policies and Financial System Stability for Handling the Corona Virus Disease 2019 (COVID-19) Pandemic and/or in the Context of Dealing with Threats that Endanger the National Economy and/or System Stability Finance Becomes Law.”

monetary targets by taking into account the inflation rate target; and 2) carry out monetary control by using methods that include but are not limited to: a) open market operations on the money market, both in rupiah and foreign exchange; b) determination of the discount rate; c) determination of minimum mandatory reserves; and d) credit or financing arrangements. In addition to this, what is included in Quantitative Easing is the purchase of Government Securities in the secondary market as stipulated in Article 55 paragraph (4) of the Bank Indonesia Law.”

On this basis, even though it acknowledges that it has implemented Quantitative Easing, theoretically Bank Indonesia has not implemented Quantitative Easing because what is being implemented is conventional authority in the monetary realm. When considering the general theoretical concept of Quantitative Easing that this is implemented as a last resort when conventional monetary policy can no longer be implemented, it is clear that what Bank Indonesia implemented within the context of authority in the Bank Indonesia Law does not qualify as a Quantitative Easing.

Meanwhile, “looking back at the theoretical concept of Quantitative Easing, then the act of purchasing Government Securities in the primary market should be based on Law No. 2 of 2020 is an act of Quantitative Easing. However, Bank Indonesia does not consider this to be Quantitative Easing. According to Bank Indonesia, the purchase of these Government Securities was not intended to increase banking liquidity during the COVID-19 Pandemic, but to help finance the burden on the State Budget.

CONCLUSION

The Bank of Japan has a diverse scope of Quantitative Easing to achieve its quantitative goals. This starts from setting the level of bank statutory reserves, setting monetary commitments to purchasing government and private debt securities, even entering purchasing capital market assets. The Federal Reserve has a narrower model of buying public and private debt. At a certain level, the Fed even bought several securities in the form of asset-backed securities and mortgage-backed securities from the market.

Bank Indonesia implements Quantitative Easing with the following characteristics: 1) it is Bank Indonesia's monetary authority in the Bank Indonesia Law; and 2) intended to increase liquidity in the banking and market sectors. So that the Quantitative Easing model for Bank Indonesia in 2020-2021 is to carry out a policy of reducing the mandatory minimum as well as providing this policy incentive for Banks that extend credit to priority sectors, purchase Government Securities in the secondary market in their monetary operations and hold repo auctions more frequently.

The Quantitative Easing have been regulated within the framework of Indonesian laws and regulations, in the Bank Indonesia Law and its amendments. This is regulated in Article 10 paragraph (1) of Law No. 23 of 1999 concerning Bank Indonesia, that Bank Indonesia exercises monetary control using methods including but not limited to open market operations in the money market, setting discount rates and setting minimum statutory reserves.

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