

CHAPTER 1

Introduction

1.1 Background

Indonesia is reconsidering the concept of currency redenomination as part of its long-term economic and monetary policies. According to an official government statement published by Manoe (2025), the urgency of Indonesia's Ministry of Finance has proposed a Currency Redenomination Bill to simplify the rupiah by reducing its nominal zeros value, such as converting Rp1,000 into Rp1, to improve transaction efficiency, accounting clarity, and public confidence in the national currency. This assertion is supported by Ministry of Finance rules No. 70/2025, which confirm that the currency redenomination bill will be completed by 2027 as part of their 2025-2029 strategy plan (Kementerian Keuangan, 2025).

A similar redenomination policy has been implemented in several countries, including Venezuela, which has undertaken three successive currency redenominations to preserve the functionality of its domestic payment system amid severe inflationary pressures started during 2008, by the replacement of original Bolivar (Bs) into Bolivar fuerte (Bs.F) at a fixed conversion rate of 1 Bs.F to 1,000 Bs, effectively removing three zeros from the currency's face value (Republica de Venezuela, 2008 as cited by Rösl, 2024). As inflation persisted, a further monetary reform was introduced in 2018, converting the Bolivar fuerte into the Bolivar soberano (Bs.S) at a rate of 1 Bs.S to 100,000 Bs.F, thereby eliminating an additional five zeros. This process continued in 2021 with the introduction of the Bolivar digital (Bs.D), redenominated at 1 Bs.D to 1,000,000 Bs.S, equivalent to the removal of six more zeros, although both Bs.S and Bs.D circulated concurrently for a transitional period (Banco Central de Venezuela, 2018, 2021 as cited in Rösl, 2024). Cumulatively, these successive adjustments imply that one original Bolivar is now equivalent to 1/100,000,000,000,000 of the current digital Bolivar.

The purpose of this monetary policy effort is also to preserve its role as a means of payment so that daily transactions remain practical and manageable.

1.2 Research Problem

The primary research problem addressed in this study is that although redenomination is designed as a technical monetary adjustment rather than an economic devaluation, public interpretation may vary significantly due to the economic perceptions that aren't solely driven by objective information but are heavily influenced by each individual characteristics and experiences that further shape their interpretation of nominal values of the currency (Hanlon et al., 2021). This variety of public interpretations stems from the differing economic conditions encountered by individuals across generations, which subsequently results in different perceptions when facing certain economic conditions. According to Matsumoto et al. (2024), individuals who grow up under different economic environments develop distinct baseline expectations, which shape how they interpret current and future economic conditions. Building on these generational distinctions, this study compares two cohorts shaped by different historical economic environments, which were Generation Z (Gen Z) and the Baby Boomer generation.

Table 1. Targeted Age Groups based on updated population by Age Group of BPS (2025)

Generational Cohort	Age Group	Total Population	Status
Gen Z	20 – 24	22,160.60	Included
	25 – 29	22,514.40	Included
	15 – 19	22,095.70	<i>*Excluded due to parental consent</i>
	10 – 14	22,016.10	
Baby Boomers	60 – 64	12,361.30	Included
	65 – 69	9,267.40	Included
	70 – 74	6,343.60	Included
	75+	5,972.30	Included

According to Hansari (2025), Gen Z is defined as individuals born between 1997 and 2012, while the Baby Boomer generation comprises those born between 1946 and 1964. Using this generational framework, the 2025 population data by age group and sex published by Statistics Indonesia (BPS) in **Table 1** can be used to estimate the population size of each cohort. The total of Gen Z is approximately 88.8 million people, which includes the representation by the age groups 20–24 and 25–29 years. While the Baby Boomer cohort corresponds to approximately 33.9 million people, that can be represented by groups 60–64, 65–69, 70–74, and 75+ years old. The exclusion of the 10–19 age group in this study is primarily due to the fact that the majority of individuals within this range are legally classified as minors based on Law No. 17/2016 on Child Protection, which maintains the definition previously established in Law No. 35/2014, stating that individuals are considered children if they are under the age of 18 (Republik Indonesia, 2014 as cited by Republik Indonesia, 2016) Furthermore, Law No. 27/2022 on Personal Data Protection, specifically Article 25 paragraphs (1) and (2), states that the processing of children's personal data requires parental consent (Republik Indonesia, 2022).

1.3 Research Questions

Rooting from the explanation on the previous section, public economic perceptions and sentiments should not be understood as direct reflections of objective macroeconomic conditions but rather as the outcome of structured informational processes. Carlin et al. (2021) state that public form an economic evaluations through the interaction between economic signals and the broader information environment in which those signals are embedded. Clearer informational structures and better public understanding will mitigate the risk that arises when individuals rely more heavily on nominal representations than on real purchasing power when evaluating monetary changes (Prabawani, 2018). The differences in how this policy is interpreted for its contextual meaning are likely to emerge across generational cohorts, particularly between Gen Z and Baby Boomers. According to Malmendier et al. (2021), cohorts exposed to high inflation episodes develop persistently higher inflation

expectations and stronger aversion toward inflationary risks, while those raised in relatively stable macroeconomic environments form different experience-based expectations about price stability.

Indonesia itself was one of the Asian countries that experienced a severe inflationary episode Asian Financial Crisis (AFC) during 1997–1998, with the magnitude of the crisis was reflected in the sharp depreciation of the Rupiah by 95% against the US dollar in 1997 and by a further 73% in 1998, while inflation surged to 58% in 1997 and remained elevated at 20% in 1998, which further led into macroeconomic shocks that substantially weakened purchasing power and destabilized domestic economic conditions (Basri, 2018).

Indonesia has also implemented several sanering policies to address economic instability. A notable instance occurred in 1959 when the government issued Government Regulation in Lieu of Law (Perpu) No. 2 of 1959 by reducing the value of Rp500 and Rp1,000 banknotes to Rp50 and Rp100 as an effort to stabilize the national monetary system (Republik Indonesia, 1959, as cited in Nur et al., 2025). This monetary effort was continued until the 1965 sanering served as a mechanism for monetary unification, resembling a redenomination by introducing the Rp1 denomination as an equivalent to Rp1,000 of the old currency, thereby forcing a 10% deduction on the public as a mandatory revolutionary contribution (Republik Indonesia, 1965, as cited in Nur et al., 2025).

Referring to the cohort classification as explained in section *1.2 Research Problem*, the Baby Boomer generation was directly exposed to these economic disruptions during the AFC and the sanering policy, unlike Gen Z that aren't directly exposed to all of the inflation effects, which will further leave persistent imprints on belief formation processes and influence how individuals process new monetary information and assess nominal economic changes (Malmendier et al., 2021).

Through the explanation from section 1.2 *Research Problem* and several paragraphs in section 1.3 *Research Questions*, the following research questions need to be addressed are as follows:

1. How do differences in foundational economic understanding as represented by Gen Z and Baby Boomers influence the generational perceptions and overall sentiments toward the redenomination policy?
2. How effectively does the dissemination of redenomination information from the responsible authority align with the distinct processing ways as represented by Gen Z and Baby Boomers?
3. How do different generational cohorts interpret the relationship between the modified nominal appearance of the currency and its purchasing power?

1.4 Research Objectives

Through this paper, the objectives of this research are as follows:

1. Exploring how different generations interpret the nominal changes associated with the planned Rupiah redenomination.
2. Examining the generational perceptions and sentiments expressed regarding the policy.
3. Identify factors shaping generational sentiment differences.

1.5 Significance of the Study

The final results of this study will contribute to providing preliminary insights into how the public interprets and responds to the planned Rupiah redenomination by offering valuable input for the Central Bank of Indonesia (BI), along with the Ministry of Finance and other monetary institution authorities in designing more effective public communication strategies. Based on the research by Haldane and McMahon (2018), expectation alignment, policy effectiveness, and credibility and trust in central banks strengthen communication with the general public, as greater public knowledge is associated with expectations that are more closely aligned with policy targets.

1.6 Research Hypothesis

The proposed hypotheses emphasize that generational differences provide a context in which variations in interpretation may emerge, as individuals rely on their experienced economic environments when forming expectations and evaluating monetary conditions (Malmendier et al., 2021):

Hypothesis 1: Baby Boomers are dominated by negative sentiments toward the planned rupiah redenomination due to their historical economic experiences and limited exposure to diverse economic information.

Hypothesis 2: Gen Z are dominated by neutral or positive sentiments toward the planned rupiah redenomination when exposed to accurate and well-understood economic information.

Hypothesis 3 Both generations predominantly exhibit a neutral stance, as they perceive redenomination as a purely symbolic adjustment with no significant impact on their personal economic welfare.

Hypothesis 4 Both generations predominantly exhibit negative sentiments due to insufficient or unclear economic information.

Hypothesis 5 Gen Z are dominated by negative sentiments toward redenomination compared to Baby Boomers due to their vulnerability to the risks of misinformation inherent in digital platforms.

The negative sentiment is closely associated with perceived confusion regarding changes in nominal value and price representation, as cognitive interpretation of nominal value changes is shaped by formative exposure to severe macroeconomic instability. When such signals are processed in a distorted or non-rational manner, rather than through objective belief updating, individuals may

systematically overreact (Bordalo et al., 2020). These distortions may translate into confusion and subsequently generate negative evaluative responses.

While the positive or neutral sentiments emerge when the redenomination is understood as a simplification of monetary representation, their cognitive interpretation is formed within relatively stable macroeconomic contexts and characterized by exposure to digital financial information and rational-technical framing of monetary policies. Any respondents who were classified as neutral mean that they perceive it solely as a technical adjustment with minimal personal impact. It was aligned with the research conducted by Bernanke et al. (2019), which states that alternative expectation-formation assumptions imply that nonfinancial expectations may remain unchanged despite shifts in monetary policy rules, indicating that some individuals may interpret policy changes as largely technical adjustments with limited personal impact as opposed to the respondents who express positive sentiments that go further by recognizing practical advantages, such as clearer price displays, easier numerical comprehension, and improved transactional efficiency.

1.7 Scope and Limitations

The conducted research study does not extend to evaluating macroeconomic impacts, policy effectiveness, or measurable changes in economic behavior, such as spending or saving decisions. Instead, the main goal of this study is to investigate how participants perceive and explain their understanding of the nominal values adjustment by respondents between the two selected generations, which is also limited to prediction and can't be a basis to generalize to other public cohort generations. The research is also constrained by a relatively small sample size and its specific geographical focus on the Jabodetabek area by relying on a probabilistic mapping of public sentiments rather than absolute certainties, which cannot serve as a definitive basis for generalizing public perceptions to other generational cohorts or broader populations.