MODERN MONETARY UNREST: PUBLIC POLICY RESPONSES TO THE ADOPTION OF BITCOIN AS A HEDGE AGAINST SYSTEMIC FIAT INFLATION

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Abstract

The post-2008 crisis era, accelerated by the COVID-19 pandemic, has ushered in a permissive global monetary policy, raising essential questions about the sustainability of the fiat monetary system. This has triggered a trust deficit, fundamentally challenging what is termed the "Monetary Social Contract"-an implicit agreement wherein citizens entrust the store of value function to state-issued currency, with the adoption of Bitcoin in Indonesia becoming an expression of this unrest. This paper aims to (1) analyze the primary drivers behind the search for independent (non-state) hedge assets, (2) examine their implications for national monetary sovereignty, and (3) formulate a framework for innovative public policy responses using a qualitative approach through conceptual analysis and a literature study of secondary data. The findings indicate that the impetus for Bitcoin adoption originates not only from domestic inflation data but also as a reaction to the global phenomenon of systemic fiat devaluation. Its primary implications are the potential weakening of monetary policy transmission and a decline in the demand base for the Rupiah. It is concluded that prohibitive policy responses would be counter-productive. This paper recommends a dual-track approach: (1) strengthening the monetary social contract through innovation in state financial instruments, and (2) integrating independent (non-state) assets into a safe and controlled regulatory framework.

Keywords: *Monetary Social Contract; Bitcoin; Inflation; Public Policy; Monetary Sovereignty; Fiat System.*

Abstrak

Pasca krisis 2008 kemudian pandemi COVID-19, era kebijakan moneter dunia berubah menjadi permisif disertai munculnya pertanyaan esensial pada status keberlanjutan sistem moneter fiat. Peristiwa ini memicu defisit kepercayaan dan secara mendasar menantang apa yang di sebut "Kontrak Sosial Moneter" atau kesepakatan implisit di mana warga negara mempercayakan penyimpanan nilai pada mata uang (store of value) yang diterbitkan negara di mana adopsi Bitcoin di Indonesia menjadi ekspresi

atas keresahan tersebut. Tulisan ini bertujuan untuk (1) menganalisis sebab utama di balik pencarian aset lindung nilai independen (non-pemerintah), (2) menelaah keterkaitannya terhadap kedaulatan moneter nasional, dan (3) memformulasikan rangka respons kebijakan publik yang inovatif dengan pendekatan kualitatif melalui analisis konseptual dan studi literatur atas data sekunder. Temuan dari Penelitian ini menyatakan bahwa pendorong adopsi Bitcoin tidak hanya bermula dari data inflasi domestik, tetapi juga reaksi fenomena devaluasi sistemik fiat secara global. Implikasi utamanya berupa potensi degradasi transmisi kebijakan moneter dan penurunan basis permintaan Rupiah. Disimpulkan bahwa respons kebijakan yang prohibisi justru akan menimbulkan kontra produktif. Tulisan ini merekomendasikan pendekatan dua jalur (dual track approach): pertama; memperkokoh kontrak sosial moneter via inovasi instrumen keuangan negara, kedua; mengintegrasikan aset Independen (non-pemerintah) ke dalam kerangka regulasi yang aman dan terkendali.

Kata kunci: *Kontrak Sosial Moneter; Bitcoin; Inflasi; Kebijakan Publik; Kedaulatan Moneter; Sistem Fiat.*

A. Introduction

The 2008 Global Financial Crisis was a crucial turning point that planted seeds of doubt in the modern financial architecture. Triggered by the collapse of the *subprime mortgage* market in the United States, the crisis exposed systemic fragility and gave birth to policies that were previously considered taboo: *bailouts* for financial institutions deemed "*too big to fail*" and the implementation of *Quantitative Easing (QE)* on a massive scale by the *Federal Reserve (Fed)* (Federal Reserve Board, 2025). In simple terms, QE is a policy where central banks create new money digitally to buy financial assets (such as government bonds) from the market. While the official goal is to stabilize the market and encourage lending, for a section of the public, the narrative is "central banks printing money to save bankers". For the first time, radical monetary intervention played out effectively in this episode, leading to public questioning of the policy's ongoing risks to the value of the currency. This policy implicitly changed the articles of the monetary social contract. Whereas previously the state promised to maintain a stable currency for all, this promise now seems conditional: 'we will maintain its value, unless the stability of large financial institutions is threatened'. This is a shift from universal principle to selective rescue, the first crack in the foundation of trust.

If the 2008 crisis planted a seed, then the response to the COVID-19 pandemic in 2020 is the event that broke the floodgates. The scale of interventions made the 2008 response look small. This time, the policy attack came from two directions simultaneously and coordinated. From the monetary side, *the Fed* and other major central banks launched QE *infinity* programs, (Booth, 2020) which caused their

balance sheets to swell exponentially. On the fiscal side, governments around the world poured in trillions of dollars worth of stimulus (Aid & Summary, 2020) (Swagel, 2020) in the form of cash transfers, business loans, and various other programs-a modern implementation (Taleb, 2008) of the concept of *helicopter money.* In Indonesia, this synergy materialized in a "*burden sharing*" scheme(Annasa Rizki Kamalina, 2024) between the Government and Bank Indonesia. It is this combination that fundamentally changes perceptions. Money is no longer just "printed" to save the financial system, but also distributed directly to the people, making the link between money creation and devaluation very real and easily understood by the lay public. In Indonesia, the burden sharing scheme between BI and MoF, although necessary in emergency conditions, in the eyes of some of the public looks like the erasure of the boundary between monetary and fiscal authorities. It is a more open breach of contract, where the central bank no longer acts only as the guardian of the stability of the value of money, but also as a direct facilitator of government spending. The boundaries that are sacrosanct in modern economic theory are being transgressed.

It should be underlined that this shift in perception did not happen in a vacuum. It is exponentially accelerated by the democratization of information through digital and social media. Complicated concepts like *Quantitative Easing* that were previously only discussed in economics seminar rooms are now simplified and disseminated through Twitter threads, YouTube videos, and popular memes (such as *'Money Printer Go Brrr'*). The rise of financial *influencers* and vocal digital asset communities creates a powerful counter-narrative channel, which is often easier to digest and more trusted by the younger generation than official statements from monetary authorities."

The consequence of this policy barrage was a fundamental shift in risk perception. Public concern shifted from just the officially reported annual inflation rate, to a fear of structural and long-term devaluation. There was a realization that massive intervention was no longer an emergency tool, but had become a permanent feature in the policy toolkit for managing economic cycles. Terms like money printing and currency *debasement* moved out of academic circles and into common vocabulary. The fear is that the value of their savings and hard work is being systematically eroded, not by market mechanisms, but by the decisions of policymakers themselves. This perception provides fertile ground for alternative narratives and encourages an active search for *store of value* assets that are outside the control of the fiat system(Ammous, 2018) , one of which is Bitcoin.

The foundation of any stable nation-state lies not only in a written constitution, but also in a series of unwritten agreements known as the social contract. In the

realm of economics, one of the fundamental pillars of this agreement is the "Monetary Social Contract". This concept refers to an implicit agreement between the state and its citizens regarding the nature and management of money. In this contract, society collectively gives up the right(Rousseau, 1964) to use other forms of money (such as gold or commodities) and agrees to accept the fiat currency issued by the state. In this context, Rupiah is the *legal tender* and standard unit of account.

In return, the state, through its central bank and fiscal authority, holds the sacred responsibility of managing the currency wisely. The state's primary commitment in this contract is not to guarantee wealth, but to maintain the integrity and stability of the currency itself. The cornerstone of this public trust lies in the belief that the value of hard work and savings accumulated today will not be drastically and arbitrarily eroded in the future by the actions of the state itself. The function of money as a *store of value* becomes the essence of the state's promise in the monetary social contract.

In Indonesia, this contract is manifested in the trust millions of citizens have in the Rupiah. Citizens work, trade, save, invest, and plan for their future, from children's education fund to retirement preparation, all denominated in Rupiah. This trust is not just in a piece of paper or a digital number, but in the institutions behind it: The Government of the Republic of Indonesia and Bank Indonesia. They believe that these two institutions have the commitment and competence to protect the purchasing power of Rupiah over time. Without this trust, Rupiah will lose its legitimacy and people will look for other alternatives to protect their assets.

However, the series of events discussed earlier, ranging from the scale of monetary interventions post-2008 to the unprecedented expansionary fiscal-monetary policies during the COVID-19 pandemic, including the *burden sharing* scheme have put this monetary social contract under severe pressure. Policies taken in such emergency situations create a credibility dilemma. On the one hand, the state acted to prevent a short-term economic collapse. On the other hand, such actions that effectively financed the fiscal deficit with money creation were perceived by a section of the public as an abandonment of the long-term commitment to maintain the value of the currency. It is this ambiguity of commitment that erodes the foundation of trust. The contract feels shaky, and when a fundamental contract is shaky, it is rational for its parties. In this case, citizens begin to seek guarantees or "insurance policies" outside of the existing agreement framework.

It is in this context of a trust vacuum and the faltering of the *Monetary Social Contract that* a non-governmental alternative begins to gain relevance. Among the various digital assets, Bitcoin emerged as the most prominent technological and philosophical answer. It is important to understand that the emergence and

adoption of Bitcoin is not merely a speculative phenomenon or a technological fad. It should be seen as a direct response to the perceived failures and vulnerabilities of the fiat monetary system. Bitcoin's significance lies not in its ability to process transactions per second, but rather in its fundamental property of offering a direct antithesis to the existing system.

Bitcoin's core value proposition is specifically designed to address perceived public "breaches of contract."(Ammous, 2018) First, and foremost, is *absolute scarcity*. Unlike fiat currencies whose supply can be infinitely augmented by central banks, Bitcoin's supply is mathematically limited by its protocol code to 21 million coins. This attribute directly addresses the fear of devaluation and *currency debasement*. Second, is decentralization. No single entity be it a government, bank, or corporation controls the Bitcoin network. Its monetary policy is not determined in a closed board of governors meeting, but has been set in code running on thousands of computers around the world. It is a system governed by *rules,* not by *rulers*. Third, is transparency. All transactions and supply amounts are publicly auditable by anyone in *real-time* through its distributed ledger *blockchain*, a sharp contrast to the opaque nature of central bank balance sheet operations.

As such, Bitcoin can be viewed as more than just a digital asset; it is a proposal for a new, *voluntary*, digital monetary social contract. Citizens are not forced to use it, but those who choose to participate consciously accept a different set of rules. They exchange the implicit guarantees of the state (which have proven fragile) for the mathematical certainty of a protocol. The risks of price volatility and technological challenges inherent to Bitcoin become an accepted *trade-off* to gain protection from the risks of systemic devaluation and unilateral censorship inherent to the fiat system.

Therefore, the adoption of Bitcoin in Indonesia and around the world is not just an investment option, but a silent referendum on the health of the existing monetary system. This phenomenon presents unique and complex public policy challenges for the state. The response can no longer be a technical regulation of "speculative assets", but rather a strategic response to a fundamental challenge that re-examines the role and credibility of the state as the ultimate guarantor of monetary value. This article will then examine the dilemmas and policy choices faced by Indonesia in navigating this modern monetary agitation.

This unrest and shift in perception towards the fiat monetary system finds a particularly strong echo in Indonesia, a country with a dynamic economic landscape but a history of volatility that is seared into the collective memory of its citizens. The most obvious symptom of this resonance is the explosive adoption of digital assets that has placed Indonesia in the ranks of the global elite.

The latest data from the Commodity Futures Trading Supervisory Agency (BAPPEBTI) as of January 2025(Kementerian Perdagangan RI, 2025) presents a phenomenal picture. The number of registered cryptocurrency investors in Indonesia is estimated to have surpassed 30 million people, a figure that rivals even the number of investors in traditional stock markets. Its annual transaction value consistently reaches hundreds of trillions of Rupiah, suggesting that it is no longer just a niche market for technologists, but has become a significant macroeconomic phenomenon. These numbers raise an important question: why are people in this fast-growing economy so enthusiastic in adopting an alternative asset that is notorious for its volatility?

The answer cannot be found in annual inflation data alone, but rather in the layers of collective memory and the nation's historical experience with monetary instability. For the generation that experienced first-hand or lived under the shadow of the 1997-1998 Asian Financial Crisis, the concept of "currency devaluation"(Hill, 1999) is not an abstract theory, but a painful reality. The crisis left deep historical scars: hyperinflation that eroded the value of savings to almost nothing, a Rupiah exchange rate that collapsed from around Rp 2,400 to more than Rp 16,000 per US Dollar, and a total loss of confidence in the banking system and the national currency. These events instilled a subconscious "monetary trauma" that the value of even a state-guaranteed fiat currency is not absolute and can be shaken by severe shocks.

As such, the phenomenon of Bitcoin and other digital asset adoption in Indonesia cannot be read as a purely speculative trend. It is the perfect intersection between the ongoing global fiat devaluation narrative and the long-standing monetary vulnerability and anxiety locally. The anxiety triggered by permissive monetary policy at the global level seems to reactivate the collective memory of the Rupiah's fragility in the past. For some Indonesians, Bitcoin serves not only as an asset hedge against possible future inflation, but also a digital "insurance policy" against a repeat of the monetary trauma they once witnessed and experienced.

B. Research Methods

This chapter outlines the methodological foundation used in this research. The aim is to explain the approach, type of research, data sources, and data collection and analysis techniques in a systematic and transparent manner. This methodological framework is designed to ensure that the research process can be scientifically accounted for and is able to answer the problem formulation in depth.

This research uses a qualitative approach. (Creswell & Poth, 2016) A qualitative approach was chosen because this research aims to understand a

complex and layered socio-economic phenomenon, namely shifting perceptions of money and its challenges to the monetary social contract. This approach allows researchers to conduct an in-depth exploration of the concepts, ideologies, and narratives underlying the adoption of Bitcoin as a hedge. In contrast to quantitative approaches that focus on measurement and statistical causal relationships, qualitative approaches are more suitable for exploring the "why" and "how" a phenomenon occurs and interpreting its meaning in the context of public policy.

This research exclusively used secondary data. The selection of data is based on the relevance, credibility, and authority of the sources in discussing the relevant issues. The data sources are Academic Literature, Institutional Reports, Regulatory and Legal Documents, Historical Primary Sources and Credible Media.

The data collection technique used is *document study*. This process involved the systematic identification, collection and classification of all secondary data sources mentioned above through digital journal databases, official institutional websites and media archives. Data analysis in this research are *Conceptual Analysis, Thematic Analysis, Argumentative Synthesis.* Overall, the methodology was designed to ensure that the research has a strong scientific foundation, with a transparent process and in-depth analysis, so that it is able to produce a significant contribution of thought in accordance with its objectives.

C. Result and Discussion

1. Drivers of Trust Erosion: The Analysis Behind the Inflation Data

The analysis of the first research question on the fundamental drivers behind the search for non-government hedging assets yielded dualistic findings. It was found that this phenomenon cannot be explained by a single factor, but rather is the result of an interaction between quantitative drivers of a domestic nature and a stronger perceptual narrative of a global nature.

Quantitatively, historical data shows a clear vulnerability in the value of the Rupiah. The graph of the Rupiah exchange rate against the US Dollar in the last three decades displays significant volatility, with the deepest depreciation peak occurring during the 1997-1998 Asian Financial Crisis, where the value of the domestic currency eroded by more than 80% in a short period of time(Hill, 1999) . Although stability has considerably improved, other periodic episodes of depreciation persist, for example during the taper tantrum of 2013 or at the onset of the COVID-19 pandemic shock of 2020.

Inflation data from the Central Statistics Agency (BPS) also shows a similar picture. Although in the last decade inflation has tended to be more manageable than in previous eras, post-pandemic annual inflation figures have shown spikes that

exceeded Bank Indonesia's target,(Maria Elena, 2022) mainly driven by rising global energy and food prices. These inflation and depreciation figures serve as a tangible and measurable *initial trigger*. For the public, this data is empirical confirmation that the purchasing power of their wealth held in Rupiah is indeed eroding over time.

However, the argument that these data are the main culprits is proving to be not strong enough. If inflation and periodic devaluations were the only issues, the logical response would be for people to turn to traditional, familiar hedging assets such as gold, property or saving in US Dollars. The phenomenon of the explosive adoption of entirely new, high-risk, global digital assets suggests that there are other, more fundamental factors at play. This quantitative data is just the tip of the iceberg; it validates anxieties, but does not create a new narrative that drives millions of people to a completely different asset class.

More significant findings emerged from analyzing discourse in digital media and global financial reports. It was found that the stronger driver was perceptual: a powerful global narrative of *systemic* fiat *currency debasement*(Ammous, 2018) . This narrative was exponentially accelerated by the scale of post-pandemic monetary policy, which was visualized and simplified through social media into popular memes such as *"Money Printer Go Brrr".*

Herein lies the root of the problem. Public concerns are no longer limited to "Will inflation this year be 5%?", but shifted to "Is the entire fiat currency system, including the US Dollar as its main anchor, losing its value structurally in the long run?". This perception of risk is global and psychological, going beyond the monthly data released by BPS. For digital audiences in Indonesia, this narrative resonates strongly as it is directly connected to the collective memory of the 1998 crisis.

As such, the main driver of the search for "monetary lifeboats" like Bitcoin is not the inflation rate itself, but rather the loss of faith in the narrative of stability offered by monetary authorities. When the world's largest central banks are seen printing money on the scale of trillions of dollars, trust in the promise that the value of money will be maintained is shaken. It is in this context that Bitcoin's value proposition of programmatic absolute scarcity becomes ideologically attractive,(Nakamoto, 2008) serving as a direct response to the perceived risk of systemic devaluation.

2. Implications of Savings Shift on Monetary Sovereignty

a. Erotion of Rupiah Demand Base

Fundamentally, the value of a currency, just like any other commodity, is strongly influenced by the law of supply and demand. Demand for Rupiah comes not only from daily transaction needs (e.g. to purchase goods and services), but

also from its function as a *store of value* (Keynes, 1937) . Citizens and investors place their wealth in Rupiah-denominated instruments, such as bank deposits or Government Securities (SBN), with the expectation that the value will be maintained in the future. This pool of funds is what we can call the ″demand pool″ for Rupiah as a deposit asset.

When an individual makes a conscious decision to convert some of his Rupiah savings to Bitcoin for long-term storage purposes, he is effectively doing two things. First, he is withdrawing his funds from the Rupiah "demand pool". Second, he is explicitly indicating a preference that Bitcoin be considered a superior store of value (Calvo & Vegh, 1992) for a portion of his portfolio. One individual transaction may not be significant. However, when these actions are taken collectively by millions of people as indicated by BAPPEBTI's adoption data, the cumulative effect becomes substantial. Every Rupiah converted to Bitcoin for long-term storage effectively reduces the *demand pool* for Rupiah. This means that, *ceteris paribus* (assuming other factors remain the same), the total aggregate demand to hold Rupiah as an asset will decrease.

Based on basic economic principles, a decrease in demand for a good, while its supply remains fixed or even increases (through monetary policy), will create depreciation pressure (Krugman et al., 2017) on the price of that good. In this context, the price of Rupiah is its exchange rate against other currencies and its purchasing power of goods and services. Thus, this shift in value-holding preference can gradually weaken the Rupiah exchange rate in the long run. This is not a sudden shock, but rather a slow erosion that erodes the foundation of the currency's demand from within, which may ultimately complicate Bank Indonesia's task in maintaining Rupiah stability.

b. Volatility as a New Risk "Import"

One of the most significant new risks of the "digital assetization" phenomenon is that it opens up a channel of transmission of external shocks that did not exist before, namely through *volatility importation.* Unlike domestic assets such as property or stocks on the Indonesia Stock Exchange (IHSG) whose value generally reflects the health and fundamentals of the domestic economy (GDP growth, inflation, BI policy), the value of Bitcoin is determined by global market dynamics that are completely independent of Indonesia's economic conditions.

The price of Bitcoin is driven by a wide range of global factors: from interest rate decisions by *the Federal Reserve* in the United States, regulatory actions in China or Europe, investor sentiment on international derivatives exchanges, to evolving technological narratives in the global community. In

other words, the price of Bitcoin can plummet 30% in a week due to policy rumors from Washington, even when the Indonesian economy is stable or growing.

When millions of Indonesian households allocate a significant portion of their *net worth* to Bitcoin, they directly expose their personal balance sheets to the volatility of these global markets.(International Monetary Fund. Monetary and Capital Markets Department, 2022) As a result, a sudden and sharp drop in the price of Bitcoin would create a massive *household wealth shock*. This is a unique shock as it is imported(Bank for International Settlements, 2023) not from a domestic economic slowdown, but from events in other parts of the world. This negative wealth *shock* then has a pronounced *spillover effect*(Ando & Modigliani, 1963) into the domestic real economy.(Diebold & Yilmaz, 2009) Households that feel their wealth eroded will tend to reduce their consumption spending on local goods and services, which in turn suppresses economic growth. Furthermore, households that may use debt from domestic financial institutions to invest in cryptocurrencies may default, creating new credit risks for the local banking sector. This will present a very thorny policy dilemma for Bank Indonesia and the Financial Services Authority (OJK). Their policy instruments are designed to manage shocks that originate from within or are transmitted through conventional trade and financial channels. However, this "import of volatility" through digital assets creates new channels that move very quickly and are difficult to predict, thus significantly complicating their task of maintaining macroeconomic and financial stability.

3. Formulating Public Policy Responses: Competing or Coexisting?

a. Competing States: State Financial Product Innovation

In addition to the restrictive approach, the state can opt for a more proactive and constructive strategy, namely the competitive approach. Instead of trying to suppress demand for alternative assets, this approach focuses on the state actively "competing" for public trust. Its essence is to recognize that the public demand for reliable hedging instruments is legitimate, and then provide a superior solution guaranteed by the state. This approach directly aims to reinforce the Monetary Social Contract by innovating from within.

The analysis identified two main innovation pathways that could be pursued:

1) State Investment Instrument Innovation for Retail

The first route is the creation of government investment products that are explicitly designed to protect public wealth from inflation. The most concrete example is the issuance of *Inflation-Linked Retail Bonds*. This

instrument will have a mechanism similar to the *Treasury Inflation-Protected Securities* (TIPS(TreasuryDirect, n.d.) in the United States. The mechanism is that the principal value (initial capital) of these SBNs will be adjusted periodically based on official inflation figures released by BPS. Coupons (yields) are then paid based on the adjusted principal value. Thus, investors are guaranteed to receive real returns (above inflation), ensuring the purchasing power of their investment is not eroded.

By making it available in small denominations and easily accessible through digital platforms, this type of SBN is no longer just an instrument for institutional investors, but a state-guaranteed *"safe haven"* for the general public. This is a direct response to the value proposition of Bitcoin as an inflation hedge. The state is effectively saying, "You don't need to risk extreme volatility outside the system; we provide an instrument that is safe, legal, and explicitly designed to hedge your wealth against the inflation we manage."

2) Acceleration and Innovative Design of Digital Rupiah (CBDC)

The second path is through accelerated development of a Central Bank Digital Currency (CBDC), or Digital Rupiah, with features that not only mimic current electronic money, but also offer new advantages as a store of value.

Design Features Rupiah Digital can be designed with *programmability* features that allow the creation of new deposit instruments. For example, a "Digital Time Deposit" that offers more attractive returns or even indexed to certain economic variables, which can be accessed directly through the digital wallet without the intermediary of a commercial bank.

Through Project Garuda, Bank Indonesia(Indonesia, 2022) is already on this path. However, to truly compete, the focus of the Digital Rupiah design should not only be on *wholesale* or retail payment efficiency. It should also be positioned as a superior digital(Bank for International Settlements, 2020) store-of-value vehicle: most secure (as it is a direct obligation of the Central Bank), fee-free (or very low-cost), and potentially offering innovative yields. It would be a direct counterpoint to *stablecoins* and, to some extent, to other cryptocurrencies as a digital unit of deposit.

Overall, the competitive approach(Hayek, 1976) repositioned the state from being a mere referee or gatekeeper to an innovative player. The

main challenge is whether these innovations, which are still ultimately tied to the discretionary policies of monetary authorities, can really match the appeal of Bitcoin's most fundamental property: decentralized and apolitical absolute scarcity.

b. Country Side-by-Side: Controlled Integration

1) Recognition-Based Regulation

The third and perhaps most pragmatic path is the integrative approach. This approach does not view the adoption of digital assets as a threat to be annihilated (like the restrictive approach) or as a rival to be defeated (like the competitive approach). Instead, it is based on the *acknowledgment* that this phenomenon is a permanent market reality, driven by people's real need for hedging.

The aim of this approach is not to ban or compete directly, but rather to build a solid regulatory "fence" around this ecosystem. The goal is to steer activities from a "gray area" into a safe, transparent, and productive sector of the formal economy. This is achieved through the creation of a clear legal framework, which stands on three main pillars:

a) A Fair and Pro-Growth Tax Framework

The first fundamental step is to reform the digital asset taxation regime. The current final income tax and VAT models in Indonesia tend to be burdensome and treat crypto assets like consumer goods, which can hamper market liquidity and drive investors to offshore platforms. An integrative approach proposes a shift to a capital gains tax model, a model adopted by many developed countries.

In this model, tax is only levied on the net profit an investor realizes when selling their assets, not on each transaction. This is fundamentally fairer and more pro-growth. It recognizes the function of digital assets as investment/capital assets, rather than ordinary merchandise. With reasonable rates and clear reporting rules, this framework can increase voluntary tax compliance and ultimately increase state revenue without shutting down the market. This is in line with the crypto-asset reporting framework being developed at the global level by the OECD (2022)(OECD, 2022)

b) Consumer Protection and Strict Exchange Surveillance

Recognizing that the greatest risk to society is not from the Bitcoin property itself, but rather from the failure of

intermediary platforms, the second pillar is strong consumer protection. This creates trust not in the asset, but in the domestic infrastructure to access the asset.

This regulation should include strict operational standards for Crypto Asset Physical Traders (exchanges), such as; Minimum capital requirements to ensure solvency, Mandatory segregation of customer assets from the company's operational assets to prevent misuse of funds, Regular and independent cybersecurity audits and full transparency of fees, risks and the process of listing new assets. The Markets in Crypto-Assets (MiCA) regulatory framework(European Parliament, 2023) in the European Union can be a key reference in designing such comprehensive rules (European Commission, 2023).

c) Robust Anti-Money Laundering (AML/CFT) Regime

The final pillar is to integrate the digital asset ecosystem into national anti-money laundering and countering the financing of terrorism (AML/CFT) regimes. This is an absolute prerequisite for legitimacy. By imposing strong KYC *(Know-Your-Customer)* obligations at *on-ramp* and *off-ramp* points (i.e., exchanges where Rupiah is exchanged into crypto assets and vice versa), regulators can mitigate the risk of illicit activities. The implementation of the *Travel Rule* as recommended by the *Financial Action Task Force* (FATF, 2023), (FATF), 2024) which requires the exchange of information on the sender and receiver of transactions, is a crucial step in this pillar.

Overall, this integrative approach creates safe and legal spaces for communities and innovators. For the state, it turns a difficult-to-control sector into a new source of tax revenue and economic growth. For communities, it provides legal certainty and protection from bad practices. This approach pragmatically recognizes that the state can coexist with non-government assets, as long as the interaction between the two worlds is clearly and firmly regulated.

D. Conclusions

The analysis conducted in the previous chapters yields three main findings that answer the research questions. First, it was found that the main drivers of digital asset adoption in Indonesia are dualistic: triggered by the collective memory

of domestic monetary instability, yet fundamentally driven by global narratives of trust erosion and the potential for systemic devaluation of fiat currencies. Second, this "digital assetization" phenomenon has serious implications for national monetary sovereignty. The main risk is the weakening of Bank Indonesia's monetary policy transmission channels and the opening of new channels for "volatility imports" from global asset markets, which could threaten domestic financial stability. Third, it was found that policymakers are faced with a spectrum of responses, where restrictive approaches prove to be high-risk and counter-productive, while more pragmatic approaches both competitively and integratively offer solutions to manage risks while capturing innovation opportunities.

Based on these findings, this research comes to a central conclusion where the adoption of Bitcoin as a hedge by some Indonesians is not a technological problem that should be suppressed, but rather a very important market signal that should not be ignored. This phenomenon is a natural feedback from the public on the current health of the Monetary Social Contract. It reflects the real demand for a store of value asset that is resilient to discretionary monetary policy. Therefore, any policy response that focuses solely on limiting the technology by positioning the adoption of digital assets as a "disease" to be cured is doomed to fail. Such policies will only address the symptoms, not the root of the problem. The real root of the problem is the erosion of trust. Attempts to ban "lifeboats" will not make passengers more trusting of the captain or the condition of the ship they are on. Failure to understand this will render policies irrelevant and risk pushing more economic activity into digital spaces that are beyond the reach of regulation.

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