HISTORY OF BANK INDONESIA : INSTITUTION

Period from 1953-1959

Contents :

1. Highlights

Republik Indonesia Serikat (RIS) was short lived as on 17 December 1950 Indonesia returned to the unitary state. Yet, its struggles for its independence continued as clashes and revolts emerged owing to the poor relationship between the central government and the regions. Indonesia was in search of its democratic form that conforms its way of life as a nation and state. Meanwhile, its economic challenges were equally enormous. The dire economic conditions inherited from the colonizers were aggravated with huge spending to cope with unstable political condition during the 1950s. The government of the Republic of Indonesia was trying to rehabilitate its national economy in line with the emergence of the people's demands for revamping the colonial economy with the national one.

The elucidation of the 1945 Constitution stipulated the foundation for the economic development, among others by focusing on the existence of the Central Bank. Through the nationalization of De Javasche Bank (DJB) at the end of 1951, the attempts to set up a Circulation Bank and Central Bank for the Republic of Indonesia began. On 10 April 1953, the parliament endorsed Draft Principal Act on the Central Bank which had previously been presented by the Nationalization Committee in September 1952. The draft was enacted as Act No. 11 of 1953 regarding the Principal Act of the Central Bank that was effective from 1 July 1953. This marked the birth of Bank Indonesia (BI) as the Indonesian Central Bank.

In carrying out its duties, Bank Indonesia was managed by the Monetary Board, Board of Directors, and the Board of Advisors. The Monetary Board comprised the Minister of Finance as chairman and the Minister for the Economy and Governor of the Central Bank as member. The Monetary Board's main duty was to set the monetary policies in general and give directions to the Central Bank's Board of Directors. The government was accountable for such monetary policies. Meanwhile, the main duties of BI were to regulate the monetary units, circulate money in Indonesia, take care of loan and banking affairs, and supervise credit affairs.

In accordance with International Financial Conference of 1920, one of the goals of establishing the Central Bank in each country was to guarantee the world interest which requires international cooperation. Generally, international cooperation of a country in the monetary, banking and financial sectors is represented by its Central Bank. In Indonesia, BI does this too. Pursuant to Act No. 5 of 1954 dated 1 February 1954 (State Gazette No. 16 of 1954), BI serves as a member of international institutions, namely International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) as to ensure international cooperation for the sake of Indonesian economy.

In early 1957, BI set up a new division named Credit Affairs Supervision Section (Bagian PUK). Initially, this section had to recruit people with little experience. Consequently, BI ran Bank Examination Course with the assistance from a senior supervisor from the Central Bank of the Philippines. This section adopted the system applied by the Federal Reserve Bank of the United States.

2. The Monetary Board according to Act No. 11 of 1953

The management of Bank Indonesia pursuant to Act No. 11/1953 was under the Monetary Board, the Board of Directors and the Board of Advisors. The Monetary Board was then made up the Minister of Finance, the Minister for the Economy and Governor of Bank Indonesia. This Board served to set the BI's monetary policies in general and provide the guidelines for the Board of Directors pertaining to the bank's policies. The stipulation on the Monetary Board in Act No. 11 of 1953 was not in line with the thoughts of Mr. Sjafruddin Prawiranegara as the last DJB President concurrently the first Bank Indonesia's Governor. Sjarifuddin was of the opinion that the existence of the Monetary Board as part of the management of Bank Indonesia had made the organizational limit between the government and Bank Indonesia was not definite. According to him, to bridge the government's interests and Bank Indonesia's interest, a Coordination Board had to be set up and it made of the representatives of the government and the Bank's Board of Directors and its existence was beyond the leadership structure of the central bank. In this way, the government could not excessively intervene the central bank, and on the other had the central bank would not become overly independent from the government. In reality, such format never materialized. Up to 1968, the existence of the Monetary Board virtually remained as stated in Act No. 11 of 1953.

Not every central bank in each country has the monetary board. However, in its developments, Bank Indonesia being the central bank in the Republic of Indonesia for a number of periods own a monetary board as the board in charge of regulating the monetary policies. In this article, you will find out the role of the monetary board, its duties, the developments of the monetary board in line with the cabinet structure, and what decisions have been made by the monetary board. You will better understand these accounts in two parts.

Nearly all countries in different parts of the world own central banks, though not all of them own their monetary boards, which in simple terms may be defined as the board in charge of monetary policies, namely the policies that affect or relating the ensure that the money supply is in par with the money demand.

Although specifically, the role of the monetary of the central bank in each country is not always in uniform, generally the role of this monetary board consists of two functions, namely as the executing body and coordinating body. The executing body refers to the role whereby the monetary board issues binding decisions over the final accountability of the government. While coordinating body refers to the role of the monetary board to coordinate the functions which affect the monetary conditions to help the government in terms of policies comprising government regulations. The goals were to ensure the achievement of economic growth as desired according to the inflation rate acceptable by the countries concerned.

Prior to the birth of Bank Indonesia, limited monetary policies were carried out by the circulation bank then, namely De Javasche Bank. This was evident from minutes of meeting of state-owned Bank Indonesia with a corporate entity based on Act No. 11 of 1953 concerning the Determining the Principal Acts on Bank Indonesia.

When this act was being formulated, President of De Javasche Bank, Sjafruddin Prawiranegara in his annual report of 1951/1952 disclosed his reservations that the right of the central bank to print and circulate money could be made use by the government as financial source. To anticipate this, the bank deemed it necessary to set up a Coordinating Board to bridge the interests of the government being the owner and the central bank which required independence in stipulating and/or implementing monetary policies.

The worries of Sjafruddin Prawiranegara were reasonable because the Monetary Board set up was different from his original thoughts. Sjafruddin mentioned about this in his annual report of De Javasche Bank of 1952/1953. He explained that initially De Javasche Bank was separate from the government, although in certain matters, the government could intervene. However during the period of Bank Indonesia, such organization line became unclear when the Monetary Board's position was placed above the Board of Directors of Bank Indonesia. According to him, the structure and the duties of the Monetary Board had to be regulated in a separate act.

According to Act No. 11 of 1953, the Monetary Board was made up of 3 members with voting right, namely the Minister of Finance, Minister of the Economy, and the Governor of Bank Indonesia. This board was chaired by the Minister of Finance and in his absence, the Governor of Bank Indonesia could temporarily take over his position.

In the event that members of the Monetary Board were impeded from attending the meeting, they had to appoint their representatives with a written authorization so that they could cast their votes. The Monetary Board met every 14 days or more frequently if the members with the voting right desired so.

The Monetary Board appointed its own secretary, appointed and terminated its staff.

The duties of the Monetary Board were to set general monetary policies which had to be executed by Bank Indonesia; give directions to the Board of Directors regarding BI's policies in other affairs, as long they were required by the public, such as determining the banks' interest rates which were considered as general monetary policies or BI's affairs concerning public interests. So were the duties of Bank Indonesia, as referred to the articles and paragraphs that regulated these.

In carrying out its duties, the Monetary Board was assisted by the Board of Advisors which was supposed to give advices, either asked or not, and discussed all the problems of the Monetary Board aimed at making this Board able to set its policies maximally in correspond with the developments in the communities.

The duties of the Board of Directors of Bank Indonesia were:

1. Implement the general monetary policies as determined by the Monetary Board
2. Disburse loans through Bank Indonesia, particularly to extend credits with the terms and conditions pertaining to such loans, and terminate the ongoing loans, and rejected credit extensions.
3. Perform any other duties of Bank Indonesia in view of the guidance from the Monetary Board.

In correspond with the development of the parliamentary system resulted from the changes of the cabinet, the membership of the Monetary Board underwent changes in line with the cabinets of different eras.

1. During the cabinet of Ali Sastroamidjojo I, the Minister of Finance was held by Ong Eng Die and the Minister of the Economy was held by Iskaq Tjokrohadisurjo.
2. In the following cabinet, namely Burhanuddin Harahap, the Minister of Finance was held by Sumitro Djojohadikusumo and the Minister of the Economy was held by I.J. Kasimo.
3. In the following cabinet, namely Ali Sastroamidjojo II, the Minister of Finance was held by Jusuf Wibisono and the Minister of the Economy was held by Burhanuddin'
4. During the Djuanda's cabinet, the Minister of Finance was held by Soetikno Slamet, the Minister of Trade was held by Rachmat Muljomiseno and the Minister of the Industry was held by F.J. Inkiriwang who served as the acting member in the Monetary Board

The structure of the Monetary Board was again revised following the Presidential Decree of 1959. The chairmanship was held by Ir. Djuanda who was concurrently the Minister of Finance, while Mr. Loekman Hakim, concurrently the Governor of Bank Indonesia served as a member who could act as the chairman in case of his impendence. The members comprised Dr. J. Leimena, concurrently Minister of Distribution, Col. Suprajogi, concurrently Minister of Production, Chaerul Saleh, concurrently Minister of Development and R.M. Notohamiprodjo, concurrently Junior Minister for Finance as acting members.
Apart from regulating the membership of the Monetary Board, Act No. 11 of 1953 regulated the procedure of decision making, such as:

1. The decisions of the Monetary Board were made based on the majority votes.
2. Members of the Monetary Board whose votes were outnumbered, within one week were entitled to refer the argument to the Board of Ministers for its final decision.

Pending the decision of the Board of Ministers, a member could request that the implementation of the decision made by the Monetary Board be postponed and such request could be granted, unless the Monetary Board in an extremely urgent matter decided otherwise.
In case the opinion was unjustifiable, the Governor reserved the right to announce his stance in the State Gazette provided that according to the Board of Ministers, such was not contradictory with the interests of the state. Minutes of meeting of the Monetary Board was strictly confidential, however, the government might access to it if it desired to.
From 1953-1959, the Monetary Board issued a number of regulations, among others:

1. Decision of the Monetary Board regarding Extra Import Duty (TPI) for importation of goods, category II, namely luxurious goods, and category IV, namely super luxurious goods, namely 200% for category III and 400% for category IV.
2. Decision of the Monetary Board which served as general regulation concerning credit ceiling by the private credit institutions. All private credit institutions

which recorded demand deposit and fixed deposit of at least Rp 75 million had to place part of the cash in the form of State Treasury Paper (KPN) and effected the minimum basic ration between the amount of cash and demand deposit & fixed deposit. Part of the cash saved as State Treasury Paper and such minimum basic ratio was determined by Bank Indonesia with the approval from the Monetary Board.

3. Decision of the Monetary Board which regulated that the establishment of bank branch offices was subject to the approval from Bank Indonesia provided:
    - The establishment of a commercial bank branch office required paid up capital and free reserve of at least Rp500,000 above the paid up capital of minimum Rp 2,500,000.
    - The establishment of saving bank branch office required paid up capital and free reserve of at least Rp100,000 above the paid up capital of minimum Rp500,000.
4. In addition, the Monetary Board set the general prerequisites regarding the closure of credit institution branches, namely:
    - The closure of a credit institution branch had to be approved by Bank Indonesia.
    - The written application for such closure had to submitted not later than one prior to the closure date.
    - The application for the closure of a credit institution branch had to be enclosed with the most recent statement of the branch to be closed.

Act No. 11 of 1953 also stated that the government was responsible for monetary policies. Its realization was visible when the government announced the approval of the Monetary Board's meeting dated 18 June 1957, which ensured the balance of export and import, improved the foreign exchange reserve through export increase, and simplified the foreign exchange regulation to overcome the monetary, financial and economic problems.

The Monetary Board pursuant to Act No. 11 of 1953 was made up the Minister of Finance, Minister for the Economy, and the Governor of Bank Indonesia. The Board was assigned to determine the general monetary policies which would be executed by Bank Indonesia, and give the guidelines for the Board of Directors regarding the policies of Bank Indonesia for other matters which affected the public interests. In carrying out its duties, the Monetary Board was assisted by the Board of Advisors. During the period of 1953-1959, the Monetary Board issued a number of regulations concerning Extra Import Duties (TPI), credit ceiling by private credit institutions, opening branch offices and the prerequisites for the closure of credit institution branches

3. History of the Establishment of the Central Bank in Indonesia

The idea to incorporate the central bank had emerged from the period of drafting of the 1945 Constitution through the meetings of BPUPKI and PPKI (committees to prepare for the Independence). This idea was later contained in the Elucidation of Article 23 of 1945 Constitution regarding Financial Matters. The step towards the establishment of the central bank began with the issuance of Power of Attorney from Soekarno-Hatta on 16 September 1945 to R.M. Margono Djojohadikoesoemo to pave the way for the establishment of Bank Negara Indonesia. Shortly afterwards, Jajasan Poesat Bank Indonesia, which was later turned into Bank Negara Indonesia (BNI), was set up. As the Central Bank during the revolutionary period, BNI failed to carry out its role to the maximum. Meanwhile, De Javasche Bank (DJB) which once served as the Circulation Bank during the Dutch East Indies period, again opened up its branches in the territories controlled by NICA in early 1946. One of the resolutions reached from the Round Table Conference in 1949, was stipulating DJB as the circulation bank for the Unitary Republic of Indonesia (RIS) and BNI served as a commercial bank. When RIS was dissolved on 17 August 1950, the Republic of Indonesia wished to own an independent central bank and was free from any foreign ownership. Such desire was focused on nationalizing DJB which has been playing the role as the Circulation Bank despite its status as a private bank and domination by the Dutch. In 1951, DJB was nationalized and its share ownership was resolved by the Nationalization Committee. Therefore, upon the enactment of Act No. 11 of 1953 regarding the stipulation of the Main Act on Bank Indonesia, on 1 July 1953, DJB was turned into Bank Indonesia as the central bank for the Republic of Indonesia.

The history records that the economic and financial activities served as the backbone in the progress of a nation. In this case, the role of the central bank is vital for an institution which is responsible for controlling the monetary and banking system of a country of which its policies may affect its economy.

In carrying its duties, central banks are generally empowered to circulate money apart from having the role to regulate, develop and supervise banking activities. As you are aware of, a bank is a financial intermediary institution. In addition, a central bank plays the role as lender of the last resort for banks experiencing liquidity shortage. Further, the central bank serves as the control of the monetary system. From this role, it is more obvious that the central bank is in charge of developing the sound credit system. As a country recovering from dire condition resulting from the long colonization period, the founders of Indonesia were aware that this country needed a central bank. This thought came up during the deliberation of the draft 1945 Constitution in the session of the Team for the Exploration for Indonesian Independence (BPUPKI) and the Committee for Indonesian Independence Preparation (PPKI).

On 5 July 1946, Act No. 2 in lieu of Government Regulation of 1946 on the establishment of Bank Negara Indonesia (BNI) was enacted. This was followed by merging "Jajasan Poesat Bank Indonesia" with BNI. The head office of the bank made use of former Dutch bank, De Javasche Bank of Yogyakarta.

Notwithstanding BNI's status as the central bank which was not expressly contained in Act No. 2 in lieu of Government Regulation of 1946, a few of its articles declared BNI's duties to serve as the central bank, among others laid down in article 1, article 6, article 7 and article 10.

The announced existence of the Unitary State of the Republic of Indonesia (NKRI) shocked the Dutch with its NICA when they arrived again in the archipelago and this soon heated the situation. For certain, the Dutch did not want to recognize the self-proclaimed Indonesian Independence and attempted to regain the control of the Indonesian territories piece by piece.

In line with this, the Dutch reopened a number of De Javasche Bank (DJB) offices in the territories they managed to occupy.

The clashes for controlling the territories were marked with the establishment of DJB in Semarang, Manado, Surabaya, Banjarmasin, Pontianak, Bandung, Medan, and Makassar. On 21 July 1946, the Dutch managed to expand its control through military actions known as Clash I. In line with this, four DJB offices were opened, namely DJB Palembang, Cirebon, Malang, and Padang. During Clash II, on 19 December 1948, the Dutch occupied Yogyakarta and reopened three DJB offices in Yogyakarta, Solo and Kediri.

The condition of the Republic of Indonesia which was torn apart as described above became the embryo of the Indonesian central bank which would develop with difficulties. Also, this condition affected the performance and the implementation of BNI's duties. BNI's offices which generally occupied the former DJB offices had to be evacuated when the cities were occupied by the Dutch, and DJB offices were then reopened. As a result, BNI was unable to perform its central bank role.

Based on the initiative of the Security Council of the United Nations, the Round Table Conference was convened and one of its resolutions was recognition of the full sovereignty of the Republic of Indonesia on 27 September 1949 as Republic Indonesia Serikat (RIS). The other resolution of the Round Table Conference determined that DJB would act as the circulation bank. As a result of the Round Table Conference, the status and role of BNI were changed to a commercial bank.

The Dutch apparently denied the resolution of the Round Table Conference on West Irian (Papua). This made the Indonesian Government decide to return to the Unitary State of the Republic of Indonesia. This sparked strong nationalism spirit, including the wish to nationalize De Javasche Bank. On 30 April 1951, The Indonesian Minister of Finance, Jusuf Wibisono in a press conference announced the Indonesian Government's desire to nationalize DJB and turn it to a circulation bank. This statement which was made without prior consultation with DJB triggered the resignation of DJB's President, Dr. A. Houwink.

Further, pursuant to Presidential Decree No. 123 dated 12 July 1951, Sjafruddin Prawiranegara was appointed President of DJB.

The Prime Minister, dr. Sukiman Wirjosandjojo reiterated his official statement on the nationalization of DJB to the House of Representatives. Afterwards, through Presidential Decree No. 118 dated 2 July 1951, which was retroactively valid from 19 June 1951, the government set up "The Committee for the Nationalization of

Javasche Bank NV". The committee was chaired by Mohamad Sediono and the members were made up of Soetikno Slamet. Dr. R.M. Soemitro Djojohadikusumo, T.R.B. Sabarudin, and Drs. Khouw Bian Tie. This committee had the duty to nationalize DJB and determine a new status for the Indonesian central bank.

In carrying such duty, the first measure taken by the committee was purchasing the ownership shares in DJB by the government at the exchange rate of 120% in Dutch currency or another currency in correspond to the domiciles of the shareholders with equivalent conversion rates, and 360% for the shareholders of Indonesian nationals or residents in rupiah. In this way, as much as 99.4% of DJB's ownership was taken over and 0.6% was deemed forfeited as its ownership was unclear. On 15 December 1951, DJB was officially nationalized in compliance to Act No. 24 of 1951.

The next duties of the DJB Nationalization Committee were to draft the act on Bank Indonesia as the central bank. The draft act was endorsed by the House of the Representatives on 10 April 1953 and called the Principal Act on Bank Indonesia No. 11 of 1953 and was declared effective from 1 July 1953. From this time on, Bank Indonesia officially became the Indonesian Central Bank.

Bank Indonesia was different from its predecessor, namely De Javasche Bank. DJB was made up of the board of directors, advisors, government commissioners, and the board of commissioners, while Bank Indonesia comprised the monetary board, board of directors, and board of advisors. Besides, the board of directors of DJB consisted of the president, vice president I and II, director, director I and II; while the board of directors of Bank Indonesia was made up governor and several members of the board of directors.

The corporate entities of DJB and Bank Indonesia were not the similar either. DJB was a *Naamloose Vennootschap* (NV), while Bank Indonesia was incorporated pursuant to a act.

In terms of their duties, these institutions were not the same. DJB was not assigned other duties in the monetary and banking sector but circulating money and accepts periodical reports from banks. Bank Indonesia, on the other hand, according to Act No. 11 of 1953, carried out the mission to develop the banking sector and make it sound in correspond to credit affairs and bank affairs in Indonesia.

Apart from that, in terms of government's intervention, DJB was quite independent although in some matters, it had to receive consent from the government, in this case the Governor General. While Bank Indonesia also accommodate the government's elements in its organizational structure, namely the Minister of Finance and Minister for the Economy as the Chairman and Member of the Monetary Board. The Monetary Board was so powerful. Not only it set the general policies in the monetary field, but it determined other matters deemed relating to the public interests, including setting bank tariffs.

The history of the early period of the central bank in Indonesia began. Although the presence of the Monetary Board as part of the management of Bank Indonesia made the organizational structure of this institution not entirely independent from the government's intervention, the existence of Bank Indonesia as the central bank contributed a lot to the economic and monetary aspects in Indonesia later on.