

HISTORY OF BANK INDONESIA : INSTITUTION
Period from 1999-2005



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Highlights

In mid 1999, Indonesia was under Abdurrachman Wahid as President and Megawati Soekarnoputri as Vice President. The cabinet was formed on 26 October 1999. This government was not able to fully control the political stability of Indonesia as numerous separatist movements emerged sporadically in Papua, Aceh and Riau islands. The condition of the government became worse amid the rows between the President and the House of Representatives which led to the Special Assembly which dethroned Abdurrachman Wahid from his presidency. Until the end of this period, Megawati Soekarnoputri was in charge along with Hamzah Haz as Vice President.



Throughout this period, the economic development improved as many positive factors began to emerge. These included: favorable developments of international economy, domestic sociopolitical developments, in particular during the tenure of President Megawati, which were quite conducive and stabilizing monetary situation.

Reform movements continued, although the political atmosphere in the first half of this period was dominated by the rows and quarrels among the political elites. The parliament's success to amend the 1945 Constitution during the Annual Assembly of 2001-2003 was an example of such reform. Similarly, BI following its evolution for 46 years, BI eventually achieved its status as an independent central bank pursuant to Act No. 23 of 1999 dated 17 May 1999. The changes in the political, economic, socio-cultural, defense and security and legal paradigms during the reform era all led to BI's independence as the central bank. It was truly a long journey and such status has always been debatable from BI's establishment in 1953. Nonetheless, in its early period of independence, BI had to undergo an enormous test. First, Indonesia's economic and monetary conditions were so bleak as a result of the crisis. Second, the public worn its patience and was not confident with BI's ability to recover the economic condition. Third, the vital and strategic role of BI as the central bank became the highlight and concern of various political interests.

Act No. 23 of 1999 concerning Bank Indonesia contained major revisions as regards the status, goals and duties of BI as the central bank. The Act stipulates that BI is an independent state institution, free from any Government's intervention or other parties except for matters which are expressly regulated by acts. BI has a single objective, namely to achieve and maintain stable rupiah value. For such purpose, BI remains being supported with three traditional main functions of the Central Bank, namely monetary control, regulating and maintaining payment system and regulating and supervising banks. Apart from that, the monetary management duties are fully controlled by Bank Indonesia, as the Monetary Board was eliminated. Furthermore, with the enactment of the Amendment of Act on Bank Indonesia, as of 15 January 2004, some flexibility of BI's Independence in Act No. 23 of 1999 has been modified and readjusted.

Act No. 23 of 1999 encourages independence, transparency and accountability. Simultaneously, both in the national and global scale, there were demands that BI carries out fundamental changes. Consequently, in 2000, BI conducted an overall

evaluation of its vision and missions, organization, working pattern and human resource development. Formally, as from February 2001, BI changed itself through the Transformation program of Bank Indonesia. Such strategic program changes were carried out to speed up the incorporation of Bank Indonesia that could better anticipate and adjust itself with the ongoing changes and met its stakeholders' expectations.

To achieve such goals, the following measures were taken including, operationally, ten strategic changes which included monetary policies, banking, payment system and internal management which had to be processed in an integrated manner to achieve the goals of changes, namely performance-based new working process, new working competence and new working culture. In this way, BI's performance and image could be improved.

Finally, through a long political process, in the end of 2003, Act No. 23 of 1999 concerning Bank Indonesia was amended and declared as Act No. 3 of 2004 on 15 January 2004. In such amendment, BI's goals were focused on the monetary control by maintaining the principle of equilibrium between BI's independence and the supervision, responsibility over the performance and transparent public accountability. In this way, to carry out sustainable, consistent and transparent monetary policies, BI must take into account the Government policies in general in the economical sector. In addition, if a bank experiences a financial problem which may cause systematic impacts and spark crisis which may endanger the national financial system. BI will therefore provide emergency funding facility of which its financing is borne by the Government. Until now, BI has been operating under Act No. 3 of 2004 as an independent central bank for Indonesia.