

HISTORY OF BANK INDONESIA : INSTITUTION  
Period from 1983-1997

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## Highlights

In the National Election of 1987, the Golkar Party garnered  $\frac{3}{4}$  votes and in early 1983 Soeharto was reelected President of the Republic of Indonesia for his fourth term. This domination continued until 1997 whereby the Golkar Party earned 74% of the votes and Soeharto was reelected the President of the Republic of Indonesia for his sixth term. From 1980s to 1990s, Indonesia was enjoying a relatively stable political condition despite a number of riots and political violence which had also occurred in the previous period. The Indonesian economy remained fluctuating and the government introduced deregulations and simplification of the bureaucracy in stages affecting the financial and economic sectors. Bank Indonesia kept operating based upon Act No. 13 of 1968 concerning the Central Bank and several articles in Act No. 14 of 1967 on Banking. However, in its implementation, there were fundamental changes as the policies carried out by BI were based on the deregulation and bureaucracy simplification introduced by the Government.



Viewed from the institution perspective, the deregulation policies in the monetary and banking sectors could be analyzed from two aspects, namely the demand for strategic environment and acts & regulations. BI's deregulations were part of the government's policies to make BI as the central bank that indirectly developed monetary instruments. Gradually therefore, BI's involvement in the government's development project, among others through Bank Indonesia's Liquidity Loan (KLBI) was reduced. Aside from that, BI's deregulations were introduced in compliance to the Act concerning the Central Bank of 1968.

The changes of BI's policies through monetary and banking deregulations announced from 1983 to 1991 demanded the revisions of the banking system in Indonesia. As a result, Act No. 14 of 1967 and Act No. 7 of 1992 on Banking were amended. Act No. 7 of 1992 on Banking contained the government's empowerment to BI to assess the level of banks' soundness in terms of their capital, asset quality, management quality, rentability, liquidity, solvability and other related aspects. Besides, Act on Banking of 1992 confirmed and extended more power to determine the credit ceiling to individuals or debtors, the efforts to support the program to improve the people's standard of living and role of BI in enhancing and supervising banks including the measures against the banks experiencing problems that threatened their survival.

Furthermore, the monetary and banking deregulations also demanded BI to improve its internal organization. BI's functions were divided into 4 major divisions, namely monetary, banking, bank service and internal management. These divisions were further divided into working units based on the uniformity of work, share of burden, coordination/integration, effectiveness of the span of control, avoidance of conflict of interest by focusing on the work outcome. Fundamental changes occurred to the role of bank supervision and enhancement. Working units, which initially had been carried out by separate working units and not under the same coordination, were made under the same bank supervision and enhancement. The intensity of supervision aspect of state banks was stepped up into a responsibility as separate affairs at the level of a Directorate.

In 1994, BI asked for the assistance from international consultants to revamp BI's organization. In line with this, BI's employee management was changed from personnel management to human resource management. While, BI's Strategic Plan Development (Renstra) efforts were adopted to align BI's strategies and roles with the Five-Year Development Plans and manage the uncertainty factors. These steps were initiated through a simulation of formulating BI's Strategic Plan Development of 1984-1989 which comprised the mission, strategies and policies that would be adopted by BI. Based on such Strategic Plan Development, BI determined the annual directions by the Board of Directors of Bank Indonesia. These directions were made as the framework of the Working Plans and Annual Budget.