

Period of Recognition of the Republic of Indonesia's Sovereignty up the Nationalization of DJB

As soon as the Japanese surrendered to the Allied Force on 15 August 1945, Indonesia proclaimed its independence on 17 August 1945. However, when the Dutch arrived in Indonesia again, the revolution movements began and Indonesia was divided into two parts. The following article discusses the banking conditions in Indonesia during the revolution period, particularly in terms of their institution, both in the territories controlled by NICA (Dutch) and those controlled by the Republic of Indonesia. The accounts began from the attempts to set up the national central bank in the Indonesian territories up to the taking over of the role and duties of the circulation bank from Nanpo Kaihatsu Ginko to De Javasche Bank.

The Round Table Conference agreed to form a flexible union between the Netherlands and The Unitary State of the Republic of Indonesia (RIS) with the Dutch Queen as their symbolic leader. The resolutions from the Round Table Conference were then submitted to the Central Indonesian National Committee (KNIP) for ratification. Soekarno was appointed President of RIS on 17 December 1949. Three days afterwards, Soekarno officiated RIS Cabinet chaired by Prime Minister, Moh. Hatta. Further, on 27 December 1949, both in Indonesia and Netherlands, there were the ceremonies to sign the document of handing over the sovereignty. As from the date, the Netherlands officially recognized the independence and sovereignty of the Republic of Indonesia as part of The Unitary State of the Republic of Indonesia (RIS).

The RIS government was short lived, as on 17 August 1950, the government of The Unitary State of the Republic of Indonesia (RIS) was officially dissolved as Indonesia decided to embrace the Unitary State of the Republic of Indonesia (NKRI). From this time onwards, the government adopted the parliamentary system and embraced Liberal Democracy. Initially, the Indonesian economy was riddled with massive problem, namely the post war economy. The government was unable to step its production using the existing resources to jack up its national revenues. For example: in its exporting activities, Indonesia relied only on plantations of which the value of their total output remained before that of World War II. The weakness of the Indonesian economy then stemmed from the fact that its financial policies were not designed by Indonesia but by the Dutch. As a result, in the early 1950s, the national economic structure was dominated by the Dutch economic structure.

DJB After the Sovereignty Recognition

The change of the state system did not affect the position of De Javasche Bank (DJB) as the circulation bank. This was so because of the regulation in the Provisional Constitution of the Republic of Indonesia approved to supercede the Temporary Constitution of The Unitary State of the Republic of Indonesia in article 10 paragraphs 1 and 2 that "For Indonesia, there is one Circulation Bank and its Appointment as Circulation Bank as well as its provisions on its existence and power shall be regulated with a act".

Yet, the return of Indonesia to the unitary state had sparked the spirit to create a national economy that was free from foreign domination, particularly from the Dutch. Under such circumstance, the government of the Republic of Indonesia was attempting to liberate itself from the bonds and restrictions jointly made with the

Dutch during the Round Table Conference. Furthermore, there were urges and demands to nationalize all companies and institutions being controlled by foreigners, including DJB which was then the circulation bank for the Republic of Indonesia having the status of Dutch private bank. Ideally, being a sovereign country, the Republic of Indonesia had to own its central bank with the regulations tailor made to the national interests and not linked to the regulations of another country. Such desire was ultimately directed to the nationalization efforts of DJB that had so far been playing the role as the circulation bank and contributed to sustain the state economy.

On 30 April 1951, the Minister of Finance, Jusuf Wibisono before the mass media put forward the government's intention to nationalize DJB in the near future. As such press conference had not been notified to the Board of Directors of DJB, A. Houwink, the then DJB President asked to resign. He felt that he was no longer trusted by the government and lacked the power to carry out his duties as the DJB President. On 28 May 1951, the Sukiman Cabinet announced the decision to nationalize DJB before the House of Representatives. Shortly, the government through Government Decree No. 118 dated 2 July 1951 legalized the establishment of the Nationalization Committee which had begun its duties from 19 June 1951.

The Nationalization Committee was made up of Moh. Soediono and members concurrently chairmen were Mr. Soetikno Slamet, Dr. Sumitro Djojohadikusumo, TRB Sabaruddin, Drs. Oudt and Drs. Khouw Bian Tie. The committee was assigned to propose recommendations on the nationalization steps, submit draft nationalization act and draft a new act on the central bank. The first step taken by the Committee was offering the shares of DJB to the public. Finally the government managed to purchase 99.4% of DJB stocks at the Dutch Stock Exchange with the price 20% higher than their nominal value (120%) paid in Dutch currency or conversion rate of 360% in rupiah currency. The stock purchase went smoothly at the nominal price and certificates worth 8.95 million gulden. Subsequently, on 15 December 1951, the government enacted the DJB Nationalization through Act No. 24 of 1951 dated 6 December 1951. Upon such nationalization, DJB became the Indonesian Government's circulation bank, no longer a private bank (owned by the Dutch).

Monetary Policies upon Sovereignty Recognition

Upon the sovereignty recognition, the RIS government had to face serious and intermingled economic problems, namely enormously low economic productivity resulting from crippled production sector, foreign exchange crisis, scarcity of consumer goods to meet the domestic need, and worrying inflation rate due to the deficit of the state and government budgets. To respond to such conditions, the President of DJB in its Annual Report of 1950-1951 was of the opinion that a policy had to be adopted to increase the production of export commodities. The export earnings could be used to finance import in order to improve the production means and rehabilitate infrastructure as well as pay for the government expenditure before the government had adequate revenue sources. These measures could hopefully reduce the impact as a result of the State Budget deficit.

Further, in the Annual Report of 1951-1952, the DJB President in detail described a number of issues which had aggravated the Indonesian economy. Among others were imbalanced economic and monetary policies, government policies were not focused on rehabilitating small and primary businesses such as agriculture and

people's industry, but were emphasized on the development of new production branches which were secondary and in large scale. Frequently, the imported goods which had arrived in Indonesia were left piling up idly as they were unaffordable by the consumers with weak purchasing power. Aside from that, the national economy was hampered with the overly centered government system in Jakarta. DJB was of the opinion that Indonesia as a unitary state had to give autonomous power to the regions to carry out their development programs smoothly.

Apart from these problems, in the period from 1950 to 1953, the government monetary policies were focused on restricting the money circulation from expanding and adjusted the rupiah conversion rate. These policies were aimed at sustaining the inflation rate and prevent overvaluation of excessive rupiah conversion rate to improve the competitiveness of Indonesian export commodities in the international markets. Below were the policies taken during this period:

Up to 1950, the amount of money in circulation was staggering as it reached 3.9 billion rupiah. As a result, the government wished to reduce the money in circulation to half the amount being circulated. Meanwhile, the government was unable to look for other financing sources in the market. The government therefore decided to reduce the money through money cleaning up. By doing so, the government hoped to acquire a loan worth around 1.5 billion rupiah. The reduction of the money in circulation was known as the money cleaning up or Sjaruddin Cut. This policy was introduced by the Minister of Finance Unitary State of the Republic of Indonesia, Mr. Sjaruddin Prawiranegara on 19 March 1950 by cutting the DJB banknotes and Dutch (NICA) occupation currency using scissors into two equal parts. Simultaneously, the government emitted the Bond of the Republic of Indonesia of 1950 as the government borrowing with 3% interest. The bonds were offered to be exchanged with the right parts of the banknotes. While, the left parts of the banknotes with denominations above ½2.50 were recognized as valid payment instruments with the value of half their nominal value.

Within the time frame as determined, the left parts of the banknotes were exchangeable with the new banknotes issued by DJB with the fractions of ½2.50, ½1 and ½0.50. This cleaning up move by March 1950 managed to reduce the banknotes in circulation to around 1.6 billion rupiah. As a result, the position of the money in circulation could be maintained at 4.3 billion rupiah at the end of 1950 or rose 19,8% from the amount at the end of 1949. If such monetary measure had not been taken, the money in circulation would have expanded around 64.7%.

On 12 March 1950, the government issued Foreign Exchange Certificate System. This move was the continuation of the Inducement system introduced in 1946. Foreign Exchange Certificate was a certificate which entitled foreign exchange purchasing right. Individuals or the companies who owned these certificates could use them to purchase foreign exchange with the official conversion rate, namely 3.80 rupiah per USD. These certificates were issued to check the inflation rate, improve the balance of payment and explore revenue sources to recover the state budget deficit. These certificates were traded through the foreign exchange banks which had obtained permission from LAAPLN. Apart from that, foreign exchange transaction could be conducted between banks and Foreign Exchange Fund Institution. Through such foreign exchange transactions, the foreign exchange earners would apply export conversion rate of 200% of the official rate, and the foreign exchange users would apply import conversion rate of 300%. This means that based on the

conversion rate of 3.80 rupiah per USD, the effective rate for export was 7.60 rupiah per USD, and effective rate for import was 11.40 rupiah per USD. From this day, it could be concluded that Indonesia had adopted the Multiple Exchange Rate System. Under such conversion rate, the government aimed to increase the government's revenues, namely by putting the revenues generated from the conversion rate difference into the state treasury which was needed to recover the state finance deficit.

As from 4 January 1952, the Foreign Exchange Certificate System was eliminated and the conversion rate difference was removed. As a result, only one official conversion rate applied for both export and import, namely at 3.80 rupiah per USD. One of the reasons for the elimination of such system was it pose adverse impact to the plantation sector that relied on export earnings. Multiple Exchange Rate System had made the level of domestic price and wage tend to adjust themselves with that of imported goods over the import conversion rate which was likely to be higher. As a result, the profits earned by the export companies were put under pressure because the export earnings were based on the export conversion rate which was relatively low. This system actually benefited the government, particularly during the Korean Boom which soared the export value due to the rising demand in the international market triggered by the Korean war. From the launch of the Foreign Exchange Certificate System until its elimination in January 1952, the total government revenues from the import and export conversion rate difference reached 5,303 million rupiah.

The elimination of the Foreign Exchange Certificate System led to the significant dwindling of the government revenues. As a result, on 2 February 1952, the government issued the Provision on Additional Export Duty as a government revenue. Such duty was applied to strong export commodities, namely 15% for the export of oil, palm kernel and tin, and 25% for export of rubber and copra. In the same month, the government also devaluated rupiah up to 66.7%, namely from 3.80 rupiah per USD to 11.40 rupiah per USD. This action was taken to help export companies to generate profit again upon the elimination of the Foreign Exchange Certificate System.

In line with devaluation measure on 4 February 1952, the government issued a regulation on the Dollar Export Proof system (BED). Under this system, import from the countries that apply US dollar calculation would be linked with the export to the countries that generated US dollars for Indonesia, except for rice import and goods import financed by Economic Cooperation Agency (ECA) of the United States. Meanwhile, in August 1952, the government issued a regulation on import restriction to obtain import foreign exchange permission. Under this regulation, an importer had to pay up front to the Foreign Exchange Fund amounting to 40% of the foreign exchange he requires. Such down payment was payable in rupiah. Apart from that, from 1 September 1952, the government introduced the foreign exchange allocation system, whereby the government provided a certain amount of foreign exchange for import once in every four months. With such allocation, the use of foreign exchange for import was under control. A number of systems had indirectly posed expansive monetary impacts as the export earnings in US dollar was up while the import expenditure in US dollar was down, which was slowing down as a result of restriction.

The other measure concerning foreign exchange taken by the government before 1953 was to change the Inducement system into Foreign Exchange Inducement which remained benefiting the exporters of people's plantation produce. This system was applied from March 1950 and gave the import right for the goods permitted by the government for the submission of various foreign exchange according to the types of export goods. Besides, this system also entitled the exporters to earn Hong Kong and Singapore dollars to finance the importation of goods permitted by the government. Such inducement could be freely traded and it sparked sharp fluctuation at bank draft conversion rate. As a result, DJB opposed this system.

Banking Following the Sovereignty Recognition

Following the sovereignty recognition, the Indonesian Government decided to continue the government policies in the banking sector by following it up with preparations towards the establishment of state banks. In addition, the government allowed the existing private banks operating in the territories controlled by the Republic of Indonesia as well as those previously governed by the Dutch, to remain operating like they used to. This is why within the Indonesian banking system, there are three bank categories, namely state banks, private banks and foreign banks. Under the economic system being dominated by the colonial structure, the national banking then lacked a significant role for the national economy. To strengthen the national banking system, the government began to revamp the banking system, in particular that relating to state banks such as BNI and BRI that had been in operation earlier.

After DJB was turned into a circulation bank, the role of Bank Negara Indonesia (BNI) as a circulation bank as referred to in article 1 of its incorporation act became ineffective. In early 1950, the government assigned a new mission to BNI to enhance a group of Indonesian businessmen known as the *benteng* program. Further, on 1 September 1950, the government determined the status of BNI as a foreign exchange bank. However, in carrying out such duties, BNI did not receive any funds from the government. BNI received only flexible loans from DJB bearing 3% interest per annum. Meanwhile, in 1950 Bank Rakyat Indonesia (BRI) reviewed its relationship with *Algemeene Volkcreediet Bank* (AVB) which during the RIS period changed its name to Bank Rakyat Republik Indonesia (BARRIS). At that time, the President Director of BRI was concurrently appointed President Director of BARRIS. On 21 April 1951, the government enacted Government Regulation No. 25 of 1951 on BRI regulation which set more detailed duties and role of BRI as a state bank engaged in disbursing loans to the public. Further, in September 1951, the government assigned BRI to liquidate AVB. As a result, from that moment, AVB was officially dissolved and merged to BRI.

The government's efforts to strengthen the banking system had been taken by establishing a new state bank to add the number of state banks that had been operating earlier. Through Emergency Act No. 5 of 1952, the government incorporated Bank Industri Negara (BIN) assigned to assist in the state country's development in plantation, industry and mines. Initially the status of the bank was a limited liability company pursuant to Notary Deed dated 4 April 1951 aimed to take over the duties of the *Bureau Herlstel Financiering* (BHF) set up by NICA Administration. Apart from this, the government reactivated *Postpaarbank in Nederlandsch Indie* (PSNI) which run its activities via the post offices. Sejak saat itu PSNI diubah namanya menjadi Bank Tabungan Pos. The establishment of this bank

was later amended through Act No. 36 of 1953 which stipulated that the ownership and management of this bank were under the Minister of Communication.

Prior to the establishment of Bank Indonesia, DJB had paid a lot of attention to the efforts to expand and improve the operations of private national commercial bank. According to DJB, these banks played a major role in channeling the public funds to more productive sectors and at the same time they were quite effective to fight shark loan practices. Having the mission to raise the position of the national private banks, as from 1951 in Yogyakarta, a professional organization was set up to accommodate the private national banks. On 27 May 1952, this organization managed to establish the Association of Indonesian National Banks (PERBANA) as a parent body to represent these private national banks. This association later on became the Association of Private National Banks (PERBANAS) on 26 May 1976.

Payment System Policy After the Sovereignty Recognition

As a circulation bank for RIS, DJB was exclusively authorized to emit banknotes with fractions of f0.50, f1, and f2.50. This deviated from De Javasche Bank Act of 1922 which determined that DJB was allowed only to issue banknotes with denominations above f5. Emergency Act No. 21 dated 2 June 1950 which was effective from 31 May 1950 determined a number of aspects pertaining to banknote emission as guaranteed by RIS Government. In this case, the Minister of Finance was empowered to issue banknotes in RIS rupiah according to the need.

RIS banknotes were emitted in the fractions of Rp 5 and Rp 10 with emission date, Jakarta 1 January 1950. On the same date, the Minister of Finance also announced that RIS banknotes (federal money) was a valid payment instrument in the entire territories of RIS. While various ORI banknotes were only valid as payment instruments in the respective validity areas. Such currency uniformity was in place given the fact that during the RIS period, different banknotes remained in circulation and were accepted as payment instruments with various conversion rates, not to mention the rampant circulation of fake money. Moreover, with the same intention, the RIS Government soon announced that ORI and other banknotes could be exchanged with DJB's new banknotes or RIS' banknotes. This continued until the next quarter of 1950 when the DJB's banknotes and RIS' banknotes in circulation were considered adequate to replace nearly all currencies in circulation earlier, namely ORI and DJB's banknotes or banknotes of the Dutch Indies Administration.

The circulation of banknotes in Dutch Indies which later became the Republic of Indonesia had previously been regulated in *Indische Muntwet* of 1912. After almost 40 years, the government considered the importance to regulate again a number of things related to the emission and circulation of money in Indonesia. Thus, pursuant to Emergency Act

No. 20 of 1951 dated 27 September 1951, the government annulled *Muntwet* of 1912 and issued a new regulation on the emission and circulation of money by the Indonesian Government as follows:

1. All coins emitted in compliance to *Muntwet* of 1912 would become void payment instrument as from 3 November 1951, with the exception of brass coins which would be determined later.

2. The monetary unit of Indonesian money is Rupiah and shortened to Rp comprising 100 cents.
3. Valid coins were made of nickel in the fraction of 50 cents and from aluminum in the fractions of 25 cents, 10 cents, 5 cents and 1 cent.
4. To meet the needs that might arise at a particular time, the government would emit banknotes in the denominations of 1 rupiah and 2.50 rupiah. The government banknotes apart from the fractions of 1 rupiah and 2.50 rupiah would be temporarily valid as payment instruments, but would gradually be withdrawn from the circulation by the Minister of Finance.
5. The printing of coins and banknotes could only be carried out by or in the name of the Government.

This Emergency Act was effective from 3 October 1951 and known as Act on Currency of 1951. Later on such Emergency Act was turned into Act No. 27 of 1953 dated 18 December 1953 called as Act on Currency of 1953.

Upon the nationalization of DJB in 1951, the Nationalization Committee continued with its duties by formulating draft Principal Act on Bank Indonesia as the act on central bank that superceded Bank Act of 1922. The government later submitted this draft act to the Parliament in September 1952. The parliament endorsed the draft act on 10 April 1953 following some major revisions of it. On 19 May 1953, President legalized the act and on 2 June 1953 declared it as Act No. 11 of 1953 on Bank Indonesia as from 1 July 1953. This marked the formal establishment of Bank Indonesia as the Indonesian Central Bank.