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WORKING PAPER

CASE STUDY:
Bank Indonesia Policy In Responding To The Crisis: Economic Liquidity Issue

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BANK INDONESIA POLICY IN RESPONDING TO THE CRISIS: ECONOMIC LIQUIDITY ISSUE

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Abstract

In 1997, the Thai Baht crisis quickly spread to other regions and emerging countries. Indonesia is a country that was most severely affected during the 1997/98 economic and financial crises. Indonesia's economic growth dropped by -14%, inflation drastically increased to 58%, the exchange rate weakened to 85% and the poverty rate soared to 37%.[1] This condition had an impact on liquidity difficulties in banks, which can potentially lead to systemic risk.

The aim of this case study is to analyze the economic indicators that caused Indonesia to expose a contagion effect from the Baht crisis in Thailand. In addition, the study also learned about the condition of economic liquidity in Indonesia during the crisis, including the number of banks that violated the rupiah statutory reserves; growth of rupiah, foreign currency, and banking deposits; SBI and interbank money market interest rates; solvency and growth of deposit and credit interest rate; and cash and non-cash payment systems. Furthermore, the study also analyzed the policy strategy that was taken in overcoming the liquidity crisis, including policies on facilities liquidities, BLBI, payment system, and cash management.

Keywords:

JEL Classification:

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[1] Position of September 1998 (From Asian to Global Crises, Andrew Sheng)

I. Introduction

1.1. CASE GUIDE

Learning Objectives

- To analyze the economic indicators that caused Indonesia to expose a contagion effect from the Baht crisis in Thailand.
- To explain the condition of economic liquidity in Indonesia during the crisis.
- To analyze the policy strategy that was taken in overcoming the liquidity crisis, including policies on facilities liquidities, BLBI, payment system, and cash management.

Key Issues

- Economic indicators that have the potential to cause overheating.
- Liquidity facilities and BLBI to control economic liquidity and avoid systemic risk.
- Payment Systems Policies to overcome the overdraft problem.
- Cash Management Policies to overcome rush to banks.
- Post-crisis policy in order to reduce the impact of the crisis. (KLBI)

Case Description

- The case is about the explanation of economic indicators that caused Indonesia to expose a contagion effect from the Baht crisis in Thailand, the condition of economic liquidity in Indonesia during the crisis, and the policy strategy that was taken in overcoming the liquidity crisis and post-crisis policy.
- Participants will be given readings and content/scope/structure of the case study.
- Teaching of the case will be based on class discussion and group assignment.

Target participant:

Target participant of this case study is Assistant Director from all Job Family.

Policy Issues

Participants must read several literatures before examining the case. Should the time allocated for the case study session rather limited, participants are suggested to read an article exploring related policy issues on the economic liquidity: *"Bank Indonesia and The Crisis: an Insider's View"* written by Soedrajad Djiwandono (2005), "Sejarah Bank Indonesia Periode V: 1997-1999" written by Djiwandono, *et al.* (2006), and Annual Report of Bank Indonesia in many period.

1.2. CASE STUDY

Identification of the Case

This case study is the factual experience of the liquidity crisis experienced by Indonesia in 1997/1998 and policy responses were taken in overcoming the liquidity crisis.

Supporting Evidence:

- Chart and Table of Economic Indicators
- Milestone of liquidity crisis in 1997/1998

II. BACKGROUND

Prior to the 1997/98 crisis, countries in East Asia were an example of a model of economic growth that was widely referred to by developing countries in the world. In the 1960s, Japanese economic growth was able to grow by double digits. Furthermore, four other Asian countries i.e., Hong Kong, Korea, Singapore and Taiwan followed Japan's steps with high economic growth of around 7%, from 1960 to the 1990s. The four countries, known as The Four Asian Tiger, developed into a group of advanced industrial countries with their respective competitive advantages. Hong Kong and Singapore grow to become the world's leading financial centers, while South Korea and Taiwan are among the countries with manufacturing, electronics and information technology industries that are ready to replace the position of Western industrial countries.

The progress of these countries in the 1980s and 1990s was followed by several countries in Southeast Asia, especially Indonesia, Malaysia and Thailand. Therefore, these three countries are widely predicted to be The Next Asian Tiger. These three countries grew high with an average of 8-10% from 1980 to a decade after. The high level of economic growth was also followed by impressive developments in the social sphere, such as the decline in poverty, rising literacy rates, and an increase in life expectancy.

New industrial countries in Asia such as Korea, Taiwan and Hong Kong grew high during 1990-1996 (as in Table 1) with an average of 8.4%, although they tended to slow down in 1996. Likewise, with emerging market, countries in ASEAN such as Malaysia, Thailand and Indonesia recorded an average growth of 8.6%, 9.4% and 7.3% respectively and slowed slightly in 1996. The slowdown was due to tightening of policies in the financial sector to reduce the risk of overheating the economy and began to slow down import demand from developed countries, which is the largest share of world trade and from countries in the region.

The Asian financial crisis began from attacks on the Thai Baht on May 14 and 15, 1997 by speculators on financial markets. To reduce pressure on exchange rates, Thailand implemented a limited foreign exchange control policy and intervened in the money market. The attack on the Thai currency was then followed by the fall of Finance One, the largest financial company in Thailand on May 23, 1997.

In addition to the limited foreign exchange control policy, foreign exchange intervention, the Thai Government also tried to calm the market by delivering a press release at the end of

June 1997 that there would be no devaluation of the Thai currency. However, this effort did not produce results. Thai Bath continues to experience weakness. The Thai Baht currency crisis began into a financial and economic crisis in Thailand. The crisis quickly spread to other countries in the East and Southeast Asia regions such as Indonesia, Malaysia and Korea. Exchange rates and asset prices in most of these countries dropped dramatically which made banks and companies experience financial difficulties.

Rupiah weakening began to occur in early July 1997 where the Rupiah exchange rate moved from and continued to deteriorate throughout the second semester of 1997. This weakening was triggered by a decline in international investor confidence in the economy and Indonesia's socio-political situation. To overcome the further weakening of the Rupiah, BI expanded the Rupiah intervention rate from 8% to 12% on July 11, 1997 and continued to intervene in the market. This step is a continuation of the widening of interventions that has been carried out six times since 1994. Finally, on August 14, 1997, BI announced the elimination of the range of Rupiah invaders or float rates. BI follows in the footsteps of other countries that have previously floated their currencies because of the continued depletion of foreign exchange reserves. Since this period, the crisis that originally started from the weakening of the exchange rate developed into a multi-dimensional crisis and various policies for crisis management were carried out.

III. THE LIQUIDITY PROBLEMS

Along with the weakening of the Rupiah, national banks were identified as starting to face liquidity problems. This is reflected in the number of banks that violate the statutory reserve requirement (GWM). In March 1997, the bank violated the Rupiah Statutory Reserves Requirement, reaching 111 and 39 banks violating the Foreign Currency GWM. In particular, state-owned banks violate the statutory reserve requirement, which is set at 15% of third party funds. Rumors of weakening the soundness of banks due to liquidity difficulties caused market panic as reflected in the withdrawal of banking deposit funds which increasingly drained banking liquidity.

Although the Government has adopted a policy of transferring funds from state-owned enterprises in domestic banks worth Rp 3.4 trillion or around 10% of the base money to Bank Indonesia Certificates (SBI), financial market liquidity remains in short supply. Liquidity shortage is identified not only because of capital flight but also an internal capital flight phenomenon. Liquidity shortage is identified not only because of capital outflow but also an internal capital flight phenomenon. Rupiah deposits were diverted to dollar deposits as shown in Table 3 where the growth in foreign currency deposits experienced a significant increase in July-August and was followed by the transfer of funds from national banks to foreign and state banks (Table 4). The surge occurred in response to the falling rupiah exchange rate against the dollar.

In overcoming the crisis, Bank Indonesia emphasized efforts to control economic liquidity using Open Market Operations (OPT). Market liquidity shortage is reflected in both the overnight interbank rates and SBI interest rates, which increase sharply from early June to August 1997. These developments have resulted in an increase in the vulnerability of the financial system, which generally faces an increase in liquidity problems, high interest rates, as well as an increase in exposure to foreign payment obligations, which began to be identified in August 1997.

The crisis turmoil, which coincided with tighter liquidity, worsened banking performance. The development of this liquidity problem has an impact on the bank's solvency, which was seen in the reduction in CAR (ratio of minimum capital requirements) drastically from an average of 12% (March 1997) to only a maximum of 4.3% in 1998. This decrease was mainly due to the increase of bank's risky assets while banks capital is relatively stagnant. Tighter liquidity conditions were followed by an increase in money market instrument interest rates (SBI and SBPU), 3-month deposit rates, working capital loans and investment loans (Table 6).

Meanwhile, there was persistent violation in the legal lending limit owing to the weakening of the rupiah exchange rate. This was the case due to the large amount of credits denominated in foreign currencies extended to group-customers. Up to the end of 1997, 51 banks were reported to have violated the limit, an increase from 46 banks in the preceding year. Consequently, non-performing loans increase significantly of total credit outstanding. This increase underlined the deterioration in the quality of most of their productive assets, which in turn resulted in lower profitability and tight liquidity (Table 7).

Deterioration in the banking performance was reflected in increased losses resulting from worsening productive asset quality and weakening rupiah exchange rate. Several banks, accordingly, became illiquid and insolvent. To restore the soundness of the banking system, the supervision of insolvent and illiquid banks was transferred to IBRA.

As a ramification of the crisis, a large number of credits translated into trouble ones, most of them were credits that ignored the LLL principle. As the crisis entered into a deeper stage, the number of troubled credits surged (Table 7). The upsurge occurred in private national foreign exchange banks, followed by joint and foreign banks. Meanwhile, BPDs experienced a slight rise in illiquid credits. The quality of productive assets deteriorated since the quality of fund investment of the banks also worsened, from 9.7% to 48.3%.

The economic crisis was further aggravated by the socio-political conditions in 1998, which resulted in the collapse of public confidence in the financial sector. The initial symptoms of the crisis in the financial sector were obvious in the payment system. The "rush" in the banking system occurs every day. This condition forced banks to provide high daily cash reserves to meet the money withdrawal. Bank branch offices and ATMs are filled with customer queues. In turn, this caused Bank Indonesia to provide sufficient cash including cash reserves to meet banking demand. Therefore, cash reserves in vault at both Bank Indonesia and banks were depleting very quickly, and forced Bank Indonesia to accelerate the ordering of money to Peruri (State Company that printed money) and reduce the standard of money's soil level that could be redistributed.

In non-cash areas, the crisis spreads to interbank transactions through the Bank Indonesia Clearing System, which is the onset of all payment transactions. In general, clearing activities in Indonesia continued to increase until the crisis period (Table 8) although its growth tended to slow down. The highest clearing growth occurred in 1995. In line with the weakening economy, clearing activity during 1998 also declined drastically.

Symptoms of a crisis are marked by several banks experiencing a continuous losing clearing for several days. This condition illustrates the large-scale transfer of funds from banks with poor conditions to banks with good conditions. Under normal conditions, loss in clearing is common because it is a condition of liquidity mismatch where liabilities are greater than revenues in one clearing cycle period. The net position of clearing results is not always the same and depends on the transactions served in one clearing cycle.

Continuously losing clearing experienced by several banks eroded their checking account balance at Bank Indonesia and led to the inability of the bank to fulfill the minimum statutory reserves balance at the end of the clearing cycle day. The losing clearing condition continues until overdraft occurs. If the final clearing results of a bank experiencing a loss of clearing is greater than the funds available in the checking account at Bank Indonesia, including the Statutory Reserves (GWM), the Bank's checking account in Bank Indonesia will have a debit (overdraft) balance.

At that time, the overdraft condition is still possible because the nature of the clearing transaction involving the customer's on-be-half transaction is a bit difficult to unwind[2] because it can harm all bank customers as fund owners. Therefore, as a lender of last resort and in accordance with the prevailing Bank Indonesia Act, Bank Indonesia can bail out the settlement of bank liabilities that experience an overdraft balance.

The complexity of the overdraft has increased due to Bank Indonesia's clearing system still decentralized in all local clearing operators. Banks that experience continuous clearing losses and overdrafts in a region pose psychological distress to customers in other regions, because there is a perception that the bank is in an unhealthy condition. This certainly adds pressure to these banks and leads to flight to quality.

To avoid overdraft, there is actually a bank mechanism to deal with liquidity mismatches. First, the Bank can fulfill its own funds and seek loans from the Interbank Money Market (PUAB) with interest rates prevailing in the market. However, due to economic and political conditions that are not conducive, PUAB segmentation occurs so that liquidity needs become very expensive and difficult. Banks tend to provide loans only to their own groups or provide loans with high interest rates. Secondly, the bank can submit a request using the Discount Facility (Fasdis) if the source of its own funds or PUAB is insufficient. Fasdis is divided into 2 groups. Fasdis I is given at 5% of the total third party funds that can be collected based on the latest data reported to Bank Indonesia. Fasdis II is a two-month net withdrawal plan with a maximum of 3% of the total third party funds that can be collected at the beginning of the mismatch.

The overdraft facility is regulated in Bank Indonesia Circular Letter No. 30/18 / UPPB on October 6, 1997 concerning the Interest on the Bank's overdraft at Bank Indonesia and the BI Director's Decree No. 30/271 / KEP / DIR on 7 October 1997 concerning Statutory Reserves Requirement at Bank Indonesia. Although according to the applicable provisions overdraft is permitted, the provision of debit balance facilities was contrary to the prevailing BI provisions a. 28/169 / UPG on March 5, 1996 concerning Amendments to the Schedule and Adjustment of Clearing Results which stipulates that banks are required to maintain sufficient funds with BI so that at any time they can fulfill bank obligations arising in clearing[3].

[2] In the settlement clearing system is carried out net at the end of the clearing period (net settlement). Clearing participants have credit risk exposure so that best practice requires credit risk mitigation mechanisms, one of which is to unwind clearing transactions or recalculate transactions by issuing participants who do not have funds to settle their obligations. (Goodhart, The Central Bank and Financial System, May 1995)

[3] See Figure 7 SEBI No. 28/169 / UPG.

Some regulatory fences are made as a disincentive for banks with overdraft. The initial stage is the imposition of temporary "stop clearing" sanctions. This warning is part of bank supervision / guidance. However, stop clearing sanctions have implications for the bank's reputation. Under normal conditions, the impact may not be too significant. However, in times of crisis the sanctions actually worsen the condition of the bank because it gives a more severe psychological impact. Bank Indonesia is well aware of the consequences. Therefore Bank Indonesia provides an opportunity for banks with overdraft to settle their obligations up to 30 minutes after the return-clearing meeting is closed. Furthermore, if the bank cannot close the negative balance, the local clearing provider can extend the operational time limit until the next clearing, before the cash from the organizer's office is opened. If up to the deadline the bank cannot settle the negative balance, then sanction of temporary stop clearing is effective and a decrease in the bank's soundness. The psychological situations at that time caused people to become increasingly distrustful of the financial system. This condition causes banks that experience overdraft balances to be unable to fulfill obligations up to the time specified.

Policy makers at that time were faced with a dilemma. The choice between following the existing rules of the game, with the risk of worsening the banking conditions or taking discretionary policies to maintain the smoothness of the payment system. The second choice will be faced with governance risks. Considering the worsening socio-political conditions, the policy choice taken at that time was to keep running the clearing for banks that were unable to settle the overdraft in accordance with the provisions. The dilemma choice finally gives a greater portion to the aspect of protection of public funds so that the obligation to customers and other parties both at home and abroad must immediately be paid. This condition also meets the principles of payment system best practice, i.e., payment must be final (finality of settlement).

IV. BANK INDONESIA’S POLICIES

Bank Indonesia Liquidity Facility

The provision of liquidity facilities by Bank Indonesia had already been carried out before the crisis occurred with an aim to assist the restructuring program of several troubled banks. The liquidity facility disbursed by BI as of December 1996 was Rp. 371 billion. Up to a month before the crisis (June 1997), the position of the liquidity facility was Rp 1.2 trillion.

Faced with banking difficulties, from August 15, 1997 to the end of December 1997 Bank Indonesia adopted a policy to provide liquidity facilities to banks. These facilities are permission to have a debit checking account balance in central bank, Special SBI-Repos, Discounting Facilities (Fasdis) I including I-Repo Facades, and Fasdis II, Money Market Securities Facilities without Auction, Rupiah Bailout Fund Facilities I for Liquidated Banks and Special Money Market Securities Facilities.

1. Overdraft Facility

Liquidity difficulties are increasingly felt when savers, depositors and creditors begin to withdraw funds from several banks. As a result, many banks violate the statutory reserve requirements and have a negative balance on their current account with Bank Indonesia[4]. Funding from the interbank money market (PUAB) also began to experience scarcity and interest rates continued to increase in just one night. In addition, the bank has also begun to be selective in lending funds. Overdraft in banks' checking accounts with Bank Indonesia are increasingly unavoidable and the number continues to grow, because the withdrawal of funds by the community continues and extends to a number of banks. These liquidity difficulties do not only occur in troubled banks, even healthy banks experience overdraft in their accounts at Bank Indonesia.

The overdraft of the bank checking account with Bank Indonesia is the balance formed because the bank clearing amount is greater than the balance of the demand deposit account at Bank Indonesia so that after the final settlement of the clearing, the balance of the current account becomes debit / negative / overdraft[5]. In the clearing calculation system, a bank cannot refuse withdrawal of funds by customers or other creditors on the grounds of lack of liquidity. The result of clearing calculation is automatically carried out on each clearing participant bank[6].

In a crisis situation, Bank Indonesia is faced with a difficult decision, which is if a bank with an overdraft at Bank Indonesia is suspended from clearing (clearing suspension), as a result the bank cannot pay liabilities and can have systemic effects on other banks. Besides that, the clearing suspension can also have an impact on the discontinuation of bank activities and end with closure. Conversely, if clearing is not stopped temporarily, bank obligations can be fulfilled but Bank Indonesia must provide emergency liquidity credit.

In its development, the surge in demand for funds from banks increased rapidly due to enormous amounts of savings withdrawal. Bank Indonesia then allowed banks to overdraft their checking accounts at Bank Indonesia based on the decision of the Bank Indonesia Board of Directors meeting on August 15, 1997. At that time the Board of Directors of Bank Indonesia decided to provide overdraft facilities at current accounts at Bank Indonesia until the market turmoil in the market money subsided. The decision means that the bank may remain active in clearing, so that at the Board of Directors Meeting on August 20, 1997 it was decided to realize the August 15, 1997 policy by allowing banks with overdraft to enter clearing and be able to borrow funds from Bank Indonesia.

This constituted Bank Indonesia's interpretation of President Soeharto's directive not to liquidate banks during the period between the May 1997 elections and the March 1998 MPR General Session[7]. This decision made the FLBI position increase from Rp 1.4 trillion in the first month of the crisis (July 1997) to Rp. 5.2 trillion at the beginning of September 1997. On September 3, 1997 the President gave instructions to the Minister of Finance and the Governor of BI as outlined in the decision of the cabinet meeting of Economics, Finance, Development Supervision (Ekkuwasbang) and Distribution Products (Prodis) which decided 10 steps to improve national economic resilience, including the provision of liquidity assistance to experienced banks mismatch. Because Bank Indonesia is not independent of the cabinet (there is no Law No. 23/1999), this decision was implemented by Bank Indonesia so that the FLBI position increased to Rp 8.6 trillion in October 1997.

[4] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. Pp. 251-253

[5] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. P. 252.

[6] Bank Indonesia. 2003. Breaking the BLBI Tangle Thread, Edition II. Page 25.

[7] Dradjad Wibowo. 2002. BLBI as a Policy.

The overdraft facility is at risk because this facility is not actively provided by Bank Indonesia but arises because of the clearing process, so that Bank Indonesia takes steps to secure the overdraft by transferring to a facility in accordance with applicable regulations. The overdraft facility is regulated in Bank Indonesia Circular Letter No. 30/18 / UPPB on October 6, 1997 concerning the Interest on the Bank's Negative Current Account at Bank Indonesia and the BI Director's Decree No. 30/271/KEP/DIR on 7 October 1997 concerning Statutory Reserves Requirement at Bank Indonesia.

2. Special SBI-Repo Facilities

Following up on these steps, in line with the government's efforts to overcome the problems that began to arise in the banking sector and the real sector, since mid-September 1997 the government adjusted economic liquidity. Measures taken included the provision of Special SBI-Repo facilities commencing September 9, 1997. This decree was determined at a meeting of the Bank Indonesia Board of Directors on September 8, 1997. The facility was provided to several banks with overdraft and / or violated the reserve requirement and acted as borrowers on the PUAB. Special SBI-Repo Facilities are facilities for banks to sell SBI to Bank Indonesia not through auctions, with the obligation of the selling bank to repurchase at the assigned time[8].

3. Discount Facility I and Repo Discount Facility I

In line with the 10 directives of the government in the cabinet meetings of Ekkuwasbang and Prodis, to assist healthy banks, but experienced liquidity difficulties and did not have SBIs that violated GWM provisions, the Bank Indonesia Board of Directors Meeting on 11 September 1997 decided to provide a Discount Facility[9]. The Discount Facility is applied to cover the statutory reserve requirement or anticipate the negative demand deposit balance of banks at Bank Indonesia[10]. The Discount Facility provided in the form of[11]:

1) Discount Facility I (Fasdis I)

   Fasdis I is seven-day liquidity assistance. Upon the due date, Fasdis I must be repaid by debiting the checking account of the bank concerned at Bank Indonesia.

2) Special Repo Discount Facility I

   In addition to Fasdis I, at the BI Board of Directors Meeting on September 12, 1997 it was also decided to provide Special Repo Discount Facility that are classified as healthy and have SBIs but experience liquidity difficulties.

4. Discount Facility II (Fasdis II)

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[8] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. P. 255.

[9] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. P. 255.

[10] J. Soedradjad Djiwandono. 2001. Grappling with the Indonesian Crisis and Economic Recovery. P. 172.

[11] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. Pp. 255-256.

Fasdis II is 90-day liquidity assistance and can be extended at most twice, 30 days each for each extension. In its implementation, banks tend to be reluctant to use the facility, because it is feared that it will cause public distrust to the bank concerned.

5. Money Market Securities Facility without Auction

The national banking-restructuring program turned out to be insufficient to restore public confidence in banks, as reflected in the large amount of funds withdrawn in several banks. This condition forces the Government and Bank Indonesia to provide liquidity support in order to avoid systemic risks to national banks, the SBPU which is intended to cover the lack of bank liquidity due to customer withdrawal in order to avoid systemic risk in national banks[12].

The Board of Directors of Bank Indonesia in the October 16, 1997 meeting, decided to provide Money Market Securities (SBPU) facilities without auctions in order to assist banks' liquidity difficulties. This facility is in the form of repo sale of SBPU outside the auction by the bank to Bank Indonesia[13].

6. Rupiah Bailout Fund Facility I for Liquidated Banks

On November 1, 1997, the Government liquidated 16 insolvent banks. Provision of bailout funds is intended to maintain the level of public trust in the National Banking System. Customer fund payments are carried out in two stages: the first stage is for payment of all savers, depositors and customers, up to 20 million per account. On November 4, 1997 Bank Indonesia submitted a letter affirming credit to 16 liquidated banks. If approved and signed by the caretaker / liquidation team, it is returned to BI. Rupiah Bailout Fund I is Rp. 1,642,280,000,000.00.

7. Special Money Market Securities Facility (Special SBPU / SPBU-K)

Bank Indonesia establishes the use of Special SBPU (SBPU-K) to replace or convert overdraft facilities, Fasdis I, Fasdis I Repo and Fasdis II (Table 9). SBPU-K is only given once and after that, the bank account overdraft at Bank Indonesia may not occur again[14]. Special SBPU (SBPU-K) is a financial support with a term of 3-18 months with a discount rate of 27% per year charged upfront. This facility was only given once at the end of December 1997 and was a transfer from the overdraft facility, Fasdis I, Fasdis I Repo, and Fasdis II. This facility is bound by a credit agreement and submission of a notary guarantee.

SBPU-K requirements are contained in the BI Board of Directors Letter No. 30/50/DIR/UK on 30 December 1997 concerning Application for Granting Special SBPU Facilities, including bank obligations not yet in the form of a limited liability company, to all shareholders / founding shareholders to submit a power of attorney to BI so that BI can use its voting rights, as well as letters other power to take any action. Then, after December 31, 1997 the bank is no longer allowed to balance debit to Bank Indonesia. Banks that still have

[12] Iman Sugema, Iskandar Simorangkir. 2004. The role of The Lender of Last Resort (LoLR) on the Economy: An Empirical Study of Bank Indonesia Liquidity Assistance (BLBI) [Journal]. Bulletin of Monetary and Banking Economics. Pp. 66-67.

[13] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. P. 256.

[14] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. Page 257.

overdraft after the time limit will be subject to heavy penalties. Application for Granting Special SBPU Facilities is contained in the BI Board of Directors Letter No. 30/50/DIR/UK dated 30 December 1997.

The distribution of Special SBPU is not in accordance with the provisions assigned by Bank Indonesia. Promissory notes submitted by banks as collateral are insufficient. The recipient bank has a CAR below the requirements determined by Bank Indonesia, which is a minimum of 2%. In addition, after receiving a Special SBPU, several banks again experienced an overdraft.

The number of SBPU-K facilities at the end of December 1997 along with the balance of negative demand deposits and discount facilities which were converted into SPBU-K as can be seen in Table 9, amounting to Rp 36.5 trillion. The facility was given to 28 banks.

The provision of the above-mentioned liquidity facilities according to the agreement between the Government of Indonesia and the International Monetary Fund (IMF) as assigned in the Letter of Intent (LoI) I on October 31, 1997 will be guaranteed by the Government because the facility is an emergency policy to avoid systemic risk. For the first time, the provision of liquidity in the LoI is called Bank Indonesia Liquidity Support, or in Indonesian is called BLBI.

Bank Indonesia Liquidity Support

Although liquidity support to deal with banking problems has existed and been used for a long time, the term Bank Indonesia Liquidity Support (BLBI) has only been known since January 15, 1998, in a Letter of Intent (LoI) signed by the Government of Indonesia with the International Monetary Fund (IMF). In the LoI, it was stated the importance of providing Bank Indonesia Liquidity Support in order to assist banking liquidity difficulties[15].

This liquidity assistance is a common policy for every Central Bank in almost all countries. This policy is the implementation of one of the functions of the Central Bank as Lender of the Last Resort. However, given the crisis conditions and the occurrence of systemic liquidity difficulties, the cost of providing liquidity assistance is borne by the Government[16].

BLBI provides liquidity facilities to banks, other than Bank Indonesia Liquidity Credit (KLBI). BLBI coverage includes Debit Balance, Special SBI-Repo, Discount Facility I and II Discount Facility and Money Market Securities without Auction, which are then converted into Special Money Market Securities (Special SBPU). Liquidity assistance is a bailout to banks to serve the withdrawal of public funds. The intended liquidity assistance is in line with the government policy to provide guarantees against public deposits in banks, since Bank Indonesia acts as a lender of last resort. The provision of liquidity assistance to banks is a government effort to protect public funds stored in banks. With the recovery of public trust in banks, the amount of liquidity assistance is gradually expected to decrease[17].

[15] Bank Indonesia. 2003. Breaking the BLBI Tangle Thread, Edition II. Page 12

[16] Bank Indonesia. 2003. Breaking the BLBI Tangle Thread, Edition II. Page 12

[17] Bank Indonesia. 1997/98 Annual Report. Jakarta. Page 125-126.

Provision of funds by Bank Indonesia in the form of BLBI results in very high fiscal and economic costs (in the form of inflation and high interest rates). Besides that, there is a serious moral hazard problem in its implementation. Moral hazard occurs because of the late imposition of a high interest rate penalty on overdraft positions. In an effort to prevent moral hazard, BLBI can only be utilized if a bank meets strict requirements and with a high interest rate from market interest rates. In its implementation, the government guarantee program actually pushed the number of BLBI to increase[18].

The increase of BLBI has led to an expansion in money supply, causing conflict in monetary control efforts to stabilize the rupiah exchange rate and reduce inflation. To absorb liquidity from BLBI funds, BI set a high interest rate that made the real sector worse and caused an increase in unemployment and poverty.

The banking sector also feels the negative impact of high interest rates with the emergence of negative spreads that can affect the level of profitability and solvency. Because of deteriorating economic conditions, NPL surged from around 8% in June 1997 to 32% in May 1998 and CAR dropped from 12% to 4% in 1996/97. In a banking situation like this, the recapitalization program will require a fee of Rp 235 trillion (25% of GDP). In addition, high interest rates also reduce the interest of banks to channel their funds to the real sector and prefer SBI as their investment instrument[19].

Since the monetary authority increased interest rates (as well as other factors), the JCI continued to decline from the highest peak of 740.8 points in July 1997 with a market capitalization of Rp 268 trillion to reach the lowest level of 258.1 points with a capitalization value of Rp 108 trillion (21 September 1998)[20].

The provision of BLBI facilities (debit balance facilities) has provided a guarantee of smoothness in the national payment system. However, on the other hand, the negative impact is to cause moral hazard in the banking sector. The role of Bank Indonesia as the lender of last resort is increasingly blurred and becomes a dilemma. On the one hand, if this facility is stopped it can result in more banks having to close and it is feared that it will further increase public distrust of national banking. On the other hand, if this facility is continued with very loose requirements, in turn, it will complicate the bank's restructuring efforts and educate the public to be indifferent to the different risks in each bank. The role of market discipline (market discipline) to educate banks and the community in managing risk is not working[21].

The almost unlimited provision of BLBI is difficult to stop as long as there is a very broad Government guarantee. In essence, the provision of a very loose overdraft facility is a solution that is ex-ante in implementing the guarantee mechanism to avoid or reduce the administrative burden needed. This is actually not in line with the ex-post guarantee principle, whereby the realization of guarantees against depositors or creditors who provide loans to banks should only be made after the bank is truly unable to fulfill its obligations. If

[18] Halim Alamsyah. 1998. Banking Restructuring and Its Impact on the Restoration of Economic Activities and Monetary Control. Bulletin of Monetary and Banking Economics.

[19] Sjamsul Arifin. 1998. Effectiveness of Interest Rate policies in order to Rupiah Stabilization in a Crisis. Bulletin of Monetary and Banking Economics.

[20] Sjamsul Arifin. 1998. Effectiveness of Interest Rate policies in order to Rupiah Stabilization in a Crisis. Bulletin of Monetary and Banking Economics.

[21] Sjamsul Arifin. 1998. Effectiveness of Interest Rate policies in order to Rupiah Stabilization in a Crisis. Bulletin of Monetary and Banking Economics.

this principle is held, there should be room to tighten the provision of overdraft facilities to banks without sacrificing the level of public trust in national banks.[22]

BLBI grants grew into controversy, after doubts appeared in the community whether these actions were government policies or only policies from Bank Indonesia. Doubts grew when there were allegations of misappropriation by Bank Indonesia and its utilization by recipient banks. The Supreme Audit Agency (BPK) followed up on a general audit conducted by BI with an investigative audit, which was then announced through a press release[23]. The BPK also believes that irregularities in BLBI disbursement start from the granting of dispensation by BI to banks whose bank accounts in BI have debit balances so that they can still follow clearing, make cash withdrawals and transfer funds to relevant bank branches[24].

The other BLBI forms given after the BLBI term (LoI I on January 15, 1998) were Discounted Facilities (March 6, 1998), Rupiah Bailout Facilities II for Liquidated Banks, and Bailout Facilities for Payment of Bank Foreign Liabilities in order Trade Finance and Inter Bank Debt Areas.

1. Discount Facility

The facility was enacted from March 6, 1998 to cover the statutory reserve requirement violation or to anticipate and prevent the occurrence of a negative demand deposit balance. Fasdis with a term of seven working days can be extended to a maximum of twice seven working days. The seven-day Fasdis discount rate is 200% of the seven-day Jakarta InterBank Offered Rate (JIBOR) bank interest rate. The discount rate for Facilitators with a maturity of more than seven working days is 300% of the seven-day JIBOR interest rate

Since April 6, 1998, the period of Fasdis changed to one month. This facility can be extended every time for a maximum of one month, with a discount rate of 150% from the average 1 (one) overnight JIBOR rate in the previous month. Subsequently, as of July 1, 1998, there was a change to the discount rate, to 125% of the average 1 (one) overnight JIBOR rate in the previous month. Now it is added with a personal guarantee and / or a corporate guarantee.

In the event that the number of facies has not exceeded its capital, the bank will be subject to three obligations, i.e., i) prepare a plan for increasing facilities within the time specified, including the repayment plan; ii) prohibited from distributing cash dividends; iii) prohibited from giving new credit to related parties. Whereas if the facade received has exceeded the capital, but has not reached twice, the bank is still subject to the three conditions. In addition, Bank Indonesia can take over bank management. Discount facility transferred from Bank Indonesia to the Government cessie, for the position of January 29, 1999 was Rp. 28,530,968,976,413.10.

2. Bailout Fund Facility II for Liquidated Banks

The second stage to pay the remaining funds of the customer bailed out by Bank Indonesia is then charged to the APBN for 10 years. This was conveyed by the Minister of Finance to

[22] Sjamsul Arifin. 1998. Effectiveness of Interest Rate policies in order to Rupiah Stabilization in a Crisis. Bulletin of Monetary and Banking Economics

[23] J. Soedradjad Djiwandono. 2001. Managing Bank Indonesia in a Crisis. P. 238

[24] Bank Indonesia. 2003. Breaking the BLBI Tangle Thread, Edition II. Page 58.

the President in his Letter numbered S-84 / MK / 1998 on February 8, 1998 regarding the President of the Republic of Indonesia approving the proposal of the Minister of Finance.

On March 4, 1998, Bank Indonesia submitted a Letter of Credit Confirmation to 16 liquidated banks. If approved and signed by a caretaker / liquidation team, the letter is returned to BI. Rupiah Bailout Fund II provided Rp. 3,692,723,344,835.81. The facility of rupiah bailout funds transferred by *cessie* per position January 29, 1999 was Rp. 11,496,007.03`,082,30.

3. Bailout Facility for Payment of Bank Foreign Liabilities in the context of Trade Finance and Inter Bank Debt Areas

Because of the economic and monetary crisis, international confidence in the National Banking system is getting worse. A Letter of Credit (L/C) published by local banks cannot be accepted by International Banking. To overcome this, the Government negotiates with International Banking. The result was the Frankfurt Agreement, June 4, 1998. The meeting took place between the Indonesian Government Delegation and the International Banking Steering Committee representing foreign creditors.

In the meeting, it was agreed that the Government would pay the obligations of the National Banking in the framework of trade finance to foreign creditor banks. The government will also bail out the obligation of local banks to foreign banks that have a due date.

1) Bailout Facility for Payment of Bank's Foreign Liabilities in the context of Trade Finance. The government will guarantee the obligations of national banks in the framework of trade finance to creditor banks abroad. The basis for guaranteeing the international trade financing by Bank Indonesia is the Letter of Guaranty (LOG) issued by Bank Indonesia to foreign creditor banks that provide credit.

   BI guarantees are issued on behalf of the government in the form of guarantees for payment of banks outside credit providers in the case that local banks that obtain international trade financing facilities cannot fulfill obligations to partner banks.

   Guaranteed international trade financing includes confirmation of L/C, acceptances on the basis of trade transactions, pre-shipment financing, financing of bank acceptances, financing of L/C and non-L/C, standby L/C financing, and guarantees for trade transactions.

2) Bailout Facility for Payment of Bank Foreign Liabilities in the context of Interbank Debt Arrears.

   Through this facility, the Government of Indonesia bailed out the obligations of domestic banks to foreign banks that had due date but unpaid (arrears), for trade financing transactions and foreign loans (interbank debt) with positions up to June 30, 1998. This facility was launched as a condition for foreign credit banks to reopen their credit line to local banks.

   The foreign exchange bailout facility transferred to the Government in this case IBRA for the position on January 29, 19999 was Rp. 9.27 trillion. *Cessie* happened on February 22, 1999.

Policy Post BLBI

1. Increasing **Increase Rate for Debit Balance and Fines for Minimum Statutory Reserve Requirement Violations**

The availability of debit balance facilities at Bank Indonesia made banks tend to rely on these facilities to overcome liquidity difficulties. Therefore, Bank Indonesia established a policy for handling high interest rates on debit balances at BI and heavy penalties for Statutory Reserves Requirement violations. This policy was established to encourage banks to try to maintain a positive balance with BI.

Bank Indonesia issued a BI Directors Decree No. 30/86 / KEP / DIR on October 7, 1997 which determined the interest rate for debit balances and GWM fines. The interest rate for debit balances is 150% of the Jakarta Interbank Offered Rate (JIBOR) average - overnight on the first day the debit balance cannot be completed. Then it becomes 500% of the average JIBOR - overnight the next day. The statutory reserve requirement is set at 150% of the average overnight JIBOR for the first day of the violation and 400% of the average overnight JIBOR for the following days.[25].

GWM violations, especially debit balances, contain severe penalties, which if not paid will cause more bank loans to Bank Indonesia. The number of banks that violated the statutory reserve requirement swelled with the onset of the crisis. The balance of banks checking accounts in BI continued to decline under third party funds (TPF).

2. Improvement of Provisions regarding Discount Facility and Penalty for Debit and GWM Balances

1) Improvement of Provisions regarding the Discount Facility and Penalty for Debit Balances and Statutory Reserves Requirement in March 1998

To support the principle of banking prudence and monetary stability, commercial banks need to maintain Statutory Reserves Requirement (GWM). To support adherence to the fulfillment of the Statutory Reserves Requirement, there is an adequate penalty in accordance with the cost of the source of funds, which is the basis for the calculation of Statutory Reserves Requirement. In this regard, it is deemed necessary to distinguish the percentage of penalty for violation of the fulfillment of Statutory Reserves Requirement in rupiahs and Statutory Reserves Requirement in foreign currencies. Issuance of amendments to provisions related to discount facilities and penalties on debit balances and GWM in March 1998 through Bank Indonesia Directors' Decree No. 30/271 / KEP / DIR and Bank Indonesia Circular Letter No. 30/18 / UPPB on March 6, 1998 is based on the provision that the applicable discount facility and penalty on debit balance and GWM are no longer suitable with the current conditions. The new provisions are intended to replace the same provisions assigned in the Decree of the Board of Directors of Bank Indonesia No. 30/86 / KEP / DIR on October 7, 1997.

The contents of the provisions related to the discount facility in the Decree of the Board of Directors of Bank Indonesia No. 30/271 / KEP / DIR includes:

[25] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. Page 257

(1)Discount facility can be used to cover statutory reserve requirements or to anticipate and prevent the occurrence of bank deposit balances at Bank Indonesia.

(2)To obtain a discount facility, banks are required to provide collateral in the form of bank promissory note in the amount of facilities received and or Bank Indonesia Certificates, securities, and or other bank assets, with a minimum amount of facilities received.

(3)Discount facilities are provided for a maximum period of 7 working days and can be extended to a maximum of two times 7 working days. The discount facility discount rate is set at: (i) 200% of the seven-day JIBOR interest rate, for a period of up to 7 working days; and (ii) 300% of the seven-day JIBOR interest rate, if the period exceeds 7 working days.

(4)Supervision of Banks that cannot repay the discount facility after the expiration of the period is transferred to IBRA and the balance of the relevant Bank Discount Facility is charged to the IBRA account at BI. With the charging of the discount facility balance to IBRA, the repayment obligation by the Bank is transferred to IBRA.

In addition, the regulation issued in March 1998 also regulates sanctions for violations of debit balances. Banks are required to settle negative balances no later than the delivery clearing the following day. If the bank is unable to settle the negative balance so that it becomes a debit balance, the bank can be stopped from participating in the clearing. The supervision of the Bank that is terminated from participating in the clearing will be transferred to IBRA. The balance of the debit account of the Bank is charged to the IBRA account at BI. The debit balance incurred will be subject to an interest of 500% of the overnight JIBOR interest rate.

Based on the BI Director's Decree No. 30/271 / KEP / DIR and SE BI No. 30/18 / UPPB on March 6, 1998 concerning violation of Statutory Reserves Requirement will be subject to penalty: (i) at 150% of the overnight JIBOR interest rate for each violation; (ii) amounting to 200% of the overnight JIBOR interest rate for any violation that occur after seven consecutive working days; and (iii) 400% of the overnight JIBOR interest rate for any violation that occur after 14 consecutive working days.

2) Improvement of Provisions regarding the Discount Facility and Penalty for Debit Balances and GWM April 1998

One month after the Improvement of Provisions regarding Discount Facility and Penalty for Debit Balances and Statutory Reserves Requirement was assigned in March 1998, Bank Indonesia considered it necessary to refine the provisions because they were deemed irrelevant to the current economic conditions. Penalty for the cancellation of participation from clearing for banks that cannot settle negative balances and become debit balances, as well as the transfer of supervision to IBRA were unable to stem the tendency of banks to keep deviating from the provisions. The Bank no longer cares about any penalty that would be imposed, due to the bank's desperation for the heavy withdrawal of funds by its customers. Imposition of stop clearing penalty has implications for the bank's reputation. Under normal conditions, the impact may not be too significant, but in times of crisis the penalty actually worsen the bank's condition because it has a more severe psychological impact[26].

This condition encouraged Bank Indonesia to issue new provisions contained in the BI Board of Directors Decree No. 31 / 2A / KEP / DIR and SE BI No.30 / 01/1998 on April 6, 1998 concerning discount facilities and penalty on debit balances and GWM. Provisions in the improvement of April 1998 related to discount facilities are as follows:

(1)Discount facilities are only given to banks that are not in the restructuring program by IBRA.

(2)Banks receiving discount facilities are not permitted to place funds in the interbank money market.

(3)Discount facility is given for a period of one month and can be extended every time for a maximum of one month.

(4)The discount rate is set at 150% of the average overnight JIBOR rate for the previous month.

The penalty on the debit balance in the provisions of April 1998 include the interest of 150% of the JIBOR-overnight interest rate on the balance of the first day and 500% of the overnight JIBOR rate in the following days. This penalty was the same as the penalty in the provisions of October 7, 1997, which means that it was lighter than the interest rate set in the March 1998 refinement of 500% of the overnight JIBOR interest rate. Then, the management and / or owner of the bank that uses the discount facility for other purposes is subject to penalty in the List of Disgraced Persons.

The penalty against Statutory Reserves Requirement did not experience a change compared to improvements in March 1998, which amounted to 150% of the overnight JIBOR interest rate for each violation. As much as 200% of the overnight JIBOR interest rate for each violation that occurs after seven consecutive working days and 400% of the overnight JIBOR rate for each violation that occurs after 14 consecutive working days.

3) Improvement of Provisions regarding the Discount Facility and Penalty for Debit Balances and GWM in July 1998

The penalty imposed on the previous regulations were felt to be too heavy so that it was feared that it would worsen the condition of the banking business. This condition encouraged Bank Indonesia to re-adjust it by issuing the BI Director's Decree No. 31/55 / KEP / DIR on July 1, 1998. This provision was issued to make the penalty lighter than the previous provisions, also to add a guarantee provision to better secure the discount facility. Improvement of the provision issued in July 1998 related to the provision of discount facilities, which include the following:

[26] BI Board of Directors SE Number: 14/8 / UPPB on September 10, 1981

1) Banks that are unable to settle debit balances for three consecutive working days are required to submit applications to obtain discount facilities.

2) The Bank receiving the discount facility is obliged to submit collateral worth the discount facility in one or more of the following form of: i) SBI, ii) assets in the form of land and buildings, iii) other securities, such as bonds and shares, except for customer promes, corporate guarantees and or personal guarantees.

3) Discount facility has a term of one month and can be extended for another one month.

4) The prevailing discount rate is lowered from the previous provision of 125% of the average overnight JIBOR interest rate.

The penalty for not being able to settle the bank's debit balance at Bank Indonesia was lowered from the previous provision to 125% of the average overnight JIBOR interest rate. Similar to the improvement provisions in April 1998, management and / or Bank owners who use discount facilities for other purposes are subject to penalty on the List of Disgraced Persons. In addition, in this provision, penalties against Statutory Reserves Requirement due to violation of the Statutory Reserves Requirement provisions in the rupiah are derived from the previous provision to 125% of the average overnight JIBOR interest rate.

3. Restrictions on the Use of Debit Notes in Clearing

The rules for settlement of bank loan receivables in the Interbank Money Market (PUAB) stipulate that the lending bank is allowed to collect the receivables using the Clearing Debit Note. However, during the crisis period, the bank debit balance that has a debit and debt balance in the Interbank Money Market (PUAB) will increase, because the lending bank burdens it. Such conditions have caused Bank Indonesia funds to be used by banks to increase. This prompted Bank Indonesia to issue rules limiting the use of Debit Notes in clearing as stated in Decree No. 31/1 / KEP / DIR dated April 3, 1998 submitted to the bank with Circular No. 31/4 / UAK dated April 4, 1998. This provision is intended to prevent the use of Debit Notes that are not in accordance with sound banking practices while maintaining the principle of prudence in banking operations. In this provision, the maximum number of Debit Notes used to collect funds from other banks for sending banks or to benefit the sending bank customers is only limited to Debit Notes containing bills concerning the replacement of banking service fees or claims for travel check payments with a maximum value of Rp10 million. The reimbursement of the banking service fee referred to in the form of transfer fees, use of the Joint ATM, telephone, electricity, credit card, L / C provision and other similar transactions. Debit Notes may not be used for repayment of foreign exchange transactions, and repayment of the placement of funds or matured Money Market Securities (SBPU). Banks are required to refuse Debit Notes that are not in accordance with the provisions above. Any violation of these provisions will be subject to sanctions in the form of an obligation to pay 50% of the nominal value of the said Debit Note.

The next arrangement was made regarding the use of Debit Notes above Rp. 10 million as stated in Circular Letter No. 31/10 / UAK to all clearing participants in Jakarta. To support the implementation of economic reforms and provide convenience for community members and banks in conducting trade transactions in goods and services, Bank Indonesia gives exceptions to Debit Notes above Rp. 10 million which can be cleared as follows:

1) Debit Note issued by the Bank Indonesia Work Unit and addressed to Banks and / or bank customers containing bills or fees related to the opening or amendment of import L / Cs, as well as other bills;

2) Debit Notes issued by banks and addressed to Bank Indonesia in connection with the nine subsidy bills for foodstuffs and / or other bills at the expense of the government.

To expand and expedite the payment system, it is necessary to carry out local clearing and the final settlement of interbank payment transactions for local clearing results, which are safe, effective and efficient. To support this, Bank Indonesia then issued a new regulation, PBI No. 1/3 / PBI / 1999 dated 13 August 1999 concerning the Implementation of Local Clearing and Settlement of Interbank Payment Transactions on Local Clearing Results. In this rule, Article 6 paragraph (2) states that Debit Notes are limited to a maximum nominal value of Rp 10 million and cannot be used for PUAB transactions.

As a follow up to PBI No. 1/3 / PBI / 1999, Bank Indonesia then re-regulated the use of debit notes in clearing as stated in Circular No. 1/10 / DASP dated December 31, 1999. The Circular makes it clear that in the context of disbursement of promissory notes or repayment of PUAB transaction loans, the borrower must issue a Credit Note or by issuing a Check or Giro Bilyet on the due date. Then, the lender returns the promissory note to the borrower directly.

In the Circular Letter, it was stated that Bank Indonesia could issue Debit Notes to repay various types of liquidity loans and interest. In addition, there are differences in provisions regarding penalty against banks that violate the provisions of the previous one, as follows:

1) Amount of fines to banks submitting Debit Note or Electronic Financial Data (EFD) in clearing that are not in accordance with the provisions, amended to Rp 100,000 for each violation;

2) Banks receiving Debit Notes or EFD exceeds Rp. 10 million and do not refuse, the amount of the fine is also changed to Rp. 100,000 for each violation.

4. Supervision of Payments to Bank's Restructuring

To assist Bank Indonesia control the increase in debit balances, in accordance with the agreement between the Chairman of the IBRA and the Bank Indonesia Accounting Director, the transfer of bank funds under the supervision of IBRA required countersign. The legal basis for countersign implementation is the Letter of the Chairman of IBRA No. 19 / B PPN / 1998 and No.19A / BPPN / 1998 dated April 9, 1998 concerning the Delegation of Authority to IBRA Employees to Affix the Counter Signatures on Bank Indonesia Giro Bilyet (BGBI), issued by banks under supervision. Countersign is an emergency action taken by an IBRA official in order to control the use of Bank Indonesia funds by banks that already have debit balances by replacing Interbank Credit Notes with BGBI. This is also done to monitor the progress of the debit balance that will be billed by Bank Indonesia to IBRA. The countersign implementation mechanism will increase the use of BLBI, which is more controlled because banks under the supervision of IBRA can no longer make interbank payments using Credit

Notes, but only with BGBI. This was also done to monitor the progress of the debit balance that Bank Indonesia would bill to IBRA because of the issuance of Presidential Decree No. 55 of 1998 concerning Domestic Loans in the Form of Debt. With the countersign implementation mechanism, increased use of BLBI can be more controlled because banks under the supervision of IBRA can no longer make interbank payments using Credit Notes, but only with BGBI.

In the implementation of the supervision, the addition of debit balances due to withdrawal of funds by customers through the clearing mechanism is unavoidable. This cannot be anticipated and is not evident from the cash flow submitted. In addition, there is also a limited time to examine the correctness of the use of funds. If after the countersign implementation, the debit balance on the next day increases, then the next day the countersign is not implemented and the bank is asked to make a statement regarding the inability to handle obligations to third parties[27].

5. Transfer of BI Liquidity Support to the Government

On February 6, 1999 Bank Indonesia transferred the Bank Indonesia Liquidity Assistance (BLBI) to the government. The BLBI represents the amount of funds that have been spent by Bank Indonesia in overcoming liquidity difficulties experienced by banks since the crisis began until January 29, 1999. The BLBI transfer to the government was in line with the government's guarantee program, commercial banks payment obligation and bailout to the government, which were taken before the government guarantee program was issued. Based on Bank Indonesia's bookkeeping, the BLBI amount that had been disbursed as bailout funds to the Government on January 29, 1999 was Rp 144.5 trillion.

The transfer of BLBI to the Government was based on a Joint Approval Letter on February 6, 1999 between the Governor of Bank Indonesia and the Minister of Finance of the Republic of Indonesia. The main contents of the agreement are:

1) Government cq IBRA took over cessie rights to Commercial Banks recipient of BLBI and Bank Indonesia whose distribution has been recorded in Bank Indonesia account.

2) The creation of the cessie agreement will be made for each Commercial Bank recipient of BLBI.

3) Upon the expropriation of the claim rights, verification will be agreed upon by both parties.

As the implementation of the joint agreement, the Government took over the remaining BLBI by issuing State Debt Number SU-003 / MK / 1999 amounting to Rp. 64.5 Trillion.

In a Joint Agreement dated February 6, 1999 between the Governor of Bank Indonesia and the Minister of Finance of the Republic of Indonesia it was also agreed that BLBI, which emerged after January 29, 1999, was taken over by the government and paid for by Government Debt. BLBI additional payments of Rp. 14.4 trillion were carried out together with other obligations of Government Debt No. SU-004 / MK / 1999 dated May 28, 1999 as confirmed by the Minister of Finance to the Governor of Bank Indonesia in letter No. S-176 / MK.01 / 1999 dated May 31, 1999 concerning General Power of Attorney in the context of

[27] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. P. 492

payment of government guarantees for bank obligations. Thus, financially Bank Indonesia has obtained a settlement / payment of BLBI receivables distributed to banks, except for the Debit Balance Facility (FSD) interest of Rp. 14.0 trillion.

Based on the results of the examination of the distribution and use of BLBI amounting to Rp 144.5 trillion, the BPK concluded and announced in a press release that there were indications of irregularities in the distribution and use of BLBI, and caused a potential state loss of Rp 138.5 trillion. The audit results made public opinion on the BLBI problems tend to be negative and have an impact on Bank Indonesia's image and performance. Regarding this matter, there are several issues related to the BPK audit results, i.e.,: (i) are the results of the BPK investigation audit published justified to the public ?; (ii) whether the results of the investigation audit are based on facts and supporting documents that are believed to be true ?; (iii) has the BPK's findings been clarified to the parties concerned so that the results can be accounted for ?; and (iv) is it appropriate to conclude that BLBI issues are separated between financial and operational aspects and policy issues?[28]

Payment System Policy in dealing with crises

As explained in the previous chapters, several payment system policies that have been implemented include: licensing with debit balances on his account at Bank Indonesia, restrictions on the use of debit notes and credit notes in clearing, supervision of payments to banks in restructuring, and confirmation systems Bank Indonesia Bilyet Giro. However, these policies can be classified with the concept of thought as follows.

1. Reengineering the Clearing Process and Settlement

In an effort to overcome the overdraft problem, Bank Indonesia has reengineered the clearing and settlement process. This proposal is intended to reduce the risk of settlement failure, which results in the need to provide an unlimited amount of overdraft facilities, by Bank Indonesia. In addition, this proposal also in principle aims to improve the discipline of liquidity management by banks in relation to government guarantees of bank liabilities, as well as increasing the ability of Bank Indonesia to control bank liquidity. The proposed reengineering of the clearing and settlement process was then submitted and approved by the Board of Directors at that time (currently the Board of Governors) to be implemented. The principle applied in the reengineering of the clearing and settlement process includes two main points:

a. Provision of overdraft facilities (as far as possible avoided) may not be based on individual transaction considerations, but have to be based on an analysis of the overall liquidity condition of the bank.

b. Payment transactions cannot be recorded if the funds in the bank checking account at Bank Indonesia are insufficient.

The proposal proposed is essentially an interim solution while waiting for an ideal solution, which is a Real Time Gross Settlement (RTGS) system for large value transactions. Considering the development of RTGS requires a relatively long time and the condition of the banking sector, those who still do not fully support the operation of the RTGS system.

[28] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. P. 445

Therefore, there needs to be a solution that can be implemented immediately to support the national banking-restructuring program. The proposal for reengineering the clearing and settlement process includes two activities:

a. Separation of clearing and settlement processes for large-value documents from the clearing process at that time.

b. Bank Indonesia Giro Bilyet (BGBI) confirmation system.

2. Clearing of Deferred Time Gross Settlement (DTGS)

In this proposal, large value documents (Rp1 billion and above) are processed separately. The difference between the process of clearing large-value clearing documents rather than the clearing process of small-value instruments is the settlement process. For clearing large value documents, settlement is done by the gross-posting principle. In this case, the clearing results are not directly interfaced to the accounting system as the settlement process of clearing of small-value instruments, but it is recorded one by one (script) so that it is also called the Deferred Time Gross Settlement system or abbreviated DTGS. If the funds in the bank checking account are insufficient, the bookkeeping process will stop even if there is still unpaid scripting.

For documents whose payment is delayed, the bank must immediately seek payment to occur no later than two days. For this, banks can apply for liquidity credit (discount facility) to Bank Indonesia through common credit procedures. If at the time limit set by the bank cannot fulfill its obligations, Bank Indonesia will ultimately provide bridging finance (which is linked to government guarantees) so that payments to customers can be implemented.

The clearing of large value instruments with the gross settlement system has finally not been realized due to complex technical constraints. The effort to reduce the risk of overdraft through clearing was then continued through the development of the BI-RTGS system, which then capped credit transactions nominal through clearing.

3. Confirmation System of Bank Indonesia Giro Bilyet

Bank Indonesia Giro Bilyet Instrument (BGBI) at that time was used for various interbank transactions both in the framework of PUAB and other transactions. Transactions that use BGBI are generally of great value and are deposited directly by the bank into Accounting at that time. In principle, the deposited BGBI will only be booked by Bank Indonesia if the funds in the bank checking account are sufficiently interested. However, in practice, there were several transactions through BGBI that were still booked despite insufficient interest in bank checking account funds, including BGBI transactions in order to the interbank money market.

In the proposed reengineering of clearing and settlement processes, the status of BGBI is changed to revocable instrument, which means it will be rejected (without exception) if there are insufficient funds in the bank checking account. However, given the need for an irrevocable instrument to support the smooth functioning of the interbank money market in the country, banks that withdraw funds using BGBI can confirm Bank Indonesia in advance to set aside some funds in their deposit funds to guarantee BGBI payments that are submitted later. This BGBI that has been confirmed and guaranteed payment is referred to as confirmed BGBI. This proposal was later also known as the "RTGS Manual". Meanwhile the BGBI deposit procedure without confirmation remains in effect with the consequence of not being booked if there is insufficient funds in the bank checking account. The BGBI Confirmation System then began to be implemented on August 3, 1998.

4. Implementation of Bank Indonesia Electronic Information and Transaction Services (BI LINE)

BI-LINE[29] is a substitute for the process of submitting BGBI scripts to Bank Indonesia officers to electronically transmit data, and replace the bookkeeping process by Bank Indonesia officers into their own books by bank officers at their own bank offices. This system simultaneously replaces the BGBI Confirmation system that has been previously implemented in order to reengineer the clearing and settlement processes.

The development and implementation of the BI-LINE system was carried out as a solution before the comprehensively developed RTGS system was implemented. Therefore, calculating the minimum costs for participating banks by utilizing existing facilities in the bank carries out the development and implementation of BI-LINE. Based on these considerations, BI-LINE was not implemented in all banks. The main consideration of the bank included in the BI-LINE system is the volume of BGBI transactions carried out by the bank and the availability of facilities at the bank concerned.

The BI-LINE system as an interbank electronic fund transfer was no longer used since 17 November 2001 when the BI-RTGS system was implemented. The benefits of the implementation of the BI-LINE system were felt by the banks and by Bank Indonesia itself. For banks, the benefits of implementing the BI-LINE system are:

a. Efficiency in interbank electronic fund transfer systems. The bank does not need to make a script to submit to BI because the transfer can be created directly by the bank from the bank's own office.

b. Fund management can be done better due to the availability of information on current account balance in KPBI in real time and the balance of the bank checking account at the KBI periodically.

c. Reconciliation of inter-branch balances is more accurate because banks can minimize the occurrence of money in transit by sending funds transfers to branches by not exceeding KBI office hours.

While the benefits obtained by BI as the organizer are:

a. Can develop and implement the BI-RTGS system better because it has the experience of implementing paperless transaction electronic interbank fund transfers.

b. Job efficiency due to validation, data entry and approval for a transaction carried out by each bank.

[29] BI-LINE (Bank Indonesia Electronic Transaction and Information Services) is an electronic fund transfer system from a bank to Bank Indonesia for various interests of a bank whose settlement is finally carried out on a bank's checking account individually (gross settlement) after obtaining system approval from Bank Indonesia.

c. Minimization of money in transit problems.

5. BI-RTGS System Development

Since 2000, Bank Indonesia introduced the RTGS system[30]. There are at least three main reasons why Bank Indonesia uses settlement through RTGS. The first reason, if you re-open the literature and refer to the results of empirical studies, is a new awareness of the central banks throughout the universe to manage Large Value Transfer Systems (LVTS). The BI-RTGS system can reduce systemic risk. Systemic risk is the risk of failure of one of the participants in fulfilling the obligations that are due. This payment failure will make other bank participants also threatened. Even in extreme situations, this failure to pay has the potential to trigger wider financial difficulties that could threaten the stability of the payment system.

The second reason, through the RTGS system, can reduce the occurrence of float, which is expected to support the effectiveness of banking supervision. On the other hand, good liquidity management in the banking sector will also help the effectiveness of monetary policy. The third reason, the RTGS system opens up opportunities for integration with various payment system applications. For example, the money market and capital market, which adheres to the principle of Delivery versus Payment (DVP) or can also conduct transactions in cross border payments through Payment versus Payment (PVP).

There are several targets to be achieved through the BI-RTGS system application, including BI-RTGS transfers of funds between participants faster, more efficiently, reliably and safely. In addition, there is at least more assurance of settlement. This BI RTGS system will show participant account information in real time and thoroughly. RTGS participants are also required to be disciplined and professional in managing their liquidity. In addition, it is hoped that through this RTGS system it will reduce various settlement risks.

Cash Management Policy

In terms of cash, Bank Indonesia has always maintained the fulfillment of the community's need for cash to maintain public trust in the banking sector, which continues to decline. Bank Indonesia provides a greater amount of currency than usual, in anticipation of public concerns about the turnover in 1999 to 2000. The policy measures include adding money printing, losing the criteria for eradication of money, circulating special commemorative notes and improving cash services to banks and the public.

Before the economic and monetary crisis (between June 1996 and June 1997), the increase in currency circulation (UYD) was only 14.9% (yoy). Along with the crisis and the decline of public trust in banks, there was a significant increase in UYD, i.e., that at the end of June 1997, Rp27.8 trillion increased 89.6% to Rp52.7 trillion at the end of June 1998. One of the causes of the increase in UYD was a rush to banks that occurred in February 1998 and March 1998.

[30] BI-RTGS is the final settlement process of payments made per transaction and is real time.

Increased UYD occurs because of bank withdrawals to Bank Indonesia (outflows) to meet the needs of the people who tend to increase. The amount of outflows in 1997 amounted to Rp85.0 trillion, an increase of 34.4% compared to 1996, which was recorded at Rp63.2 trillion. The increase in outflow also occurred in 1998, which reached Rp.117.5 trillion, an increase of 38.2% compared to 1997.

The massive withdrawal of banks (outflows) caused Bank Indonesia's cash position to significantly decline. Bank Indonesia's most critical cash position occurred in January 1998, which only reached IDR 2.6 trillion. However, along with the receipt of new money from Perum Peruri, the cash position of Bank Indonesia experienced a gradual increase. The receipt of money from the Perum Peruri caused Bank Indonesia's cash position to be recorded at Rp55.7 trillion at the end of 1998.

The steps taken by Bank Indonesia to meet the money needs of the banking / community by increasing the cash supply and facilitating the circulation of money to the public are as follows:

1. Bank Indonesia increases the number of print orders, especially large denominations.

   In 1997/1998, the number of money printing plans amounted to Rp23.3 trillion, an increase of 7.3% compared to 1996/1997, which reached Rp21.7 trillion. Furthermore, in 1998/1999, Bank Indonesia planned to print Rp.78.4 trillion or increase significantly by 236.5% compared to 1997/1998.

2. Bank Indonesia included special money in the Rp.50,000 denomination polymer into ordinary money circulation in February 1998.

   Initially issued in March 1993, Suharto's main Rp.50,000 denominated polymer money was intended as a commemorative note to commemorate the success of Long Term Development Phase I.

   The Rp. 50,000 denomination polymer money is circulated as a limited collection and the selling price for the fraction is set at Rp. 100,000 for raising funds for development. In addition, as of the end of January 1998, the position of the Rp50,000 fraction of polymer money inventory reached Rp256.6 billion due to the relatively undeveloped development of the numismatic market in Indonesia. This situation was a "blessing in disguise" given that at that time Bank Indonesia's cash inventory experienced a critical position along with the increase in money withdrawals by the public and banks. Therefore, a policy was issued to issue Rp50,000 denominated polymer money as a normal legal payment instrument to increase Bank Indonesia's cash supply.

3. Bank Indonesia extends the eligible age for circulation of Rp. 5,000 denomination banknotes by extending the criteria for the destruction of money.

   To increase the cash supply, in November 1997, Bank Indonesia issued a policy to loosen the criteria for the destruction of banknotes, especially Rp. 5,000 and above. It was realized "lacking" in line with the clean money policy, considering the money that had entered Bank Indonesia was already worn out. The loose money policy was enacted for ±11 months or ended in September 1998, in line with the return of Bank Indonesia's normal cash position.

1. Bank Indonesia improves cash services for banks and the public to maintain public confidence in currency.

   Aside from the supply side through increasing money printing plans and loose money eradication, Bank Indonesia also transfers money quickly and efficiently. The needs of all Bank Indonesia cash work units both at the central and regional levels can be met through shipments from offices that have excess money to offices that require additional money.

   In order to improve the cash service during the economic and monetary crisis, Bank Indonesia opened service hours according to banking needs. Meanwhile, in relation to Y2K, Bank Indonesia provided cash services for 24 hours from the beginning of December 1999 to the first week of January 2000. Regarding the Y2K issue, banks and the public did not make large-scale withdrawals as during the 1997-1998 crisis period.

Furthermore, several advanced policies in the field of cash management include the following:

2. Requirements and Procedures for Carrying Rupiah in and Out of the Republic of Indonesia Territory

   Bank Indonesia issued a new regulation concerning the requirements for bringing Rupiah into and out of Indonesia, which took effect from 2 February 1998 (vide Decree of the Board of Managing Directors of Bank Indonesia No. 30/191A/Kep/Dir on 2 February 1998 concerning Rupiah Expenditures or Imports From Or into the Territory of the Republic of Indonesia). Under these provisions, to bring money out of or into the territory of the Republic of Indonesia for more than Rp10 million must be asked for written permission from Bank Indonesia stating the number of sheets or pieces, fractions, year of issuance and the purpose of their use. Previously, the limit of the amount set was only Rp.50,000, which referred to the provisions of 1981 (vide Decree of the Board of Managing Directors of Bank Indonesia No. 14/48 / Kep / Dir / ULN dated October 21, 1981 concerning Carrying Out / Entering Rupiah Currency From / To Territory Republic of Indonesia).

3. Issuance of new banknotes and coins

   In order to the long-circulating refreshment of the 1992 emissions and efforts to cope with the circulation of counterfeit money, in 1998, Bank Indonesia issued 2 (two) Rp20,000 and Rp10,000 denominations which began to be issued and circulated respectively on the 23rd. January 1998 and February 18 1998. The 1998 Rp. 20,000 year emission bill (TE) depicted the national hero Ki Hajar Dewantara, while for the Rp. 10,000 TE 1998 denomination the picture was Tjut Nyak Dien.

   In early June 1999, Bank Indonesia also issued new Rp50,000 TE denominations of money, which depicted national hero W.R Soepratman. The money was prepared to replace the IDR 50,000 denomination 1993 and TE 1995 which depicted President Soeharto. This was due to the political turmoil that occurred during the 1997/1998 financial crisis, which led to the demands of the public that money with President Soeharto's image be withdrawn and revoked from circulation. For information, IDR 50,000 denominations of TE 1993 and TE 1995 were revoked and withdrawn from circulation starting on November 15, 2000 (vide Bank Indonesia Regulation No. 2/18 / PBI / 2000 concerning Revocation and Withdrawal from Circulation of Rp 10,000

Banknotes 1992 Emission, Rp.20,000 Emission Year 1992 and 1995, Rp. 50,000 Emission Year 1993 and 1995 and Rp. 50,000 plastic Emission Year 1993).

In line with the ever-increasing transactions because of the economic development that occurred, Bank Indonesia issued larger denominations of Rp. 100,000, which began to be circulated on November 1, 1999. The money used polymer substrate (plastic) with a more reliable safety element than counterfeiting effort. The design of the new money depicted the national hero and founding fathers, Soekarno and Mohammad Hatta.

In addition, in order to increase the age of circulation, especially small denominations, then in 1997, Bank Indonesia carried out a program of metallization of small denominations in Rupiah through the issuance of Rp. 500, Rp. 100 and Rp. 50 coins.

On August 28, 1997, Bank Indonesia reissued a Rp. 500 denomination using aluminum bronze as in Rp. 500, Rp. 100 and Rp. 50 TE 1991 denominations. The issuance of the new Rp. 500 denomination is because people find it difficult to recognize the characteristics of coins due to the small size of money, the main picture and the nominal writing. Therefore, in the new coins of IDR 500,000 denomination in 1997, the nominal number in the fractions was printed with a size larger than IDR 500 TE 1991 so that the public could more easily recognize them.

Meanwhile, to facilitate the public's introduction of coins, especially Rp. 100 and Rp. 50 denominations, on March 30, 1999, Bank Indonesia issued and circulated the two denominations with different types of aluminum material from previous fragments (using bronze aluminum). In addition to facilitating the identification of fractions of money, the use of aluminum material is to maintain a balance between intrinsic value and nominal value of coins so that relatively cheaper raw materials are used.

4. Fulfillment of small fractions

Small denominations are still needed by the community for daily transaction activities. Bank Indonesia always fulfills the needs of the small denominations while paying attention to efficiency aspects, including the selection of raw materials and the improvement of their distribution.

In line with the metallization program, especially the Rp. 500 denomination down to replace paper money, Bank Indonesia reduced some banknotes that had denominations with coins. Changes in paper money into coins as an effort to increase the age of circulation of small denominations that are often used for transactions so that they are quickly worn out.

In the early stages of the metallization program, people tend to keep choosing banknotes for transaction activities. This is because banknotes are lighter, easier to manage and not used to using coins. In addition, from the banking side, banks are also not used to managing coins. This is due to employee limitations and the condition of coins that are quite heavy and require a larger storage volume.

In an effort to improve Bank Indonesia's cash position during the crisis, Bank Indonesia printed Rp100 denomination banknotes that had been long since stopped printing in 1996. Although this step was considered inefficient, the policy needed to be taken to meet people's needs for small denominations tends to increase.

Bank Indonesia Liquidity Credit (KLBI)

Liquidity support to banks must be distinguished from Bank Indonesia Liquidity Credit (KLBI), which has been provided to finance various government programs. KLBI is a loan granted by Bank Indonesia to finance government program credits channeled through commercial banks. KLBI is primarily channeled to finance projects that influenced directly on small businesses and low-income communities, such as Farmer Loans (KUT), Simple / Very Simple Home Ownership Loans (KPRS / SS), Credit to Primary Cooperatives for Members (KKPA), Credit to KUD (KKUD), etc. This KLBI award, either directly or indirectly, plays a role in improving the welfare of the community and reducing social inequality[31].

KLBI channeled to banks imposes relatively low interest rates so that banks can channel credit to people who need affordable interest rates. This means that KLBI receives interest subsidies because it is intended to help the economically weak. In the 1997/98 period, KLBI interest rates ranged from 8.5% to 14%, far lower than the general lending rates. This difference in interest rates is the interest subsidy from the government for the poor economy groups whose from the fiscal year 1998/99 will be charged to the fiscal budget.

1. Support to Reduce the Impact of the Crisis for Small Businesses

The exchange rate crisis that occurred since July 1997 has caused liquidity problems and increased funding costs in connection with the increase in interest rates on almost all banks. This problem occurs not only because of monetary tightening policies implemented in order to overcome the exchange rate crisis, but also because of the rush experienced by banks experiencing a crisis of confidence. This difficulty has caused a reduction, even the cessation of new bank lending activities, including the provision of Small Business Credit (KUK). The realization of the KUK award, which before the exchange rate fluctuation averaged Rp 1.9 trillion per month, to only around Rp. 500 billion per month. Even the implementation of several program credits was also disrupted. It should be stated that most of the funds for the program credit are provided by Bank Indonesia. However, considering that banks must also provide some of the funds, the increase in deposit interest rates has led to an increase in the cost of funds for these program credits. This is especially true for the KKPA and KKUD schemes[32].

To continue encouraging small-scale business activities, which are relatively able to withstand the effects of the crisis, Bank Indonesia continues to implement credit programs for small businesses. The basic strategy of financing small businesses conducted by Bank Indonesia still rests on the previous year's strategy, i.e., the determination of the obligation for banks to provide part of their loans in the form of Small Business Loans (KUK), provision of financial assistance in the form of liquidity credit (KLBI), and foreign funds (two step loan / TSL), provision of technical assistance, and institutional development[33].

MSMEs have a relatively better resilience compared to UB due to the high local content of MSME production factors, both in raw materials and capital. This is partly due to the risk exposure in small industries or smaller MSMEs. For example, the very high exchange rate risk faced by large companies with import-based raw materials is certainly not owned by

[31] Bank Indonesia. 1997/98 Annual Report. Jakarta. P. 127

[32] Bank Indonesia. 1998. 1997/98 Annual Report. Page 134.

[33] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. Page 278

MSMEs, and if there are relatively small ones[34]. In terms of lending, bank loans channeled to MSMEs are not concentrated in one particular business group or sector, but are spread across many businesses or groups, so that the risk of bad credit can be minimized. As an illustration, the level of non-performing loans as reflected in the Gross Non Performing Loans (Gross NPLs) nationwide is 8.25%, while for MSME loans, the NPL is 4.93%[35].

Notice the monetary economic situation at the time, Bank Indonesia considered it necessary to reduce the negative impact of the economic crisis, especially for food producers and small entrepreneurs. In line with the government's efforts to ease the burden of the people affected by the crisis, Bank Indonesia reconsidered the direction of the policy in providing credit to small businesses and cooperatives, by taking the following steps:

1) Soften the requirements of program credit executing banks

2) Increase the share of Bank Indonesia Liquidity Loans (KLBI) in the distribution of credit programs for food self-sufficiency and small business development and cooperatives to 100%;

3) Improving the provisions of several program credit schemes by adjusting mechanisms and procedures;

4) Expanding credit schemes for financing small businesses including micro-enterprises, as well as increasing the role of Rural Financial Institutions including Rural Banks (BPR) and Sharia Rural Banks (BPRS) in the development of small businesses.

On August 8, 1997 a partnership was established between small and large businesses involving banks as credit providers. Then on October 28, 1997 Bank Indonesia expanded the scope of program credits, as follows.

1) Farmer Business Credit (KUT)

   KUT distribution, during the period 1990-1996 decreased, from around 108 billion in 1990/1991 to 34 billion in 1996/1997, but in terms of credit arrears, there was an increasing trend (Syukur et al., 1999). This shows the decreasing performance of the KUT program, both in terms of distribution and return so that it is feared that it will affect the performance of the agricultural sector in producing food. As the KUT absorption decreases, food production growth continues to experience a decline, which is then accompanied by an increase in rice imports, so rice self-sufficiency can no longer be maintained. For this reason, it is necessary to make a breakthrough in the distribution of KUT to farmers. This phenomenon not only occurs in KUT but other program credit schemes, all of which have 17 program credit schemes covering the primary agriculture, processing, trade and small industry sectors.

2) Penalty and incentive are no longer associated with the soundness of the bank, but in financial terms;

3) Credit for village unit cooperatives (KKUD) expanded; and also

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[34] Bank Indonesia. 2006. Report on Regional Economic and Financial Development and Southeast Sulawesi Province Finance Bank Indonesia Office Kendari Quarter IV.

[35] Bank Indonesia. 2006. Report on Regional Economic and Financial Development and Southeast Sulawesi Province Finance Bank Indonesia Office Kendari Quarter IV.

4) Credit to primary cooperatives for its members (KKPA).

In order to reduce the negative impact of the monetary crisis on small business activities and low-income groups, the Government made various efforts and decided to implement several programs to increase small business activities. The realization of these efforts is as follows[36]:

1) Bank Indonesia encourages banks to increase lending program by taking short-term steps;
2) The Government provides Working Capital Loans for Small and Medium Enterprises (KMK-UKM) through state-owned banks and Bank Bukopin whose funding sources come from BUMN funds at the bank;
3) The Government implements the development of assistance programs for underdeveloped villages and the development of the Business Partnership Development Credit scheme (KPKU) for the Pro-Kesra group that partners with SMEs; and
4) The Government encourages labor-intensive programs and provides a special budget to finance the program.

In addition, Bank Indonesia continues to provide technical assistance through the Small Business Development Project (PPUK) and the Bank and Community Self-Reliance Relations Project (PHBK). PKM continues to be improved to provide financial assistance to micro customers in rural areas and technical assistance to strengthen Rural Financial Institutions (LKPs) such as Rural Banks (BPR) and Funding Institutions and Rural Credit (LDKP)[37].

The impacts and issues that develop from its application are one of the practices with functions such as money that exceeds the maximum limit that occurs. Bank Indonesia Liquidity Credit makes banks lazy to raise funds from the public and less selective in channeling credit. Credit tends to be channeled to certain individuals or business groups related to the bank concerned. Unfortunately by bank customers, liquidity credit is considered a social fund, and not a credit that must be returned. As a result, arrears in credit interest increase and there is a big bad credit[38]. In addition, rising interest rates and crises have hampered the economy, to support the economy given interest subsidies for certain economic sectors.

This policy then continued with the transfer of BI Liquidity Credit for Program Loans for Small Businesses and Low-Income Communities to SOEs. This continued policy is carried out based on the Minister of Finance Decree No. 487/KMK.017/1999 on October 13, 1999 concerning the Appointment of BUMN in order to Transferring the Implementation of Small Business Program Loans.

2. Transfer of BI Liquidity Credit for Small Businesses and Low Income Communities

[36] Bank Indonesia. 1998. 1997/98 Annual Report. Page 134-135.

[37] Bank Indonesia. 2006. History of Bank Indonesia Period V: 1997-1999. Page 279-280.

[38] Simanungkalit. 2002. Indonesia in a Crisis; 1997 - 2002. p. 71.

In carrying out its function as a lender of last resort or as a fellow bank operating in lending and borrowing money, the central bank typically conducts liquidity support[39]. In this regard, it is necessary to note the differences between the two types of liquidity assistance issued by Bank Indonesia, i.e., Bank Indonesia Liquidity Credit (KLBI) and Bank Indonesia Liquidity Support (BLBI). The first difference is from the aspect of the origin of the initiative. When viewed in terms of the origin of the initiative, the KLBI initiative came from Bank Indonesia, which had the role of assisting the implementation of the Government program (as an agent of development) giving credit to the implementing banks to channel the credit to sectors or activities or groups prioritized in the government program. Meanwhile, in the case of BLBI, the initiative came from a bank that submitted a request for support to Bank Indonesia, as a lender of last resort, because it faced a problem of liquidity imbalances (mismatch) between receipts of funds and payments that could not be closed with other sources of funds that are common in banking . The second difference is from the aspect of interest rates, KLBI interest rates are lower than market interest rates because there is an element of subsidy. Meanwhile, BLBI has a higher interest rate than the market because it contains elements of penalty to reduce moral hazard.

In order to restore the Indonesian economy back in the aftermath of the crisis, the government took various policy measures including revitalizing the position and duties of Bank Indonesia as the central bank. The Government has amended the Law (UU) No. 13 of 1968 concerning the Central Bank with Law No. 23 of 1999 concerning Bank Indonesia, which was ratified on May 17, 1999. As mandated by Law No. 23 of 1999, one of the fundamental changes to the Act was mainly concerning the objectives and tasks of Bank Indonesia. In Law No. 23 of 1999 mandated that the objective of Bank Indonesia was to achieve and maintain the stability of the value of the rupiah. To achieve this goal, Bank Indonesia has duties: 1) establishing and implementing monetary policy; 2) regulating and maintaining smooth payment systems; and 3) regulating and supervising banks.

With the intention that Bank Indonesia could be more focused on carrying out its duties, the granting of KLBI in the framework of program credit that was previously the task of Bank Indonesia was transferred to the State-Owned Enterprises (BUMN) appointed by the Government. The transfer was carried out so that the Government's efforts in encouraging the people's economic activities and creating equal distribution of income through program credit could run more effectively and sustainably. In addition, the provision of credit to the Government is also not permitted, and credit to banks is limited to lending in the framework of implementing the lender of last resort with strict requirements.

The mandate of transferring the assignment of program credit, which was originally carried out by Bank Indonesia to BUMN, was explained in Article 74 of Law No. 23 of 1999:

1) Bank Indonesia liquidity credit in the program credit scheme that is still running and not yet in due date and which has been approved but has not been withdrawn, is transferred based on an agreement to the State-Owned Enterprise appointed by the Government, within a period of not more than 6 (six) months after the entry into force this law.

2) The State-Owned Enterprises as referred to in paragraph (1) can manage the installments and / or principal repayments and the referred liquidity credit interest until the term of the liquidity credit expires.

[39] Gunarto Suhardi. 2003. Banking Business in a Legal Perspective. P. 58

3) The interest subsidy on liquidity credit under the management of the State Owned Enterprise as referred to in paragraph (2) remains the burden of the Government.

Because of this policy, the government will be responsible for the continuation of program credit financing to small, medium and cooperative businesses. As before the transfer of KLBI in the program credit scheme or during the transition period of transfer, Bank Indonesia can still realize the KLBI, i.e., the KLBI ceiling referred to before the enactment of Law No. 23 of 1999 concerning Bank Indonesia, with the deadline for withdrawal up to the date of transfer of KLBI in the framework of program credit to BUMN or no later than November 16, 1999.

Based on the Decree (SK) of the Minister of Finance (Minister of Finance) No. 487/KMK.017/1999 on October 13, 1999 concerning the appointment of SOEs as coordinators of program credit disbursement, the government has appointed three SOEs, i.e., BRI, BTN, and Permodalan Nasional Madani (PNM) as the Program Credit Changer Coordinator. The Bank Indonesia Liquidity Credit (KLBI) consists of several schemes, the coordinating division of tasks is as follows:

1) BRI as coordinator of credit management for the Farm Business Credit (KUT) scheme, KKOP and Primary Cooperative Credit for Members (KKPA) -TR.

2) BTN as coordinator of credit schemes for the KPRS/RSS scheme.

3) PT. Permodalan Nasional Madani (PT. PNM) as the coordinator of other program credit managers (Public KKPA scheme, KKPA TR, PIR-Trans KKPA KTI, KKPA TKI, KMK BPR, PPKM Sharia BPR, Commercial Bank KPKM, KKPA Profit Sharing, KKPA Fisherman, KKPA Poultry and Urban Bus Public Transport Business Credit).

In the case of appointment of a credit channeling coordinator, the government utilizes existing institutions and has experience in the field of credit distribution programs, except PT PNM (Persero), which is a newly formed institution that is expected to become a financial institution that specifically finances small businesses outside the banking sector. Thus, projects that have been running so far are not expected to be disrupted, and programs can be maintained continuously.

The scope of KLBI transferred to the coordinating SOE was the debit and withdrawal tray for the position of November 16, 1999 based on the results of Bank Indonesia reconciliation with the implementing credit program bank, i.e., the KLBI that is still running and not yet due, as well as the agreed ceiling but not yet withdrawn. The KLBI that is still running is KLBI that has been approved by Bank Indonesia before November 16, 1999, whether it has been withdrawn in part or in full.

Furthermore, the management of KLBI is carried out by the coordinating BUMN in accordance with the KLBI schemes transferred. The programs that have been running so far are not expected to be disrupted because they will be continued by SOEs with government support. Considering the transfer right is the right of management, thus the right to claim KLBI, thus the claim right of KLBI that has been transferred to the SOE until the KLBI is due date, remains held by Bank Indonesia.

The executing bank still pays installments according to the program credit agreement, and deposits the installments to the coordinating SOE. Furthermore, the coordinating BUMN is authorized to manage the principal installments received from the executing bank, until the KLBI is due date. The principal installments managed by the coordinating BUMN must be channeled through a credit scheme that is in line with the credit scheme that is equally authorized. Bank Indonesia does not charge interest on the principal installments managed by the SOE coordinator, but as a liability in managing the KLBI, the coordinating SOE must submit a report to Bank Indonesia regarding the management that has been carried out in accordance with the provisions set by Bank Indonesia.

At the due date of the KLBI for each project, the coordinating SOE must pay the repayment installment to Bank Indonesia. Furthermore, in order to maintain the continuity of the project and credit for the program, the BUMN is tasked with finding new funding sources for the continuation of program credit implementation[40].

V. QUESTIONS

1. Economic Indicators

The increase in Asian economic growth in the early 1990s has the potential to cause overheating, as happened in Thailand. The economic indicators show Thailand finally faced a crisis, which began with the weakening of the Baht. This condition has the potential to cause contagion effects to the region and emerging countries.

a. Based on Indonesia macroeconomic data, how do you see the potential contagion happening in the domestic economy?

b. What will you do if you are a policy maker to face potential contagion effects?

2. Liquidity Facilities and BLBI

a. The surge in demand for funds from banks increased rapidly so that many banks experiencing loss in clearing. On the other hand, banks have difficulty getting liquidity on the money market.

If a bank with an overdraft at Bank Indonesia is suspended from clearing activity, as a result the bank cannot pay liabilities and can have systemic effects on other banks. Besides that, the clearing suspension can also have an impact on the discontinuation of bank activities and end with closure.

Conversely, if clearing is not stopped temporarily, bank obligations can be fulfilled but Bank Indonesia must provide emergency liquidity credit even though there is no Act or regulation that allows this to be done.

Which policy will you choose? Why?

b. The increase in the BLBI has led to an expansion in the money supply, causing conflict in monetary control efforts to stabilize the rupiah exchange rate and reduce inflation. To absorb liquidity from BLBI funds, BI set a high interest rate that made the real sector worse and caused an increase in unemployment and poverty.

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[40] Bank Indonesia Credit Bureau. 2001. History of the Role of Bank Indonesia in Small Business Development. P. 186-191

Explain is there an alternative in managing liquidity during a crisis to minimize the conflict mentioned above?

3. Payment Systems and Cash Management

In times of crisis people flock to ATMs and banks to make cash withdrawals or make transfers. What happens if at the time of the crisis (bank run) the payment system has developed rapidly like today? For example, there has been mobile banking, financial technology has developed, etc. Will the bank run process above happen faster? What do you think, is the development of the payment system potentially also to exacerbate the crisis? Discuss it.

VI. EXHIBITS

KEY EVENTS

Table 1 Milestone

Time	Event	Intent	Action	Result
Early 1990s	Asian economic strength	How to control the economy avoid overheating	February Policy Package of 1991 (Pakfeb 1991)	
May 1997	Thai Baht Crisis	How to prevent the impact of the Baht crisis considering the crisis has systemic risks to the region and emerging countries.	Widening the intervention band and raising interest rates	
Starting Early June 1997	Overcoming the crisis : Market liquidity shortage is reflected in both the overnight interbank rates and SBI interest rates.	How to control economic liquidity.	Bank Indonesia emphasized efforts using Open Market Operations (OPT).	Ineffective, because: - interest rates are still high, as well as an increase in exposure to foreign payment obligations. - an increase in the vulnerability of the financial system which generally faces an increase in liquidity problems
July 1997	Rupiah began to depreciate			
15 August	The surge in demand	How to avoid	Bank	Ineffective, because

1997	for funds from banks increased rapidly so that many banks experienced loss in clearing.	the systemic effect	Indonesia then allowed banks to overdraft. The decision means that the bank may remain active in clearing and borrowing money from the central bank.	the banking system still can continue to operate, but there is a lot of moral hazard
September 1997				
31 October 1997	- People experienced anxiety and their trust in banking began to decline. Then there was a massive withdrawal of banking deposits, which once again caused liquidity difficulties in the entire banking system. - The payment system is threatened with traffic and the continuation of the national economy.	Crisis recovery program	Letter of Intent (LoI) I	Liquidated 16 insolvent banks
1 November 1997	Massive withdrawal of banking funds which once again caused liquidity difficulties in the entire banking system.	The IMF aims to restore public trust in the banking system.	Liquidated 16 insolvent banks	- However, it turns out this has led to the escape and transfer of public savings from the systemic banking system[41]. - After the government liquidated 16

[41] Kusumaningtuti S. S. 1998. Blanket Guarantee provisions and offered with Deposit Scheme Protection.

				banks, the FLBI position increased to Rp. 32 trillion in just a month. - The closure of the bank had made the public aware that bank owners would lose their rights in the bank which were not viable - The continued depreciation of the rupiah, slowing growth and high interest rates further exacerbated the financial conditions of other banks.
Desember 1997				
Early 1998	- The economic crisis was further aggravated by the socio-political conditions in 1998, which resulted in the collapse of public confidence in the financial sector. - The initial symptoms of the crisis in the financial sector were very obvious in the payment system. - The "rush" in the banking system occurs every day. This condition forced banks to provide high daily cash reserves to meet the money withdrawal. Bank			

	branch offices and ATMs are filled with customer queues. In turn, this caused Bank Indonesia to provide sufficient cash including cash reserves to meet banking demand.			
26 January 1998	As an Institution that carries out the guarantee program, the government assigned the Indonesian Bank Restructuring Agency (IBRA) in January 1998			
	Post-crisis policy	To reduce the impact of the crisis.		

MACRO ECONOMIC INDICATORS – GLOBAL AND DOMESTIC

Table 2 Economic growth, inflation and money supply, import and export growth, current account deficit in Asian countries

Economic Indicator	Year								
	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Indonesia									
GDP growth (%)	8,928	6,523	7,956	7,54	8,22	7,818	4.700	-13.127	0.791
Inflation (%)	9,933	5,039	10,179	9,635	8,984	6,441	10.268	77.538	2.005
Import growth (%)	15,727	8,691	4,175	20,295	20,939	6,865	14,716	-5,290	-40,675
Export growth (%)	18,778	13,711	6,108	9,942	7,721	7,560	7,800	11,183	-31,805
CA balance (% of GDP)	-2.847	-1.842	-1.205	-1.404	-2.784	-2.657	-1.458	3.469	3.400
Broad money (% of GDP)	44,103	46,173	43,685	45,306	48,586	52,694	55,999	59,860	58,388
Japan									
GDP growth (%)	3.324	0.819	0.171	0.864	1.942	2.610	1.596	-	-

								2.003	0.199
Inflation (%)	2.863	0.930	1.142	0.798	-0.612	0.500	2.168	0.506	-0.963
Import growth (%)	-1,112	-1,087	-1,285	8,194	11,395	14,310	1,237	-6,681	3,306
Export growth (%)	5,237	4,380	0,363	3,881	4,181	5,879	11,082	-2,723	1,801
CA balance (% GDP)	1.923	2.917	2.988	2.691	2.070	1.465	2.200	2.939	2.586
Broad money (% of GDP)	184,059	185,426	193,529	199,121	202,782	205,185	213,718	223,038	232,917
China									
GDP growth (%)	9.200	14.300	13.900	13.100	11.000	9.900	9.200	7.800	7.600
Inflation (%)	4.500	8.800	18.800	25.500	10.100	7.000	0.400	-1.000	-1.000
Import growth (%)	24,284	26,144	34,293	6,843	5,190	5,579	7,004	9,736	15,495
Export growth (%)	25,140	20,654	2,114	26,767	10,848	2,111	32,323	14,575	10,694
CA balance (% GDP)	3,462	1,499	-2,610	1,224	0,220	0,839	3,844	3,058	1,930
Broad money (% of GDP)	84,519	89,457	100,021	96,469	99,028	105,962	115,245	123,903	133,653
Korea									
GDP growth (%)	10,354	6,175	6,847	9,206	9,571	7,595	5.922	-5.471	11.309
Inflation (%)	9.250	4.458	5.802	5.567	4.754	4.926	6.573	3.966	1.355
Import growth (%)	19,997	4,760	6,830	22,754	22,526	15,030	2,490	-23,985	24,912
Export growth (%)	12,388	12,843	9,589	16,563	23,067	11,337	18,828	14,253	13,078
CA balance (% GDP)	-2.335	-0.695	0.524	-0.980	-1.752	-3.985	-1.845	10.706	4.453
Broad money (% of GDP)	35,058	35,225	36,191	36,382	35,891	37,060	38,377	49,295	57,087
Singapore									
GDP growth (%)	6,687	7,088	11,537	10,925	7,028	7,532	8.291	-2.225	6.095
Inflation (%)	2.874	1.790	2.553	2.877	0.842	1.999	2.048	-1.428	0.678
Import growth (%)	7,183	7,601	18,596	16,485	22,619	10,396	11,446	-8,579	8,936
Export growth (%)	8,589	7,218	17,103	18,690	22,207	9,597	10,335	-4,387	7,827
CA balance (% GDP)	10.667	11.282	6.885	15.385	16.403	14.398	15.232	21.519	16.789
Broad money (%	88,52	89,13	83,81	83,39	81,85	82,36	83,00	112,0	119,2

of GDP)	4	1	5	8	3	0	2	91	99
Hong Kong									
GDP growth (%)	5,702	6,235	6,201	6,036	2,374	4,259	5.100	-5.883	2.507
Inflation (%)	9.817	9.697	8.978	9.506	7.060	6.595	5.172	-1.543	-4.114
Import growth (%)	17,719	20,518	11,891	13,015	12,178	4,350	8,873	-6,600	-0,938
Export growth (%)	14,483	17,616	12,431	9,433	9,943	5,578	6,764	-5,340	3,992
CA balance (% GDP)	4.312	3.007	4.745	-0.825	-6.266	-2.505	-4.358	1.485	6.437
Broad money (% of GDP)	175,735	163,288	162,024	160,585	166,666	169,833	166,111	193,769	213,468
Thailand									
GDP growth (%)	8,403	9,23	8,675	7,997	8,12	5,652	-2.754	-7.634	4.572
Inflation (%)	4.718	3.107	4.370	4.674	7.534	4.874	7.491	4.324	0.600
Import growth (%)	12,938	8,968	13,226	17,480	22,970	-3,249	-8,686	-19,555	11,397
Export growth (%)	15,140	13,807	12,985	13,105	15,370	-4,484	9,052	10,791	8,636
CA balance (% GDP)	-7.478	-5.454	-4.930	-5.494	-8.023	-8.027	-2.012	12.529	9.811
Broad money (% of GDP)	79,216	81,023	83,633	81,889	84,336	84,825	99,866	110,126	112,203
Malaysia									
GDP growth (%)	9,547	8,886	9,896	9,211	9,83	10,002	7.327	-7.359	6.131
Inflation (%)	4.401	4.797	3.467	3.485	3.238	3.262	2.916	5.313	2.466
Import growth (%)	25,209	6,374	15,035	25,636	23,698	4,886	5,825	-18,754	10,563
Export growth (%)	15,770	12,596	11,543	21,907	18,965	9,228	5,491	0,491	13,163
CA balance (% GDP)	-7.927	-3.412	-4.164	-5.651	-9.061	-4.120	-5.518	12.294	14.829
Broad money (% of GDP)	66,309	102,224	113,035	111,040	115,630	120,126	125,507	125,151	132,120

Source: World Bank

LIQUIDITY INDICATORS

Table 3 Growth of Rupiah and Foreign Exchange Deposits

Year	Month	TPF Foreign Exchange	Growth TPF Foreign	TPF Rupiah	Growth TPF Rupiah

			Exchange		
1997	Jan	56.255		223.972	
	Feb	56.442	0,33%	227.917	1,76%
	Mar	58.749	4,09%	228.233	0,14%
	Apr	58.709	-0,07%	232.910	2,05%
	May	60.045	2,28%	235.282	1,02%
	Jun	61.419	2,29%	241.620	2,69%
	Jul	74.928	21,99%	241.076	-0,23%
	Aug	90.794	21,17%	233.815	-3,01%
	Sep	91.332	0,59%	236.400	1,11%
	Oct	98.786	8,16%	240.893	1,90%
	Nov	92.797	-6,06%	236.733	-1,73%
	Dec	110.777	19,38%	246.836	4,27%
1998	Jan	208.976	88,65%	261.014	5,74%
	Feb	165.255	-20,92%	281.650	7,91%
	Mar	138.735	-16,05%	314.201	11,56%
	Apr	128.710	-7,23%	322.298	2,58%
	May	158.823	23,40%	335.047	3,96%
	Jun	223.568	40,77%	350.233	4,53%
	Jul	202.287	-9,52%	360.615	2,96%
	Aug	180.729	-10,66%	363.000	0,66%
	Sep	176.487	-2,35%	377.869	4,10%
	Oct	131.497	-25,49%	396.054	4,81%
	Nov	129.109	-1,82%	417.056	5,30%
	Dec	143.133	10,86%	430.391	3,20%
1999	Jan	161.377	12,75%	435.421	1,17%
	Feb	160.753	-0,39%	440.176	1,09%
	Mar	157.022	-2,32%	442.477	0,52%
	Apr	157.101	0,05%	454.596	2,74%
	May	154.880	-1,41%	469.564	3,29%
	Jun	130.785	-15,56%	477.890	1,77%
	Jul	133.168	1,82%	488.150	2,15%
	Aug	145.563	9,31%	487.321	-0,17%
	Sep	156.746	7,68%	490.521	0,66%
	Oct	124.826	-20,36%	488.598	-0,39%
	Nov	134.377	7,65%	492.113	0,72%
	Dec	132.750	-1,21%	492.868	0,15%

Source: SEKI

Table 4 Growth of Banking Deposits

Year	Month	State banks	Regional government banks	Foreign banks and Joint banks	Private national banks
1997	Jan	33,07	3,72	3,61	59,60

	Feb	32,77	3,63	3,57	60,03
	Mar	32,55	3,43	3,62	60,40
	Apr	32,74	3,26	3,61	60,39
	May	32,51	3,41	3,63	60,45
	Jun	32,01	3,40	3,60	61,00
	Jul	31,98	3,53	3,85	60,64
	Aug	32,87	3,54	4,09	59,51
	Sep	32,77	3,46	4,05	59,72
	Oct	33,93	3,52	3,62	58,93
	Nov	39,00	3,64	4,16	53,20
	Dec	37,78	3,54	5,70	52,98
1998	Jan	39,72	3,33	7,57	49,38
	Feb	39,53	3,12	7,62	49,73
	Mar	40,46	2,53	7,16	49,85
	Apr	43,39	2,36	5,43	48,82
	May	47,11	2,46	6,87	43,56
	Jun	49,07	2,47	7,15	41,31
	Jul	49,10	2,52	6,06	42,32
	Aug	49,99	2,55	5,07	42,39
	Sep	49,77	2,53	4,20	43,49
	Oct	48,98	2,57	3,73	44,72
	Nov	49,88	2,52	3,79	43,81
	Dec	49,05	2,53	3,69	44,74
1999	Jan	48,18	2,57	3,80	45,45
	Feb	48,49	2,59	4,00	44,92
	Mar	50,44	2,48	3,94	43,13
	Apr	49,48	2,56	3,90	44,06
	May	48,44	2,55	4,87	44,14
	Jun	49,05	2,57	4,13	44,25
	Jul	50,01	2,59	4,08	43,32
	Aug	49,52	2,64	4,57	43,28
	Sep	48,89	2,70	5,13	43,29
	Oct	48,35	2,82	4,97	43,86
	Nov	47,99	2,83	4,99	44,19
	Dec	47,43	2,83	5,53	44,20

Source: SEKI

Table 5 Growth of SBI and Interbank Money Market Interest Rates

Year	Mont h	PUAB - 1 Day	SBI - 1 Month
1997	Jan	13%	11%
	Feb	13%	10%
	Mar	11%	8%

	Apr	14%	11%
	May	13%	11%
	Jun	14%	10%
	Jul	16%	11%
	Aug	71%	30%
	Sep	54%	21%
	Oct	40%	20%
	Nov	43%	20%
	Dec	41%	20%
1998	Jan	56%	22%
	Feb	65%	22%
	Mar	50%	45%
	Apr	72%	50%
	May	68%	58%
	Jun	65%	58%
	Jul	75%	65%
	Aug	80%	70%
	Sep	66%	65%
	Oct	59%	56%
	Nov	65%	47%
	Dec	36%	36%
1999	Jan	38%	37%
	Feb	40%	37%
	Mar	40%	37%
	Apr	35%	33%
	May	28%	26%
	Jun	22%	19%
	Jul	15%	14%
	Aug	12%	13%
	Sep	12%	13%
	Oct	12%	13%
	Nov	12%	13%
	Dec	12%	12%

Source: SEKI

Table 6 Growth of Deposit and Credit Interest Rate

Year	3-month Deposit Rate	KMK Interest Rate	KI Interest Rate
1990	20,99	20,67	18,95
1991	21,89	25,21	20,87
1992	16,72	24,05	19,21
1993	11,79	20,52	17,06
1994	14,27	17,75	14,96
1995	17,15	18,88	15,75

1996	17,03	19,21	16,42
1997	23,92	21,98	17,34
1998	49,23	32,27	23,16
1999	12,95	20,68	17,80

Source: SEKI

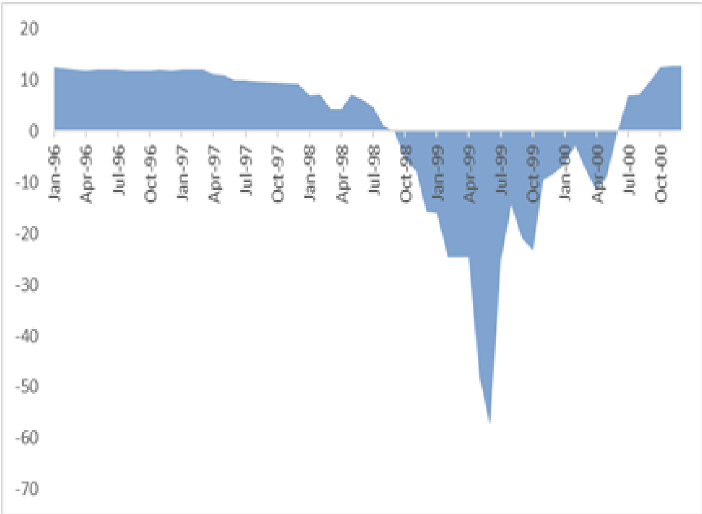

Figure 1 Capital Adequacy Ratio (CAR)

Table 7 Non-Performing Loan by Group of Banks (1995-1999)

Group of Banks	1995/96	1996/97	1997/98	1998/99
Commercial Banks	**10.6**	**9.3**	**19.8**	**58.7**
State banks	16.6	14.2	24.2	47.5
Private national forex banks	4	4.4	12.8	76.9
Private national non forex banks	14.7	16.5	19.9	38.9
Regional government banks	18.5	13.9	15.8	17
Joint banks	7.4	7.7	25.3	64.6
Foreign banks	2.8	2.7	24.4	49.9

Source: Bank Indonesia Annual Report

Table 8 Growth of Clearing

Year	Nominal Clearing (trillion rupiah)	Growth of Clearing (%)
1990	781.558	
1991	981.160	25,54
1992	1.218.680	24,21
1993	1.695.835	39,15
1994	2.654.477	56,53
1995	4.592.126	73,00
1996	5.139.687	11,92

1997	5.817.117	13,18
1998	4.652.756	(20,02)

Source: Bank Indonesia Weekly Report

Table 9 Special Money Market Securities Facility (Special SBPU) in Trillion Rupiah

No.	Facilities Converted to SBPU-K	Amount
1	Negative Current Account Balance (20 August 1997)	20,9
2	Discount Facility I (11 September 1997)	1,7
3	Discount Facility II (11 September 1997)	6,9
4	SBPU Facility Without Auction (16 October 1997)	7,0
Number of Special SBPU (31 December 1997)		36,5

Source: Bank Indonesia. 2003. Breaking the BLBI Tangle Thread, page 29