
President B.J. Habibie's Economic Policy in the Banking Sector in the Economic Crisis in Indonesia in 1998-1999

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ABSTRACT: Indonesia's economic crisis since 1997 made President Soeharto resign from his position and hand it over to his deputy B.J Habibie. President B.J Habibie as President Soeharto's successor had quite a tough task to improve the condition of Indonesia which was currently hit by an economic crisis. In this research, it was studied using historical research methods. The economic crisis that occurred in 1998 will always be recorded as the bleakest in economic history. The impact of the crisis is starting to be felt in real terms by society and the business world. To overcome this, several economic policies by B.J Habibie played an important role in changing Indonesia. Meanwhile, BJ's economic policy strengthens the banking sector. The impact of Indonesian banking policy is that population economic growth, which previously reached -7.7%, can increase to 5%.

KEYWORDS: President B. J Habibie, Economic Crisis, Banking.

I. INTRODUCTION

During the New Order era which lasted 32 years with Suharto as president, Indonesia experienced a lot of development in the economic sector. However, there was a decline in the economic sector in 1997, during the last years of Soeharto's rule there was an economic crisis. The condition of the Indonesian economy in 1997 experienced critical times. This was due to the financial crisis in Thailand which triggered a decline in the rupiah exchange rate against the US dollar in Indonesia. The decline in the rupiah exchange rate also caused high inflation. The economic problems that occur have an impact on the social life of society and domestic political stability (Wijaya et al, 2020: 285). This also caused the industrial sector to experience a decline in production in the middle of 1997, many companies went bankrupt, resulting in layoffs. In economic terms, the monetary crisis that occurred was the main factor in the collapse of the New Order era which was guarded by Suharto. The crisis that occurred forced the second President of the Unitary State of the Republic of Indonesia to step down from his position as president by force (Afiyah, 2021: 250). With pressure for reform from society and many considerations, President Soeharto resigned as President, and his government was handed over by his deputy at that time, B.J Habibie.

Exactly on Thursday 21 May 1998 at 09.00 WIB, by the provisions in TAP MPR Number VII 1973, before the Supreme Court, the handover of the position of president was carried out based on article 8 of the 1945 Constitution. Apart from handing over power, at that time he also appointed B.J Habibie became president replacing Suharto (Wijaya and Permatasari, 2018: 200). President Habibie as the successor to President Soeharto had quite a tough task to improve the condition of Indonesia which was hit by a monetary crisis. It could be said that the Habibie era had a legacy that had to be completed from the New Order era (Afiyah, 2021:251). President B.J Habibie is committed to carrying out gradual and constitutional reforms in all fields, by restoring socio-economic life (Kompas, Friday, 22 May 1998). The economic crisis that occurred in 1998 will always be recorded as the bleakest in economic history. The impact of the crisis is starting to be felt in real terms by society and the business world. According to Kompas (17/06/1998), the rupiah exchange rate is getting worse, the highest level of the rupiah is at the exchange rate of Rp. 14,800 and the lowest is at the exchange rate of Rp. 16,900. Rupiah liquidity is very tight as reflected in the fairly high interbank overnight interest rate. To overcome this, Habibie's economic policies played an important role in changing Indonesia. As for the policies implemented by B. J Habibie in overcoming the economic crisis, improvements in monetary and fiscal terms continue to be carried out, one of which is creating a national banking restructuring agency, creating a monitoring and settlement institution for foreign debt and then preventing further deterioration in national economic conditions by strengthening the banking sector (Makka, 2018: 306). In Law number 13 of 1968 concerning Bank Indonesia, Bank Indonesia (BI) is a state institution that assists the president in implementing monetary policy, so the governor of Bank Indonesia can be interpreted as an ex-officio member of the cabinet (Habibie, 2006: 80). Create laws for banking Law number 23 of 1999 so that Bank Indonesia can maximize its work.

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The economic crisis that occurred during the New Order era until the beginning of reform was the worst in Indonesia of all time, so it is very important to study the impacts and policies in overcoming the economic crisis. This topic is included in the discussion in the Indonesian History subject material in phase F in the independence curriculum, so it requires a more in-depth study of the impacts and policies of President B.J Habibie in dealing with the economic crisis. Based on the explanation above, the author is interested in researching the economic crisis that occurred in the B.J Habibie government in 1998-1999 along with economic policies in the banking sector and their impacts.

II. METHOD

This research uses historical research methods. The historical method is the process of examining, and critically analyzing records and relics of the past. Imaginative reconstruction of the past is based on data obtained through a process called historiography. So with this, historians try to reconstruct as much as possible about the human past (Gottschalk, 1985: 32). The historical research method is research whose steps include topic selection, source collection, verification, interpretation, and writing or presentation (Kuntowijoyo, 69-80).

The first stage of the historical research method is selecting a topic. According to Kartodirdjo, S (2019: 231) that methodologically, the selection of the topic focus point can be determined by three things, which include; (1) personal interests, (2) availability of resources, and (3) the strategic function of the selected elements. At this stage, the author selects the topic by conducting a preliminary study which includes searching for primary and secondary sources such as books, articles, scientific journals, documents, and archives that discuss B. J Habibie's policies during his reign in 1998-1999. The second stage is heuristics or what is commonly known as source collection. After choosing a question to discuss, a researcher will be faced with the problem of finding information or sources that will be used as material for his research (Gottschalk, 1985: 46). At this source collection stage the author finds primary sources from newspapers, books, documents, archives that are contemporaneous with the research theme. Meanwhile, secondary sources as supporting sources, researchers use books, journals, and previous research to complement primary sources. The third stage is verification, usually known as source criticism. At the stage where sources are collected in the data collection stage, verification is then carried out. This stage aims to test the validity and credibility of each source that has been obtained. At this stage, the author carries out external and internal criticism. Fourth is the interpretation stage or what is usually called interpretation. Interpreting any data obtained and collaborating between each source or data that has previously been criticized, the aim is to obtain historical facts that are truly credible or reliable (Kuntowijoyo, 2013: 78). Next is writing or what is usually known as historiography. historiography is also a step or stage to unify a history whose elements come from records of careful application through historical research methods (Gottschalk, 1985: 143-144). In this stage or step, the author will present historical writing or historiography related to B. J Habibie's economic policies in the 1998-1999 economic crisis.

III. RESULTS AND DISCUSSION

A. Economy Crisis

The year 1998 witnessed a tragedy in the nation's economy. The situation was very tragic and was recorded as the bleakest period in the history of the Indonesian economy. There are several factors that caused the economic crisis to emerge in Indonesia, some of which were exacerbated by various national disasters that came in succession amidst economic difficulties such as rice harvest failure in many places due to the long dry season (Romadi, 2013: 98), large forest fires - magnitude in Kalimantan (Tarmidi, 1999: 1), the rupiah exchange rate crisis which spread to become an economic crisis (Karmeli and Fatimah, 2008: 164).

The monetary crisis that hit Indonesia has made people experience very difficult times. Where the crisis in 1997 which shook the rupiah exchange rate against the US dollar led to an increase in the prices of various basic commodities and premium fuel, even though at the same time many middle to lower businesses experienced bankruptcy which resulted in massive layoffs, this caused The unemployment rate has increased drastically and has created a large gap in the crime rate due to an anarchic society (Afiyah, 2021: 250). The crisis that has been going on since 1987 has had a far-reaching impact, including on children. SMEs have decreased purchasing power and reduced income, the ability of parents for children both in terms of health and education is greatly affected (Sjahrir, 1999: 214). During the economic crisis, employment conditions were recorded from May 1997 to May 1998 which experienced Layoffs of 4.197 million workers. As a result, the high level of layoffs causes a decrease in people's income which also has an impact on the social crisis (Habibie, 2006: 405). However, after the 1997-1998 monetary crisis, many banks were forced to liquidate due to worsening financial conditions and violations of the prudential principle by bank management (Kusumastuti, 2008:29). In B. J Habibie's government there were economic policies implemented to improve and overcome the economic crisis in Indonesia. In the monetary sector, starting with controlling the amount of money in circulation, raising the interest rate on BI Certificates to 70% and implementing an Independent Central Bank. In the banking sector, it gives authority to the central bank to overcome crises according to its function as monetary authority (Dewi, 2019: 5). Habibie's government was open and focused on improving the Indonesian economy and monetary system to revive the Indonesian economy.

B. Economic Policy in the Banking Sector

From mid-1998 to the end of June 1998, 56% of the population at that time was below the poverty line. President B.J Habibie focused his policy on strengthening and recovering the economy after the monetary crisis that occurred, where he started by restoring investment, trade, and performance activities in the banking and business sectors (Hakim and Giovani 2009). President B.J Habibie in reducing poverty levels by carrying out people's empowerment programs through UKM, KUT, and social safety net programs (Wijaya et al, 2020: 285). The program undertaken by President B.J. Habibie carried out equality and development of the people's economy by encouraging small and medium businesses to develop efficiently and independently, as well as achieving mutually beneficial cooperation with large companies (Habibie, 2006: 352). Efforts to restore the banking system to revive confidence and activity in the business world, especially foreign investors, as well as controlling the rate of inflation and various structural reform efforts to strengthen the foundation of the national economy by increasing efficiency and competitiveness.

The Indonesian banking sector, which was indeed weak, experienced 'distress', which quickly turned into a crisis, due to the decline in public confidence (depositors) who then made collective and massive withdrawals of funds from many banks (Karmeli and Fatimah, 2008: 166). Even though many policies have been taken, the crisis has not subsided. Finally, the government was forced to ask for help from the IMF and World Bank (Karmeli and Fatimah, 2008: 171). The IMF was invited to assist in helping the Indonesian government restructure banks and the economy. In mid-1999, the Indonesian government liquidated 59 banks and took over 11 banks (Harahap, 2003:107). In the banking sector, President B.J Habibie has a policy, one of which is to pass a law that encourages the efficiency of Indonesia's economic activities.

Distrust of the rupiah spread to distrust of banking (the existence of flights to quality and flights to safety) which gave rise to a banking crisis. In this situation, banks are not only abandoned by depositors but also abandoned by other banks (disruption of the siled interbank money market), including ultimately business partner banks abroad or rejection of L/C from national banks by foreign banks (Karmeli and Fatimah, 2008: 165). The banking crisis then spread to their customers (expensive or loss of bank credit), so financial sector problems directly hurt the real sector (consumption, production, trade, and investment activities). President B.J. Habibie also believes that a stable currency is the main pillar of a healthy economy.

President B.J. Habibie to overcome the monetary crisis in Indonesia by restructuring banking (Wijaya et al, 2020: 285). B.J. Habibie provided policies in the economic sector to improve the slumping economy. In the banking sector, the government established the National Banking Restructuring Agency (BPPN). There were several things done by the Habibie government to improve the Indonesian economy, including recapitulating banking, reconstructing the Indonesian economy, liquidating several problematic banks, increasing the rupiah exchange rate against the United States dollar to below Rp. 10,000,-, and implementing the required economic reforms. by the IMF (Wijaya & Permatasari, 2018: 203). The government, through IBRA, directly controls the liquidation of banks so that there is no misuse of customer savings and can increase trust in operating banks (Wijaya et al, 2020: 186). Another policy is to rotate the national banking advisory body or IBRA as well as the institution tasked with monitoring and resolving Indonesia's foreign debt (Afiyah, 2021: 257). The policy regarding Bank Indonesia, according to President B.J Habibie, which is based on Law number 13 of 1968, BI's task is as an institution that assists the president in implementing monetary policy, so that the governor of Bank Indonesia can be considered ex-officio of the cabinet, which also applies to his position. attorney general (Habibie, 2006). Ratification of the Law regarding banking, namely the amendment of Law number 7 of 1992 to Law number 10 of 1998. Then President B.J Habibie drafted and ratified the Law regarding banking so that Banks maximize their existence and duties, namely Law Number 23 of 1999 concerning Bank Indonesia as a Bank The Central Republic of Indonesia is an independent institution and free from interference from the government or other parties.

C. Bank Indonesia in Empowering UKM

The economic crisis that hit Indonesia since 1997 has had a major impact on Indonesian society. Small and medium enterprises (SMEs) are faced with a multiplying debt burden, while their ability to pay debts is decreasing due to drastically reduced revenues. Many people's credit status is in category five. One of President Habibie's economic policies was to pass Law Number 23 of 1999, with this, Indonesian banks could not provide liquidity credit. The policies for empowering SMEs provided by Bank Indonesia are (1) banking credit policy; (2) providing technical assistance; and (3) institutional development and strengthening.

According to Sabirin's (2003) Banking credit policy, Bank Indonesia encourages banks to distribute small business credit programs include them in business plans, and report them in published financial reports. In the field of providing technical assistance, Bank Indonesia provides training to banking staff, research, and provides information to the banking sector, namely the small business development information system as an information medium for the UKM sector. In terms of institutional development and strengthening, Bank Indonesia is making efforts to strengthen the institutional capacity of BPR to increase micro-business credit distribution.

D. Impact of Economic Policy in the Banking Sector

B.J Habibie's leadership succeeded in having a good impact on the economic sector. According to the Kompas newspaper (22 May 1998) "regional currency exchange rates immediately strengthened". The economic policy in the banking sector carried out by B.J Habibie passed a law that encouraged Indonesia's economic efficiency. Law Number 23 of 1999, which explicitly or in writing explains the existence of Bank Indonesia as an independent institution. With this independence, it is hoped that Bank Indonesia will be able to become an institution that maintains monetary stability to encourage sustainable economic development. Of all the areas experiencing reform, the economic sector shows real progress from existing policies, where these policies aim to overcome the monetary crisis that has emerged since the end of the New Order era. The impact of Indonesian banking policy is that population economic growth, which previously reached -7.7%, can increase to 5% (Dewi, 2019). This had a good impact because this independence was able to create an increase in the rupiah exchange rate against the US dollar which had previously decreased drastically. Stable national finances followed by increased domestic economic growth are the impact of decreasing inflation rates and increasing people's purchasing power for goods.

The development of the liquidation program for problematic banks has increased foreign investors starting to carry out economic activities and some have even taken over bank shares. This has an impact on the strengthening of the rupiah and controlling inflation. The annual inflation rate during 1998 was still 77.5 percent, but in 1999 it became 2.01 percent (Pratikya, 1999:30). Until August 1999, inflation continued to decline and the Consumer Price Index became more stable, this proves that President B.J. Habibie's handling of the economic crisis led to increasingly stable economic stability. The value of the rupiah strengthened until July 1999 amounting to Rp. 7,000 per US dollar, even though at the beginning of 1998 it was Rp. 17,000. So the strengthening of the rupiah has an impact on reducing the inflation rate (Habibie, 2006:492). Several other economic indicators are shown through the growth of Gross Domestic Product (PDB) in the first and second quarters of 1999, namely 1.31 percent and 0.46 percent in the previous quarter. From this PDB trend, economic growth in 1999 reached 1 percent (Habibie, 2006:346). Gradual economic growth in society began to improve, people began to exchange the money they had for foreign currency, this resulted in the rupiah entering domestic banks and improving the Indonesian economy.

V. CONCLUSIONS

The year 1998 witnessed a tragedy in the nation's economy. The situation was very tragic and was recorded as the bleakest period in the history of the Indonesian economy. The impact of the crisis is starting to be felt in real terms by society and the business world. Shaking the exchange rate of the rupiah against the US dollar caused the prices of various basic commodities and premium fuel to rise, even though at the same time many middle and lower-class businesses experienced bankruptcy which resulted in massive layoffs, this caused the unemployment rate to increase drastic and provides a big gap in increasing the crime rate. To overcome this, Habibie's economic policies played an important role in changing Indonesia.

In the banking sector, President B.J Habibie has policies, one of which is to pass a law that encourages the efficiency of Indonesia's economic activities. Carrying out banking restructuring, banking recapitulation, reconstructing the Indonesian economy, and liquidating several problematic banks. Habibie's thoughts are very helpful for the sustainability of the Indonesian economy. This had a good impact because this independence was able to create an increase in the rupiah exchange rate against the US dollar which had previously decreased drastically. Stable national finances followed by increased domestic economic growth are the impact of decreasing inflation rates and increasing people's purchasing power for goods. This proves that President B.J. Habibie's handling of the economic crisis led to increasingly stable economic stability.

The Indonesian government and society in the 21st century can learn lessons about the impacts of the economic crisis that occurred during the New Order and President B.J. Habibie's policies in dealing with the economic crisis so that this does not happen again now and in the future. This research can be used as an additional learning resource for educators and students in studying Indonesian history at school which is included in the Indonesian history subject in Phase F, government material during the reform period in the independent curriculum.

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