

STUDY OF THE ROLE OF CENTRAL BANKS IN INDONESIA

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Abstract: *The research aims to find out the history of the development and monetary policy of the Central Bank of Indonesia in financial stability. This type of research is descriptive qualitative research with a literature study research method through literature study. The results of this study explain that the Central Bank is an institution that has an important role in the economy of a nation, especially in the fields of monetary, finance, and banking. The purpose of the central bank as stated in the Indonesian Law No. 23 Year 1999 Chapter 3 Article 7 is to achieve and maintain rupiah stability. Another role of Bank Indonesia is channeling money, especially currency or paper and metal where Bank Indonesia has the sole right to distribute currency. Bank Indonesia has three pillars which are its three areas of duties: setting and implementing monetary policy, regulating and maintaining a smooth payment system, and regulating and supervising banking in Indonesia.*

Keywords: *Central Bank, Financial Stability, Monetary Policy, Role and History.*

INTRODUCTION

In a modern economy, every country has a Central Bank or at least one bank or institution that acts and performs the functions of a central bank. The central bank has a very important function in economic and monetary regulation which in its activities can act as a government agent.

The central bank is an institution that has an important role in the economy of a nation, especially in the fields of monetary, finance, and banking. Therefore, the central bank carries out its duties based on the main lines of policy set by the government (Bank Indonesia, 2022).

The Central Bank is tasked with carrying out the functions of the Government in the Economic and Monetary fields because the Central bank is also part of the Government and a State financial institution that has the authority to issue legal tender, formulate and implement monetary policy, control the smoothness of the payment system, and banking supervision, as well as carry out the function as "Lender of the Last Resort" (Warjiyo, 2017b).

The Central Bank in Indonesia is Bank Indonesia (BI). Where the central bank is not the same as a Commercial Bank that aims to Invest its assets to maximize Profit. But the central bank does not seek profit and bank activities are managed by the government. In addition to being tasked with carrying out Government functions in the Economic and Monetary fields, many more things to know about the central bank are contained in the discussion of this paper, namely about the functions of the central bank, the central bank balance sheet, monetary policy instruments (Warjiyo, 2017a).

LITERATURE REVIEW

1. Definition of Central Bank

The Central Bank is the institution responsible for regulating finance in a country to keep

it stable. The Central Bank of Indonesia is Bank Indonesia. Then in other countries, for example there is Bank Negara Malaysia as the Central Bank in Malaysia, and there is also the Monetary Authority of Singapore as the Central Bank in Singapore.

Each country has its own Central Bank that is responsible for maintaining currency stability, banking sector stability, and the overall financial system in the country (Swawikanti, 2023).

RESEARCH METHOD

This type of research is descriptive qualitative research with a literature study research method through literature studies sourced from journals of previous research results (Kurniawan, 2014) related to the title, also through access to data obtained from the website as an information publication. Qualitative descriptive research can be interpreted that the researcher is the key instrument where data collection techniques are carried out by combining and analyzing data inductively (Sugiyono, 2012) so as to produce and process descriptive data such as narrating the results of interviews and or observations.

RESULTS AND DISCUSSION CONTAIN

1. History and Definition of Central Bank

The history of banking in Indonesia cannot be separated from the Dutch East Indies colonial era. At that time there were several banks that played an important role in the Dutch East Indies, including De Javasche Bank NV, De Post Poar Bank, De Algemenvolks Crediet Bank, and Nederland Handles Maatscapi. De Javasche Bank NV at that time acted as a circulation bank that printed and circulated money and became the forerunner of the central bank in Indonesia.

The term central bank is actually not new because it has existed since 1946 and has been listed in the 1945 Constitution. What was meant by the central bank at that time was Bank Nasional Indonesia 1946 which was established by perpu No. 2 of 1946 concerning Bank Negara Indonesia. At that time BNI 1946 had a dual function, namely both as a commercial bank and as a central bank. Thus, the first central bank owned by Indonesia was BNI 1946, however, history shows that BNI 46 has not been able to carry out its function as a central bank properly due to its dual functions (Kebanksentralan et al., n.d.).

To overcome this problem, the authorities issued Law No. 11 of 1953 concerning the Principles of Bank Indonesia. One of the articles states "Bank Indonesia was established as a central bank to replace de javasche bank NV as a national bank owned by the State". With the establishment of bank Indonesia and also made the central bank, since then in the Indonesian constitutional structure, two central banks were known, namely BNI 1946 and Bank Indonesia. The dualism of the central bank lasted for 2 years. and only ended with the issuance of Law No. 2 of 1955. Since then, Indonesia has only known one central bank, namely Bank Indonesia.

The central bank can be defined as a financial body, generally owned by the government, which is tasked with regulating the stability of financial institutions, as well as ensuring that the activities of these financial institutions can create a high and stable level of economic activity (Risidiana Himmati, 2021).

Based on Law No. 13 Year 968 in Article 7, it can be seen:

1. Bank Indonesia is the central bank as intended in 1945.
2. Bank Indonesia is owned by the State.
3. Bank Indonesia as the central bank is a legal entity.
4. Bank Indonesia is an auxiliary of the government.
5. Bank Indonesia is appointed and dismissed by the president.

The central bank in Indonesia is Bank Indonesia (BI). According to Law of the Republic of Indonesia Number 3 of 2004 concerning Amendments to Law of the Republic of Indonesia Number 23 of 1999 concerning Bank Indonesia, bank Indonesia is an independent State institution in carrying out its duties and authorities, free from

interference from the government and / or other parties, except for matters expressly regulated in law.

2. Central Bank Objectives

In its capacity as the central bank, Bank Indonesia has a single objective, which is to achieve and maintain rupiah stability. This rupiah value stability contains 2 aspects, namely the stability of the value of the currency against goods and services, as well as stability against other countries' currencies.

The purpose of the central bank as stated in the Indonesian Law No. 23 Year 1999 Chapter 3 Article 7 is to achieve and maintain rupiah stability. The purpose of rupiah stability and desired by the central bank are:

1. The stability of the value of the rupiah against goods and services that can be measured by or reflected in the development of the inflation rate.
2. The stability of the rupiah against other countries' currencies. This can be measured by or reflected in the development of the rupiah exchange rate with other countries' currencies.

With the stable value of the rupiah, there will be many benefits to be obtained, especially to support sustainable economic development and improve the welfare of the people.

3. Monetary Policy and the Central Bank's Role in Financial Stability

In addressing the inflation rate, the central bank issues monetary policies, including:

3.1. Open Market Operation Policy

Open market operation is one of the policies taken by the central bank that aims to reduce or increase the amount of money in circulation. This policy is carried out by selling Bank Indonesia Certificates (SBI) or buying securities in the capital market. If the central bank wants to reduce the money supply then the central bank will sell Certificates of Bank Indonesia (SBI). With the sale of SBI, money will enter the central bank, so that the money in circulation is reduced. Conversely, if the central bank observes that the amount of money in circulation is less than needed, the central bank will buy back SBIs or other securities from the capital market. The purchase of SBIs or securities will increase the amount of money in circulation.

3.2. Discounting Policy

Discounting policy is a central bank policy in order to regulate the amount of money in circulation by raising or lowering interest rates. If the central bank wants to reduce the amount of money circulating in the community, then the central bank issues a decision to raise interest rates. Rising interest rates can affect people's desire to save more. Conversely, if the central bank wants to increase the amount of money circulating in the community, the central bank will lower interest rates. Low bank interest rates make people reluctant to save and people will take out their savings. Thus, the amount of money circulating in society increases.

3.3. Cash Ratio Policy

Cash ratio policy is a central bank policy by making changes to the minimum reserves that must be kept by banks. If the central bank wants to increase the amount of money in circulation, it will lower the cash ratio. This policy is applied in times of deflation. Conversely, the central bank will increase the cash ratio so that the amount of money in reserve will increase, so that the amount of money in circulation will decrease. This policy is usually taken in times of inflation.

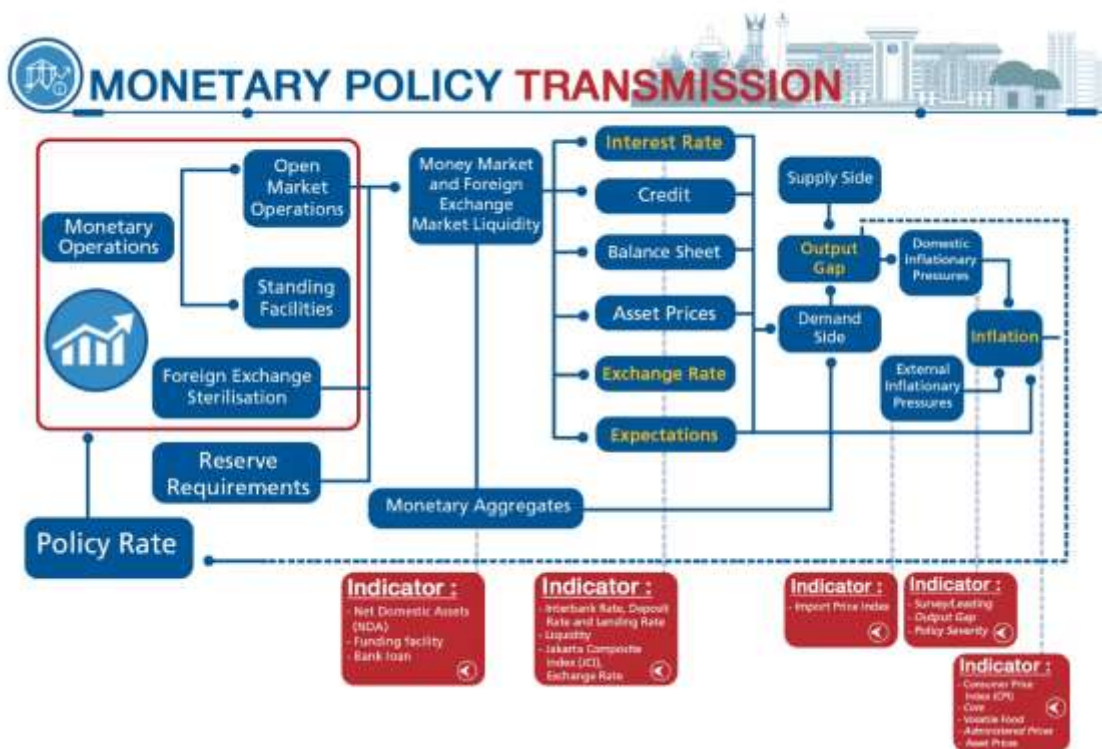
The role of Bank Indonesia as a central bank or often also called a bank to bank in development is indeed important and very much needed its existence this is because that development in any sector always requires funds and these funds are obtained from the financial institutions sector including banks. The duties of Bank Indonesia as a bank to bank are to regulate, coordinate, supervise and provide action to the banking world. Bank Indonesia also takes care of the funds collected from the public so that they are channeled back to the community so that their use is truly effective in accordance with

development goals. Then in addition to managing banking funds, Bank Indonesia also regulates and supervises banking activities as a whole.

Another role of Bank Indonesia is in terms of channeling money, especially currency or paper and metal where Bank Indonesia has the sole right to distribute currency. Then control the amount of money in circulation and interest rates with a view to maintaining the stability of the rupiah. In addition, Bank Indonesia's relationship with the government is as a government cash holder. Likewise, international finance is also handled by Bank Indonesia such as receiving foreign loans. (Cashmere, 1998: 167-169)

In addition, as the central bank, Bank Indonesia has five main roles in maintaining financial system stability.

- Bank Indonesia has the duty to maintain monetary stability, among others, through interest rate instruments in open market operations. To create monetary stability, Bank Indonesia has implemented an inflation targeting framework policy.
- Bank Indonesia has a vital role in creating healthy performance of financial institutions, especially banks through supervision and regulation mechanisms.
- Bank Indonesia has the authority to regulate and maintain a smooth payment system.
- Through its function in monitoring research, Bank Indonesia can access information that is considered to threaten financial stability.
- Bank Indonesia has a function as a financial system safety net through the central bank's function as lender of the last resort (LoLR).



Source: Bank of Indonesia

Figure 1. Central Bank Monetary Policy Transmission

4. Functions, Duties and Authority of the Central Bank

4.1. Central Bank Function

In terms of monetary authority, the role and function of the central bank in Indonesia is very dominant and strategic. In Law No. 23 of 1999 on Bank Indonesia, it has been emphasized that to ensure the success of the goal of maintaining the stability of the rupiah, a central bank is needed that has the position to achieve and maintain the stability of the rupiah.

This objective is stated in Law No.3 of 2004 article 7 on Bank Indonesia. This means that

the function and role of Bank Indonesia as the central bank is needed and increasingly independent; in order to support the realization of the national economy as mentioned above and in line with the increasingly advanced financial and international economy that is increasingly competitive and integrated, monetary policy must be focused on efforts to maintain rupiah stability.

4.2. Duties and Authorities of the Central Bank

Bank Indonesia has three pillars that constitute its three areas of responsibility. These are setting and implementing monetary policy, regulating and maintaining a smooth payment system, and regulating and supervising banking in Indonesia. All three need to be integrated so that the goal of achieving and maintaining rupiah stability can be achieved effectively and efficiently.

Broadly speaking, there are three tasks of Bank Indonesia in order to achieve and maintain the stability of the rupiah value as stated above. The following will describe the duties of Bank Indonesia as set out in Law No. 23 of 1999.

1. Establish and implement monetary policy

In order to determine and implement monetary policy, Bank Indonesia is authorized to:

- a. Set monetary targets by taking into account the inflation rate target it sets.
- b. Conduct monetary control by using methods that include, but are not limited to:
 - Open market operations in the money market, both Rupiah and foreign currency.
 - Determination of the discount rate
 - Determination of minimum required reserves
 - Credit or financing arrangements
- c. Providing credit based on sharia principles, for a maximum of 90 days to banks to overcome the short-term funding difficulties of the bank concerned.
- d. Implementing the exchange rate policy based on the exchange rate system that has been determined.
- e. Manage foreign exchange reserves
- f. Conducting periodic surveys that can be macro and micro in nature.

Results and discussion contain an explanation of data collection, research location, and length of research time. The data obtained is the result of analysis, not raw data. In this section the data is also explained using tables and figures accompanied by image captions. Results and discussion are written with several subtitles. The following is the writing of the subtitles.

2. Regulate and maintain a smooth payment system

In the task of regulating and maintaining the payment system, Bank Indonesia is authorized to:

- a. Carry out and provide approval and permission for the implementation of payment system services
- b. Requiring payment system service providers to submit reports on their activities.
- c. Determining the use of payment instruments
- d. Regulate the bank clearing system, both domestic and foreign.
- e. Organizing the final settlement of bank payment transactions
- f. Determining the type of price characteristics of money to be issued, the materials used, and the date of entry into force as legal tender.

3. Regulate and supervise the bank

In terms of Regulating and Supervising the bank has the authority:

- a. Establish banking regulations that contain the principles of prudence
- b. Granting and revoking bank licenses
- c. Granting licenses and bookkeeping, closing, and transferring bank offices.
- d. To approve the ownership, and management of banks.
- e. Granting permission to banks to submit reports, information, and explanations in accordance with the procedures set by Bank Indonesia.
- f. Requiring banks to submit reports, information, and explanations in accordance with

- the procedures set by Bank Indonesia.
- g. Conduct examinations of banks, both periodically and at any time if necessary.
 - h. Ordering banks to temporarily stop part or all of certain transaction activities if according to Bank Indonesia's assessment the transaction is suspected of being a criminal offense in the banking sector.
 - i. Regulate and develop interbank information
 - j. Take action against a bank as stipulated in the applicable banking law if, according to Bank Indonesia's assessment, it may jeopardize the business continuity of the bank concerned and or endanger the national economy.
 - k. The task of supervising banks will be carried out by an independent financial services sector supervisory institution established by law.

CONCLUSIONS AND SUGGESTIONS

The central bank is an institution that has an important role in the economy of a nation, especially in the fields of monetary, finance, and banking. The purpose of the central bank as stated in the Law of the Republic of Indonesia No. 23 Year 1999 Chapter 3 Article 7 is to achieve and maintain the stability of the rupiah. Another role of Bank Indonesia is in terms of channeling money, especially currency or paper and metal where Bank Indonesia has the sole right to distribute currency. Bank Indonesia has three pillars which are the three areas of its duties: determining and implementing monetary policy, regulating and maintaining a smooth payment system, and regulating and supervising banking in Indonesia.

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