Notes

Prologue: The Crisis and Me

1 This stipulation is similar to Article 48 of the new Central Bank Law No. 23, 1999.

2 The SEACEN Governors are governors of central banks and heads of monetary authorities, comprising Korea, Malaysia, Mongolia, Myanmar, Nepal, the Philippines, Singapore, Ceylon, China-Taipei, Thailand and Indonesia. During this meeting there were only 10 members, since Mongolia had not joined yet. However, governors of the Central Banks of Samoa, Tonga and Fiji were also present as guests.

3 See *Republika*, 16 February 1998 and *Gatra*, 21 February 1998, which reported the plan to replace me with Syahril Sabirin.

4 Several dailies and weeklies in Jakarta, including *Business News*, *Merdeka*, *Republika*, *Jawa Post*, *Tiras*, and others, carried similar reports in their 20 February 1998 edition.

5 *Suara Pembaruan*, 18 February 1998, http://suarapembaruan.com/News/1998/02/180298/Headline/h102/h102htm. Several newspapers in Jakarta reported the government's announcement with titles such: "Soedradjad goes back to the Campus" and "Soedradjad will go back to his Teaching Job".

6 For examples, see "Soedradjad's Voice after his Freedom", *Merdeka Minggu*, February 1998, and "It's Embarrassing, Retreating before the War is Over", *Republika*, 10 February 1998.

7 All of these reports were published in *Suara Pembaruan*, 11 February 1998, http://www.suarapembaruan.com/News/1988/02/110298/Ekonomi/ekl/ekl.html.

8 Several sources told me that President Soeharto always did his reading, including several Indonesian papers, every day after his morning prayers. So he must have followed the debate about the CBS as reported in the press.

9 Taken from several editions of *Suara Pembaruan*, some statements were made after their meetings with President Soeharto between the second to last week of February 1998. One of the reports was entitled "G-7 asked Indonesia to

Cancel its Plan to Adopt CBS", http://suarapembaruan.com/News/1998/02/220298/Headline/hioi/hioi.html.

10 *Prospek*, 2 March 1998.

11 *Xpos*, no. 08/I, 21–27 February, 1998. The last attack had appeared in the publication *Konspirasi Menggoyang Soeharto.* [Conspiracy to Rock Soeharto]. (Kumpulan Selebaran Paling Aktual, November 1997).

12 See footnote 24, Chap. 4.

Chapter 1: Introduction

1 He seemed to think that the Indonesian crisis tarnished his image as Indonesia's "Father of Development".

2 See Peter Montagnon and Sander Thoenes, "Rupiah's Defensive Walls Turned out to be Built on Sand", *Financial Times*, Weekend, 14–15 March 1998, and Jose Manuel Tesoro, "Once a Castle in the Sand: The Central Banker is Focused on Rebuilding", *Asiaweek*, 6 February 1998.

Chapter 2: Origin of the Crisis and Early Responses

1 Bank Indonesia, *Report for the Financial Year 1994/95* (Jakarta: Bank Indonesia, May 1995), p. 23.

2 It should be mentioned here that during that period, the daily volume of foreign exchange trading in Jakarta was approximately US$4 billion. This daily trading had been increasing from US$1.5 billion in early 1980s, to US$8 billion in mid-1997.

3 Flights to safety by rich Indonesians transforming their rupiah assets into dollars have occurred every time social tensions rose, whether they originated from economic, social or political causes. Dollar purchase has been popular since the government made the rupiah convertible in the 1970s. Traditionally, the flight to safety was done through buying land or gold.

4 See also, Overview of the Proceeding of a Conference on Macroeconomic Issues for Asian Countries, organized by Bank Indonesia and the IMF, Jakarta 7–8 November 1996, *Macroeconomic Issues Facing Asean Countries*, edited by John Hicklin, David Robinson and Anoop Singh (Washington D.C.: IMF, 1997).

5 Articles and books on the Asian crisis flourished almost immediately upon its outbreak. Some authors used more dramatic expressions, like Leo Gough, *Asia Meltdown* (Oxford: Capstone, 1998), Callum Henderson, *Asia Falling* (New York: MacGraw-Hill 1998), Michael Backman, *Asian Elipse*, (Singapore: John Wiley & Sons 2001).

6 Institute of International Finance, *Capital Flows to Emerging Economies* (Washington D.C.: IIF, 29 January 1998). Also see a description by the World Bank that mentioned the downgrading of Indonesia's sovereign and corporate ratings by Standard & Poor's and Moody's during this short period in

"Indonesia in Crisis: A Macroeconomic Update", a document produced by the World Bank for the Paris meeting of the Consultative Group on Indonesia (CGI) in July 1998.

7 Stephan Haggard raised this issue. His study attempts to address the question of why market sentiment changed (Haggard 2000).

8 World Bank, "Addressing the Social Impacts of the Crisis in Indonesia: A Background Note for the 1998 CGI", mimeo.

9 This figure is the lowest estimate of private capital outflows in that year. Other estimates put the figures between US$25 billion and US$40 billion.

10 As quoted by Lim Say Boon in his column, "The Art of the Possible", *Far Eastern Economic Review* (*FEER*), 4 February 1999.

11 See Kevin Muehring, "Grasping Greenspanomics", *Institutional Investor*, (June 1993), and David M. Jones, *The Politics of Money: The Fed under Alan Greenspan*, (New York: NYIF Corp. Simon Schuster, 1991).

12 The conceptual argument of the managed floating system was explained in the Bank Indonesia annual report in my first year as governor, *Bank Indonesia: Report for the Financial Year 1993/94* (Jakarta: Bank Indonesia, May 1994), and the following year. I explained the concept and its ramifications on different occasions to the banking community.

13 Callum Henderson, in his book, *Asia Falling*, wrote an accurate explanation of the concept based on an interview with me before its publication.

14 See, "Exchange Rate Policy", *Bank Indonesia*, *Annual Report, 1994/95* (Jakarta: Bank Indonesia, 1995).

15 The CGI is a forum between the government of Indonesia and its creditor countries or institutions, which was formed in 1990 to replace the previous similar forum, the Intergovernmental Group on Indonesia (IGGI) formed in the late 1960s. The IGGI comprised of 18 countries plus a number of multilateral agencies, like the World Bank, the IMF, the Asian Development Bank, the UNDP, and other institutions. The Minister of Development Aid from the Netherlands chaired the IGGI.

16 See Andrew Berg, "The Asia Crisis: Causes, Policy Responses, and Outcomes", IMF Working Paper, no. 138, 1999, Table 3, p. 15.

17 The annual interest rate for Bank Indonesia certificates (SBI) with two-month maturity was raised from 11 per cent to 22 per cent, while the three month SBI rate was raised from 11.5 per cent to 30 per cent.

18 The prominent issues in hearings of Bank Indonesia's Governor in the Finance and Banking Committee of the Parliament prior to the crisis were the high percentage of non-performing loans of commercial banks, the related issue of bank lending and violations of the legal lending, limits. All these problems reflected unsound banking practices. See also the study by Imam Sugema "Banking Sector and Economic Collapses".

[19] Two books that record and analyse these matters comprehensively are Binhadi, *Financial Sector Deregulation, Banking Development and Monetary Policy: The Indonesian Experience 1983–1993* (Jakarta: IBI, 1995) and David C. Cole and Betty F. Slade, *Building a Modern Financial System* (New York: Cambridge University Press, 1996).

[20] The announcement was widely reported in the media, amongst others, "Ten Steps to Stimulate Economic Recovery", *Republika*, 4 September 1997.

[21] President's Directives and Decisions in Special Cabinet Meeting on Economics, Finance, Development Supervision, Production and Distribution (Jakarta: Bina Graha, 1997, mimeo).

[22] Taken from *Gatra*, 18 October 1997.

[23] "Camdessus Announces IMF Support for Indonesia's Economic Program", IMF News Brief, no. 97/19, 8 October 1997.

[24] The initial correspondence between the GOI and the IMF as well as the Indonesian Executive Director clearly used the term "precautionary arrangement". After the arrival of the IMF mission, this became "stand-by arrangement".

[25] There is sometimes confusion as to what constitutes an LOI and an MEFP. On the IMF website, http://www.imf.org/external/np/loi/mempuba.html, the definitions of LOI and MEFP are identical. Publicly, both the letter and the MEFP are usually called the letter of intent. Strictly speaking, the LOI is the covering letter that explains the aim of the member country for requesting to use the IMF facility by submitting an adjustment programme that explains all the steps to be taken to address the problems that the member country is currently facing.

[26] Indonesia's quota then was 1.497 billion rupiah, or US$2.078 billion.

[27] See *Indonesia: Summary of Disbursements and Repayments*, January 1970–31 August 2000 in the IMF website, /http://www.imf.org/external/np/tre…ey=440&stardate=1970&enddate=2000.

[28] Indonesia reentered the IMF at the beginning of the New Order government under President Soeharto in February 1967, after leaving the institution during the heyday of the previous government under Soekarno.

[29] As an example, *Suara Pembaruan* reporting government critics, like Dr. Rizal Ramli, "Don't Hurry to Ask for IMF Support", 9 October 1997.

[30] On the different IMF facilities, see IMF, "Financial Organization and Operations of the IMF", Pamphlet Series No. 45, and Review of Fund Facilities — Preliminary Considerations, 2 March 2000, http://www.imf.org/external/np/pdr/fac/2000/index.html.

[31] Paul Blustein in his book, *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF* (New York: Public Affairs, 2001), showed that in all crisis countries which sought IMF help, Thailand, Indonesia, Korea,

Russia and Brazil, intervention by the G-7, and the United States in particular, in the formulation of IMF-supported programmes in these countries was apparent.

[32] See Indonesia's LOI to the IMF, 31 October 1997, item number 21.

[33] See "IMF's Prolonged Role in Indonesia Questioned", *Jakarta Post*, 15 December 2001.

[34] See also Robert W. Hefner, *Civil Islam: Muslims and Democratization in Indonesia* (Princeton, NY: Princeton University Press, 2000), pp. 201–7.

[35] As mentioned by Dr. Stanley Fischer to the Governor of Bank Indonesia, in the follow up to our meeting in Jakarta on 1 October 1997, the term being used was "precautionary". Likewise, a letter written by Indonesian ED in IMF, Dr. Subarjo Joyosumarto on 2 October 1997 to the GOI mentioned "An IMF Mission to Study the Possibility of Implementing a Precautionary Arrangement".

Chapter 3: Stabilization and Reform Programmes

[1] Aside from the side letters and the letter on intervention, these documents can be downloaded from the IMF website, http://www.imf.org/external/np/loi/html/.

[2] The Southeast Asian Group comprises of Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, and Vietnam.

[3] IMF News Briefs, No. 97/22, "Camdessus Comments on Indonesia's Actions", (31 October 1997).

[4] In Indonesia, liquidating gold reserves, or even lending it, is always avoided by the government for the "psychological" reasons that doing so might create the wrong impression that the government is going bankrupt.

[5] Bank Indonesia announcement, "Siaran Pers" (Press News), 15 May 2000.

[6] IMF Staff Report, *Recovery from the Asian Crisis and the Role of the IMF*, http://www.imf. org/external/np/exr/ib/2000/062300.html/.

[7] See also, William E. Alexander et al., *Systemic Bank Restructuring and Macroeconomic Policy* (Washington D.C.: IMF, 1997), and Stijn Claessens et al., "Financial Restructuring in East Asia: Half Way There?". World Bank Financial Sector Discussion Paper No. 3, 1999.

[8] IMF, *Strengthening the Bank Rehabilitation Effort*, volume II and I (Washington D.C.: IMF, December 1997). The team that dealt with the bank restructuring programme under the stand-by arrangement continued the study. The team also included staff from the U.S. Treasury and ADB. The team made reports, in March, Jun, and August 1998 respectively, entitled, "Resolving the Banking Crisis: Bank Restructuring and Related Issues", prepared by Charles Enoch et al., mimeo.

[9] Hassanali Mehran et al., "Indonesia: Bank Liquidation and Resolution", Washington D.C.: IMF, 31 August 1994, mimeo.

[10] *Suara Pembaruan*, 10 November 1997.

[11] In the Indonesian banking system then, based on the prudential measures that were calculated from their compliance to the requirements concerning adequacy of capital, assets quality, management, earnings and liquidity (CAMEL), bank soundness was classified using a four step rating system that included sound, fairly sound, poor and unsound (Binhadi 1995, p. 244).

[12] In the past, bank restructuring was based on a conventional restructuring programme permitted under the Banking Law of 1992 on a case-by-case basis, with involvement of the central bank.

[13] The policy for providing exporters with a pre-shipment facility was introduced as part of a policy to selectively assist the real sector that was experiencing pressure from the high interest rates in bank lending. The scheme was only available for a limited number of exporters in commodities selected by the Department of Trade and Industry. In total only 20 exporters resorted to the facility. A large company (Texmaco Group) close to President Soeharto which misused the facility marred the image of the programme itself.

[14] In a recent conference in Hakone, Japan, I mentioned this episode in front of Professor Sakikabara, the former Japanese Vice-Minister of Finance, who was in charge then. He commented that the main reason for not continuing the operation was because it was no longer effective (Conference on "Market and Diplomacy", organized by the Japan Institute for International Affairs, Hakone, 9–10, March 2002)

[15] From October to December 1997, cash withdrawals from the banking sector amounted to 4.5 trillion rupiah (approximately US$10 billion), while in the first three weeks of January 1998, withdrawals were totalled 7.4 trillion rupiah (equivalent to more than US$9 billion).

[16] IMF, "Stand-by Arrangement — Review Under the Emergency Financing Procedures", Prepared by the IMF Asia Pacific Department, 7 January 1998, mimeo.

[17] The data that was compiled from this short period at a later date was adopted by the Indonesian Debt Restructuring Agency (INDRA), formed in January 1998.

Chapter 4: Poor Programme Implementation

[1] On the filing and subsequent withdrawal of the suits against the Minister of Finance and Bank Indonesia Governor, see for instance, Michael Richardson, "Suharto's Son Sue Government", *IHT*, 6 November 1997; "Bambang Drops his Lawsuit over Bail", *AWSJ*, 13 November 1997.

[2] IMF, "Indonesia: Stand-by Arrangement — Review Under the Emergency Financing Procedures", Asia and Pacific Department, Approved by Bijan B. Aghevli and Joaquin Ferran, 7 January 1998, p. 14, mimeo.

[3] Ibid., p. 23.

[4] It was later revealed that President Soeharto had suffered his first stroke.

[5] Point 2 of Presidential Instruction in the Cabinet Meeting of 3 September 1997.

[6] The Minister of Finance and the Governor of Bank Indonesia made statements about not closing more banks after reporting to the President (*Suara Pembaruan*, 4 November 1997). The government policy not to close more banks was reiterated by President Soeharto after announcing the second LOI (*Suara Pembaruan*, 16 January 1998).

[7] If the funds spent by MAS and BOJ in the joint intervention in November 1997 were counted as withdrawal of loans from Japan and Singapore in the programme, there was US$1.5 billion of disbursement from these sources.

[8] See Paul Blustein's assessment of the role of the IMF and the U.S. Treasury in the Korean case in *The Chastening…*, ch. 5.

[9] Joon-Ho Hahm, "Financial Restructuring in Korea: The Crisis and Its Resolution", in *East Asia's Financial System: Evolution and Crisis*, edited by Seiichi Mauyama et al., pp. 109–44 (Singapore: ISEAS, 1999).

[10] The maximum payment was decided during the meeting between the President and the Monetary Board in preparation for the bank closures. Since in 1992 the government had guaranteed payments up to a maximum of 10 million rupiah, I was proposing that the government raise the amount to 30 million rupiah. The Minister of Finance opted for 20 million rupiah, acknowledging that the burden would ultimately be borne by the budget. And this was the amount that the President agreed to.

[11] See Lindgren 1999, p. 22.

[12] Read C. Brown's comment from the Fund on my paper, *The Banking Sector in an Emerging Market: The Case of Indonesia*, in Charles Enoch and John H. Green (Enoch and Green 1997).

[13] Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund, Press Release No. 96/46 (Washington D.C.: IMF, 29 September 1996).

[14] *Warta Ekonomi*, No. 26/Th IX/17, November 1997.

[15] *Suara Pembaruan*, 8 December 1997, http://www.suarapembaruan. com/News..12/081297/Ekonomi/eko15.html.

[16] *Suara Pembaruan*, 4 November 1997.

[17] *Suara Pembaruan*, 16 January 1998.

[18] The Parliamentary Committee to investigate Bank Indonesia's liquidity support summoned the Governor, the Deputy Governors and myself in February 2000 to testify.

[19] "President's Instructions and Decisions at the Special Cabinet Meeting on Economics, Finance and Production and Distribution", Jakarta: Bina Graha, 3 September 1997, mimeo.

[20] "RI Worst in Corporate Governance: Survey", *Jakarta Post*, 19 June 2000.

[21] "*Konspirasi Menggoyang Soeharto*".

[22] This was of course ignored when the government decided to do so in compliance with part of the conditionality (prior action) of the Fund's stand-by arrangement.

[23] In accordance with Article 29 (1) and 32 (3), of Central Bank Act No. 13, 1968.

[24] "Kalau nggak bisa diselamat ditutup saja" [If it is not possible for a bank to be saved it should be liquidated], *Bisnis Indonesia*, 5 October 1997.

[25] The data was taken from Liliana Rojas-Suarez, "Proper Sequencing of Financial Market Liberalization: Learning from the Chilean Experience, Table II", paper presented at a workshop of the Asian Policy Forum, the ADB Institute, Shanghai, 27 February 2002.

Chapter 5: Stronger Programme with Weak Commitment

[1] IMF, "Indonesia: Stand-By Arrangement—Review Under the Emergency Financing Procedure", a confidential document prepared by the Asia and Pacific Department, 7 January 1998, mimeo.

[2] These observations were made during the discussion in the Board concerning the Review of the Indonesian SBA by the Fund as contained in a report by the Alternate Executive Director for Southeast Asia Group, 8 January 1998, mimeo.

[3] *Suara Pembaruan*, 14 November 1997.

[4] *Suara Pembaruan*, December 1997.

[5] *Kompas*, 19 June 2000.

[6] Syahril Sabirin was only sworn in a couple of days after since the President wanted the change immediately, although Sabirin had asked for several days to return from Washington, D.C.

[7] IMF, "Stand-by Arrangement", op. cit.

[8] Since 1968 the government had adhered to the construct of a balanced budget that was not actually balanced in the ordinary sense. The idea was that the government limited itself to foreign sources of financing. Thus, the budget could have a deficit, but, the deficit could not be financed through domestic borrowing or by printing money. The deficit had to be financed through foreign loans and aid. In this construct the total budget, which included foreign loans and foreign aid, should be balanced. In other words, the budget allowed a deficit to the amount of the foreign loans and aid utilized during the fiscal year.

[9] A letter written by the IMF's Southeast Asia Executive Director, Mr. Zamani Abdul Ghani from Malaysia, who tabled a protest to Managing Director Camdessus on the matter. The report appeared in the *Washington Post*, 7 January 1998, while Mr. Zamani's letter was dated 14 January 1998.

[10] *Annual Report of Bank Indonesia 1998/99* (Jakarta: Bank Indonesia, May 1999), chapter 5. See also LOI, 15 January 1998 and 29 July 1998.

[11] Taken from confidential memos from Fund staff to the Indonesian team on necessary steps to be taken to implement the new programme, dated 18 January and 23 January 1998 (mimeo), and *Annual Report of Bank Indonensia 1998/99*, chap. 5.

[12] *Suara Pembaruan*, 7 February 1998.

Chapter 6: Bank Indonesia and the Crisis

[1] Supreme Audit Board, press release "Special Audit Report on The Provision and Usage of Bank Indonesia Liquidity Supports", 4 August 2000.

[2] *Konspirasi Menggoyang Soeharto*.

[3] See J. Soedradjad Djiwandono, "Liquidity Support to Banks during Indonesia's Financial Crisis", *BIES*, (April 2004).

[4] "Former Ministers of Finance and Bank Indonesia's Governor Exchanged Accusations on Who is Responsible for Bank Indonesia Liquidity Supports", *Suara Pembaruan*, 2 October 2000, http://suarapembaruan.com/News/2000/02/10/Ekonomi/ek07.html.

[5] Bank Indonesia, *Mengurai Benang Kusut BLBI* [To untangle the winding knot of Bank Indonesia liquidity supports] (Jakarta: Bank Indonesia, 2002), p. 94.

[6] "President's Instructions and Decisions in the Cabinet Meeting on Economics and Finance, Development Supervision, Production and Distribution", Jakarta: Bina Graha, 3 September 1997, point 8.

[7] Bank Indonesia, *Mengurai Benang Kusut BLBI*, op. cit.

[8] Government Regulation No. 25, 1999.

[9] See First LOI, point 2. This was also mentioned in a letter from the Minister of Finance to the Governor of Bank Indonesia, 20 February 1998.

[10] *Jakarta Post*, 1 June 2002.

[11] Taken from a press release by Bank Indonesia's Public Relations Unit, 3 July 2003.

[12] In one of his visits to Jakarta it was reported that Professor Hanke stayed at the Shangri La Hotel under the alias of Simon Holland, and his stay was paid for by Astra International. However, it is difficult to establish a link between President Soeharto and Astra International, except that one of its then directors was in the inner circle of the Cendana family. *AWSJ*, 24 February 1998.

[13] The parliamentary leadership's support was reported in the media as "Mar'ie (the Minister of Finance): Indonesia will adopt CBS", http://www.suarapembaruan.com/News/1998/02/110298/headline/h101/h101.html.

[14] Several editions of *Suara Pembaruan* from the second and third weeks of February 1998, http://suarapembaruan.com/News/1998/02/220298/headline/hioi/hioi.html.

[15] Steve H. Hanke, "Indonesia's Central Bank Goes Bust", *AWSJ*, 17 February 2000.

[16] "Indonesia Déjà Vu", Editorial, *ASWJ*, 15 May 2000.

[17] "I am Amazed", *ASWJ*, 25 May 2000.

[18] "Nobel Laureate Mundell Supports Rupiah Peg for Indonesia", Dow Jones, Singapore, 4 September 2000, http://asis.biz.yahoo.com/…/Nobel_Laureate_Mundell_Supports_Rupiah_Peg_for_Indonesia.htm9/4/00.

[19] Intervention by Prof. Wing Thye Woo in a workshop on "Sequencing of Financial Liberalization and Regional Trade Implications of PRC", organized by ADBI, held in Shanghai, 8 May 2002.

[20] Article 4 of Law No. 23 of 1999 Concerning the Central Bank.

[21] Letter from President Soeharto to Mr. Camdessus and the "Memorandum of Economic and Financial Policies", 15 January 1998, mimeo.

[22] Alan S. Blinder, *Central Banking in Theory and Practice* (Cambridge, MA: MIT Press, 1998), p. 53.

[23] Stanley Fischer, "Modern Central Banking", in F. Capie et al., *The Future of Central Banking* (Cambridge University Press, 1994).

[24] For example, in New Zealand the government determines the goal for monetary policy, i.e. the inflation rate. But, beyond that it is up to the Central Bank of New Zealand to choose its instrument(s) for achieving the predetermined rate of inflation.

[25] See Stanley Fischer, "Modern Central Banking", in Capie, et al. (1994) and *Central Banking in Developing Countries*, edited by Maxwell J. Fry et al. (London: Routledge, 1996).

[26] See "Survey: The World Economy", supplement of the Economist, 25 September–1 October 1999.

[27] Edward S. Shaw, *Financial Deepening in Economic Development* (New York: Oxford University Press 1973), and Ronald I. McKinnon, *Money and Capital in Economic Development*, (Washington D.C.: Brookings Institution, 1973).

[20] The most important of which was the easing of bank licencing in October 1988. The Indonesian banking sector enjoyed a tremendous expansion in terms of both mobilization of funds and lending as well as the number of banks.

[29] "Survey: The World Economy" in *the Economist*, 25 September 1999, p. 4.

[30] IMF, "Communiqué of the Interim Committee of the Board of Governors of the International Monetary Fund", 26 September 1999, mimeo.

[31] Stanley Fischer, "Modern Central Banking", op cit., p. 4.

[32] Stijn Claessens et al., *Financial Restructuring in East Asia: Halfway There?* World Bank Financial Discussion Paper no. 3.

[33] Paul Krugman, *The Eternal Triangle: Explaining International Financial Perplexity*, http://web.mit.edu/krugman/www/triangle.html.

[34] Study by Cukierman (1992, Fig. 5) shows that only the Bundesbank surpasses the Fed in term of independence.

[35] Granted, Indonesia's balanced budget concept, which treated the rupiah value of foreign loans and aid as development revenue, defied proper definitions of government revenue. However, the concept had successfully forced the government not to borrow domestically nor the central bank to finance a budget deficit. This actually implied that the balanced budget concept, which had been practiced in Indonesia since 1968, had been contributing to prudent fiscal policy, which was the trademark of Indonesia's macroeconomic management until the crisis. However, there was also some leakage when the government registered "off-budget" expenditure.

[36] It was sometimes strange that the Indonesian government had to hear contrasting advice from the two sister institutions, the World Bank and the Fund, in this respect.

[37] "Bank Indonesia and the Recent Crisis", *BIES* 36, (April 2000): 47–72.

[38] IMF studies on these matters were reported in Lindgren et al, *Bank Soundness and Macroeconomic Policy* (D.C.: 1996) and Enoch and Green, *Banking Soundness and Monetary Policy* (1997).

[39] Richard Cooper in his comment on Steve Radelet's and Jeffrey Sachs' work specifically mentions that the soundness of banking systems should be an objective of monetary policy (Brookings Papers on Economic Activity, 1, 1998). See also Manuel Guitian, "Banking Soundness: The Other Dimension of Monetary Policy" in Enoch and Green (1997), pp. 41–62. In this paper Guitian showed that a sound banking system should stand on its own as an objective of monetary policy.

[40] "Panel Report on Proposed Amendments of Bank Indonesia Law", April 2001, mimeo.

[41] *Tempo Interaktif*, 3 June 2000.

[42] "Panel Report on Proposed Amendments of Bank Indonesia Law", April 2001, mimeo, p. 4.

Chapter 7: Lessons from the Crisis

[1] The Consultative Group on Indonesia (CGI) is a forum organized by the World Bank, which comprises of 18 countries and many multilateral

institutions, that provide the government of Indonesia with loans and grants for development.

[2] See for instance, Haggard, *The Political Economy of the Asian Financial Crisis*.

[3] Stanley Fischer, "Asia and the IMF", remarks at the Institute of Policy Studies, Singapore, 1 June 2001, http://www.imf.org/external/np/speeches/2001/060101.htm.

[4] From 1994 to 1996 the intervention bands were widened six times, while the nominal rate of the rupiah was depreciated 4–5 per cent annually.

[5] See, for example, Graciela L. Kaminsky, "Currency and Banking Crises: The Early Warning of Distress", IMF Working Paper no. WP/99/178, December 1999.

[6] See IMF, *Structural Conditionality in Fund-Supported Programmes*, Box 8, p. 40 http://www.imf.org/external/np/pdr/cond/2001/eng/index.htm.

[7] See, J. Soedradjad Djiwandono, "Bank Indonesia and the Recent Crisis", BIES 36, no. 1 (April 2000).

[8] As detailed in Chapter 5, the second LOI was even unique because, no longer trusting the Minister of Finance and the Governor of Bank Indonesia, Soeharto personally negotiated the programmes and signed the document.

[9] This is conjectured from the sequence of events in the Asian crisis as listed by Lindgren et al., *Financial Sector Crisis and Restructuring*, op. cit.

[10] See David C. Cole and Betty F. Slade, "Comments on the IMF Report on IMF-Supported Programmes in Indonesia, Thailand and Korea: A Preliminary Assessment," 2 February 1999, mimeo.

[11] Haggard, *The Political Economy of the Asian Financial Crisis*, op. cit., p. 8.

[12] It should be noted that Bank Indonesia did not enjoy its independent status until the enactment of the new Central Bank Law in May 1999.

[13] Dae-Hwan Kim, "Globalization and the IMF-Controlled Economy: The Case of Korea", a paper presented in a seminar at the Southeast Asian Studies Programme, the National University of Singapore, July 2001, mimeo.

[14] See Lindgren et al., *Financial Sector Crisis and Restructuring* and Timothy Lane et al., "IMF — Supported Programs in Indonesia, Korea, and Thailand: A Preliminary Assessment", (1999), and Jack Boorman et al., "Managing Financial Crises: The Experience of East Asia" (2000).

[15] As an example, see the policy brief by Minister Kwik Kian Gie entitled "Indonesian Economic Reform: What Went Wrong", in a recent seminar "Lessons from the Indonesian Transition: Setting a Future Reform Agenda", organized by UNSFIR-Bappenas, Jakarta, 24–25 February 2004, mimeo.

[16] See Jack Boorman, "Life with the IMF: Indonesian Choices for the Future", paper presented at the 15th Congress of the Indonesian Economists Association, Malang, 15 July 2003, http://www.imf.org/external/country/idn/index.

[17] Article I, (ii), Article of Agreement of the International Monetary Fund. http://www.imf.org/external/pubs/ft/aa/index.htm.

[18] Note also arguments presented by Stanley Fischer on this matter, *Presentation to the International Financial Institution Advisory Commission*, Washington D.C., 2 February 2000, http://www.imf.org/external/np/speeches/2000/020200.htm.

[19] George Shultz, William Simon and Walter Wriston in "Who Needs the IMF?", *Wall Street Journal*, 3 January 1998.

[20] See the Meltzer Commission Report on the International Financial Institution Advisory Commission, http://www.house.gov/jec/imf/imfpage.htm.

[21] See, for example, Kenneth Rogoff, "Open Letter to Joseph Stiglitz", http://www.imf.org/external/np/vc/2002/070202.htm.

[22] Paul Volcker is Former Chairman of the Board of Governors, Federal Reserve System, United States, 1979–87.

[23] Jesus P. Estanislao, "Paradigm for Policy and Institutional Arrangements in a Global Market Era", a paper presented at a conference on Asia-Pacific Cooperation, organized by Japan Institute of International affairs, Hakone, Japan, 8–9 March, 2002.

[24] IMF, "Structural Conditionality in Fund-Supported Program", 16 February 2001, Box 8, p. 40 http://www.imf.org/external/np/pdr/cond/2001/eng/index.htm.

[25] Ibid.

[26] "Banking System Soundness and Macroeconomic Management: The Recent Indonesian Experience", http://www.pacific.net.id/pakar/sj and J. Soedradjad Djiwandono, "Monetary Policy and the Banking System in Indonesia: Some Lessons", the Fifth India-ASEAN Eminent Person Lecture, Research and Information System for the Non-Aligned and Other Developing Countries (RIS), New Delhi, 2 September 1998.

[27] This is an easy target for domestic politicking. The critics, either incoming government officials referring to their predecessors, or others, could easily dub the participants in the negotiation as lackeys or mouthpieces of the Fund.

[28] Letter by MD Horst Kohler to the Fund officials, Streamlining Structural Conditionality, 18 September 2000, a cable address by the Managing Director, to the Heads of Departments and Offices. See also "Conditionality in Fund-Supported Programmes — Overview", http://www.imf.org/external/np/pdr/cond/2001/eng/overview.

[29] See "The Role of the IMF in Recent Capital Account Crises — Draft Issues Papers/Terms of Reference for an Evaluation by Independent Evaluation Office", Independent Evaluation Office of the IMF, April 2002, mimeo.

[30] See, for example, Iwan J. Azis, "Modeling Crisis Evolution and Counterfactual Policy Simulations: A Country Case Study", ADB Institute Working Paper 23, Tokyo: ADB Institute, August 2001.

Chapter 8: Epilogue

[1] I would like to thank Professor Anne Booth for raising this issue during one of my presentations at ISEAS in May 2001.

[2] Quoted from a World Bank study by Mark Landler, "For Indonesia Solvency is Political", *New York Times*, 20 April 2001.

[3] See also Morris Goldstein, *Managed Floating Plus* (Washington, D.C.: Institute for International Economics, 2002). The plus is to denote the requirements in the monetary management for inflation targeting and aggressive measures to discourage currency mismatching.

[4] See that arguments about including the ratio of short-term debts to international reserves in the macro fundamentals as proposed by Steve Radelet and Jeffrey Sachs (1998).

[5] Of course a different meaning of intervention is used here. In the fixed system, the monetary authority is legally required to intervene to defend the system. In a floating system, the intervention is to slow down the depreciation to defend a certain rate.

[6] See, Marias Vernengo, "Exchange Rate Regimes and Capital Control", *Challenge*, November 2000.

Postscript

[1] IMF, "Recovery from the Asian Crisis and the Role of the IMF", June 2000, http://www.imf.org/external/np/exr/ib/2000/o62300.htm.