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INDONESIA'S BANKING CRISIS: WHAT HAPPENED AND WHAT DID WE LEARN?

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Summary

This article traces the stages of the Indonesian banking crisis of the late 1990s. Almost every stage of the handling of the crisis was complicated by governance issues. Beyond these, among the lessons identified are how quickly things can get out of hand in an apparently strongly performing economy; that at the outset of a crisis information will be very limited; and that management of a crisis will be an evolving process. A blanket guarantee covering all bank liabilities may be indispensable; however, the authorities are 'buying time', and the more time that has to be bought the more expensive the process will be. Transparency too is indispensable, to generate public trust and support, and to ensure that actions taken by the authorities are irreversible. Overall, while not everything was done right, the strategy put in place had positive elements that have served to protect a core banking system and establish conditions for recovery.

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