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Bank Restructuring and Financial Institution Reform in Indonesia

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Abstract

The banking sector underwent drastic reform in post-crisis. Indonesia. Bank restructuring, driven by IMF conditionalities, resulted in the exit of insolvent banks and ownership changes of major private banks. Through recapitalization and sales of government-held shares, foreign-owned banks emerged as leading actors in the place of business-group-affiliated banks. As part of the restructuring process, an exit rule was created. The central bank, which up to that time had been given only partial authority under the jurisdiction of the Minister of Finance, now gained a full range of authority over banks. The central bank's supervision system on banks, risk management systems at individual banks, and their efforts to build risk management capacities, began to function. This is totally different from the old financial institution under the Soeharto regime, where banks had no incentive to control risks, as the regime tacitly ensured their survival.

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