

Central Bank Independence in Indonesia and Its Political Acceptance¹

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This paper aims to introduce the use of the CB legitimacy perspective in the studies of independent MP governance in developing countries. It contextualizes central bank independence (CBI), a “golden practice” of monetary policy (MP) governance enshrined in domestic legislations that limit and prevent untrue institutional political intervention in developing countries by drawing a case from Indonesia’s experience. In the aftermath of the global financial crisis (GFC), CBI principles, along with its most fundamental objective to maintain a low rate of inflation (price stability), have faced multiple challenges that questioned, among others, its legitimacy. This paper opted to focus on this aspect. CBI legitimacy (hereinafter used interchangeably with CB legitimacy) discusses the political acceptance of CB as an independent state institution that exclusively manages MP. The concept of legitimacy was built on the political system theory advocated by Easton, which Schmidt is completing and contextualizing in MP governance. While much attention has been given to exploring the significance of CB actions after the GFC in advanced economic countries, there is a pressing need to understand more about developing countries. Some works have indicated the role of politicians in these countries, whose actions may hinder the effectiveness of independent MP governance guided by the CBI framework. These political hindrances can take various forms, and it is crucial to understand why politicians act in such a manner and how a CB can respond to this rejection. The CB legitimacy perspective is argued to be the key to meeting this need, underlining the urgency of addressing these political hindrances. This paper is non-doctrinal research that uses historical institutionalism, a unique approach that also intersects with law and economics (cost-benefit analysis of law). This non-doctrinal nature of the research underscores its novelty and originality, providing a fresh perspective on the topic. This paper limits the analysis of CBI legitimacy discourse since the establishment of Bank Indonesia, the monetary authority in Indonesia, in 1953. All laws and amendments legislated after that year will be analyzed to trace the earliest and most updated indications of CBI (principles) unacceptance. This paper does not suggest the correct form of a legitimate CBI framework but advocates using the legitimacy point of view.