

CHAPTER V

CONCLUSION

The global financial crisis started to show its effects in the middle of 2007 and into 2008. The financial turmoil that started as a meltdown in structured securitization instruments in the summer 2007 in the United State has quickly spread to the rest of the developed world especially in Indonesia. This crisis has gained the attention of the world. Instability has surged from sector to sector, first from housing into banking and other financial markets, and then on into all parts of the real economy. In an effort to prevent the crisis from spreading, the authorities in the US and many European governments have taken unprecedented steps of providing extensive liquidity, giving assurances to bank depositors and creditors that include blanket guarantees, structuring bail-out programs that include taking large ownership stakes in financial institutions, in addition to establishing programs for direct provision of credit to non-financial institutions. In some developing countries, there are about re-introducing capital controls as a policy of last resort in the event of extensive bank runs and capital outflows.

The United States' financial crisis happened because of the sub prime mortgage mechanism failure. That sub prime mortgage mechanism has legalized in the form of housing credits. The regulation has included to the property sector and housing ownership in the subprime mortgage. All of American people could rent housing through credit mechanism. They got easy to the credit mechanism it self

Nevertheless, the fast process to get credit should pass some requirements and the price of property rising in the United States. Many people more interested to the housing business. Housing debtor asked interest rate guarantee for three years to creditor. Thus case made many people in America bought house easily, they could also sell house rent before the time was over.

However, there were many financial institutions of property credit give their fund to the people that actually did not able to got fund. Those people came from non income background and non-job or non-activity. Automatically, people or creditor did not have strong economic fundamental to pay credit rent in time. Thus situation has triggered to the stuck credit or failure credit in property sector. However, failure credit made the domino effects for the collapse of the big financial institution in the United State. Actually, property financial institutions give loans in the short term from another parties includes financial institution.

Letter credits or subprime mortgage securities became the guarantee to get loan. Then, subprime mortgage securities sold to the invest institution and investor in many countries. Hence, letter credit has paid from the lender that the cost ability in credit housing was low. So, that property credit got stuck and funding institution could not responsibility to the financial institution whether its investment or asset management. That case has influence the market liquidity funding and banking system processing. After credit stopped, there were many financial institution came in the default liquidity because they have no fund or active to paid their obligation. This

situation made other financial institutions that give fund to property sector financial institution also bankruptcy.

Since financial institution in America has been disturbed, automatically the case would influence to the other liquidity financial institution. The United States' financial crisis has affected to the dries up liquidity in banking sector and financial institution non bank. It is also followed with the lack of financial transactions. The dried up of liquidity would force investors and America financial institution release their firms or infestation in Indonesian market fund. This way should be done to strengthen their financial institution liquidity. Automatically, that case made lack infest and the price of infestation in market fund.

The United States' financial crisis also affected to the other countries. The crisis has attacked the trade activity of Indonesian export product in the market of the United State, Japan and European Union. This situation would be dangerous to the continuing of Indonesian export products in the world trade. And, it crisis would make Indonesian product could not fight with China import which is cheaper. Crisis also has affected to the weaknesses of financial condition in several countries like Asia and other emerging market. For example, Asian currency has depressed toward dollar of the United State. Actually, the United States' financial crisis has direct and indirect effects to the Indonesian economic development. Direct effect of crisis was problematic investors because, there were investors have exposure on the assets that involved to the financial institution failure in the United State. Of course, it has damage impacts for Indonesian financial institution that infests their fund in Lehman

Brothers instrument. And, indirect effect from financial crisis in the United State has affected to the Indonesian economic growth in the form of dried up liquidity, the rising of interest rate and the decreased of commodity prices. The other effect was the decreased of consumer believes, investors and financial institution. Indonesian market fund was also weak because it's indicated the weaknesses of rupiah would affect the liquidity financial asset in Indonesia released by many investors. The lack of liquidity service was also effect to the cash flow sustainability for the big industries in Indonesia especially for infest banking. This matter made funding capital market and global banking in pricing of interest rate and availability funding. The decreased of demand buying level and the commodity market in Indonesian market have effected to the trade deficit and automatically it would effect to the difficulties of seeking capital inflow in global financial market liquidity.

Nevertheless, the crisis has originated in the US and Europe, and the focus of global attention has been on the policy response of those governments, all of the major actors in the international system now need to move quickly to respond. This includes developing countries, which have contribute a large share of the global economy and trade flows, and the international financial institutions (IFIs), who help oil the workings of the international system and promote widely shared development.

However, Indonesian government has the efforts to save Indonesian national economy from the effect of what it called global recession in the middle 2007-2008. Indonesian government has effort to maintain the real sector in society sphere. To

points of economic policy packages that are fiscal policy and monetary policy. In October 2008, President Susilo Bambang Yudhoyono and his cabinet have declared to keep the growth of economic momentum with keeping society believes toward state government and world business. Primarily, Indonesian government has declared to maintain economic growth about 6 percent. Actually, the component for 6 percent it self were such as consumption, state expenditure, infestation, export and import. The action of economic policies should be implementing toward using real economic domestic in country. This economic domestic were Small Medium of Enterprises, farming and informal sector. And in monetary policy the governments more concentrate in the Government Regulations in Lieu of Law (Perpu) were issued in anticipation of handling financial crises. Those acts are; Perpu No.2/2008 on Amendments of Law on Bank Indonesia (BI). In the article 11 of the Perpu, BI may provide short-term financing as facility. Perpu No.3/2008 amends Law No.24/2004 on Indonesia Deposit Insurance Corporation (LPS) and Perpu No.4/2008 which deals with Financial Safety Nets (JPSK).

In sum, policy-makers in Indonesia are likely to be facing dilemmas whose solution will be highly dependent on how they behaved during the boom period such as (allowing more lax or tighter macro policies, or building buffers against shocks or not), as well as how the global shocks affect their individual economies. Their ability to respond to the crisis depends on whether emerging markets have room to act in a prudent counter-cyclical way by increasing domestic demand without sacrificing excessively their fundamentals. These fundamentals include the countries' fiscal

positions, debt levels, domestic inflation rates, and the health of their domestic banking sector. Some developing countries have scope to do this, while others have less room for fiscal maneuver and still others are already experiencing credibility shocks and capital flight out for higher quality. That seeks to make clear that first, the on-going crisis does not simply reflect a failure of free markets, but a reaction of market participants to distorted incentives and second, managing a systemic crisis requires policy decisions to be made in different stages of the crisis the immediate containment stage as well as the longer term resolution and structural reforms that follow which often entail difficult trade-offs between reestablishing confidence in the short term and containing moral hazard in long term