

# Paper 4

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## Redenomination; Between Hope and Reality

(The study of the implementation of the Redenomination in Indonesia).

Dr. PRIYONO,

*Economic*

or

### I. INTRODUCTION

In the contents of this article are a variety of opinions of experts and economists about the redenomination, the authors compile it into the article and according to the author it is very useful for knowledge for students of economics, besides that the author felt the need to socialize this redenomination plan to students through scientific papers and scientific podium at both the economic and faculty at the university level.

Bank Indonesia plans to make the both economists, This topic is sure to be controversial, such as Woodrow Wilson said: "If you want to make enemies, try change something..." so it is natural that there is rejection / public concerns. (Dyah NK, Makhijani: 2010) (1)

the use of the same (@ website: 2012) (2). Although it is only the government's discourse is not necessarily agree.

certainly it's business to Can not be costs lian rupiah old with new money.

Tahapan REDENOMINASI	
2011 - 2012	Sosialisasi
2013 - 2015	Masa Transisi
2016 - 2018	Penarikan Rupiah lama
2019 - 2022	Tulisan baru pada Rupiah baru dihapus

Sources: @ website: 2012

With the growing economy, the number of digits Rupiah currency used in the transaction and recording statistical data will be growing. Digit Rupiah is the second largest in the world. Needs currency redenomination larger areas will increase in line with the economy growing so that these conditions will result in efficiency in the use of dollars, as well as technical problems in non-cash payment transactions and economic activity in general they are a legitimate consideration: the need for redenomination. "Redenomination had to be done so that the increased economic activity. Addition, the economy becomes impractical because the value of money is not too big digits," While (Secunda Finance, 2010) (3) believes rupiah redenomination or even nominal reduction Indonesia confirms beliefs become one country with a stable economy. Government plans do redenomination of the rupiah was greeted positively.

by the World Bank, it was submitted by (Emy Prithiyani, 2011)<sup>(4)</sup>. And economist for the World Bank Indonesia (Shubham Chudori: 2011)<sup>(5)</sup>. According Hasanuddin Aco: 2010<sup>(6)</sup>, cheapest currency today is Zimbabwe. Talking about the redenomination, Zimbabwe is one country that is quite aggressive conduct of its currency redenomination. Recorded in the last 4 years, due to hyper inflation, Zimbabwe have been 3 times to the currency redenomination. Zimbabwe's main mistake was doing redenomination when inflation is so high that the redenomination further strengthens the effects of inflation. With extraordinary courage of President Mugabe to plan and establish a massive devaluation policy even set a world record that abolish 10 (ten) the zeros of any bills that became known as the new money that is Zimbabwe Dollar (ZWD). Redenomination not only by the state of nominal currency large enough. One example is the currency redenomination EU members when redenomination currency into Euros. In this case, the conversion rate can be less than one. One Euro is equal to 40.3 francs in Belgium at that time. Indonesia is a fractional owner of the third largest currency in the world, with broken eyes of 100,000 rupiah. Countries with currency denominations second largest in the world is Vietnam, the Vietnamese Dong currency denominations of 500,000. Zimbabwe in first place with a fraction of 10 million Zimbabwe dollars. So Zimbabwe did redenomination. :

(<http://warungghuraba.wordpress.com/author/warungghuraba/2010/>)<sup>(7)</sup> Well, if Indonesia and then follow the footsteps of Zimbabwe by redenomination, Indonesia wanted regardless of the list of states with fractional number of papers in the world. Since there are only 2 options, like printing paper with more numbers or numbers would be small look a little more.

#### **Redenomination, DIFFERENCES, devaluation and SANERING**

(Seconds Finance: 2010)<sup>(8)</sup> stated term, the redenomination is divided into two syllables, ie Re with Denomination. Denominations can be interpreted as a fraction, so the denomination currency means the currency denominations refer to the nominal value of a currency in force in a state, so redenomination is interpreted as a whole is any mention or simplification retain fractional currency of the country in a performance, for example, \$ 1000 will be simplify to Rp 1 with meanings and values that do not change, for example if the \$ 1000 you can buy cookies so if redenomination happens you can still buy the biscuits with the same spaces from the previous price of \$ 1. So Redenomination is the process of simplifying the mention of writing denomination (fractions) by eliminating the number of zeros without reducing the purchasing power or value of the currency. Wikipedia Indonesia: @ 2012 website states that Sanering dollars aimed at reducing the amount of money in circulation due to increases in the price. Performed due to hyperinflation (inflation is very high).

A. Value for money for goods. In redenomination value for money for goods does not change, because the only way of naming and writing denominations are adjusted. In sanering, value for money for goods turn out to be smaller, because the cut is worth.

B. Conditions when done. Redenomination do current stable macroeconomic conditions. Economic growth and inflation. While Sanering done in macro-economic conditions are not healthy, very high inflation (hyperinflation).

C. The transition.

Redenomination carefully prepared and measured until the public is ready, so as not to cause unrest in the community. While there is no transition Sanering and done suddenly. Some sense of devaluation (Nural Solikhah: 2010)<sup>(9)</sup> are as follows: The decline in the value of the domestic currency against foreign currencies, Trimming a currency in order to increase its value compared to other currencies (appreciation), the government's policy to reduce the value of the domestic currency against foreign currency deliberately and decline against foreign currencies other currencies, usually the U.S. dollar, which is determined by the government.

## **II. IMPLICATIONS OF RUPEES WHEN DENOMINATION.**

Esther Meryana, 2011<sup>(10)</sup> stated that the economic inefficiency, particularly due to time and considerable transaction costs, infrastructure development requirements for non-cash payment system in the future with significant costs and the rising cost of procurement of new currency denominations larger to accommodate the need for cash payments increasing. Psychological Aspects mainly as a result of: Rupiah against foreign currencies among the lowest among ASEAN countries. The real value of the rupiah is very low measured from the transaction to pay for the daily needs days, many of his digit lead to technical constraints, especially in: transaction tools used in everyday life such as: metered taxis and petrol station cashier machine loads of storage, processing and reporting of data. Constraints in the full presentation of data such as GDP data to 16 digits adjustment of application systems time transactions with the quantity digits 14 digits exceeds the maximum available in the application that should be split transaction..

## **III. MOTIVATION OF RUPEES REDENOMINATION.**

To address the technical challenges and obstacles in improving the efficiency of the economy, and fosters national pride would then be required rupiah redenomination policy as follows:..

(A) Economic efficiency, occurred in many aspects, such as the payment system more efficient, the prices listed

... served ... and ... aspects of ...  
... adjustment necessary ... related limitations in ... software  
and hardware to accommodate the larger numbers digits, (B) Reduced barriers / constraints of technical  
risk ... (C) ... / higher  
... confidence in the rupiah currency; (D) Price changes in the range narrower. (E) Supporting efforts to  
steer inflation expectations lower to the level of (F) ... This ...  
... (G) Supporting ... by ...

#### IV. PREREQUISITES AND CHALLENGES OF RUPEES Redenomination

Robertus Benny Dwi Koesta, 2012, (11) stated that the implementation of the redenomination Prerequisites: (a) inflation expectations should be in the range of low and stable movement. (b) maintained economic stability and guarantee price stability. (c) Availability of legal basis regulating the redenomination. (d) Community Preparedness. For the letters of the alphabet 0, this seems to now could not be accepted by the public as quickly as possible, it took a long time to get used in. Community expected not to cause unrest in the transaction.

#### V. CHALLENGES OF REDENOMINATION.

When will redenomination can be implemented? Redenomination according to Bank Indonesia may take as long as 10 years. Beginning stages of socialization in 2011-2012 and then in 2013, made Redenomination a transition period until 2015. Well in this transitional period, will be used two assessment called rupiah long term and new rupiah. So you can buy goods at a price of Rp 100,000 rupiah pay it can use the fractional length Rp 100,000, or using the new rupiah at Rp 100 (Redenomination rupiah). This may seem to confuse the public later on when doing transactions especially the producers themselves will also give 2 price tag, the price of the old dollars to the price of new dollars. Especially the people who have felt aggrieved because Sanering policy in the old order. All the fears that are carefully thought-party BI, they've done a comparative study in Turkey that successful redenomination in 2004. There have been many countries that have successfully Redenomination, such as Turkey, Vietnam has the largest denominations in the world after Indonesia, of 500,000 Dong, and do not take into account the ever exceed Zimbabwe 100 billion dollar denominations on one sheet Zimbabwe currency.

#### VI. DISCUSSION

Learning from countries that have been implementing the redenomination policy generally taken by countries due to small value of its currency before the economy less control so experienced hyper inflation. After stabilizing the country's economy first, and then explored the possibility of the application of redenomination. Redenomination will be at risk when the economy is not stable, especially if inflation can not be controlled either by the monetary authorities.



One successful example is Turkey. Turkey experienced severe hyper inflation in the late 1960's and early 1970's to the monetary authorities there issued a fractional denominations up to 1 million Lira. Denomination is valid long enough to reach the 3 decades since Turkish monetary authorities focus more on stabilizing the economy. Now in the 1990's monetary authorities in Turkey began socialize redenomination Turkish lira when the economy began to stabilize, especially low inflation and very controlled. Then in 2005 when Turkey's economy is in steady status monetary authorities do redenomination by removing six zeros at the value of 1 million. Be equal to the value of 1 Lira exchange rate of 1 million old lira. This policy was implemented on January 1, 2005, but was still given a sufficient period to 2009 to the old money in circulation around the world have been mixed up with all the new money. In addition to Turkey, other countries are quite successful conduct of its currency redenomination is the countries of the former Soviet Union such as Azerbaijan in 2009, where 5000 people panic. Which had economic motives certainly will 'play' panic by taking action profits on Capital Markets and Financial Markets, while the political motive can make a bullet policy to 'fire' to the other party, and Turkmenistan in 2009 with the currency and the denomination of the same with Azerbaijan.



The experience of other countries other than the currency redenomination is the replacement of the old to the new, which is similar to the redenomination policy. In economic accounting treatment, reimbursement does not cause rising / falling real exchange of money held by the public. Examples of the most attention are the single European currency in 2002 where a gang 12 member states of the European Union to change its currency to the Euro. Not a bit of stuttering occurs in these countries although the level of education of the population already very advanced and evenly. For example in the Netherlands prior to Euro using the currency Gulden. The Netherlands has said it will join the euro zone in 1999 or 3 years prior to application. Socialization is done as soon as possible in order to pursue the application deadline, of course its optimization very less. Then when implemented on January 1, 2002 the exchange rate 1 Euro = 2.2 Gulden stuttering still happens here and there. The scenario of market participants will adjust the exchange rate, but that happened just simplicity exchange where 1 Gulden equal to 1 Euro. As a result, inflation in 2002 is quite alarming because the monetary authorities Dutch prices (as it were) a sudden rise. Indonesia is still trying to lift the economy and of course to stabilize inflation and the rupiah since the monetary crisis in 1998. The crisis has led to a dip Dollar exchange rate. If the first 1 U.S. dollar is approximately USD 2000s, now has never dropped from Rp 9780. Stability of the rupiah to the range in a set period of time can be a cornerstone in the effort to do Rupiah redenomination, of course, other factors must also be considered.

#### VII. CONCLUSION AND RECOMMENDATIONS.

In economic theory, redenomination not cause any impact, contrast and devaluation -smearing besides have a direct impact on the exchange rate of the currency held by the public, as well as other economic impacts due to the continuation of this policy which includes exports and imports, inflation, until economic growth.

We need Redenomination, with Indonesia's economy projected to grow rapidly, the number of digits in the dollar-denominated long-term will lead to a less efficient economic activity, psychological discomfort for the community in conducting cash transactions, and create technical obstacles. Redenomination policy is an alternative to improve efficiency economy, national increase pride rupiah, and overcome technical obstacles. At this time, the terms of macroeconomic forecasts macroeconomic conditions are maintained until the year 2014, in particular the declining inflation path and growth increases, providing a conducive and appropriate for implementation time Rupiah redenomination.

The Government and the Bank, as the experience of Turkey and other countries in implementing this policy needs to socialize very intense, long and qualified to have the knowledge society is complete and perfect (perfect foresight) will this policy. The occurrence of imperfect information (asymmetric information) will be the entrance that profiteers and they will take advantage of this situation to their advantage. Socialization is either not going to make people lose rationality would exchange that they hold.

Redenomination a National Commitment, Good coordination with the Government needed to put together a program that integrated macroeconomic stabilization so that economic stability can be maintained until the year, 2014 so the state conducive for Rupiah, besides redenomination, the political support of the House of Representatives also need to put together to create a conducive political social conditions in addition to the support from the public. And the preparation of a comprehensive treatment also needs to be done to support the success of the program redenomination. Still need to be examined further, more in-depth with the support of data and more comprehensive information, including through surveys of the general public, the banking and financial sector, and other institutions.

#### Alternative Redenomination.

**So is it possible redenomination can be implemented ?** The first discourse raised BI is eliminating three zeros, ie Rp 1000 (old) will be USD 1 (new). This will make the dollar value approaches the value of China's currency yuan and Hong Kong dollar. If the denomination is applied, taking into account the old denominations so there will be three pieces of money below the value of \$ 1 or a fragment covering cents rupiah Rp 0.5 to Rp 500 old, from Rp 0.2 and 0.1 for USD 200 and USD 100 a long time. Use of this denomination is not so complicated as only 3 fraction under \$ 1. Compare with Euro or U.S. Dollars that have the fractional cents to 10 fractions of 0.01 to 1 Euro or 1 U.S. dollar.

The second option is to remove two zeros, ie USD 100 (old) to Rp 1. If this were implemented, with reference to the old denomination of \$ 1 will be the smallest denomination banknotes no longer under \$ 1. In terms of complexity, this option is more likely to glance over the first option. This option will also put the amount to be equivalent to the Japanese Yen.

The third and fourth option is to eliminate 1 and 4 zeros. For the first zero then what happens is there will be no fractions under \$ 1. But these policies tend to 'bear' because by observing the old denominations of Rp 1 still would not exist because it has been so long Rp 10 'extinct' from circulation. So if you eliminate 4 zeros, dollar value will be very high and automatic 'prestige' is high. Imagine if the dollar equivalent of the U.S. Dollar and the Euro, would be very proud of all holders of the dollar. But it would be a lot of broken below Rp 1, Rp 0.5 to Rp 5,000, Rp 0.1 to Rp 1000 and Rp respectively 0.05, USD 0.02, and \$ 0.01 for USD 500, USD 200, and USD 100. So there will be 5 fractions under \$ 1.

Complexity is happening in the community certainly is an issue fractional cents under \$ 1. Indonesia's population according to the BPS has a number of poor people with incomes below U.S. \$ 2 per day (USD 20000 per day) would be very made busy by this redenomination. They will be busy with their money that will convert a lot of dollars into cents. If the poor are assumed to also have low levels of education as well, then the math would also have been their weak division, and certainly more difficult to make the people in this group received a new rupiah redenomination.



Of the 4 options should be selected the least fractional cents or no fractional cents below \$ 1. It seems that the first option (eliminating three zeros) and the second (eliminating two zeros) is an alternative that is more likely to be selected. The second option does not even have a fraction cents below \$ 1. If this is selected then Indonesia will stand possessed Rupiah Japanese Yen equivalent which must also pretty 'commanding'.

This policy, once again in terms of economic theory should not make any impact because there is no change in value in real terms. However, the condition of vulnerable sociography of the issues that makes rational people would have to be reduced attention. Any policy allowing the existence of search rents (rent seekers), either by economic or political motives, which will utilize The Indonesian nation is a great nation, one of the greatness that we have to show that we are proud to hold the Rupiah. For the long term, Rupiah redenomination is a necessity. Forget trauma history, because redenomination is not sinning.

**One sign of the End Times is the destruction of the Fiat Money System and return to the Islamic Financial System Gold Dinar and Silver Dirham.**

Today we think money is something that is not worth the alias no physical (paper only picture), only figures wishful nonsense, then the money will return to nature is something of value and keep the gold dinar and silver dirham.



1. Gold Dinar



2. Silver Dirham

1). **Gold Dinar** : <http://www.texFragsold.co.uk/index.html>

2). [\[Redacted URL\]](#)

In these conditions that will occur include: merchant would only be paid with dinars dirhams, people just want to pay their debts or receivables the dirham and the dinar would only be paid the wages of workers with the dinar and dirham as that related by the Prophet in the hadist. Prophet said, "There will come a time where nothing of value except the dinar and dirham" (HR, Ahmad).

# Paper 4

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