Journal of Education and Humanities (JEH) Terekam Jejak, Copyright © 2026
Vol. 2, Num. 1, 2026
https://jpm.terekamjejak.com/index.php/jglam
Author: **Agil Kurniadi, Roby Rakhmadi**

Overcoming National Crisis through Habibie's Leadership

ABSTRACT

This study discusses the strategies employed by President B.J. Habibie in overcoming the 1998 economic crisis in Indonesia. During the final period of President Soeharto's administration, Indonesia was struck by a severe economic crisis. This crisis ultimately resulted in the downfall of Soeharto as President. Habibie, who succeeded Soeharto as President, sought to overcome the economic crisis through several strategies, namely banking restructuring, the implementation of social safety nets, and the provision of business credit. In addition, President Habibie also attempted to restore public trust in the political sphere. These efforts proved effective in mitigating the economic crisis. This study employs the historical research method. The conclusion drawn is that overcoming an economic crisis cannot rely solely on economic measures, but must also involve a political approach aimed at building public trust. In this case, democracy serves as the key factor.

Keyword: Habibie, economic crisis, democracy

INTRODUCTION

The 1998 monetary crisis that occurred in Indonesia became an important lesson for the Indonesian nation. The crisis began in mid-May 1997 in Thailand. Thailand's large and continuously accumulating debt since 1990 (Mamahit, 1998), combined with the pressures of global economic globalization, led to the depreciation of the Thai baht in international markets. This depreciation subsequently affected other Southeast Asian countries, including Indonesia, the Philippines, and Malaysia.

As part of the Southeast Asian economic system, Indonesia experienced prolonged economic impacts from the crisis that originated in Thailand. One concrete indicator was the significant decline in Indonesia's Gross Domestic Product (GDP) growth rate. In 1997, Indonesia's GDP growth fell to 4.65%, compared to 7.98% in the previous year. This decline was striking, considering that from 1970 to 1996 Indonesia's average GDP growth rate had been approximately 6.8% (Chowdhury, 1999).

In addition, Indonesia experienced a sharp depreciation of the rupiah. Beginning in July 1997, the rupiah depreciated from IDR 2,400 per US dollar to IDR 2,700 by mid-August. The New Order government raised interest rates in an attempt to attract deposits. However, this policy instead worsened the situation. As a result, approximately 150 development projects were postponed by the government as a measure to secure state funds.

The rupiah depreciated further on 8 October 1997, reaching IDR 3,800 per US dollar. Consequently, the government sought financial assistance from the International Monetary Fund (IMF). The IMF agreed to provide assistance, but imposed several conditions. First, weak banks were required to be closed or merged into state-owned banks. Second, monetary policy tightening was required to stabilize the rupiah. Third, subsidies for electricity and energy were to be reduced or eliminated. Fourth, economic monopolies were to be dismantled (Stern, 2004).

President Soeharto agreed to the IMF's conditions. The immediate consequences included reductions in government subsidies and the closure of 16 banks, which in turn affected other sectors of the economy. Although the rupiah briefly strengthened, it soon weakened again, reaching IDR 4,000 per US dollar in November and IDR 5,000 per US dollar in December. The rupiah continued to depreciate sharply, eventually reaching IDR 17,000 per US dollar in 1998 (Baker, 1998).

Amid these economic challenges, Indonesia also faced serious social problems. Massive job losses occurred across the country. From May 1997 to May 1998, the number of workers laid off reached approximately 4.1 million. Many companies went bankrupt due to extremely high business costs. Two economic sectors that experienced significant declines were the trade sector, which contracted by 18.9%, and the manufacturing industry, which declined by 13% (Wijaya, Marjono, & Sugiyanto, 2020). These conditions resulted in declining purchasing power and household income, which in turn reduced the overall quality of life. Indonesia faced the threat of a social crisis, as many people struggled to find employment, disrupting household needs, housing finance, and children's education.

As a result of the monetary crisis, Indonesia faced a new threat, namely the transformation of the monetary crisis into a multidimensional crisis. President Soeharto, who had served for 32 years, was also affected by this crisis. He eventually resigned from office due to mounting reform demands from the Indonesian people. The consequence of Soeharto's resignation was the emergence of a new president. Bacharuddin Jusuf Habibie, commonly known as B.J. Habibie, who was serving as Vice President at the time, assumed the presidency in accordance with the mandate of the 1945 Constitution.

Habibie was a German-educated technocrat with a background in aerospace engineering. Prior to becoming Vice President, he served as Minister of Research and Technology, overseeing national strategic industries such as PT IPTN, PT Pindad, and PT PAL. History placed Habibie in the presidency unexpectedly, and his leadership was underestimated and rejected by many parties. Some groups even formed an "Anti-Habibie" movement, viewing him as part of the New Order regime. Even Soeharto himself questioned Habibie's ability to overcome Indonesia's complex problems. On May 1998, 19, in front of journalists, Soeharto openly doubted whether Habibie would be capable of leading Indonesia if he resigned. In response, Habibie firmly stated:

"*I am the Vice President who was also elected by the MPR. And you say, can the Vice President lead Indonesia? I am capable, Sir*," Habibie asserted (Rais, 1998).

As a technologist rather than a politician or economist, this situation posed a serious challenge for Habibie. Doubts regarding his competence became a major test for the newly appointed president in resolving national problems. At the same time, his leadership contributed a new chapter to Indonesia's economic history, particularly in terms of crisis management. Although not fully welcomed by all parties, Habibie's leadership, which lasted for approximately one year, received considerable appreciation from experts. Despite not being formally trained as an economist or political scientist, Habibie proved capable of leading Indonesia out of economic hardship.

Studies on Habibie’s leadership during the reform era are therefore significant as part of crisis-learning literature. Such studies help academics gain a deeper understanding of economic crisis recovery. This paper examines Habibie’s approach to overcoming the national economic crisis and analyzes the extent to which he succeeded in stabilizing Indonesia’s economy during the crisis period.

RESEARCH METHODS

This study use the historical research method, which consists of heuristics, verification, interpretation, and historiography. The researcher uses both primary and secondary sources in collecting and writing the study. These sources were obtained through internet-based searches of reports, news articles, books, and academic journals. A literature review approach emphasizing in-depth textual interpretation was applied. The historical method serves as an analytical tool to ensure objectivity in placing the research within its historical context.

RESULT AND DISCUSSION

Problem Outline

Several important issues presented challenges to Habibie when he first took office. First, the ailing monetary and banking sector, with the rupiah continuing to depreciate, impacting the real sector. This issue was the beginning of the crisis, which demonstrated declining banking performance. The IMF's receipts actually further impoverished the monetary sector, which should have been addressed.

Second, the problem of rampant poverty and social vulnerability caused by the crisis. Throughout 1997-1998, the number of poor people reached 48.9 million, or 23.4% of the total Indonesian population (Manning & P.V., 2000). Furthermore, social vulnerability arose from the lack of a safety net for social and health costs. This occurred because many people fell into poverty and were unable to cover these costs.

Third, the business world stagnated. As a result of the ailing monetary sector, large-scale companies went bankrupt, followed by small and medium-sized enterprises. Millions of layoffs occurred, reducing people's purchasing power. Those who still have money tend to hold off on purchases and business activities as long as the threat of crisis persists. Indonesia lacks buyers, thus sluggish business activity.

Furthermore, there is pressure for democratization due to the unipolar development of the world and the growth of globalization. This is an equally important task for Habibie. If these democratization efforts are not implemented, the country's future is at stake. Indonesia will not be seen internationally as transitioning to democracy, leading to its exclusion from international financial institutions. Meanwhile, Indonesia needs fresh funds from financial institutions to stimulate economic recovery. Without financial assistance, Indonesia faces the potential for bankruptcy. Therefore, this is a crucial task for Habibie to carry out.

Habibie's Actions

Habibie highlighted the source of Indonesia's economic weakness stemming from the monetary sector, particularly the banking sector. Therefore, President Habibie created the Indonesian Bank Restructuring Agency (IBRA) program to control bank liquidation to prevent misuse of customer savings and to increase public trust in operating banks. The government liquidated 38 banks, took over 7 banks, and recapitalized 9 banks (Wijaya, Marjono, & Sugiyanto, 2020). Ailing banks were liquidated as part of the national monetary and economic efficiency program. One of the banks resulting from the restructuring program was Bank Mandiri, which eventually became one of the largest banks in Indonesia.

Habibie apparently recognized that banking, as a primary source of problems, must be positioned as the primary source of solutions. If this banking restructuring were successful, public trust in the monetary system would certainly increase, providing a sense of security for investment. In addition to the IBRA program, Habibie also separated Bank Indonesia into an independent bank. This was because the state had been perceived as politically interfering with Bank Indonesia. These conditions prevented Bank Indonesia from maximizing its financial control. This action was also in line with the IMF's wishes at the time, despite the controversy.

Furthermore, President Habibie also sought to safeguard the poor by implementing the Social Safety Net (JPS) program to mitigate the impact of the economic crisis on them. The JPS was established through MPR Decree No. X/MPR/1998. The program took the form of assistance in the health and education sectors. In the health sector, the government provided assistance to village empowerment programs; assistance to 7,000 community health centers (Puskesmas); and rice distribution to 10 million families. Meanwhile, in the education sector, the government also provided scholarships to 4 million children to reduce the dropout rate; operational assistance to 130,000 schools across Indonesia; and supplementary food to 8.1 million elementary school and Islamic school children (Tatebburuk, 2024) (Pour, et al., 2014).

For Habibie, these efforts were part of saving the national economy. The poor needed a safety net to prevent their socio-economic conditions from worsening. Habibie's actions were right on target. The JPS program had a significant impact during the first year of the program's implementation. Data from the Sussenas Survey in August 1999 showed a decrease in the poverty rate of 12 million people, a 25% decrease from December 1998. This program helped reduce the number of poor people at that time and even helped suppress inflation (Habibie, 2004).

In addition to implementing the JPS program, President Habibie also revitalized the economy by providing soft loans to MSMEs. The government distributed funds to farmer groups and cooperatives to strengthen the people's economy. Between 1998 and 1999, 5.13 million farmers and thousands of cooperatives received government assistance. Furthermore, President Habibie strengthened the business climate by implementing the Law on the Prohibition of Monopolies and Unfair Competition and ratifying four ILO conventions protecting workers' rights (Tatebburuk, 2024). These four ILO conventions include freedom of association; the elimination of forced labor; the elimination of child labor; and the elimination of discrimination.

Efforts to revitalize the economy by injecting funds into small and medium-sized enterprises, followed by strengthening the business climate, were still insufficient. As an open-minded man, Habibie also sought to attract foreign direct investment (FDI) to encourage investment in Indonesia. Habibie implemented his economic strategy by relying on traveling ambassadors with backgrounds as professional businessmen. Some well-known businessmen include James Riady, a Lippo Group businessman, who was appointed traveling ambassador to China, Taiwan, Hong Kong, New Zealand, Australia, Papua New Guinea, and Oceania. Hashim Djojohadikusumo, a well-known businessman and the younger brother of President Prabowo Subianto, was appointed traveling ambassador to Western and Eastern Europe.

While managing the economy, Habibie also addressed the political issues inherited from President Soeharto. He aimed to eliminate the stigma of authoritarianism from the Soeharto regime, even though he remained in Soeharto's shadow. Habibie was committed to democratizing Indonesia. For example, he released political prisoners convicted by the government at the time. This action was part of Habibie's democratic side. Several things worth noting and considering regarding President Habibie's policies are the manifestation of democracy in the form of the issuance of important laws: Law on Political Parties Number 2 of 1999; Law on Elections Number 3 of 1999; and Law on the Status of the MPR/DPR/DPRD Number 4 of 1999 (Irawan, Supriyadi, & Subaryana, 2020). Significantly, these three laws are a democratic package that did not exist during the New Order era. People are free to form political parties, freely vote, and even freely demonstrate. In this context, Habibie did not restrict his critics, did not criminalize them, or even terrorize them. The opposition, the public, and experts were free to express their opinions publicly without fear of arrest by the government.

One of Habibie's democratic decisions was to grant self-determination to the people of East Timor, who at that time wanted independence. East Timor has been a classic problem faced by the government since the New Order era, due to its international implications. During the New Order, East Timor continued to be maintained as part of the nation's territory. Criticism of the government, and even foreign intervention, arose due to the complex East Timor controversy. Habibie, now president, took the extreme decision of granting self-determination to East Timor, allowing it to choose between special autonomy or independence. This democratic decision bore bitter consequences for Habibie, as East Timor ultimately legally separated from Indonesia. While bitter, this move had other implications for the West's perception of Habibie. The West saw Habibie as different from Suharto. They gained greater confidence in Habibie's ability to lead Indonesia to democracy. This trust had a positive impact on Indonesia in terms of investment and cooperation.

Policy Impact

Through various actions taken by President Habibie, Indonesia successfully weathered the economic crisis and recover the national economy. During Habibie's administration, the rupiah steadily strengthened and inflation weakened. The rupiah, which had previously been above Rp 15,000 per US dollar in early 1998, continued to strengthen, reaching Rp 7,000 per US dollar in July 1999. Inflation averaged 77.5% in 1998, but it declined to 2.01% in 1999 (Saputri, Wijaya, & Widiadi, 2024). Amid the crisis, Habibie was also able to consolidate the flow of foreign investment funds into the Indonesian capital market through a traveling ambassador strategy. As a result, the Jakarta

Composite Index (JCI), which initially stood at 250 points in September 1998, surpassed 600 points in June 1999 (Pour et al., 2014).

Poverty was alleviated thanks to the implementation of the Social Security (JPS) program for the poor and the strengthening of the business climate. In addition to obtaining soft loans to run independent businesses, people also received social security from the government, which indirectly reduced their daily expenses. This situation provided opportunities for economic growth. The people's economic outcomes ultimately improved, as reflected in the consumer price index. This index indicates a decline in price escalation. This is evident in data from September 1998, which shows prices soaring 82.4% compared to September 1997. Then, in September 1999, prices rose only 1.25% compared to September 1998 (Pour et al., 2014). This indicates that public consumption levels were again increasing.

On the other hand, Habibie's political actions provided a sense of trust and comfort for investors. Habibie consistently implemented democratization. Elections, scheduled within a year, were successfully and enthusiastically held. Democracy proceeded according to the direction set by the reform mandate. Furthermore, Habibie successfully ensured the security of the monetary and real economic sectors, guaranteeing investment and macroeconomic growth. With the stability of the monetary and real economic recovery, coupled with the strong current of democratization, this certainly provided a safe haven for investors to invest funds and aid. Thus, all these circumstances contributed to the recovery of the Indonesian economy.

CONCLUSION

This research concludes that Habibie's approach to overcome economic problems was effective and targeted. Although Habibie was not a skilled economist or politician, primarily known as a technocrat, he clearly understood how to address the critical issues that arose at the time. Despite being doubted by many, even by President Soeharto himself, he was able to successfully resolve the economic crisis in just one year.

The research also shows that Habibie's approach to addressing the economic crisis cannot rely solely on economic aspects. The results indicate that these efforts must involve a political approach that seeks to build public trust. This can be seen in how economic security measures, both monetary and real, were followed by social security measures, balanced with political policies that simultaneously supported democracy. Habibie's actions in addressing the economic crisis provide an important insight: improving democracy has a positive effect on economic recovery.

REFERENCES

Baker, R. W. (1998). Indonesia in Crisis. East-West Center.

Chowdhury, A. R. (1999). The Asian Currency Crisis: Origin, Lessons, and Future Outlook. Helsinki: UNU World.

Habibie, B. J. (2004). Detik-Detik yang Menentukan: Jalan Panjang Indonesia Menuju Demokrasi. Jakarta: PT THC Mandiri.

Irawan, A., Supriyadi, Y., & Subaryana. (2020). Peranan BJ Habibie dalam Kancah Politik dan Pengaruhnya terhadap Perkembangan NKRI. RINONTJE: Jurnal Pendidikan dan Penelitian Sejarah, Vol. 1 (1).

Mamahit, D. A. (1998). Indonesia: The Economic Crisis 1997-1998. California: Naval Postgraduate School.

Manning, C., & P.V., D. (2000). Indonesia di Tengah Transaksi: Aspek-Aspek Sosial Reformasi dan Krisis. Yogyakarta: LKIS.

Pour, J., Sunarti, L., Ismayani, T., Mulyadi, R. M., Fadeli, T. R., & Dahlan , M. (2014). Presiden Republik Indonesia 1945-2014. Jakarta: Kementerian Pendidikan dan Kebudayaan Republik Indonesia.

Rais, A. (1998). Melangkah Karena Dipaksa Sejarah. Yogyakarta: Pustaka Pelajar.

Saputri, O. W., Wijaya, D. N., & Widiadi, A. N. (2024). President B.J. Habibie's Economic Policy in the Banking Sector in the Economic Crisis in Indonesia in 1998-1999. International Journal of Innovative Research in Multidisciplinary Education, Vol. 3 (2).

Stern, J. J. (2004). The Impact of the Crisis – Decline and Recovery. Cambridge: Center for International Development of Harvard University.

Tatebburuk, B. (2024). Pemikiran Dan Implementasi Pemikiran Bj. Habibie Dalam Mengatasi Krisis Ekonomi Indonesia. Journal of Society Bridge, Vol. 2 (3).

Wijaya, A. M., Marjono, & Sugiyanto. (2020). The Role of President B.J. Habibie in overcoming Economic Crisis in Indonesia in the 1998-1999. Jurnal Historica, Vol. 1 (3).