

Legal Analysis of Bank Indonesia's Mandate Expansion Plan Regarding the Independence of the Central Bank from the Perspective of the Bank Indonesia Law and the Constitution of the Republic of Indonesia

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ABSTRACT: This study aims to legally analyze the plan to expand Bank Indonesia's mandate, which not only functions to maintain monetary stability, payment systems, and financial system stability as stipulated in Law Number 23 of 1999 concerning Bank Indonesia, but is also directed at supporting national economic growth. The main issue studied is the extent to which the expanded mandate is in line with the principle of central bank independence as guaranteed in Article 23D of the 1945 Constitution of the Republic of Indonesia. The analysis was conducted by examining the latest provisions in Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law), government policies within the framework of economic development, and implementing regulations related to strengthening Bank Indonesia's functions. The results of the study indicate that normatively, the expansion of Bank Indonesia's mandate has legal legitimacy based on the P2SK Law, but has the potential to reduce institutional independence due to the possibility of fiscal and political policy intervention in determining the direction of economic growth. Nevertheless, the protection of Bank Indonesia's independence remains guaranteed through checks and balances mechanisms, such as the regulation of the Board of Governors' term of office, the prohibition of external intervention in decision-making, and the obligation of accountability to the House of Representatives. Thus, expanding Bank Indonesia's mandate is legally possible, provided it is carried out within the framework of the constitution and laws and regulations that guarantee a balance between independence and accountability.

KEYWORDS: Bank Indonesia, central bank independence, dual mandate

I. INTRODUCTION

The central bank plays a vital role in maintaining the stability of a country's financial system, as it is responsible for ensuring that monetary policy, financial markets, and the payment system operate effectively to support sustainable economic growth. In the context of Indonesia, this role is entrusted to Bank Indonesia, which is formally established as the central bank of the Republic of Indonesia. The function and position of Bank Indonesia are regulated in Law Number 23 of 1999 concerning Bank Indonesia, a statute that has undergone several amendments to strengthen its institutional framework, most recently through Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (UU P2SK). This law explicitly affirms the independence of Bank Indonesia from interference by any external parties, including the executive branch of government, in order to safeguard the objectivity, transparency, and professionalism of its decision-making processes. The constitutional foundation of this independence is further reinforced by Article 23D of the 1945 Constitution of the Republic of Indonesia, which clearly stipulates that the state shall have a central bank, and that its structure, position, authority, responsibilities, and independence are to be governed by law. This provision reflects the importance of ensuring that Bank Indonesia is not subordinated to short-term political interests but can focus on achieving its mandate of maintaining monetary stability and financial system soundness. The principle of central bank independence has also been widely recognized in global economic literature as one of the key pillars in sustaining both monetary and macroeconomic stability, given that excessive political or fiscal intervention often leads to inflationary bias, policy inconsistency, and the erosion of market confidence. As Mishkin (2019) argues, when a central bank is subjected to political pressure, the objectivity and credibility of monetary policy are compromised, which in turn undermines long-term financial stability and economic resilience.

However, global economic developments and domestic challenges, such as heightened financial market volatility, inflationary pressures, and the need to sustain post-pandemic recovery, have prompted renewed discussions on the urgency of expanding

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Bank Indonesia's mandate beyond its traditional roles. In response to these dynamics, the Indonesian government and legislature enacted Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law), which not only consolidates various aspects of financial sector regulation but also provides Bank Indonesia with an additional role that goes beyond its classical mandate. Under this framework, Bank Indonesia is tasked not only with maintaining monetary stability, overseeing the smooth operation of the payment system, and safeguarding the stability of the financial system, but also with actively supporting sustainable national economic growth. This development reflects a paradigm shift in the understanding of the central bank's role, positioning it as not merely a guardian of stability but also as an institution that contributes directly to broader developmental goals.

Nevertheless, this expanded mandate has sparked significant academic and policy debates regarding its potential implications for the institutional independence of Bank Indonesia. Critics argue that the dual or multiple mandates of central banks often create inherent tensions, particularly when the short-term political demand for economic growth conflicts with the long-term requirement of monetary stability and inflation control. Such a dilemma risks exposing Bank Indonesia to political pressures that could weaken its credibility and policy consistency. This concern is aligned with Blinder's (2010) argument, which asserts that central banks with dual mandates are more vulnerable to policy dilemmas, as they may be forced to compromise inflation targeting in favor of output stimulation, thereby eroding their reputation for commitment to price stability. Furthermore, international experiences, such as those of the U.S. Federal Reserve and the European Central Bank, illustrate that while broader mandates allow central banks to play a more active role in economic development, they also heighten the risk of conflicts of interest, especially during periods of economic crisis or fiscal dominance. Thus, while the UU P2SK intends to strengthen the financial sector and align monetary policy with national development priorities, it simultaneously raises critical questions regarding how Bank Indonesia can balance its dual responsibilities without undermining the principle of central bank independence that has been constitutionally and statutorily enshrined.

On the other hand, the government considers expanding Bank Indonesia's mandate to be part of an effort to synchronize monetary and fiscal policies to support sustainable economic development. According to Kurniati (2023), monetary policy integrated with the national development strategy can accelerate the achievement of macroeconomic goals, particularly in the face of global challenges such as the energy crisis, inflation, and economic slowdown. However, from a constitutional law perspective, questions arise as to whether this policy aligns with the constitutionally guaranteed principle of central bank independence. Independence is a crucial instrument for maintaining public trust in the central bank (Cukierman, 2008).

Furthermore, the enactment of the P2SK Law introduces additional layers of accountability for Bank Indonesia, particularly through mandatory reporting obligations to the House of Representatives (DPR) and enhanced coordination with the government in formulating and implementing monetary and financial sector policies. On the one hand, these provisions are framed as instruments of transparency and checks and balances, aiming to ensure that the central bank operates within the framework of democratic oversight and remains aligned with national development priorities. On the other hand, such strengthened accountability mechanisms inevitably raise concerns about the potential encroachment of political interests into the realm of monetary policy, which historically has been safeguarded by the principle of central bank independence. Excessive political influence may compromise Bank Indonesia's credibility, both in the perception of domestic stakeholders and international market participants, thereby weakening its ability to maintain monetary and financial stability. As Lastra (2015) highlights, cross-country experiences demonstrate that weak central bank independence often correlates with heightened economic vulnerability, as monetary policy decisions become more susceptible to short-term political pressures rather than guided by long-term objectives of price stability and systemic resilience. Against this backdrop, the present research becomes particularly significant as it undertakes a legal analysis of how the expansion of Bank Indonesia's mandate under the P2SK Law interacts with the principle of central bank independence as guaranteed under Law Number 23 of 1999 concerning Bank Indonesia and Article 23D of the 1945 Constitution of the Republic of Indonesia. By adopting a juridical approach, this study seeks not only to contribute to academic discourse on constitutional and institutional law but also to provide practical insights for policymakers in designing a governance framework that effectively balances Bank Indonesia's independence with accountability, thereby ensuring that the central bank can fulfill its expanded mandate without undermining its credibility or constitutional safeguards.

II. RESEARCH METHODOLOGY

This research uses a normative legal research method that focuses on literature studies through a review of laws and regulations, doctrines, and decisions relevant to the problem. The approaches used are the statute approach, the conceptual approach, and the case approach as explained by Soekanto (2006), that normative legal research aims to analyze legal principles, legal systematics, and the level of legal synchronization in a regulation. The primary legal materials in this research include the 1945

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Constitution of the Republic of Indonesia, Law Number 23 of 1999 concerning Bank Indonesia, and Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector. Secondary legal materials include literature, legal journals, and expert opinions, while tertiary legal materials include legal dictionaries and legal encyclopedias. Data analysis was conducted qualitatively with an emphasis on the consistency of norms and their conformity with the principle of central bank independence guaranteed in the constitution.

III. RESULT AND DISCUSSION

A. Independence of the Central Bank from the Perspective of the Bank Indonesia Law and the Constitution of the Republic of Indonesia

Central bank independence is a key pillar in maintaining economic stability, the credibility of monetary policy, and public and investor confidence in a country's financial system. As the central bank, Bank Indonesia plays a vital strategic role, not only in regulating the money supply, controlling inflation, and maintaining the stability of the national financial system, but also in creating economic resilience capable of facing various external and internal shocks. Normatively, Law Number 23 of 1999 concerning Bank Indonesia provides a strong legal basis for the institutional independence of this central bank, by affirming that Bank Indonesia is free from interference from other parties, including the government and political institutions, in determining and implementing monetary policy (Kusumaningtuti, 2012). This independence is intended to ensure that monetary policy is implemented objectively, professionally, and with a long-term orientation, so that Bank Indonesia's strategic decisions can remain focused on price and financial system stability, without being influenced by political pressure, fiscal interests, or short-term economic interests. Furthermore, this independence is also an important instrument for building institutional credibility, maintaining policy consistency, and increasing market confidence, so that national economic stability is not only maintained but can also encourage sustainable and competitive economic growth at the global level. Thus, Bank Indonesia's independence is not merely a technical or administrative issue, but rather a legal and constitutional mandate that serves as the main foundation for the sustainability of monetary policy and national economic stability in the face of increasingly complex global dynamics.

Furthermore, Bank Indonesia's independence is significantly strengthened through a constitutional framework that provides the highest legal legitimacy for the institution's existence and operations. Article 23D of the 1945 Constitution of the Republic of Indonesia explicitly states that the state has a central bank whose structure, position, authority, responsibility, and independence must be regulated by law, thus providing Bank Indonesia with a strong legal basis to act autonomously in making monetary policy decisions without external interference. This provision not only protects Bank Indonesia from political intervention and fiscal interests that could undermine the consistency of monetary policy, but also ensures that decisions taken are oriented towards the long-term stability of the national financial system (Asshiddiqie, 2006). This constitutional independence encompasses functional, personal, and institutional aspects; from full authority in determining monetary policy, guaranteed tenure and security of position for members of the Board of Governors, to structural protections so that the institution is not easily influenced by short-term political or economic pressures. Thus, Bank Indonesia's independence is not merely an administrative or technical institutional issue, but rather a binding constitutional mandate, which serves as a key pillar for maintaining the institution's credibility, increasing public and investor confidence, and ensuring the sustainability of monetary stability and the national financial system amidst increasingly complex global economic dynamics.

Central bank independence has several important, interrelated dimensions that serve as the primary foundation for the credibility and effectiveness of monetary policy: functional, personal, and institutional independence. Functional independence refers to Bank Indonesia's authority to fully and independently establish monetary policy, without interference or pressure from external parties, whether government or political actors, so that every decision taken can be oriented towards long-term economic stability and consistent inflation control. Personal independence relates to the protection of members of the Board of Governors, including guarantees of clear terms of office, security of position, and a prohibition on arbitrary dismissal, so that board members can carry out their duties professionally and objectively without fear of political intervention or pressure from personal interests. Meanwhile, institutional independence emphasizes structural protection for Bank Indonesia as an institution, so that policy decisions are not easily influenced by political pressure, fiscal interests, or short-term economic interests that are ad hoc (Indrawati, 2025). These three dimensions are mutually reinforcing, as functional independence without personal and institutional protection can be fragile, while personal and institutional independence without functional authority is insufficient to guarantee policy effectiveness. Thus, strengthening these three dimensions is crucial to ensure that Bank Indonesia is able to carry out its strategic role as the guardian of monetary stability and the national financial system, maintain policy credibility, and gain the trust of the public and international markets in the long term.

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Bank Indonesia's independence is also protected through the implementation of a checks and balances mechanism designed to maintain a balance between institutional autonomy and public accountability. One key instrument is the mandatory regular reporting to the House of Representatives (DPR) regarding the implementation of monetary policy, financial system stability, and the implementation of other mandates. This allows the DPR to conduct oversight without directly interfering with Bank Indonesia's operational policies. Furthermore, Bank Indonesia is required to conduct limited coordination with the government, particularly in the context of macroeconomic policy and national development strategy, to create synergy between monetary and fiscal policy without compromising the independence of decision-making. Lastra (2015) emphasized that this accountability mechanism must be carefully and clearly regulated in legislation, as otherwise, accountability could transform into a form of political control that actually weakens the central bank's independence. In this context, accountability and transparency are not intended to diminish autonomy, but rather as instruments to strengthen public legitimacy, increase investor confidence, and maintain the credibility of Bank Indonesia's policies in the eyes of domestic and international markets. Thus, an effective checks and balances mechanism not only protects the institution's independence, but also ensures that Bank Indonesia can continue to carry out its strategic functions professionally, objectively, and with a long-term orientation, even amidst political, economic, or social pressures that may arise in the implementation of its mandate.

Empirically, international experience shows that central banks with high independence tend to be better able to maintain low inflation and economic stability than central banks prone to political intervention. The Federal Reserve in the United States and the European Central Bank in the European Union are examples of institutions that emphasize independence as a key to the success of monetary policy, including in facing political pressure to accelerate economic growth (Salisu et al., 2022). For Indonesia, the principle of independence, guaranteed by law and the constitution, is a crucial instrument for maintaining the trust of the market and the public in Bank Indonesia in carrying out its functions. Therefore, a legal perspective shows that Bank Indonesia's independence has dual legitimacy, namely from the law and the constitution. This independence not only maintains the objectivity of monetary policy but also serves as a foundation for the stability of the national financial system and public trust. The implementation of independence must be balanced with effective accountability mechanisms, clear limits on political intervention, and legal protection for members of the Board of Governors. Overall, Bank Indonesia's independence is a vital constitutional instrument for the sustainability of the national economy and the credibility of monetary policy.

B. Implications of the Expansion of Bank Indonesia's Mandate on the Principle of Independence in the Bank Indonesia Law

Bank Indonesia plays a fundamental role in maintaining monetary stability and the national financial system, which are the main foundation for creating a healthy, competitive, and sustainable economy. As the central bank, Bank Indonesia is responsible for controlling inflation, maintaining a smooth payment system, and ensuring financial system stability to support national economic growth. Since the enactment of Law Number 23 of 1999 concerning Bank Indonesia, this institution has obtained an independent status that significantly distinguishes it from other state institutions, particularly with the explicit provision prohibiting interference from external parties, including the government, in monetary policymaking. This independence is intended to enable Bank Indonesia to carry out its functions objectively, professionally, and free from short-term political pressures that could potentially undermine the consistency of monetary policy.

Furthermore, the principle of independence is not limited to the realm of law, but is also constitutionally reinforced through Article 23D of the 1945 Constitution of the Republic of Indonesia, which affirms that the state has a central bank, and its structure, position, authority, responsibility, and independence are regulated by law. This constitutional provision provides the highest legitimacy for Bank Indonesia's independence, making it not merely an administrative policy choice, but a binding constitutional mandate that must be complied with by all state organs. Thus, the existence of an independent Bank Indonesia is a crucial instrument in maintaining the credibility of monetary policy and the trust of the public and international investors in the national economy. As emphasized by Christiani & Kastowo (2023), Bank Indonesia's independence is not merely a technical institutional aspect, but a constitutional pillar that ensures the stability and sustainability of the Indonesian financial system in the face of increasingly complex global dynamics.

However, changing global dynamics, including recurring financial crises, the COVID-19 pandemic, which has caused significant shocks to the national economy, and global economic uncertainty stemming from geopolitical conflicts, fluctuating commodity prices, and volatility in international financial markets, have prompted the government to review Bank Indonesia's strategic role within the framework of national economic development. This situation demands a central bank that focuses not only on narrow monetary stability but also actively contributes to maintaining national economic resilience to withstand external pressures. Responding to this need, Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law) was enacted, which expands Bank Indonesia's mandate so that its authority is not limited to three main pillars: maintaining

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monetary stability, ensuring a smooth payment system, and supervising financial system stability, but also includes an explicit role in supporting sustainable national economic growth. According to Hardini et al. (2023), this policy is seen as a crucial and strategic step in creating synergy between monetary policy and long-term economic development strategies, as modern macroeconomic challenges, such as global inflation, recession risks, and supply chain disruptions, cannot be addressed with a partial or sectoral approach. With this new mandate, Bank Indonesia is expected to become a driving force, acting not only as a stabilizer but also as a catalyst for growth oriented toward inclusive development. However, this expanded role has also given rise to academic and legal discourse regarding the extent to which synergy between monetary and development policies can be achieved without sacrificing the principle of independence guaranteed by the constitution and laws.

Although the P2SK Law has clear legal legitimacy as a basis for strengthening Bank Indonesia's role, this expanded mandate also raises serious concerns regarding the potential weakening of the central bank's institutional independence in carrying out its primary functions. Blinder (2010) emphasized that central banks burdened with a dual mandate are vulnerable to policy dilemmas, particularly when the goal of promoting economic growth conflicts with the interests of maintaining price stability and controlling inflation. This dilemma is dangerous because it can create uncertainty in the direction of monetary policy, ultimately weakening the central bank's credibility in the eyes of the public and market participants. In the Indonesian context, this risk is potentially even greater given the political and fiscal structure that allows for government intervention and short-term political interests in determining the direction of economic policy. This opens up the possibility of a conflict of interest between the need to maintain monetary discipline and political incentives to stimulate growth, for example through fiscal deficit financing or untimely monetary easing. In other words, Bank Indonesia risks losing focus on its primary function as the guardian of monetary stability if it must bear the additional burden of promoting economic growth, thereby gradually eroding its independence, which has long been a key pillar in maintaining financial system stability.

From a constitutional perspective, the expansion of Bank Indonesia's mandate as stipulated in the P2SK Law raises important questions regarding its consistency with Article 23D of the 1945 Constitution of the Republic of Indonesia, which stipulates that the central bank must have legally guaranteed status, authority, responsibility, and independence. Devina (2024) emphasized that central bank independence is a crucial instrument for maintaining the credibility of monetary policy, creating market certainty, and maintaining public and investor confidence in the institution's ability to maintain economic stability. If this independence is reduced, whether through political intervention, fiscal pressure, or an expansion of the mandate without adequate safeguards, market confidence in the consistency and credibility of monetary policy will significantly decline, which in turn could trigger economic volatility, uncontrolled inflation, and a decline in financial system stability. Therefore, it is crucial to assess the extent to which the checks and balances mechanisms stipulated in the P2SK Law, including mandatory reporting to the House of Representatives (DPR), coordination with the government, and the prohibition on external intervention in decisionmaking, are able to effectively maintain the principle of independence mandated by the constitution. This legal evaluation is fundamental because it ensures that the expansion of Bank Indonesia's mandate not only provides additional legal legitimacy, but also respects the constitutional framework that guarantees the autonomy of the central bank as an instrument of national monetary stability. The P2SK Law attempts to balance Bank Indonesia's expanded mandate by strengthening institutional accountability mechanisms, implemented through several instruments, including mandatory regular reporting to the House of Representatives (DPR) regarding the implementation of monetary policy and financial system stability, and intensified coordination with the government to align national economic development programs. Normatively, these steps can be viewed as efforts to increase transparency, create public accountability, and ensure that Bank Indonesia is accountable for the implementation of its new mandate, preventing abuse of authority or deviation from national development goals. However, as Gorahe (2016) notes, accountability mechanisms that are too strong or not accompanied by clear legal boundaries have the potential to transform into a form of political control that can erode the central bank's independence, as the executive or legislative branches can exploit reporting and coordination mechanisms to disproportionately influence monetary policy decisions. Therefore, it is crucial to establish clear legal boundaries and effective oversight mechanisms to prevent accountability from degenerating into political intervention that undermines Bank Indonesia's autonomy. Thus, the balance between independence and accountability must be maintained through strict regulations, transparent decision-making procedures, and limited space for external parties to directly influence monetary policy, so that Bank Indonesia's dual mandate can be carried out effectively without sacrificing the institution's credibility and stability. Furthermore, when viewed from an international perspective, the experiences of the United States with the Federal Reserve (The Fed) and the European Union with the European Central Bank (ECB) demonstrate that implementing a dual mandate for central banks can provide benefits while also presenting significant risks to monetary stability. On the one hand, a dual mandate allows central banks to play an active role in promoting economic growth and maintaining employment, in addition to fulfilling their traditional functions of controlling inflation and maintaining financial system stability. However, Mishkin (2019) notes that the Fed

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often faces policy dilemmas when political pressures drive the adoption of expansionary policies that conflict with inflation control targets, resulting in monetary policy becoming more reactive to short-term political interests rather than oriented towards long-term stability. The ECB's experience also demonstrates that despite its single mandate focusing on price stability, coordination with fiscal policy in the Eurozone remains challenging when economic growth interests differ across member states. This situation provides an important lesson for Indonesia to expand Bank Indonesia's mandate while still emphasizing strong legal guarantees to protect independence as an absolute requirement for the institution's credibility. Thus, the expansion of the mandate must be balanced with firm legal mechanisms and transparent decision-making procedures, so that Bank Indonesia can carry out its dual role without sacrificing autonomy, monetary stability, or public and investor confidence in the consistency of national economic policy.

From a legal perspective, analysis of Bank Indonesia's expanded mandate reveals a potential for disharmony in norms that warrants serious attention from policymakers and legal scholars. On the one hand, Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law) provides clear legal legitimacy for Bank Indonesia's new role in supporting national economic growth, in addition to its existing functions of maintaining monetary stability, payment systems, and financial system stability. However, on the other hand, Law Number 23 of 1999 concerning Bank Indonesia and Article 23D of the 1945 Constitution firmly emphasize the principle of independence as the primary foundation of the central bank, which aims to protect Bank Indonesia from political intervention and external pressure that could undermine the credibility and consistency of monetary policy. This disharmony in norms between the P2SK Law and the Bank Indonesia Law has the potential to create a legal conflict, which in practice could lead to judicial review in the Constitutional Court if the expanded mandate is deemed to conflict with constitutional provisions guaranteeing independence. The emphasized that every sectoral regulation must be in line with constitutional norms so as not to diminish or weaken the constitutionally guaranteed rights and authorities of state institutions (Lailam, 2021). Therefore, legislators and the executive branch need to ensure that the implementation of the P2SK Law is carried out within the constitutional framework, with strict oversight mechanisms and legal procedures, so that Bank Indonesia's additional role can be carried out effectively without causing a reduction in independence or legal uncertainty that could potentially harm monetary stability and public trust in the central bank institution.

Thus, the results of this legal analysis indicate that expanding Bank Indonesia's mandate has a strong legal basis, but has the potential to have serious implications for institutional independence. The proposed solution is to clarify the legal boundaries in the implementation of the P2SK Law to ensure coordination between monetary and fiscal policy remains effective without compromising the principle of independence. Furthermore, a clear checks and balances mechanism must be formulated to ensure Bank Indonesia remains accountable to the public and the House of Representatives (DPR), while preventing it from being easily trapped by short-term political intervention. In this way, the expanded mandate can be carried out in accordance with the constitution, maintain the credibility of monetary policy, and support sustainable economic growth.

IV. CONCLUSIONS

Based on the study results, it can be concluded that normatively, the expansion of Bank Indonesia's mandate has a clear legal basis through Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (P2SK Law). This expansion emphasizes that Bank Indonesia's role is not limited to maintaining monetary stability, payment systems, and financial system stability, but also supports national economic growth. However, legally, this raises the potential for a reduction in institutional independence due to the opportunity for fiscal policy intervention and political interests in determining the direction of economic policy. Nevertheless, protection of Bank Indonesia's independence is still guaranteed by established checks and balances mechanisms, including the limited term of office of the Board of Governors, the prohibition on external intervention in decision-making, and Bank Indonesia's accountability obligations to the House of Representatives. Therefore, this mandate expansion is legally possible as long as it remains within the framework of the constitution and applicable laws and regulations.

The research findings suggest that the government and legislators strengthen legal instruments to ensure Bank Indonesia's independence is not undermined by short-term political interests. This can be achieved by reaffirming the principle of independence in the implementing regulations of the P2SK Law, clarifying the boundaries of coordination between monetary and fiscal authorities, and strengthening accountability mechanisms oriented toward public transparency. Furthermore, stricter constitutional oversight of the implementation of Bank Indonesia's new mandate is needed to ensure it remains in line with Article 23D of the 1945 Constitution. This will ensure a balance between independence and accountability, enabling Bank Indonesia to optimally carry out its dual mandate without losing legitimacy and public and market trust.

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