

## The Dynamics of Monetary Policy and Economic Growth in Indonesia

Muhammad Wifqi Hidayatullah<sup>1</sup>, Mariatul Qiptiyah<sup>2</sup>, Isya Arisagita<sup>3</sup>  
<sup>1,2,3</sup> UIN K.H. Abdurrahman Wahid Pekalongan, Indonesia

Email corespondent: [mariatul.giptiyah@mhs.uingusdur.ac.id](mailto:mariatul.giptiyah@mhs.uingusdur.ac.id)

**ABSTRAK:** *Pertumbuhan ekonomi yang berkelanjutan dan inklusif merupakan tujuan utama Indonesia. Kebijakan moneter memegang peranan penting dalam pencapaian tujuan tersebut. Penelitian ini menganalisis dinamika kebijakan moneter dan dampaknya terhadap pertumbuhan ekonomi di Indonesia melalui tinjauan komparatif enam studi terdahulu. Metode penelitian yang digunakan adalah deskriptif kualitatif dengan pendekatan library research dan comparative review. Data sekunder dikumpulkan dari berbagai sumber, seperti jurnal, artikel, laporan resmi, dan data internet, kemudian dianalisis menggunakan analisis konten dan analisis komparatif. Temuan penelitian memperlihatkan bahwa efektivitas kebijakan moneter sangat bergantung pada instrumen yang digunakan (uang beredar, suku bunga, inflasi, nilai tukar), kondisi ekonomi nasional dan regional, serta koordinasi antara kebijakan moneter dan fiskal. Studi-studi yang ditelaah menunjukkan perbedaan signifikan dalam efektivitas instrumen kebijakan moneter, menegaskan pentingnya pendekatan yang lebih terarah dan spesifik sesuai karakteristik ekonomi daerah. Teramati bahwa daerah dengan ekonomi beragam lebih responsif terhadap kebijakan moneter dibandingkan daerah berbasis sumber daya alam. Koordinasi kebijakan moneter dan fiskal yang erat, serta adaptasi terhadap tantangan global, juga krusial. Sebagai intisari, kebijakan moneter yang kontekstual, terintegrasi, dan berbasis data diperlukan untuk pertumbuhan ekonomi yang inklusif dan berkelanjutan. Berdasarkan analisis ini, direkomendasikan adanya integrasi faktor regional dalam perumusan kebijakan, penguatan koordinasi antara kebijakan moneter dan fiskal, serta peningkatan adaptasi terhadap tantangan global.*

**Kata kunci:** *Kebijakan Moneter, Pertumbuhan Ekonomi, Tinjauan Komparatif.*

**ABSTRACT:** *Sustainable and inclusive economic growth is Indonesia's primary goal. Monetary policy plays a crucial role in achieving this objective. This study analyzes the dynamics of monetary policy and its impact on economic growth in Indonesia through a comparative review of six previous studies. The research method used is descriptive qualitative with a library research and comparative review approach. Secondary data were collected from various sources, such as journals, articles, official reports, and internet data, and then analyzed using content analysis and comparative analysis. The research findings demonstrate that the effectiveness of monetary policy heavily depends on the instruments used (money supply, interest rates, inflation, exchange rates), national and regional economic conditions, and coordination between monetary and fiscal policies. The reviewed studies show significant differences in the effectiveness of monetary policy instruments, emphasizing the importance of a more targeted and specific approach according to the economic characteristics of each region. It was observed that regions with diverse economies are more responsive to monetary policy than resource-based regions. Close coordination of monetary and fiscal policies, as well as adaptation to global challenges, is also crucial. In essence, contextual, integrated, and data-driven monetary policies are needed for inclusive and sustainable economic growth. Based on this analysis, it is recommended to integrate regional factors in policy formulation, strengthen coordination between monetary and fiscal policies, and enhance adaptation to global challenges.*

**Keywords:** *Monetary Policy, Economic Growth, Comparative Review*

### 1. INTRODUCTION

The main goal of every country is related to economic growth. As a developing country, Indonesia certainly strives to achieve sustainable and inclusive economic growth. In achieving this goal, monetary policy plays an important role. Government

policies in carrying out activities, especially in the economic sectors, are often associated with economic growth. The main parameter of a country's economic growth can be observed from the success of development carried out by the government to enable everyone, from the top to the bottom, to enjoy the results of economic growth (Latuheru & Parera, 2024).

The economy of a country or its cycle fluctuates, sometimes experiencing rapid growth and sometimes slowing down over certain periods. As a result, the government or monetary authorities take policy actions to influence economic growth so that it can run well if managed from the supply and demand sides. Consequently, the economy has the capability to produce a balanced state while maintaining a consistent economic growth rate, which can function well if managed from the supply and demand sides.

Bank Indonesia issues monetary policies as the monetary authority in Indonesia. BI frequently issues monetary policies to maintain economic growth and stability, particularly in banking. One of the macroeconomic policies is monetary policy, which has a direct relationship with the amount of money circulating in society. Monetary policy uses variables of money supply and interest rate to influence aggregate demand and control economic instability in a country. Through monetary policy, the government, in this case, BI, can also control the money supply, credit, and banking.

Bank Indonesia functions as the monetary authority in the country. In the context of monetary policy, the effectiveness of the policy greatly depends on the interaction between the money supply and key economic variables such as economic growth, interest rates, and inflation. Various literatures show interesting empirical findings regarding the relationship between the money supply, inflation, interest rates, and output. (Jumiati, 2022).

## **2. METHOD**

This research uses a qualitative descriptive method with a library research approach and comparative review. Qualitative descriptive research is conducted to explain and describe existing phenomena, whether natural or human-engineered, focusing on characteristics, quality, and relationships between activities. The goal of descriptive research is to systematically and accurately describe characteristics about a particular population or field. The qualitative approach indicates that the research is conducted in a natural context with the aim of interpreting what has happened and what is being done using various existing methods.

This research is often referred to as a descriptive and comparative literature study, as it aims to provide in-depth data and analysis on the dynamics of monetary policy and its impact on economic growth in Indonesia by comparing various perspectives and findings from previous research. The comparative review approach is chosen to synthesize and critically analyze various existing studies, both quantitative and qualitative, to produce a more comprehensive and in-depth understanding.

This research focuses on the dynamics of monetary policy in Indonesia, including changes over time, responses to global and domestic economic conditions, and its effectiveness in achieving economic growth objectives. Through a comparative review, this research will identify similarities, differences, and contradictions in previous research findings, and analyze the factors that may cause these differences, such as differences in methodology, data used, or research context.

The internal data sources of this research are derived from secondary data. This data is obtained from books, journals, articles, internet data, official government reports (e.g., Bank Indonesia, BPS), and other data related to the research object. The data collection technique used by the authors is library research, which involves systematically searching, selecting, and organizing relevant literature. Once the data is collected, it is analyzed using content analysis and comparative analysis techniques. Content analysis is conducted to identify key themes, concepts, arguments, and

research findings from each literature reviewed. Subsequently, comparative analysis is performed by comparing and synthesizing these findings.

By using the comparative review approach, this research is expected to provide significant contributions to the understanding of the complexities of the relationship between monetary policy and economic growth in Indonesia, as well as offering more relevant and effective policy implications.

### 3. RESULT AND DISCUSSION

This study examines the relationship between monetary policy and economic growth in Indonesia by analyzing six previous studies that used different research methods. Each study provides different insights into the effectiveness of monetary policy instruments in supporting economic growth, both nationally and regionally. The various approaches used include quantitative methods such as Vector Autoregression (VAR) and Ordinary Least Square (OLS), as well as qualitative analyses based on interviews and in-depth literature studies. The results of these studies show significant differences in the effectiveness of monetary policy instruments such as money supply, inflation, interest rates, and exchange rates. Additionally, regional contexts and economic characteristics influence responses to monetary policy, highlighting the importance of more targeted and specific approaches.

#### 3.1 Comparative Summary Overview of Six Dynamic Studies

No	Title	Research	Method	Journal	Discussion
1	Analysis of the Impact of Monetary Policy on Economic Growth in Indonesia	Hari Winarto*, Adi Poernomo, Agus Prabawa	Quantitative analysis, using the Vector Auto Regression model with Eviews.	Jurnal Manajemen dan Sains, 6(1), April 2021, 34-42.	Money supply has a significant relationship with economic growth. Interest rates, exchange rates, and inflation do not show significant relationships.
2	The Influence of Monetary Policy on Economic Growth (Case Study of Indonesia)	Very Budiyanto 1, Wisnu Wibowo 2	Quantitative analysis using Ordinary Least Square (OLS) regression estimation.	Jurnal Ilmiah MEA (Manajemen, Ekonomi, dan Akuntansi) Vol. 5 No.	Inflation has a significant negative effect on economic growth. M2 supply and exchange rates have significant positive effects, while interest rates are not significant.
3	The Impact of Monetary Policy	Abdi Ma'rifin Sugeha1, Sudirman2	Quantitative analysis by comparing economic	Jurnal Ekonomi dan Manajemen Vol. 2, No. 1b,	Regions with diverse economies, such as Java, are more

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No	Title	Research	Method	Journal	Discussion
	on Regional Economic Growth		growth data between provinces in Indonesia.	Januari 2025 Hal. 1883-1894	responsive to monetary policy. Resource-based regions respond more slowly due to global commodity fluctuations.
4	Analysis of Monetary Policy on Indonesia's Economic Growth	Aliman Syahuri Zein1 ,Wanda Putri Etika Sari Hasibuan2 , Aminah Saripah3* Fitriani4 ,Isroh Hayani Hasibuan5 , Lamis Salwa 6	Data collection is conducted through literature study, interviews with economic experts, and document analysis.	KINDAI Vol. 20 No.3 2024 STIE Pancasetia	Expansionary monetary policy drives short-term economic growth but requires monitoring inflation. Coordination with fiscal policy is crucial.
5	The Impact of Monetary Policy on Indonesia's Economic Growth	Anita Latuheru* , dan Jemy Ricardo Parera*	Quantitative analysis with inflation as the variable (x) and Economic Growth as the variable (y) analyzed using SPSS.	Jurnal Ekonomi dan Bisnis Vol. 16, No. 2, Juli 2024, pp. 7~14	Inflation is not significant to economic growth, with an R <sup>2</sup> of 31.4%. Monetary policy plays an essential role in supporting economic growth and controlling inflation.
6	The Dynamics of Monetary Policy in Indonesia: History, Transformation, and Response to Economic Crises	Luluk Maknun	Literature Study	Repository UNISDA	Indonesia's monetary policy is adaptive to global challenges. Bank Indonesia plays a crucial role in stabilizing interest rates, exchange rates, and inflation.

Source: Data processed by the author from various journals.

### **3.2 Empirical Study Review Dynamics of Monetary Policy and Economic Growth in Indonesia**

the first study used the Vector Autoregression (VAR) analysis method with Eviews software. The results show that the money supply has a significant relationship with economic growth. This indicates that an increase in the money supply can stimulate economic activity, which in turn boosts the rate of economic growth. However, the same results were not found for the variables of interest rates, exchange rates, and inflation, which statistically did not show significant relationships with economic growth. This finding suggests that monetary policy through controlling the money supply can be an effective tool in supporting economic growth, although other instruments may require additional approaches or policy support to achieve the desired impact.(Manajemen et al., 2021)

The second study used the Ordinary Least Square (OLS) method to analyze the impact of inflation, M2 money supply, interest rates, and exchange rates on economic growth. The key findings from this study are as follows, Inflation has a significant negative effect on economic growth in Indonesia. High inflation tends to increase production costs and reduce consumers' purchasing power, ultimately hindering economic growth. Conversely, both the M2 money supply and exchange rates show significant positive effects on economic growth. This indicates that stable exchange rates and good management of the money supply can promote economic activity. However, interest rates do not have a significant negative effect on economic growth, suggesting that their impact may be more complex and dependent on specific economic conditions.(Wibowo, 2021)

The third study used quantitative methods by comparing data from ten provinces in Indonesia. This study analyzed the average economic growth, dominant economic structure, and contribution to national GDP as comparative indicators. The findings show that regions with more diverse economic structures, such as Jakarta, West Java, and East Java, are more responsive to changes in monetary policy. This response is mainly due to the presence of advanced industrial sectors that drive the economy in these areas. On the other hand, provinces that rely on natural resources, such as East Kalimantan and Riau, show a slower response to monetary policy, mostly influenced by global commodity price fluctuations. Additionally, factors such as infrastructure connectivity, quality of human resources, and global external influences significantly affect the effectiveness of monetary policy transmission at the regional level. This study emphasizes the importance of designing monetary policies tailored to regional economic characteristics to ensure inclusive and equitable growth.(Maknun, 2022)

The fourth study, which used literature studies, interviews with economic experts, and monetary policy document analysis, highlights that expansionary monetary policy can significantly boost economic growth in the short term. However, this policy must be implemented carefully to avoid risks such as inflation spikes or pressure on the rupiah exchange rate. The study also found that coordination between monetary and fiscal policies is crucial for enhancing the overall effectiveness of economic policy, particularly in maintaining a balance between economic growth and macroeconomic stability.

The fifth study used quantitative analysis with SPSS software to evaluate the impact of inflation on economic growth. The analysis results showed that inflation does not significantly affect economic growth, with an R-Square value of 0.314, meaning that only 31.4% of the variability in economic growth can be explained by inflation. These findings underscore the importance of monetary policy in supporting

economic growth, particularly in keeping inflation levels within a safe range and not hindering economic activity. (Hasibuan & Salwa, 2024)

The sixth study is a literature review utilizing sources such as scientific journals, Bank Indonesia reports, and publications from international economic institutions. The findings of this review show that Indonesia's monetary policy continues to adapt to global and domestic challenges. Bank Indonesia plays a critical role in managing interest rates, intervening in the foreign exchange market, and maintaining inflation stability. This adaptive monetary policy is one of the main pillars in facing the dynamics of the national and global economy, especially in dealing with external shocks such as commodity price fluctuations and changes in global economic policies. (Latuheru & Parera, 2024)

### **3.3 Monetary Policy as a Catalyst for Inclusive Economic Growth**

Overall, the analysis results from these six studies show that the effectiveness of monetary policy in Indonesia greatly depends on the instruments used, national and regional economic conditions, and good coordination between monetary and fiscal policies. These findings provide more comprehensive, adaptive, and suitable policy insights for Indonesia's economic characteristics. A more contextual monetary policy approach will help overcome the challenges faced at both the national and regional levels, thus fostering inclusive and sustainable economic growth.

Moreover, this research highlights the importance of integrating regional factors in the formulation of monetary policy. Regions with different economic structures require specifically designed policies to ensure their effectiveness. For instance, areas with more diverse economic bases, such as industrial regions in Java, need an approach that prioritizes strengthening the manufacturing and services sectors. On the other hand, regions dependent on export commodities, such as Kalimantan and Sumatra, require policies that focus more on exchange rate stabilization and mitigating the impact of global commodity price fluctuations.

Closer coordination between monetary and fiscal policies is also an essential finding in this study. Strong monetary policy not supported by aligned fiscal policy can reduce the overall effectiveness of economic interventions. For example, fiscal policies that strengthen infrastructure in underdeveloped areas can support monetary policy transmission and accelerate responses to economic dynamics. In other words, synergy between monetary and fiscal policies is crucial for creating a stable and conducive economic environment for growth.

This research also reveals that adapting monetary policy to global challenges, such as international financial market volatility or changes in major central bank policies worldwide, is critical in determining Indonesia's economic resilience. Bank Indonesia plays a key role in maintaining macroeconomic stability through managing interest rates, foreign exchange market interventions, and controlling inflation. However, the effectiveness of these policies still requires support from other sectors, such as banking and domestic investment, to ensure optimal policy transmission.

In the long term, Indonesia's monetary policy needs to be more directed towards supporting economic transformation into more productive sectors. Increasing investment in strategic sectors, such as high-tech industries, green economy, and digitalization, can significantly contribute to sustainable economic growth. Monetary policies that promote wider and more affordable credit access can also catalyze the development of micro, small, and medium enterprises (MSMEs), which are the backbone of the national economy.

With these various findings, the research provides insights that Indonesia's monetary policy has evolved into an adaptive and strategic instrument. However, more integrated and data-driven management is needed to address future challenges. Transforming monetary policy to be more inclusive, targeted, and evidence-based will ensure that Indonesia's economic growth is not only high quantitatively but also equitable and sustainable qualitatively.

#### **4. CONCLUSION**

The analysis results from these six studies indicate that the effectiveness of monetary policy in Indonesia highly depends on the instruments used, national and regional economic conditions, and good coordination between monetary and fiscal policies. These findings provide more comprehensive, adaptive, and suitable policy insights for Indonesia's economic characteristics. A more contextual monetary policy approach will help address the challenges faced, both at the national and regional levels, thus fostering inclusive and sustainable economic growth.

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