

Monetary Policy and Sustainable Development: A Review Of Indonesia's Policies As A Driver of Green Investment

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ABSTRAK: Penelitian ini mengeksplorasi peran kebijakan moneter dalam mendorong pembangunan berkelanjutan dan investasi hijau di Indonesia. Dengan pendekatan kualitatif deskriptif, penelitian ini menganalisis inisiatif Bank Indonesia dalam lingkungan. Instrumen seperti pengaturan suku bunga, penerbitan obligasi hijau, dan insentif pembiayaan hijau menjadi fokus utama kebijakan yang diterapkan. Hasil penelitian menghasilkan bahwa kebijakan Bank Indonesia dinilai efektif dalam mendukung transisi menuju ekonomi berkelanjutan, meskipun menghadapi tantangan seperti kurangnya pemahaman pasar dan fluktuasi ekonomi global. Dengan kolaborasi lintas pemangku kepentingan dan inovasi keuangan, investasi hijau diharapkan dapat menjadi katalis utama pembangunan ekonomi yang inklusif dan berkelanjutan.

Kata kunci: Kebijakan Moneter, Pembangunan Berkelanjutan, dan Investasi Hijau.

ABSTRACT: This research explores the role of monetary policy in promoting sustainable development and green investment in Indonesia. Using a descriptive qualitative approach, this research analyzes Bank Indonesia's environmental initiatives. Instruments such as interest rate setting, green bond issuance, and green financing incentives are the main focus of the policies implemented. The results show that Bank Indonesia's policies are effective in supporting the transition to a sustainable economy, despite facing challenges such as lack of market understanding and global economic fluctuations. With cross-stakeholder collaboration and financial innovation, green investment is expected to become a major catalyst for inclusive and sustainable economic development.

Keywords: Monetary Policy, Sustainable Development, and Green Investment.

1. INTRODUCTION

Climate change and environmental degradation have become pressing global issues that can affect various aspects of human life and economic sustainability (Athaya & Nugraha, 2023). Sustainable development that integrates economic growth, social equity, and environmental protection has been recognized as an important approach to achieving long-term prosperity. In Indonesia, the challenge of achieving sustainable development is increasingly complex, given the rapid economic growth, the need for energy, and significant environmental impacts (Dewi Ayu Marchela Putri & Langgeng Rachmatullah Putra, 2024). Therefore, the role of monetary policy in encouraging green investment is crucial. Green investment encompasses a wide range of initiatives that aim to reduce negative environmental impacts, improve resource efficiency,

and promote the use of renewable energy. The role of the financial sector, including monetary policy, is therefore crucial in supporting the transition to a more sustainable economy.

Bank Indonesia as the central bank has the responsibility to maintain economic and financial stability, and support national development. In recent years, Bank Indonesia has started to integrate sustainability principles into its monetary policy and operations (Bank Indonesia, 2021). This is in line with the global commitment to achieve the Sustainable Development Goals (SDGs) set by the United Nations, where one of the goals is to ensure access to affordable, reliable, sustainable and modern energy for all.

Pro-environmental monetary policy can create incentives for the private sector to invest in green projects. This can be created through instruments such as interest rates, credit regulation, and the development of sustainable finance instruments (International Monetary Fund, 2021). Bank Indonesia can encourage the flow of funds to sectors that support sustainability by launching various initiatives to facilitate the financing of renewable energy projects and sustainable natural resource management. In addition, Bank Indonesia can also play a role in raising awareness and understanding of the importance of green investment among market participants and the wider public. However, challenges in implementing this policy remain.

The lack of understanding and knowledge about green investment among market players, including banks and other financial institutions, is a major challenge in implementing this policy. Many of them are still hesitant to invest in green projects because they are considered high-risk or financially unfavorable. In addition, the existing regulatory framework also needs to be strengthened to support the development of sustainable finance instruments and ensure transparency in reporting the environmental impact of investments. On the other hand, there is a great opportunity for Bank Indonesia to play a more active role in encouraging green investments.

Through the utilization of financial technology (fintech) and innovation in financial products, Bank Indonesia can create a more supportive ecosystem for green investments. The development of green bonds and green sukuk can be one way to attract investors who care about sustainability. In addition, collaboration with various stakeholders, including the government, private sector, and civil society, is essential to create synergy in achieving sustainable development goals.

2. METHOD

This research use a descriptive qualitative approach to analyze the role of monetary policy in promoting sustainable economic development and green investment. This research relies on primary data sources from literature analysis, including relevant journals, books, and case studies. The data is obtained through literature review as well as expert views in the fields of monetary policy, sustainable economic development, and green investment. This method aims to

comprehensively understand the role of monetary policy and sustainable economic development in supporting the development of green investment.

3. RESULT AND DISCUSSION

A. Monetary Policy to Encourage Green Investment

Monetary policy implemented by Bank Indonesia plays an important role in creating a conducive environment for green investment. One of the main instruments is interest rate setting. By lowering interest rates, Bank Indonesia can encourage financial institutions to lend at a lower cost to sustainability-focused projects. A low interest rate policy can reduce borrowing costs for investors looking to invest in green projects. With lower interest rates, financial institutions are more likely to lend to sustainability-focused projects. This easier access to financing is crucial for entrepreneurs and investors looking to invest in green technologies and green infrastructure. Additionally, stable monetary policy also provides certainty for investors, making them more willing to invest in long-term sustainability-oriented projects (Prasetyo & Hendri Hermawan Adinugraha, 2023).

Bank Indonesia has launched various programs and initiatives specifically aimed at supporting green investments. A green financing program that provides incentives for banks to lend to projects that meet sustainability criteria can be implemented. In addition, Bank Indonesia can also collaborate with international institutions to develop financial instruments that support green investments, such as green bonds (Juansya et al., 2024). This initiative will not only increase the amount of green investment, but also raise awareness of the importance of sustainability among economic actors. Therefore, monetary policies that support green investment are crucial in achieving sustainable development goals. Through interest rate setting, special programs, a supportive regulatory framework, and inter-agency collaboration, Bank Indonesia can play an active role in encouraging green investment.

B. Policies and Regulations as Drivers of Green Investment

The regulatory framework that supports green investment is critical to creating a positive investment climate. Bank Indonesia, together with the government, has developed various regulations that provide incentives for green investment, such as tax deductions for projects that focus on renewable energy (Safitri et al., 2024). In addition, regulations governing environmental standards for industries also contribute to increased green investment, as companies are required to comply with such standards, which in turn encourages them to invest in cleaner technologies.

Bank Indonesia and other financial institutions have launched green financing programs that give businesses easier access to funds for green projects. These programs often include lower interest rates and more flexible terms, thus encouraging more investment in the green sector. The issuance of green bonds as a financial instrument to fund sustainable projects is also one of the strategic steps. With green bonds, investors can contribute to projects that

have a positive impact on the environment, while earning a return on their investment (Juansya et al., 2024).

Collaboration between Bank Indonesia, government, private sector, and civil society is crucial in encouraging green investment. Through this partnership, various initiatives can be launched to raise awareness and understanding of the importance of green investment. For example, training programs and seminars involving various stakeholders can help strengthen capacity and knowledge on green investment. In addition, this collaboration can also create synergies in developing more effective and sustainable policies.

To assess the effectiveness of monetary policy in encouraging green investment, it is important to develop clear indicators of success. These indicators could include the amount of green investment raised, the number of projects funded, as well as the environmental impact of these projects. In addition, measurement of the social and economic impacts of green investments should also be considered.

C. Impact of Monetary Policy on Sustainable Development

Effective monetary policy can help maintain price stability and control inflation. This economic stability creates a conducive environment for investment, including green investment. When inflation is controlled, investors feel more confident to invest in sustainable projects that require long-term investments. Low interest rate policies can improve access to finance for green projects. With lower interest rates, borrowing costs become more affordable, thus encouraging more investors to invest in green technologies and green infrastructure (Safitri et al., 2024).

Through monetary policy, Bank Indonesia can develop a green financing program that provides incentives for financial institutions to fund sustainability-focused projects. This program not only increases the amount of green investment, but also accelerates the transition to a more sustainable economy. Monetary policies that support innovation in financial instruments, such as green bonds and green sukuk, can attract more investors to participate in sustainable projects. This helps create a broader market for green investments and increases liquidity in the sector.

Green investments driven by monetary policy can create new jobs in sustainable sectors, such as renewable energy, waste management and sustainable agriculture. This job creation not only increases people's income, but also contributes to poverty reduction. Sustainability-focused projects often have a positive impact on people's quality of life. For example, investments in green infrastructure, such as urban parks and green transportation systems, can improve air quality and public health (Khair & Sartika, 2024).

Monetary policies that support green investments have the potential to reduce carbon emissions and negative environmental impacts. By encouraging

the use of clean technologies and renewable energy, these policies contribute to climate change mitigation efforts. Investments in sustainable practices, such as organic farming and good forest management, can help preserve natural resources and biodiversity. Monetary policies that support these sectors contribute to long-term environmental sustainability (Hutagaol et al., 2022).

While monetary policy can encourage green investment, economic volatility caused by external factors, such as commodity price fluctuations and global crises, can hinder the growth of green investment. Therefore, it is important for monetary policy to remain responsive to changing economic conditions. Limited resources, both financial and human, can be a challenge in implementing monetary policies that support green investment. Therefore, there is a need for collaborative efforts between the government, private sector, and society to overcome this challenge.

4. CONCLUSION

Climate change and environmental degradation are pressing global challenges, requiring a sustainable development approach that integrates economic growth, social equity and environmental protection. In Indonesia, monetary policy plays an important role in supporting green investment to promote the transition to a sustainable economy. In addition, monetary policy has a strategic role in encouraging green investment as an effort to support sustainable development in Indonesia. Bank Indonesia, as the monetary authority, can utilize instruments such as interest rate setting, development of sustainable financial instruments, and green financing programs to create a conducive environment for green investments. In addition, collaboration with the government, private sector, and civil society is key to ensure the successful implementation of this policy.

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