

## POLICY MONETARY IN INDONESIA

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### Abstract

Monetary policy is one of the main macroeconomic policy instruments implemented by the central bank to maintain economic stability. In Indonesia, monetary policy is implemented by Bank Indonesia with the primary goal of achieving and maintaining the stability of the rupiah's value. This stability includes price stability, reflected in controlled inflation rates and the stability of the rupiah's exchange rate against foreign currencies. This article aims to analyze draft, objective, instrument, And challenge policy monetary in Indonesia. Method The method used in this study is a descriptive qualitative approach through a literature study sourced from books, laws and regulations, and official publications of Bank Indonesia. The results of the study indicate that Bank Indonesia implements monetary policy using several main instruments, including open market operations, policy interest rates, minimum reserve requirements, and discount facilities. These instruments are used in an integrated manner to control amount Money circulating, influence ethnic group flower market, as well as guard stability financial system. However, the implementation of monetary policy in Indonesia faces various challenges, such as global economic uncertainty, external inflationary pressures, the digitalization of the financial sector, and the need for coordination with fiscal policy. Therefore, an adaptive, credible, and data-driven monetary policy is crucial to supporting sustainable economic growth and national economic stability.

**Keyword** : Policy Monetary, Bank Indonesia, Inflation, Stability Economy

### INTRODUCTION

Economic stability is one of the primary goals of national development that must be maintained sustainably. To achieve this stability, the government and central bank have a strategic role in formulating and implementing macroeconomic policies. One of the most influential policies on condition economy is policy monetary. <sup>1</sup> Policy monetary closely related to controlling the amount of money in circulation and regulating interest rates to maintain price stability and support sustainable economic growth. <sup>2</sup> In Indonesia, monetary policy is implemented by Bank Indonesia, an independent central bank, as mandated by Law No. 23 of 1999 concerning Bank Indonesia. The primary objective of monetary policy is to achieve and maintain the stability of the rupiah's value. This stability includes the stability of commodity prices. And service Which reflected from level inflation Which under control, as well as stability mark Rupiah exchange rate against foreign currencies. Maintaining monetary stability is very important because inflation Which tall And mark swap Which turbulent can lower Power buy society, increasing business uncertainty, and hampering economic growth. <sup>3</sup>

In its development, economy Indonesia face various challenges both from within the country and from global dynamics. Economic uncertainty global, change policy monetary country proceed, fluctuations price commodities, and developments in financial technology have put pressure on national monetary stability. These conditions demand a monetary policy that is responsive, credible, and adaptive to changes in the economic environment. Therefore, a study of monetary policy in Indonesia is crucial for understanding Bank Indonesia's role in maintaining national economic stability. This article comprehensively discusses the concept of monetary policy, its objectives , the instruments used, and the challenges faced in its implementation. This discussion is expected to provide academic and practical contributions to understanding monetary policy as a primary instrument for controlling the national economy.

**LITERATURE REVIEW**

Policy monetary is Wrong One instrument main in policy macroeconomics has an important role in maintaining the stability of a country's economy. general, policy monetary defined as policy Which done by The central bank controls the money supply and credit conditions in the economy to achieve specific goals, primarily price stability. <sup>4</sup> According to Mankiw, monetary policy functions to influence inflation, interest rates, and output through the regulation of available monetary instruments. Proper management of the money supply will create a balance between economic growth and price stability. <sup>5</sup> Sukirno explained that monetary policy has a strategic role in overcoming problem inflation And deflation. <sup>6</sup> Inflation Which No under control can Deflation can reduce people's purchasing power and increase economic uncertainty, while deflation can hamper economic growth and increase unemployment. Therefore, monetary policy is needed to maintain economic stability by controlling liquidity and interest rates. In this regard, the central bank has the responsibility. big in determine direction policy monetary in accordance with condition economy faced . In the Indonesian context, monetary policy is implemented by Bank Indonesia as bank central Which independent. Constitution Number 23 Year 1999 about Bank Indonesia emphasized that the main objective of monetary policy is to achieve and maintain stability mark rupiah. <sup>7</sup> Stability mark rupiah covers stability price goods and services, as reflected in controlled inflation and exchange rate stability against foreign currencies. Warjiyo and Juhro emphasize that Bank Indonesia's credibility and independence are important factors in increasing the effectiveness of monetary policy in Indonesia .

In addition, Mishkin stated that the effectiveness of monetary policy is greatly influenced by the monetary policy transmission mechanism. This mechanism explains how change instrument monetary, like ethnic group flower policy, can influence consumption behavior, investment, and overall economic activity. Transmission mechanisms Which walk with Good will strengthen impact policy monetary on the economy. <sup>9</sup> In modern economic development, monetary policy also faces various challenges, such as global economic uncertainty and developments in financial technology. The International Monetary Fund highlights that developing countries, including Indonesia, need to implement adaptive and data-driven monetary policies to maintain stability. stability economy. With thus, review library This become runway theoretical analysis of monetary policy in Indonesia, both from the aspects of objectives, instruments, and challenges faced.

**METHOD STUDY**

This research uses a descriptive qualitative method with a literature study approach. (literature review). Method This chosen Because study aim For understand and analyze monetary policy in Indonesia comprehensively based on theoretical studies And sources written Which relevant. Approach qualitative descriptive allows researchers For describe in a way systematic draft, objective, instruments, as well as monetary policy challenges without using statistical testing. The data sources in this study consist of secondary data obtained from various sources. literature, between other book text macroeconomics, regulation legislation These included sources related to monetary policy, official reports published by Bank Indonesia, and scientific articles and national and international journals. This literature was selected for its academic credibility and relevance to the research topic. Technique collection data done through search And assessment Written documents related to monetary policy in Indonesia were reviewed. The collected data was then analyzed by interpreting and synthesizing relevant theories and empirical findings. The analysis was conducted systematically to gain a comprehensive understanding of the role, mechanisms, and challenges of monetary policy in maintaining Indonesian economic stability.

**RESULTS AND DISCUSSION****Understanding Policy Monetary**

Monetary policy is a macroeconomic policy carried out by the authorities. monetary, in matter This Bank Central, For control amount Money circulating and monetary conditions in the economy in order to achieve certain goals. <sup>(10)</sup> In general, monetary policy is directed at maintaining price stability, controlling inflation, maintaining stability mark swap, as well as support growth economy Which sustainable. Through monetary policy, the Central Bank strives to create conducive monetary conditions so that economic activity can proceed efficiently and stably. In context theory economy, policy monetary related close with Money and credit management. Too much money in circulation can trigger inflation, while too little money can hinder economic growth and increase unemployment. Therefore, monetary policy functions as a tool to control the balance between the need for liquidity in the economy and price stability. This policy is implemented through various instruments such as interest rate regulation, open market operations, and bank reserve control. <sup>(11)</sup> In Indonesia, monetary policy is implemented by Bank Indonesia, an independent central bank. Bank Indonesia's independence ensures that monetary policy can be implemented objectively and free from political pressure, thus ensuring the primary focus remains on achieving rupiah stability.

Rupiah stability encompasses two main aspects: price stability for goods and services, reflected in a controlled inflation rate, as well as stability mark swap rupiah to eye Money foreign. Second aspect This is very important to maintain public and economic actors' trust in the national economy. monetary Also can differentiated become two type, that is policy Expansionary monetary policy and contractionary monetary policy. Expansionary monetary policy is implemented when the economy experiences a slowdown or recession, with the aim of increasing the money supply and stimulating economic activity. Conversely, contractionary monetary policy is implemented when inflation increases, by reducing the money supply to control inflationary pressures. The choice of this type of monetary policy is adjusted to the conditions and needs of the economy being faced.<sup>(12)</sup> In addition to controlling inflation, monetary policy also plays a crucial role in maintaining financial system stability. Through monitoring and regulating banking liquidity, the Central Bank can prevent financial crises caused by imbalances in the financial sector. Thus, monetary policy serves not only as a tool for controlling the money supply but also as a strategic instrument for maintaining overall economic stability. Overall, monetary policy is a vital instrument in managing economy something country. Success policy monetary very depend on credibility Bank Central, effectiveness instrument Which used, as well as coordination which is good with other economic policies, especially fiscal policy. With monetary policy Which appropriate And effective, stability economy And welfare public can easier to realize.

### **Objective Policy Monetary in Indonesia**

Monetary policy in Indonesia has the primary objective of achieving and maintaining the stability of the rupiah's value. This objective is mandated by the Bank Indonesia Law, which affirms Bank Indonesia's role as the monetary authority responsible for the stability of the national economy.<sup>(13)</sup> The stability of the rupiah's value encompasses two important aspects, namely:

1. Policy monetary as controller inflation so that still is at on level the low And stable. Inflation Which tall And No under control can lower people's purchasing power, increase production costs, and create uncertainty in economic activity. By controlling the money supply and regulating interest rates, Bank Indonesia strives to maintain inflation within the target range. with target Which has determined . Inflation Which stable will create economic certainty and encourage a healthy business climate.<sup>(14)</sup>
2. Policy monetary as guard stability mark swap rupiah. Mark swap A stable currency is very important to support international trade activities, investment, and maintain national economic resilience against external shocks. Bank Indonesia do various step policy monetary to dampen volatility mark swap so that No bother stability economy overall .

In addition, monetary policy in Indonesia also aims to maintain the stability of the financial system. finance. Through management liquidity banking And strengthening sector In finance, monetary policy plays a role in preventing financial crises. The stability of the financial system very important so that function intermediation banking can walk with Good and support economic growth. Overall, the objective of monetary policy in Indonesia is not only focused on price stability, but also on creating stable, healthy, and sustainable economic conditions to support public welfare.

### **Instrument Policy Monetary in Indonesia**

In order to achieve monetary policy objectives, Bank Indonesia as the monetary authority has a number of instruments used to control the amount of money in circulation. And guard stability economy. Instruments the designed in order to influence banking liquidity, interest rates, and the behavior of economic actors. The main instruments of monetary policy in Indonesia are as follows:<sup>(15)</sup>

#### **Operation Market Open (OPT)**

Operation Market Open is instrument main policy monetary which is conducted through activity sell buy letter valuable by Bank Indonesia in market Money. Securities Which traded between other Letter Valuable Country (SBN) And monetary instruments other. Objective main OPT is For arrange liquidity in system banking. If Bank Indonesia sell letter valuable, so liquidity banking will decrease Because funds public absorbed by Bank Indonesia. On the contrary, if Bank Indonesia buy letter valuable, so liquidity banking will increase. Thus, OPT become instrument Which very flexible And effective in control amount Money circulating as well as guard stability ethnic group flower in market Money.

**Ethnic group Flower Policy (BI 7-Day Reverse Repo Rate)**

Ethnic group flower policy is instrument monetary Which used as signals the direction of Bank Indonesia's monetary policy. Currently, the policy interest rate used is the BI 7- Day Reverse Repo Rate . Changes in the policy interest rate will affect interest rates in the money market, banking, as well as lending and deposit rates. An increase in the policy interest rate aims to suppress inflation and control excessively rapid economic growth. Conversely, a decrease in the policy interest rate is intended to stimulate economic growth by increasing consumption and investment. Through this instrument, Bank Indonesia can influence the economic decisions of the public and the business world.

**Giro Must Minimum (GWM)**

Minimum Reserve Requirement is a monetary policy instrument that requires commercial banks For keep a number of funds certain in Bank Indonesia. Magnitude GWM is determined as percentage from funds party third Which collected by bank. The main purpose GWM is to control the bank's ability to distribute credit. <sup>(16)</sup> If Bank Indonesia increases the reserve requirement (GWM), the funds available for banks to disburse credit will decrease, thereby controlling money supply growth. Conversely, a decrease in the GWM ratio will increase banking liquidity and encourage credit distribution to the real sector.

**Discount Facility**

Facility discount is facility loan term short Which provided by Bank Indonesia to commercial banks experiencing liquidity shortages. This instrument serves as a means of supporting financial system stability and as a lender of last resort . Through the discount facility, Bank Indonesia can help maintain a smooth payment system and prevent a liquidity crisis in the banking sector. However, the use of this facility is strictly monitored to prevent banks from becoming dependent on financing from the Central Bank. Overall, monetary policy instruments in Indonesia complement each other and used in a way coordinated For guard stability monetary, system finance, and support sustainable economic growth.

**Challenge Policy Monetary in Indonesia**

The implementation of monetary policy in Indonesia faces various increasingly complex challenges in line with the dynamics of the national and global economy. These challenges require Bank Indonesia, as the monetary authority, to formulate policies that are adaptive, credible, and responsive to changing economic conditions. <sup>(17)</sup> One of the main challenges to monetary policy in Indonesia is global economic uncertainty. Global economic turmoil, such as the international financial crisis, trade wars, and changes in monetary policies in developed countries, can impact capital flows and the stability of the rupiah exchange rate. Rapid changes in foreign capital flows often put pressure on domestic financial markets and complicate Bank Indonesia's efforts to maintain monetary stability. The next challenge is controlling inflation, which is influenced by external and structural factors. Inflation in Indonesia is not only driven by domestic demand, but also Also by increase price energy, food, as well as disturbance chain supply global. This condition limits the effectiveness of monetary policy because not all sources of inflation can be controlled through monetary instruments alone. <sup>(18)</sup>

Furthermore, technological developments and the digitalization of the financial sector also pose challenges. The emergence of digital financial innovations, electronic payment systems, and asset crypto demand policy monetary Which capable adapt with fast. Bank Indonesia needs to ensure that these innovations do not disrupt the stability of the financial system and the effectiveness of monetary policy transmission. Challenge other is coordination between policy monetary And policy fiscal. Asynchrony between second policy can reduce effectiveness control inflation and stability economy. By Because That, required synergy Which strong between Bank Indonesia and the government in formulating macroeconomic policies. Overall, the challenges of monetary policy in Indonesia require institutional readiness, data-driven policies, and effective coordination to maintain national economic stability amid global uncertainty.

**Impact Policy Monetary to Economy**

Monetary policy has a significant impact on a country's economy through various transmission channels, including interest rates, credit, exchange rates, asset prices, and inflation expectations. By controlling these instruments, monetary policy plays a role in maintaining macroeconomic stability and promoting sustainable economic growth. Wrong One impact main policy monetary is to inflation. Bank Indonesia uses ethnic group flower policy as instrument main For control Inflationary pressure. Interest rate increases aim to suppress aggregate demand so that inflation can be controlled, while interest rate cuts are intended to stimulate economic activity when inflation is at a low level. <sup>19</sup>

Besides inflation, monetary policy also has an impact on economic growth. Monetary policy, which has a nature that is accommodating, like a decline in ethnic group flow and increased liquidity, can push investment and consumption public. This matter will finally improve national output and speed up economic growth, especially when the economy is slowing down.<sup>20</sup> The impact of monetary policy is also felt in the banking sector and financial system. Through liquidity and interest rate regulation, Bank Indonesia can influence the ability of banks to channel credit to the real sector. Financial system stability is a crucial prerequisite for the effectiveness of monetary policy, as disruptions in the financial sector can weaken the transmission of monetary policy to the economy.

In addition, monetary policy has an influence on the rupiah exchange rate. Intervention in the foreign exchange market and arrangement of a value stability swap so that excessive pressure does not cause domestic economy, a stable exchange rate plays a vital role in maintaining investor confidence and the stability of the international trade sector.<sup>22</sup> However, the effectiveness of monetary policy is not without challenges, such as global economic uncertainty, capital flow volatility, and the expectations of financial players. By that, required coordination which is strong between monetary and fiscal policies so that the resulting policy impacts are optimal and sustainable.<sup>23</sup>

## CLOSING

### Conclusion

Monetary policy plays a crucial role in maintaining the stability of the Indonesian economy. Bank Indonesia, as the monetary authority, uses various instruments: policy for control inflation, guard stability mark swap rupiah, and maintaining financial system stability. These monetary policy instruments are implemented in a coordinated manner to effectively influence liquidity, interest rates, and economic activity. Although monetary policy in Indonesia faces various challenges, which originate from global and domestic economic dynamics and sector development, effective and credible monetary policy still becomes key factors in supporting sustainable economic growth and improving people's welfare.

### Suggestion And Saying Thank You

Going forward, monetary policy in Indonesia needs to be continuously strengthened through closer coordination with fiscal policy to optimally maintain macroeconomic stability. Furthermore, monetary policy must be able to adapt to changes in the global economic environment and developments in digitalization in the financial sector. The author submits saying accept love to all party which has give support and contribution in the preparation of this article, so that it can be completed well.

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