International Journal of Economics, Business and Management Research

Vol. 6, No.11; 2022

ISSN: 2456-7760

"The Fed Interest Rate" Bank Indonesia Policy First Quarter of 2022

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doi: 10.51505/ IJEBMR.2022.61113 URL: https://doi.org/10.51505/IJEBMR.2022.61113

Abstract

The United States' monetary policy is a monetary policy that the world economy, including Indonesia, pays attention to and is wary of. Along with high inflation rates, the United States Central Bank The Federal Reserve (The Fed) tightened monetary policy more to maintain stability. This research is a descriptive qualitative research type. The purpose of this research is to find out how the policy of Bank Indonesia towards the increase in the Fed. Through the explanation in this research, it is found that Bank Indonesia makes monetary and financial sector policies as well as maintains macroeconomic and financial system stability and encourages national economic recovery.

Keywords: The Fed, Monetary Policy, Bank Indonesia

1. Introduction

As a country that adheres to a small open economy system , Indonesia is vulnerable to being affected by the economic conditions of other countries, especially United States of America (US). Currently, almost all countries around the world adopt an open economic system because it has been realized that no country will be able to meet its domestic needs without importing their needs from other countries. Economic relations between these countries have the potential to be disrupted. When the world economy is in a healthy condition, the economic relations between countries through international transactions will also be excited. On the other hand, externally, Indonesia's economic relations will also be disrupted if the world economy experiences disturbances.

The global economy is currently in a recovery phase due to the COVID-19 pandemic storm over the past two years. Economic recovery efforts in each country are carried out with a different policy mix for each country, because the consequences of the challenges faced are different for each country.

In the global economy, information from Indonesia's balance of payments will determine Indonesia's economic relations with other countries, so that it can be known whether Indonesia is an exporter of goods and capital, or vice versa as an importer. Meanwhile, the balance of payments is also one of the indicators that can influence the sentiment of market participants.

Monetary policy is one element of economic policy that cannot be separated from difficulties associated with the simultaneous achievement of various policy objectives. These difficulties have been going on since the pre-crisis period and eventually had a negative impact on

Vol. 6, No.11; 2022

ISSN: 2456-7760

macroeconomic fundamentals, where previous macroeconomic conditions based on observations that were considered quite strong turned out to be not as strong as previously thought.[1] The monetary policy strategy is part of the macro policy aimed at controlling the stability of the currency value. If the stability of economic activity is disturbed, then one of the steps that can be used is monetary policy to restore it through a series of stabilization measures.

The United States monetary policy is a monetary policy that raises concerns and vigilance among world economic actors, including Indonesia. The Fed's interest rate (the Fed rate) is the interest rate controlled by the Fed and also determines the movement of capital flows in developing countries.[2] The United States, one of the country that experiencing the strongest recovery phase, can be seen experiencing 5.7 percent growth in 2021 or the highest since 1984. This economic growth is influenced by the recovery in public consumption. This strong surge in demand was not matched by sufficient supply, resulting in a rapid rate of inflation at the level of 7.5 percent year on year in January 2021. [3]Central Bank (The Fed) plans to take a policy of normalizing monetary policy to deal with inflation risks by reducing asset purchases since November 2021 and signaling an increase in interest rates in March 2022.[4]

The Fed's interest rate movement

[1]Sriyono , Strategi kebijakan Moneter di Indonesia, *Jurnal Kebijakan dan Manajemen Publik,* Vol 1, No. 2, 2013, p. 112

[2]Ratna Mutia Dewi, Pengaruh BI Rate, The Fed, dan Kurs Terhadap Keseimbangan Neraca Pemayaran Indonesia*, Jurnal Ilmiah Mahasiwa (JIM),* Vol. 1, No. 2, 2016, p. 534

[3]Badan Kebijakan Fiskal, Tinjauan Ekonomi, Keuangan dan Fiskal Edisi Tahun 2022, p. 24

[4] *Ibid*

Vol. 6, No.11; 2022

ISSN: 2456-7760

As a country with a large open economic system, the US central bank's monetary normalization policy greatly influences the economies of other countries, including Indonesia. Changes in the Fed's interest rate will determine the flow of the US dollar currency in various countries as a consequence of the dollar as a means of international transactions. The effect of changes in the Fed's interest rates on the world economy has been felt in 2008-2009. At that time there was a global crisis that resulted in instability in the domestic financial market, which was caused by the withdrawal of funds (develarging) out of Indonesia.[5] The impact of the financial crisis on the global economy was increasingly visible in world economic growth, which declined from 3% to 2.2%.

In Indonesia, monetary policy is controlled by the central bank of the Republic of Indonesia, namely Bank Indonesia (BI). Since July 2005, the monetary policy set and implemented by BI has been carried out by controlling interest rates (BI rate). BI rate is the interest rate which is a monetary policy stance determined by BI and announced to the public. Bank Indonesia aims to achieve and maintain the stability of the value of the Rupiah. This goal, as stated in Law no. 23 of 1999 concerning Bank Indonesia, as amended by Law no. 3 of 2004 and Law no. 6 of 2009 article 7.[6]

Based on the description above, the problem that will be discussed in this research is how the policies carried out by Bank Indonesia related to the increase in the Fed to maintain the stability of the Indonesian economy.

2. Literature Review

2.1 Interest Rate Theory

The interest rate is the interest rate expressed as a percentage and has a period of time. The interest rate is the amount of currency that is generated by the funds or services used. [7]In the economic dictionary, the interest rate is defined as a cost expense expressed by a certain percentage which is the cost of bank credit to customers for a certain period of time.[8]

According to classical theory, the interest rate is a theory about the demand and supply of investment in the capital market, so that the interest rate determines the balance between the amount of investment demand savings.[9] This theory assumes that the economy is always in a state of full employment, which means that the production process has used all of its production

[5]Thomas Andrian, Tetik Puji Lestari, Analisis Dampak Target The Fed Rate Terhadap Kebijakan Moneter Bank Indonesia, *Jurnal Dinamika Ekonomi dan Bisnis,* Vol. 10, No. 2, 2013, p. 182

[6]JDIH BPK RI, Peraturan tentang Bank Indonesia, https://peraturan.bpk.go.id/Home/Details/45332/uu-no-23-tahun-1999 accessed on June 2, at 20.15 WITA.

[7]Wensy Rompas, Analisis Pengaruh Tingkat Suku Bunga dan Nilai Tukar terhadap Permintaan Kredit pada Perbankan di Kota Manado, *Jurnal Berkala ilmiah Efisiensi,* Vol. 18, No. 2, 2018, p. 206

[8]Economic Dictionary, https://kamuslengkap.com/kamus/ekonomi/arti-kata/suku-bunga accessed on June 28, 2022, at 19:58.

[99]Sunariyah, *Pengantar Pengetahuan Pasar Modal*, Edisi Ke Lima, , (Yogyakarta: UUPP-AMP YKPN, 2006), p. 81.

Vol. 6, No.11; 2022

ISSN: 2456-7760

capacity.[10]

Meanwhile, according to Keynes, interest rates are payments made to users of scarce resources in units of money. [11]The interest rate is a sum of money or prices issued by debtors or users of loan services to encourage creditors to move their money.[12]

2.2 Monetary Policy

Quoting Mankiw's opinion, the exchange rate and interest rate are the main variables, in a small open economy, monetary transmission channels are not available because the interest rate is determined by the world interest rate. As soon as the increase in the money supply suppresses the domestic interest rate, capital flows out of the economy because investors will seek higher returns elsewhere.[13]

According to Nopirin [14], monetary policy is one of the factors that can affect economic activity. There are many other factors that can affect economic activity, but these factors are beyond the control of the government. Monetary policy is a factor that can be controlled by the state so that it can be used to achieve economic development goals.

In the journal Thomas Andrian, according to Nopirin conceptually, monetary policy is defined as an action taken by the monetary authorities in this case the central bank, the aim is to influence the amount of money in circulation and credit which will ultimately affect people's economic activities. The amount of money circulating in the community is made by rules by increasing or decreasing the amount of money in circulation.[15]

In making decisions regarding the circulation of money, Bank Indonesia uses two types of policies, namely:

1) Expansive Monetary Policy

   Expansive Monetary Policy is a policy in order to increase the money supply. [16]This policy is carried out to encourage economic recovery such as overcoming unemployment and increasing public demand (purchasing power) when the economy experiences a recession or depression. Expansive monetary policy is also known as loose monetary policy (easy money policy).[17]

2) Contractive Monetary Policy

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[10]Muchlisin Riadi, *Teori Suku Bunga,* Kajian Pustaka.com https://www.kajianpustaka.com/2012/ accessed on June 28, 2022 at 19:48.

[11]Ibid, Sunariyah.

[12]Ibid.

[13]N. Gregory Mankiw, *Macroeconomics* , (Jakarta: Erlangga, 2007), p. 335

[14]Nopirin, *Ekonomi Moneter (1st ed.).* (Yogyakarta: BPFE, 1987), p. 51

[15]Thomas Andrian, Analisis Dampak Target *The Fed Rate* Terhadap Kebijakan Moneter Bank Indonesia, *Jurnal Dinamika Ekonomi dan Bisnis,* Vol. 10, No. 2, 2013, p. 181

[16]Bank Indonesia, *Kebanksentralan* https://www.bi.go.id/id/ , accessed on 04 June 2022, at 21.05 WITA.

[1717]BPMPK-Kemdikbud, *Kebijakan Moneter* https://m-edukasi.kemdikbud.go.id/ accessed on June 4, at 21:20 WITA

Contractive Monetary Policy is a policy carried out in order to reduce the amount of money in circulation. Also known as a tight money policy. So in order to keep the economic conditions from heating up, it is necessary to carry out a contractionary policy. [18]Contractive monetary policy is implemented when the economy experiences inflation. Contractive monetary policy is also known as tight money policy.[19]

2.3 Monetary Policy Objectives and Instruments

This policy has a goal to be achieved by monetary policy and macro policy in general, namely how to achieve macroeconomic stability, such as economic growth, price stability, employment, and maintaining the stability of the rupiah value, one of which is reflected in the low inflation rate and stable.[20]

To achieve this goal, Bank Indonesia uses monetary policy instruments such as:[21]

a. Open Market Operations (open market operations)

   Bank Indonesia can influence its operational targets through Open Market Operations instruments, namely the interest rate or money supply more effectively because the implementation can be done openly and the formation of interest rates is determined based on market mechanisms. Open Market Operations can also be initiated by Bank Indonesia at the desired frequency and quantity. Open Market Operations in the form of buying and selling of securities (Bank Indonesia certificates and Money Market Securities) by bank Indonesia in the primary and secondary markets through auction or non-auction mechanisms.

b. Discount Policy

   This policy is the provision of the Central Bank for lending or depositing services to banks at a discount rate and guarantee for securities that have been determined by the Central Bank in accordance with monetary policy. The high and low discount rate will affect the demand for credit from banks. In the event that the central bank wants to raise interest rates, the central bank can signal through an increase in interest rates (discounted) on loans. The discount rate is above or below the money market interest rate. If the central bank raises the lending rate, the central bank raises the discount rate or vice versa. This tool serves as a safety gate to maintain stability in the money market, so banks are expected not to use this tool often.

c. Minimum mandatory reserve

   Minimum statutory reserves are a number of minimum liquidity tools that must be maintained by banks. These minimum statutory reserves are grouped into two groups, namely:

   1) Primary backup

[18]Ibid Bank Indonesia, Central Bank ...

[19]Ibid, BPMPK-Kemdikbud,...

[20]Ibid BPMPK-Kemdikbud,...

[21]Safuridar, Peranan Instrumen Kebijakan Moneter Terhadap Pertumbuhan Ekonomi di Aceh, *Jurnal Samudra Ekonomi,* Vol. 2, No. 1, 2018, p. 45

Vol. 6, No.11; 2022

ISSN: 2456-7760

Primary reserves are also known as mandatory reserves. Primary reserves are indirect instruments and are central bank regulations that require banks to maintain several liquidity instruments equal to a certain percentage of their current cash obligations and settlement accounts with the central bank.

2) Secondary backup.

Secondary reserves are lines of credit from the Central Bank to banks that are guaranteed by securities and the discount rate is determined by the central bank in accordance with the direction of monetary policy.

d. Appeal (moral persuasion)

Appeal (moral persuasion) is a tool where the central bank can urge banks to implement certain policies. This is not binding, but as a credible institution the central bank's advice is usually quite effective in influencing monetary policy.

Through these instruments changes in the amount of money in circulation will occur, so that in the end changes in the amount of money will affect monetary stability with the aim of better economic growth for the community. The success of monetary policy is usually measured by an improvement in the balance of payments, increased employment opportunities, and stability in the price level.[22]

3. Method

In this study, the researcher used a qualitative research type with a descriptive method. Through this method, data is collected, compiled, grouped, then explained and integrated so that it becomes a clear and focused picture of the problem under study. As according to Lexy J. Moleong that the data collected in qualitative research is in the form of words, pictures, and not numbers.[23] The data collection technique used is a document study, namely by collecting data and literature from the official website. In this research, it is attempted to collect as much descriptive data as possible which will be stated in the form of reports and descriptions.[24]

4. Discussion

4.1 The Fed's Infleence on the Word Economy

Federal Reserve (US Central Bank), better known as the Fed is one of the institutions called the central bank designed to oversee the banking system and regulate the amount of money circulating in the economy. According to Mankiw, the Fed is a financial institution that is responsible for regulating banking and regulating the amount of money circulating in the economy.[25]

[22]Ibid BPMPK-Kemdikbud, ...

[23]Lexy J. Moleong, *Metodologi Penelitian Kualitatif*, (Bandung: PT Remaja Rosdakarya, 2007), p. 11

[24]Nasution, *Metode Penelitian Naturalistik Kualitatif*, (Bandung: Tarsito, 1996), p. 9

[25]Mankiw N. Gregory, *Principle Of Economics,* 3th edition, translation by Chriswan Sungkono, (Jakarta: Salemba Empat, 2002), p. 176

Vol. 6, No.11; 2022

ISSN: 2456-7760

In its implementation, the Fed has two related tasks, namely:[26]

a. Regulate banks and maintain the health of the banking system.

   In this case, the Fed is in charge of monitoring the financial condition of each bank and providing clearing facilities. The Fed also provides loan facilities to banks experiencing financial problems.

b. Controls the amount of money circulating in the economy.

All decisions taken are focused on the amount of money in circulation which is called monetary policy. The monetary policy is made by the Federal Open Market Community (FOMC) to discuss economic conditions and any changes in monetary policy.

In principle, monetary policy is a policy carried out and determined by the central bank to achieve monetary goals in each country. United States monetary policy is controlled by the Federal Reserve System (Fed) which is divided into 12 districts called the Federal Reserve Bank . The Fed's monetary policy is carried out through controlling the Federal Fund Rates (government interest rates). The Fed rate is the interest rate that occurs from trading activities of the United States Federal Government funds in the money market. The Fed's monetary policy is carried out by increasing and decreasing the Fund Rate target. The Fed rate target is used as an indicator to reflect the direction of the Fed [27]'s monetary policy .

According to Mankiw, written by Mandala, the responsibility of the Fed is to monitor and respond to developments in the economy as a whole, including the stock market. [28]When the stock market rises, households become richer and so there will be an increase in spending. In addition, with the increase in stock prices, it will create interest in the company to sell new shares so that it will encourage investment spending. On the other hand, when the stock market declines, spending on consumption and investment also declines, which can suppress aggregate demand and push the economy toward a recession.

The Fed is an independent institution that has a very crucial influence on the American economy and the world. The factors that underlie this influence include:[29]

a. Able to dominate the United States

   The Fed is a banking group that dominates and has successfully evolved into the central bank in the United States. The United States of America is the most influential country in the world. So as the central bank, the Fed has the highest authority in

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[26]Misgiyanti, Pengaruh Suku Bunga Luar Negeri Federal Reserve *(The Fed)*, Nilai Tukar Rupiah/US $ dan Inflasi Terhadap Indeks Harga Saham Gabungan di Bursa Efek Indonesia Periode 2006-2008, *Jurnal Ekonomi Pembangunan,* Vol. 7, No. 1, 2009, p. 21

[27]Ibid, Thomas Andrian,...

[28]Mandala Manurung, Uang, Perbankan dan Ekonomi Moneter, (Jakarta: Fakultas Ekonomi Universitas Indonesia, 2004), p. 336.

[29]Syafira Maulida, *Apa itu The Fed dan Pengaruhnya Terhadap Perekonomian Dunia?,* Aplikasi investasi tanamduit, https://www.tanamduit.com/belajar/investasi/ accessed on June 28, 2022, at 22.49 WITA.

ISSN: 2456-7760

determining financial policy. And each of these policies will affect countries related to America.

b. Dollar currency becomes global currency

It is an undeniable fact that the US Dollar has become the official transaction tool for international economic activities. In fact, almost all countries in the world use the dollar as their foreign exchange reserves so that the Fed's policies can affect the condition of the world economy.

c. The Fed's policies are able to influence market conditions.

The Fed's policies are the basis for the central bank in making policies because the Fed is the central bank of America where America is the center of the world economy. One of the policies made by the Fed is to raise interest rates which causes many investors to invest in the United States, so that it will affect market conditions both domestically and internationally.

When the Fed made a policy of raising interest rates, at the same time the central banks in each country also began to raise interest rates to fight inflation, maintain capital outflows, and maintain exchange rates. And this is a challenge for the country in making monetary policy. This shows that the Fed's policy plays an important role in world monetary policy, because the first, the American financial system has become a producer of scattered assets for the global economy. The Fed acts as a world bank by providing short-term loans from foreigners and investing long-term abroad. Second, the American financial central bank system is a monetary superpower that largely regulates global monetary conditions.[30]

Influence of the Fed on the world economy can be seen in the history that occurred in 2008, where the United States crisis occurred which began due to the collapse of the housing sector caused by the increase in subprime mortgages at the end of 2007 which led to credit crash and slump in global stock prices. [31]The crisis spread to Europe, making global stock prices fall and weakening the United States Dollar. As a result, banking performance has fallen, due to the difficulty of gaining the trust of capital market players, both in the United States and in the world economy.[32]

4.2 Equation: Bank Indonesia Policy Developments Againts The Fed Icrease

Looking at the economic history that was experienced in 2008, the financial crisis that occurred that year was the worst crisis since the Great Depression. There was a fall in the US stock market

[30]David Beckworth and Christopher Crowe, *The International Impact of the Fed When the United States Is a Banker to the World,* Board of Trustees of the Leland Stanford Junior University, 2017, p. 56

[31]Teguh Sihono, Krisis Finansial Amerika Serikat dan Perekonomian Indonesia, *Jurnal Ekonomi & Pendidikan,* Vol. 5, No. 2, 2008, p. 176.

[32]Ibid, Teguh Sihono,...

Vol. 6, No.11; 2022

ISSN: 2456-7760

during the period 2007-2009, the financial crisis also caused an increase in the percentage of unemployment.[33]

With the 2008 economic crisis, the Indonesian economy needs about 6 years to recover, and is one of the countries left behind from the crisis compared to other countries experiencing the same thing. [34]At that time, foreign funds came out, causing the Jakarta Composite Index (JCI) to fall quite sharply. The step taken by the IDX is to suspend trading to give investors a period of time.

In the face of this crisis, in October 2008, the government issued three Government Regulations in Lieu of Law (Perppu). First , Perppu 2/2008 to strengthen BI's lender of last resort function by expanding the types of assets used by banks as collateral by banks to obtain Short Term Loan Facility (FPJP) from Bank Indonesia. The second policy , Perppu 3/2008, is to strengthen the role of the Deposit Insurance Corporation (LPS) in times of crisis. Third , Perppu 4/2008 concerning the Financial System Safety Net (JPSK), which is to establish mechanisms, procedures, and coordination between institutions that are given the task and authority to prevent and deal with emerging crises.

In 2021 there will be very high inflation in the United States, this is caused by supply disruptions due to Covid and higher food prices due to major storms and droughts.[35] Along with the high inflation rate, it appears that the central bank of the United States (US) The Federal Reserve (The Fed) is tightening monetary policy more to maintain stability. [36]Based on the news on June 4, 2022 that the Central Bank of the United States (US) or The Federal Reserve (The Fed) raised its benchmark interest rate by 0.5 percent. In addition, the Fed is also targeting the federal funds rate to be in the range of 0.75 percent to 1 percent.[37]

This policy was taken to neutralize US inflation, where in March 2022 the year on year (yoy) increase in US inflation had reached 8.4 percent or the highest record in the last 41 years. As a result, global financial markets immediately responded negatively. This is because global inflation has yet to be controlled, starting from the increase in inflation related to the impact of the Russia-Ukraine war and the hampered supply chain from China due to the very strict Covid isolation, to the European Union's move to stop oil imports from Russia.[38]

Chief Economist and Investment Strategy of Manulife Aset Manajemen Indonesia, Katarina Setiawan, these conditions and policies are concerns and speculations that are the cause of the correction in financial markets and the increase in yields on the 10-year US Treasury.

[33]Reported from the Tirto.id article, , https://tirto.id/krisis-finansial-2008-bagaimana-indonesia-mengatasinya-f7qD, accessed on June 29, 2022, at 20.27 WITA.

[34]Ibid.

[35]Kontan.co.id article, , https://internasional.kontan.co.id/news/inilah-faktor-yang-menyebabkan-amerika-terkena-dampak-inflasi-paling-buruk, accessed on June 29, 2022, at 21:10 WITA .

[36]Nasional Kontan, *Artikel Gubernur BI beberkan efek kenaikan Suku Bunga The Fed ke Indonesia*, https://nasional.kontan.co.id/news/ accessed on June 11, 2022, at 17:12 WITA.

[37]Liputan 6, https://www.liputan6.com/bisnis/read/ accessed on June 11, 2022, at 20:10 WITA

[38] *Ibid*

[39]However, according to Katarina, this is more of a market adjustment process and does not reflect the weakening of Indonesia's economic fundamentals. Reflected by the latest data which shows that fundamentals are still solid to support the recovery and continue the opening of the economy in 2022. Starting from the trade balance surplus of US$9.3 billion in the first quarter of 2022, foreign exchange reserves rose to US$139 billion, up to the Gross Domestic Product. (GDP) which grew 5.01 percent in the first quarter of 2022 and real GDP has exceeded the level of real GDP before the pandemic. Meanwhile, inflation data also tended to be maintained despite an upward trend.[40]

According to the Merdeka article,[41] to minimize the impact of the Fed 's policies, Bank Indonesia has implemented five strategies. First, by strengthening the rupiah exchange rate policy to maintain exchange rate stability in line with market mechanisms and economic fundamentals. The second strategy, Bank Indonesia gradually reduces liquidity injections by banks. Third, to maintain exchange rate stability and control inflation, in the first quarter of 2022 Bank Indonesia took steps to maintain the BI 7-Day Reverse Repo Rate (BI7DRR) at 3.50%, the Deposit Facility interest rate at 2.75%, and the interest rate on the Deposit Facility at 2.75%. Lending Facility of 4.25%.[42] Fourth, expand the use of Local Currency Settlement (LCS) as a means to settle bilateral trade and investment transactions with cooperating countries, particularly Asian countries. Fifth, strengthen international policies by expanding cooperation with central banks and partnering country authorities.

In maintaining macroeconomic and financial system stability and promoting national economic recovery, Bank Indonesia also continues to strengthen policy synergies with the Government and the Financial System Stability Committee (KSSK) in the context of accelerating vaccination and opening up economic sectors, fiscal and monetary coordination, encouraging credit/financing. for the business world in priority sectors.[43]

The policy taken by Indonesia is also in the form of controlling the monetary amount which can be in the form of money supply, base money or bank credit and or interest rates in order to achieve the country's economic stability. [44]Economic policies are an integral part of macroeconomic policies aimed at maintaining a balance of economic activity with a sustainable level of economic growth.[45]

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[39] *Ibid* , Nasional Kontan,...

[40] *Ibid*

[41]Article, Merdeka.com, https://www.merdeka.com/uang/lima-strategi-bank-indonesia-antisipasi-normalisasi-kebijakan-the-fed.html, accessed on June 29, 2022, at 22:07 WITA.

[42]Bank Indonesia, Laporan kelembagaan Bank Indonesia, https://www.bi.go.id/id/publikasi/laporan/Documents/Laporan-Kelembagaan-BI-Triwulan-I-2022. Accessed on June 26, 2022, at 22.21 WITA.

[43]Ibid, Bank Indonesia, Laporan kelembagaan,...

[44]Bank Indonesia, *Kebijakan Moneter,* https://www.bi.go.id/id/, accessed on June 5, at 22.15 WITA

[45]Ibid

Reviewing the latest policy developments by the Fiscal Finance Agency of the Ministry of Finance in an effort to strengthen Indonesia's economic performance, on monetary policy and the financial sector, several policies have been carried out, including:[46]

a. Incentive policies for banks that provide funds for certain and inclusive economic activities.
b. Policy of Statutory Reserves in rupiah and foreign currencies for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units.
c. Macro prudential Inclusive Financing Ratio Policy for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units.
d. The Bank's Transaction Policy with Bank Indonesia to Support Transaction Settlement Using the Local Currency of the Partner Country.
e. Officeless Financial Services Policy for Financial Inclusion.

5. Conclusion

As a country with a large open economic system, the US central bank's monetary normalization policy greatly influences the economies of other countries, including Indonesia. In Indonesia, monetary policy is controlled by the central bank of the Republic of Indonesia, namely Bank Indonesia (BI). Monetary policy is one of the factors that can affect economic activity. In principle, monetary policy is a policy carried out and determined by the central bank to achieve monetary goals in each country. Since July 2005, the monetary policy set and implemented by BI has been carried out by controlling interest rates (BI rate).

United States monetary policy is controlled by the Federal Reserve System (Fed) which is divided into 12 districts called the Federal Reserve Bank . Changes in the Fed's interest rate will determine the flow of the US dollar currency in various countries as a consequence of the dollar as a means of international transactions so that the Fed has a very crucial influence on the American economy and the world. To minimize the impact of the Fed 's policies, Bank Indonesia carried out five strategies and to achieve economic stability in Indonesia, Bank Indonesia made various policies.

According to the author, policies to raise interest rates could weaken economic growth. The increase in Bank Indonesia interest rates will have an impact on banking. Banks, especially conventional banks, will raise interest rates on loans and deposits, causing public demand for credit to decrease. An increase in Bank Indonesia interest rates can also reduce people's purchasing power, so there is a need for government policies to protect people's purchasing power, especially the poor and the vulnerable.

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[46] Badan Kebijakan Fiskal, Tinjauan Ekonomi, Keuangan dan Fiskal Edisi Tahun 2022, p. 58

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OJK, Laku Pandai, https://www.ojk.go.id/id/pages/Laku-Pandai.,