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THE ROLE OF MONETARY POLICY IN DRIVING POST-PANDEMIC ECONOMIC GROWTH

Aliya Fayyaza[1], Naila Deswita[2], Fadli Hasbi Hasibuan[3], Raihan Ade Ghuffar[4], Ataina Zulfa Nasution [5]

[1234]State Islamic University of North Sumatera

nailadeswita329@gmail.com

ABSTRACT: This study aims to analyze the role of monetary policy in driving economic growth post-COVID-19 pandemic by reviewing the effectiveness of monetary instruments in restoring macroeconomic stability. Using a qualitative approach with the library research method, this study examines various literature from journals, books, and official reports related to interest rate policies, liquidity, and monetary stimulus in developing countries, especially Indonesia. The results of the analysis show that expansionary monetary policy is able to accelerate economic recovery, although its effectiveness depends on financial system stability and fiscal policy coordination. The implications of this study emphasize the importance of adaptive and inclusive monetary policy reform in the face of global economic uncertainty.

Keywords*:* Monetary Policy, Economic Growth, Post-Pandemic, Macroeconomic Stability, Indonesia.

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INTRODUCTION

The COVID-19 pandemic has caused a major shock to the global and domestic economies, including Indonesia. Social restrictions, uncertainty in international markets, supply chain disruptions, and declining consumption and investment have led to a contraction in economic growth in almost all developing countries. In Indonesia, during 2020 and early 2021, many business sectors experienced sharp declines, especially the tourism, export, and MSME sectors while pressure on exchange rates and inflation arose due to global supply disruptions and fluctuations in world commodity prices. The study "Monetary Policy in Indonesia's Economic Recovery During the COVID-19 Pandemic" shows that Bank Indonesia has implemented various monetary policy instruments such as interest rate reductions, rupiah exchange rate stability, purchases of government securities in the secondary market, and macroprudential liquidity policies to deal with the pandemic crisis (Saputro & Fakhri, 2024) However, despite the various steps taken, it is unclear to what extent these policies remain effective after the acute crisis phase of the pandemic is over, when the economy begins to enter a recovery phase influenced by new domestic and global factors such as emerging inflationary pressures, external risks such as rising global interest rates, and market expectations that could influence investment and consumption decisions.

The urgency of this study is very high because although there is already quantitative evidence on the effects of monetary policy during the pandemic on macro-variables such as economic growth, inflation, and bank credit, the study uses a qualitative approach to delve deeper into how policymakers (government/Bank Indonesia), the real sector, and MSME actors assess the effectiveness of post-pandemic monetary instruments is still limited. For example, the study "Monetary Policy Effectiveness on Inflation and Growth Economy in Century COVID-19 Pandemic" outlines instruments such as the BI-7 Day Reverse Repo Rate, securities purchases, and liquidity policies, but most of the analysis is descriptive and quantitative from macro data, lacking focus on stakeholder perceptions and implementation barriers in the field (Manullang, 2023) In addition, in the post-pandemic context, monetary policy faces a dual challenge: stimulating growth without triggering high inflation, as well as maintaining financial system stability amid global volatility. Without a deep understanding of how these instruments work in the context of local economic realities and the responses of economic actors, monetary policy can be suboptimal or even counterproductive.

Based on this background, this study aims to explore in depth the mechanisms and dynamics of post-pandemic monetary policy in encouraging economic growth in Indonesia through a qualitative approach. In particular, this research aims to achieve several objectives, describing the monetary policy instruments that have been and are being used after the pandemic crisis phase and how they are operationalized in practice; understand the perceptions and experiences of economic actors including the government, central banks, banks, productive sectors and MSMEs regarding the effectiveness and constraints faced in the implementation of monetary policy; and evaluate how these policies contribute to economic growth while maintaining price and exchange rate stability, as well as formulate policy recommendations so that monetary policy in the future is more adaptive to changing global and domestic economic conditions. Thus, this study is expected to provide richer policy insights not only from macroeconomic data, but also from real experience and field contexts.

LITERATURE REVIEW

Early research during the pandemic showed that monetary policy transmission weakened when health and economic uncertainty peaked, making conventional monetary instruments (e.g., changes in interest rates) less effective in influencing asset prices, market interest rates, and credit behavior in the short term. An event-study that analyzed the market for bonds, stocks, exchange rates, and credit default swaps in 37 countries found that after the outbreak of the pandemic the effectiveness of monetary transmission on financial markets decreased significantly; The authors conclude that both conventional and unconventional policies face greater transmission barriers during the acute phase of the pandemic (Wei & Han, 2021). Other studies focusing on emerging market countries have also shown a similar pattern: COVID-19 uncertainty weakens policy transmission to inflation, while in some cases transmission to credit and output persists, signaling the heterogeneity of policy effectiveness between countries and between transmission channels (Prabheesh, Juhro & Harun, 2021). These findings underscore the root of the post-pandemic problem: if transmission weakens, monetary policy needs to be re-evaluated not only in terms of the size of instruments, but also the smooth flow of channels to the real sector.

More recent studies have examined the range of monetary policy responses during and after the acute phase of the pandemic and their impact on macro variables (growth, inflation, market liquidity). A comparative study in OECD-countries found that a combination of interest rate cuts, open market operations/quantitative easing, and easing of liquidity requirements can dampen economic contraction but cause medium-term trade-offs in the form of inflationary pressures or the risk of accumulating financial market vulnerabilities if the stimulus lasts too long; Importantly, the review emphasizes the need for gradual adjustment and coordination of fiscal-monetary policies as it enters the recovery phase (Rathnayaka, Khanam & Rahman, 2024). In addition, empirical studies comparing policy effectiveness before and after COVID-19 (case studies of several countries, including developing countries) show that policy effectiveness is strongly influenced by the institutional conditions of the level of development of financial markets, the depth of credit markets, and the fiscal channels that determine how quickly monetary stimulus is contagious to real investment and consumption (Kumar, 2024). This literature illustrates two important points for research, monetary instruments have the potential to drive recovery but their effects vary and depend on the context of transmission; Qualitative evaluation of the perceptions of policymakers, banks, and business actors (especially MSMEs) is needed to understand implementation barriers that are not captured by aggregate data.

The practical application and policy implications of the findings provide a solid basis for the proposed qualitative studies. First, because many quantitative studies report weakening transmission and heterogeneity of effects between channels, qualitative research is needed to uncover the mechanisms on the ground: how central banks design and communicate operational designs, how banks and the real sector respond to liquidity policies or changes in interest rates, and administrative or institutional barriers that reduce effectiveness. Second, the post-pandemic literature highlights the policy dilemma between boosting growth and containing inflationary pressures; The perspective of practitioners and business actors will help formulate more contextual policy recommendations, for example, the timing of instrument normalization, communication targets, and micro-support policies for MSMEs so that monetary policy transmission can increase real economic activity faster. In other words, the study fills a gap between global quantitative evidence that shows general patterns and local field evidence that shows why an instrument may be successful in one country but less effective in another.

RESEARCH METHODOLOGY

This study uses a qualitative approach with the library research method to analyze the role of monetary policy in driving post-pandemic economic growth. The qualitative approach was chosen because it allows researchers to understand economic phenomena from an in-depth, contextual, and interpretive perspective. In this approach, the researcher serves as the main instrument that interprets the text data and concepts found in the academic literature (Fadli, 2023) qualitative research aims to explore the meaning behind phenomena through systematic descriptive analysis of relevant sources without direct intervention on the object being studied. Therefore, the literature study method is the right choice for this topic, because all data is obtained through searching documents, books, scientific journals, and official reports related to monetary policy and post-pandemic economic growth.

The main tools in this study are scientific documents and literature, both theoretical and empirical in nature. Data sources are obtained from macroeconomic and monetary policy books, international scientific journals that are indexed and have DOIs, as well as official publications from institutions such as Bank Indonesia, IMF, and OECD. The selected literature is focused on publication between 2020 and 2025 to fit the post-pandemic context. The research procedure is carried out in stages, starting with determining the focus of the research, namely analyzing how monetary policy instruments such as interest rates, minimum mandatory reserves, and open market operations play a role in accelerating national economic recovery. The next stage is the collection of literature through scientific databases such as Scopus, ScienceDirect, and Google Scholar with keywords such as monetary policy post-COVID-19, economic recovery, and Indonesia growth after pandemic. Each literature found is selected based on relevance, scientific validity, and the up-to-date of the source (Zed, 2014) a good literature study must be able to filter literature with clear criteria, so that the results of the analysis are credible and can be accounted for academically.

The analysis stage in this study was carried out by content analysis and thematic analysis. Content analysis is used to identify patterns, concepts, and arguments in the literature regarding the relationship between monetary policy and economic growth, while thematic analysis helps to discover key themes such as the effectiveness of monetary instruments, the role of policies on inflation and exchange rates, and post-pandemic policy challenges. This approach is inductive, where themes and conclusions are obtained from in-depth reading and interpretation of various sources (Bowen, 2009) document analysis in qualitative research not only serves as a complement to data, but also as the main source in constructing a comprehensive theoretical understanding of a phenomenon. To maintain the validity of the results, this study applied a literature triangulation technique, which is comparing findings from various different sources to ensure consistency and validity of interpretation. With these steps, this research is expected to be able to produce a comprehensive, systematic, and relevant analysis of how monetary policy plays a strategic role in strengthening Indonesia's economic growth in the post-pandemic period.

RESEARCH RESULT

Based on literature review, monetary policy is a series of actions taken by monetary authorities, especially central banks, to achieve price stability, control inflation, and maintain a balance between economic growth and exchange rates. After the COVID-19 pandemic, the role of monetary policy has become increasingly important in accelerating the global and national economic recovery process (Mankiw, 2021) post-pandemic monetary policy not only serves as a short-term stabilization tool, but also a strategic instrument in shaping market expectations and strengthening the confidence of economic actors (Mishkin, 2020) emphasized that in the crisis and post-crisis periods, the effectiveness of monetary policy is highly dependent on policy transmission through the banking sector, interest rates, and public expectations of the direction of the policy.

From various sources, it was found that the pandemic has significantly changed the paradigm of monetary policy. If previously monetary policy focused more on controlling inflation, then in the post-pandemic context, its main role shifted towards supporting economic recovery and maintaining financial system stability (Wei & Han, 2021) shows that the transmission of monetary policy to financial markets was weakened during the pandemic due to global uncertainty, but gradually began to recover after clarity on the direction of interest rate policy and liquidity easing. Thus, the results of the literature analysis confirm that the basic concept of post-pandemic monetary policy does not only lie in controlling the money supply, but also includes aspects of trust, policy communication, and flexibility in responding to rapidly changing economic dynamics.

Based on the results of the literature search, experts have diverse views regarding the effectiveness of monetary policy in encouraging economic growth after the pandemic. Some literature emphasizes that monetary easing policies, such as lowering the benchmark interest rate and quantitative easing, have proven to have a positive impact on economic recovery (Rathnayaka, Khanam & Rahman, 2024) that examined OECD countries found that expansionary monetary policy measures have succeeded in containing economic contractions and encouraging short-term growth. However, the study also highlights the emergence of inflation risks and asset market imbalances if loose policies are maintained for too long (Kumar, 2024) who state that the effectiveness of monetary policy in the post-pandemic context is highly dependent on the economic structure and depth level of a country's financial markets.

The comparison between these results shows that there is a difference in perspective between developed and developing countries. In developed countries, quantitative easing policies are relatively effective due to a more established and transparent financial system, while in developing countries such as Indonesia, their effectiveness tends to be limited by weak policy transmission through the banking sector (Prabheesh, Juhro & Harun, 2021) explained that global economic uncertainty during the pandemic has weakened the transmission of monetary policy in emerging markets, so that its impact on inflation and growth is not as strong as expected. Based on the literature review, it can be concluded that experts generally agree that monetary policy has a vital role in economic recovery, but its effectiveness is highly dependent on structural conditions, policy credibility, and coordination with fiscal policy.

The results of the analysis of various sources show that the role of monetary policy post-pandemic cannot be understood singularly from the perspective of conventional theory. Based on the synthesis of the literature, the researcher assesses that modern monetary policy must play a dual role as an instrument of macroeconomic stabilization as well as a catalyst for medium-term growth. These policies are effective when supported by a sound financial system, close coordination with fiscal policy, and clear communication from monetary authorities to the public (Borio & Disyatat, 2021) who stated that monetary policy should be directed not only at inflation control, but also at the sustainability of growth and stability of the financial system, especially after major shocks such as the global pandemic.

From several sources, it was found that although monetary policy has contributed to post-pandemic macroeconomic stabilization, the main challenge lies in the efficiency of policy transmission to the real sector. The literature shows that in Indonesia, the effectiveness of Bank Indonesia's policies in encouraging credit and investment still faces structural constraints, such as low financial literacy, limited access of MSMEs to financing, and high sensitivity to changes in interest rates. Therefore, the results of the analysis show that an adaptive, inclusive, and communicative monetary policy is the key to the success of long-term economic recovery. By integrating findings from various literatures, researchers conclude that the role of post-pandemic monetary policy should be viewed holistically not just as an economic instrument, but also as a policy that shapes public confidence and the direction of sustainable economic growth in the future.

DISCUSSION

The results of this study show that post-pandemic monetary policy has several different but interrelated role dimensions, especially in the Indonesian context. Through an analysis of the relevant literature, it was found that monotiser instruments used such as lowering the benchmark interest rate, easing liquidity (quantitative easing or unconventional policies), exchange rate stability, and mandatory reserve policies have been sought to encourage consumption, investment, and maintain market expectations. The study "Monetary Policy Effectiveness on Inflation and Growth Economy in Century Covid-19 Pandemic" shows that Bank Indonesia implemented macroprudential accommodative policies, BI7DRR interest rate reductions, and purchases of government securities in the secondary market to cushion economic contraction and support post-pandemic growth (Manullang, Hutasoit, Matondang & Indiriani, 2023)

Second, the literature compares the effectiveness of policy instruments in different contexts, especially between developed and developing countries, as well as under normal vs crisis conditions. (Rathnayaka, Khanam & Rahman, 2024) emphasizes that in OECD countries, a combination of conventional and non-conventional policies is able to maintain growth in the short term, but on the other hand shows trade-offs to medium-term inflation (Rathnayaka, Khanam & Rahman, 2024). Meanwhile in Indonesia, literature such as "Effectiveness of monetary policy transmission in Indonesia" shows that credit channels are more effective in passing on the influence of monetary policy on economic growth, while interest rate channels are more pronounced on inflation variables (Fuddin, 2022)

Third, there are differences in perceptions about the limits and obstacles to the implementation of monetary policy post-pandemic. One of the casuistic studies in Indonesia found that even though interest rates were reduced, investment and consumption did not always respond significantly, especially in the MSME sector, due to external factors such as low investor confidence, supply chain disruptions, and high food inflation. The study "Impact of Monetary Policy on Indonesia's Economic Growth, Case Studies before and during the Covid-19 Pandemic" said that during the pandemic period, interest rate reductions were not always passed on to economic growth due to high risk of uncertainty, and the pandemic dummy variable showed that the effect of interest rates became less sensitive (Hariyanti, Siagian & Soeharjoto, 2022)

Based on the literature review, the researcher interprets that the effectiveness of post-pandemic monetary policy is highly dependent on three main factors, namely: the transmission strength of policy instruments (interest rate, credit channel, liquidity), institutional structure and macroeconomic conditions (level of financial market depth, access to financing, inflation expectations, public confidence), and coordination with fiscal policies/supporting policies as well as non-monetary policies (such as social assistance, exchange rate stability and bank liquidity support). Without these supporting factors, monetary policy could lag behind in triggering real economic growth.

Furthermore, the analysis found that accommodative monetary policy in the short term tends to succeed in boosting real economic activity, but if it continues without a normalization and inflation control strategy, there will be a risk of high inflation and exchange rate distortion. In the study of post-pandemic inflation warns that sluggish monetary policy in response to soaring inflation can lose credibility and worsen people's inflation expectations (Clarida, 2025)

Taking into account all the findings, the researchers concluded that post-pandemic monetary policy should be designed with a balance between stimulus and stability controls. Effective policy is not only about the amount of stimulus, but also the speed and clarity of policy communication, the robustness of the financial system, and the readiness of the real sector to respond to monetary policy. In the Indonesian context, it is important to strengthen credit channels to MSMEs and productive investment, pay attention to commodity and food inflation, and maintain the flexibility of policy instruments in the event of external shocks.

CONCLUSION

This study emphasizes that monetary policy has played a crucial role in accelerating economic recovery following the COVID-19 pandemic. Through various conventional and unconventional measures—such as interest rate cuts, liquidity support, and macroprudential easing—central banks worldwide, including Bank Indonesia, have worked to restore macroeconomic stability and rebuild public confidence. These actions have proven effective in mitigating the depth of economic contraction and stabilizing financial markets. However, the degree of success differs across nations, influenced by institutional capacity, financial market development, and the quality of coordination between monetary and fiscal authorities.

In Indonesia’s case, monetary policy has made an important contribution to short-term stabilization by maintaining exchange rate stability, lowering borrowing costs, and ensuring sufficient liquidity within the banking sector. Nevertheless, the process of policy transmission to the real economy continues to face significant challenges. Limited access to credit for MSMEs, low levels of financial literacy, and the sensitivity of domestic prices to external shocks have constrained the effectiveness of these monetary measures. As a result, an inclusive, adaptive, and well-targeted approach is required to ensure that monetary stimulus effectively supports production, employment, and investment across all economic sectors.

The findings also indicate that the post-pandemic environment requires a transformation in the way monetary policy is designed and implemented. Policymakers are expected to strike a balance between promoting economic growth and maintaining price and financial stability. To achieve this, strong institutional credibility, consistent policy communication, and coordination with fiscal and structural measures are essential. Without clear and transparent communication, uncertainty in market expectations may weaken the credibility and transmission of monetary policy.

In the long run, monetary policy must go beyond short-term stabilization and serve as a strategic foundation for sustainable and inclusive growth. Strengthening financial infrastructure, deepening capital markets, expanding digital access, and improving financial inclusion are necessary to enhance policy effectiveness. Central banks should also adopt forward-looking frameworks that anticipate global risks such as interest rate volatility, geopolitical instability, and climate-related challenges. By maintaining flexibility, transparency, and coordination with fiscal authorities, monetary policy can reinforce Indonesia's resilience, sustain recovery momentum, and contribute to long-term equitable growth in the global post-pandemic economy.

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