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MONETARY POLICY IN THE FACE OF THE GLOBAL ECONOMIC CRISIS

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ABSTRACT: Maintaining national financial stability in the face of globalization or global economic crisis is highly dependent on monetary policy. Monetary policy balances price stability and economic growth through a variety of instruments, including inflation, interest rates, and money supply restrictions. Economic globalization has made poor countries increasingly dependent on foreign financial flows and vulnerable to pressure from global organizations such as the World Bank and the IMF. Law No. 23 of 1999 brought about changes in Indonesia's monetary policy, giving Bank Indonesia more autonomy and realizing flexible exchange rates and inflation targeting mechanisms. The 2008 global crisis was a reminder of the importance of open and honest public communication and coordination of fiscal and monetary policies. In addition, Keynesian theory emphasizes the need for policy coordination to handle crises, while the main way to influence economic activity is the mechanism of monetary transmission, which includes interest rates, exchange rates, or credit. In the digital era, advances in financial technology have an impact on the success of monetary policy. Therefore, to maintain macroeconomic stability and encourage sustainable economic growth, especially in developing countries such as Indonesia, it is necessary to have monetary policies that are responsive, flexible, and adaptive to world changes.

Keywords: Monetary Policy, Global Economic Crisis, Inflation.

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INTRODUCTION

Countries around the world often face significant challenges due to the global economic crisis. Economic instability can result from this phenomenon, which is often caused by external forces such as declining commodity prices, geopolitical wars, or pandemics. Monetary policy is one of the main tools used by the government to mitigate the impact of this crisis. A key component in maintaining economic stability is monetary policy, which includes managing the money supply, controlling inflation, and setting interest rates. By controlling the flow of money in the economy, monetary policy aims to control macroeconomic conditions to match the desired ones. The goal of this effort is to increase equilibrium production and achieve price stability and inflation. Because the interest-based system is connected to almost every aspect of the capitalist economy, the monetary sector is growing faster than the real sector. This is due to the fact that the monetary sector makes money faster than the real sector. To encourage the creation of more effective strategies in the future, this study seeks to collect and evaluate the various policy methods used to deal with the global financial crisis and identify important lessons that can be learned. In the face of ongoing global uncertainty, policymakers are required to strengthen their policy frameworks, mitigate risks, and promote equitable and sustainable economic development by leveraging knowledge gained from previous crisis case studies.

LITERATURE REVIEW

To measure the health of the economy, a number of important metrics are used. A prime example is inflation, the trend of increasing prices of goods and facilities overall over a period of time. Economic actors benefit from stable and controlled inflation because it gives them certainty. Deflation, the opposite of inflation, can hinder economic progress, while inflation can reduce people's purchasing power if it is too high. The unemployment rate is another metric that describes how many people are unemployed but looking for work. A low unemployment rate indicates that the workforce is being utilized to the fullest, while a high unemployment rate can reduce national incomes and increase the risk of social instability.

Maintaining economic stability and encouraging economic activity are the two main functions of monetary policy in an effort to achieve targeted economic development. The central bank oversees monetary policy, which aims to control inflation, keep exchange rates stable, and influence interest rates to encourage domestic investment and consumption. Changes in commodity prices and international capital flows, for example, can disproportionately impact developing countries, making them less prepared to face internal economic storms. International cooperation in monetary policy was highlighted by the global financial crisis of 2008 and other global financial crises (Neysa, 2024). When this happens, the International Monetary Fund or the World Bank steps in to help maintain global economic stability by providing loans. However, successful collaboration is often hampered by geopolitical issues and the rise of protectionist measures. Take for example trade disputes between large economies. This dispute has the potential to shake up the international monetary system and demand stronger global coordination.

In order for central banks to achieve stable prices and exchange rates, as well as sustainable economic development, monetary policy is an important tool in macroeconomic management. Bank Indonesia (BI) controls the money supply, manages foreign exchange reserves, and sets interest rates. A more equitable and sustainable economic expansion is the goal of this program.

Changing the money supply up or down controls the total money supply. There are two types of monetary policy in general: (a) Expansionary monetary policy. Increasing the money supply is the goal of this strategy. When the economy is sluggish or in recession, this strategy is implemented to increase public demand and reduce unemployment. Loose money policy is another name for this approach. b) Monetary Policy through Contracts. Reducing the money supply is the goal of this strategy. When inflation occurs in the economy, this policy is implemented. According to Rahardja (2005), this policy is also known as a restrictive money policy.

RESEARCH METHODOLOGY

Qualitative techniques were used in this study. The use of pre-existing data to describe a phenomenon is the main goal of descriptive questions in qualitative research (Ardianto, 2019; Semiawan, 2010). As research progresses, qualitative approaches can also adapt to new information (Ardianto, 2019). Because its primary goal is to study an item in its own environment, without change, this type of research is known as qualitative. The significance or quality of the phenomenon observed in actuality, rather than quantitative data, becomes the basis for the predicted findings.

All of the information used in this study is secondary, collected from various sources such as government reports, macroeconomic statistics, and the annual reports of international organizations such as the World Bank and the International Monetary Fund. Inflation rates, GDP growth, and various other economic indicators in developing countries are some of the topics covered by the data collected, along with information about monetary policy (such as interest rates, open market operations, or reserve requirements).

After that, we use descriptive statistics to show how monetary policy has changed and its impact, as well as correlational analysis to see how monetary policy affects inflation and GDP growth. Researchers can save time and gain historical context by using secondary data, which allows them to access previously researched material. This makes it easier for them to find similarities and differences in how central banks in different countries react. Both inflation and the stability of Indonesia's currency have benefited from Bank Indonesia's interest rate policy, which is known to be flexible. The findings of the study highlight the need for locally relevant fiscal policies and coordinated with monetary policy to achieve long-term economic stability.

RESEARCH RESULT

The goal of monetary policy is to stabilize the economy through controlling the money supply. To get out of this economic downturn, it is not enough just to put the real sector in order; We also need to correct some misconceptions about money. If we explore further, we find that two interrelated monetary factors are the real triggers of the global economic crisis that has affected Indonesia. (a) First, there is the issue of currency. In most cases, the value of a country's currency is directly linked to another country's currency (such as the rupiah against the US dollar), rather than being naturally stable. This is because fluctuations in the value of one currency almost always affect the stability of another country's currency. (b) Second, the fact that interest is withdrawn from every deposit or loan transaction and money is exchanged as a commodity in the foreign exchange market (Karim, 2001). "Crisis" can indicate many different things. According to Harberler, a recession is "a clear aberration in economic activity and the starting point of a downward trend or turning point" (Estey, 1960). In line with that, Mitchell stated that a recession is an economic crisis (Teguh, 2009). Therefore, resolving the problem of the foreign debt of the business world, increasing the capacity of national banks, or restoring optimism are tasks necessary to overcome this economic crisis, according to Tarmidi (1998).

The multifaceted crisis has hit many countries, including Indonesia, which has experienced currency crises, monetary crises, and now other disasters. According to Tambunan (2000), the impact of the rupiah crisis on aggregate demand and supply can be understood in this way. Open market operations, regulation of reserve requirements, and benchmark interest rates (BI Rate or currently BI 7 Day Reverse Repo Rate) are the main instruments used to carry out monetary policy in Indonesia. According to Endang Susilowati and Erwin Susanto Sadirsan (2023), the ultimate goal of monetary policy is to achieve stable inflation and economic development. Bank Indonesia, Bank Indonesia, uses exchange rate flexibility as a guiding principle in the implementation of its monetary policy (Alamsyah et al., 2001).

The economic crisis has had a major impact on Indonesian society, lowering living standards and welfare levels. Therefore, given the increasing speed of information and technological advancements, government policies and financial institutions need to be supported to overcome future global economic crises.

DISCUSSION

Monetary Policy Transformation in Indonesia

Indonesia's monetary policy has undergone major changes since Law No. 23 of 1999, which was the basis for the establishment of Bank Indonesia, came into effect. Some of these changes include the modernization of policy instruments, the transition from monetary targeting to inflation targeting, and the modification of Bank Indonesia's functions and independence.

The Impact of Globalization on Monetary Policy in Developing Countries

The globalization of trade and investment has changed the global economic landscape and has had a major impact on the monetary policies of developing countries. The increasing dependence of developing economies' economies on global capital mobility, foreign investment, and international trade flows is one of the main impacts. Therefore, the monetary policy of developing countries cannot be set absolutely; The policy needs to take into account the dynamic nature of the global economy.

Although developing countries have official monetary policy autonomy, in reality, they are often in a position where they have to align their policies with the policies of rich countries and international organizations such as the World Bank and the International Monetary Fund (IMF). The economic stability, inflation rate, and currency exchange rates of developing countries are all affected by changes in global capital flows, which in turn are caused by variations in U.S. interest rates. As a result, developing countries' central banks must respond to these external shifts by crafting policies that mitigate the risk of internal macroeconomic imbalances.

In addition, developing countries are more susceptible to external shocks such as global economic slowdowns, changes in commodity prices, and currency exchange rate volatility as a result of globalization. Here, central bankers must decide how best to balance the competing goals of stable currency exchange rates and low inflation, with the need to maintain economic growth at home. As a result, more and more developing countries are implementing more adaptive monetary policies, using instruments such as policy interest rates and foreign exchange reserve supervision to mitigate the impact of global fluctuations.

International organizations such as the International Monetary Fund and the World Bank can also influence monetary policy by suggesting economic reforms or providing loans, but they are usually accompanied by strict restrictions such as cutting subsidies or tightening monetary policy. As a result, developing countries find it more difficult to balance their own interests with global needs. In response to extreme price volatility on a global scale, the monetary policies of countries that depend on the export of commodities such as oil and gas, for example, must evolve.

Therefore, the capacity to adapt to changing global economic conditions, maintain financial stability, and achieve a balance between national interests and global power is critical to the effectiveness of the monetary policies of developing countries in this era of globalization.

Solving Economic Crises Using Keynesian Theory

The doctrine of government intervention to defuse economic crises is known as Keynesianism or Keynesian economics. This theory argues that various sectors of the economy are too rigid for the free market process to achieve economic equilibrium and stability on its own. As a result, monetary and fiscal measures set by the government must be actively pursued to achieve economic balance and stability. One approach to economic crisis, according to Keynesian philosophy, is fiscal policy. Government spending and revenue policies are known as fiscal policy. Tax cuts and increased government spending are two tools used by fiscal policymakers.

In a global economic crisis, one sector of the market economy fails and causes chaos in another economic sector. If a country's economy is in a recession or depression, we say that the country is experiencing an economic crisis. A recession can be triggered by a long-term economic crisis in a country. When a country's GDP falls sharply for two consecutive quarters, or more than a year, we say that the economy is in recession. Property and stock values plummeted as economic growth slowed, exacerbating the recession.

In the midst of economic instability, the Indonesian government has moved quickly to implement various measures through fiscal policies, especially tax policies, to help companies survive.

Government Efforts

Especially for the sake of the working class, the government is trying to mitigate the impact of the current global economic climate. The government adjusted the amount of subsidies for gasoline, electricity, or basic necessities to ease the burden on VND residents in meeting their basic needs, as their purchasing power decreased due to rising food prices and basic necessities. Diverting funds from the state budget to other programs is the best way to achieve this. As a result of the deficit projection, the 2009 fiscal year underwent many revisions that reduced the amount of subsidies from 6.6-7.2% to 6.4-6.9%, with a total decrease of 2% (Sihono, 2008).

Monetary Policy Transmission Mechanism

New financial technologies, such as widely used e-wallets, also affect the transmission mechanism of monetary policy. To achieve macroeconomic stability, monetary authorities must adjust their monetary policy tools and frameworks. Several main paths are affected by this mechanism of transmission of monetary policy, which in turn affects economic growth:

1. Interest Rate Channels. The interest rates on deposits and bank loans are affected by changes in the standard interest rate, which has a domino effect on investment and consumption. Price stability, economic growth, or job opportunities are some of the macroeconomic goals that the Central Bank wants to achieve through monetary policy (Putranto, 2022). Interest rates, exchange rates, monetary aggregates, asset prices, and credit are some of the economic variables that are influenced by the Central Bank through the implementation of monetary policy (Indira & Muljawan, 2003). The interest rate channel is the main facilitator of monetary policy communication. Bank interest rates for loans and deposits are sensitive to changes in the Central Bank's benchmark interest rate. People will save more if deposit interest rates are higher, and will spend and invest less if loan interest rates are higher (Debora et al., 2022).
2. One of the ways monetary policy affects exports and imports is through the exchange rate of the rupiah against other currencies. According to Sugeng et al. (2010), demand and supply in the foreign exchange market are the main variables that affect the currency exchange rate. According to Zia and Mahmood (2013), the economic development of a country and international trade are both influenced by exchange rate fluctuations. Adjei (2019) cites previous studies that show that exchange rate fluctuations can hinder investment and trade, which in turn slows down economic development.
3. The availability of bank loans for the real sector is one of the channels that monetary policy can use to influence credit. The economic development of a country is greatly influenced by the banking sector. Financial institutions known as banks act as intermediaries, taking deposits from the general public and then lending back the money. Credit financing is one of the ways banks distribute credit. Strict risk management must be implemented by banks when disbursing credit. To uphold Islamic principles, Islamic bank financing emphasizes openness and agreement, in contrast to conventional financing (Firmansyah, 2015). However, some of the funds disbursed may have problems, so not all of them are safe.

Case Study: Implementation of Monetary Policy During the 2008 Global Crisis

Monetary policy is a powerful instrument for stabilizing crises, according to quantitative research and case studies in 2008. However, that's not all it takes to succeed:

1. Monetary policy must be responsive to local and international market conditions.
2. Fiscal and Monetary Policy Coordination: In times of crisis, such as the 2008 financial crisis, fiscal stimulus is needed to complement monetary policy.
3. Policy Communication: To build trust in the market and guarantee that economic actors accept policy, central banks must be transparent.

Among the many instruments available, central banks use monetary policy to stabilize the economy, control inflation, and spur development. However, the implementation of monetary policy often faces many internal and external obstacles.

Monetary Policy Instruments in Conventional and Sharia

To control the money supply, four main instruments are used:

a. Activities in the Open Market In this system, the sale or purchase of government securities allows the government to manage the money supply. Shifts in the money supply can be achieved through the buying and selling of securities by central banks. In response to economic difficulties, other measures will be implemented. Increasing the money supply needs to be done at a time when the economy is sluggish. By buying assets, the central bank expands the money supply. As a result of central banks paying for their purchases with reserves held by commercial banks, the money supply increases.

b. For commercial banks that provide collateral to the central bank, the government sets an interest rate known as the discount rate. As part of its responsibility to supervise commercial financial institutions, the central bank must keep public trust in banks intact. One approach is to ensure that commercial banks can always meet their customers' check obligations. The first approach is to limit the investment options available to commercial banks by establishing certain rules and regulations. Second, we can help banks that are experiencing reserve problems—that is, their reserves are lower than the minimum required by law—by lending them money.

c. Prerequisite Reserve Ratio

Changing the money supply is another possible outcome of the adjustment of the mandatory reserve ratio. Raising the mandatory reserve ratio will make it harder for banks to lend money. Whether or not the majority of commercial banks have surplus reserves is a major factor in the effectiveness of both of the aforementioned monetary policies. You cannot use either method to affect the money supply if most commercial banks have surplus reserves.

d. The Importance of Moral Persuasion

The authorities responsible for the money supply try to influence it using moral arguments (Rahardja, 2005). The policy is implemented by the central bank through direct discussions with commercial banks, rather than through the establishment of written directives. In this meeting, the central bank briefed commercial banks on government initiatives and asked for their support to achieve them.

CONCLUSION

Facing the dynamics of globalization and the possibility of economic crises, monetary policy is essential in maintaining economic stability. To achieve a balance between economic growth and financial stability, monetary policy mainly consists of setting interest rates, controlling inflation, and managing the money supply. Developing countries face additional difficulties due to globalization, including policy pressures from wealthy countries and international organizations such as the World Bank and the International Monetary Fund, as well as greater reliance on financial inflows and fluctuating commodity prices.

With the passage of Law No. 23 of 1999, Indonesia's monetary policy underwent a radical overhaul, paving the way for a more autonomous and contemporary system. After implementing the inflation targeting mechanism and open exchange rate policy, Bank Indonesia is focusing on maintaining inflation stability. In addition, the global financial crisis of 2008 demonstrated that fiscal policy coordination, market responsiveness, and open communication are critical to the success of monetary policy.

The Keynesian school argues that fiscal and monetary policies, when combined, should be used by governments to address economic crises. Economic growth can be influenced primarily through the transmission process of monetary policy, which includes exchange rates, interest rates, and credit. Another factor that affects the effectiveness of monetary policy transmission in this era of digitalization and financial globalization is the function of financial technology such as electronic wallets.

Maintaining macroeconomic stability and supporting sustainable economic development in developing countries, such as Indonesia, has largely been achieved through monetary policies that are responsive, flexible, and adaptive to global changes.

RECOMMENDATIONS

First of all, we must work to improve policy coordination. To better respond to the economic crisis and keep inflation and exchange rates stable, governments or central banks must improve coordination between fiscal and monetary policies.

Second, an adaptive and flexible monetary policy. Interest rates and foreign exchange reserves are two monetary instruments that developing countries must continue to adapt to global dynamics, including changes in commodity prices and international capital flows.

Third, improving the capabilities of the institution. In responding to external shocks, monetary institutions must improve their analytical competence and transparency. Updating policy systems and utilizing information technology can achieve this.

The fourth point is to strengthen the Islamic banking system. Another approach to dealing with global economic uncertainty is to use Islamic principles in monetary regulation, as the Islamic financial sector emphasizes economic fairness and stability.

The fifth point is the need to increase global collaboration. To address the problems posed by globalization, developing countries must work more closely with international organizations, but they must also protect the independence of their currencies to meet their own economic needs.

Sixth, Protecting the Most At-Risk Communities. Targeted subsidies and price controls for basic necessities should be the focus of monetary and fiscal policies aimed at maintaining the purchasing power of low-income groups.

THANKS – YOU NOT

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There are still some problems and limitations in this journal, as he admits. To improve learning and writing in the future, he really expects constructive input and recommendations from other parties. In this era of economic globalization, he is confident that readers will benefit from this publication and will help advance our scientific knowledge of the dynamics of the monetary policy of developing countries.

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