



The Role of Central Banks in Inflation and Exchange Rate Stability Amidst Global Economic Challenges: Monetary Policy Approach

Eka Juarsa^{1*}, Yadi Janwari², Muhammad Hasannudin², Ahmad Hasan Ridwan²,
Mohammad Anton Athoillah²

¹Universitas Islam Bandung, Indonesia

²Universitas Islam Sunan Gunung Djati Bandung, Indonesia

*Email: eka.juarsa@unisba.ac.id

DOI: [10.59631/sijosi.v2i1.303](https://doi.org/10.59631/sijosi.v2i1.303)

Abstract

The global economic landscape poses significant challenges for developing countries, including Indonesia, particularly in managing inflation and exchange rate stability. This study investigates the role of central banks, with a specific focus on Bank Indonesia (BI), in maintaining economic stability amidst global economic uncertainties. Inflation, characterized by sustained price level increases and exchange rate fluctuations driven by international market dynamics and monetary policies, is identified as the primary concern affecting economic stability, purchasing power, and trade balance. The study highlights the pivotal role of BI's inflation-targeting framework and adaptive monetary policy approaches in addressing these challenges and enhancing economic resilience. Using a qualitative descriptive analysis, the research draws on scholarly literature, official reports, and relevant academic sources to explore the effectiveness of BI's strategies. Findings indicate that BI's multifaceted role in inflation control and exchange rate management supports sustainable economic growth while adapting to global economic complexities. Recommendations emphasize the need for enhanced policy transparency, strategic collaboration with government and international stakeholders, and the development of adaptive monetary innovations to address digital disruptions and structural economic shifts. This study contributes to academic literature and offers actionable insights for strengthening Indonesia's economic stability.

Keywords : Central bank, exchange rate, inflation, global economic challenge.

1. Introduction

Developing countries, including Indonesia, face significant challenges in managing their economies (Mardhiyah, 2023), particularly due to weak institutions and inadequate financial infrastructure. One of the primary issues is high and often uncontrollable inflation (Kızıltaş, 2024). Inflation, defined as a sustained increase in the general price level of goods and services (Atigala, Maduwanthi, Gunathilake, Sathsarani, & Jayathilaka, 2022; Duodu, Baidoo, Yusif, & Frimpong, 2022; Hadush, Gebregziabher, & Biruk, 2023; Movsisyan et al., 2024), has become a major concern for the government and economic actors (Ahmed, Chen, Kumpamool, & Nguyen, 2023; Yolanda, 2017). Since the economic reforms of the late 1990s, Indonesia has experienced periods of inflation that have impacted economic stability (Rismayanti,

Ebriza, Abdu, & Suryati, 2024), purchasing power, and overall societal welfare. Therefore, understanding the factors influencing inflation is crucial for maintaining economic stability.

In addition to inflation, exchange rate fluctuations pose a significant challenge for Indonesia as the largest developing economy in Southeast Asia. These fluctuations often coincide with global economic uncertainties driven by international market dynamics, global monetary policies, and political factors. The impact extends beyond the financial sector to trade balance equilibrium, export competitiveness, and consumer purchasing power. Thus, maintaining exchange rate stability has become a priority in Indonesia's economic policy framework.

In an increasingly integrated global economy, interconnectivity significantly influences domestic economic stability. Global economic uncertainties, commodity price fluctuations, and reliance on foreign capital complicate Indonesia's management of inflation and exchange rates (Zainuri et al., 2024). Such instability can hinder investment, reduce consumer purchasing power, and affect economic growth. Against this backdrop, the role of the central bank, particularly through monetary policy, is pivotal in maintaining economic balance (Singh, 2023).

In recent years, Bank Indonesia has endeavored to implement monetary policies focused on stability (Wisandani, Iswati, & Ismal, 2017), such as setting inflation targets and maintaining the Rupiah's exchange rate (Fadli Daud Abdullah, Doli Witro, Misbahul Munir Makka, Muhamad Sadi Is, & Syahid Mujahid Wiwaha, 2024). However, the effectiveness of these policies often faces challenges, including limited human resources and infrastructure. Therefore, a more holistic and adaptive approach is required to address these challenges, especially in the context of an increasingly complex globalized economy.

This study aims to explore the role of the central bank, particularly Bank Indonesia, in maintaining inflation and Rupiah exchange rate stability amid global economic challenges. Focusing on monetary policy approaches, the research will analyze the strategies implemented by Bank Indonesia and evaluate the effectiveness of these policies in managing exchange rate fluctuations and inflation levels.

Through this study, a deeper understanding of the monetary policy mechanisms applied by Bank Indonesia is expected. The findings of this research aim to provide policy recommendations to enhance Indonesia's economic stability while contributing to the academic literature on economics and monetary policy.

2. Research Method

This study employs a qualitative descriptive analysis approach to explore the role of the central bank in stabilizing inflation and exchange rates in Indonesia. Data is

collected through library research, gathering information from scholarly works, books, academic journals, official reports, and other relevant documents. These sources provide a comprehensive understanding of monetary policy, the challenges of global economic dynamics, and the impacts of inflation and exchange rate fluctuations on Indonesia's economy.

The collected data is analyzed using a descriptive qualitative method, which systematically organizes, interprets, and summarizes information to uncover patterns and insights. The sources include academic literature, such as scholarly books and scientific journal. This journal enables a thorough analysis, offering insights to inform effective policy decisions in managing inflation and exchange rate stability.

3. Results and Discussion

3.1 Inflation

Inflation, generally understood as a sustained rise in prices over time (Sun, Su, Tao, & Qin, 2021), reflects an economic condition where goods and services become increasingly expensive, leading to a decline in the purchasing power of money. This phenomenon, if left unchecked, can cause significant economic deterioration and even political instability (Hakiki, Suhaimi, Mu'ammam, & Kurniasari, 2024). Various factors contribute to inflation, including high consumer demand (Widya et al., 2023), rising production costs (Widya et al., 2023), and governmental monetary policies (Binetti, Nuzzi, & Stantcheva, 2024). While moderate inflation is often viewed as a normal component of economic growth (Wanzala & Obokoh, 2024), excessive or extremely low inflation can disrupt economic stability (Bilalli, Sadiku, & Sadiku, 2024)s. For instance, Japan has experienced deflationary issues for decades due to persistently low inflation rates.

Central banks play a pivotal role in managing inflation (Abeysekera, 2024; Singh, 2023) by employing monetary policies (Qanas & Sawyer, 2024), such as adjusting interest rates (Singh, 2023). Through careful modulation of interest rates, central banks aim to strike a balance between economic growth and price stability. A moderate level of inflation, when effectively controlled, fosters a conducive environment for investment and long-term economic development (Raysharie et al., 2023). This underscores the importance of maintaining a pragmatic approach toward inflation management to avoid economic turmoil.

3.2 Exchange Rates

Exchange rates, defined as the price of one currency in relation to another (Mwiya, Simaundu, Nyau, & Phiri, 2024; Steinberg & Walter, 2013), are fundamental in international trade, as they facilitate price comparisons for goods and services globally (Azizah, Ismanto, & Sambara Sitorus, 2020). The exchange rate is a critical determinant of economic interactions and influences activities in both stock and

financial markets (Ahmadian-Yazdi, Sokhanvar, Roudari, & Tiwari, 2025). For example, significant fluctuations in Indonesia's rupiah have been attributed to capital outflows caused by diminishing investor confidence, which creates challenges for monetary stability (Sujianto et al., 2024).

Central banks monitor exchange rate movements closely and often intervene in the foreign exchange market to stabilize their currency (Chaudhari & Trivedi, 2022). Such interventions are essential to mitigating adverse effects on the economy, such as inflation caused by currency depreciation. Additionally, exchange rate fluctuations impact trade balances and economic competitiveness, making it imperative for central banks to maintain a balance between domestic and international economic interests (Wijayanti, Suharsih, & Wenerda, 2022).

3.3 Central Banks and Monetary Policies

Central banks hold a unique mandate to stabilize economic systems through monetary policies. In Indonesia, Bank Indonesia (BI) is tasked with maintaining the stability of the rupiah in terms of both goods and services prices and currency exchange rates, as outlined in laws such as UU No. 23 Tahun 1999 (Suminto & Azkiya, 2024). BI adopts an inflation-targeting framework to enhance its credibility and achieve its goals (Anggoro, 2017). Central banks regulate money supply and interest rates to influence inflation, stabilize currency values, and promote sustainable economic growth (Munthe, Iqbal, Ulya, & Dalimunthe, 2024).

One notable function of central banks is to intervene in volatile markets, especially during economic crises, ensuring confidence in financial systems. For instance, through inflation-targeting policies, Bank Indonesia adjusts its monetary strategies to respond to domestic and global economic challenges, thus reinforcing its role in stabilizing the economy. This approach highlights the necessity of adaptive and transparent monetary policy frameworks to support national and international economic stability (Abdulah & Ai, 2024; Lsstari et al., 2024).

Overall, the integration of inflation control, exchange rate management, and monetary policy underscores the multifaceted role of central banks in ensuring economic resilience. As global economic dynamics evolve, it becomes increasingly vital for monetary policies to remain flexible and responsive, aiming to create a balanced and stable economic environment for long-term growth. Effective collaboration among central banks, governments, and international stakeholders is pivotal in addressing both domestic and global economic challenges, ensuring sustainable economic prosperity (Sengupta et al., 2023).

4. Conclusion

The results of the study show that the central bank has a crucial role in maintaining inflation and exchange rate stability through monetary policy. In the Indonesian

context, implementing the inflation-targeting framework by Bank Indonesia (BI) is the main instrument for achieving price and exchange rate stability while supporting sustainable economic growth. This strategy allows BI to adapt to global and domestic economic challenges while increasing the credibility of monetary policy. Overall, the combination of inflation control, exchange rate management, and flexible monetary policy implementation demonstrates the importance of the central bank's multifaceted role in ensuring economic resilience amidst global dynamics.

Central banks are advised to strengthen transparency and monetary policy communication to be more effective in increasing market confidence. In addition, strategic collaboration between central banks, governments, and international institutions must be improved to face global economic challenges in an integrated manner. Further research can be focused on monetary policy innovations that are more adaptive to digital disruption and structural changes in the global economy so that they can support long-term economic stability more comprehensively.

References

- Abdulah, A. S., & Ai, A. N. (2024). Peran Bank Indonesia Dalam Menstabilkan Perekonomian Dan Jumlah Uang Beredar Melalui Kebijakan Moneter. *Lobi*, 1(2), 120–138. <https://doi.org/10.15575/lobi.v1i2.889>
- Abeyssekera, I. (2024). The Influence of Fiscal, Monetary, and Public Policies on Sustainable Development in Sri Lanka. *Sustainability*, 16(2), 580. <https://doi.org/10.3390/su16020580>
- Ahmadian-Yazdi, F., Sokhanvar, A., Roudari, S., & Tiwari, A. K. (2025). Dynamics of the relationship between stock markets and exchange rates during quantitative easing and tightening. *Financial Innovation*, 11(1), 51. <https://doi.org/10.1186/s40854-024-00694-4>
- Ahmed, R., Chen, X. H., Kumpamool, C., & Nguyen, D. T. K. (2023). Inflation, oil prices, and economic activity in recent crisis: Evidence from the UK. *Energy Economics*, 126, 106918. <https://doi.org/10.1016/j.eneco.2023.106918>
- Anggoro, D. A. (2017). Analisis Hubungan Variabel Moneter Di Indonesia Sebelum Dan Sesudah Penerapan Kebijakan Inflation Targeting Framework (ITF) Periode (1991.1-2010.4). *Jurnal Ekonomi Dan Bisnis Airlangga*, 27(1), 1. <https://doi.org/10.20473/jeba.V27I12017.1-18>
- Atigala, P., Maduwanthi, T., Gunathilake, V., Sathsarani, S., & Jayathilaka, R. (2022). Driving the pulse of the economy or the dilution effect: Inflation impacting economic growth. *PLOS ONE*, 17(8), e0273379. <https://doi.org/10.1371/journal.pone.0273379>
- Azizah, L., Ismanto, B., & Sambara Sitorus, D. (2020). Pengaruh Nilai Tukar Rupiah dan Jumlah Uang Beredar Luas Terhadap Inflasi di Indonesia Periode 2010 - 2019. *Ecodunamika*, 3(2).

- Bilalli, A., Sadiku, M., & Sadiku, L. (2024). The Impact of Inflation on Financial Sector Performance: Evidence from OECD Countries. *ECONOMICS*, 12(2), 263–276. <https://doi.org/10.2478/eoik-2024-0028>
- Binetti, A., Nuzzi, F., & Stantcheva, S. (2024). People's understanding of inflation. *Journal of Monetary Economics*, 148, 103652. <https://doi.org/10.1016/j.jmoneco.2024.103652>
- Chaudhari, D., & Trivedi, P. (2022). Efficacy of central bank intervention in the foreign exchange market of the BRICS countries. *BRICS Journal of Economics*, 3(3), 143–172. <https://doi.org/10.3897/brics-econ.3.e84676>
- Duodu, E., Baidoo, S. T., Yusif, H., & Frimpong, P. B. (2022). Money supply, budget deficit and inflation dynamics in Ghana: An empirical investigation. *Cogent Business & Management*, 9(1). <https://doi.org/10.1080/23311975.2022.2043810>
- Fadli Daud Abdullah, Doli Witro, Misbahul Munir Makka, Muhamad Sadi Is, & Syahid Mujahid Wiwaha. (2024). Contemporary Challenges for Sharia Financial Institutions to Increase Competitiveness and Product Innovation Perspective of Sharia Economic Law: Evidence in Indonesia. *MILRev : Metro Islamic Law Review*, 3(2), 141–173. <https://doi.org/10.32332/milrev.v3i2.9202>
- Hadush, M., Gebregziabher, K., & Biruk, S. (2023). Determinants of economic growth in East African countries: A dynamic panel model approach. *Cogent Economics & Finance*, 11(2). <https://doi.org/10.1080/23322039.2023.2239629>
- Hakiki, A., Suhaimi, B., Mu'ammam, N., & Kurniasari, D. (2024). Analisis Kebijakan Moneter, Fiskal, dan Inflasi pada Pertumbuhan Ekonomi. *PRESTISE: Jurnal Pengabdian Kepada Masyarakat Bidang Ekonomi Dan Bisnis*, 4(1), 41–63.
- Kızıltaş, Y. (2024). An important problem we need to face in schools: Inflated grades and grade inflation. *European Journal of Education*, 59(4). <https://doi.org/10.1111/ejed.12744>
- Lsstari, L. M., Asyura, U. A., Zaka, V. Z., Astuti, R. P., Syariah, P., Islam, U., ... Jember, S. (2024). Tantangan dan Peluang Transformasi Bank Sentral di Era Digital. *Gudang Jurnal Multidisiplin Ilmu*, 2(6), 618–628. <https://doi.org/10.59435/GJMI.V2I6.589>
- Mardhiyah, S. (2023). The Impact of Economic Globalization on The Indonesian Economy. *JEMBA: Jurnal Ekonomi Pembangunan, Manajemen & Bisnis, Akuntansi*, 3(2), 131–139. <https://doi.org/10.52300/jemba.v3i2.9694>
- Movsisyan, A., Wendel, F., Bethel, A., Coenen, M., Krajewska, J., Littlecott, H., ... Rehfuess, E. (2024). Inflation and health: a global scoping review. *The Lancet Global Health*, 12(6), e1038–e1048. [https://doi.org/10.1016/S2214-109X\(24\)00133-5](https://doi.org/10.1016/S2214-109X(24)00133-5)
- Munthe, S., Iqbal, M., Ulya, Z., & Dalimunthe, S. (2024). Monetary Policy And Its Effects on Interest Rates and Economic Stability. *Jurnal Akutansi Manajemen Ekonomi Kewirausahaan (JAMEK)*, 4(3), 281–292. <https://doi.org/10.47065/JAMEK.V4I3.1522>
- Mwiya, T., Simaundu, B. M., Nyau, M., & Phiri, J. (2024). Assessing the Effects of Exchange Rate Volatility on Zambia's Economic Growth: Evidence from ARDL and NARDL Models. *Economies*, 12(9), 224. <https://doi.org/10.3390/economies12090224>

- Qanas, J., & Sawyer, M. (2024). 'Independence' of Central Banks and the Political Economy of Monetary Policy. *Review of Political Economy*, 36(2), 565–580. <https://doi.org/10.1080/09538259.2023.2189006>
- Raysharie, P. I., Permana, D., Sinaga, M., Saiful, A., Rolensa, V., Ananda, L., & Sanjaya, M. (2023). Pengaruh Nilai Tukar Dan Inflasi Terhadap Pertumbuhan Ekonomi Indonesia. *Neraca: Jurnal Ekonomi, Manajemen Dan Akuntansi*, 1(5), 319–331. <https://doi.org/10.572349/NERACA.V1I5.510>
- Rismayanti, Ebriza, F., Abdu, A., & Suryati. (2024). Analysis of Economic Growth, Inflation and Investment in Indonesia. *International Conference of Business, Education, Health, and Scien-Tech*, 1(1), 116–123.
- Sengupta, U., Pramanik, H. S., Datta, S., Dutta, S., Dasgupta, S., & Kirtania, M. (2023). Assessing sustainability focus across global banks. *Development Engineering*, 8, 100114. <https://doi.org/10.1016/j.deveng.2023.100114>
- Singh, A. (2023). The Role of Central Banks in Managing Monetary Policy and its Effects on the Economy. *Journal of Student Research*, 12(4). <https://doi.org/10.47611/jsrhs.v12i4.5327>
- Steinberg, D., & Walter, S. (2013). The Political Economy of Exchange-Rate Policy. In G. C. Jr, P. Bacchetta, J. R. Barth, T. Hoshi, P. R. Lane, D. G. Mayes, ... M. Taylor (Eds.), *Handbook of Safeguarding Global Financial Stability* (pp. 27–36). Elsevier. <https://doi.org/10.1016/B978-0-12-397875-2.00007-6>
- Sujianto, A. E., Satriawan Prakosa, A., Fadilla, C. Y., Vaganza, A., Zubaida', N., & Rohmah, I. (2024). NERACA PEMBAYARAN DAN NILAI TUKAR. *Musytari : Jurnal Manajemen, Akuntansi, Dan Ekonomi*, 5(6), 111–121. <https://doi.org/10.8734/MUSYTARI.V5I6.3304>
- Suminto, A., & Azkiya, R. N. (2024). Analysis of the Influence of Monetary Instrument on the Real Sector : Using Industrial Production Index (IPI) Approach. *Proceedings of Femfest International Conference on Economics, Management, and Business*, 2, 561–579.
- Sun, T.-T., Su, C.-W., Tao, R., & Qin, M. (2021). Are Agricultural Commodity Prices on a Conventional Wisdom with Inflation? *Sage Open*, 11(3). <https://doi.org/10.1177/21582440211038347>
- Wanzala, R. W., & Obokoh, L. O. (2024). Savings and Sustainable Economic Growth Nexus: A South African Perspective. *Sustainability*, 16(20), 8755. <https://doi.org/10.3390/su16208755>
- Widya, F. A., Maula, F. L., Hakim, M. D. D. L. Al, Salshabilla, H., Afifah, D. N., & Asiyah, B. N. (2023). Inflation and Its Contribution to Economic Stability in Indonesia; The Islamic Economic Perspective. *He 2nd Annual International Conference On Islamic Economics, Business And Philanthropy (AICIEBP) 2023*, 2(2), 84–99. IAIN Kediri.
- Wijayanti, E. D. L. W., Suharsih, S., & Wenerda, R. (2022). Analisis Cadangan Devisa Negara, Financial Deepening, Tingkat Suku Bunga, dan Tingkat Inflasi terhadap Stabilitas Nilai Tukar di Indonesia Periode 2016.9-2021.7. *Syntax Literate ; Jurnal Ilmiah Indonesia*, 7(8), 12269–12285. <https://doi.org/10.36418/SYNTAX->

LITERATE.V7I8.9312

- Wisandani, I., Iswati, S., & Ismal, R. (2017). The Monetary Policy in Indonesia: in the Perspective of Islamic Economics. *International Journal of Nusantara Islam*, 5(1), 59-74. <https://doi.org/10.15575/ijni.v5i1.1443>
- Yolanda, Y. (2017). Analysis of Factors Affecting Inflation and its Impact on Human Development Index and Poverty in Indonesia. *European Research Studies Journal*, XX(Issue 4B), 38-56. <https://doi.org/10.35808/ersj/873>
- Zainuri, Z., Viphindrartin, S., Wilantari, R. N., Widarni, E. L., Bawono, S., & Rifqi Fathoni, M. (2024). Indonesia's financial resilience: Between optimism and risk. *Journal of Infrastructure, Policy and Development*, 8(12), 6890. <https://doi.org/10.24294/jipd.v8i12.6890>