



# Study Of The Effectiveness Of Monetary Policy Of Bank Indonesia Representative Of East Nusa Tenggara Province In Controlling Food Inflation

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*Abstract --- The purpose of this study is to provide information on the effectiveness of Bank Indonesia's monetary policy in controlling food inflation. Inflation in ENT Province in the third quarter of 2022 was recorded at 6.97% year on year (yo), higher than the previous quarter inflation of 4.28% year on year (yo) and national inflation of 5.95% year on year (yo). The increase in inflationary pressure stemmed from an increase in prices of commodity groups from the food, beverage & tobacco group such as filter clove cigarettes, tembang fish, and broiler eggs[1]. Inflation indicator is one of the important indicators in economic development. High and low inflation rates greatly affect consumption patterns, distribution patterns and production patterns in the economy. A low inflation rate can hurt the economy because business people are not eager to do business. If this happens, it will certainly result in a sluggish economy, the economy does not grow if this continues to happen, it does not rule out the possibility of a stagnant economy [2]. The problems faced by Bank Indonesia Representative of East Nusa Tenggara Province in controlling food inflation are the low connectivity of food distribution networks, information gaps and market structure distortions, and declining local food productivity. The type of research used in this research is a quantitative descriptive approach. The type of data used in this research is primary data. Data collection techniques using observation, interviews, questionnaires, documentation. The technique of taking purposive sampling technique with a total of 60 informants. The sampling location is the Representative Office of Bank Indonesia of East Nusa Tenggara Province. Indicators of measuring the effectiveness of Bank Indonesia Representative monetary policy using input, output and outcome. Data analysis techniques using quantitative analysis using descriptive statistics. Stages used validity and reliability tests, analysing and transforming with a range of Likert scale criteria. The results state that the effectiveness of the monetary policy of Bank Indonesia Representative of ENT Province has been running very effectively with a score of 206.57 or 86.07% including in the interval class score 164 - 240 with a very effective category.*

**Keywords:** Monetary Policy, Inflation, Food Inflation Control, Effectiveness

## I. INTRODUCTION

Inflation in East Nusa Tenggara Province in the third quarter of 2022 was recorded at 6.97% year on year (yo), higher than the previous quarter inflation of 4.28% year on year (yo) and national inflation of 5.95% year on year (yo). The increase in inflationary pressure stemmed from an increase in prices of commodity groups from the food, beverage & tobacco group such as filter clove cigarettes, tembang fish, and broiler eggs[1]. The inflation index is one of the important indicators in economic development. High and low inflation rates greatly affect the consumption model, distribution model, and production model of the economy. Low inflation rates can hurt the economy because business people are not eager to do business. If this happens, it will certainly cause the economy to stagnate and be unable to grow. If this continues to happen, the possibility that the economy will stagnate cannot be ruled out[2].

Monetary policy is a macro economic policy by the Central Bank that aims to influence the level of economic activity by monitoring the Money Supply (JUB), or interest rates. Monetary policy is a relatively independent policy, independent of conditions and policies in the financial sector. This is based on the fact that the central bank has almost perfect control over the money supply so that in monetary theory the money supply is considered exogenous[3]. Effectiveness only looks at whether a program has achieved the policy targets that have been set. Effectiveness measurement measures the end result of a program in relation to its output. Effectiveness indicators describe the range of consequences and impacts of outputs in achieving program objectives. This indicator can play a role by determining input, output and outcome indicators[4]. The synergy of inflation control between Bank Indonesia, Regional Governments and other partners through the national food inflation control movement seeks to overcome this price volatility so that the volatile foods inflation rate can fall below 5%, seeking to look at the impact of the propagation of fuel oil price increases and the effectiveness of social buffer subsidies, in order to maintain people's purchasing

power and strive to be able to realise people's welfare[5]. The problems faced by Bank Indonesia Representative of East Nusa Tenggara Province in controlling food inflation are low food distribution network connectivity, information gaps and market structure distortions, and declining local food productivity.

Previous research conducted states that the results of Pahlevi's research show that Bank Indonesia controls inflation through the agricultural sector is to maintain the production of basic needs and maintain smooth distribution. Bank Indonesia also joined the Regional Inflation Control Team as a form of synergy to control inflation[6]. Praktikto's empirical research shows that monetary policy can effectively prevent the spillover effects of food inflation to non-food inflation. In addition, exchange rate stability can have a role to reduce the volatility of food inflation especially in the long run[7].The gap in this research lies in the difference in research results. The results of research on the effectiveness of Bank Indonesia's monetary policy also show different results. The purpose of this study is to provide information on the Effectiveness of Bank Indonesia's Monetary Policy of East Nusa Tenggara Representative Office in Controlling Food Inflation.

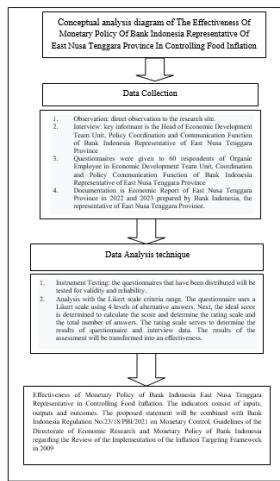
## II. RESEARCH METHODS

The type of research used is descriptive research method with a quantitative approach. Descriptive research is research conducted to determine the values of independent variables, namely one or more variables, without comparing or relating them to other variables. Quantitative methods use numbers, starting from data collection, data interpretation, and displaying results[16]. In this study, the data collection techniques used were as follows: Observation, Interview, Questionnaire, Documentation. Informant retrieval technique using purposive sampling technique.Purposive sampling totaling 60 respondents[17,18]. The variable is the effectiveness of Bank Indonesia's monetary policy in controlling food inflation. The indicators consist of inputs, outputs and outcomes. The proposed statement will be combined with Bank Indonesia Regulation No.23/18/PBI/2021 on Monetary Control, Guidelines of the Directorate of Economic Research and Monetary Policy of Bank Indonesia regarding the Review of the Implementation of the Inflation Targeting Framework in 2009 [19-20].

The data analysis technique used is a quantitative analysis method using descriptive statistics. The following are the steps:

1. The first step is to test the material from the data collection technique in the form of a questionnaire with a validity test tool to get a valid instrument, the researcher uses a research instrument validity test with the content validity testing method with item analysis. Furthermore, the reliability test is carried out to measure the questionnaire which is an indicator of the variable or structure.
2. The second step involves analysis using a set of Likert scale criteria. The questionnaire was conducted using a Likert scale with four different levels of answers, namely strongly disagree with the lowest weighted score being one (1), disagree with a weighted score being two (2), agree with a weighted score being three (3), and strongly agree with the highest weighted score being four (4).

The ideal score is the score used to calculate the score and determine the rating scale and the total number of answers. After doing the previous calculations, the scores obtained will be entered into a rating scale. The rating scale is intended to collect general and overall data from questionnaires and interviews. The following is Figure 1 Conceptual Analysis Diagram of the Effectiveness of Bank Indonesia's Monetary Policy Representative Office of East Nusa Tenggara in Controlling Food Inflation :



**Figure 1.** Conceptual analysis diagram of The Effectiveness Of Monetary Policy Of Bank Indonesia Representative Of East Nusa Tenggara Province In Controlling Food Inflation

### III. RESULTS AND DISCUSSIONS

The main objectives of monetary policy implemented by Bank Indonesia are to achieve rupiah value stability, maintain payment system stability and contribute to maintaining financial system stability in order to support sustainable economic growth as stated in Law Number 4 of 2023 concerning Development and Strengthening of the Financial Sector. The essence of monetary policy in Central Bank Development is an institution that carries out monetary control by conducting a series of monetary policies. What is meant by monetary policy is government policy in regulating the amount of money in circulation and interest rates. Monetary policy aims to monitor and influence economic stability, activity and growth. Monetary policy set by the Central Bank is in the form of quantitative and qualitative policies [21]. The explanation of the research results regarding the effectiveness of Bank Indonesia's monetary policy explains that:

**Table 1.** Results of Data Analysis of of Bank Indonesia's Monetary Policy in Controlling Food Inflation

Indica tor	statem ent items	frequency				Score	Scor e (%)	crit eria
		VE	EF	IE	VI E			
Input	Q 1	128	84	-	-	212	88.33	
	Q 2	140	72	2	-	214	89.17	
	Q 3	124	81	4	-	209	87.08	
	Q 4	176	48	-	-	224	93.33	
	Q 5	200	30	-	-	230	95.83	
	Q 6	144	66	4	-	214	89.17	
	Input average					217.17	90.49	very effect ive
Output	Q 7	100	105	-	-	205	85.42	
	Q 8	72	126	-	-	198	82.50	
	Q 9	88	114	-	-	202	84.17	
	Q 10	72	126	-	-	198	82.50	
	Output average					200.75	83.65	very effect ive
Outcome	Q 11	100	105	-	-	205	85.42	
	Q 12	76	123	-	-	199	82.92	
	Q 13	100	105	-	-	205	85.42	
	Q 14	76	123	-	-	199	82.92	
	Q 15	84	117	-	-	201	83.75	
	Outcome average					201.80	84.08	very effect ive
Total Average Score						206.57	86.07	very effect ive

Based on Table 1 the results of data analysis show the average total score = 206.57 or 86.07% which is classified as very effective. The results showed that the monetary policy of Bank Indonesia Representative of East Nusa Tenggara (ENT) Province to control food inflation was very effective. Explanation of the results of the discussion of data analysis is as follows:

1. Based on the results of input data analysis, the response rate is 217.17 or 90.49% which is classified as very effective. The results showed that Bank Indonesia has implemented an optimisation mechanism of monetary policy transmission through direct monetary channel, interest rate channel, asset price channel, credit channel, expectation channel, and exchange rate channel. The interest rate channel implemented by Bank Indonesia by lowering the BI rate or 7-day BI rate (BI7DRR) stayed at 3.5 for a long period of 18 months, which is the lowest level in Indonesia's history. This was done by Bank Indonesia to encourage consumption and investment to boost the Indonesian economy. The exchange rate channel generally operates faster than other channels. The impact of rupiah exchange rate pressure will affect import-export activities and gross domestic product (GDP). In terms of imported goods, East Nusa Tenggara (ENT) Province mainly produces sugar and confectionery products with a market share of 78.04% in the province's trade balance in the first quarter of 2023. However, the aspect of the asset price channel in East Nusa Tenggara (ENT) Province experienced a decline in the first quarter of 2023, which was recorded between 2% and 7% for the food and crop industry, thus encouraging investors to invest in wait-and-see. Further measures restricted capital flows to developing countries.

2. Based on the results of the output data analysis, a response rate of 200.75 or 83.65% was obtained, which was classified as very effective. The results showed that Bank Indonesia together with the ENT Provincial Inflation Control Group and the Regency or City Regional Inflation Control Group in the context of controlling inflation in East Nusa Tenggara (ENT) province have coordinated and implemented the program. There are four aspects, including the price affordability aspect achieved through low-price market operations in response to inflation in Kupang City at places of worship and motor vehicle free days with transportation cost subsidy programs, market test activities ahead of religious holidays in all districts / cities in East Nusa Tenggara (ENT) province. Inflation in the foodstuff group in East Nusa Tenggara (ENT) was 6.82% (compared to the same period), quite steep compared to the previous quarter's data, so in terms of supply availability, it was carried out through High Level Meeting Bank Indonesia with regional inflation control teams in districts or cities, including Kupang and East Sumba, regarding economic integration and digital finance and strengthening technological infrastructure. The aspect of smooth distribution of raw materials was achieved by holding hearings with raw material distributors. Inflation is achieved through exploring the installation of strategic commodity price displays in 3 (three) markets in Kupang City. Effective communication was achieved by organising a dialogue on food price stability, a press conference on the latest inflation situation, and a press conference on food price stability.
3. Based on the results of the outcome data analysis, a response rate of 201.80 or 84.08% was obtained, including in the very effective category. The result shows that Bank Indonesia uses Flexible Inflation Targeting Framework (ITF) to achieve monetary policy targets in the form of inflation rate in the upcoming period. Bank Indonesia strengthened monetary policy coordination with central and local governments as well as strategic partners of the central and local inflation control groups through the National Movement for Inflation Control Wages are actually also available in East Nusa Tenggara (ENT) province. Bank Indonesia stabilised the rupiah exchange rate through the purchase or sale of Government Securities (SBN) in the secondary market. Bank Indonesia also increased liquidity by strengthening its strategy of two-way contraction and expansion currency operations, including open market operations and interest rate corridors.

Supporting Praktikto's previous research, it is confirmed that monetary policy through the BI benchmark interest rate can affect food inflation through the exchange rate transmission channel. Although long-term food inflation is affected by exchange rate fluctuations, changes in exchange rate monetary policy are not the main cause of exchange rate fluctuations. Fluctuations in the rupiah exchange rate are mostly caused by changes in the money supply. The unstable relationship between the exchange rate and food inflation suggests that one of Bank Indonesia policy objectives, namely maintaining exchange rate stability, is already relevant. In this case, it is necessary to control the stability of the exchange rate so that food inflation does not fluctuate. This study is in line with previous research by Andi which provides empirical results showing that monetary policy through the discount rate, mandatory reserves and past inflation has an impact on monetary policy.

#### IV. CONCLUSIONS AND SUGGESTIONS

Based on the results of the discussion above, it can be concluded that the effectiveness of the monetary policy of Bank Indonesia Representative of East Nusa Tenggara (ENT) Province has been running very effectively with a score of 206.57 or 86.07% including in the interval class score of 164 - 240 with a very effective category. While the input results obtained a score of 217.17 or 90.49% which was declared very effective. Output obtained a score of 200.75 or 83.65% which was declared very effective, then the outcome obtained a score of 201.80 or 84.08% which was declared very effective. The effectiveness of the monetary policy of Bank Indonesia Representative of East Nusa Tenggara (ENT) Province in controlling food inflation has been very effective through the national movement to control food inflation in East Nusa Tenggara (ENT) Province in 2023 with cheap market operations with a freight subsidy scheme, safari high level meetings of the East Nusa Tenggara (ENT) Province Regency or City team and the 2nd booster vaccination to encourage food price stability, reduce logistics costs and strengthen communication and coordination between institutions in East Nusa Tenggara (ENT) Province.

It is hoped that Bank Indonesia can increase the policy mix, especially the monetary sector, by maintaining stability and encouraging the growth of national economic recovery and strengthening international cooperation through financial channels. It is hoped that future researchers can expand the research variables, including the financial market deepening policy mix carried out by Bank Indonesia.

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