UNIVERSITAS ANDALAS

MONETARY POLICY SPILLOVERS BETWEEN THE US AND INDONESIAN CENTRAL BANK

UNDERGRADUATE THESIS

MUHAMMAD FARHAN

2010513020

FACULTY OF ECONOMICS AND BUSINESS

DEPARTMENT OF ECONOMICS

PADANG

2025

Monetary Policy Spillovers Between The US and Indonesian Central Bank

by

Muhammad Farhan
2010513020

Submitted to the Department of Economics,

On February 7th, 2024, in partial fulfillment of the requirements for the degree of

Bachelor of Economics

ABSTRACT

This study analyzes the short-term and long-term dynamics between key macroeconomic variables, focusing on the Federal Reserve's policy rate and its impact on financial markets. Using a Vector Error Correction Model (VECM), this research examines the relationships between the Federal Funds Rate (FEDFUNDS), U.S. Treasury yields, exchange rates, inflation, and foreign direct investment. Data from the Federal Reserve, Bank Indonesia, and the World Bank are utilized to assess these interactions. The findings indicate that the Federal Funds Rate significantly influences U.S. Treasury yields and exchange rate fluctuations. Granger causality tests show that the 10-year Treasury yield (T10Y2YM) impacts the Federal Funds Rate, suggesting a feedback loop in monetary policy. Additionally, the U.S. Dollar Index (LOG_DXY) and exchange rate (LOG_USDIDR) are crucial in determining inflation (INF_IND) and foreign direct investment (FDI_IND). The study also highlights that Indonesia's benchmark interest rate (BI7DayRR) responds to U.S. monetary policy shifts, demonstrating global financial interdependence. The results emphasize the need for policymakers to consider international financial linkages in economic decision-making. This research contributes to a deeper understanding of monetary policy transmission and its implications for economic stability.

Keywords: Monetary Policy, Interest Rates, Exchange Rates, Inflation, Federal Reserve, Financial Markets.

Thesis Advisor: Prof. Dr. Syafruddin Karimi, SE, MA