UNIVERSITAS ANDALAS

UNDERGRADUATE THESIS

# THE EFFECTIVENESS OF BI-RATE IN CONTROLLING INFLATION UNDER HIGH AND LOW UNCERTAINTY CONDITIONS IN INDONESIA

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**The Effectiveness of BI-Rate in Controlling Inflation Under High and Low Uncertainty Conditions in Indonesia**

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## ABSTRACT

This study examines how effective Indonesia's monetary policy, through the BI Rate, is in controlling inflation under conditions of high and low economic uncertainty. This study also discusses the BI Rate's ability to mitigate the spillover effects of external factors on inflation. The primary methods used are the Quantile Vector Autoregression (QVAR) and the Diebold-Yilmaz Spillover Index (DY Spillover Index). The data used includes inflation, the BI-Rate, Global Economic Policy Uncertainty (GEPU), Brent Oil Price, and the World Uncertainty Index (WUI) for Indonesia, with monthly data covering the period from January 2011 to December 2024. The results of the study indicate that under conditions of low uncertainty, the BI-Rate's ability to control inflation is more effective compared to when uncertainty is high. Furthermore, the BI-Rate policy has not been able to mitigate the spillover effects of external factors. This study also identified dynamic relationships among the variables, as well as differences in these relationships under high and low uncertainty conditions. This study provides insight that inflation fluctuations in Indonesia are influenced by internal and external factors, as well as economic uncertainty, so monetary policies such as the BI-Rate need to be designed to be more adaptive and responsive to these factors.



**Keywords**: Inflation, BI-Rate, Uncertainty, QVAR, Spillover

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