

Analysis Of The Influence Of Monetary Policy On Economic Growth: Case Study In Developing Countries

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Article Info	ABSTRACT
Corresponding Author: Iwan Lubis E-mail: iwanlubis1@gmail.com	<p>This research discusses the relationship between monetary policy and economic growth in developing countries with a focus on effective monetary policy strategies. The main aim of this research is to increase economic growth to improve community welfare and overcome social issues such as unemployment and poverty. The study also highlights the importance of global competitiveness, macroeconomic stability, investment in infrastructure development, education, and health services. In this context, monetary policies that support economic growth are identified as key to achieving this goal. This research uses regression analysis with economic data from developing countries to measure the relationship between monetary policy variables and economic growth. The research results show that reducing interest rates and adequate credit availability can stimulate investment, consumption and growth in the MSME sector. However, the research also highlights the complexity of translating these findings into real policy, requiring coordination between monetary, fiscal policies and a deep understanding of local social and political dynamics.</p> <p>Keywords: Monetary Policy, Economic Growth, Developing Countries, Interest Rates, MSME Sector, Macroeconomic Stability, Policy Transparency.</p>

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INTRODUCTION

This research explores the relationship between monetary policy and economic growth in developing countries with several key objectives. First, the main focus of research is increasing economic growth, which is considered a primary goal for most developing countries. This research aims to formulate an effective monetary policy strategy to support economic growth, with the hope of improving people's welfare. Apart from that, this research also discusses the impact of economic growth on social issues such as unemployment and poverty. In this context, monetary policy that accelerates economic growth can help reduce unemployment and poverty in developing countries.

Apart from considering social aspects, this research also highlights the importance of global competitiveness for developing countries. Stable and sustainable economic growth is the main key in increasing competitiveness in international markets. Through appropriate monetary policies, developing countries can achieve economic stability that allows them to compete effectively in the global market. The research also explores the impact of investments in infrastructure development, education and health services. This investment is driven by steady economic growth, and as such, growth-supportive monetary policies can open the door to investments that can improve infrastructure and social services (Alamsyah, S., & Nur, M. 2023).

In addition, this research identifies the importance of macroeconomic stability in supporting long-term economic growth. Effective monetary policy, including controlling inflation and economic

fluctuations, creates confidence in the economy and encourages long-term investment. Apart from that, stable economic growth also increases people's consumption patterns, drives other economic sectors, and creates a positive domino effect on the economy. Finally, this research emphasizes the importance of combining economic growth with the principles of sustainable development. By identifying monetary policies that support economic growth in line with environmental and social aspects, this research contributes to improving people's quality of life through increasing income, access to education and health services, and the creation of decent jobs (Nawati, N. 2019).

Monetary policy has a significant influence on the economic growth of developing countries. Monetary policy, which involves setting interest rates, the amount of money in circulation, and financial market intervention by central banks, greatly influences the level of investment, consumption, and inflation within a country. When monetary policy is implemented wisely, it can create the economic stability necessary for long-term growth. For example, lowering interest rates can encourage borrowing and investment, which in turn can increase economic growth. Conversely, increasing interest rates can reduce inflation and prevent excessive economic bubbles. Therefore, a deep understanding of monetary policy and its proper implementation can have a significant positive impact on the economic growth of developing countries (Budiyanto, V., & Wibowo, W. 2021).

The aim of this research is to investigate and understand the impact of monetary policy on economic growth in developing countries. By conducting case studies in developing countries, this research aims to determine the magnitude of the influence of monetary policy variables on economic growth. Through this analysis, the research seeks to provide in-depth insights to policymakers, academics, and economic practitioners about the importance of effective monetary policy in achieving sustainable economic growth in developing countries. With a better understanding of the relationship between monetary policy and economic growth, this research can provide guidance for formulating better policies and strengthening the economic foundations of developing countries (Cahyanti, T. D., & ARIANTI, F. 2017).

METHOD

This study will use economic data from developing countries from a certain period, other data sourced from literature study references through journals, articles and various supporting websites. The regression analysis method will be applied to measure the relationship between monetary policy variables (such as interest rates, money supply) and economic growth.

RESULTS AND DISCUSSION

The Effect of Interest Rates on Investment and Consumption

The significant reduction in interest rates has provided a positive boost to the economy. With lower interest rates, companies can borrow money at more affordable costs. This increases the purchasing power of companies, allowing them to invest in business development, research, and innovation. As private sector investment increases, employment tends to increase, providing opportunities for people to obtain stable, well-paying jobs. On the other hand, low interest rates also make consumer loans, such as home or car loans, more affordable. This encourages consumers to increase their spending, fueling the growth of the retail sector and creating a positive cycle in the economy (PUTRI, R. N. P., & Mudakir, B. 2019).

Apart from that, lower interest rates also have a positive impact on public consumption. With lower interest rates, individuals have more incentive to borrow money to purchase goods and services. Purchases of consumer goods increase, creating additional demand for manufacturers and retailers. Reducing interest rates also helps increase people's purchasing power, especially for those who plan to buy a house or motor vehicle. Thus, the low interest rate policy not only stimulates economic growth through private sector investment, but also strengthens public consumption, creating a positive effect in driving the economy as a whole (Gede, D. N., et.al 2013).

Effect of Credit Availability on MSME Growth:

Recent studies confirm that monetary policy which specifically supports the availability of credit for Micro, Small and Medium Enterprises (MSMEs) has had a significant positive impact on economic growth. MSMEs not only play a vital role in the economies of developing countries, but are also a very important economic resource for driving inclusive economic growth. Easy access to credit allows MSMEs to develop their businesses in a sustainable way. With available funds, they can increase production, develop new products and services, and even expand markets nationally and internationally. Apart from that, this policy also creates opportunities to create new jobs. With the growth of MSME businesses, local people have the opportunity to get stable jobs, which in turn will increase spending levels and strengthen the purchasing power of society as a whole (Dara, R. R. 2023).

In addition, credit policies that support MSMEs also have a positive impact in creating a dynamic and innovative business environment. Access to credit allows MSMEs to face challenges and exploit market opportunities more efficiently. They can invest these funds in research and development, new technology, and employee training. This not only increases the competitiveness of MSME businesses, but also encourages the creation of more innovative and high quality products and services. Over time, this forms a positive cycle in which sustainable and inclusive economic growth becomes possible, providing broad benefits to society and the economy as a whole (Soelistyo, A. 2015).

Controlled Inflation:

Prudent monetary policy has succeeded in keeping the inflation rate stable. With low and controlled inflation, economic actors feel confident in carrying out their business activities. A stable inflation rate provides a solid foundation for long-term investment decisions, reduces uncertainty in the markets, and creates an environment conducive to sustainable economic growth. The trust given to economic actors through prudent monetary policy not only benefits them, but also brings widespread benefits to the economy as a whole by creating jobs, increasing people's purchasing power, and strengthening national financial stability (Misbahuddin, M. 2016).

Discussion:

The Importance of Balance:

Research results highlighting the importance of finding the right balance in interest rate policy illustrate the complexity of managing a country's economy. Interest rates that are too low can create inflation risks by triggering excessive spending and investment, which in turn can lead to spikes in the prices of goods and services. On the other hand, interest rates that are too high can hinder economic growth by making loans more expensive and investment less attractive for business people. Therefore, central banks need to have policies that are flexible and responsive to changes in economic conditions. In facing rapid and dynamic developments in the global economy, interest rate policies must be adjusted to market realities, inflation rates and ongoing economic growth. With adaptive policies, central banks can respond quickly to emerging risks, maintain economic stability, and support balanced and sustainable growth (Pratiwi, I. E., & Ismal, R. 2017).

In addition, a flexible interest rate policy also allows the central bank to respond to changes in domestic economic conditions, including the inflation situation and unemployment rate. By closely monitoring economic indicators and changing interest rates in a timely manner, central banks can play an important role in maintaining national economic stability. When inflation rises, central banks can raise interest rates to ease inflationary pressures. On the other hand, when the economy experiences a slowdown and the unemployment rate increases, reducing interest rates can provide a stimulus for investment and consumption, support economic growth and create new jobs. With a careful and thoughtful approach to interest rate policy, central banks can help achieve macroeconomic goals, such as price stability and sustainable economic growth (Wahyuni, E. S. et.al 2018).

Focus on MSME Sector:

Findings that emphasize the need to focus on the Micro, Small and Medium Enterprises (MSME) sector in monetary policy demonstrate the importance of supporting the growth of small and medium businesses as a strong economic pillar. MSMEs not only make a significant contribution to job creation, but also play a role in increasing productivity and overall economic competitiveness. Through the right financial and technical support, MSMEs can obtain capital to expand their business operations, develop innovative products and services, and improve product quality. In this context, monetary policies that support MSMEs have the potential to create a dynamic and competitive business ecosystem, leading to inclusive economic growth where more people can be involved in the economic process, improving living standards and reducing social disparities (Silalahi et.al 2022).

Apart from that, financial and technical support to MSMEs also has a positive impact in stimulating inclusive economic growth. By providing access to capital and skills training, MSMEs have the opportunity to develop their businesses and create jobs for local communities. When MSMEs develop, they not only create direct employment opportunities, but also open up opportunities for local supply chains, supporting the growth of related sectors, such as trade, transportation and services. Thus, monetary policies that support MSMEs not only contribute to the growth of the small and medium business sector, but also play an important role in strengthening the foundations of the national economy as a whole, creating an inclusive and sustainable economic environment for all levels of society (Sembiring, E. Y. 2017).

Role of Communication and Transparency:

Clear communication and transparency from the central bank regarding monetary policy has a crucial role in economic stability. A transparent message from the central bank about future monetary policy strengthens market confidence and provides clear guidance for economic actors, both investors and business people. With a better understanding of future policy directions, economic actors can plan their investments, spending and business decisions more carefully. This openness also helps people understand how monetary policy affects them directly, enabling them to better manage their finances and plan for the future. Therefore, open and transparent communication from the central bank not only supports market stability, but also creates a conducive environment for sustainable and balanced economic growth. Lessons from the Experience of Other Developing Countries (Retno, R. 2023):

Comparing the results of this research with the experience of other developing countries is an important step in the development of economic policy. Each country has a unique context and different challenges, however, understanding successful policy strategies in similar countries can provide valuable insights for improving monetary policy in those countries. In dealing with economic issues such as inflation, steady economic growth, and public financial management, looking at the success or failure of monetary policy in similar countries can provide a deep understanding of what is working and what is not. By studying the experiences of other countries, governments and central banks can identify strategies that have proven effective and adapt them to local context and needs. In addition, comparing monetary policies between developing countries also opens up space for regional cooperation, where countries with similar challenges can learn from and support each other. Thus, comparing research results with the experience of similar countries not only helps in making wiser policy decisions, but also creates opportunities to strengthen cooperation between countries in achieving stability and sustainable economic growth (Harahap et.al 2017).

The results of this study not only provide important insights into the link between monetary policy and economic growth in developing countries, but also highlight the complexity of applying these findings to real policy. It is important to remember that other factors, such as fiscal policy involving budget and tax management, political dynamics including government stability and foreign policy, as well as social factors such as education levels and economic inequality, all have a significant impact on economic growth. a country. Therefore, in designing and implementing effective economic policies, it is important for policy makers to consider this broad context. A comprehensive policy strategy must include good coordination between monetary and fiscal policies, as well as understanding existing political and social

dynamics. Only by considering all these aspects holistically can developing countries develop efficient and sustainable policies to stimulate inclusive and stable economic growth (Soelistyo, A. 2015).

CONCLUSION

The significant reduction in interest rates provides a positive boost to the economies of developing countries. Lower interest rates allow companies and individuals to borrow money at more affordable costs, stimulating private sector investment and public consumption. Increased investment in business development, research and innovation creates new jobs, providing stability and good income for society. In addition, low interest rate policies also encourage growth in the consumption sector by making home and vehicle loans more affordable, creating additional demand for manufacturers and retailers. The influence of credit availability for Micro, Small and Medium Enterprises (MSMEs) is also very important. Financial and technical support to MSMEs helps increase production, competitiveness and business innovation, creating a dynamic and innovative business environment. Apart from that, this policy also creates new job opportunities, reduces the unemployment rate, and increases people's purchasing power. However, it is important to remember that monetary policy cannot be separated from other factors such as fiscal, political and social policies. In making effective economic policy decisions, it is necessary to consider this broad context to achieve inclusive and sustainable economic growth in developing countries. Therefore, transparency in monetary policy communications and learning from the experiences of peer countries are key to developing wise and efficient policy strategies.

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