

ABSTRACT

This study analyzes the impact of external shocks (WTI world oil price & the Federal Funds Rate) on Indonesia's macroeconomic indicators in the form of domestic output, price level, and real effective exchange rate. It also analyzes the monetary policy stance through the application of domestic interest rates due to shocks that occur in macroeconomic indicators. The study used Structural VAR model developed by Wawan Setiawan (2010) and Eric Parrado (2001). This research is motivated by oil price shocks and world interest rates that occurred after the global financial crisis period, especially in the last decade and the Covid-19 pandemic. Monthly time series data consisting of domestic variables (BI Rate / BI 7DRR policy rate, price level, output, money supply, and real effective exchange rate) and international variables (world oil prices and world interest rates) over the observation period 2014:01 to 2022:12 with the use of predetermined structural breaks are used.

The IRF results show that the output and price level show a negative response to external shocks of world oil prices and a decline in world interest rates. The negative response of output to world oil shocks is a short lived effect, and the negative response of the price level to world interest rate shocks is related to imported inflation which has a lasting impact. Then the real effective exchange rate shows a negative response to oil price shocks due to a decrease in global demand during the Covid-19 pandemic, on the other hand the real effective exchange rate responds negatively to world interest rate shocks because of capital outflows due to interest rate differentials. While the domestic interest rate policy stance shows a negative response to domestic output and the real effective exchange rate, but not the price level which only gets a negative response that is short lived effect.

Overall Forecast Error Variance Decomposition can show that variables other than world oil price shocks and world interest rates also have a significant contribution to the dynamics of the macroeconomic indicator variables studied. Where the variables of domestic output and price level have the largest contribution to their own variables.

Keywords: External Shock, Macroeconomics Indicator, SVAR, Monetary Policy stances, Indonesia.