ABSTRACT

This study aims to analyze the transmission impact of fiscal dominance, macroeconomic fundamentals, and the capacity of central bank independence on core inflation in Indonesia. Utilizing time series data from 2010 to 2025, empirical estimations were conducted using the Autoregressive Distributed Lag (ARDL) approach to extract the long-run equilibrium. The model also incorporates static dummy variables to control for anomalies arising from burden-sharing policy interventions, changes in the BI7DRR instrument, and the COVID-19 pandemic crisis. Empirical findings indicate that long-run inflation is simultaneously driven by macroeconomic fundamentals. The expansion of the money supply (M2), Rupiah exchange rate depreciation, and a high output gap consistently act as the primary determinants of price pressures in the long run. Conversely, government deficit financing pressures through fiscal dominance and government bond (SBN) absorption (burden sharing) trigger significant liquidity shocks in the short run. However, these shocks are transitory and do not transmit into permanent structural inflation within the long-run equilibrium. The absence of a long-term inflationary threat from fiscal spillovers strongly indicates that Bank Indonesia possesses robust institutional capacity as a shock absorber. This resilience is validated by the de facto measurement of operational independence (Taylor Gap), confirming that the monetary authority's benchmark interest rate setting remains undistorted by the magnitude of the sovereign debt burden, preserving its credibility in executing the price stability mandate.

Keywords: Fiscal dominance, core inflation, central bank independence, ARDL, macroeconomic variables

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