

The Role of Interest Rate Policy in Controlling Indonesian Government Debt

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ABSTRACT

Purpose: This study analyzes the role of the benchmark interest rate policy implemented by Bank Indonesia in controlling Indonesia's government debt burden through monetary and fiscal policy coordination.

Research Method: This study uses a qualitative descriptive approach based on secondary data from Bank Indonesia reports, Ministry of Finance of the Republic of Indonesia publications, DJPPR reports, state budget documents, and macroeconomic policy reports during the 2020–2025 period. Data were analyzed through document review, descriptive interpretation, and source triangulation.

Results and Discussion: The findings indicate that benchmark interest rate policy influences debt-servicing costs, sovereign bond yields, exchange-rate stability, SBN auction effectiveness, and investor confidence. Global monetary tightening and exchange rate volatility also affect refinancing conditions and government debt management strategies.

Implications: The findings emphasize the importance of monetary-fiscal coordination in maintaining fiscal sustainability and financial market stability.

Originality: This study integrates benchmark interest rate dynamics, sovereign financing conditions, and fiscal sustainability within Indonesia's post-pandemic economic context.

Keywords: benchmark interest rate; fiscal sustainability; government debt; monetary policy; sovereign bond yields.

1. Introduction

Indonesia's economic development requires significant financing to accelerate growth and equitable infrastructure. To meet these needs, the government often uses debt instruments to finance the state budget (Baharumshah *et al.*, 2017). However, government debt management faces dynamic challenges influenced by global and domestic economic conditions, with currency stability and investor confidence key to maintaining the country's fiscal sustainability. In recent years, the increasing volatility of global financial markets, inflationary pressures, and monetary tightening policies implemented by major central banks have intensified the challenges associated with government debt sustainability in emerging economies, including Indonesia.

One crucial instrument in maintaining this economic stability is the interest rate policy set by Bank Indonesia through the BI-Rate. Since 2016, Bank Indonesia has adopted the BI 7-Day Reverse Repo Rate (BI7DRR) as its operational benchmark interest rate framework to strengthen monetary policy transmission and improve financial market responsiveness. As the monetary authority, Bank Indonesia



uses interest rates to control inflation and maintain the attractiveness of domestic financial assets. However, this policy not only affects the banking sector but also significantly influences government borrowing costs, as market interest rates serve as a benchmark for setting Government Securities (SBN) coupon rates. Consequently, fluctuations in benchmark interest rates may directly affect sovereign bond yields, refinancing costs, and the government's debt servicing obligations. This condition reflects the strategic role of interest rate policy in influencing financial market behavior and investment preferences, where changes in benchmark interest rates may alter public and investor responses toward financial instruments and financing decisions (Wahyuni, 2023).

In this study, interest rate policy is treated as a variable that simultaneously influences monetary and fiscal conditions. High interest rates can be used to curb inflation and prevent Rupiah depreciation, but for the government, this means increased interest payments on new debt and floating-rate debt (Siahaan & Panahatan, 2019). Therefore, the effectiveness of interest rate policy in balancing monetary stability and fiscal burden is a central focus of the analysis. Indonesia's government debt consists of various instruments, ranging from foreign loans to domestic bond issuance. Effective debt management aims to maintain the debt-to-GDP ratio within safe limits as stipulated by law (Kose *et al.*, 2021). However, fluctuations in interest rates can trigger refinancing risks and increase the budget deficit if not managed with appropriate mitigation. The sustainability of government debt, therefore, depends not only on the amount of debt outstanding but also on the government's ability to manage interest expenses, refinancing risks, and investor confidence in the domestic financial market.

The interrelationship between interest rates and government debt creates a policy dilemma. When global inflation rises, central banks tend to raise interest rates through tighter monetary policy frameworks. Under these conditions, adjustments in benchmark interest rates are generally followed by increases in government bond yields as investors demand higher returns in response to changing market expectations and risk perceptions. As a result, a larger share of the state budget may be absorbed by interest payments on debt, potentially reducing fiscal space for development spending in other sectors. This phenomenon underlies the importance of research into the role of interest rate policy in controlling the debt burden. The role of central banks in implementing benchmark interest rate policies, therefore, is essential for maintaining monetary stability, controlling inflation, and influencing financial market expectations regarding sovereign financing conditions (Yani, 2024).

Several previous studies have examined the dynamics of monetary policy and government debt management using various methodological approaches. First, Juhro *et al.*, (2021) analyzed the interdependence between monetary policy and asset prices in ASEAN-5 countries and found that benchmark interest rate adjustments significantly influence financial market conditions and investor behavior. Second, Nguyen *et al.*, (2026), using a macroeconomic approach in Asian economies, demonstrated that inflation-targeting frameworks and benchmark interest rate policies play an important role in maintaining macroeconomic stability and influencing financing conditions. Third, Afonso *et al.*, (2024) emphasized that sovereign risk dynamics and government financing conditions are highly sensitive to global uncertainty, interest rate fluctuations, and investor risk perceptions. Furthermore, Putri and Kusumastuti (2024) found that coordination between monetary and fiscal policy in Indonesia significantly contributes to maintaining macroeconomic stability and managing fiscal pressures arising from changing financial market conditions.

Although previous studies have examined the relationship between monetary policy and debt management, most still focus on the general relationship between interest rates and macroeconomic

stability, without specifically analyzing how benchmark interest rate policies influence government debt-servicing dynamics in Indonesia. Existing studies also tend to discuss monetary policy transmission and fiscal management separately, thereby offering a limited explanation of the interaction among BI7DRR adjustments, sovereign bond yields, refinancing risk, and debt sustainability in the context of post-pandemic global monetary tightening. In addition, prior studies rarely emphasize the implications of interest rate fluctuations for the structure of Indonesian government debt, particularly domestic bond financing and interest expenditure on debt within the state budget framework.

Given these limitations, this study seeks to analyze the role of benchmark interest rate policy in managing Indonesia's government debt repayment burden by examining its relationship with sovereign bond yields, refinancing risk, exchange rate stability, and fiscal sustainability. This study offers novelty by integrating monetary policy perspectives and government debt management within the context of post-pandemic economic uncertainty and global interest rate normalization in emerging economies. The findings are expected to contribute theoretically to the development of macroeconomic and public finance literature regarding monetary-fiscal policy coordination. Practically, the results may provide insights for policymakers, particularly Bank Indonesia and the Ministry of Finance of the Republic of Indonesia, in formulating interest-rate and debt-management strategies to maintain fiscal sustainability and financial market stability.

The remainder of this paper is organized as follows. Section 2 provides a literature review and hypothesis development. Section 3 presents the research method and design. Section 4 provides a discussion. Section 5 is the Concluding Remarks and Recommendations

2. Literature Review and Hypothesis Development

2.1 Monetary Policy and Interest Rate Theory

Monetary policy and interest rate theory explain the role of central banks in maintaining macroeconomic stability by regulating the money supply, inflation, exchange rates, and financial market liquidity (Moenjak, 2014). Within modern monetary frameworks, benchmark interest rates serve as the primary instrument used by central banks to influence economic activity, investment behavior, consumption, and capital flows. In the Indonesian context, Bank Indonesia implements monetary policy through the BI 7-Day Reverse Repo Rate (BI7DRR), which functions as the operational benchmark for controlling inflation and stabilizing financial markets. Interest rate adjustments influence borrowing costs, asset prices, and investor expectations, thereby shaping the transmission of monetary policy across the broader economy. According to Kuncoro (2020), the inflation-targeting framework in Indonesia demonstrates that interest-rate policy plays an important role in reducing exchange-rate volatility and strengthening monetary credibility. Similarly, Juhro *et al.*, (2021) found that monetary policy and asset price movements in the ASEAN-5 countries are strongly interconnected, indicating that changes in benchmark interest rates can significantly influence financial market stability and investor sentiment. From a broader perspective, Azis (2026) emphasized that the effectiveness of monetary policy is closely linked to regional economic structures and financial market responsiveness, suggesting that interest rate policy cannot be separated from fiscal and developmental considerations in emerging economies.

The theoretical foundation of interest rate policy also underscores the importance of coordinating monetary policy to sustain economic growth and fiscal resilience. Under inflation-targeting regimes, central banks often raise benchmark interest rates to control inflationary pressures and

maintain exchange rate stability, particularly during periods of global financial uncertainty (Krasniqi & Gara, 2025). However, higher interest rates may simultaneously increase financing costs for governments, corporations, and households. Sethi & Mishra (2026) argued that inflation targeting frameworks in Asian economies generally improve macroeconomic performance by enhancing policy credibility and reducing inflation persistence. Nevertheless, the effectiveness of monetary policy depends heavily on institutional coordination, financial market depth, and economic structure. Hamzah *et al.*, (2026) further explained that interest rate policy in Indonesia significantly influences economic growth by affecting investment activity, lending behavior, and aggregate demand. In addition, Bastanifar (2024) argued that monetary stability contributes not only to economic performance but also to broader social and institutional stability, underscoring the strategic importance of central bank policy in sustaining development.

2.2. The Mechanism of the Relationship Between Interest Rates and Government Debt

The relationship between interest rates and government debt is closely associated with sovereign financing costs, debt refinancing mechanisms, and fiscal sustainability (Willems & Zettelmeyer, 2022). In modern financial systems, benchmark interest rates established by central banks influence the yield structure of government securities, thereby affecting the government's borrowing costs in domestic and international financial markets. When benchmark interest rates increase, investors generally demand higher returns on government bonds to compensate for inflation expectations, exchange rate risk, and market uncertainty. As a result, governments face rising coupon obligations and higher debt-servicing expenditures, particularly on newly issued debt and refinancing activities. Neveu & Schafer (2024) explained that increases in long-term interest rates are strongly associated with higher public borrowing costs and may intensify fiscal pressure when debt levels continue to expand. Similarly, Hoekman & Onur Taş (2024) emphasized that sovereign risk and government debt portfolios are highly sensitive to financial market conditions, particularly during periods of monetary tightening and economic uncertainty. In the context of emerging economies, fluctuations in sovereign yields may also influence investor confidence, capital flows, and exchange rate stability, thereby creating additional fiscal vulnerabilities. Juhro *et al.*, (2021) further demonstrated that monetary policy and asset price movements in ASEAN-5 countries are strongly interconnected, indicating that changes in interest rate policy may indirectly influence government debt dynamics through financial market transmission mechanisms.

The mechanism linking interest rates and government debt also reflects the interaction between monetary policy credibility and fiscal resilience. Under inflation-targeting frameworks, central banks often raise benchmark interest rates to control inflation and stabilize exchange rates (Warjiyo & Juhro, 2019). However, tighter monetary policy may simultaneously increase the government's refinancing burden and reduce fiscal flexibility. According to Sethi & Mishra (2026), effective inflation targeting can improve macroeconomic performance and strengthen policy credibility, although its effectiveness depends on institutional coordination and financial market conditions. Azis (2026) argued that monetary policy effectiveness in developing economies cannot be separated from regional financial structures and fiscal capacity because interest rate adjustments influence liquidity distribution, borrowing behavior, and sovereign financing strategies. Moreover, Afonso *et al.*, (2023) highlighted that geopolitical tensions and global uncertainty may amplify sovereign risk dynamics by increasing market volatility and investor risk aversion, ultimately affecting government bond yields and debt sustainability.

2.3. Monetary and Fiscal Policy Coordination in Indonesia

Monetary and fiscal policy coordination plays a crucial role in maintaining macroeconomic stability, economic growth, and fiscal sustainability in emerging economies such as Indonesia. In practice, monetary policy implemented by Bank Indonesia and fiscal policy administered by the Ministry of Finance of the Republic of Indonesia are closely interconnected because both policies influence inflation, exchange rates, government financing conditions, and financial market stability. During periods of economic uncertainty, coordinated policy responses become increasingly important for maintaining investor confidence and preventing excessive fiscal and financial vulnerabilities (Al-Thaqeb & Algharabali, 2019). Indrawati *et al.*, (2024) explained that post-pandemic fiscal policy in Indonesia focused on balancing economic recovery efforts with the need to preserve fiscal discipline and debt sustainability. Under these conditions, fiscal expansion through government spending and debt financing required an accommodative monetary policy to stabilize liquidity and financial markets. Similarly, Rachmawaty *et al.*, (2024) found that monetary and fiscal policies jointly influence Indonesia's economic growth, indicating that macroeconomic stability cannot be effectively maintained through isolated policy actions. Wartoyo *et al.*, (2024) further emphasized that the effectiveness of policy coordination became increasingly important during and after the COVID-19 period, particularly in managing inflationary pressures, restoring aggregate demand, and maintaining financial system resilience amid global economic uncertainty.

The relationship between monetary and fiscal coordination is also associated with government debt management and sovereign risk dynamics. Interest rate adjustments implemented through benchmark monetary policy influence sovereign bond yields, debt-servicing costs, and investor perceptions of fiscal credibility. Ariadne & Sri (2024) demonstrated that post-institutional transformation in Indonesia, monetary and fiscal policy interactions became increasingly interconnected, particularly in stabilizing macroeconomic conditions and responding to financial market fluctuations. In addition, Veronika & Efendi (2025) argued that the effectiveness of monetary, macroprudential, and microprudential policies significantly contributes to maintaining stability in Indonesia's financial system during and after the pandemic. Global economic uncertainty and geopolitical tensions also create external pressures that may influence sovereign risk and capital market stability. Afonso *et al.*, (2024) highlighted that geopolitical tensions can amplify sovereign risk dynamics by increasing market uncertainty and investor risk aversion, thereby affecting government financing costs and debt sustainability. These conditions indicate that effective monetary and fiscal policy coordination is not limited to inflation control and economic stimulus; it also serves as a strategic mechanism for maintaining debt sustainability, exchange rate stability, investor confidence, and long-term macroeconomic resilience.

3. Research Method

This study uses a qualitative, descriptive approach to provide a systematic overview of the role of interest rate policy in controlling Indonesian government debt. The study focuses on macroeconomic and fiscal policy developments in Indonesia during 2020–2025, particularly in the context of post-pandemic economic recovery, global monetary tightening, and changes in domestic interest rate policy. The qualitative descriptive approach was selected because this study aims to analyze policy interactions,



fiscal conditions, and debt management dynamics using official macroeconomic and financial documents rather than through statistical hypothesis testing.

The data used in this study are secondary data obtained through library research, including monetary policy reports published by Bank Indonesia, government debt profile reports issued by the Ministry of Finance of the Republic of Indonesia, publications from the Directorate General of Budget Financing and Risk Management (DJPPR), state budget reports, inflation reports, exchange rate statistics, sovereign bond yield reports, and other official publications relevant to monetary and fiscal policy coordination in Indonesia. The study also draws on academic journal articles, macroeconomic policy studies, and institutional reports on interest rate policy, government debt management, sovereign bond markets, and fiscal sustainability. The selection of documents was based on relevance, publication credibility, policy context, and data consistency regarding benchmark interest rates and government debt dynamics in Indonesia.

The primary instrument in this study is the researcher herself, who serves as an independent data collector, document reviewer, and qualitative data analyzer. The main analytical indicators used in this study include benchmark interest rate movements (BI7DRR), government bond yields, debt-servicing costs, debt-refinancing conditions, inflation trends, exchange-rate stability, and developments in the debt-to-GDP ratio. Data collection was conducted through document review and literature identification procedures, systematically compiling official reports, policy documents, and empirical studies on the interaction between monetary policy and fiscal management.

Data analysis is carried out in three main stages: data reduction to focus on interest rate policy variables and government debt conditions, data presentation in narrative form and descriptive tables, and drawing conclusions based on a logical interpretation of macroeconomic and fiscal policy developments observed during the study period. To strengthen data validity and analytical consistency, this study applies source triangulation by comparing findings from official government reports, central bank publications, academic literature, and macroeconomic policy studies. Using this approach, the study explores the relationship and interaction between benchmark interest rate policy and government debt management through a qualitative interpretation of macroeconomic and fiscal policy developments in Indonesia, without employing formal econometric or statistical causal testing.

4. Results and Discussion

4.1 Analysis Results

The findings of this study indicate that benchmark interest rate policy in Indonesia plays an important role in influencing government debt management through six major dimensions: debt servicing costs, exchange rate stability, SBN auction effectiveness, inflation and liquidity management, responses to global monetary conditions, and monetary-fiscal policy coordination. The analysis further demonstrates that fluctuations in benchmark interest rates are closely associated with sovereign financing conditions, refinancing risks, and investor confidence during periods of global economic uncertainty.

The 1997–1998 Asian financial crisis was one of the most severe periods of macroeconomic instability in Indonesia. It demonstrated the national economy's vulnerability to exchange-rate shocks, capital outflows, and financial-market instability. The depreciation of the Rupiah in July 1997 triggered inflationary pressures and economic contraction, which subsequently affected employment conditions, poverty levels, and fiscal stability. The crisis also highlighted how aggressive interest-rate policies aimed



at stabilizing the exchange rate could simultaneously increase borrowing costs and debt-service burdens for both the government and the private sector. This historical experience remains relevant in understanding the interaction between benchmark interest rate policy and government debt sustainability in Indonesia, particularly during periods of global financial uncertainty and monetary tightening.

Subsequently, the economic crisis not only affected the financial sector but also spilled over into a social and political crisis, eroding public confidence in the stability of the Indonesian economy. One policy response was the implementation of very high interest rates for an extended period to stabilize the exchange rate and suppress inflation. However, this high-interest-rate policy had serious consequences, particularly for the real sector and the government's ability to manage its debt obligations. High interest rates increased borrowing costs for both the private and government sectors, increasing the burden of debt interest payments and narrowing fiscal space. These conditions indicate that monetary stabilization policies may generate trade-offs between exchange rate stabilization and fiscal sustainability, particularly when debt financing requirements continue to increase during periods of economic stress.

This situation was further exacerbated by unstable political and security conditions, particularly in the second quarter of 1998, which caused a deepening economic contraction. In this context, it is clear that interest rate policy not only serves as a monetary stabilization instrument but also has significant implications for government debt management. Therefore, the 1997–1998 crisis provides an important foundation for understanding how interest rate policy can influence the dynamics of Indonesian government debt, both during crises and in efforts to maintain fiscal sustainability. This finding supports the argument of Afonso *et al.*, (2024), who emphasized that macroeconomic instability and global uncertainty may amplify sovereign risk dynamics and increase pressure on government financing conditions.

Interest rate policy set by Bank Indonesia, particularly through the BI-Rate instrument, now known as the BI 7-Day Reverse Repo Rate, plays a crucial role in managing and controlling Indonesian government debt because it directly affects the country's financing costs. This benchmark interest rate serves as the primary reference for determining the yield on government bonds (SUN). Therefore, when Bank Indonesia raises interest rates to address inflationary pressures or maintain exchange rate stability, the result is an increase in the government's interest burden on new and refinanced debt. Conversely, lowering interest rates can reduce borrowing costs and provide more fiscal space, but it can also encourage increased debt accumulation if not balanced with fiscal discipline. Furthermore, interest rate policy influences investor perceptions of the risks and attractiveness of domestic financial instruments, ultimately affecting capital flows, bond market stability, and the sustainability of government debt management. Bank Indonesia reports during the 2022–2024 period indicated that increases in benchmark interest rates were implemented to maintain exchange rate stability and control inflationary pressures amidst global monetary tightening. At the same time, the Ministry of Finance reports showed rising debt interest expenditure and sovereign financing costs, indicating a close relationship between benchmark interest rate policy and government debt dynamics in Indonesia.

4.2 Discussion

4.2.1 Controlling the Cost of Debt

The benchmark interest rate policy, such as Bank Indonesia's BI Rate, serves as the primary benchmark for determining yields on government-issued debt securities. When the benchmark interest rate is low, the government can issue Government Securities (SBN) with a lower coupon rate, which directly reduces the annual interest burden paid through the State Budget. This provides the government with more fiscal space to allocate funds to productive sectors such as infrastructure and education rather than simply paying the Ministry of Finance's borrowing costs.

However, economic dynamics often force the central bank to raise interest rates to control inflation or maintain the stability of the Rupiah exchange rate against foreign currencies. This interest rate increase poses a challenge for debt management because investors will demand higher returns to compensate for the increased risk and opportunity costs. Consequently, any new debt issuance or refinancing of maturing debt will become more expensive, thereby increasing the country's overall fiscal risk profile. During the post-pandemic monetary tightening period, increases in BI7DRR were followed by higher sovereign bond yields and rising debt interest expenditure within the State Budget. These findings indicate that benchmark interest rate adjustments significantly influence sovereign financing conditions and refinancing costs in Indonesia.

Therefore, the government, through the Directorate General of Financing and Risk Management (DJPPR), must mitigate this with a prudent debt management strategy to maintain fiscal sustainability. In a high-interest-rate environment, the government typically extends debt maturities or seeks more stable domestic financing sources to minimize the impact of fluctuations in market interest rates. Synchronization between the central bank's monetary policy and the government's fiscal policy is key to maintaining control of interest burdens without compromising the stability of the national economy. These findings are consistent with Neveu and Schafer (2024), who explained that increases in long-term interest rates may intensify sovereign borrowing costs and fiscal pressure when debt financing needs continue to expand.

4.2.2 Exchange Rate Stability and Foreign Currency Debt Pressure

The stability of the Rupiah exchange rate directly affects the amount of government debt denominated in foreign currencies, such as the US dollar or the euro. When the Rupiah depreciates, the amount of Rupiah the government must provide to repay the principal and interest on foreign-currency debt automatically increases, even though the amount of debt in the native currency remains unchanged. This phenomenon can widen the State Budget (APBN) deficit because spending on debt financing surges beyond the initial estimates set out in the macroeconomic assumptions.

To mitigate this risk, Bank Indonesia uses its benchmark interest rate policy to stabilize the exchange rate. By raising the BI Rate, the yield on domestic financial assets becomes more attractive to global investors, thereby encouraging capital inflows into Indonesia. This increased demand for the Rupiah helps strengthen the exchange rate or at least curb further depreciation, thereby preventing unplanned spikes in foreign-currency debt-servicing costs from adverse exchange-rate fluctuations. Empirical evidence from periods of Federal Reserve tightening showed that exchange rate pressures were often accompanied by increased volatility in sovereign bond markets and rising concerns about external debt exposure in emerging economies, including Indonesia. However, the use of this interest-

rate instrument must be carefully calibrated to maintain economic balance. Excessively high interest rates are effective in protecting the government from exchange-rate risk, but can also slow economic growth by increasing borrowing costs for the private and public sectors. Therefore, coordination between monetary and fiscal authorities, through the Ministry of Finance, is crucial to ensure that foreign currency debt management remains stable without unduly burdening the real sector. This finding aligns with Nguyen *et al.*, (2026), who emphasized that the effectiveness of inflation-targeting frameworks depends heavily on macroeconomic coordination and financial market stability.

4.2.3 Effectiveness of SBN Auctions

The benchmark interest rate set by the central bank serves as the primary anchor for investors in determining their expected yields when participating in SBN auctions. When the government opens an auction, investors will compare the government's coupon offer with market interest rates and the inflation rate to ensure adequate real returns. A predictable interest rate policy aligned with macroeconomic conditions will foster market confidence, thereby maintaining high demand at the auction and giving the government a strong bargaining position to secure funding.

The effectiveness of these auctions depends heavily on the benchmark interest rate's ability to maintain the attractiveness of domestic assets, particularly for foreign investors who are highly sensitive to interest rate differentials between countries. If domestic interest rates are perceived as too low relative to the risks, investors tend to hold back or shift to other markets, which can lead to under-absorption of the auction or force the government to pay higher interest rates. Conversely, competitive interest rates will attract capital inflows, increase the bid-to-cover ratio, and ensure timely achievement of the state budget financing target. Data published by DJPPR during periods of stable monetary policy expectations generally indicated stronger investor demand and more stable auction absorption rates, while periods of interest rate uncertainty were associated with higher yield expectations in sovereign bond markets.

Ultimately, the success of cost-efficient SBN auctions is key to maintaining long-term fiscal sustainability. With a high auction absorption rate and controlled interest rates, the government can finance the budget deficit without incurring excessive long-term debt-servicing obligations. Synchronizing the timing of interest rate policies and the SBN issuance schedule by the Directorate General of Financing and Risk Management is a crucial strategy for optimizing the country's borrowing costs amidst global financial market fluctuations. This result extends the findings of Juhro *et al.*, (2021), who emphasized the interconnected relationship between monetary policy adjustments and financial market stability in ASEAN economies.

4.2.4 Managing Inflation and Liquidity Risk

Bank Indonesia uses the benchmark interest rate (BI Rate) to regulate the money supply and manage liquidity in the financial markets. In conditions of excess liquidity, inflationary pressures tend to increase due to surging demand for goods and services. By raising interest rates, BI can absorb this excess liquidity, encourage people to save more, and reduce consumption-driven borrowing. Controlled inflation is fundamental to the government because it provides the price certainty and economic stability necessary for long-term financing planning.

Success in maintaining low and stable inflation directly affects the real interest rate—the nominal interest rate minus the inflation rate. If inflation surges uncontrollably, investors will demand a much higher nominal interest rate to maintain the real value of their investments in Government Securities (SBN). Without effective inflation control, the government will be forced to issue debt at very high interest rates, which could ultimately threaten fiscal sustainability and increase the burden on the state budget. This condition became increasingly relevant during the post-pandemic inflationary period, when many central banks tightened monetary policy to maintain price stability and financial market confidence.

Furthermore, optimal liquidity management through monetary policy ensures that the domestic financial market remains healthy enough to absorb government debt issuance. Synergy between Bank Indonesia (BI) and the government, such as through open market operations and, when necessary, secondary market purchases of government securities (SBN), helps prevent liquidity shortages that could trigger sudden spikes in government bond yields. By maintaining inflation and liquidity at ideal levels, the government can manage its debt portfolio more flexibly and efficiently, even amidst challenging global economic dynamics. These findings support Veronika's (2025) argument that monetary and macroprudential policy coordination contributes significantly to maintaining financial system stability during and after periods of economic disruption.

4.2.5 Response to Global Conditions

Global economic dynamics, particularly the monetary policies of central banks in developed countries, such as the Federal Reserve in the United States, have significant spillover effects on domestic financial markets. When developed countries raise interest rates, the attractiveness of dollar-denominated financial assets increases, often triggering capital outflows from developing countries such as Indonesia. This phenomenon creates selling pressure on Government Securities (SBN) from foreign investors, which in turn drives up yields and weakens the Rupiah exchange rate.

Bank Indonesia responded to this situation by adjusting its benchmark interest rate (BI Rate) to maintain the attractiveness of domestic investment. By raising the interest rate, BI seeks to maintain a competitive interest-rate differential to encourage global investors to invest in Rupiah-denominated assets. This anticipatory measure is crucial to prevent massive capital flight that could disrupt financial market stability and trigger a spike in government borrowing costs amid global uncertainty. The Federal Reserve's tightening cycle during 2022–2024 increased pressure on emerging-market currencies and sovereign financing conditions, thereby necessitating stronger monetary and fiscal coordination in Indonesia. However, this response to global conditions has direct consequences for government debt management through the State Budget (APBN). Rising domestic interest rates in response to global policy pressures mean the government must offer higher coupons on new government bond (SBN) issuances to attract market interest. This automatically increases the country's long-term debt interest burden. Therefore, synergy between Bank Indonesia's monetary policy and the Ministry of Finance's financing strategy is key to ensuring the government continues to secure the necessary funding without being burdened by soaring debt costs caused by external factors. This finding is consistent with Afonso *et al.*, (2024), who highlighted that geopolitical tensions and global uncertainty may amplify sovereign risk dynamics and increase vulnerability to government financing.

4.2.6 Policy Synergy

Synergy between the monetary policy implemented by Bank Indonesia and the fiscal policy by the Ministry of Finance is a key pillar in creating macroeconomic stability. An appropriate interest rate policy helps control inflation and borrowing costs, while fiscal policy ensures disciplined and efficient management of state spending. When these two policies are aligned, investor confidence in the domestic financial market increases, which in turn makes it easier for the government to absorb funding from the market at reasonable interest rates to finance the national development agenda.

This harmonization also plays a crucial role in maintaining the debt-to-Gross Domestic Product (GDP) ratio within safe limits as stipulated by law. Stable monetary policy supports sustainable economic growth, thereby increasing the GDP base, which serves as the denominator in the debt ratio. On the other hand, the government is designing a credible state budget to ensure that new debt is always balanced by increases in the economy's productive capacity, so that debt remains a healthy instrument for growth rather than a fiscal burden. Post-pandemic policy coordination between Bank Indonesia and the Ministry of Finance, including financial market stabilization measures and fiscal recovery programs, underscored the importance of institutional synergy in maintaining macroeconomic resilience amid global uncertainty.

In the long term, strong coordination through official forums such as the Financial System Stability Committee (KSSK) enables the government and central bank to anticipate global risks more effectively. By sharing economic data and projections, both institutions can determine the appropriate timing for interest rate adjustments and fiscal stimulus to mitigate the impact of economic shocks. This synergy ensures that debt management focuses not only on capital acquisition but also on maintaining the country's risk profile, keeping it competitive and resilient to global financial market dynamics. These findings support the arguments of Indrawati (2024) and Putri and Kusumastuti (2024), who emphasized that effective coordination between monetary and fiscal authorities is essential for maintaining fiscal sustainability, macroeconomic stability, and long-term economic resilience in Indonesia.

5. Concluding Remarks and Recommendation

This study examined the role of benchmark interest rate policy in controlling Indonesia's government debt burden within the context of monetary and fiscal policy coordination. Using a qualitative descriptive approach based on secondary data from official reports issued by Bank Indonesia, the Ministry of Finance of the Republic of Indonesia, DJPPR publications, and macroeconomic policy documents during the 2020–2025 period, the study explored the interaction between benchmark interest rate policy, sovereign financing conditions, exchange rate stability, and fiscal sustainability. The findings indicate that benchmark interest rate policy plays an important role in influencing government debt management through several dimensions, including debt servicing costs, exchange rate stability, SBN auction effectiveness, inflation and liquidity management, responses to global monetary conditions, and institutional policy coordination. The study also shows that fluctuations in benchmark interest rates are closely associated with refinancing conditions, sovereign bond yields, investor confidence, and the government's capacity to maintain fiscal resilience during periods of global economic uncertainty.

This study contributes theoretically by strengthening the discussion on the interaction between monetary policy and government debt management in emerging economies, particularly within the

context of post-pandemic global monetary tightening. Unlike previous studies that generally discussed monetary policy and debt management separately, this research integrates benchmark interest rate dynamics, sovereign financing mechanisms, and fiscal sustainability into a unified analytical framework. Practically, the findings provide policy insights regarding the importance of coordination between monetary and fiscal authorities in maintaining macroeconomic stability and controlling sovereign financing risks. The study also highlights the strategic importance of maintaining exchange rate stability, investor confidence, and prudent debt management to support sustainable economic development in Indonesia. From a policy perspective, the findings emphasize that benchmark interest rate adjustments should consider not only inflation-control objectives but also the implications for debt refinancing costs, sovereign bond market conditions, and long-term fiscal sustainability.

Despite these contributions, this study has several limitations. First, the study relies on qualitative descriptive analysis and secondary data, which limits the ability to provide formal causal verification regarding the relationship between benchmark interest rate policy and government debt dynamics. Second, the analysis primarily focuses on macroeconomic and policy documents in the Indonesian context during the 2020–2025 period, thereby limiting broader cross-country comparisons or longer-term generalizations. Third, the study does not employ econometric modeling or quantitative testing to measure the magnitude of the relationship between benchmark interest rates, sovereign yields, and debt servicing costs. Future research is therefore encouraged to integrate quantitative approaches such as VAR, ARDL, panel data analysis, or comparative cross-country frameworks to provide more robust empirical evidence regarding the interaction between monetary policy and government debt sustainability. In addition, future studies may further explore the role of geopolitical risk, global financial market volatility, and sovereign credit ratings in shaping debt financing conditions in emerging economies.

Statement of Use of Generative AI

During the preparation of this work, the author used ChatGPT to assist in improving clarity and readability of the text. The author reviewed and edited the output and takes full responsibility for the content of the publication.

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