

# Comparative Analysis of Money Market and Capital Market Performance in Indonesia: A Case Study on the Impact of Monetary Policy

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## ABSTRACT

**Objective:** This study aims to analyze the comparison of the performance of the money market and the capital market in Indonesia with a focus on the impact of monetary policy. **Method:** Using literature study and library research methods, this study found that the money market is more responsive in the short term to changes in monetary policy, while the capital market shows a more sustainable long-term impact. **Results:** The monetary policy implemented by Bank Indonesia, particularly thru the benchmark interest rate instrument (BI Rate/BI-7DRR), open market operations, and macroprudential policies, significantly affects the movements of the money market and the capital market. The results of this study provide implications for investors, regulators, and market participants to understand the sensitivity of both markets to the dynamics of monetary policy. In conclusion, monetary policy has an impact on the performance of the money market and the capital market in Indonesia, although with different response patterns. **Novelty:** Indonesia's financial market has two main pillars, namely the money market and the capital market. Both function as financial intermediation platforms, but they have different characteristics, instruments, and sensitivities to monetary policy.

## INTRODUCTION

Monetary policy in Indonesia, through the benchmark interest rate instrument (BI-Rate/BI-7DRR), base money, and open market operations, has proven to have a significant impact on the money market. The study conducted by Julaihah and Insukindro shows that changes in the SBI interest rate and the one-month commercial bank deposit interest rate affect macroeconomic variables such as inflation, output, and exchange rates [1]. This explains that the money market responds quickly to monetary policy because the instruments traded are short-term and liquid, so fluctuations can be immediately observed.

The demand for money in the Indonesian economy also serves as an important channel for the transmission of monetary policy. According to Riyandi, the income elasticity of the demand for money and sensitivity to interest rates are consistent with monetary theory [2]. When the central bank changes interest rates, it directly affects the demand for circulating money, which ultimately impacts the movement of money market instruments. Thus, the stability of money demand becomes an important factor in determining the effectiveness of monetary policy in the short-term financial market. The impact of monetary policy on the capital market is equally important. Quthbi found that monetary variables such as the BI Rate, inflation, money supply, and exchange rate have a long-term relationship with the performance of the sharia capital market in

Indonesia, particularly the Jakarta Islamic Index (JII) [3]. Another study by Adityo showed that before the 2008 global crisis, the BI Rate and exchange rate had a negative impact on the Islamic stock index, while money supply and inflation were not always significant [4]. This emphasizes that monetary policy can affect the performance of the capital market, although with a different pattern compared to the money market. The effect of monetary policy on the capital market is also asymmetric. Sia et al. show that changes in interest rates and inflation do not always affect stock prices in the same pattern when they rise or fall [5]. For example, an increase in interest rates suppresses stock prices more significantly than a decrease in interest rates, which does not necessarily lead to a proportional increase in stock prices. These findings highlight the importance of non-linear analysis in understanding the relationship between monetary policy and the Indonesian capital market.

In addition to fundamental factors, investor behavior also plays a role in determining the response of the capital market to monetary policy. Wicaksono and Falianty found that monetary policy can influence herding behavior in the Indonesian stock market [6]. Although its influence is not very significant, the expectations created by Bank Indonesia and global monetary policies, such as the Fed's policies, can trigger collective investor behavior that affects the movement of the IDX Composite Index (IHSG). The effectiveness of monetary policy in developing countries, including Indonesia, is greatly influenced by the credibility of the central bank and institutional conditions. Sasmiharti states that policy credibility, the inflation targeting framework, and institutional stability are key for monetary policy to be effective [7]. If the credibility of the central bank is low, the response of the money market and the capital market to the policies issued will weaken. Based on the background outlined earlier, the performance of Indonesia's money market and capital market is also influenced by external factors such as the global crisis, commodity prices, and domestic political conditions. Therefore, the comparison of the performance of the money market and the capital market in responding to monetary policy needs to be viewed comprehensively by considering both internal and external factors that moderate the relationship between the two.

This study aims to analyze the comparison of the performance of the money market and the capital market in Indonesia, with a focus on the impact of monetary policy in Indonesia. By understanding the impact of these policies, it is expected to provide appropriate recommendations for policymakers in formulating economic strategies that not only maintain price stability but also promote sustainable economic growth through the synergy of monetary policy with other economic instruments. This research will also provide insights into the relationship between monetary policy and the money market and capital market in Indonesia.

## **Theoretical Review**

### **Money Market**

The money market is a market for short-term financial instruments with high liquidity and relatively low risk. The main instruments of the money market include Bank

Indonesia Certificates (SBI), Money Market Securities (SBPU), Commercial Paper (CP), Certificates of Deposit, and interbank transactions. Characteristics of the money market [8]:

1. Maturity period of less than 1 year.
2. High liquidity, quickly convertible.
3. Sensitive to changes in interest rates and liquidity.

Functionally, the money market is a place for buying and selling transactions where investors lend a certain amount of funds to other parties with an agreement of a specific return. The main purpose of the money market is to serve as a bridge between those who need money and those who lend it. The money market is often used as the main means of transmitting monetary policy because it can quickly respond to changes in monetary instruments, particularly the benchmark interest rate and open market operations.

### **Capital Market**

The capital market is a market that brings together investors and issuers for the trading of medium to long-term financial instruments. Capital market instruments include stocks, bonds, mutual funds, sukuk, and derivatives. According to Tandelilin [9], The functions of the capital market include:

1. A means of long-term funding for companies.
2. A means of investment for the public.
3. An indicator of economic stability and growth.

The characteristics of the capital market are a longer time frame and a higher rate of return compared to the money market, but it also has a greater risk of fluctuations. The response of the capital market to monetary policy is usually seen in the long term through changes in stock prices, capital flows, and investor expectations. The Indonesian capital market, as one of the main components in the financial system, plays a central role in supporting the country's economic growth. The dynamics of the capital market are influenced by various factors, including monetary policies implemented by the monetary authority, in this case, Bank Indonesia. Research on the impact of monetary policy on investment in the Indonesian capital market has become substantial, given the importance of this relationship to economic stability and public welfare [10].

### **Monetary Policy**

Monetary policy is an effort undertaken by the central bank to regulate the money supply and interest rates in order to achieve macroeconomic goals such as price stability, economic growth, and financial system stability. In Indonesia, Bank Indonesia uses several main monetary policy instruments, including the benchmark interest rate (BI Rate or BI-7 Day Reverse Repo Rate), open market operations, and macroprudential policies [11]. The benchmark interest rate is the main instrument that influences the cost of borrowing and the rate of return on investments. Open Market Operations are used to regulate the liquidity of the money market by buying or selling government securities. Macroprudential policies aim to maintain the overall stability of the financial system by regulating systemic risk.

Monetary policy has different impacts on the money market and the capital market. The money market tends to be more responsive to changes in monetary policy in the short term because the instruments traded are short-term and are heavily influenced by liquidity and the benchmark interest rate. In contrast, the capital market shows a slower but long-term response, as stock and bond prices are influenced by investors' expectations of future economic conditions and sustained monetary policy.

The money market is very sensitive to changes in monetary policy, especially the benchmark interest rate. When Bank Indonesia raises the BI-7DRR, interbank loan rates increase, making money market instruments more attractive. Therefore, the money market tends to respond quickly (short-term effect) to changes in monetary policy [12]. The capital market is more influenced by investors' expectations regarding long-term economic conditions. An increase in interest rates usually causes investors to shift from stocks to money market instruments, thereby putting downward pressure on stock prices. However, in the long term, stable monetary policy supports the growth of the capital market through increased investor confidence, foreign capital inflows, and improved issuer performance.

Several previous studies have shown that changes in Bank Indonesia's benchmark interest rate significantly affect the movements of the money market and the capital market in Indonesia. Research by Sari and Nugroho found that the money market adjusts more quickly to changes in interest rates compared to the capital market [13]. However, the capital market provides stronger signals regarding long-term economic prospects and stable monetary policy.

## RESEARCH METHOD

This research uses a qualitative approach with literature review and library research methods. This method was chosen to obtain an in-depth understanding of the performance of the money market and the market in Indonesia, including the instruments used, operational mechanisms, and their impact on monetary policy. The data used in this research comes from various secondary sources such as scientific journals, textbooks, official reports from financial institutions, and regulations from financial authorities such as the Financial Services Authority (OJK) and Bank Indonesia.

Article searches were conducted through Google Scholar by selecting 05 journals that appeared in the search with the keyword "Comparison Analysis of Money Market and Capital Market Performance in Indonesia." Data analysis was carried out using a simple approach, which involved compiling and simplifying the findings from each article.

## RESULTS AND DISCUSSION

### *Results*

The results of the literature review on five articles, the researchers formulated that monetary policy impacts the performance of the money market and capital market in Indonesia. This literature review successfully identified the impact of monetary policy on

the performance of the money market and capital market in Indonesia. The following are the data analysis metrics from the journal articles used in this literature review:

**Table 1.** Metrics of the Literature Review on Monetary Policy toward the Money Market and Capital Market in Indonesia.

No	Author	Research Journal Title	Research Method	Research Results
1	Julaihah & Insukindro (2003) [1]	The impact of changes in SBI interest rates on macro variables	Quantitative, VAR model	Changes in SBI interest rates affect inflation, output, and exchange rates
2	Riyandi (2022) [2]	Elasticity of money demand to interest rates	Theoretical & empirical study	Money demand is sensitive to changes in interest rates and income
3	Quthbi (2019) [3]	The relationship between BI Rate, inflation, exchange rate, and JII	Johansen Cointegration & VECM	There is a long-term relationship between monetary variables and the Islamic stock index
4	Adityo (2015) [4]	The effect of BI Rate, exchange rate, money supply on the Islamic capital market	OLS regression	Before the 2008 crisis, BI Rate & exchange rate had a negative effect on the stock index
5	Sia et al. (2025) [5]	Asymmetric response of the stock market to inflation & interest rates	Non-linear regression	Increases in interest rates put more pressure on stocks than decreases

### Discussion

This research shows that the monetary policy implemented by Bank Indonesia has a significant impact on two main components of the Indonesian financial system, namely the money market and the capital market. Although both are part of the financial market, their responses to monetary policy turn out to be very different, both in terms of timing and mechanism.

The money market, which contains short-term financial instruments such as Bank Indonesia Certificates (SBI), securities, and deposits, tends to be very responsive to changes in the benchmark interest rate. Due to the nature of instruments in the money market that are easily liquidated and have a short duration, changes in monetary policy – especially those related to interest rates – are directly felt. This is reinforced by the research of Julaihah and Insukindro which states that changes in SBI interest rates and

deposits can affect macroeconomic variables such as inflation, output, and exchange rates [1]. This means that the money market becomes the initial channel that responds to monetary policy in the short term.

In addition, the demand for money also plays an important role in the transmission of monetary policy. When interest rates rise, the demand for money will decrease because people prefer to keep their money in the form of interest-bearing investments. Riyandi's research shows that the demand for money in Indonesia is quite sensitive to changes in interest rates and income [2]. This means that when Bank Indonesia adjusts interest rates, the impact can be directly felt in the money market. Meanwhile, the capital market has a different response. This market contains medium- to long-term financial instruments such as stocks and bonds.

Movements in the capital market do not occur immediately when monetary policy is announced, but are influenced by investors' expectations regarding the direction of policy and future economic conditions. Research by Quthbi shows that monetary variables such as interest rates, inflation, and exchange rates have a long-term relationship with the sharia stock index, particularly the Jakarta Islamic Index (JII) [3]. This means that the capital market reacts more slowly, but its impact can be deeper in the long run.

Beside fundamental factors, investor behavior also influences how the capital market responds to monetary policy. A study by Wicaksono and Falianty shows that when signals emerge from Bank Indonesia or global central banks like The Fed, investors in Indonesia can exhibit herding behavior, which means following the majority's decision without in-depth analysis [6]. This behavior can cause sudden spikes or drops in stock prices, even tho the fundamental factors have not changed significantly.

The effectiveness of monetary policy itself is highly dependent on the credibility of Bank Indonesia. If the public and market players trust the direction of the policy taken, the market will respond in a more orderly and stable manner. Conversely, if the credibility of the central bank is in doubt, the market response can become inconsistent or even cause turmoil. Sasmiharti stated that institutional stability and clear communication are key to the successful implementation of monetary policy [7].

In terms of time, the money market and the capital market also show differences in responding to monetary policy. In the short term, the money market is more dominantly influenced by the money supply and savings, while in the long term, the capital market is more influenced by interest rates and inflation. These findings are consistent with the research by Fuddin and Anindynta, which states that investors need to consider the time frame when making decisions based on changes in monetary policy [14].

The monetary policy implemented by Bank Indonesia has a significant impact on the performance of the money market and capital market in Indonesia. Although both are influenced by monetary policy, the two markets show different response patterns, both in terms of speed and impact on the economy.

The money market, which consists of short-term financial instruments such as SBI, SBPU, and deposits, has proven to respond more quickly and directly to changes in

monetary policy, particularly changes in the benchmark interest rate and open market operations. This response occurs because instruments in the money market are highly sensitive to liquidity and interest rates, so even small changes in policy can directly affect short-term investment decisions.

With these differing characteristics, the monetary policy implemented must consider both equally. The money market can be an effective transmission tool in the short term, while the capital market serves as an important indicator for the long-term prospects of the economy. A deep understanding of the mechanisms of each market's response can help monetary authorities, investors, and market participants make wiser and more targeted decisions.

Overall, it can be concluded that monetary policy indeed has a strong impact on the money market and capital market in Indonesia, but in different ways and at different times. The money market responds quickly and directly, while the capital market is more influenced by expectations and external factors. Therefore, policymakers need to consider both markets equally so that monetary policy can operate more effectively in maintaining economic stability and promoting long-term growth. It appears that the money market and the capital market have different roles in responding to monetary policy. The money market responds more quickly but on a short-term scale, whereas the capital market responds more slowly but has a long-term impact [15].

## CONCLUSION

**Fundamental Finding :** Based on an in-depth discussion regarding the impact of monetary policy on the performance of the money market and capital market in Indonesia, several important conclusions can be drawn that are at the core of this research. First, the money market shows a quicker and more direct response to changes in monetary policy, especially in the short term. This is due to the characteristics of money market instruments, which are liquid and short-term in nature, so any changes in the benchmark interest rate and liquidity directly and significantly affect the movement of this market. The quick response of the money market is important as a mechanism for controlling monetary stability and liquidity in the financial system. Second, the capital market displays a different response pattern, which tends to be slower and more long-term in nature. The movement of the capital market is greatly influenced by investor expectations regarding macroeconomic prospects and perceptions of the stability of the prevailing monetary policy. In addition, the capital market is also greatly influenced by external factors such as global economic conditions and international market sentiment, which in turn affect foreign capital flows. Therefore, the impact of monetary policy on the capital market is more complex and asymmetric, where policy changes can elicit different reactions depending on the direction of the change and the accompanying economic conditions. In addition to the technical factors of money market and capital market instruments, investor behavior also becomes an important variable that determines the response of both markets. Investors do not only consider fundamental data and information, but also sentiment and expectations, which are often influenced by

news, global policies, and risk perception. The credibility of the monetary authority, in this case, Bank Indonesia, is the key to building market trust. Consistent, transparent, and predictable policies will have a greater positive effect on the stability and development of the financial market. **Implication** : In this context, the differences in response characteristics between the money market and the capital market have important implications for policymakers and market participants. For monetary authorities, understanding these characteristics means that the policies designed must consider both short-term and long-term impacts simultaneously, and integrate instruments that are appropriate for the prevailing economic conditions. For example, aggressive control of the benchmark interest rate can directly manage the money market, but it must be done carefully to avoid excessive turmoil in the capital market. Meanwhile, investors can use this understanding to adjust their investment strategies, utilizing the money market for short-term liquidity needs and the capital market for more profitable long-term investments. With all these considerations, the researchers hope that the results of this study can serve as a useful reference for all related parties, particularly in formulating policies that not only maintain financial stability but also promote inclusive and sustainable economic growth. In the future, the synergy between monetary policy, capital market regulation, and the development of innovative financial instruments is expected to strengthen the foundation of Indonesia's economy in facing both domestic and global challenges. **Limitation** : Therefore, the impact of monetary policy on the capital market is more complex and asymmetric, where policy changes can elicit different reactions depending on the direction of the change and the accompanying economic conditions. **Future Research** : A deep understanding of these dynamics is not only beneficial for policymakers and investors but also for academics and market practitioners who wish to comprehend the mechanisms of monetary policy transmission more comprehensively. Thus, this research opens up space for further studies that can enrich the literature and economic policy practices in Indonesia.

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