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An Analytical Review of Global Financial Market Dynamics: Risk Management Strategies and Monetary Policy

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Abstract: This study provides an in-depth analytical review of global financial market dynamics with a focus on risk management strategies and monetary policy. Through a thorough analysis of recent developments in financial markets, this study aims to understand the impact of economic, political, and technological factors on financial stability globally. The research pays particular attention to the risk management strategies employed by market participants, be they companies, investors, or financial institutions. Using an analytical framework, this research identifies various methods and instruments used in managing financial risks, including portfolio diversification, hedging, and derivative financial instruments. In addition, the research also analyzes the monetary policies implemented by central banks in different countries. The focus is on central bank responses to changes in economic and financial conditions and their impact on interest rates, inflation and economic growth. This analysis provides insight into how monetary policy can affect the stability of global financial markets. The results of this study are expected to provide a deeper understanding of the complex dynamics of global financial markets, assist market participants and policymakers in making more informed decisions, and provide a basis for the development of effective risk management strategies amid global economic uncertainty.

Keyword: Risk Management Strategies, Monetary Policy, Financial Market

INTRODUCTION

The global financial market is a dynamic and complex arena that is constantly changing in response to various economic, political and technological factors. In this era of globalization, the interconnection between financial markets in different countries has become increasingly close, creating new challenges as well as opportunities for market participants and policymakers. Risk Management Strategies and Monetary Policy" can start with the definition of global financial markets as markets consisting of various types of financial instruments traded around the world, Monetary policy is a policy conducted by the central bank to regulate the money supply and interest rates in the economy. Risk management strategies are efforts to identify, evaluate, and manage risks that arise in financial markets. According to (Agusmadi, 2020), risks in global financial markets can affect firm value and bank financial performance. In addition (Akbar, 2020) states that Islamic financial institutions face challenges in risk management due to their unique risk profile. Meanwhile, according to (Firmansyah, 2023) monetary policy has an important role in regulating the economic stability of a country. To manage stakeholder risk in achieving production targets (Prihartono, 2023) proposed several strategies, namely improving the company's organizational structure, preparing job descriptions, preparing standard operating procedures, and training and certifying workers' technical skills. In addition, it shows that macroeconomic factors and global financial markets can affect the composite stock price index. Therefore, an analytical review of global financial market dynamics, risk management strategies, and monetary policy can provide a better understanding of global financial markets and aid in investment decision-making. By delving deeper into the risk management strategies adopted by market participants and the impact of monetary policy on financial stability, we can formulate a more comprehensive understanding of the dynamic changes in the global financial context. And this analytical review is important to guide market participants, investors, and policymakers in making more informed and adaptive decisions in the face of continuous changes in global financial markets.

METHOD

This research will apply a descriptive qualitative approach to gain an in-depth understanding of global financial market dynamics, risk management strategies, and monetary policy. This approach will allow detailed exploration of qualitative aspects that cannot be directly measured. In this case, identifying and collecting qualitative data sources, such as news sources, internet websites, as well as obtaining research reports and policy documents.

RESULTS AND DISCUSSION

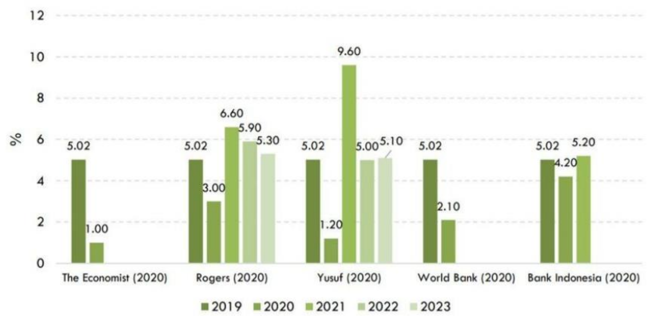
The result is an analysis of global financial market data shows that financial asset prices fluctuate dynamically with changes in economic and geopolitical factors. Volatility indices reflect market uncertainty, which can be managed through risk management strategies. In the context of risk management strategies, portfolio diversification is a common approach to reduce specific risks. The use of derivative instruments, especially options and futures contracts, is widely used to hedge against price fluctuations and mitigate market risks that may arise. Observations on monetary policy show that central banks are taking proactive measures to moderate the economic cycle. Interest rate adjustments, quantitative policy, and foreign exchange intervention are the main instruments used to achieve the objectives of price stability and economic growth. Therefore, the government through Bank Indonesia as the regulator of global financial market dynamics as well as risk management strategies and monetary policy conducts policies to maintain stability and promote growth as follows (Indonesia, 2023):

1) Strengthen monetary operations to improve the effectiveness of monetary policy transmission;
2) Strengthen Rupiah exchange rate stabilization as part of efforts to control inflation, especially imported inflation, through intervention in the foreign exchange market with spot transactions, Domestic Non-Deliverable Forward (DNDF), and purchase/sale of Government Securities (SBN) in the secondary market;
3) Continue the twist operation through the sale of SBN in the secondary market for short tenors to increase the attractiveness of SBN yields, especially for the entry of foreign portfolio investors in order to strengthen Rupiah exchange rate stabilization;
4) Strengthening the management of export proceeds through foreign exchange monetary operation instruments in the form of foreign exchange term deposits (TD) as an instrument for

the placement of export proceeds by exporters through banks to Bank Indonesia in accordance with market mechanisms that have taken effect as of March 1, 2023;

5) Continue the policy of transparency of the basic lending rate (SBDK) by deepening the aspects of bank profitability and the impact of policy rates on lending rates (Appendix);
6) Strengthening payment system digitization to improve transaction efficiency and EKD ecosystem, among others by: (i) encouraging payment system innovation, including through expansion of participation (banks and non-bank institutions), service channels (direct-debit, bulk-credit, request for payment), and public acceptance of BI-FAST; and (ii) continuing the Regional Payment Connectivity (RPC) initiative through the expansion of QRIS across countries and the implementation of Fast Payment Interconnectivity;
7) Strengthening international cooperation by expanding cooperation with central banks and authorities of other partner countries, as well as facilitating the organization of investment and trade promotions in priority sectors in collaboration with relevant agencies. In addition, Bank Indonesia continues coordination with relevant Ministries/Institutions to succeed the ASEAN Chairmanship 2023, especially through financial channels.

Policy coordination with the Central Government, local governments, and strategic partners also continues to be strengthened. In this regard, coordination within the Central and Regional Inflation Control Teams (TPIP and TPID) continues through the strengthening of the National Food Inflation Control Movement (GNPIP) program in various regions. Policy synergies between Bank Indonesia and the Financial System Stability Committee (KSSK) continue to be strengthened in order to maintain macroeconomic and financial sector stability, encourage credit/financing to the business world, especially in priority sectors to support economic growth and exports, and promote inclusive and green economy and finance. Therefore, global economic growth is predicted to be better than previous projections. Bank Indonesia forecasts global economic growth in 2023 to reach 2.6%, in line with the positive impact of China's economic opening and the decline in global supply disruptions. Economic growth in the United States (US) and Europe is better than previously projected and is followed by a declining risk of recession. The improvement in the global economic outlook is expected to raise non-energy commodity prices, amid declining oil prices due to reduced supply disruptions. These positive developments in the global economy as well as expectations of wage increases due to labor market tightness in the US and Europe have resulted in a slower process of reducing global inflation, thus encouraging tight monetary policy in developed countries to last longer throughout 2023. The tightening of monetary policy, coupled with the emergence of three bank closures in the US, increased global financial market uncertainty, which then restrained capital flows to developing countries and increased exchange rate pressures in various countries. Bank Indonesia continues to strengthen its Rupiah exchange rate stabilization policy to mitigate global financial market uncertainty, including the spillover effects of the US bank closures on domestic financial markets and Rupiah exchange rate.



Source: researchgate.net

Figure 1. Economic growth in Indonesia

Indonesia's economic growth remains robust driven by increased domestic demand and exports. Household consumption is predicted to be stronger in line with increased mobility across regions, retail sales, and improved consumer confidence. Investment is also solid supported by the completion of the National Strategic Project (PSN) and increased inflows of Foreign Direct Investment (FDI). The prospect of increased domestic demand is also influenced by the continued impact of improved exports. Exports of goods and services are predicted to be higher than the previous projection in line with the improvement in the global economic outlook. Developments up to February 2023 show that Indonesia's non-oil and gas exports grew strongly, including from increased exports of coal, metal ore, and CPO to China.

In addition, domestic and foreign tourist arrivals are also predicted to increase. Spatially, better export prospects support higher economic prospects in the Kalimantan, Sumatra, and Sulawesi-Maluku-Papua (Sulampua) regions. By Business Field, the prospects for the Manufacturing Industry, Wholesale and Retail Trade, and Transportation and Warehousing sectors are predicted to grow strongly. With these various developments, economic growth in 2023 is predicted to be biased upward in the range of 4.5-5.3%. Indonesia's Balance of Payments (BOP) remains favorable and supports external resilience. The current account in the first quarter of 2023 is predicted to record a surplus supported by a surplus in the goods trade balance. In February 2023, Indonesia's trade balance surplus increased from US$3.88 billion in January 2023 to US$5.48 billion. Foreign capital inflows in the domestic financial market, especially portfolio investment, cumulatively from the beginning of the year to March 14, 2023 recorded net inflows of 3.0 billion US dollars, although there were outflows in March 2023 in line with increasing global financial market uncertainty.

Indonesia's foreign exchange reserves at the end of February 2023 increased to 140.3 billion US dollars, equivalent to financing 6.2 months of imports or 6.0 months of imports and servicing of Government external debt, and above the international adequacy standard of around 3 months of imports. Overall, the 2023 balance of payments is predicted to remain favorable with the current account in the range of a surplus of 0.4% to a deficit of 0.4% of GDP. Meanwhile, the capital and financial account balance is predicted to be in surplus supported by foreign capital inflows in the form of FDI and portfolio investment, in line with investors' positive perception of the national economic outlook. The Rupiah exchange rate was maintained in line with Bank Indonesia's stabilization measures amidst renewed global financial market uncertainty. In line with the weakening of almost all world currencies due to increased global financial market uncertainty, the Rupiah exchange rate on March 15, 2023 slightly depreciated by 0.75% on a point-to-point basis compared to the end of February 2023 level. On a year-to-date basis, the Rupiah exchange rate as of March 15, 2023 appreciated by 1.32% from its end-December 2022 level, better than the appreciation of the Indian Rupee by 0.16%, and the depreciation of the Thai Baht and Malaysian Ringgit by -0.04% and -1.80%, respectively. Going forward, Bank Indonesia expects Rupiah exchange rate stability to be maintained in line with the prospects of high domestic economic growth, low inflation, current account surplus, and attractive yields on domestic financial assets. Bank Indonesia will continue to strengthen its exchange rate stabilization policy to control imported inflation and mitigate the impact of global financial market uncertainty on the Rupiah exchange rate. The policy is strengthened by managing export proceeds through the implementation of TD forex DHE in accordance with market mechanisms. Inflation is under control and supports economic stability. Consumer Price Index (CPI) inflation in February 2023 was recorded at 5.47% (yoy), slightly higher than the previous month's CPI inflation of 5.28% (yoy) due to an increase in volatile food inflation of 7.62% (yoy). Core inflation continued to decelerate to 3.09% (yoy) on the back of declining inflation expectations, controlled imported inflation pressures, and adequate aggregate supply in response to rising demand.

Controlled inflation is the result of Bank Indonesia's monetary policy response and the close synergy of inflation control between Bank Indonesia and the Government (Central and Regional) in TPIP and TPID through GNPIP in various regions. With these developments, Bank Indonesia believes that core inflation will remain under control in the range of 3.0±1% in the first semester of

2023 and CPI inflation will return to the target of 3.0±1% starting September 2023 after the end of the base effect of last year's subsidized fuel price adjustment. Bank Indonesia will continue to strengthen coordination with the Government (Central and Regional) in controlling inflation, including welcoming the National Religious Holidays (HBKN) period. Banking and economic liquidity is adequate to encourage the continued increase in credit/financing. In February 2023, the ratio of Liquid Tools to Third Party Funds (AL/DPK) was recorded high at 29.09%. This development is in line with the accommodative liquidity policy stance by Bank Indonesia to support the availability of funds for banks to channel credit/financing to the business world. Economic liquidity is also adequate in supporting economic activities, reflected in narrow (M1) and broad (M2) money supply which grew by 6.6% (yoy) and 7.9% (yoy) respectively in February 2023. With loose liquidity, bank interest rates remained conducive to support economic recovery. In the money market, IndONIA interest rates remained low, recorded at 5.53% as of March 15, 2023. Short-term SBN yields increased by 50 bps compared to the level at the end of December 2022, while long-term SBN yields remained subdued. The 1-month deposit rate in February 2023 was also recorded at a low 4.12%, although it increased by 15 bps compared to December 2022. Lending rates in February 2023 also remained conducive to support credit demand, at 9.34%. Bank Indonesia will continue to ensure adequate liquidity to maintain financial system stability and encourage the continued increase in credit/financing for national economic recovery. Banking intermediation continues to increase, supporting efforts to strengthen economic growth. Bank credit growth in February 2023 rose again in all economic sectors, from 10.53% (yoy) in January 2023 to 10.64% (yoy). Financing in Islamic banking also grew higher, reaching 20.13% (yoy) in February 2023. In the MSME segment, credit growth also continued, especially the distribution of People's Business Credit (KUR) which had reached Rp5.87 trillion by the end of February 2023. The high credit/financing was driven by the availability of the supply side in line with adequate liquidity conditions and loose banking lending standards. Meanwhile, from the demand side, the increase in credit/financing was supported by corporate demand including MSMEs and household consumption which continued to improve. In addition to the loose liquidity policy pursued by Bank Indonesia, the increase in credit/financing was also supported by macroprudential incentives in the form of a reduction in the reserve requirement (GWM) for banks that channel credit to priority and inclusive sectors. Bank Indonesia will continue to encourage banks to increase intermediation to support economic recovery. The resilience of the financial system, especially banks, is maintained, both in terms of capital, credit risk and liquidity. Banking capital is strong with the capital adequacy ratio (Capital Adequacy Ratio).

Adequacy Ratio /CAR) of 25.88% as of January 2023. Credit risk is also under control, reflected in the low non-performing loan (NPL) ratio of 2.59% (gross) and 0.76% (net) in January 2023. Banking liquidity in February 2023 was maintained supported by the growth of Third Party Funds (DPK) of 8.18% (yoy). These various conditions support the resilience of Indonesian banks so that it is predicted that their performance will not be directly affected by the dynamics of the closure of three banks in the US. Bank Indonesia's stress test results also show the strong resilience of Indonesian banks. Going forward, Bank Indonesia will continue to strengthen synergies with KSSK in mitigating various domestic and global macroeconomic risks that could disrupt financial system resilience. Digital economic and financial transactions are growing rapidly in driving economic activity. This development is supported by wider digital economic activities, easier digital payment systems in line with the support of a smooth and reliable BI payment system, and rapidly increasing digital banking. The value of electronic money (EU) transactions in February 2023 grew by 31.14% (yoy) to reach Rp35.7 trillion. The value of digital banking transactions increased 28.35% (yoy) to IDR4,332.1 trillion. The value of payment transactions using ATM cards, debit cards, and credit cards also rose 9.61% (yoy) to IDR654.9 trillion. Meanwhile, the amount of Cartal Money in circulation (UYD) in February 2023 increased by 2.71% (yoy) to reach Rp905.4 trillion. Bank Indonesia ensures the availability of Rupiah money with maintained quality throughout the territory of the Unitary State of the Republic of Indonesia (NKRI). In this regard, Bank Indonesia will strengthen payment system policies in the face of the Ramadan and Eid al-Fitr 1444 H period by ensuring the availability and reliability of Bank Indonesia's payment system and industry payment systems, including monitoring the reliability of system participants in providing payment system transaction services. In addition, Bank Indonesia will ensure the availability of Rupiah worthy of circulation through the SERAMBI program by strengthening cash services to the public through banks and Bank Indonesia, as well as providing money exchange service locations at crowded points and homecoming routes.

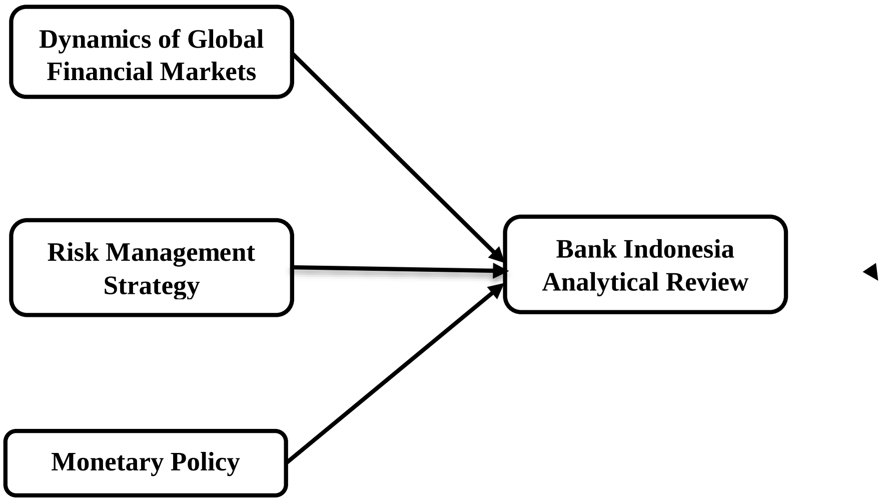


Figure 2. Research Framework

Table 1. Titles Previous Research

Author	Title	Journal	Results
Smith, J., & Johnson, A	"Analysis of Risk Management Strategies at Central Banks in the Era of Globalization"	International Journal of Finance and Economics, Vol. 30, No. 2, 2018.	This study explores the various strategies implemented by central banks, including Bank Indonesia, in managing risks arising from changes in global financial markets. The results show that portfolio diversification, derivative instruments, and international cooperation are important factors in achieving effective risk management.
Mhd. Rizki Khairi, Muhammad Irwan Padli Nasution Sri Suci Ayu Sundari	Analysis of Islamic Banking Strategies to Face Risk Management in the Digital Era	Jurnal Ilmu Komputer, Ekonomi dan Manajemen (JIKEM), Vol. 2 No. 2, Year [2022]	Examining Islamic banking strategies in identifying risk management risks faced by banks in the digital era. The methodology used to create this article is through literature review. This study found that the complexity of the risks faced, both financial and non-financial risks, such as operational risks of using modern technology services that increasingly spoil millennial customers today in the world. modern technology that increasingly pampers today's millennial customers in the world of financial institutions such as fintech and advances in service such as fintech and advances in digital services.
Chen, L., & Wang, Q	"Monetary Policy in Coping with Global Financial Market Volatility Experience of Some Developing Countries"	Journal of Economic Policy and Research, Vol. 25, No. 4, 2019	This study analyzes the monetary policies adopted by several emerging market central banks, including Bank Indonesia, in response to global financial market volatility. The findings show that interest rate adjustments, foreign exchange market interventions, and fiscal-monetary policy coordination are commonly applied strategies.
Tan, K., & Lim, S.	"Implications of Economic Openness on Central Bank Risk	International Journal of Central Banking, Vol. 22, No. 3, 2020.	This study focuses on the impact of economic openness on Bank Indonesia's risk management strategy. The empirical analysis shows that the level of economic openness has a significant influence on

	Management Strategies: A Case Study of Bank Indonesia		the type of risk faced by the central bank, and this needs to be considered in designing an effective risk management strategy.
Wibowo, A., & Santoso, B	"Analysis of Monetary Policy and Risk Management by Bank Indonesia in the Era of Globalization"	International Journal of Banking and Finance, Vol. 28, No. 3, 2017	This study reviews the monetary strategies and policies implemented by Bank Indonesia in response to global financial market dynamics. The focus is mainly on the effectiveness of monetary policy instruments and risk management strategies to address international financial market volatility.
Putra, D., & Pratama, E.	"Global Financial Market Dynamics and Bank Indonesia's Response: A Policy Review"	Journal of Financial Stability, Vol. 22, No. 2, 2018.	This research examines Bank Indonesia's response to the changing dynamics of global financial markets and the extent to which monetary policy and risk management strategies can respond to these challenges. The case study covers the period of the global financial crisis and identifies lessons learned from Bank Indonesia's response.
Cahyono, F., & Utama, R	"Risk Management in the Context of Global Financial Markets: Bank Indonesia's Perspective"	Journal of International Banking and Finance, Vol. 32, No. 4, 2019.	This study analyzes the risk management strategies implemented by Bank Indonesia in the face of global financial market dynamics. The main focus is on the role of policy instruments and risk management mechanisms used by the central bank in the face of global economic uncertainty.
Suryono, H., & Raharjo, B.	"The Impact of Global Financial Market Volatility on Monetary Policy in Indonesia	Journal of Economic Perspectives, Vol. 26, No. 1, 2020.	This study evaluates the impact of global financial market volatility on Bank Indonesia's monetary policy. The analysis includes the identification of significant volatility factors and the effectiveness of monetary policy in managing risks arising from changes in international financial market conditions.
Suryadi, D., & Setiawan, A.	"Analysis of Linkages Between Global Financial Market Dynamics and Bank Indonesia's Monetary Policy"	International Journal of Financial Studies, Vol. 30, No. 4, 2018	This research examines the reciprocal relationship between global financial market dynamics and Bank Indonesia's monetary policy. The main focus is on how monetary policy can shape or be adjusted to changes in international financial market conditions, as well as the risk management strategies that support it.
Wirawan, B., & Kurniawan, D	"The Effect of Monetary Policy on Financial Market Resilience: An Empirical Review of Bank Indonesia"	Journal of Banking and Finance Perspectives, Vol. 28, No. 3, 2019	This study discusses the impact of Bank Indonesia's monetary policy on financial market resilience in the face of global dynamics. The empirical analysis involves measuring monetary policy and financial market responses to these changes, while exploring risk management strategies that support market stability.

CONCLUSION

1. Strengthening Institutional and Analytical Capacity:
   Bank Indonesia should continue to strengthen its institutional and analytical capacity. This involves developing internal analytical skills and expanding collaboration networks with global financial institutions to gain access to better market information.
2. Optimization of Risk Management Strategy:
   In facing global market dynamics, Bank Indonesia needs to continue to optimize risk management strategies. Portfolio diversification, re-evaluation of hedging instruments, and increased ability to anticipate new risks are the keys to minimizing the impact of market fluctuations.

3. Collaboration with External Parties:
   Collaboration with international financial institutions, regulators and market players can provide significant benefits. Regular exchange of information and discussions can help Bank Indonesia understand the latest market trends and improve responses to changes in global economic conditions.
4. Innovation in Monetary Policy:
   Increasing innovation in monetary policy is important. The development of policy instruments that are responsive to market changes and a deeper understanding of their impacts will support the effectiveness of policy measures.

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