

## ***ABSTRACT***

*This study analyzes the impact of increased government debt and the purchase of government securities (Surat Berharga Negara or SBN) by Bank Indonesia (BI) during the Covid-19 pandemic on fiscal dominance and BI's credibility. The burden-sharing scheme implemented between BI and the government aimed to support fiscal financing in mitigating the economic impact of the pandemic. However, this policy carries the potential risk of triggering fiscal dominance, which could reduce BI's independence and undermine its credibility in setting monetary policy.*

*A quantitative approach using the Two-Stage Least Squares (2SLS) method is employed to identify the presence of fiscal dominance and BI's credibility. Fiscal dominance is analyzed through the relationship between government-issued SBN and the money supply (jumlah uang beredar or JUB), while BI's credibility is evaluated using the Taylor rule equation. This study utilizes monthly time series data from January 2015 to July 2024.*

*The findings indicate that the increase in government debt during the Covid-19 pandemic reinforced fiscal dominance over monetary policy. However, this fiscal dominance did not necessarily erode BI's credibility. Despite participating in financing the fiscal deficit through SBN purchases, BI remained committed to maintaining inflation stability, demonstrating that its intervention in fiscal financing did not entirely compromise its monetary policy independence.*

*Keywords : Burden-sharing, Government Securities, Fiscal Dominance, Bank Indonesia's Credibility, Inflation, Taylor Rule, 2SLS.*