

# Analyzing the Economic Stability during COVID-19 Pandemic in Indonesia: The Moderating Role of Money Velocity

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## Abstract

Fluctuations in the international price of crude oil follow the axioms of the market economy. The prevailing price level is mainly decided by the demand and supply mechanism as a fundamental element. The oil price shocks had a negative and significant effect on Gross Domestic Product. Oil shocks transmission mechanism to the economy, starting from the effects of demand, supply, and even the effects of the exchange rate of trade. Another factor that significantly influences the financial system's stability is the monetary cycle, which consists of inflation and the impact of exchange rates. The type of data in this study is time-series data taken from January 2017 to December 2019 by conducting a documentation study conducted on the publication of monthly transaction reports from the required data. The financial system stability index is measured by the credit growth rate of north Sumatra and monthly data from the monetary cycle and macroeconomic factors of world oil price. The results showed that inflation has the highest extraction value, which significantly affects Financial Stability. Also, the velocity of money has moderated the relationship between the exchange rates and the financial system stability of North Sumatra, Indonesia. The findings of this study can assist the stakeholders, including the government, which is financial system stability can be realized by limiting the circulation of foreign currency in Indonesia by only granting ownership permits and foreign currency transactions for certain needs. Then, the government must play a serious role in dealing with the symptoms of inflation

by ensuring the supply chain of basic commodities for industrial and household. In addition, it can be improved the monetary stability of a country significantly.

### **Keywords:**

Money velocity, economic stability, COVID-19 pandemic, North Sumatra-Indonesia

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