

CHAPTER 1

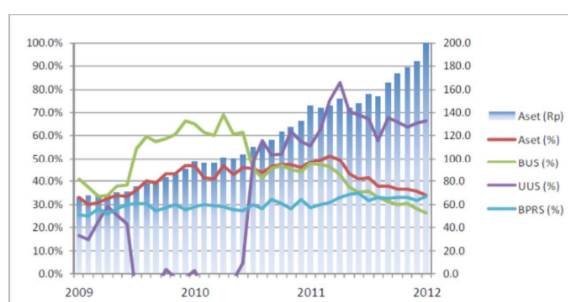
INTRODUCTION

A. BACKGROUND OF STUDY

Since the issuance of the new law in 1998, Indonesia, is implementing the dual banking system, when conventional banks and shari'ah banks can operate in parallel or side by side in all regions of Indonesia. Meanwhile, since the establishment of the new Indonesian bank law in 1999, Bank Indonesia has been given the authority as a dual monetary authority that can carry out conventional monetary and shari'ah policies.

Furthermore, the development of banks and Islamic financial institutions after the issuance of the law experienced rapid development¹. The rapid development of Islamic banks in Indonesia can be seen from the total of assets. In 2008, the number of Islamic banking assets increased by 49% or Rp.49.55 trillion, then in 2009 it increased 33% or Rp.66.09 trillion and in 2010 it increased 48% or Rp.97.51 trillion.²

Figure 1



Total Asset Development in Islamic Bank an Financial

¹ Muhammad Ghafur Wibowo and Ahmad Mubarok “Analisis Efektivitas Transmisi Moneter Ganda Terhadap Pertumbuhan Ekonomi Indonesia” *Economic and development journal* Vol. 25 No. 2 Period 2017 p. 129

² Bank Indonesia Annual Report 2015 “Sinergi Untuk Percepatan Transformasi Ekonomi Nasional” (Accessed on the date 9 April 2019, at 16.25 WIB, from the site www.bi.go.id)

With the data on shari'ah banking developments as described above, monetary policy has not only affected conventional banks but also influenced the state of Islamic banking. Thus, Bank Indonesia as the monetary authority uses sharia monetary instruments as a channel to implement monetary policy.³

After that, Bank Indonesia, on the monetary side, introduced the first Islamic monetary instrument in 2000, by Wadi'ah Bank Indonesia certificate (SWBI), but this was still passive. With the rapid growth of Shari'ah banking, in 2008 Bank Indonesia replaced the Wadi'ah Bank Indonesia certificate (SWBI) with better Shari'ah monetary instruments, by the Syari'ah Bank Indonesia Certificate⁴.

Since July 2005 Bank Indonesia as the monetary authority in Indonesia has implemented a Full-Fledged Inflation Targeting, a monetary policy framework characterized by the official announcement of the inflation target for a certain period and monetary policy carried out by an independent monetary authority or central bank to achieve targets with transparency and high credibility. With this, it is expected that Bank Indonesia as the monetary authority will achieve its goal of maintaining and maintaining rupiah stability⁵. The stability of the rupiah's value includes stability of the prices of goods and services as reflected in the inflation rate.⁶

Meanwhile, Ascarya in Warjiyo argues that the monetary policy of a monetary authority or central bank is intended to influence real economic activities and prices through the monetary policy transmission mechanism in its country. The monetary policy transmission mechanism can work through various channels, such as interest rates, credit, exchange rates, asset prices

³ Muhammad ghofur Wibowo and Ahmad Mubarak "Analisis Efektivitas.... p. 130

⁴ Sugianto "Mekanisme Transmisi Kebijakan Moneter Di Indonesia Melalui Sistem Moneter Syari'ah" *Human Falah journal* Volume 2 No. 1 Januari-Juni 2015

⁵ Aliman Syahuri Zein "Apa Dan Bagaimana: Mekanisme Transmisi Kebijakan Moneter Syari'ah Di Indonesia " *At-Tijarah journal* Volume 1 No. 1 Januari-Juni 2015 p. 92

⁶ *Ibid*, p. 93

and expectations. So that the understanding of the transmission of monetary policy is the key so that the monetary policy can influence real economic development and prices in the future.⁷

Hasanah in sugianto argues that the main problem that needs to be addressed in depth with regard to monetary policy is whether the monetary policy process, especially the transmission mechanism, has a positive relationship to the real sector economy.⁸ As well as Aam Slamet Rusydiana said that the problem of money is not simple,⁹ but in fact it is closely related to almost all aspects of the economy and therefore the process of monetary policy to touch the real economic sector becomes a complex problem. So then in the view of sharia economics, the monetary sector is obliged to have relations and linkages with the real sector because if the monetary sector does not have the significant impact on the real sector economic, it is certain that economic developments occur in developments in the religious circle¹⁰.

Bernanke and Blinder reveal that the transmission mechanism of monetary policy is an interesting topic and has become a debate both among academics and practitioners at the central bank. The transmission mechanism of monetary policy is always associated with two questions. First, whether monetary policy can affect the real economy in addition to its effect on prices, and secondly, if the answer is yes, then through the transmission mechanism what will the effect of monetary policy on the real economy?¹¹

⁷ Ascarya, "Alur Transmisi dan Efektifitas Kebijakan Moneter Ganda Di Indonesia" *Monetary and banking economic bulletins* Volume 14 No. 3 January 2012

⁸ Sugianto, Hendra Harmain and Nurlela Harahap "Mekanisme Transmisip. 25

⁹ Aam Slamet Rusydiana "Mekanisme Transmisi Syari'ah pada Sistem Moneter Berganda Di Indonesia" *Journal of the Bulletin of Monetary and Banking Economics* April 2009 p. 30

¹⁰ Sugianto, hendra and Nurlela Harahap "Mekanisme Transmisi....p. 95

¹¹ Regina Mayo, Ghozali Maskie dan Devanto Shasta Pratomo "Efektivitas Jalur Kredit Dalam Mekanisme Transmisi Kebijakan Moneter Di Indonesia" *Journal of Finance and Banking* Volume 18 No. 1 January 2014 p. 150

In reality, the monetary policy transmission mechanism is a complex process, and therefore Mishkin states that the monetary policy transmission mechanism as a Black Box because it is influenced by three things, the first is a change in the behavior of central banks, banks and economic actors in various economic and financial activities and the second is the length of time lag or lag since monetary policy is taken up to the inflation target and the last is the change in the monetary transmission channels themselves in accordance with economic and financial developments in the country concerned¹².

Mishkin in Muhammad Ghofur argues that the monetarism of the transmission of monetary policy at first refers to the role of money in the economy. In the continuation of its development with advances in the financial sector and changes in the structure of the economy, there are five channels for the transmission of monetary policy mechanisms often expressed in monetary economic theory. The five monetary channels in question are interest rate channels, credit channels, asset channels, exchange rate channels and expectation channels¹³.

Then Muhammad Ghofur argued that the effectiveness of monetary policy can be seen as influencing the real economic sector are economic growth. And while the economic growth of a country can be seen from the growth in the value of Gross Domestic Product (GDP). According to the 2014 central statistics agency data, Indonesia's economic growth has fluctuated from 2008 to 2013. When in 2008, Indonesia's economic growth was 6.01% but in 2009 it decreased to 4.63%. Until 2012, Indonesia's economic growth grew by 6.26%, which declined again in 2013 by 5.75% until 2015 Indonesia's economic growth dropped to 4.73%.¹⁴

¹² Fraderic S. Mishkin "Symposium on the monetary transmission mechanism" *Journal of Economic Perspective* Volume 9 Nomor 4 page 4 Fall 1995

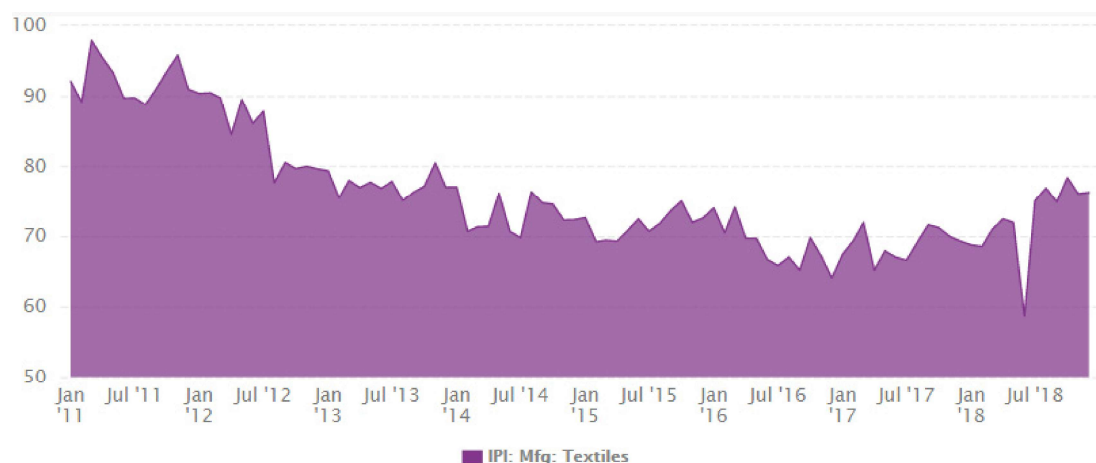
¹³ Muhammad Ghofur Wibowo "Analisis Efektivitas... p. 132

¹⁴ *Ibid*, p. 129

While the variables used to see economic growth in this study are using the industrial production index (IPI) variable, which is an economic indicator that serves as a counterpart of the amount of real production from various industrial sectors. The growth in the Indonesian Industrial Production Index can be seen in figure 2.¹⁵

Figure : 2

The Development Of IPI Indonesia



Source : Ceicdata

This study wants to analyze the effectiveness of multiple-system monetary transmission on economic growth in Indonesia by using time series techniques by using at GDP data from 2011-2018 and choosing the place in Indonesia because Indonesia has a monetary authority or a bank that is Bank Indonesia has the right to carry out conventional and Shari'ah monetary policies. Based on the results of the research Muhammad Ghofur Wibowo revealed that Islamic variables, while financing as one of the sharia monetary transmission channels in Indonesia, are effective in driving economic growth. while conventional variables, total credit as a monetary instrument and also as one of the channels of the monetary policy transmission mechanism is not effective in driving economic growth.

¹⁵ Data perkembangan Index Produksi Industri di indonesia (accessed on May 3, 2019 at 10.35 p.m. <https://www.ceicdata.com/>)

In this study using the syari'ah variables, those are financing and profit sharing systems and conventional variables using the variable bank credit and interest rates. And based on the results of research conducted by Muhammad Ghofur Wibowo described above, the researcher wants to continue the research but uses the credit channel variables for conventional and Islamic Financing as a Islamic variable and the title of this research is: **“The Analysis of the dual monetary Transmission effectiveness on Economic Growth in Indonesia Period 2011-2018”(case study : conventional monetary transmission by credit channel and islamic monetary transmission by islamic financing) .**

B. PROBLEM FORMULATION

Based on the background described above, there are several problems that can be formulated as follows:

1. How is the effectiveness of conventional transmission mechanisms, through the credit channel on economic growth?
2. How is the effectiveness of Islamic transmission mechanisms, through the Islamic Financing channel on economic growth?

C. PURPOSE OF STUDY

Based on the problem formulation above, the objectives for this study can be taken as follows:

1. To analyze of effectiveness of conventional monetary policy transmission mechanisms for credit channel towards economic growth
2. To analyze of Effectiveness of islamic monetary policy transmission mechanisms for islamic financing channel towards economic growth.

D. SIGNIFICANCE OF STUDY

In this case the researcher divides the usefulness of research into two parts, those are theoretically and practically:

1. Theoretical Significance

Theoretically, this research can be used as a reference as a critique and made as a comparison for further researchers in special matters with the same analysis.

2. Practical Significance

Practically, this research can be used by the government in determining policies, especially Bank Indonesia, as the monetary authority in taking steps to form a conventional monetary policy and syari'ah..

