

ABSTRACT

The Channel and Effectiveness Transmission Mechanism of Monetary Policy System Under Dual Banking System in Indonesia on Period 2014-2018

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Throughout 2016, Bank Indonesia (BI) has reduced interest rates with the BI Rate or BI 7 days Repo Rate by six times. The role of this benchmark interest rate is to encourage economic growth through lending and deposit rates. However, the monetary policy that has been carried out by BI as long as this has not been effective. The Indonesian Economic Reform Center considers that BI's current challenges are still weak monetary transfer policies in controlling bank interest rates.

The purpose of this study is to find out how the channel and effectiveness of transmission of multiple monetary policies in Indonesia in driving economic growth and controlling inflation. The data used is secondary monthly data from January 2014 to December 2018. The data used in the SBI, PUAB, INT, LOAN variables for Conventional variables and SBIS, PUAS, PLS, FINC for Sharia variables. The output variables are IPI and CPI. This type of research is a quantitative study using the Vector Error Correction Model (VECM) method.

The results showed that the effect on growth, showed conventional SBI and INT variables encouraged growth while PUAB and LOAN inhibited growth. while the PUAS sharia variable inhibits growth while SBIS, PUAS and PLS encourage growth. So sharia variables grow the economy more than Conventional variables.

Research results on inflation The conventional variables of SBI, PUAB and INT increase inflation. Whereas LOAN reduces inflation. SBIS and PUAS sharia variables reduce inflation while PLS and FINC increase inflation. From these results the authors suggest that Indonesian banks improve the quality of transmission of Islamic monetary policy because transmission of Islamic monetary policy contributes greatly to economic growth and contributes greatly to reducing inflation.

Keywords: *Transmission of monetary policy, interest rate channel, profit sharing channel*