Abstract

AN ANALYSIS OF MONETARY POLICY IMPACT THROUGH BASE MONEY AND INFLATION TARGETING FRAMEWORKS ON THE GROWTH OF ECONOMY AND THE RATE OF INFLATION IN INDONESIA

By

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The growth of economy and stability of price are the aim which would like to be reached on conducting the monetary policy in Indonesia. Targeting price stability will have an impact on the reach of continuous economy growth.

The purpose of research is to analyze the impact of monetary policy at the implementation of base money targeting framework (2000: 01-2005:06) and inflation targeting framework (2005: 07-2013:12) on the growth of economy and the rate of inflation in Indonesia. The method which used in the research was vector error correction (VECM). The variable implemented were inflation, gross domestic product, base money, BI rate, the ID/USD middle kurs and investment credit interest.

The results of analysis were: 1). Along the implementation of base money targeting framework base money significantly had a positive influence to the growth of economy, however, hadn’t been significant on the rate of inflation in Indonesia. 2). Along the implementation of inflation targeting framework BI rate significantly influential negative to the growth of economy and the rate of inflation in Indonesia. 3). The growth of economy and the rate of inflation gave a positive response for movement of base money variable, kurs and investment credit interest along the implementation base money targeting framework. 4). The growth of economy gave a positive response about a shock on the rate of BI variable, kurs and investment credit interest. The inflation gave a negative response about a shock on the rate of BI variable, kurs and investment credit interest along the implementation of implementation of inflation targeting framework. 5). The impact of monetary policy along the implementation of base money targeting on economy growth mostly explained by PDB variable in the amount of 40%, 34.8 of investment credit interest, 16.6% of kurs and 8.4% base money. Along the implementation of base money targeting on the rate of inflation mostly explained by inflation variable in the amount of 71.3%, 23.1% of kurs, 4.9% of investment credit interest and 0.57% base money. 6). The impact of monetary policy along inflation targeting framework implementation on economy growth mostly explained by PDB variable in the amount of 69.4%, 29.4% of BI rate, 0.60% of kurs and 0.4%
investment credit interest. Along the implementation of inflation targeting framework on inflation mostly explained by 72.7% inflation variable, 19.0% of investment credit interest, 7.8% BI rate and 0.4 of kurs.

Key words: Inflation, PDB, Base money, BI rate, Kurs, Investment Credit Interest, and VECMJEL classification: E51, E52, E41, E430, E420