ANALYSIS OF COMPARATIVE EFFECTIVENESS THE TRANSMISSION OF MONETARY POLICY THROUGH CONVENTIONAL BANK LENDING CHANNEL WITH THE ISLAMIC FINANCING CHANNEL IN INDONESIA 2008:04 – 2013:12 PERIOD

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ABSTRACT

Transmission mechanism of monetary policy basically describes how monetary policy of central banks in influencing economic activity using a variety of channels which then prompted economists to conduct research. This study aimed to analyze the effect and contribution of monetary policy variable of conventional bank lending channel such as RBI, SBI, RDEPK, RKMK, LOAN, and PDB and Islamic financing channel such as RBI, SBIS, RDEPS, PLS, FINC, and PDB against inflation in Indonesia 2008:04 – 2013:12 period as well as a comparison between the two policies. The analysis tool used is a VECM that includes VECM regression test results, Impulses Response Function and Variance Decomposition. This study uses monthly time series data obtained from Bank Indonesia. Based on VECM regression results, in the long run, there are 4 conventional bank lending channel variables have a significant effect on inflation and in the short run, there are 4 variables have a significant effect. Whereas in the Islamic financing channel variables in the long run all variables have a significant effect on inflation, and in the short run only 2 variables have a significant effect. Furthermore based on Variance Decomposition result, the largest contribution is given by the change of conventional bank lending channel variables. The result of impulse response function shows that if there is a shock to the independent variable in two channels of monetary policy, that faster stable is monetary policy variables of Islamic financing channel.

Keywords: inflation, transmission of monetary policy, bank lending and financing channel, and VECM.