ANALYSIS OF MONETARY POLICY EFFECT ON OUTPUT GROWTH AND INFLATION IN INDONESIA PERIOD 2005:07-2009:12

By

Ari Setyawan

ABSTRACT

This research aims to determine the influence of the BI rate as a monetary policy variable in Indonesia against growth of output and inflation in Indonesia during the period of application of the inflation targeting framework (inflation targeting framework, ITF) or over the 2005:07-2009:12 period.

This research was accomplished by using DVAR (Differenced Vector Autoregressive). Impulse response results show that the percentage changes in deposit rates, the percentage change in the money supply, the percentage change in output growth, and the percentage change in inflation gives a fluctuating response to changes in the BI rate shocks in the short term. In the long term, the effect of changes in the BI rate shock is not permanent for all variables analysis. While the results of variance showed that the BI rate decomposition greater influence in affecting inflation than to raise the output growth.

Keywords: Monetary Policy, DVAR, the BI rate, Output Growth, Inflation.