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Analysis of Effectiveness of Monetary Policy Transmission in the Dual Monetary System in Indonesia

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INTRODUCTION

Bank Indonesia (BI) as the monetary authority, was given a new responsibility, namely to carry out a dual monetary policy (MP) namely conventional and sharia MP. In relation to the current transmission mechanism of monetary policy (TMMP), the pattern of sharia MP transmission taken by BI is similar to conventional. Therefore, BI is required to provide uniformity of policy signals within the MP framework. Thus, the pattern of sharia MP transmission can use the same pattern and channel as conventional MP transmission (Solikin, et al. 2018). MP framework covers the implementation and strategy of MP. The framework is generally related to achieving the ultimate goal of price stability, economic growth, and expansion of employment opportunities, and strategies to achieve them (exchange rate targeting, monetary targeting, inflation targeting, implicit but not explicit anchor) (Warjiyo, 2004). TMMP works require time (time lag). The time lag of each channel can be different from the others. The exchange rate channel usually works faster because the impact of changes in interest rates to exchange rates works very fast. The conditions of the financial and banking sectors also have a significant influence on MP transmission speed. MP effectiveness is the extent to which MP taken by the central bank (whatever its form) has a positive impact on the economy and society, in the sense that it can increase economic growth; can improve people's welfare; can increase employment opportunities; can increase state foreign exchange earnings; and give influence to other macro policies. MP effectiveness is measured by two indicators, namely how much speed or deadline (time lag) and how the strength of the variables in each channel responds to the changes (shock) monetary policy instruments (rSBIS) and other variables until the realization of the MP goal. (Natsir, 2008). The Noviasri study (2012) revealed that in controlling Islamic MP inflation more effective than conventional. The study is reinforced by the findings of Sanrego et. al. (2013) that an increase in Islamic finance will contribute positively to the decline in

the inflation rate in Indonesia. But because of the uncertainty and new trends that affect TMMP, further research on the problem remains relevant to both now and in the future. The existence of new trends, both those occurring in the monetary sector and in the real sector, among others, revealed that the path of inflation expectations will be more effective along with the increasingly credible MP.

PURPOSE/AIM & BACKGROUND

The purpose of this study is to analyze a more effective channel in Islamic and conventional TMMP systems, as well as analyze more effective MP between the Islamic monetary system through direct money supply (Ms), sharia BI certificate sharing channel (iSBIS) and exchange rate channel, in conventional systems via the Ms direct channel, rSBI and exchange rate channel. The effectiveness of TMMP is measured by how much speed or time lag, and how much strength the variables in a channel respond to MP instrument shock, namely rSBI and other variables until the realization of MP's ultimate goal is inflation. This type of research is explanatory by comparing Islamic and conventional MP systems in Indonesia. The data used is monthly time series secondary data in the period 2008-2017, the source of data from the Indonesian Financial Economic Statistics BI. The analysis tools and models used are VAR-VECM, Impulse Response Function (IRF), and Variance Decompositions (VD).

FINDINGS/RESULTS

The results of testing through VAR-VECM show that short-term and long-term sharia MP transmissions, iSBIS and Ms, are able to withstand inflation, while the exchange rate triggers inflation but is relatively small. Conventional MP transmission in the short term, namely rSBI and exchange rate triggered inflation, while Ms was able to withstand inflation. While for the long term only the exchange rate triggers inflation, while rSBI and Ms are able to withstand inflation. Based on the results of the IRF and VD tests, it was shown that conventional and sharia MP transmissions were equally effective because both of them needed a 6-month lag time to resist inflationary turmoil in Indonesia.

Keywords: effectiveness, the transmission mechanism of monetary policy, dual monetary system, impulse response function, variance decompositions.