

ABSTRACT

This study explores the transmission of monetary policy through the interest rate channel by considering the interdependence and temporal dynamics of economic variables. Using the Autoregressive Distributed Lag (ARDL) model and quarterly data from Q1 2010–Q4 2023, this study finds that the interest rate transmission channel has a complex pattern in both the short and long runs.

In the short run, GDP growth increases the investment credit interest rate but decreases the consumption credit interest rate, while in the long run, both are negatively affected. An increase in real core money decreases both investment and consumption credit interest rates in all periods through increased liquidity. The policy interest rate has a positive effect on both credit rates in the short run, but becomes negative in the long run, while the deposit interest rate has a consistent positive effect.

In the real sector, investment credit interest rates and credit growth have a positive effect on GFCF in the short run, but credit growth has a negative impact in the long run. National income growth and consumption credit interest rates have a positive effect on household consumption expenditure in all periods. On inflation, net exports show a consistent negative effect, while consumption and government expenditure have a positive effect in the short run but negative in the long run. GFCF shows the opposite pattern, which is negative in the short term and positive in the long term.

This study reveals that the benchmark interest rate and deposits can trigger inflation through investment, but control it through consumption. Increased national income drives inflation, while credit growth has a deflationary effect. This finding emphasizes the importance of an integrated monetary policy to achieve a balance between consumption, investment, and inflation in order to encourage sustainable macroeconomic stability.

Keywords: *Monetary Policy, Interest Rate Channel, Inflation, ARDL, Simultaneous Equation Model.*