ABSTRACT

Monetary policy is the activity of central bank in influencing real economic activity and prices through the transmission mechanism (Ascarya, 2010). Basically, the monetary policy system aims to stabilize macro economic conditions by using monetary instruments determined by a country's central bank. Monetary instruments generally have several transmission channels, namely credit, interest rates, exchange rates, asset prices, monetary aggregates and expectations. Therefore, the monetary transmission mechanism has an important role in achieving the ultimate goal of maintaining and maintaining the stability of the rupiah's value which is reflected in the low and stable inflation rate.

This study aimed to empirically analyze the performance of the monetary policy transmission mechanism through the interest rate channel, which is reflected in the interest rate adjustment in response to changes in the Interest Rate Pass-through and to determine the impact that occurs on the monetary policy transmission on deposit rates when Fiscal policy finances the budget deficit in the form of the issuance of SBN interest rates. This study was conducted by comparing the periods before and after the global financial crisis in 2008. This study used monthly data from 2005.7 to 2007.12. (for the Pre-Crisis period) and from 2009.1 to 2018.12 (for the Post-Crisis period). The method used in this study was the Vector Error Correction Model (VECM), the Impulse Response Function (IRF) used to trace the response of a variable to various shocks in the estimation model and the Variance Decomposition (VD) used to reveal the relationship patterns of existing variables in a system.

The results showed that: (i) monetary policy of BI rate, SBI rate did not necessarily affect the changes in Deposit Rate, Lending Rate, and inflation rate, but they required time (lag). In the pre-crisis period, it took 22 months and 44 ¾ months for the post-crisis period to realize the final monetary policy (inflation) target (ii) Government Securities (SBN) as a source of deficit financing had a negative impact on the Deposit Rate.

Keyword : Interest Rate Pass-through, Financial Crash, Vector Error Correction Model (VECM)