

ABSTRACT

This study examines the effectiveness of the integration of Islamic monetary instruments within Indonesia's inflation control policy framework, a crucial issue given the growing role of Islamic banking in the nation's dual banking system. The primary objective is to construct a transmission framework and empirically measure the impact of shocks from Islamic monetary instruments (SBIS, FASBIS) and the interbank money market (PUAS) on financing disbursement (the credit channel) and its implications for inflation. Using a Structural Vector Autoregression (SVAR) model applied to monthly data from the 2018-2023 period, this study conducts dynamic analysis through Impulse Response Functions (IRF) and Forecast Error Variance Decompositions (FEVD).

The findings indicate several key results. First, Islamic monetary policy instruments are found to be statistically effective in temporarily influencing financing and inflation. Second, the transmission mechanism is dominated by the Credit Channel, wherein liquidity availability (JUB) is the primary driver of financing disbursement. Third, the study finds unique response characteristics, where credible policy lowers the risk premium in the interbank money market an effect more dominant than the direct movement of the benchmark yield. Ultimately, shocks from Islamic monetary instruments are found to have a significant influence on core inflation.

The policy implications of these findings underscore the importance of Bank Indonesia's communication credibility in anchoring expectations, as well as the need to focus on liquidity management to effectively control the credit channel in support of achieving the national inflation target.

Keywords: Islamic Monetary Policy, Transmission Mechanism, Credit Channel, SVAR, Inflation, Dual Banking System.

