ABSTRACT

The central bank is a strategic institution in regulating the economy of a country. Along with the dynamics of the economy, Bank Indonesia as the central bank in Indonesia has experienced the evolution of tasks and objectives. The objective of Bank Indonesia in maintaining price stability is considered insufficient in maintaining a stable economy. The financial crisis that has happened has changed the perspective of the central banks in the world, including Indonesia in viewing that financial system stability is also important in addition to price stability. In achieving this goal, Bank Indonesia formulated a policy namely the Bank Indonesia Policy Mix which is the integration of monetary and macroprudential policies.

This research aims to analyze the impact of the monetary and macroprudential policy mix on price stability and financial system stability in Indonesia; and analyze the causality between the variables, in particular price stability and financial system stability. Monetary policy is measured by the SBI Rate and Base Money. Macroprudential policy is measured by Reserves Requirements-(Primary,Secondary, Foreign Currency), and Loan to Value. Price stability is proxied by inflation volatility and financial system stability proxied by exchange rate volatility. The analysis method applied in this study is Vector Error Correction Model (VECM) and Granger Causality (Granger Casuality) test. The data used is quarterly time series data from 2005: Q1 to 2017: Q4.

The results of the study show that monetary and macroprudential policies can achieve price stability. While in achieving financial system stability, monetary policy instruments take longer than macroprudential policies. The monetary and macroprudential policy mix instruments can reduce inflation volatility and exchange rate volatility so as to encourage price stability and financial system stability.

Keywords: SBI Rate, Base Money, Reserve Requirement-Primary-Secondary Foreign Currency, Loan to Value, VECM, Granger Casuality