ABSTRACT

Bank Indonesia has implemented the Inflation Targeting Framework (ITF) since July 2005 by publicly announcing inflation targets. However, empirical evidence shows that actual inflation in Indonesia during the 2016-2024 period fluctuated and was not fully consistent with the targets set by Bank Indonesia. The monetary policy implemented by the central bank serve as a crucial instrument for mentaining economic stability, particularly in achieving the final objective of inflation control. This monetary policy is transmitted through various channels, notably the interest rate channel and the bank lending channel. This study aims to analyze the effectiveness of the monetary policy transmission implemented by Bank Indonesia through the interest rate and bank lending channels in achieving the inflation target.

This study employs time series data covering the period from April 2016 to December 2024. The data were analyzed using the Vector Error Correction Model (VECM) to indentify the direction of relationships between variables and to measure the effectiveness of policy reponses through the Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD). The VECM estimation results indicate that, in the long run, variables in both transmission channels contribute to reducing inflationary pressures. However, the IRF and FEVD analyses demonstrate that the monetary policy transmission mechanism through the bank lending channel is more effective and dominant than the interest rate channel.

Keywords: Monetary Policy Transmission, BI7DRR, Interest Rate Channel, Bank Lending Channel, Inflation, VECM