

ABSTRACT

This study aims to analyze the effectiveness of monetary policy transmission implemented by Bank Indonesia through interest rate and asset price channels. The method used in this study is the Vector Error Correction Model (VECM) and the data used is monthly data from August 2016 to December 2022.

The VECM analysis shows that in the long run, monetary policy transmission through interest rate and asset price channels is proven to affect inflation. However, in the short term, only the asset price channel shows a significant effect on inflation.

In the IRF analysis, changes in BI-7DRR are responded volatile and positively by inflation in the interest rate channel. In contrast, in the asset price channel, changes in BI-7DRR are responded negatively by inflation. Meanwhile, the VDC analysis shows that the bank interest rate variable does not contribute much to the formation of inflation. On the other hand, in the asset price channel, other variables in the model have a high contribution in the formation of inflation.

Keywords: Monetary Policy Transmission, Interest Rate Channel, Asset Price Channel, Vector Error Correction Model.

