ABSTRACT

This research aims to analyze how monetary policy transmission is able to create economic stability in the short and long term in Indonesia. The variables in monetary policy transmission are divided based on operational goals, intermediate goals and ultimate goals.

This research uses secondary data with a research period of 1995 - 2021. The data is analyzed using VECM (Vector Error Correction Model) to determine the response of economic stability to shocks created by economic variables in monetary policy transmission.

The result of FEVD (Forecast Error Variance Decomposition) analysis shows that price stability and output stability are strongly endogenous. In the IRF (Impulse Response Function), shocks from inflation itself, policy interest and credit interest will have a positive effect on price stability, then shocks from GDP (Gross Domestic Product), consumption, investment and deposit interest will have an asymmetric effect on inflation in the short and long term. While shocks from inflation, policy interest rates, and credit interest rates will have a negative effect on output stability, then shocks from the variable itself, consumption, investment, and deposit interest will have a positive effect on GDP in both the short and long term.

Keywords: Economic Stability, Monetary Policy, Price Stability, Output Stability, VECM (Vector Error Correction Model)