ABSTRACT

Economic growth is the main target of every country to become a developed and sufficient country. Therefore there are several policies to encourage that and one of supporting factors for the economy is the banking sector. There are two main directions of banking policy, namely maintaining the supply of liquidity or increasing the volume of credit to stimulate the economy. Certainly, it is related to the money supply that leads to inflation. The aim of this research is to analyze which policies are able to encourage the economy and how their effects on price stability in the short and long term.

This study aims to analyse the transmition nonetary policies are able to encourage the economy and how their effects on price stability in the short and long term. This study uses secondary time series data of mitigating the risk of liquidity, credit, GDP, and inflation of Indonesia from 2010Q1 to 2019Q4. The hypothesis testing of this research used the Vector Error Correction Model.

Based on the results of the VECM estimation, there is a negative and significant relationship between the Secondary Reserve Requirement on GDP. However, the interbank money market variable has a positive effect on GDP in the long run. The volume of bank lending has a positive effect on GDP, but can turn around to be negative in the long run. In addition, with inflation as the dependent variable, the Rupiah interbank money market has a negative and significant effect on inflation in the short and long term. the interbank foreign exchange money market has a positive relationship to inflation in the long run and the level of bank lending has a positive effect on inflation in the short and long term.

Keywords : Liquidity, Primary Reserve Requirement, Secondary Reserve Requirement, Rupiah interbank money market, interbank foreign exchange money market, Credit, GDP, Inflation, Vector Error Correction Model (VECM).

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