

The Effect Analysis of Monetary Instruments through Islamic Banking Financing Channel toward Economic Growth in Indonesia, Period January 2008-December 2015

Authors : Sobar M. Johari, Ida Putri Anjarsari

Abstract : In the transmission of monetary instrument towards real sector of the economy, Bank Indonesia as monetary authority has developed Islamic Bank Indonesia Certificate (abbreviated as SBIS) as an instrument in Islamic open market operation. One of the monetary transmission channels could take place through financing channel from which the fund is used as the source of banking financing. This study aims to analyse the impact of Islamic monetary instrument towards output or economic growth. Data used in this research is taken from Bank Indonesia and Central Board of Statistics for the period of January 2008 until December 2015. The study employs Granger Causality Test, Vector Error Correction Model (VECM), Impulse Response Function (IRF) technique and Forecast Error Variance Decomposition (FEVD) as its analytical methods. The results show that, first, the transmission mechanism of banking financing channel are not linked to output. Second, estimation results of VECM show that SBIS, PUAS, and FIN have significant impact in the long term towards output. When there is monetary shock, output or economic growth could be recovered and stabilized in the short term. FEVD results show that Islamic banking financing contributes 1.33 percent to increase economic growth.

Keywords : Islamic monetary instrument, Islamic banking financing channel, economic growth, Vector Error Correction Model (VECM)

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