Abstract

The objectives of this study are to investigate the link between banking activities and macroeconomic performance in Indonesia with respect to the direct monetary channel and credit channel by studying the causal influence of banks’ assets and liabilities. This is done by examining the role of commercial banks’ assets especially credit-loans (Cr) and liabilities especially money-deposits (DPK) in causing variations in selected Indonesian macroeconomic namely industrial production index (IPI), the inflation rate of consumer price index (INF), interest rate (PUAB) and finance variables namely stocks prices (IHSG).

This paper applies VECM on monthly Indonesian economic data during period of 1996: 1 -2005:12. The model approach provides us vector error correction model (VECM) estimates and two quantitative measurement on VECM estimates, namely (i) impulse response function (IRF) that can trace the response of one endogenous variables caused by shock/innovation of other variables in the model; (ii) forecast error variance decompositon (FEVD) to show the relative contribution of certain endogenous variable.

The vector error correction model (VECM) estimates which is performed in this paper support the importance of the credit channel within Indonesian economy. The interesting result shows that in the long run, commercial banks’ assets (credit loan) or Cr only significantly influences IPI. Yet, for the short run it can be seen that all of variables are significantly influenced by Cr. While, liabilities (money deposits) or DPK doesn’t significantly influence for all macroeconomic variables which is selected (IHSG, INF, IPI dan PUAB). Yet, in the short run it significantly influences IPI only.

Keyword:

Direct monetary channel, credit channel, commercial banks’ assets (credit-loans), liabilities (money-deposits), vector error correction model (VECM) estimates, industrial production index, inflation rate, interest rate of money and stock price.