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A STUDY ON THE DUAL TRANSMISSION MECHANISM OF MONETARY POLICY IN INDONESIA

Arroyyan Ramly
Department of Islamic Economics and Finance, Istanbul university, Turkiye
Corresponding Author's: arroyyanramly@ogr.iu.edu.tr

Adem ESEN
Departemen of politics and economics, Istanbul University, Turkiye
adem.esen@istanbul.edu.tr

Nurjanah
Department of Islamic Economics and Finance, IAIN Langsa, Indonesia
nurjannah@iainlangsa.ac.id

Abstract

This paper aims to explore the dual transmission mechanism of monetary policy in Indonesia, focusing on how changes in policy instruments simultaneously affect the real and financial sectors. The dual transmission operates through two primary channels: the interest rate channel and the credit (financing) channel. In the Indonesian context, the effectiveness of this mechanism is shaped by the structure of the financial system, the degree of banking intermediation, and the institutional differences between conventional and Islamic banking. The study finds that the impact of monetary policy changes on inflation and economic growth is not always symmetric, as it depends on the strength of the interaction between money demand, interest rates, and credit distribution. By utilizing historical data and monetary policy records from Bank Indonesia, this study highlights how open market operations influence both liquidity and real economic indicators. Evidence suggests that post-COVID, Indonesia experienced notable improvements in price stability and GDP growth. When compared to countries like Turkey and Malaysia, Indonesia's overall economic recovery has been strong, despite its lower GDP per capita. Furthermore, the findings underscore the growing role of Islamic financial instruments, which have shown potential to directly affect the real sector through money demand and supply mechanisms originating from Islamic banking.

Keywords: *Dual Transmission, Monetary Policy, Islamic Banks*

Abstrak

Tulisan ini bertujuan untuk mendalami mekanisme alur transmisi ganda kebijakan moneter di Indonesia, dengan fokus pada bagaimana perubahan instrumen kebijakan moneter memengaruhi sektor riil dan sektor keuangan secara bersamaan. Transmisi ganda terjadi melalui dua jalur utama, yaitu jalur suku bunga dan jalur pembiayaan (kredit). Dalam konteks Indonesia, efektivitas transmisi ini dipengaruhi oleh struktur pasar keuangan, tingkat intermediasi perbankan, serta perbedaan karakteristik antara perbankan konvensional dan syariah. Studi ini menunjukkan bahwa respons inflasi dan pertumbuhan ekonomi terhadap perubahan kebijakan moneter tidak selalu simetris, tergantung pada kekuatan hubungan antara permintaan uang, suku bunga, dan jumlah kredit yang tersalurkan. Dengan menggunakan data historis dan kebijakan dari Bank Indonesia, studi ini memperjelas alur transmisi yang digunakan dari segi operasi pasar terbuka dan dampaknya terhadap sector reel. terlihat dari perbaikan harga dan rasio PDB indonesia pasca krisis bencana covid, jika dibandingkan dengan turki dan Malaysia perekonomian Indonesia tumbuh secara baik walaupun PDB per capita di bawah kedua negara tersebut. Temuan ini menunjukkan instrument syariah semakin banyak dan dapat

berdampak langsung terhadap sektor ril melalui permintaan dan penawaran uang dari sisi bank syariah.

Kata Kunci: *Transmisi ganda, Kebijakan Moneter, bank syariah*

A. INTRODUCTION

As one of the key instruments of macroeconomic policy, monetary policy plays a crucial role in addressing the ongoing economic crisis in Indonesia. This is particularly relevant considering that the crisis has evolved into a condition known as financial distress. A process of demonetization characterized by declining demand for liquidity, driven by a surge in the preference for holding physical cash. If left unaddressed, this trend may pose long-term risks to economic growth. The sudden shift toward a "*flight to currency*" is primarily triggered by exchange rate uncertainty (Mishkin, 2011). Therefore, the success of economic recovery efforts largely depends on the precision and timeliness of monetary policy strategies, especially those aimed at restoring exchange rate stability.

Monetary policy strategy is a component of macroeconomic policy aimed at maintaining the stability of the national currency's value. When economic stability is disrupted, monetary policy serves as one of the key instruments to restore balance through a series of stabilization measures. However, several factors may hinder the effectiveness of monetary control efforts. These include instability in the money multiplier, fluctuations in the velocity of money, and shifts in the paradigm of the monetary policy transmission mechanism (Sriyono, 2013)

The monetary policy framework adopted in Indonesia is the Inflation Targeting Framework (ITF). Under this system, Bank Indonesia explicitly announces the inflation target to the public, and monetary policy is directed toward achieving this target, which is set in coordination with the government. To ensure the inflation target is met, the policy approach is forward-looking, meaning that any adjustment in the monetary policy stance is based on an evaluation of whether future inflation developments remain aligned with the targeted range (Sari & Fakhruddin, 2016; Warjiyo, 2004).

Bank Indonesia's primary objective is to achieve and maintain the stability of the rupiah. This stability refers specifically to price stability, which is reflected in the inflation rate. To pursue this goal, Bank Indonesia has implemented the inflation targeting framework since 2005, within the context of a free-floating exchange rate regime, allowing the exchange rate to adjust according to market forces while using inflation as the central anchor of its policy orientation (Sari & Fakhruddin, 2016)

This new paradigm is affirmed in Law No. 23 of 1999 and its amendment, Law No. 3 of 2004, which serve as the legal foundation for implementing the inflation targeting framework in Indonesia. Under this framework, the ultimate goal of monetary policy is to maintain the stability of the rupiah. The inflation target is determined by taking into account macroeconomic conditions, projected economic trends, and considerations of social welfare costs that may arise as a consequence of monetary policy actions (Sriyono, 2013).

The Inflation Targeting Framework (ITF) is a monetary policy framework in which the central bank explicitly sets an inflation target, usually in the form of a specific rate or a range, as the primary goal of its monetary policy. This type of policy can be identified

through the announcement of a clear inflation target; for example, Bank Indonesia sets its inflation target at 3% ± 1%, meaning inflation is considered acceptable if it falls between 2% and 4%. The policy is also implemented through the adjustment of policy interest rates. Bank Indonesia's main instrument is the BI Rate, which has now been replaced by the BI 7-Day Reverse Repo Rate for short-term monetary operations (Juhro & Iyke, 2019). The goals of inflation control within monetary policy can generally be categorized into three key objectives. First, to maintain price stability, ensuring that inflation remains under control. Second, to enhance economic predictability, allowing businesses and the public to plan financial decisions with greater confidence. Third, to mitigate extreme price volatility, thereby reducing the negative impact of sudden price shocks on the economy (Juhro & Iyke, 2019).

In Indonesia, due to the coexistence of two types of banking systems—conventional banks and Islamic banks—monetary policy requires certain adjustments. Since Islamic banks do not utilize interest-based monetary instruments, Indonesia adopts what is known as a dual monetary policy framework. Similar approaches have also been implemented in other countries with dual banking systems, where both conventional and Islamic banks operate under distinct principles.

The primary objective of Islamic monetary policy is to facilitate the distribution of money toward the real sector or productive investment activities, while avoiding excessive consumption of non-essential goods. To achieve this, Islamic monetary policy relies on several foundational principles, including the replacement of interest-based instruments with Sharia-compliant contracts such as lease (*ijarah*) and sale-based (*murabahah*) transactions. Furthermore, it aims to move away from interest-generating mechanisms such as the conventional reserve requirement system, which is considered a source of riba (usury) in Islamic finance (Ascarya, 2014).

The central bank can achieve its monetary objectives by regulating the money supply and the profit-sharing ratio. In an Islamic economic framework, the demand for money is guided by the principle of justice and is determined based on the expected profit-sharing rate rather than interest. This expected rate of return is relatively stable and depends on real economic conditions, reflecting a system that aligns monetary policy with equitable and productive economic conditions (Amrial et al., 2019)

However, the implementation of a dual monetary system also presents certain challenges. In conventional monetary policy transmission, the central bank typically targets interest rates as its primary instrument. This approach indirectly affects Islamic banks, which still face a limited availability of Sharia-compliant monetary instruments. According to El & Khatat (2016), in countries where Islamic finance is still developing, there is often a lack of essential financial infrastructure, such as Islamic money markets or yield curves for government sukuk that can be used as benchmarks for pricing Islamic financial products. As a result, some Islamic banks are compelled to refer to conventional interest rates when pricing contracts such as Murabahah and Ijarah, potentially undermining the foundational principles of Islamic finance (El & Khatat, 2016)

B. LITERATURE REVIEW

1. Overview of monetary policy transmission

In the framework of inflation targeting, Indonesia grants full authority (independent instruments) to Bank Indonesia to formulate and implement monetary policy. As

mentioned earlier, in carrying out monetary policy, Bank Indonesia utilizes several monetary tools, including Open Market Operations, intervention in the rupiah exchange rate, foreign exchange sterilization, the discount facility, the Reserve Requirement (GWM), and Bank Indonesia's Wadiah Certificates (Warjiyo, 2004)

Since 2005, Indonesia has adopted a *full-fledged inflation targeting framework*, which is characterized by the official announcement of an inflation target for a specific period, with monetary policy implemented by an independent central bank to achieve the target with high levels of transparency and credibility. The implementation of this inflation targeting framework has empirically proven to effectively control inflation at relatively low levels in both developed and developing countries (Ascarya, 2012).

In Indonesia, as the development of Islamic banks continues to grow, monetary policy control will also have an impact on conventional banks. This is known as a dual monetary policy. The dual monetary policy is not limited to the use of interest rates alone; it can also involve profit-sharing, margin, or fees. Therefore, in a dual monetary system, the concept of interest rate pass-through is more appropriately referred to as policy rate pass-through, where the policy rate for conventional banks uses interest rates, while the policy rate for Islamic banks may use profit-sharing, margin, or fees (Ascarya, 2012)

According to Ascarya (2012), monetary policy is based on the relationship between interest rates in the economy (which represent the cost of borrowing money) and the money supply, in order to influence economic development objectives such as price control (inflation and exchange rates), economic growth, and unemployment levels. This is made possible because the monetary authority of a country typically holds the sole authority to issue and circulate the country's official currency, enabling the monetary authority to influence interest rates in the economy through its ability to adjust the money supply in order to achieve policy objectives.

There are several monetary policy regimes in the world. Prior to 1971, the gold standard regime (the Bretton Woods system), price level targeting, fixed exchange rates, monetary aggregates, and the floating exchange rate system were in place. Meanwhile, the inflation targeting regime, which explicitly aims to maintain a certain level of inflation, has emerged. Inflation targeting is a monetary policy regime in which the central bank seeks to keep inflation within a pre-announced target range, typically using policy interest rate instruments(Ascarya, 2012; Juhro & Goeltom, 2013).

The monetary policy transmission mechanism has become a significant and intriguing area of focus in the field of monetary economics. It refers to the entire process through which monetary policy influences economic and financial activities, ultimately aiming to achieve the goals of price stability and economic growth. This process is quite complex, as it involves interactions among various parties, including the central bank, the financial sector, economic agents, and other national and international authorities (Juhro et al., 2025:358).

2. Quantitative monetary policy

Quantitative monetary policy is implemented to control the money supply in the economy. The goal is to maintain the stability of the rupiah's value against goods prices. This is achieved through several instruments used by Bank Indonesia, including Open Market Operations (OMO), which are conducted in the short term by buying or selling

government securities. Secondly, there is the Discount Rate Facility. The discount rate is the interest rate set by the government for commercial banks borrowing from the central bank. If the government wishes to increase the money supply, it will lower the discount rate. When the borrowing rate decreases and becomes cheaper, commercial banks are more inclined to borrow from the central bank. Conversely, if the government wants to reduce the money supply, it will raise the interest rate. The increase in interest rates will reduce the willingness of commercial banks to borrow from the central bank, thus helping the government control the rate of money supply growth (Hasanah et al., 2024).

Thirdly, the Reserve Requirement Ratio. When the minimum reserve requirement is reduced, banks have more money available to circulate in the economy through lending. Conversely, if the government wants to decrease the money supply, it can increase the minimum reserve requirement, thereby limiting the amount of money banks have available to distribute.(Hasanah et al., 2024).

Currently, Bank Indonesia's policy uses the monetary policy transmission mechanism, which is a complex phenomenon because the transmission to the macroeconomy occurs through various channels. The channels identified in the literature include the interest rate channel, exchange rate channel, credit channel, and asset price channel (Hafidh, 2021).

Secondly, with the expansion of monetary policy through the credit channel, banks provide more money (M) by increasing bank deposits. More loans become available because expansive monetary policy increases the reserves and deposits of banks (Ascarya, 2012). This can then be viewed from two approaches: the market interaction approach and the intermediation function approach, as follows:

a. Interactions in the financial markets

Interaction through the financial markets occurs because, on one hand, the central bank exercises monetary control through financial transactions conducted with the banking sector, which are in line with the direction and objectives of the established monetary policy. On the other hand, banks and other financial institutions carry out financial transactions for their investment portfolios, whether for their own interests or for the interests of their customers. This interaction can take place through the rupiah money market, the foreign exchange market, or the capital market. The interaction between the central bank and the banking sector in this manner will influence, both directly and indirectly, the development of volumes and prices (such as interest rates, exchange rates, bond yields, or stock prices) in these three financial markets(Akbar et al., 2022)

b. Interaction through the intermediation function

The second stage of the monetary policy transmission process involves the interaction between the banking sector and economic agents. This occurs because the intermediation function of banking mobilizes savings from the public and channels credit or other forms of financing to the business sector. First, this interaction will influence the development of volumes and interest rates in the capital and credit markets. In terms of mobilizing funds, this interaction will affect the volume and interest rates of current accounts, savings, and deposits, which in turn influence the growth of the money supply (M1 and M2), money demand, and public savings. For example, if the banking sector aims to increase the mobilization of funds from the public, the interest rates on deposits will rise, and thus, the interest and volume of public savings in the banks will also increase. On the other hand, in terms of fund distribution, this interaction will impact the growth of bank

credit being channel to the business sector for investment and production financing.(Akbar et al., 2022:244)

3. Monetary policy transmission practices in Indonesia

Through various instruments, Islamic monetary policy aims to enhance the circulation of money into the real sector, including the utilization of idle funds. Even today, in countries that adopt a dual monetary system, the contribution of Islamic monetary policy is primarily focused on integrating the financial sector with the socio-economic sectors of Islam, in order to strengthen and stimulate the real sector while avoiding sectoral imbalances (Juhro et al., 2025)

However, the implementation of a dual monetary system can lead to a trade-off between the conventional and Islamic financial systems. Furthermore, the market share of Islamic finance is significantly smaller than that of conventional finance. Additionally, Islamic monetary policy aims to maintain the balance between supply and demand, and thus, market price stability. If the prices formed in the market increase beyond an affordable level, the government, through monetary policy, must intervene to bring prices back to an affordable level. Prices of goods may rise due to barriers in the flow of funds from individuals with surpluses to the real sector, thus hindering the supply of goods in the real economy(Juhro et al., 2025)

In the context of Indonesia, the Islamic financial industry has grown rapidly, and it is supported by Islamic banking. Formally, Islamic banking practices were legalized with the enactment of Law Number 7 of 1992 on Banking, which implicitly paved the way for Islamic banking activities through profit-sharing banks. In 1998, however, Law No. 7 of 1992 was amended by Law No. 10, which provided a stronger legal foundation for the Islamic banking system. This amendment sparked exponential growth in Islamic banking in Indonesia, as reflected in the increasing number of Islamic bank branches, Islamic business units in conventional commercial banks, and deposits recorded on the balance sheets of Islamic banks. This situation encouraged Bank Indonesia to give more attention to the development of Islamic banking in Indonesia (Juhro et al., 2025; Juhro & Iyke, 2019). As the central bank for commercial banks in Indonesia, Bank Indonesia has also issued several specific instruments for Islamic banks, as follows:

a. Minimum Reserve Requirement (GWM)

The Minimum Reserve Requirement (GWM) is the minimum amount that commercial banks must maintain in their reserve accounts at the central bank, as stipulated by Bank Indonesia, as part of their deposit liabilities. GWM is crucial for ensuring the stability and continuity of banks. Additionally, GWM is a monetary instrument used to control the money supply.

The previous system of GWM required that all primary reserves be met by the end of the day, which was later modified into an average GWM over a specific period. Currently, the Rupiah GWM for conventional commercial banks is set at 6.5% of third-party funds (DPK). For Islamic banks and Islamic business units, the total rupiah GWM is 5%, with an average GWM of 5% of DPK, and an average GWM of 2% was implemented starting October 1, 2018.

b. Mudharabah Investment Certificates Between Banks (SIMA)

Mudharabah Investment Certificates Between Banks (SIMA) are used by Islamic banks with surplus funds that wish to channel their funds to other Islamic banks for an agreement period of 90 days.

c. Bank Indonesia Wadiah Certificates (SWBI)

Bank Indonesia Wadiah Certificates (SWBI) are Indonesian instruments used for open market operations. These instruments are based on a wadiah contract. SWBI can also be used by Islamic banks to absorb excess liquidity and as a short-term deposit contract.

d. SukBI (Bank Indonesia Sukuk)

SukBI, or Bank Indonesia Sukuk, is issued by Bank Indonesia using State Islamic Securities (SBSN). The State Islamic Securities (SBSN) and the global sukuk owned by Bank Indonesia serve as the underlying assets.

e. Islamic Foreign Currency Time Deposits (TD)

Islamic Foreign Currency Time Deposits (TD) are instruments for placing funds with Bank Indonesia, available to participants in Islamic open market operations. Islamic Foreign Currency Time Deposits are available in various maturities, including one week, two weeks, one month, and three months. In 2020, Islamic Foreign Currency Time Deposits with a one-month and two-week tenor were dominant.

f. Shariah-Compliant Liquidity Management (PaSBI)

Shariah-Compliant Liquidity Management (PaSBI) provides funds to participants in Islamic open market operations for liquidity management, secured by shariah-compliant securities. This instrument uses a wakalah bi al-istitsmar contract. Under this contract, Bank Indonesia grants authority to Islamic open market operation participants to manage a certain amount of funds without compensation. Shariah-compliant securities are used as collateral to secure this instrument, with maturities ranging from one week to 12 months.

g. Shariah-Compliant Liquidity Facility with Certificates (FLiSBI).

The Shariah Compliant Liquidity Facility with Certificates (FLiSBI) is a Shariah-compliant time deposit facility (SFS) available in rupiah through a mechanism for fund distribution from Bank Indonesia to SFS participants, secured by shariah-compliant securities. This instrument uses a Qard and Rahn contract. The qard contract refers to an interest-free loan, where the borrower repays the principal in a single installment, while the rahn contract requires collateral from the SFS participant to Bank Indonesia as security for the loan. The FLiSBI structure has an overnight maturity. However, this instrument does not apply an auction mechanism. FLiSBI was introduced to strengthen Shariah monetary operations sustainably.

h. Shariah Interbank Fund Management Certificate (SiPA)

The Shariah Interbank Fund Management Certificate (SiPA) is a new instrument in the interbank shariah money market (PUAS). The interbank shariah money market facilitates short-term financial transactions between banks based on shariah principles to maintain liquidity adequacy within the banking system. This instrument is available in both rupiah and foreign currencies. SiPA is issued based on the wakalah bi al-istitsmar contract. This contract grants authority to Islamic commercial banks, shariah business units, and/or

conventional commercial banks to manage a certain amount of funds without compensation (ujrah).

In general, these initiatives include the development of policy instruments issued by the central bank as well as government financial instruments. The policy instruments issued by the central bank include SWBI and repurchase facilities, while the government's policy instruments involve the issuance of Sukuk Negara (SBSN). As the monetary authority, Bank Indonesia will provide an adequate amount of liquidity to balance the money supply through open market operations based on sharia principles. The new monetary operations also follow the same expansion and contraction mechanisms used by Bank Indonesia for existing monetary operations.

C. DATA AND METHODOLOGY

This study employs a qualitative descriptive analytical method through document analysis to examine the dual transmission mechanism of monetary policy in Indonesia. Primary data were obtained from official publications of Bank Indonesia, the Financial Services Authority (OJK), and the Ministry of Finance. Secondary sources include peer-reviewed journals, regulatory reports, and statistical data related to both conventional and Islamic monetary instruments. The study applies thematic analysis to identify recurring patterns and structural dynamics within monetary transmission channels, while comparative analysis is used to contrast the roles and effectiveness of conventional and Islamic frameworks. Triangulation is conducted by cross-referencing multiple sources to strengthen validity and reliability. This methodology provides a contextual understanding of how monetary policy operates within a dual banking system, highlighting both institutional challenges and opportunities in optimizing the impact of interest-based and sharia-compliant instruments on the real sector.

D. RESULT AND DISCUSSION

1. Islamic Banking Financing: Mechanisms and Transmission Channels

Monetary policy transmission can occur through various channels, one of which is the bank lending or financing channel. This channel highlights the role of banking in linking monetary policy to economic activity. In this process, the central bank influences the economy by controlling the amount of money reserves in the banking sector, which is done through open market operations (Syapriatma, 2017).

In Indonesia, one of the instruments of Islamic monetary operations is the issuance of the Islamic Bank Indonesia Certificate (SBIS). SBIS uses the Ju'alah contract, which involves a promise or commitment to provide a specific reward based on the achievement of a predetermined result from a task. Bank Indonesia acts as the Ja'il (the promisor), and the Islamic bank acts as the Maj'ul (the party executing the Ju'alah) (Fatwa DSN No. 62, 2007). The underlying principle of Ju'alah is the participation of Islamic banks in monetary control by absorbing liquidity and placing it in Bank Indonesia for a specific amount of time and quantity (Fatwa DSN No. 64, 2007). The issuance of SBIS aims to regulate the demand and supply of money in the Islamic money market, which in turn affects the amount of money reserves held by Islamic banks (Syapriatma, 2017:3). Changes in the amount of money reserves then impact the volume of new financing channeled by banks to the real sector.

Graph 1. Comparison of Financing in the Islamic and Conventional Commercial Bank Sectors

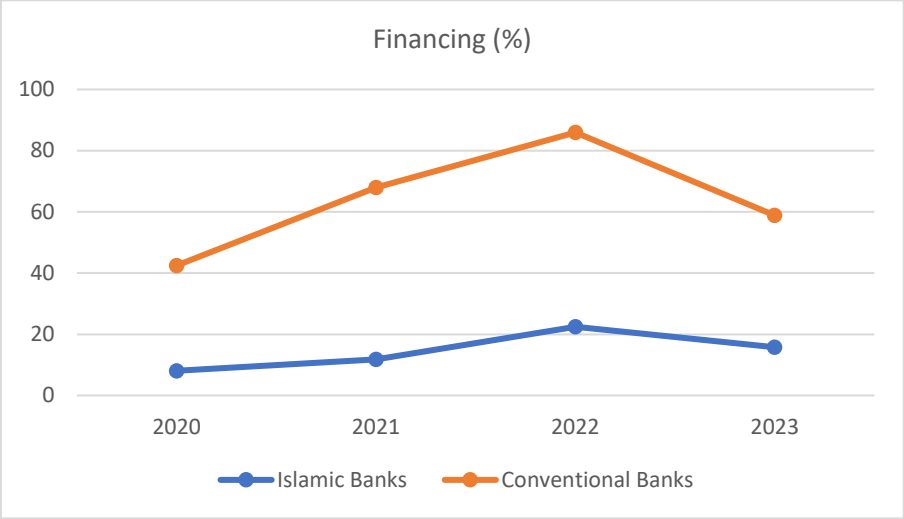


Table 1. Financing Sector of Islamic Banks and Conventional Banks

Years	Islamic Banks	Conventional Banks
2020	8,08	34,4
2021	11,82	56,1
2022	22,44	63,5
2023	15,72	43,1

Source: Financial Services Authority (OJK)

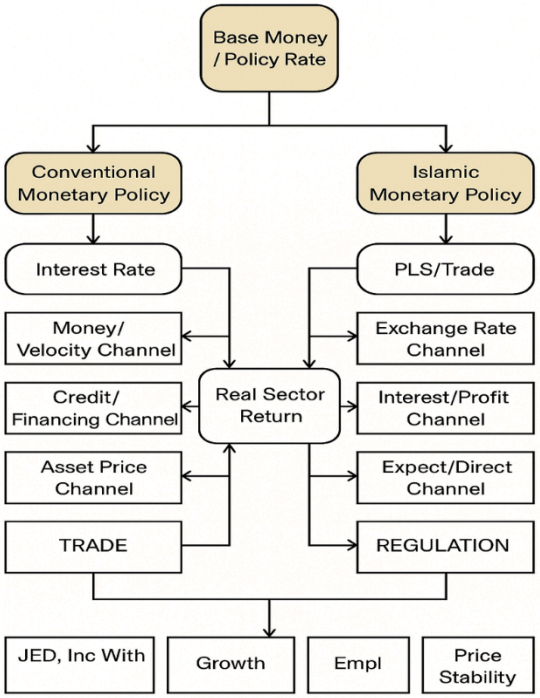
The graph above illustrates the comparison of financing amounts between Islamic banks and conventional banks. It shows that financing in Islamic banks has historically been lower compared to conventional banks. However, this financing began to recover during the COVID-19 pandemic five years ago. Over time, financing in Islamic banks improved, likely due to better control over the money supply in the market. Previous studies have stated that Islamic banking financing contributes to the final goal of monetary policy, although its contribution is relatively small (Tang et al., 2020), Islamic banks in Pakistan and Malaysia are less affected by tight monetary policies than conventional banks (Shah et al., 2024), this difference necessitates tailored monetary policy instruments in countries with dual banking systems (Majid & Hasin, 2014).

The same trend was observed in conventional banks, although the percentage of credit distribution was higher. Bank Indonesia's monetary policy, particularly in terms of controlling interest rates, played a crucial role in regulating the supply of money. This demonstrates how monetary policy, through intermediation channels, positively impacted the money supply in the economy, leading to a gradual improvement in financing. (Fikri, 2018)

According to Ascarya (2014), the transmission mechanism of monetary policy (MPTM) within the Islamic monetary system has not yet developed effectively. As a result, countries that are incorporating Islamic monetary systems within a conventional framework are now moving towards the implementation of a dual monetary system. A mature dual monetary system has been developed based on the existing conventional

framework. Conventional monetary policy, which largely adopts an inflation targeting framework, mainly employs a price-based approach (Ascarya, 2014).

Figure 2. The flow of Indonesia's inflation target from several channels



Source: Ascarya, 2014

The MPTM under a dual financial system in the contemporary economy can be illustrated in Figure 2. Open market operations (the price-based approach in ITF) will determine the policy interest rate, which will be translated into interest rates in the conventional system and profit-sharing rates or margins in the PLS system or margins in the Islamic system. This occurs through several conventional and Islamic monetary instruments, including the reserve requirement (GWM), savings facilities, open market operations, and exchange rate interventions. These will be transmitted through various channels, including the profit channel, financing channel, asset price channel, exchange rate channel, and expectation channel, to influence real economic activities such as investment and consumption, aiming for economic growth and price stability. The yield from the real sector (as well as inflation and economic growth) will provide feedback to monetary policy (Ascarya, 2014).

However, some studies also show that Bank Indonesia's interest rate does not have an impact on financing in Islamic banks, as they do not use interest-based instruments. As mentioned in the explanation of the money market instruments above, the Islamic banking monetary mechanism employs interest-free instruments (Zulkhibri & Sukmana, 2017) .

Based on the data on money supply (M1) in Indonesia during 2023 and 2024, following the post-COVID-19 crisis, M1 was recorded at Rp2,675.3 trillion in 2023, indicating a stable economic recovery. In October 2024, there was a significant increase in M1, reaching Rp5,223.9 trillion, with an annual growth rate of 5.8%. By November 2024, the annual growth of M1 further accelerated to 9.1%, although the exact nominal value was not specified. In January 2025, M1 stood at Rp5,115.0 trillion, marking an annual growth rate of 7.2% (Infobanknews, 2025).

Then the impact of the implementation of the dual system on the real sector that affects Indonesia's PDB is as follows:

Table 2. Indonesia's GDP

Year	GDP (US$ Billion)	GDP per Capita (US$)	Economic Growth (%)
2018	1,042	3,927	5.17
2019	1,119	4,135	5.02
2020	1,058	3,869	-2.07
2021	1,186	4,349	3.69
2022	1,319	4,788	5.31
2023	1,431	5,217	5.05

Source: World Bank, IMF World Economic Outlook, and BPS

Based on the second table presented earlier, Indonesia's economic growth shows a clear pattern of recovery following the significant downturn in 2020 due to the COVID-19 pandemic. During the 2018–2019 period, the economy maintained steady growth rates above 5%, largely fueled by strong domestic consumption and investment activity. However, in 2020, the economy experienced a sharp contraction of -2.07%, as the global health crisis disrupted various sectors and limited economic activity.

In 2021, signs of recovery emerged, with the economy expanding by 3.70%. This rebound was supported by the gradual easing of mobility restrictions and the implementation of government stimulus packages aimed at revitalizing the economy. By the 2022–2023 period, Indonesia's economic growth returned to the 5% range, bolstered by improvements in both export performance and domestic demand. In 2024, the country's economy is projected to grow by 5.03%, with Gross Domestic Product (GDP) reaching approximately Rp22,138.9 trillion, reflecting continued momentum in the post-pandemic recovery phase.

Furthermore, when comparing GDP figures across countries, Indonesia stands alongside Malaysia and Turkey as key emerging economies in their respective regions. The following section provides a comparative overview of the 2024 GDP data for these three nations based on the most recent available figures.

Table 3. GDP Comparison of 3 Countries in 2024

Countries	Nominal GDP (USD trillion)	GDP per Capita (USD)	Economic Growth (%)
Indonesia	1,403	4.981	5,03
Malaysia	0,445	13.382	5,1
Turkiye	1,108	15.463	3,2

Source: World Bank data

From the table above, it can be observed that Indonesia holds the largest nominal GDP among the three countries, indicating the breadth and scale of its economy. However, its relatively low GDP per capita reflects the country’s large population, which results in a lower average income per individual. Despite this, Indonesia’s stable economic growth demonstrates strong resilience in the aftermath of the pandemic. Financing of Islamic banks play an important although a modest role in transmitting monetary policy to the economies of Indonesia and Malaysia. A plausible explanation of this result is the relatively low market share of Islamic banks in both countries (Audah & Kasri, 2020).

In comparison, Malaysia has a smaller nominal GDP than both Indonesia and Turkey, but its higher GDP per capita suggests a better average standard of living. This strong per capita performance is largely supported by robust exports and a well-developed manufacturing sector, contributing to solid economic growth. As for Turkey, its nominal GDP is close to that of Indonesia, while its GDP per capita is the highest among the three, indicating a relatively higher average income. However, Turkey's economic growth is more moderate, influenced by ongoing challenges such as inflationary pressures and adjustments in monetary policy.

E. CONCLUSION

The dual transmission mechanism of monetary policy in Indonesia illustrates that the decisions made by Bank Indonesia, such as adjustments to the policy interest rate, impact the economy through multiple channels rather than a single pathway. Two primary transmission channels are the interest rate channel and the credit channel. When inflation exceeds its target, Bank Indonesia typically responds by raising the benchmark interest rate. This move subsequently leads to a decline in credit demand and household consumption. This dynamic is reflected in the fluctuation of banking credit growth, which reached 15.72% in 2023, following a sharp increase to 22.44% in 2022. Such growth indicates a positive response toward post-pandemic economic stabilization, although it also suggests inflationary pressures that monetary authorities must closely monitor.

On the other hand, the credit/financing channel plays a particularly vital role in Indonesia's bank-based financial structure. Changes in the money supply (M1) further highlight how monetary policy is transmitted. Data from Bank Indonesia shows that M1 increased from IDR 2,675.3 trillion at the end of 2023 to IDR 5,223.9 trillion by October 2024, signaling a significant surge in liquidity within the economy. While this rise reflects the effect of monetary expansion, it also carries the risk of inflation if not accompanied by proportional increases in the production of goods and services. Thus, both the credit channel and the money demand side are critical in determining the effectiveness of monetary policy and future inflation trends.

Overall, the dual transmission of monetary policy underscores the need for strong coordination between monetary and fiscal policy. However, this study does not delve into fiscal policy aspects or the role of an integrated policy mix. Additionally, the Islamic monetary transmission mechanism, particularly in terms of financing the real sector, warrants further exploration to assess how these two components can harmoniously interact. The effectiveness of transmission channels is significantly influenced by the response of the banking sector (both conventional and Islamic), the structure of financial markets, and public expectations regarding government policy. By continuing to enhance policy transparency and strengthen transmission pathways, Bank Indonesia can maintain price stability, control inflation, and support sustainable economic growth.

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