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Analysis of Sharia and Conventional Monetary Policy Transmission in the SBY-Jokowi Era

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Abstract

This research is motivated by the role of monetary policy in the sustainability of a country's financial system, which is carried out through the transmission of monetary policy in order to achieve an output of economic stability. In Indonesia, the monetary policy transmission system is more complex due to the implementation of a dual financial system, consisting of conventional and sharia systems. In this study, the focus of the study is directed at the path of asset prices as a link between monetary policy, economic growth, and inflation. The main purpose of this study is to examine the short-term and long-term relationship between conventional monetary instruments (BI7DRR) and sharia (SukBI) on asset prices (JCI, SUN, JII, SBSN) as well as macroeconomic output by comparing the government systems of President Susilo Bambang Yudhoyono (2004–2014) and President Joko Widodo (2014–2024). The method used is causal-comparative design with a quantitative approach through the Vector Error Correction Model (VECM) model and the Chow test to determine the structural differences between the two governments. The results showed that there was a long-term cointegration relationship in the two systems, but the transmission patterns differed structurally between periods. The conventional system affects inflation faster, while the Islamic system shows a long-term influence on economic growth. These findings confirm the need to optimize sharia instruments in maintaining national macroeconomic stability.

Keywords: Monetary Policy; Asset Price Path; Monetary Transmission; Dual Financial System; VECM

Abstrak

Penelitian ini dilatarbelakangi oleh peran kebijakan moneter dalam keberlangsungan system keuangan suatu negara, yang dilakukan melalui transmisi kebijakan moneter agar tercapat suatu output kestabilan ekonomi. Di Indonesia system transmisis kebijakan moneter lebih kompleks karena diterapkannya sistem keuangan ganda, yang terdiri atas sistem konvensional dan syariah. Dalam Penelitian ini Fokus kajian diarahkan pada jalur harga aset sebagai penghubung antara kebijakan moneter, pertumbuhan ekonomi, dan inflasi. Tujuan utama penelitian ini adalah menguji hubungan jangka pendek dan jangka panjang antara instrumen moneter konvensional (BI7DRR) dan syariah (SukBI) terhadap harga aset (IHSG, SUN, JII, SBSN) serta output makroekonomi dengan mengkomparasi sistem pemerintahan Presiden Susilo Bambang Yudhoyono (2004–2014) dan Presiden Joko Widodo (2014–2024). Metode yang digunakan adalah causal-comparative design dengan

pendekatan kuantitatif melalui model Vector Error Correction Model (VECM) dan uji Chow untuk mengetahui perbedaan struktur antar kedua pemerintahan. Hasil menunjukkan adanya hubungan kointegrasi jangka panjang pada kedua sistem, namun pola transmisi berbeda secara struktural antarperiode. sistem konvensional lebih cepat memengaruhi inflasi, sementara system syariah menunjukkan pengaruh jangka panjang terhadap pertumbuhan ekonomk. Temuan ini menegaskan perlunya optimalisasi instrumen syariah dalam menjaga stabilitas makroekonomi nasional.
***Kata Kunci**: Kebijakan Moneter; Jalur Harga Aset; Transmisi Moneter; Sistem Keuangan Ganda; VECM*

INTRODUCTION

Monetary policy is one of the main instruments in maintaining macroeconomic stability, which plays a role in controlling inflation, maintaining exchange rate stability, and promoting sustainable economic growth (Warjiyo & Juhro, 2019). The effectiveness of this policy does not occur directly, but rather through a transmission mechanism, which is the process by which changes in central bank monetary instruments affect real economic activity. This mechanism can work through various channels such as interest rates, exchange rates, expectations, credit, and asset prices (Mishkin, 1995; Taylor, 1995). In the Indonesian context, the monetary policy transmission process has its own complexities due to the dual financial system structure, in which conventional and Islamic financial systems coexist (Yuliadi, 2020). This condition requires the formulation of policies that are able to balance interest-based instruments (BI Rate, SBI, FASBI, BI7DRR) and profit-sharing-based instruments (SWBI, SBIS, SukBI), which have different mechanisms and market responses (Atichasari et al., 2023). This complexity is reinforced by the changing direction of macro policies in each administration period in accordance with national economic development priorities.

Historically, the effectiveness of monetary policy transmission in Indonesia has varied across administrations. During the administration of President Susilo Bambang Yudhoyono (2004–2014), the economy grew at an average rate of 5.8% per year with inflation at around 6.6% (GoodStats, 2023). Monetary policy during this period tended to be contractionary in order to curb inflationary pressures caused by rising global oil prices and adjustments to subsidized fuel prices, such as in 2005 and 2008 (Permana et al., 2022). However, monetary transmission through interest rates and asset prices remained limited due to the shallow financial market and the dominance of the conventional sector. In contrast, during the administration of President Joko Widodo (2014–2024), the economy grew at an average rate of 5.0% with inflation falling to around 3.1% (Elza Rahmawati et al., 2024). The implementation of the BI 7-Day Reverse Repo Rate (BI7DRR) since 2016 has strengthened the relationship between monetary policy and the money market (Kornitasari et al., 2023). In addition, the expansion of sharia instruments such as retail sukuk, savings sukuk, and sharia property financing shows an increase in the role of the sharia financial system in monetary policy transmission (Nastiti et al., 2024).

A comparison of the two periods reveals structural differences in the effectiveness of monetary transmission mechanisms, particularly through asset

prices. During the SBY era, transmission through this channel was relatively weak because financial markets were still shallow and sharia instruments were still developing. Meanwhile, during the Jokowi era, stronger fiscal-monetary coordination and deeper financial markets have made asset price transmission more effective, both through the stock market and the property market. The upward trend in the Jakarta Composite Index (IHSG) and property price index after 2015 shows that monetary policy contributed to an increase in asset values, which had an impact on consumption and investment through the wealth effect and collateral channel. However, this transmission is not yet fully inclusive because the benefits are mostly felt by the upper-middle class who own financial assets and property, while low-income groups are relatively unable to afford them (Duja & Supriyanto, 2019; Nurhidayah et al., 2022).

In the literature, the role of asset prices in monetary policy transmission has been extensively studied. Tobin's q theory, the wealth effect, and the financial accelerator (B. S. Bernanke & Gertler, 1995; Mishkin, 1995) explain how changes in stock, bond, and real asset prices affect aggregate consumption and investment. Studies in developed countries show that the asset price channel plays an important role in transmitting monetary policy (Daood Al-Oshaibat & Banikhalid, 2019; Matarr & Momodou, 2021). However, research results in developing countries show greater variation. Sukmana & Kassim (2010) found that in Malaysia, sukuk plays a role in monetary transmission but is still less dominant than the credit channel. Yıldız & Aydın (2025) note that the role of stock prices in Turkey is limited by low domestic investor participation, while in China, Lyu & Hu (2024) show that the asset price channel is getting stronger as the capital market deepens. In the Indonesian context, Zulkhibri & Sukmana (2017) and Suriani et al., (2021) emphasize that the long-term relationship between monetary policy and asset prices remains significant, despite weak short-term sensitivity. A recent study by Ishak et al. (2022) even shows that sharia instruments such as SBSN are beginning to be effective in helping to stabilize inflation.

However, most previous studies have focused on interest rates and credit channels, while studies examining asset price channels in dual financial systems (conventional and Islamic) remain limited. In addition, there have been few studies that explicitly compare the effectiveness of monetary policy transmission across administrations. In fact, the direction of economic policy and the macro structure of each regime have a major impact on how monetary policy works. The SBY era emphasized post-2008 global crisis stabilization through a conventional approach, while the Jokowi era focused on fiscal-monetary integration and Islamic financial inclusion (Firmansyah, 2019). Thus, there is an important research gap regarding the differences in the effectiveness of monetary transmission through asset prices between two administrations with different policy directions.

Based on this background, this study aims to analyze the long-term and short-term relationships between monetary policy, asset prices, economic growth, and

inflation in conventional and Islamic financial systems in Indonesia, as well as to examine structural differences in the effectiveness of monetary policy transmission through asset prices between the SBY and Jokowi administrations. The analysis was conducted using the Vector Error Correction Model (VECM) approach to capture the dynamic relationship between variables, as well as the Chow Test to identify structural changes across periods. With this combination, the study is expected to provide a comprehensive understanding of the differences in the characteristics of monetary policy transmission under different economic structures.

The main scientific contribution of this study lies in two aspects. First, this study is one of the first empirical studies to integrate asset price path analysis in a dual financial system with a cross-government comparative approach. Second, this study provides methodological innovation through the simultaneous use of the VECM model and Chow Test to identify structural turning points in the effectiveness of monetary policy in Indonesia. The findings of this study are expected to expand the literature on monetary policy transmission mechanisms in countries with dual financial systems and provide evidence-based policy recommendations to strengthen the effectiveness of conventional and Islamic monetary policies in a balanced manner.

LITERATURE REVIEW

The Concept of Monetary Policy

The concept of monetary policy has become increasingly recognized as an important component in achieving economic stability in a country. This is reinforced by Keynes (1936), who argued that monetary policy links the economy through aggregate demand, whereby changes in interest rates by the central bank will affect investment, consumption, and ultimately economic output. In achieving economic stability, the central bank needs to be efficient so that the policy can have the desired effect and does not take a long time to achieve a country's economic goals. In this way, the country has a strategy, one of which is to transmit the monetary policy (Nasution et al., 2021).

Monetary Policy Transmission Mechanism

The Monetary Policy Transmission Mechanism (MPTM) is defined in various contexts, with the MPTM defined as “the process through which monetary policy decisions are transmitted into changes in real GDP and inflation.” The monetary policy transmission mechanism is essentially an overview of the monetary policy pursued by the central bank to link various economic and financial activities in order to achieve predetermined ultimate objectives (Warjiyo, 2004a). Therefore, it can be concluded from several existing theories that, in terms of terminology, the word “transmission” in the phrase “monetary policy transmission mechanism” refers to the process by which changes in monetary policy at the financial authority level impact various aspects of the economy through certain mechanisms, which ultimately connect the economic activities of society at large.

In addition to its epistemological terminology, the word “transmission” comes from the Latin word “transmission,” which consists of two parts: trans means through or across, and mittere means to send or convey. Referring to (Fisher, 1922), the monetary policy transmission mechanism is a complex process that is closely related to the money supply. It is the process by which policies implemented by the central bank affect macroeconomic variables, such as inflation and economic growth, through various channels, including asset prices, interest rates, exchange rates, and credit. In monetary economics theory, it is called the "black box" of Bernanke & Gertler (1995) which is depicted in the following scheme.

Figure 1. Monetary Policy Transmission Mechanism as a “Black Box”
Source: Bank Indonesia's Center for Central Banking Education and Studies (PPSK) (Warjiyo, 2004a)

Figure 1 shows a black box that represents the channels that will be formulated by the central bank, channels used in the monetary policy transmission mechanism with predetermined end goals. This is influenced by three factors, namely (i) changes in the behavior of the central bank, banks, and economic actors in various economic and financial activities, (ii) the length of the lag period from the implementation of monetary policy to the achievement of the inflation target, and (iii) changes in the monetary transmission channels themselves in line with economic and financial developments in the country concerned (Soemitra et al., 2021).

From a conventional perspective, the conventional monetary policy transmission mechanism is a process whereby monetary policy implemented by the central bank affects economic variables such as inflation, economic growth, and unemployment rates. (Mishkin, 1995) explains that the main characteristic of this system is its reliance on interest rates as the primary instrument for controlling the money supply and maintaining economic stability. The instruments used in conventional monetary policy include the policy rate, open market operations (OMO), minimum reserve requirements, and exchange rate interventions (Alan S, 2019).

Amidst the dominance of conventional economics, where central banks and paper money serve as instruments, Islamic economics is growing in Muslim-majority countries within the paper money and central banking system. In the Islamic economic system, the monetary policy transmission mechanism differs from the conventional system because it does not use interest rates as the main instrument. Instead, the Islamic economy uses a profit-sharing mechanism and financial instruments that comply with Islamic principles, such as sukuk and asset-based financing (M. U. Chapra, 1996). One of the methods used in the transmission of Islamic monetary policy with the implementation of Islamic monetary operations is through Open Market Operations (OMO) using SBIS instruments (Juhro et al., 2025). This implementation aims to link the yield rate of the Islamic Interbank Money Market (PUAS) (Daniar, 2016). This ultimately links Islamic banking financing. This

increase in financing is assumed to be linked to the real sector, which is expected to be able to achieve monetary policy targets (Syapriatama, 2017).

In Indonesia's dual monetary system, Islamic monetary instruments do not operate as an autonomous fiqh-based regime, but function within the national monetary and financial architecture. Sharia instruments such as SBIS, SukBI, and SBSN are priced through state-based mechanisms—including auctions, benchmark yield curves, and liquidity management operations—and are therefore subject to the same macro-financial conditions, arbitrage processes, and expectation dynamics as conventional instruments. Accordingly, observed differences in transmission reflect variations in sensitivity and timing within an integrated liquidity environment rather than independent monetary causality.

Asset Price Line Concept

The asset price channel explains how monetary policy can affect the value of financial assets—such as stocks, bonds, and sharia-based assets which in turn impacts aggregate demand, consumption, investment, and inflation. According to (Mishkin, 1995), a decline in policy interest rates will drive up asset prices due to a decrease in the discount rate and an increase in investment demand. This increase in asset prices creates a wealth effect, whereby an increase in wealth encourages consumption and investment among the public. In addition, changes in asset prices also affect the cost of capital, which lowers corporate financing costs and stimulates expansion in the real sector. In the context of Islamic finance, where interest (riba) is not used, asset prices become more dominant because instruments such as sukuk and Islamic stocks serve as the main channel for policy transmission(M. U. Chapra, 1996; Kumala & Rosyidi, 2017).

From the perspective of modern monetary theory, the asset price channel is now also explained within the framework of the New Keynesian Transmission Framework, in which monetary policy influences intertemporal choice between current and future consumption through changes in the value of financial assets. Asset price effects occur not only due to changes in interest rates, but also through the expectation channel and portfolio risk adjustment (Auclert, 2017). Thus, transmission through asset prices can explain the dynamics of monetary policy in both conventional and Islamic systems without relying on interest rate instruments, making it relevant in the context of Indonesia's dual financial system(Ascarya, 2014; Warjiyo & Juhro, 2019).

Recent empirical studies support the importance of the asset price channel in the monetary transmission mechanism in Indonesia. Research by Sukmana & Kassim (2010) in Malaysia found that the credit channel is still more dominant, even though sukuk has begun to play a role in monetary transmission. Yıldız & Aydın (2025) in Turkey showed that stock prices do react to monetary policy, but the impact is limited due to low domestic investor participation. Meanwhile, Lyu & Hu (2024) in China prove that after capital market deepening, the asset price channel has become increasingly dominant in monetary policy transmission. This confirms that the effectiveness of the asset price channel is highly determined by the depth of the financial market, investor participation, and the integration of monetary policy with market dynamics.

In Indonesia, both in conventional and Islamic financial systems, asset prices play a strategic role in bridging monetary policy with the real sector. Therefore, selecting representative asset price variables is crucial for measuring the effectiveness of monetary transmission channels in both systems.

The Concept Inflation

Inflation, according to Venieris and Sebold in (Gunawan, 1991), is "a sustained tendency for general price" increases that occur continuously. Meanwhile, Ackley in (Iswardono, 1993) explains that inflation is a widespread surge in the prices of goods and services that occurs continuously. From these two opinions, it can be concluded that inflation is a comprehensive increase in the prices of goods and services over a long period of time. Based on these two definitions, inflation covers three main aspects: 1) A tendency for prices to increase, with prices in the market showing a pattern of increasing over time (Suseno & Astiyah, 2009). 2) Continuous price increases. Inflation occurs when the prices of goods and services continue to increase over a long period of time, not just during a specific period. Temporary price increases, such as those that occur before holidays or when there is a shortage of goods, are not included in the category of inflation (Utari et al., 2015). 3) Widespread price increases. Inflation is characterized by price increases that occur across a wide range of goods and services. If the increase only occurs in one type of good or service, then it cannot be categorized as inflation (Bayuni & Srisusilawati, 2018).

In theory, the impact of inflation on the economy can be explained through the Quantity Theory of Money developed by Fisher (1922), which states that an increase in the money supply without an increase in production will cause a surge in prices. In addition, the Phillips Curve theory shows a negative relationship between inflation and unemployment in the short term, although in the long term this theory has been criticized due to the phenomenon of stagflation. Engelica (2025) research shows that in Indonesia, foreign direct investment (FDI) can play a role in balancing the impact of inflation on economic growth, while a study by Rahayu et al. highlights that high inflation and rising interest rates can contribute to greater financial pressure on companies in ASEAN.

The Concept of Economic Growth

Economic growth is a fundamental concept in economics that refers to an increase in the output of goods and services in a country over a certain period of time. Solow (1956) Growth Model states that economic growth is influenced by capital accumulation, labor, and technological progress. This model emphasizes that in the long run, technological progress is the main factor in driving sustainable economic growth. (Mishkin, 1995) adds that monetary and financial policies also play an important role in directing economic growth by controlling inflation and maintaining financial system stability.

In addition, the endogenous growth theory developed by Romer (1994) argues that investment in human resources, knowledge, and innovation plays a role in accelerating economic growth. Bui (2025) in his study on the credit and housing markets in Vietnam shows that economic growth is also influenced by the development of the financial sector and credit policies implemented by the government. Thus, various economic theories show that economic growth is the

result of a combination of capital, labor, technology, and economic policies that support innovation and productive investment (Wijayanto, 2019).

RESEARCH METHOD

This study uses a retrospective causal-comparative quantitative approach (ex post facto) to trace the causal relationship between monetary policy variables, asset prices, inflation, and economic growth in Indonesia during two government periods, namely the era of Susilo Bambang Yudhoyono (2004–2014) and Joko Widodo (2014–2024). This approach was chosen because it is suitable for analyzing time series data and assessing differences in the effectiveness of economic policies between regimes based on historical empirical evidence. The research model was developed based on the theory of the mechanism of monetary policy transmission through asset price channels as described by (Mishkin, 1995), (B. S. Bernanke & Gertler, 1995), and (Warjiyo & Juhro, 2019), taking into account the existence of dual financial systems, namely conventional and sharia. The main variables used include BI7DRR, JCI, and SUN to represent conventional channels; SUKBI, JII, and SBSN for sharia channels; and inflation (INF) and Gross Domestic Product (GDP) as macroeconomic variables as a result of monetary policy.

Model analysis was conducted using the VAR/VECM (Vector Error Correction Model) approach to identify short-term and long-term relationships, as well as measure impulse response and decomposition of variance between variables. The data used are monthly quantitative secondary data for the 2004-2024 period, obtained from various official sources, namely Bank Indonesia (SEKI) for BI7DRR and SUKBI data, the Indonesia Stock Exchange (IDX) for JCI and JII, the Ministry of Finance for SUN and SBSN, and the Central Statistics Agency (BPS) for inflation and GDP data. In addition to numerical data, this study also utilizes policy documents, annual reports of Bank Indonesia and OJK, and academic literature as supporting materials for the interpretation of the analysis.

Data collection is carried out through documentation techniques, namely by downloading official statistical publications, verifying, aligning units, and adjusting formats to be consistent between periods. To obtain data with monthly frequency, the variables of SBSN and real GDP were interpolated using the Denton Quadratic method, which maintains the original data trend without causing distortion due to extreme values, so that the interpolation results remain representative of the initial data pattern.

Data collection was conducted through documentation techniques, namely by searching and downloading official statistical publications from relevant institutions. The data was then verified, selected, and reformatted for consistency across periods and units of analysis (Fitri & Haryanti, 2020). To adjust for monthly observation periods, data was interpolated for two main variables, namely SBSN and real GDP, using the Denton quadratic method (Denton, 1971; OECD, 2008). This method maintains data trends without causing distortions due to extreme values, ensuring that the interpolation results remain representative of the original quarterly or annual data movements. Data analysis was conducted through several econometric stages using EViews software, including:

1. Stationarity Test (Unit Root Test) using Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) to ensure data integration at order one [I(1)]. The results show that all variables—both conventional (INF, GDP, BI7DRR, IHSG, SUN) and sharia (SUKBI, JII, SBSN)—are non-stationary at the level, but become stationary after the first difference (Phillips & Perron, 1988).
2. Johansen Cointegration Test to detect long-term relationships between variables.
3. VECM estimation to examine the dynamics of short-term relationships and the adjustment process toward long-term equilibrium (error correction term).
4. Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) to measure the direction, duration, and relative contribution of each variable.
5. The Chow Breakpoint Test, CUSUM Test, and Bai–Perron Multiple Breakpoint Test were used to assess structural changes between government eras (Engle & Granger, 1987; Johansen, 1988).

All tests were conducted at a significance level of α = 0.05, using a two-tailed test approach. The analysis results indicate that all models are stable, as indicated by a characteristic root modulus <1. The conceptual framework is illustrated in Figure 2.

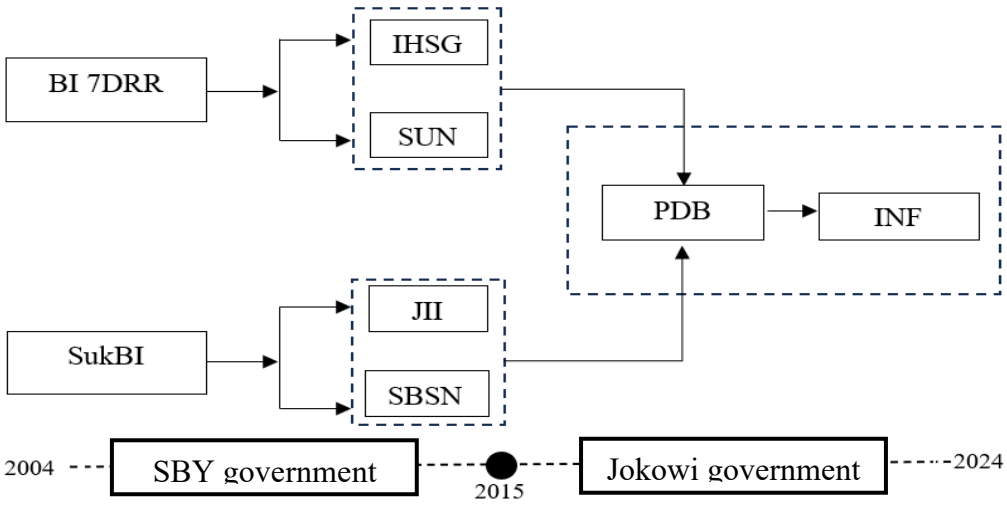

Figure 2. Conceptual Framework

Source: Data processed, 2025

To ensure empirical transparency and replicability, this study provides complete econometric outputs as supplementary materials. These include Augmented Dickey-Fuller (ADF) and Phillips–Perron (PP) unit root test results, Johansen cointegration statistics, full Vector Error Correction Model (VECM) estimations, Impulse Response Functions (IRF), Forecast Error Variance Decomposition (FEVD), and structural break diagnostics (Chow Test, CUSUM, and Bai–Perron tests). Presenting these outputs as appendices allows the Results and Discussion section to focus on economic interpretation without disrupting analytical flow of analysis as a form of methodological rigor.

RESULTS AND DISCUSSION

A. The Administration of President Susilo Bambang Yudhoyono

1. Conventional Channel

Stationarity Test

Table 1. Stationarity test SBY Conventional

No	Variabel	Uji Augmented Dickey-Fuller			
		Level		First Different	
		t-Stat	Significance	t-Stat	Significance
1	Inflasi	-2.786911	0.0629*	-7.943847	0,0000
2	PDB	-2.687478	0.0791*	-1.620082	0.4693*
3	BI7DRR	-2.379704	0.1495*	-3.652134	0.0060
4	IHSG	-1.394179	0.5834*	-8.996521	0,0000
5	SUN	3.259595	1,0000*	-11.17706	0,0000
No	Variabel	Uji Phillips-Perron			
		Level		First Different	
		t-Stat	Significance	t-Stat	Significance
1	Inflasi	-2.510472	0,1153*	-12.25513	0,0000
2	PDB	-2.999103	0,0376*	-5.270063	0,0000
3	BI7DRR	-1.672883	0,4426*	-8.769048	0,0000
4	IHSG	-1.369706	0,5953*	-9.073568	0,0000
5	SUN	3.426549	1,0000*	-11.32127	0,0000

The ADF and PP tests show that the variables are not stationary at the level but stationary at the first difference. Based on the ADF test, GDP has not been stationary because it has a strong long-term trend and is influenced by structural changes in the economy, so the sensitivity of ADF to lag selection makes the root unit undetectable. In contrast, a more robust PP test shows that all variables, including GDP, are stationary at the first difference. Therefore, all variables are considered to be first-order integrated (I(1)) and the use of VECM is considered appropriate and supported by the results of the Johansen cointegration test.

Cointegration Test

Table 2. Cointegration Test SBY Conventional

Hypothesied No. of CE(s)	Eigenvalue	Trace			Maximum Eigenvalue		
		Trace Statistic	0,05 Critical Value	p-value	Max-Eigen Statistic	0,05 Critical Value	p-value
None	0.225790	103.3078	69.81889	0.0000*	32.24488	33.87687	0.0773
At Most 1	0.211377	71.06297	47.85613	0.0001*	29.92084	27.58434	0.0246*
At Most 2	0.140443	41.14213	29.79707	0.0016*	19.06866	21.13162	0.0949
At Most 3	0.100777	22.07347	15.49471	0.0044*	13.38427	14.26460	0.0685
At Most 4	0.066638	8.689200	3.841465	0.0032*	8.689200	3.841465	0.0032*

(*) The existence of cointegration

The Johansen cointegration test shows the presence of more than one cointegration vector between variables. Trace Test consistently rejects the null hypothesis of up to several orders because the trace statistic value exceeds a critical value of 5% with a significant p-value, indicating at least two cointegration relationships. The Maximum Eigenvalue Test provides partial support with significance to the *at most 1 hypothesis*, but overall still confirms the existence of cointegration. These results confirm the existence of a stable long-term relationship between variables and meet the prerequisites for the use of VECM.

Impluse Response Function & Forecast Error Variance Decomposition

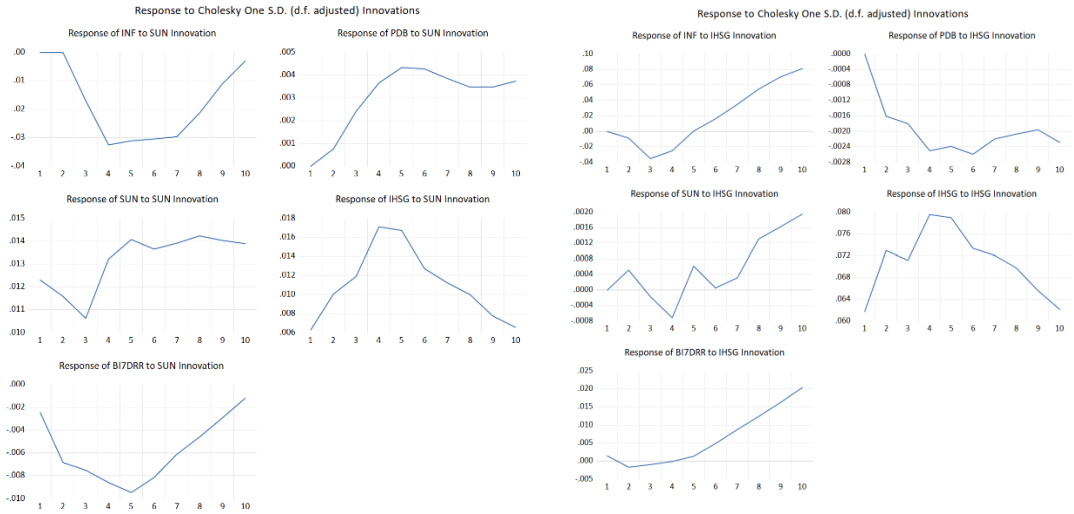

Figure 1. Response Function (IRF) Results SBY Conventional

Table 3. FEVD Test SBY Conventional

Variance Decomposition of SUN:

Period	S.E.	INF	PDB	SUN	IHSG	BI7DRR
1	0.123041	0.642564	2.576684	96.78075	0.000000	0.000000
2	0.189815	1.387856	2.083049	96.41391	0.091401	0.023779
3	0.224768	1.499313	1.664048	96.59104	0.072661	0.172934
4	0.254895	2.612656	1.156044	95.57276	0.134027	0.524510
5	0.278493	3.700503	0.883386	94.64282	0.145437	0.627851
6	0.296070	3.777641	0.969821	94.15342	0.116830	0.982292
7	0.310759	4.122375	1.557081	92.55749	0.103413	1.659642
8	0.324473	4.554913	2.572687	90.17102	0.198260	2.503125
9	0.338285	4.802448	3.568065	87.76909	0.318178	3.542224
10	0.351905	5.084978	4.476123	85.23047	0.460586	4.747837

Variance Decomposition of IHSG:

Period	S.E.	INF	PDB	SUN	IHSG	BI7DRR
1	0.010397	0.525052	3.700910	0.973062	94.80098	0.000000
2	0.019175	2.198988	2.607603	1.438508	93.61799	0.136910
3	0.028653	2.007207	1.864384	1.855630	93.47282	0.799961
4	0.035195	1.406128	1.323434	2.615391	93.39887	1.256182
5	0.040029	1.119690	1.194419	2.972790	93.03041	1.682688
6	0.043332	0.986923	1.318138	2.931153	92.64083	2.122957
7	0.046226	0.861751	1.437953	2.830128	92.40490	2.465271
8	0.049099	0.770391	1.473792	2.720486	92.35299	2.682336
9	0.052380	0.711533	1.413108	2.592580	92.50518	2.777598
10	0.056002	0.664343	1.324567	2.479814	92.76325	2.768025

Cholesky One S.D. (d.f. adjusted) Innovations
Cholesky ordering: INF PDB SUN IHSG BI7DRR

The results of the Vector Error Correction Model (VECM) estimation and Impulse Response Function (IRF) analysis in this study support this theoretical framework. BI Rate shocks have been proven to significantly increase inflation in the short term, but have the effect of suppressing GDP in the medium term. The IRF curve shows that inflation responds positively to benchmark interest rate shocks because production costs rise and inflation expectations worsen, while output (GDP) declines several quarters later, reflecting the contractionary effect of monetary policy on the real sector(Lütkepohl, 2005). This impact illustrates the classic trade-off of monetary policy: efforts to stabilize prices with high interest

rates must be paid for with economic slowdown. The results of the Forecast Error Variance Decomposition (FEVD) also reinforce the dominance of the conventional channel—more than 40% of inflation variation over a 10-period horizon is explained by BI Rate innovation (shocks), far greater than the contribution of other variables. Similarly, shocks to the IHSG and SUN yields have a significant impact on output and inflation variability, indicating the importance of conventional capital and bond markets in monetary policy transmission. Conversely, during this period, sharia variables such as SBSN, SukBI, and JII have not shown a significant contribution to short-term FEVD. The Granger causality test is also consistent: BI interest rates and the IHSG significantly cause changes in inflation and growth, while sharia instruments do not yet have a strong causal relationship (Warjiyo & Juhro, 2019).

The monetary policy transmission mechanism during the presidency of Susilo Bambang Yudhoyono (SBY) was heavily dominated by conventional channels; the BI Rate benchmark interest rate, SUN government bonds, and the IHSG stock market became the main links between monetary policy and the real economy (B. S. Bernanke & Gertler, 1995; Mishkin, 1995). Indonesia's macroeconomic conditions during this period showed fairly high GDP growth, averaging around 5.8% per year, but with relatively high inflation in the range of 6–7% per year. Inflation even rose sharply to 17.1% in 2005 following an increase in fuel prices as part of subsidy reforms, and to around 11% in 2008 when global oil and food commodity prices rose sharply amid the global crisis. These energy and food price shocks, coupled with exchange rate pressures, caused Indonesia's inflation in 2008 to be well above Bank Indonesia's target of 6±1% (Bank Indonesia, 2025). At the peak of the 2008 global crisis, the rupiah depreciated sharply to around Rp12,000 per US dollar, the Jakarta Composite Index (IHSG) fell nearly 50% from its highest level, and there was a massive capital outflow that triggered panic in the domestic financial market (World Bank, 2009) GDP growth in 2009 slowed to 4.6% (from >6% previously), indicating the strong impact of financial turmoil on the real economy (Mishkin, 1995).

From a literature perspective, conditions in Indonesia during the SBY era are in line with the findings of(B. S. Bernanke & Gertler, 1995), which emphasize that the effectiveness of the asset price channel is highly dependent on the depth of financial markets and financial infrastructure. Developing countries with shallow markets tend to rely on the interest rate channel as the main instrument of monetary transmission. Mishkin (1995) also asserts that in emerging markets, limited diversification of instruments causes the interest rate channel to remain dominant. Cecchetti (1999) adds that changes in asset prices strengthen monetary transmission through the effects of wealth on consumption and capital costs on investment. In the Indonesian context, this effect works strongly through fluctuations in the Jakarta Composite Index (which affects the wealth of domestic investors) and Government Securities (which affect government borrowing costs and credit interest rates). In addition, the financial accelerator phenomenon proposed by Bernanke, Gertler, and Gilchrist (1996) is also apparent: the decline in asset prices and the weakening of corporate and household balance sheets

after the 2008 crisis exacerbated the credit contraction, amplifying the initial shock (Kiyotaki & Moore, 1997). However, because Indonesia's financial system at that time was still dominated by conventional banks with limited credit coverage, this accelerator effect was felt more by sectors connected to the capital market, while the MSME and informal sectors were relatively more resilient due to their dependence on non-market financing (Ascarya, 2012).

2. Shariah Channel

Stationarity Test

Table 4. Stationarity Test SBY Sharia

No	Variabel	Uji Augmented Dickey-Fuller*)			
		Level		First Different	
		t-Stat	Significance	t-Stat	Significance
1	Inflasi	-2.786911	0.0629*	-7.943847	0,0000
2	PDB	-2.687478	0.0791*	-1.620082	0.4692*
3	SUKBI	-1.691471	0.4332*	-11.20486	0.0000
4	JII	-1.665616	0.4463*	-8.950648	0,0000
5	SBSN	-0.250889	0.9277*	-11.62725	0,0000
No	Variabel	Uji Phillips-Perron***)			
		Level		First Different	
		t-Stat	Significance	t-Stat	Significance
1	Inflasi	-1.967404	0,1069*	-12.25513	0,0000
2	PDB	-1.078056	0,8065*	-6.847333	0,0000
3	SUKBI	-1.695289	0.4313*	-11.44748	0,0000
4	JII	-1.652235	0,4531*	-9.071809	0,0000
5	SBSN	-0.180028	0.9369*	-11.64587	0,0000

Cointegration Test

Table 5. Cointegration Test SBY Sharia

Hypothesied No. of CE(s)	Eigenvalue	Trace			Maximum Eigenvalue		
		Trace Statistic	0,05 Critical Value	p-value	Max-Eigen Statistic	0,05 Critical Value	p-value
None	0.297302	107.8736	69.81889	0.0000*	44.80922	33.87687	0.0017*
At Most 1	0.230343	63.06440	47.85613	0.0010*	33.24997	27.58434	0.0084*
At Most 2	0.125548	29.81443	29.79707	0.0498*	17.03812	21.13162	0.1702
At Most 3	0.062275	12.77631	15.49471	0.1233	8.165919	14.26460	0.3621
At Most 4	0.035651	4.610395	3.841465	0.0318*	4.610395	3.841465	0.0318*

(*)The existence of cointegration

The results of the Johansen Cointegration Test on the Islamic monetary system in the era of President SBY's administration show that there are several significant cointegration relationships between variables. The Trace Test consistently rejects the null hypothesis of several orders, signaling the existence of more than one cointegration vector, while the Maximum Eigenvalue Test provides partial support for the findings. Overall, these results confirm a stable long-term relationship between Islamic monetary instruments, Islamic asset prices, and macroeconomic variables. These findings show that the transmission mechanism of Islamic monetary policy in the SBY era has formed a long-term equilibrium, so the use of the Vector Error Correction Model (VECM) is considered appropriate to analyze the dynamics of short-term adjustments in the system.

Impluse Response Function & Forecast Error Variance Decomposition

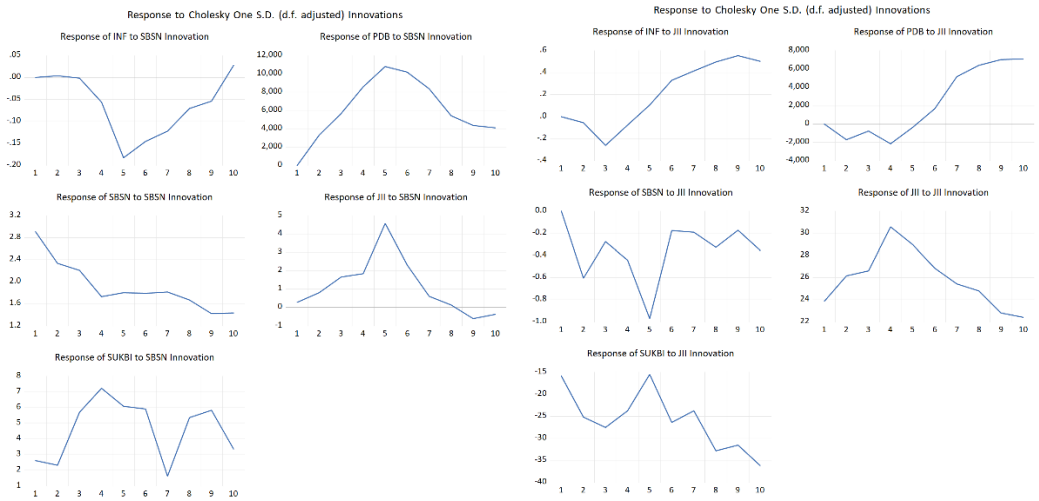

Figure 4. Response Function (IRF) Results SBY Sharia

Table 6. FEVD Test SBY Sharia

Variance Decomposition of SBSN:						
Period	S.E.	INF	PDB	SBSN	JII	SUKBI
1	1.168120	0.242060	0.971674	98.78627	0.000000	0.000000
2	1.894441	0.195159	2.650781	94.65672	2.497057	0.000287
3	2.480747	0.320051	5.295720	92.14565	2.178719	0.059863
4	2.955941	0.290210	9.685642	87.33323	2.565538	0.125377
5	3.400986	0.247250	11.01872	83.34612	5.273638	0.114265
6	3.764466	0.371117	10.08988	84.55130	4.837299	0.150403
7	4.107655	0.942377	9.911824	84.46273	4.424336	0.258729
8	4.457841	1.557360	11.24697	82.40358	4.223601	0.568486
9	4.771774	2.260193	10.92757	81.94718	4.033974	0.831088
10	5.040424	3.138692	10.25710	81.28176	4.055562	1.266886
Variance Decomposition of JII:						
Period	S.E.	INF	PDB	SBSN	JII	SUKBI
1	15020.57	1.563418	3.952506	0.012546	94.47153	0.000000
2	29513.72	3.099492	1.992985	0.054365	93.84856	1.004594
3	44701.27	3.183324	1.482066	0.162584	92.59350	2.578529
4	54332.39	3.178002	1.061682	0.214976	91.29459	4.250751
5	61725.42	3.661442	1.418763	0.663437	89.45775	4.798609
6	66663.71	4.765479	2.258883	0.645597	87.15711	5.172927
7	70756.69	6.034652	3.465464	0.545914	83.46157	6.492398
8	73782.60	7.387614	4.120386	0.472185	80.84458	7.175240
9	76412.36	9.005233	4.565684	0.424758	78.48836	7.515963
10	78488.86	10.42997	4.771216	0.385022	76.54890	7.864893
Cholesky One S.D. (d.f. adjusted) Innovations						
Cholesky ordering: INF PDB SBSN JII SUKBI						

The results of this study In the short term, the impact of SBSN, SukBI, and JII on inflation and GDP is not statistically significant. This means that changes in SBSN yields or movements in the JII index have not had a real impact on key macroeconomic variables. This can be explained by the small volume of SBSN, which has not yet become a benchmark for determining Islamic bank financing rates, and the JII, whose movements are highly correlated with the IHSG, so that it does not yet reflect the dynamics of the Islamic market independently (Warjiyo & Juhro, 2019). Nevertheless, the cointegration test results show the emergence

of a long-term relationship between Islamic instruments and macroeconomic variables. For example, there are indications of a weak cointegration relationship between outstanding SBSN and GDP and inflation, which signifies that the seeds of Islamic monetary transmission are beginning to grow, although their contribution is still limited. In other words, over time, Islamic instruments are building a fundamental relationship with the national economy, but in the SBY era, their position has only reached the initial stage of systemic development.

Sharia instruments began to be developed during the era of President Susilo Bambang Yudhoyono (SBY), but their role in monetary transmission was still very limited during this period. The Indonesian government first issued State Sharia Securities (SBSN) in 2008 with a value of around Rp4.7 trillion, marking the birth of sharia-based government bonds (The Minister Of Finance, 2009). At the same time, Bank Indonesia introduced the Bank Indonesia Sharia Certificate (SBIS), also known as SukBI, as a sharia monetary operation tool (Bank Indonesia, 2025) In addition, the Jakarta Islamic Index (JII) has existed in the capital market since 2000, covering 30 leading sharia stocks and serving as an early indicator of the development of the national sharia capital market (IDX, 2025). However, until the early 2010s, the share of sharia instruments in the Indonesian financial system was still relatively small. The liquidity of SBSN and SBIS was low, the base of Islamic investors was still narrow, and the market capitalization of Islamic stocks was relatively shallow compared to the IHSG as a whole. As a result, the Islamic asset price channel was not yet able to function as an effective monetary transmission channel during the SBY era (Ascarya, 2014).

The limitations of the role of Islamic channels during the SBY era are in line with Chapra et al. (2018) view that in developing countries, Islamic financial systems in their early stages require market deepening, regulatory support, and instrument innovation in order to function effectively. Without these elements, Islamic instruments tend to be merely complementary and are not yet capable of substantially transmitting monetary policy (Ascarya, 2012; M. U. Chapra, 2001). Although its role was small, the foundation of Sharia in the SBY era had strategic significance. From the perspective of maqāṣid al-syarī'ah, this period was a phase of laying the groundwork for a more equitable monetary system oriented towards social welfare. The presence of SBSN and SukBI marked the first steps towards riba-free and real asset-based government financing in line with the principles of ḥifẓ al-māl (protection of public assets) and maṣlaḥah 'āmmah (public interest) through the use of sukuk funds for public projects (Iqbal & Mirakhor, 2011). Although still small in scale, these sharia instruments open up access to halal investment for the Muslim community, increase sharia financial inclusion, and introduce a profit-loss sharing mechanism in the government financial system (Karim, 2007).

B. The Administration of President Joko Widodo

1. Conventional Channel

Stationarity Test

Table 7. Stationarity Test Jokowi Conventional

No	Variabel	Uji Augmented Dickey-Fuller*)			
		Level		First Different	
		t-Stat	Signifikansi	t-Stat	Signifikansi
1	Inflasi	-1.642250	0.4579*	-9.487454	0,0000
2	PDB	-0.324147	0.9166*	-1.987840	0.2918*
3	BI7DRR	-1.785643	0.3860*	-6.349149	0.0060
4	IHSG	-1.314424	0.6213*	-9.648127	0,0000
5	SUN	-0.667820	0.8497*	-11.17706	0,0000
No	Variabel	Uji Phillips-Perron			
		Level		First Different	
		t-Stat	Signifikansi	t-Stat	Signifikansi
1	Inflasi	-1.951792	0.3078*	-9.660544	0,0000
2	PDB	-1.020082	0.7445*	-4.807523	0,0001
3	BI7DRR	-1.930218	0.3175*	-6.461529	0,0000
4	IHSG	-1.314424	0.6213*	-9.646320	0,0000
5	SUN	-0.666125	0,8501*	-9.606704	0,0000

Cointegration Test

Hypothesied No. of CE(s)	Eigenvalue	Trace			Maximum Eigenvalue		
		Trace Statistic	0,05 Critical Value	p-value	Max-Eigen Statistic	0,05 Critical Value	p-value
None	0.309475	123.8190	76.97277	0.0000*	42.58485	34.80587	0.0049*
At Most 1	0.246697	81.23419	54.07904	0.0000*	32.57814	28.58808	0.0146*
At Most 2	0.174602	48.65605	35.19275	0.0010*	22.06730	22.29962	0.0538
At Most 3	0.118393	26.58875	20.26184	0.0058*	14.49097	15.89210	0.0819
At Most 4	0.099854	12.09778	9.164546	0.0135*	12.09778	9.164546	0.0135*

(*)The existence of cointegration

The results of the Maximum Eigenvalue test in the era of President Jokowi's administration (conventional system) show the existence of two significant cointegration vectors. In the *None* and *At Most 1 hypotheses*, the Max-Eigen Statistic value each exceeds the critical value of 5% with a significant p-value, so the null hypothesis is rejected. However, on the *At Most 2* hypothesis onwards, the statistical value is not significant, indicating the absence of additional cointegration vectors. These findings confirm the existence of two stable long-term relationships between inflation variables, GDP, SUN, IHSG, and BI7DRR, so that the use of the Vector Error Correction Model (VECM) is appropriate to capture the short-term adjustment mechanism towards long-term balance in the conventional system of the Jokowi era.

Impluse Response Function & Forecast Error Variance Decomposition

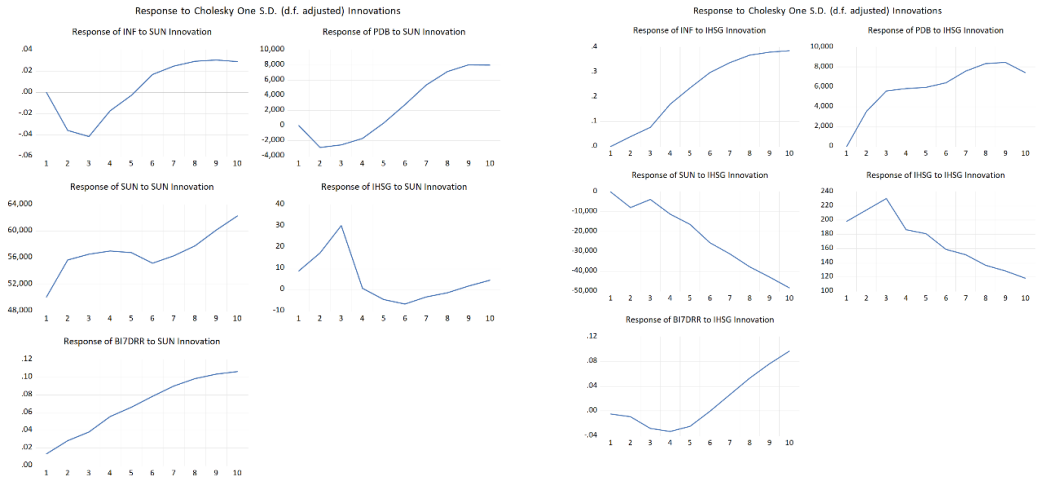

Figure 5. Response Function (IRF) Results Jokowi Conventional

Table 8. FEVD Test Jokowi Conventional

Variance Decomposition of SUN: Period	S.E.	INF	PDB	SUN	IHSG	BI7DRR
1	0.365300	0.871068	1.496916	97.63202	0.000000	0.000000
2	0.529020	0.861083	0.772875	97.18341	1.083056	0.099575
3	0.637436	1.670199	0.621080	96.77339	0.855818	0.079514
4	0.759200	3.740871	1.133787	93.25222	1.581416	0.291708
5	0.880944	4.898012	1.887446	89.84648	2.789395	0.578669
6	1.008866	4.979871	3.102704	85.72575	5.290820	0.900859
7	1.138808	4.753150	4.108602	82.01696	8.034338	1.086946
8	1.266508	4.326216	4.811465	78.53828	11.16119	1.162848
9	1.384066	3.865305	4.969362	75.74640	14.26736	1.151580
10	1.491147	3.426830	4.857369	73.20516	17.42320	1.087434
Variance Decomposition of IHSG: Period	S.E.	INF	PDB	SUN	IHSG	BI7DRR
1	19901.29	0.410922	1.805570	0.189372	97.59414	0.000000
2	36259.08	0.206258	1.375348	0.432178	97.98533	0.000883
3	52800.87	0.126749	1.274873	0.899439	97.42279	0.276144
4	63902.90	0.564479	1.408481	0.712043	96.47604	0.838959
5	71660.16	1.176957	1.352804	0.602655	95.48440	1.383181
6	76768.10	1.956483	1.239681	0.549065	94.36470	1.890071
7	80796.96	2.850147	1.227418	0.497021	93.11906	2.306356
8	84310.31	3.792417	1.356709	0.456561	91.65793	2.736386
9	87706.30	4.571557	1.389663	0.426099	90.53470	3.077985
10	91080.14	5.294392	1.405383	0.407582	89.50466	3.387979

Cholesky One S.D. (d.f. adjusted) Innovations
Cholesky ordering: INF PDB SUN IHSG BI7DRR

The IRF results show that the shock to SUN initially suppressed inflation before rebounding, driving recovery and GDP increases, and was responded to by a steady increase in BI7DRR. Meanwhile, the JCI shock persistently increased inflation, strengthened GDP growth, and put a sharp pressure on SUN. The results of the FEVD confirm that the SUN and JCI variance are still dominated by their respective shocks, but the cross-contribution increases over time, especially the role of JCI in SUN variance and the increasing influence of macro variables on JCI. These findings show the strengthening of bond and stock market integration and

the increasing sensitivity of the stock market to macroeconomic conditions and Bank Indonesia's monetary policy during the Jokowi era.

Entering the era of President Joko Widodo (Jokowi), the monetary policy transmission mechanism in Indonesia shows a structurally different pattern compared to the previous era. Although conventional channels (interest rates, SUN, and IHSG) still play a significant role, the role of sharia channels has increased rapidly so that monetary transmission has become more balanced and responsive to economic dynamics. Macroeconomically, Indonesia's GDP growth during the Jokowi era has been relatively stable at around 5% per year (for example, 5.03% in 2016 and 5.17% in 2018), while inflation was successfully kept below 3.5% per year, much lower than the average inflation during the SBY era, which was often above 6% (Bank Indonesia, 2022). In fact, inflation reached a historic low of 1.68% (YoY) in 2020 amid weakening demand due to the COVID-19 pandemic, then stabilized again at around 2–3% after 2021 (BPS, 2024). This success in maintaining price stability reflects the effectiveness of monetary policy during the Jokowi era in managing inflation expectations, supported by policy coordination between Bank Indonesia, the government, and the OJK in maintaining administered prices and exchange rate stability (Warjiyo & Juhro, 2019).

The Jokowi era was also marked by several major external shocks that tested the resilience of Indonesia's monetary transmission mechanism. The 2013 taper tantrum phenomenon did occur at the end of the SBY era, but its impact continued into early 2014 and became the first test for the Jokowi administration. Meanwhile, global monetary tightening in 2018, often referred to as the 2018 taper tantrum, put strong pressure on developing countries, including Indonesia. When the Federal Reserve aggressively raised interest rates and reduced global liquidity, there was capital outflow from emerging markets. As a result, the rupiah depreciated to nearly IDR 15,000 per USD in October 2018, its lowest level since the 1998 crisis, and SUN yields rose significantly (Sakuntala, 2020). Bank Indonesia responded decisively, raising the BI7DRR six times from 4.25% in early 2018 to 6.00% at the end of 2018, accompanied by interventions in the foreign exchange and bond markets (Warjiyo & Juhro, 2019).

The COVID-19 pandemic crisis in 2020–2021 was the most severe test of the effectiveness of monetary transmission during the Jokowi era. Unlike the 2008 crisis, which originated in the financial sector, the pandemic crisis began with shocks to the real sector due to restrictions on economic activity (lockdowns), which then spread to the financial sector (OECD, 2008). The Indonesian economy contracted by -2.1% in 2020, the first contraction since the 1998 crisis (BPS, 2024). Inflation fell sharply to 1.68% (YoY) in 2020 due to weak aggregate demand (Setiawan & Karsinah, 2016),while the fiscal deficit widened to 6.1% of GDP due to large expenditures for pandemic management and social assistance. Faced with these conditions, Bank Indonesia aggressively loosened monetary policy by lowering the BI7DRR by a total of 150 basis points throughout 2020 to reach 3.50%, which is the lowest level in history (Bank Indonesia, 2021). In addition, BI implemented an Indonesian version of quantitative easing, namely purchasing

conventional (SUN) and sharia (SBSN) Government Securities (SBN) directly on the primary and secondary markets to support fiscal financing through the National Economic Recovery Program (PEN) scheme.

Overall, monetary policy transmission in the Jokowi era has been more effective and controlled. Bank Indonesia has been able to lower interest rates without causing inflation spikes thanks to the credibility of its policies and strong inflation expectations anchoring. The deepening domestic bond market has enabled the government to issue large volumes of government securities without excessive pressure on long-term interest rates. Financial sector reforms and money market deepening have also moderated the financial accelerator (B. S. Bernanke et al., 1999). Whenever asset prices decline, swift and countercyclical policy responses have been able to contain the effects of the decline so that they do not prolong and worsen the economic cycle. In addition, improved stability in the banking and corporate sectors after 2015 with NPL/NPF ratios below 3% and CAR above 20% indicates a more resilient financial system (OJK, 2025). Thus, it can be concluded that conventional channels remain the backbone of monetary transmission in the Jokowi era, but are now supported by a more mature policy, institutional, and market structure, enabling transmission to be faster, more effective, and more stable.

2. Sharia Channel

Stationarity Test

Table 9. Stationarity Test Jokowi Sharia

No	Variabel	Uji Augmented Dickey-Fuller*)			
		Level		First Different	
		t-Stat	Signifikansi	t-Stat	Signifikansi
1	Inflasi	-1.642250	0.4579*	-9.487454	0,0000
2	PDB	-0.324147	0.9166*	-1.987840	0.2918*
3	SUKBI	-0.804268	0.8140*	-12.61242	0.0000
4	JII	-1.507729	0.5264*	-10.37472	0,0000
5	SBSN	-2.316149	0.1686*	-15.70555	0,0000
No	Variabel	Uji Phillips-Perron***)			
		Level		First Different	
		t-Stat	Signifikansi	t-Stat	Signifikansi
1	Inflasi	-1.951792	0.3078*	-9.660544	0,0000
2	PDB	-1.020082	0.7445*	-4.807523	0,0001
3	SUKBI	-0.674851	0.8480*	-12.66193	0,0000
4	JII	-1.507729	0.5264*	-10.36441	0,0000
5	SBSN	-2.832446	0.0568*	-16.24487	0,0000

Cointegration Test

Hypothesied No. of CE(s)	Eigenvalue	Trace			Maximum Eigenvalue		
		Trace Statistic	0,05 Critical Value	p-value	Max-Eigen Statistic	0,05 Critical Value	p-value
None	0.260282	89.71457	69.81889	0.0006*	33.57534	33.87687	0.0311*
At Most 1	0.210607	54.13923	47.85613	0.0155*	27.90587	27.58434	0.0455*
At Most 2	0.146173	26.23335	29.79707	0.1218	18.64721	21.13162	0.1075
At Most 3	0.053484	7.586144	15.49471	0.5107	6.486182	14.26460	0.5516
At Most 4	0.009278	1.099962	3.841465	0.2943	1.099962	3.841465	0.2943

(*)The existence of cointegration

The results of the Johansen Cointegration Test in the era of President Jokowi's administration with a sharia approach show that there are two significant long-term relationships between inflation variables, GDP, SBSN, JII, and SukBI. The Trace Test rejects the null hypothesis on *None* and *At most 1* because the statistical value exceeds the critical value of 5%, while on the next hypothesis it is no longer significant. This finding was confirmed by the Maximum Eigenvalue Test, which also showed significance up to *At most 1* and found no additional cointegration vectors. Overall, these results confirm the existence of two stable cointegration vectors in the Islamic monetary system in the Jokowi era, so the use of the Vector Error Correction Model (VECM) is considered appropriate to analyze the dynamics of short-term adjustment to long-term equilibrium.

Impluse Response Function & Forecast Error Variance Decomposition

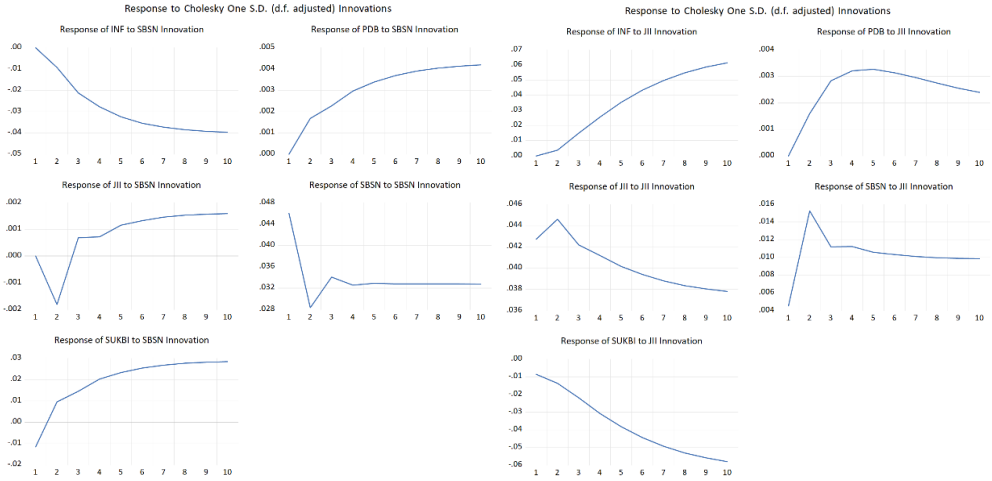

Figure 5 Response Function (IRF) Results Jokowi Sharia

Table 10. FEVD Test Jokowi Sharia

Variance Decomposition of JII:						
Period	S.E.	INF	PDB	JII	SBSN	SUKBI
1	0.106068	0.631219	0.015567	99.35321	0.000000	0.000000
2	0.148476	0.755771	0.050518	99.02614	0.085535	0.082038
3	0.182702	0.993790	0.123780	98.38999	0.066435	0.426004
4	0.216293	1.042632	0.297550	97.84912	0.057700	0.752995
5	0.250912	1.059237	0.529592	97.23128	0.061710	1.118179
6	0.286537	1.051618	0.802367	96.59929	0.068508	1.478216
7	0.322582	1.034249	1.091946	95.97449	0.076605	1.822712
8	0.358407	1.012371	1.381860	95.37978	0.084431	2.141562
9	0.393509	0.989298	1.660579	94.82732	0.091560	2.431248
10	0.427559	0.966663	1.921440	94.32296	0.097824	2.691109
Variance Decomposition of SBSN:						
Period	S.E.	INF	PDB	JII	SBSN	SUKBI
1	0.007808	0.001560	0.981963	0.954260	98.06222	0.000000
2	0.015003	0.200186	0.744574	7.803321	90.03075	1.221166
3	0.021698	0.164814	0.581424	8.345177	89.97281	0.935773
4	0.027673	0.134492	0.633221	8.795779	89.61959	0.816920
5	0.032886	0.114233	0.729488	8.864544	89.58900	0.702738
6	0.037441	0.103996	0.853364	8.858804	89.56647	0.617368
7	0.041453	0.098122	0.977030	8.809514	89.56577	0.549565
8	0.045031	0.095064	1.092664	8.750540	89.56618	0.495553
9	0.048265	0.093470	1.196259	8.691472	89.56712	0.451678
10	0.051226	0.092701	1.287346	8.637153	89.56728	0.415521

Cholesky One S.D. (d.f. adjusted) Innovations
Cholesky ordering: INF PDB JII SBSN SUKBI

The IRF results show that the shock in SBSN lowers inflation and encourages a stable increase in GDP, reflecting the role of SBSN as an instrument of stability in Islamic monetary transmission. Meanwhile, the JII shock boosted inflation and boosted GDP growth temporarily. The FEVD results confirm that the JII variance is still heavily dominated by its own shocks, although the contribution of other variables is increasing, suggesting a self-driven sharia stock market. SBSN variance also remained dominated by internal shocks despite increased external contributions, confirming SBSN's role as an anchor of fiscal-monetary stability in the Islamic financial system in the Jokowi era.

One of the most notable changes during Joko Widodo's (Jokowi) era has been the strengthening of monetary transmission channels through sharia instruments. Between 2014 and 2022, Indonesia's sharia financial industry grew rapidly, driven by government commitment and pro-sharia regulations. the launch of the 2019–2024 Indonesian Sharia Economic Masterplan (MEKSI) served as a catalyst for acceleration, followed by institutional strengthening through the establishment of KNEKS and various policy incentives (KNEKS, 2022; Warjiyo & Juhro, 2019). Outstanding SBSN increased dramatically in line with pro-infrastructure financing strategies: the government routinely issued state sukuk for project financing and for retail investors (SR/ST). From the perspective of the Islamic capital market, the capitalization of Islamic stocks as reflected in the JII and ISSI continues to increase in line with the growing number of issuers that meet Islamic criteria and the expansion of the retail investor base (IDX, 2025; OJK, 2025). The government is also promoting corporate sukuk and innovative instruments such as Wakaf Linked Sukuk, making the price of Islamic assets increasingly relevant as an indicator of financial conditions. The decline in the JII now more clearly reflects the sentiment of Islamic market participants and may affect the confidence of Muslim consumers/investors, which in aggregate has an impact on domestic demand. conversely, changes in SBSN yields which move closely with SUN due to global comparisons affect sharia fund prices (e.g., deposit profit sharing and financing margins), so that sharia asset price channels are increasingly integrated with overall monetary transmission in the Jokowi era (Mishkin, 2019; Warjiyo & Juhro, 2019)

The econometric estimates in this study clearly show an increase in the role of the Islamic channel. The IRF during Jokowi's term indicates that shocks to SBSN have a significant positive impact on GDP growth, especially after 2018; that is, shocks in SBSN issuance/absorption for example, through sukuk-based fiscal stimulus can boost output, not only in the long term but also in the short term after the pandemic. This makes sense because SBSN fund allocations are largely directed towards productive projects (infrastructure, PEN programs), thereby creating a multiplier effect on GDP (*DJPPR*, n.d.; Kemenkeu RI, 2021). FEVD also shows that the contribution of sharia variables (SBSN and JII) to inflation and GDP variation has increased significantly compared to the SBY era. for example, over a 10-quarter horizon, SBSN explains ±15–20% of inflation variation in the Jokowi era (up from around ±5% in the SBY era), and JII's contribution to GDP variation is also greater, although still below the IHSG indicating a shift in the transmission

structure: the sharia channel is now integral alongside the conventional channel. The Granger causality test further reinforces this: there is two-way causality between several sharia instruments and macro variables—for example, outstanding SBSN growth significantly Granger-causes GDP growth after 2015 (government spending via sukuk drives economic activity), and GDP also Granger-causes SBSN (when the economy grows, financing needs/issuance rates can be adjusted) (Ascarya, 2014; Warjiyo & Juhro, 2019).

From an Islamic economic perspective, this dynamic shows the increasing internalization of maqāṣid al-sharī'ah in monetary and fiscal policy. Sharia instruments such as SBSN, SBIS, and JII not only function technically as transmission tools, but also carry normative implications: encouraging ḥifẓ al-māl (protection of wealth) through safe and halal investment instruments; strengthening al-'adl (distributive justice) through risk-sharing and financial inclusion (due to widespread access to retail sukuk); and advancing maṣlaḥah (public welfare) through public project financing (M. U. Chapra, 2001; Iqbal & Mirakhor, 2011). The principle of risk-sharing is increasingly accommodated: unlike conventional fixed-income bonds, sukuk based on ijarah/mudharabah contracts link returns to real assets/projects, so that performance risks are shared between the government, investors, and project implementers ((Iqbal & Mirakhor, 2011; Khan & Mirakhor, 1989).

C. Structural Differences between SBY and Jokowi's Governments

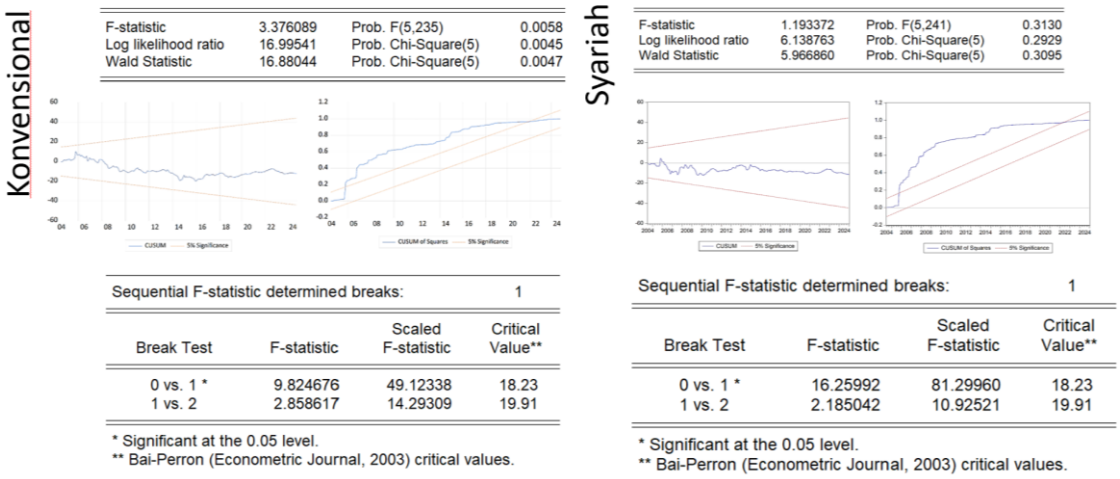

Figure 6. Structure Break Point Test

The results of this study confirm that there are significant structural differences in the mechanism of monetary policy transmission through asset prices between the era of President Susilo Bambang Yudhoyono (SBY) and President Joko Widodo (Jokowi). During the SBY era (2004–2014), the monetary transmission structure was dominated by conventional channels, while sharia channels still played a very limited role. The main focus of Bank Indonesia (BI) at that time was to control inflation through interest rate instruments (BI Rate), which were then passed on to the economy through changes in SUN yields and

IHSG performance ((Mishkin, 2019; Warjiyo & Juhro, 2019). Sharia instruments, such as SBSN and SBIS, had little influence because their market share was low and the sharia financial infrastructure was still inadequate (Ascarya, 2012). The global situation also shaped the transmission pattern during this period. The rise in oil prices in 2005, the global financial crisis in 2008, and the taper tantrum turmoil in 2013 were all responded to through conventional policies in the form of interest rate hikes and fiscal adjustments. Institutionally, sharia regulation and policy coordination were still in their infancy; for example, the National Sharia Finance Committee (KNKS) was only formed in 2016 (KNEKS, 2022), indicating that the ecosystem supporting sharia transmission was not yet strong at that time.

This finding reinforces the argument that Indonesia's monetary system during SBY's era was still centered on a one-legged system where conventional channels operated independently, while the sharia "leg" had not yet developed functionally (B. S. Bernanke & Gertler, 1995; Warjiyo & Juhro, 2019). In contrast, the Jokowi era (2014–present) has seen a more balanced, complex, and adaptive monetary transmission structure thanks to the functioning of a dual monetary system. The conventional channel remains the main driver in the short term—changes in BI7DRR quickly affect market interest rates, bond yields, and inflation expectations—but it is now accompanied by the sharia channel, which plays an increasingly important role, especially in the medium and long term (Arini & Chaidir, 2022; Susilowati & Wahyuningdyah, 2022). Empirically, sharia instruments such as SBSN and JII are able to explain variations in inflation and economic growth (GDP) in econometric models, and the results of Johansen's cointegration test show an increasingly strong long-term relationship between sharia variables and macroeconomic variables (Ariyanti, 2020; Ascarya, 2014).

In terms of monetary and development goals, this shift is highly relevant. The SBY era succeeded in restoring the economy after the 1998 and 2008 crises using conventional instruments, but still left high inflation and unequal access to financing. Meanwhile, the Jokowi era with its dual system was able to reduce inflation to a stable low level, while promoting Islamic financial inclusion through products that comply with Muslim principles (KNEKS, 2022; Warjiyo, 2004b). Normatively, these achievements are in line with maqāṣid al-syarī'ah at the macro level: ḥifẓ al-māl (protection of wealth) was achieved through price stability, an-namā' (economic growth) through expansion of the real sector, and al-'adl (distributive justice) through increased public participation in Islamic finance (I. U. Chapra et al., 2018; Iqbal & Mirakhor, 2011).

The results of this study confirm that there has been a significant structural transformation in Indonesia's monetary policy transmission mechanism between the SBY and Jokowi eras. The research hypothesis that there are differences in transmission patterns through asset prices between the two eras has been proven correct. The SBY era laid the foundation with the dominance of conventional instruments, while the Jokowi era has moved towards a more balanced, resilient, and inclusive dual monetary system. These findings are consistent with global literature that highlights the synergy between

conventional and Islamic financial systems in strengthening economic stability (Iqbal & Mirakhor, 2011; Kiaee, 2007). For Indonesia, the implication is clear: there is great potential to optimize both channels simultaneously. Future monetary policy can expand the policy toolkit, including sharia open market operations alongside conventional ones, so that monetary transmission can more effectively reach all segments of the economy (Juhro et al., 2025; Sukmana & Ascarya, 2010).

With this combination, the goals of economic stability and growth can be achieved sustainably, in accordance with modern economic principles and Islamic economic values. Indonesia has transformed from a monetary system dominated by conventional instruments to a more balanced and resilient dual system; the experience of facing the 2020 pandemic crisis shows that this dual monetary system not only survived but actually strengthened the resilience of the national economy (Sukmana & Ascarya, 2010; Warjiyo et al., 2016) This model has now become an important empirical reference for other countries developing hybrid monetary systems, as it has proven capable of combining economic stability and fairness within a single adaptive and inclusive policy framework.

CONCLUSION

The results of this study indicate a structural transformation in Indonesia's monetary policy transmission mechanism, from a single-engine conventional system in the SBY era (2004–2014), primarily through policy interest rates and conventional asset prices (SUN, IHSG), to a dual-engine system in the Jokowi era (2014–present). During the Jokowi era, although conventional channels remained dominant in the short term, sharia channels (SBSN, sharia stock index) strengthened significantly and played a key role in shaping inflation-output dynamics in the medium-to-long horizon, exhibiting a more rapid and significant impact on output than before, particularly through financing productive projects. This shift increased systemic resilience to external shocks. Theoretically, these findings enrich the understanding of the asset price channel in the dual system, support the hybrid monetary-fiscal transmission model, and confirm that transmission effectiveness is endogenous. For policy, this study recommends strengthening the credibility of BI's signals, deepening Islamic monetary operations, managing the SUN-SBSN issuance mix, developing Islamic market infrastructure, and designing a condition-based integrated macro coordination (policy mix). Limitations of the study include the limited initial Islamic data coverage and the linearity assumption of the model (VECM). Future recommendations focus on developing a time-varying parameter methodology, integrating other transmission channels (exchange rates, credit), and evaluating distributional impacts and sustainability.

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