

# Index

*Note:* Page numbers followed by “*n*” with numbers indicate footnotes.

- Academic thinking, 6–9
- Accountability, 40–41, 241, 265–266, 286, 292*n*3, 335, 341–342, 361
- Accountable central bank, 350
- Ad hoc*
  - models, 288
  - role, 408
- Adaptive expectations formation, 88
- Administered prices (AP), 180, 237, 265, 312
- Administrative instruments, 413
- Adverse selection bias, 72
- Aggregate demand (AD), 164, 287
  - curve, 88
  - shock, 63
- Aggregate Rational Inflation–Targeting Model for Bank Indonesia model (ARIMBI model), 267, 288
- Aggregate supply (AS), 146
- Amalgamating MPTM analysis, 133–134
- American Deposit Receipts (ADR), 415
- Amplification, 129
- Annual Development Plan, 268
- Annual Financial Statements of Bank Indonesia, 346
- Annual monetary base targets, 268*n*9
- Argentina, monetary policy regime in, 182–183
- Asian Financial Crisis (1997/1998), 27, 35, 106, 111, 116, 151–152, 155, 262, 268, 271, 315, 401, 424, 441–442, 503–504
- Asset price channel, 126–127, 351
  - in EMEs, 145–146
  - in Indonesia, 152
- Asset prices, 140, 480
  - booms, 473
  - bubbles, 424, 436, 440, 465
- Asset(s)
  - bank, 491
  - market prices, 439
  - portfolios, 28
  - securitization, 142–143
- Authority theory, 328–331
- Automated teller machines (ATM), 5, 38, 190
- Back-of-the-envelope approach, 175
- Backward-looking Taylor rule, 212
- Bagehot’s Rule, 23
- Balance of payments (BOP), 22, 81, 85, 86*n*6, 117, 177, 216, 288, 388, 424
- Balance sheet
  - conditions, 490
  - constraint, 494
- Balance sheet channel, 132, 154–155
  - collateral constraints, 134–137
  - in EMEs, 146–149
  - external finance premium, 133–134
- Balassa-Samuelson effect, 127
- Bank for International Settlements (BIS), 26*n*2, 32, 36, 430–431, 463
- Bank Indonesia (BI), 3–4, 15–16, 110–111, 345
  - communication strategy, 382–384
  - independence and accountability, 344–346
  - officers, 345

- Bank Indonesia Act (BI Act), 111, 179*n*9, 186, 261–264, 266, 380, 382
  - amendments to, 283–286
  - aspects for, 271
  - Board of Governors, 273
  - macroeconomic models, 287–288
  - rate consistency, 279
  - surveys, 267
- Bank Indonesia Certificates (SBI), 67, 69, 152, 189, 218, 285, 439, 510
- Bank Indonesia Facilities (FASBI), 218
- Bank Indonesia policy mix, 502
  - foreign capital flow management, 510–511
  - institutional arrangements, 513–514
  - interest rate and exchange rate policies, 507–510
  - macroprudential policy, 511–513
  - policy mix targets and instruments, 504–507
- Bank lending, 50
  - behavior, 76, 130
  - channel, 130–131, 151, 154–155
- Bank Negara Indonesia (BNI), 21
- Bank of Canada, 490
- Bank of England (BoE), 20–21, 207, 307, 447, 450
- Bank of Japan (BOJ), 26, 215, 358, 487–488
- Bank(ing)
  - assets, 491
  - BANK-optimal rate, 73
  - behavior, 71–74
  - capital channel, 130–132
  - credit growth, 457
  - crisis, 442
  - deregulation policy, 189
  - industry, 493–497
  - interest rate regulations, 398
  - intermediation function, 219
  - regulatory policy, 76–77
  - role, 70
  - sector, 272
  - supply function, 131
  - survey, 267
- Bankruptcy, 444
- Barro-Gordon model, 301–304
  - standard linear quadratic model, 315
- Basel Committee on Banking Supervision (BCBS), 26*n*2
- Baseline ITF macroeconomic model, 230–231
- Bayes rule, 58
- Behavioral Model of Effective Exchange Rate (BEER), 287*n*22
- Bipolarization, 103–105
- BI–Scripless Securities Settlement System (BI-S4), 37
- Board of Governors meeting (RDG), 287
- Bonds, 463
- Boom-bust financial cycle, 425
- Brazil, Foreign CFM effectiveness in, 414–415
- Bretton Woods system, 25–26
  - period (1959–1970), 403
- Business
  - cycle, 439
  - decisions without collateral constraints, 136
  - failure, 131
  - survey, 267
- Capital, 486–487
  - account management, 99
  - capital-based bank, 154–155
  - controls, 403, 411, 412–414
  - mobility, 403
- Capital adequacy ratio (CAR), 121, 132, 416
- Capital flow management (CFM), 387
- Capital flows, 84
  - macroprudential regulations on, 415–416
  - management, 34
  - volatility, 400–402, 413–414

- Capital market
  - barriers, 84*n*5
  - development, 190
  - function, 147–148
- Capital requirements, 436–437, 471, 484–485
  - constraint, 494
- Cash-in-advance constraint (CIA constraint), 71*n*7
- CCB (*see* Countercyclical capital buffer (CCyB))
- Central bank, 10–11, 36, 216, 243, 266, 270–271, 357, 372, 387, 452
  - academic thinking, political economy and, 6–9
  - aspects and goals of, 21–22
  - assessment, 362
  - behavior, 354
  - credibility, 40–41, 103*n*9, 293
  - and economy, 4–6
  - evolution, 20
  - exchange rate stability and foreign capital flows, 34–39
  - GFC, 19–20, 28–31
  - gold standard era and real bills doctrine, 22–24
  - under government control, 24–26
  - inflation targeting, 26–28
  - institute monetary policy, 461
  - institutional arrangements and coordination, 43–44
  - institutional reform, 39–44
  - leaders, 186
  - legal monetary policy framework, 180
  - LOLR, 20–21
  - loss function, 231
  - macroprudential policy, 431–435
  - monetary and financial system stability, 35–36
  - monetary operations, 90–93
  - monetary policy, price stability, and exchange rates, 32–33
  - observers, 365
  - payment systemic stability, 36–39
  - policy, 3
  - policy reform, 31–39
  - role in FSS, 429–431
  - transparency and communication, 41–43
- Central Bank Act, 187
- Central bank independence and accountability, 26–28, 40–41, 226, 291*n*2, 292, 331–337
  - Bank Indonesia's independence and accountability, 344–346
  - central bank accountability theory, 331–337
  - critical issue, 339–341
  - delegation of authority theory, 328–331
  - and economic performance, 337–339
  - empirical dimensions, 320–327
  - empirical studies, 337
  - ex post* and *ex ante* accountability, 341–342
  - policy independence and credibility during crisis period, 342–344
  - theoretical models concerning, 327
- Central bank policy mix, 467
  - Bank Indonesia policy mix, 502–514
  - conceptual dimension, 463
  - DSGE model, 462
  - DSGE modeling with macrofinancial linkages, 486–502
  - formulation, 481–486, 499–502
  - integration of monetary policy and macroprudential policy, 468
- ITF, 461
  - price stability and financial system stability targets, 463–467
- structural macroeconomic modeling, 473–486, 487
- Taylor rule, 469
- transmission mechanism, 470–473

- Central banking laws, 235–236
  - in EMEs, 236
  - provisions in, 235
- Chicago Board of Exchange (CBOE), 393*n*1
- China Banking Regulatory Commission, 456
- Classical economics, 349–350
- Classical quantity theory of money, 59
- Classical theory, 11, 50–51
- Collateral constraints, 134–137, 488
- Colombia, Foreign CFM effectiveness in, 414–415
- Committee on Payments and Settlement Systems (CPSS), 26*n*2
- Communication, 41–43, 358–361
  - effectiveness, 382
  - methods, 361–362
  - monetary policy, 351
  - policy, 280
  - targets, 362–365
- Consensus Forecast (CF), 153
- Conservative agent, 328–331
- Conservative central bank, 296*n*4, 328*n*4, 365–370
- Constant elasticity of substitution (CES), 493
- Constant rule, 199
- Consumer
  - inflation expectations, 153
  - protection, 456
- Consumer Expectation Survey, 267
- Consumer price index (CPI), 65, 179, 237–238, 464
  - inflation projections, 265
- Contagion process, 427
- Core inflation, 237–238, 243, 254, 265, 276, 311–312
- Corporate
  - balance sheet channel, 147
  - investment, 125
  - technology, 57
  - transparency, 154
- Cost
  - of capital on investment, 124–125
  - of controlling inflation, 175–176
  - of crisis recovery, 28
  - of disinflationary policy, 178*n*8
- Countercyclical capital buffer (CCyB), 435, 454, 467
- Covered interest parity (CIP), 123
- Covered interest rate parity (CIRP), 84–85
- Credibility, 24, 39–41, 292, 319
  - during crisis period, 342–344
  - effort to improving, 295–298
  - index, 307–308
  - macroprudential policy, 474
  - measures, 306
  - parameterization approach, 307–308
  - problem, 293–295
  - problem analysis with supply shocks, 304–306
  - qualitative approach, 308–309
  - quantitative modeling approach, 309–311
- Credit, 491
  - availability and bank behavior, 71–74
  - booms and busts, 442–443
  - cards, 38, 79, 113
  - ceilings, 208
  - crunch, 272
  - exchange rate, 351
  - gap, 480, 481–482
  - growth, 417, 511
  - guarantees, 131
  - information system development, 77
  - market, 75, 130
  - performance, 70
  - risk, 72, 132, 505
  - risk-taking behavior, 468
  - supply function, 132
- Credit channel, 268–269, 272
  - bank, 470
  - in EMEs, 146–149
  - In Poland, 246
- Credit default orders (CDOs), 452
- Credit default swaps (CDS), 138, 393*n*2, 451
- Credit rationing, 130, 136, 439
  - equilibrium, 71–74

- Credit view of monetary transmission  
 (*see also* Money view of monetary transmission)  
 aggregate demand response, 129–130  
 balance sheet channel, 132–137  
 bank capital channel, 130–132  
 bank lending channel, 130–131  
 risk-taking channel, 137–140
- Credit-to-GDP ratio, 483
- Crisis (*see also* Global financial crisis (GFC))  
 analyses, 107  
 Asian Financial Crisis (1997/1998), 27, 35, 106, 111, 116, 151–152, 155, 262, 268, 271, 315, 401, 424, 441–442, 503–504  
 banking, 442  
 economic, 183–184, 442  
 exchange rates, 105–107  
 external debt, 442, 462  
 financial, 22, 132, 344, 379, 423–424  
 México crisis (1994), 106  
 payments, 462  
 post-global, 464  
 prevention, 20  
 sudden-stop capital reversal, 462  
 US, 462
- Croatia, prudential regulations on foreign loans in, 416–417
- Croatian National Bank (CNB), 416
- Cross-border capital mobility, 90
- Cross-border investment, 388–389
- Crowding out effect, 122*n*6
- Currency, 5, 36  
 board, 182*n*10  
 demand, 88  
 fluctuations, 123
- Current account liberalization (CAL), 390
- Cyclical behaviors, 504–505
- De facto* approach, 103–104, 402–403  
*De facto* monetary policy strategy, 278
- De jure* approach, 103–104, 402–403
- Debt-to-capital ratio, 412
- Debt-to-income ratio (DTI), 454, 467
- Demand  
 for credit, 72  
 curve, 231  
 for deposits and loans, 493  
 for foreign exchange, 111  
 for investment, 125  
 for money, 55, 70, 287
- Demand-side shocks, 164–165  
 standard Poole model with, 194–195
- Democratic accountability, 296*n*4, 331–337, 355–358
- Deposit(s), 491  
 bank, 21  
 insurance corporation, 427–428
- Deutsche Bundesbank, 179, 184*n*12, 184–185, 214, 322, 447
- Deutsche eMark (DEM), 95
- Direct  
 credit, 208  
 instruments, 208  
 monetary instruments, 246  
 pass-through effects, 269
- Disinflation process, 314
- Domestic bond market, 91
- Domestic currency, 167  
 depreciation, 183–184  
 stability, 4  
 values, 8
- Domestic economy, 401, 407–408, 467
- Domestic financial institutions, 413  
 markets, 401  
 repression, 25  
 sector deepening, 398–399
- Domestic systemically important bank (D-SIB), 453
- Domestic-oriented economy, 470
- Dornbusch's overshooting model, 82, 88–90, 101
- Dual mandate, 10, 14, 358, 461, 463, 467, 469, 477, 479, 507
- Dynamic analysis of elasticity, 98

- Dynamic General Equilibrium
  - Model of Bank Indonesia (GEMBI), 288
- Dynamic Stochastic General Equilibrium model (DGSE model), 15, 141–143, 462
  - formulation, 499–502
  - with macrofinancial linkages, 486
  - macrofinancial modeling
    - approaches, 488–490
  - monetary policy and macroprudential policy, 490–499
- Eclectic inflation targeting (EIT), 224, 248, 250
- Economic cycle, 436
  - output-prices trade-off in, 173–174
- Economic factors, 342–343, 366
  - public uncertainty to changes in, 368–369
- Economic performance, 337–339, 374–377, 395
  - empirical phenomenon, 395–396
  - Lucas Paradox, 396–400
- Economic/economy, 57–58
  - Central bank and, 4–6
  - crisis, 183–184, 442
  - decision-making process, 298
  - deregulation, period of, 188–190
  - developments, 335
  - downswing, 132
  - exchange rates and, 81–112
  - forecasts, 349
  - fundamentals, 397–398
  - growth, 12, 162, 250, 356, 374, 387–388, 402, 461, 468
  - imperfect transparency, 365
  - independence, 320, 323–324
  - indicators, 243*n*5, 363
  - integration, 102
  - models, 243–244
  - puzzle, 68
  - recovery momentum, 262
  - resources, 349–350
  - shocks, 88, 294–295
  - stability, 7
  - stabilization and rehabilitation, 187–188
  - system, 67, 232
  - theory, 440
  - transparency, 352, 368–369
  - upswing (*see* Financial accelerator)
- Emergency Funding Facility (FPD), 285
  - SUN purchases for, 285–286
- Emerging market economies (EMEs), 6, 26, 207, 244, 351, 387, 441, 461, 493–494
  - asset price channel, 145–146
  - credit and balance sheet channels, 146–149
  - exchange rate channel, 145–146
  - expectations channel, 145–146
  - interest rate channel, 145–146
  - monetary policy transmission in, 145
  - monetary policy transmission in post-GFC era, 149–151
- Emerging Portfolio Fund Research (EPFR), 401
- Empirical studies
  - on effect of capital flow volatility, 400–402
  - of transparency and communication strategies in countries, 370–380
- Equilibrium, 59
  - analysis, 53
  - credit rationing, 74
  - model, 57
- Error correction model (ECM), 156
- European Central Bank (ECB), 26, 142, 291, 321, 350, 426, 447, 453*n*3, 476
- European Monetary System (EMS), 178
- European Union (EU), 141
  - monetary policy transmission, 141–143
- Eurosystem, 416

- Ex ante*, 398, 435  
 accountability, 341–342  
 credibility index, 307  
 monetary policy clarity, 249
- Ex post*, 398  
 accountability, 341–342  
 credibility index, 307  
 monetary policy clarity, 249
- Exchange rate channel, 127–128, 418  
 in EMEs, 145–146  
 in Indonesia, 152
- Exchange rate determination theory  
 (*see also* Monetary economic theory), 82  
 CIRP, 84–85  
 exchange rate model with sticky prices, 88–90  
 market microstructure models, 93–97  
 Mundell–Fleming model, 85–87  
 portfolio balance model and central bank monetary operations, 90–93  
 PPP, 83–84
- Exchange rate mechanism (ERM), 106–107, 183
- Exchange rate pass-through (ERPT), 99–101
- Exchange rate(s), 32–33, 81, 287, 391, 429, 462, 464, 468, 480, 507, 511  
 appreciation, 394  
 choice of exchange rate system, 101–103  
 crises, 105–107  
 depreciation, 92–93, 421  
 determination theory, 82–97  
 developments, 269  
 empirical findings for, 98  
 empirical findings in Indonesia, 100–101  
 and inflation, 99–100  
 intervention, 99  
 models, 82, 88–90  
 monetary policy and theory, 81–82  
 overshooting model, 89  
 policy, 507–510  
 stability, 34–39, 122–123, 235, 250, 402  
 stabilization, 404–405  
 stabilization policy, 107–109  
 system and policy, 101, 109–112  
 systems, 103–105, 403  
 targeting, 167–168, 182–184  
 theory, 82, 93  
 and trade, 98–99  
 volatility, 364, 402
- Expectations channel, 128–129  
 in EMEs, 145–146  
 in Indonesia, 152  
 market, 468
- Expected Augmented Phillips Curve (EAPC), 399
- Export Bonus System, 110*n*11
- Fear index, 393*n*1
- Fear of floating, 32, 103–105, 107
- Federal Funds Rate (FFR), 3, 143, 356, 418, 420, 464–465
- Federal Open Market Committee (FOMC), 3, 41, 308, 321
- Federal Reserve Act, 179–180
- Federal Reserve System (Fed), 21, 33
- Financial  
 account, 389  
 amplification, 139  
 crisis, 22, 132, 344, 379, 423–424  
 DSGE models with financial frictions, 491–497  
 globalization, 405  
 indicators, 243*n*5  
 innovation, 27–28, 143–144  
 instability, 425  
 interconnectedness, 444–445  
 liberalization, 82  
 policy transparency, 373  
 repression, 188  
 system, 124, 141, 447  
 system instability, 430–431  
 theory, 138  
 transparency, 351  
 variables, 353

- Financial accelerator, 15, 119,  
133–134, 137, 488  
theory, 439–440
- Financial asset(s), 127, 391, 437  
portfolio diversification, 91  
prices, 126, 440, 463
- Financial Conduct Authority  
(FCA), 43
- Financial market(s), 146, 364,  
392–393  
development, 147  
liberalization, 147  
volatility, 355
- Financial network  
analysis, 449, 451  
chain, 452
- Financial Policy Committee  
(FPC), 513
- Financial procyclicality, 426, 435  
empirical evidence for, 440–444  
financial accelerator theory,  
439–440  
financial cycle and economic cycle  
procyclicality, 436  
interaction between business  
cycle, 438
- Financial products, 189  
innovation diversification, 452
- Financial sector, 474  
liberalization, 190  
procyclicality, 269*n*10
- Financial Services Authority (OJK),  
44, 261*n*2, 505, 514
- Financial Soundness Indicator  
(FSI), 465
- Financial Stability Report (FSR),  
378–379, 379*n*7
- Financial System Crisis Prevention  
and Resolution Act  
(PPKSK Act), 426, 453,  
505, 514
- Financial system stability (FSS),  
19–20, 24, 28–29, 35–36,  
280, 364, 411–412, 423,  
472, 476–477, 502  
central bank's role in, 429–431  
conceptual dimension, 424  
GFC of 2008/2009 and,  
425–429  
interconnectedness and financial  
networks, 444–452  
macroprudential policy theory and  
practices, 452–458  
effect of monetary policy, 472  
risk, 471  
targets, 463–467  
theoretical model and empirical  
evidence of financial  
procyclicality, 435–444
- Financial technology (FinTech), 5,  
38–39
- Fixed exchange rate  
regime, 87, 102  
system, 102, 110, 405
- Flexible Inflation Targeting  
Framework (FITF), 10,  
278*n*13, 279, 463
- Foreign bond market, 91
- Foreign capital flows, 34–39, 387  
and economic performance,  
395–400  
foreign CFM, 409–417  
impact of global spillovers from  
US monetary policy,  
418–421  
management, 34, 461–463, 470,  
487, 503, 510–511  
and monetary policy dynamics in  
Indonesia, 406–409  
and monetary stability, 400–409  
neoclassical theory and PI theory,  
388–391  
push and pull factors, 391–395  
theoretical dimension and, 388  
volatility, 423
- Foreign CFM, 409  
practices, 414–417  
principles, targets, and instruments,  
410–414
- Foreign exchange, 81  
derivatives, 416  
intervention, 107–109, 122–123, 507



- Foreign exchange market, 88, 118,  
129, 427, 467  
intervention, 404  
microstructure, 93
- GARCH, 123*n*7
- “Gebrakan Sumarlin”, 189*n*13
- General equilibrium analysis  
framework, money role in, 52  
MIU function model, 55–57  
OLG model, 53–55  
real sector analysis, 52–53
- Germany in controlling inflation, 184
- Global economy, 387  
developments, 391–392
- Global financial crisis (GFC) (*see also* Inflation), 3, 6–7, 12,  
14, 19–20, 32–33, 35, 38,  
81, 137, 150, 154, 258, 262,  
418, 423, 461, 465  
of 2008/2009 and FSS, 425–429  
central banks and, 28–31  
inflation targeting after GFC of  
2008/2009, 257–259  
strengthening ITF implementation  
strategy after, 277–281
- Global spillovers, 387  
from US monetary policy, 418
- Global Systemically Important Banks  
(G-SIBs), 455
- Government, 295  
bond yields, 243  
debt securities, 271, 285, 439  
financial sustainability, 272  
fiscal stimulus package, 512  
and parliament, 363–364
- Great Depression (1930), 7, 24, 28,  
31, 137
- Great Moderation, 27, 462
- Gross domestic product (GDP), 12, 85  
deflator, 237*n*4  
growth, 420–421
- Hamiltonian function, 56
- Headline inflation (*see* Consumer  
price index (CPI))
- Hedge funds, 447
- Herding behavior, 427
- Heterogeneous economic players, 488
- Heterogeneous information, 93–97
- Household  
balance sheet channel, 147  
and entrepreneurs/businesses, 491–493
- Hybrid Phillips curve model, 173
- Imperfect information, 57  
money–output correlation against,  
59–61  
relationship between money–  
output and, 57–59
- Imperfect international finance,  
399–400
- Imperfect transparency, 365–370
- Implicit interest rate policy rule,  
212–215
- Implicit targeting, 186
- Independence (*see also* Central  
bank independence and  
accountability), 40–41,  
43–44  
goal, 320–322, 344–345  
index, 325  
institutional, 168  
instrument, 236, 320, 322–323, 345  
performance, 338  
personal, 323–324, 345  
policy, 319, 342–344  
political, 320
- Indonesia  
assessing monetary policy  
credibility in, 311  
asset price channel, 152  
balance sheet channel, 154–155  
Bank Indonesia’s communication  
strategy, 382–384  
bank lending channel, 154–155  
banking system, 272  
economic stabilization and  
rehabilitation, 187–188  
empirical studies of time  
inconsistency in Indonesia,  
314–318

- era of oil-based economic growth, 188
- exchange rate channel, 152
- exchange rate on economy in, 100–101
- exchange rate system and policy in, 109–112
- expectations channel, 152
- foreign capital flows and monetary policy dynamics in, 406–409
- inclusion in IMF Program, 273
- interest rate channel, 152
- ITF, 186–187, 262–263
- monetary operations in, 216–220
- monetary policy in, 66–69, 186
- monetary policy transmission in, 151
- period of economic deregulation, debureaucratization, and liberalization, 188–190
- policy credibility in
  - Indonesia during ITF implementation, 311–314
- political transition process in, 272
- transmission of risk-taking
  - behavior and central bank policy mix, 155–157
- transparency and communication strategy in, 380
- transparency to strengthen monetary policy framework, 380–382
- Inflation (*see also* Global financial crisis (GFC)), 162, 349, 376, 387–388, 420–421, 463–464
  - bias, 167*n*3, 302–303
  - controlling cost, 175–176
  - deviation, 409
  - exchange rate and, 99–100
  - exchange rate transmission, 128
  - expectations, 128–129, 153*n*10, 267
  - indicators, 243
  - inflation-averse central bank, 328
  - inflation-forecast-based rule, 201
    - nutters, 278*n*13
    - projections, 242–244, 267–268
    - rule, 303
    - stability, 236
    - variance, 367–368
- Inflation targeting, 169, 185
  - clarity of commitment to, 248–249
  - classification, 250–251
  - credibility, 249–250
    - and economic performance, 252
    - after GFC of 2008/2009, 257–259
  - importance, 250–252
  - regimes, 247
  - regimes and rationale, 247–248
  - successes and alternative opinions, 252–257
- Inflation Targeting Framework (ITF), 7, 19, 26–27, 33, 100, 179, 186–187, 201, 223, 261, 278*n*13, 311, 351, 403, 429, 461
  - actual and target inflation, 276
  - announcing, 239–240
  - formulation, 236–240, 264–265
  - by government, 283–285
  - implementation, 262–263, 274–277
  - in inflation forecast targeting
    - format, 232–234
  - institutional framework, 235–241, 263–266
  - issues during transition period, 271–274
  - ITF-based monetary policy framework, 223–224, 226
  - macroeconomic theory, 230
  - operational framework, 242–247, 266–271
  - point or range, 238
  - policy credibility in
    - Indonesia during ITF implementation, 311–314
  - rationale, characteristics, advantages, and disadvantages, 224–229
  - size, 238

- strengthening ITF implementation
  - strategy after GFC, 277–281
  - theoretical model, 229–234
- Institutional arrangements, 513–514
  - and coordination, 43–44
- Instrument independence, 320, 322–323, 345
  - in monetary policy, 236
- Interbank
  - money market, 449
  - system dynamics, 449
- Interconnectedness, 453
  - empirical evidence for financial, 447–452
  - and financial networks, 444
  - theory, 444–447
- Interest rate, 67, 75–76, 194–196, 205–207, 247, 258–259, 351, 357, 364, 468, 502
  - lag, 409
  - policy, 120–121, 507–510
  - rules, 203
- Interest rate channel, 124–126
  - in EMEs, 145–146
  - in Indonesia, 152
- Interest rate parity theory (IRP theory), 84–85
- International Capital Asset Pricing Model (IAPM), 390
- International Monetary Fund (IMF), 26*n*2, 270, 388
  - assessing transparency by, 370–372
- Investment
  - capital (*see* Loan—capital)
  - cost of capital on, 124–125
  - demand function, 125
  - wealth effect on, 127
- J-curve effect, 100–101
  - “Just-do-it” strategy, 186, 308
- k*-percent rule, 198
- Kalman filter, 312*n*7, 400
- Keynesian and neoclassical economics, 349–350, 461
- Keynesian-neoclassical synthesis, 29, 61–63
- Kydland and Prescott’s model, 298–301
- Large-scale models, 244
  - structural macroeconomic model, 267
- Leading Economic Indicators (LEI), 268
- Lender of last resort (LOLR), 5, 7, 19–21, 28–29, 35, 38, 215, 427–428
- Lending
  - rate, 495
  - requirements, 246
- Lending facility (LF), 120
- Linearization model, 497
- Liquidity, 139–140, 486–487
  - liquidity-related macroprudential instruments, 456
  - market, 39, 139
- Liquidity preference money supply (LM), 194
- Loan
  - agreements, 488–489
  - capital, 436
  - demand and supply of, 154
  - loanable fund theory, 72–73
- Loan-to-deposit ratio (LDR), 70, 121, 132, 454, 467
- Loan-to-value ratio (LTV ratio), 4, 134, 137, 440, 467, 513
- Log-linear
  - equation, 88
  - first-order condition, 497
- Loss function, 232
  - of monetary authority, 199
- Lucas Island model, 57–58
- Lucas Paradox, 395–400
- Lucas supply function, 59
- Macroeconomic
  - policies, 409–410
  - stability, 410–412, 463–465, 502
  - welfare function, 162

- Macroeconomic Model of Bank Indonesia (MODBI), 267, 287
- Macrofinancial linkage, 428
- Macrofinancial modeling approaches in DSGE, 488–490
- Macrointernational linkage, 428
- Macronational linkage, 428
- Macroprudential policy, 35–36, 258, 410–411, 424, 431, 461–462, 466–467, 469–470, 487, 511–513
- application in various jurisdictions, 456–458
  - central bank, 431–435
  - in DSGE modeling, 490–497
  - framework, 468
  - interconnectedness and financial networks, 444–452
  - loan constraints, 499
  - principles, targets, and instruments, 453–456
  - response, 433
  - theoretical model and empirical evidence of financial procyclicality, 435–444
  - theory and practices, 452–458
  - time deposit rate, 498
- Macroprudential regulation, 5
- on capital flows, 415–416
- Market
- cycle, 145
  - equilibrium loanable funds, 73
  - imperfections, 69–77
  - liquidity, 39, 139
  - microstructure analysis (*see* Exchange rate theory)
  - microstructure models, 93–97
  - signaling, 271
  - transparency (*see* Operational transparency)
- Market expectations
- channels, 468
  - Poole model variations with, 195–197
- Markov-switching model, 401
- Markowitz model/theory, 126, 390
- Marshall–Lerner condition, 98–100
- Mass media and public, 362–363
- McCallum rule, 200–201, 212, 214
- México crisis (1994), 106
- Micro, small, and medium enterprises (MSME), 38, 77
- Microfinancial sector, 428
- Microprudential policy (*see also* Macroprudential policy), 377–378*n*6, 431
- Microprudential regulation, 5
- Microprudential supervisory authority, 424
- Monetarist analysis framework, money role in, 61–63
- Monetary aggregates, 205–207, 215
- Monetary and Financial Policies (MFP), 370–371
- Monetary Authority of Singapore (MAS), 457
- Monetary condition index (MCI), 246
- Monetary economic theory (*see also* Exchange rate determination theory), 11, 69, 115, 124
- credit availability and bank behavior, 71–74
  - money, 70–71
  - new paradigm in, 74–77
- Monetary policy, 5, 23, 26, 28–30, 32–33, 35, 49, 105, 117, 125, 126, 131, 161, 187, 189, 225, 274, 337, 377*n*6, 387, 462, 464–465, 469, 472, 487
- accountability, 226
  - autonomy, 82*n*1
  - communication strategy, 358
  - communication targets, 362–365
  - communications methods, 361–362
  - consensus regarding role of, 65–66
  - consistency, 27
  - in DSGE modeling, 490–499
  - dynamics in Indonesia, 406–409
  - in economy, 49–50
  - effectiveness, 272, 285

- empirical evidence in Indonesia, 66–69
- foreign capital flows and monetary stability, 400–409
- framework, 468
- impact of global spillovers from US monetary policy, 418–421
- inconsistency, 40
- instruments, 205–212
- market imperfections and new paradigm of monetary economics, 69–77
- monetary policy modeling and variable selection issues, 63–65
- normalization process of, 30
- optimization, 387
- rate, 393, 495
- regime, 355–358
- scope of communication, 358–361
- theoretical review, 50–63
- and theory, 81–82, 119
- transmission, 268–270
- transmission channels, 353
- transparency, 42–43, 139, 225, 349–350–351, 373–377
- Monetary policy credibility, 102–103, 225, 275, 429, 482–483
  - assessment in Indonesia, 311–318
  - conceptual dimensions of policy credibility, 293–298
  - empirical studies, 306–311
  - time inconsistency, 298–306
- Monetary policy operational framework, 12–13, 193
  - application in several countries, 205–215
  - conceptual dimensions and theoretical models, 194–204
  - monetary operations in Indonesia, 216–220
  - selection strategy, 203
- Monetary policy response
  - implicit interest rate policy rule in several countries, 212–215
  - monetary aggregates, 215
- Monetary policy strategy framework, 161
  - from 1990s to present day, 179–182
  - empirical studies and related issues, 170
  - exchange rate targeting, 167–168, 182–184
  - final policy target, 162, 177
  - formulation, 170–171
  - implementation in several jurisdictions, 176
  - inflation targeting, 169, 185
  - monetary policy regime in Indonesia, 186–190
  - monetary targeting, 168–169, 184–185
  - no explicit anchor targeting, 169–170, 186
  - nominal income targeting, 170
  - output–prices trade-off in economic cycle, 173–174
  - Phillips curve phenomenon, 171–173
  - quadratic function, 162–163
  - regime, 166–167, 182
  - sacrifice ratio, 175–176
  - shift in priorities, 177–179
  - short-term output–prices trade-off, 171–173
  - targeting long-term policy goals, 163
  - targeting short-term policy goals, 163–166
- Monetary policy transmission mechanism (MPTM), 11–12, 115–116, 118–120, 271
  - in advanced countries, 141
  - in countries, 140
  - in EMEs, 145–151
  - empirical MPTM studies, 140–141
  - in EU, 141–143
  - in Indonesia, 151–157
  - map, 116–117
  - monetary transmission channels, 124–129

- policy rate and monetary operations, 120–123
  - in United States, 143–145
- Monetary policy trilemma, 90
  - index in Indonesia, 407
  - of open economy, 110, 402–405
- Monetary shocks, 63
- Monetary stability, 35–36, 400
  - empirical studies on effect of capital flow volatility, 400–402
  - foreign capital flows and monetary policy dynamics in Indonesia, 406–409
  - monetary policy trilemma in open economy, 402–405
- Monetary transmission channels, 124
  - credit view, 129–140
  - money view, 124–129
- Monetary transparency, 351
- Money, 11, 36, 49, 70–71
  - center, 449
  - consensus regarding role of, 65–66
  - in economy, 49–50, 63
  - money–output correlation
    - against imperfect market competition and price rigidity, 59–61
  - neutrality, 50–51, 55, 59
  - relationship between money–output and imperfect information, 57–59
  - role in general equilibrium analysis framework, 52–57
  - role in monetarist analysis framework, 61–63
  - substitution, 85
  - supply, 51–52, 75, 194–196, 351, 468
  - theoretical review, 50
- Money market
  - equilibrium, 88
  - instrument, 190
- Money market account (MMA), 70
- Money view of monetary transmission (*see also* Credit view of monetary transmission), 124
  - asset price channel, 126–127
  - exchange rate channel, 127–128
  - expectations channel, 128–129
  - interest rate channel, 124–126
- Mundell–Fleming model, 11, 82, 85–87, 101, 402
- National Development Program, 268
- National Inflation Task Force, 279, 317
- Negotiable certificates of deposit (NCD), 190
- Neoclassical
  - economics, 59
  - investment theory, 124–125
  - model, 55
  - theory, 388–391
- Net Foreign Assets (NFA), 406–407
- Net interest margin (NIM), 132
- Net International Reserves (NIR), 218
- Net open position (NOP), 412, 454
- Neutrality of money, 50–51
  - hypothesis, 163
- Normalization
  - of monetary policy, 30
  - monetary policy, 508–509
- O/N interbank rate, 220
- Oil-based economic growth, era of, 188
- Open economy, 110, 119, 161
  - monetary policy trilemma in, 402–405
- Open global economic dynamics, 208
- Open market operations (OMO), 92, 112, 208, 216, 246
  - SUN purchases on primary market for, 285
- Optimal monetary policy, 199–200
  - aspects of optimal monetary policy formulation, 201–204
  - strategy, 196

- Optimal policy
  - mix, 461
  - rule, 232–234, 329
- Organization for Economic
  - Co-operation and Development (OECD), 443
- Output
  - gap, 287
  - output-prices trade-off in
    - economic cycle, 173–174
  - stability, 162–166
  - stabilization, 366–368
  - volatility, 376–377
- Parameterization approach,
  - 307–308
- Payment instruments, 5, 21
  - development, 6
- Payment system, 5, 426, 467, 470
  - policy, 4–5, 461
  - stability, 36–39
- People's Bank of China (PBoC), 456
- Philips curve, 88, 171, 201
  - behavior, 302
  - equation, 480
  - formation of expectations in,
    - 172–173
  - linearity in, 172
  - presence of, 171–172
- Pigou effect analysis, 51
- Policy
  - accountability, 319
  - authorities, 294
  - formulation process, 355, 372
  - framework, 469
  - implementation, 246–247, 311*n*6
  - independence, 319, 342–344
  - innovations, 8
  - mix targets and instruments,
    - 504–507
- Policy credibility, 293, 319, 344
  - effort to improving credibility,
    - 295–298
  - in Indonesia during ITF
    - implementation, 311–314
  - problem, 293–295, 298–306
- Policy instruments, 194
  - standard Poole model with
    - demand-side shocks,
      - 194–195
- Policy rate, 120, 499
  - à la Taylor rule, 403
- Policy response, 197
  - feedback rule and optimal
    - monetary policy, 199–200
    - simple feedback rule, 200–201
- Policy rule, 203, 212–215, 295, 340
- Policy transparency, 14, 352
  - conceptual dimensions, 350
  - economic transparency, 368–369
  - empirical studies of transparency
    - and communication
      - strategies, 370–380
    - implications of imperfect
      - transparency, 370
    - monetary policy communication
      - strategy, 358–365
    - public uncertainty concerning
      - preferred weight,
        - 366–368
      - theoretical models on, 365
    - transparency, monetary policy
      - regime, and democratic
        - accountability, 355–358
    - transparency and communication
      - strategy in Indonesia,
        - 380–384
    - viewpoints concerning
      - transparency, 351–355
- Policy-making
  - characteristics, 308
  - credibility, 295
  - process, 325
- Political
  - economy, 6–9
  - imperfect transparency, 365
  - independence, 320
  - support for rule of law, 297
  - transition process in Indonesia,
    - 272
  - transparency, 325, 332, 352
  - uncertainty, 295

- Portfolio investment (PI), 388  
theory, 388–391
- Price  
equilibrium, 89  
formation, 351  
price-setting equation, 61  
stability, 7, 12, 19–20, 29, 32–33,  
49, 76, 162–166, 235, 402,  
462–467, 476–477  
stabilization strategy, 195
- Price index, 237  
selection, 236–237
- Price rigidity, money–output  
correlation against, 59–61
- Price-based approach, 217  
quantity-based approach to,  
217–220
- Private capital flows, 443–444
- Property  
crisis, 442  
prices, 464–465  
survey, 267
- Prudential Regulation Authority  
(PRA), 43, 513
- Prudential regulations, 412–414  
on foreign loans, 416–417
- Public uncertainty  
to changes in economic factors,  
368–369  
concerning preferred weight,  
366–368
- Push and pull factors, 391–395  
“Push-me, pull-you” factor, 474–475
- Quantitative easing (QE), 28
- Quantitative modeling approach,  
309–311
- Quantity-based approach, 216–217  
to price-based approach, 217–220
- Quarterly monetary base targets,  
268*n*9
- Ramsey model, 55, 57
- Real exchange rate, 409  
gap, 480*n*3, 482
- Reserve Bank of India (RBI), 209, 447
- Reserve Bank of New Zealand  
(RBNZ), 323, 360
- Retail  
bank, 494  
deposit bank branch, 496  
loan bank branch, 495  
payment system, 38  
sales survey, 267
- Risk  
premium, 392  
risk-averse behavior of banks, 71
- Risk-management  
behavior, 490  
techniques, 138
- Risk-taking behavior, 400, 474–475,  
477, 486–487
- Risk-taking channel, 130, 137  
liquidity, 139–140  
risk-taking dynamics, 138–139
- Risk-weighted assets, 28
- Rogoff model, 13
- Rules vs. discretion, 197–201, 432–433
- Rupiah devaluation policy, 110
- Say’s law, 49–50
- Seigniorage, 57*n*1
- Short-term  
cyclical factors, 471  
exchange rate volatility, 88  
foreign loans, 415–416  
goals, 359  
interest rates, 353  
macromodel equation, 62  
output–prices trade-off, 171–173  
Phillips curve, 287
- Short-Term Forecast Model for the  
Indonesian Economy  
(SOFIE), 267, 287–288
- South Korea, macroprudential  
regulations on capital flows  
in, 415–416
- Standard & Poor index (S&P index),  
393*n*1
- Stocks, 463  
of credit, 50  
market, 118



- prices, 153
- yields, 394
- Structural macroeconomic model, 462, 473, 479
  - central bank policy mix
    - formulation, 481–486
  - coordination and losses, 487
  - flexible to integrated inflation targeting, 474–479
  - model structure and analysis framework, 479–481
- Superneutrality, 51–52
  - of money, 55–57
- Supply-side shocks, 164, 166
  - Poole model variations with, 195–197
- Swiss National Bank (SNB), 185
- “SysMo”, 466
- Systemic risk, 455
  - accumulation, 504–505
- Systemically important banks (SIB), 453, 500
- T-Bills, 69*n*6, 208
- Taylor rule, 13, 40, 200–202, 212, 214–215, 228, 234, 247, 287, 469, 473–474, 499
  - equation, 312*n*7
  - policy response, 479
- Taylor’s aggregate demand equation, 61
- The Federal Reserve (the Fed), 321
- Time inconsistency, 294, 298, 306–311
  - Barro-Gordon model, 301–304
  - credibility problem analysis with supply shocks, 304–306
  - in Indonesia, 314–318
  - Kydland and Prescott’s model, 298–301
  - theory, 13, 225
- Tinbergen rule, 506
  - for closed economy, 87
- Transparency and communication strategy, 349, 370
  - assessing transparency by IMF, 370–372
  - central banks, 372
  - in crisis period, 377–380
  - in Indonesia, 380–384
  - monetary and financial policy transparency, 373
  - monetary policy transparency and economic performance, 374–377
- Transparency assessment by IMF, 370–372
- Unemployment, 178
- United States (US)
  - crisis, 462
  - expansionary monetary policy, 419
  - monetary policy in, 178, 418–421
  - monetary policy transmission in, 143–145
  - subprime mortgage debacle, 451
  - US Federal Reserve, 349, 358, 360
  - US Monetary Policy Reaction Function, 213
- Vector autoregression approach (VAR approach), 64–65, 174, 176
- Vector autoregressive model (VAR model), 141–143, 152, 154, 244
- Volatility Index (VIX), 393
- Wage behavior, 61
- Wage-price mechanism, 60
- Wage-setting model, 60
- Walras’ law, 49*n*1, 54
- World Bank (1997), 392
- Zero interest-rate policy (ZIRP), 215