



WP/20/109

IMF Working Paper

The Impact of Monetary Policy Communication in an Emerging Economy: The Case of Indonesia

by Calixte Ahokpossi, Agnes Isnawangsih, Md. Shah Naoaj, and Ting Yan

***IMF Working Papers* describe research in progress by the author(s) and are published to elicit comments and to encourage debate.** The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

I N T E R N A T I O N A L M O N E T A R Y F U N D

IMF Working Paper

Asia and Pacific Department

The Impact of Monetary Policy Communication in an Emerging Economy: The Case of Indonesia¹**Prepared by Calixte Ahokpossi, Agnes Isnawangsih, Md. Shah Naoaj, and Ting Yan**

Authorized for distribution by Luis E. Breuer

June 2020

Disclaimer: This document was prepared before COVID-19 became a global pandemic and resulted in unprecedented economic strains. It, therefore, does not reflect the implications of these developments and related policy priorities. We direct you to the [IMF Covid-19 page](#) that includes staff recommendations with regard to the COVID-19 global outbreak.

IMF Working Papers describe research in progress by the author(s) and are published to elicit comments and to encourage debate. The views expressed in IMF Working Papers are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

Abstract

Since the adoption of the inflation targeting framework by Bank Indonesia (BI), monetary policy communication has played an increasingly important role in BI's policy toolkit. This paper assesses BI's monetary policy communication from three perspectives: i) its transparency and clarity, ii) its ability to align market expectation and BI's policy decisions (predictability), and iii) its impact on financial markets. In particular, we assess the impact of BI's monetary policy practices by focusing on its monetary policy press releases and monetary policy reports. The results show that Bank Indonesia has made significant progress in the transparency of its communication as well as in the institutional framework to support this. Nonetheless, the results also suggest ways in which the impact of communication can be further improved, including by strengthening the clarity of policy messages, its consistency with the policy framework and the depth of the money market.

JEL Classification Numbers: E3, E44, E52, E58

Keywords: Monetary policy; central bank communication; central bank predictability.

Author's E-Mail Address: cahokpossi@imf.org; aisnawangsih@imf.org; tyan@imf.org; mnaoj@imf.org

¹ The authors are grateful to Luis Breuer, Marco Casiraghi, Hendre Gerber, Chris Papageorgiou, Filiz Unsal, participants at the IMF's Asia Pacific Department seminar and Bank Indonesia's Institute seminar for helpful comments. The authors would also like to thank Key Moriya and Tracey Wanasukaphun for assisting with textual analysis, and Nong Jotikasthira for preparing the paper. The views expressed here are those of the authors and do not necessarily represent the views of the IMF.