ABSTRACT

The implementation of ITF by Bank Indonesia aims to achieve the ultimate goal of the policy, namely maintaining price stability as reflected in a low and stable inflation rate. However, in practice, the achievement of price stability by Bank Indonesia is still less than optimal. This can be seen from the actual inflation rate which is still divergent from the inflation target.

The purpose of this study is to determine how Bank Indonesia's monetary policy strategy responds to various economic dynamics. In addition, this study also aims to determine whether Bank Indonesia has an asymmetric monetary policy preference or not. The analysis method used in this study is GMM.

The results of the study show that Bank Indonesia responds positively to changes in domestic inflation expectations, domestic real exchange rates, foreign real interest rates, and domestic output gap volatility, and responds negatively to changes in domestic output gap expectations and domestic inflation volatility. The significance of the inflation volatility and domestic output gap variables also shows that Bank Indonesia has an asymmetric preference for positive inflation deviations and negative output gaps.

Keywords : *Bank Indonesia monetary policy rules, asymmetric preferences, ITF.*