

CENTRAL BANK POLICY

THEORY AND PRACTICE

PERRY WARJIYO
SOLIKIN M. JUHRO

CENTRAL BANK POLICY

Praise for *Central Bank Policy: Theory and Practice*

The book rigorously discusses the theories, empirical studies and practices of international financial and monetary policy in emerging market economies, including Indonesia. Furthermore, the book is an invaluable policymaking input for the central bank and government, teaching material for lecturers and students as well as an important reference for scientific development in academia.

**Prof. Boediono, Vice President of the Republic of Indonesia
(2009–2014); Governor of Bank Indonesia (2008–2009)**

The world has become increasingly challenging for central banks in both developed and emerging economies. While much has been written on central banks policies in the developed world, less known are the remarkable successes achieved by central banks in the emerging economies. This publication is a valuable source for policy makers in central banking. It not only offers knowledge on the theoretical foundations and institutional arrangements but also on the practical aspects of the policy tools that are at the disposal of central banks, particularly in the emerging world.

**Dr Zeti Akhtar Aziz, the 7th Governor (2000–2016)
of Bank Negara Malaysia, Malaysia's central bank**

This book is a major contribution to the theory and practice of central banking in emerging market economies. Drawing on the accumulated wisdom of many years of academic study and high-level policy experience, the authors provide an encyclopedic yet highly accessible survey and analysis that bridges theory and practice. No stone is left unturned in this comprehensive study, drawing as it does on economic history, the international monetary system, globalization, and the political economy of macroeconomic policy making.

The volume will be invaluable for a wide audience, including advanced undergraduate and graduate students, academic researchers, policy makers, financial market analysts, and anybody with an interest in contemporary macroeconomic challenges and issues. A highly recommended publication.

**Prof. Hal Hill, H.W. Arndt Professor Emeritus of
Southeast Asian Economies, Australian National University**

When a pure academic writes a book, it lacks practical knowledge and connections; when a pure policy maker writes a book, it lacks academic rigor; but, when an academic who is also an experienced policy maker writes a book, the resultant is a balanced book. It is this balance that the literature lacks and for this reason alone this book, by two experienced academics who have decades of central banking policy making experience, will remain unique.

This book is an amalgam of theoretical percepts, empirical case studies and practical policy debates. While existing reference material would either be too empirical or too theoretical and almost always short of practical policy discussions, this book is far from it. A gap in the history of central banking policies and practices is now immaculately covered. It makes understanding central banking policies and practices easy. The book is both inspirational and thought-provoking. The value and impact of this book will be long lasting.

**Prof. Paresh Kumar Narayan, Alfred Deakin
Professor, Deakin University**

CENTRAL BANK POLICY: THEORY AND PRACTICE

BY

PERRY WARJIYO AND SOLIKIN M. JUHRO



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Preface

Alhamdulillah, with all praise to Allah, the most glorified and exalted, we would like to present this book entitled *Central Bank Policy: Theory and Practice* to the readers, drawing fully on our extensive capabilities, knowledge, and experience to write a book that, to our understanding, does not exist elsewhere, at least in Indonesia. This book also represents an important contribution to central bank and government policymaking as well as teaching materials for lecturers and students and a salient reference for scholarly development in Indonesia and internationally.

The idea for the book emerged from the experiences and concerns of the authors while teaching postgraduate international monetary and financial economics at the University of Indonesia. The teaching materials presented consist of a combination of theoretical studies, empirical reviews, and policy practices at central banks, which garnered an enthusiastic response from the students. Not only could the students explore and deepen the latest theories being developed in academia and empirically model the most interesting research topics, the inclusion of policy practices at central banks also embedded the students into the real world. Consequently, the courses were enlivened by interesting questions and discussions that enriched and enhanced the quality of the teaching.

Unfortunately, we were unable to find a single reference book complete with a combination of theoretical studies, empirical reviews, and policy practices at central banks, thereby motivating us to write this book. This was, admittedly, no mean feat due to the rapid development of policy theories and practices at central banks as well as the fact that most of the materiel had not yet appeared in print as a reference for this book. Fortunately, we could draw on our vast experience and direct involvement with policymaking at Bank Indonesia (BI) as well as our active roles as resource persons or discussants at various international fora. Additionally, one of the author's two-year tenure as Executive Director at the International Monetary Fund from 2007 to 2009 coincided with the global financial crisis, which further served to enrich the understanding and knowledge poured into this book, including the BI policy mix initiated in 2010 as a new policy paradigm at the central bank.

This book is firmly believed to be a first in terms of comprehensively discussing the latest central bank policy theories and practices. The inclusion of the latest material, coupled with clear and logical systematics of the writing, ensures this book's position as an unequivocal reference for policymakers at the central bank, practitioners, and academia. For academia, the book represents an important and leading reference for lecturers and students alike in terms of monetary and

financial economics at the intermediate and advanced levels of master's and doctoral programs as well as the latter stages of bachelor's programs. The panoply of theoretical and empirical references contained in this book will facilitate future research among students and researchers. Similar benefits will also be available to economists and those in the business community. Although the discussions are predominantly on a philosophical conceptual level, accompanied by in-depth theory, the rationale and writing of this book is presented in a manner that is readable and easily digestible.

To remain relevant and contemporary, the materials contained in this book will periodically be updated as per the latest developments and requirements in terms of new and innovative policy practices at the central bank. To that end, constructive criticisms and feedback from the readers are warmly welcomed in order to hone the contents of this book.

In closing, the authors would like to acknowledge the important contributions, direct and indirect, of various parties to produce this book. On top of the gratitude felt for the publication of this book, the authors would also like to thank the contributors who could not be named individually, particularly colleagues at the BI Institute for their help in finalizing the book. Hopefully, this publication will expand scientific understanding and knowledge.

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