

ABSTRACT

This paper aims to examine the influences of the frequency of policy rate adjustment and the credibility of the central bank to the inflation rate within a period. In the Inflation Targeting Framework regime, the credibility of the central bank has risen to the surface as the central bank aims for inflation as the sole monetary policy goal. To control inflation, the expectation channel became one of the monetary transmission channels the central bank mostly uses in the ITF regime. The inflation expectation from the economic agents gradually anchored and successfully became a key to the inflation rate within a country. However, the credibility of the central bank is in question when there is a crisis period and they have to trade between inflation and output gap. This research approach to solve the problem is the Error Correction Model with Inflation Targeting Regime in South East Asia. The findings in this paper include both credibility and inflation expectation significantly influence the inflation rate within a country.

Keywords: Credibility, Inflation Expectation, Inflation Targeting Framework, Monetary policy, and Phillips curve.