# ABSTRACT

*In achieving the goal of price stability, Bank Indonesia adopts the Inflation Targeting Framework (ITF) as its monetary policy strategy. The ITF is marked by the announcement to the public regarding the size of the inflation target to be achieved in the next period. Therefore, the success of the ITF implementation will be seen from the achievement of the inflation target. However, in reality actual inflation often deviates from the target that has been set. The greater deviation of inflation target, the less effective the implementation of the ITF to achieve the goal of price stability will be.*

*This study aims to analyze the effectiveness of ITF implementation in achieving price stability in Indonesia. To support this analysis, this study also identifies the effectiveness of policy instruments in the form of policy interest rates and base money, as well as exchange rates as external variables in controlling inflation in the ITF framework. This study uses quarterly time series data from the fourth quarter of 2005 to the fourth quarter of 2019. The analytical model used in this study is multiple linear regression using the Ordinary Least Square (OLS) method.*

*Descriptively, controlling inflation with ITF still shows its effectiveness. On the other hand, the regression estimation results in this study indicate that only the policy interest rate variable has a significant negative effect on inflation. Meanwhile, base money has a positive effect and the exchange rate has a negative effect, but both of them do not significantly affect inflation. Based on these results, Bank Indonesia can use the policy interest rate as an instrument to control inflation within the ITF policy framework.*

*Keywords: Inflation Targeting Framework, Inflation Deviation, Policy Rate, Base Money, Exchange Rate*