

## *Book Review:* Central Bank Policy: Theory and Practice

by Perry Warjiyo and Solikin M. Juhro

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Denny Irawan<sup>a,\*</sup>

<sup>a</sup>*Arndt-Corden Department of Economics, Crawford School of Public Policy, The Australian National University*

I would like to praise the authors for filling in a significant literature gap about central banking, tailored to emerging market context, especially Indonesia. The book has two main contributions. First, it provides a comprehensive literature review of central banking theory and practice. Second, it discusses contemporary challenges in monetary management. In structure, the book is comprised of fifteen chapters, grouped into five parts.

The first part comprises two chapters, which play an essential role as an introduction for the readers. It establishes the objectives of the book, aiming to serve the interest of academia, policymakers, and practitioners, while subtly positioning the book as using the approach of a textbook written in a more accessible narrative. Furthermore, this part outlines recent and relevant issues related to central banking practices, with more elaborate descriptions provided in the subsequent parts.

The second part comprises three chapters, focusing on literature on the role of monetary policy. Chapter 3 provides a theoretical overview explaining the role of money and monetary policy in the economy. Chapter 4 extends the literature discussion to the open economy aspect to describe the influence of the world economy on the regional or local economy. Chapter 5 connects aspects elaborated in the previous two chapters by providing a discussion on

the transmission of monetary policy in the economy.

The third part comprises four chapters, focusing on comprehensive discussions of monetary policy formulation and tools. Chapter 6 discusses strategic goals of monetary policy and describes various types of monetary regimes. Chapter 7 conceptualizes the operationalization of monetary policy and discusses its instruments. A comparison of the operationalization in several countries is also provided in this chapter. Chapter 8 discusses inflationary targeting in general, while Chapter 9 focuses on inflationary targeting in Indonesia.

The fourth part comprises three chapters, focusing on institutional aspects of central bank policy, by providing both theoretical overview and implementation in each chapter. Chapter 10 focuses on the credibility and time consistency aspects, Chapter 11 deals with independence and accountability, and Chapter 12 elaborates on transparency and communication strategy.

The fifth part comprises three chapters, and from my personal viewpoint, it provides the most compelling argument of this book. This part argues on the merit of the new paradigm in central banking, decidedly the most forward-looking compared to the previous three parts. Chapter 13 discusses the interaction between monetary policy and foreign capital flows, a challenge shared by many emerging economies. Chapter 14 deals with macro prudential policy and financial system stability. The final chapter, Chapter 15, focuses on central bank policy mix, giving emphasis on policy formulation challenges in

\* *Corresponding Author*: JG Crawford Building, 132 Lennox Crossing, Acton 2601, Ph.D. Scholar, Arndt-Corden Department of Economics, Crawford School of Public Policy, The Australian National University, Australia. Email: denny.irawan@anu.edu.au.

an environment characterized as volatile, uncertain, contagious, and ambiguous.

I read this book in the midst of the COVID-19 pandemic. It challenges us on how to formulate monetary policy that could address the impact of the COVID-19 pandemic. While this book comprehensively discusses many aspects of central banking, providing both rigorous theoretical underpinnings and practical contribution on the implementation suitable for the Indonesian context, the efficacy of some of the conventional monetary policies discussed in this book have been seriously undermined in the wake of the COVID-19 pandemic.

The 2008/2009 global financial crisis (GFC) coupled with the unprecedented global downturn brought by the COVID-19 pandemic has led to some unconventional inventions in central banking. More specifically, the 2008/2009 GFC has revolutionized the way many central banks operate, most notably with the introduction of the then a-theoretical invention of zero/negative interest rate. In light of this argument, this book could have offered relevant insights had it discussed in more detail unconventional monetary policy (UMP)<sup>1</sup>. Although many features of UMP have proven to be effective mainly in developed countries, these features remain salient for central banking policies in developing countries in the 21st century. For example, the authors may provide evidence of the most recent and essential features of central banking practice, especially several policies that have been implemented in the aftermath of the 2008/2009 GFC.

While this book is arguably not the first publication on the latest central bank policy theories and practices, the contribution of this book is found in its originality as the first book to deal with the central bank policy in Indonesia applying relevant theoretical underpinnings and practical implementation.

Furthermore, although this book offers overview of general context and stories, some technical contents in several chapters demand a general readership to understand advanced math. For the same reason, a readership of monetary policy researchers who expect more theoretical insights should look elsewhere.

While a review of the central bank policy is best achieved within a continued period of time leading to the present, the scope of this book is limited to the period of the 2008/2009 GFC. The addition of the monetary policy after the GFC would provide insights for the readers with the policy that has been done by the Central Bank of Indonesia after that turbulence period.

In terms of content organization, the objectives of this book will be best served if it is divided into two main sections: theoretical and practical. This approach will allow a more practical comprehension, rather than combining theoretical underpinnings and practical implementations in each chapter.

In terms of readership, although this book is originally written for the academic circle, professionals, and practitioners, it may benefit a general readership with discussion on monetary policy grounded in the context of developing countries and with the perspective of the Central Bank of Indonesia. I am confident that the book can be an excellent reference for central bankers in emerging economies in general, although the readership mostly benefit from this book are those wanting to expand their understanding of monetary policy in Indonesia. Appreciation is in place for the authors for their attempts to fill in a significant literature gap about central banking in emerging countries, especially Indonesia.

<sup>1</sup>See Box 13.1, page 418.