

ABSTRACT

The stock market serves as a key indicator of a country's economic condition. In Indonesia, the Composite Stock Price Index (IHSG) often exhibits volatility that can undermine economic stability and investor confidence. One contributing factor to this volatility is monetary policy, particularly changes in interest rates by Bank Indonesia (BI) and inflation. However, the effects of interest rates and inflation on market volatility are not always linear and may be influenced by the central bank's communication strategy. This study aims to explore the role of BI's communication in moderating the impact of interest rates and inflation on stock market volatility. By systematically analyzing communication elements, the study assesses whether clearer and more consistent communication can reduce market uncertainty.

The research employs a two-stage approach. First, communication is analyzed using a text analysis method based on Natural Language Processing (NLP) by fine-tuning a Generative Pre-trained Transformer (GPT) model via OpenAI's Application Programming Interface (API) to measure sentiment and clarity in BI governor speeches. Second, the resulting communication scores are incorporated into a regression analysis to evaluate how BI's communication moderates the effects of interest rates and inflation on IHSG volatility.

The findings reveal that both interest rates and inflation tend to reduce market volatility, although the effect of inflation is weaker. BI's communication clarity plays a significant role in dampening volatility; however, excessive clarity may trigger heightened market reactions, particularly when accompanying unexpected policy announcements. In contrast, the sentiment dimension of communication does not consistently moderate the relationship. These results underscore the importance of a balanced communication strategy—clear enough to provide guidance, yet cautious enough to avoid amplifying market uncertainty.

Keywords: *stock market volatility, central bank communication, monetary policy, interest rates, inflation, natural language processing*