

CHAPTER V

CONCLUSIONS AND SUGGESTIONS

5.1. Conclusions

Using the Autoregressive Distributed Lag (ARDL) approach and quarterly data from 2010 to 2022, this study investigated the short- and long-term effects of significant macroeconomic factors, such as GDP growth, inflation, interest rates, and trade openness, on the Indonesian Rupiah's (IDR) exchange rate against the US Dollar (USD).

The unit root test, which showed that the variables were integrated in two distinct orders, $I(0)$ and $I(1)$, supported the ARDL model. A long-term link between the variables was found by the Bounds Cointegration Test. The primary findings from the assessment of the ARDL and ECM models are as follows:

1. The only factor that significantly and statistically affected the exchange rate over the short and long terms was inflation. For every 1% increase in inflation over time, the Rupiah declined by 0.0151% (coefficient = 0.0151, $p < 0.01$). The short-term effects of inflation were constant, positive, and substantial. The Purchasing Power Parity (PPP) hypothesis, which holds that rising inflation lowers the currency's external value, is supported by this finding.
2. The short- and long-term effects of GDP growth on the exchange rate are negative but negligible (coefficient = -0.0008, $p = 0.360$ and -0.0010, $p = 0.350$). This shows that although the Rupiah should theoretically appreciate in response to increased GDP growth, the effect is statistically negligible in Indonesia. Because Indonesia's GDP growth is driven by imports rather than exports, it has less of an impact on changes in exchange rates, which may explain its insignificance.
3. Interest rates and exchange rates exhibited a positive but negligible association in the short term (coefficient = 0.0033, $p = 0.353$) and long term (coefficient = 0.0041, $p = 0.331$). This implies that although higher interest rates have a tendency to increase exchange rate volatility, they do

not guarantee an increase in the value of the Rupiah. This is consistent with studies demonstrating that capital flow volatility and risk premiums reduce interest rates' capacity to stabilize exchange rates in emerging nations.

4. In addition, the short- and long-term effects of trade openness were favorable but statistically insignificant (coefficient = 0.0014, $p = 0.067$ and 0.0018, $p = 0.092$, respectively). This implies that more openness may increase demand for foreign cash and goods, which would put pressure on the exchange rate, even when there is no statistically significant effect.
5. The system's ability to quickly adjust for disequilibrium was validated by a negative and very significant Error Correction Term (ECT) (-0.8127 , $p < 0.01$). Each quarter, the Rupiah exchange rate corrects roughly 81.27% of short-term imbalances, demonstrating its highly responsive adjustment mechanism toward long-term equilibrium.
6. The ARDL model's robustness was confirmed by diagnostic tests, which showed that there's no signs of structural instability, serial correlation, heteroskedasticity, or multicollinearity. The CUSUM and CUSUMSQ charts verified the model's stability throughout the sample period.

5.2. Suggestions

The study's findings enable the following suggestions to be made to future scholars, regulators, and legislators:

1. As a key strategy for maintaining exchange rate stability, monetary authorities should prioritize controlling inflation. Because inflation regularly and severely affects the Rupiah, it is imperative that price stability be maintained through sensible fiscal coordination, inflation targeting frameworks, and effective monetary policy.
2. Monetary policy communication alone may not be sufficient to influence exchange rate behavior unless it is paired with investor confidence and wider macroeconomic credibility, as interest rate fluctuations have a limited impact. Thus, in addition to interest rate policy, Bank Indonesia

may need to employ instruments for inflation anchoring, currency stabilization, and efficient communication.

3. It is recommended that external elements such as oil prices, foreign direct investment (FDI), and external debt be added to the model for additional research. Non-linear models may also help us better understand the volatility dynamics and asymmetric effects in the Indonesian foreign exchange market.

