

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Based on the results of the analysis using the Quantile Vector Autoregression (QVAR), Quantile Impulse Response Function (QIRF), Quantile Forecast Error Variance Decomposition (QFEVD), and Diebold-Yilmaz Spillover Index methods, the following conclusions were reached:

1. There is a difference in the effectiveness of monetary policy between conditions of high and low uncertainty. Under conditions of low uncertainty, the BI Rate has proven effective in reducing inflation, whereas under conditions of high uncertainty, its effectiveness declines. There is a difference in the effectiveness of monetary policy between conditions of high and low uncertainty.
2. There is a difference in the response of inflation to external shocks under conditions of high and low uncertainty. Inflation responds to rising oil prices with a greater increase under conditions of high uncertainty, whereas the impact of GEPU is relatively small.
3. Based on the research findings, there is no strong evidence yet that the BI Rate plays a dominant role in mitigating the impact of external shocks from the GEPU and oil prices on inflation. The BI Rate's contribution to inflation fluctuations is relatively limited, while the GEPU's contribution is also very small. On the other hand, oil prices continue to exert upward pressure on inflation, particularly under conditions of high uncertainty.
4. There are dynamic relationships among the variables under both high and low uncertainty conditions. Inflation acts as the most dominant variable influencing the others (transmitter), while oil prices are more heavily influenced by other variables (receiver). Furthermore, GEPU tends to play a limited role in the system, while WUI exhibits a relatively more balanced role and contributes to inflation dynamics, particularly under high uncertainty.

5. There are differences in the relationship patterns among variables under conditions of high and low uncertainty. The relationships among variables are relatively stable and predictable under conditions of low uncertainty, where the direction of influence between variables is relatively consistent. However, under conditions of high uncertainty, the relationships among variables become more complex and unstable. This indicates that the patterns of relationships among variables are nonlinear and strongly influenced by conditions of economic uncertainty.

5.2 Recommendations

Here are some recommendations based on the research findings:

1. For Bank Indonesia (BI)

In setting the BI Rate, Bank Indonesia should consider economic uncertainty, as its effectiveness has been shown to vary under conditions of high and low uncertainty. Additionally, monetary policy should be supported by other policies, such as macroprudential policies, to enhance its effectiveness in controlling inflation.

2. For the Government

The government needs to maintain price stability by anticipating rises in inflation, particularly those stemming from global energy commodities such as oil prices, as these have been shown to have a significant impact on inflation during periods of high uncertainty.

3. For Future Researchers

Future research is advised to include additional variables such as exchange rates, global interest rates, or other relevant macroeconomic variables to make the analysis more comprehensive. Additionally, the use of other methods such as TVP-VAR, SVAR, etc., may be considered to capture more complex economic activity.

