THE IMPACT OF FEDERAL FUNDS RATE, EXCHANGE RATE, AND MONEY SUPPLY ON INFLATION IN INDONESIA

THESIS

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DEPARTMENT OF DEVELOPMENT ECONOMICS

FACULTY OF ECONOMICS AND BUSINESS

UNIVERSITAS PEMBANGUNAN NASIONAL VETERAN JAWA TIMUR

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PREFACE

Praise and gratitude are devoted to God Almighty for His love, grace, and blessings, which have enabled the author to complete this undergraduate thesis entitled “The Impact of Federal Funds Rate, Exchange Rate, and Money Supply on Inflation in Indonesia.” This undergraduate thesis is submitted in partial fulfillment of the requirements for the degree of Bachelor of Economics at the Development Economics Study Program, Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jawa Timur.

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The author realizes that this undergraduate thesis is still far from perfect due to limitations in knowledge and ability. Therefore, constructive criticism and suggestions are highly appreciated for the improvement of this scientific work. Finally, the author hopes that this thesis will provide benefits for the author, academics, and all parties concerned with monetary policy in Indonesia.

Surabaya, 10 May 2026

The Author

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THE IMPACT OF FEDERAL FUNDS RATE, EXCHANGE RATE, AND MONEY SUPPLY ON INFLATION IN INDONESIA

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ABSTRACT

This study aims to analyze the impact of the Federal Funds Rate (FFR), the Rupiah exchange rate (IDR/USD), and the broad money supply (M2) on inflation in Indonesia using monthly time-series data from January 2015 to December 2024. The Autoregressive Distributed Lag with Error Correction Model (ARDL-ECM) was applied. The results show that the FFR has a significant short-run effect on inflation, positive at the first lag and partially reversed at the second, but is insignificant in the long run, reflecting Bank Indonesia's ability to buffer domestic prices from permanent U.S. monetary spillovers. The exchange rate only becomes significant after a three-month lag in the short run, with a negative direction consistent with demand compression, and is weakly significant at the 10% level in the long run. The money supply shows no significant effect on inflation in either the short or long run, suggesting that sustained M2 growth did not directly translate into higher prices, in line with Bank Indonesia's inflation-targeting framework. The ECM coefficient of -0.104939 confirms a valid long-run adjustment mechanism, with deviations from equilibrium corrected at approximately 10.49% per month, implying a full adjustment period of around 9 to 10 months.

Keywords: Inflation, Federal Funds Rate, Exchange Rate, Money Supply, ARDL-ECM