

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

This study aims to analyze the effect of Bank Indonesia's policy interest rate (BI Rate), the money supply (M2), and world oil prices on inflation in Indonesia during the 2014-2025 period using the Autoregressive Distributed Lag (ARDL) method. Based on the results of the analysis and discussion that have been conducted, the following conclusions can be drawn:

1. Bank Indonesia's policy interest rate (BI Rate) has no significant effect on inflation in Indonesia, either in the long run or in the short run. This result indicates that changes in the BI Rate have not been able to significantly affect inflation movements during the study period. Therefore, the first hypothesis stating that the interest rate has a significant effect on inflation is rejected.
2. The money supply (M2) has a significant effect on inflation in the long run, with a negative direction of relationship, while no significant effect is found in the short run. This result indicates that an increase in the money supply is not always followed by an increase in inflation. Thus, the second hypothesis stating that the money supply (M2) has a positive and significant effect on inflation is rejected.
3. World oil prices have a positive and significant effect on inflation in the long run, and also have an effect in the short run through a lag mechanism. This result indicates that an increase in world oil prices will drive higher inflation

in Indonesia through increased production and distribution costs. Therefore, the third hypothesis stating that world oil prices have a positive and significant effect on inflation is accepted.

4. The ARDL Bounds Test results show that the F-statistic value is greater than the upper bound value at the 5 percent significance level, indicating a long-run relationship (cointegration) among the interest rate, money supply (M2), world oil prices, and inflation in Indonesia. Thus, the fourth hypothesis stating that the interest rate, money supply (M2), and world oil prices simultaneously have a significant effect on inflation is accepted.

5.2 Recommendations

Based on the research results obtained, the following recommendations can be given:

1. For Bank Indonesia, inflation control should not be carried out solely through the interest rate instrument, but also needs to take into account other factors that have a greater influence on inflation, particularly developments in global commodity and energy prices.
2. For the Government, it is necessary to strengthen national energy security through energy source diversification, increased use of renewable energy, and effective energy policy management in order to reduce the impact of world oil price fluctuations on domestic inflation.
3. For the government and monetary authorities, management of the money supply needs to be carried out carefully while taking into account financial system stability and economic conditions, so as not to create pressure on long-term price stability.

4. For future researchers, it is recommended to add other variables that potentially influence inflation, such as the exchange rate, food prices, government expenditure, or international commodity price indices. In addition, the use of a longer research period and different analytical methods is expected to provide more comprehensive results regarding the determinants of inflation in Indonesia.