

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The following are the conclusions of this study:

1. The rupiah exchange rate has been shown to have a significant impact on inflation in Indonesia, both in the long run and the short run. Rupiah depreciation tends to increase inflation through higher prices of imported goods and domestic production costs, making exchange rate stability a key factor in controlling inflation.
2. The BI Rate has a significant impact on inflation in the long run, but does not show a significant impact in the short run. This indicates that interest rate policy requires time for the transmission process before it affects changes in Indonesia's inflation rate.
3. The Federal Funds Rate (FFR) does not have a significant direct impact on Indonesia's inflation but exerts an indirect influence through movements in the rupiah exchange rate. The research findings indicate that changes in U.S. monetary policy must still be monitored, as they can affect domestic economic stability through capital flows and exchange rate fluctuations.
4. A negative and significant Error Correction Term (ECT) coefficient indicates that the model possesses an adjustment mechanism toward long-term equilibrium in the event of short- deviations. Thus, inflation dynamics in Indonesia can return to equilibrium following an economic shock

5.2 Recommendations

Based on the research findings, Bank Indonesia is expected to further strengthen its policies to stabilize the rupiah exchange rate and implement more proactive interest rate policies to maintain inflation stability. Additionally, the government and monetary authorities need to enhance coordination in addressing the impact of changes in the Federal Funds Rate on the domestic economy. For future research, it is recommended to include other macroeconomic variables, such as global commodity prices, and to use alternative methods, such as ARDL or nonlinear models, so that the research results are more comprehensive and capable of describing inflation dynamics in greater depth.