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US Influence on Indonesia's Macroeconomic Fluctuations

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Abstract

The aim of this research is to investigate short-run deviations and long-run equilibrium of Indonesia's macroeconomic indicators using the Vector Error Correction Model (VECM) method as a continuation of previous research by the authors. VECM is used in this study to capture linkage showed through transmission of shocks in Indonesia's macroeconomic indicators through interest rate pass-through. This research was conducted using secondary data taken from the Federal Reserve Economic Data, Central Bank of Indonesia, and the World Bank in 1994-2024. The research year was chosen because Indonesia has gone through three major economic shocks in the last 30 years, namely the 1997/1998 Asian financial crisis, the 2008/2009 global economic crisis, and 2020 economic shock due to the pandemic. The variables used are US Balance of Trade, Fed Rate, Indonesia's inflation rate, and Indonesia's exchange rate. The result showed in three categories: monetary policy, inflation control, and external shocks. In monetary policy it was indicated that exchange rate fluctuations affect inflation regarding its volatility. Inflation also showed a clear indicator of feedback loop to depreciation. Meanwhile, Fed Rate has no short-run causal impact, only for the long-run. Indonesia's short run macro stability was indicated to be more sensitive to domestic factors rather than foreign.

Keywords: Fed Rate, Macroeconomic Fluctuations, CPI, Balance of Trade, Currency