

ANALYSIS OF GLOBAL ECONOMIC POLICY UNCERTAINTY, TRADE FACTORS, AND PORTFOLIO INVESTMENT FACTORS ON THE RUPIAH EXCHANGE RATE

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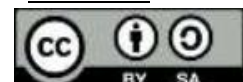
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ABSTRACT

This study analyzes the determinants of the Rupiah/US Dollar exchange rate in Indonesia during 2016–2025 using the Autoregressive Distributed Lag (ARDL) approach. The results show that Global Economic Policy Uncertainty (GEPU) and the Chinese Yuan exchange rate have a positive and significant effect on the Rupiah exchange rate in both the short and long run. Indonesia's inflation has a significant negative effect in the long run but no significant effect in the short run. Exports to China have a negative and significant effect in the short run but a positive and significant effect in the long run, whereas exports to the United States have no significant effect. Indonesia's government bond yield has a positive and significant effect only in the short run, while the US Treasury 10-year bond yield has a negative and significant effect in the short run but a positive and significant effect in the long run. The findings indicate that external factors, particularly global economic uncertainty, the Chinese Yuan exchange rate, and the US Treasury 10-year bond yield, play a more important role in influencing the Rupiah exchange rate than domestic factors.

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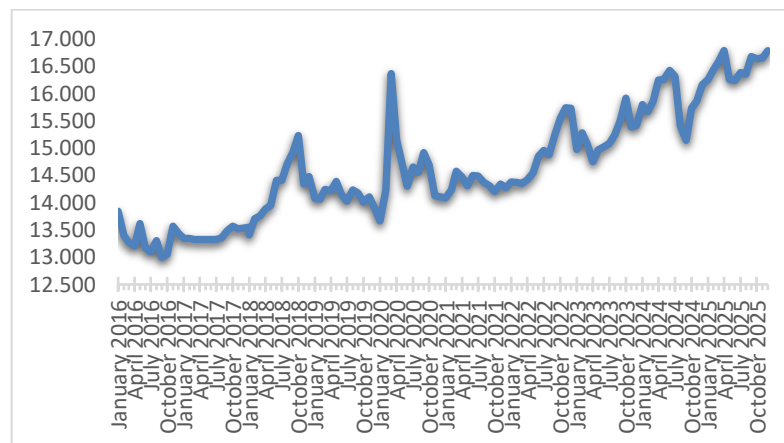
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INTRODUCTION

The exchange rate is a key macroeconomic indicator that is essential for maintaining economic stability, particularly in open economies such as Indonesia. Movements in the Indonesian Rupiah (IDR) against the U.S. dollar (USD) not only reflect conditions in the foreign exchange market but also affect international trade, inflation, investment, and financial stability (Carissa & Khoirudin, 2020). Since the adoption of the free-floating exchange rate regime on August 14, 1997, the value of the Rupiah has no longer been determined by the monetary authority but has instead been driven by supply and demand conditions in the foreign exchange market (Madura, 2021). Although this exchange rate regime provides greater flexibility, it also makes the Rupiah more vulnerable to domestic and global economic shocks. This issue is particularly important because the U.S. dollar remains the world's dominant reserve currency and serves as the primary anchor currency in the international monetary system (International Monetary Funds, 2026). Consequently, fluctuations in the Rupiah–U.S. dollar exchange rate have

significant implications for Indonesia's economic performance, influencing international trade, inflation, and cross-border investment flows (Andrian et al., 2023).



Source: Bank Indonesia

Figure 1. Rupiah/USD Exchange Rate (Monthly), 2016-2025

During the period 2016-2025, the Rupiah exhibited considerable exchange rate fluctuations, with an overall trend of depreciation. According to data from Bank Indonesia, the Rupiah depreciated from IDR 13,846 per U.S. dollar in January 2016 to approximately IDR 16,782 per U.S. dollar in December 2025. However, this depreciation did not occur in a linear manner. Rather, it was driven by a series of global economic shocks, including the U.S.-China trade war in 2018, the COVID-19 pandemic in 2020, and the tightening of global monetary policy alongside heightened geopolitical uncertainty during 2022-2025 (Bank Indonesia, 2025). These developments indicate that fluctuations in the Rupiah exchange rate are influenced not only by domestic economic conditions but also by external factors.

One of the external factors that may influence the dynamics of the Rupiah exchange rate is Global Economic Policy Uncertainty (GEPU). GEPU is an index that measures global economic policy uncertainty by aggregating the Economic Policy Uncertainty (EPU) indices of 18 major economies that account for a substantial share of the global economy (Davis, 2016). An increase in GEPU reflects heightened uncertainty regarding the direction of global economic policies, which may affect investors' expectations and increase demand for safe-haven assets. As a result, investors may shift their portfolios away from emerging markets toward lower-risk assets, triggering capital outflows from emerging economies, including Indonesia. These capital outflows may exert depreciation pressure on the Rupiah by increasing demand for foreign currency and reducing capital inflows (Baker et al., 2016).

In addition to global economic policy uncertainty, movements in the Chinese Yuan exchange rate constitute another important external factor affecting the Rupiah, as China is Indonesia's largest trading partner. Changes in the Yuan exchange rate may influence Indonesia's trade competitiveness as well as the balance of foreign exchange demand and supply. Unlike Indonesia, which adopts a free-floating exchange rate regime, China operates under a managed floating exchange rate regime, where the value of the Yuan remains subject to intervention by the People's Bank of China (Das, 2019). A depreciation of the Yuan can enhance the price competitiveness of Chinese exports, thereby affecting Indonesia's trade activities and ultimately influencing the Rupiah exchange rate (Ramana & Nasrudin, 2018; Salvatore, 2020).

Besides external factors, domestic macroeconomic conditions also play an important role in determining the Rupiah exchange rate, particularly through inflation. The relationship between

inflation and the exchange rate is theoretically explained by the Purchasing Power Parity (PPP) theory, which suggests that higher domestic inflation tends to cause currency depreciation by reducing the competitiveness of domestic goods and increasing demand for foreign currency (Salvatore, 2020). Therefore, maintaining price stability is essential for preserving the stability of the Rupiah exchange rate (Safruddin, 2020).

International trade is another important determinant of the Rupiah exchange rate. China and the United States are Indonesia's two largest trading partners, accounting for the highest trade values among all partner countries. Exports to these countries represent a major source of foreign exchange earnings, thereby increasing the supply of foreign currency in the domestic foreign exchange market. Consequently, stronger export performance may support the appreciation of the Rupiah, whereas declining exports reduce foreign exchange earnings and may exert depreciation pressure on the domestic currency (Astuty, 2022). In addition to the volume of bilateral trade, developments in U.S.-China trade relations, particularly the escalation of the trade war since 2018, have also affected global trade flows and Indonesia's export performance (Bown, 2021).

Beyond trade related factors, movements in the Rupiah exchange rate are also influenced by portfolio investment dynamics in financial markets (Fajarini et al., 2023). In this study, these dynamics are represented by the yield on Indonesia's 10-year government bonds and the yield on the 10-year U.S. Treasury (Tampubolon, 2023). The yield on Indonesian government bonds reflects the rate of return available in the domestic bond market, whereas the U.S. Treasury yield represents the return on one of the world's primary safe-haven assets and serves as a key benchmark for global investors. Changes in these yields influence international portfolio allocation decisions and cross-border capital flows (Hördahl & Valente, 2022). For example, an increase in U.S. Treasury yields may encourage investors to shift their investments toward U.S. financial assets, leading to capital outflows from emerging economies, including Indonesia, and consequently exerting depreciation pressure on the Rupiah (Zou, 2025).

LITERATURE REVIEW

The relationship between GEPU and exchange rates can be explained by Modern Portfolio Theory (Markowitz, 1952). The theory argues that investors allocate their portfolios by balancing expected returns and risk. During periods of heightened global policy uncertainty, investors become more risk-averse and rebalance their portfolios away from relatively risky assets in emerging markets toward safe haven assets, particularly US Treasury securities and US dollar-denominated assets. This portfolio reallocation induces capital outflows from emerging economies, increases demand for the US dollar, and consequently causes the domestic currency to depreciate.

The relationship between the Chinese Yuan exchange rate and the Rupiah can be explained through the trade channel. According to Salvatore (2020), changes in a trading partner's exchange rate alter the relative prices of exports and imports, thereby influencing international trade flows and foreign exchange demand. Since China is Indonesia's largest trading partner, fluctuations in the Yuan have direct implications for Indonesia's trade competitiveness and foreign exchange market. When the Yuan depreciates against the US dollar, Chinese products become relatively cheaper in international markets, improving China's export competitiveness. For Indonesia, this condition tends to increase imports from China while reducing the competitiveness of Indonesian exports. As international transactions are predominantly settled in US dollars, higher imports from China increase Indonesia's demand for US dollars, placing depreciation pressure on the Rupiah.

Inflation affects exchange rates through the Purchasing Power Parity (PPP) theory. Higher domestic inflation increases the price of domestic goods relative to foreign goods, reducing export competitiveness and encouraging imports. The increase in import demand raises the need for foreign currency, while lower export competitiveness reduces foreign exchange inflows. Through the foreign exchange demand and supply mechanism, these conditions increase pressure on the Rupiah and cause depreciation (Mishkin, 2019).

The relationship between exports and exchange rates can be explained through the foreign exchange demand and supply framework. Higher exports to China and the United States generate foreign exchange earnings from international transactions. The increase in foreign currency supply in the domestic market reduces pressure on foreign currency demand and supports Rupiah appreciation. Conversely, declining exports reduce foreign exchange inflows, decreasing foreign currency supply and increasing depreciation pressure on the Rupiah. Therefore, export growth is theoretically expected to strengthen the Rupiah. This mechanism is consistent with international trade theory, where export activities increase foreign exchange supply and influence exchange rate movements (Salvatore, 2020).

The relationship between bond yields and exchange rates can be explained through the Interest Rate Parity theory and portfolio allocation mechanism. Higher domestic bond yields relative to US Treasury yields can attract foreign capital inflows, increasing demand for Rupiah and leading to appreciation. Conversely, rising US Treasury yields increase the attractiveness of US dollar assets, encouraging capital outflows from emerging markets and causing Rupiah depreciation. Previous empirical studies have shown that global economic conditions and financial market developments play important roles in determining exchange rate movements. Abid (2019) found that Economic Policy Uncertainty (EPU) significantly contributed to exchange rate depreciation in several emerging economies in both the short and long run. Similarly, Munandar (2025) reported that economic policy uncertainty had a significant long-run effect on the exchange rates of ASEAN countries, although the short-run effects varied across countries. From the perspective of international trade, Chiappini & Lahet (2019) demonstrated that movements in the Chinese Yuan exchange rate significantly affected the currencies of emerging Asian economies, highlighting China's increasing influence on regional exchange rate dynamics. Regarding portfolio investment, Prananta & Alexiou (2024) found that increases in Indonesian government bond yields were positively associated with the USD/IDR exchange rate during the COVID-19 period. Likewise, Tampubolon (2023) showed that U.S. Treasury yields were dynamically linked to the Rupiah exchange rate through changes in international capital flows.

RESEARCH METHODOLOGY

This study uses monthly secondary time-series data covering the period from January 2016 to December 2025. The dependent variable is the Rupiah exchange rate against the U.S. dollar (NT). The independent variables are Global Economic Policy Uncertainty (GEPU), the Chinese Yuan exchange rate against the U.S. dollar (YUAN), Indonesia's inflation rate (INF_ID), Indonesia's exports to China (LNX_CN), Indonesia's exports to the United States (LNX_US), the yield on Indonesia's 10-year government bonds (YOBG_ID), and the yield on the 10-year U.S. Treasury (YOBG_US). The data were obtained from Bank Indonesia, the Economic Policy Uncertainty database, the People's Bank of China (PBoC), the Federal Reserve Economic Data (FRED), and Investing.com. This study uses the Autoregressive Distributed Lag (ARDL) approach developed by Pesaran et al. (2001). The ARDL model is suitable because it estimates both the short-run and long-run relationships simultaneously and can be applied to variables with mixed orders of integration, namely $I(0)$ and $I(1)$, provided that none of the variables is integrated of order two, $I(2)$. The ARDL model is specified as follows:

$$\Delta NT_t = a_0 + \sum_{i=1}^n a_{1i} \Delta NT_{t-1} + \sum_{i=1}^n a_{2i} \Delta GEPU_{t-1} + \sum_{i=1}^n a_{3i} \Delta YUAN_{t-1} + \sum_{i=1}^n a_{4i} \Delta INF_ID_{t-1} + \sum_{i=1}^n a_{5i} \Delta LNX_CN_{t-1} + \sum_{i=1}^n a_{6i} \Delta LNX_AS_{t-1} + \sum_{i=1}^n a_{7i} \Delta YOBG_ID_{t-1} + \sum_{i=1}^n a_{8i} \Delta YOBG_AS_{t-1} + \theta_1 NT_{t-1} + \theta_2 GEPU_{t-1} + \theta_3 YUAN_{t-1} + \theta_4 INF_ID_{t-1} + \theta_5 LNX_CN_{t-1} + \theta_6 LNX_AS_{t-1} + \theta_7 YOBG_ID_{t-1} + \theta_8 YOBG_AS_{t-1} + e_t$$

Δ represents the first difference of each variable, while a_0 is the constant term in the model. The coefficients a_{1i} through a_{8i} represent the short-run coefficients for each independent variable, while θ_1 through θ_8 represent the long-run relationship coefficients between the independent variables and the dependent variable. Furthermore, n denotes the optimal lag length used in the model, and e_t is the error term.

The analysis consisted of the Augmented Dickey–Fuller (ADF) unit root test, optimal lag selection using the Akaike Information Criterion (AIC), the ARDL Bounds Test for cointegration, estimation of the short-run and long-run relationships using the ARDL-ECM model, and t-tests to examine the partial effects of the independent variables on the Rupiah exchange rate. Prior to the ARDL estimation, the unit root test was conducted to ensure that none of the variables was integrated of order two, I(2).

RESULTS AND DISCUSSION

Stationarity Test

The results of the Augmented Dickey-Fuller (ADF) unit root test indicate that GEPU and YOBG_ID are stationary at level, or integrated of order I(0). Meanwhile, NT, YUAN, INF_ID, LNX_CN, LNX_US, and YOBG_US become stationary after first differencing, indicating that they are integrated of order I(1). Since none of the variables is integrated of order two, I(2), all variables satisfy the prerequisite for estimation using the Autoregressive Distributed Lag (ARDL) model.

Table 1. Result of the Augmented Dickey-Fuller (ADF) Unit Root Test

Variable	Level	First Difference	Orde Integration
NT	0.5892	0.0000	I(1)
GEPU	0.0084	0.0000	I(0)
YUAN	0.1572	0.0000	I(1)
INF_ID	0.0702	0.0004	I(1)
LNX_CN	0.2854	0.0000	I(1)
LNX_AS	0.6030	0.0000	I(1)
YOBG_ID	0.0267	0.0000	I(0)
YOBG_AS	0.6872	0.0000	I(1)

Source: EViews 13, data processed (2026)

Optimal Lag Selection and ARDL Bounds Cointegration Test

Based on the Akaike Information Criterion (AIC), the best model obtained is ARDL (1,4,1,0,2,0,1,1), as it has the lowest AIC value. This model was subsequently used in the cointegration test using the ARDL Bounds Test.

Table 2. Cointegration Bound Test

Test Statistic	Value	Significant Level	I(0) Bound	I(1) Bound
F-Statistic	3.833155**	10%	1.920	2.890
K	7	5%	2.170	3.210
		1%	2.730	3.900

Source: EViews 13, data processed (2026)

The Bounds Test results in Table 2 show an F-statistic value of 3.833155, which is greater than the upper bound value at the 5% significance level (3.210). Therefore, the null hypothesis stating that there is no long-run relationship is rejected. This result indicates that a cointegrating relationship exists among Rupiah exchange rate, GEPU, YUAN, INF_ID, LNX_CN, LNX_AS, YOBG_ID, and YOBG_AS. Accordingly, the estimation of the short-run and long-run relationships using the ARDL-ECM model can be proceeded.

Short-Run Results

The short-run estimation results of the ARDL-ECM model are presented in Table 3. Based on the partial significance test at the 5% significance level, Global Economic Policy Uncertainty (GEPU), the Chinese Yuan exchange rate (YUAN), exports to China (LNX_CN), Indonesian government bond yields (YOBG_ID), and the 10-year US Treasury yield (YOBG_AS) significantly affect the Rupiah exchange rate in the short run.

Table 3. Short-Run ARDL Regression Coefficients

ARDL Error Correction Regression Dependent Variable: D(NT) Selected model: ARDL(1,4,1,0,2,0,1,1) Case 2: restricted Constant and No Trend				
Variable	Coefficient	Std.Error	t-Statistic	Prob.
D(GEPU)	0.001383	0.000446	3.103847	0.0024
D(GEPU-1)	-0.001326	0.000425	-3.118737	0.0023
D(GEPU-2)	-0.001176	0.000437	-2.693032	0.0082
D(GEPU-3)	-0.001040	0.000435	-2.392049	0.0185
D(YUAN)	1.146877	0.265893	4.313306	0.0000
D(LNX_CN)	-0.181623	0.172504	-1.050771	0.2958
D(LNX_CN-1)	-0.454198	0.172504	-2.632972	0.0097
D(YOBG_ID)	0.641703	0.078322	8.193152	0.0000
D(YOBG_AS)	-0.235998	0.112052	-2.106151	0.0376
CointEq(-1)*	-0.301330	0.049329	-6.108567	0.0000
R-squared	0.632303	Mean dependent var		0.030845
Adjusted R-squared	0.601083	S.D. dependent var		0.352058
S.E. of regression	0.222359	Akaike info criterion		-0.086780
Sum squared resid	5.241036	Schwarz criterion		0.150598
Log likelihood	15.03324	Hannan-Quinn criter.		0.009582

Durbin-Watson stat	2.120684			
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Source: EViews 13, data processed (2026)

Global Economic Policy Uncertainty (GEPU) has a positive and significant contemporaneous effect on the Rupiah exchange rate, with a t-statistic of 3.103847 and a probability value of 0.0024. The coefficient of 0.001383 indicates that an increase in GEPU leads to an increase in the Rupiah exchange rate against the US dollar, implying a depreciation of the Rupiah. However, the first, second, and third lagged values of GEPU have negative and significant coefficients, with probability values below 0.05. This finding indicates that the impact of global economic policy uncertainty persists for several periods but changes direction, reflecting the adjustment of market expectations following external shocks. The Chinese Yuan exchange rate (YUAN) has a t-statistic of 4.313306 with a probability value of 0.0000, indicating a positive and significant effect on the Rupiah exchange rate. The coefficient of 1.146877 indicates that an increase in the Yuan exchange rate against the US dollar is associated with an increase in the Rupiah exchange rate, implying a depreciation of the Rupiah in the short run.

Exports to China (LNX_CN) do not have a significant effect in the current period, as indicated by a probability value of 0.2958. However, the first lag of exports to China has a t-statistic of -2.632972 with a probability value of 0.0097, indicating a negative and significant effect. The coefficient of -0.454198 suggests that a 1% increase in exports to China in the previous period reduces the Rupiah exchange rate, implying an appreciation of the Rupiah. This result indicates that the impact of export activities on the foreign exchange market occurs after a one-period adjustment.

Indonesian government bond yields (YOBG_ID) have a t-statistic of 8.193152 with a probability value of 0.0000, indicating a positive and significant effect on the Rupiah exchange rate. The coefficient of 0.641703 indicates that an increase in domestic government bond yields is associated with an increase in the Rupiah exchange rate against the US dollar, implying a depreciation of the Rupiah. The 10-year US Treasury yield (YOBG_AS) has a t-statistic of -2.106151 with a probability value of 0.0376, indicating a negative and significant effect on the Rupiah exchange rate. The coefficient of -0.235998 indicates that an increase in the US Treasury yield is associated with a decrease in the Rupiah exchange rate, implying an appreciation of the Rupiah in the short run.

The Error Correction Term (ECT) has a t-statistic of -6.108567 with a probability value of 0.0000, indicating that the coefficient is negative and statistically significant. This result confirms the existence of a long-run equilibrium relationship among the variables. The ECT coefficient of -0.301330 indicates that approximately 30.13% of the deviation from the long-run equilibrium is corrected within one period, while the remaining disequilibrium is gradually adjusted in subsequent periods until equilibrium is restored.

Long-Run Estimation Results

The long-run estimation results of the ARDL model are presented in Table 4. At the 5% significance level, Global Economic Policy Uncertainty (GEPU), the Chinese Yuan exchange rate (YUAN), Indonesian inflation (INF_ID), exports to China (LNX_CN), and the 10-year US Treasury yield (YOBG_AS) have a significant effect on the Rupiah exchange rate (NT). Meanwhile, exports to the United States (LNX_AS) and Indonesian government bond yields (YOBG_ID) do not have a statistically significant effect.

Table 4. Long-Run Estimation Results

Selected model: ARDL(1,4,1,0,2,0,1,1)				
Dependent Variable: NT				
Variable	Coefficient	Std.Error	t-Statistic	Prob-Value
GEPU	0.004139	0.001391	2.976506	0.0036
YUAN	1.239570	0.455807	2.719505	0.0076
INF_ID	-0.179807	0.075746	-2.373821	0.0194
LN_X_CN	0.805073	0.381708	2.109133	0.0372
LN_X_AS	-0.053583	0.711968	-0.075260	0.9401
YOBG_ID	-0.059121	0.221334	-0.267113	0.7899
YOBG_AS	0.231314	0.101358	2.282138	0.0244
C	-5.624619	8.860508	-0.634796	0.5269

Source: EViews 13, data processed (2026)

Global Economic Policy Uncertainty (GEPU) has a t-statistic of 2.976506 with a probability value of 0.0036, indicating a positive and significant effect on the Rupiah exchange rate in the long run. The coefficient of 0.004139 indicates that an increase in GEPU is followed by an increase in the Rupiah exchange rate against the US dollar, implying a depreciation of the Rupiah. This finding suggests that higher global uncertainty encourages investors to shift their investments toward safer assets, increasing demand for the US dollar. The Chinese Yuan exchange rate (YUAN) has a t-statistic of 2.719505 with a probability value of 0.0076, indicating a positive and significant effect on the Rupiah exchange rate. The coefficient of 1.239570 indicates that an increase in the Yuan exchange rate against the US dollar is associated with an increase in the Rupiah exchange rate, implying a depreciation of the Rupiah. This finding reflects the close trade relationship between Indonesia and China, where fluctuations in the Yuan influence Indonesia's external sector.

Indonesian inflation (INF_ID) has a t-statistic of -2.373821 with a probability value of 0.0194, indicating a negative and significant effect on the Rupiah exchange rate. The coefficient of -0.179807 indicates that an increase in inflation is associated with a decrease in the Rupiah exchange rate against the US dollar, implying an appreciation of the Rupiah, ceteris paribus. This result suggests that inflation is accompanied by monetary policy responses that contribute to exchange rate stability.

Exports to China (LN_X_CN) have a t-statistic of 2.109133 with a probability value of 0.0372, indicating a positive and significant effect on the Rupiah exchange rate. The coefficient of 0.805073 indicates that a 1% increase in exports to China is associated with an increase in the Rupiah exchange rate, implying a depreciation of the Rupiah. This finding suggests that higher export earnings have not fully strengthened the Rupiah because a substantial portion of foreign exchange receipts is used to finance imports from China. Exports to the United States (LN_X_AS) have a t-statistic of -0.075260 with a probability value of 0.9401, indicating no significant effect on the Rupiah exchange rate. Although the coefficient is negative (-0.053583), it cannot be interpreted statistically because it does not meet the significance criterion.

Indonesian government bond yields (YOBG_ID) have a t-statistic of -0.267113 with a probability value of 0.7899, indicating no significant effect on the Rupiah exchange rate in the long run. Although the estimated coefficient is -0.059121, it is statistically insignificant. The 10-year US Treasury yield (YOBG_AS) has a t-statistic of 2.282138 with a probability value of 0.0244, indicating a positive and significant effect on the Rupiah exchange rate. The coefficient of 0.231314 indicates that an increase in the US Treasury yield is associated with an

increase in the Rupiah exchange rate against the US dollar, implying a depreciation of the Rupiah. This finding indicates that higher US Treasury yields increase the attractiveness of US financial assets and encourage capital outflows from emerging markets, including Indonesia.

Effect of Global Economic Policy Uncertainty on the Rupiah Exchange Rate

The ARDL estimation results show that Global Economic Policy Uncertainty (GEPU) has a significant effect on the Rupiah exchange rate in both the short and long run. In the short run, GEPU exhibits a dynamic pattern, with a positive coefficient in the current period and negative coefficients in several lagged periods. In the long run, GEPU has a positive and significant effect, indicating that higher global economic policy uncertainty tends to depreciate the Rupiah against the US dollar. This finding is consistent with Modern Portfolio Theory (Markowitz, 1952), which explains that rising uncertainty increases investors' risk perception and encourages capital reallocation from emerging markets to safer US dollar-denominated assets.

As a result, capital inflows to Indonesia decline, demand for the US dollar increases, and the Rupiah depreciates. The negative lagged coefficients indicate that the impact of global uncertainty is not instantaneous but reflects the gradual adjustment of financial markets to external shocks. These findings are consistent with Chang et al. (2022) and Abdulsalam & Onipede (2023), which show that global economic policy uncertainty affects exchange rates through changes in risk preferences and international capital flows.

Effect of the Chinese Yuan Exchange Rate on the Rupiah Exchange Rate

The ARDL estimation results indicate that the Chinese Yuan exchange rate has a positive and significant effect on the Rupiah exchange rate in both the short and long run. This finding implies that a depreciation of the Yuan against the US dollar tends to be followed by a depreciation of the Rupiah. The result suggests that movements in the Yuan are an important external factor affecting the Rupiah exchange rate due to China's role as Indonesia's largest trading partner. This finding is consistent with the international trade channel theory Salvatore (2020), which explains that exchange rate movements in a major trading partner can influence another country's exchange rate through changes in trade competitiveness and foreign exchange demand. A weaker Yuan increases the competitiveness of Chinese products, which may reduce the competitiveness of Indonesian exports and increase demand for US dollars in international trade, thereby putting depreciation pressure on the Rupiah. This result is consistent with the findings of Safruddin (2020) and Ramana & Nasrudin (2018).

Effect of Indonesia's Inflation on the Rupiah Exchange Rate

The ARDL estimation results show that Indonesia's inflation has no significant effect on the Rupiah exchange rate in the short run but has a negative and significant effect in the long run. This finding indicates that changes in inflation do not immediately affect the exchange rate, while in the long run, higher inflation is associated with an appreciation of the Rupiah against the US dollar. This result differs from the prediction of the Purchasing Power Parity (PPP) theory but can be explained by Indonesia's Inflation Targeting Framework (ITF). Under this framework, higher inflation is typically followed by tighter monetary policy through policy interest rate adjustments, which increase the attractiveness of domestic financial assets and encourage capital inflows. The resulting increase in demand for the Rupiah contributes to its appreciation over time. The insignificant short-run effect suggests that the monetary policy transmission mechanism requires time before influencing the foreign exchange market. These findings are consistent with Hakim & Aji (2025) and Guk et al. (2025).

Effect of Indonesia's Exports to China on the Rupiah Exchange Rate

The ARDL estimation results show that Indonesia's exports to China have different effects on the Rupiah exchange rate in the short and long run. In the short run, exports to China have a negative and significant effect, indicating that higher exports contribute to the appreciation of the Rupiah through increased foreign exchange earnings. However, in the long run, exports to China have a positive and significant effect, implying that higher exports are associated with the depreciation of the Rupiah. The short-run finding is consistent with international trade theory (Salvatore, 2020), which states that higher exports increase foreign exchange inflows and strengthen the domestic currency. In contrast, the positive long-run relationship reflects Indonesia's strong dependence on imports of intermediate and capital goods from China. As a result, a substantial portion of export earnings is used to finance imports, limiting the net increase in foreign exchange supply in the domestic market and reducing the appreciation effect on the Rupiah. This finding is supported by Dewi (2020), Fordatkosu et al. (2021), and Guk et al. (2025).

Effect of Indonesia's Exports to the United States on the Rupiah Exchange Rate

The ARDL estimation results indicate that Indonesia's exports to the United States have no significant effect on the Rupiah exchange rate in either the short or the long run. This finding suggests that changes in exports to the United States were not a major determinant of Rupiah movements during the study period. According to international trade theory (Salvatore, 2020), higher exports are expected to increase foreign exchange earnings and strengthen the domestic currency. However, this mechanism is not supported by the empirical results. The insignificant effect implies that the Rupiah exchange rate is influenced more by other factors, such as global financial conditions, international capital flows, and Indonesia's stronger trade relationship with China than by export performance to the United States. Furthermore, export receipts denominated in US dollars may be used to finance imports or other foreign currency obligations, limiting their impact on the domestic foreign exchange market. This finding is consistent with Setefanny et al. (2024), which also found that exports do not have a significant effect on the Rupiah exchange rate.

Effect of Indonesian Government Bond Yields on the Rupiah Exchange Rate

The ARDL estimation results show that Indonesian government bond yields have a positive and significant effect on the Rupiah exchange rate in the short run but no significant effect in the long run. The positive short-run coefficient indicates that an increase in government bond yields is associated with the depreciation of the Rupiah, while the insignificant long-run result suggests that changes in bond yields do not have a sustained effect on the long-run exchange rate equilibrium. This finding indicates that higher government bond yields during the study period reflected increased market risk rather than stronger investment attractiveness. In the bond market, rising yields are often associated with falling bond prices due to selling pressure, which may signal capital outflows rather than capital inflows. Consequently, higher yields were accompanied by increased demand for the US dollar, putting depreciation pressure on the Rupiah. The insignificant long-run effect suggests that domestic bond yields were less influential than external factors in determining the long-run movement of the Rupiah. This finding is consistent with Prananta & Alexiou (2024).

Effect of the 10-Year US Treasury Yield on the Rupiah Exchange Rate

The ARDL estimation results show that the 10-year US Treasury yield in the short run has a negative effect, indicating that an increase in US Treasury yields is associated with an

appreciation of the Rupiah. In contrast, the long-run coefficient is positive, implying that higher US Treasury yields contribute to the depreciation of the Rupiah. The positive long-run effect indicates that higher US Treasury yields increase the attractiveness of US financial assets, encouraging investors to reallocate their portfolios from emerging markets, including Indonesia, to the United States. This capital movement raises demand for the US dollar and places depreciation pressure on the Rupiah. The opposite result in the short run suggests that the impact of US Treasury yields is not immediate, as investors also consider global economic uncertainty, market expectations, and other financial conditions before adjusting their portfolios. These findings are consistent with Jiang et al. (2021), Wang (2023), and Caballero & Upper (2023).

CONCLUSIONS

This study examines the determinants of the Rupiah exchange rate using the ARDL approach during the period 2016-2025. The results indicate that Global Economic Policy Uncertainty (GEPU) and the Chinese Yuan exchange rate have positive and significant effects on the Rupiah exchange rate in both the short and long run. Indonesia's inflation has no significant effect in the short run but has a negative and significant effect in the long run. Exports to China have a negative effect in the short run and a positive effect in the long run, while exports to the United States do not significantly affect the Rupiah exchange rate. Indonesian government bond yields significantly affect the Rupiah only in the short run, whereas the 10-year US Treasury yield has a negative effect in the short run and a positive effect in the long run. The findings suggest that the stability of the Rupiah is influenced by both domestic and external factors, with global uncertainty and international financial market conditions playing an important role. Therefore, Bank Indonesia and the government should strengthen policy coordination to respond to global economic uncertainty, maintain inflation stability, closely monitor movements in the Chinese Yuan exchange rate and US Treasury yields, and improve the competitiveness and value added of Indonesia's exports. These measures are expected to enhance the resilience of the Rupiah against external shocks and support long-term exchange rate stability.

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