

DETERMINANTS OF INDONESIA'S ECONOMIC STABILITY: THE ROLE OF NATURAL COMMODITIES, FISCAL, AND MONETARY POLICIES

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Abstract

As an open developing economy, Indonesia's economic stability remains vulnerable to external shocks, particularly fluctuations in natural resource commodity prices, while also being shaped by domestic fiscal and monetary policy dynamics. This study analyzes the partial and simultaneous effects of natural resource commodity price fluctuations, government expenditure, inflation, exchange rate, and foreign exchange reserves on Indonesia's economic stability, grounded in the Commodity Price Shocks Theory, Dutch Disease Theory, the Keynesian fiscal multiplier theory, and the Buffer Stock Theory of reserves. A quantitative approach was employed using secondary time-series data for 1975-2025 sourced from the World Bank, Bank Indonesia, and Statistics Indonesia, analyzed using the Autoregressive Distributed Lag model in EViews. The best-fitting model is ARDL (10,4,4,1,4), with a significant error correction coefficient of -0.959 and an R-squared of 0.991. The Bounds Test confirms a long-run cointegrating relationship among the variables. In the short run, all five variables significantly affect economic stability at various lags, whereas in the long run none are statistically significant, although coefficient directions remain consistent with theory. The model passed all classical assumptions and stability tests, underscoring the need for growth diversification and stronger fiscal-monetary policy effectiveness.

Keywords: ARDL; commodity prices; economic stability; fiscal policy; foreign exchange reserves

INTRODUCTION

Indonesia, as a developing country with an open economic structure, faces complex challenges in maintaining economic stability amidst constantly changing global dynamics. Economic stability is reflected not only in high Gross Domestic Product (GDP) growth but also in the economy's ability to respond to and absorb external shocks sustainably. The Indonesian economy is relatively highly dependent on natural resources, making it vulnerable to fluctuations in global commodity prices, which directly impact export performance, state revenues, and exchange rate stability (Alfarizky & Purnamaningrum, 2026).

The commodity curse phenomenon is a major concern: rising commodity prices such as coal, palm oil, petroleum, and nickel increase export value, non-tax state revenues, and foreign exchange reserves, but overdependence creates structural vulnerabilities when commodity prices plummet on the global market (Cashin, 2002). Government spending acts as a fiscal policy instrument through the fiscal multiplier mechanism, but inefficient spending risks triggering long-term fiscal pressures (Praycilia & Sugiyanto, 2021; Najmi, Hasrina, Asmawati, & Ansari, 2024). Inflation, the rupiah exchange rate, and foreign exchange reserves are also important determinants: rupiah depreciation can boost export competitiveness but also increase import costs (Judijanto, Syaiful, & Lubis, 2024), while foreign exchange reserves serve as a cushion against external shocks (Fortuna, Muljaningsih, & Asmara, 2021; Dwinoviyanto, Rotinsulu, & Tumangkeng, 2023).

The 1997-1998 Asian monetary crisis marked a significant turning point in Indonesia's economic history, with the rupiah depreciating sharply and inflation soaring to 58 percent. This experience underscored the importance of

Indonesia's economic stability, determined by the simultaneous interaction of external, fiscal, and monetary variables, rather than a single factor.

The current dynamics for the 2015-2025 period show a three-phase pattern interconnected across all macroeconomic variables. The pre-pandemic stability phase (2015-2019) displayed relatively controlled movement: GDP growth ranged from 4.88 to 5.17 percent, and foreign exchange reserves tended to strengthen. The second phase, the COVID-19 pandemic shock in 2020, represented the point of greatest discontinuity: GDP growth contracted by -2.07 percent—the first contraction since the 1997–1998 crisis—while nearly all other variables experienced simultaneous pressure, demonstrating that systemic shocks can simultaneously impact both the demand and supply sides. The third phase, post-pandemic recovery (2021-2025), shows a pattern of convergence towards a new equilibrium: GDP growth surged to a peak of 5.31 percent in 2022 driven by booming commodity prices, stabilized in the range of 5.03–5.05 percent in 2023–2024, before slowing to 3.93 percent in 2025 due to moderation in global demand. Based on a review of previous research, several research gaps were identified that underlie this study. First, most previous studies only partially analyzed one or two independent variables without simultaneously controlling for fiscal, monetary, and other external variables, potentially leading to omitted variable bias (Shabira & Amri, 2023). Second, many studies have not fully covered the COVID-19 pandemic period, even though this period was a crucial moment that changed the patterns of interactions between macroeconomic variables. Third, cross-country research provides valuable insights (Boateng et al., 2024; Jawaid et al., 2025) but does not specifically capture the structural characteristics of Indonesia as a G20 country with a high dependence on natural resource commodity exports combined with a managed floating exchange rate system.

This research offers novelty through three aspects. First, it simultaneously integrates five determinants of natural resource commodity price fluctuations, government spending, inflation, the exchange rate, and foreign exchange reserves into a single Autoregressive Distributed Lag (ARDL) model, something that has not been comprehensively done by previous, often partial, studies. Second, it uses an annual observation period spanning nearly five decades (1975–2025), encompassing several periods of major shocks, thus capturing short- and long-term dynamics more comprehensively. Third, it focuses specifically on Indonesia's structural context, so its findings are expected to provide theoretical and practical contributions to managing the economic stability of developing, resource-based countries. Practically, the results of this study are expected to serve as a reference for the government and Bank Indonesia in formulating fiscal-monetary policies that are more responsive to commodity shocks.

Based on the description, this study aims to analyze the influence of fluctuations in natural resource commodity prices, government spending, inflation, exchange rates, and foreign exchange reserves on Indonesia's economic stability for the period 1975-2025, both partially (short-term and long-term) and simultaneously, using the Autoregressive Distributed Lag (ARDL) approach.

LITERATURE REVIEW

Economic stability is a macroeconomic condition in which key indicators such as GDP growth, inflation, exchange rates, and foreign exchange reserves move within a controlled range without excessive fluctuations, and is a prerequisite for a conducive investment climate and long-term development sustainability. Commodity Price Shocks Theory and Dutch Disease Theory (Cashin, 2002) explain the dual impact of dependence on natural resources commodities on the economies of developing countries. The fiscal multiplier theory explains the mechanism by which government spending stimulates aggregate demand (Praycilia & Sugiyanto, 2021; Widiastuti & Sutrischastini, 2022), while the theory of exchange rate dynamics and foreign exchange reserves as an external buffer completes the theoretical framework of this study (Fortuna, Muljaningsih, & Asmara, 2021; Kasmianti, Fitriyani, & Miksalmina, 2022).

Previous Research

Several previous studies serve as important references for this research. A study using the ARDL approach to the exchange rate, inflation, and GDP on Indonesia's trade balance from 2010 to 2024 found that in the short term, the exchange rate and inflation had a significant positive impact, while GDP had a significant negative impact, but all three were insignificant in the long term (Alfarizky & Purnamaningrum, 2026). Regarding government spending, a study using the ARDL Bounds Test approach from 1990 to 2019 found that the budget deficit and central government spending significantly influenced Indonesia's economic growth (Praycilia & Sugiyanto, 2021), while a panel data study found that government spending, FDI, and industrial growth simultaneously influenced economic growth and poverty in Indonesia (Najmi, Hasrina, Asmawati, & Ansari, 2024). Conversely, a study using the ARDL approach to exports and government spending found an insignificant positive relationship between exports and

economic growth, and an insignificant negative relationship between government spending and economic growth (Shabira & Amri, 2023), indicating inconsistent results across studies.

In the monetary aspect, research on monetary policy and exchange rate stability has found that both influence Indonesia's economic growth (Judijanto, Syaiful, & Lubis, 2024). Regarding foreign exchange reserves, research using the VECM method found that foreign exchange reserves have a positive and significant effect on foreign debt in the short term but a significantly negative effect in the long term (Kasmianti, Fitriyani, & Miksalmina, 2022). Other research found that exports, the rupiah exchange rate, and foreign debt collectively influence Indonesia's foreign exchange reserves (Fortuna, Muljaningsih, & Asmara, 2021). Similar studies related to exports, exchange rates, investment, and foreign debt on foreign exchange reserves for the 2016-2022 period also confirmed this relationship (Dwinoviyanto, Rotinsulu, & Tumangkeng, 2023), in line with findings regarding the influence of exports, inflation, and exchange rates on foreign exchange reserves in Indonesia and Malaysia (Eulia, Syaparuddin, & Parmadi, 2021) as well as a study of Indonesia's exchange rate, export value, and foreign exchange reserves for 2013-2022 (Maghfiroh & Anggraeni, 2024). Internationally, research using the ARDL approach in Ghana found that rising fuel prices were associated with short-term exchange rate appreciation and long-term inflation, confirming the commodity price transmission mechanism through the exchange rate and inflation channels (Boateng et al., 2024). An ARDL study in Pakistan also confirmed the long-term cointegration between GDP growth, money supply, energy prices, and inflation, with inflation having a significant negative effect on growth (Jawaid et al., 2025). Generally, these studies examine variables partially, at subnational levels, or over relatively short timescales. Consequently, few have examined the simultaneous interaction of the five determinants of natural resource commodities, government spending, inflation, the exchange rate, and foreign exchange reserves within the ARDL framework, covering five decades of data, as this study does.

Hypothesis Development

The increase in natural resource commodity prices increases the value of exports and non-tax state revenues, which encourage economic stability, in line with the Commodity Price Shocks Theory (Cashin, 2002) and the findings of commodity price transmission to macroeconomic variables (Boateng et al., 2024; Soesanto, Tamima, & Dasuqi, 2025).

H1: Fluctuations in natural resource commodity prices have a positive effect on Indonesia's economic stability.

Effective government spending drives aggregate demand through the fiscal multiplier mechanism, as found in the influence of central government spending on Indonesia's economic growth (Praycilia & Sugiyanto, 2021; Najmi et al., 2024).

H2: Government spending has a positive effect on Indonesia's economic stability.

Inflation that exceeds a certain threshold erodes people's real purchasing power and slows economic growth, consistent with the inflation threshold theory and empirical evidence of the negative impact of inflation on Indonesia's economic growth (Salim & Fadilla, 2021; Kartika & Pasaribu, 2023; Makmur et al., 2023).

H3: Inflation has a negative effect on Indonesia's economic stability.

Rupiah exchange rate depreciation increases import costs and import inflationary pressures that can hamper growth, in line with findings on the influence of exchange rates and monetary stability on Indonesia's economic growth (Judijanto et al., 2024).

H4: The exchange rate has a negative effect on Indonesia's economic stability.

Adequate foreign exchange reserves act as a buffer against external shocks and strengthen investor confidence, in line with findings regarding the role of foreign exchange reserves in the Indonesian economy (Fortuna et al., 2021; Kasmianti et al., 2022).

H5: Foreign exchange reserves have a positive effect on Indonesia's economic stability.

Based on the description of H1–H5, the five variables are suspected to influence Indonesia's economic stability together.

H6: Fluctuations in natural resource commodity prices, government spending, inflation, exchange rates, and foreign exchange reserves simultaneously influence Indonesia's economic stability.

METHOD

This study uses a quantitative approach with secondary annual time series data for the period 1975-2025 (51 observations) sourced from the World Bank, Bank Indonesia, and the Central Bureau of Statistics, collected through literature studies and processed using Microsoft Excel and EViews. The dependent variable is Indonesia's economic stability (Y), measured by the real GDP growth rate. Independent variables include natural resource commodities

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(X1, % GDP), government spending (X2, % GDP), inflation (X3, %), exchange rate (X4, Rp/USD, transformed Ln), and foreign exchange reserves (X5, USD, transformed Ln).

The data were analyzed using the Autoregressive Distributed Lag (ARDL) model developed by Pesaran, Shin, and Smith (2001). This method is able to estimate short-term and long-term relationships between variables with a mixed integration level of I(0) or I(1) without requiring the same integration order, and remains valid in relatively small samples. The analysis stages include: (1) Augmented Dickey-Fuller (ADF) stationarity test; (2) determining the optimum lag based on the Akaike Information Criterion (AIC); (3) Bounds Test cointegration test; (4) short-term ARDL estimation through the Error Correction Model (ECM) and long-term estimation; (5) classical assumption tests (Jarque-Bera normality, Breusch-Godfrey autocorrelation, Breusch-Pagan-Godfrey heteroscedasticity); and (6) CUSUM and CUSUMQ structural stability tests.

The general ARDL model used is formulated as follows:

$$\Delta SE_t = \beta_0 + \Sigma \beta_i \Delta SE_{t-i} + \Sigma \delta_1 \Delta KOM_{t-i} + \Sigma \delta_2 \Delta BP_{t-i} + \Sigma \delta_3 \Delta INF_{t-i} + \Sigma \delta_4 \Delta NT_{t-i} + \Sigma \delta_5 \Delta CD_{t-i} + \varphi_1 SE_{t-1} + \varphi_2 KOM_{t-1} + \varphi_3 BP_{t-1} + \varphi_4 INF_{t-1} + \varphi_5 NT_{t-1} + \varphi_6 CD_{t-1} + \mu_t \quad (1)$$

RESULTS AND DISCUSSION

Descriptive Statistics

The Economic Stability variable (Y) has an average of 5.15 percent with a minimum value of -13.13 percent, reflecting the deepest economic contraction during the 1997–1998 Asian monetary crisis. Inflation (X3) shows the highest volatility with a maximum value of 58.45 percent during the same crisis period. The exchange rate (X4) and foreign exchange reserves (X5) are transformed into natural logarithmic forms to achieve stationarity.

Table 1. Results of Descriptive Statistical Tests

Variables	Mean	Maximum	Minimum	Std. Dev	Obs
Economic Stability (Y)	5,154	9,880	-13,127	3,254	51
Natural Resources Commodities (X1)	9,157	33,470	2,440	5,897	51
Government Spending (X2)	9,053	12,035	5,693	1,438	51
Inflation (X3)	9,091	58,451	1,560	8,441	51
Exchange Rate – Ln (X4)	8,288	9,710	6,028	1,241	51
Foreign Exchange Reserves – Ln (X5)	23,900	25,776	20,200	1,446	51

Source: Research results, 2025 (data processed by EViews)

Stationarity Test and Optimal Lag

The ADF test results show that variables Y, X1, and X3 are stationary at level I(0), while X2, X4, and X5 are stationary at first difference I(1). Since there are no variables integrated at the second degree I(2), the ARDL method can be applied appropriately. Based on the AIC criteria, the ARDL model (10,4,4,4,1,4) was selected as the model with the optimum lag and the lowest AIC value (2.749) among all candidate models.

Table 2. Stationarity Test Results (ADF)

Variables	ADF t-Stat	Prob.	CV 5%	Information
Economic Stability (Y)	-4,988	0.0002	-2,927	Stationary I(0)
Natural Resources Commodities (X1)	-5,900	0.0000	-2,927	Stationary I(0)

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Variables	ADF t-Stat	Prob.	CV 5%	Information
Government Spending (X2)	-6,850	0.0000	-2,928	Stationary I(1)
Inflation (X3)	-5,057	0.0001	-2,927	Stationary I(0)
Exchange Rate (X4)	-6,997	0.0000	-2,928	Stationary I(1)
Foreign Exchange Reserves (X5)	-7,958	0.0000	-2,928	Stationary I(1)

Source: Research results, 2025 (data processed by EVIEWS)

Bounds Test Cointegration Test

The F-statistic value of the Bounds Test of 4.332 is above the upper limit of I(1) at a significance level of 5 percent (3.38), so it is concluded that there is a strong (long-term) cointegration relationship between the variables in this study.

Short-Term and Long-Term ARDL Model Estimation

The ECM estimation results show a CointEq(-1) coefficient of -0.959 and is significant at $\alpha = 1\%$ (prob = 0.0010), which means that approximately 95.9 percent of deviations from equilibrium are corrected in one period, indicating a very rapid adjustment process towards long-term equilibrium. The R-squared value of 0.991 indicates that the model is able to explain 99.1 percent of the variation in Indonesia's economic stability.

Table 3. Summary of Short-Term and Long-Term Coefficients

Variables	Short-Term Coefficient (significant lag)	Coef. Jk. Panjang	Prob. Jk. Panjang
Natural Resources Commodities (X1)	+1.128 (t=0)*; -0.370 (lag2)*; -0.554 (lag3)*	1,012	0.667
Government Spending (X2)	-2.083 (t=0)*; -4.375 (lag1)*; +3,514 (lag3)*	1,509	0.362
Inflation (X3)	-0.542 (t=0)*; -0.880 (lag1)*; +0.379 (lag3)*	-0.251	0.831
Exchange Rate – Ln (X4)	+32,808 (lag1)*; -10.00 (lag2)*; -16.39 (lag3)*	-1,439	0.775
Foreign Exchange Reserves – Ln (X5)	+4,650 (t=0)**	0.735	0.878

Note: * significant at $\alpha = 5\%$; ** significant at $\alpha = 10\%$.

Classical Assumption Test and Model Stability

The Jarque-Bera normality test yields a value of 4.564 with a probability of 0.102 (> 0.05), so the residuals are normally distributed. The Breusch-Godfrey autocorrelation test shows a Chi-Square probability of 0.654 (> 0.05), free of autocorrelation. The Breusch-Pagan-Godfrey heteroscedasticity test shows a Chi-Square probability of 0.725 (> 0.05), free of heteroscedasticity. Thus, the estimated model is BLUE (Best Linear Unbiased Estimator). The CUSUM and CUSUMQ stability tests confirm that the model is structurally stable throughout the study period.

Discussion

This section describes the influence of each independent variable on Indonesia's economic stability based on the ARDL estimation results, both in the short and long term.

The Influence of Natural Resources Commodities on Economic Stability

Natural resource commodities (X1) show a positive and significant effect on economic stability in the current period, with a coefficient $D(X1)$ of 1.128 (prob = 0.0018). However, at lag 2 and lag 3, the coefficient turns negative and significant, namely -0.370 (prob = 0.0424) and -0.554 (prob = 0.0102). These results indicate that increases in natural resource commodity prices provide an immediate positive boost through increased export revenues, but this impact turns negative in subsequent periods through the transmission mechanism of the fiscal channel and volatile trade balance. In the long run, natural resource commodities have a positive coefficient of 1.012 but is not significant (prob = 0.6671). Although not significant, the direction of this positive coefficient is consistent with hypothesis H1 and supports Commodity Price Shocks Theory (Cashin, 2002), in line with findings regarding the transmission of commodity prices to macroeconomic variables in developing countries (Boateng et al., 2024).

The Impact of Government Spending on Economic Stability

Government spending (X2) in the current period has a negative coefficient of -2.083 (prob = 0.0113) and at lag 1 it is -4.375 (prob = 0.0089), but at lag 3 it shows a positive coefficient of 3.514 (prob = 0.0015). The negative effect in the current period and lag 1 can be explained by the concept of a fiscal multiplier that takes time to work, government spending does not immediately increase economic growth in the same period because there is a policy implementation lag. The positive and highly significant coefficient at lag 3 confirms that the effect of government spending is only felt positively after three periods, consistent with the fiscal multiplier mechanism and the findings of the influence of central government spending on Indonesia's economic growth (Praycilia & Sugiyanto, 2021; Najmi, Hasrina, Asmawati, & Ansari, 2024). In the long run, government spending has a positive coefficient of 1.509 but is not significant (prob = 0.3615), consistent with the positive pattern at lag 3 in the short-run estimation and supports hypothesis H2.

The Effect of Inflation on Economic Stability

Inflation (X3) in the current period has a negative and significant effect of -0.542 (prob = 0.0016) on economic stability, and at lag 1 it is -0.880 (prob = 0.0056), indicating that inflationary pressures in the current period and the previous year consistently reduce real GDP growth by reducing people's purchasing power and increasing economic uncertainty. However, at lag 3, inflation shows a positive and significant coefficient of 0.379 (prob = 0.0057), which can be explained by the concept of moderate inflation which over a certain period can reflect healthy aggregate demand. In the long run, inflation has a negative coefficient of -0.251 but is not significant (prob = 0.8310). This negative direction is consistent with hypothesis H3 and is in line with the findings of commodity price transmission to domestic inflationary pressures (Boateng et al., 2024).

The Influence of Exchange Rates on Economic Stability

The exchange rate in the form of a natural logarithm (X4) in the current period has a negative but insignificant coefficient of -2.918 (prob = 0.3603). In lag 1, the coefficient is 32.808 (prob = 0.0027) indicating a positive and highly significant effect, while in lag 2 and lag 3 the coefficient turns negative and significant, namely -9.999 (prob = 0.0423) and -16.392 (prob = 0.0073). This alternating pattern of signs can be explained by the J-curve effect, where the impact of rupiah depreciation on export competitiveness and economic stability is only fully visible after several periods, along with the process of adjusting export-import volumes and pass-through to domestic prices. In the long run, the exchange rate has a negative coefficient of -1.439 but is not significant (prob = 0.7749); This coefficient can be interpreted as elasticity, where every 1 percent depreciation of the rupiah is associated with a 1.44 percent decrease in economic stability, although it has not been proven statistically significant. This result reflects the complexity of the relationship between exchange rates and economic stability, which is conditional and dependent on the context of commodity prices, as evidenced in 2022 when rupiah depreciation coincided with the highest GDP growth due to the commodity price boom, in line with findings on the influence of monetary policy and exchange rate stability on Indonesia's economic growth (Judijanto, Syaiful, & Lubis, 2024).

The Impact of Foreign Exchange Reserves on Economic Stability

Foreign exchange reserves in the form of a natural logarithm (X5) in the current period have a positive and significant effect at the 10 percent level, with a coefficient of 4.650 (prob = 0.0729), indicating that an increase in foreign exchange reserves directly supports economic stability in the short term by strengthening market confidence and Bank Indonesia's capacity to stabilize the exchange rate. In the long term, foreign exchange reserves have a positive but insignificant coefficient of 0.735 (prob = 0.8779); this coefficient can be interpreted as elasticity, where every 1 percent increase in foreign exchange reserves is associated with a 0.73 percent increase in economic stability. This positive direction is consistent with its significant effect in the short term, and supports hypothesis H5 and the

findings regarding the role of foreign exchange reserves as an external buffer in the Indonesian economy (Fortuna, Muljaningsih, & Asmara, 2021; Kasmianti, Fitriyani, & Miksalmina, 2022).

Overall, in the long run, all variables are statistically insignificant, although the coefficients for natural resource commodities, government spending, and foreign exchange reserves remain positive, while inflation and the exchange rate remain negative, consistent with the research hypotheses (H1–H5). These findings indicate that the determinants of Indonesia's economic stability operate predominantly through short-term adjustment mechanisms, rather than through a stable long-term equilibrium. Therefore, the simultaneous hypothesis (H6) is confirmed through the significance of the Bounds Test and the ECM coefficients.

CONCLUSION

This study concludes that the ARDL (10,4,4,4,1,4) model is the best model in explaining the determinants of Indonesia's economic stability for the 1975–2025 period, with evidence of strong long-term cointegration (Bounds Test $F = 4.332$) and a very fast error correction mechanism (CointEq(-1) = -0.959; $R^2 = 0.991$). In the short run, all five variables are proven to have a significant effect at various lags, while in the long run all variables are statistically insignificant even though the direction of the coefficients is consistent with the theory. The model has met all classical assumption tests and structural stability tests. The policy implications of these findings include: the need for diversification and downstreaming of natural resource commodities to reduce vulnerability to global price fluctuations; optimizing the quality of government spending to accelerate the fiscal multiplier; consistency in Bank Indonesia's Inflation Targeting Framework; and prudent management of foreign exchange reserves as a buffer against external shocks. Further research is recommended to use the Non-Linear ARDL (NARDL) approach to capture the asymmetric effects of exchange rates, as well as considering dummy variables for structural breaks in 1998 and 2020.

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