

ABSTRACT

This study aims to analyze the impact of Trade Policy Uncertainty (TPU) and domestic macroeconomic variables on the volatility of the Indonesian Rupiah exchange rate in both the short run and long run. The independent variables include Trade Policy Uncertainty (TPU), ratio trade balance to GDP, foreign exchange reserves, interest rate (JIBOR), and inflation. This study employs monthly time series data from 2016 to 2025 obtained from Bloomberg, Bank Indonesia, and Statistics Indonesia.

The analytical methods used are the Autoregressive Distributed Lag (ARDL) model to examine the long-run relationship and the Error Correction Model (ECM) to capture short-run dynamics and adjustment mechanisms toward equilibrium. The results indicate the existence of a long-run relationship between exchange rate volatility and the independent variables. In the short run, several variables are found to have a significant effect, indicating that both external shocks and domestic conditions jointly influence exchange rate movements.

The Error Correction Term (ECT) coefficient is negative and statistically significant, indicating the presence of an adjustment mechanism toward long-run equilibrium. The absolute value of the coefficient greater than one suggests a rapid adjustment process and the presence of overshooting, where the exchange rate fluctuates beyond its equilibrium level before stabilizing. This reflects the high sensitivity of the foreign exchange market to external shocks, particularly Trade Policy Uncertainty. These findings highlight the important role of global trade policy uncertainty and domestic macroeconomic fundamentals in determining the stability of the Indonesian Rupiah exchange rate.

Keywords: *Trade Policy Uncertainty, exchange rate volatility, ARDL, ECM, macroeconomics*

