

**THE EFFECT OF EXCHANGE RATES, INFLATION, ECONOMIC
GROWTH, AND INTEREST RATES ON THE CURRENT ACCOUNTS IN
8 ASEAN MEMBER COUNTRIES**



THESIS

**SUBMITTED TO THE FACULTY OF ISLAMIC ECONOMICS AND BUSI-
NESS OF THE STATE ISLAMIC UNIVERSITY OF SUNAN KALIJAGA
YOGYAKARTA AS ONE OF THE REQUIREMENTS FOR OBTAINING
BACHELOR DEGREE IN SHARIAH ECONOMICS**

BY:

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**BACHELOR OF SHARIA ECONOMICS STUDY PROGRAM
FACULTY OF ISLAMIC ECONOMICS AND BUSINESS
ISLAMIC STATE UNIVERSITY OF SUNAN KALIJAGA YOGYAKARTA**

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To

Dear Dean of the Faculty of Islamic Economics and Business

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In – Yogyakarta

Assalamualaikum wr.wb.

After reading, researching, providing clues and correcting and making corrections as necessary, I as a supervisor am of the opinion that your thesis:

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Thesis Title : **The Effect of Exchange Rates, Inflation, Economic Growth, and Interest Rates on the Balances of Payment in 8 ASEAN Member Countries**

It can be submitted to the Faculty of Islamic Economics and Business, Sharia Economics Study Program, Sunan Kalijaga State Islamic University, Yogyakarta as one of the requirements to obtain a Bachelor's degree in Islamic Economics.

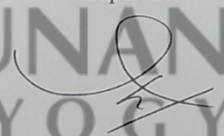
I sincerely hope that this thesis can be immediately scheduled for defense (munaqosah). Thank you for your attention and consideration.

Yogyakarta, 9 April 2026

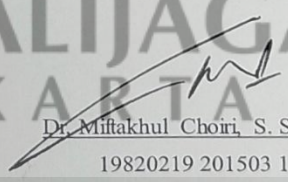
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MOTTO

Even when snow falls and the wind is so strong that my whole body trembles

Let's spread our roots, stretch our branches, and wait one more day

As long as we stay, in our own way

“The greenest in the world”

That such kind of a day will come

—Kim Seungmin, *As We Are*



DEDICATION PAGE

With all gratitude:

I dedicate this thesis to myself who has struggled to finish what has begun. For my father and mother, whose prayers are strengthening. Thank you for always being supportive and never limiting how far I go. For my sister, who is a reinforcement and a reminder to keep trying and getting better. Hopefully this can be a happy little gift.



PREFACE

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The author welcomes constructive feedback for improvement and hopes this research will be beneficial for future studies.

Yogyakarta, 21 April 2026

Author,



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ABSTRACT

This study aims to analyze the effect of macroeconomic variables on the current account in eight ASEAN countries during the period 2010–2024. The current account is an important component of the balance of payments that reflects a country's international economic transactions, particularly in trade in goods and services, primary income, and secondary income. Current account imbalances may affect a country's economic stability and international competitiveness, making it important to analyze the factors influencing the current account. The data used in this study are secondary data in the form of panel data covering eight ASEAN countries. The analytical method employed is panel data regression using the best model selected through model selection tests, namely the common effect, fixed effect, and random effect models. The results indicate that the exchange rate variable has a negative and significant effect on the current account, while inflation, economic growth, and interest rates do not have significant effects. These findings suggest that the impact of macroeconomic variables on the current account is not uniform across countries. Overall, this study emphasizes that only certain macroeconomic variables play a significant role in influencing the current account in ASEAN countries.

Keyword: Macroeconomics, Current account, Panel Data, Exchange Rates, Random Effect Model, Economic Growth, ASEAN



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CHAPTER I INTRODUCTION

A. Background

In the last two decades, the global economy has experienced quite sharp dynamics. The COVID-19 pandemic has caused major shocks to global economic growth and the international trading system, including disruptions to trade flows and volatility of the international financial system. After the pandemic, world economic growth began to recover, although the pace of recovery varied between regions. ASEAN as a region with high economic openness is one of the ones directly affected by these global dynamics (Ekmekcioglu, 2011).

ASEAN is a region with a deeper level of economic integration and relatively rapid economic growth. Despite having diverse economic characteristics, ASEAN countries are equally dependent on international trade and foreign capital flows. This makes external stability an important factor for regional economic resilience (Ati & Asnawi, 2018). One of the main indicators to measure external stability is the Current account, which is a systematic record of all economic transactions of a country with foreign parties in a certain period (Rinaldi et al., 2019).

The Current account is an important indicator for assessing the external stability and economic health of a country. Based on data from the International Monetary Fund (IMF) for the period 2010–2024, the Current account movement in the ASEAN region shows considerable variation between countries.

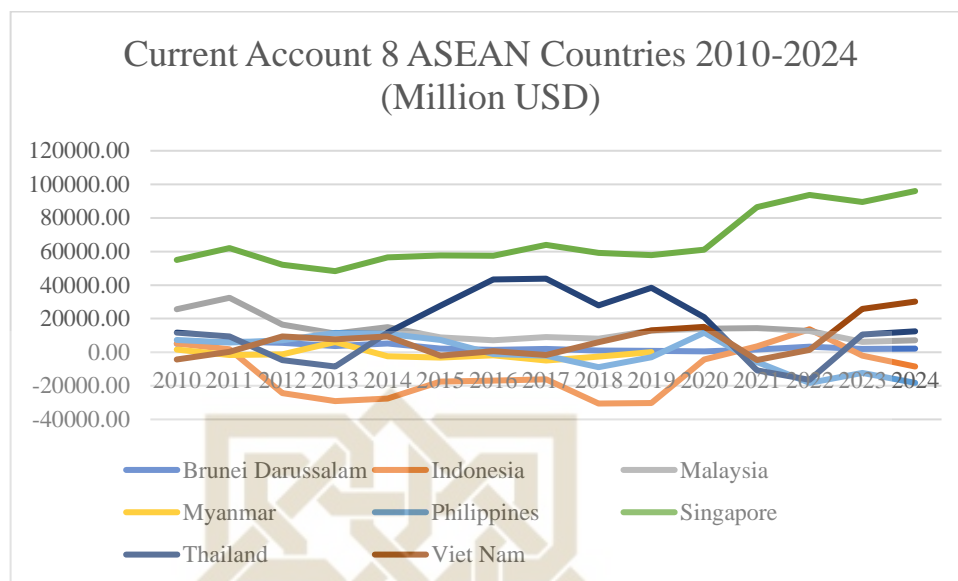


Figure 1.1 Current Account of 8 ASEAN Countries 2010-2024

Sources: *International Monetary Fund*, processed (2026)

Singapore consistently recorded the highest surplus, followed by Malaysia, the Philippines, and Viet Nam which also showed surpluses albeit on a smaller scale. Thailand appears to be relatively stable throughout the observation period, while Indonesia tends to experience a considerable deficit, indicating that there is still a high dependence on imports. Meanwhile, Myanmar recorded a fluctuating Current account value but tended to be low (World Bank, 2025). This pattern shows that each ASEAN country faces different challenges in maintaining external balance and regional economic resilience.

There are four factors that affect the trade balance, namely exchange rates, inflation, economic growth, and interest rates. These four factors are the core determinants of the trade balance (Permana et al., 2023). The first is the exchange rate. Fluctuating exchange rates can affect the

competitiveness of a country's exports and imports. According to research by Dornbusch and Fischer (1980), changes in exchange rates can affect the relative prices of goods and services between countries, which in turn affects the trade balance and the Current account (Dornbusch & Fischer, 1980). In ASEAN, countries such as Indonesia and Malaysia often face exchange rate volatility that can disrupt their economic stability.

In addition to the exchange rate, inflation is also an important factor that affects the current account. High inflation can reduce people's purchasing power and increase production costs, which can ultimately affect exports and imports. According to research by Mankiw (2016), uncontrolled inflation can lead to a current account deficit due to increasing import costs and declining export competitiveness (Mankiw, 2016).

Economic growth also plays an important role in influencing the current account. Strong economic growth can increase a country's production and export capacity, which can improve the current account. However, unbalanced economic growth can lead to dependence on imports and a current account deficit. Studies by Krugman and Obstfeld (2005) show that sustainable and balanced economic growth is essential to maintain current account stability (R. Krugman & Obstfeld, 2005).

Interest rates are another factor that affects the current account. High interest rates can attract foreign investment, which can improve the current account. However, interest rates that are too high can also depress domestic economic growth. According to research by Mishkin (2013), the right

interest rate policy is essential to maintain a balance between economic growth and current account stability (Igan et al., 2013).

Previous studies have shown mixed findings regarding the determinants of the current account. Purnama et al., (2021) found that exchange rate stability significantly affects the current account balance in ASEAN+6 countries, while several macroeconomic variables were found to be insignificant. In addition, Anwar et al., (2023) revealed that exchange rates and inflation negatively and significantly influence the current account balance in ASEAN-5 countries, whereas economic growth shows a positive effect. These differing findings indicate that the relationship between macroeconomic variables and the current account remains inconclusive and may vary across countries and periods. Most previous studies still focused on specific countries or limited groups of variables. In fact, ASEAN countries exhibit diverse macroeconomic characteristics and varying levels of trade openness. Therefore, comparative studies examining the simultaneous effects of exchange rates, inflation, economic growth, and interest rates on the current account in ASEAN countries are still limited. With the high intensity of international trade and capital flows in the region, understanding these factors is important for maintaining external economic stability.

The majority of previous research still focused on one country with limited variables. In fact, ASEAN has more complex macroeconomic diversity. There is still a lack of comparative studies across ASEAN countries that simultaneously examine the influence of exchange rates, inflation,

economic growth, and interest rates on the current account. With high levels of trade openness and capital flows, an understanding of these factors is crucial for the region's external stability.

In the context of ASEAN, the challenge faced is how to effectively manage exchange rates, inflation, economic growth, and interest rates to maintain current account stability. With deepening economic integration in ASEAN, it is important for member countries to understand the influence of these factors on their current account. This research is relevant in providing insights into how ASEAN countries can manage their economic policies to achieve sustainable economic stability.

Although various studies have examined the factors that affect the current account, the results show mixed and inconsistent findings, especially regarding the influence of interest rates and exchange rates. In addition, the majority of studies still focus on one country, so it has not been able to capture cross-country dynamics with heterogeneous economic characteristics such as ASEAN.

Therefore, this study was conducted using panel data from ASEAN countries for the period 2010–2024 to analyze the influence of exchange rates, inflation, economic growth, and interest rates on the current account. The results of the research are expected to enrich the international economic literature as well as provide an empirical basis for the formulation of more adaptive macroeconomic policies in maintaining the external stability of the ASEAN region.

B. Research Questions

1. Does the exchange rate affect the Current Account in the 8 ASEAN member countries for the period 2010-2024?
2. Does inflation affect the Current Account in 8 ASEAN member countries for the period 2010-2024?
3. Does economic growth affect the Current Account in 8 ASEAN member countries for the period 2010-2024?
4. Does the interest rate affect the Current Account in 8 ASEAN member countries for the period 2010-2024?

C. Research Objective

The general objective of this study is to comprehensively analyze and understand the influence of key macroeconomic variables, namely exchange rate, inflation, economic growth, and interest rates, on the Current Account dynamics in 8 ASEAN member countries during the period 2010-2024.

D. Benefits of Research

1. Theoretical Benefits

- a. Development of International Economic Theory: This research will enrich the international economic literature. By simultaneously examining four macroeconomic variables (exchange rate, inflation, economic growth, and interest rates) in a multinational context in ASEAN, this study is expected to provide a more comprehensive

understanding of the complex interactions between these variables and their impact on a country's external balance.

- b. **Analysis of ASEAN Economic Dynamics:** This research contributes to a more relevant understanding of Current account dynamics amid global economic uncertainty. By making ASEAN as a research object that has unique characteristics, this study is able to identify whether there are different patterns or mechanisms in the relationship between variables in ASEAN.

2. Practical Benefits

- a. **For Policymakers:** The findings provide empirical evidence to support the formulation of policies aimed at maintaining external stability and promoting sustainable economic growth in ASEAN countries.
- b. **For Investors and Businesses:** The study offers insights into factors affecting the current account, which may assist investment and risk management decisions.
- c. **For Academics and Subsequent Researchers:** This research serves as a reference for further studies and encourages the application of broader data and advanced methodologies.

E. Discussion Systematics

1. Chapter I Introduction

This chapter contains the background of the problem, the formulation of the problem, the purpose of the research, the benefits of the research, and the systematics of the discussion. This chapter provides an

overview of the importance of research and the direction to be taken in the discussion.

2. Chapter II Literature Review

This chapter contains theoretical studies that are relevant to research variables, such as Current account theory, exchange rate theory, inflation theory, economic growth theory, and interest rate theory. In addition, this chapter also contains a review of previous research, a framework of thought, and a research hypothesis formulated based on the relationship between these variables.

3. Chapter III Research Methodology

This chapter describes the research approach, types of data sources, data collection methods, operational definitions of variables, data analysis techniques used, and stages of model testing.

4. Chapter IV Results and Discussion

This chapter presents the results of descriptive and statistical data analyses, including classical assumption tests, variable relationship tests, and discussions of findings in relation to relevant theories and previous studies.

5. Chapter V Conclusion

The final chapter contains conclusions from the results of the research that has been conducted, the practical implications of the research results, the limitations of the research, and suggestions for further related research.

CHAPTER V

CLOSING

A. Conclusion

Based on the results of analysis and estimates of the influence of exchange rates, inflation, economic growth, and interest rates on the Current account in 8 ASEAN member countries in the 2010-2024 period, the following conclusions are reached:

1. The results of this study show that there is a significant and negative relationship between exchange rate variables and Current account in 8 ASEAN member countries in 2010-2024. This means that a country's depreciation rate or depreciation can contribute significantly to an increase in the Current account. Specifically, any 1% increase in the exchange rate can lower the Current account by 1%, with other variables constant.
2. The results of this study show that there is no relationship between inflation variables and Current account in 8 ASEAN member countries in 2010-2024. This means that inflation does not contribute significantly to a country's Current account. These findings are not in line with the research hypothesis that inflation has a significant effect on the Current account.
3. The results of this study show that there is no relationship between economic growth variables and Current account in 8 ASEAN member countries in the 2010-2024 period. This shows that economic growth

variables do not contribute significantly to a country's Current account. These findings are not in line with the research hypothesis that economic growth has a significant influence on the Current account.

4. The results of this study show that there is no relationship between interest rate variables and Current account in 8 ASEAN member countries in the 2010-2024 period. This shows that variable interest rates do not contribute significantly to a country's Current account. These findings are not in line with the research hypothesis that interest rates have a significant influence on the Current account.
5. Together, exchange rate variables, inflation, economic growth, and interest rates affect the Current account in 8 ASEAN member countries. This means that if there are changes in exchange rates, inflation, economic growth, and interest rates at the same time, it will change the Current account in 8 ASEAN member countries based on the period of 2010-2024.

B. Suggestions

According to the results of the research and the conclusions that have been discussed, there are several suggestions that can be given:

1. The next study can conduct a more comprehensive analysis by including a number of additional indicators of macroeconomic variables that may have an impact on the Current account such as net exports, foreign exchange reserves, or foreign direct investment (FDI).

2. To get more varied results, it is suggested that further research can look at some other regional groups outside ASEAN member countries such as the Organization of Islamic Cooperation (OIC) countries or expand coverage to regional groups of Asia-Pacific Economic Cooperation (APEC) countries. Then it can also consider the conditions of political conflicts and disasters that hit the countries that are the object of research.
3. Further research is recommended to consider other external factors, such as the conditions of political conflict and natural disasters that occur in the countries that are the object of the study, as these factors have the potential to affect economic stability and Current account.
4. Finally, in the next study, it is also recommended to be able to break down the categories in the Current account such as Current account, Financial Account, and Capital Account so that it can provide more in-depth research results.

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