

## The Impact of Macroeconomics on Advancing MSME Development in Indonesia

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### ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) contribute around 60% to Indonesia's Gross Domestic Product (GDP), playing a crucial role in economic development. MSME growth is the main focus, influenced by macroeconomic factors such as the BI Rate, inflation and exchange rate. This study uses secondary data from Bank Indonesia, BPS, and the Ministry of Cooperatives and Small and Medium Enterprises from 1997 to 2022. The quantitative analysis method using Eviews 10 shows that the BI Rate has a positive impact on the number of MSMEs but inflation and exchange rates have not. The conclusion of this study emphasizes the importance of appropriate policies to support the growth of the MSME sector and the economy as a whole.

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## **INTRODUCTION**

Micro, small, and medium enterprises (MSMEs) play a critical role in the Indonesian economy. They constitute roughly 60% of the Gross Domestic Product (GDP) of Indonesia, provide employment for 97% of the workforce, and contribute to 60% of non-oil and gas exports. Hence, it is imperative to foster and support the expansion of MSMEs. Nonetheless, the growth trajectory of MSMEs is not solely contingent on internal factors but is also influenced by external variables, such as macroeconomic policies like the Bank Indonesia Rate (BI Rate) and inflation rate.

MSMEs becoming a key pillar in creating jobs and empowering the local economy and communities. (Triana, 2022). MSMEs are directly in line with the provisions of Law Number 20 of 2008 concerning MSMEs, consisting of three categories, namely micro, small and medium enterprises. (Ramadani & Eliza, 2020). Along with the increasing growth of MSMEs, the government has designed programs, such as the National Economic Recovery Program (PEN), to provide support to MSMEs. The program comprises of subsidies on interest rates for both People's Business Loans (KUR) and non-KUR, placement of public funds in partner commercial banks to support MSME working capital expansion and credit restructuring, MSME working capital credit guarantees, production assistance for micro enterprises (BPUM), cash transfers for hawkers and stalls, and ultimate income tax incentives for MSMEs assisted by the government (DTP). (Triha et al., 2023).

In a situation where a region faces difficulties in creating jobs resulting in high unemployment, MSMEs have an important role in providing employment for the community. MSMEs and employees are interdependent, and business sustainability will not be achieved without adequate manpower (Halim, 2020). Another study shows that the turnover of MSMEs in Padang City is influenced by inflation and interest rates (Yenni Del Rosa, 2019). This situation can be an encouragement for MSME business actors and the general public to explore and establish new businesses. Research by Triha and colleagues in 2023 also shows that the growth in the number of MSMEs is significantly influenced by the number of the workforce (Triha et al., 2023).

The active participation of MSMEs in the economy and the increase in the number of new businesses may not have a positive impact if it is not followed by effective business continuity. Statistics show that startup failure rates in various parts of the world can reach 90% (Perdani, 2018). The obstacles and obstacles faced by MSMEs can hinder growth and even stop their operations. One of the main obstacles faced by MSME players is related to financial management. (Kurniawati et al., 2012). Bookkeeping in MSMEs so far is still simple and often does not comply with the norms of financial administration standards that have been set. (Handayani et al., 2016), This condition also makes it difficult for MSMEs to get investors because they are unable to present valid financial statements. There is a view that bookkeeping activities are considered unimportant for companies, coupled with the lack of funds to hire accountants or buy accounting software to facilitate the bookkeeping process (Lestari, 2019) (Pratiwi & Hanafi, 2016) (Soraya & Mahmud, 2016) (Arista et al., 2021)

(Rahmawati & Puspasari, 2016) (Rudiantoro & Siregar, 2012) (Sanggrama et al., 2020).

Economic growth is highly dependent on the role of the workforce which plays an important role in the company's operations. Unemployment is a major problem faced by every country, not only as a social problem but also as an economic problem. Good economic conditions can result in a steady decline in unemployment from year to year. If the economic growth of a region continues to increase, it indicates that the economy of the area is developing. In addition, unemployment and education levels together have a significant impact on poverty rates. (Malentang et al., 2022). With the difficulty of a region in creating jobs that cause high unemployment, MSMEs have an important role in providing jobs for the community. The reciprocal relationship between MSMEs and employees is very vital, because business continuity cannot be realized without a normal contributing workforce. (Shofia et al., 2020). Then in rural areas, MSMEs also play a role in improving village status (Sunaryono, 2021).

In order to achieve this goal, this study will adopt a Regression Path Analysis approach to analyze the relationship between BI Rate, inflation rate, currency exchange rate and MSME development in Indonesia. Thus, this research is expected to provide in-depth insights into the impact of macroeconomic policies on the MSME sector, supporting appropriate decision making at the policy and business practice level.

## **THEORETICAL REVIEW**

### ***The Effect of BI Rate on MSME Development***

The benchmark interest rate of Bank Indonesia, known as the BI Rate, it has a significant impact on the borrowing costs faced by MSMEs. On the other hand, the inflation rate can put additional pressure on MSME production costs. Therefore, understanding the dynamic relationship between the BI Rate, inflation rate, and MSME development is important in informing economic policies and MSME development strategies in Indonesia.

In monetary policy, interest rates have an impact on credit flows that can be used to establish new business units or support MSME business development. (Jihad, 2014). Interest rates are one of the elements that affect the level of credit demand, with high interest rates causing an increase in the fees that borrowers must pay to banks (Wicaksono & Ir Budi Santosa Kramadibrata, 2022). Other research concluded that every 1% rate hike resulted in a 35.36% decrease in demand. (Effendi, 2017). This may indicate that interest rates may affect the growth rate of MSMEs.

The interest rate is a significant metric that influences various economic endeavors, as outlined by Yenni (Yenni Del Rosa, 2019): (1) It affects investment decisions; (2) It influences the investment choices of capital owners; (3) It impacts the operational continuity of banks and other financial institutions; and (4) It plays a role in regulating the money supply. High interest rates cause an increase in costs for business people, so that domestic production has decreased. Conversely, with a decrease in the interest rate, business people can develop more businesses, and investment also increases (Khotijah et al., 2020) (Sitanggang

& Munthe, 2018) (Wicaksono & Ir Budi Santosa Kramadibrata, 2022). Based on this explanation, the hypothesis proposed is as follows:

H1: BI Rate has an effect on MSME Development.

H0: BI Rate has not an effect on MSME Development.

### *The Effect of Inflation on MSME Development*

Meanwhile, inflation is one of the macroeconomic signs used to describe and measure the level of economic stability of a country (Ramadani & Eliza, 2020). Bank Indonesia defines inflation as a monetary phenomenon that occurs when the prices of goods and services rise generally and consistently over a specific period and spread widely, this leads to a rise in the prices of products and services. The impact of inflation will certainly affect people's purchasing power, where if the inflation rate increases, people's purchasing power will decrease. (Wicaksono & Ir Budi Santosa Kramadibrata, 2022). On the other hand, Low and steady levels of inflation will increase people's purchasing power and become a prerequisite for sustainable economic growth.

MSME growth is significantly influenced by inflation and interest rates. (Ramadani & Eliza, 2020). According to Keynes's theory, inflation arises because people's lifestyles exceed their economic capacity, resulting in excessively high aggregate expenditures. (Ramadani & Eliza, 2020). Inflation is a critical issue in maintaining a country's economic stability, which can result in an increase in the price of goods, The decline in the currency's worth, an increase in the unemployment rate, and a decrease in people's welfare. (Nova, 2022) (Yenni Del Rosa, 2019). A rise in the rate of inflation increases the financial burden on MSMEs, which can affect business sustainability. This factor shows that inflation has a significant impact on the development of MSMEs (Ramadani & Eliza, 2020). Another study also investigated the correlation between inflation and labor force participation and the unemployment rate (RIZAL, n.d.). From this explanation, the proposed hypothesis is as follows:

H2: Inflation has an effect on MSME Development.

H0: Inflation has not an effect on MSME Development.

### *The Effect of Exchange Rate on MSME Development*

The currency conversion rate significantly impacts the progression of various aspects within development of Micro, Small, and Medium Enterprises (MSMEs) in an economy. Fluctuations in exchange rates can significantly impact the competitiveness of MSMEs in both domestic and international markets (Dragotă & Țilică, 2014). A depreciating domestic currency can make exports cheaper and imports more expensive, providing a competitive advantage to MSMEs that rely on exporting their goods and services (KALYONCU, 2016). Conversely, an appreciating currency can make exports more expensive and imports cheaper, posing challenges for MSMEs that rely heavily on imported raw materials or components (Beck et al., 2008). Additionally, exchange rate stability is essential for MSMEs to effectively plan their business operations, manage costs, and make investment decisions (Jeribi & Jarboui, 2015). Therefore, policymakers need to consider the effects of

exchange rate movements on MSMEs when formulating monetary and fiscal policies. Based on this explanation, the hypothesis proposed is as follows:

H3: Exchange Rate has an effect on MSME Development.

H0: Exchange Rate has not an effect on MSME Development.

## METHODOLOGY

The methodology employed in this research is analytical with a focus on quantitative analysis to investigate the relationship between BI Rate, inflation rate, currency exchange rate and the growth of MSMEs in Indonesia. The data used is sourced from secondary data obtained from Bank Indonesia and the Central Statistics Agency, involving the BI Rate time series, inflation rate, and MSME growth indicators during the relevant period. The independent variables analyzed include the BI Rate, inflation rate and currency exchange rate, while the dependent variable is the growth of the number of MSMEs. Multiple linear regression is applied to investigate the impact of the independent variable on the dependent variable. Data processing with pre-processing such as model estimation, hypothesis testing, and interpretation of results. Through these steps, this research is expected to provide in-depth insights into the effect of BI Rate, inflation rate and currency exchange rates on the development of MSMEs in Indonesia, as well as contribute to economic literature and MSME development policies.

From 1997 to 2022 (26 years), this analysis used annual secondary data. This dataset is taken from BPS (Central Statistics Agency), Bank Indonesia, and the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) and World Bank data (Bank, (Bank, 2022)). The following table contains measurement data, descriptions and data sources.

Table 1. Measurement Variables, Data Sources and Descriptions

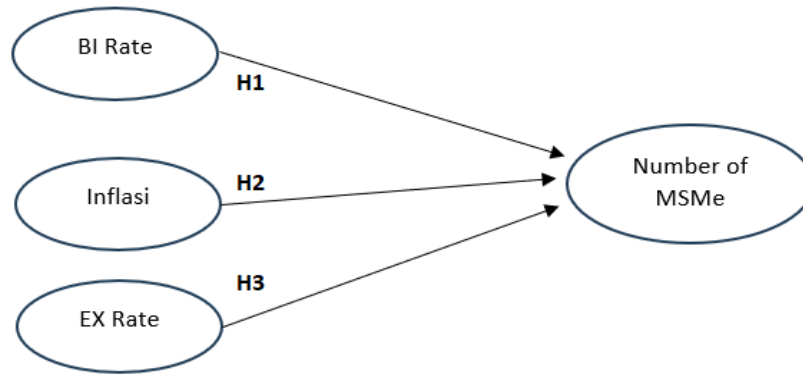
Variabel	Measurement	Description	Source
BI Rate	Number of Percentages Year (X1)	Bank Indonesia interest rate	Bank Indonesia
Inflation	Number of Percentages Year (X2)	Economic inflation rate	BPS
Exchange Rate	Rupiah to Dollar Official Rate (X3)	Rupiah to US Dollar	World Bank
Number of MSMEs	Number of units or values Finansial (Y)	Number of units or values MSME	Kemenkop UKM

Sumber: Author, 2024

From the introduction and explanation above, it can be illustrated the framework of this research thinking. This research involves three independent (free) variables, namely BI Rate (X1), Inflation (X2), and Currency Exchange

Rate (X3) and one dependent variable, namely the Number of MSMEs (Y). The description of this variable can be described as follows:

Figure 1. Conceptual Framework



Sumber: Author, 2024

(Alius et al., 2023) clearly states that the two variables, namely the BI Rate and Inflation, they have a significant influence together on the number of MSMEs. In this framework, it can be illustrated through an equation that illustrates the complex correlation between BI Rate, Inflation, currency exchange rate and Number of MSMEs, as follows:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \epsilon_i \quad (1)$$

Description :

- ✓  $Y_i$  is the dependent variable (number of MSMEs),
- ✓  $X_{1i}$ ,  $X_{2i}$ , and  $X_{3i}$  are the independent variables (BI Rate, inflation, and currency exchange rate),
- ✓  $\beta_0$  is a constant,
- ✓  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are coefficients value of regression,
- ✓  $\epsilon_i$  is the random error.

In the equation above,  $\beta_0$  is an intercept that shows the value of the dependent variable  $Y$  if all independent variables  $X$  are zero.  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are value of regression coefficients that indicate a change in the dependent variable  $Y$  for every one unit of change in the independent variable  $X$ , keeping the values of the other independent variables fixed .

To investigate how the BI Rate, inflation rate, and foreign exchange rate influence the growth of MSMEs in Indonesia, multiple linear regression analysis was performed. The multiple linear regression method was chosen because it allows simultaneous evaluation of the influence of several independent variables on the dependent variable, taking into account the

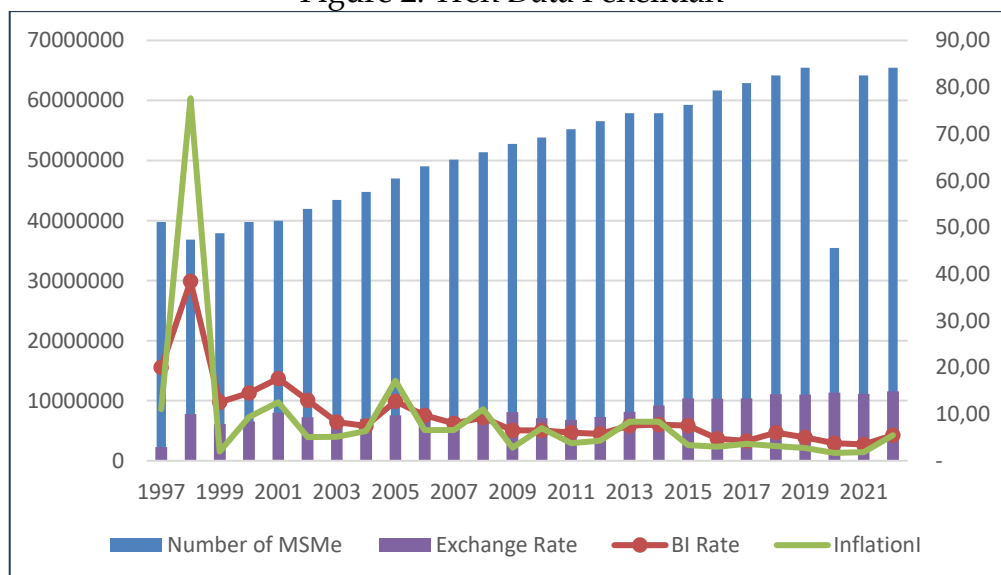
interactions between those variables (Gujarati & Porter, 2009). The dependent variable in this model is the number of MSMEs, while the independent variables include the BI Rate, inflation rate, and currency rate. The results of the regression analysis will provide information about the statistical significance of each independent variable in explaining variations in the number of MSMEs, as well as the direction and strength of the relationship (Hair, 2009) (Hair et al., 2014). The analysis steps will include regression model estimation, regression coefficient statistical significance test, regression assumption test, and interpretation of results (Kennedy, 2008). This analysis will provide a better understanding of the factors affecting the growth of MSMEs in Indonesia (Wooldridge et al., 2016).

## RESULTS

### Data Trend Analysis

The annual time series data utilized in this study, spanning from 1997 to 2022, has been meticulously curated to offer a comprehensive overview of trends preceding the estimation process. This specially curated dataset, meticulously compiled over a span of twenty-five years, serves as the foundation for our analysis, providing a nuanced understanding of the underlying dynamics and trends. Through the detailed examination of this temporal dataset, we aim to gain deeper insights into the patterns and fluctuations that characterize the variables under investigation prior to the estimation process (Figure 2).

Figure 2. Tren Data Penelitian



Source: Author, 2024

Figure 2 shows that there was an increase slowly in the number of MSMEs from 1997 to 2019, then decreased in 2020 due to the COVID-19 pandemic, and again increased since the year 2021 to 2022. Meanwhile, the trend for BI Rate and inflation tends to decrease. In figure 2, it also appears that the Indonesian economy is marked by significant growth in MSMEs since 1997, jumping from 39.7 million to 65.5 million units in 2022. This proves the vital contribution of

MSMEs to the economy. Inflation that decreased from 11.05% (1997) to 5.51% (2022) also benefited MSMEs with price stability. However, an increase in the BI Rate from 20% (1997) to 5.5% (2022) has the potential to hamper MSME growth due to increased production costs. The positive relationship between the number of MSMEs and inflation needs to be balanced with inflation control and a low BI Rate to maintain resilience and encourage MSME growth, which is the backbone of the Indonesian economy.

From Figure 2 currency exchange rate data spanning from 1997 to 2022, a significant fluctuation in exchange values is evident. In 1998, there was a substantial spike in the exchange rate by 243.31% from the previous year, escalating significantly from 2,909.40 to 10,013.60. However, in 1999, there was a decrease of 21.56%, reaching 7,855.20. From 1999 to 2014, there was a relatively stable increase, with the highest surge occurring in 2014 at 13.43%. However, in the subsequent years, there was greater fluctuation, with a significant decline in 2010 by 12.52%, followed by an increase in 2013 by 11.46%. Finally, in 2022, there was an increase of 3.78% from the previous year, reaching a peak value of 14,849.90. This analysis demonstrates a significant variation in currency exchange values during this period, with percentage changes reflecting the complex dynamics of economic factors and policies influencing the foreign exchange market.

### *Descriptive Statistics*

In this study, we will analyze time series data spanning from 1997 to 2022. This time range provides a broad framework for understanding the development of key variables such as BI Rate, inflation, currency exchange rates, and the number of MSMEs. Considering this extended period allows us to explore long-term trends, structural changes, and the impacts of policies over a significant timeframe. Analyzing data over such a period also enables us to identify seasonal patterns or cycles that may occur within these variables. Therefore, we will utilize this extensive timeframe To acquire an extensive grasp on the intricate workings and elements that shape the growth of MSMEs, it's crucial to delve into their underlying influences and patterns.

Table 2. Descriptive Statistics

Description	MSME	BI_RATE	INFLATION	EX_RATE
Mean	51337283	9.683462	8.847308	10621.50
Median	52087108	7.500000	5.335000	9859.150
Maximum	65477937	38.44000	77.63000	14849.90
Minimum	35465497	3.500000	1.680000	2909.400
Std. Dev.	9855741.	7.212932	14.52443	2766.187
Skewness	-0.081403	2.652704	4.306342	-0.353868
Kurtosis	1.672027	10.84745	20.94159	3.499581

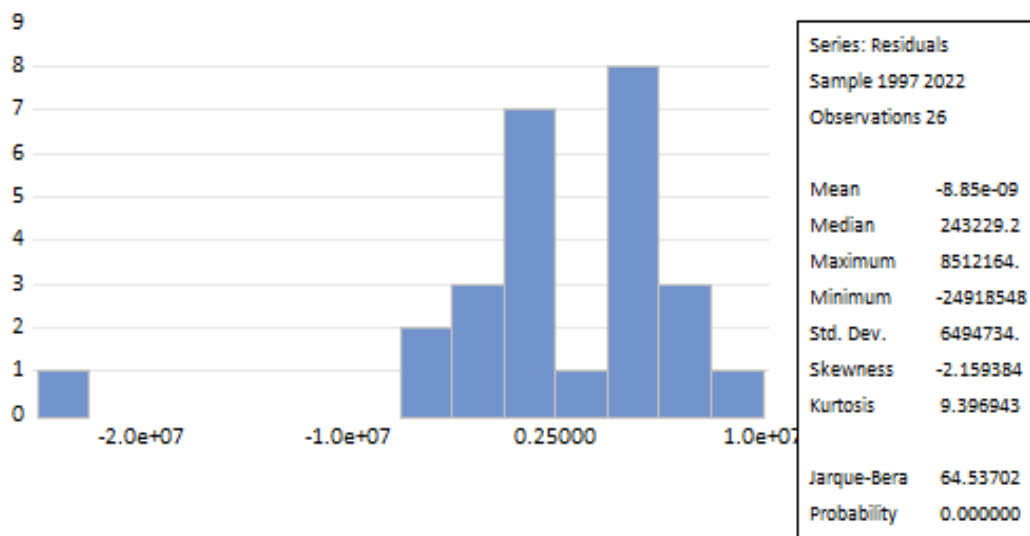
Jarque-Bera	1.939186	97.20731	429.0855	0.813012
Probability	0.379237	0.000000	0.000000	0.665973
Sum	1.33E+09	251.7700	230.0300	276159.0
Sum Sq. Dev.	2.43E+15	1300.660	5273.979	1.91E+08
Observations	26	26	26	26

Source: Author, 2024

### Classical Assumption Tests

Accurate regression analysis interpretation relies on meeting fundamental assumptions known as classical assumptions. In this study, a classical assumption tests were conducted to examine the extent to which the regression model adheres to these basic assumptions, including normality, homoscedasticity, multicollinearity, and linearity (Black & Babin, 2019) (Hair, 2009) (Hair, 2009). These tests not only validate the robustness of the regression model but also indicate the suitability of the statistical techniques employed. This study aims to improve the accuracy of regression analyses and increase confidence in its results by evaluating traditional hypotheses or assumptions.

Figure 3. The Jarque-Bera Result



Source: Author, 2024

The Jarque-Bera test is a statistical method that is utilized to ascertain whether the skewness and kurtosis of the data correspond to a standard normal distribution. In this instance, the Jarque-Bera statistic is 64.53702 with a probability of 0.00000. With a probability of 0.00000, which is lower than any conventional significance level (e.g., 0.05), we reject the null hypothesis of normality. This indicates that the data significantly deviate from a normal distribution in terms of skewness and kurtosis (Jarque & Bera, 1987). Therefore,

it suggests that the data may not meet the assumption of normality required for many statistical analyses that rely on the normal distribution assumption. Further investigation or alternative approaches may be necessary to appropriately analyze the data.

Table 3. Heteroskedastisitas Test: Gleiser

F- statistic	1.082943	Prob. F (3,22)	0.3769
Obs*R- squared	3.345485	Prob. Chi- Square(3)	0.3414
Scaled explained SS	4.257902	Prob. Chi- Square(3)	0.2349

Source: Author, 2024

The "Obs\*R-squared" value of 0.3414 exceeds the common significance level of 0.05. This indicates a lack of sufficient evidence to reject the null hypothesis, suggesting the absence of adequate proof for the presence of heteroscedasticity in the regression model (Gujarati & Porter, 2009). As a result, the model is deemed to be free of heteroscedasticity at the 0.05 significance level..

Table 4. Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.197840	Prob. F(2,20)	0.8221
Obs*R-squared	0.504405	Prob. Chi-Square(2)	0.7771

Source: Author, 2024

The autocorrelation test examines whether there is a correlation between the residuals of a regression model at different time periods. In this context, The statement expresses that the probability of 0.7771 obtained from the Durbin-Watson test for autocorrelation in the residuals of a regression model is not sufficiently small enough to reject the null hypothesis, implying that there is insufficient evidence to conclude the existence of autocorrelation in these residual values. Consequently, at the 0.05 significance level, the model is considered free from autocorrelation. This implies that the residuals of the regression model do not exhibit any systematic pattern over time, indicating that the model adequately captures the temporal relationships among the variables (Gujarati & Porter, 2009).

### ***Multiple Linear Regression Analysis***

The analysis of multiple linear regression is a model of linear regression that links more than one independent variable. In this case, it is analyzed using EViews 12 software. It has been mentioned that there are three independent

variables and one dependent variable, analyzed until significant variables are found. Therefore, the results are as follows:

Table 3. Output Estimation Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	50453669	10266598	4.914351	0.0001
BI_RATE	-1292896.	569580.2	-2.269910	0.0334
INFLATION	346117.7	254801.2	1.358383	0.1881
EX_RATE	973.6020	696.7373	1.397373	0.1762

Source: Author, 2024

The regression analysis in the EViews table above indicates that the constant variable has a significant impact on the dependent variable Y, with coefficients that are statistically significant at the 95% confidence level. The BI Rate variable also has a significant effect, with a negative coefficient indicating that an increase in the BI Rate is associated with a decrease in the value of the dependent variable Y. However, the Inflation and Exchange Rate variables do not show a significant influence on the dependent variable Y, with coefficients that are not statistically significant at the 95% confidence level. Therefore, these analysis results highlight the importance of the BI Rate in predicting the dependent variable Y, while the Inflation and Exchange Rate variables may have lower or insignificant impacts on the dependent variable.

Table 4. Output Regression Results

R-squared	0.565746	Mean dependent var	51337283
Adjusted R-squared	0.506529	S.D. dependent var	9855741.
S.E. of regression	6923409.	Akaike info criterion	34.47935
Sum squared resid	1.05E+15	Schwarz criterion	34.67291
Log likelihood	-444.2316	Hannan-Quinn criter.	34.53509
F-statistic	9.553852	Durbin-Watson stat	1.889028
Prob(F-statistic)	0.000311		

Source: Author, 2024

The outcomes of the regression analysis reveal that the model elucidates about 56.57% of the fluctuation in the dependent variable, as denoted by the R-squared value of 0.5657. This implies that the independent variables incorporated in the model collectively expound on over half of the observed variability in the dependent variable. The adjusted R-squared value, taking into account the number of prediktor dalam model, didapat nilai 0.5065. This adjusted metric offers a more cautious assessment of the model's explanatory capacity, accounting for the risk of overfitting associated with the inclusion of additional predictors.

The mean of the dependent variable is approximately 51,337,283, with a standard deviation of 9,855,741. This provides insight into the central tendency and dispersion of the dependent variable across the observations in the dataset. The regression's standard error is 6,923,409, which represents the typical deviation of the observed values from the model's predicted values. A smaller standard error implies that the model's forecasts are more accurate to the real data points.

Finally, the F-statistic tests the overall significance of the regression model. With a p-value of 0.0003, the F-statistic is statistically significant, indicating that at least one of the independent variables has a non-zero coefficient in explaining the dependent variable.

In this regression analysis, we will reveal the relationship between the dependent variable and the independent variable through a regression equation. This equation will give you an idea of how independent variables, such as BI Rate, Inflation, and Currency Exchange Rate, affect the dependent variable. Using the coefficients generated from regression analysis, these equations will provide a deeper understanding of the dynamics of relationships between variables in the context of our study. The equation is as follows :

$$Y=51337283-1292896 \cdot X1+346117.7 \cdot X2+973.6020 \cdot X3 \quad (2)$$

This equation represents a linear regression model that illustrates the relationship between the dependent variable Y and three independent variables, namely X1 (BI Rate), X2 (Inflation), and X3 (Currency Exchange Rate). The negative coefficient of X1 indicates that an increase in the BI Rate will contribute to a decrease in the value of Y, while the positive coefficients of X2 and X3 suggest that an increase in the values of Inflation and Currency Exchange Rate will lead to an increase in the value of Y. By using this equation, we can predict the value of Y based on the values of X1, X2, and X3, and understand how changes in the independent variables affect the dependent variable.

## DISCUSSION

The study's outcomes suggest that the BI Rate holds a level of significance of 0.0334, indicating a significant influence on the development of the number of MSMEs. Other studies also show that the BI Rate significantly affects the development of MSMEs (Hendri et al., 2022), and the role of Bank Indonesia in supporting the growth of the MSME sector is becoming increasingly important, although there are several other studies that do not have a significant effect such as (Wahiddudin, 2018).

Furthermore, although inflation and exchange rates were not found to have as strong a significant influence as the BI rate on the number of MSMEs, their roles remain important. Fluctuations in inflation and exchange rates can affect production costs, raw material prices, and consumer purchasing power, which in turn can impact the health of MSMEs. Therefore, policies to control inflation and maintain currency stability also have significant implications for MSME growth.

In the context of policy recommendations, the research findings indicate the need for policymakers to consider the impact of monetary policy, inflation, and currency exchange rates on MSMEs in economic policy formulation. Steps taken by central banks and governments to regulate interest rates, control inflation, and maintain currency stability should take into account their impact on MSMEs. Additionally, efforts should be made to improve MSME access to financial resources and education, as well as to enhance their competitiveness in the global market.

Additionally, there is a need for additional research to enhance our comprehension of the correlation between monetary policy, inflation, currency exchange rates, and the development of MSMEs. In-depth and long-term studies can offer a more comprehensive understanding of these dynamics and aid in the creation of more efficient policies to promote MSME growth. As a result, the research outcomes have a significant impact on our knowledge of the factors that affect MSME development and their consequences for creating sustainable and equitable economic policies.

## **CONCLUSIONS AND RECOMMENDATIONS**

The study's findings offer important perspectives on the interplay between BI rate, inflation, exchange rates, and the progress of MSMEs. Specifically, the research suggests that BI rate has a noteworthy influence on the expansion of MSMEs, as evidenced by its significance level of 0.0334. This underscores the importance of monetary policy in shaping the environment for MSMEs and highlights the need for policymakers to consider interest rate adjustments carefully.

Secondly, while inflation and exchange rates were found to have relatively lower significance levels (0.1881 and 0.1762, respectively) in influencing MSME development, their roles cannot be overlooked. The results suggest that even though they may not have as pronounced an effect as BI rate, fluctuations in inflation and exchange rates still play a part in shaping the economic landscape for MSMEs. Based on these conclusions, several recommendations can be made. Firstly, policymakers should continue to monitor and adjust BI rate policies with careful consideration of their impact on MSMEs. This may involve conducting regular assessments of interest rate levels and their implications for MSME financing and investment.

Secondly, efforts should be made to mitigate the effects of inflation and exchange rate fluctuations on MSMEs. This could involve implementing policies to stabilize prices and currencies, providing financial education and support to MSMEs to help them manage currency risks, and promoting export diversification to reduce reliance on volatile international markets.

Lastly, further research is needed to deepen our understanding of the complex interactions between macroeconomic variables and MSME development. Longitudinal studies tracking MSME performance over time, as well as cross-country comparisons, could provide valuable insights into the factors driving MSME growth and resilience in different economic contexts.

In conclusion, this research emphasizes the intricate nature of the connection between monetary policy, inflation, exchange rates, and the development of micro, small, and medium enterprises (MSMEs). By considering these dynamics and implementing targeted policies and interventions, policymakers can better support the growth and sustainability of MSMEs, thereby contributing to broader economic development and prosperity.

### **FURTHER STUDY**

Further study on the influence of BI rate, inflation, and exchange rates could explore several avenues to deepen our understanding of their effects on various economic variables. Firstly, researchers could conduct longitudinal studies to observe the long-term trends and dynamics of these variables on the development of MSMEs. This could involve tracking data over several economic cycles to discern patterns and trends that may not be apparent in short-term analyses. Secondly, researchers could investigate the moderating or mediating effects of other economic factors, such as government policies or global economic conditions, on the relationship between BI rate, inflation, exchange rates, and MSME development. Understanding these complex interactions could provide valuable insights for policymakers and business leaders. Additionally, cross-country comparative studies could be undertaken to explore how different institutional and economic contexts influence the impact of these variables on MSMEs. By examining variations across countries with different regulatory environments and economic structures, researchers can identify best practices and policy recommendations to support MSME growth in diverse settings.

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