



Article history:

Submitted: 26-12-2024

Received: 02-03-2026

Revised: 02-03-2026

Accepted: 02-03-2026

Balancing Stability and Growth: The Role of Interest Rates and Deposit Insurance in Shaping Inflation and Economic Resilience in ASEAN

Suhardiono^{1*}, Roy Sembel², Adler Haymans Manurung³

¹Department of Business Management, School of Business, IPB University

²IPMI International Business School

³University of Bhayangkara Jakarta Raya

*Correspondence: dion1978suhardiono@apps.ipb.ac.id

ABSTRACT

This study examines the effects of interest rates and deposit insurance agency presence on inflation and GDP growth in ASEAN countries from 2019 to 2023. Using a quantitative approach with linear regression analysis, the findings reveal that higher interest rates are associated with lower inflation, highlighting the effectiveness of monetary policy in managing price stability within the region. Additionally, the existence of deposit insurance agencies positively impacts both inflation and GDP growth. While deposit insurance enhances financial stability and fosters economic growth by boosting public confidence, it may also contribute to inflation through increased consumer and investment activity. These findings suggest that ASEAN policymakers should adopt a balanced approach, combining interest rate adjustments for inflation control with carefully managed financial stability measures to support sustainable growth. This study provides valuable insights into the roles of monetary and financial stability policies, underscoring the importance of an integrated policy framework to achieve economic resilience in emerging markets. Future research could explore the interaction between these policies and other structural factors to develop comprehensive strategies for sustaining growth in the ASEAN region.

Keywords: Interest rates, Inflation, Deposit Insurance, Gross Domestic Product, Monetary Policy.

INTRODUCTION

The global financial landscape has witnessed profound transformations in recent years, bringing to light the pivotal role of interest rate control by central banks and deposit insurance agencies in managing inflation and ensuring economic resilience. Interest rate control is an essential tool in monetary policy that central banks employ to influence economic activities and stabilize inflation levels, as evidenced by literature across various contexts. Scholars have consistently highlighted the importance of monetary policy in regulating inflation, thereby sustaining macroeconomic stability, and in fostering resilience in economies affected by both internal and external economic shocks. For instance, the Fisher Effect posits a fundamental relationship between interest rates and inflation, suggesting that nominal interest rates adjust based on inflation expectations to maintain equilibrium (Kim, 2023; Altunöz, 2018). This correlation has garnered significant attention in both developed and emerging markets, emphasizing how interest rate policy affects broader economic stability (Granville & Mallick, 2006). The pressing need for research on this topic is underscored by recent global challenges, which have intensified concerns over inflation and economic stability in Southeast Asia, a region marked by rapidly evolving economic conditions and policy challenges.

In Southeast Asia, inflation and interest rate dynamics have garnered specific interest due to their impacts on economic growth, consumer spending, and resilience against economic shocks. While global studies provide extensive insights into the effects of interest rate control on inflation, there remains a notable gap in research focusing on Southeast Asian economies. Existing studies primarily examine developed countries' monetary responses, such as those of the United States and European

Union nations (Kim, 2023; Islam, 2023). However, limited attention has been given to how these dynamics play out in emerging economies, where structural economic conditions, inflation expectations, and fiscal policies differ significantly. This knowledge gap is evident in the literature, as prior research has largely neglected the unique economic frameworks and regional factors influencing inflation and resilience in Southeast Asia (Nezhad & Zarea, 2007). Addressing this gap is crucial, as the economic structures and policy frameworks in these countries necessitate tailored approaches to monetary policy, particularly in times of economic volatility and inflationary pressure. By focusing on Southeast Asian nations and examining data from 2019 to 2023, this study aims to provide region-specific insights that are currently underrepresented in the global discourse on monetary policy and economic resilience.

The central research question guiding this study is: How does interest rate control by central banks and deposit insurance agencies impact inflation and economic resilience in Southeast Asia? This question holds particular significance in the context of emerging markets, where inflationary pressures and economic instability can have severe socioeconomic consequences. The relevance of exploring this question lies in its potential to inform policymakers on the effectiveness of interest rate control as a strategy to mitigate inflation while bolstering resilience against economic downturns. Prior studies, such as those conducted by Suparti et al. (2019) on Indonesia, demonstrate that effective interest rate management is essential for controlling inflation. Yet, these studies have not sufficiently explored how interest rate policies impact resilience over the long term, particularly in economies prone to frequent economic disturbances. By investigating this gap, the current research will offer a nuanced understanding of the complex relationship between interest rates, inflation, and resilience, thereby contributing valuable insights to the field of macroeconomic policy.

The theoretical foundation for this research is anchored in the Adaptive Expectations Theory, which postulates that inflation expectations adjust gradually to changes in actual inflation rates. This framework is instrumental in examining how interest rate policies influence inflation dynamics, as it provides insights into the anticipatory adjustments made by markets and individuals in response to policy shifts. Adaptive Expectations Theory has been widely applied in analyzing inflationary trends and is particularly relevant in contexts where economic agents form expectations based on historical inflation patterns (Meyer et al., 2018; Taylor, 2019). This theory supports the research's objective of examining the interplay between inflation control measures and economic resilience, as it underscores how inflation expectations can shape policy effectiveness. By applying this theoretical lens, this study will explore how Southeast Asian central banks' policies impact inflation and resilience, accounting for both the immediate effects and the adaptive responses within the economy.

The objectives of this study are multifaceted, aiming to dissect the relationship between interest rate control and economic resilience in Southeast Asia. First, it seeks to investigate the extent to which central bank and deposit insurance agency interventions have effectively managed inflation within the region. Second, the study aims to assess how these monetary policies have contributed to economic resilience by enabling Southeast Asian economies to withstand and recover from economic shocks. In line with these objectives, the study proposes the following hypotheses: H1: Interest rate control by central banks is significantly correlated with reduced inflation levels in Southeast Asia, supporting the findings of Chowdhury et al. (2006); and H2: Effective interest rate control by central banks enhances economic resilience by stabilizing growth, similar to insights gained from research in the ASEAN-5 economies (Samsuddin, 2021).

To achieve these objectives, this study employs a quantitative approach, analyzing economic data from 2019 to 2023 to evaluate the impact of interest rate policies on inflation and resilience in selected Southeast Asian countries. This timeframe captures the recent period of heightened global economic uncertainty, providing a unique lens through which to examine monetary policy effectiveness. The data analysis will involve econometric models to identify the causal relationships between interest rates, inflation, and resilience, ensuring robust results that reflect the specific economic dynamics of Southeast Asia. Similar approaches have been effectively utilized in studies assessing monetary policy impacts on inflation across various economies, highlighting the appropriateness of this methodology (Omodero & Okafor, 2020; Taguchi, 2015).

In summary, this research contributes to the existing literature by providing an in-depth analysis of the role of interest rate control in managing inflation and fostering economic resilience in Southeast Asia. By addressing the identified knowledge gap, the study will offer policymakers critical insights

into how targeted interest rate policies can mitigate inflation while enhancing resilience against economic disruptions. The findings are expected to enrich the academic discourse on monetary policy and resilience, offering practical implications for policymakers within Southeast Asia and beyond. Moreover, this research underscores the importance of adaptive and context-specific monetary policies, which are essential in a globally interconnected yet regionally diverse economic landscape.

This study has several sections, with the first section providing a broad overview and the research aims. The second section provides an overview of existing research concerning the interplay of economic resilience, interest rates, inflation, and deposit insurance. The third section includes data analysis and discussion, while the fourth section presents the conclusion.

Literature Review

Economic Resilience

Economic resilience is a critical concept in macroeconomic policy, reflecting an economy's capacity to endure and recover from adverse conditions. It embodies an economy's ability to adjust and sustain growth trajectories even when faced with disruptions, both internal and external. Scholars have long examined how resilience functions within different economies, and studies have underscored that robust economic growth is a key indicator of resilience (Halmai, 2021). A resilient economy can absorb shocks more effectively, sustaining stable growth and maintaining a functional economic structure despite downturns. Resilience is especially crucial in developing and emerging economies, which are often more vulnerable to external shocks due to structural constraints and limited economic diversification.

In the context of Southeast Asia, economic resilience has become increasingly pertinent due to the region's exposure to global economic fluctuations and regional challenges, such as trade dependencies and geopolitical tensions. A major factor influencing resilience is the economic growth rate, which allows economies to recover and adapt more readily. For instance, the study on Nepal demonstrates that effective monetary policies can stimulate economic growth, fostering resilience against economic shocks by providing a foundation for stability. Through controlled and adaptive policy measures, central banks in Southeast Asia can support long-term economic growth, which in turn bolsters resilience against disruptive events like financial crises, global pandemics, or fluctuating commodity prices. Taguchi (2015) and Samsuddin (2021) further emphasize that resilience must be addressed both proactively (by building robust economic structures) and reactively (by implementing policies to counter shocks).

The pursuit of economic resilience in emerging markets like those in Southeast Asia requires an intricate balance between fostering growth and maintaining stability. Economic growth, when stable and sustained, provides a buffer against shocks by expanding the economy's resource base and generating a larger fiscal space for potential interventions. This stability allows policymakers more room to maneuver during crises, reducing the economic and social impacts of adverse events. Consequently, understanding and enhancing economic resilience has become a focal point for policymakers seeking to build sustainable growth paths in an increasingly volatile global economic landscape.

Interest Rate Control

Interest rate control is a core instrument of monetary policy, predominantly managed by central banks but also significantly influenced by deposit insurance agencies in some contexts. By setting and adjusting interest rates, central banks directly influence key economic variables, including inflation, economic growth, and stability. This control mechanism is vital for managing inflationary pressures; for instance, when inflation rises, central banks can increase interest rates to dampen spending and borrowing, thereby reducing inflation. Conversely, in periods of low inflation or economic downturn, lowering interest rates can stimulate spending and investment by making borrowing more accessible (Kim, 2023).

In addition to central banks, deposit insurance agencies also play a critical role in stabilizing financial systems and ensuring confidence within the banking sector, particularly during economic uncertainty. For example, Indonesia's Lembaga Penjamin Simpanan (LPS) functions as a crucial stabilizing force by guaranteeing depositor funds, thus preventing bank runs that could destabilize the economy during periods of financial distress (Alamsyah et al., 2020). The stability provided by deposit

insurance complements central banks' interest rate policies by ensuring depositor confidence, which is essential for maintaining liquidity in the banking sector. This dual approach enhances the overall effectiveness of monetary policy in managing inflation and supporting economic resilience, as demonstrated in several Southeast Asian countries where banking stability is integral to economic stability.

One of the foundational theories explaining the relationship between interest rates and inflation is the Fisher Effect. According to this theory, nominal interest rates adjust to changes in expected inflation to maintain real returns for lenders, reflecting how central banks respond to inflation by modifying interest rates accordingly. Empirical evidence supports the efficacy of interest rate adjustments in managing inflation across various contexts, including studies in Indonesia, where interest rate policies have been shown to play a pivotal role in controlling inflationary pressures (Suparti et al., 2019; Agusmianata et al., 2018). By managing inflation expectations and ensuring stable real interest rates, central banks contribute to a stable macroeconomic environment conducive to sustained economic growth and resilience.

The dynamics of interest rate control are complex, as they are influenced by external factors such as global economic conditions, fiscal policies, and domestic economic structures. For instance, Islam (2023) highlights that volatile inflation expectations can complicate the implementation of effective monetary policy, as real interest rates become challenging to ascertain accurately. This difficulty is especially pronounced in emerging economies where inflation volatility may be higher due to various structural factors. Thus, effective interest rate control in these economies requires a nuanced understanding of both domestic and global economic conditions to ensure policy efficacy.

Interest Rate Control Relation with Inflation and Economic Resilience

The relationship between interest rate control, inflation, and economic resilience is well-documented in economic literature, with numerous studies affirming the role of interest rate adjustments in stabilizing inflation and enhancing resilience. Central banks' interest rate policies serve as a primary tool for controlling inflation, which in turn affects the stability and resilience of the economy. High inflation is generally associated with economic instability, as it increases uncertainty, erodes purchasing power, and discourages long-term investment, all of which hinder economic resilience (Chowdhury et al., 2006). By stabilizing inflation, central banks support a predictable economic environment that fosters both investment and consumption, key drivers of resilience.

Southeast Asian economies present a unique context for examining this relationship, given their structural differences and susceptibility to both domestic and international economic shocks. Research from the region suggests that while interest rate control is essential for managing inflation, its effectiveness in enhancing resilience is contingent on a variety of factors, including fiscal health, external trade balances, and regional inflation volatility. For instance, studies have shown that monetary policy alone may be insufficient under certain conditions, requiring complementary fiscal policies to stabilize economic growth and resilience effectively (Tan et al., 2020; Samsuddin, 2021). Toroitich's (2017) research in Kenya further emphasizes the need for consistent interest rate policies to promote a favorable macroeconomic environment, underscoring the role of policy stability in supporting resilience.

A stable inflation rate is essential for economic resilience, as high inflation can significantly weaken an economy by increasing risk and discouraging investment. Persistent high inflation, as observed in studies on Ghana and Nigeria, tends to reduce economic stability by undermining business confidence, restricting investment, and exacerbating economic vulnerability to external shocks (Yeboah, 2020; Mirza & Rashidi, 2018). For emerging economies like those in Southeast Asia, where inflationary pressures can be volatile, effective interest rate control mitigates the adverse effects of inflation and promotes a stable economic environment. This stability is vital for enhancing resilience, as it enables economies to better manage and recover from crises without experiencing prolonged economic disruption (Omodero & Okafor, 2020).

The concept of resilience also involves the economy's capacity to adapt and sustain growth in the long term. Studies indicate that interest rate control plays an indirect role in this regard by fostering conditions conducive to stable growth. For example, lower interest rates during economic downturns can support recovery by incentivizing spending and investment. However, excessively low rates can lead to inflationary pressures, which may undermine resilience if not managed carefully. Thus, central

banks in Southeast Asia must balance between promoting growth and maintaining inflation stability, recognizing the potential trade-offs involved in these policies.

Deposit Insurance and Economic Resilience

Banks function as mediators between savers and borrowers, offering vital services such as credit, payment systems, and asset management. The well-being of this sector directly affects the broader economy, including consumer confidence, investment levels, and economic growth (Amanda, 2023). The pivotal function of banks implies that any volatility within the financial industry might yield extensive repercussions. Bank failures may result in diminished public trust, interruptions in financial services, and adverse ripple effects on other economic sectors (Calomiris & Chen, 2022). Bonfim & Santos (2023) similarly concluded that the stability of the banking system is a vital element of a nation's economic well-being. The predominance of banks as the primary source of funding for enterprises and consumers makes a stable and efficient banking system a crucial factor in a nation's economic growth and development. Cull's study (2005) indicates that deposit insurance in nations without sufficient banking supervision and regulation may hinder rather than enhance the stability and growth of the financial system. The incidence of bank failures may severely disrupt a nation's economic operations and lead to considerable social and budgetary repercussions (Hoggarth, Reis, and Saporta 2002; Smith 2002 in Demircuc-Kunt and Anginer (2024)).

For ensuring the stability of the banking system, which may influence the financial system's stability, several nations have instituted deposit insurance organizations. The 2023 International Association of Deposit Insurers (IADI) annual meeting, held on January 1, 2023, reported 95 members and 11 associate members. The count of IADI members rose to 99. In Southeast Asia, only one (Kamboja) in ten countries does not have a deposit insurance organization, this shows that many countries need the existence of a deposit insurance organization to maintain banking stability which ultimately has an impact on the country's economic resilience.

Based on the literature reviewed, the following hypotheses are proposed for this research:

H1: Interest rate control by central banks and deposit insurance agencies is significantly associated with lower inflation rates in Southeast Asia, as effective rate management helps control inflation and stabilize prices.

H2: Effective interest rate control enhances economic resilience by stabilizing economic growth and reducing vulnerability to inflation-driven shocks, supporting Southeast Asian economies in absorbing and adapting to external economic pressures.

These hypotheses will guide the empirical analysis in this study, aiming to elucidate the nuanced relationship between interest rate policies, inflation, and economic resilience in Southeast Asia. By examining these relationships, the study seeks to contribute valuable insights for policymakers on how to leverage monetary policies to balance inflation control with resilience-building measures in the region.

METHOD

This study adopts a quantitative approach to investigate the impact of deposit insurance on interest rates and to further explore how these interest rates, represented by real interest rates (%), affect inflation (annual %) and economic resilience, as measured by GDP growth. A quantitative methodology is well-suited for this research, as it enables a structured statistical examination of relationships among variables across multiple countries, providing a data-driven foundation to answer the research questions effectively.

The sample comprises 10 ASEAN countries—Indonesia, Malaysia, Singapore, Thailand, the Philippines, Vietnam, Brunei, Cambodia, Laos, and Myanmar—observed over the period 2019 to 2023. This selection reflects the diverse economic structures and varying levels of deposit insurance across Southeast Asia, allowing for meaningful cross-country comparisons. By focusing on this region and timeframe, the study can capture recent economic fluctuations, offering a relevant context for understanding the role of deposit insurance and interest rate policies.

Data will be collected from secondary sources such as the World Bank, IMF, and ASEAN Statistical Yearbooks, which provide validated and consistent macroeconomic indicators necessary for a multi-country analysis. The key variables include real interest rates, inflation rates, GDP growth, and deposit insurance status. The existence of deposit insurance will be coded as a binary variable—with 1

representing countries with an active deposit insurance agency and 0 for those without. This straightforward coding allows for a clear analysis of its role as an independent variable, assessing how the presence of deposit insurance independently affects inflation and GDP growth across the ASEAN countries.

For data analysis, the study will use linear regression to examine the direct impact of both real interest rates and deposit insurance agency existence on inflation and GDP growth. Linear regression is suitable for this analysis because it enables the examination of multiple independent variables and their direct effects on the dependent variables. The analysis will begin with descriptive statistics to provide an overview of the distributions and trends for each variable across the countries and years, offering initial insights into patterns within the data.

Following the descriptive analysis, linear regression models will be employed to determine the effects of interest rates and deposit insurance agency presence on inflation and GDP growth. This approach allows us to assess the significance and strength of each independent variable, providing a clear view of how monetary policy and financial safety nets contribute to macroeconomic stability. This approach, using both interest rates and deposit insurance presence as independent variables, is well-aligned with the study's objective to understand their individual impacts on inflation and economic resilience. The use of linear regression in a multi-country context enhances analytical precision and is consistent with prior studies on macroeconomic policy and resilience in Southeast Asia (Nachane & Shahidul Islam, 2012). This methodology allows for meaningful insights into how these mechanisms independently contribute to economic stability, providing valuable implications for policymakers in the ASEAN region.

RESULT

Descriptive statistics provide an overview of the main variables in this study, including GDP, inflation rate (measured by the GDP deflator), and real interest rate over the period from 2019 to 2023. This initial analysis helps to understand the trends and variations in the data, offering insights into the economic conditions and monetary policies of the selected ASEAN country during this time. By examining these statistics, we can identify general patterns and fluctuations, setting the stage for further analysis of the relationships among GDP, inflation, and interest rates.

Table 1
Descriptive Statistics of Variables

Variable	2019	2020	2021	2022	2023
GDP (Billion USD)	325.071	309.069	338.741	365.881	378.162
Inflation (GDP Deflator Annual%)	1.212	-0.300	6.890	9.404	2.575
Real Interest Rate (%)	6.578	8.682	-1.085	-3.234	9.206

Source: World Bank

The GDP data indicates a general upward trend from 2019 to 2023, despite a dip in 2020. In 2019, GDP was 325.071 billion USD, which declined to 309.069 billion USD in 2020, likely due to the economic impacts of the COVID-19 pandemic. However, GDP rebounded in the following years, reaching 378.162 billion USD in 2023. This recovery highlights the resilience of the economy and the gradual return to growth as conditions stabilized post-pandemic. Inflation, measured by the GDP deflator, shows considerable fluctuations over the period. In 2019, inflation was relatively low at 1.212%, but it dropped to -0.300% in 2020, indicating a deflationary period during the pandemic. Inflation spiked in 2021 and 2022, reaching 6.890% and 9.404%, respectively, reflecting post-pandemic recovery and possibly supply chain disruptions. By 2023, inflation moderated to 2.575%, suggesting stabilization in price levels.

The real interest rate also exhibits significant variation. It was positive in 2019 (6.578%) and 2020 (8.682%), supporting investment and economic growth. However, the rate turned negative in 2021 (-1.085%) and 2022 (-3.234%), possibly due to expansionary monetary policies aimed at stimulating the economy during the recovery phase. By 2023, the real interest rate surged to 9.206%, indicating a shift toward tighter monetary policies to control inflation as the economy recovered. These trends suggest that both inflation and interest rates were influenced by broader economic conditions and policy adjustments throughout the period studied.

Following the descriptive statistics, regression analysis was conducted to further investigate the relationships among interest rates, deposit insurance existence, inflation, and GDP. Linear regression models were used to examine the direct effects of interest rates and the existence of deposit insurance agencies on both inflation and economic resilience (measured by GDP). By evaluating these relationships, we aim to better understand how these macroeconomic factors interact and influence inflation rates and economic growth across the selected ASEAN countries.

Table 2
Linear Regression Result

Independent Variable	Model	
	Dependent: Inflation	Dependent: GDP
Intercept	2.062 (p = 0.336)	46.907 (p = 0.762)
Interest Rate	-0.912 (p < 0.001)	-3.532 (p = 0.783)
Deposit Insurance Existence	4.875 (p = 0.036)	379.913 (p = 0.031)
Inflation		-9.044 (p = 0.393)
R-Square	0.566	0.112

Source: World Bank

Based in the Table 2, in the first model, with inflation as the dependent variable, the results indicate that interest rate has a statistically significant negative effect on inflation (coefficient = -0.912, $p < 0.001$). This finding aligns with conventional economic theory, suggesting that higher interest rates are associated with lower inflation. When interest rates are raised, borrowing costs increase, which tends to reduce consumer spending and investment. This decrease in aggregate demand can help lower inflationary pressures, as it dampens the upward pressure on prices. The significant and negative relationship between interest rates and inflation observed in this model suggests that central banks in the ASEAN region can use interest rate adjustments as an effective tool for controlling inflation.

The existence of a deposit insurance agency also has a statistically significant effect on inflation, with a positive coefficient of 4.875 ($p = 0.036$). This result implies that countries with a deposit insurance scheme tend to experience higher levels of inflation. One possible explanation for this relationship is that deposit insurance contributes to financial stability by protecting depositors' funds, which enhances public confidence in the banking system. This increased confidence can encourage more borrowing and spending by consumers, potentially leading to higher demand-driven inflation. Furthermore, deposit insurance could reduce the perceived risk of banking activities, possibly leading to more credit expansion, which can have inflationary effects. However, while the presence of deposit insurance appears to be positively associated with inflation, it is essential to consider this effect within the broader context of financial stability; the trade-off between inflation control and maintaining public confidence in the banking system may warrant careful policy balancing.

The R-squared value of the inflation model is 0.566, meaning that 56.6% of the variability in inflation can be explained by interest rates and the existence of deposit insurance. This relatively high R-squared value suggests that the model captures a substantial portion of the factors influencing inflation in the ASEAN region. Although other factors likely contribute to inflation, the combination of interest rates and deposit insurance presence serves as a significant predictor of inflation dynamics in this model. In the second model, with GDP as the dependent variable, the results show that the existence of a deposit insurance agency has a positive and statistically significant effect on GDP growth (coefficient = 379.913, $p = 0.031$). This positive relationship suggests that countries with deposit insurance schemes experience higher economic growth. Deposit insurance can play a critical role in fostering economic resilience by bolstering confidence in the financial system, which encourages savings and investment. A stable financial environment, supported by deposit insurance, may lead to increased lending and business expansion, ultimately driving economic growth. This finding indicates that deposit insurance is not only a safeguard for depositors but also a beneficial factor for the broader economy, as it creates a more stable environment conducive to growth.

However, in this GDP model, the interest rate and inflation variables do not have statistically significant effects on GDP, with p-values of 0.783 and 0.393, respectively. The lack of significance for the interest rate may suggest that other factors, possibly structural or fiscal, play a more dominant role in influencing economic growth in the ASEAN countries. Additionally, the impact of inflation on GDP

growth appears to be weak in this sample, indicating that moderate inflation rates may not substantially hinder growth. This result could reflect the resilience of these economies, where modest inflation fluctuations do not significantly disrupt economic expansion. Alternatively, the lack of significance might indicate that inflationary pressures have not reached levels that negatively affect growth during the study period. The R-squared value for the GDP model is 0.112, indicating that only 11.2% of the variability in GDP growth can be explained by the independent variables in this model. This low R-squared value suggests that factors outside of interest rates, inflation, and deposit insurance likely play a substantial role in determining GDP growth in ASEAN countries. For example, elements such as trade policies, government spending, foreign investment, and technological advancements could be influential drivers of economic growth in this region. The results indicate that while deposit insurance presence has a significant positive effect on GDP, the overall model does not fully capture the complexity of factors influencing economic growth.

The findings of this study contribute to the understanding of the relationships between interest rates, deposit insurance existence, inflation, and GDP growth within the ASEAN region. By examining these relationships, the study highlights the dual role of monetary policy and financial stability mechanisms in shaping macroeconomic outcomes. These insights have implications for policymakers in ASEAN countries, where economic resilience and inflation control remain pressing concerns. The negative relationship between interest rates and inflation observed in this study aligns with classical economic theory, as suggested by previous literature. Higher interest rates generally reduce inflation by curbing borrowing and spending, thereby dampening aggregate demand (Kim, 2023). This result confirms that central banks in ASEAN countries can leverage interest rate adjustments as a means to manage inflation. Nachane and Shahidul Islam (2012) and other studies have emphasized the importance of monetary policy as a tool for inflation control, especially in emerging markets, where inflation can have pronounced effects on purchasing power and economic stability. The significant influence of interest rates on inflation in this study suggests that ASEAN central banks have effectively utilized this tool to mitigate inflationary pressures during the study period.

The positive relationship between deposit insurance existence and inflation may initially appear counterintuitive but can be understood within the context of increased financial confidence and credit expansion. Deposit insurance enhances public trust in the financial system by safeguarding depositor funds, thereby encouraging more active participation in the banking sector. This increased confidence can lead to a higher volume of deposits and loans, potentially driving up spending and, consequently, inflation. Previous studies on financial stability and inflation dynamics support this finding, noting that while deposit insurance promotes stability, it can also stimulate demand-driven inflation in economies with rising credit availability (Alamsyah et al., 2020). This outcome suggests that while deposit insurance is essential for building a resilient financial system, it also requires careful consideration within a broader monetary policy framework to prevent unintended inflationary pressures.

Study's findings further demonstrate that deposit insurance has a significant positive effect on GDP growth, indicating its role in supporting economic resilience. This aligns with the idea that financial stability measures, such as deposit insurance, contribute to a more secure economic environment, fostering conditions that enable sustainable economic growth. The existence of deposit insurance encourages public confidence, which in turn supports investment and expansion activities. Previous research by Toroitich (2017) has similarly highlighted the role of financial stability in promoting a favorable environment for economic growth. This study contributes to that understanding by showing that deposit insurance can indeed boost GDP by creating a stable financial landscape where economic agents feel secure to invest and spend, further corroborating the findings of Suparti et al. (2019) in related contexts.

Interestingly, the study did not find a significant relationship between interest rates and GDP growth. This result suggests that while interest rates are effective for controlling inflation, they may not be as influential in directly driving economic growth in the ASEAN context. This aligns with the findings of Islam (2023), who noted that other structural factors, such as trade policies, government spending, and foreign investment, may play more substantial roles in influencing GDP growth. Furthermore, Samsuddin (2021) found that in ASEAN countries, fiscal policies and external trade conditions could sometimes have a more direct impact on growth than monetary policy alone. Therefore, while interest rates are crucial for maintaining price stability, other policy areas may need to be strengthened to drive economic growth sustainably.

The relatively low R-squared value in the GDP model (0.112) further indicates that factors outside of interest rates, inflation, and deposit insurance may be essential determinants of economic growth. This observation highlights the complexity of growth dynamics in the ASEAN region, where economic expansion may depend on a mix of domestic and international influences. For example, structural policies aimed at improving productivity, enhancing trade competitiveness, and attracting foreign direct investment could be more impactful on GDP growth than monetary policy alone. As Halmai (2021) and Taguchi (2015) have argued, growth in emerging economies often relies on multiple levers, not just on financial stability and inflation control. This finding suggests that ASEAN policymakers should adopt a holistic approach, combining monetary policy with structural reforms to drive sustainable economic growth.

Overall, the study's results suggest a nuanced approach to economic policy in ASEAN. While deposit insurance proves to be beneficial for both inflation and GDP growth, its potential to elevate inflation underlines the need for a balanced approach in managing its implementation alongside other monetary tools. The combination of deposit insurance with prudent interest rate policies could enable ASEAN economies to maintain financial stability and growth without exacerbating inflationary pressures. These findings emphasize the importance of coordinated policy strategies, as advocated by Nachane and Shahidul Islam (2012), for achieving macroeconomic stability in the region.

CONCLUSION

This research elucidates the specific effects of interest rates and the existence of deposit insurance agencies on inflation and GDP development in ASEAN nations. The research emphasizes the significant impact of interest rates on regulating inflation in the area by examining the independent impacts of these factors. The inverse correlation between interest rates and inflation indicates that ASEAN central banks may use interest rate modifications as an effective mechanism to stabilize price levels. Elevated interest rates generally suppress borrowing and expenditure, alleviating inflationary pressures and contributing to economic stability. This discovery underscores the significance of interest rate management within the monetary policy framework for developing countries, where managing inflation is crucial for attaining sustainable economic conditions.

The existence of deposit insurance was determined to significantly enhance both inflation and GDP growth, providing crucial insights into the effect of financial stability policies on wider economic results. Deposit insurance seems to elevate inflation levels, perhaps due to enhanced public trust in the banking system, which promotes borrowing and expenditure. The positive correlation between deposit insurance and GDP growth suggests that financial stability measures safeguard depositor money while promoting an environment favorable to economic development. Deposit insurance could boost trust in the financial system, therefore stimulating investment and consumer activity, which supports economic development. This dual effect highlights the need for a balanced strategy; whereas deposit insurance is crucial for stability, its possible inflationary consequences must be carefully regulated in conjunction with other monetary instruments.

Policymakers in ASEAN nations should recognize that attaining economic resilience requires a sophisticated approach that integrates successful interest rate policies with meticulously managed financial stability measures. Exclusively depending on interest rate modifications may assist in managing inflation but may not comprehensively fulfill the overarching objectives of economic development and resilience. Conversely, whereas deposit insurance enhances stability and fosters development, it may induce inflation if not harmonized with other economic policies. A coordinated strategy that amalgamates monetary and financial stability policies is crucial for sustaining steady development and price stability in the area. Future research may further examine the interplay between monetary policy and financial stability instruments, considering additional elements such as fiscal policies and structural reforms to establish a more comprehensive framework for fostering resilience and sustainable growth in ASEAN's dynamic economic environment.

DAFTAR PUSTAKA

Agusmianata, N., Militina, T., Lestari, D., 2018. Pengaruh Jumlah Uang Beredar Dan Tingkat Suku Bunga Serta Pengeluaran Pemerintah Terhadap Inflasi Di Indonesia. *Forum Ekonomi*, 19(2), 188.

- Altunöz, U., 2018. Investigating the Presence of Fisher Effect for the China Economy. *Sosyoekonomi*, 27–40.
- Azam, M., Khan, S., 2020. Threshold Effects in the Relationship Between Inflation and Economic Growth: Further Empirical Evidence From the Developed and Developing World. *International Journal of Finance & Economics*, 27(4), 4224–4243.
- Bangura, M., 2024. Inflation-Economic Growth Nexus in Nigeria: New Evidence on Threshold Effects. *International Journal of Economic Policy*, 4(1), 44–62.
- Chowdhury, I., Hoffmann, M., Schabert, A., 2006. Inflation Dynamics and the Cost Channel of Monetary Transmission. *European Economic Review*, 50(4), 995–1016.
- Coibion, O., Gorodnichenko, Y., Weber, M., 2022. Monetary Policy Communications and Their Effects on Household Inflation Expectations. *Journal of Political Economy*, 130(6), 1537–1584.
- Duskobilov, U., 2017. Impact of Economic Regulation Through Monetary Policy: Impact Analysis of Monetary Policy Tools on Economic Stability in Uzbekistan. *International Journal of Innovation and Economic Development*, 3(1), 65–69.
- Fountas, S., 2010. Inflation, Inflation Uncertainty and Growth: Are They Related? *Economic Modelling*, 27(5), 896–899.
- Granville, B., Mallick, S., 2006. Does Inflation or Currency Depreciation Drive Monetary Policy in Russia?, *Research in International Business and Finance*, 20(2), 163–179.
- Halmi, P., 2021. Resilience in Focus: Certain Mechanisms of the Deepening of the Economic and Monetary Union. *Pénzügyi Szemle = Public Finance Quarterly*, 66(1), 7–31.
- Hasan, Md. M., Islam, Md. A., Hasnat, M. A., Wadud, A., 2016. The Relative Effectiveness of Monetary and Fiscal Policies on Economic Growth in Bangladesh. *Economics*, 5(1), 1.
- Islam, T. U., 2023. Inflation Targeting: A Time-Frequency Causal Investigation. *Plos One*, 18(12), e0295453.
- Kankpeyeng, J. G., Maham, I., Abubakar, M., 2021. Impact of Inflation on Gross Domestic Product Growth in Ghana. *Ghana Journal of Development Studies*, 18(2), 117–137.
- Khodabakhshi, A., 2023. Nonlinear Impact of Interest Rates on Price Level (Smooth Transition Autoregressive Approach). *Journal of Management and Science*, 13(2), 5–15.
- Kim, A., 2023. Effects of Interest Rate Policy on Inflation. *Journal of Student Research*, 12(3).
- Kunkuaboor, Y. C., Adamu, M., Sommik-Duut, M., Abdul-Seidu, F., 2021. The Effect of Inflation on Economic Growth in Ghana, 1995-2019: Post Democratic Analysis. *World Journal of Advanced Research and Reviews*, 12(3), 230–242.
- Meyer, D. F., Chipeta, C., Camel, R. T. M., 2018. An Analysis of the Effectiveness of Interest Rates to Facilitate Price Stability and Economic Growth in South Africa. *Studia Universitatis Babe-Bolyai Oeconomica*, 63(3), 68–90.
- Mirza, A., Rashidi, M., 2018. Causal Relationship Between Interest Rate and Inflation Rate: A Study of SAARC Economies. *Kardan Journal of Economics and Management Sciences*.
- Nezhad, M. Z., Zarea, R., 2007. Investigating the Causality Granger Relationship Between the Rates of Interest and Inflation in Iran. *Journal of Social Sciences*, 3(4), 237–244.
- Okoye, P. V. C., Molokwu, I. M., Onwuteaka, I. C., 2019. Effect of Monetary Policy on Economic Growth in Nigeria. *International Journal of Trend in Scientific Research and Development*, 3(3), 590–597.
- Omodero, C. O., Okafor, M. C., 2020. Monetary Policy Mechanisms and Economic Growth Stability in Nigeria. *Research in World Economy*, 11(6), 225.
- Opeyemi, A. F., 2020. Impact of Foreign Direct Investment and Inflation on Economic Growth of Five Randomly Selected Countries in Africa. *Journal of Economics and International Finance*, 12(2), 65–73.
- Rising Interest Rates Reduce Inflation: An Empirical Study for the Republic of North Macedonia. 2022. *Horizons A*, 30.
- Samsuddin, M. A., 2021. Monetary vs Fiscal Policy, Which Is More Effective? Case Studies of Asean-5 Countries. *Economica*, 9(1), 172–181.
- Suparti, S., Prahutama, A., Rusgiyono, A., Sudargo, S., 2019. Modeling Central Java Inflation and GRDP Rate Using Spline Truncated Birespon Regression and Birespon Linear Model. *Media Statistika*, 12(2), 129.

- Taguchi, H., 2015. Macroeconomic Risks in the Greater Mekong Sub-Region. *International Journal of Asian Business and Information Management*, 6(2), 16–32.
- Tan, C.-T., Azali, M., Habibullah, M. S., Lee, C., 2020. The Impacts of Monetary and Fiscal Policies on Economic Growth in Malaysia, Singapore and Thailand. *South Asian Journal of Macroeconomics and Public Finance*, 9(1), 114–130.
- Taylor, J. B., 2019. Inflation Targeting in High Inflation Emerging Economies: Lessons About Rules and Instruments. *Journal of Applied Economics*, 22(1), 103–116.
- Thanh, S. D., 2015. Threshold Effects of Inflation on Growth in the ASEAN-5 Countries: A Panel Smooth Transition Regression Approach. *Journal of Economics Finance and Administrative Science*, 20(38), 41–48.
- Toroitich, C. J., 2017. Effects of Interest Rates Stability on Kenya's Economic Performance. *Strategicjournals.Com*, 4(2).
- Yeboah, S. A., 2020. Modelling Inflation-Interest Rate Nexus for Ghana. *International Journal of Financial Accounting and Management*, 2(3), 227–241.