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Exchange Rate Behaviour in ASEAN-5: The Role of Current Account, Inflation, and Political Stability

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Abstract

This study analyses the influence of the current account, inflation, and political stability on exchange rate dynamics in ASEAN-5 countries during 2010–2024. A quantitative approach is applied using annual data from the IMF, World Bank, and BIS, estimated through panel data regression with the optimal specification determined by Chow, Hausman, and Lagrange Multiplier tests. The findings show that stronger current account balances foster domestic currency appreciation, while higher inflation contributes to depreciation, consistent with balance of payments and purchasing power parity theories. Political stability exerts a positive effect by improving market confidence and encouraging capital inflows. Policy recommendations highlight the need for coordinated monetary and fiscal policies alongside institutional reforms to strengthen currency resilience. The main limitations relate to the use of annual data and the heterogeneity across countries. The study provides original evidence on the joint role of economic and political fundamentals in sustaining exchange rate stability in emerging economies, underscoring the multidimensional nature of currency dynamics and their broader policy implications.

JEL Classification: F3, F30, F31, F32

Keywords: Current Account, Inflation, Political Stability, Exchange Rate

Comportamiento del tipo de cambio en el ASEAN-5: El papel de la cuenta corriente, la inflación y la estabilidad política

Resumen

Este estudio analiza la influencia de la balanza por cuenta corriente, la inflación y la estabilidad política sobre la dinámica del tipo de cambio en los países del ASEAN-5 durante 2010–2024. Se emplea un enfoque cuantitativo con datos anuales del FMI, el Banco Mundial y el BIS, estimados mediante regresión de panel y con la especificación óptima determinada a través de las pruebas de Chow, Hausman y Lagrange Multiplier. Los resultados indican que una balanza por cuenta corriente más sólida impulsa la apreciación de la moneda doméstica, mientras que una inflación más alta provoca depreciación, de acuerdo con las teorías de balanza de pagos y paridad del poder adquisitivo. La estabilidad política ejerce un efecto positivo al mejorar la confianza del mercado y favorecer la entrada de capitales. Se recomienda la coordinación entre políticas monetarias y fiscales junto con reformas institucionales. Las principales limitaciones se refieren al uso de datos anuales y la heterogeneidad regional. El estudio aporta evidencia original sobre el papel conjunto de factores económicos y políticos en la estabilidad cambiaria de economías emergentes.

Clasificación JEL: F3, F30, F31, F32

Palabras clave: Cuenta corriente, inflación, estabilidad política, tipo de cambio

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1. Introduction

Exchange rates are often treated as statistical indicators in empirical economic analysis; however, they also reflect a country's external vulnerability, institutional credibility, and broader macroeconomic resilience. In highly open emerging economies, exchange rate movements serve as a key transmission mechanism through which trade imbalances, inflationary pressures, and political uncertainty affect overall economic stability. This is particularly relevant for Indonesia, Malaysia, Thailand, the Philippines, and Singapore (ASEAN-5), where openness to trade and capital flows heightens sensitivity to external shocks and global economic fluctuations. In this context, exchange rate dynamics provide an important barometer for assessing the capacity of these economies to withstand external pressures and maintain macroeconomic stability.

These countries are selected due to their high degree of economic openness, active participation in regional trade and investment, and the significant role their currencies play in Southeast Asia's foreign exchange markets. Although it may seem technical, exchange rate volatility has very tangible impacts. Poorly managed exchange rates can accelerate or hinder export growth, trigger inflation, drive capital outflows, or rapidly change investor perceptions about a country's economic stability. This condition makes the exchange rate not only sensitive to external changes but also crucial in shaping market expectations regarding domestic economic policies (Đorđević Zorić, 2019). Existing literature has extensively documented the roles of inflation and external balances in exchange rate determination; however, the interaction between these economic fundamentals and political stability remains underexplored in a comparative ASEAN context. While political stability has been examined in single-country or cross-regional studies, its joint inclusion with core macroeconomic variables across ASEAN-5 represents a gap this study seeks to address.

Empirical analyses of exchange rate dynamics have long demonstrated that sensitivity to external factors plays a critical role in shaping domestic economic stability, particularly in emerging economies. Over the past three decades, a substantial body of literature has sought to forecast exchange rate movements and identify their determinants, primarily through traditional frameworks such as purchasing power parity and balance-of-payments theory (Obstfeld & Rogoff, 2003). Existing studies have extensively documented the roles of inflation and external balances in exchange rate determination; however, these relationships often yield heterogeneous and context-dependent results, especially in developing and emerging markets.

More recent research has expanded beyond purely macroeconomic explanations by incorporating non-economic factors that influence exchange rate behavior through expectations and risk perceptions. In particular, political stability has been shown to affect exchange rates by shaping investor confidence and capital flows, as evidenced in several country-specific and cross-regional studies (Chikwira & Jahed, 2024). Despite these advances, the interaction between traditional macroeconomic fundamentals and political stability remains underexplored in a comparative ASEAN context. While political factors have been examined in isolation or within broader regional samples, their joint inclusion with core macroeconomic variables across ASEAN-5 countries represents an important gap that this study seeks to address.

This study adopts an integrated empirical approach by jointly examining economic fundamentals (inflation and current account balances) and a non-economic factor (political stability) in analyzing exchange rate behavior in ASEAN-5 countries. While previous studies have predominantly emphasized macroeconomic variables, this paper incorporates political stability as a complementary dimension influencing market expectations and exchange rate dynamics. The contribution of this study lies not in methodological novelty but in its region-specific and comparative empirical focus, which provides contextually grounded evidence on how economic and political fundamentals interact within structurally diverse yet economically integrated emerging economies. To address these objectives in a structured manner, this paper consists of several interconnected sections. The first section is the introduction, which presents the topic, background, and research objectives. The second section reviews the relevant literature as the theoretical foundation. The third section explains the research methodology, while the fourth section presents the research findings and their discussion. Finally, the fifth section concludes with the main findings, discusses their implications, and provides recommendations for future research.

2. Literature Review

Exchange rates are a crucial macroeconomic indicator, especially for developing countries with high levels of economic openness such as Indonesia, Malaysia, Thailand, the Philippines, and Singapore (ASEAN-5). Beyond signaling external-sector competitiveness, exchange rates serve as a barometer of overall macroeconomic stability and investor confidence (Pradhan et al., 2019, Baharumshah et al., 2019). A growing body of literature suggests that exchange rate dynamics are shaped by a combination of macroeconomic fundamentals, such as inflation and current account balances and non-economic factors, including political stability, which influence market expectations and capital flows (Chikwira & Jahed, 2024, Dos Santos et al., 2021). With the advancement of international economic theory, research on exchange rates has undergone significant shifts. Early studies were challenged by the Meese–Rogoff puzzle, which highlighted the weak predictive performance of traditional macroeconomic models in explaining exchange rate movements. This limitation led to the development of new approaches such as New Open-Economy Macroeconomics (NOEM) and macro-financial perspectives, which emphasize market behaviors, asymmetric information, and liquidity dynamics as short-term drivers of exchange rate fluctuations (Fang et al., 2024). Subsequent research has highlighted the limitations of traditional macroeconomic models in explaining exchange rate behavior, particularly in developing and emerging markets. Empirical studies show that inflation and current account balances interact with structural and institutional characteristics, resulting in heterogeneous exchange rate responses across countries (Sarno & Taylor, 2003, Ghosh et al., 2015). This strand of literature reveals a tension between theoretically well-established models and their often-unstable empirical performance in heterogeneous country settings. More recent studies incorporate political and institutional factors into exchange rate analysis, arguing that currencies respond not only to observable macroeconomic fundamentals but also to changes in political stability, governance quality, and perceived country risk (Aizenman & Marion, 2003, Iyke et al., 2022). Political instability can amplify exchange rate volatility through capital flow reversals and shifts in investor expectations. In the ASEAN-5 context, leadership transitions, policy uncertainty, and regional geopolitical tensions have been associated with heightened currency volatility even when macroeconomic indicators remain relatively stable (Jantarakolica & Jantarakolica, 2018, Nookhwun & Waiyawatjakorn, 2024).

While many studies have investigated exchange rate determinants, only a limited number have jointly examined economic fundamentals and political stability within a comparative regional framework. Much of the existing literature relies on single-country case studies or applies models that overlook governance-related dimensions. Recent empirical studies also highlight the importance of integrating macroeconomic fundamentals with structural and institutional considerations when examining exchange rate dynamics in developing economies (Ayala Castrejón & Bucio Pacheco, 2020; Cantú Esquivel et al., 2023). These findings suggest that exchange rate behavior cannot be fully understood without considering the interaction between economic indicators and broader political conditions. The unresolved issue, therefore, lies in how traditional macroeconomic fundamentals and political stability interact to shape exchange rate behavior within a relatively integrated but structurally diverse group of emerging economies. This study addresses that gap by adopting an integrated empirical framework that examines inflation, current account balances, and political stability across ASEAN-5 countries. Rather than claiming methodological novelty, the contribution is empirical and contextual, aiming to provide policy-relevant insights into exchange rate dynamics in developing economies (Khaliq et al., 2025).

3. Methodology and data

This study employs a quantitative research design using panel data from five ASEAN countries: Indonesia, Malaysia, Thailand, the Philippines, and Singapore. The secondary data utilised spans from 2010-2024 and was sourced from the International Monetary Fund (IMF), the Bank for International Settlements (BIS), and the World Bank. The use of annual data is primarily driven by the need for cross-country consistency, particularly for institutional indicators such as political stability, which are not available at higher frequencies across all countries. The dataset consists of annual panel observations, combining both time-series and cross-sectional dimensions. Panel data regression is employed as it allows the analysis to exploit both intertemporal variation and cross-country differences while controlling for unobserved heterogeneity. Rather than estimating separate country-specific models, this study applies a pooled panel framework to identify average cross-country associations among the variables of interest within the ASEAN-5 group. All data processing and regression analyses were conducted using Stata 17. The dataset was examined for missing values, and no imputation was required as all variables were complete across countries and years. A detailed description of each variable, including definitions, data sources, and measurement frequency, is provided in Table 1.

Table 1. Summary of Variables and Data Sources

Variable	Definition	Source	Frequency
Exchange Rate	Local currency per USD	IMF	Annual
Inflation Rate	Consumer Price Index (%)	World Bank	Annual
Current Account Balance	% of GDP	IMF	Annual
Political Stability	World Governance Indicator (WGI)	World Bank	Annual

Source: Author’s compilation based on IMF, World Bank, and BIS data (2010–2024)

The study period encompasses two major global economic disruptions, the aftermath of the 2008 global financial crisis and the COVID-19 pandemic in 2020. Although the model does not explicitly include crisis dummy variables, the effects of these events are implicitly captured through variations in the macroeconomic indicators, such as inflation, current account balances, and exchange rates, during the respective periods. This approach allows the analysis to reflect exchange rate behavior under significant macroeconomic stress without imposing additional structural assumptions. The empirical analysis proceeds in several stages. First, descriptive statistics are used to summarize the key characteristics of the data. Second, three standard panel regression specifications are estimated: the Common Effects Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM). While these models are widely used in applied macroeconomic research, they remain appropriate for the study's primary objective of examining average associations rather than estimating dynamic or causal parameters.

Model selection is conducted using a sequence of formal specification tests. The Chow test is applied to compare the CEM and FEM, with the decision based on the probability value of the Cross-Section F statistic. If $p > 0.05$, the CEM is preferred; otherwise, the FEM is selected. The Hausman test is subsequently used to choose between the FEM and REM by examining whether country-specific effects are correlated with the regressors. If $p > 0.05$, the REM is considered appropriate; if $p < 0.05$, the FEM is preferred. Finally, the Lagrange Multiplier (Breusch–Pagan) test is employed to assess whether the REM provides a better fit than the CEM. Together, these tests ensure that the selected specification is statistically consistent with the underlying data structure. Important econometric issues, including endogeneity, reverse causality, and dynamic adjustment, are explicitly acknowledged. Exchange rate movements may influence inflation and current account balances, just as these variables may affect exchange rates. Addressing such concerns would require dynamic panel estimators or instrumental-variable techniques, which are beyond the scope of this study given the annual data frequency and limited time dimension. Consequently, the estimated coefficients are interpreted as average partial associations rather than causal effects. After selecting the preferred model, parameter estimation is conducted to assess both joint and individual statistical significance. The coefficient of determination (R^2) is used to evaluate the explanatory power of the model, while the F-test assesses the joint significance of the regressors. Individual coefficient significance is evaluated using t-tests. All inferential results are interpreted with caution, taking into account the static nature of the model and the potential presence of unobserved heterogeneity across countries.

4. Results and Discussion

After obtaining the parameter estimation results, the panel data regression models were formulated, consisting of three models: the Fixed Effects Model (FEM), the Random Effects Model (REM), and the Common Effects Model (CEM). The purpose of estimating multiple model specifications is to ensure robustness and to identify the most appropriate representation of the panel structure, while recognizing that the empirical framework identifies statistical associations rather than causal relationships. Accordingly, the interpretation of the results emphasizes economic plausibility, cross-country heterogeneity, and consistency with existing literature.

4.1. Common Effect Model (CEM)

As shown in Eq. (1), the Common Effects Model (CEM) is specified as follows:

$$\gamma_{it} = 4153{,}102 - 468.6612X_{1it} + 506.2034X_{2it} + 2215{,}725X_{3it} \ldots\ldots \quad (1)$$

The regression results for the Common Effects Model indicate that all independent variables significantly affect the exchange rate. However, because the CEM assumes homogeneous intercepts and ignores unobserved country-specific characteristics, the estimated coefficients may suffer from omitted-variable bias, particularly in a heterogeneous regional setting such as ASEAN-5. Therefore, these results are treated as a baseline reference rather than a preferred specification.

4.2. Fixed Effect Model (FEM)

As shown in Eq. (2), the Fixed Effects Model (FEM) is specified as follows:

$$\gamma_{it} = 2968{,}906 - 14{,}68781X_{1it} - 73{,}82615X_{2it} + 735{,}8884X_{3it} \ldots\ldots \quad (2)$$

The FEM results show that none of the independent variables are statistically significant. This outcome suggests that when time-invariant country-specific characteristics are fully controlled for, within-country variation alone may be insufficient to identify robust relationships between macroeconomic variables, political stability, and exchange rates. This finding reflects the structural diversity among ASEAN-5 countries and indicates that exchange rate dynamics may be influenced by both within- and between-country factors.

4.3. Random Effect Model (REM)

As shown in Eq. (3), the Random Effects Model (REM) is specified as follows:

$$\gamma_{it} = 2983.825 - 20{,}63262X_{1it} - 74{,}47426X_{2it} + 655{,}4970X_{3it} \ldots\ldots \quad (3)$$

The REM results indicate that the independent variables do not reach conventional levels of statistical significance. Nevertheless, the REM allows the analysis to exploit both within- and between-country variation, making it suitable for examining average relationships across structurally heterogeneous economies such as ASEAN-5. Importantly, the REM assumes that unobserved country-specific effects are uncorrelated with the explanatory variables, an assumption that improves efficiency but does not eliminate potential endogeneity or reverse causality.

4.4. Chow Test

Following parameter estimation, model selection was conducted using the Chow test, Hausman test, and Lagrange Multiplier test. The Chow test results indicate that the Fixed Effects Model is preferred over the Common Effects Model. Subsequently, the Hausman test suggests that the Random Effects Model is more appropriate than the Fixed Effects Model. Finally, the Lagrange Multiplier test confirms that the Random Effects Model provides a better fit than the pooled OLS specification.

Table 2. Summary of Chow Test Results

Redundant Fixed Effects Tests Test cross-section fixed effects			
Effects test	**Statistic**	**d.f.**	**Prob.**
Cross-section F Cross-section Chi-square	323.481557 225.842113	(4,67) 4	0.0000 0.0000

Source: Author’s compilation based on IMF, World Bank, and BIS data (2010–2024)

Note: The data processing and estimations were conducted using Stata 17

Taken together, these tests support the selection of the Random Effects Model as the most appropriate empirical specification. However, the selected model is interpreted as identifying conditional correlations rather than causal effects, consistent with the static panel data framework employed in this study.

4.5. Hausman Test

The Hausman test was performed to determine the best model between the Fixed Effects Model and the Random Effects Model. The decision is based on the probability value (p) for the cross-section random effect.

Table 3. Summary of Hausmen Test Results

Correlated Random Effects – Hausman Test Test cross-section random effects			
Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	4.564736	4	0.2066

Source: Author's compilation based on IMF, World Bank, and BIS data (2010–2024). Note: The data processing and estimations were conducted using Stata 17

The results show that the probability value for cross-section random is 0.2066, which is greater than the significance level $\alpha = 0.05$. Hence, the Random Effects Model (REM) is the preferred model for estimation.

4.6. Lagrange Multiplier Test

The Lagrange Multiplier (LM) test was used to determine whether the Random Effects Model (REM) provides a better fit than the Pooled Ordinary Least Squares (Pooled OLS) model, which is often referred to as the Common Effects Model in panel data analysis. This test also supports the consistency check between the Fixed Effects and Random Effects models conducted in previous tests. The decision is based on the Breusch-Pagan (BP) statistic:

Table 4. Summary of Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects			
	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	247.0548 (0.0000)	3.612601 (0.0573)	250.6674 (0.0000)

Source: Author's compilation based on IMF, World Bank, and BIS data (2010–2024). Note: The data processing and estimations were conducted using Stata 17

The results indicate that the Breusch-Pagan (BP) value is 0.000, which is less than $\alpha = 0.05$, confirming that the Random Effects Model (REM) is the most appropriate model for estimation. The selection of the Random Effects Model implies that the unobserved individual heterogeneity across countries is assumed to be uncorrelated with the explanatory variables. This allows for more efficient estimation and generalization across the ASEAN-5 countries, as both within- and between-country variations are utilized in the analysis.

4.7. The Relationship Between the Current Account and Exchange Rates in ASEAN-5 Countries

Based on the results of the t-test, the coefficient value of -20.63262 indicates that the current account variable has a negative effect on the domestic exchange rates of the ASEAN-5 countries. This coefficient should be interpreted as an average partial association rather than a causal effect, given the static panel framework and the use of annual data. The estimation suggests that a 1% increase in the current account balance (as a percentage of GDP) is associated with an appreciation of the domestic currency by approximately 20.63 units, measured in terms of local currency per USD. However, the relatively large magnitude of this coefficient warrants cautious interpretation, as it may reflect cross-country structural heterogeneity rather than a uniform policy effect.

This result is consistent with the fundamental balance of payments theory, which posits that the current account surplus reflects increased demand for domestic currency, driven by positive net exports. In the ASEAN-5 context, such a surplus indicates that the inflow of foreign exchange from trade in goods and services exceeds outflows, thereby exerting upward pressure on the exchange rate. Nevertheless, this theoretical mechanism does not imply a direct causal transmission in the present empirical setting, as reverse causality between exchange rate movements and external balances cannot be ruled out.

The causal relationship between the current account and real exchange rate movements, particularly in developing countries with flexible exchange rate regimes, has been empirically demonstrated by (Chinn & Wei, 2008), the present findings should not be interpreted as evidence of causality. Furthermore, the Marshall-Lerner elasticity condition supports the notion that, if exports respond elastically to exchange rate changes, a current account surplus will strengthen the domestic currency in the medium term. From an empirical perspective, the negative relationship between the current account and exchange rate has been consistently confirmed across various studies in developing economies. Research focusing on Southeast Asian countries has shown that current account surpluses contribute to currency appreciation due to increased demand for local currency resulting from high net exports and sustained foreign exchange inflows (Baharumshah et al., 2017).

However, some studies have yielded conflicting findings. In certain cases, currency appreciation can aid the trade surplus, particularly in countries with substantial foreign asset holdings and high imports of non-consumption goods (Mei et al., 2020). These divergent findings highlight that the relationship between the current account and exchange rates is highly context-dependent and influenced by differences in trade composition, asset structures, and exchange rate regimes across countries.

Comparative evidence across ASEAN countries further suggests that the association between current account balances and exchange rates tends to be stronger in economies with more flexible exchange rate regimes and disciplined fiscal frameworks (Glebocki Keefe & Hepp, 2024). Dynamic panel analyses of developing economies indicate that this relationship is reinforced when external surpluses are accompanied by rising foreign reserves and prudent external debt management (Delechat, 2024). Accordingly, in the ASEAN-5 context, the role of the current account in supporting currency strength should be understood as conditional on broader institutional credibility and macroeconomic conditions, rather than as an isolated determinant.

4.8. The Relationship Between Inflation and Exchange Rates in ASEAN-5 Countries

The results of the partial parameter testing yielded a coefficient value of -74.47426, indicating that a 1% increase in inflation leads to a depreciation of the domestic currency by approximately 74.47 units, measured in terms of local currency per USD. This estimate reflects a statistical association rather than a causal relationship and should be interpreted with caution, particularly given the magnitude of the coefficient. The result suggests that higher inflation in Indonesia, Malaysia, the Philippines, Thailand, and Singapore tend to coincide with weaker exchange rates. This negative association is consistent with Purchasing Power Parity (PPP) theory, which posits that higher domestic inflation erodes the purchasing power of a currency relative to its trading partners, leading to depreciation (Rogoff, 1996; Engel, 2016). Empirical studies using panel data from developing economies similarly report a strong association between inflation and exchange rate depreciation, particularly in countries with less credible monetary frameworks (Aizenman et al., 2016; Baharumshah et al., 2017).

However, the literature also documents substantial heterogeneity in this relationship. For example, in Vietnam, exchange rate pressures appear to be more strongly influenced by external factors such as commodity prices and capital flows than by domestic inflation (Dang & Pham, 2024). Moreover, evidence from ASEAN economies suggests that inflation differentials may have only temporary or statistically insignificant long-run effects on exchange rate misalignment (Nookhwun & Waiyawatjakorn, 2024). These findings underscore that the inflation–exchange rate relationship is neither uniform nor necessarily linear across countries. The policy implications of these results should therefore be interpreted cautiously. While price stability is associated with exchange rate stability, the empirical design does not support direct policy prescriptions. Instead, the findings highlight the importance of credible monetary institutions, coordinated fiscal–monetary frameworks, and transparent policy communication in mitigating inflationary pressures and their potential spillovers to the exchange rate (Wong, 2019).

4.9. The Relationship Between Political Stability and Exchange Rates in ASEAN-5 Countries

The estimated coefficient for political stability is positive (655.4970), indicating that higher political stability is associated with currency appreciation in ASEAN-5 countries. As with other explanatory variables, this relationship captures an average association rather than a causal effect. The result is consistent with political economy theories suggesting that stable political environments reduce uncertainty and perceived country risk, thereby supporting capital inflows and exchange rate strength (Alesina et al., 2019, Dos Santos et al., 2021).

These findings are also consistent with the literature review, which identifies political stability as a key non-economic determinant that shapes market expectations and influences investor behavior (Chikwira & Jahed, 2024, Dos Santos et al., 2021). Political stability has been shown to enhance investor confidence, reduce financial market volatility, and support exchange rate strength through improved perceptions of country risk (Iyke et al., 2022). For instance, ASEAN countries with higher levels of political stability tend to exhibit stronger and more stable exchange rates compared to those with fragile political environments (Ahmad et al., 2021). Similarly, political stability contributes to greater exchange rate predictability and reduced speculative pressure in emerging markets (Salisu et al., 2022).

Nevertheless, the relationship between political stability and exchange rates is not necessarily linear or unconditional. In some cases, political stability achieved through restrictive economic policies or excessive state intervention may undermine long-term investor confidence and weaken the currency, as observed in other emerging markets (Dos Santos et al., 2021). This highlights the importance of institutional quality, economic openness, and policy coherence in mediating the effect of political stability on exchange rate outcomes (Rodrik, 2017).

Accordingly, political stability should be viewed as one component of a broader set of determinants shaping exchange rate dynamics. The policy implications derived from this finding must therefore remain cautious and context-specific. Enhancing political stability is most effective when accompanied by sound macroeconomic fundamentals, transparent governance, and credible policy frameworks that collectively support exchange rate resilience in ASEAN-5 countries (Khaliq et al., 2025).

5. Conclusions

This study finds that domestic exchange rates in ASEAN-5 countries are significantly associated with key economic and political fundamentals, namely the current account balance, inflation, and political stability. A stronger current account balance is linked to domestic currency appreciation, consistent with balance-of-payments reasoning and the Marshall–Lerner mechanism. Inflation, on average, is associated with currency depreciation in the pooled panel, in line with Purchasing Power Parity considerations, while political stability is positively related to exchange-rate appreciation by improving investor confidence and reducing uncertainty. These findings should be interpreted as average cross-country associations rather than causal or country-specific effects, reflecting the static panel framework and the use of annual data. The contribution of this study lies not in methodological innovation but in its integrated and region-specific empirical perspective, which clarifies how well-established theoretical relationships manifest within a relatively integrated yet structurally heterogeneous group of emerging economies.

Several limitations and avenues for future research emerge from this analysis. The use of annual data constrains the ability to capture short-term exchange-rate dynamics, while the pooled estimation approach abstracts from country-specific heterogeneity and does not explicitly address endogeneity or dynamic adjustment. To strengthen inference, future research could employ country-specific or heterogeneous-panel models, dynamic estimation techniques, and additional robustness checks. Extending the analysis to other ASEAN members or comparable developing economies may further illuminate how institutional quality and structural characteristics interact with macroeconomic fundamentals to shape exchange-rate behavior, thereby enriching policy-relevant insights for emerging markets.

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