

# CHAPTER I

## INTRODUCTION

### A. Background

Indonesia as a developing country has actually faced the problem of monetary crisis. Since 1997, the monetary crisis began and disrupted the economy as well as the political conditions of the day. A difficult problem faced by Indonesia Bank, due to the interbank money market in Indonesia suffered a devastation caused by the monetary crisis. Another problem occurs when globalization system of the world market brings liberalization system to the international market, therefore the condition causes difficult problems to control monetary to the resilience of the world economy. Policies and strategies at the time focused on maintaining foreign exchange speculation and also to protect foreign exchange reserve. Actually, one factor that caused the economic crisis since 1997-1998 is foreign private debt in the short term and medium term, thereby burdening the exchange rate due to weakening of foreign reserves to buy debt and additional interest. Another reason is that our national banking system is weak at that time

The foreign exchange in that period still utilize free foreign exchange system based on PP Number 1 Year 1982 which is reinforced by law number 24 Year 1999 about the traffic foreign exchange and also exchange rate system. According that law, every people have freedom to use and hold foreign

exchange, but they have obligation to give information and data about traffic foreign exchange which is used with them.

Foreign exchange reserve or international reserves and foreign currency liquidity (IRFCL) based on IMF have definition as all of assets overseas which is controlled by monetary authority and can be useful every time for paying imbalance of balance of payment or monetary stabilization by doing intervention and other purpose. Foreign exchange reserve has relations to the balance of payment, usually to purchase import and liabilities of foreign country. The accumulation foreign exchange reserve of country usually is determined by international trade (export and import) and also capital flows in that country.

According to the (Dumairy 1997), the position of foreign exchange reserve in that country is safety if it can adequate import requirement for time period at least 3 months, if the foreign exchange reserve cannot require import for 3 months, then it is considered vulnerable. The condition foreign exchange reserve after 1998 is increasing respectively until 2007, but foreign exchange reserve is decreasing again in 2008, due to crisis globalization that strucks toward trading partner of Indonesia. Then foreign exchange reserve increasing rapidly from 2009-2011 and remain stable in 2012, as can be seen in table 1 the data of foreign exchange reserve the value was fluctuating from 2011 until 2015, the fluctuation of value is because several aspect occur at that time.

Table 1.1: The Growth of Foreign Exchange Reserve in Indonesia period 2009-2015

<b>Year</b>	<b>foreign exchange reserve (Billion USD)</b>	<b>Growth</b>
2009	66105	
2010	96026,85	29921,85
2011	110123	5096,15
2012	112781.22	2658,22
2013	99386,71	-13394,5
2014	111862	12475,29
2015	105931	-5931

(Source: Bank Indonesia, 2016)

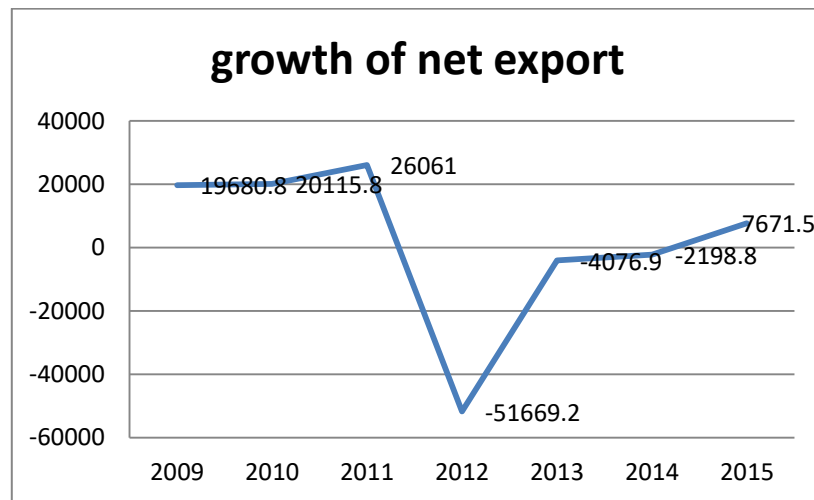
The data above explain the total foreign exchange reserve was fluctuating from 2009 until 2015, the total foreign exchange reserve in 2009 is around US\$ 66105 billions, while there is increasing foreign exchange reserve by US\$ 29921,85 billions respectively after monetary crisis. For the next year total Foreign exchange reserve is US\$ 96026,85 and the value increasing steadily until 2012, however the total foreign exchange reserve is decreasing in 2013 around US\$ -1339.45 billions, furthermore there is increasing total foreign exchange reserve in 2014 and the total foreign exchange reserve decrease in 2015, the decreasing of total foreign exchange reserve in 2015 is around US\$ -5931billions. As can be seen in the table, the total foreign exchange reserve decrease in 2013 and 2015. The causes of decreasing amount of foreign exchange reserve in 2013 is because the movement of export is slowdown and high import payment especially for import oil and gas, moreover Executive Director of Strategic Planning and Public relations Central Bank explained if decreasing amount of foreign exchange reserve because of requirement foreign currency for Pertamina to

fulfill purchasing oil import. Central Bank of Indonesia makes decision for give intervention toward the limited exchange rate even if necessary for payment foreign debt is very higher than before.

The position of foreign exchange reserve in the end of June 2015 was recorded at US\$ 108.0 billions, that which is lower than at the end of May. The reason is because increased spending on foreign debt payments to the government and foreign exchange reserve useful for make exchange rate more stable, although foreign exchange reserve still safety enough for purchase 6-8 monthly import and Indonesia's foreign debt. Foreign exchange reserve which have good management will give advantage for improving economy resilience of the country, for example when economy system was affected by shock which caused by global financial or the problem occur from internal, the economy system will be able for protecting financial system of that country. Moreover Foreign exchange reserve also as fundamental of the country for supporting stabilization of macroeconomic and financial system.

Net export as one of the contributor toward foreign exchange reserve, because if Indonesia send export good and service to the foreign country, automatically Indonesia receive the foreign money from other country, so accumulation of foreign money can give additional toward foreign exchange reserve in Indonesia.it means if the country add export to the other country

the calculation of export good and service can give positive influence toward foreign exchange reserve. As can be seen in the picture 2, about the fluctuation of net export from 2009 until 2015



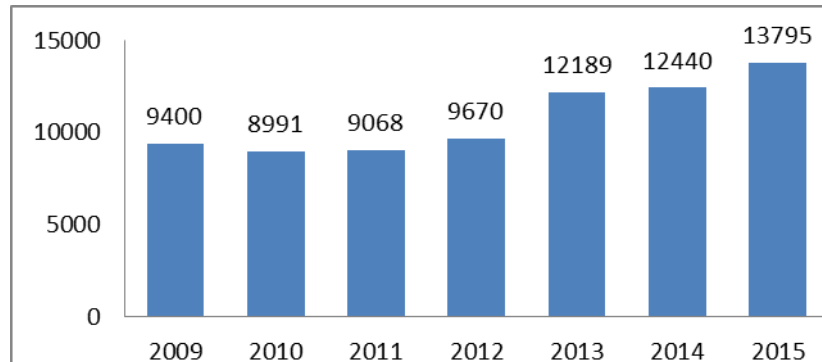
(Source: Central bank of Indonesia, 2016)

Figure 1.1: Figuring the Growth of Net Export from 2009 -2015

The curve above explain if amount of net export fluctuated from 2009 until 2015, the condition of net export still show the positive value, although Economy was attacked by monetary crisis in 2009, but the position of net export still show the surplus until 2011, in fact there is decreasing the value of net export from 2012 around US\$ -51669.2 until 2013 around US\$ -4076.9, the decreasing value of net export is because the value of import more than value of export, so that give the influence toward balance of payment, therefore the calculation of export and import in balance of payment give influence toward accumulation in foreign exchange reserve.

The value of net export began increase again in 2014, even though the data still show minus calculation and increasing steadily about US\$ 7671.5 in 2015. The data of foreign exchange reserve previously explain if there is decreasing amount of foreign exchange reserve in 2013, the reason is because purchasing of import liabilities is higher rather than export spending, so net export good and service is one factor which is give influence toward decreasing foreign exchange reserve in 2013. Beside of that the role of net export is very important to create additional calculation toward foreign exchange reserve.

One factor which is give influence toward foreign exchange reserve is exchange rate, especially when Indonesia face economic crisis in 1998. Central bank of Indonesia noted if Indonesia used free foreign exchange system at that time, because of that there is much free foreign currency came into the money market in Indonesia, meanwhile Rupiah freely traded among financial aboard. The depreciation of exchange rate from 2.4% until 5.8%, which is under real value, make exchange rate overvalued and very vulnerable toward attack and game speculation. The destination of exchange rate getting better in several years, even though the movement of exchange rate still fluctuated in last 5 years ago, as can be seen in the graph illustrates the fluctuation of exchange rate in last year.



(Source: Central bank of Indonesia, 2016)

Figure 1.2: Figuring the Growth of Exchange Rate from 2009 until 2015

According to the figure 3 above, which illustrated the movement of exchange rate from 2009 until 2015, the data is obtained from Indonesian Banking Statistic about phenomenon of exchange rate. The condition of exchange rate depreciates toward dollar in 2009, in contrast the value of exchange rate (rupiah) appreciates toward dollar at the level IDR 8.900,00 in 2010 and increasing steadily until 2011.

Meanwhile, in 2012 the current account of Indonesia became deficit around 24,4 USD, because of that rupiah depreciate and dollar appreciate at the level IDR 9.700,00 and the condition deficit of current account sustainable respectively from 2013 until 2014, dollar increase slightly at the level IDR 10.900,- even reach in level IDR 12.189,00 in 2013. This condition indicates if requirement of dollar is increasing so that make rupiah depreciate toward dollar, based on the figure, dollar went up at the level IDR 13.000,00 at 2015 and the foreign exchange reserve at that time decreasing because of

purchasing foreign debt of country. There are several factors which are gives influence toward depreciation rupiah toward dollar from internal and external, due to deficits in demand deposits as well as monetary policy from the US to determine policy in FED regulation.

Foreign debt actually have important role also toward foreign exchange reserve, because when Indonesia faced economy crisis in 1998, one factor which causes the problem is private foreign debt. Finally weakening of Foreign exchange reserve at that time cannot be able to paid private foreign debt, moreover the debt added by highly interest.

Central Bank of Indonesia recorded if the condition of foreign exchange reserve in January is lower than in December 2015, that condition was influenced by the requirement of government foreign debt include principal payment and global bond interest due. Central Bank of Indonesia believes if foreign exchange reserve can purchase the liabilities import around 7.5 monthly. Meanwhile the economist Institute for Development Economy and Finance (Indef) Enny Sri Harta evaluate if foreign exchange reserve which already eroded around US\$ 4 millions showed an increase the burden of foreign debt. As known, government increase foreign debt up to IDR 500 trillions, furthermore foreign exchange reserve still decreased due to the addition of infrastructure project and government increase the rate of import.



Based on the background, this research is entitled as follows:

*“Determinant Analysis of Indonesia’s Foreign exchange reserve (2009:01-2016:12)”*

## **B. Research Problem**

Based on the background of the research, this study aims several questions are as follows:

1. How the relationship between net export in long term and short term toward foreign exchange reserve period 2009-2016 (monthly)?
2. How the relationship between exchange rate in long term and short term toward foreign exchange reserve period 2009 – 2016 (monthly)?
3. How the relationship between foreign debts in short term and long term toward foreign exchange reserve period 2009-2016 (monthly)?

## **C. Research Objectives**

Based on the research questions, the objective of the research are as follows:

1. To know the relationship between net export in short term and long term toward foreign exchange reserve period 2009 -2016 monthly.
2. To know the relationship between exchange rate in short term and long term toward foreign exchange reserve period 2009-2016 monthly.

3. To know the relationship between foreign debt in short term and long term toward foreign exchange reserve period 2009-2016 monthly.

#### **D. The Benefits of The Research**

This research wishes that result will give benefit for:

1. To the Practitioners

This research was expected can add the source to the governor to do evaluate several factors which is give influence to the foreign exchange reserve.

2. To the academicians

This research expected can add the reference of knowledge about foreign exchange reserve and became new information to the next researcher who will do the research especially which is related to the topic about foreign exchange reserve.