



Influence of Rupiah Exchange Rate on Indonesia's Economic Growth: Literature Study

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Abstract

In the international economy, the exchange rate has an important role as a transaction tool. Its existence clearly affects the economy of a country both nationally and internationally. In Indonesia, the rupiah exchange rate is pegged to the US dollar, because international trade is dominated by transactions in US dollars. The increase in the rupiah exchange rate caused the rupiah to depreciate against the US dollar. This study aims to determine how the effect of the rupiah exchange rate on Indonesia's economic growth every year. This research is a qualitative descriptive research through a review of literature studies originating from journals, books and sources of accurate information. From the review of literature studies it is known that the variable exchange rate of the rupiah against foreign currencies has a significant effect and has a negative sign. This is evidenced by the growth rate of Gross Domestic Product (GDP) compared to the rupiah exchange rate. This means that when the rupiah exchange rate depreciates (the dollar appreciates), economic growth will decrease. And conversely if the rupiah exchange rate appreciates (the dollar depreciates) it will cause economic growth to increase.

Keywords: Rupiah exchange rate, Economic growth, Gross Domestic Product (GDP)

Introduction

Every country has some exchange rate or nominal exchange rate. US dollars can be used to buy Japanese yen, British pounds, Indonesian rupiahs, and others. Indices that measure the average of various exchange rates are often used by economists to study changes in exchange rates. An exchange rate index converts exchange rates into a single measure of global currency values (Alsalmi et al., 2023), just as the CPI combines economic prices into a single measure of the price level. Therefore, when economists discuss the strengthening or weakening of a currency, they are often referring to an exchange rate index which takes into account various exchange rates. The price of currency that individuals in countries trade with each other is known as the exchange rate. 2007 (Mankiw). Exchange

rates can be a technique to determine the state of the country's economy. The continuous growth of currency values proves that the country's economic situation is stable (Salvator, 1997:10).

The Indonesian rupiah exchange rate is pegged to the US dollar, because international trade is dominated by transactions in US dollars. The increase in the rupiah exchange rate caused the rupiah to depreciate against the US dollar. Fluctuations in exchange rates are caused by several factors, but in general there are four factors that affect exchange rates (Thobarry, 2009: 49). Namely, inflation, real interest rates, money supply and balance of payments. When the rupiah falls against the dollar, stocks go up or the currency goes up. Rising prices can cause Indonesian exporters to reduce their production. This applies to exporters who need raw materials from abroad. Rupiah investment affects the trade deficit and has a greater influence i.e. an increase in the unemployment rate.(Liu et al., 2023)

One of the most important indicators of economic growth is gross domestic product (GDP). Gross Domestic Product (GDP) is the value of goods and services produced by a country's economy during a certain period of time. Gross national product is generally divided into two parts. First, GDP is gross domestic product at current prices and measures the value of goods and services produced in one year. Second, constant GDP is GDP calculated based on the value of goods and services produced over a certain period of time and is the standard for calculating economic growth. Functionally, GDP present value is the standard for seeing changes in economic models, and GDP constant value is the standard for determining growth annual economy.(Çollaku et al., 2023)

Literature Review

The theory of determining exchange rates can be derived from macro and micro balances. In macroeconomic balance, the exchange rate reflects internal and external balances. Using the national income equation model, the determination of the exchange rate can be explained by a macroeconomic equilibrium. Express the domestic balance as $Y = Y(A, Q)$, where A is domestic absorption ($C + I + G$) and Q is the real exchange rate. The slope of the domestic equilibrium curve is negative, indicating that an increase in domestic demand follows a strengthening of Q as spending moves away from domestic goods. The left side of the internal equilibrium curve shows. On the right are excess supply and excess demand. The internal adjustment balance process can be carried out through fiscal and monetary policies. According to Sukirno (2013), gross national product can be defined as the value of goods and services produced by the government in a given year. The total volume of finished goods and services produced in all sectors of the country's economy is the country's gross national product.(Mngumi et al., 2023)

The breakdown of GNP by use explains how institutions control the goods and services produced in all sectors of the economy. The following are some of the elements of GDP expenditure:

1. Household Consumption Expenditure

Household consumption expenditure (PKRT) is spending on goods and services by household consumers. In this case, household consumption expenditure becomes the final consumer in economic activity.

2. Government Consumption Expenditure

Government Consumption Expenditure is the total value of government output other than output for capital increase and sales activities.

3. Formation of Gross Fixed Capital

Gross Fixed Capital Formation is the new output value for production activities reduced by the used output value.

4. Inventory

Inventory is an investment activity by selling or buying assets through intermediaries.

5. Export – Import

Goods export transactions are the delivery of goods, be it sales, gifts or gifts, domestically and sent abroad. Import is the opposite of export, namely the delivery of goods in the form of sales, gifts and gifts sent from abroad and received within the country.(Su, 2023)

Research Method

This research was conducted using a qualitative descriptive method. Namely research whose purpose is to explain and systematically describe phenomena that occur in the present. In the case of qualitative research methods, the results of the analysis do not depend on the number, but the material is analyzed from various points of view. This research involves data collection, data compilation and analysis. Theory is not absolutely necessary in qualitative research research reference. This theory is basically the bottom line of a qualitative study that is structured through data collection and testing of data validity, data interpretation, and theory development. This qualitative research uses literature study or what is meant by collecting data from literature study activities, reading and taking notes, and managing research materials sourced from several journals, books, and other trusted sources.

Result/Findings

Exchange rates are part of an open economy, because exchange rates can have an impact on prices, interest rates, the balance of payments and the current account. There are several factors that cause demand and supply in exchange rates, namely:

1. Rising domestic prices for export products.
2. Rising foreign prices of imported products.
3. Changes in the overall price level.
4. Capital flows.

5. Structural changes.

The effect of the exchange rate occurs in international buying and selling activities. A weaker exchange rate will increase the country's exports. The increase in exports is one of the biggest factors in increasing the amount of GDP. Increased GDP will make economic growth grow. Meanwhile, a stronger exchange rate will weaken exports but strengthen imports. More import activities than exports will reduce state revenues. This will affect the decline in economic growth.

For example, if the price of the rupiah against the US dollar increases, the price of goods exported from Indonesia to America will increase. This will increase the level of exports in Indonesia. Unlike what happened in America. When viewed from an import perspective, the cost of importing goods from America to Indonesia will be expensive. So that it will reduce the level of imports in Indonesia.

Table 1. Development of the US Dollar Exchange Rate against Rupiah, 2020.

Bulan	Kurs Jual	Kurs Beli	Kurs Tengah
Januari	14,176	14,034	14,105
Februari	14,199	14,057	14,128
Maret	14,763	14,617	14,690
April	14,993	14,843	14,918
Mei	14,627	14,481	14,554
Juni	14,726	14,580	14,653
Juli	14,374	14,230	14,302
Agustus	14,807	14,659	14,733
September	15,233	15,081	15,157
Oktober	16,449	16,285	16,367
November	14,305	14,163	14,234
Desember	13,730	13,594	13,662

Source: BPS

From table 1 it is known that the development of the selling, buying and middle rates of the US dollar against the rupiah is not growing rapidly. The change in the exchange rate against the dollar is very little, even if a straight line is drawn, so there is no visible movement during 2020. This indicates that the strength of the exchange rate either selling or buying is still stagnant. The biggest increase was in the fourth quarter in October, where the dollar exchange rate against the rupiah reached approximately sixteen thousand rupiahs per one dollar.

It is known that in 2020 the fourth quarter of Indonesia's economic growth has improved. Judging from BPS, it is known that the development of the US dollar exchange rate against the rupiah has improved. Where in the third quarter the contraction that occurred was -2.19%, this decreased from growth in the third quarter of 2020 which was -3.49%.

Improvements in the fourth quarter of 2020 covered almost all aspects of the economy.

Economic improvement from a domestic perspective can be seen from a domestic perspective where there is provision of stimulus such as social assistance, service assistance, and Transfers to Regions and Village Funds (TKDD). The positive contribution from the external sector is in the form of the role of the government. It is known that the level of government consumption grew positively due to the implementation of the government's stimulus program. This growth occurred mainly in terms of household consumption which grew -3.61% from -4.05% in the previous quarter. The increase in stimulus by the government which then pushed up the level of household consumption was motivated by the conditions that at that time Indonesia was still facing the Covid 19 pandemic. Where one of the government policies was to provide social assistance funds to the community so that people could meet their necessities of life, so that the wheels of the economy would move able to continue amidst the economic difficulties due to the Covid 19 pandemic.

Investment growth from -6.48% to -6.15%, so that overall there is a reduction of 4.95%. With the post-pandemic recovery, investors began to invest their funds in several companies that were considered to have high potential at that time, such as technology and health companies. Increased investment will increase the country's foreign exchange so that the rate of economic growth will also increase.

Improvements also occurred in terms of business sector. This field of business relates to health, work from home systems, information and communication, as well as agriculture and education. From this we can see that even though many sectors were paralyzed in 2020, on the other hand new sectors have emerged that have great potential, such as the technology, communications, health, and others. The increased potential in this sector will open up new jobs in Indonesia.

Table 2. GDP at constant prices by expenditure (billions of rupiah), 2016-2017

PDB Penggunaan (Seri 2010)	2016	2017
1. Pengeluaran Konsumsi Rumah tangga	5126307.97	5379628.64
a. Makanan dan Minuman, Selain Restoran	1871194.19	1969261.34
b. Pakaian, Alas Kaki dan Jasa Perawatannya	205414.01	212345.95
c. Perumahan dan Perlengkapan Rumah tangga	698000.52	727237.1
d. Kesehatan dan Pendidikan	353822.71	373129.39
e. Transportasi dan Komunikasi	1266170.22	1334374.09
f. Restoran dan Hotel	476363.73	502070.85
g. Lainnya	255342.59	261209.92
2. Pengeluaran Konsumsi LNPRT	105362.27	112664.35
3. Pengeluaran Konsumsi Pemerintah	774304.53	790756.4
a. Konsumsi Kolektif	477666.9	485455.62
b. Konsumsi Individu	296637.63	305300.78
4. Pembentukan Modal Tetap Domestik Bruto	3041584.68	3228763.01
a. Bangunan	2277210.01	2419271.82
b. Mesin dan Perlengkapan	281723.1	308540.42
c. Kendaraan	171279.91	186458.53
d. Peralatan Lainnya	50685.78	55375.99
e. CBR	174086.69	175833.93
f. Produk Kekayaan Intelektual	86599.19	83282.32
5. Perubahan Inventori	133400.15	126883.56
6. Ekspor Barang dan Jasa	1971182.64	2146564.52
a. Barang	1752864.97	1915737.26
a.1. Barang Non-migas	1506594.47	1664739.51
a.b. Barang migas	246270.51	250997.75
b. Jasa	218317.67	230827.26
7. Dikurangi Impor Barang dan Jasa	1818133.16	1964819.17
a. Barang	1558338.32	1694413.09
a.1. Barang Non-migas	1237470.2	1355498.75
a.b. Barang migas	320868.12	338914.34
b. Jasa	259794.84	270406.08
Diskrepansi Statistik	100604.32	92486.79
8. PRODUK DOMESTIK BRUTO	9434613.4	9912928.1

Source: BPS

Real GDP shows economic growth as a whole or in each sector from year to year. Real GDP is used to calculate consumption, investment, and foreign trade growth. Table 2 shows that GDP spending in 2017 increased compared to the previous year. Namely 94,346,134 - 99,129,281 billion rupiah, an increase of Rp. 4,783,147 million rupiahs. This was supported by Indonesia's economic growth which grew by 5.07 percent, up from 5.03 percent in 2016. Indonesia's economic growth in 2017 was also in line with the growth of Indonesia's exchange rate in 2017.

Table 3. Rupiah Middle Rates of Several Foreign Currencies Against Rupiah, 2016-2017.

Mata Uang	2016	2017
Dollar Australian	9724.00	10557.00
Euro	14162.00	16174.00
Pound sterling Inggris	16508.00	18218.00
Dollar Hongkong	1732.00	1733.00
Yen Jepang	115.00	120.00
Ringgit Malaysia	2996.00	3335.00
Dollar Singapura	9299.00	10134.00
Dollar Amerika	13436.00	13548.00

Source: BPS

In table 3 it is known that the 2017 mid-rate rate for each foreign currency has increased significantly from the previous year. The rupiah during 2017 moved stably. The rupiah exchange rate against the US dollar decreased slightly by 1.01% to IDR 13,536.35 at the end of December 2017. This was due to the smooth flow of capital to Indonesia from abroad and positive external and domestic developments. The conducive global financial market environment at that time encouraged the movement of foreign capital to developing countries, especially Indonesia from the external side. From within the country, factors influencing the flow of foreign capital to Indonesia include the country's improved credit rating, controlled inflation, and competitive returns on investment in domestic financial assets. However, the normalization of monetary policy, expectations of an increase in the Federal Funds Rate (FFR) and plans for US tax reform continued to put pressure on the rupiah.

A decline in Indonesia's exchange rate means a deficit in the country's trade balance caused by an increase in exports. To carry out production activities, Indonesian entrepreneurs decided to import manufactured goods. The impact of increased imports is an increase in production prices that must be issued by companies, so companies will increase the price of their production goods. Rising prices of goods will reduce the level of consumption in society, this will reduce state revenues so that it will have an impact on decreasing economic growth. Increasing imports and decreasing exports will weaken the rupiah exchange rate. Conversely, reduced imports and increased exports will make Indonesia's economic growth grow.

Ayunia Pridayanti found in her research that between 2002 and 2012, the exchange rate had a significant and negative impact on economic growth. This shows that the exchange rate and economic growth are interconnected. However, this relationship is paradoxical, because when the exchange rate rises, economic development slows down. This is supported by the study of Dwi Afif Septiawan et al., who found that the exchange rate had a marginal effect on Indonesia's economic development between 2007 and 2014. If the appreciation of the exchange rate increases the number of imported products, then it is negative and reduces Indonesia's GDP. Indonesia's GDP declined as imports exceeded exports. Yaenal Arifin's study adds that the exchange rate has an effect on economic growth.

This is in accordance with the Mundell-Fleming theory (Mankiw 2003: 306-307) that there is a positive relationship between trade and economic growth and the more trade, the smaller the output (gap). between imports and exports) and the decline causes a decrease in output, which causes a decrease in GDP, which causes an economic slowdown.

Conclusion

From the analysis of several literatures and the results of previous research it is known that: the rupiah exchange rate (exchange rate) has a significant impact on Indonesia's economic growth. Where the influence is negative that is inversely proportional to the level of economic growth. The effect of this exchange rate is due to international trade which includes exports and imports. The relationship between the rupiah exchange rate and Indonesia's economic growth can be identified by comparing the growth rate of the rupiah exchange rate to GDP at constant prices.

Initial steps are needed in order to strengthen the value of our currency. We can start from the simple and closest. One of them is by starting to be productive and using local goods. These two methods are the first steps that can be taken to strengthen the value of our rupiah in the eyes of the world.

This research still only examines the rupiah exchange rate variable (exchange rate). We hope that in future research there will be other variables that also influence Indonesia's economic growth.

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