

ABSTRACT

This study aims to analyze the short and long-term relationship between Indonesia's Local Currency Settlement (LCS) policies with Malaysia and Thailand, GDP, inflation, and interest rates on the rupiah exchange rate against the US dollar. The variables used in this study consist of the value of Indonesia's LCS transactions with Malaysia and Thailand, GDP, inflation, interest rates (BI7DRR), and the value of the rupiah exchange rate against the US dollar. The data used is time series data from February 2018 to July 2021. The analysis technique used is the Vector Error Correction Model (VECM). Based on the research results, the variable value of LCS transactions has a significant positive effect in the long term, while it is not substantial in the short term. The GDP variable has a negative but insignificant impact in the long and short time. The inflation variable has a positive but insignificant effect in the long and short time. The interest rate variable has a significant negative impact over a long time but is not substantial in the short term.

Keywords: Exchange rate, LCS, PDB, Inflation, Interest Rate, VECM