ABSTRACT

The existence of limited funding makes problems that often occur. Domestic sources of capital are considered inadequate to meet development needs. Limited domestic capital forces government agencies to increase the amount of foreign funding/funding from abroad. Foreign portfolio investment is an investment made by foreigners in the form of financial assets, such as stocks and bonds. Foreign Portfolio Investment (FPI) in Indonesia fluctuates every year with the highest value in the last decade in early 2019 and the year that experienced the lowest value was in early 2020. Allegedly caused by the global Covid-19 pandemic. This study aims to look at the effect of macroeconomic variables on FPI in the long and short term before and after the Covid-19 pandemic crisis in the 2014Q1-2021Q4 period. This study uses the Error Correction Model (ECM) method. Using ECM analysis, this study found the effect of macroeconomic variables such as GDP, exchange rate, BI rate, inflation, sovereign risk and the addition of the Covid-19 crisis dummy variable.

The results show that only the exchange rate variable has a significant negative effect on FPI, while the remaining variables are not significant on FPI in the long and short term. Meanwhile, the BIrate and Inflation variables have an effect and are significant only in the short term. The policy implication of this research is monetary policy, the central bank can stabilize the exchange rate by raising interest rates to attract foreign investors. It also requires clear and transparent communication on inflation and interest rate policies to foreign investors.

Keywords : Foreign Portfolio Investment (FPI), Error Correction Model (ECM), Macroeconomics, Crisis Covid-19