ABSTRACT

Indonesia's exchange rate system has undergone three changes, and since August 1997, the floating exchange rate system has been adopted in Indonesia due to the government's difficulty in maintaining the value of the rupiah against the US dollar through foreign exchange reserves. However, this change led to a continuous depreciation of the rupiah against the US dollar. Therefore, the purpose of this study is to explore the factors that influence the exchange rate in light of the rapidly developing globalization.

In this study, the exchange rate is measured by the nominal exchange rate of the rupiah against the US dollar, obtained from JISDOR Bank Indonesia. This research employs a quantitative approach using econometric methods. The study uses quarterly data from 2003 to 2024 sourced from Bank Indonesia, FRED, Bloomberg, the U.S. Bureau of Labor Statistics, and the U.S. Energy Information Administration. Estimation is conducted using time-series analysis with an error correction model (ECM).

The results of the study indicate that the money supply differential has a positive and significant effect on exchange rate in both the short and long term, the interest rate differential only has a negative and significant effect on exchange rate in the long term, remittances have a positive but insignificant effect on exchange rate in both the short and long term, and oil prices have a negative and significant effect on exchange rate in both the short and long term.

Keywords*: oil price, money supply, exchange rate, remittances, and interest rate.*