ABSTRACT

The outbreak of the Covid-19 has an enormous impact on various sectors in the entire world; one of those, the crises in the financial sectors, including Indonesia. The purpose of this research, to analyse the influence of people's expectation, the Interest Rate Differential, and Inflation Rate Differential on the Indonesian Rupiah exchange rate level during the Covid-19 Pandemic in 2020. This study is quantitative research used the Error Correction Model (ECM), which strives to ascertain the existence of Short-Run and Long-Run relationships between the analysed variables, employed secondary data from the first quarter of 2015 to the fourth quarter of 2020 obtained from several sources, including the World Bank, Eurostat, Bank Indonesia, and other trusted websites. The Indonesian Rupiah Exchange rate is an endogenous variable. The people's expectation, Interest Rate Differential, and Inflation Rate Differential are the exogenous variables. The Model failed to capture the different behaviour of the Indonesian Rupiah exchange rate. Without dummy variables, the result confirms the Error Correction Model which can be seen from the negative sign of the ECT Coefficient. However, in the long-run, the result shows that Interest rate differential was the only variable that significantly affected the exchange rate behaviour. While People's Expectation and the Inflation Rate Differential are not significant.

Keywords: *COVID-19, People's Expectation, Interest Rate Differential, Inflation Rate Differential, Indonesian Rupiah Exchange Rate.*