ABSTRACT

One of the external problems of the Indonesian economy is the exchange rate instability. Since the exchange rate can be defined as the price of a foreign currency expressed in domestic currency, the definition of an exchange rate refers to the relative price, which should be determined by the relative forces of supply and demand. Therefore, since the Government implemented a floating exchange rate regime, the use of monetary policy instruments has been increasing intensively, carried out to control the rupiah exchange rate because the issue of exchange rate movements can be considered as a monetary problem. But then, many economists argue that the monetary approach isn't enough in order to explain the behaviour of exchange rate, so in this research there are fiscal proxy's variable taken into account in order to understand deeper regarding the behaviour of exchange rate. This research will use the data of Rupiah's exchange rate against US Dollars from 2010 Q1 until 2020 Q4.

The aim of this research is to analyze how significant the monetary variables affect the value of a currency. Additionally, fiscal variables are also going to be analyzed if there's a significance relatiopship between fiscal variables that are used (such as foreign debt, domestic debt and government deficit budget) with exchange rate and how big the impact is. The analysis tool in this research is using OLS Methods (Ordinary Least Square). The results of the analysis including variables such as money supply differential, price level differential has a positive and significant effect on the exchange rate. Meanwhile, variables such as real GDP differential, interest rate differential and foreign debt has a negative and significant effect to the exchange rate.

Keywords: exchange rate, money supply differential, real GDP differential, interest rate differential, price level differential, budget deficit, domestic debt, foreign debt