CHAPTER IV

BROAD IMAGE OF RESEARCH OBJECT

Broad Image of Research Object					
The Developmentof Exchange Rate in Indonesia	The Development of Export in Indonesia	The Development of Import in Indonesia	The Development of Jakarta Composite Index in Indonesia	The Development of Money Supply in Indonesia	The Development of Bank Indonesia in Indonesia

Figure 4.1. Broad Image of Research Object

A.   The Development of Exchange Rate in Indonesia

Since the 1970s to date, Indonesia has experienced three changes of exchange rate regime. Those are the Fixed Exchange Rate System (1970-1978), the Controlled Floating Rate System (1978-July 1997), and the Free-Floating Exchange Rate System (14) August 1997-present).

The volatility of Indonesian exchange rate for some recent years can be shown in the following graph.
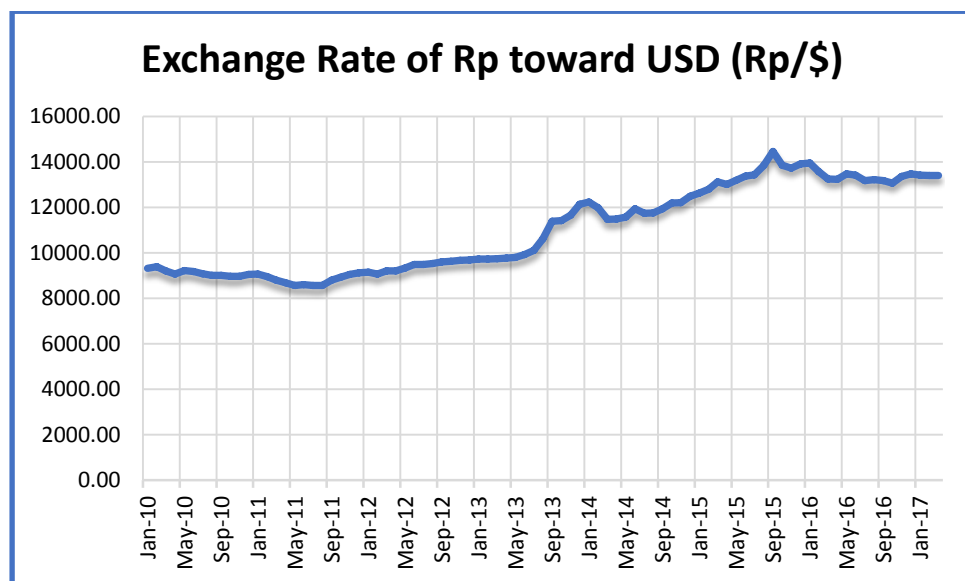
Resource: Bank Indonesia
http://www.bi.go.id/en/moneter/informasi-kurs/transaksi-bi/Default.aspx

Figure 4.2. The Development of Exchange Rate (Jan 2010 - March 2017)

Indonesia exchange rate volatility during some recent years before 2016 was in a depreciating trend. From the graph above, the exchange rate volatility in period between 2010 till 2013 was just around Rp8,000 and Rp10,000. In the end of 2013, the Rupiah exchange rate value had a depreciation shock and reach Rp12,000 in the beginning 2014. In September 2015, price of exchange rate reached above Rp14,468 which is the highest level during these periods. After that, the exchange rate starts to appreciate again and fluctuate around Rp13,382.94 since 2016 up to now (March 2017).

A number of internal factors affecting rupiah exchange rate are the growth of the domestic economy, BI Rate, and political stability ahead of regional elections, particularly that of Jakarta. A healthy political climate will help drive the economy. (https://en.tempo.co)

As for external factors, there are some noticeable issues, which include Europe's geopolitical standing ahead of elections and The Fed's plan to hike interest rates from 0.5%-0.75%. (https://en.tempo.co)

"Bearing in mind the internal and external factors, rupiah is likely to remain stable in 2017," he told Bisnis.com on Monday, January 2, 2017. (https://en.tempo.co)

Rupiah could advance on positive sentiment stemming from crude oil prices hike. If oil producers cut production early this year, WTI crude oil price may hit US$65 per barrel at the end of 2017. (https://en.tempo.co)

B.   The Development of Export in Indonesia

The graph below will define the export in Indonesia from January 2010 till March 2017.
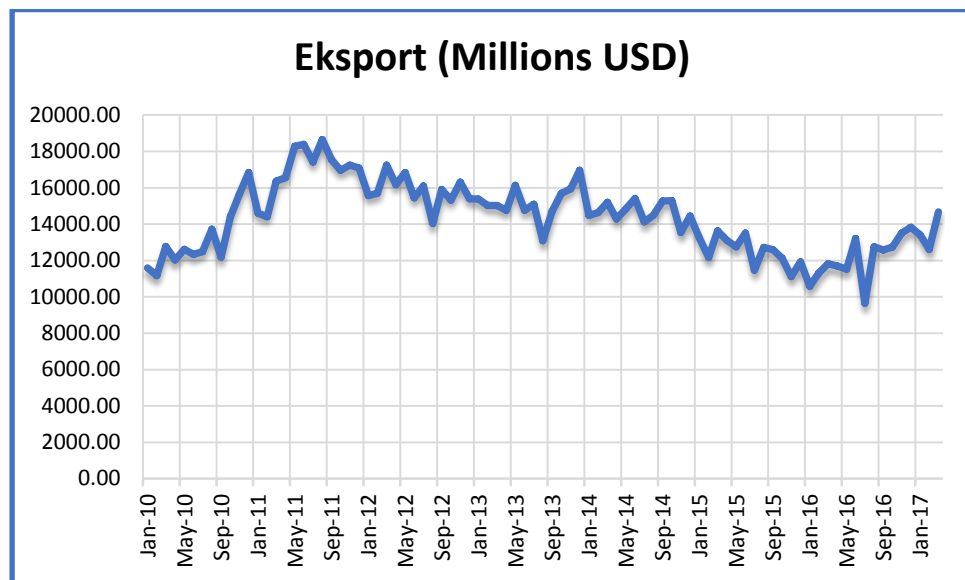
Resource: https://www.bps.go.id/all_newtemplate.php
Figure 4.3. The Development of Export (January 2010- March 2017)

In general, during 2010 to 2016, the development of export moves upward and then moves downward back to its initial point. From 2010 until 2011, export was increasing significantly. However, since the middle of 2011, the amount of goods exported on average have been decreasing. During September 2013 till January 2014, export had been increasing before it decreases again for the next 2 years. In the beginning of 2016, export reached its turning point and started to move up. Since then until Marth 2017, export keeps increasing with some fluctuation.

During 2011 to 2015, the development of Indonesian exports on average were not increasing, on the contrary, it was decreasing. 2011 was the year where Indonesia currency start to depreciate, the same year where Indonesia export starts

to decline. In the period of 2011-2015, the value of Indonesian exports continues to decline annually from 203,496.60 million US dollars to 150,252.50 million US $ in 2015. Starting from 2011-2015, the decline in export value is 26.16%.

Indonesia is on of group from developing countries (third world countries) on its way these groups are among the countries that fall behind in their starting development even in economic growth improvement. This is due to many third world countries are former colonialized or due to other conditions. Up to initiate self-improvement course, they faced to developed countries (first world countries) which has a strong fundamental from its development or economy because it has developed earlier.

C.   The Development of Import in Indonesia

Below is the graph that will describe the volatility of import around these years.
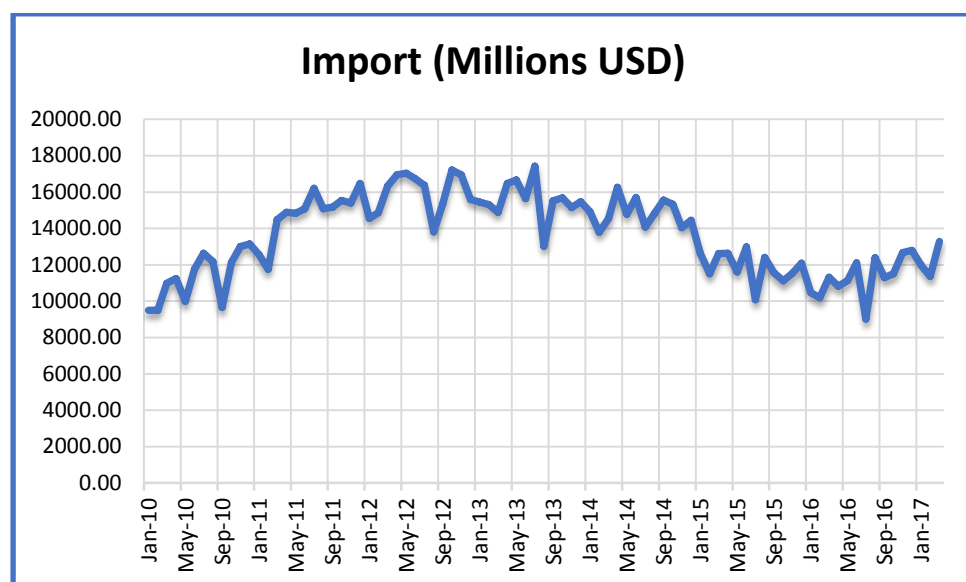

Resource: Badan Pusat Stastisk
https://www.bps.go.id/all_newtemplate.php
Figure 4.4. The Development of Import (January 2010- March 2017)

During the period of 2010-2017, the highest import amount value was in 2012. After that it decline again reaching the lowest point in 2016. According to Indonesia Ministry of Internal Affairs data, like exports, Indonesia's main commodity imports are also found in the Non-Oil and Gas sector.

From 2010 till 2013 the volatility was increasing steadily but after 2013 till now it decreases. This may reflect that the demand of Indonesia towards other country's goods is decreasing, in other word, Indonesia become more independent in fulfilling economy needs. However, this may reflect that actually the ability of Indonesia to purchase international goods is decreasing, along with decreasing export and the depreciating Indonesia currency.

D.   The Development of Jakarta Composite Index
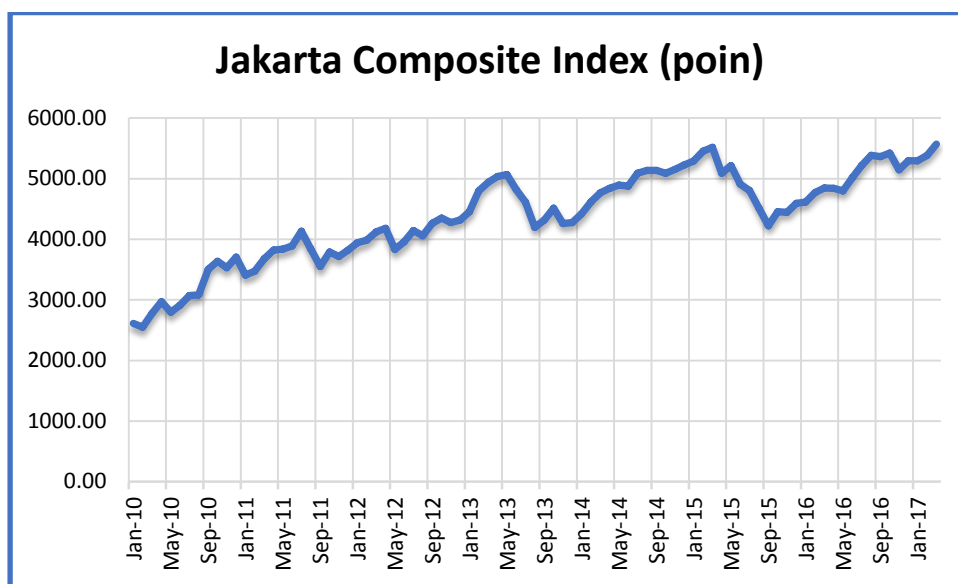
Resource: https://www.investing.com/indices/idx-composite-historical-data
**Figure 4.5. The Development of JCI (January 2010- March 2017)**

JCI calculates the price movement of all common stock and preferred stock listed on Indonesia Stock Exchange. When first introduced on April 1, 1983, JCI

just counted 13 stocks in the BEI. The baseline day for JCI computation is August 10,1982, where it becomes the zero point (initial index calculation) with the basic value of JCI 100. In the early 2017, JCI fluctuates around 5,400 point with more than 500 shares.

From 2010 to 2016, in general, JCI was moving upward. The development shows increasing value of JCI even though it always fluctuated with some surges in certain periods. As can be seen in the graph, the index on the initial point (January 2010) was 2610.80 while on the last period (March 2017) was 5568.11. Thus, comparing from the past, JCI value is higher in recent period.

E.   The Development of Money Supply in Indonesia

Indonesia needs much amount of paper money to fulfill the need in order maintaining the stability of real sector and monetary sector. With high population number, government should supply a big amount of money to circulate among them. Along with the development of economic sector and population growth, Indonesia needs money supply even more. Below is the graph taken from sample data showing money supply growth which always increases.

M2 (Billion Rp)
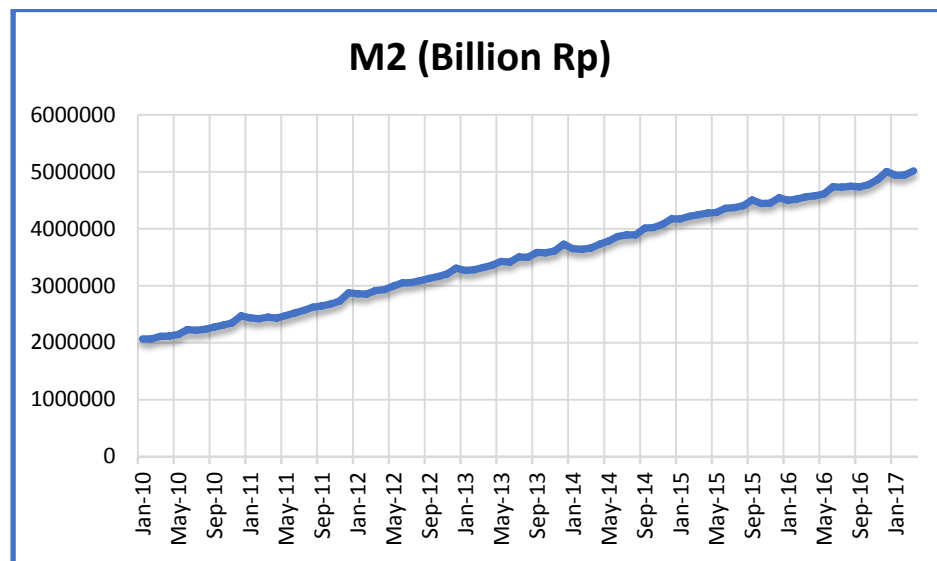
Resource: BI Data, SEKI 2017 April, table 1_1
Figure 4.6. The Development of Money Supply (Jan 2010 - March 2017)

Based on graph above, the amount of money supply was always increasing from 2010 till 2017. Even though there were volatility, it seems to be very small. The growth of money supply above shows a deterministic trend.

F.   The Development of Bank Indonesia Rate

BI rate is an instrument to achieve government target through monetary sector. BI rate policy is an instrument of Indonesia central bank to maintain the stability in money market. This policy may also be used to control inflation which in line with the changes for exchange rate. The graph below shows the policy growth of BI rate in some recent years.
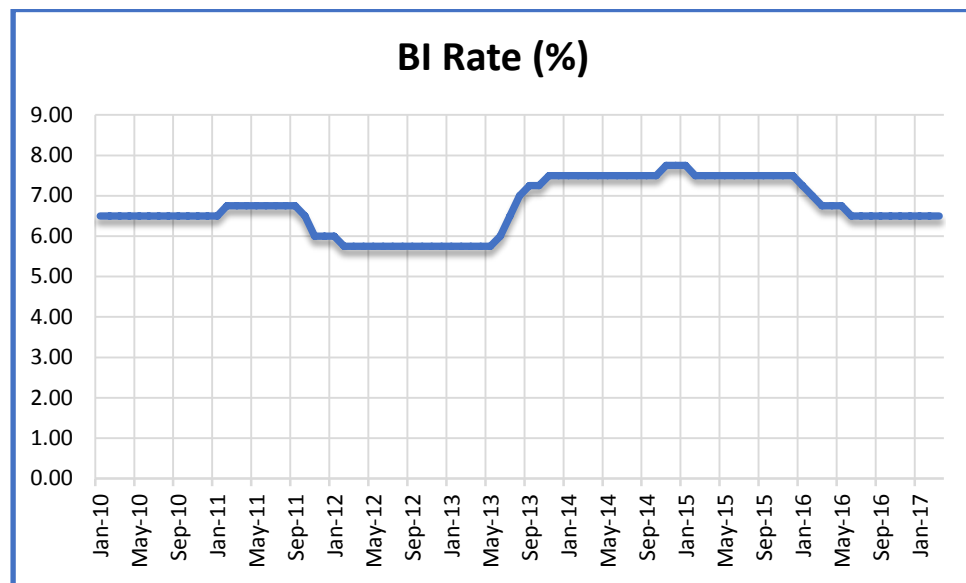
BI Rate (%)

Resource: BI Data, SEKI 2017 April, Table 9_8

Figure 4.7. The Development of BI Rate (January 2010- March 2017)

Based on the graph, from 2010 until 2012, Bi rate value was under 7%. Since 2013, BI rate was increased for several times until reaching 7.75 % in the end of 2014. It represents the needs of BI rate since 2013 to reach the target of government is higher than before, thus the government should increase Bi rate to achieve the target.