The Depreciation of Rupiah

EE452 International Monetary Economics

Bachelor of Economics, Thammasat University

Timeline

2011 → 2013

2011

- Just recovered from 2009's currency depreciation

- The trend of inflation

- Raising its interest rates

- Export and Import falls

2013

- Slowing growth, current account deficit, inflation, currency depreciation

- Even in forward exchange rate, Rupiah premium fall

- Export of natural resource fall

- Firm tends to borrow in dollar


INDONESIAN RUPIAH
12000
11500
11000
10500
10000
9500
9000
8500
8000
Jan/11
Jul/11
Jan/12
Jul/12
Jan/13
Jul/13

Causes of Rupiah Depreciation

- Internal Factors
  - Inflation
  - Consumer Confidence
- External Factors
  - Foreign Investor Sentiment
  - US Quantitative Easing

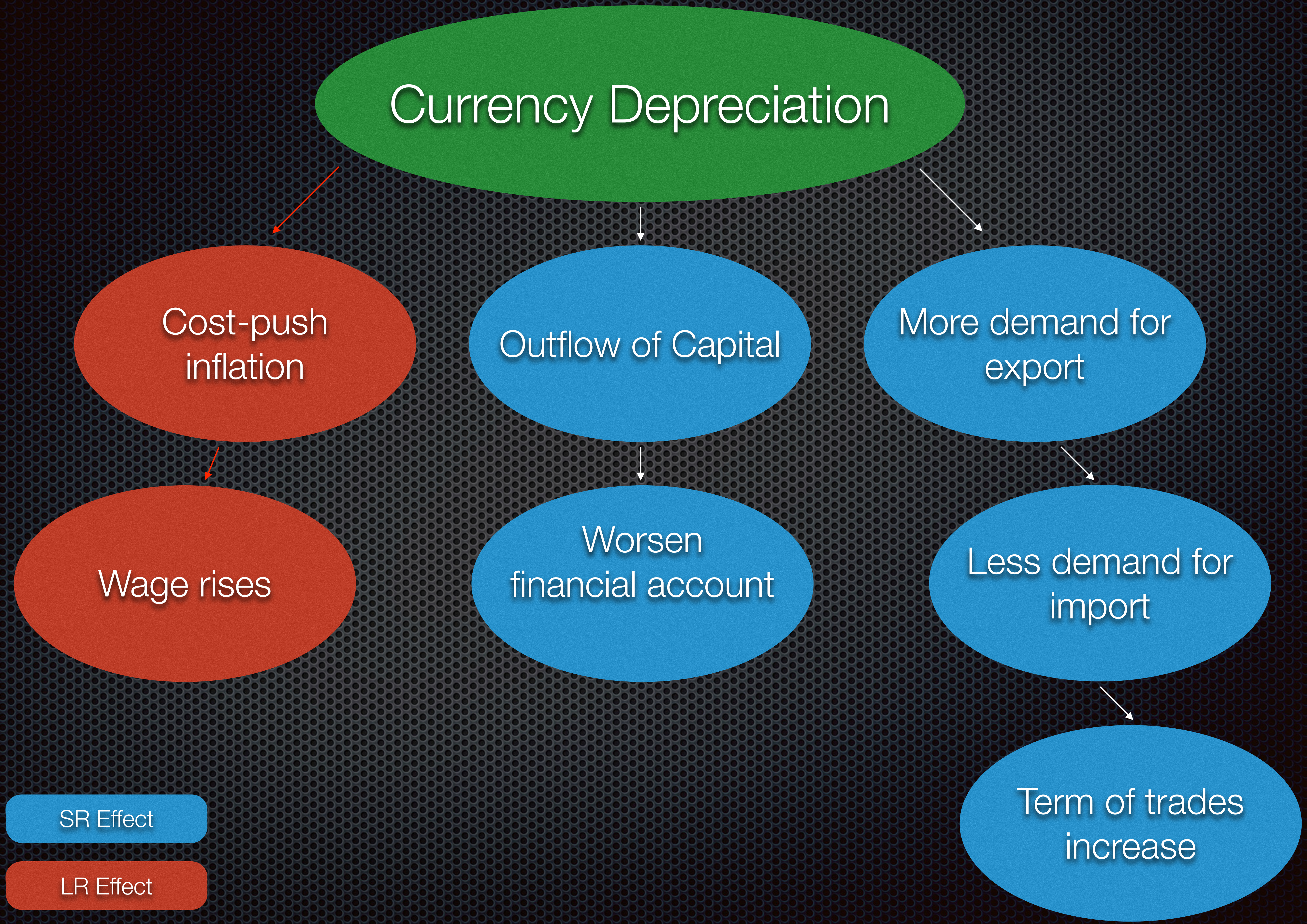
Inflation


Indonesia Inflation Rate
9
6.75
4.5
2.25
0
Nov 11
Feb 12
May 12
Aug 12
Nov 12
Feb 13
May 13
Aug 13
Inflation (%)

Consumer Confidence	Foreign Investor Sentiment	US Quantitative Easing
- Related to inflation - Unease of expectations of government reaction	- Rising current account deficit - Inflation worries	- Effect on Interest Rates - Speculation
Internal	External	

Effect of currency depreciation

- The loss of value of a country's currency with respect to one or more foreign reference currencies
- The stimulation of exports
- Discouraging merchandise imports
- Improving term of trade


Currency Depreciation
Cost-push inflation
Outflow of Capital
More demand for export
Wage rises
Worsen financial account
Less demand for import
Term of trades increase
SR Effect
LR Effect

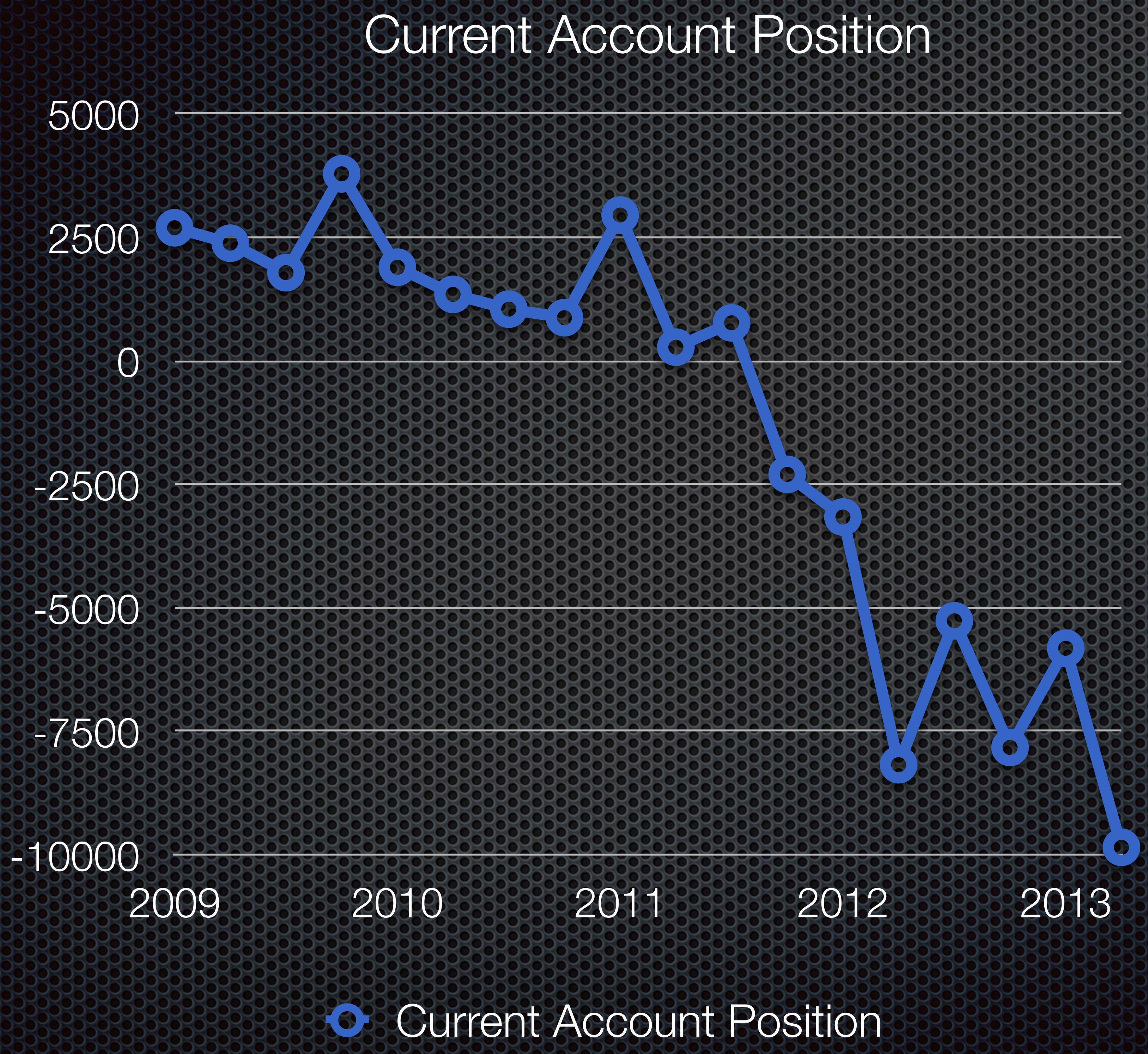
Factors determining the effect

- BOP = CA + FA + statistical error
- Depend on elasticity demand of import and export
- Depend on elasticity demand of capital flow
- Export vs import oriented country

Balance of Payment

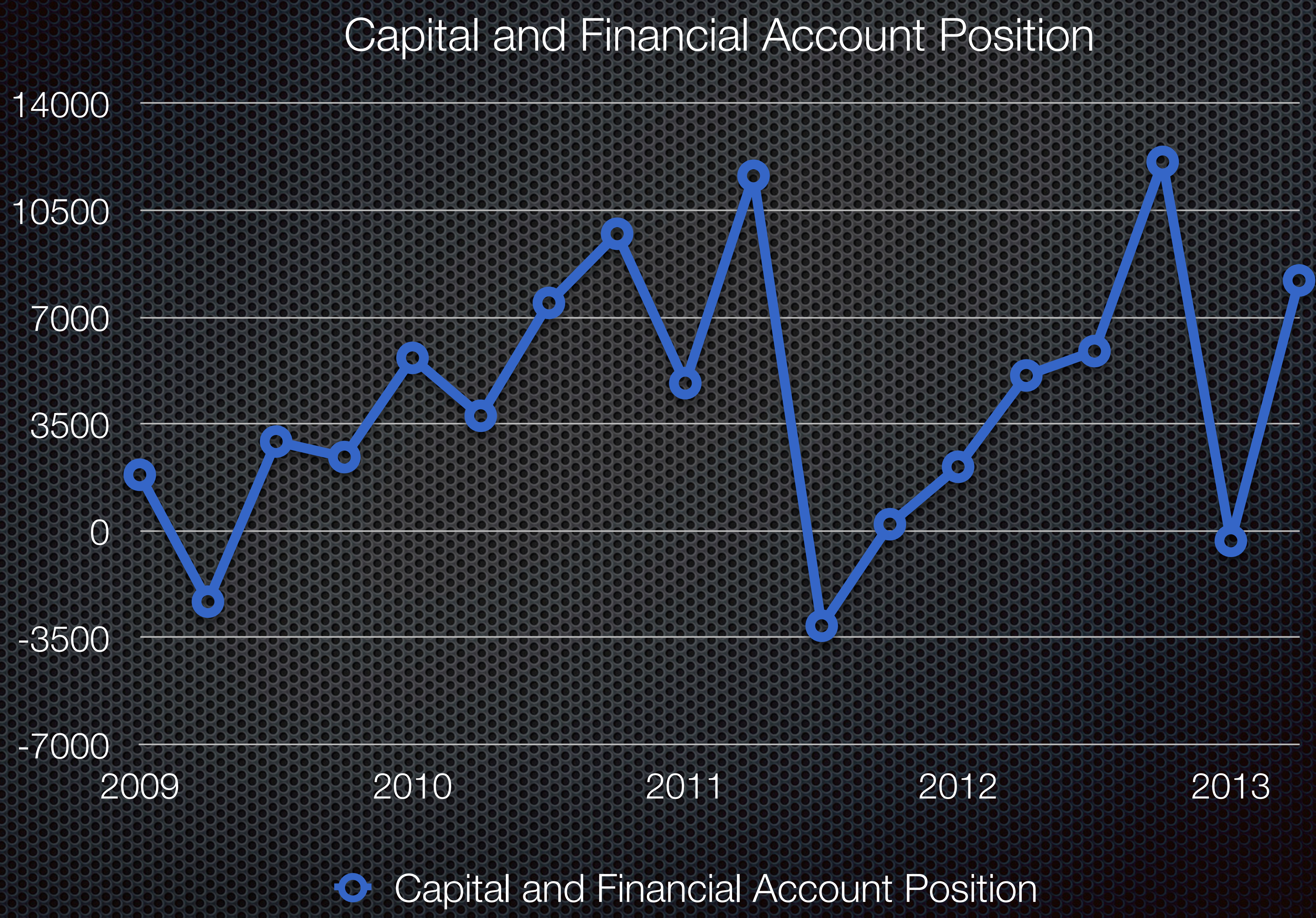
- Current Account
- Capital and Financial Account

Current Account



- Why do Current account decrease?
- Export and import increase
- Current transfers
- Still decreasing

Capital and Financial Account



What should be the policy implication to alleviate Rupiah depreciation?

Depreciated

↓

Buy local currency

- **Inflation**
- **Fed Taper**
- **Trade Deficit**

Suggested Policy Implication

1. Increase import tax

2. Encourage Foreign Direct Investment

3. Control Inflation rate by increasing the BI rate

Taxation

- Increase import tax of Luxury goods
- Reduce import oil
- Export tax exempt for some industries
    - Mining Industry
        - Ban exporting unprocessed mining (2014)

Import Trend

Inflation

- Core inflation 4.72
- Headline inflation 8.40
- Oil import issue
- Oil subsidy – price is not determined by the market

Control Inflation rate by increasing the BI rate


Q&A

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