



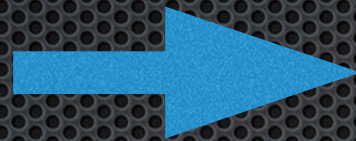
The Depreciation of Rupiah

EE452 International Monetary Economics

Bachelor of Economics, Thammasat University

Timeline

2011



2013

- Just recovered from 2009's currency depreciation
- The trend of inflation
- Raising its interest rates
- Export and Import falls

- 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



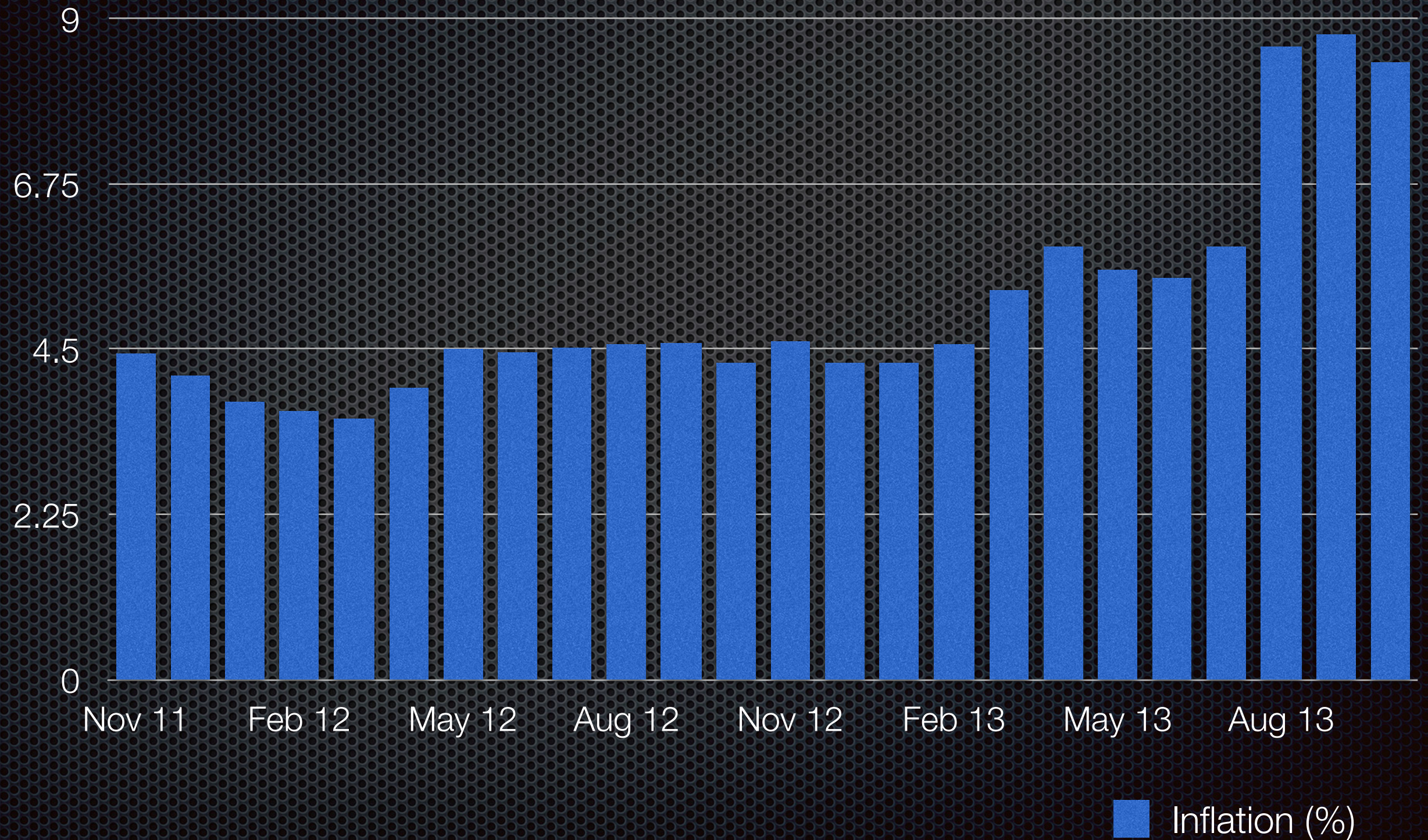
Causes of Rupiah Depreciation

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



Inflation

Indonesia Inflation Rate



Consumer
Confidence

- Related to inflation
- Unease of expectations of government reaction

Foreign Investor
Sentiment

- Rising current account deficit
- Inflation worries

US Quantitative
Easing

- 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

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graph TD; A([Currency Depreciation]) --> B([Outflow of Capital]); A --> C([More demand for export]); A --> D([Cost-push inflation]); B --> E([Worsen financial account]); C --> F([Less demand for import]); D --> G([Wage rises]); F --> H([Term of trades increase]);
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The diagram illustrates the effects of currency depreciation. It starts with a central green oval labeled 'Currency Depreciation'. Three arrows point from this oval to three blue ovals: 'Outflow of Capital', 'More demand for export', and 'Cost-push inflation'. From 'Outflow of Capital', an arrow points down to 'Worsen financial account'. From 'More demand for export', an arrow points down to 'Less demand for import', which then points down to 'Term of trades increase'. From 'Cost-push inflation', an arrow points down to 'Wage rises'. A legend at the bottom left shows a blue box for 'SR Effect' and a red box for 'LR Effect'. The blue ovals represent short-run effects, while the red ovals represent long-run effects.

Outflow of Capital

More demand for export

Cost-push inflation

Worsen financial account

Less demand for import

Wage rises

Term of trades increase

SR Effect

LR Effect

Factors determining the effect

- ✦ $BOP = CA + FA + \text{statistical error}$
- ✦ 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

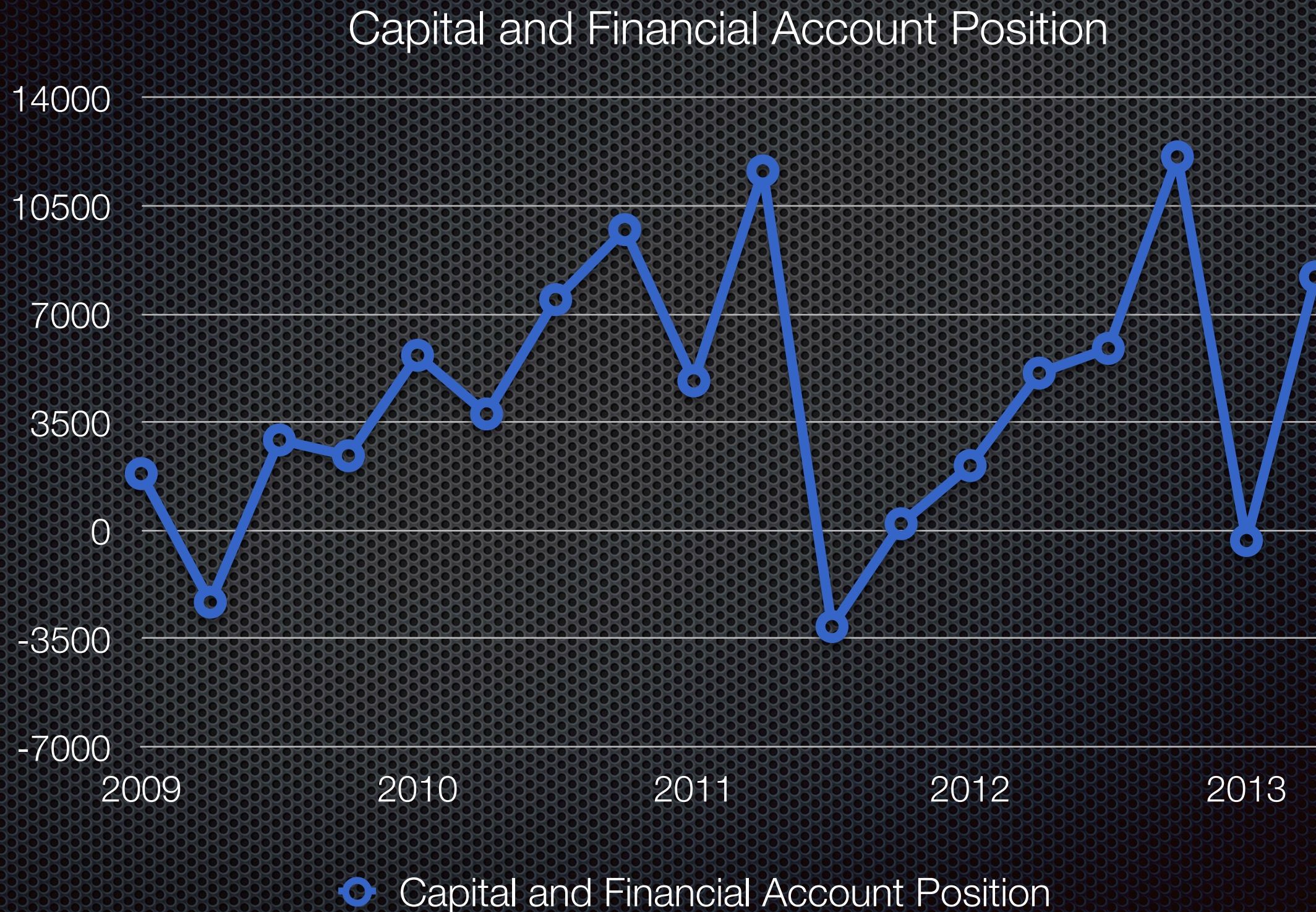
Current Account Position



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

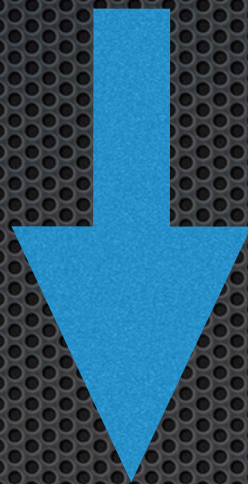
● Current Account Position

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



A serene landscape photograph featuring a misty or foggy scene. In the foreground, a grassy field is partially obscured by a thick layer of low-lying fog. A line of dark, silhouetted evergreen trees stands in the middle ground, with numerous bright sunbeams (crepuscular rays) streaming down from behind them, creating a dramatic and ethereal effect. The background shows more distant, hazy hills and trees under a soft, golden light. The overall color palette is dominated by warm, muted tones of beige, cream, and soft green, with the dark silhouettes of the trees providing contrast.

Q&A

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