Managing Global Business by Minimizing the Effects of Rupiah’s Volatility

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As global business players, managing a good business with others from abroad cannot avoid Rupiah’s volatility to hard currencies, such as United States Dollar (USD), Euro, and Japan Yen (JPY). Impacts of subprime mortgage crisis in United States has extended into Indonesia since 2007 was shown by depreciation of Rupiah that was Rp12,000 for 1 USD in the 4th quarter in 2008. Determinants of rupiah to USD from 2006 to 2009 are important to know to prevent the expansion of the subprime mortgage impacts for global business players. The determinants based on monetary approach, that developed form purchasing power parity and money quantity approach. Those can indicate the development of Indonesia’s economics in the future so that the global business player can minimize the effects of Rupiah’s volatility.

This research is to give evidences about influence of the determinants, which are money supply, interest rates, inflation, gross domestic product, balance of payment, and premium risk (as independent variables), to rupiah’s volatility to USD. The research is a descriptive-qualitative research that used secondary data and documentary method. The results showed that money supply, interest rates, inflation, gross domestic product, balance of payment, and premium risk influenced the volatility of rupiah to USD simultaneously. Partially, interest rates, inflation, premium risk, and balance of payment did not significantly influence to the rupiah’s volatility to USD. The results indicate that monetary policies, such as low interest policy, that was followed by control of inflation, premium risk, balance of payment, and gross domestic product in Indonesia, and United States, can appreciate rupiah to USD. It creates a better stability and security in the Indonesia’s economic and supports global business players in Indonesia to have relation with others from abroad.

Key Words: Error Correction Model, Exchange Rate, Global Business Player, Rupiah Volatility, United States Dollar (USD)

Research Background

The era of globalization has brought a broad influence on the movement of foreign capital entering the financial markets in developing countries (Satria and Maskie, 2004). Each country is compelled to reform its policies because of domestic market capitalization and competition between countries that grow rapidly (emerging markets) increases. The policy is becoming more market-friendly in spurring capital investment abroad, so as to stimulate the domestic economy. Market-friendly conditions are expected to improve efficiency in the capital market and money market, and can create a healthier macroeconomic soundness, accompanied by a policy of relaxation of capital controls and exchange rate regime change towards a more flexible (Maskie Knight, 2004).

Capital inflows can increase a country’s economic growth, but high capital mobility in developing countries has generated a lot of macroeconomic issues, such as the high monetary expansion, inflationary pressures and exchange rate fluctuations (Satria and Maskie, 2004). In 2004 to 2008, the world economy is in an expansion phase with an average growth rate reached 4.7%, well above the average growth of the previous five years, years 1999-2003, amounting to 3.4% (Figure 1). The expansion of world economic growth is supported, especially by the high economic growth in developing countries, especially China and India. The strong economic performance in developed countries, such as in Japan and countries in Europe, has been able to offset the slowdown in economic growth in the United States (U.S.).