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THE EFFECT OF BI 7-DAYS REVERSE REPO RATE AND EXCHANGE RATE ON THE MONEY SUPPLY (M1) IN INDONESIA

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Abstract: In this globalization's era, the circulation of money (both M1 and M2) in society is increasing and expanding. One of the aspects used to measure and influence the supply and demand system is the money supply. As an independent state institution, Bank Indonesia has full autonomy in formulating and implementing each of its duties and authorities. In its capacity as the central bank, Bank Indonesia has one single objective, namely to reach and maintain the stability of rupiah. This research was conducted using a qualitative and causality approach. The results of this study indicate that the BI 7-Days Reverse Repo Rate has a negative and significant effect on the Money Supply (M1), the exchange rate has a positive and significant effect on the Money Supply (M1) and the BI 7-Days Reverse Repo Rate and Exchange rates have a direct effect on Total Money Supply (M1).

Keywords: Money Supply, Exchange Rate, Bank Indonesia, BI 7 Days REPO.

Abstrak: *Di era globalisasi ini, perkembangan uang beredar (baik M1 maupun M2) di masyarakat semakin banyak dan meluas. Salah satu aspek yang digunakan untuk mengukur dan mempengaruhi sistem penawaran dan permintaan adalah jumlah uang beredar (money supply). Sebagai suatu lembaga negara yang independen, Bank Indonesia mempunyai otonomi penuh dalam merumuskan dan melaksanakan setiap tugas dan wewenangnya. Dalam kapasitasnya sebagai bank sentral, Bank Indonesia mempunyai satu tujuan tunggal yaitu mencapai dan memelihara kestabilan nilai rupiah. Penelitian ini dilakukan dengan menggunakan pendekatan kualitatif dan kausalitas. Hasil penelitian ini menunjukan bahwa BI 7-Days Reverse Repo Rate berpengaruh negatif dan signifikan terhadap Jumlah Uang Beredar (M_1), kurs berpengaruh positif dan signifikan terhadap Jumlah Uang Beredar (M_1) dan BI 7-Days Reverse Repo Rate dan Kurs mempengaruhi secara langsung terhadap Jumlah Uang Beredar (M_1).*

Kata Kunci: *Uang Beredar, Kurs, Bank Indonesia, BI 7 Days REPO.*

INTRODUCTION

The measure of a country's progress can always be seen from the economic growth that occurs in that country. To be able to achieve high but stable economic growth, it is not easy if it is not followed by the ability of macroeconomic variables. Macroeconomic stability can be seen from the impact of shocks from a macroeconomic variable on other macroeconomic variables. If the impact of a shock causes large fluctuations in macroeconomic variables and it takes a relatively long time to reach long-term equilibrium, then it can be said that macroeconomic stability is vulnerable to changes, and vice versa. (Siregar et all, 2006).

In this era of globalization, the development of money in circulation (both M1 and M2) in society is increasing and expanding. One of the aspects used to measure and influence the supply and demand system is the money supply.

The policy used to increase and maintain the stability of economic growth is to use monetary policy. Monetary policy is an illustration of the policy used to overcome economic problems with the main objective of maintaining the stability of the rupiah value. This monetary policy is also regulate the course of the economy and in particular to control the macro economy so that it can run as desired, namely by means of several predetermined monetary policy instruments.

As an independent state institution, Bank Indonesia has full autonomy in formulating and implementing each of its duties and authorities. In its capacity as the central bank, Bank Indonesia has one single objective, namely to achieve and maintain the stability of the rupiah value. Rupiah stability is the stability of the value of the rupiah against the value or price of goods and services as well as the stability of the value of the rupiah against foreign currencies.

So far, BI has used SBI for monetary operations, namely adding or reducing the money supply in the public. When there is too much money in circulation, and of course this can cause inflation, then the action that BI will take is to raise the BI Rate. However, if inflation has fallen and is safely under control, the BI Rate will be lowered again, so that the banks will resume channeling credit to the public.

On 18 August 2016, BI officially announced a new benchmark interest rate, namely the BI 7-Days Reverse Repo Rate. In order for the monetary operations carried out by BI to be more effective, the BI 7-Days Reverse Repo Rate is applied, whereby if the BI 7-Days Reverse Repo Rate increases, the banks can place their funds in BI for only seven days (or 14 days, 21 days, and so on) and if in the following month the BI 7-Days Reverse Repo Rate drops, the bank can immediately withdraw the funds and then channel them to the public.

With the use of the BI 7-Days Reverse Repo Rate instrument as the new policy rate, three main impacts are expected, namely, strengthening monetary policy signals with a 7-day (Reverse) Repo Rate as the main reference on the financial market, increasing effectiveness of policy transmission. through its influence on movements in money market interest rates and bank interest rates, and the formation of a deeper financial market, particularly transactions and the formation of an interest rate structure on the interbank money market (PUAB) for a tenor of 3-12 months.

LITERATURE REVIEW

Monetary Policy

Monetary policy is all actions or efforts of the central bank to influence the development of monetary variables (money supply, interest rates, credit and exchange rates) to achieve certain objectives. According to Jhingan (2006), this policy can be defined as a policy relating to:

1. Control of financial institutions
2. The active sale and purchase of valuable paper by the monetary authority as a deliberate effort to influence changes in the state of money.
3. Passive buying and selling of paper assets arising from efforts to maintain a certain interest rate structure for stock price stability or to fulfill certain other obligations and commitments.

As part of macroeconomic policy, the objective of monetary policy is to help achieve macroeconomic targets, including: economic growth, employment, price stability and balance of trade. Therefore, these things are often the final targets of monetary policy.

Ideally, these macroeconomic goals can be achieved simultaneously and sustainably. However, in the experience of many countries, including Indonesia, this is difficult to achieve, and some are even contradictory. For example, a policy of lowering interest rates to stimulate the economy can negatively affect investors' interest in investing. Besides that, empirical experience shows that the economy deteriorates because monetary policy has multiple objectives. For this reason, the majority of central banks, including Bank Indonesia, focus on a single objective, namely maintaining and maintaining monetary stability (Ismail, 2006).

Monetary policy includes government measures implemented by the Central Bank (in Indonesia the Central Bank is Bank Indonesia), to influence (change) the money supply in the economy or change the interest rate, with the intention of influencing aggregate spending.

One component of aggregate expenditure is investment (investment) by companies. A high interest rate will reduce investment and if the interest rate is low more capital offerings will be made. Thus, one way that the government can influence aggregate expenditure is by influencing investment. If unemployment prevails in the economy, aggregate expenditure needs to be increased to reduce unemployment. Lowering the interest rate to promote increased investment is one way to achieve this goal. This goal can be achieved by the government by implementing monetary policy.

Indonesian Interest Rates

Currently, Bank Indonesia is strengthening the monetary operation framework by implementing a new benchmark interest rate or policy interest rate, namely the 7-Day (Reverse) Repo Rate, which was effective on 19 August 2016, replacing the BI Rate. The Bank Indonesia benchmark interest rate is classified as low, after lowering the interest rate several times, in 2013 the BI rate was at the level of 7.5%, and currently the BI rate is at the level of 6.5%. Coupled with the new formula to be the 7-Day Rate Repo until the end of 2017 at the level of 4.25%, thus Indonesia's interest rate is getting lower. BI did not change the policy interest rate, but instead changed the BI rate policy rate tenor with a tenor of 360 days to a tenor of 7 days.

These changes are shown to strengthen the effectiveness of monetary policy, so that whenever there is a change in the policy interest rate, either an increase or decrease, the impact on the money market and banking interest rates, both deposits and credit, will quickly improve. With a shorter timeframe, the BI 7-Day Reverse Repo has an interest rate or rate that is lower than the BI rate. Since the implementation of the BI 7-day Reverse repo, Bank Indonesia hopes that this policy will effectively control interest rates. With the use of the BI 7-day Reverse Repo instrument as the new policy rate, three main impacts are expected.

First, the strengthening of monetary policy signals with a 7-day (Reverse) Repo Rate as the main reference in financial markets. Second, the increased effectiveness of monetary policy transmission through its influence on movements in money market interest rates and bank interest rates. Third, the formation of a deeper financial market, particularly transactions and the formation of an interest rate structure on the interbank money market (PUAB) for a tenor of 3-12 months.

In relation to the public economy, the determination of the BI Rate value greatly affects day-to-day economic conditions. For example, when the prices of staple goods rise due to harvest difficulties or the scarcity of certain staples, the BI Rate will decrease to spur credit

circulation in the community. With the improving economy and increasing circulation of money, it is hoped that the prices of these basic commodities will decrease and then stabilize again. Meanwhile, in preventing inflation, the BI Rate is also very important to control the money circulating in society. When there is an increase in inflation, bank institutions prefer to save their money with Bank Indonesia so that slowly the money in circulation will decrease. However, this does not mean that after the BI Rate has decreased, other banks can immediately recover the money deposited in Bank Indonesia for circulation to the public in the form of credit. Banks have to wait for a year to take back these deposits so that the circulation of money in the community will not increase in a matter of days or months. To overcome this problem, Bank Indonesia took the initiative to issue a BI 7-Day Reverse Repo Rate which is shorter in time span.

BI 7-*Days Reverse Repo Rate*

BI 7-Days Reverse Repo Rate will improve financial and banking performance in monetary policy. BI 7-Days Reverse Repo Rate implementation also strongly supports the government's ambition to reduce interest rates to single digits. This benchmark interest rate is expected to immediately reduce funding interest, then lending interest. The government is working to achieve single digit interest rates to spur the economy with more, easier, and cheaper investments that will be used to spur the economy, especially by MSMEs and to support infrastructure development.

In BI Banking the 7 Days Reserve Rate Repo is used as the basis for the application of interest for bank deposits to customers. In addition, banks can also obtain deposit funds from people who open their deposits at banks, thereby increasing bank cash. Then banks can also deposit to the central bank, namely Bank Indonesia to earn interest.

Table 1. Comparison of BI Rate and BI 7-Days Reverse Repo Rate

Comparison	**BI *Rate***	**BI 7-*Days Reverse Repo Rate***
Tenor	Ekuivalen 9 – 12 month	1 week
Character	Non Transaksional	Transaksional
Transmission	The money market interest rate has not been optimally reflected	Stronger relationship to money market interest rates
Market Deepening	Cost of being illiquid terlalu tinggi, kurang mendorong pendalaman pasar	Cost of being illiquid lebih rendah, lebih mendorong pendalaman pasar

Source : Bank Indonesia

RESEARCH METHODOLOGY – Heading 1 (TNR, 12pt, Bold, Align Left, Uppercase)

This research category is descriptive research with quantitative and causal approaches. Descriptive research with a quantitative approach can be said to be a research category by describing something based on the data collected in the form of numbers regarding existing facts (Sanusi, 2013). While the causality approach is to analyze the relationships between a variable and other variables or how a variable affects other variables (Umar, 2005).

Based on the research category, the type of data used is quantitative data in the form of BI 7-Days Reverse Repo Rate, Exchange Rate and Money Supply taken from the observation period from August 2016 to August 2018.

Data analysis technique

The data analysis technique used in this study was used by using the Ordinary Least Square (OLS) method. The OLS method is used based on a number of certain assumptions. There are several assumptions that must be met, in principle the linear regression model that is built should not deviate from the BLUE (Best Liniaer, Un] and Estimator) assumption, in other studies the model made must pass the assumption test deviations.

Linear regression analysis is used to predict the value of the dependent variable as a result of an increase or decrease in the value of the independent variable. This data analysis was performed using the Economic View (Eviews) for windows program. The linear regression equation used is as follows:

$$\mathbf{Y = b_0 + \beta_1 X_1 + \beta_2 X_2 + e}$$

Explanations:
Y = Total Money Supply
b_0 = Constanta
β_1 = Regression coefficient for BI 7-Days Reverse Repo Rate
X_1 = BI 7-*Days Reverse Repo Rate*
β_2 = Regression coefficient for Exchange Rates
X_2 = Kurs
e = Standar eror

RESULT AND DISCUSSION

Classic assumption test

Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between the confounding error in period t and the error in period t-1.

Table 2. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.668943	Prob. F(2,20)	0.2136
Obs*R-squared	3.575608	Prob. Chi-Square(2)	0.1673

Source: Output Eviews

Table 2 shows that the chi square probability value of 0.1673 is greater than 0.05, so it can be said that in the Autocorrelation test, the data used does not have autocorrelation, so it can be said that the variables used pass the Autocorrelation test.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variants from the residuals of one observation to another (Ghozali, 2011).

Table 3. Heteroscedasticity Test Results

Heteroskedasticity Test: Glejser				
Test Equation: Dependent Variable: ARESID Method: Least Squares Date: 12/22/18 Time: 20:00 Sample: 2016M08 2018M08 Included observations: 25				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	180169.0	183453.1	0.982098	0.3367
BI7	1727.728	14405.50	0.119935	0.9056
KURS	-11.37677	14.92395	-0.762317	0.4540

Source: Output Eviews

In Table 3, the heteroscedasticity test above obtains a probability value greater than 0.05. The BI7 variable obtained a probability value of 0.9056 (0.9056> 0.05) and the exchange rate variable obtained a value of 0.4540 (0.4540> 0.05). So it can be said from the results of the Heteroskedasticity Test that the variables used do not contain Heteroskedasticity and are considered to have passed the Heteroskedasticity Test.

Multicollinearity Test

The multicollinearity test is a classic criteria assumption test that is carried out to fulfill the regression model. The multicollinearity test aims to determine whether there is a correlation between the independent variables. If there is perfect multicollinearity between

independent variables, then the free regression coefficient cannot be found and the standard error value becomes infinite (Ghozali, 2011).

Table 4. Multicollinearity Test Results of the Regression Equation 1

R-squared	0.756767	Mean dependent var	1300123.
Adjusted R-squared	0.734655	S.D. dependent var	88063.91
S.E. of regression	45363.19	Akaike info criterion	24.39496
Sum squared resid	4.53E+10	Schwarz criterion	24.54122
Log likelihood	-301.9370	Hannan-Quinn criter.	24.43552
F-statistic	34.22411	Durbin-Watson stat	1.226365
Prob(F-statistic)	0.000000		

Sumber: OutputEviews

In Table 4, the multicollinearity test of regression equation 1 above, it can be seen that the R-square value of the regression equation above is 0.756767.

Table 5. Multicollinearity Test Results of Regression Equation 2

Dependent Variable: BI7
Method: Least Squares
Date: 12/22/18 Time: 20:01
Sample: 2016M08 2018M08
Included observations: 25

R-squared	0.037213	Mean dependent var	4.700000
Adjusted R-squared	-0.004647	S.D. dependent var	0.426956
S.E. of regression	0.427947	Akaike info criterion	1.216985
Sum squared resid	4.212193	Schwarz criterion	1.314495
Log likelihood	-13.21231	Hannan-Quinn criter.	1.244030
F-statistic	0.888983	Durbin-Watson stat	0.302164
Prob(F-statistic)	0.355552		

Source :Output Eviews

In Table 5, the multicollinearity test of the regression equation 2 above, it can be seen that the R-square value of the regression equation above is 0.037213.

Table 6. Multicollinearity Test Results of the Regression Equation 3

Dependent Variable: KURS
Method: Least Squares
Date: 12/22/18 Time: 20:01
Sample: 2016M08 2018M08
Included observations: 25

R-squared	0.460255	Mean dependent var	13574.62
Adjusted R-squared	0.436788	S.D. dependent var	412.1242
S.E. of regression	309.2887	Akaike info criterion	14.38305
Sum squared resid	2200168.	Schwarz criterion	14.48056
Log likelihood	-177.7881	Hannan-Quinn criter.	14.41009
F-statistic	19.61274	Durbin-Watson stat	0.531249
Prob(F-statistic)	0.000193		

In Table 6, the Multicollinearity Test of the regression equation 3 above, it can be seen that the R-square value of the regression equation above is 0.460255.

From the multicollinearity above, it can be seen that R1> R2, R3 is 0.756767> 0.037213, 0.460255. So it can be concluded that in the model there is no multicollinearity.

Normality test

The normality test aims to determine whether in the regression model, the dependent variable and the independent variable have a normal distribution or not. A good regression model has a normal or near normal data distribution (Ghozali, 2011). The normality test in this study was to use the Jarque-Bera test with a significance level of 5%.

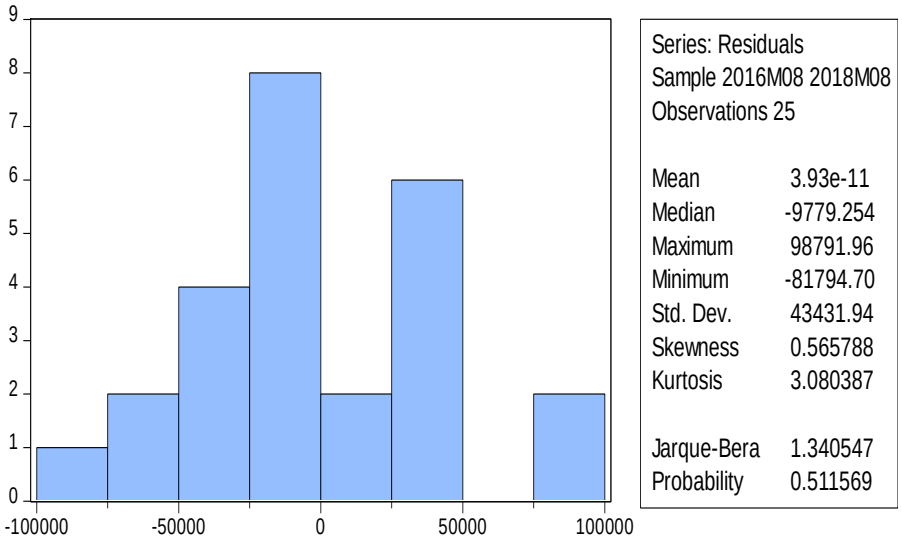

Figure 1. Normality Test Results

Source: Output Eviews

The results of the Normality Test above can be seen that the probability (P-value) is 0.511569, which means that the P-value is> 0.05 (0.511569> 0.05) so that it can be concluded that the data used is normally distributed or has passed the Normality Test.

Hypothesis test

Partial t-test

The t test is used to prove the truth of the hypothesis which states whether there is a significant influence between the independent variables individually or partially on the dependent variable. The independent variables in this study are BI 7-Days Reverse Repo Rate and Exchange Rate, while the dependent variable is the Amount of Money Supply.

Table 7. Partial T Test Results Ordinary Least Square Test

Dependent Variable: M_1
Method: Least Squares
Date: 12/22/18 Time: 19:59
Sample: 2016M08 2018M08
Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-849056.8	307135.2	-2.764440	0.0113
BI7	-124897.5	24117.54	-5.178702	0.0000
KURS	201.5672	24.98551	8.067364	0.0000

Source: Output Eviews

Based on Table 7 above. Shows the regression coefficient value of the BI 7-Days Reverse Repo Rate variable of -124897.5 with the tcount value for the BI 7-Days Reverse Repo Rate of -5.178702 <1.71714 and the significant value is less than 0.05 (0.0000 <0.05), it can be concluded that the BI 7-Days Reverse Repo Rate is negative and significant to the Money Supply (M1).

Based on Table 7 above, it shows that the regression coefficient value of the exchange rate variable is 201.5672 with a tcount value for exchange rate of 8.067364> 1.71714 and a significant value less than 0.05 (0.0000 <0.05), it can be concluded that the effect of exchange rates is positive and significant on the amount of money in circulation (M1).

F test

Table 8. F Test Results

Dependent Variable: M_1
Method: Least Squares
Date: 12/22/18 Time: 19:59
Sample: 2016M08 2018M08
Included observations: 25

R-squared	0.756767	Mean dependent var	1300123.
Adjusted R-squared	0.734655	S.D. dependent var	88063.91
S.E. of regression	45363.19	Akaike info criterion	24.39496
Sum squared resid	4.53E+10	Schwarz criterion	24.54122
Log likelihood	-301.9370	Hannan-Quinn criter.	24.43552
F-statistic	34.22411	Durbin-Watson stat	1.226365
Prob(F-statistic)	0.000000		

Source: Output Eviews

Based on the results of the F test shown in Table 4.11 above, the value of Fcount is 34.22411. The resulting ftable is df 1 (k-1) or 2-1 = 1 and df2 (n-k-1) = 25-2-1 = 22, the Ftable result is 4.30. So that Fcount> Ftable or 34.22411> 4.30. The resulting probability is

0.000000 <0.05 (α = 5%), it can be concluded that the BI 7-Days Reverse Repo Rate and Exchange Rate together have an effect on the Money Supply (M1).

Linear Regression

Table 9. Linear Regression Analysis

Dependent Variable: M_1
Method: Least Squares
Date: 12/22/18 Time: 21:49
Sample: 2016M08 2018M08
Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-849056.8	307135.2	-2.764440	0.0113
BI7	-124897.5	24117.54	-5.178702	0.0000
KURS	201.5672	24.98551	8.067364	0.0000

Source: Output Eviews

From Table 9, the linear regression equation can be obtained as follows:

$$\mathbf{M_1 = -849056.80 - 124897.53*BI7 + 201.56*KURS}$$

Based on the regression equation above, it can be explained as follows:

1. A constant of -849056.80 states that if the BI 7- Days Reverse Repo Rate and Exchange Rate are 0, the Money Supply will be negative at -849056.80.
2. BI 7-Days Reverse Repo Rate (X1) coefficient is negative at -124897.53. If the BI 7-Days Reverse Repo Rate increases by 1 unit, the Total Money Supply will increase by -124897.53 1 unit. In this case other factors are considered constant.
3. The exchange rate coefficient (X2) is positive at 201.56. If the value of the Exchange Rate increases by 1 unit, the Total Money Supply will decrease by 201.56 units. In this case other factors are considered constant.

Analysis of the coefficient of determination (*Adjusted* R^2)

The coefficient of determination aims to determine the contribution of the independent variable to the dependent variable. To determine the closeness of the relationship between the independent variable and the dependent variable, it can be indicated by the R-squared value in the Eviews Output.

Table 10. The Result of Determination Coefficient Analysis

Dependent Variable: M_1 Method: Least Squares Date: 12/22/18 Time: 21:49 Sample: 2016M08 2018M08 Included observations: 25			
R-squared	0.756767	Mean dependent var	1300123.
Adjusted R-squared	0.734655	S.D. dependent var	88063.91
S.E. of regression	45363.19	Akaike info criterion	24.39496
Sum squared resid	4.53E+10	Schwarz criterion	24.54122
Log likelihood	-301.9370	Hannan-Quinn criter.	24.43552
F-statistic	34.22411	Durbin-Watson stat	1.226365
Prob(F-statistic)	0.000000		

Source: Output Eviews

Based on Table 10 above, it can be seen that the R value is 0.756767 or 75.67%. The R value proves that the relationship between the independent variable which includes the BI 7-Days Reverse Repo Rate and the Exchange Rate for the dependent variable is the amount of money in circulation of 0.756767 or 75.67%. This means that there is a strong and positive relationship in this research model because the R value is close to 1 or 100%.

The adjusted R2 value obtained was 0.734655 or 73.46%. This means that the BI 7-Days Reverse Repo Rate and Kurs variables contributed 73.46%. In the growth of the Money Supply (M1), while the remaining 26.54% is the contribution of other variables outside of this research model.

DISCUSSION

In this study, it was found that the BI 7-Days Reverse Repo Rate has a negative and significant effect on the Money Supply (M1). The results of this study are evidenced by a significant level of 0.0000 <0.05 and a coefficient of -124897.5. So we found that the BI 7-Days Reverse Repo Rate has a negative and significant effect on the Money Supply. This shows that during this research period the increase in the BI 7-Days Reverse Repo Rate directly affected the distribution of money in society (M1) in a narrow sense in Indonesia.

In this research, it was found that the exchange rate has a positive and significant effect on the Money Supply (M1). The results of this study are evidenced by a significant level of 0.0000 <0.05 and a coefficient of 201.5672. The results of this study found that the exchange rate had a positive and significant effect on the Money Supply (M1). This shows that during

this research period changes in the Rupiah exchange rate against the Dollar directly affected the distribution of money in society (M1) in a narrow sense in Indonesia.

In this research, it is found that the BI 7-Days Reverse Repo Rate and Exchange Rate directly affect the Money Supply (M1). The results of these studies are evidenced by the F.Prob level of 0.0000 <0.05 and F. Statistics of 34.22411> 4.30 from F table. The results of this study found that the BI 7-Days Reverse Repo Rate and Exchange Rate had a significant effect on the Money Supply (M1). This shows that during this research period changes in the BI 7-Days Reverse Repo Rate and the Rupiah Exchange Rate against the Dollar directly affected the distribution of money in society (M1) in a narrow sense in Indonesia.

CONCLUSION

BI 7-Days Reverse Repo Rate has a significant negative effect on the Money Supply (M1) in Indonesia. Because in fact when Bank Indonesia raises interest rates, many people make deposits to banks, so the amount of money owned by the public decreases because the currency they have is invested through bank deposits, thus making the amount of money that is held directly by the public. reduced, the purchasing power of the community was limited because the money held directly by the community was limited.

The Rupiah exchange rate against the Dollar has a very significant positive effect on the Money Supply (M1) in Indonesia. This is because fluctuations or changes in the exchange rate of the US Dollar against the Rupiah are more likely to affect the value of the currency owned by the public, the fact is that when the value of the US Dollar increases it causes the value of the Rupiah to decrease, thus weakening the purchasing power of the Rupiah, so that The nominal money owned by the community becomes more when faced with a nominal US Dollar, on the contrary when the US Dollar weakens it makes the Rupiah value stronger, so the nominal money owned by the community decreases when faced with a nominal US Dollar. So that changes in the fluctuations experienced by the Exchange Rate cannot influence investors' decisions in investing and do not affect the financial performance of a company.

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