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The Role of Exchange Rates, Foreign Exchange Policies, and Foreign Exchange Reserves on the Stability of the Islamic Economy in a Country

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ABSTRACT
This article discusses the Exchange Rate and Foreign Exchange Reserves which are very influential on the Indonesian economy. The exchange rate is the price of one unit of foreign currency in domestic currency or can also be said to be the price of domestic currency against foreign currency. Foreign exchange reserves are also an important factor to show that the country can carry out international trade activities. The availability of foreign exchange reserves in Indonesia is still small so that international payments cannot be made and cause a decline in the exchange rate due to a balance of payments deficit. This research is a qualitative research. The data used in this research is secondary data obtained from the Central Bureau of Statistics (BPS), and other relevant publications. The variables in this study are the exchange rate, foreign exchange reserves in the economic stability of the State. From these results, it is found that exchange rates and foreign exchange have an important role in the economic stability of a country.
Keywords*: Economy, Exchange Rate, Foreign Exchange*

INTRODUCTION

The country's economic stability is very important to achieve national development goals that are carried out on an ongoing basis. One of the factors that affect the country's economic stability is the exchange rate and foreign exchange. These factors are interrelated and affect the economic performance of a country.

Exchange rates begin to emerge since the sale and purchase of goods and services between residents of different countries using different currencies in an open economic system. The use of another country's currency is done when residents of a country purchase goods/services from another country. Meanwhile, the selling country will receive the currency received from the buyer's country, either in the form of the country's currency or other currencies that have been agreed upon as international currencies.

In the era of globalization of the world economy, the movement of money between countries knows no boundaries anymore. Money moves quickly from one country to another and tends to go where it generates the most income. In addition, money is also traded as goods so that the currency of a country is quite vulnerable to speculation activities. In line with these developments, the value of a country's currency is also strongly influenced by capital flows between countries and speculation activities. With these global developments, countries that use a fixed exchange rate system or with variations are very vulnerable to capital flows and speculation activities.

The era of globalization of the world economy also pushes countries in the world towards international trade. One of the sources of financing in foreign trade and in national development is foreign exchange. Foreign exchange reserves can be used as an important indicator to see the extent to which a country conducts international trade and to see the strength or weakness of a country's economy. Foreign exchange reserves, which are a source of foreign trade financing, are accounted for by Bank Indonesia, which has been stipulated in the Law on Bank Indonesia No. 23 of 1999 as amended by Law No. 3 of 2004.

Based on the above background, this article will discuss (a) the meaning of exchange rate; (b) exchange rate system; (c) exchange rate policy; (d) foreign exchange; (e) foreign exchange reserves; (f) foreign exchange policy; and (g) the role of exchange and foreign exchange rates on the stability of the islamic economy in the country. The purpose of making this article is to add insight into exchange rates and foreign exchange in the economic stability of the country.

THEORETICALFRAMEWORK

Definition Of Exchange Rate

The exchange rate is the price of one unit of foreign currency in domestic currency or the price of domestic currency against foreign currency. For example, the exchange rate (NT) of the Rupiah against the US Dollar (USD) is the price of one US Dollar (USD) in Rupiah (Rp), or it can also be interpreted as the price of one Rupiah against one USD. If the exchange rate is defined as the value of Rupiah in foreign exchange, it can be formulated as follows:

NTIDR/USD = IDR needed to buy 1 American dollar (USD**)**

NTIDR/YEN = IDR needed to buy one Japanese Yen

In this case, if the NT increases, the Rupiah depreciates, while if the NT decreases, the Rupiah appreciates. As for a country implementing a fixed exchange rate system, changes in the exchange rate are made officially by the government. A country's policy of officially raising the value of its currency against foreign currencies is called revaluation, while the policy of lowering the value of the currency against foreign currencies is devaluation.

There are three main factors that affect the demand for foreign exchange. *First*, the import payment factor. The higher the import of goods and services, the greater the demand for foreign exchange so that the exchange rate will tend to weaken. Conversely, if imports decrease, the demand for foreign exchange decreases, thus encouraging a stronger exchange rate. *Second*, the capital outflow factor. The greater the capital outflow, the greater the demand for foreign exchange and in turn will weaken the exchange rate. Capital outflows include the payment of debts of Indonesian residents (both private and government) to foreign parties and the placement of funds of Indonesian residents abroad. *Third*, speculation activities. The more foreign exchange speculation activities carried out by speculators, the greater the demand for foreign exchange, thus weakening the exchange rate of the local currency against foreign currencies.

Meanwhile, foreign exchange supply is influenced by two main factors. *First*, the export revenue factor. The greater the volume of export receipts of goods and services, the greater the amount of foreign exchange owned by a country and subsequently the exchange rate against foreign currencies tends to strengthen or appreciate. Conversely, if exports decrease, the amount of foreign exchange owned decreases so that the exchange rate also tends to depreciate. *Second*, the capital inflow factor. The greater the capital inflow, the stronger the exchange rate will tend to be. The capital inflow can be in the form of acceptance of foreign debt, placement of short-term funds by foreign parties (Portfolio investment) and foreign direct investment (Simorangkir, tt).

Exchange Rate System

The exchange rate of a currency is defined as the relative price of one currency against another. There are basically three exchange rate systems, namely (1) *fixed exchange rate*; (2) *managed floating exchange rate;* and (3) *floating exchange rate*.

In a fixed exchange rate system, the exchange rate or rate of a currency against another currency is set at a certain value, for example, the rupiah exchange rate against the US dollar is set at Rp 8,000 per dollar. At this exchange rate the central bank will be prepared to sell or buy foreign exchange to maintain the exchange rate. If the exchange rate can no longer be maintained, the central bank can devalue or revalue the exchange rate (Syarifuddin, tt). The policy implications of a fixed exchange rate system are:

1) The central bank cannot control the money supply (endogenous).
2) The central bank must maintain an adequate amount of foreign exchange reserves.
3) To maintain the credibility of the fixed exchange rate policy and avoid depletion of foreign exchange reserves, monetary authorities and fiscal authorities should avoid inflationary policies.
4) In the event of textogenous domestic inflationary pressures either from domestic sources (such as food supply disruptions) or from abroad (such as rising international prices), the alternative policy of devaluation is a tough choice but must be taken as long as the condition of foreign exchange reserves is inadequate to support the exchange rate (Miranda, tt).

In a floating exchange rate system, the exchange rate is allowed to move according to the forces of demand and supply that occur in the market. Thus, the exchange rate will strengthen if there is an excess supply of foreign exchange and vice versa, the domestic currency exchange rate will weaken if there is an excess demand for foreign exchange.

A managed floating exchange rate system is a system that falls between the two exchange rate systems above. In this exchange rate system, the central bank sets limits on a certain range of exchange rate movements called the intervention band. The exchange rate will be determined in accordance with the market mechanism as long as it is within the range of the intervention band. If the exchange rate breaches the upper or lower limit of the range, the central bank will automatically intervene in the foreign exchange market so that the exchange rate moves back into the intervention band.

Exchange Rate Policy

In the history of the Indonesian economy, a fixed exchange rate system, a controlled floating system, and a free floating system have been implemented in Indonesia. The fixed exchange rate system was adopted in the period 1973-March 1983. Meanwhile, a strictly controlled floating exchange rate system was applied in the period March 1983-September 1986. During this period, the government had conducted several devaluation policies on the rupiah exchange rate as follows:

1) November 1978 devaluation from IDR 425 per USD to IDR 625 per USD;
2) March 1983 devaluation from IDR 625 per USD to IDR 825 per USD; and
3) September 1986 devaluation from IDR 1134 per USD to IDR 1644 per USD.

Furthermore, a more flexible controlled floating exchange rate system was implemented in Indonesia from September 1986-January 1994 and with an intervention band mechanism from January 1994-August 1997. During this period, the following exchange rate policies were implemented:

1) Bank Indonesia issues a mid-day exchange rate every day;
2) The intervention band was widened 8 times, from IDR 6 (0.25%) to IDR 10 (0.5%) in September 1992, to IDR 20 (1%) in January 1994, to IDR 30 (1.5%) in September 1994, to IDR 44 (2%) in May 1995, to IDR 66 (3%) in December 1995, to IDR 118 (5%) in June 1996, to IDR 192 (8%) in September 1996, and to IDR 304 (12%) in July 1997;
3) Bank Indonesia intervenes in the foreign exchange market to keep the rupiah exchange rate moving within the limits of the intervention band set, by buying foreign exchange if the exchange rate moves close to the lower limit and selling foreign exchange if the exchange rate approaches the upper limit within the predetermined intervention band.

Meanwhile, the floating exchange rate system has been implemented in Indonesia since August 14, 1997 until now. This system was adopted as a reaction of the Government in the face of so much turmoil and rapid weakening of the exchange rate around July-August 1997. Speculation attacks on the rupiah triggered by the widespread impact of speculation attacks on the Thai baht currency had caused turmoil and weakening of the rupiah exchange rate, which in turn encouraged foreign investors to withdraw their funds on a large scale and at the same time from Indonesia (Syarifuddin, tt).

The floating exchange rate system was confirmed by Laws No. 23 and 24 of 1999 on Foreign Exchange Traffic and Exchange Rate System. In accordance with the Law, the exchange rate system in Indonesia is determined by the Government after considering recommendations submitted by Bank Indonesia (OJK, 1999). In accordance with Law No. 23 Year 1999, Bank Indonesia is authorized to conduct exchange rate policy in accordance with the exchange rate system:

1) Devaluation or revaluation of the rupiah against foreign currencies in a fixed exchange rate system;
2) Intervention in the foreign exchange market in a floating exchange rate system; and
3) Daily exchange rate fixing and the width of the intervention range in a managed floating exchange rate system.

Foreign Exchange

Foreign exchange is the financial assets and liabilities used in international transactions. Foreign exchange is an important aspect of a country's economy that has a significant impact on global economic stability. Foreign exchange can also be defined as the flow of money derived from export and import transactions of goods, services, and investments, which play an important role in global economic development. Foreign exchange serves as an indicator to show the strength of a country's economic fundamentals, in addition to stemming a country's crisis in the economy and finance. Therefore, it is important to understand how foreign exchange works and how it impacts economic stability (Saravistha, 2023).

The high and low amount of foreign exchange of a nation is based on several types of influencing indicators such as exchange rates, imports, exports, and GDP. Foreign exchange can be seen in the condition of the nation's international balance of payments. If the government and people of a country have large foreign exchange, the higher the strength of the nation when carrying out international economic and monetary activities and the value of the nation's currency will strengthen (Hidayah, 2022).

Foreign exchange can be used for various purposes in a country's economy. Some of the main uses of foreign exchange include: (1) import payments, foreign exchange is used to pay for goods and services imported from other countries, (2) paying foreign debt, countries that have foreign debt must use foreign exchange to pay interest and principal on their debts, (3) foreign investment, foreign exchange can be used to attract foreign investment, which can help develop certain sectors of the economy, (4) foreign exchange reserves, countries can keep some foreign exchange as reserves to overcome economic crises or offset foreign exchange deficits.

Foreign Exchange Reserves

Foreign exchange reserves which are often referred to as *international reserves and foreign currency liquidity* (IRFCL) or *Official reserve assets are* defined as all foreign assets controlled by the monetary authority and can be used at any time, to finance balance of payments imbalances or in the context of monetary stability by intervening in the foreign exchange market and for other purposes. Based on this definition, the benefits of foreign exchange reserves owned by a country can be used to maintain exchange rate stability and can be used to finance deficits in the balance of payments (Benny, 2013).

If a country's foreign exchange reserves do not cover its import needs within three months, it is considered vulnerable. The benchmarks for measuring foreign exchange reserves are: (1) foreign exchange *reserves to* import ratio, (2) foreign exchange *reserves to* domestic money supply (*reserves to M2*), (3) foreign exchange *reserves* to short-term debt ratio, (4) *opportunity cost (Dewi, 2019)*.

In its development, the Indonesian national economy is known for two terminologies of *foreign exchange reserves*, namely *official foreign exchange reserves* and *country foreign exchange reserves*, each of which has a different scope. First, it is the state-owned foreign exchange reserves that are managed, administered, and administered by the central bank, in accordance with the duties assigned by Law No. 13 of 1968. Second, it covers all foreign exchange owned by entities, individuals, institutions, especially national financial institutions that are monetarily part of national wealth.

In conducting international trade, every country needs foreign exchange reserves as a means of foreign payment. In the history of international trade theory, mercantilism introduced that foreign exchange is *gold*. Even gold is a symbol of a country's wealth, so government policy must create a gold surplus, because gold is an international means of payment. Gold is created through export surpluses, which will result in a stronger country. Foreign exchange reserves are a very important monetary indicator that shows the strength or weakness of a country's economic fundamentals. In addition, a sufficient amount of foreign exchange reserves is one of the guarantees of achieving monetary and macroeconomic stability of a country.

The size of a country's foreign exchange reserves depends on various factors that affect each element in Indonesia's balance of payments. For developing countries such as Indonesia, exports play an important role in national development, foreign exchange obtained from export activities will increase the country's foreign exchange reserves which in turn can strengthen the fundamentals of the Indonesian economy. One of the government's efforts to obtain foreign exchange from abroad is by making loans to other countries and exporting natural resource products abroad. From the proceeds of this foreign exchange, it can be used to increase the country's development funds (anisa, 2013).

Based on data from the central statistics agency, Indonesia's foreign exchange reserves in 2013 were at US $ 99,387 million, this figure shows a sharp decline where in the previous year the position of foreign exchange reserves showed the highest figure for the last ten years. Then in 2014 the position of foreign exchange reserves rose 12% from the previous year to US $ 111,861 million. And in 2015 the position of foreign exchange reserves fell again by 5% with a value of US $ 105,931 million.

A continuous decline in foreign exchange reserves can jeopardize a country's economy, the scarcity of foreign exchange reserves makes it impossible to import capital goods in development efforts. External sources of finance (both grants and loans) can play an important role in complementing the lack of resources in the form of foreign exchange or domestic savings, so that the flow of capital from outside will affect foreign exchange reserves (Sayoga, 2017). The overall value of Indonesia's foreign debt in 2013 reached US$266,109 million. Then in 2014 the total foreign debt increased by 1% with a value of US $ 269,300 million. And in 2015 a fairly rapid increase occurred in total foreign debt of 15% with a value of US $ 310,700 million.

While the value of exports during the period 2013-2015 showed a decline where in 2013 the value of Indonesian exports was valued at US $ 182.551 million, then in 2014 it fell by 3% with a value of US $ 176.980 million. And in 2015 the value of exports again fell by 15% compared to the previous year amounting to US $ 150.366 million. The exchange rate of the Rupiah against the US throughout 2013-2015 also continuously depreciated. In 2013 the exchange rate of the rupiah against the US dollar was Rp 12,189 per dollar, in 2014 the exchange rate of the rupiah against the US dollar was Rp12,440, and in 2015 the exchange rate of the rupiah against the dollar was Rp13,796 per dollar.

Indonesia's foreign exchange reserves at the end of August 2023 remained high at USD 137.1 billion, although slightly lower compared to the position at the end of July 2023 at USD 137.7 billion. The decline in the position of foreign exchange reserves was partly influenced by the payment of government external debt and the need to stabilize the Rupiah exchange rate in line with the increasing uncertainty in global financial markets. The position of foreign exchange reserves is equivalent to financing 6.2 months of imports or 6.0 months of imports and servicing of government external debt, and is above the international adequacy standard of around 3 months of imports. Bank Indonesia assesses that the foreign exchange reserves are able to support external sector resilience and maintain macroeconomic and financial system stability. Going forward, Bank Indonesia views that foreign exchange reserves will remain adequate, supported by maintained economic stability and prospects, along with the policy mix response taken by Bank Indonesia in maintaining macroeconomic and financial system stability to support sustainable economic growth (BI, 2023).

The components of foreign exchange reserves in a country can take the form shown below:

1) *Monetary gold* is the supply of gold owned by the monetary authority in the form of gold bars with certain international requirements (*London Good Delivery/LGD*), pure gold, and gold currency located both domestically and abroad. This monetary gold is a foreign exchange reserve that does not have a

financial liability position like *Special Drawing Rights (SDR).* Monetary authorities that want to increase their gold holdings by, for example, mining new gold or buying gold from the market, must monetize the gold. Conversely, an authority that wants to issue gold holdings for non-monetary purposes must demonetize the gold.

2) *Special Drawing Rights (SDR)* in the form of allocation of funds from the International Monetary Fund (IMF) is a facility provided by the IMF to its members. This facility allows the increase or decrease of foreign exchange reserves of member countries. The purpose of creating SDRs is to increase international liquidity.
3) *Reserve Position in the Fund (RPF)* represents a country's foreign exchange reserves held in the IMF's accounts and shows the country's wealth position and claims to the IMF as a result of the country's transactions with the IMF in connection with its membership in the Fund. As noted, IMF members can have positions in the Fund's General Resources Account that are recorded in the foreign exchange reserves category. A member's foreign exchange reserve position is the amount of reserve tranche purchases that the member can draw down (according to the debt agreement) that is readily available to the member.
4) Foreign exchange consists of:
5) *convertible currencies* and deposits.
6) securities in the form of: investments, stocks, bonds, and other money *market* instruments (*equities, bonds and notes, money market instruments*).
7) *financial* derivatives
    a. Foreign exchange includes bills of monetary authorities to non-residents in the form of currency, deposits, securities and financial derivatives. Examples of financial derivative transactions are forwards, futures, swaps and options.
8) Other receivables is the last type that includes receivables that are not included in the aforementioned categories of receivables (Kaligis, 2017).

The recording of the value of foreign exchange reserves in statistics is generally at market prices, i.e. the market rate at the time of the transaction. Market prices for bills such as participation and SDR rates are determined by the IMF. Monetary gold transactions are valued according to the market price of the underlying transaction, while for the valuation of foreign exchange reserve positions, the market price in effect at the end of the period is used (Gandhi, 2006).

The purpose of a country having foreign exchange reserves also varies depending on various considerations colored by the economic characteristics of the country's government.

Some of the commonly stated purposes of holding foreign exchange reserves are as follows:

1) As a monetary policy tool, especially to reduce exchange rate volatility, for example, by intervening when necessary.
2) Provide confidence to market participants that the country is able to fulfill its obligations to foreign parties.
3) Assist the government to fulfill its needs and obligations when making foreign debt payments.
4) Financing transactions recorded in the Balance of Payments.
5) Indicates the existence of wealth in the form of external assets to back up domestic currency.
6) Maintain a reserve to be used if the country experiences an emergency.

It is one of the sources of investment. This is generally not the main objective, but rather a reason to maximize the utilization of foreign exchange reserves.

Foreign Exchange Policy

In the history of the Indonesian economy, several policies regarding foreign exchange regulation have been implemented in accordance with the foreign exchange system that has been applied in Indonesia. A controlled foreign exchange system was once implemented in Indonesia based on Law No. 32 of 1964. Foreign exchange is grouped into two, namely Foreign Exchange Export Proceeds (DHE) and General Foreign Exchange (DU). In accordance with the law at that time, every acquisition of foreign exchange, both DHE and DU must be submitted to the State.

A semi-controlled foreign exchange system was once implemented in Indonesia based on Perpu No. 64 of 1970 replacing Law No. 32 of 1964. At that time, the acquisition and use of DHE must be submitted and licensed by Bank Indonesia, while DU could be freely obtained and used.

The free foreign exchange system began to be implemented in Indonesia with PP No. 1 of 1982 replacing both Law No. 32 of 1964 and Perpu No. 64 of 1970. With this regulation, every resident can freely own and use foreign exchange. This applies to both foreign exchange in the form of DHE and DU.

The implementation of PP No. 1 of 1982 caused problems. On the legal side, confusion arose in the stratification of national law, because Law No. 1 of 1982 annulled higher regulations, namely Law No. 32 of 1964 and Perpu No. 64 of 1970. In terms of economic policy, PP No. 1 of 1982 does not regulate the obligation to report or monitor foreign exchange traffic.

The existence of these problems has been resolved since May 17, 1999 with the enactment of Law No. 24 Year 1999 on Foreign Exchange Traffic and Exchange Rate System. With the enactment of Law No. 24 of 1999, the negative impacts arising from the implementation of a free foreign exchange system without being followed by monitoring policies and the application of the precautionary principle in foreign exchange traffic can be prevented. This law also replaces Law No. 32 of 1964 (Warjio, 2002).

RESEARCH METHODS

The scope of this research focuses on discussing the role of exchange rates and foreign exchange on the country's economic stability. This research uses a qualitative method through library research. In obtaining research data, researchers collect and analyze sources from articles, books, and previous research relevant to this research.

RESULTS AND DISCUSSION

The Role Of Exchange And Foreign Exchange Rates On The Stability Of The Islamic Economy In The Country

Exchange rates and foreign exchange play an important role in maintaining the country's economic stability. Here is information about the role of exchange rates and foreign exchange on the country's economic stability:

1) Excess foreign exchange reserves play an important role in reducing exchange rate fluctuations and promoting a country's economic progress.
2) The implementation of intervention becomes very important especially to maintain exchange rate stability in the event of excessive exchange rate volatility.
3) The development of foreign exchange traffic and exchange rates needs to be continuously monitored and taken into consideration by the central bank in the formulation of monetary policy.
4) The Coordinating Ministry for Economic Affairs of the Republic of Indonesia has a further policy package focused on maintaining Rupiah exchange rate stability and strengthening liquidity management.
5) A stable exchange rate can support economic activity and maintain monetary stability (Apridar, 2020).

Therefore, it is important for the government and central bank to monitor and manage wisely the exchange rate and foreign exchange in order to maintain healthy and sustainable economic stability. Good economic stability will provide long-term benefits for economic growth and people's welfare (Ardhiansyah, 2022).

In maintaining economic stability in an Islamic perspective there are two things that we can discuss, namely in the view of fiscal policy and monetary policy. Economic stability will always be related to government policy within the scope of the country's economy, therefore we will discuss fiscal and monetary policy. Fiscal policy is strongly connected to the balance of the country's import and export activities. Fiscal policy will be said to be balanced if the fiscal has been able to prosper the wider community by using Islamic fiscal instruments, where Islamic fiscal will use zakat as a form of obtaining taxes from the community which of course must comply with Islamic law and principles (Sugianti, tt).

Stability in zakat has several backgrounds, namely: a) mixed expenditure ratio, which is the ratio between zakat expenditure and other expenditures. If the mixed expenditure ratio is stable, then it can be said that zakat expenditure has been running well and in accordance with the purpose of zakat; b) zakat expenditure model which includes zakat expenditure for social, economic, and religious purposes; c) the balance distribution of other recognition of zakat. If the distribution of the balance has been in accordance with other recognition of zakat, then it can be said that the expenditure of zakat has been running well and in accordance with the purpose of zakat; d) the balance of the results of zakat, if the results of zakat have been balanced and in accordance with the purpose of zakat, then it can be said that the expenditure of zakat has been running well and in accordance with the purpose of zakat.

Some of the features that give zakat an important role in the Islamic economic system are: a) the allocation of productive wealth among various alternative benefits, which can help in achieving economic stability by reducing social inequality and improving people's welfare; b) unproductive means of production can help in achieving economic stability by increasing productivity and economic growth; c) the allocation of income between expenditure and savings, which can help in achieving economic stability by increasing savings and investment; d) allocating savings among luxury benefits that eventually become useless, which can reduce the waste of resources and improve the efficiency of resource use (Madnasir, 2023).

While monetary policy will talk about the stability of the value of money. Because the stability of the value of money is a top priority in monetary policy management. Both conventional and Islamic monetary, the balance of the value of money will bring a good economic stability. Good stability of the value of money will be realized in the form of achieving the country's economic development goals, namely: fulfillment of the basic needs of society, equitable distribution of income and wealth, a good and comprehensive level of real economic growth (Sugiatni, tt).

CONCLUSION

The definition of currency exchange rate or exchange rate is the price of one unit of foreign currency in domestic currency or it can also be said that the price of domestic currency against foreign currency. In the exchange rate system, there are three systems, namely (1) *fixed exchange rate* or fixed exchange rate system; (2) *managed floating exchange rate* or controlled floating exchange rate system; and (3) *floating exchange rate or floating exchange rate* system. The exchange rate policy in Indonesia is regulated in Law Number 24 Year 1999 on Foreign Exchange Traffic and Exchange Rate System. In accordance with the Law, the exchange rate system in Indonesia is determined by the Government after considering recommendations submitted by Bank Indonesia.

Foreign exchange is a financial liability asset used in international transactions. Foreign exchange reserves or *international reserves and foreign currency liquidity (IRCL)* or *Official reserve assets are* defined as all foreign assets controlled by the monetary authority and can be used at any time, to finance balance of payments imbalances or in the context of monetary stability by intervening in the foreign exchange market and for other purposes.

In the history of the Indonesian economy, there are several policies regarding foreign exchange regulation that have been implemented in accordance with Law No. 24 of 1999 which can prevent negative impacts arising from the implementation of a free foreign exchange system without being followed by monitoring policies and the application of the precautionary principle in foreign exchange traffic. Foreign exchange reserves have a role in reducing exchange rate fluctuations, the implementation of intervention becomes very important to maintain exchange rate stability, the development of foreign exchange traffic and exchange rates need to be monitored and taken into consideration in the formulation of monetary policy, the coordinating ministry of the Indonesian economy has a policy in maintaining and strengthening the stability of the rupiah exchange rate, a very stable exchange rate can support economic activity and maintain monetary stability.

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