

## **FROM CURRENCY TO ECONOMIC CRISIS**

Yoopi Abimanyu

Center for Policy and Implementation Studies/CPIS

(Ikatan Sarjana Ekonomi Indonesia/Indonesian Economist Association/ISEI)

Since August 1997 the Indonesian currency (rupiah) has experienced a profound shock in the form of currency fluctuation. Until the first quarter of 1998, the rupiah has depreciated much further than other exchange rates in the region. This currency shock was unanticipated where the onset of this shocks was widely view as contagion from other Asia-Pacific countries as Indonesia's macroeconomic fundamental were considered sound. Another causes of the exchange rate movement was the political uncertainty proxied by certain political announcements. Using short-run empirical analysis, a regression analysis failed to detect the contagious effect of other currencies in the region. However, assuming other things constant, using dummy variable to represent some political announcement, the regression result did suggest that there were political announcement effect on the Indonesian exchange rate movements.

This currency crisis has led to deterioration in the whole economy, followed by negative growth, high inflation, and a huge deficit on the capital accounts.

Presently the economic condition has stabilized somewhat due to, among others, steps taken in fiscal, monetary, and the banking sectors, and the government effort to maintain a stable exchange rate.