

DO CONVENTIONAL OPEN MARKET OPERATIONS AND SHARIA OPEN MARKET OPERATIONS IMPACT THE STABILITY OF THE RUPIAH EXCHANGE RATE?

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ABSTRACT

Purpose: Monetary policy is one of the efforts made to control the economic situation so that it can run as desired. And the central bank is the authority that can regulate these policies. The conventional economic system has a different view of monetary policy than the Islamic one. The Islamic monetary system is a sub-system of the Islamic economic system with goals to achieve in Islamic monetary, including realizing justice and benefit. And both have instruments that can control a country's economy. Among them is the open market operation, one of the tools used to stabilize the economy by selling securities.

Methods: This research was conducted using cross-sectional analysis and panel data and estimating and forecasting time series data using reviews.

Conclusion: Conventional and sharia open market operations substantially impact exchange rate stability.

keywords: Open Market Operation, exchange rate

INTRODUCTION

The economy in Indonesia is full of uncertainty(Sakum & Ismamudi, 2022). Among them is the exchange rate which always experiences ups and downs(Ihwanudin & Febriani, 2022), sometimes the economic situation experiences good growth(Iromo, 2019)then it could also experience a decline which results in slowing economic growth (Cahya et al., 2018) therefore, this exchange rate greatly affects the economy and daily life(Zubaidah et al., 2021). Because when the rupiah becomes more valuable against foreign currencies(Iswardani et al., 2021)then export goods in Indonesia will become more expensive for foreign residents. One of the exchange rate risks is exchange rate volatility(Satriana et al., 2019), the greater the exchange rate means the more unstable and risky it will be, which will hamper the export and import sectors(Wiku & Ayuningtyas, 2021)Therefore, exchange rate instability has become a lot of attention, especially in

economic integration. Because trade integration is seen as inadequate to shape the current flow of economic globalization.(Irawan & Fachrezzy, 2021) Apart from trade integration, differences in the currencies used by each country also cause exchange rate volatility.(Reztrianti & Suparningsih, 2021) and the economy will experience instability both from the macro and micro side and that is where exchange rate volatility will have an impact on monetary policy. Therefore, one of the monetary policy tools emerged (Fitriani, 2018). Monetary control tools are monetary operation media tools.(Nasution & Batubara, 2023) used by the central bank to influence the operational targets set, one of the monetary policy tools is open market operations which are central bank operations in the financial market carried out by selling and buying securities. For example, an Indonesian Bank Certificate (SBI)(Jumiati, nd). Open market operations are one of the policies used by the government, including to regulate the current inflation. OMO is defined as the purchase or sale of securities by the central bank in both the primary and secondary markets with the aim of influencing money market liquidity conditions.(Andriani & Mohamad, 2022) Sharia open market operations do not apply interest rates as an incentive, this is what differentiates them from conventional open market operations, but instead use a profit sharing system to avoid usury. Apart from that, it's deep(Mulyadi & Suryanto, 2022) whereas in conventional open market operations are only suitable for conventional banks.(Rahmad Riho Zeen et al., 2022)

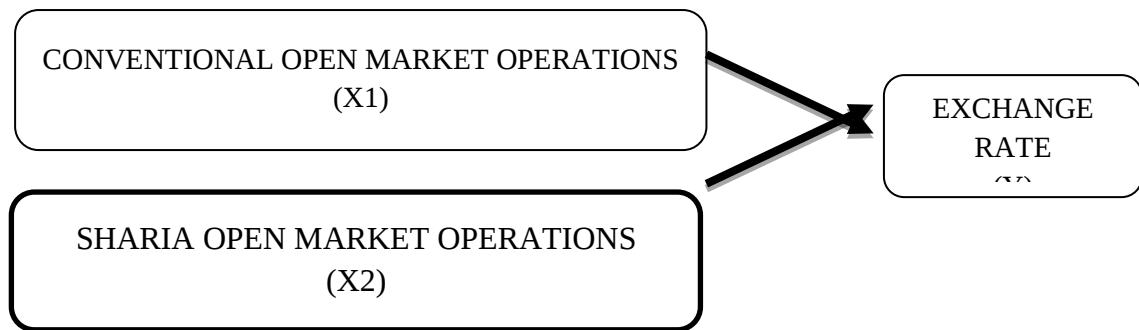
The conventional economic system has a different view of monetary policy from the Islamic economic system.(Nasution & Batubara, 2023) The Islamic monetary system is a sub-system of the Islamic economic system which has goals to be achieved in Islamic monetary terms(Mulyani, 2020) among them is to realize justice and benefit. Maqashid Syariah upholds justice (Iqamah al "Adl), namely realizing justice in all areas of human life and producing benefits(Mulyani, 2019), namely producing general benefit, not benefit aimed at certain parties(Novitasari, nd) Therefore, monetary policy is very synonymous with money, so the main task in understanding the contents of this article is to understand the concept of money.(Kurniawati, 2019) Our success in interpreting money in an Islamic way will bring a unanimous understanding of Islamic economic policy as well.(Parawansa, 2023) Remembering that the value of money is a reflection of price stability which has an impact on economic growth(Warkawani et al., 2020) and state development and other effects, it is important for us to first examine the concept of money in Islam (Ajuna, 2017). In general, this research aims to explain the influence of conventional open market operations and sharia open markets(Judge, 2019) on exchange rate stability.

THEORETICAL BASIS

Monetary policy is one of the efforts made to control macroeconomic conditions so that they can run as desired by regulating the amount of money circulating in the economy, the central bank as the authority that can implement these policies.(STAI An Nawawi Purworejo & Turmudi, 2019). There are several aspects that can be carried out by the central bank, including steps that influence interest rates and steps that influence the money supply, however, determining interest rate policy and the money supply cannot be done simultaneously because one change can affect other changes. other. Therefore, the central bank needs to supervise in deciding which variables to control, whether the interest rate or the money supply(Jannah, 2020). Monetary policy is also aimed at achieving economic stability, namely stable prices and balance of payments, as an effort to stabilize the economy. The Central Bank uses policy instruments that can be used, one of which is the open market operations (OPT) instrument.(Fitriyani et al., 2019). Open market operations are one of the monetary instruments that the government can use to stabilize the economy by selling or buying government securities (government security).(Latifah, 2015). The central bank can also purchase and sell securities in both the primary and secondary markets with the aim of influencing money market liquidity, such as government securities (treasury bills or T-Bills), central bank securities (central bank bills) and securities private (prime commercial papers)(Rahmad Riho Zeen et al., 2022). Apart from that, by using open market operations, the central bank can control the frequency of Opt and determine the desired auction amount/receipt so that Opt can be relied on to control the amount of money in circulation by adjusting liquidity in the banking system. The central bank can buy bonds if it wants to increase the money supply, and vice versa, if the central bank wants to reduce the amount of money supply in circulation then what it does is sell bonds.(Ajuna, 2017). The exchange rate is the exchange rate of foreign currency against another currency or it can be said to be the price of one unit of foreign currency against domestic currency or it can also be said to be the price of domestic currency against foreign currency.(Simorangkir, nd)The exchange rate is a very important economic indicator in a country. The exchange rate also plays a vital role in the level of trade, which is something that is most critical to the majority of free markets in the world. Meanwhile, every country will always want a stable exchange rate.(Reza Nurul Ichsan, 2019). Exchange rates can also be used to connect two countries that have two different currencies, so that two or more countries can carry out economic transactions. If the value of the rupiah weakens while the value of the dollar strengthens, investors will prefer to

invest in securities, this can reduce investors' interest in buying shares so that it will affect company returns.(Suriyani & Sudiarta, nd).

HYPOTHESIS



H1: Conventional open market operations have an effect on the exchange rate

H2: Sharia open market operations influence the exchange rate

H3: Conventional and sharia open market operations have an effect on the exchange rate

METHOD

This type of research is quantitative research. (Jannah, 2020) . This research uses the Vector Error Correction Model (VECM) to determine the relationship between conventional open market operations and sharia open market operations. The data used is monthly data from January 2018 to December 2022 which is secondary data from Bank Indonesia. The analysis carried out was using Eviews Software(Warkawani et al., 2020)¹². The test stages used in the research are Data Stationarity Test, Optimum Lag Selection, Stability Test, Granger Causality, Cointegration Test, and Vector Error Correction Model (VECM) Estimation Test.

RESULTS AND DISCUSSION

Stationary Test Results

This first step is to find out the results of the research whether each variable shows a level level or shows a level of difference. Proving that the level or level of difference is that if the Prob value is <0.05 then it is at the level level but if the prob value is >0.05 then it is at the difference level. The test results show that the difference level test is stationary.

Table 1. Stationarity Test Results

	t-Statistic	Prob.*		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.093146	0.2482	Augmented Dickey-Fuller test statistic	-1.294264	0.6267
Test critical values: 1% level	-3.550396		Test critical values: 1% level	-3.546099	
5% level	-2.913549		5% level	-2.911730	
10% level	-2.594521		10% level	-2.593551	

*MacKinnon (1996) one-sided p-values.

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	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-0.956288	0.7629
Test critical values: 1% level	-3.548208	
5% level	-2.912631	
10% level	-2.594027	

*MacKinnon (1996) one-sided p-values.

Optimum Lag Test Results

This Optimum Lag Test is a test to eliminate the autocorrelation problem in the VAR system, so the optimum lag length test is carried out. Determining the optimum lag value is the smallest AIC value, therefore based on the test results the optimum lag is in the third lag.

Table 2. Optimum Lag Test Results

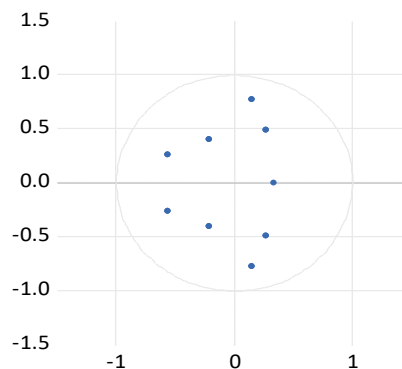
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1637.877	NA	4.97e+22	60.77321	60.88370*	60.81582
1	-1623.043	27.47044	4.00e+22	60.55713	60.99913	60.72759
2	-1609.063	24.33542*	3.34e+22*	60.37269*	61.14618	60.67099*
3	-1604.794	6.956965	4.02e+22	60.54791	61.65290	60.97406
4	-1596.375	12.78411	4.17e+22	60.56943	62.00592	61.12343
5	-1587.804	12.06233	4.35e+22	60.58534	62.35332	61.26718

VAR Stability Test Results

The VAR stability test is said to be stationary if the roots value is smaller than one, or is located inside the circle. Based on the results of the VAR stability test, it was declared stable because the roots were <1 in the range 0.792793 – 0.335873. And it can be concluded that the VAR model is stable so that impulse response and variance decomposition tests can be carried out.

Table 3. VAR Stability Test Results

Inverse Roots of AR Characteristic Polynomial



Granger Causality Test Results

The Granger Causality Test is said to be causal if the prob is less than <0.05 . Based on the results of causality testing, only the OPTK variable has an effect on OPTS.

Table 5. Cointegration Test Results

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.549432	67.63194	29.79707	0.0000
At most 1 *	0.223154	23.78342	15.49471	0.0023
At most 2 *	0.164657	9.895191	3.841465	0.0017

VECM TEST Results

Based on the results of Vector Error Correction Model (VECM) testing on long-term results, that if the calculated t value > t table then it has an effect and if the calculated t value < t table then it has no effect, the t Table value = 2.002465. it can be concluded that the OPTK variable influences the KURS and the OPTS variable influences the KURS.

Table 5. Long Term VECM Test Results

Cointegrating Eq:	CointEq1
D(KURS(-1))	1.000000
D(OPTK(-1))	0.002067 (0.00056) [3.69396]
D(OPTS(-1))	0.041966 (0.00877) [4.78462]
C	-72.77390

CLOSING

Based on the results of the research that has been carried out, it is concluded that the VECM estimation results have a significant influence on 2 variables, namely Conventional Open Market Operations have a significant influence on the stability of the Exchange Rate of 3.69396, and Sharia Open Market Operations also have a significant influence on the stability of the Exchange Rate. amounting to 4.784621.

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