

INTRODUCTION

Indonesia is one of the countries that play an active role in international trade activities. International trade is trade between countries in which there are exports and imports. International trade has an important role because a country cannot meet all domestic needs. With international trade, each country can exchange resources already owned by the state (Sonia & Setiawina, 2016).

The existence of international trade can increase a country's foreign exchange reserves. According to Uli (2016), foreign exchange reserves are used as a source of international trade financing, which is accounted for by Bank of Indonesia, which has been stipulated in the Law on Bank Indonesia No.23 of 1999, which has been amended to Law No.3 of 2004. Foreign reserves are assets that are owned or deposits in foreign currency for foreign sources of financing. Foreign exchange reserves can also be defined as the amount of foreign currency owned by the state. According to Gandhi (2006), foreign exchange reserves have two important functions: (1) To finance the balance of payments imbalances, usually to finance imports and pay foreign liabilities. (2) To maintain monetary stability / to maintain currency exchange rates.

Indonesia is one of the developing countries where the Indonesian state has carried out a lot of development in all fields to improve the community's welfare. One of the important sources of funding used by Indonesia to carry out national development is foreign exchange. According to Agustina et al. (2014), The availability of foreign exchange reserves in Indonesia is still low, so that international payments cannot be made, and it causes a decrease in the exchange rate due to a deficit in the balance of payments.

Foreign exchange reserves are influenced by various factors, including net exports and the exchange rate. If a country wants international transactions to run stably, its foreign exchange reserves must be maintained. Maintaining the exchange rate is the objective of foreign exchange management because if the foreign exchange reserves are reduced, speculators will speculate on the rupiah. Maintaining exchange rate stability is useful for meeting liquidity needs. This study uses the exchange rate against the US dollar because, so far, the US dollar is a constant or stable international currency in the world. The US dollar is also the strongest international currency; thus, many countries or companies make transactions using this currency (US Dollar) (Pallate & Akbar, 2014).

Based on this background, this study aims to analyze “The Effect of Net Exports and Exchange Rates on The Development of Indonesia’s Foreign Exchange Reserves in 1990-2020”.