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Research Article

Provincial Economic Growth in Indonesia: Investigating with Inflation, Exchange Rates and Foreign Direct Investment

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ABSTRACT

This study explores the determinants of Indonesia's economic growth factors through inflation, exchange rates and foreign direct investment based on a quantitative paradigm. This research uses all provinces in Indonesia as population except (Bengkulu, West Sulawesi, Maluku, Gorontalo, Southwest Papua, Central Papua, Mountainous Papua and South Papua) leaving only 30 provinces as data analysis units through purposive sampling. Data were analyzed using panel data regression analysis using Eviews-13. The results of the modeling selection determined that the selected model was a random effect model with a modeling contribution = 20.10%. The findings of this research provide evidence that higher inflation and foreign direct investment (FDI) have proven to have a real impact on economic growth, whereas a decrease in the exchange rate has proven unable to increase provincial economic growth in Indonesia.

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1. INTRODUCTION

A country is considered to be experiencing improvement when its economic growth increases in a number of sectors. Economic growth refers to the continuous evolution in the state of a country's economy over a certain period. If economic activity in that year has increased compared to the previous period, then it can be concluded that the economy is developing well, because basically economic activity is a process of using production factors to produce output, which is measured using changes in gross regional domestic product. (GRDP) in a region. Gross regional domestic product can be explained as the sum of the added value produced by all business entities in a region or as the total value of all final goods and services produced by all economic units in a region. An increase in economic growth in a particular region indicates an improvement in economic activity in that area. The level of regional economic growth can be observed through the GDP growth rate which is measured at fixed prices. With increasing economic growth, the production of goods and services also increases, which in turn creates jobs available in greater numbers adequate (Widiyarto & Arianti, 2022).

Currently, Indonesia has the potential to achieve progress and improve its prosperity if its economic growth continues to be positive from year to year. Because of this, many other countries are interested in Indonesia as a country that has bright economic potential in the future thanks to its abundant natural resources, but the Government is worried that an economic depression or recession will occur in Indonesia, as happened in 2019 to 2020 due to the covid-19, which has an impact on increasing unemployment rates, decreasing welfare levels and societal prosperity. This problem is a long-term problem that is influenced by various factors.

Therefore, economic growth in all regions is the main goal, because successful regional development contributes to overall economic growth, which is also a measure of Indonesia's economic success in the long term (Abdullah & Hasbiullah, 2023).

Data obtained from the Central Statistics Agency (BPS) of the Republic of Indonesia regarding the average value of economic growth as reflected through Gross Regional Domestic Product in all provinces in Indonesia for the period 2018 - 2022, there have been significant fluctuations in regional economic growth, for this reason it can be seen in picture below:

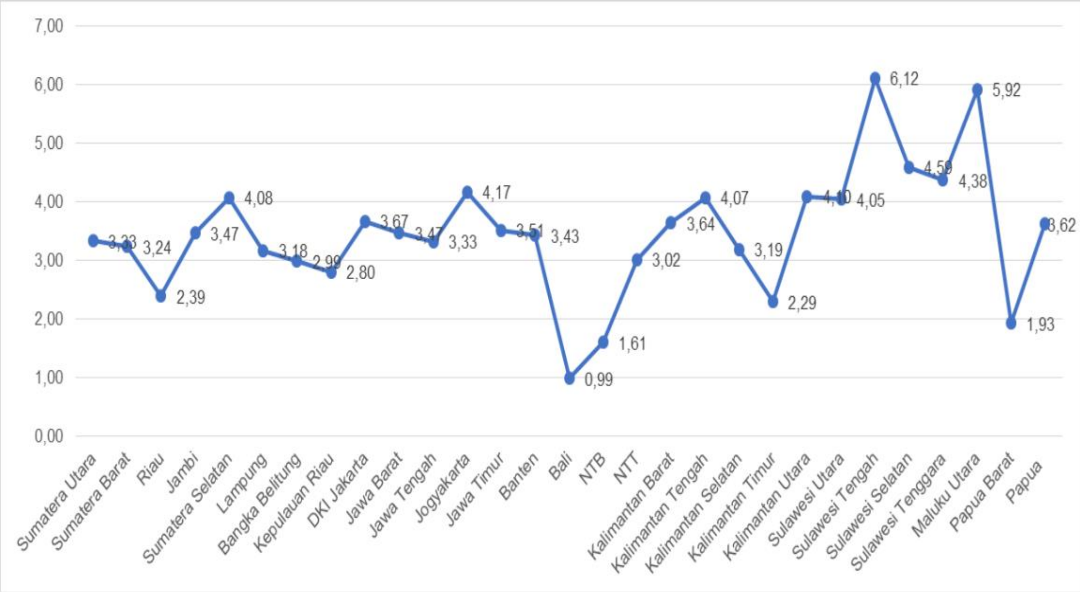

Figure 1. Provincial Economic Growth in Indonesia 2018 - 2022

Figure 1. Shows fluctuating changes in Indonesia's economic growth, which in 2018 - 2019 experienced a decline of -1.06%, then in 2019-2020 there was still a deficit = -5.86% and in 2020-2021 it slowly improved amounting to 5.68% and in 2021-2022 economic growth will only be 1.61%. This condition is the rationale for carrying out this study. The results of observations show that this condition is caused by several factors, including exchange rates, FDI, and inflation (Mankiw, 2006; Salim & Fadilla, 2021; Putra, 2022; Putra & Anis, 2022; Kartika & Pasaribu, 2023).

This statement explains that one of the factors that contributes to low levels of economic growth is inflation, which is one of the determinants of economic growth. It is considered important to strive for inflation to be at a level so that the government can avoid potential negative impacts on macroeconomic aspects that could disrupt economic stability. Inflation, as an economic phenomenon, has both good and bad effects in an economic context. A high and unstable inflation rate reflects a lack of economic stability which can lead to a continuous increase in prices of goods and services, the impact of which is a high level of poverty because the higher the inflation rate, people who were previously able to meet their daily needs will have difficulty meeting these needs due to price increases goods and services. As a result, the level of poverty also increases and has an impact on economic growth (Salim et al, 2021).

A similar statement was also made by Mankiw, (2006) explaining that inflation is a broad economic phenomenon, capable of triggering impacts that spread to various economic sectors and penetrate aspects of social welfare. In the economic realm, a high level of inflation has the potential to induce overall economic instability, reduce incentives to invest, hamper export competitiveness, and has the potential to cause an increase in unemployment rates, which in turn creates anxiety about the sustainability of economic growth. This is also in line with the results of research conducted by Simanungkalit, (2020) where based on his research there is a negative and significant influence between inflation on economic growth, high inflation can cause a weakening or decline in economic growth, but there are differences in findings, as in the study conducted by Kartika & Pasaribu (2023) where inflation actually has a positive and significant impact on economic growth.

Another factor besides inflation is the exchange rate. The exchange rate/exchange rate is one of the crucial factors in an open economy, because it has an impact on other factors such as price levels, interest rates, trade balance and foreign transactions. Within the framework of the Mundell-Fleming theory that has been put forward, we can observe an inverse relationship between currency exchange rates and economic growth. In this context, the higher the currency exchange rate, the smaller the net exports (the difference between the value of exports and imports), and the impact of this decline is a reduction in the amount of economic output, which in turn can have an impact on reducing economic growth (Putra, 2022). Similar results were also shown in a study conducted by Putra, & Anis, (2022) that a high exchange rate or depreciation of the rupiah resulted in a decline in economic growth so that this relationship had a negative and significant impact. The results of this study were refuted by other researchers (Aji et al., 2023) who in their study proved that the exchange rate had a positive and significant correlation with economic growth.

Another antecedent of economic growth is foreign investment, which is an important source of financing for developing regions and can make a significant contribution to development (Tajudin, 2023), Foreign investment is a type of capital flow that has stability compared to other capital flows, such as portfolio investment or foreign loans. One important factor carried out by the government is to look for new sources of financing for economic development. Investment or investment plays an important role in economic growth, because investment is one of the factors driving a country's economy (Murshed et al., 2022). Investment allows a country to encourage economic growth in accordance with the development needs of society. A high investment value can have a positive impact on a country's economy, while a low investment value can produce a lower positive impact on the economy. Increasing capital investment in a region is of great concern to the government because it can increase the level of investment and further accelerate regional economic development (Adi & Syahlina, 2020). This statement is confirmed in Tajudin, (2023), that if foreign investment increases, the amount of production and services will also increase, thereby encouraging economic growth. Another fact is also proven by different results, that FDI has no influence on economic growth (Tito Wardani & Muchtolifah, 2022). Referring to the fact that economic growth has decreased and there are differences in findings from studies conducted by previous researchers, this research aims to test and analyze the causality of inflation variables as well as exchange rates and foreign direct investment on economic growth in Indonesia.

1.1 Economic growth

Economic growth is an important concept in economics that refers to a continuous increase in the amount of goods and services produced and provided in an economy over a certain period of time. This growth is generally measured through economic indicators such as gross domestic product (GDP) or gross regional domestic product (GRDP), which reflect the accumulation of the total value of production within the geographical boundaries of a particular country or region. Economic growth marks the economy's ability to increase the amount of goods and services produced sustainably over time. In many cases, this phenomenon is often considered an indicator of the economic health of a particular country or region. This is due to the fact that positive economic growth has the potential to bring a number of diverse benefits, such as increasing per capita income, reducing unemployment rates, increasing living standards, and investing in infrastructure and human resources.

Wahyudi et al., (2023) emphasized that economic growth is the process of increasing or developing the effectiveness of a country in the economy both regionally and nationally. Through national scale gross domestic product (GDP) data which is often used, economic growth can be observed through an increase in output or aggregate amount which includes all results produced in economic activities, including goods and services. Gross Regional Domestic Product (GRDP) is interpreted as the total added value produced by all business entities in a region or as the accumulated value of all final goods and services produced by all economic units in a particular region. Nisa et al., (2023) explain that economic growth refers to the development of economic activity which results in an increase in the number of goods and services produced in a society, which in turn leads to an increase in society's welfare. The high rate of GDP growth in the context of fixed prices indicates the increasingly better quality of regional economic activity. The economic growth of this region is reflected in the GRDP growth rate at constant prices, which illustrates that with significant economic growth, production of both goods and services has also increased which can absorb a large number of workers (Widiyarto & Arianti, 2022). In this research, GRDP is used as an indicator to measure economic growth in provinces in Indonesia.

1.2 Inflation

Inflation is a general and sustained increase in the prices of goods and services in an economy over a certain period of time. This results in a reduced purchasing power of the currency, so that with the same amount of money, a person can buy fewer goods and services than before. Inflation is usually measured as a percentage per year and can be caused by a variety of factors, including increased demand, decreased supply, or other economic and monetary factors. Inflation is a state of the country's economy where there is a general increase in prices over a long period of time continuously (Slamet & Hidayah, 2022). It is not declared inflation if the price of just one or two goods increases, unless the increase is widespread or causes the prices of other goods to increase to a large extent. Inflation is an economic phenomenon that includes growth in the prices of goods and services in a particular economic context (Chindengwike, 2023; Nisa et al., 2023).

The situation of inflation which is at a high and volatile level reflects conditions of instability in the economy which have an impact on increasing the prices of goods and services as a whole, which is ongoing. The impact is a high level of poverty due to higher levels of inflation, people who were previously able to meet their daily needs have difficulty meeting these needs due to the increase in prices of goods and services (Azam & Khan, 2022). As a result, the level of poverty also increases and has an impact on economic growth. High inflation can result in lower real income and living standards of society and ultimately make everyone, especially the poor, increasingly less capable. Empirical experience has revealed that volatile inflation rates can present significant challenges for individuals and businesses in making decisions regarding their levels of consumption, investment, and production.

The impact, at a broader level, is a potential reduction in economic growth. If the price of goods rises, people's purchasing power decreases so that not many of the goods offered are purchased. If not many goods are purchased then the amount of production decreases, this can reduce the workforce which will result in unemployment so that economic growth decreases (Puspaningtyas et al., 2021). Inflation is seen as an important parameter in analyzing economic health, with ongoing efforts being made to maintain the inflation growth rate at a low and stable level, so as to avoid the emergence of macroeconomic symptoms that have the potential to damage stability in the economic framework. Inflation, as a complex economic phenomenon, has impacts that can be positive or negative on the economy (Salim & Fadilla, 2021). Inflation measurement in this research uses the CPI or Consumer Price Index (Simanungkalit, 2020). A study conducted by Simanungkalit, (2020).) provides evidence that there is a negative and significant influence between inflation on economic growth, high inflation can cause a weakening or decline in economic growth, but there are differences in the results of the findings carried out (Kartika & Pasaribu, 2023) where inflation actually produces a positive and significant effect on economic growth.

H_1: Inflation has a significant positive effect on economic growth

1.3 Exchange rate

International economic perspective, exchange rates indicate how much one country's currency can be exchanged for another country's currency. This exchange rate can be flexible, where its movements depend on the foreign exchange market, or fixed, where a country's monetary authority sets its exchange rate against other currencies and tries to maintain it (Olamide et al., 2022). Exchange rate is a ratio or comparison that describes the relationship between the value of one currency unit and another currency, which can function as a medium of exchange in economic transactions. Slamet & Hidayah, (2022) explain that the exchange rate or exchange rate is a comparison of value/price between two countries which is determined from the balance of demand and supply in the market or is the currency of another country, which is measured in terms of the value of the domestic currency, which is a representation of the relative comparison between units. Monetary from other countries with a national currency, which acts as a measure of value in the context of international trade and global finance. Exchange rate refers to the relative value or price of one currency in relation to another currency. The exchange rate, in this context, indicates the number of units of a particular currency required to obtain or purchase one unit or other units of currency, and this serves as a comparison used in the process of currency exchange in international economic transactions and financial activities throughout the world (Wiriani & Mukarramah, 2020).

Mundell-Fleming theory explains the relationship between currency exchange rates and economic growth, emphasizing the inverse relationship between increases in currency exchange rates and economic performance. In other words, the higher the currency exchange rate, the lower the level of net exports (the difference between exports and imports), which in turn can result in a general decline in economic production and the impact is a decline in gross domestic growth, which is often used as an indicator of economic performance (Putra, 2022). When the domestic currency exchange rate weakens, its negative impact on economic growth can be realized. Currency depreciation can trigger increases in import prices, hurting consumers with lower purchasing power and companies with increased production costs. The resulting inflation can disrupt economic stability, while foreign currency debt becomes more difficult to repay, triggering the risk of a financial crisis.

Foreign investments may also decrease as the value of their investments in domestic currency decreases. As a result, the negative impact of a falling currency rate can hamper economic growth, presenting challenges that need to be addressed by economic and monetary policy. In line with this statement, the research results by (Putra & Anis, 2022), also show that a high exchange rate or depreciation of the rupiah results in a decline in economic growth so that this relationship has a negative and significant impact. This finding has been refuted by the study of Aji et al., (2023) proves that the exchange rate has a positive and then significant correlation with economic growth. The measurement for the exchange rate variable in this research uses the middle exchange rate of the USD against the Rupiah (Putra & Anis, 2022).

H_2: The exchange rate has a significant negative effect on economic growth.

1.4 Foreign direct investment (FDI)

Foreign investment is a flow of capital originating from abroad that flows to the private sector either through direct investment or indirect investment in the form of a portfolio (Wang et al., 2022; Ariska et al., 2023). FDI is a way that can be pursued by the government and society to increase the growth of gross regional domestic product for the long term which can raise people's living standards (Majumder & Rahman, 2020; Adi & Syahlina, 2020; Wei et al., 2022). Tajudin, (2023) prove that if foreign investment increases, the amount of production and services will also increase, thereby encouraging economic growth. The results of this research refute the findings of other researchers that PMA has no influence on gross regional domestic product (Tito Wardani & Muchtolifah, 2022).

H_3: Foreign direct investment has a significant positive effect on economic growth

2. METHODOLOGY

This research is classified as explanatory research (quantitative,) which aims to explain or describe causal relationships involving various variables or phenomena. The population in the research is all 38 provinces in Indonesia, then the sampling technique was used purposive sampling , where samples are selected based on certain considerations and are appropriate or meet the criteria for the data to be analyzed. Based on the results of determining the sample in this research, a sample of 30 provinces was obtained which met the requirements, resulting in 150 data analysis units = 30 (provinces) X 5 (observation series). This research uses Panel Data Regression, which involves combining data from cross-sectional as well as time series by utilizing Eviews-13.

3. RESULTS

This research uses all provinces in Indonesia as population except (Bengkulu, West Sulawesi, Maluku, Gorontalo, Southwest Papua, Central Papua, Mountainous Papua and South Papua) leaving only 30 provinces as data analysis units, for this reason it can be explained through data descriptions. Following the table:

Table 1. Data description (N=150)

Measures	EG	INFLATION	EX.RATE	FDI
Mean	3.856267	3.083702	4.160878	12.81147
Median	4.695000	2.582500	4.154398	12.86857
Maximum	22.94000	7.730000	4.196765	14.07101
Minimum	-15.74000	-0.025000	4.143046	11.13614
Std. Dev.	4.438249	1.697443	0.018929	0.645366
Skewness	0.194616	0.901287	1.153917	-0.272922
Kurtosis	8.552814	2.793804	2.807121	2.412625
Jarque-Bera	193.6578	20.57369	33.52061	4.018469

Table 1. Shows that the mean value for inflation = 3.85 < 4.43 (std.dev), exchange rate = 4.16 > 0.01 (std.dev), and FDI = 12.81 < 0.64 (std .dev). The description of the data shows that the tendency of the mean value is > compared to the standard deviation. These results show that the three independent constructs (Inflation, Exchange Rates and FDI) tend to influence the dependent variable, so that the data is declared conditional for analysis to the next stage, namely the model selection stage.

Table 2. Panel data regression analysis

Variable	CEM		FEM		REM	
	t-Statistic	Prob.	t-Statistic	Prob.	t-Statistic	Prob.
INFLATION	1.145.217	0.2540	3.355.696	0.0011	3.776.292	0.0002
EX.RATE	3.761.130	0.0002	-1.157.071	0.2496	-1.207.589	0.2292
FDI	-1.261.730	0.2091	1.976.303	0.0505	2.335.308	0.0209

Table 2. shows that the CEM model produces t-stat values. = 1,145 (INFL), 3,761 (Exchange Rate) and FDI = -1,261, while in the FEM Model the t-stat values are 3,355 (INFL), -1,157 (Exchange Rate) and 1,976 (FDI), respectively. Finally, the REM Model shows that the t-stat = 3.776 (INFL) and -1.207 (Exchange Rate) and 2.335 (FDI). Based on these three (3) models, a modeling selection is made.

Table 3. Modeling selection

Effects Test		Cross-section F/ Random	Cross-section Chi-square
Chow	Statistic	1.728	53.478
	d.f.	(29,117)	29
	Prob.	0.022	0.003
Hausman	Statistic	4.764	
	d.f.	3	
	Prob.	0.189	

LM test	Breusch-Pagan	113.970	Both 0,000

The modeling selection table shows that based on Chow test found on cross section chi square that shows the result probability = 0.003 < 0.05. This means that the model selected using the Chow test is the FEM model, then the Hausman-test is carried out with probability 0.189 > 0.05 means that the selected model is the REM model, lastly lagrange multipliers tests for random effects were carried out on the breusch-pagan criterion = 113,970 with p-value = 0.000 < 0.05 so that based on these results, the model selection determined random effects model as the selected model.

Table 4. Normality (Long-run test)

	Statistic	Prob.
Skewness	0,511	0,304
Skewness 3/5	0,519	0,302
Kurtosis	1,891	0,293
Normality	3,543	0,170

The results of the long-run test above can be seen from the normality showing a probability of 0.170 > 0.05, so it can be said that the data in this study are normally distributed, so that testing can be carried out at the next stage.

Table 5. Breusch-Godfrey

Autokorelasi			
Obs*R-squared	2.484	Prob. Chi-Square(2)	0.288

Table 5. Autocorrelation test results with the Breusch-Godfrey model get the results of the Obs*R-squared value 2,484 and probability Chi-Square (2) 0.288 > 0.05 so it is stated that there is no autocorrelation disturbance in the data

Table 6. Multicollinearity

INFLATION	1.000000	0.840467	0.112219
EX.RATE	0.840467	1.000000	0.144296
FDI	0.112219	0.144296	1.000000

The results of the multicollinearity test show that the overall value of the observed variables has no correlation value between variables because it is <0.90, so it is concluded that there is no multicollinearity disturbance.

Table 7. Heteroscedasticity test

F-statistic	0,555	Prob. F(2,139)	0,734
Obs*R-squared	2,839	Prob. Chi-Square(2)	0,724

Heteroskedasticity testing with ARCH models shows if the value results Obs*R-squared 2,838 and Prob. Chi-Square (2) 0.723 > 0.05, thus there is no deviation from the Heteroskedasticity assumption.

Table 8. Random Effects Model

Variable (REM)	t-Statistic	Prob.	R-squared	Adjusted R-squared
INFLATION	3,376	0,0002	0.201024	0.184607
Kurs	-1,207	0,2292		
FDI	2,335	0,0209		
C	1,074	0,2844		

The Random Effects Model shows that if inflation produces t-stat.= 3.376 > 1.96, then the exchange rate with t-stat. = -1.207 < 1.96 and FDI produces t-stat. = 2.335 > 1.96 with an R-squared contribution = 0.201. These results explain that the higher the inflation, the higher the economic growth (supporting H_1), different results on the exchange rate (exchange rate) that the lower the exchange rate, the condition cannot increase economic growth (partially supported H_2). In contrast to foreign direct investment, the higher it is FDI the higher the economic growth (supporting H_3).

3.1 Inflation on economic growth

The effect of inflation on economic growth shows t-statistic value = 3.376 with p-value = 0.0002 < 0.05. These results explain that high inflation results in increased economic growth so that H_1 is declared accepted. The argument underlying this statement is that in practice, in almost all provinces, it is found that inflation is <10%, so that inflation can be controlled through government policies and programs so that it has a positive and significant impact on increasing economic growth. This research confirms the study conducted by Makmur et al., (2023) that controlled inflation can function as a driver of economic growth. Inflation can provide incentives to entrepreneurs to increase production, they are motivated to expand their operations because it is believed that they can achieve greater profits when prices rise. Increasing production also has a positive impact by creating new jobs. This condition is inversely related, in that inflation can become a problem if the level exceeds ten percent. This statement is confirmed in this study that inflation can have a positive and significant effect on economic growth.

The findings of this research are consistent with a study conducted by Kartika & Pasaribu, (2023) that inflation actually has a significant positive effect on economic growth. This statement is also supported by the findings of Sari et al., (2021) that inflation with mild characteristics, known as creeping inflation, was identified with a relatively low inflation rate, <10% per year. This inflation explains that price increases occur slowly, with a small percentage increase, and last over a relatively long period of time. Other studies confirm that an increase in prices of goods and services > 10% has a surprising impact and has a negative effect. The results of this study reject the findings of Dewi et al., (2022) that inflation has a negative impact on economic growth. Simanungkalit, (2020) that high inflation can cause a weakening or decline in economic growth.

3.2 Exchange rates on economic growth

The effect of the exchange rate on economic growth has a negative impact, the test results provide evidence if t-stat. = -1.207 < 1.96 with p-value = 0.2292 > 0.05. These results explain that the exchange rate is at a low level so that it cannot encourage regional economic growth. The reason for the negative and insignificant influence of the exchange rate is that on average the USD appreciates so that the Rupiah depreciates or weakens, which then results in a decline in economic growth. This can also be seen in the data analyzed that the USD exchange rate/exchange rate against the Rupiah in the last three years has continued to increase resulting in a weakening of the Rupiah currency where in 2019 = Rp.14,105, then experienced an increase in 2020 = Rp.14,269, then for 2022 it will reach IDR 15,731. This condition reflects the negative impact of the weakening of the Rupiah currency, triggering a decline in economic growth. Currency depreciation can trigger increases in import prices, hurting consumers with lower purchasing power and companies with increased production costs.

The resulting inflation can disrupt economic stability, while foreign currency debt becomes more difficult to repay, triggering the risk of a financial crisis. The results of this research confirm part of the results by Putra & Anis, (2022) study that a high exchange rate (depreciation of the rupiah) has an impact on reducing economic growth. The findings of this research are different from the study by Aji et al., (2023) that currency exchange rates have a significant positive relationship with economic growth.

3.3 Foreign direct investment on economic growth

The effect of foreign direct investment on economic growth can be proven by the t-statistic value = 2.335 > 1.96 with p-value = 0.0209 that FDI has been proven to have a positive effect on increasing economic growth. This happens because foreign investment is one of the factors for increasing gross regional domestic product in a country or region, foreign investment can increase production capacity, introduce new technology and knowledge, create jobs, strengthen exports, and stimulate investment in supply chains and distribution. In addition, FDI can help in economic diversification, infrastructure development, and ultimately, increase regional economic growth (Majumder & Rahman, 2020). These conditions prove that foreign investment plays an important role in encouraging economic growth in a region and has a significant positive impact on economic growth. The data shows that the high contribution of FDI is also accompanied by an increase in the value of economic growth, that the higher the value of foreign investment, the value of gross regional domestic product also increases in a positive direction. This is also similar by Tajudin, (2023) stated that if foreign investment increases, it will also increase the amount of production and services so that it will encourage economic growth. This research firmly refutes the findings by Tito Wardani & Muchtolifah, (2022) that FDI cannot have an effect on economic growth.

4. DISCUSSION

This research concludes high inflation results in increased economic growth. In almost all provinces, it was found that inflation was <10% so that inflation could be controlled through government policies and programs so that it had a positive and significant impact on increasing economic growth. Controlled inflation can encourage economic growth because it provides incentives to capital owners to increase production, so that they are motivated to expand operations and increase production capacity which causes the emergence of new jobs. The exchange rate is at a low level so it cannot encourage regional economic growth. There was an appreciation in the USD so that the Rupiah depreciated which then resulted in a decline in economic growth

5. CONCLUSION

This can also be seen in the data analyzed that the exchange rate of the USD against the Rupiah in the last three years has continued to increase, resulting in a weakening of the Rupiah currency, triggering a decline in economic growth. FDI has been proven to have a positive effect on increasing economic growth, that foreign investment is one of the factors to increase economic growth. Foreign investment can increase production capacity, introduce new technology and knowledge, create jobs, strengthen exports, and stimulate investment in supply and distribution chains. In addition, FDI can help in economic diversification, infrastructure development, and ultimately, increase regional economic growth.

6. RECOMMENDATION

This research recommends that the government should pay attention to monetary policy. The government can work together with the central bank to regulate monetary policy. Increasing interest rates is one of the common efforts used to control inflation. Higher interest rates can reduce consumer spending and investment, which in turn can reduce aggregate demand and control inflation. Pay attention to fiscal policy, such as reducing government spending or raising taxes, to reduce aggregate demand in the economy. This can help reduce inflationary pressures. Creating appreciation in the rupiah can be done with a currency intervention policy, the government can use foreign exchange reserves to intervene in the currency market, namely buying domestic currency when its value weakens. This can help prevent the weakening of the domestic currency and support the strengthening of the exchange rate.

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