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Yuan's Depresiation Strategy and Its Impact on the Global Economy

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Abstract
Global financial market movements during Q3-18 were still influenced by sentiment on the strengthening US economy and escalating trade tensions that created uncertainty on global financial markets. The Central Bank of China (People's Bank of China / PBoC) again depreciated the yuan exchange rate against the United States (US) dollar. This means that throughout the week the PBoC has continued to weaken the yuan exchange rate. Slowly but surely, the People's Republic of China currency, the renminbi, began to play an important role in international trade. In Indonesia, currently around 10 percent of international trade transactions use the currency of the country led by Xi Jinping. The purpose of this study is to assess the direct impact of yuan depreciation on the global economy, as well as what strategies should be taken to face these challenges, using quantitative descriptive methods. The results illustrate that the value of the rupiah exchange rate against the yuan has a negative effect on global economic growth. However, considering the slope value is so small, it can be assumed that the negative impact is very small on the global economy.
***Key Word**: Yuan depreciation, global economy*

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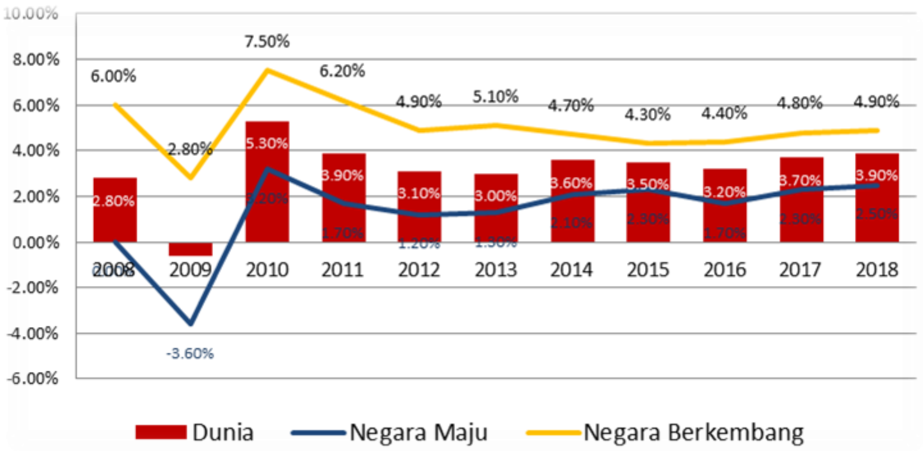
I. Introduction

During 2018, the global economy presented many challenges stemming from changes in the policy direction of major countries, such as the normalization of monetary policy in the United States (US). This policy, coupled with a widening US deficit, triggered turmoil in the financial sector in developing countries in line with the withdrawal of capital flows and the strengthening of the US dollar. Global dynamics are also marked by sharp fluctuations in oil prices, which are influenced by supply factors as well as geopolitical tensions. Looking ahead, the outlook for global economic growth and trade is expected to slow down, overshadowed by the decline in the productivity of developed countries and the issue of the trade war between the US and China. Meanwhile, in the developing countries group, the slowdown in China's growth is one of the sources of pressure that needs to be watched closely.

In general, the economic performance of the developing countries is slowing down, although several major countries are improving. China is growing steadily at a fairly high level. The economies of Brazil and Russia have continued to recover after successfully emerging from recession. Acceleration in these two countries was helped by rising prices for oil and other commodities. India's growth accelerated as the negative impact of demonetization policies and the adoption of a new tax system faded. On the other hand, several countries experienced weak performance, such as Turkey, Poland, Malaysia, Thailand and the Philippines.

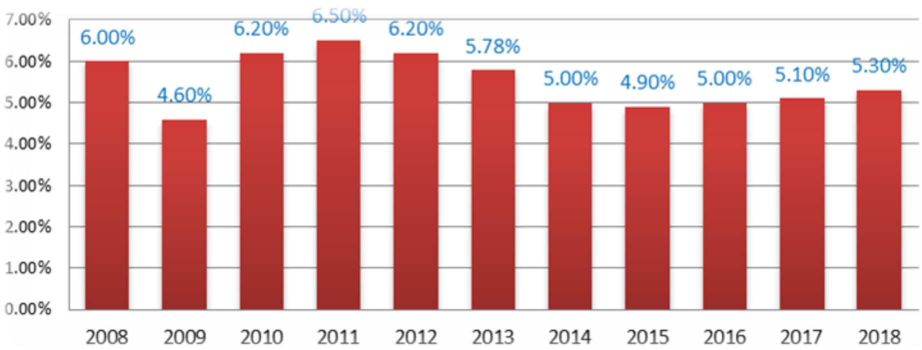
Picture 1: World Economic Growth



Source: Central Bureau of Statistics

Global financial market movements during Q3-18 were still influenced by sentiment on the strengthening US economy and escalating trade tensions that created uncertainty on global financial markets. The strengthening of the US economy which the Federal Reserve (the Fed) responded to by normalizing monetary policy has prompted a shift in investment in financial markets towards assets in developed countries, especially the US. The Fed's decision led to stock price corrections and exchange rate depreciation in both developed and emerging countries. Geopolitical factors and the economic downturn contributed to turmoil on financial markets, even triggering a sharp depreciation in the exchange rates of Argentina and Turkey. On the stock market, concerns over the risk of trade conflict and negative sentiment from a more aggressive FFR hike have resulted in a decline in share prices - which previously tended to be calm and relatively insensitive to developments in global issues. Corporate share prices are also under pressure on concerns about falling corporate profits. Apart from affecting stock prices, the FFR movement speculation also has an impact on the weakening of the government bond market. On the commodity market, prices for most products have strengthened in line with the improvement in the world economy. The increase in oil prices was influenced by commitments for better production cuts by OPEC and non-OPEC members, while the increase in metal prices was triggered by China's environmentally friendly policies and US inward-looking policies. Meanwhile, the strengthening of agricultural and plantation product prices was more influenced by weather factors.

Picture 2: Indonesian Economic Growth



Meanwhile, Indonesia's economic fundamentals in 2018 remained solid despite global pressures. This can be seen from the economic growth which is at the level of 5.17 percent (yoy). Growth continued to pick up despite the 175 bps hike in the 7DRR benchmark interest rate by BI to maintain stability. Controlled inflation has supported stable consumption, while the contribution of investment to growth has also continued to increase. On the other hand, the excellent realization of state spending has contributed positively to the domestic economy and stimulated growth in Government consumption. Healthy economic conditions can also be seen from the indicators of banking that are still maintained thanks to the support of strong capital and stable asset growth which has resulted in a positive intermediation performance marked by growth in credit distribution that reached double digits.

Apart from being sourced from Indonesia's large economic potential, Indonesia's economic resilience is also the fruit of continuous economic reform and strengthening of the policy mix. In minimizing the impact of increasing global uncertainty in 2018, the Government and related authorities strengthen effective coordination and policy mix to protect economic stability. In addition, structural reforms aimed at maintaining purchasing power and increasing investment and competitiveness continue to be priorities. In recent years, various policy breakthroughs such as infrastructure acceleration, simplification of business licenses, improved logistics, and support for the digital economy have been carried out and have created a situation conducive to domestic demand growth. Going forward, commitment to reform will continue to be maintained, including the development of the quality of human resources as one of Indonesia's biggest assets. The APBN continues to show improvement in realization and even records very good performance in 2018, also a positive result of consistent and comprehensive fiscal reforms. State revenue has been able to exceed the target and the realization of state spending is almost one hundred percent showing the optimal number of policy measures on the fiscal side, such as tax reform, improving PNBP governance, accelerating procurement of goods and services, and improving the distribution of social assistance. The APBN deficit was able to be reduced to 1.76 percent of GDP and the primary balance deficit was also getting smaller and only amounting to Rp1.8 trillion. This reflects an expansionary but controlled APBN and does not pose additional risks to an economy that is still facing global turmoil.

The Central Bank of China (People's Bank of China / PBoC) again depreciated the yuan exchange rate against the United States (US) dollar. This means that throughout the week the PBoC has continued to weaken the yuan exchange rate. Early last week, market participants were taken aback after the Central Bank of China (PBoC) depreciated the yuan to its weakest level since December 2008, and has continued to this day. Today's mean yuan was set at 7.0136 / US $, a weaker 7.0039 / US $.

Apart from the US dollar, the yuan has also weakened against the rupiah. At 17:55 WIB, the yuan was trading in the range of Rp 2,009.38, or fell 0.33% on the spot market, according to Refinitiv data. This level was the weakest since August 25, 2017. The weakening of the riyal even occurred when the rupiah was receiving negative sentiment. Indonesia's current account balance in the second quarter of 2019 posted a deficit of US $ 8.4 billion or 3.04% of Gross Domestic Product (GDP).

The current account deficit (CAD) is much deeper than the first quarter of 2019 which was only US $ 7 billion (2.6% of GDP). It is even deeper than the CAD in the second quarter of 2018 which amounted to US $ 7.9 billion (3.01% of GDP). The weakening of the yuan worries the domestic business world, because if the currency, also known as the renminbi, continues to weaken, there are concerns that imports from China will become heavier. Deputy Chairman of the Chamber of Commerce and Industry (Kadin) for Trade, Benny Soetrisno, said China's exports to Indonesia were also predicted to increase with a weak yuan. This condition is certainly a concern for the business world.

Based on data from the Central Statistics Agency (BPS) in the first semester of 2019, non-oil and gas imports from China were recorded at US $ 20.63 billion with a contribution of 28.91% Meanwhile from the export side, Indonesian products will become more expensive for China, so that exports have the potential to decline.

Slowly but surely, the People's Republic of China currency, the renminbi, began to play an important role in international trade. In Indonesia, currently around 10 percent of international trade transactions use the currency of the country led by Xi Jinping. Dino Patti Djalal, founder of the Foreign Policy Community of Indonesia (FPCI) even estimates that the use of renminbi in international trade transactions involving Indonesia and China will increase in the future because China is Indonesia's largest trading partner. The total volume of trade between Indonesia and China is even twice that of the total trade between Indonesia and the US. The trade between Indonesia and China has touched US $ 72 billion. In the next 2-3 years, trade between Indonesia and China is predicted to reach US $ 109 billion.

Table 1 : Rupiah Exchange Rate And Global Economic Growth

Tahun	Kurs Rupiah terhadap Yuan	Pertumbuhan Ekonomi Global
2009	1,376.65	-0.60%
2010	1,357.61	5.30%
2011	1,439.16	3.90%
2012	1,537.46	3.10%
2013	1,999.22	3.00%
2014	2,033.01	3.60%
2015	2,124.40	3.50%
2016	1,936.86	3.20%
2017	2,073.40	3.80%
2018	2,109.95	3.90%
2019	2,034.50	3.90%

Source: www.bi.go.id ; BPS

This slowdown in the PRC's economic growth will put pressure on their currency. Union Bank of Switzerland (UBS) predicts that the PRC exchange rate will not be below 6.8 yuan per US dollar by the end of 2016. Meanwhile, Bank of America Corp and Goldman Sachs estimate that the PRC exchange rate will be at 7 Yuan per dollar America in the same year (Bloomberg and CNBC, 2016).

The renminbi's influence is getting bigger as the currency used in international trade. This study aims to determine the impact of the yuan depreciation on the global economy.

This research refers to the previous impact of the devaluation of the yuan, as follows: Ramada and Nasrudin (2018), Hooy, Law, & Chan (2015), Chaitanya (2016), Soleymani, Chua, & Fattah (2016), DBS Group Research (2015)), Shik (2016). Some of these studies made some differences. Therefore, this study wants to examine not only the direct impact, but also the indirect impact on the global economy, as well as what strategies should be taken to face these challenges.

II. Material And Methods

An economic condition is an economic condition that occurs in a country. Economic growth is the process of changing the economic conditions of a country on an ongoing basis towards a better state during a certain period. The existence of economic growth is an indication of the success of economic development in people's lives. The higher the level of economic growth, the faster the process of increasing regional output so that the prospects for regional development are getting better.

Macroeconomics is the first step in carrying out a company's fundamental analysis. Macroeconomics is a comprehensive economic study that affects a business. In analyzing macroeconomics, there are several variables that will influence and determine company performance.

The definition of macroeconomics according to Wahyudi, et.al (2017) is as follows:

"Macroeconomic factors are the macro fundamental factors with the most attention of investors in the capital market. The changes in macroeconomic factors have a tendency to affect the capital market so that rational investor would first see he estimate future rend of macroeconomic factors before making investment decisions. "

Based on the above explanation, macroeconomics is a fundamental factor with the greatest concern of investors in the capital market. Changes in macroeconomic factors have a tendency to influence the capital market so that investors will think rationally related to macroeconomic factors before making decisions in predicting future trends.

Issuance of SUN Renminbi The potential for increased use of the renminbi in international trade transactions between Indonesia and China opens opportunities for Indonesia to issue renminbi denominated state debt securities. Of course, currently Indonesia through the Directorate General of Financing and Risk Management (DJPPR) of the Ministry of Finance (Kemenkeu) has used three exchange rates in issuing foreign currency denominated state debt, namely the US dollar, Euro and Japanese Yen. Director of Sovereign Debt Instruments of the Ministry of Finance, Loto Srinaita Ginting, admitted that her party is currently reviewing the possibility of issuing renminbi denominated Government Securities (SBN) as one of the exposures for government debt securities denominated in foreign currency (forex).

The instrument, which is commonly known as Panda Bonds, will add to the foreign currency SBN financing, which has only been in the form of US dollars, euros and Japanese yen. The studies conducted, according to Loto, included the rules of the game and the issuance process of Panda Bonds. In addition, his party will first confirm investor demand. Therefore, Loto emphasized, the government will not necessarily issue Panda Bonds in the near term. "There is indeed an opportunity for us to issue Panda Bonds as an alternative source of financing and can study further. The consideration is whether the currency is competitive or not, and whether its availability and demand in the market is consistent or not," explained Loto to a number of media at Soehana Hall, Energy. Building, Jakarta. Apart from the opportunity and the process of issuing Panda Bonds, another consideration that the government is thinking about is the suitability of the government's debt portfolio target. If the government puts more emphasis on the long-term tenured SBN profile, Panda Bonds cannot be an option. This is because Panda Bonds' tenor is only around three to five years or in the medium term. "If the future direction of market capacity is sustained or always exists, and the size can be bigger, that could also be our consideration," said Loto. For information, Panda Bonds are debt instruments introduced by China since 2005. It has been noted that there are several countries that use Panda Bonds as a source of budget financing, such as the Philippines and Poland. This year, the Indonesian government requires financing of IDR 825.7 trillion to cover the deficit in the State Budget (APBN) which is targeted at 1.84 percent of Gross Domestic Product (GDP). The plan is that 14 percent to 17 percent of them will be supported by foreign currency SBN. Data from the Ministry of Finance's DJPPR as of July 17, 2019, stated that the withdrawal of foreign currency SBN had reached IDR 89.41 trillion or 22 percent of the total government gross debt withdrawal of IDR 408.87 trillion. Foreign currency consists of US dollar denominations of Rp.43.4 trillion, euros amounting to Rp.22.82 trillion, and yen amounting to Rp.23.19 trillion.

The dominance of the Renminbi? The Renminbi is one of the 10 most traded currencies in the world. The results of a three-year survey conducted by the Bank for International Settlements (BIS) noted that the Renminbi currency is in the 8th position as the most actively traded currency in the world. As of April 2016, the market share of international trade transactions using the Chinese currency increased to 4 percent, beating the Mexican peso. The increase in the market share in the use of the renminbi was mainly due to an increase in trade against the US dollar. Renminbi usage growth outside of China nearly doubled from US $ 120 billion per April 2013 to US $ 202 billion in April 2016. In the 2013 BIS survey, the renminbi was in ninth position, a drastic increase compared to the renminbi position in 2010 which was in the order. 17th. The daily transaction volume of renmimbi against the US dollar also increased from US $ 113 billion to US $ 192 billion in the three years. This makes the USD / CNY pair rise and it ranks 6th as the most traded currency pair from its previous position, which is 9th.

The method in this research is using quantitative descriptive statistics. The data used are from 2009 to 2019. The data were obtained by secondary means from the Central Statistics Agency and Bank Indonesia, as well as referring to several previous studies. The analysis used was a non-statistical sensitivity analysis.

III. Result

Analysis of Yuan Sensitivity to World Economic Development

The entry of the Chinese currency, the Yuan or Renminbi, as a reserve currency or SDR which is aligned with the other four SDR currencies is able to have a positive impact on Indonesia which has been making the yuan part of BI's foreign exchange reserves. In addition, the IMF's decision helped Indonesia realize the use of the yuan and rupiah in trade between countries.

Another positive impact that can be felt by Indonesia with this IMF policy is that the entry of the yuan into the SDR basket can strengthen the yuan or renminbi against other currencies including the rupiah. This could be a momentum for Indonesia to increase exports to the bamboo curtain country. This is because the strong trade relations between Indonesia and China are considered capable of influencing the demand for yuan for trade transactions.

This strong demand will strengthen the value of the yuan against the rupiah. If the value of the yuan strengthens against the rupiah, the value of Indonesian export goods will be cheaper and the value of Chinese imported goods to Indonesia will be more expensive than before. This is considered capable of encouraging a reduction in the number of Chinese imports to Indonesia unless China slashes prices. However, the price reduction still has a lower limit. So, it is likely that Indonesia's trade balance will continue to develop in a better direction.

The entry of the Renminbi or yuan into the elite club of the IMF, SDR, as the international currency as the reference exchange rate, although it provides an opportunity for Indonesia to boost export value, it also needs to be watched out for because the renminbi will reflect more on the economy of China and its trade relations with the international world.

The establishment of a renmibi as a member of the SDR can make China's central bank implement policies that can influence the movement of the world foreign exchange market. The reason is, if the influence of the yuan is considered too strong, then China's central bank, PBOC (People's Bank of China), has the potential to re-devaluate its currency following the burdens of the country's trade balance. So that if there is pressure on the renminbi, it will affect world financial markets, including Indonesia. To find out how big the risk level regarding the yuan is, in this case it is necessary to calculate the risk level. Risk can be described by the standard deviation. Here are the results of the calculations:

Table 2
Expected Return (Er), Variance (Var), dan Standar Deviasi (Std) Yuan

Periode	Tahun	Kurs Rupiah terhadap Yuan	Return	Ri + 1	[Ri - R rata]^2 Squared Deviation
0	2009	1,376.65			
1	2010	1,357.61	-1.38%	98.62%	0.22%
2	2011	1,439.16	6.01%	106.01%	0.07%
3	2012	1,537.46	6.83%	106.83%	0.12%
4	2013	1,999.22	30.03%	130.03%	7.14%
5	2014	2,033.01	1.69%	101.69%	0.03%
6	2015	2,124.40	4.50%	104.50%	0.01%
7	2016	1,936.86	-8.83%	91.17%	1.47%
8	2017	2,073.40	7.05%	107.05%	0.14%
9	2018	2,109.95	1.76%	101.76%	0.02%
10	2019	2,034.50	-3.58%	96.42%	0.47%
				103.31%	9.71%
	Er	**3.31%**			
	Var	**0.30%**			
	Std	**5.51%**			

Table 3
Expected Return (Er), Variance (Var), dan Standar Deviasi (Std) Global Growth

Periode	Tahun	Pertumbuhan Ekonomi Global	Return	Ri + 1	[Ri - R rata]^2 Squared Deviation
0	2009	0.60%			
1	2010	5.30%	783.33%	883.33%	5874.50%
2	2011	3.90%	-26.42%	73.58%	18.75%
3	2012	3.10%	-20.51%	79.49%	13.98%
4	2013	3.00%	-3.23%	96.77%	4.04%
5	2014	3.60%	20.00%	120.00%	0.10%
6	2015	3.50%	-2.78%	97.22%	3.86%
7	2016	3.20%	-8.57%	91.43%	6.48%
8	2017	3.80%	18.75%	118.75%	0.03%
9	2018	3.90%	2.63%	102.63%	2.03%
10	2019	3.90%	0.00%	100.00%	2.85%
				116.88%	5926.62%
	Er	**16.88%**			
	Var	**185.21%**			
	Std	**136.09%**			

From the calculation table above, it can be concluded that the standard deviation value of the rupiah exchange rate against the yuan is 5.51% smaller than the standard deviation value of global economic growth of 136.09%. This illustrates that the greater the standard deviation value, the more likely the real value will deviate from the expected, which means the higher the risk.

Table 4
Constants and Slope of the Yuan and Global Economic Growth

Periode	Tahun	Kurs Rupiah terhadap Yuan	Return Yuan	Pertumbuhan Ekonomi Global	Return Ekonomi Global
0	2009	1,376.65		0.60%	
1	2010	1,357.61	-1.38%	5.30%	783.33%
2	2011	1,439.16	6.01%	3.90%	-26.42%
3	2012	1,537.46	6.83%	3.10%	-20.51%
4	2013	1,999.22	30.03%	3.00%	-3.23%
5	2014	2,033.01	1.69%	3.60%	20.00%
6	2015	2,124.40	4.50%	3.50%	-2.78%
7	2016	1,936.86	-8.83%	3.20%	-8.57%
8	2017	2,073.40	7.05%	3.80%	18.75%
9	2018	2,109.95	1.76%	3.90%	2.63%
10	2019	2,034.50	-3.58%	3.90%	0.00%

Konstanta	**0.0504**
Slope	**-0.0083**

Based on the table above, it can be seen that from all available data, a constant value of 0.0504 is obtained, meaning that if the rupiah exchange rate against the yuan is 0% (unchanged), global economic growth will be 0.0504 or 5.04%. With the value of the regression coefficient (slope) for the value of the rupiah exchange rate against the yuan is negative of -0.0083, which means that if the value of the rupiah exchange rate against the yuan increases by IDR 1 then global economic growth will decrease by 0.0083% assuming other variables remain or cateris paribus. This also illustrates that the value of the rupiah exchange rate against the yuan has a negative effect on global economic growth. However, considering the slope value is so small, it can be assumed that the negative impact is very small on the global economy.

The strength of the Indonesian economy is considered highly considered as one of the key players in driving global economic growth. Indonesia is able to contribute 2.5 percent to world growth, where this achievement outperforms contributions from South Korea, Australia, Canada, England, Japan, Brazil and Russia.

Given the strong trade relations between China and Indonesia, the rupiah exchange rate against the United States dollar should no longer be used as a benchmark to measure Indonesia's economy. The weakening of the rupiah-dollar exchange rate is not a concern because the rupiah-dollar exchange rate increasingly does not reflect Indonesia's economic fundamentals, but increasingly reflects US economic policy with the America First economic policy (an economic policy that focuses on America and is less concerned with its effects on other countries.).

IV. Discussion

ASEAN is the second largest engine in boosting world economic growth, after contributions from China. The Southeast Asian region, which has more than 500 million inhabitants, is considered to be a potential market in building a manufacturing production base.

"Indonesia is the largest country in ASEAN, its economy is already included in the USD 1 trillion club, or a third of its ASEAN economy," he said. Meanwhile, if viewed from the economic growth, Indonesia was able to reach 5.2 percent or above the ASEAN average gain of 5.1 percent. This means that Indonesia plays an important role in spurring the economy in ASEAN.

Currently, the economy is being affected by an increase in the middle class workforce, which can be utilized as potential for human resources (HR) and new markets. Moreover, Indonesia will experience a demographic bonus in 2030.

The strength of Indonesian human resources also lies in the number of students. It is hoped that the young generation can take the opportunity by increasing their abilities and creativity, especially in the digital field. "This is our work together, from the education sector, especially universities, to produce competent human resources so that they can create innovation.

The Ministry of Industry has launched a vocational education program that carries the concept of link and match between Vocational High Schools (SMK) and industry in several regions in Indonesia. In addition, the Ministry of Industry also encourages the development of technoparks to foster domestic startups.

According to the government's work report submitted last week, China will implement reforms and opening steps in the financial sector and increase its bond market opening policy. The further opening of the Chinese bond market will bring significant benefits to the country and the world, as it will better serve real economic growth, facilitate diversification, promote RMB internationalization, and provide stable financing for BRI projects, said experts at the book forum. about the future of the Chinese bond market.

China's move to let the yuan exchange rate weaken to its lowest level in more than a decade following the currency manipulator label it got from the United States (US) government opened the threat of a currency war The yuan exchange rate weakened to exceed the level of 7 yuan per US dollar after the Central Bank China, the People's Bank of China (PBoC) set the daily reference value lower than 6.9 for the first time since December.

The Chinese currency, for the first time since 2008, broke the 7 level. Some investors saw the move in the yuan as a direct response by the Chinese government to the latest US tariff plans.

In response to the weakening of the yuan, the US Treasury said that if the Chinese government allowed the yuan exchange rate to continue falling well above the 7 per dollar level, this would be the clear signal it had given.

The weakening of the yuan and its impact on the currencies of other developing countries will also be a headache for the Central Bank of Japan and the European Central Bank. The strengthening of the yen or euro exchange rate will add to the burden on the economies of Japan and Europe which are already experiencing sluggishness. Even before tensions between the US and China flared up, central banks around the world were already taking a dovish monetary policy stance.

“The US-China trade war is currently setting the stage for a currency war that could affect many major central banks around the world. Emerging market central banks have caught on to this problem when the average currency in Asia slumped and the South Korean won exchange rate hit a three-year low.

The volatility in global financial markets is expected to continue, and will make it difficult for smaller economies to support growth at lower interest rates. “A move of the yuan above the 7 level is something uncharted for markets and central banks around the world. Although the PBoC promises to keep its currency exchange rate stable and a number of economists say that moving the yuan beyond 7 is inevitable due to pressure on the Chinese economy, the outlook remains fragile.

Slowing growth and escalating US-China trade tensions have forced the world's central banks to cut interest rates this year, despite doubts over their effect in fighting the trade war's blow to business confidence and corporate expansion plans.

“If the US government really tries to weaken the US dollar, this will be bad news for economic policymakers in Europe and Japan. In both of these regions, currency appreciation will be highly undesirable when growth is already shaky.

China's central bank, the People's Bank of China (PBOC), gave an official statement responding to the accusations by the United States government. As is known, the US Treasury Department accused China of being a currency manipulator. In its official statement, the PBOC expressed deep regret for the accusation. Such labels, according to the PBOC, are inconsistent with the quantitative criteria set by the US Department itself regarding so-called "currency manipulators".

The changing actions of US unilateralism and protectionism, according to the PBOC, will seriously undermine international rules and have a material impact on the global economy and finance. The renminbi exchange rate regime (RMB), the PBOC says, is a floating regime that is managed based on market supply and demand and by reference to a basket of currencies. According to the PBOC, there is no such problem as exchange rate manipulation. Because, naturally, the renminbi exchange rate is determined by market supply and demand.

The recent depreciation of the renminbi that has occurred since early August, according to the PBOC, is driven and determined by market forces. The depreciation reflects shifting market dynamics and volatility in the global foreign exchange market amidst global economic developments and increasing trade friction. PBOC emphasized that it has committed to maintain the renminbi exchange rate to remain stable at an equilibrium and adaptive level. "Our efforts have been widely recognized by international partners," wrote the PBOC in an official statement.

According to Bank for International Settlements (BIS) data, during the period between early 2005 and June 2019, the nominal effectice exchange rate (NEER), aka the RMB nominal effective exchange rate, was appreciated by 38%. Meanwhile, the real effective exchange rate (REER), aka the real effective exchange rate of

RMB, has appreciated 47%. Based on these data, the PBOC stated that the renminbi has become the strongest currency among the G20 member countries. The measure of currency appreciation is also among the largest of all currencies.

The International Monetary Fund (IMF), the PBOC says, has stated that the renminbi is broadly in line with fundamentals. In the 1997 Asian financial crisis and the 2008 global financial crisis, according to the PBOC, China remained loyal to its commitment to maintaining the stability of the renminbi and providing strong support to financial market stability and global economic recovery. Although the US has continued to escalate the trade dispute since early 2018, PBCO said China has kept its promise not to undertake competitive devaluation. "China has never used and will not use the renminbi exchange rate as a tool to deal with trade friction.

The US action which has accused China of being a currency manipulator, according to the PBOC, completely ignores the facts. China firmly opposes such actions as detrimental to Chinese and US interests. According to the PBOC, doing so would seriously damage the international financial order and give rise to financial market volatility. In addition, US actions will also hamper international trade, cut off the world's economic recovery, and ultimately harm US interests. This unilateral US action, according to the PBOC, has undermined the multilateral consensus on exchange rates. This will have a negative and serious impact on the stability of the functioning of the international monetary system.

"China urges the US to restrain its horse on the edge of the cliff, turn from this wrong path and return to a rational and objective path," wrote the PBOC. The PBOC once again emphasized that China will remain committed to a floating exchange rate regime that is managed based on the supply and demand of the market by referring to a basket of currencies and keeping the renmibi exchange rate stable at equilibrium and adaptive levels.

V. Conclusion

As the monetary, banking and payment system authority, the main task of Bank Indonesia is not only to maintain monetary stability, but also to financial system stability (banking and payment systems). The success of Bank Indonesia in maintaining monetary stability without being followed by financial system stability will have little meaning in supporting sustainable economic growth. Monetary stability and financial stability are like two inseparable sides of a coin. Monetary policy has a significant impact on financial stability and vice versa, financial stability is a pillar that underlies the effectiveness of monetary policy. The financial system is one of the monetary policy transmission lines, so if there is financial system instability, the monetary policy transmission will not run normally. Conversely, monetary instability will fundamentally affect financial system stability due to ineffective functioning of the financial system. This is the background why financial system stability is still the duty and responsibility of Bank Indonesia.

As the central bank, Bank Indonesia has five main roles in maintaining financial system stability. The five main roles that cover policies and instruments in maintaining financial system stability are:

1. Bank Indonesia has a duty to maintain monetary stability through, among others, the interest rate instrument in open market operations. Bank Indonesia is required to be able to determine monetary policy appropriately and in a balanced manner. This is because the disturbance in monetary stability has a direct impact on various aspects of the economy. Monetary policy, through the application of too tight interest rates, will tend to kill economic activity. Vice versa. Therefore, to create monetary stability, Bank Indonesia has implemented a policy called the inflation targeting framework.
2. Bank Indonesia has a vital role in creating sound financial institutions performance, particularly banking. The creation of such banking institution performance is carried out through supervisory and regulatory mechanisms. As in other countries, the banking sector has a dominant share in the financial system. Therefore, failure in this sector can cause financial instability and disrupt the economy. To prevent this failure, an effective banking system of supervision and policy must be enforced. In addition, market discipline through the authority in supervision and policy makers as well as law enforcement must be carried out. The available evidence shows that countries that apply market discipline, have strong financial system stability. Meanwhile, law enforcement efforts are intended to protect banks and stakeholders and at the same time encourage confidence in the financial system. To create stability in the banking sector in a sustainable manner, Bank Indonesia has prepared an Indonesian Banking Architecture and a Base II Implementation plan.
3. Bank Indonesia has the authority to regulate and maintain the smooth operation of the payment system. If failure to settle occurs in one of the participants in the payment system, serious potential risks will arise and disrupt the smooth operation of the payment system. This failure may create contagion risk, causing systemic disturbances. Bank Indonesia is developing mechanisms and arrangements to reduce risk in the payment system, which tends to increase. Among other things, by implementing a payment system that is real time or known as the RTGS system (Real Time Gross Settlement), which can further increase the

security and speed of the payment system. As the authority in the payment system, Bank Indonesia has the information and expertise to identify potential risks in the payment system.

4. Through its research and monitoring functions, Bank Indonesia can access information that is deemed to threaten financial stability. Through macroprudential monitoring, Bank Indonesia can monitor financial sector vulnerabilities and detect potential shocks that impact financial system stability. Through research, Bank Indonesia can develop macroprudential instruments and indicators to detect financial sector vulnerabilities. The results of the research and monitoring will then serve as recommendations for the relevant authorities in taking appropriate steps to reduce disruptions in the financial sector.
5. Bank Indonesia has a function as a safety net for the financial system through the central bank's function as lender of last resort (LoLR). The LoLR function is the traditional role of Bank Indonesia as the central bank in managing crises in order to avoid financial system instability. The function of LoLR includes providing liquidity during normal and crisis conditions. This function is only given to banks that are facing liquidity problems and have the potential to trigger a systemic crisis. Under normal conditions, the LoLR function can be applied to banks that experience temporary liquidity difficulties but still have the ability to repay. In carrying out its function as LoLR, Bank Indonesia must avoid moral hazard. Therefore, systemic risk considerations and strict requirements must be applied in the provision of such liquidity.

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