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THE EFFECT OF EXCHANGE RATE, INFLATION, AND INTEREST RATE ON REAL INVESTMENT IN INDONESIA 2004-2023 (VECM APPROACH)

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ABSTRACT

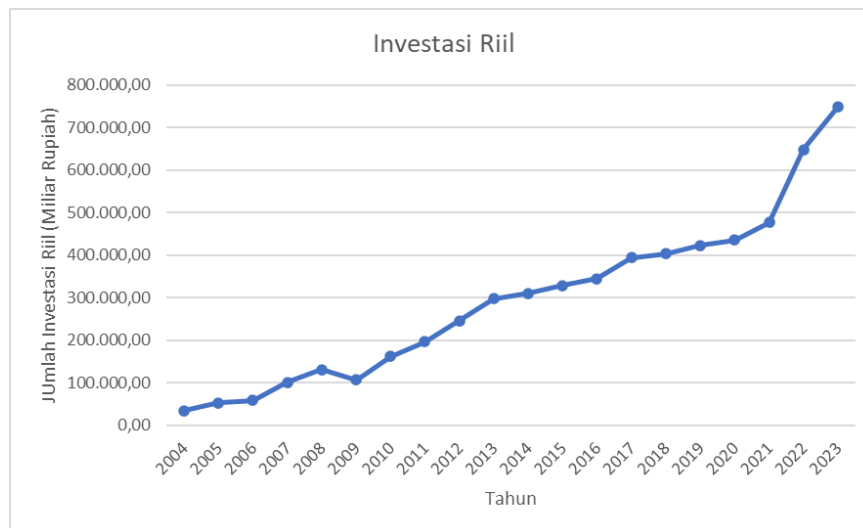
Economic globalization has brought Indonesia into the flow of global economic integration, strengthening interconnectedness between countries and increasing the intensity of competition and investment flows, both domestic and international. In this context, real investment is a vital component for national economic growth, but remains influenced by dynamic fluctuations in exchange rates, inflation, and interest rates. This study aims to empirically analyze the influence of exchange rates, inflation, and interest rates on real investment in Indonesia for the period 2004–2023, highlighting their relevance from an Islamic economic perspective. This study uses a quantitative approach with 20 years of time series data obtained from Bank Indonesia and the Central Bureau of Statistics, and applies the *Vector Error Correction Model (VECM)* to examine the short-term and long-term relationships between variables. The results show that in the long run, the exchange rate and inflation have a negative and significant effect on real investment, while interest rates have a positive and significant effect. Conversely, in the short run, only inflation has been shown to have a significant negative effect on real investment, while the exchange rate and interest rates have no significant effect. These findings emphasize the importance of exchange rate stability and inflation control in creating a conducive investment climate, as well as the need for adaptive policies related to interest rates. From an Islamic economic perspective, exchange rate stability, inflation control, and the elimination of interest rates (*riba*) are crucial for encouraging fair and sustainable real investment, thus supporting inclusive economic growth in accordance with the principles of justice and balance.

A. INTRODUCTION

Economic globalization represents a fundamental structural transformation of the world's economic system. This process will continue to evolve at an ever-increasing pace, in line with rapid technological advances and changing needs of global society. This development strengthens economic interconnections between countries and increases the intensity of international competition (Rohmah et al. 2024). With globalization, Indonesia is now at the center of global economic interactions. One of the main characteristics of global economic integration is the reduction of barriers to business between countries, thus facilitating international economic cooperation. This benefits Indonesia, including facilitating foreign investment into the country (Putri, Komara, and Setyowati 2021).

In general, investment is the investment of capital in one or more assets, usually long-term, with the aim of obtaining future profits. Investments can be distinguished based on their capital origin, into domestic investment (Domestic Investment/PMDN) and foreign investment (Foreign Investment/PMA). PMA is an investment made by foreign investors to run a business in Indonesia, either with pure foreign capital or a combination of foreign and domestic capital (Prasojo, Kumenaung, and Maramis 2024). Meanwhile, PMDN is the main source of financing for investment projects that can increase production capacity, create jobs, and encourage technological progress. In the context of the Indonesian economy, PMDN is very important because it helps reduce dependence on foreign capital while strengthening national economic stability (Sari et al. 2024).

Investments are basically divided into two types: investments in securities (*financial assets*) and investments in real assets. Real asset investments include factory construction, mine opening, and plantation development as productive assets (Halim 2024).



Source: Badan Pusat Statistik (BPS)

Figure 1 Real Investment in Indonesia 2004-2023

The data above shows that real investment in Indonesia continues to increase significantly each year. In 2022, the value of real investment reached 648,421.20 billion rupiah, the highest increase in 20 years at 171,237.95 billion rupiah compared to 477,183.25 billion rupiah in 2021. This increase was influenced by the stability of the

Indonesian economy and increasing public awareness of the importance of investment. Conversely, in 2009, real investment experienced the largest decline, falling by 24,317.49 billion rupiah from 131,499.68 billion rupiah in 2008 to 107,128.20 billion rupiah.

Keynes's theory describes a mixed economy in which both the private and public sectors play important roles. Keynes's theory argues that investment does not depend on returns but is influenced by the cost of capital, interest rates, and inflation. Therefore, it is not influenced by a single variable, but rather by several variables that must be considered when making investments (Wulandari and Shodiq 2023).

According to Triyono, in a study conducted by Setia Panjaitan, the exchange rate can be used as an indicator to assess a country's economic condition. The stability of a currency's value reflects a country or region's relatively stable economic condition. Conversely, volatile exchange rate fluctuations can impact capital flows, investment, and international trade (Panjaitan 2020). This is in line with research conducted by Muhammad Cahya Purnama, which explains that the exchange rate has a positive and significant influence on FDI in five ASEAN countries (Purnama 2022). This contrasts with research conducted by Sasana & Fathoni, which found that the exchange rate has a negative and significant influence on FDI. Foreign investors will always pay attention to the exchange rate in the country they are planning to invest in, so that investors do not choose the wrong country to invest in order to obtain large profits (Kamis and Muhd Yusuf 2023).

Besides exchange rates, two factors frequently influence the fluctuations in investment values: inflation and interest rates. Inflation is a condition in a country's economy characterized by a general increase in the prices of goods and services over a long period, often caused by an imbalance in the flow of goods and money. Inflation is characterized by persistent and widespread price increases, leading to a decline in individuals' purchasing power. A high inflation rate tends to reduce investor interest in investing compared to a low inflation rate (Todi, Anggraeni, and Susanto 2025).

Within the framework of macroeconomic theory, interest rates are closely related to investment levels. In general, rising interest rates increase the cost of borrowing capital, thereby reducing the incentive for economic actors to make new investments. A downward-sloping demand curve for loanable funds and a rising supply curve illustrate that higher interest rates reduce the demand for productive investment. Conversely, lower interest rates can lower the cost of capital and stimulate investment growth. However, several studies have shown that this relationship is not always linear or negative. Under certain conditions, for example in developing countries or amid economic turmoil, other factors such as business confidence, access to credit, and macroeconomic stability also influence investment levels. Therefore, interest rate policy is a crucial instrument in influencing investment dynamics and a country's economic growth. Research (LB, Akbar, and Irawan 2023) explains the influence of inflation and interest rates on national aggregate investment (2006-2021) and finds both variables significant.

Most previous studies have focused on FDI or FDI, both at the national and regional levels, and generally used shorter data periods. Empirical evidence on the effects of exchange rates, inflation, and interest rates on national real investment remains limited, despite the strategic role real investment plays in sustainable economic growth. Furthermore, previous research has shown heterogeneity in the influence of these macroeconomic variables, particularly exchange rates and interest rates, on

investment. This study fills this gap by analyzing annual data from 2004–2023 using the VECM method, while interpreting the results from an Islamic economic perspective, which is rarely integrated in macroeconometric studies in Indonesia.

In Islamic economics, wealth should not be concentrated in the hands of a few wealthy individuals, but rather should serve as productive capital that can increase national income and social welfare. Investment according to Sharia principles is the investment of funds in accordance with Islamic law, namely free from usury (riba), maysir (maysir), and gharar (gharar). Investors have three options for managing their funds: keeping them in cash, allocating them to non-income-generating assets such as loans, property, or jewelry, or investing them. The first two options are less recommended in Islamic economics because unused funds are subject to zakat (zakat) as a form of social responsibility (Kamal et al. 2024).

In the Qur'an there are verses that can strengthen the need to invest in Islam. In surah Al-Baqarah verse 275 Allah Swt. Which means: *“Those who consume (transact in) usury cannot stand except as one who staggers due to a devil. This is because they say that buying and selling is the same as usury. But Allah has permitted buying and selling and forbidden usury. Whoever receives a reminder from his Lord (regarding usury), then he desists until what he had previously acquired becomes his, and his affair is with Allah. Whoever repeats (usury transactions), those are the inmates of the Fire, they will abide therein forever.”*

In this verse, Allah explains the permissibility of buying and selling and the prohibition of usury (riba). From this, it can be concluded that a Muslim must understand what is permissible and what is forbidden. Similarly, in investing, we must understand which investments are permitted and which are prohibited by Sharia. In principle, investments must be conducted in accordance with Sharia principles. The concept of Sharia investment is based on the values of justice, balance, brotherhood, and the welfare of both individuals and communities. (Sujian Suretno 2021).

Based on the theoretical basis, this research draws on Keynes's theory, which emphasizes that investment is influenced by various macroeconomic factors such as interest rates, inflation, and other variables. This theory is combined with an Islamic economic perspective that emphasizes the principles of justice, balance, and the prohibition of usury, allowing the analysis to examine not only the empirical relationships between variables but also their alignment with the maqasid al-sharia.

Based on this, researchers are interested in conducting in-depth research on the influence of exchange rates, inflation and interest rates on real investment in Indonesia in 2004–2023 from an Islamic economic perspective using the Vector Error Correction Model (VECM) approach.

B. METHODS

The research method used in this study is a quantitative method with the Vector Error Correction Model (VECM) approach. This approach was chosen because it is suitable for analyzing the dynamic relationships between macroeconomic variables in the short and long term. The type of research used is descriptive-quantitative research, namely research that aims to explain the influence of exchange rate variables, inflation, interest rates, and real investment in Indonesia based on empirical data. This study population covers all annual data for the period 2004–2023, resulting in 20 observations representing each research variable. The sampling technique used is the saturated

sampling method, namely when all members of the population are used as research samples.

The data used in this study is secondary data obtained from official sources, namely Bank Indonesia (BI) and the Badan Pusat Statistik (BPS). Secondary data was selected because the required macroeconomic data is readily available in a comprehensive, measurable, and reliable manner. The data collection process involved downloading annual publications from both institutions and then organizing the data into a time series format for analysis according to the requirements of the VECM model.

The data analysis of this study was conducted using EViews 10 software with a VECM model test. In (Sugiyono 2019) it is explained that there are several tests that need to be carried out in using the VECM model, namely the stationarity test, determining the lag length, stability test, Johansen cointegration test, Granger causality test, long-term and short-term VECM estimation test, Impulse Response Function (IRF) analysis and Variance Decomposition (VD).

C. RESULTS AND DISCUSSION

RESULTS

1. Stationary Test

Table 3.1 Stationary Test Results

Variables	Unit Root Test	ADF t-statistic	Critical Value 5%	Prob.
Real	Level	-2.414716	-3.029970	0.1510
Investment	1 st Difference	-4.862517	-3.040391	0.0013*
Exchange	Level	-0.582668	-3.029970	0.8528
rate	1 st Difference	-4.258858	-3.040391	0.0044*
Inflation	Level	-2.738069	-3.029970	0.0862
	1 st Difference	-7.384078	-3.040391	0.0000*
Interest rate	Level	-2.031732	-3.029970	0.2719
	1 st Difference	-3.220095	-3.065585	0.0377*

Source: E-Views 10 (Processed)

Based on the results of table 3.1 above, it can be explained that each variable, namely Real Investment, Value, Exchange Rate, Inflation, and Interest Rate is not stationary at the level level but is stationary at the 1st Difference level.

2. Optimal Lag Test

The next step is to determine the optimal lag to be used in VAR estimation, the selected lag candidates are the lag lengths according to the *Likelihood Ratio (LR)*, *Final Prediction Error (FPE)*, *Akaike Information Criterion (AIC)*, *Schwarz Information Criterion (SIC)*, and *Hannan-Qin Criterion (HC)* criteria (Basuki and Prawoto 2019).

Table 3.2 Optimal Lag Test Results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	23.60693	NA	1.33e-06	-2.178548	-1.980688*	-2.151266
1	43.63434	28.92848*	9.03e-07*	-2.626038*	-1.636736	-2.489627*

Source: *E-Views 10* (Processed)

From the table above, the optimum lag value was only tested for one lag. The purpose of conducting the optimal lag test is to hopefully eliminate autocorrelation problems.

3. Johanse Cointegration Test

Table 3.3 Cointegration Test Results

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.*
None *	0.976291	102.0786	47.85613	0.0000
At most 1 *	0.783709	38.46619	29.79707	0.0039
At most 2	0.346605	12.43699	15.49471	0.1371
At most 3 *	0.263624	5.202255	3.841466	0.0226

Source: *E-Views 10* (Processed)

Based on the results of the co-integration test that has been carried out and shown in the table above, the Trace Statistic value in the None, At most 1, and At most 3 rows is greater than the Critical Value with a significance level of 5% with a probability smaller than 5% significance. Where the None, At most 1, and At most 3 rows each have a probability of 0,0000, 0,0039, and 0,0226 < 0,05. This means that the results of the co-integration test indicate that among the movements of all variables in this study there is a long-term balance and similarity relationship. Thus, further analysis can be carried out using the VECM model.

4. Granger Causality Test

Table 3.4 Granger Causality Test Results

Null Hypothesis:	Obs	F-Statistic	Prob.
NT does not Granger Cause IR	19	0.41800	0.5271
IR does not Granger Cause NT		5.82467	0.0282
INFLASI does not Granger Cause IR	19	9.37854	0.0074
IR does not Granger Cause INFLASI		11.4244	0.0038
SB does not Granger Cause IR	19	6.47823	0.0216
IR does not Granger Cause SB		2.60436	0.1261
INFLASI does not Granger Cause NT	19	2.22165	0.1555
NT does not Granger Cause INFLASI		7.78125	0.0131
SB does not Granger Cause NT	19	5.70557	0.0296
NT does not Granger Cause SB		1.89452	0.1877
SB does not Granger Cause INFLASI	19	3.51926	0.0790
INFLASI does not Granger Cause SB		0.91016	0.3543

Source: *E-Views 10* (Processed)

The table above explains that the exchange rate variable statistically does not significantly affect real investment with a probability value of $0.5271 > 0.05$, but real investment significantly affects the exchange rate with a probability value of $0.0282 < 0.05$, so it is concluded that one-way causality occurs. Furthermore, the inflation variable statistically significantly affects real investment with a probability value of $0.0074 < 0.05$, this result is the same as real investment significantly affecting inflation with a probability value of $0.0038 < 0.05$, so it is concluded that two-way causality occurs. Then the interest rate statistically significantly affects real investment with a probability value of $0.0216 < 0.05$, in contrast to the results of real investment which do not significantly affect interest rates with a probability value of $0.1261 > 0.05$, so there is one-way causality. Then the inflation variable does not significantly affect the exchange rate with a probability value of $0.1555 > 0.05$, but the exchange rate significantly affects inflation with a probability value of $0.0131 < 0.05$, so there is one-way causality. And the interest rate variable statistically significantly affects the exchange rate $0.0296 < 0.05$ but the exchange rate does not significantly affect the interest rate $0.1877 > 0.05$ so that one-way causality occurs. Then finally the interest rate and inflation variables have the same result, namely they do not affect each other because the probability value of both is > 0.05 so there is no causality between the two variables.

5. Short-Term VECM Test

Table 3.5 Short-Term VECM Test Results

Variables	Coefficient	t-statistic	t-table
D(IR(-1),2)	0.165362	0.40724	
D(NT(-1),2)	-1.122838	0.51780	
D(INFLASI(-1),2)	-0.090710	-2.03938	1,991673
D(SB(-1),2)	0.004846	-0.63990	

Source: *E-Views 10* (Processed)

The table above shows that the exchange rate and interest rate variables have no short-term effect on real investment. Meanwhile, the short-term inflation variable has a significant negative effect, as evidenced by the t-statistic value $> t$ -table, namely $-2.03938 > 1.991673$.

6. Long-Term VECM Test

Table 3.6 Long-Term VECM Test Results

Variables	Coefficient	t-statistic	t-table
D(NT(-1))	-2.207681	-2.45858	
D(INFLASI(-1))	-3.807818	-21.0092	1,991673
D(SB(-1))	6.783694	17.2197	

Sumber: *E-Views 10* (Diolah)

Based on the table above, in the long term, the exchange rate variable has a significant negative effect on real investment with a t-statistic $> t$ -table, namely $-2.45858 > 1.991673$. This result is the same as the inflation variable which has a significant negative effect on real investment with a t-statistic value of $-21.0092 > 1.991673$. However, the interest rate variable has a significant positive effect on real investment with a t-statistic value of $17.2197 > 1.991673$.

7. Variance Decomposition Test (VD)

Table 3.7 Results of the Variance Decomposition (VD) Test

Period	SE	IR	NT	INFLATION	SB
1	0.172079	100.0000	0.000000	0.000000	0.000000
2	0.238302	59.59431	31.78749	8.558991	0.059214
3	0.272566	63.54568	25.34041	10.85727	0.256632
4	0.307031	68.43594	22.77966	8.563610	0.220794
5	0.325515	66.77258	24.46131	8.519639	0.246467
6	0.348350	68.25625	23.96931	7.489536	0.284898
7	0.375101	70.08291	23.09955	6.571591	0.245949
8	0.390295	70.24980	23.27603	6.230881	0.243292
9	0.408516	70.72060	23.31643	5.706093	0.256874
10	0.429667	71.47086	23.09490	5.196023	0.238216

Source: *E-Views 10* (Processed)

Based on the table above, the results of the Variance Decomposition test explain that at the beginning of the period, Real Investment was still heavily influenced by Real Investment itself, amounting to 100%, where Exchange Rates, Inflation, and Interest Rates had not yet had an influence. However, as the period progressed, these variables began to influence, although the magnitude was not as large as the influence of Real Investment itself. In the second period, the Exchange Rate variable had the second largest influence after Real Investment with an influence value of 31,78% and until the next period experienced a significant decline, where at the end of the period it only had an influence of 23,09%. The Inflation variable had an influence on Real Investment in the second period of 8,55%, which in the third period increased to 10,85%, but after that it experienced a continuous decline until the final period to 5,19%. Among other

variables, the Interest Rate variable had the smallest influence on Real Investment, which in the second period was only 0,05%, but continuously increased until the final period to 0,23%.

DISCUSSION

1. The Effect of Exchange Rates on Real Investment in Indonesia

Based on the VECM test results, it shows that in the long run, the exchange rate variable has a negative and significant effect on real investment in Indonesia with a coefficient of -2.207681 and a t-statistic of -2.45858 (> 1.991673). This means that an increase in the exchange rate causes a decrease in real investment. Therefore, H_1 is accepted because the estimation results show a significant effect of the exchange rate variable on real investment. This finding is in accordance with the Purchasing Power Parity (PPP) theory which states that changes in the exchange rate affect purchasing power and foreign investment; if the exchange rate weakens, purchasing power and investment incentives decrease. This condition emphasizes the importance of exchange rate stability in Indonesia to attract long-term investment, especially in facing adverse external impacts and maintaining international economic competitiveness. This result differs from research (Zulfa and Millati 2023) which explains that in the long run the exchange rate has a significant positive effect on Foreign Direct Investment in Indonesia in 2015Q1-2022Q4.

The short-term estimation results show an Exchange Rate coefficient value of -1.122838 with a t-statistic value of 0.51780 (< 1.991673). The estimation results indicate that the exchange rate variable in the short term does not have a significant effect on real investment variables. This is in line with classical economic theory, which emphasizes short-term expectations in financial markets and investments, so that its impact on currency exchange rates is often not immediately felt on real investment during that period. This condition indicates that other factors such as interest rates, economic stability, and market expectations dominate short-term investment decisions more than changes in exchange rates. These results are in line with research (Zulfa and Millati 2023) which explains that in the short term the exchange rate has no effect on Foreign Direct Investment in Indonesia in 2015Q1-2022Q4.

2. The Impact of Inflation on Real Investment in Indonesia

Based on the VECM test results, the long-term inflation variable has a coefficient value of -3.807818 with a t-statistic value of -21.0092 (> 1.991673). The estimation results show that the long-term inflation variable has a negative and significant effect on the Real Investment variable. This finding is in line with the Mundell-Tobin theory which explains that high inflation creates economic uncertainty, suppresses the real value of savings, and increases the cost of capital, thereby reducing investment incentives (Hamid, Abdul, and Dai 2025). This condition is relevant to the situation in Indonesia, where inflation fluctuations, especially due to food and energy price fluctuations, often reduce investor interest due to the risk of production costs and uncertain profits. Therefore, price stability is an important factor for the government to maintain the sustainability of long-term investment. This result is in line with research (Mutofa and Faizin 2023) which found that in the long term the inflation variable has a negative and significant effect on the foreign direct investment variable in Indonesia.

The short-term estimation results show an inflation coefficient value of -0.090710 with a t-statistic value of -2.03938 (> 1.991673). The estimation results indicate that the inflation variable in the short term has a negative and significant effect on the Real Investment variable. Therefore, H_2 is accepted because the estimation results indicate a significant effect of the inflation variable on real investment. This result is not entirely in line with Keynesian theory, which states that moderate inflation in the short term can stimulate aggregate demand and investment. This difference can be explained by the characteristics of the Indonesian economy, where inflation increases are often *cost-push in nature*. (increase in production costs) due to increases in raw material and energy prices, not *demand-pull* (increased demand). As a result, instead of increasing demand, inflation actually suppresses purchasing power and increases production costs, thus hampering investment decisions. This underscores the importance of effective inflation control policies to maintain a conducive domestic investment climate, both in the short and long term. This result differs from the research (Mutofa and Faizin 2023) which found that in the short term, the inflation variable had a positive and insignificant effect on the foreign direct investment variable in Indonesia.

3. The Influence of Interest Rates on Real Investment in Indonesia

Based on the results of the VECM test, the long-term interest rate variable has a coefficient value of 6.783694 with a t-statistic value of 17.2197 (> 1.991673). The estimation results show that the interest rate variable in the long term has a positive and significant effect on the Real Investment variable. Therefore, H_3 is accepted because the estimation results show a significant effect of the interest rate variable on real investment. This result contradicts the general theory which states that an increase in interest rates usually reduces investment. However, this result can be explained through the perspective of the Marginal Efficiency of Capital (MEC) theory put forward by Keynes, where investors continue to invest as long as the expected rate of return from a project exceeds the cost of capital reflected in the interest rate (Wage 2020). In the Indonesian context, this condition can occur due to structural factors, such as the role of government intervention, fiscal incentives, and investment opportunities in strategic sectors that remain promising despite high interest rates, thus encouraging long-term investment. This result is inconsistent with research conducted by Pratama and Setyowati, who found that in the long term, interest rate variables had no effect on foreign direct investment in Indonesia in 2010-2020 (Pratama and Setyowati 2022).

The short-term estimation results show an interest rate coefficient of 0.004846 with a t-statistic of -0.63990 (< 1.991673). The estimation results indicate that the interest rate variable in the short term does not have a significant effect on real investment variables. This finding is in line with Keynesian theory, which emphasizes that in the short term, investment decisions are influenced not only by interest rates but also by profit expectations, liquidity conditions, and external factors such as price stability and inflation (Wage 2020). In Indonesia, this can be attributed to short-term economic fluctuations that are more influenced by *cost-push inflation factors* that suppress purchasing power and increase production costs. Therefore, even though interest rates change in the short term, their impact on investment is not immediately visible because investors tend to be more cautious and wait for certainty of more stable macroeconomic conditions. These results are in line with research conducted by

(Pratama and Setyowati 2022) which found that in the short term, the interest rate variable had no effect on foreign direct investment in Indonesia from 2010 to 2020.

4. Islamic Economic Perspective on Exchange Rates, Inflation and Interest Rates on Real Investment in Indonesia

In Islamic economics, the exchange rate is considered valid in currency transactions if it is conducted in cash, transparently, and free from usury and speculation. Rupiah depreciation increases the cost of importing raw materials, reduces corporate profits, and discourages investment in the real sector, while exchange rate stability or strengthening lowers production costs and increases investor confidence. Exchange rate stability is not merely a technical economic issue, but also a moral and spiritual responsibility to achieve justice and balance in accordance with the principles of the *maqasid sharia*, which prioritizes the welfare of society. Uncontrolled exchange rate fluctuations and inflation negatively impact the socio-economic order, therefore, stable, transparent, and equitable economic policies are a priority (Bramtheo, Anggraeni, and Utamie 2025). This is in line with Allah's word in Surah Al-Hasyr verse 7 which emphasizes the importance of equitable distribution of wealth to create prosperity and socio-economic stability, which is supported by exchange rate stability as a macroeconomic factor.

From an Islamic economic perspective, inflation not only impacts monetary aspects but also creates social injustice and violates *sharia* principles. Inflation reduces people's purchasing power, increases the economy, and hinders real investment and economic growth due to rising capital costs and uncertain future income. To control inflation, Islamic economics emphasizes a monetary system free from usury and speculation, balanced money management, and equitable income distribution through *zakat*, *infaq*, and *sadaqah* to reduce inequality and mitigate inflationary pressures (Kuriningasih, Izmuddin, and Padli 2023). This is in line with Allah's command in Surah An-Nisa verse 29, which prioritizes fair and productive transactions, avoiding usury and speculative practices that can slow inflation.

In Islam, interest (*riba*) is considered haram because it is an additional, non-productive effort that creates economic injustice and exploitation in economic transactions, thus hindering the equitable distribution of wealth according to the principles of Islamic *muamalah*. Research in Makassar shows that high conventional bank interest rates reduce investment and growth in the real sector, while the Islamic economic system offers solutions through the buying and selling model (*murabahah*) and profit-sharing systems (*mudharabah* and *musyarakah*) that are more in line with the principles of justice and the welfare of the community. In an Islamic economy, investment must be based on real activities and fair risk sharing, not on fixed interest rates that burden the borrower and benefit the lender unilaterally. This is in line with the word of Allah in Surah Al-Baqarah verse 279 which emphasizes the prohibition of *riba* to maintain justice and socio-economic balance. Therefore, the development of a *sharia* financial system and an interest-free monetary policy is crucial in encouraging sustainable and equitable real investment.

According to Islamic economics, investment is the activity of developing and placing assets with the aim of obtaining profits in the future through a fair, transparent contract mechanism, free from elements of usury, *gharar* (uncertainty), and *maysir* (speculation). From an Islamic economic perspective, investment falls into the category

of fiqh muamalah, where Islamic teachings emphasize that resources (assets) should not only be stored, but must be managed productively to provide benefits to others (Salsabila, Susanto, and Rahman 2025).

Investment in Islam must also align with the fundamental goals of Islamic law (maqasid al-shariah), including Hifz al-Din (protecting religion), Hifz al-Nafs (protecting the soul), Hifz al-Mal (protecting wealth), Hifz al-'Aql (protecting reason), and Hifz al-Nasl (protecting descendants). In the context of investment, the most relevant is hifz al-mal, which means protecting and developing assets to prevent them from being damaged or wasted. Investment is a form of wealth development recognized by Islam as long as it does not violate other principles (Husin et al. 2025). Ibn Mazhur explains that wealth is anything that humans desire to keep and own. Thus, camels, cows, goats, land, gold, silver, and anything else that humans desire and have value (qimah) are considered assets (Ibrahim et al. 2021).

D. CONCLUSION

Based on the analysis, the exchange rate has a negative and significant effect on real investment in the long term in Indonesia, so that the exchange rate increase reduces real investment significantly, although in the short term the effect is not significant. Inflation also has a significant negative impact on real investment in both the long and short term, because inflation increases the economy, reduces purchasing power, and reduces investment interest, so that inflation stability is important for the investment climate and sustainable economic growth. Meanwhile, interest rates have a significant positive effect on real investment in the long term, likely due to growth expectations and monetary policy factors, although in the short term the effect is not significant, confirming the need for adaptive policies that consider structural dynamics and investor behavior. In the Islamic economy, exchange rate stability, inflation control, and the elimination of interest rates (riba) are crucial for fair and sustainable real investment, with the profit-sharing-based Islamic financial system as a solution to create a stable, productive, and fair investment climate, supporting inclusive economic growth.

E. SUGGESTION

Based on the results of the analysis and conclusions that have been described previously, there are several recommendations that can be given regarding the findings of this study, namely as follows:

1. The government must maintain exchange rate stability, control inflation, and increase transparency to create a conducive environment for real investment. Macroeconomic stability and investor confidence will encourage sustainable real investment.
2. From an Islamic economic perspective, it is recommended to develop a sharia monetary system and financial instruments (without usury and speculation), adaptive interest rate policies in accordance with sharia, as well as education and fair distribution policies to reduce inequality and support inclusive and equitable investment.
3. For future researchers, they can expand the scope of the study by examining other macroeconomic variables that also have the potential to influence real investment, using more recent data or extending the observation period to produce more accurate and in-depth findings.

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