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Exchange Rates, Inflation, and GDP in Indonesia: A New Perspective on Islamic Mutual Funds as an Intervening Factor

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Abstract

Introduction: Gross domestic product (GDP) is an indicator used to determine the country's economic situation shown in a certain period. The success of a country's economic growth can be seen from the country's GDP level. **Research Methods:** This research aims to test and analyze the influence of exchange rates and inflation on GDP in Indonesia through the mediation of Islamic mutual funds. This research uses quantitative methods using time series data, namely quarterly data for 2016-2023. **Results:** The results shows that the exchange rate has a positive and significant effect on GDP, inflation and Islamic mutual funds have a positive and insignificant effect on GDP, the exchange rate has a positive and significant effect on Islamic mutual funds, inflation has a negative and significant effect on Islamic mutual funds, and although mutual funds have the potential to increase GDP through investment, exchange rate depreciation and high inflation will still have a negative impact on the economy as a whole. **Conclusion:** Exchange rates and inflation play a crucial role in driving economic growth and the development of Islamic mutual funds. The government needs to maintain exchange rate stability through monetary and fiscal policies, as well as implement inflation control measures to preserve the public's purchasing power and investment interest.

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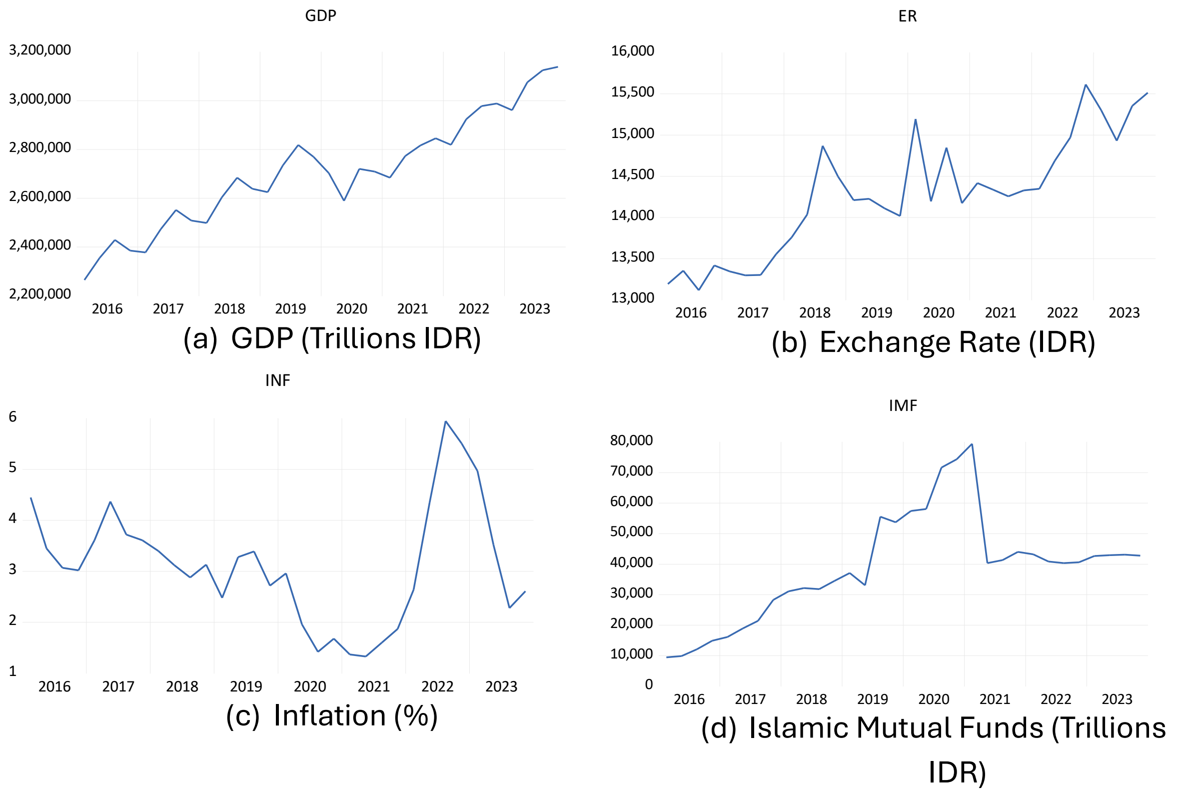
INTRODUCTION

One of the key indicators in assessing the development and economic growth of a country is economic growth. Economic growth is the main indicator that reflects how far society has succeeded in generating income through economic activities over a certain period of time. The success of a country's economic growth can be seen from the increase in the country's Gross Domestic Product (GDP). A country can experience increased economic growth if there is an increase in GDP (Drajat, 2023). Lincolin Arsyad also explained that GDP is an indicator used to understand a country's economic situation during a specific period. The value of GDP provides an overview of how well a country can manage and utilize the resources it possesses (Arsyad, 2014). Gross Domestic Product (GDP) is the total value added produced by all business units in a country during a specific period.

Figure 1. Development of All Variables from 2016-2023



(a) GDP (Trillions IDR)

(b) Exchange Rate (IDR)

(c) Inflation (%)

(d) Islamic Mutual Funds (Trillions IDR)

Source: Data processed, 2024

The exchange rate reflects the amount of domestic currency needed to obtain one unit of foreign currency. This exchange rate or currency rate will vary between countries (Sukirno, 2002). As explained in the Mundell-Fleming theory, there is a negative relationship between the exchange rate and economic growth, where the higher the exchange rate, the lower the net export, which in turn reduces the output and leads to a decline in GDP (Mankiw, 2003).

Figure 1 shows that the movements of the exchange rate and GDP from 2016-2023 exhibit opposing patterns, as seen in the first to third quarters of 2021. However, there are also periods where both move in the same direction, as in 2022. This indicates an unclear pattern in the relationship between the exchange rate and GDP. This statement is supported by research (Sukardi & Hidayah, 2021) which found that the exchange rate variable has a positive and significant impact on economic growth as measured by GDP. Meanwhile, (Putra, 2022) showed that the exchange rate variable has a negative and insignificant impact on economic growth as measured by GDP.

In addition to the exchange rate, another factor influencing GDP is the inflation rate of a country. A country with a high and unstable inflation rate will lead to economic instability, resulting in a continuous rise in the prices of goods and services and worsening the poverty rate in Indonesia (Salim, Fadila, & Purnamasari, 2021). Figure 1 shows that there are movements in inflation and GDP that display opposing patterns, as seen in the second to fourth quarters of 2023. However, there are also periods where both move in the same direction, such as in 2022. This indicates an unclear pattern in the relationship between inflation and GDP. This theoretical statement is supported by research (Hakim, 2023), (Salim et al., 2021), and (Kartika & Pasaribu, 2023) which states that the inflation variable has a positive and significant impact on economic growth as measured by GDP. Meanwhile, research by (Simanungkalit, 2020) explains that inflation has a negative impact on economic growth in Indonesia.

The investment sector is another factor that also influences GDP growth in Indonesia. The development of the capital market today shows significant improvement, as evidenced by the increasing variety of capital market instruments, both Islamic and conventional (Auliyatussaa'dah, Handayani, & Farekha, 2021). Islamic mutual funds are one of the instruments in the Islamic capital market that has experienced rapid growth compared to conventional mutual funds. Furthermore, Islamic mutual fund instruments are supported by strong regulations, such as the DSN-MUI Fatwa No. 20 of 2001, which regulates Islamic mutual funds, and the Financial Services Authority (OJK) which monitors and oversees Islamic mutual fund transactions (Syarifuddin, 2022).

Research by (Dwi Nurhidayah, Amalia Nuril Hidayati, & Muhammad Alhada Fuadilah Habib, 2022) states that Islamic mutual funds have a positive and significant impact on economic growth in Indonesia. Additionally, (Auliyatussaa'dah et al., 2021) in their research also mentions that Islamic mutual funds have a significant impact on Indonesia's economic growth. On the other hand, research by (Melati & Nurcahya, 2022) shows that Islamic mutual funds do not have an impact on Indonesia's economic growth. Therefore, more precise handling and education on Islamic investment literacy are needed to encourage an increase in Indonesia's economic growth.

Exchange rates and inflation often have a significant impact on asset prices and people's purchasing power, which in turn can affect investment decisions in Islamic mutual funds. Meanwhile, GDP reflects the health of the economy which can affect the performance of sectors involved in mutual funds. This study makes a novel contribution by integrating these macroeconomic factors in the context of Islamic mutual funds, which may not have been widely discussed in the existing literature. Specifically, this study explores how these aspects interact with each other and provides deeper insights into the volatility and potential returns of investments in financial instruments that are compliant with Sharia principles, providing a more holistic perspective for investors and economic policymakers.

Based on the data, previous research, and discussion of the exchange rate, inflation, Islamic mutual funds, and GDP, the researcher is interested in choosing this title to examine the effect of the exchange rate and inflation on GDP in Indonesia with Islamic mutual funds as an intervening variable. In this research, Indonesia is chosen as the location due to its fluctuating economy in recent years.

RESEARCH METHOD

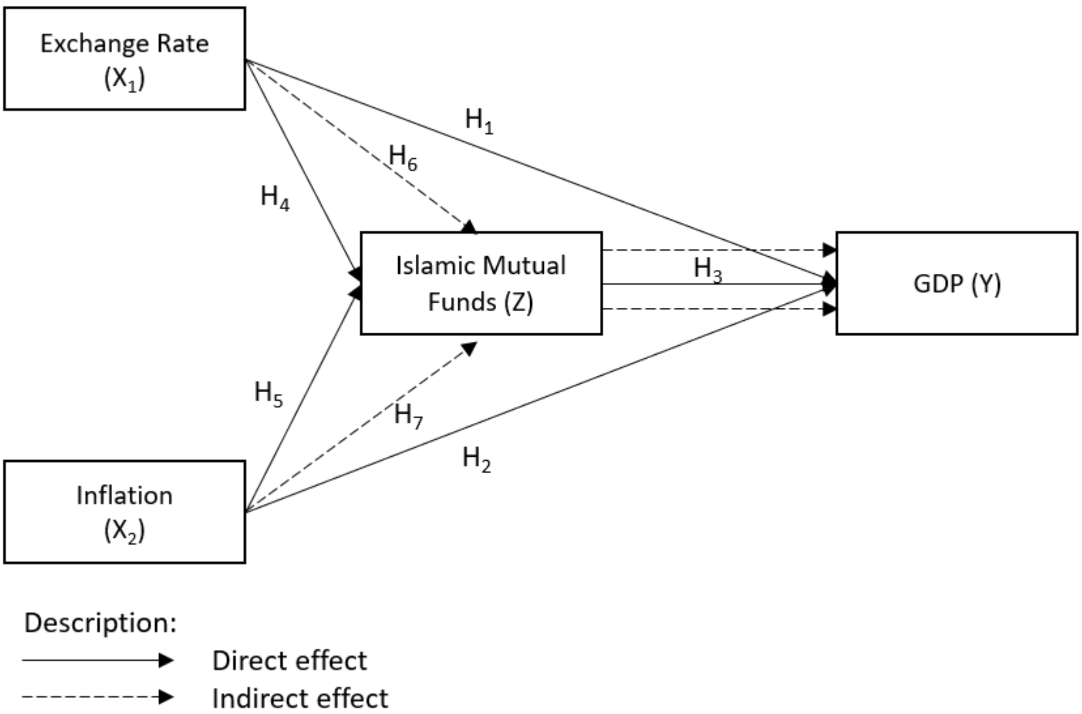


Figure 2. Research Framework

Source: Prepared by Author, 2024

This study uses a quantitative approach that aims to test theories and gain an understanding of the causal relationship between the variables studied. The framework in Figure 2 shows the influence of exchange rates and inflation on GDP in Indonesia with the intervening role of Islamic mutual funds. Within this framework, the exchange rate (X1) and inflation (X2) are independent variables, GDP (Y) is a bound variable, and Islamic mutual funds (Z) are intervening variables. The type of data used in this study is secondary data in the form of a time series. The data collection technique in this study uses the documentation method. The data sources used were obtained from the official websites of BPS (Central Statistics Agency), OJK (Financial Services Authority), and Bank Indonesia, with quarterly data covering the period from 2016 to 2023.

The data analysis used in this study involves testing hypotheses using path analysis. Before conducting path analysis, a classical assumption test must first be performed, then multiple linear regression must be carried out to test the relationship between the variables involved. After that, a partial test was carried out to determine the significance of the direct influence of independent variables on dependent variables, and a Sobel test was carried out to find out whether the influence of independent variables on dependent variables through mediator variables was statistically significant (Ghozali, 2013).

RESULT AND DISCUSSION

Classical Assumption Test

The classical assumption test aims to ensure that the regression model used provides a correct and accurate relationship between the variables being studied. In this research, the classical assumption tests used include the Normality Test, Multicollinearity Test, Autocorrelation Test, and Heteroscedasticity Test (Ghozali, 2013).

1. Normality test

Table 1. Results of the Normality Test

Equation		Unstandardized Residual
1	Asymp. Sig. (2-tailed)	0.053
2	Asymp. Sig. (2-tailed)	0.200

Source: Processed Data, SPSS 23, 2024

Table 1 shows equation 1 has a significant value of 0.053 > 0.05 and equation 2 has a significant value of 0.200>0.05. Therefore, the regression model on equation 1 and equation 2 has residuals that are normally distributed.

2. Multicollinearity Test

Table 2. Results of the Multicollinearity Test

Equation		Collinearity Statistics	
	Model	Tolerance	VIF
1	LNZ	0.34	2.96
	LNX1	0.43	2.32
	LNX2	0.65	1.54
2	LNX1	0.99	1.01
	LNX2	0.99	1.01

Source: Processed Data, SPSS 23, 2024

Table 2 shows that the exchange rate, inflation, and Islamic mutual fund variables on equation 1 have tolerance values greater than 0.10, indicating that there is no multicollinearity among the independent variables. For equation 2, shows that the exchange rate and inflation variables have tolerance values greater than 0.10. This indicates that there is no correlation between the independent variables, and regression model is free from multicollinearity.

3. Autocorrelation Test

Table 3 shows the results of the autocorrelation test for equation 1, which indicate a value of 1.03. For equation 2, the results of the autocorrelation test, which indicate a value of 0.78 in the Durbin-Watson column. This suggests that the regression model is free from autocorrelation, as the value lies between -2 and +2.

Table 3. Results of the Autocorrelation Test

Equation	Durbin-Watson
1	1.03
2	0.78

Source: Processed Data, SPSS 23, 2024

4. Heteroscedasticity Test

Table 4. Results of the Heteroscedasticity Test

Equation	Obs*R-squared	Prob. Chi-Square(3)
1	6.26	0.09
2	1.93	0.38

Source: Processed Data, Eviews 12, 2024

Table 4 for equation 1 shows that the Prob. Chi-Square value is 0.09 > 0.05 and equation 2 has Prob. Chi-Square value of 0.38 > 0.05. Therefore, it can be concluded that the regression model does not exhibit heteroscedasticity.

Multiple Linear Regression

Table 5. Multiple Linear Regression

Equation	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.89	1.95		1.48	0.15
	LNZ	0.04	0.02	0.25	1.65	0.11
	LNX1	1.20	0.22	0.71	5.39	0.00
	LNX2	0.02	0.02	0.09	0.41	0.41
2	(Constant)	-58.75	11.37		-5.17	0.00
	LNX1	7.30	1.19	0.66	6.15	0.00
	LNX2	-0.60	0.15	-0.43	-3.93	0.00

Source: Processed Data, SPSS 23, 2024

1. Multiple Linear Regression Equation 1

The results of the multiple linear regression analysis for Equation 1 were conducted to examine the effects of the exchange rate (X1), inflation (X2), and Islamic mutual funds (Z) on GDP (Y) in Indonesia from 2016 to 2023.

The beta coefficient for the exchange rate variable (X1) is 0.71. This means that for every 1% increase in the exchange rate (X1), the GDP (Y) will increase by 0.71%. Conversely, for every 1% decrease in the exchange rate (X1), the GDP (Y) will decrease by 0.71%. This condition assumes that other variables remain constant.

The beta coefficient for the inflation variable (X2) is 0.09. This means that for every 1% increase in inflation (X2), GDP (Y) will increase by 0.09%. Conversely, for every 1% decrease in inflation (X2), GDP (Y) will decrease by 0.09%. This condition assumes that other variables remain constant.

The beta coefficient for the Islamic mutual fund variable (Z) is 0.25. This means that for every 1% increase in Islamic mutual funds (Z), GDP (Y) will increase by 0.25%. Conversely, for every 1% decrease in Islamic mutual funds (Z), GDP (Y) will decrease by 0.25%. This condition assumes that other variables remain constant.

2. Multiple Linear Regression Equation 2

The results of the multiple linear regression analysis for Equation 2 were conducted to examine the effects of the exchange rate (X1) and inflation (X2) on Islamic mutual funds (Z) from 2016 to 2023.

The beta coefficient for the exchange rate variable (X1) is 0.66. This means that for every 1% increase in the exchange rate (X1), Islamic mutual funds (Z) will increase by 0.66%. Conversely, for every 1% decrease in the exchange rate (X1), Islamic mutual funds (Z) will decrease by 0.66%. This condition assumes that other variables remain constant.

The beta coefficient for the inflation variable (X2) is -0.43. This means that for every 1% increase in inflation (X2), Islamic mutual funds (Z) will decrease by 0.43%. Conversely, for every 1% decrease in inflation (X2), Islamic mutual funds (Z) will increase by 0.43%. This condition assumes that other variables remain constant.

t-Test

Hypothesis testing using the t-test is conducted to determine the significance of the direct effects of the exchange rate (X1), inflation (X2), and Islamic mutual funds (Z) on GDP (Y) in Indonesia.

Table 6. Results of Partial t-Test

Equation		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Model	B	Std. Error	Beta		
1	(Constant)	2.89	1.95		1.48	0.15
	LNZ	0.04	0.02	0.25	1.65	0.11
	LNX1	1.20	0.22	0.71	5.39	0.00
	LNX2	0.02	0.02	0.09	0.83	0.41

Equation	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-58.75	11.37		-5.17	0.00
2	LNX1	7.30	1.19	0.67	6.15	0.00
	LNX2	-0.60	0.15	-0.43	-3.93	0.00

Source: Processed Data, SPSS 23, 2024

1. Partial Test (t-Test) Equation 1
   The results of the t-test for Equation 1 were conducted to examine the effects of the exchange rate (X1), inflation (X2), and Islamic mutual funds (Z) on GDP (Y) in Indonesia from 2016 to 2023.
   a. Effect of Exchange Rate (X1) on GDP (Y)
      The significance value for the exchange rate variable with respect to GDP is 0.00 < 0.05 (5%) meaning there is an effect of the exchange rate on GDP in Indonesia from 2016 to 2023.
   b. Effect of Inflation (X2) on GDP (Y)
      The significance value for the inflation variable with respect to GDP is 0.41 > 0.05 (5%) meaning there is no effect of inflation on GDP in Indonesia from 2016 to 2023.
   c. Effect of Islamic Mutual Funds (Z) on GDP (Y)
      The significance value for the Islamic mutual funds variable with respect to GDP is 0.11 > 0.05 (5%) meaning there is no effect of Islamic mutual funds on GDP in Indonesia from 2016 to 2023.
2. Partial Test (t-Test) Equation 2
   The results of the t-test for Equation 2 were conducted to examine the effects of the exchange rate (X1) and inflation (X2) on Islamic mutual funds (Z) from 2016 to 2023.
   a. Effect of Exchange Rate (X1) on Islamic Mutual Funds (Z)
      The significance value for the exchange rate variable with respect to Islamic mutual funds is 0.00 < 0.05 (5%) meaning there is an effect of the exchange rate on Islamic mutual funds in Indonesia from 2016 to 2023.
   b. Effect of Inflation (X2) on Islamic Mutual Funds (Z)
      The significance value for the inflation variable with respect to Islamic mutual funds is 0.00 < 0.05 (5%) meaning there is an effect of inflation on Islamic mutual funds in Indonesia from 2016 to 2023.

Sobel Test

The Sobel test is a method used to examine the effect of an independent variable on a dependent variable through a mediator variable. The Sobel test in this research was conducted using the application Calculation for the Sobel Test: An Interactive Calculation Tool for Mediation Test.

1. Effect of Exchange Rate on GDP through Islamic Mutual Funds

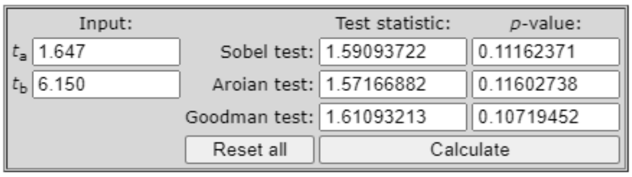


Figure 3. Results of Sobel Test on the Effect of Exchange Rate on GDP through Islamic Mutual Funds

Source: Data processed through https://quantpsy.org/sobel/sobel.htm, 2024

Based on the calculations, the obtained p-value is 0.11 > 0.05. This indicates that Islamic mutual funds do not mediate the effect of the exchange rate on GDP. Therefore, Islamic mutual funds do not mediate the effect of the exchange rate on GDP in Indonesia from 2016 to 2023.

2. Effect of Inflation on GDP through Islamic Mutual Funds

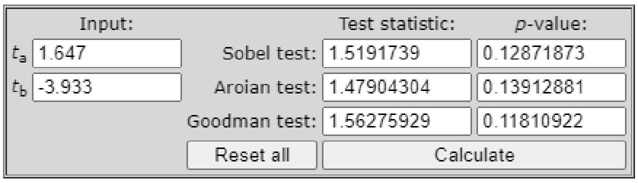


Figure 4. Results of Sobel Test on the Effect of Inflation on GDP through Islamic Mutual Funds

Source: Data processed through https://quantpsy.org/sobel/sobel.htm, 2024

Based on the calculations, the obtained p-value is 0.13 > 0.05. This indicates that Islamic mutual funds do not mediate the effect of inflation on GDP. Therefore, Islamic mutual funds do not mediate the effect of inflation on GDP in Indonesia from 2016 to 2023.

R^2 Test

The coefficient of determination (R^2) is used to show how well the regression model explains the variation in the dependent variable. The value of R^2 ranges from zero to one. A value of R^2 close to one indicates that the independent variables can almost completely explain the variation in the dependent variable.

Table 7. Results of R^2 Test for Equation 1

Equation	**Model**	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	1	0.89[a]	0.79	0.77	0.04
2	1	0.81[a]	0.66	0.64	0.33

Source: Processed Data, SPSS 23, 2024

1. Coefficient of Determination Test for Equation 1

   Table 7 shows that the R^2 value is 0.79. Therefore, the exchange rate, inflation, and Islamic mutual funds variables can explain 79% of the variation in GDP in Indonesia, while the remaining 21% is explained by other variables outside the scope of this research.

2. Coefficient of Determination Test for Equation 2
   Table 7 shows that the R^2 value is 0.66. Therefore, the exchange rate and inflation variables can explain 66% of the variation in Islamic mutual funds, while the remaining 34% is explained by other variables outside the scope of this research.

DISCUSSION

The Effect of Exchange Rates on Gross Domestic Product (GDP) in Indonesia

The SPSS test results show that exchange rates have a significant positive effect on GDP. This means that changes in the exchange rate can contribute positively and significantly to the growth of GDP in Indonesia during the period. There are several conditions that cause a depreciating exchange rate to increase a country's GDP, one of which is export activities. When a country's currency depreciates, the goods and services from that country become cheaper for consumers in other countries. As a result, Indonesian products become more attractive to foreign buyers, which can drive an increase in export demand (Sukardi & Hidayah, 2021).

However, a depreciating exchange rate does not always have a positive impact on GDP; it can also bring risks. Currency depreciation can affect all sectors in Indonesia, such as declining investor confidence in investing in Indonesia, rising prices of imported goods, and massive inflation. The government needs to conduct a thorough evaluation and implement policies to limit imports in order to help boost demand for local products. This can support GDP growth and contribute to the strengthening of the currency. This result is consistent with (Sukardi & Hidayah, 2021) research, which stated that exchange rates have a positive and significant effect on economic growth. The government needs to conduct a thorough evaluation and provide policies to limit imports to help increase demand for local products. This can support GDP growth and contribute to strengthening the exchange rate.

The Effect of Inflation on Gross Domestic Product (GDP) in Indonesia

The SPSS test results show that inflation has a positive but insignificant effect on GDP. This means that inflation can contribute positively but insignificantly to GDP growth in Indonesia during the period. One of the causes of economic instability in Indonesia is the COVID-19 pandemic. Many economic sectors have been affected, such as tourism, trade, manufacturing, and others. Social restrictions, decreased purchasing power, and supply chain disruptions have caused price pressures to be relatively lower, leading to a decrease in inflation (Kartika & Pasaribu, 2023). This coincides with a decrease in GDP during the COVID-19 pandemic. Social restrictions and lockdown policies to curb the spread of the virus also played a major role in lowering inflation and GDP levels. Many companies conducted layoffs during the pandemic, resulting in lower household incomes and purchasing power. This led to a decrease in consumer purchasing power, which impacted the reduction in GDP in Indonesia (Salim et al., 2021).

In the t-test results, inflation has an insignificant effect on GDP. "Insignificant" means that the effect of inflation on GDP growth is not large enough or does not produce a meaningful change. If one looks at the data, inflation in Indonesia during the 2016-2023 period remained within the normal range. It is important for the government and central bank to manage inflation carefully, maintaining a balance between economic growth and price stability to ensure that the growth achieved is sustainable and does not harm the public. This result is consistent with the research of (Kartika & Pasaribu, 2023), (Salim et al., 2021), and (Hakim, 2023) who in their research stated that inflation has a positive but insignificant effect on economic growth, as measured by GDP. It is important for governments and central banks to manage inflation carefully, maintaining a balance between economic growth and price stability to ensure that the growth achieved is sustainable and does not harm society.

The Effect of Islamic Mutual Funds on Gross Domestic Product (GDP) in Indonesia

The SPSS test results show that Islamic mutual funds have a positive but insignificant effect on GDP. This means that an increase in Islamic mutual funds can contribute positively but insignificantly to GDP growth in Indonesia during the period. The increase in public investment through Islamic mutual funds will increase the net asset value (NAV) of the mutual fund, thereby impacting the growth of the national economy.

The development of Islamic mutual funds from 2016 to 2023 shows rapid growth. Investors find that managing Islamic mutual funds is relatively easy, which increases public interest in investing in these funds. When Islamic mutual funds increase, the rate of economic growth also increases (Fathurrahman & Al-Islami, 2023). However, the effect of Islamic mutual funds on GDP is positive but not significant. "Not significant" means that the contribution made by Islamic mutual funds to the increase in GDP is not large enough or does not produce a meaningful change. Therefore, to significantly increase GDP, investments should come from other investment instruments. Thus, Islamic mutual funds cannot be considered the primary instrument for driving GDP growth. This result is consistent with the research conducted by (Dwi Nurhidayah et al., 2022) and (Nurwahida, Sugianto, & Jannah, 2022) which states that Islamic mutual funds have a positive but insignificant effect on economic growth, as measured by GDP.

Policymakers need to push regulations that support the development of islamic mutual funds, expand islamic financial literacy, and build transparent and inclusive infrastructure. On the other hand, investors, both individuals and institutions, are expected to increase their understanding and participation in islamic instruments that comply with halal and sustainable principles. Financial institutions also have an important role through product innovation, service digitalization, and providing wider and more transparent access for the community.

The Effect of Exchange Rates on Islamic Mutual Funds

The SPSS test results show that exchange rates have a significant positive effect on Islamic mutual funds. This means that changes in exchange rates can contribute positively and significantly to Islamic mutual funds during the period. When the rupiah depreciates, the value of money decreases, leading to a reduced purchasing power. As the rupiah weakens, people tend to shift their funds to more profitable investments, such as Islamic mutual funds. Islamic mutual funds are considered more attractive because they offer more stable potential returns compared to keeping money in rupiah, which is decreasing in value. Investors diversify, meaning they spread their funds across different types of investments to reduce risks. In this case, people or investors tend to choose various investment products, such as Islamic mutual funds, to minimize potential losses from the depreciation of the rupiah (Chairani, 2020). This research aligns with the studies of (Priyandini & Wirman, 2021) and (Ilyas & Shofawati, 2020), which state that exchange rates have a positive and significant effect on the net asset value (NAV) of Islamic protected mutual funds in Indonesia. This is due to economic uncertainty caused by high inflation, which increases investment risks.

The Financial Services Authority (OJK) and the government need to implement mutually supportive policies to maintain exchange rate stability and strengthen the islamic mutual fund market in Indonesia. OJK can strengthen regulations governing transparency, investor protection, and exchange rate risk management while encouraging the development of other Sharia investment products. The government, on the other hand, must focus on stable monetary policy through Bank Indonesia, healthy balance of payments management, and fiscal policy that supports long-term economic growth.

The Effect of Inflation on Islamic Mutual Funds

The SPSS test results show that inflation has a significant negative effect on Islamic mutual funds. This means that changes in inflation can contribute negatively and significantly to Islamic mutual funds during the period. When inflation occurs, people's purchasing power tends to decrease, as the prices of goods and services rise. This causes people to feel that their money can no longer buy as much as before, so they focus more on fulfilling their basic needs. As a result, consumer behavior changes, with many choosing to save their money (Sari, Isyanto, & Lukita, 2023). Inflation has a negative effect on Islamic mutual funds, meaning that inflation will reduce the net asset value (NAV) of Islamic mutual funds. As a result, inflation harms all parties, including issuers, because high inflation will lead to higher commodity prices. Furthermore, in an inflationary environment, people are reluctant to invest due to the uncertainty caused by price fluctuations. Many people are concerned that their investment value might erode due to inflation, making the potential returns from the investment not worth the risks involved (Sari et al., 2023).

Thus, inflation not only affects consumption behavior but also investment behavior. This can reduce the amount of funds available for investment in financial markets, which ultimately impacts the performance of sectors of the economy dependent on investments, including the stock market, mutual funds, and other investment instruments (Priyandini & Wirman, 2021). This result is consistent with the research by (Sari et al., 2023) and (Priyandini & Wirman, 2021), which state that inflation has a negative and significant effect on the NAV of Islamic mutual funds in Indonesia. It is important for the government to control inflation through appropriate monetary policies, such as interest rate adjustments and market interventions to maintain price stability. Financial institutions can offer investment instruments that are more resistant to inflation, such as real asset-based mutual funds or inflation-protected investments, and provide clear information so that investors can make more informed decisions. Stable monetary policies and innovative investment instruments will help maintain investment interest even amid high inflation.

The Effect of Exchange Rates on Gross Domestic Product (GDP) in Indonesia Through Islamic Mutual Funds

The test results show that Islamic mutual funds do not mediate the effect of exchange rates on GDP in Indonesia. This finding shows that Islamic mutual funds do not directly mediate or reduce the impact of exchange rate fluctuations on the economy. A currency exchange rate can be influenced by various factors, including monetary policy, inflation, and supply-demand conditions in global markets (Rizal, David, Shabri, & Nengsih, 2021). Exchange rate fluctuations are typically managed through macroeconomic policies, such as monetary policy, fiscal policy, or government market interventions.

Although Islamic mutual funds are one of the investment instruments based on Islamic principles and attract many investors, this instrument has not been proven to directly stabilize the impact of exchange rate fluctuations on the economy as a whole. Therefore, to reduce the negative impact of exchange rate fluctuations on GDP, more effective investment instruments are needed to mitigate or control the effects of exchange rate changes on the economy overall (Priyandini & Wirman, 2021).

The government and OJK must also strengthen monetary and fiscal policies, including responsive interest rate management and sufficient foreign exchange reserves to stabilize the exchange rate. In addition, diversification of investment portfolios for investors needs to be encouraged to mitigate the impact of exchange rate fluctuations. The government must also maintain macroeconomic stability, with a prudent fiscal policy and increase education and transparency for investors regarding exchange rate risk management. This policy is expected to create a more stable financial market and support sustainable economic growth.

The Effect of Inflation on Gross Domestic Product (GDP) in Indonesia Through Islamic Mutual Funds

The test results show that Islamic mutual funds are unable to mediate the effect of inflation on GDP in Indonesia. This finding indicates that Islamic mutual funds cannot directly reduce or stabilize the impact of inflation on GDP in Indonesia. Inflation is an economic phenomenon influenced by various macroeconomic factors, such as monetary and fiscal policies and global market conditions (Hafidz Meiditambua Saefulloh, Rizah Fahlevi, & Alfa Centauri, 2023). Although Islamic mutual funds are a popular investment instrument, there is no direct relationship between their performance and their ability to mitigate the impact of inflation on Indonesia's overall economy. This indicates that, while Islamic mutual funds can provide benefits for investors, this instrument is not effective enough to address the inflation issues that can affect national economic growth. Therefore, other investment instruments may be needed to better help mitigate or stabilize the effects of inflation on GDP (Hidayat, 2011).

The government and OJK need to maintain macroeconomic stability to support sustainable GDP growth and reduce the impact of inflation on the Indonesian economy by implementing policies that include the development of investment instruments that are more effective in dealing with inflation, such as inflation-protected mutual funds or real asset-based products.

CONCLUSION

The research findings indicate that exchange rates play a crucial role in driving economic growth (GDP) and have a significant impact on the development of Islamic mutual funds. Therefore, the government needs to maintain exchange rate stability through monetary and fiscal policies to support the investment climate, particularly in Sharia-compliant instruments. Since inflation negatively affects Islamic mutual funds, more effective inflation control policies are needed to preserve the public’s purchasing power and investment interest. For investors, it is important to consider the dynamics of exchange rates and inflation when making investment decisions, as well as to improve literacy regarding Sharia-compliant financial products. Meanwhile, financial institutions need to develop marketing strategies and product innovations that can attract investor interest, even though the direct impact of Islamic mutual funds on GDP has not yet been significant. Close collaboration among stakeholders is required to strengthen the contribution of the Islamic finance sector to the national economy.

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