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Analysis of The Interaction of Monetary Policy and Islamic Investment Towards Indonesia's Economic Growth

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Abstract
Economic growth is the main measure of development success, and the results of economic growth will be enjoyed by the community either by itself or with government intervention. Economic growth is an important indicator in the real sector. The interaction between monetary policy and sharia investment in influencing Indonesia's economic growth is the main focus of this study. This study aims to analyze the effect of the interaction of monetary policy (interest rates, exchange rates and money supply) and the interaction of sharia investment (sukuk, sharia stocks, sharia mutual funds) on Indonesia's economic growth for the period 2000-2022. This type of research is quantitative research using time series data from secondary data with the Vector Error Correction Model (VECM) analysis method with the help of Eviews software. The results of this study indicate that the variables of short-term interest rates, SUKUK, sharia stocks, sharia mutual funds have a positive and significant effect on economic growth, while the rupiah exchange rate (KURS), the amount of money in circulation on economic growth show a negative and insignificant effect. The variables of long-term interest rates, rupiah exchange rates or KURS, the amount of money in circulation SUKUK, sharia stocks, mutual funds have a positive and significant effect on economic growth

Keywords: *Rupiah Exchange Rate; BI Rate; Money Supply; Sukuk; Islamic Mutual Funds.*

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1. Introduction

Good economic growth is a supporting factor for national development (Hanoatubun, 2020). Basically, economic growth is defined as a process in which output per capita increases in the long term. This means that in the long term, prosperity is reflected in the growth of production

per capita which also provides many opportunities for the consumption of goods and services and the growth of people's purchasing power.

Economic growth also refers to an increase in the production of goods and services in the economic activities of society. It can be said that growth is a one-dimensional development and is measured by the growth of production and income.

Monetary policy has several instruments in controlling the monetary system, namely: First, open market operations. Second, discount policy. Third, cash reserve policy. Fourth, tight credit policy. Fifth, moral suasion policy. These instruments are set with the aim of a better economy than in previous years. One form of this policy is in controlling the Money Supply (JUB), Investment (I), and Interest Rates (r).

According to Susanto (2017) and Asnawi (2018), factors that significantly and positively affect economic growth are interest rates, exchange rates, and money supply. A fairly stable BI Index encourages especially the business world to develop and advance in business management. Encouraging the stabilization of the BI rate ultimately has a positive impact on economic growth. These results are in line with previous research conducted by Ambarwat (2021), Indriani (2016) and Tiwa (2016) who found that the BI rate has a positive and significant effect on economic growth in Indonesia.

Some of the Islamic investment instruments it uses are SUKUK or Islamic bonds, Islamic stocks and Islamic mutual funds. Sukuk are Islamic securities in the form of certificates or certificates of property rights that have the same value and are an integral part of the underlying assets.

Faroh (2016) that sukuk has an impact on national economic growth. However, Irawan and Siregar (2019) present different results that sukuk does not have an important impact. Rinanda (2018) sukuk will not have a positive impact on Indonesia's economic growth. Lawal and Imam (2016) and Tan and Shafi (2020) that sukuk has a positive effect on economic growth.

From the background of the problem described above, the purpose of this study is to analyze the effect of monetary policy interaction (interest rates, rupiah exchange rates and money supply) on Indonesia's short-term and long-term economic growth for the period 2000-2022, and analyze the effect of sharia investment interaction (sukuk, sharia stocks, sharia mutual funds) on Indonesia's short-term and long-term economic growth for the period 2000-2022.

So by using Vector Autoregression (VAR) Regression to determine the relationship between variables and the contribution of each variable to changes in other variables. It is expected that this study will show that the variables of short-term interest rates, SUKUK, sharia stocks, sharia mutual funds have a positive and significant effect on economic growth, while the rupiah exchange rate (KURS), the amount of money in circulation on economic growth show a significant effect and the variables of long-term interest rates, rupiah exchange rates or KURS, the amount of money in circulation SUKUK, sharia stocks, mutual funds will also have a significant effect on economic growth.

2. Literature Review

Islamic economics or Islamic economics in the history of Islamic thought has existed and emerged since the birth of Islam itself. He is not a separate part or the fruit of a separate thought that emerged at a later date. Islam, which is believed by its adherents as the last religion, becomes perfect (kamil) and plenary or comprehensive (syamil). Regulating all aspects of human life both

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concerning the intention, mindset and behavior of society, both at the level of relations with the Creator (hablumminallah) and fellow humans (hablumminannas)(Srisusilawati, 2019).

The impact of Islamic monetary instruments on inflation control in Indonesia remains minimal. This is based on the findings of this study, which show that only a few models of Islamic monetary instruments contribute. The contribution values are also very low, with the R Squared assessment indicating a range from very weak to weak (Bayuni, E. M., & Srisusilawati, P. 2018).

Furthermore, in the book, Fashul Maqal. Ibn Rushd emphasized that logic must be used as the basis for all judgments about truth. In addition, Ibn Rushd also criticized the weakness of human reason itself in solving supernatural and strange problems related to religion. Philosophy is required or at least encouraged in religion (religion in this sense is considered the same as Sharia) because the function of philosophy is only to speculate on what exists and think about it as long as it leads to knowledge of the Creator.

It should be noted that the number of Islamic investors is increasing every year. From 2017 to 2022, the Islamic capital market grew by 36.7 percent in terms of the number of investors (Malik, 2022). On the other hand, the significant growth of investment products in the form of Islamic stocks, corporate bonds and especially government bonds has contributed to the economy in Indonesia. However, it must be recognized that this development is still relatively small compared to the traditional capital market. This is evidenced by the total market share of Islamic finance which only reaches 10% of the total financial sector assets (Tira, 2021).

3. Methodology

The research was conducted with a quantitative descriptive method using Vector Autoregression (VAR) Regression to determine the relationship between variables and the contribution of each variable to changes in other variables. Although there are other simpler methods to determine the relationship between variables, for example with Ordinary Least Squares (OLS), but not like with VAR. VAR can not only be used to analyze the relationship between variables, but it can also see the movement of the response and variability of all variables during the study period, namely through the results of impulse response and variance decomposition both with graphs and tables.

This study uses secondary data taken from the Bank Indonesia Banking Statistics report (SPI BI), Bank Indonesia Sharia Banking Statistics (SPS BI), Indonesian Economic and Financial Statistics BI (SEKI BI) and the Central Statistics Agency (BPS).

Based on the form of research data which is time series data, the analysis method used is the Vector Autoregressive (VAR) and Vector Error Correction Model (VECM) approach. In the VAR model, if there are a number of variables that contain a unit root and are not cointegrated with each other, then the variable containing the unit root must be deferenced and the stationary variable resulting from the difference can be used in the VAR model. Meanwhile, if all variables contain a unit root but are cointegrated, the Vector Error Correction Model (VECM) model can be used (Rosadi, 2012). The following is an econometric model test.

4. Results And Discussion

The test method used in this first stage is the Unit Root Test, namely the Augmented Dickey-Fuller (ADF) test using a level of five percent. It is stated that if the ADF t-statistic value is smaller than the 5% critical value, it can be said that the data has 95% confidence and is stationary because it does not yet have a unit root. This test was conducted up to the 1st Difference level, the result of which is :

Data Stationarity Test Results

Table 4.1. Stationary Test at Level.

Variabel	ADF Statsitic	5%	Prob.	Description
KURS	0.015773	-2.928.142	0.9550	Not Stationary
SB	-2.335.442	-2.929.734	0.1658	Not Stationary
JUB	2.863.546	-2.929.734	10.000	Not Stationary
SUKUK	2.552.723	-2.929.734	10.000	Not Stationary
SSY	-0.996849	-2.928.142	0.7466	Not Stationary
RDS	-0.222697	-2.928.142	0.9279	Not Stationary
PDB	-0.466725	-2.929.734	0.8880	Not Stationary

Table 4.2. Stationary Test on 1st Defferent

Variabel	ADF Statsitic	5%	Prob.	Description
KURS	-6.479.825	-2.929.734	0.0000	Stationary
SB	-8.185.750	-2.931.404	0.0000	Stationary
JUB	-7.932.570	-2.929.734	0.0000	Stationary
SUKUK	-2.454.295	-2.929.734	0.0000	Stationary
SSY	-6.525.787	-3.596.616	0.0000	Stationary
RDS	-6.240.576	-2.931.404	0.0000	Stationary
PDB	-4.318.684	-2.929.734	0.0001	Stationary

Cointegration Test Results

The cointegration test is carried out if the data has been stationary at the Difference 1 level to see the possibility of cointegration between variables. During the testing process, the data that researchers use must first be converted into level data. Variables that have cointegration also indicate that these variables have a long-term relationship over the equilibrium relationship between them.

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Table 4.3. Cointegration Test

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	00.05 Critical Value	Prob.**
None *	0.781196	6.382.237	4.623.142	0.0003
At most 1	0.640542	4.297.267	4.307.757	0.0229
At most 2	0.545054	3.307.821	3.387.687	0.0620
At most 3	0.430133	2.361.881	2.758.434	0.1486
At most 4	0.229189	1.093.311	2.113.162	0.6540
At most 5	0.137321	1.203.915	1.426.460	0.5872
At most 6	0.067578	2.938.742	3.841.466	0.0865

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Determination of Optimum Lag

Testing the optimum lag length is very useful for researchers to eliminate autocorrelation problems in the VAR system. this is because if the optimum lag is used, it is expected to eliminate the autocorrelation problem. The first step is to determine the maximum lag length of a stable VAR system. According to Ascarya, (2009), the existence of VAR is said to be stable (stationary) if all of its roots have a modulus smaller than 1.

Optimum Lag Test

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Table 4.5.Optimum Lag Test

VAR Lag Order Selection Criteria

Endogenous variables: JUB KURS PDB PSB SSY SUKUK RDS

Exogenous variables: C

Date: 06/24/23 Time: 07:03

Sample: 2000S1 2022S2

Included observations: 42

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-4.039.663	NA	1.15e+75	1.926.982	1.929.878	1.928.044
1	-3.781.697	417.6594*	5.67e+70	180.0593*	185.0644*	1.835.967
2	-3.730.166	6.625.441	6.12e+70	1.826.269	1.869.711	1.842.192
3	-3.666.208	6.091.240	5.35e+70	1.819.146	1.882.861	1.842.500
4	-3.578.246	5.445.228	3.42e+70*	1.827.475	1.884.581	183.1378*

Vector Error Correction Model (VECM) Estimation

There are two main forms of analysis in VECM, namely Impulse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD). IRF is a vector moving average application that aims to see the current and future response traces of a variable to the shock of a particular variable. While FEV.D serves to predict the contribution of each variable to the shock or change in certain variables. The following presents a simulation of VECM analysis having a short time and a long time.

Table 4.5. Short-Term VECM Estimation

Variabel	**Koefisien**	**T-Statistik**
CointEq1	(0.02267)	[-7.08753]
D(PDB(-1))	(0.28406)	[-1.89216]

D(PDB(-2))	(0.30751)	[-1.07575]
D(SB(-1))	(0.23872)	[-1.52342]
D(SB(-2))	(0.24499)	[1.23837]
D(JUB(-1))	(0.30789)	[1.20896]
D(JUB(-2))	(0.54216)	[-1.77194]
D(KURS(-1))	(0.22529)	[1.26504]
D(KURS(-2))	(0.26767)	[-0.01011]
D(SUKUK(-1))	(0.24744)	[0.28436]
D(SUKUK(-2))	(0.22504)	[0.57449]
D(SSY(-1))	(0.34050)	[1.07377]
D(SSY(-2))	(0.54457)	[-0.90167]
D(RDS(-1))	(0.25009)	[1.08947]
D(RDS(-2))	(0.37324)	[-1.13507]
C	(3260.29)	[1.98240]

In the short-term estimation shows that the Islamic Mutual Fund (RDS) variable in lag 1 has a positive effect on GDP, which is 0.25009, meaning that if there is an increase in RDS by one point in the previous year, it can increase GDP in the current year by 0.337324 points. Likewise, lag 2 has a positive effect on GDP, which is 0.37324, which means that if there is an increase in RDS by one point in the previous two years, it will increase GDP in the current year by 0.37324 points. The t-statistic result of the RDS variable on lag 1 of 1.08947 is smaller than 1.980 and lag 2 of minus 1.13507 is smaller than 1.980. So that H0 is rejected and H1 is accepted, which means that the RDS variable has a significant effect on GDP in the short term relationship.

Table 4.6. Estimation of Long-Term VECM Model

Variabel	**Koefisien**	**T-Statistik**
D(SB(-1))	(0.31451)	[-1.09806]
D(KURS(-1))	(0.24741)	[-1.72858]
D(JUB(-1))	(0.33022)	[-0.71601]
D(SUKUK(-1))	(0.29598)	[1.07642]
D(SSY(-1))	(0.35571)	[-0.59143]
D(RDS(-2))	(0.47475)	[-0.49487]

Granger Causality Analysis

The test level used in this granger causality test is with a confidence level of 0.05 (5 percent), and the lag length is lag 1, based on the optimal length test conducted at the previous stage. The

following table 4.5. which shows the Granger Causality Test.

Table 4.13. Granger Causality Test

Pairwise Granger Causality Tests

Date: 06/23/23 Time: 08:36

Sample: 2000S1 2022S2

Lags: 1

Null Hypothesis:	F-Statistic	Prob.
PDB does not Granger Cause JUB	0.74165	3,3535
JUB does not Granger Cause PDB	104.846	2,5007
PDB does not Granger Cause SB	621.293	0.0045
SB does not Granger Cause PDB	382.229	0,2118
PDB does not Granger Cause KURS	505.003	0,0778
KURS does not Granger Cause PDB	0.10768	6,2375
PDB does not Granger Cause SUKUK	0.47442	4,3458
SUKUK does not Granger Cause PDB	0.47280	4,3528
PDB does not Granger Cause SSY	404.244	0,1764
SSY does not Granger Cause PDB	149.771	1,6403
RDS does not Granger Cause PDB	0.10316	6,2653
PDB does not Granger Cause RDS	228.366	0,8014
SB does not Granger Cause JUB	0.21165	5,6264
JUB does not Granger Cause SB	103.932	0.0002
KURS does not Granger Cause JUB	0.08750	6,3639
JUB does not Granger Cause KURS	371.937	0,2306
SUKUK does not Granger Cause SSY	167.766	1,3889
SSY does not Granger Cause SUKUK	0.90622	2,8639
RDS does not Granger Cause SSY	155.101	1,5611
SSY does not Granger Cause RDS	185.109	1,1847

Variance Decomposition

After analyzing the dynamic behavior through impulse response function, the characteristics of the model will be seen through Variance Decomposition (VD). This analysis is

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used to estimate the contribution of the percentage of variance of each variable to a particular variable change. Variance Decomposition analysis can describe the relative importance of each variable in the VAR system due to shocks.

Period	S.E.	PDB	JUB	KURS	SB	SSY	SUKUK	RDS
1	1.638.246	8.863.160	6.628.025	4.740.378	0.000000	0.000000	0.000000	0.000000
2	1.794.758	8.216.703	5.595.191	5.082.138	2.939.409	0.012019	4.202.185	0.002033
3	1.856.324	7.688.871	6.455.806	5.415.705	6.388.191	0.671425	3.930.856	0.249309
4	1.885.324	7.455.507	6.738.168	5.280.595	6.485.351	1.224.634	5.248.362	0.467816
5	1.892.740	7.421.835	6.685.694	5.243.752	6.700.171	1.413.875	5.227.475	0.510680
6	1.911.480	7.277.282	6.607.589	5.499.528	7.568.615	1.707.110	5.338.226	0.506115
7	1.914.650	7.255.337	6.663.823	5.494.008	7.598.262	1.704.601	5.335.030	0.650903
8	1.921.625	7.208.271	6.626.785	5.466.782	7.819.433	1.872.469	5.319.292	0.812525
9	1.926.182	7.174.221	6.600.929	5.451.194	7.813.919	2.179.668	5.300.897	0.911184
10	1.934.296	7.114.509	6.585.436	5.408.087	7.763.432	2.876.678	5.257.412	0.963869

Table 4.9 above shows that in the first period GDP is affected by the SUK shock itself by 8,863,160 percent. While in the first period the variables SB, SSY, SUKUK, RDS have not yet influenced GDP. Furthermore, in the second period JUB contributed a shock of 5,595,191 percent, and increased until the tenth period to 6,585,436 percent.

In the second period, the shock was given from KURS, which amounted to 5,082,138 percent, and experienced a continuous increase until the tenth period of 5,408,087 percent. Furthermore, in the second period the shock given from SB (interest rates) amounted to 2,939,709 percent and experienced a consistent increase until the tenth period of 7,763,432 percent. So it can be said that the KURS, JUB and SB variables have a contribution that always increases in each period to the dependent variable JUB.

Next, in the second period the shock was given from SUKUK which amounted to 4,202,185 percent, and experienced a continuous increase until the tenth period of 5,257,412 percent. Furthermore, in the second period the shock given from SSY (sharia stocks) amounted to 0,012,019 percent and experienced a consistent increase until the tenth period of 2,876,678 percent.

BI interest rates or loan interest rates issued by Bank Indonesia can attract the attention of the business world in the medium and long term because loans can become negative or bad in the medium and long term, therefore commercial banks provide loans to individuals/businesses in order to apply the principle of prudence.

Bank Indonesia's exchange rate is favorable and positive in the short, medium and long term. Companies or individuals should be more careful when dealing with exchange rates, especially with regard to the US exchange rate which tends to appreciate. Banks are also affected by the COVID-19 pandemic. Therefore, Bank Indonesia must be more vigilant in setting

exchange rates in the future, especially in the long term, so that the business world can have confidence in its business.

As the amount of money increases every year, Bank Indonesia as the JUB regulator is quite good at managing JUB in the short, medium and long term, but it also needs to be more careful in managing money because there are still many counterfeit notes. wills also arise in society. In a city like the national capital, there is still too much money in circulation that does not spread to all provinces in Indonesia.

Bank Indonesia is committed to maintaining monetary economic stability, among others, through interest rate instruments in open market operations. Bank Indonesia must be able to set monetary policy in an appropriate and balanced manner. Because disruption of monetary economic stability has a direct impact on various economic sectors. Monetary policy kills economic activity by applying interest rates that are too tight. And vice versa. Therefore, Bank Indonesia implements a policy called Inflation Targeting Framework to create currency stability.

Monetary policy can be defined as the central bank's policy to increase and decrease the amount of money in circulation. In general, there are two types of monetary policy, namely expansionary monetary policy and contractionary monetary policy. Expansionary monetary policy is a monetary policy aimed at encouraging economic activity, which is done among other things by increasing the money supply. Conversely, contractionary monetary policy is monetary policy aimed at slowing down economic activity, which is done by, among other things, reducing the money supply.

The objectives of Article 7 Monetary Policy in Bank Indonesia Law No. 23 of 1999 which has been amended several times, most recently by Law No. 6 of 2009 (Indonesian Banking Law) are: To maintain the stability of the value of one rupiah. The stability of the value of the rupiah includes two aspects, namely the stability of the value of the rupiah against goods and services reflected in the inflation rate, and the stability of the value of the rupiah against other countries' currencies reflected in the development of the exchange rate (kurs). BI, like the Central Bank of the Republic of Indonesia, acts as the sole monetary policy. The stability of the value of money is the goal of monetary policy made and implemented by BI.

According to the DSN MUI Sukuk fatwa number: 32/DSN-MUI/IX/2002 is a long-term sharia-based security whose issuer holds Sukuk or Sukuk or Sukuk and which obliges the issuer to pay income to the holders of the Sharia Bonds in the form of profit sharing and Bond payments or required interest payments at maturity. Bonds or sukuk are long-term securities and of course based on sharia principles. The bonds are issued by the issuer to the holders of sharia bonds or sukuk and oblige or force the issuer to pay income to the holders of sharia bonds in the form of profit sharing by paying interest funds when they have the time limit. concept, is the DSN MUI fatwa No. 32 / DSN-MUI.

Investment Funds in DSN MUI Fatwa No. 20/DSN-MUI/IV/2001, Sharia Investment Funds are investment funds that operate according to the provisions and principles of Islamic Sharia law, both as owners to investors (Shahibul Mal) and between investment managers as agents of Shahibul Mal. and between investment managers representing Shahibul Mali and investment users.

5. Conclusion

Based on the data processing and discussion carried out, the following conclusions were obtained. Monetary policy has a significant effect on Indonesia's economic growth. The Impulse Response Function (IRF) analysis shows that the response of interest rates to GDP in the short and long term shows a positive response. The KURS response to GDP in the short term shows a negative

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response and the long term shows a positive response. From the results of the FEVD analysis, it shows that in the short term the variables of BI Rate, Rupiah exchange rate, money supply, sukuk, Islamic stocks and Islamic mutual funds contribute positively and significantly to economic growth (GDP), while in the long term the variables of BI Rate, Rupiah exchange rate, money supply, sukuk, Islamic stocks and Islamic mutual funds have a positive and significant effect on economic growth (GDP).

Sharia investment has a significant effect on Indonesia's economic growth. The results of the Impulse Response Function (IRF) analysis show that the response of Sukuk to GDP in the short and long term shows a positive response. The response of Islamic stocks to GDP in the short term shows a positive response and the long term shows a negative response. The response of Islamic Mutual Funds to GDP in the short and long term shows a positive response. The results of the FEVD analysis show that in the short term the variables of sukuk, Islamic stocks and Islamic mutual funds contribute positively and significantly to economic growth (GDP), while in the long term the variables of sukuk, Islamic stocks and Islamic mutual funds have a positive and significant effect on economic growth (GDP).

Monetary policy has a significant effect on Islamic investment. The Impulse Response Function (IRF) analysis shows that the response of interest rates to Islamic Investment in the short and long term shows a positive response. The KURS response to Islamic Investment in the short term shows a negative response and in the long term shows a positive response. From the results of the FEVD analysis, it shows that in the short term the variables of BI Rate, Rupiah exchange rate, money supply, contribute positively and significantly to Islamic Investment, while in the long term the variables of BI Rate, Rupiah exchange rate, money supply, have a positive and significant effect on Islamic Investment.

Suggestion

The same recommendation to the Financial Services Authority (OJK) as the licensee of SUKUK products, Sharia Shares and Sharia Mutual Funds. OJK should pay more attention to the three Sharia products above, because these Sharia products not only increase their investment, but also attract the demand of the general public and foreign investors, so that these products can become excellent and superior in the future according to the choice of investment. . Furthermore, OJK should be more wary of Islamic stocks especially in the medium and long term, as Islamic stock prices in general have a negative impact on the Indonesian economy and in particular Indonesian economic growth during that period.

Author contribution statement

The first author's contribution is to create concepts, process data, and analyze data. The second author analyzes the research results in the context of Islamic investment, while the third author analyzes the research results in the context of monetary policy interactions.

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