



Research Paper

## The Effect of Macro Factors on Investment Decisions in Manufacturing Companies Listed in Indonesia Stock Exchange (IDX)

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**ABSTRACT:** This research aims to: 1) Test and analyze the effect of interest rates, inflation and exchange rate on investment decisions, 2) Testing and analyzing the effect of interest rates, inflation, exchange rate and investment decisions on the value of companies in manufacturing companies listed in the Indonesia Exchange Securities.

This research used a causality approach using secondary data obtained from the financial statements of manufacturing companies listed in the Indonesia Stock Exchange in the form of Indonesian Capital Market Directory (ICMD) data through the Capital Market Information Center (CMIC) Makassar Branch, Indonesian Stock Exchange website, Bank of Indonesia website as well as the website of The Indonesian Translation Of Central Agency on Statistics. The population in this research are all manufacturing companies listed in the Indonesia Stock Exchange. The sampling technique used was purposive sampling with the number of samples of 45 companies with the financial statements of 5 years so that the total observation as a whole of 225 observations. The analysis method used in this research is path analysis. The results showed that: The interest rate and inflation have a negative effect on the investment decision, while the exchange rate has a positive effect on the investment decision.

**Keywords:** Interest Rate, Inflation, Exchange Rate and Investment Decision

### I. INTRODUCTION

The existing capital market in Indonesia especially the Indonesia Stock Exchange (IDX) is an emerging market capital which in its development is very vulnerable to macroeconomic conditions in general. The economic crisis that began in 1998 was the beginning of Indonesia's national economy pillars collapse. This was marked by the decline in public trust in Indonesian banks in the form of withdrawal of funds on a large scale (rush) by depositors to then be stored abroad (capital flight). The interest rate of 70% and the exchange rate depreciation against the US dollar of 500% resulted in almost all economic activities disrupted. Another impact of the decline in public trust impacted the capital market. Stock prices have declined sharply, causing significant losses for investors. How not, if the stock is sold at a price of only Rp 10, - per share and Composite Stock Price Index (CSPI) never dropped below 300.

Similarly to the conditions that in the year of 2008 the world recession caused by the crisis that occurred in the United States. The crisis caused the US economy to experience a severe recession that impact is still felt today. This crisis also hit some world-class banks like Lehman Brothers. Similarly, the US stock exchange Wall Street also fell. The same condition also occurred in Indonesia where in December 2008 the Indonesian capital market experienced a two-day closing. According to Osoro (2014), that corporate activity will be greatly influenced by macroeconomic variables. Macroeconomic variables greatly determine the business environment. This is in linewith research conducted Ravindran (2015) Ratnawati (2007), Akingunola (2012) stating that external factors have a significant and positive impact on investment decisions. As noted by Taofik (2010), macro conditions are very influential, one of which is inflation, then the market index is also affected by

inflation. Caroline (2012) also convey the same thing, where inflation shows a significant influence on stock performance.

Chen et. al. (2006) proves that macroeconomic variables have a systematic effect on stock market returns. Economic strength affects the discount rate, the company's ability to drive cash flow, and future dividend payouts. Such a mechanism shows that macroeconomic variables are crucial factors in equity markets (Maysami and Sim Koh, 2000). The results of empirical research on the influence of interest rates on JCI in the period of 2003 until now, the results showed significant evidence that interest rates negatively affect the JCI. The higher rate rise will further undermine the performance of the Indonesia Stock Exchange. The sensitivity of about 0.5 means if the interest rate rises 1% then the composite share price index will fall 0.5%. Conversely, if the interest rate drops by 1% then the JCI will rise by 0.5%.

Inflation has an impact on rising interest rates. Interest rate increased will directly increase the interest expense as well. Companies that have high leverage will have a very heavy impact on interest rate increases. The price of raw materials will also increase, if this cost increase does not meet the selling price to the consumer, then the profitability of the company will decrease. This decrease in profitability will result in a significant impact on dividend incomewhich should be accepted by investors, which in turn investment in stocks in the capital market becomes less attractive. Eventually the investor will move on to another type of investment, which gives a better return in this case of high interest, for example; deposit.

The movement of exchange rate and inflation followed by interest rate movement as the controlling of demand and supply of money supply as well as inflation control then interest rate can be used as medium of exchange rate and inflation to see its effect to share price. The ups and downs of stock prices that are affected by changes in exchange rates and inflation may affect returns and a reasonable rate of return, exchange rate and inflation will encourage investment climate movements that can directly lift the macroeconomic economy as domestic and foreign investors are interested to invest their capital in the country that would provide benefits for the investors themselves as well as the country.

Furthermore, in table 1 below indicated macroeconomic factors indicators, the average growth of Return on Equity (ROE) and Price Earning Ratio (PER) Manufacturing Industry in the IDX period 2010-2014.

**Table 1.** Indonesia Macro Economy Factor Indicators, Average Growth Return on Equity (ROE), and Price Earning Ratio (PER) Manufacturing Industry in IDX Period 2010-2014

Year	Inflation Rate (%)	Interest Rate of SBI (%)	Exchange Rate USD Against (Rp)	USD	Return on Equity (ROE) (Rp)	Price Earning Ratio (PER) (%)
2010	5,13	6,50		9.583	24,57	16,67
2011	5,38	6,60		9.279	25,62	32,96
2012	4,28	5,75		9.881	27,28	15,09
2013	6,97	7,02		10.951	25,82	13,36
2014	6,42	7,54		12.373	24,13	13,80

Source: Bank of Indonesia and Indonesia Stock Exchange (2016)

Based on the description in the background, it can be proposed problem formulation as follows: 1) Does the interest rate have effect on investment decisions on manufacturing companies listed on the Stock Exchange; 2) Does inflation affect investment decision on manufacturing companies listed on IDX ; 3) Does the exchange rate affect investment decisions on manufacturing companies listed on the Stock Exchange?

## II. LITERATURE REVIEW

### Interest Rate

According to Wardane (2003) in Prawoto and Avonti (2004), interest rates are payments made for the use of money. Interest rate is the amount of interest to be paid per unit of time. In other words, people have to pay the opportunity to borrow money. According to Samuelson and Nordhaus (1995: 197) in Wardane, interest rates are the cost of borrowing money, measured in dollars per year for each borrowed Dollar. According to Keynes, in Wardane (2003), the interest rate is determined by the demand and supply of money (specified in the money market). Changes in interest rates will subsequently affect the desire to invest, for example on securities, where prices may rise or fall depending on the interest rate (if interest rates increased then securities decreased and vice versa), so it is possible that the securities holder will suffer capital loss or gain. Interest rates are divided into two, namely:

1. The nominal interest rate is the interest rate in the money value. This interest rate is generally readable. This interest rate represents a certain amount of rupiah for every one dollar invested.
2. The real interest rate is the interest rate that has been corrected due to inflation and is defined as the nominal interest rate less the rate of inflation.

In the Accounting Dictionary (1996: 69), it is stated that Interest (interest, interest, right) is: [1] the burden of using money in a period, and [2] an ownership or a part of reality in a company, trading business or source power. The elements in the interest rate, including:

1. Terms are due

Various loans have terms or maturities. The shortest loan is a one-night loan. Short-term securities typically have a period of up to one year. Long-term securities generally provide higher interest rates than short-term

2. Risk

There are loans that are essentially riskless, while others are highly speculative. Government bonds and bills are backed with confidence, by the credit and tax power of the government. These elements can be trusted because the interest on government loans will be actually paid. Medium risk lies in loans for good corporate credit. While risky investments have a high chance of failing or unpaid, including investments in companies that are almost bank.

3. Liquidity

Assets will be called "illiquid" if they can be swapped for cash quickly and cause little value loss. Most of the securities, including ordinary shares, corporate bonds and government, can be measured by cash quickly to their present value. Non-liquid assets include unique assets that do not have a well-developed market.

4. Administrative costs

The time and accuracy required for the administration of various types of loans, is very different. Loans with high administrative costs will have an interest rate of 5 to 10 percent per year greater than other interest rates.

Tandelilin (2001) states that high interest rates will affect the present value of the company's cash flow, so that investment opportunities will not be attractive anymore. This will make investors reduce investment so that stock prices fall and the value of the company will also decrease.

### **Inflation.**

Inflation is an ongoing process of increasing the prices of goods. The price increase of each item need not be the same (either absolute or percentage). Similarly, the rise time does not need to coincide. It should be noted that the general price increase of the goods occurs continuously over a period of time. A one-off increment is not inflation. Unless a rise in one price of goods drives up the price of other goods. This price increase is measured using the price index. Some price indexes that are often used to measure inflation include:

1. Consumer Price Index (Consumer Price Index)
2. Wholesale Price Index (Wholesale Price Index)
3. GNP Deflator

Above has been described the definition of inflation as merely an economic phenomenon, namely as the tendency of prices to rise. The inflation that occurred in Indonesia during the turbulent period around 1965, inflation in Latin American countries today, can not be viewed simply as an economic disease that can be solved by economic therapy. Political decisions and sociological background of society also affect inflation.

The component of the inflation rate that is temporary (noise inflation) is part of the inflation rate caused by an occasional shock (one time shock) on the rate of inflation. Some of the factors that may cause temporary upheaval are increased production and distribution costs (eg pass through effects of depreciation resulting in increased input costs for industry), increases in energy and transport costs, and non-economic factors (such as social unrest, floods, earthquakes, and forest fires). These factors can lead to prolonged inflationary pressures if there are inefficient and unbalanced fundamental micro structures in the economy, especially structures in the production and distribution sectors. Exchange Rate (Exchange Rate) According to Adiningsih, et al (2008: 155), the rupiah is the price of rupiah against the currency of other countries. Thus, the rupiah exchange rate is the value of one rupiah currency translated into another country's currency. For example, the rupiah exchange rate against the US Dollar, the exchange rate of rupiah against the yen, and so forth. This rate is one of the indicators that affect the activity in the stock market and money market because investors tend to be careful to make an investment. Thus, the Rupiah exchange rate against foreign currencies especially US Dollar has a negative influence on the economy and capital market (Sitinjak and Kurniasari, 2003).

### **Exchange Rate**

Determination. There are several factors that influence the movement of exchange rates, namely (Madura, 2003):

1. Fundamental Factors

Fundamental factors relate to economic indicators such as inflation, interest rates, the relative differences in inter-country revenues, market expectations and central bank interventions.

## 2. Technical Factors

Technical factors relate to conditions of supply and demand of foreign exchange at certain times. If there is an excess demand, while the offer is fixed, the forex price will go up and vice versa.

## 3. Market Sentiment

More market sentiment is caused by incidental rumors or incidental political news, which could push up forex prices sharply or decrease in the short term. If rumors or news have passed, then the exchange rate will return to normal.

Based on some literatures, there are several factors that influence the movement of exchange rates, namely fundamental factors, technical factors, and market sentiment (Jeff Madura, 1993). Fundamental factors relate to economic indicators such as inflation, interest rates, the relative differences in inter-country revenues, market expectations and central bank interventions. Technical factors relate to conditions of supply and demand of foreign exchange at certain times. If there is an excess demand, while the offer is fixed, the forex price will go up and vice versa.

More market sentiment is caused by incidental rumors or incidental political news, which could push up forex prices sharply or decrease in the short term. If rumors or news have passed, then the exchange rate will return to normal. A large number of research studies such as those conducted by Olweny and Omondi (2011), Richard (2012), Divianto (2013) Cliff and Willy (2014), Ramasamy and Abar (2015), have found that share prices are related to exchange rates. From the descriptions of the exchange rate can be concluded that the exchange rate has a causality relationship with stock returns. The size of the stock return is reflected in the performance of the company in carrying out its operations. One of the benchmarks of company performance success is net income. Therefore there should be a strong correlation between exchange rate changes and changes in net income.

## ***Investation decision***

Investment has a very broad understanding. Consumption sacrifice now can be interpreted as an investment for future consumption, or how much consumption should be accepted in the future so that individuals or groups are willing to sacrifice current consumption with the same expected level of satisfaction in the future. If associated with the capital market in general, investments are defined as investments in the form of financial assets to obtain profits which the investment is not independent of the possibility of risk.

Some notions of investment put forward by economists include: Francis (1991: 1) suggests that: "An investment is a commitment of money that is expected to generate additional money". According to Francis that the investment is the planting of certain money that is expected to generate additional money in the future. Hirt (1993: 15) says that: "Investment defined as the commitment of current funds in anticipation of receiving a large future of flow of funds". Understanding by Hirt that the investment is the responsibility of the current funds in anticipation of the receipt of a large flow of funds in the future. Investment decisions for investors are related to the future that contains uncertainty, which means that it contains elements of risk that must be borne by investors. Knowledge of risk is a very important thing owned by investors and potential investors. For a rational investor, at least should consider two things: the expected return and the risk that always contained from every investment made. From this, it can be interpreted as an investment activity of investing a certain amount of current funds in the hope will be able to provide results (return) in the future. However, this investment has a greater risk level compared to other alternatives such as bonds, deposits and savings.

The risk of stock investment is reflected in the variability of returns both on individual and overall returns (market returns). The size of the investment risk can be measured by the variance or standard deviation of the return. Francis (1991: 18). The risks indicate the circumstances in which the profit that will occur can not be known for certain (uncertainty), but can be arranged a possible alternative events that can be known.

According to Sumantoro (1990: 14) investment is an activity to invest capital either directly or indirectly with the hope in time later the capital owner get some profit from the investment. Meanwhile, according to Jogiyanto (2000: 5) investment can be defined as a delay of current consumption for use in efficient production over a certain period of time. Understanding investment by Ahmad (2006: 3) is to place money or funds in the hope to gain additional or profit on money or funds. One of the investment objectives is to obtain sufficient results. The results obtained in a certain period is a measure of the growth rate of the investment. Another opinion put forward by Ross (1993: 4) which states that: "The objectives of the investment is to maximize the value of the investment. In the simple term this means to fund assets that have appropriate rate of return". The results of Vogt (1997) showed that growing companies will respond positively by the market. While Menururt Smith and Watts (1992) said that the company's growth opportunities seen in the opportunity invested in a variety of investment value set investment value set (investment opportunity set). The IOS term (investment opportunity set) first proposed by Myers (1977) is intended as a combination of the assets in place and future investment options. Meanwhile, according to Gaver and Gaver (1983) that future investment options

are not solely indicated by projects supported by research and development activities alone, but also with the ability of firms to exploit the opportunity to take advantage compared with other companies equivalent to an industry group.

Fama (1978) says that corporate value is solely determined by investment decisions. It is intended that investment decision is important, because to achieve the goals of the company will only be generated through corporate investment activities. Meanwhile, according Modigliani and Miller (1958) said that investment decisions can not be observed directly. Several studies were conducted in relation to investment decisions, among others, by Myers (1977) who introduced the IOS. IOS provides a broader clue where the value of the company depends on the company's future expenses. Thus the company's prospects can be estimated through investment opportunity set (IOS). IOS is defined as a combination of assets in place and investment options in the future with a positive net present value. According to Gaver & Gaver (1993), IOS is the value of a company whose size depends on the expenditure set by management in the future, which is currently the investment choices that are expected to result in greater returns.

### Conceptual Framework

Company objectives can be achieved through the implementation of the financial management function carefully and appropriately in view of any financial decisions that will affect other financial decisions that affect the value of the company (Jensen & Smith 1984; Fama and French 1998).

### Research Conceptual Framework

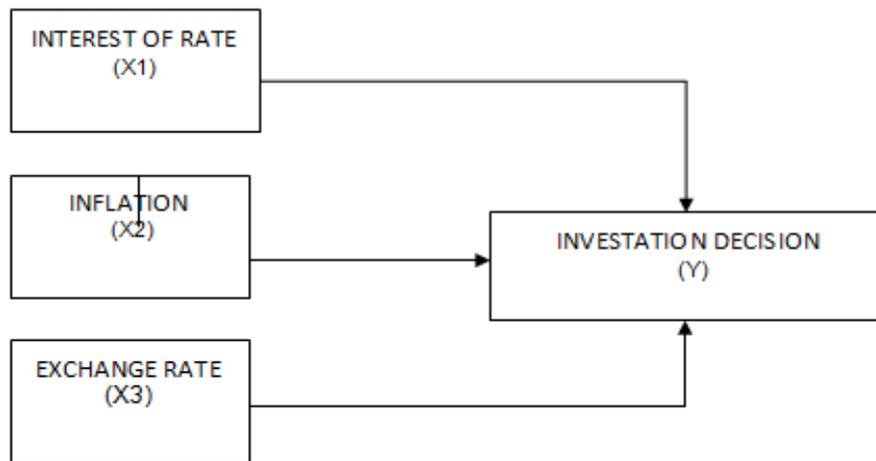


Figure 1. Conceptual Research Framework

## III. METHODOLOGY

### Population and Sample

Research sites This research is conducted at Indonesia Stock Exchange (IDX) by accessing data through Makassar Capital Market Information Center (PIPM), as well as through IDX, Bank Indonesia and Central Bureau of Statistics (BPS) website. Population and Sample. The population of this study are all Go Public Manufacturing companies listed on the Indonesia Stock Exchange (IDX), with observation period of 2010 to 2014. In accordance with ICMD number of manufacturing companies listed on the IDX 2010 - 2014 as many as 149 companies. The technique used in sampling is by using Purposive Sampling. The sample used in this research is 45 companies.

### Analysis of Data

The analytical method used in this research is to use multiple regression analysis by using SPSS version 21 software with equation as follows:

$$Y = \alpha_1 + \beta_{11} X_1 + \beta_{12} X_2 + \beta_{13} X_3 + \varepsilon$$

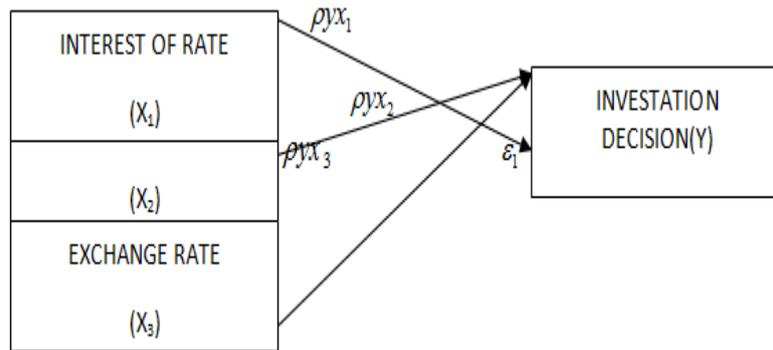


Figure 2. X1, X2, X3 Against Y

Information :

Endogen Variable (Y) = Investment Decision

Exogenous Variables (X1, X2, X3) = Interest Rate, Inflation, Exchange Rate

#### IV. RESULT & DISCUSSION

Analysis of Interest Rate, Inflation and Exchange Rate on Investment Decision

##### 1. Simultaneous Testing

ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	318.916	3	106.305	.326	.806 <sup>a</sup>
	Residual	72026.701	221	325.913		
	Total	72345.617	224			

a. Predictors: (Constant), X3, X2, X1

b. Dependent Variable: Y

Based on the results obtained from statistical tests using Anova table obtained value F of 0.326 with probability (sig) = 0.806. Since the value of sig > 0.05, then the decision is H0 accepted and reject Ha. this means that the interest rates, inflation and exchange rates together have no effect on investment decisions. The magnitude of the coefficient of determination R square or R<sup>2</sup> = 0.004 or 0.4%, while the magnitude of the influence of other variables that are not included into the model that is, = 1 - 0.004 = 0.996 or 99.6%

##### 2. Partial Testing

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.660	17.145		.505	.614
	X1	-.564	5.024	-.019	-.112	.911
	X2	-.896	2.692	-.048	-.333	.740
	X3	.002	.002	.096	.904	.367

a. Dependent Variable: Y

a) Effect of Interest Rate on Investment Decision Partial relationship test is shown in Appendix 1 of Coefficients table. Analysis of the partial relationship between the Interest Rate and the investment decision is that in the sig column (significant) in Coefficients table obtained sig value 0.911. Since the sig value of 0.05 then H0 is accepted and rejects Ha which means that the Interest Rate has no effect on the investment decision.

**b). Influence of Inflation on Investment Decision**

Analysis of the partial relationship between Inflation with the decision of investment is that in column sig (significant) in table Coefficients obtained sig value 0.740. Since the sig value of 0.05 then H0 is accepted and rejects Ha which means that Inflation has no effect on investment decision.

**c). Influence of Exchange Value on Investment Decision.** Analysis of the partial relationship between the exchange rate and the investment decision is that in the sig column (significant) in Coefficients table obtained sig value 0.367. Since the sig value of 0.05 then H0 is accepted and rejects Ha which means that the exchange rate has no effect on the investment decision.

## **V. DISCUSSION OF RESEARCH RESULTS**

### **Influence of Interest Rate, Inflation and Exchange Rate Against Investment Decision**

- 1) **Analysis and Implication Influence Interest Rate Against Investment Decision**  
Based on the result of research known, that influence of variable of Interest Rate (X1) to investment decision (Y) is equal to - 0,564 with probability level equal to 0,911. This means that the Interest Rate (X1) has a negative and significant effect on the investment decision (Y). Based on the results of this study, it can be said that interest rates negatively affect the investment decisions of the company. The negative effect of interest rates on investment decisions is caused by the tendency of investors to save their funds in banks when the interest rates of banks increase. The tendency is more due to risk considerations (risk). Investments made both in real investment and in financial investment will contain risks that will likely be large. While saving money on financial institutions, especially in the banking sector has a risk (risk) is very small and even free from risk (risk free).

The results of this empirical study in line with the results of research that has been done that the influence of interest rates on JCI in the period of 2003 until now, the results showed significant evidence that interest rates negatively affect the JCI. The higher rate hikes will further undermine the performance of the Indonesia Stock Exchange.

The sensitivity of about 0.5 means if the interest rate rises 1% then the composite share price index will fall 0.5%. Conversely, if the interest rate drops by 1% then the JCI will rise by 0.5%. The results of this study are in line with research conducted by Osoro (2014), that company activity will be greatly influenced by macroeconomic variables. Macroeconomic variables greatly determine the business environment.

The results of this study are contrary to research conducted Ravindran (2015) Ratnawati (2007), Akingunola (2012) which states that external factors have a significant and positive impact on investment decisions. According Bialowolski (2012) there are external factors that affect the value of companies such as law, economic growth, taxes, interest rates and stock market conditions.

- 2). **Analysis and Implications Influence Inflation Against Investment decisions**  
Based on the results of research known, that the influence of variable Inflation (X2) to the investment decision (Y) is equal to - 0.896 with probability level (Sig) of 0.740. This means that Inflation (X2) has a negative and significant effect on investment decision (Y). Based on the results of this study, it can be said that Inflation has a negative effect on corporate investment decisions.

The negative effect of inflation on investment decisions in the Theoretical Review reveals that inflation will tend to increase the production costs of the company. This means that the profit margin from the company is lower and the further impacts make the stock price in the stock market decline. If so, then the decline tends not to take place instantaneously but through the time process. In terms of investors, high inflation will reduce the value of profits and also reduce the purchasing power of investment capital. Thus if the inflation rate rises, then the JCI will decrease and vice versa.

The results of this study contradict the research conducted by Taofik (2010), that macroeconomic conditions are very influential, one of which is inflation, then the market index is also affected by inflation. Similarly, research conducted by Caroline (2012) also convey the same thing, where the inflation shows a significant influence on stock performance. The results of this study also contradict the research conducted by Osoro (2014), that corporate activity will be greatly influenced by macroeconomic variables. Macroeconomic variables greatly determine the business environment. This is in line with research conducted Ravindran (2015) Ratnawati (2007), Akingunola (2012) stating that external factors have a significant and positive impact on investment decisions.

- 3). **Analysis and Implication of Exchange Rate Effect on Investment Decision**  
Based on the result of research known that the influence of exchange rate variable (X3) to investment decision (Y) is 0,002 with probability level (Sig) equal to 0,360. This means that the Exchange Rate (X3) has a positive but very small and insignificant effect on the investment decision (Y). Based on the results of this study, it can be said that the Exchange Rate effect on investment decisions of the company, but the effect is very small.

The results of this study are in line with research conducted by Dornbusch and Fisher (2000) saying that exchange rate movements affect international competitiveness and trade balance positions, and the consequences will also impact on the real output of the country which in turn will affect current cash flow and the future of the company and the stock price of the company.

Previous studies that have conducted research on the relationship between capital market and exchange market are done by Aggarwal (1999), Soenen and Hennigar (2000), Ma and Kao (2001), Roll (2002) and Chow et al (2007). They found different outcomes related to those two markets. Aggarwal (1999) found that revaluation of US \$ is positively associated with stock market returns. The results of this study contradict the research conducted by Soenen and Hennigar (2000) found a negative relationship. Roll (2002) used daily data during the period 1995-2000 to find a positive relationship between the two markets. Chow et al (2007) using monthly data for the period 2000-2005 found no relationship between stock returns with exchange rate returns.

## V. CONCLUSION

From the results of research and discussion in the previous section, then put forward some conclusions from this research:

1. Interest rates have a negative and significant effect on investment decisions. These findings suggest that with rising interest rates will lower interest in investing in the manufacturing sector.
2. Inflation rates have a negative and significant effect on investment decisions. The findings of this study indicate that when there is an increase in inflation, it will reduce investment decisions on manufacturing companies.
3. Exchange rate positively affects the investment decisions of the company. The findings of this study indicate that exchange rate movements have an influence on investment decisions on manufacturing companies.

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