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THE EFFECT OF BI RATE, EXCHANGE RATE, AND WORLD OIL PRICES ON GREEN INVESTMENT IN INDONESIA

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Abstract

This study examines how monetary policy and external shocks influence green investment in Indonesia, proxied by the SRI-KEHATI Index. Drawing on the perspective of asset pricing theory, macroeconomic variables are treated as systematic factors affecting sustainable stock performance. Using monthly data from 2007-2024 and an ARDL approach, the results reveal distinct short-run and long-run dynamics. In the short run, higher interest rates and exchange rate depreciation significantly reduce green investment, while global oil prices initially exert a positive influence before turning negative in subsequent periods. In the long run, exchange rates and global oil prices have a positive and significant effect on green investment, whereas interest rates are not statistically significant. These findings indicate that green investment is more responsive to external factors than domestic monetary policy over longer horizons. This study contributes to the limited empirical evidence on green finance in emerging markets by jointly examining monetary and external determinants within a unified framework. The results highlight the importance of exchange rate stability and energy transition strategies in supporting the development of sustainable financial markets in Indonesia.

Keywords: BI Rate, Exchange Rate, World Oil Price, SRI-KEHATI Index, Green Investment.

INTRODUCTION

The 17 goals and 169 targets of the Sustainable Development Goals (SDGs) were introduced by the United Nations in 2015 as a global framework to promote sustainable development in social, economic, and environmental dimensions. The agenda emphasizes the importance of equality, human rights, and international cooperation (United Nations, 2015). Achieving the SDGs requires a transition toward a green economy, one that promotes economic growth while preserving environmental sustainability (Kumajas et al., 2024). However, for Indonesia, investment support from the private sector is urgently needed to encourage and accelerate the transition to a green economy (Inderst et al., 2012). In recent years, many companies have begun to implement environmentally friendly practices that improve energy efficiency and reduce carbon emissions (Journeault et al., 2016). Investing in sustainable stocks has also been shown to provide higher returns than conventional stocks, as awareness of environmental issues increases (Al-Najjar & Anfimiadou, 2012; Pástor et al., 2022).

To increase green investment in Indonesia, the government can leverage the capital market to enable companies to obtain additional funding from investors interested in environmentally friendly assets (Sakuntala et al., 2022). In Indonesia, Environmental, Social, and Governance (ESG)-based investment has begun to develop with the presence of the SRI-KEHATI Index. This index includes 25 companies selected based on Sustainable and Responsible Investment (SRI) criteria and ESG principles, and serves as a benchmark for green investment. Since its launch, the SRI-KEHATI Index has performed competitively relative to the main indices on the Indonesia Stock Exchange (IDX), as shown in Figure 1.

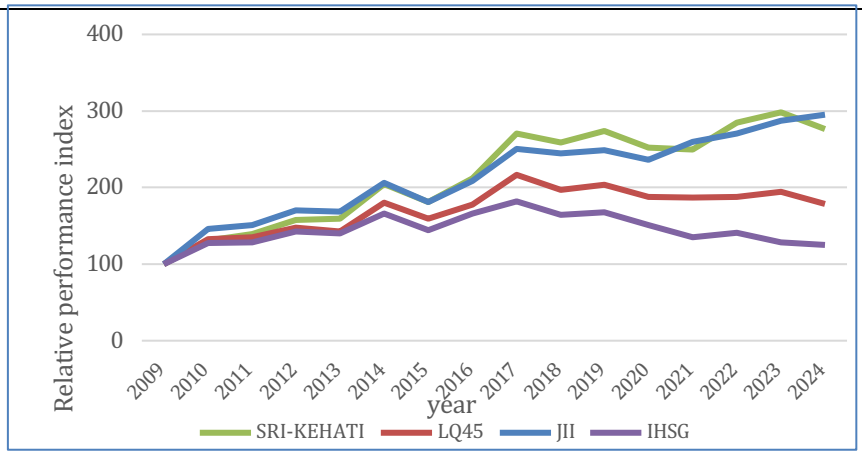

Image 1: Performance of the SRI-KEHATI, LQ45, JII, and IHSG indices from 2009 to 2024.
Source: Data Processed, 2025

Based on Figure 1, the performance comparison of several stock indices on the Indonesian Stock Exchange has fluctuated, with SRI-KEHATI showing an upward trend from 2009 to 2024. The SRI-Kehati index has shown considerable progress since its launch. The performance of this index is considered consistent and satisfactory, even though it is still considered a new stock index. To maximize the potential of investing in green stocks, a deep understanding of how monetary policy and macroeconomic factors influence the flow of funds into sustainable projects is required. According to Permana & Sularto (2008), investors usually consider several key factors that can affect stock price expectations, including the basic financial performance of the business, such as generating profits, changes in bank interest rates, inflation rates, exchange rates, and the stability of the country's sociopolitical situation.

Interest rates are a monetary policy instrument that influences investment decisions. Low interest rates encourage green investment by lowering capital costs and increasing demand (Prasetyo & Adinugraha, 2023). Conversely, high interest rates can hinder green transformation and hurt price stability, thus requiring monetary policies that are more oriented towards sustainability (Aguila & Wullweber, 2024). Exchange rates and global commodity prices also affect Indonesia's capital market as an open economy. Exchange rate volatility may exert a favorable influence on exporters because depreciation makes products more competitive, but it is detrimental to importers due to increased import costs (Bahmani-oskooee & Saha, 2016). Depreciation can also increase the attractiveness of green stocks for foreign investors (Narayan et al., 2024). Oil, as the main source of energy, has a major impact on the global economy. Rising oil prices can trigger inflation, increase unemployment, and put pressure on company performance (Allegret et al., 2015; Kilian, 2008). In addition, it also reduces demand and increases uncertainty (Sill, 2007). However, high energy prices can encourage investors to switch to green energy stocks due to greater incentives (Bondia et al., 2016)

LITERATURE REVIEW

Green investment is an investment approach that prioritizes sustainability by considering environmental, social, and governance (ESG) factors. This type of Capital allocation focuses on mitigating pollution and greenhouse gas emissions by adopting alternative energy sources and preserving natural resources, all while maintaining steady levels of non-energy goods production and consumption (Inderst et al., 2016; Martin & Moser, 2016). In addition to being an integral part of corporate social responsibility, green investment serves as a proactive measure to reduce the negative environmental impacts of business activities (Huang & Lei, 2021), taking into account governance, finance, social, and environmental factors as key factors in investment decision-making (Escrig-Olmedo et al., 2017).

The SRI-KEHATI Index, established by the KEHATI Foundation and the Indonesia Stock Exchange (IDX) on June 8, 2009, is the first Indonesian stock index to focus on environmental issues. This index is formed by selecting twenty-five issuers that meet ESG principles and SRI requirements. Companies committed to sustainable practices and good corporate governance will be featured in this index as a reference for investors (OJK, 2019). The Efficient Market Hypothesis (EMH) asserts that future stock price movements cannot be accurately predicted using historical data alone, as all relevant information is already incorporated into current market prices (Fama, 1970; Bodie et al., 2014). Meanwhile, the Arbitrage Pricing Theory (APT), proposed by Ross (1976), emphasizes that stock returns are influenced by various macroeconomic risk factors (Ross, 1976). Together, these theories provide a foundation for analyzing the interaction between macroeconomic conditions and stock market performance.

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Mankiw (2016) states that an increase in interest rates increases borrowing costs and reduces credit demand. High interest rates also lower the present value of cash flows and make investments less appealing, according to Bodie et al. (2014). Conversely, low interest rates can encourage green investment due to cheaper capital costs and increased aggregate demand (Prasetyo & Adinugraha, 2023). High interest rates, on the other hand, hinder sustainable investment, slow green transformation, and may negatively affect price stability. This situation highlights the need for more environmentally oriented monetary policies (Aguila & Wullweber, 2024). Dawood et al. (2021), Narayan et al. (2024), and Sakuntala et al. (2022), find that higher interest rates tend to weaken the green stock market in the short term as well as the long term.

Exchange rates measure how much one unit of domestic currency can be exchanged for foreign currency, while play an important role in cross-border economic activities (Pradesyah, 2016; Mahyus, 2014). Exchange rate fluctuations can influence the stock market through a variety of channels. Currency depreciation makes domestic products cheaper for the international market, benefiting exporting companies and driving up their stock prices. Conversely, companies that depend on imports face increased costs (Mishkin, 2009; Bahmani-Oskooee & Saha, 2016). According to Nugroho (2008), the magnitude of the burden and costs borne by issuers can reduce their profit levels. Conversely, a depreciation in the currency can enhance the appeal of green stocks to foreign investors, as their prices become relatively more affordable (Narayan et al., 2024). However, while a weakening rupiah can make green stocks more attractive to foreign investors due to lower relative prices, it can also negatively affect the overall condition of the national economy, including green stocks (Hermawan & Purwohandoko, 2020; Utama & Puryandani, 2020).

Crude oil is a major energy source essential to economic activity (Dewanto, 2014). Movements in oil prices considerably affect stock market performance, as changes in oil prices affect production costs, cash flow, and company profitability, which ultimately affect dividends and stock returns (Maraqa & Bein, 2020). Bondia et al. (2016) argue that increases in energy prices encourage investors to allocate more funds to green energy companies, as these companies offer greater investment incentives. In addition, ESG stocks are considered a haven during periods of market instability and have the potential to protect value over the medium to long term (Elsayed et al., 2024). Higher oil prices also positively impact green stock performance, indicating that increases in oil prices tend to improve the performance of green stocks (Belcaid, 2024; Darsono et al., 2022; Dutta et al., 2020).

METHOD

This study aims to examine how BI interest rates, the USD/IDR exchange rate, and global oil prices affect the SRI-KEHATI Index, which represents sustainable stocks in Indonesia. To evaluate how macroeconomic factors influence movements in green investment in the Indonesian capital market, a quantitative approach was employed. The data used is from a time series that runs from July 2009 to October 2024.

To explore how macroeconomic variables influence the SRI-KEHATI Indeks, this study utilizes an ARDL modeling approach, incorporating the BI interest rate, exchange rate, and global oil price. This method enables the study of short-term fluctuations as well as long-term relationships. The model specification is outlined below:

$$\Delta LSRI_t = \beta_0 + \sum_{i=1}^{n} \beta_1 \Delta LSRI_{t-i} + \sum_{i=0}^{n} \beta_2 \Delta LNBI_{t-i} + \sum_{i=0}^{n} \beta_3 LNER \Delta i_{t-i} + \sum_{i=0}^{n} \beta_4 \Delta LNOP_{t-i} + \emptyset_1 SRI_{t-1} + \emptyset_2 \pi LNBI_{t-1} + \emptyset_3 iLNER_{t-1} + \emptyset_4 LLNOPe_{t-1} + \varepsilon_t$$

Where SRI is the SRI-KEHATI Index, BI represents the BI interest rate, ER denotes the exchange rate, and OP indicates the global oil price, β represents short-run dynamics, and Ø reflects long-run relationships. Meanwhile, ε_t refers to the error term, and t represents the long-run relationships

RESULTS AND DISCUSSION

Data Stationarity Test Results

Stationarity testing is conducted to ensure that the data does not have unit roots, thereby preventing inappropriate regression. To verify whether the data satisfies the stasionarity requirement, the Augmented Dickey-Fuller (ADF) test was employed. The assessment was based on the p-value, where a value smaller than the 5% significance level (0.05), the data was considered non-stationary.

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Table 1. Results of the Stationarity Test

Variabel	ADF Unit Root Test				Keterangan
	Level		Firs Difference		
	t-Statistik	Prob	t-Statistik	Prob	
SRI	-3,485560	0,0439**	-11,79714	0,0000***	I(0)
BI	-2,030945	0,5802	-8,335401	0,0000***	I(1)
xER	-2,79381	0,2069	-14,69204	0,0000***	I(1)
OP	-2,460482	0,3474	-11,91402	0,0000***	I(1)

Note: *** and ** indicate statistical significance levels of 1% and 5%, respectively.

Source: Processed data, 2025

From the stationarity assessment, it is evident that SRI is integrated at the level, while BI, ER, and OP are integrated after first differencing. This variation in stationarity justifies the ARDL approach.

Optimum Lag Test Results

A lag length selection method is employed to identify the most suitable lag specification for the ARDL model. The use of the Akaike Information Criterion (AIC) in this process helps ensure that the selected model is statistically sound and can produce consistent and reliable estimates (Enkoro, 2016).

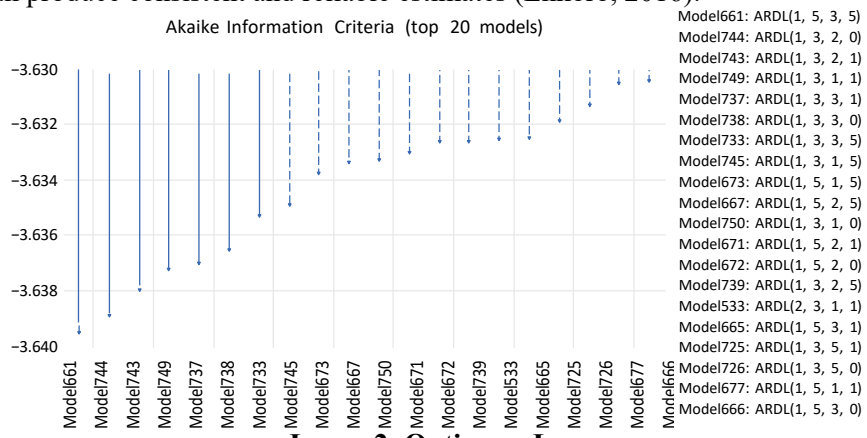

Image 2: Optimum Lag

Source: Processed data, 2025

Using the optimal lag length determined by AIC, the selected model is ARDL (1,5,3,5) because it has a smaller error than other ARDL models. To select the AIC, the model was tested with all possible lag combinations, and the lag yielding the lowest AIC was selected (Kripfganz & Schneider, 2023).

Results of the Cointegration Analysis

Table 2. Results of the Cointegration Test

Test Statistik	Value	Signif	I(0)	I(1)
			Asymptotic: n =1000	
F-statistik	4.734295	10%	2.37	3.2
k	3	5%	2.79	3.67
		1%	3.65	4.66
Actual Sampel Size	181		Finite Sample: n=80	
		10%	2.474	3.312
		5%	2.92	3.838
		1%	3.908	5.044

Source: Processed data, 2025

The outcome presented in Table 2, the F-statistic value of 4.734295, exceeds the critical upper bound at the 5% significance level, indicating the presence of cointegration and confirming that the model captures both short-term dynamics and long-term relationships.

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Model Stability Test Results

To verify parameter consistency, a stability test is applied covering short and long-term horizons using the CUSUM Q method. The findings showed that the research model line (blue) remained between the two 5% significance lines (red) in both methods, signifying a stable model and supporting the application of the ARDL approach.

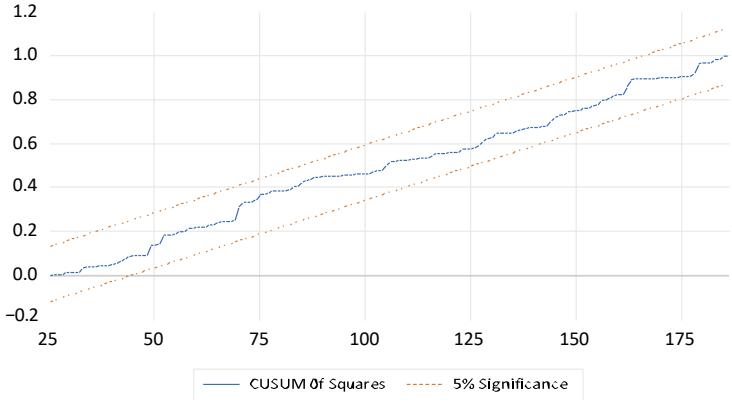

Image 3: CUSUM Q

Source: Processed data, 2025

ARDL Estimation Short-Term

Table 3. ARDL Estimation Test (Short-Term)

Variabel	Coefficient	Std. Error	T-Statistic	Prob.
D(BI)	-0,036336	0,018029	-2,015406	0,0455**
D(BI(-1))	0,003868	0,019072	0,202795	0,8395
D(BI(-2))	0,043383	0,019310	2,246738	0,0260**
D(BI(-3))	0,022104	0,019218	1,150192	0,2517
D(BI(-4))	-0,037961	0,018043	-2,103950	0,0369**
DLOG(ER)	-1,014202	0,126137	-8,040491	0,0000***
DLOG(ER(-1))	-0,202744	0,129936	-1,560337	0,1206
DLOG(ER(-2))	-0,223744	0,130554	-1,713810	0,0885
DLOG(OP)	0,055158	0,027223	2,026185	0,0444**
DLOG(OP(-1))	-0,020706	0,027994	-0,739640	0,4606
DLOG(OP(-2))	-0,034495	0,028098	-1,227669	0,2213
DLOG(OP(-3))	0,019202	0,025663	0,748243	0,4554
DLOG(OP(-4))	-0,075347	0,025479	-2,957204	0,0036**
CoinEq(-1)	**-0,067739**	**0,013755**	**-4,924670**	**0,0000*** **

Note: *** and ** indicate significance levels of 1% and 5%, respectively.

Source: Processed data, 2025

The negative impact of the BI interest rate on the SRI-KEHATI is evident, with a coefficient of -0.036336. These results corroborate earlier studies by Dawood et al. (2021), Narayan et al. (2024), and Sakuntala et al. (2022), indicating that higher interest rates may reduce investment in environmentally sustainable stocks. Bodie et al. (2014) explain that a rise in interest rates raises borrowing costs, which limit future corporate cash flows and reduce the attractiveness of investment, leading to a decline in stock prices, including those of green stocks. However, the effects of interest rate changes are not always immediately apparent, as evidenced by the positive and significant influence at lag 2, consistent with the findings of Kaur & Chaudhary (2022), Narayan et al. (2024), and Utama & Puryandani (2020). This may reflect market perceptions that view interest rate hikes as a signal of economic stability or successful inflation control. Meanwhile, the previous four periods show a negative and significant direction of influence. This indicates that interest rate policy can have a delayed and different impact on the SRI-KEHATI

variable in previous periods. The exchange rate coefficient of -1.014202 is statistically significant at the 0.0000 level, indicating that currency depreciation negatively affects the SRI-KEHATI index in the short term. These results are consistent with prior studies by Utama & Puryandani (2020) and Hermawan and Purwohandoko (2020). Supporting Darsono et al. (2022), the analysis indicates that, in the short term, an increase in oil prices is associated with improved returns in green equities or sustainable stocks, and that variations in global oil prices also positively affect the dependent variable. This occurs because stronger incentives for investment in green energy firms exist, with rising oil prices stimulating investor interest (Bondia et al., 2016). However, at a lag of 4, global oil prices tend to generate a negative effect. This finding suggests that movements in oil prices may produce either immediate or delayed impacts on the SRI-KEHATI variable.

Long-Term ARDL Estimation

Table 4. Long-Term Estimates

Variabel	Coefficient	Std. Error	T. Statistic	rob.
BI	-0,057987	0,042077	-1,378116	0,1701
LOG(ER)	1,124144	0,314005	3,580018	0,0005***
LOG(OP)	0,465138	0,209283	2,222536	0,0276**
C	**-6,400569**	**3,438413**	**-1,861489**	**0,0645**

Note: *** and ** identify results significant at the 1% and 5% levels, respectively.

Source: Processed data, 2025

The long-run estimation reveals a negative coefficient for the BI interest rate (-0.057987), although the effect is statistically insignificant ($p = 0.1701 > 0.05$). Hence, BI rate fluctuations do not exert a significant impact on the SRI-KEHATI, supporting the results of Hermawan & Purwohandoko (2020).

The exchange rate (ER) variable has a significant positive effect, with a coefficient of 1.124144 and a Prob value of $0.0005 < 0.05$. This indicates that a long-term weakening exchange rate can increase the SRI-KEHATI variable. These results are consistent with the findings of Narayan et al. (2024), who find that currency depreciation positively affects green stock prices. These findings show that green stocks are more attractive to investors when the exchange rate depreciates. Currency depreciation can increase export competitiveness and attract foreign investors. According to Bahmani-Oskooee & Saha (2016), currency depreciation benefits exporting companies because their products become more competitive in the global market, thereby increasing exports and stock prices. Conversely, importing companies face higher costs, which reduce profits and negatively influence stock prices.

An estimated coefficient of 0.465138, while the p-value of 0.0276, global oil prices demonstrate a positive and statistically significant influence. This supports research by Darsono et al. (2022) and Belcaid (2024), which highlights that rising oil prices contribute positively to the development of sustainable stock markets. These findings indicate that in the long term, rising global oil prices are not always seen as a threat to green investment. Rising global oil prices can strengthen the push for a transition to renewable energy, thereby strengthening the long-term performance of ESG-oriented companies. Bondia et al. (2016) argue that increases in energy prices encourage capital flow into green energy firms, as they become more appealing to investors.

Estimation of Error Correction Term (ECT)

The role of the Error Correction Term (ECT) is to capture the speed at which the system corrects short-term deviations toward long-run equilibrium (Mcnown et al., 2016; Nkoro & Uko, 2016).

Table 5. Error Correction Term (ECT)

Variabel	Coefficient	Std. Error	T-Statistic	Prob.
CoinEq(-1)	-0,067739	0,013755	-4,924670	0,0000***

Note: *** indicates statistical significance at the 1% level.

Source: Processed data, 2025

From Table 4, the ECT estimation result reveals a CoinEq (-1) coefficient of -0.067739 with statistical significance. This implies that about 6.77% of short-term imbalance is eliminated in the next period, meaning that the system slowly converges to the long-run equilibrium after shocks.

Model Diagnostic Test Results

1) Normality Assessment

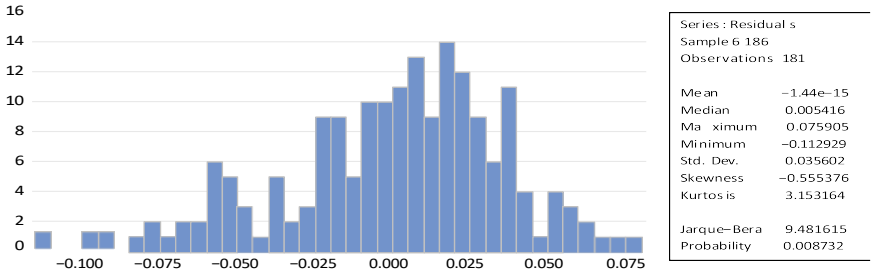

Image 4: Normality Test

Source: Processed data, 2025

From Figure 4, it can be observed that the Jarque-Bera probability value is 0.008732, which is lower than 0.05, indicating the data is non-normally distributed. However, this violation is not problematic because the number of observations is above 30. In large samples, the sampling distribution is assumed to approach normality based on the Central Limit Theorem (Gujarati, 2013).

2) Autocorrelation Test

Table 6. Results of the Autocorrelation Test

F-statistic	0,135299	Prob. F (2,161)	0,8736
Obs*R-squared	0,303702	Prob.Chi-Square (2)	0,8591

Source: Processed data, 2025

Furthermore, the Breusch-Godfrey LM test was conducted to determine whether there is a correlation among the error terms across observations. The results in Table 6, the results reveal a p-value of 0.8591, which exceeds the 0.05 significance level, indicating that the model is free from autocorrelation.

3) Heteroscedasticity Test

The heteroscedasticity test in the model is performed using Breusch-Pagan-Godfrey by examining the Chi-Square Prob. value. The following is the heteroscedasticity test:

Table 7. Heteroscedasticity Analysis Results.

F-statistic	0,449702	Prob. F (17,163)	0,9704
Obs*R-squared	8,108842	Prob. Chi-Square (17)	0,9642
Scaled explained	7,079850	Prob. Chi-Square (17)	0,9825

Source: Processed data, 2025

Table 7 shows that the Probability F Statistic value is 0.9642 > 0.05, which indicates that heteroscedasticity is not detected, meaning the model satisfies the homoscedasticity assumption.

CONCLUSION AND SUGGESTIONS

Conclusion

The estimation results regarding the influence of BI interest rates and exchange rates, together with world oil prices, on green investment (SRI-KEHATI) in Indonesia indicate that, over the short term, the BI interest rate has a statistically significant negative influence on the dependent variable. However, during the two preceding periods, the BI interest rate exhibited a significantly positive association, and over the four preceding periods, it likewise demonstrated a significantly positive association. This suggests that interest rate policy may exert lagged and varying effects on the SRI-KEHATI Index across subsequent periods. In the long-run estimation, however, the BI interest rate variable demonstrates a negative but statistically insignificant effect.

Short-term estimations reveal that exchange rate movements place significant downward pressure on the SRI-KEHATI Index, reflecting its sensitivity to immediate currency changes. Over a longer horizon, however, the exchange rate positively and significantly influences the index. Oil prices also present mixed effects, as they boost the index in the short run but generate negative and significant outcomes over the preceding four months. In the long run, their effect becomes positive again, highlighting their long-term contribution to index performance.

Recommendations

Taking into account the findings of this research, it is recommended that, in the short term, Bank Indonesia implement an expansionary monetary policy and support the sustainable sector through low-interest green financing schemes. To anticipate the short-term negative impact of exchange rate fluctuations, efforts are needed to maintain

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exchange rate stability by strengthening foreign exchange reserves and managing foreign debt. Regarding global oil prices in the short term, the government needs to adjust its oil procurement strategy and provide temporary incentives for affected sectors. In the long term, exchange rate appreciation can be used to strengthen export orientation. In the long term, policies can focus on transitioning to environmentally friendly fuels and diversifying oil suppliers to maintain stability in the national oil supply.

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