

Analysis Of The Influence Of The Inflation Rate, Interest Rates, And Minimum Wages In The District On Investment In Magelang District.

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Abstract

This study aims to analyze the macroeconomic factors that influence investment in Magelang Regency. It uses quantitative time-series data from 2013 to 2023. The dependent variable is the value of realized investment in Magelang Regency, while the independent variables include inflation, interest rates, and the regency/city minimum wage (UMK). The analysis method used is multiple linear regression, preceded by classic assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation) to ensure that the estimation model is unbiased (BLUE). The results show that the inflation variable affects investment, which is proven by a critical test value below 5%, at 0.0132. Meanwhile, the test results indicate that the interest rate variable does not have a significant effect on investment, as proven by a critical test value above 5%, at 0.5396. Finally, the research shows that the regency/city minimum wage variable affects investment, which is proven by a critical test value below 5%, at 0.026.

Keywords : Investment, Inflation, Interest Rate, District Minimum Wage

INTRODUCTION

The problem faced in carrying out economic development is that regions require financing to sustain the economic development process, where the funding provided by the domestic government has not yet accommodated all the needs for equitable development. In addition to using domestic funds, the government seeks alternative sources of financing from abroad. (T. M. Dewi & Cahyono, 2016).

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IJEBIR, Volume 04 Issue 05, 2025



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The government strives to attract both domestic and foreign investors by creating a conducive investment climate through policies and regulations, such as the Foreign Investment Law (PMA) and the Domestic Investment Law (PMDN), which provide legal certainty and ease of doing business. These efforts are expected to drive economic growth, create jobs, and improve public welfare.

From a locational perspective, the highest Foreign Direct Investment (FDI) realization in 2023 was recorded in Kendal Regency with an investment value of IDR 4.81 trillion, followed by Batang Regency with IDR 3.75 trillion, Semarang City with IDR 3.25 trillion, Jepara Regency with IDR 1.45 trillion, and Tegal Regency with IDR 1.35 trillion. In contrast, the highest realization of Domestic Investment (DI) was achieved by Semarang City with an investment value of IDR 6.98 trillion, followed by Klaten Regency with IDR 2.89 trillion, Demak Regency with IDR 2.31 trillion, Semarang Regency with IDR 1.83 trillion, and Cilacap Regency with IDR 1.73 trillion.

Magelang Regency possesses significant economic potential in three main sectors: manufacturing, agriculture, and trade. The manufacturing sector, which is predominantly dominated by small-scale industries 23.68%, is supported by the abundant availability of raw materials; however, it faces challenges due to declining market demand, thereby requiring investment strategies and market expansion efforts. The agricultural sector, contributing 19.45% to the regional economy, benefits from rich natural resources and favorable geographical conditions. Nevertheless, its development is hindered by limited human resource capacity and the insufficient utilization of technology, particularly in post-harvest management and marketing processes. Meanwhile, the trade sector continues to serve as one of the main pillars of the regional economy, contributing 13.23% with stable performance and positive growth despite minor fluctuations. Overall, these three sectors reflect both the strengths and challenges of Magelang Regency's economic structure, emphasizing the importance of strategic investment, technological adaptation, and MSME empowerment to support sustainable regional growth.

Objectives

This article intends

1. To investigate the influence of inflation on investment in Magelang Regency.
2. To assess the impact of interest rates on investment in Magelang Regency.
3. To examine the effect of district/city minimum wages on investment in Magelang Regency.

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LITERATURE REVIEW

Investment refers to the allocation of financial resources to acquire or develop new assets, such as production equipment, advanced machinery, or modern infrastructure. Its main purpose is to expand production capacity, improve efficiency, and enhance the quality of goods and services, which in turn strengthens the long-term competitiveness of firms and national economies (Sulaksono, 2015).

The neoclassical growth theory emphasizes the crucial role of production factors such as capital, labor, population, and technology in driving economic growth. According to Solow, the interaction between capital accumulation, labor, and technological innovation serves as the primary determinant of output expansion. Furthermore, the neoclassical model highlights the relationship between investment, the marginal product of capital, interest rates, and taxation policies in shaping firms' decisions. The flexibility in combining capital and labor allows an economy to optimally allocate its resources in order to achieve a certain level of production. Thus, this theory underlines that economic growth depends on the efficient allocation of production factors and the pivotal role of technology in enhancing productivity.

A high inflation rate can lead to cost-push inflation through rising prices of raw materials, wages, and other operational expenses, thereby reducing company profits. In certain conditions, higher prices may initially encourage firms to increase production capacity, as profits remain elevated before wages adjust. However, when inflation reaches an excessive level, or hyperinflation, the effects become negative, marked by a decline in production output due to the weakening of household purchasing power. Ultimately, this situation hampers new investment, as firms face both economic uncertainty and reduced market demand (Dewi & Cahyono, 2016).

An increase in interest rates raises the cost of capital and reduces cash flows, thereby making many potentially profitable investment projects less attractive to investors. Conversely, when interest rates decline, borrowing costs become more affordable, which enhances investment attractiveness. Thus, interest rates play a crucial role in shaping investor interest and the realization of investment in a given region (Muhammad et al., 2017).

Regency Minimum wage according to the efficiency wage theory explains that offering higher wages can enhance worker productivity, even in situations of labor surplus. Higher wages not only improve workers' health and nutrition (relevant in developing countries) but also reduce labor turnover, raise the average quality of the workforce by minimizing adverse selection, and motivate employees to work harder by

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mitigating moral hazard. Thus, companies that pay wages above the equilibrium level can achieve long-term benefits through greater efficiency, stability, and overall productivity of their workforce (Mankiw, 2003).

DISCUSSION

This study employs a quantitative research approach using time series data spanning ten years, from 2013 to 2023. The quantitative data are sourced from the Investment and One-Stop Integrated Services Office of Surabaya City and the official website of the Central Statistics Agency (BPS) of Magelang Regency. The variables examined include investment realization in Magelang Regency, inflation, interest rates, and labor absorption during the 2013–2023 period. By employing multiple linear regression analysis, this study examines the influence of the independent variables, namely inflation (X1), interest rates (X2), and the regional minimum wage (X3), on the dependent variable, namely the investment realization value in Magelang Regency (Y). The following is the multiple linear regression model equation :

$$INV = \alpha + \beta_1 Inf + \beta_2 Sbi + \beta_3 Umk + e$$

Description:

INV : Investment realization value

Inf : Inflation rate

Sbi : Interest rate

Umk : Regional minimum wage

α : Constant

e : Error

Based on the test results, the multiple linear regression equation can be expressed as follows :

$$Y = 4.501865 + 0.411306 \text{ inf} + 0.498995 \text{ Sbi} + 1.351124 \text{ Umk} + \varepsilon$$

The regression results show that the constant value is **4.501865**, indicating the baseline of investment realization when all independent variables are zero. The inflation rate (coefficient **0.411306**) has a positive effect, meaning an increase in inflation tends to raise investment realization, while the interest rate (coefficient **-0.498995**) has a negative impact, implying that higher interest rates reduce investment realization. Meanwhile, the regional minimum wage (coefficient **1.351124**) exerts a positive influence, suggesting that

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an increase in the minimum wage is associated with higher investment realization in Magelang Regency.

Based on the Stimultan test results, it is found that the Sig value is 0.013946, which is smaller than the significance level (<0.05). This indicates that the variables of inflation rate, interest rate, and regional minimum wage jointly have a significant effect on the investment realization value.

The t-test results show that the variables of inflation rate (0,0132) and regional minimum wage (0,026) have significance values below the threshold (<0.05), indicating that these variables have an influence on the investment realization value in Magelang Regency. Meanwhile, the interest rate (0,5396) variable has a significance value above the threshold (>0.05), which means that the interest rate does not have an effect on the investment realization value in Magelang Regency.

Based on the results of the coefficient of determination test, the obtained value is 0.761, which means that 76.13% of the variation in the investment realization value can be explained by the variables of inflation, interest rate, and regional minimum wage. The remaining 23.87% is explained by other variables not examined in this study.

CONCLUSION

From the data analysis conducted, the following conclusions can be drawn:

1. **Inflation has a positive and significant effect** on the investment realization value in Magelang Regency. The analysis shows that inflation has a direct relationship with investment in Magelang Regency. This indicates that during the study period, rising prices were likely perceived as a positive signal of growing market demand.
2. **Interest rates do not have a significant effect** on the investment realization value in Magelang Regency. The analysis suggests that high interest rates did not cause investors to withdraw or divert their funds elsewhere; instead, they continued to invest with the expectation of achieving favorable returns.
3. **The regional minimum wage has a positive and significant effect** on the investment realization value in Magelang Regency. The analysis demonstrates that the regional minimum wage strongly aligns with the efficiency wage theory, which argues that higher wages can enhance worker productivity. Moreover, an increase in the minimum wage strengthens people's purchasing power, creates solid domestic demand, and ultimately attracts investors to invest in the region.



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