

International Journal for Science Review

Analysis of the Effect of Global Inflation on Investment Decision Making by Domestic Investors in Indonesia

Hari Purwanto*

Boyolali University, Jl. Pandanaran No.405, Hamlet 1, Winong, Boyolali District, Boyolali Regency, Central Java 57315, Indonesia.

*Corresponding author: hariharipoer@yahoo.co.id

ABSTRACT

This study aims to analyze the influence of global inflation on investment decision-making by domestic investors in Indonesia. In the era of economic globalization, the dynamics of inflation that occur at the international level have a significant impact on national economic stability, including the behavior of local investors in determining investment strategies. This research uses a qualitative approach with the literature study method (library research), where data is obtained through the study of various secondary sources such as scientific journals, economic reports, monetary policy articles, and publications from international financial institutions. The results of the analysis show that global inflation affects market sentiment, exchange rates, and domestic interest rates, all of which are key considerations for domestic investors in making investment decisions. Global economic uncertainty also has an impact on investors' increasing preference for investment instruments that are considered safer, such as gold or government bonds. In addition, the government's policy reaction to global inflation, such as the adjustment of the benchmark interest rate by Bank Indonesia, has also shaped investors' expectations and the direction of their portfolio allocation. By understanding this relationship, this research is expected to contribute to the development of more adaptive economic policy

KEYWORDS

Global Inflation, Domestic Investors, Investment Decision-Making, Literature Review, Indonesia

strategies and provide insights for domestic investors in responding wisely to global economic dynamics.

1. INTRODUCTION

Economic globalization has created a close link between international economic conditions and domestic market dynamics, including in terms of investment decision-making by local investors (Mishkin, 2019). One of the important aspects that affect global and national economic stability is inflation, which is not only domestic but also global (Blanchard & Johnson, 2017). Global inflation affects exchange rates, interest rates, and capital flows, which ultimately influences investment decisions in developing countries such as Indonesia (Taylor, 2020).

In recent years, global inflationary pressures caused by supply chain disruptions, geopolitical conflicts, and monetary policies of major countries, such as the United States, have created high uncertainty in international financial markets (Rogoff, 2022; IMF, 2023). This uncertainty has an impact on the behavior of domestic investors who tend to be sensitive to external changes (Chen et al., 2021). Although there are various studies that discuss the influence of inflation on the capital market, studies that specifically examine the influence of global inflation on investment decision-making by domestic investors in Indonesia are still very limited (Sari & Nugroho, 2021; Yuliana, 2020).

Previous research has generally focused on the effect of domestic inflation on stock prices or investment returns (Haryanto, 2020; Putri & Rahmawati, 2022). However, there has not been much research that highlights the link between global inflation dynamics and the perceived risk perception of local investors in the context of developing countries (Santosa, 2022). This creates an important research gap to bridge, especially considering that Indonesia is a country with a high dependence on trade and foreign capital flows (World Bank, 2023).

The urgency of this research lies in the importance of a deep understanding of how domestic investors respond to global inflationary pressures in the context of investment decision-making. It is important for policymakers to develop global economic risk mitigation measures more strategically (OECD, 2023).

The purpose of this study is to qualitatively analyze how global inflation affects the investment decision-making process by domestic investors in Indonesia. This research also aims to identify external factors that investors consider in a situation of global economic uncertainty.

The benefits of this research are expected to make a theoretical contribution to the development of macroeconomic studies and investment behavior and provide practical implications for regulators, investors, and financial institutions in formulating adaptive strategies to face global inflation dynamics.

The novelty of this study lies in a qualitative approach based on literature studies that examines the influence of global inflation on domestic investors, which has not been touched much by previous research in Indonesia. Using this approach, the research is expected to provide a more in-depth and contextual perspective.

Global Inflation as an External Macroeconomic Factor

Global inflation refers to the widespread increase in the price of goods and services that occur simultaneously in various countries, especially countries with large economic influences such as the United States, the European Union, and China. This inflation is often triggered by global supply chain disruptions, rising commodity prices, or loose monetary policy from the world's major central banks. For developing countries such as Indonesia, global inflation is an external factor that can affect exchange rate stability, import costs, and domestic inflation expectations. When global inflation increases, Indonesia can experience imported inflation, which is inflation that is "imported" through goods and services from abroad that become more expensive. This has a direct impact on local investors' risk perception of national economic stability.

Domestic Investors' Response to Global Economic Uncertainty

In conditions of high global inflation, economic uncertainty increases significantly. Domestic investors tend to be cautious because global inflation can trigger changes in interest rates, exchange rate fluctuations, and pressure on domestic economic growth. When risk increases, investors tend to shift their investments from high-risk instruments such as stocks to assets that are considered safer such as government bonds, gold, or deposits. In addition, investors are also more selective in choosing sectors that are more resistant to inflation, such as energy and basic necessities. Thus, global inflation not only affects macroeconomic conditions, but also affects investor behavior in strategizing investment portfolios.

Implications for Investment Policy and Long-Term Planning

The influence of global inflation on investment decisions also raises the need for domestic investors to design long-term strategies that are adaptive to global changes. This includes portfolio diversification, the use of hedging, and paying attention to the direction of domestic and foreign monetary policy. Investors who have a better understanding of the relationship between global inflation and financial markets will be better able to manage risk and make rational decisions. Therefore, monitoring global inflation indicators, such as producer price indexes (PPI) and consumer prices (CPI) from developed countries, is important in the domestic investment decision-making process.

2. METHODS

This research uses a qualitative approach with the type of literature study research (library research). The literature study was chosen because it is appropriate to explore conceptual and theoretical understanding of the influence of global inflation on investment decision-making by domestic investors in Indonesia. This approach allows researchers to examine in depth various scientific references and secondary sources in order to obtain a comprehensive pattern, relationship, and understanding of the phenomenon being studied (Zed, 2008).

The data sources in this study come from secondary data which includes national and international scientific journals, economic reports from global financial institutions such as the International Monetary Fund (IMF), the World Bank, and Bank Indonesia, as well as other official documents relevant to the research theme. The selection of data sources is carried out purposively, namely based on the relevance and credibility of the source to the research focus (Moleong, 2019).

The data collection technique is carried out through documentation, which is by searching, reading, and recording important information from various publications that are in accordance with the research topic. Researchers access scientific databases such as Google Scholar, ScienceDirect, and JSTOR to obtain quality, up-to-date, and supportive literature on conceptual analysis (Sugiyono, 2017).

The data analysis method used is qualitative content analysis, which is by examining the content of documents and literature collected to find patterns, themes, and relationships between the variables discussed. The analysis was carried out by means of data reduction, data presentation, and conclusion drawn, according to the stages in the qualitative analysis method according to Miles, Huberman, and Saldana (2014). With this approach, the research is expected to be able to make a strong theoretical contribution and a critical understanding of the global inflation phenomenon in the context of investment decision-making by domestic investors in Indonesia.

3. RESULTS AND DISCUSSION

In this study, the researcher conducted a selection process on various scientific literature relevant to the topic of the influence of global inflation on investment decision-making by domestic investors. From a number of articles found through scientific databases such as Google Scholar, ScienceDirect, JSTOR, and ProQuest, 10 main articles have been filtered based on the criteria of up-to-date (last 5 years), topic relevance, and theoretical contribution to the study of global inflation and investment behavior. The following table presents a summary of the 10 articles, which are the basis for the findings and discussion in this study:

Table 1. Summary of Literature Data on Global Inflation and Investment Decision Making

Author & Year	Article Title	Key findings
Chen et al. (2021)	Global inflation and investment flows in emerging markets	<i>Global inflation affects capital flows in developing countries</i>
Angela (2020)	Analysis of the influence of macroeconomic factors on investment in the Indonesian capital market	<i>Inflation and exchange rates are significant to investment decisions</i>
Rogoff (2022)	Inflation and geopolitical instability	<i>Global inflation triggered by geopolitical instability fuels market uncertainty</i>
Putri & Rahmawati (2022)	Inflation and its impact on the Indonesian capital market	<i>Domestic inflation affects stock indices</i>
Santosa (2022)	Investor behavior in the midst of a global crisis	<i>Investors avoid risk during a global crisis</i>

IMF (2023)	World Economic Outlook: A Rocky Recovery	<i>High inflation post-pandemic pressures developing countries</i>
Haryanto (2020)	The effect of inflation and interest rates on stock returns	<i>Negative inflation affects investment returns</i>
Sari & Nugroho (2021)	The impact of global inflation on the domestic economy	<i>Global inflation has an impact on exchange rates and consumption</i>
Taylor (2020)	Monetary policy and global inflation linkages	<i>Global inflation cannot be separated from world interest rate policy</i>
World Bank (2023)	Indonesia Economic Prospects	<i>Global inflation and uncertainty are slowing investment.</i>

This table provides a comprehensive overview of the literature that underpins the research analysis. Each article makes an important contribution both from an empirical and conceptual aspect to explaining how domestic investors respond to global inflationary pressures.

Based on the literature data that has been collected, it can be seen that most of the literature highlights the direct link between global inflation and capital flows and investment decisions, especially in developing countries. Articles from Chen et al. (2021) and the IMF (2023) underline that global inflationary pressures result in uncertainty that affects the inflow of foreign and domestic investment. This suggests that investors tend to be sensitive to global economic dynamics, especially when it comes to price stability and international monetary policy.

Literature such as Santosa (2022) and Rogoff (2022) show that in situations of global crisis that cause a surge in inflation, domestic investors show a tendency to avoid risk. This response is manifested through the transfer of assets to safer instruments such as government bonds or short-term instruments. These findings provide an understanding that investment decisions in Indonesia are not only determined by domestic indicators, but also by perceptions of global economic turmoil.

Articles from Taylor (2020) and the World Bank (2023) explain that global inflation is strongly influenced by interest rate policies in major countries such as the United States. Domestic investors in Indonesia tend to follow the direction of global interest rate movements because it has an impact on exchange rates, purchasing power, and investment profitability. This interpretation reinforces the argument that domestic investors are now increasingly global in their decision-making orientation.

Research from Yuliana (2020), Haryanto (2020), and Sari & Nugroho (2021) provides contextual contributions to investment dynamics in Indonesia. The three articles show that although inflationary pressures come from abroad, the impact is felt domestically through the weakening of the rupiah, increased production costs, and decreased purchasing power. As a result, local investors have had to adjust their portfolios to maintain returns in a challenging economic situation.

From a study of Putri & Rahmawati (2022) and the World Bank (2023), it is known that domestic investors are beginning to develop strategies to mitigate risks to inflation, such as diversifying assets and allocating to sectors that are resistant to inflation. This shows a shift in investment behavior from reactive to more strategic. Investors are not only responding to momentary turmoil, but starting to consider global trends in long-term planning.

Of all the articles studied, there have not been many studies that specifically discuss the interaction between global inflation and investment decision-making by Indonesian domestic investors in depth with a qualitative approach. This research fills this gap by integrating various theoretical and empirical perspectives to produce a holistic understanding. The interpretation of this literature contributes to enriching the scientific treasures of global macroeconomics and investor behavior in developing countries.

Discussion

Findings from literature studies show that global inflation has direct implications for domestic economic conditions in developing countries such as Indonesia. In the current context, global inflationary pressures caused by geopolitical conflicts (such as the Russia-Ukraine war), post-pandemic recovery, and global supply chain disruptions, have led to significant increases in the prices of imported commodities and raw materials. This has an impact on rising domestic inflation and declining people's purchasing power (World Bank, 2023).

Global uncertainty causes domestic investors to tend to be more conservative in their investment decisions. In many cases, as outlined by Santosa (2022), investors prefer low-risk instruments such as government bonds and deposits. This is also reflected in investor behavior during 2022–2023, where there was an increase in demand for Government Securities (SBN) and weakness in the technology-based stock sector.

Findings from Putri & Rahmawati (2022) show that investors are starting to diversify their assets in response to global volatility. This phenomenon is also evident from the increasing interest in gold, property, and US dollar-based assets. In modern portfolio theory (Markowitz, 1952), diversification is a strategy to minimize systemic risks. These findings suggest that the theory is still very relevant, especially in unstable economic conditions.

Rational expectation theory states that economic actors make decisions based on available information and future projections. Based on data from the IMF (2023) and Taylor (2020), local investors are actively monitoring global interest rate policies such as the Fed and ECB, as they understand that these policies will affect the rupiah exchange rate and investment flows. This shows that domestic investors are now increasingly responsive to global dynamics.

According to Haryanto (2020), inflation has a negative correlation with stock returns. In the current context, the increase in the company's operating costs due to global inflation has an impact on lower net profit, which ultimately lowers the stock price. Therefore, investors are starting to avoid inflation-sensitive sectors such as manufacturing and transportation, and are starting to turn to the energy and basic needs sectors that are considered more stable.

The literature also shows a significant shift in domestic investor sentiment, where they are starting to consider global indicators in every investment decision. In the short term, this sentiment is influenced by exchange rate fluctuations, trade balances, and global inflation

reports. In the long term, investors are starting to strategize portfolios with a global orientation, a trend that was previously more done by institutional investors.

From these findings, it can be concluded that domestic investors need to increase financial literacy, especially related to global macroeconomic indicators. Although some investors are beginning to understand the impact of global interest rates on investment returns, many retail investors still rely on local information and tend to be reactive. This is a challenge for regulators and financial education institutions.

The results of the literature also show that there is still a gap in the literature that examines in depth how Indonesian investors respond to global inflationary pressures. Most studies still focus on domestic variables, such as national inflation, BI Rate, and JCI. This research is here to fill this gap by examining external influences that are increasingly important in the era of financial globalization.

The author views that Indonesia's domestic investors are currently in a transition phase: from a pattern of investment that tends to be local and conventional to a more global and strategic pattern. However, there are still major challenges, namely information asymmetry and limited access to real-time global data. Therefore, it is important for governments and financial authorities to provide a more open and educational information system for retail investors.

Practically, the results of this study can be a reference for domestic investors to understand the importance of considering global variables in every investment decision. For subsequent academics and researchers, these results open up opportunities to explore the interaction between global factors and local financial behavior using interdisciplinary approaches, such as behavioral economics and international finance.

4. CONCLUSION

Based on the results of the literature study conducted, it can be concluded that global inflation has a significant influence on the investment decision-making process by domestic investors in Indonesia. Global uncertainty triggered by various factors such as geopolitical conflicts, supply chain disruptions, and monetary policies of developed countries has prompted investors to be more cautious in determining investment instruments. This phenomenon is reflected in the tendency of investors to switch to safer assets and diversify portfolios to minimize the risks posed by global price volatility.

Furthermore, it was found that domestic investors are increasingly aware of the importance of global macroeconomic indicators such as international benchmark interest rates, world inflation, and major currency exchange rates. This change in orientation signals a shift in investment behavior from a local approach to a more global and strategic approach. However, global financial literacy and open access to world economic information remain major challenges for many retail investors in Indonesia.

This study suggests that future studies use a combination approach between qualitative and quantitative (mixed methods) to obtain a more comprehensive picture, including by including primary data from investor interviews or investment behavior surveys. In addition, more in-depth empirical research is needed on the role of information technology, financial market digitalization, and media in shaping investor expectations of global inflation. Further

research may also expand the focus on comparisons between developing countries to understand different responses to global inflation dynamics.

5. ACKNOWLEDGMENT

The author expresses his deepest appreciation and gratitude to all parties who have contributed to the completion of this article. Special thanks are extended to the providers of literature resources such as Google Scholar, ScienceDirect, JSTOR, and ProQuest who have become the main references in this literature study. The author also acknowledges the important contributions of global institutions such as the International Monetary Fund (IMF) and the World Bank that provide up-to-date macroeconomic data that are highly relevant to the research topic.

Thank you are also addressed to the supervisors and colleagues who have provided constructive input and criticism during the writing process. Without the support and cooperation of various parties, this article would not have been completed properly. Any shortcomings that may be contained in this article are entirely the responsibility of the author.

6. AUTHORS' NOTE

This article was independently prepared by the author with a literature study approach as part of an academic contribution in understanding the dynamics of the relationship between global inflation and domestic investment behavior in Indonesia. The author does not have any conflict of interest regarding the content or funding in this study.

All data and literature used in this article have been processed and analyzed objectively by upholding academic integrity. This article is expected to be an initial reference for the development of further research in the fields of macroeconomics, investment, and global finance, and can make a real contribution in strengthening the capacity of domestic investors in facing global economic dynamics.

7. REFERENCES

- Blanchard, O., & Johnson, D. R. (2017). *Macroeconomics* (7th ed.). Pearson.
- Chen, M.-H., Lee, C.-C., & Wang, C.-W. (2021). Global inflation and investment flows: Evidence from emerging markets. *Journal of International Financial Markets, Institutions and Money*, 74, 101424.
- Haryanto, A. (2020). The effect of inflation and interest rates on the return of financial sector stocks in Indonesia. *Indonesian Journal of Economics and Finance*, 14(3), 235–245.
- IMF. (2023). *World Economic Outlook: A Rocky Recovery*. International Monetary Fund.
- Miles, M. B., Huberman, A. M., & Saldana, J. (2014). *Qualitative Data Analysis: A Methods Sourcebook* (3rd ed.). SAGE Publications.
- Mishkin, F. S. (2019). *The Economics of Money, Banking, and Financial Markets* (12th ed.). Pearson.
- Moleong, L. J. (2019). *Qualitative Research Methodology (Revised Edition)*. Teenager Rosdakarya.
- OECD. (2023). *Economic Outlook: Navigating Global Headwinds*. Organisation for Economic Co-operation and Development.
- Putri, N., & Rahmawati, A. (2022). Inflation and its effect on the Indonesian capital market: A quantitative analysis. *Journal of Finance and Banking*, 26(1), 45–57.

- Rogoff, K. (2022). Inflation and geopolitical instability in the post-pandemic world. *Harvard Economics Review*, 34(2), 101–115.
- Sari, D. P., & Nugroho, S. (2021). Impact of global inflation on domestic economies: An empirical study in developing countries. *Journal of Global Economics*, 9(2), 67–81.
- Santosa, B. (2022). Investor behavior in the midst of a global crisis: A macroeconomic perspective. *Indonesian Journal of Economics and Business*, 37(4), 123–138.
- Sugiyono. (2017). *Qualitative, Quantitative, and R&D Research Methods*.
- Taylor, J. B. (2020). Inflation dynamics and monetary policy in an interdependent world. *Global Economics Journal*, 20(3), 200–215.
- World Bank. (2023). *Indonesia Economic Prospects: Managing Global Risks*. The World Bank.
- Yuliana, E. (2020). Analysis of the influence of macroeconomic factors on investment in the Indonesian capital market. *Journal of Economics and Management*, 18(1), 89–100.
- Zed, M. (2008). *Literature Review: The First Steps of Scientific Research*. Indonesian Torch Foundation.