



THE DETERMINANTS OF THE COMPOSITE STOCK PRICE INDEX IN INDONESIA

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Abstract

This study employs a Systematic Literature Review (SLR) methodology to examine the factors that influence the composite stock price index in Indonesia. Identification of ten reputable journals using the Google Scholar search engine. The analysis findings from multiple journals, including the study conducted by Wahyuni et al. (2023) in the Consumer Goods Industry sector, indicate that inflation, dollar exchange rate, and Return on Equity (ROE) exert a substantial impact on IHSG. In a recent study conducted by Giffarina (2021), it was found that inflation and interest rates have a detrimental impact on the JCI, while the exchange rate also exerts a negative influence. This research validates prior perspectives, affirming that inflation and exchange rates exert a multifaceted influence on the Jakarta Composite Index (JCI) on the Indonesia Stock Exchange (IDX). This study offers a comprehensive perspective on the factors that impact the IHSG, thereby enhancing the comprehension of the Indonesian capital market for individuals involved in investment decision-making and policy formulation.

Keywords: *IHSG, Stocks, Indonesia, Capital Markets.*

1. INTRODUCTION

The ongoing process of globalization has led to a heightened focus by most nations on their capital markets, recognizing the strategic role and significance of these markets in shaping a country's economic resilience. The Indonesian capital market, as described by Borjigin et al. (2018), is an emerging market that possesses distinct attributes and is responsive to global economic matters. In contrast, capital markets in developed nations possess a robustness that exhibits greater resilience in the face of global economic disruptions. The influence of globalization is also evident in the global economy, where economic occurrences in one region can swiftly affect other regions. Presently, within the worldwide market, each investor possesses the capacity to allocate their capital in any location, whether it be within their own country or overseas. The capital market serves as a prominent predictor for a nation's economy and plays a crucial role in economic progress, while also offering potential gains for investors. The Composite Stock Price Index (IHSG) serves as the primary gauge of the state of the Indonesian capital market, encompassing all categories of shares listed on the Indonesia Stock Exchange (BEI) (Ilmi, 2017).

The Composite Stock Price Index (IHSG) represents the total worth of all shares or issuers that are listed on the Indonesian Stock Exchange (Charles et al., 2018). Within the realm of the capital market, the index serves as a gauge of market patterns, with a rise in the index value signifying robust market activity, while a decline suggests a lackluster capital market (Akua Miyanti & Wiagustini, 2018). A decrease in the JCI can adversely affect Indonesia's macroeconomic stability, potentially leading to negative repercussions for the national economy. A reduction in the available funds for domestic economic development can impede economic growth, leading to a decline in purchasing power and welfare of the Indonesian population (Listriono & Nuraina, 2015).

Hence, the Jakarta Composite Index (JCI) serves as both a standard for evaluating the performance of the stock market and as a significant influencer of macroeconomic factors in Indonesia. The Composite Stock Price Index (IHSG) represents the total worth of all shares or issuers listed on the Indonesian Stock Exchange. Within the realm of the capital market, the IHSG

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serves as a gauge for market patterns, where a rise in the IHSG value signifies robust market activity, while a decline signifies a sluggish capital market (Prasetyanto, 2017). A decrease in the JCI could potentially jeopardize Indonesia's macroeconomic stability, leading to unfavorable repercussions for the nation's economy. A reduction in the available funds for domestic economic development can impede economic growth, resulting in a decrease in the purchasing power and welfare of the Indonesian population (Subagyo et al., 2018). Hence, the Jakarta Composite Index (JCI) serves not only as a gauge of the overall condition of the capital market, but also exerts a significant influence on various macroeconomic factors in Indonesia. Investors must carefully consider macroeconomic variables when making investment decisions to maximize profits. The movements of the JCI are frequently associated with various economic indicators, including exchange rates, interest rates, inflation, and Gross Domestic Product (GDP) (Arifin, 2014).

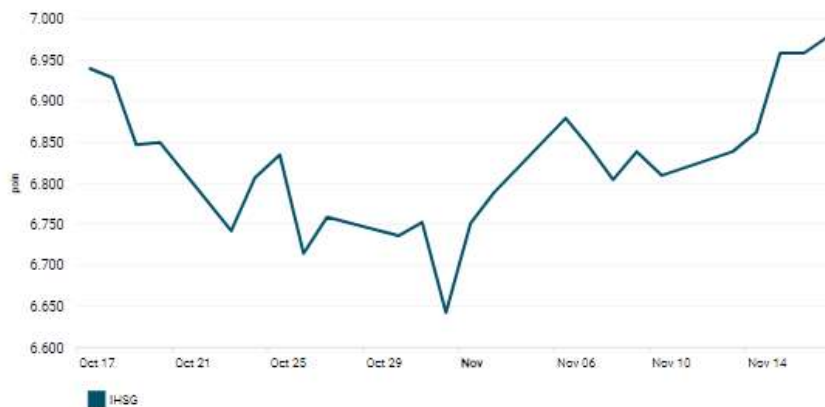


Figure 1. Composite Stock Price Index (IHSG) 17 October – 17 November 2023
Source: DataBox Katadata Media Network

On Friday (17/11/2023), at the end of the trading session, the Composite Stock Price Index (IHSG) experienced a 0.28% increase, reaching a level of 6,977.67. It came close to the significant threshold of 7,000, which has psychological significance for investors. The IDX-IC Sectoral Index data indicates that three sectors witnessed a rise, with the infrastructure sector taking the lead by increasing 4.34%. This was followed by the raw goods sector with a 0.94% increase, and the health sector with a marginal 0.07% increase. Nevertheless, seven additional sectors witnessed a decrease, with the technology sector exhibiting the most sluggish performance at -0.95%, followed by the industrial sector at -0.83%, and the logistics sector at -0.45%. The stock trading data indicates that there were 1.08 million transactions on the domestic stock exchange, involving a total of 14.53 billion shares and a transaction value of IDR 8.46 trillion. The issuers identified by the code TRIN experienced the highest gains, with a significant increase of 34.23%. Following closely behind were the issuers NATO and BREN, which saw respective increases of 21.47% and 10.96%. Conversely, the issuer that suffered the greatest loss was STRK, with a decline of 24.57%. It was followed by JATI and HUMI, which experienced declines of 18.03% and 11.88% respectively. Out of the entire volume of shares traded, 319 shares concluded with a decrease, 215 shares remained unchanged, and 213 shares experienced an increase. Meanwhile, the performance of regional Asian stock exchanges was varied. The Nikkei Index saw a 0.45% increase, while the Hang Seng Index experienced a 2.12% decline. The Shanghai Index, on the other hand, saw a 0.11% increase, while the Strait Times Index weakened by 0.27%. In 2020, the mean value of company shares was 5,979.07 rupiah. According to calculations, an investor in that year would have obtained an average return of 61.44%, which represents a decline of 4.91% compared to the previous year. The decrease in value is directly correlated with the decline in the Composite Stock Price Index (IHSG) by -5.09% from 2019, which dropped from 6,299.54 to 5,979.07 in 2020. The JCI movement exhibited volatility during the period from 2010 to 2020, experiencing an initial increase followed by a decline of -0.98% in 2013, and a substantial increase of 22.29% in 2014. In 2015, there was a



substantial decline of 12.13% in comparison to the preceding year. Fluctuations in the JCI are impacted by various demand and supply determinants, including company performance indicators, interest rates, inflation, domestic and global economic expansion, foreign currency exchange rates, and factors originating from other nations. Additionally, irrational factors, including capital market concerns, speculative movements, and occurrences like the COVID-19 pandemic, also contribute to the situation (Ameliana & Soebagyo, 2023).

The findings of prior research conducted by experts, such as Sunardi & Ula (2017), demonstrate the favorable impact of inflation on the IHSG variable in the Indonesian Stock Exchange. According to Santika & Dwiatmoko (2022), there is a correlation between return on equity (ROE) and share prices in manufacturing sector companies. Giffarina's (2021) research demonstrates that fluctuations in the Rupiah exchange rate have a significant impact on the IHSG within the consumer goods industry sector. Arifin (2014) discovered that fluctuations in inflation and exchange rates had both partial and simultaneous effects on the IHSG. Hence, the author conducted a study to examine and gather empirical data on the impact of inflation, the exchange rate of the United States Dollar, and return on equity (ROE) on the Composite Stock Price Index (IHSG) in consumer goods industrial companies listed on the Indonesia Stock Exchange (BEI) from 2016 to 2020. This research aims to provide a substantial contribution to the existing literature, particularly in the context of IHSG in consumer goods industry companies that could potentially be impacted by the COVID-19 pandemic. Therefore, it is anticipated that the findings of this study will enhance comprehension of the determinants that impact the JCI movement within the consumer goods sector. This knowledge can serve as a foundation for future investment decision-making.

2. IMPLEMENTATION METHOD

This study will employ a Systematic Literature Review (SLR) methodology to examine the factors influencing the composite stock price index in Indonesia. To begin, it was necessary to identify the 10 nationally accredited journals that are most pertinent to this research topic. The process of identifying the journal will commence by utilizing the Google Scholar search engine. The keywords "determinants of the composite stock price index in Indonesia" will be utilized to conduct a meticulous search. Stringent filters will be implemented to guarantee the inclusion of solely pertinent nationally accredited journals in this research. The "Publish or Perish" application will be utilized to facilitate the gathering of additional data on the caliber and influence of the chosen journals during the identification process. The evaluation process will consider factors such as impact factor, citation count, and academic qualifications of authors to ensure the selected journals possess high credibility and relevance.

After identifying appropriate journals, a selection process will be conducted using predetermined criteria for inclusion and exclusion. Only the top ten journals, which are both highly relevant and of exceptional quality, will be chosen for further examination. Subsequently, a comprehensive examination and summary will be generated for each chosen journal. The research will analyze the research objectives, methods, main findings, and conclusions to give a complete overview of how each journal contributes to our understanding of the factors that determine the composite stock price index in Indonesia. In the end, this literature study will create a comprehensive systematic review report. This report will encompass the procedural steps involved in the identification and selection process, the discoveries derived from each journal, and a meticulous assessment of the methodology employed in the chosen literature. This report will incorporate conclusions and recommendations for future research to offer guidance to subsequent researchers.

3. RESULTS AND DISCUSSION

The findings of this literature review consist of the analysis and summaries derived from a range of documented journals, particularly those pertaining to the factors influencing the composite stock price index in Indonesia. The data has been condensed and organized into tables, which

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display significant information such as the research methodology, key findings, and conclusions from each journal analyzed in this study. This analysis and summary aim to offer a comprehensive understanding of the factors that influence the composite stock price index in Indonesia. The findings from relevant journals, which are listed in Table 1, serve as the basis for this research.

Table 1. Research Results on the Determinants of the Composite Stock Price Index in Indonesia

No.	Researcher Name	Research Title	Year of Research	Journal	Research result
1.	Eni Wahyuni, Indra Dekrijanti, and Siswo Adie	Determinants of the Composite Stock Price Index (IHSG): Case Study of Consumer Goods Industry Sector Companies	2023	Journal of Dynamic Management	This research aims to evaluate the influence of inflation, the United States dollar exchange rate, and Return on Equity (ROE) on the Composite Stock Price Index (IHSG). Using a sample of 27 companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (BEI) during the 2016-2020 period, the research results show that inflation, the dollar exchange rate, and ROE individually have a significant influence on the IHSG during that period. Furthermore, this research found that simultaneously, these three factors, namely inflation, the United States dollar exchange rate, and ROE, had a significant influence on the IHSG of companies in the consumer goods industry sector listed on the IDX during that period. Even though it makes an important contribution to the literature regarding the determinants of the IHSG in 2016-2020, this research acknowledges limitations in the sample size used.
2.	Indriyani, and	Determinants of	2021	Balance Vacation	The results of this



	Eko Narto Utomo	the Composite Stock Price Index for Companies Listed on the IDX 2013-2020		Accounting Journal	<p>research illustrate that partially, the inflation variable (X1) does not have a significant influence on the Composite Stock Price Index (IHSG), as shown by the probability value (0.963) which is greater than the significance level (σ) of 0.05. Meanwhile, the interest rate (X2) also does not have a significant effect on the IHSG, with a probability value (-0.778) which is greater than the significance level. However, Gross Domestic Product (X3) shows a significant positive influence on IHSG, because the probability value (0.003) is smaller than the significance level. Simultaneously, these three variables, namely inflation, interest rates and Gross Domestic Product, have a significant influence on the IHSG, as shown by the F probability value of 11,908 which is greater than the significance level. The resulting multiple linear regression equation is $IHSG = -86987.305 + 3,961 IF - 28,741 TSB + 2590,876 GDP + e$, with a coefficient of determination of 51.4%, indicating the extent to which IHSG variability can be explained by the independent variables studied, while the rest</p>
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					is influenced by factors -other factors not revealed in this study.
3.	Heru Wahyudi, and Kanti Rahayu	Determinants of the Short and Long-Term Composite Stock Price Index (IHSG)	2022	Accounting, Finance and Management Studies (Sakman)	The results of the analysis conclude that overall, all independent variables in this study have a significant influence on the Composite Stock Price Index (IHSG). The results of the Error Correction Model (ECM) estimation show that the variables of stock market capitalization, world oil prices and the Hang Seng Index have a positive influence on the IHSG, while world gold prices have a negative influence. Together, these four variables influence the IHSG. In the context of the Error Correction Term (ECT), the coefficient is -0.2045 with a significant negative direction at the 5% confidence level, indicating that the adjustment process or Adjustment Mechanism Process in the long-term balance lasts for 20 months.
4.	Hamzah, Devi Putri, Andre Riswanto, and Gebila	Determinants of Monetary Variables on Price Indexes Joint Stock Exchange (IHSG) in Indonesia 2005-2018	2019	Equity: Economic Journal	Based on the results of research and data analysis in this title, it can be concluded that partially, a decrease in the variables Inflation, BI Rate, American dollar, and political factors tends to increase the Composite Stock Price Index (IHSG), and vice versa. However, the inflation variable shows a negative and



					<p>significant influence on the IHSG, indicating that the negative impact of the inflation variable needs to be detailed further. Simultaneously, inflation, BI rate, American dollar and political year have a significant influence on the IHSG. These findings provide important insight into the complex relationship between monetary variables and political factors and JCI movements on the Indonesian stock market, as well as highlighting the need for an in-depth understanding of the impact of inflation on individual IHSG performance.</p>
5.	Raraz Giffarina	Determinant Index Price Share Combined: Macroeconomic Perspective	2021	Journal of Public Auditing and Financial Management	<p>Based on the results of data analysis regarding the influence of the Inflation Rate, SBI Interest Rate and Exchange Rate on the Composite Stock Price Index (IHSG), the following conclusions can be drawn: First, partially, the inflation rate variable has a negative but not significant influence on the IHSG, indicating that the increase in inflation did not significantly affect the decline in the IHSG on the Indonesian Stock Exchange. Second, the SBI interest rate also partially had a negative but insignificant effect on the IHSG, indicating</p>

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					that an increase in interest rates did not significantly affect the decline in the IHSG. Third, the exchange rate variable has a significant influence and is negatively related to the IHSG, indicating that an increase in the exchange rate causes a decrease in the IHSG on the Indonesian Stock Exchange. These results highlight the importance of paying attention to fluctuations in the IDR exchange rate against the USD, especially for potential stock investors, as well as confirming the sensitivity of the Indonesian capital market towards foreign investors.
6.	Pudji Astuty and Dwi Chandra Permana	Determinants of the Composite Stock Price Index (IHSG) on the Indonesian Stock Exchange	2020	Economic Journal	Based on the results of research and analysis, it can be concluded that the Rupiah exchange rate against the US Dollar, world gold prices and world oil prices together have a significant influence on the Composite Stock Price Index (IHSG) on the Indonesian Stock Exchange. Individually, the Rupiah exchange rate against the US Dollar has a significant and positive effect on the IHSG, indicating that an increase in the exchange rate can have a positive impact on the IHSG. World gold prices also have a significant and positive influence on the IHSG, while world



					oil prices have a significant but negative influence on the IHSG, indicating that an increase in world gold prices tends to increase the IHSG, while an increase in world oil prices has the potential to reduce the IHSG. These findings provide important insights for capital market stakeholders to understand the dynamics of the relationship between these variables and the JCI movement on the Indonesian Stock Exchange.
7.	Eni Yuniati, Elva Nuraina and Juli Muwarni	Determinants of the Composite Stock Price Index	2020	In FIPA: Accounting Education Scientific Forum	The results of this research indicate that the determinants of the Composite Stock Price Index do not have an overall influence on stock prices on the stock exchange. The analysis shows that inflation does not have a significant influence on stock prices, while the BI rate and the amount of money in circulation have a negative and significant influence on combined share prices on the Indonesian securities market. On the other hand, the Standard & Poor's 500 and world oil prices have a positive influence on stock prices on the Indonesian securities market. In other words, an increase in the BI rate, money supply, inflation, Standard & Poor's 500, and world oil prices can affect share

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					prices on the Indonesian securities market. This research has limitations, such as focusing on the determinants of the composite stock price index without specializing in several types of stock prices and a limited time period. As a suggestion, investors are encouraged to pay attention to these factors, the government is expected to control the BI rate and the amount of money in circulation, and further research is recommended to add variables such as the rupiah exchange rate, budget deficit, and the Nikkei 225 index.
8.	Rizky Ameliana, Daryono Soebagyo	Determinants of Foreign Direct Investment Flows to Indonesia	2023	Economics: Journal of Economics and Business	The results of the classical assumption test in this study show that the residuals of the estimated model are normally distributed, there is no autocorrelation, there are no heteroscedasticity problems, and the estimated linear model has been specified well. Even though the multicollinearity test found VIF values above 10 for several variables such as IHSG, foreign exchange reserves and government spending, these results can be tolerated because the influence validity test shows that several of these variables have a significant influence on foreign direct investment into Indonesia during the



					<p>2000-2021 period. . The F test shows that the model is jointly significant, with an empirical probability value of the F statistic of 0.000 (< 0.01), and an R^2 value of 0.801 indicating that 80.1% of the variation in foreign investment can be explained by variations in inflation, IHSG, foreign exchange reserves, and government spending. The t test shows that the IHSG and foreign exchange reserves have a significant effect on foreign investment, with the IHSG having a negative effect of -0.566, while foreign exchange reserves have a positive effect of 1.245. Even though inflation and government spending do not have a significant effect, interpretation of inflation shows that the stable condition of the inflation rate under the Inflation Targeting Framework does not threaten people's purchasing power or economic stability, so it is not considered a serious threat to foreign investors.</p>
9.	Wahyu Dian Santika and Ridho Dwiatmoko	Analysis of Determinants of Indonesia's Foreign Exchange Reserves 1991-2020	2022	Economist: Journal of Economics and Development Studies	Based on the results of Ordinary Least Squares (OLS) regression analysis regarding the influence of exchange rates, IHSG, world oil prices, net exports and foreign debt on Indonesia's foreign exchange reserves during the 1991-2020

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					<p>period, it can be concluded that world oil prices, net exports and debt abroad has a positive influence on foreign exchange reserves. This means that rising world oil prices, increasing net exports and increasing foreign debt can increase Indonesia's foreign exchange reserves. On the other hand, the exchange rate shows a negative influence on foreign exchange reserves, which means that exchange rate depreciation can cause a decrease in foreign exchange reserves. Even so, the JCI did not show a significant influence on foreign exchange reserves.</p>
10.	<p>Dewi Nari Ratih Permada, Rachmawaty Rachmawaty, Annisa Amalia</p>	<p>Determinants of Stock Index Based on Macroeconomic Factors</p>	2022	<p>Ecobis Journal: Economics, Business & Management</p>	<p>Based on the description and research results, several things can be concluded. First, partially, the BI Rate and inflation do not have a significant influence on changes in the Composite Stock Price Index (IHSG). Changes in the BI Rate which were relatively stable and the inflation rate which remained below 10% during the research period did not significantly influence the market, and this did not motivate investors to change investment decisions. Second, partially, the Rupiah exchange rate against the USD has a positive and significant influence on the IHSG,</p>



					<p>indicating that when the Rupiah exchange rate strengthens, the IHSG tends to improve. Third, simultaneously, the BI Rate, inflation and the Rupiah-USD Exchange Rate have a significant influence on the IHSG, with a coefficient of determination of 59%. This means that 59% of changes in the IHSG can be explained by changes in the BI Rate, inflation and the Rupiah-USD Exchange Rate during 2011-2020, while the remaining 41% is influenced by other factors not examined in this research.</p>
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The analysis of research findings on the determinants of the Composite Stock Price Index (IHSG) in Indonesia, as depicted in the table, offers a varied depiction of the factors that impact the movement of the IHSG. The study conducted by Wahyuni et al. (2023) demonstrates that inflation, the exchange rate of the United States dollar, and Return on Equity (ROE) collectively exert a substantial influence on the IHSG in consumer goods companies within the industry sector. Research conducted by Indriyani & Utomo (2021) found that inflation and interest rates do not exert a substantial impact on the IHSG. However, Gross Domestic Product (GDP) has a positive influence, either partially or simultaneously. The findings of previous studies, such as those carried out by Wahyudi & Rahayu (2022), highlight that the IHSG is positively influenced by stock market capitalization, world oil prices, and the Hang Seng Index. Conversely, world gold prices exert a negative influence. Analyzing these factors makes a significant contribution to comprehending the fluctuations of JCI movements in the Indonesian stock market, although some studies recognize limitations in sample size or other factors that should be considered. Hence, stakeholders, particularly investors and the government, can employ these findings to enhance their investment decision-making and formulate policies that foster the expansion of capital markets in Indonesia.

4. DISCUSSION

This research consistently corroborates the conclusions of several prior studies, such as those conducted by Bai (2014) and Arifin (2014), which assert that there is a positive correlation between stock investment and inflation. Specifically, these findings indicate that an increase in inflation can lead to a rise in stock prices, as inflation directly affects the returns of the capital market. According to Arifin (2014), this study finds that fluctuations in currency exchange rates have a notable impact on the Composite Stock Price Index on the Indonesian Stock Exchange. Furthermore, these findings recognize that developed nations exert significant sway over the economies of developing countries like Indonesia, particularly in relation to fluctuations in exchange rates. Fluctuations in currency exchange rates in developed nations can influence the exchange rates of developing nations, thereby potentially impacting the Indonesian economy as a

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recipient of loans. This finding is consistent with Tandelilin's (2017) theory, which posits that a strengthening Rupiah exchange rate serves as a favorable indicator for investors, as it signifies favorable economic conditions. Conversely, a depreciating Rupiah exchange rate can prompt investors to exercise caution in their investments due to the potential decrease in corporate earnings. In summary, this study enhances our comprehension of the determinants that impact the IHSG by validating several previously established discoveries.

This study investigates different perspectives on the impact of inflation and exchange rate variables on the Composite Stock Price Index (IHSG) on the Indonesia Stock Exchange (BEI). According to the research conducted by Sunardi and Ula (2017), there is a positive and significant correlation between inflation and the IHSG on the IDX. Nevertheless, the findings of Wicaksono's (2018) study contradict the notion that there is a relationship between the inflation variable and the stock price index in consumer goods companies within the 2011-2015 timeframe. The decrease in company valuation, as indicated by the IHSG, can impact the market's inclination to purchase shares, subsequently influencing the selling price of shares in the market. Conversely, Arifin (2014) discovered that fluctuations in exchange rates had a detrimental and noteworthy impact on the IHSG on the IDX. Nevertheless, Wicaksono (2018) demonstrates that fluctuations in the rupiah-to-dollar exchange rate exert an impact on the stock price index. The significance of the exchange rate lies in the fact that when the value of the dollar strengthens, it indicates unfavorable economic conditions, leading investors to be hesitant in investing in stocks. Conversely, a decline in the value of the rupiah can lead to a reduction in company profits, which does not align with investors' anticipations. Therefore, the findings of this study offer a detailed understanding of the intricate relationship between inflation, exchange rates, and their impact on the IHSG on the IDX.

5. CONCLUSION

The findings of this study indicate that inflation, currency exchange rates, and Return on Equity (ROE) each exert a substantial impact on the Composite Stock Price Index (IHSG) on the Indonesia Stock Exchange (BEI). This finding aligns with prior research, particularly the studies conducted by Bai (2014) and Arifin (2014), which also demonstrate a positive correlation between stock investment and inflation. The positive influence can be attributed to the notion that rising inflation can elevate stock prices due to its direct effect on the rate of return in the capital market. In addition, the research findings further support the notion that fluctuations in currency exchange rates exert a substantial influence on the IHSG on the IDX, consistent with the discoveries made by Arifin (2014) and Tandelilin (2017). This demonstrates that fluctuations in currency exchange rates, particularly in the context of developed and developing nations, can impact the performance of the stock market in Indonesia.

Nevertheless, this study also reveals discrepancies in results, as evidenced by the research conducted by Indriyani & Utomo (2021), which indicates that inflation and interest rates lack a substantial impact on the IHSG. Conversely, Gross Domestic Product (GDP) exhibits a positive influence. These findings offer a comprehensive understanding of the intricate factors that affect JCI movements on the IDX. It is important to acknowledge that these results can be influenced by various variables and economic contexts. In conclusion, this research makes an important contribution to understanding the determinants of IHSG in Indonesia. These findings can be used by investors and capital market stakeholders to make more informed investment decisions. Additionally, the government can utilize these insights to develop policies that promote the growth and stability of capital markets in Indonesia. While this study provides a more comprehensive understanding, conducting additional research with a larger sample size and incorporating more variables could enhance our comprehension of the intricate dynamics of the Indonesian stock market.

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