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# The Effect of Inflation, Exchange Rates, and Interest Rates on The Jakarta Composite Index in The Indonesia Stock Exchange During The Period Of 2017-2022

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***Abstract:*** *This study aims to analyze the effect of inflation, exchange rates, and interest rates on the Jakarta Composite Index (JCI) in the Indonesia Stock Exchange (IDX) during the period of 2017-2022, both partially and simultaneously. The approach used is quantitative with time series data covering inflation, exchange rates, interest rates, and the JCI. The data used in this study consists of 288 observations, with each variable having 72 data points. The analysis method includes multiple linear regression, classical assumption testing, hypothesis testing, and coefficient of determination, with the help of SPSS 27.0 software. The results of the study show that: (1) inflation has been positive and significant effect on the JCI, (2) exchange rates have a positive but insignificant effect on the JCI, (3) interest rates have a negative and significant effect on the JCI, and (4) simultaneously, inflation, exchange rates, and interest rates have a significant effect on the JCI in the Indonesia Stock Exchange during the period of 2017-2022.*

***Keywords:*** *Inflation, Exchange Rates, Interest Rates, Jakarta Composite Index*

## 1. INTRODUCTION

The Indonesian economy's sustained growth is closely linked to the pivotal role of the Indonesia Stock Exchange (IDX) in supporting economic activities. As a key player, IDX bridges companies seeking capital with investors searching for viable investment opportunities. In recent years, the Indonesian capital market has experienced notable developments, particularly as evidenced by the increase in the Composite Stock Price Index (IHSG)(Zainuri et al., 2021). This surge in the IHSG highlights the stock market's attractiveness as a profitable investment instrument for investors. However, stock prices remain volatile, influenced by a range of internal and external factors.

Internally, the company's performance, as reflected in its financial statements and corporate actions, is a major determinant of stock price fluctuations. Externally, macroeconomic factors such as interest rates, inflation, exchange rates, and government policies shape the investment climate and, by extension, market behavior (Kinyanjui, 2024; Otambo, 2016).

The IHSG serves as the primary indicator of the performance of the Indonesian stock market. Fluctuations in the IHSG reflect broader trends within the capital market, influenced by various economic conditions, including inflation and exchange rates. Inflation, for instance, erodes purchasing power, which can negatively impact specific sectors within the market, such as retail, banking, and consumer goods (Zorzano Mateos, 2023). Similarly, fluctuations in the

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exchange rate can increase companies' import costs, affecting their profit margins and, consequently, stock prices.

Interest rates also play a significant role in shaping capital market movements. When Bank Indonesia raises interest rates, investors often gravitate toward safer investment instruments, such as bonds or savings deposits, which offer lower risk but higher returns. Conversely, a reduction in interest rates may encourage more investments in the stock market, as investors seek higher returns. For example, in 2020, the JCI experienced a sharp decline due to global economic uncertainty caused by the COVID-19 pandemic. However, by 2021 and 2022, the market rebounded, albeit with notable fluctuations, in response to monetary policies implemented by the government and Bank Indonesia to mitigate the pandemic's effects (Sugandi, 2022).

The exchange rate of the rupiah against the US dollar is another critical factor influencing market behavior. A weakening rupiah increases the cost of imported raw materials for companies, thereby raising production costs. This can negatively impact financial performance and, by extension, share prices on the IDX. Given these dynamics, it is crucial for investors to understand the interplay between economic variables to make informed investment decisions (Mansoor et al., 2023).

Several studies have examined the impact of inflation, exchange rates, and interest rates on the IHSG. However, these studies have yielded mixed results regarding the significance and strength of these relationships. For instance, (Parulian & Mahendra, 2021; Ramadhani et al., 2024; Simanjuntak et al., 2023; Vikaliana, 2017) found that inflation and interest rates significantly affect the IHSG, while exchange rates did not show a meaningful impact. On the other hand, research by (Simanjuntak et al., 2023) concluded that all three factors—inflation, exchange rates, and interest rates—significantly influence the IHSG. This study aims to further investigate the effects of inflation, exchange rates, and interest rates on the movement of the IHSG between 2017 and 2022.

The study seeks to address gaps in the literature by providing deeper insights into the role of macroeconomic variables in shaping the performance of the Indonesian capital market. It is expected to contribute valuable knowledge for investors, policymakers, and stakeholders, guiding them in crafting better investment strategies and monetary policies.

The research questions driving this study are as follows: How does inflation affect the Composite Stock Price Index (IHSG) between 2017 and 2022? How do exchange rates influence the IHSG over the same period? What is the effect of interest rates on the IHSG from

2017 to 2022? And, how do these three macroeconomic variables simultaneously impact the IHSG during this period?

The objective of this study is to analyze the individual and combined effects of inflation, exchange rates, and interest rates on the IHSG, providing a comprehensive understanding of the dynamics shaping Indonesia's capital market.

By better understanding these macroeconomic factors, it is hoped that investors, market analysts, and policymakers can make more informed decisions in navigating the shifting economic landscape and its implications for the capital market.

## 2. LITERATURE STUDY

### *Literature Review*

This section discusses relevant theories and concepts related to the research topic, alongside previous research findings that provide insights into the impact of macroeconomic factors on the Composite Stock Price Index (IHSG). Additionally, it highlights criticisms of existing studies and identifies research gaps that underscore the importance of the current research.

### *Financial Management Theory*

Financial management is a discipline concerned with the management of financial resources within an organization or company to achieve predetermined objectives. In the context of capital markets, several theories are pertinent to understanding corporate and investor financial management, including **signaling theory**, **macroeconomic theory** concerning inflation, interest rates, and exchange rates, and **efficient market hypothesis**.

**Signaling Theory**, as outlined by (Brigham & Houston, 2019), explains how companies communicate information to the market through managerial decisions that reflect the company's underlying condition. For instance, when a company announces an increase in profits, it sends a positive signal to investors about its future prospects. Conversely, negative signals, such as declining profits or increasing debt, can indicate poor future performance. These signals, in turn, influence stock prices and, ultimately, the movement of the IHSG.

Macroeconomic factors such as inflation, interest rates, and exchange rates significantly affect stock market performance. **Inflation**, which refers to the general rise in the price of goods and services, can reduce consumers' purchasing power and impact company profitability, thus affecting stock prices (Agu et al., 2024; Hussein et al., 2024). The **interest rate theory** posits that higher interest rates typically encourage investors to shift their funds to safer assets like savings or bonds, while lower interest rates can motivate investment in riskier assets, such as

stocks (European Commission, 2019). Moreover, **exchange rates** fluctuate based on supply and demand dynamics, which can influence the competitiveness of domestic products and impact import costs, ultimately affecting corporate earnings and stock prices (European Commission, 2019).

***Previous Studies***

Several studies have explored the relationship between macroeconomic factors—such as inflation, interest rates, and exchange rates—and the movement of the JCI. For example, (Wardana & Masdjojo, 2024a; Yang et al., 2023) found that inflation, interest rates, and exchange rates simultaneously had a significant effect on the JCI. Their study indicated that inflation and interest rates positively impacted the JCI, while exchange rates had a negative effect.

Similarly, (Sia et al., 2023; Wong, 2022) investigated the impact of macroeconomic factors on the JCI and concluded that exchange rates negatively affected the JCI, while inflation and interest rates did not show significant impacts. A study by (Alexandri et al., 2022; Syarifuddin & Setiawan, 2022) further explored this relationship, particularly during the pandemic, and highlighted the significant effect of exchange rates and interest rates on the JCI. Their research emphasized the stock market's dependence on monetary policies and currency fluctuations, especially in times of global economic uncertainty.

(Ligocká, 2023; Marpaung & Pangestuti, 2024) also examined the relationship between macroeconomic variables and the JCI. Their findings showed that while exchange rates negatively affected the JCI, inflation and interest rates had no significant effect. Similarly, (Assamah & Yuan, 2024; Siagian, 2023) found that the exchange rate had a significant impact on the JCI, whereas inflation and the BI Rate did not significantly affect it.

***Research Gap***

While existing studies have investigated the effects of inflation, interest rates, and exchange rates on the JCI, several gaps remain that warrant further exploration. First, many studies examine the effects of individual macroeconomic factors on the JCI without considering the simultaneous relationship between these variables. Additionally, some studies fail to account for dynamic market conditions, such as the COVID-19 pandemic or changes in monetary policy, which may influence the interactions between economic variables and the JCI.

This study aims to address these gaps by analyzing the simultaneous effects of inflation, interest rates, and exchange rates on the IHSG, considering other factors that may influence the stock market dynamics. By providing a more in-depth and comprehensive analysis, this

research seeks to offer clearer insights into the role of macroeconomic factors in shaping the movement of the IHSG in Indonesia.

## 3. METHOD

This study employs a quantitative approach utilizing time-series data analysis to investigate the effects of inflation, exchange rates, and interest rates on the Composite Stock Price Index (IHSG) on the Indonesia Stock Exchange (IDX) from 2017 to 2022. The time-series analysis is suitable for examining the relationships between macroeconomic variables and stock market performance over time. This method allows for statistical testing of these relationships using multiple linear regression.

### *Research Sample*

The population for this study consists of time-series data for inflation, exchange rates, interest rates, and the IHSG during the period from 2017 to 2022. A purposive sampling technique was employed to select data that meets specific criteria relevant to the research objectives. Based on these criteria, the total sample for this study comprises 288 data points, with 72 data entries for each of the four variables: inflation, exchange rates, interest rates, and IHSG.

### *Data Collection Method*

The data used in this study are secondary data obtained from official sources. Inflation, exchange rate, and interest rate data were sourced from Bank Indonesia's official reports, which are accessible through the website www.bi.go.id. The IHSG data were obtained from the Indonesia Stock Exchange (IDX) via their official website at www.idx.co.id. The dataset includes monthly reports spanning from January 2017 to December 2022.

### *Data Analysis Method*

Data analysis was performed using multiple linear regression to assess the relationships between the independent variables (inflation, exchange rates, and interest rates) and the dependent variable (IHSG). Prior to the regression analysis, a series of classical assumption tests were conducted to ensure the validity of the model. These tests included:

1. Normality test – To check if the data follow a normal distribution.
2. Multicollinearity test – To examine the correlation between independent variables.
3. Autocorrelation test – To detect any correlation between residuals in the regression model.
4. Heteroscedasticity test – To verify if the variance of the residuals is constant across all levels of the independent variables.

Following the classical assumption tests, hypothesis testing was conducted to evaluate the significance of each independent variable's influence on the IHSG. The F-test was used for simultaneous testing of all independent variables, while the t-test was used for partial testing of each independent variable. Additionally, the coefficient of determination ($R^2$) was calculated to measure the proportion of variance in the IHSG explained by the independent variables.
All statistical analyses were conducted using SPSS software, version 27.0.

## 4. RESEARCH RESULT

### *Financial Analysis Results*

### *Data Analysis Results*

In this chapter, the researcher will analyze the data that has been obtained, namely data on Inflation, Exchange Rates, and Interest Rates against the Composite Stock Price Index on the Indonesia Stock Exchange (IDX) for the period 2017-2022, where the variables used in this study are: Inflation (X1), Exchange Rates (X2), and Interest Rates (X3) as independent variables, and the Composite Stock Price Index (Y). The following is an explanation of each test used, as follows:

### *Descriptive Statistical Analysis*

Descriptive statistical analysis to provide an overview of the variables in the study. Descriptive statistics provide an overview of data that can be seen from the average value, standard deviation, maximum, and minimum on each dependent and independent variable. The following is table 1 which displays descriptive statistics in this study:

**Table 1 Statistics Descriptive**

| | N | Minimum | Maximum | Mean | Std.Deviation |
|---|---|---|---|---|---|
| Inflation | 70 | 1.32 | 5.71 | 2.9307 | 1.08748 |
| Exchange Rate | 70 | 13319 | 15752 | 14234.39 | 567.488 |
| Interest Rate | 70 | 3.50 | 6.00 | 4.5143 | .86276 |
| IHSG | 70 | 4716 | 7229 | 6103.14 | 584.367 |
| Valid N (Listwise) | 70 | | | | |

*Source: SPSS Data processed 2024*

Based on table 1 above, it shows that the research data on the N value with a total of 70 data from 2017-2022, where the results of the descriptive analysis of the Composite Stock Price Index (IHSG) variable show that the minimum value recorded is 4716, while the maximum value reaches 7229. The average value ( mean ) of the IHSG is 6103.14, with a standard

deviation of 584.367. This indicates that the distribution of data on the IHSG variable is quite even, with a lower deviation than the average, indicating a tendency for uniform distribution. In the inflation variable, which describes the process of increasing prices of goods and services in general, the minimum value was recorded at 1.32 and the maximum value was 5.71. The average inflation during the period was 2.9307, with a standard deviation of 1.08748. A standard deviation value that is lower than the average value indicates that inflation data tends to be more stable with a uniform distribution.

For the exchange rate variable, which indicates the amount of domestic currency needed to obtain foreign currency, the minimum value was recorded at 13,319, and the maximum value reached 15,742. The average value of the exchange rate was 14,234.39, with a standard deviation of 567.488. As with other variables, a standard deviation lower than the mean value indicates that the exchange rate during the study period experienced a decline and had a consistent data distribution.

Finally, on the interest rate variable, which reflects the interest rate policy set by Bank Indonesia for a one-year period, the minimum value was recorded at 3.50 and the maximum at 6.00. The average interest rate was 4.5143 with a standard deviation of 0.86276. This shows that the interest rate during the study period was relatively stable with a uniform distribution of data, considering the lower standard deviation compared to the average value.

***Classical Assumption Test***

***Normality Test***

The research results from the normality test in this study using SPSS Version 27 can be seen in table 2 below:

**Table 2Normality Test Results (Before Outliers)**

**One- sample Kolmogrov-Smirnov Test**

| | | Unstandardized Residual |
|---|---|---|
| N | | 72 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std.Deviation | 545.8970958 |
| | Absolute | .126 |
| | Positive | .051 |
| | Negative | -.126 |
| Test Statistic | | .126 |

| | | | | |
|---|---|---|---|---|
| Asymp. Sig. (2-tailed)[c] | | | | .006 |
| Monte Carlo Sig.(2-tailed)[d] | Sig. | | | .007 |
| | 99% Confidence Interval | | Lower Bound | .005 |
| | | | Upper Bound | .010 |

*Source: SPSS Data Processed 2024*

From the results of the normality test in table 2, it is known that the results of Asymp. Sig. (2-tailed) 0.006 are smaller than 0.05, which indicates that the data is not normally distributed, so outlier data is removed. Outlier data is data that has unique characteristics that look very different from observations and appear in extreme forms (Ghozali, 2018). After the results are obtained that the data is not normally distributed, an outlier test is carried out. which can be done by determining the limit value that will be categorized as outlier data, namely by converting the data value in the form of a standardized value or usually called the Z Score. If the data sample <80 is declared an outlier if the resulting Z Score value is greater than or equal to 2.5, while the data sample> 80 is declared an outlier if the resulting Z Score value ranges from 3 to 4. The results of the normality test after removing outliers can be seen in table 4.3

**Table 3 Normality Test (After Outlier Removal )**

**One- sample Kolmogrov-Smirnov Test**

| | | Unstandardized Residual |
|---|---|---|
| N | | 70 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std.Deviation | 508.1851840 |
| | Absolute | .094 |
| | Positive | .047 |
| | Negative | -.094 |
| Test Statistic | | .094 |
| Asymp. Sig. (2-tailed)[c] | | .200[d] |
| Monte Carlo Sig.(2-tailed)[d] | Sig. | .128 |

| | | | |
|---|---|---|---|
| 99% Interval | Confidence | Lower Bound | .119 |
| | | Upper Bound | .136 |

*Source: SPSS Secondary Data Processed 2024*

From the results of the Table 3 *One Sample Kolmogorov-Smirnov test* after removing outliers and transforming, the Asymp. Sig (2-tailed) value is 0.200, which is greater than the significance level of 0.05. The results of this test indicate that the data in the study are normally distributed.

normality test conducted in this study is by analyzing the normal P-Plot graph. In this test, the data is said to be normally distributed if the line that describes the actual data will follow the diagonal line. The results of the normality test in the following image:

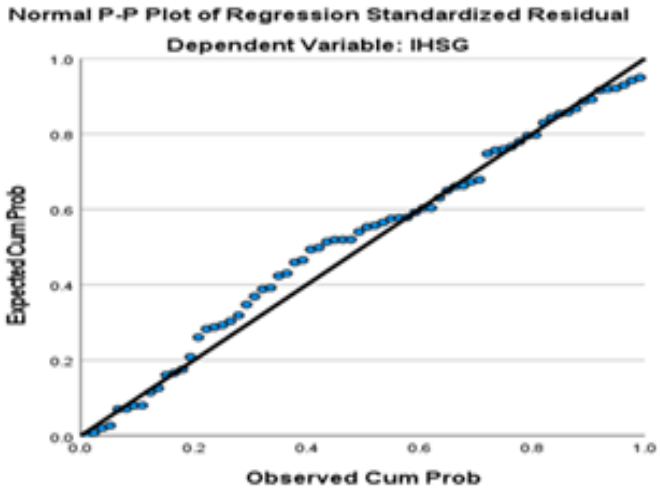


**Figure 1 P-Plot Normality Test**

normality test in Figure 1 above show that the data normality test for the regression model has met the normality assumption because the data is spread around the diagonal line and follows the direction of the diagonal line.

***Multicollinearity Test***

Multicollinearity Test is used to test whether there is a correlation between independent variables in the regression. To test whether there is a symptom of multicollinearity, the researcher uses the VIF ( *Variance Inflation Factor* ). If the VIF value is less than 10 and *the tolerance value* is more than 0.10, it is indicated that the regression equation does not experience multicollinearity symptoms.

**Table 3Multicollinearity Test**

Coefficients[a]

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | Inflation | .842 | 1.188 |
| | Exchange Rate | 1.000 | 1.000 |
| | Interest Rate | .841 | 1.188 |

a. Dependent Variable: IHSG

Source: SPSS data processed 2024

Multicollinearity test shown in Table 4, it can be concluded that no independent variables experience symptoms of multicollinearity in the regression. The tolerance value of the Inflation variable of 0.842 shows a value greater than 0.10, while its VIF value of 1.188 is below 10, which means there are no symptoms of multicollinearity in this variable. The same thing also applies to the Exchange Rate variable, with a tolerance value of 1.000 and a VIF value of 1.000, indicating that this variable is not affected by multicollinearity. In addition, the Interest Rate variable has a tolerance value of 0.841, which is greater than 0.10, and a VIF value of 1.188, which is also below 10, confirming that there are no symptoms of multicollinearity in this variable. Thus, it can be concluded that the three independent variables do not experience symptoms of multicollinearity.

***Autocorrelation Test***

Based on the results of data processing using SPSS, the results of the autocorrelation test can be seen in the table below:

**Table 4Autocorrelation Test**

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .494[a] | .244 | .209 | 519.607 | .281 |

a. Predictors: (Constant), Interest Rate, Exchange Rate, Inflation

b. Dependent variable: IHSG

*Source: SPSS Data Processed 2024*

In table 5 of the Autocorrelation Test Results, it can be seen that the DW value is 0.281. This means that by looking at the decision-making criteria, it can be concluded that there is no

autocorrelation in the regression model because the value of 0.281 is between -2 and +2 or (-2 < 0.281 < 2).

***Heteroscedasticity Test***

heteroscedasticity test is to determine whether a regression model has experienced inequality of variance and variables from one observation to another. A regression model that meets the requirements is that there is equality of variance from the residual of one observation to another observation or can be called homoscedasticity. There is equality of variance if the significant value in the Levene test is > 0.05. The method used is the Glejser method.

**Table 5Heteroscedasticity Test Glejser Method**

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std.Error | Beta | | |
| 1 | (Constant) | 389.447 | 993.378 | -.243 | .392 | .696 |
| | Inflation | -71.976 | 38.737 | .015 | -1.858 | .068 |
| | Exchange Rate | .008 | .068 | .054 | .123 | .902 |
| | Interest Rate | 20.358 | 48.830 | | .417 | .678 |

a. Dependent Variable: ABS_RES

*Source: SPSS Data Processed 2024*

Based on table 4.6 above, the significant value of the three independent variables is > 0.05, namely the Inflation variable of 0.696, the Exchange Rate variable of 0.902, and the interest rate variable of 0.678. So it can be concluded that there is no heteroscedasticity problem in the regression model.

***Multiple Linear Regression Analysis***

Multiple linear regression analysis is used to determine the extent of the influence between the independent variable and the dependent variable. In general, regression analysis is basically a study of the dependence of the dependent variable on one or more independent variables, with the aim of estimating and/or predicting the population average or the average value of the dependent variable based on the known value of the independent variable.

**Table 6Multiple Linear Regression Test**

**Coefficients[a]**

| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|

| | | B | Std.Error | Beta | | |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 3135.354 | 1607.982 | | 1.950 | .055 |
| | Inflation | 261.418 | 62.704 | .486 | 4.169 | <.001 |
| | Exchange Rate | .207 | .110 | .201 | 1.878 | .065 |
| | Interest Rate | -165.157 | 79.040 | -.244 | -2.090 | .041 |

a. Dependent Variable: IHSG

*Source: SPSS Data Processed 2024*

Based on table 7 above, the multiple linear regression equation can be formulated as follows:

**Y = 3135.561 + 261.418 + 0.207 – 165.157 + e** …….. (1)

Based on the existing results, the value of a of 3135.561 indicates that if the independent variables consisting of Inflation, Exchange Rate, and Interest Rate are in a constant or unchanged state (equal to zero), then the composite stock price index (Y) will be worth 3135.561 rupiah. Furthermore, the regression coefficient for Inflation of 261.418 indicates that if inflation increases by 100%, the composite stock price index will increase by 26,141.8%. The regression coefficient for Exchange Rate of 0.207 indicates that if the exchange rate increases by 100%, the composite stock price index will increase by 20.7%. Meanwhile, the regression coefficient for Interest Rate of -165.157 indicates that if interest rates increase by 100%, the composite stock price index will decrease by 16,151.7%.

**Coefficient of Determination**

The coefficient of determination essentially measures how far the model's ability to explain the independent variable to the dependent. The value of the coefficient of determination is between zero and one. A small value means that the ability of the independent variables to indicate the dependent variable is limited. This means that this test is carried out to determine how much the independent variable affects the dependent variable. A value close to one means that the independent variable provides almost all the information needed to predict the dependent variable.

**Table 7 Coefficient Determination**

**Model Summary[b]**

| Model | R | R Square | Adjusted R Square | Std Error of the Estimate |
|---|---|---|---|---|
| 1 | .494[a] | .244 | .209 | 519.607 |

a. Predictors: (Constant), Interest Rate, Exchange Rate, Inflation

b. Dependent variable: IHSG

*Source: SPSS Data Processed 2024*

From the results of the determination coefficient test in table 8 above, the adjusted R square value is 0.209. This shows that 20.9% of the IHSG price can be explained by the variables of Inflation, Exchange Rate, and Interest Rate, while the remaining 79.1% is explained by other variables not examined in this study.

***Hypothesis Testing***

***F Test (Simultaneous Test)***

The F test aims to determine whether the independent variables as a whole have a real influence on the dependent variable simultaneously. The F test in this study is used to test whether Inflation, Exchange Rates, and Interest Rates have a simultaneous effect on the Composite Stock Price Index (IHSG).

**Table 8F Test Results**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regresion | 5743068.629 | 3 | 1914356.210 | 7.090 | <.001[b] |
| | Residual | 17819400.52 | 66 | 269990.917 | | |
| | Total | 23562469.14 | 69 | | | |

a. Dependent variable: IHSG

b. Predictors: (Constant), Interest Rate, Exchange Rate, Inflation

*Source: SPSS Data Processed 2024*

Based on the results shown in table 9, it shows that simultaneously Inflation, Exchange Rate, and Interest Rate have a significant effect on the Composite Stock Price Index. This occurs because the level of significance of the calculation results <the required level of significance. The results show that the level of significance of the calculation results is 0.001 <than the required level of significance of 0.05, so it is rejected and accepted. The conclusion is that there is a significant simultaneous effect between the variables of inflation, exchange rate, and interest rate on the Composite Stock Price Index variable.

***Partial Test (t)***

The results of the t-test from this study can be seen in table 10 as follows:

**Table 9t-Test Results**

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std.Error | Beta | | |
| 1 | (Constant) | 3135.354 | 1607.982 | | 1.950 | .055 |
| | Inflation | 261.418 | 62.704 | .486 | 4.169 | <.001 |
| | Exchange Rate | .207 | .110 | .201 | 1.878 | .065 |
| | Interest Rate | -165.157 | 79.040 | -.244 | -2.090 | .041 |

a. Dependent Variable: IHSG

*Source: SPSS Data Processed 2024*

Based on the partial test results shown in the table above, it can be explained as follows. Hypothesis testing for the Inflation variable on the IHSG shows that the t value of 4.169 is greater than the t table of 1.66691, and the significance value of 0.001 is less than 0.05. Thus, the null hypothesis ($H_0$) is rejected and the alternative hypothesis ($H_1$) is accepted, which means that partially, the Inflation variable has a positive and significant effect on the Composite Stock Price Index (IHSG). Furthermore, in the hypothesis testing for the Exchange Rate variable on the IHSG, the t value of 1.878 is greater than the t table of 1.66691, but the significance value of 0.065 is greater than 0.05. Therefore, the null hypothesis ($H_0$) is accepted and the alternative hypothesis ($H_1$) is rejected, which shows that the Exchange Rate variable has a positive but insignificant effect on the IHSG. Finally, hypothesis testing for the Interest Rate variable on the IHSG shows that the t value of -2.090 is smaller than the t table of 1.66691, and the significance value of 0.041 is smaller than 0.05. Thus, the null hypothesis ($H_0$) is accepted and the alternative hypothesis ($H_1$) is rejected, which means that the Interest Rate variable has a negative but insignificant effect on the IHSG.

**Discussion of Findings**

This study formulated 3 (three) research hypotheses. The results of the research hypothesis test produced significant values, namely Inflation, Exchange Rates, and Interest Rates have an effect on the Composite Stock Price Index.

**The Effect of Inflation on the Composite Stock Price Index**

In the results of the hypothesis test research from the results of table 10, it can be seen that the inflation variable on the Composite Stock Price Index shows that inflation has a positive and significant effect on the IHSG. This is because the value is greater than 4.169> 1.66691 and the significance value is smaller than the significance level of 0.01 <0.05. This shows that it is rejected and accepted.

The positive and significant influence of inflation on the IHSG indicates that when inflation increases and will be accompanied by an increase in the IHSG. When economic growth is rapid, inflation will occur, due to high income and work agreements, so that the capacity of the economy will exceed the costs that must be borne by the community (Meyer & Hassan, 2024; Periode et al., 2022). This shows that the enthusiasm of the community in making transactions to purchase goods and services from companies continues to increase and people continue to spend their money, so that it will have a good impact on the profits obtained by companies, so that profits will increase and the distribution of company dividends to shareholders will increase. The reason is that the high dividends received by investors will arouse investor interest in investing in stocks. So, with increasing dividends, this will increase investor interest in investing in the IDX. Conversely, with increasing inflation accompanied by a stable profit margin, the company will be able to bear the burden of increasing costs to its customers, so that the company's profits will remain stable, safe or strong, with a high inflation rate and liquidity level. When this condition occurs, the company's shares can survive and compete in the capital market, because they have the ability to manage their business effectively, so the share price will increase, accompanied by an increase in the IHSG.

The results of this study are in line with previous studies, namely (Bilalli et al., 2024; Gafurdjan, 2024; Hidayat, 2024; Winarto & Beik, 2024) which show that inflation has a positive and significant effect.

**The Effect of Exchange Rates on the Composite Stock Price Index**

In the results of the hypothesis test research from the results of table 10, it can be seen that the Exchange Rate variable against the IHSG, shows that the exchange rate has a positive and insignificant effect on the IHSG. The Exchange Rate variable is stated positive because the value is greater than 1.878> 1.66691, while it is stated insignificant because the significance value is greater than the significance level of 0.065> 0.05, so it can be concluded that it is accepted and rejected.

This is in accordance with the theory that states that for companies actively engaged in exporting or importing goods, the stability of the rupiah exchange rate against the US dollar is very important for the company. Because if the rupiah exchange rate against the US dollar increases or weakens, it will automatically cause imported goods to become expensive or increase. In addition, it can also cause an increase in production costs which will have an impact on decreasing the profits of a company (Li et al., 2024; Rustam & Hasni, 2024).

The results of this study are in line with previous research, namely (Aftab et al., 2024; Bosupeng et al., 2024; Junaid & Said, 2024; Ridhwan et al., 2024) which stated that the exchange rate has a positive and insignificant effect.

**The Influence of Interest Rates on the Composite Stock Price Index**

In the results of the hypothesis test research from the results of table 10, it can be seen that the Interest Rate variable on the IHSG shows that the interest rate has a negative and insignificant effect on the IHSG. The interest rate variable is stated as negative because the value is -2.090, while it is stated as insignificant because the interest rate significance value of 0.041 is greater than the significance level of 0.05. This is accepted and rejected.

The results of this study are in line with previous research by (Alfiana et al., 2024; Caporale et al., 2024; Harun, 2024; Iqbal et al., 2024) which showed that interest rates do not have a significant effect on the Composite Stock Price Index.

**The Effect of Inflation, Exchange Rates and Interest Rates on the Composite Stock Price Index**

The results of the fourth hypothesis test show that inflation, exchange rates, and interest rates simultaneously have a significant effect on the Composite Stock Price Index (IHSG) in the 2017-2022 period. The results of the simultaneous analysis show that the significance value is smaller than the significance level, namely 0.001 <0.05, then rejected and accepted.

The results of this study are in line with previous studies, namely (Fahnayu et al., 2024; Manap et al., 2024; Muttalib & Solatiyah, 2024; Sasono et al., 2024; Septepana et al., 2024; Wardana & Masdjojo, 2024b) which show that inflation, exchange rates, and interest rates simultaneously have a significant effect on the Composite Stock Price Index.

## 5. DISCUSSION

***Practical Implications***

The findings of this study provide valuable insights for investors in the Indonesian stock market. Understanding the impact of key macroeconomic factors, such as inflation, exchange rates, and interest rates, on the Composite Stock Price Index (IHSG) can serve as a crucial basis for making informed investment decisions. By observing fluctuations in these macroeconomic variables, investors can anticipate market trends and implement more strategic investment plans, both in the short and long term. For instance, an investor aware of the potential effects of interest rate hikes or inflationary pressures might adjust their portfolio to mitigate risk or seize emerging opportunities. Therefore, these insights can help investors navigate the

complexities of the capital market and align their strategies with prevailing economic conditions (Sunaryo, 2019).

***Research Limitations***

While the study offers valuable contributions, it is not without limitations. One major limitation is the relatively short time frame (2017-2022), which may not fully capture long-term trends and cyclical shifts in the economy. Additionally, this study focuses on only three macroeconomic variables—inflation, exchange rates, and interest rates—whereas other factors such as government policies, political stability, and global economic conditions also influence stock market performance. As a result, the study may not account for the broader context that could affect the movement of the IHSG. Therefore, extending the research period and including additional variables could provide a more comprehensive understanding of the factors driving the stock market (Deni Sunaryo, Nafiuddin, Ratu Erlina Gentari, 2021; Sunaryo et al., 2022, 2024; Sunaryo & Lestari, 2023).

***Suggestions for Further Research***

Future studies are encouraged to expand the scope of analysis by including a longer time frame, such as incorporating data up to 2023 or beyond, to capture long-term trends and shifts in macroeconomic conditions. Additionally, considering other variables such as fiscal policies, political events, or global economic factors could provide a more holistic view of the elements that influence the Indonesian stock market. By broadening the range of factors and extending the research period, subsequent studies could offer more precise and relevant insights, helping both investors and policymakers make better-informed decisions in the dynamic context of the Indonesian capital market.

## 6. CONCLUSION

Based on the analysis conducted on the variables of inflation, exchange rates, and interest rates in relation to the Composite Stock Price Index (IHSG) on the Indonesia Stock Exchange during the period from 2017 to 2022, several key conclusions can be drawn.

First, inflation is found to have a significant positive effect on the IHSG. This suggests that an increase in inflation may be perceived by investors as an opportunity to invest in stocks, which are considered a more profitable asset during inflationary periods. In contrast, the exchange rate exhibits a positive relationship with the IHSG, but this effect is not statistically significant. This implies that fluctuations in the exchange rate, while they may influence certain sectors, do not exert a strong impact on the overall movement of the stock index during the period under review. On the other hand, interest rates have a significant negative impact on the IHSG,

indicating that increases in interest rates generally lead to a decline in stock market performance. This is consistent with the theory that higher interest rates make alternative investments, such as bonds, more attractive compared to stocks.

***Recommendations***

Given these findings, it is recommended that investors closely monitor inflation and interest rate trends when making investment decisions. Since both variables have a proven significant effect on the stock market, investors should be prepared to adjust their portfolios accordingly. Specifically, high inflation may signal an opportunity for stock investments, while rising interest rates should be viewed with caution, as they may reduce the attractiveness of equities. Although the exchange rate did not exhibit a significant effect in this study, investors should still remain aware of potential currency fluctuations, especially in sectors heavily reliant on imports or exports.

Furthermore, policymakers and market regulators should consider these macroeconomic factors when formulating strategies or regulations that may impact the stock market. Understanding the dynamic relationship between these economic variables and the performance of the IHSG can help in shaping policies that support a stable and growing capital market

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