

CHAPTER I

INTRODUCTION

A. Research Background

In the global economy, the capital market plays a crucial role as a venue for raising capital and carrying out investment transactions, including the sale of shares and the issuance of bonds. Investors anticipate a return on their investment or certain outcomes from these investment activities. As a result, the anticipated investment is a long-term, halal, resilient, and balanced investment with a strong return.² In carrying out its role, the economic and financial functions of the capital market are its two primary purposes. The capital market is responsible for bringing together two groups of individuals: those who require funding and those who have excess capital within the economic function. Because of the capital market, people with extra money can invest it in the hopes of earning a return.³

Many factors affect the Islamic stock price index. Examining the macroeconomic factors influencing the Islamic stock price index of the Indonesia Sharia Stock Index is the aim of this study. The Indonesian Sharia Stock Index includes every Sharia stock that is listed on the Indonesia Stock Exchange. Choosing the Indonesian Sharia Stock Index than Jakarta Islamic Index as the object of research based on relevance and growth of the Islamic market as Indonesia is the largest Muslim population in the world and ISSI consist of stocks that fulfill Sharia criteria. The Indonesian Sharia Stock Index reflects the price of sharia stocks that meet sharia criteria on the Indonesia Stock Exchange. Along with the increasing public interest in making investments in accordance with sharia principles, the ISSI has become an important barometer for investors and sharia capital market players. The Sharia capital market itself does not include activities like gambling, speculation, and other things that are against Islamic law. It is anticipated that the

² Ahmad Junaidi, Muhammad Ghafur Wibowo, dan Hasni, "Pengaruh Variabel Ekonomi Makro terhadap Indeks Saham Syariah Indonesia (ISSI) Periode Tahun 2014-2019", *Jurnal Ekonomi Dan Bisnis*, Vol. 24 No.1 (2021), p. 17.

³ Ima Dwi Astuti, Reva Maria Valianti, and Emma Lilianti, "Pengaruh Inflasi, Nilai Tukar Rupiah, dan Tingkat Suku Bunga Domestik terhadap Indeks Saham Syariah Indonesia (ISSI) yang terdaftar Di BEI", *Jurnal Media Akuntansi (Mediasi)*, Vol. 4. No. 2 (2022), p. 188.

Islamic economy will grow as a result of Sharia stocks. It is anticipated that the availability of Sharia stocks will improve Islamic finance.⁴

The movement of the Indonesian Sharia Stock Index, like other stock indices, is influenced by several macroeconomic factors that directly or indirectly affect the value of investment and risk in the capital market. In this context, there are four macroeconomic variables that are often considered, including exchange rates, inflation, money supply, and interest rates.⁵ A deeper understanding of the influence of these four factors will be crucial for investors and market participants in anticipating potential risks and investment opportunities in the ISSI.

Exchange rates have a big impact on changes in stock prices. Unstable exchange rate fluctuations can affect investor confidence in making investments. The Indonesian economy will eventually have an unfavourable effect on the capital market so that it can cause Cash Flow which will impact the decline in stock prices. When the share price decreases, the amount of return given to investors will also decrease. An increase in the rupiah exchange rate is expected to encourage investment in the capital market because it will have a significant impact on the capital market.⁶

In the current problem, inflation is the main factor in the movement of the Islamic stock index. Inflation is a condition where the price of a good increases continuously. Inflation rates that often fluctuate will have an impact on price instability in general. When inflation increases, there is an increase in the production costs of a company. The decline that occurs in company profits, results

⁴ Rizki Khoiroh, Siti Aisiyah Suciningtias, "Analisis Dampak Variabel Makro Ekonomi terhadap Indeks Saham Syariah Indonesia", *Conference in Business, Accounting, and Management*, Vol. 2 No.1, 2019, p. 399.

⁵ Febrian Wahyu Wibowo, "Determinan Tingkat Suku Bunga, Indeks Dow Jones, Nikkei 225, dan Straits Time Terhadap Issi," *EL DINAR: Jurnal Keuangan dan Perbankan Syariah*, Vol. 7. No. 1 (2019), p. 33.

⁶ Iskandar Mustafa Kamal, *et al.* "Pengaruh Tingkat Inflasi dan Nilai Tukar (Kurs) Rupiah terhadap Indeks Saham Syariah Indonesia (Issi)," *Jurnal Tabarru' : Islamic Banking and Finance*, Vol. 4. No. 2 (2021), p. 524.

in a decrease in dividends to investors in the capital market. Inflation rates that often fluctuate will also affect the level of investment in the capital market including the Indonesian Sharia Stock Index.⁷

The next factor that can affect the movement of the Indonesia Sharia Stock Index is interest rates. Interest rates are a factor that can affect changes in stock prices. If the interest rate increases, there will be an increase in lending rates that will have an impact on the cost of capital issued by the issuer so that it becomes greater. This results in a decrease in the level of sales. If the sales level decreases, the company's profit will also decrease. If the company's profit decreases, the stock price will also decrease. Conversely, if interest rates decrease, it will be followed by a decrease in lending rates that will make issuers to further increase sales of their products. Companies that have large profits make the share price increase which is followed by an increase in the return earned by shareholders.⁸

Stock price movements can also be influenced by the money supply. A lot of money in circulation in the community can cause an increase in the demand for goods which will lead to inflation. An increase in the money supply is usually associated with a relaxation of monetary policy by Bank Indonesia which aims to increase economic growth. With an increase in money supply, people and investors tend to have more funds to invest, which can boost demand in the stock market including the Islamic stock market. Conversely, when Bank Indonesia reduces the money supply to contain inflation, liquidity in the capital market tends to decrease so that stock prices can be depressed.⁹

⁷ Fifi Afiyanti Tripuspitorini, "Analisis Pengaruh Inflasi, Nilai Tukar Rupiah, dan BI-Rate terhadap Harga Indeks Saham Syariah Indonesia," *Jurnal Maps (Manajemen Perbankan Syariah)*, Vol. 4.No. 2 (2021), p. 113.

⁸ Ahmad Karim, Abdul Jabar, dan Iwan Fahri Cahyadi, "Pengaruh Exchange Rate , Inflasi, Risiko Sistematis dan BI Rate terhadap Return Saham Syariah di Jakarta Islamic Index (JII) Periode 2015-2018," *MALIA: Journal of Islamic Banking and Finance*, Vol. 4. No. 1 (2020), p. 15.

⁹ Emet Chotib dan Nurul Huda, "Analisis Pengaruh Variabel Ekonomi Makro terhadap Indeks Saham Syariah Indonesia (ISSI) periode 2016 - 2019," *JEBA (Journal of Economics and Business Aseanomics)*, Vol. 4. No. 1 (2020), p. 3.

The 2017-2023 period chosen in this study is a period full of economic dynamics, both domestically and globally. In 2020, the COVID-19 pandemic hit the whole world, forcing many countries including Indonesia to implement social restriction policies. This condition resulted in a significant economic slowdown and large fluctuations in various macroeconomic aspects so Bank Indonesia responded with loose monetary policy including lowering interest rates and increasing liquidity to stimulate the economy.

The factors that were chosen by researchers were exchange rate, inflation, interest rate, and money supply because they have a significant influence on capital market performance, including the Islamic stock index. This research is expected to provide valuable insights into how the economic dynamics system affects Sharia-based investments, which are increasingly in demand by the public. In addition, this research provides practical and theoretical contributions by helping investors, policymakers, and academics understand how macroeconomic changes affect the Islamic stock index, as well as how economic policies can be designed to maintain the stability of the Islamic capital market.

B. Research Question

Based on the background described above, the researcher determines the problem formulation that is the focal point of this discussion regarding:

1. How is the Determinants of Macroeconomic Variables on the Indonesian Sharia Stock Index (ISSI) in the short and long term?
2. What are the contributions of each variable against Indonesian Sharia Stock Index (ISSI)?

C. Research Objectives

The aim of providing good benefits and broad knowledge to the author and generally to readers to be able to find out the following things:

1. To find out the the Determinants of Macroeconomic Variables on the Indonesian Sharia Stock Index (ISSI) in the short and long term.
2. To find out the contributions of each variable against Indonesian Sharia Stock Index (ISSI).

3. Research Benefits

This research hopes to provide academic and practical benefits, while the benefits of this research include:

1. Academic Benefits

This research is expected to provide knowledge about the usefulness of Islamic stocks. This research can add to the literature and can develop research more broadly, especially at this time. In addition, this research is expected to be an additional reference for broader research.

2. Practical Benefits

This research is expected to provide an overview of the use of Islamic stocks in Indonesia and can be a reference for investors to invest their wealth and also as a solution to economic problems.

3. Regulator Benefits

This research is expected to increase the effectiveness of monetary and fiscal policies such as interest rate adjustments that can maintain the stability of the Islamic stock market and design policies that support the growth of the Islamic stock market. In addition, this research is expected to provide a strong basis for policies that maintain economic stability and reduce systemic risk, creating a more stable and predictable investment climate.

4. Society Benefits

This research is expected to help plan business strategies that are more adaptive to economic conditions. In addition, it is expected to support stable policies and support the growth of the Islamic stock market. Meanwhile, for investors, this research can provide insights to make more informative investment decisions.