

CHAPTER I

INTRODUCTION

A. Research Background

Since 1997, there has been significant progress in developing the sharia-based capital market in Indonesia, beginning with the launch of sharia mutual funds led by Dana Reksa. The inaugural sharia-compliant financial instrument in Indonesia was officially introduced on March 14, 2003, via the Jakarta Stock Exchange (JSX) and Surabaya Stock Exchange (SSX). The creation of the Jakarta Islamic Index (JII) was a milestone achievement, intended aimed at tracking the performance of Sharia-compliant stocks on the Indonesia Stock Exchange (IDX). The capital market, as a crucial component of the economy, is consistently impacted by various external factors, coming from both economic and non-economic sectors.¹

The sharia capital market in Indonesia has seen consistent expansion since its establishment. The introduction of the Jakarta Islamic Index (JII) not only signified the debut of the first sharia-compliant tool in Indonesia but also aided investors looking to invest based on sharia principles.² JII plays a crucial role in representing the performance of sharia-compliant stocks, helping investors choose stocks that align with Islamic financial principles. This market, being an economic entity, can be influenced by a variety of macroeconomic and microeconomic factors, such as inflation, monetary policy, and political stability, all impacting investment choices. The Islamic capital market, guided by Islamic principles, appeals to investors seeking investments combine religious compliance with financial profitability. The sharia capital market in Indonesia is expected to maintain its growth (trajectory) and play a substantial role in the country's economy as it continues to evolve.

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¹ Muhammad Yafiz, "Saham Dan Pasar Modal Syariah: Konsep, Sejarah Dan Perkembangannya," *Miqot: Jurnal Ilmu-Ilmu Keislaman* 32, No. 2 (2008): 232–246.

² Sigit Sanjaya And Nila Pratiwi, "Pengaruh Tingkat Suku Bunga, Kurs Dan Inflasi Terhadap Jakarta Islamic Index (Jii)," *Jebi (Jurnal Ekonomi Dan Bisnis Islam)* 3, No. 1 (2018): 47–58.

The impact of economic factors, particularly macroeconomic indicators, is essential in determining the capital market's performance. Forecasts of cash flow and anticipated returns serve as key indicators of investments value), and are greatly influenced by macroeconomic factors. Hence, it is critical for investors to predict future macroeconomic conditions to make well-informed decision. Investors should focus on important macroeconomic indicators such as inflation rates and rupiah's exchange rate. For example, inflation can reduce purchasing power and company profits, whereas changes in the exchange rate of the rupiah can influence the values of exports and imports as well as the competitiveness of products on the global market. Interest rates, fiscal policies, and global economic conditions are additional macroeconomic factors that investors need to consider when making capital market investment decisions.³

Below is a summary of changes in inflation rates in Indonesia between 2019 and 2023, indicating economic fluctuations for potential investors to consider:

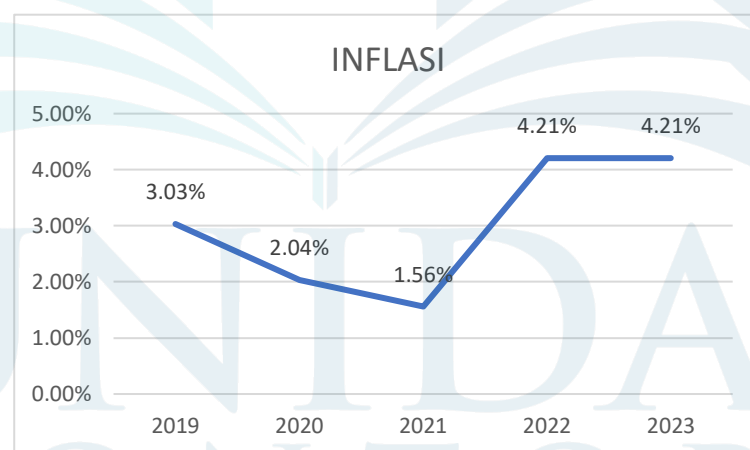


Figure 1 Inflation (Source: Bank Of Indonesia)

The rupiah exchange rate also significantly affects Indonesia's economy, as it tends to fluctuate annually. On figure 2, the rupiah exchange rate peaked at IDR

³ Umi Sartika, "The Effect Of Inflation, Interest Rates, Exchange Rates, World Oil Prices And World Gold Prices On Ihsg And Jii On The Indonesia Stock Exchange," *Balance Journal Of Accounting And Business* 2, No. 2 (2017): 285.

16,391.97 per US dollar in March 2020, and reached its lowest point at IDR 13,855.49 per US dollar in January 2021. The trade sector, particularly exports and imports, is significantly impacted by these changes because the exchange rate dictates the price of goods and services in global trade. The rupiah's movements also effect the Indonesian capital market, because numerous companies listed on the Indonesia Stock Exchange use this currency for transactions. Consequently, fluctuations in exchange rates influence the performance of Islamic stock markets like the Jakarta Islamic Index (JII). Businesses in sectors sensitive to exchange rate changes are particularly affected, which, in turn impact overall stock market performance.⁴

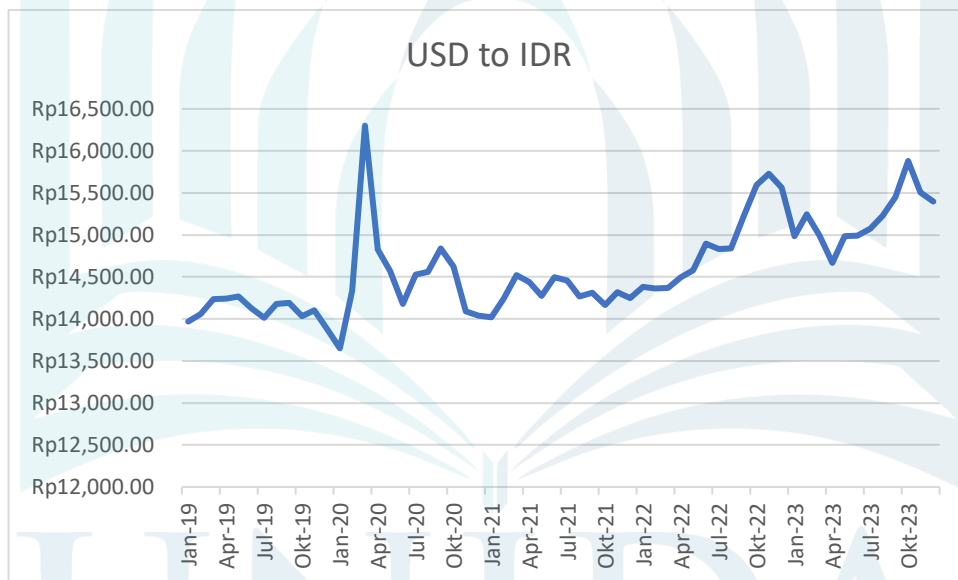


Figure 2 Exchange Rate (Source: Investing.com)

In 2019, global financial markets experienced instability due to the depreciation of the rupiah, which disrupted foreign capital flows, especially in capital and financial transactions. As a result, Indonesia's balance of payments recorded a deficit of USD -964 million in March 2020. However, by April 2020, a surplus of USD 3,135 million was recorded, driven by renewed interest from

⁴ Octavia Setyani, "Pengaruh Inflasi Dan Nilai Tukar Terhadap Indeks Saham Syariah Indonesia," *Jurnal Ekonomi Islam* Desember 2 (N.D.): 217.

foreign investors who perceived Indonesia as a relatively stable market during the COVID-19 crisis. Nevertheless, in September 2020, the financial balance again showed a deficit of USD -289 million, largely due to global uncertainty and the US Federal Reserve's strict monetary policy. By December 2020, the deficit narrowed to USD -185 million, which was lower than the previous month, showing a boost in foreign investors' trust in the country. These fluctuations in capital shows illustrate the significant influence of exchange rate stability and global economic factors on foreign investment decisions and Indonesia's overall economy.⁵

In general, the capital market reflects the level of public trust in the economy. A scenario of persistent instability can lead to a growing lack of confidence among foreign entrepreneurs regarding safety in Indonesia, subsequently decreasing the appeal for foreign investors to make investments, whether through direct or portfolio means.⁶ Wang J.'s research supports this perspective, indicating that foreign ownership impacts capital market fluctuations in Indonesia. Wang states that foreign investors' stock purchases contribute to market stabilization and reduced volatility. On the other hand, market volatility tends to increase when foreign investors offload their shares.⁷ However, after the 2019 economic turmoil, the Indonesian sharia stock index increased again while the Jakarta Islamic Index

⁵ Nina Ayu Puspita Sari Muhammad Suhaidi, Winda Anggraini, Hendra Novian, M. Nador, "Analisis Hubungan Dinamis Arus Modal Asing, Nilai Tukar Rupiah Dan Pergerakan Indeks Jii 30 Dengan Metode Pendekatan Vector Autoregressive (Var) Pada Masa Pandemi Covid 19," *Jurnal Ilmiah Ekonomi Islam* 8, No. 02 (2022): 3.

⁶ Poltak Manullang, "Pengaruh Kurs Mata Uang Rupiah Atas Dollar As Dan Kepemilikan Saham Oleh Investor Asing Terhadap Indeks Harga Saham Gabungan (Ihsg)," *Jurnal Ekonomis* 2, No. 2 (2008): 88–103.

⁷ Jianxin Wang, "The Impact Of Foreign Ownership On Stock Volatility In Indonesia **" (2013): 493–509.

continued to decline until now. The movements of ISSI and JII are as follows:

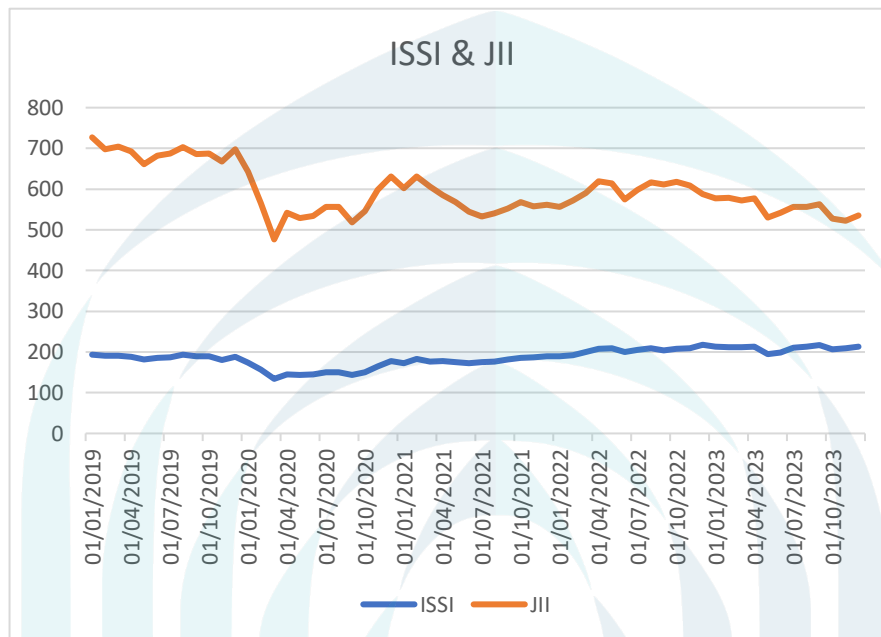


Figure 3 ISSI and JII (Source: Investing.com)

Given the above information, the title of this study is “The Impact of Inflation, Exchange Rates, and Foreign Ownership on the Jakarta Islamic Index from 2021 to 2023”.

B. Research Questions

The problem formulations in this study are:

1. How inflation affect the movement of the Jakarta Islamic Index?
2. How the exchange rate affect the movement of the Jakarta Islamic Index?
3. How foreign securities ownership affect the Jakarta Islamic Index?

C. Research Objective

The objectives of this study are to analyze:

1. How inflation affects the movement of the Jakarta Islamic Index.
2. How the exchange rate influences the Jakarta Islamic Index.
3. How foreign ownership impacts the Jakarta Islamic Index.

D. Research Benefits

1. Academic Benefits

- a. To provide additional references for future researchers studying the effects of inflation, exchange rates, and foreign ownership on the movement of the Jakarta Islamic Index.
- b. To educate the public on how of inflation, exchange rates, and foreign ownership on the movement of the Jakarta Islamic Index.

2. Practical Benefit

- a. To help investors make informed decisions regarding investment placements, reducing potential risks and losses.

