

The Effect of Inflation, Exchange Rate, and BI Rate on the Indonesian Sharia Stock Index

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Abstract

Islam strongly advises against investment, as mentioned in lines 46–49 of the Surah Yusuf. The Islamic stock market, which offers Islamic stocks as one of its components, is one place where somebody can invest. Several macroeconomic and microeconomic factors, as well as equity investment, have an impact on Islamic stocks. This study examined the impact of inflation, exchange rates, and the BI Rate on the Indonesian Sharia Stock Index (ISSI) throughout the years 2017–2021. Statistical data on the market capitalization of the Indonesian Sharia Stock Index (ISSI) given at the Financial Services Authority (OJK), as well as other variables like inflation, currency rates, and the BI, were used in the quantitative research technique. Analysis of the research data was carried out through multiple linear regression modeling. The results showed that the Inflation variable (X1) had no effect on the Indonesian Sharia Stock Index (ISSI), the Exchange Rate variable (X2) had a significant negative effect on the Indonesian Sharia Stock Index (ISSI) and the BI Rate variable (X3) had an effect significantly positive to the Indonesian Sharia Stock Index (ISSI). The macroeconomic variables used in this study have an impact on the movement of the Islamic stock index, which causes the movement of the ISSI to vary quite a bit.

Keywords: BI Rate; Exchange Rate; Indonesian Sharia Stock Index; Inflation

INTRODUCTION

There is no doubt that the Islamic finance industry in Indonesia continues to experience growth every year. One of them is the development of the Islamic capital market in Indonesia. The issuance of Sharia Mutual Funds by PT. Danareksa Investment Management on 3 July 1997 marked the beginning of the

development of the Islamic capital market. Then, there was a collaboration involving the Indonesia Stock Exchange together with PT. Danareksa Investment Management In launching the Jakarta Islamic Index (JII) which took place on July 3, 2000 with the hope that it will serve as a guide for investors who are interested in investing according to sharia law. The index is present and provides a means for investors who are interested in investing in sharia.

There is also the Jakarta Islamic Index 70 (JII 70 Index) which is an Islamic stock index which began its launch on May 17 2018 and was launched by the IDX. JII 70 is an index consisting of only 70 selected Sharia stocks with this category of shares which are very liquid stocks on the IDX. Review of Sharia shares that can become JII constituents is carried out twice a year and is no different from ISSI, namely in May and November according to the DES review schedule by the OJK. (idx.co.id)

The Indonesian Sharia Stock Index (ISSI) is an index published on May 12, 2011 by Bapepam-LK and the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) indicating positive developments in the Islamic capital market. ISSI is a stock index that covers all of the Islamic stocks listed on the Indonesia Stock Exchange (IDX). The IDX website states that increasing the number of Islamic capital market instruments is an excellent development goal and a safe choice for investors (gopublic.idx.co.id).

It has been 11 years since its inception, and ISSI's developments show good performance every year. During the period from 2017 to 2021, ISSI shows good development every year compared to other sharia stock indices such as the *Jakarta Islamic Index (JII)*, which can be seen in Table 1.

Table 1. Comparison of Sharia Stock Indices on the Indonesian Stock Exchange

Year	ISSI (Billion)	JII (Billion)	JII70 (Billion)
2017	IDR 3,704,543.09	IDR 2,288,015.67	-
2018	IDR 3,666,688.31	IDR 2,239,507.78	2,715,851.74
2019	IDR 3,744,816.32	IDR 2,318,565.69	2,800,001.49
2020	IDR 3,344,926.49	IDR 2,058,772.65	2,527,421.72
2021	IDR 3,983,652.80	IDR 2,015,192.24	2,539,123.39

Source: Financial Services Authority 2022

Table 1 shows that from the period 2017 to 2021 even though ISSI has increased and decreased every year, overall, it has increased compared to JII which has continued to decrease every year and only experienced an increase once in 2019 in the same period as well as in JII 70 there were relatively increases and decreases from 2018 to 2019. In 2017 ISSI recorded a capitalization of IDR 3,704,543.09 billion, and until 2021 it reached IDR 3,983,652.80 billion, the increase that occurred was not too significant but ISSI still recorded an increase

compared to JII in the same period in 2017 recorded a capitalization of IDR 2,288,015.67 billion, until 2021 it was recorded at IDR 2,015,192.24 billion, where there was a decrease every year and JII 70 which experienced an increase from 2018 until 2019 then decreased in 2020 and there was an insignificant increase in 2021.

ISSI is seen in better performance and development compared to other Islamic Stock Indexes because ISSI covers all Islamic stocks in Indonesia so ISSI can show the overall development of all Islamic stocks in Indonesia and becomes the basis for why this Index is interesting to study.

The Indonesian Sharia Stock Index (ISSI) continues to grow due to certain influencing factors. Factors that have an impact on the development of stocks, namely macro and microeconomic conditions including interest rates, rupiah exchange rates, inflation, and so on (Zuhri, 2020).

The development of the inflation rate always fluctuates during the observation period between 2017 and 2021. During the year of observation, the highest inflation rate occurred around June 2017 around 4.37% and the lowest inflation rate occurred in August 2020 which shows an inflation rate of 1.32% (Bank Indonesia, 2022). Prices that tend to be high will cause people's purchasing power to decrease so that the level of people's *savings* will also decrease because people tend to prefer to spend their funds to meet their daily needs rather than invest their money in capital market investments.

The development of the exchange rate during the observation period experienced the highest strengthening in June 2017 of Rp13,319/US\$ and experienced the lowest decrease in March 2020 of Rp16,367/US\$ (OJK and BI, 2022). Fluctuations in the exchange rate will affect the export and import trading sector. In the Indonesian capital market, companies cannot be separated from conducting trades using the IDR/USD exchange rate so changes in the IDR/USD exchange rate are expected to have the potential to affect ISSI.

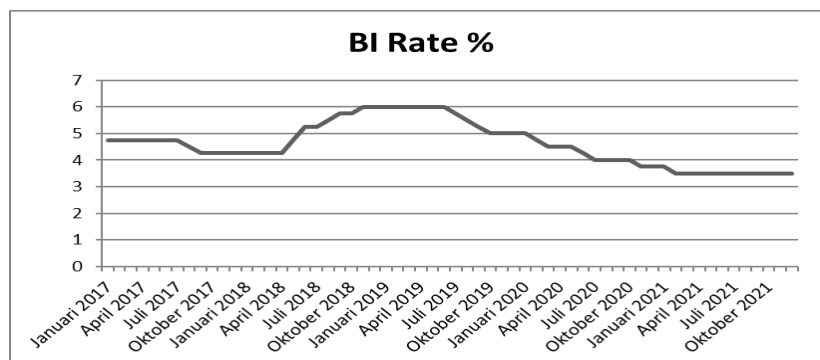


Figure 1. Graph of the BI Rate

Source: (BI 2022)

Figure 1 shows that during the observation period from 2017 to 2021 interest rates have increased and decreased with the highest increase occurring in November 2018 of 6% and the lowest decrease in March 2021 of 3.5%. Interest rates are another factor that can affect stock development indexes in general. Usually, investors will expect Bank Indonesia to raise interest rates. However, this can be detrimental to investors in the long run. An increase in interest rates will result in an increase in the rate of return on other investments with lower risk, compared to using stock investments with high risk. That way, stock investment enthusiasts will move and reduce the number of shareholders, including sharia shares (Triuspitorini, 2021)

The results of research conducted by Aulia and Latief (2020) showed that inflation did not have a significant effect on the Indonesian Sharia Stock Index, different results were obtained from research (Junaidi et al., 2021) in his research which found that the inflation variable had a positive and significant effect on ISSI. According to research conducted by Mawarni and Widiasmara (2018), the results showed that the Exchange Rate variable had a significant negative effect on ISSI. However, there is a relationship that is opposite to the research conducted by Herlina and Latief (2020) who obtained the result that the Exchange Rate variable had an insignificant positive effect on the Indonesian Sharia Stock Index (ISSI). Research conducted by Triuspitorini (2021) analyzed the effect of inflation, the rupiah exchange rate, and the BI-Rate on ISSI prices. The results of this research were that inflation and the rupiah exchange rate had no effect on ISSI's stock price, but the *BI rate variable* had a significant negative effect on ISSI's stock price.

Based on the previous studies that have been described above, it is known that the research time is not much different, but there are differences in the results found, which the authors think is caused by the short period of observations made and also the economic conditions during the observation period, which are less stable, can influence the differences. the results of each study made the authors interested and wanted to find out more about the development of the Islamic stock index as a whole, especially in Indonesia by adding the observation period that was carried out in more stable economic conditions. Therefore, the dependent variable used in this study is the Indonesian Sharia Stock Index (ISSI) with the aim of knowing the effect of macroeconomic factors such as inflation, exchange rates (exchange rates), and the *BI Rate* on the Indonesian Sharia Stock Index on the Indonesia Stock Exchange. in 2017-2021. ISSI is also used by investors as a reference and benchmark for a sharia-based stock investment which is expected to increase investor confidence in making decisions in investing in sharia.

Furthermore, this research will be explained in a conceptual framework, in which there are independent variables namely Inflation, Exchange Rate, and BI Rate. While the independent variable is the Indonesian Sharia Stock Index (ISSI).

This study aims to focus on the discussion to find out whether there is an effect of inflation, the exchange rate, and the BI rate on the Indonesian Sharia Stock Index (ISSI).

LITERATURE REVIEWS

Investment

The investment comes from the English word investment, from the basic word invest, which means to plant, or *istathmara* in Arabic, which means to make fruitful, develop, and increase in number. (Melati Sukma Bakri et al., 2022). Investment is a commitment that we take to a number of assets or other resources that are currently owned with the aim of obtaining future profits (Hayati, 2016). Principles and activities in investment and business that are permitted by the Shari'a are also explained in the DSN-MUI fatwa regulation No. 80/DSN-MUI/III/2011.

Sharia Capital Market

The Islamic capital market includes all capital market activities that do not conflict with Islamic principles. The Indonesian Sharia Capital Market is part of the Islamic financial industry which is regulated by the Financial Services Authority (OJK), especially the Directorate General of Islamic Capital Markets.

The Islamic capital market is one of the two important aspects of the broader Islamic Financial Market and the other branch is Islamic Banking and Islamic Insurance which is better known as Takaful (Fajar et al., 2022). The Islamic capital market is an affirmation of religious law in capital market trading, and the market is free from prohibited acts and elements such as *riba* (usury), *maisir* (gambling), and *gharar* (ambiguity) (Widiyanti & Sari, 2019).

The Islamic capital market is regulated in a fatwa and legal basis, namely Fatwa No. 40/DSN-MUI/X/2003 concerning Capital Markets and General Guidelines for the Application of Sharia Principles in the Capital Market Sector and Fatwa No. 80/DSNMUI/III/2011 concerning Application of Sharia Principles in Equity-Type Securities Trading Mechanisms in the Stock Exchange Regular Market.

Indonesian Sharia Stock Index (ISSI)

The Indonesian Sharia Stock Index (ISSI) is a stock index consisting of stocks that meet the financial criteria and applicable laws and regulations in Indonesia and meet the basic principles of Islamic finance. This index is managed by the Indonesia Stock Exchange (IDX) and published by the Indonesia Stock Exchange (IDX). ISSI is a stock index that represents all Islamic stocks in Indonesia so that it can be used as a benchmark to see economic developments in the Islamic capital market. Through ISSI, it was explained that the capital market also provides an

opportunity for investors to invest their funds in companies that comply with sharia principles (Fuadi, 2020).

The difference between ISSI and the Jakarta Islamic Index (JII) is that ISSI includes all sharia stocks on the Indonesian Stock Exchange, while JII is part of ISSI sharia shares (Fathurrahman & Widiastuti, 2021). The launch of ISSI is intended to be a reference for investors to invest in stocks. With this launch, it makes it easier for us to see how the performance and indicators of all Islamic stocks listed on the IDX and helps eliminate misunderstandings by the public who think that Islamic stocks only consist of 30 companies on the JII list (Ranto, 2018).

Inflation

Inflation has both positive and negative effects depending on the impact it has. In fact, moderate inflation can have a positive effect in stimulating the economy, increasing national income and encouraging people to work, save and invest. Conversely, during high inflation when inflation is out of control (hyperinflation), economic conditions become unstable and the economy feels stagnant (As Shadiqqy, 2020).

Inflation rate volatility is an impact of global financial market uncertainty and the potential for a depreciation of the rupiah exchange rate due to an increase in global policy interest rates (Nur & Fatwa, 2022). The inflation rate in Indonesia, which always fluctuates, does not rule out the possibility of affecting the level of investment in the Indonesian capital market, including ISSI (Suciningtias & Khoiroh, 2015).

Exchange Rate

Exchange rates are units of foreign currency and units of domestic currency. The exchange rate is the price of a country's currency against another country's currency used for commercial transactions, where the currency value is influenced by the supply and demand for that country's currency. (Junaidi et al., 2021). In many cases, the devaluation of the rupiah exchange rate can lead to a decrease in the role of the national economy or an increase in demand for foreign exchange as a means of international payment. (Kamal et al., 2021) .

The exchange rate will affect the trading sector related to export-import. The Indonesian capital market also cannot be separated from companies that conduct trading transactions using the IDR/USD exchange rate so changes in the IDR/USD exchange rate are expected to affect the movement of the stock index (Suciningtias & Khoiroh, 2015).

Interest Rate (BI Rate)

The *BI Rate* is the interest rate set by BI as a benchmark for loan and deposit rates for banks and/or financial institutions throughout Indonesia

(www.bi.go.id). The BI rate is the policy interest rate set by Bank Indonesia which reflects the attitude of the monetary policy announced to the public. The BI rate is announced by the Board of Governors of Bank Indonesia every month and is included in the financial operations carried out by Bank Indonesia through managing money market liquidity to achieve its monetary policy operating objectives. (Shah, 2018) .

RESEARCH METHOD

Methods of data analysis in this study using multiple regression modeling. Multiple regression analysis is a statistical tool used to determine or predict the magnitude of a response variable based on predictor variables. (Saputra, 2017)

In this study, the multiple linear regression model is formulated as follows:

$$Y = \alpha + \beta X_1 + \beta X_2 + \beta X_3 + \varepsilon$$

Where:

- Y : Indonesia Sharia Stock Index (ISSI)
- X₁ : Inflation
- X₂ : Exchange Rate
- X₃ : Interest Rate (*BI Rate*)
- α : Constant
- β : Regression coefficient
- e : Standard error

The classic assumption test is a test that must be met before regression testing can be performed. In this study, classical assumption testing was carried out which included several tests, namely the normality test, autocorrelation test, heteroscedasticity test, and multicollinearity test. By performing the classical assumption test, so, it can be estimated the value of the regression coefficient in the estimation model by approaching its actual value.

RESULTS AND DISCUSSION

Statistical descriptive analysis serves to statistically describe each independent and dependent variable used in this study in the form of the average value (mean), the median value (middle value), the smallest value (minimum), the largest value (maximum), and the number of observations as presented in Table 2.

Table 2. Descriptive Analysis

Descriptive Statistics					
	N	Min	Max	Means	std. Deviation
Inflation_X1	60	1.32	4.37	2.7263	.89534
Exchange_X2	60	9.50	9.70	9.5570	.03951
BIRate_X3	60	3.50	6.00	4.6125	.83796
ISSI_Y	60	14.80	15.20	15.0571	.08497
Valid N (listwise)	60				

Source: SPSS 23 output results

Based on Table 2, the distribution of the data can be described as follows, where the number of N or the total amount of data in each variable is 60. The ISSI value variable (Y), from these data, shows the minimum value is 14.80, the maximum value is 15.20 and the mean is 15.0571. Then, for the inflation variable (X1), the data shows a minimum value of 1.32, a maximum value of 4.37, and a mean of 2.7263. Exchange rate variable (X2), the minimum value is 9.50, the maximum value is 9.70 and the mean value is 9.5570. Meanwhile, the BI Rate variable (X3), shows a minimum value of 3.50, a maximum value of 6.00 and a mean value of 4.6125.

Normality Test

The purpose of the normality test is to test whether the dependent and independent variables are normally distributed in the regression model. A good regression model has normal or close-to-normal data distribution.

Table 3. One-Sample Kolmogorov-Smirnov Test

Unstandardized Residuals		
N		60
Normal Parameters ^{a,b}	Means	.0000000
	std. Deviation	.07147842
Most Extreme Differences	absolute	.122
	Positive	.074
	Negative	-.122
Test Statistics		.122
asympt. Sig. (2-tailed)		.026 ^c
Exact Sig. (2-tailed)		.305
Point Probability		.000
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: SPSS 23 output results

Based on Table 3, it is known that the significance value is $0.305 > 0.05$, so it can be said that the residual values are normally distributed.

Multicollinearity Test

The multicollinearity test was conducted to test whether there is a high or perfect correlation between the independent variables in the regression model that was formed. A good regression model should not show a correlation between independent variables. To determine whether a regression model has multicollinearity, the Tolerance and Variance Inflation Factor (VIF) values can be used. The *cut-off* value that is commonly used to indicate the presence of multicollinearity is the *Tolerance value* > 0.10 or the same as $VIF < 10$, so the model is declared to have no symptoms of multicollinearity (Saraswati, 2013). Table 4 shows the results of the multicollinearity test.

Table 4. Multicollinearity Test Results

Model		Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	std. Error	Betas			tolerance	VIF
1	(Constant)	26,818	.3037		8,831	.000		
	Inflation_X1	-.035	.017	-.366	-2,004	.050	.377	2,654
2	Exchange_X	-1,246	.318	-.580	-3,921	.000	.575	1,739
	BIRate_X3	.053	.016	.526	3,391	.001	.522	1,916

a. Dependent Variable: ISSI_Y

Source: SPSS 23 output results

Based on Table 4, it can be interpreted in statistical analysis as follows:

- 1) *tolerance* value for the inflation variable (X1) is 0.377, which is greater than 0.10. The VIF value of the Inflation variable (X1) is 2.654 which is less than 10.00 so it can be concluded that there is no multicollinearity.
- 2) *tolerance* value for the exchange rate variable (X2) is 0.575, which is greater than 0.10. The VIF value of the exchange rate variable (X2) is 1.739 which is less than 10.00 so it can be concluded that multicollinearity does not occur.
- 3) *tolerance* value for the BI Rate variable (X3) is 0.522, which is greater than 0.10. The VIF value of the BI Rate variable (X3) is 1.916 which is less than 10.00 so that it can be concluded that there is no multicollinearity.

Heteroscedasticity Test

Heteroscedasticity is the residual variation that is not the same for all observations. This test is intended to determine whether there is a deviation from the model because the variance of the disturbance differs from one observation to another.

Hypothesis

H0: there is no heteroscedasticity.

Ha: there is heteroscedasticity.

Decision-making

If sig < 0.05 then Ho is rejected

Sig > 0.05 then Ho is accepted

Table 5. Results of Heteroscedasticity Processing

Variable	Sig	Decision
Inflation	0.943	Ho accepted
Exchange rate	0.469	Ho accepted
BI rates	0.095	Ho accepted

Source: SPSS 23 output results

Heteroscedasticity testing in this study used the Glejser test, where the results obtained showed that all variables had a sig value > 0.05, this indicated that there was no heteroscedasticity in the model.

Autocorrelation Test

The purpose of the autocorrelation test is to test whether there is a correlation between members of a series of observations that are described according to time (times-series) or space (cross-section). The cause of the emergence of autocorrelation problems from some times-series data in regression analysis is the presence of inertia, meaning that the observation data in the previous period and the current period will most likely be interdependent.

This study uses the Durbin - Watson Test (DW Test) to test whether there is a problem of autocorrelation from the estimated empirical model. The results of the autocorrelation test are as follows:

Table 6. Autocorrelation Test Results

Summary Model ^b					
Mod	R	R Square	Adjusted R Square	std. Error of the Estimate	Durbin-Watson
1	.544 ^a	.296	.259	.07316	.273

a. Predictors: (Constant), BIRate_X3, Kurs_X2, Inflation_X1

b. Dependent Variable: ISSI_Y

Source: SPSS 23 output results

Durbin-Watson value or DW value. The following are the test guidelines:

- 1) DW numbers below -2 mean there is a positive autocorrelation
- 2) DW numbers between -2 and +2 mean there is no autocorrelation
- 3) A DW number above +2 means there is a negative autocorrelation.

Based on Table 6 of the Autocorrelation Test, it shows that the research model has no autocorrelation problems because the *Durbin-Watson value* is 0.273. This means that the research model does not have autocorrelation problems.

Multiple Linear Regression Modeling

Table 7. Multiple Linear Regression Modeling

Model		Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	std. Error	Betas			tolerance	VIF
1	(Constant)	26,818	3037		8,831	.000		
	Inflation_X1	-.035	.017	-.366	-2,004	.050	.377	2,654
	Exchange_X2	-1,246	.318	-.580	-3,921	.000	.575	1,739
	BIRate_X3	.053	.016	.526	3,391	.001	.522	1916

a. Dependent Variable: ISSI_Y

Source: SPSS 23 output results

Based on Table 7, the multiple linear regression equation of this study uses unstandardized beta (unstandardized coefficient). This is because each variable has units and functions that explain the magnitude of the regression coefficient of each independent variable in the explanation of the dependent variable using the regression formula:

$$Y = 26.818 - 0.035 X_1 - 1.246 X_2 + 0.053 X_3 + e$$

Where:

Y : Indonesian Sharia Stock Index (ISSI)

X 1 : Inflation

X 2 : Exchange Rate

X 3 : Interest Rate (BI Rate)

α : Constant

β : Regression coefficient

e : Standard error

From the regression equation, it shows that:

- If the inflation, exchange rate, and BI rate variables are considered constant = 0 (no increase or decrease), then the ISSI value is 26,818 units.
- The coefficient value of the inflation variable (X1) is 0.035 and is negative, which means that inflation affects ISSI in the opposite direction. This means that for each unit of inflation, the Y variable (ISSI stock price) decreases by 0.035 assuming the other independent variables in the regression model are constant.
- The coefficient value of the exchange rate variable (X2) is 1.246 and is negative, which means the exchange rate has the opposite effect on ISSI. This means that if the rupiah exchange rate increases by 1.246 then the Y variable (ISSI share price) will decrease by 1.246 and vice versa provided that the other independent variables in the regression model remain constant.
- The coefficient value of the BI Rate variable (X3) is 0.053 which indicates that the BI Rate has a positive effect on ISSI. This means that for each increase in the BI price, the Y variable (ISSI share price) increases by 0.053 assuming the other independent variables in the regression model are constant.

Simultaneous Test (F Test)

The F test or simultaneous test aims to determine the effect that occurs between the independent variable (X) on the dependent variable (Y) simultaneously or as a whole. The basis for taking the F test (simultaneous) is based on the criteria if the value of $F_{count} > F_{table}$ then the independent variables simultaneously affect the dependent variable and vice versa. If the significance value is > 0.05 then H_{Ais} is rejected, otherwise if the significance value is < 0.05 then H_{Ais} is accepted.

Hypothesis:

HA: Inflation, Exchange Rate, and BI Rate are suspected to have a simultaneous effect on the Indonesian Sharia Stock Index

This value can be seen in the ANOVA (Analysis Of Variance) table as follows:

Table 8. F Test Results

ANOVA ^a						
	Model	Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	.126	3	.042	7,861	.000 ^b
	residual	.300	56	.005		
	Total	.426	59			

a. Dependent Variable: ISSI_Y

b. Predictors: (Constant), BIRate_X3, Kurs_X2, Inflation_X1

Source: SPSS 23 output results

Based on Table 8 for simultaneous hypothesis testing that the calculated F value in the research model is 7.861 with a significance level of 0.000. Sig. value is 0.05 which indicates that the independent variables simultaneously have a significant effect ($0.000 < 0.05$) on ISSI at a significance of 5%. The results of the F_{table} statistic at a significance level of 5% with a Df_1 value of 3 and a Df_2 value of 56 and an F_{table} of 2.77 is obtained. From the results of the comparison, it can be seen that the value of $F_{count} > F_{table}$ ($7,861 > 2.77$), it can be concluded that H_a is accepted, which means the variable Inflation (X1), Exchange Rate (X2) and BI Rate (X3) simultaneously has a significant effect on the Indonesian Sharia Stock Index (ISSI).

Partial Test (t-test)

The purpose of the t-test is to find out whether each independent variable individually (partially) affects the dependent variable in the dependent variable being tested. The value of the t_{table} obtained based on this research is n (number of observations) k (number of research variables) $df = nk = 60 - 4 = 56$. The significance value used is 5% or 0.05. Then the $t_{table\ value}$ is 2.003. If the significant value of $t < \alpha$ ($\alpha: 5\% = 0.05$) then H_0 is rejected and H_a is accepted, which means that there is a partially significant effect of the independent variable on the dependent variable.

Table 9. Test Results t

		Coefficients ^a						
Model		Unstandardized Coefficients		Standard ized Coefficients	t	Sig.	Collinearity Statistics	
		B	std. Error	Betas			Tolerance	VIF
1	(Constant)	26,818	3037		8,831	.000		
	Inflation_X1	-.035	.017	-.366	-2,004	.050	.377	2,654
2	Exchange_X	-1,246	.318	-.580	-3,921	.000	.575	1,739
	BIRate_X3	.053	.016	.526	3,391	.001	.522	1916

a. Dependent Variable: ISSI_Y

Source: SPSS 23 output results

Based on Table 9, it can be concluded that the results of the t_{table} test are as follows:

1) The t-test on the Inflation variable

H_1 : Inflation is suspected to have a significant partial effect on the Indonesian Sharia Stock Index

The t (partial) test show that based on the significant value of the influence of the inflation variable (X1) on the Indonesian Sharia Stock Index (Y) is $0.05 = 0.05$ and the t value is $-2.004 <$ the t table value is 2.003 which means H_1 is rejected which meaning that inflation has no significant effect on the Indonesian Sharia Stock Index (ISSI).

2) T-test on the variable Exchange Rate

H_2 : The exchange rate is suspected to have a partially significant effect on the Indonesian Sharia Stock Index

The results of the t (partial) test show that based on the significant value of the effect of the exchange rate variable (X2) on the Indonesian Sharia Stock Index (Y) is $0.000 < 0.05$ and the calculated t value is $-3.921 <$ t table value is 2.003 , it can be concluded that H_2 is accepted which means that the exchange rate has a significant negative effect on the Indonesian Sharia Stock Index (ISSI).

3) T-test on the BI Rate variable

H_3 : The BI Rate is suspected to have a partially significant effect on the Indonesian Sharia Stock Index

The results of the t (partial) test show that based on the significant value of the influence of the BI Rate variable (X3) on the Indonesian Sharia Stock Index (Y) is $0.001 < 0.05$ and the t count value is $-3.391 >$ the t table value is 2.003 then H_3 is accepted, which means BI Rate has a significant effect on the Indonesian Sharia Stock Index (ISSI).

Determination Coefficient Test (Adjusted R²)

**Table 10. Test Results for the Coefficient of Determination
Summary Model ^b**

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	.544 ^a	.296	.259	.07316

a. Predictors: (Constant), BIRate_X3, Kurs_X2, Inflation_X1

b. Dependent Variable: ISSI_Y

Source: SPSS 23 output results

Based on Table 10, it can be seen that the value of the Determination Test results is 0.259 which states that the influence exerted by the Inflation (X1), Exchange Rate (X2), and BI Rate (X3) variables on the Indonesian Sharia Stock Index (Y) is 25.9 %. Then the remaining 75.1% is influenced by other variables outside the research.

Discussion

This study aims to determine the effect of inflation, exchange rates, and the BI Rate on the Indonesian Sharia Stock Index (ISSI). The related explanation of each variable is as follows:

The inflation variable has no significant effect on the Indonesian Sharia Stock Index (ISSI) partially. The results of the t (partial) test in this study show that based on the significant value of the influence of the inflation variable on the Indonesian Sharia Stock Index (Y) is $0.05 = 0.05$ and the t value is $-2.004 < t_{table\ value}$ is 2.003 which indicates that inflation has no effect significant but has a negative direction towards the Indonesian Sharia Stock Index (ISSI). This is in line with the results of research conducted by Aulia and Latief (2020) showing that inflation has no significant effect on the Indonesian Sharia Stock Index (ISSI), but it is different from the results of research conducted by (Junaidi et al., 2021) which states that the inflation variable has a positive and significant influence on the Indonesian Sharia Stock Index (ISSI). Inflation is closely related to a decrease in purchasing power both within the scope of individuals and companies. The main impediment to inflation is the overall change in the demand for goods and services. In the investment world, inflation is very influential. This can be seen from every increase or decrease in the inflation rate will affect the monetary authority in making policies which will ultimately affect investors in placing their investment funds (Aulia & Latief, 2020). The insignificant effect of inflation on the Indonesian Sharia Stock Index (ISSI) is due to the fact that inflation that occurred in the 2017-2021 observation period was relatively stable so that it can still drive the economy better, namely making people excited to make investments. The insignificant effect of inflation on the Indonesian Sharia Stock Index can also be caused by investors considering other factors such as company fundamentals (Aliyah, 2016).

The rupiah exchange rate variable has a significant negative effect on the Indonesian Sharia Stock Index (ISSI) partially. the results of the t (partial) test show that based on the significant value the effect of the exchange rate variable on the Indonesian Sharia Stock Index (Y) is $0.000 < 0.05$ and the t_{count} value is $-3.921 < t_{table\ value}$ is 2.003 which means that the exchange rate variable has a significant negative effect on the index Indonesian Sharia Shares (ISSI). This is in line with the results of research conducted by Mawarni and Widiasmara (2018) who obtained the result that the Exchange Rate variable had a significant negative effect on the Indonesian Sharia Stock Index (ISSI). However, there is a relationship that is opposite to the research conducted by Herlina & Latief (2020) which found that the Exchange Rate variable had a non-significant positive effect on the Indonesian Sharia Stock Index (ISSI). The weakening of the rupiah triggered an increase in commodity prices, including manufactured goods. Of course, this has an impact on increasing production costs and decreasing company profits. The decline in

company profits will affect dividend policy and this is an attraction for investors. Decreasing investor interest in stocks can have an impact on declining stock prices, so the Indonesian Sharia Stock Index is also decreasing. (Mawarni & Widiasmara, 2018).

Based on this study, the results of the t (partial) test conducted on the BI Rate variable obtained results showing that the significant value of the influence of the BI Rate variable on the Indonesian Sharia Stock Index (Y) was $0.001 < 0.05$ and the t value was $3.391 > t_{table\ value} 2.003$, which means that the BI Rate has a significant positive effect on the Indonesian Sharia Stock Index (ISSI). So that the higher the BI rate, the higher the Indonesian Sharia Stock Index (ISSI). This result is different from research conducted by Triuspitorini (2021), whose research results show that the BI rate significant negative effect on the stock price of ISSI. The BI rate has a significant positive effect on the Indonesian Sharia Stock Index (ISSI) because the BI rate is one of the factors that has a dominant influence on investment decision-making in the form of shares among investors. The BI rate has a positive effect, meaning that if the BI rate rises, investors do not sell their shares and do not switch to investing their funds in banks to get higher yields. This is because investors believe stock prices will continue to grow and develop in the future. The positive relationship that occurs between the BI rate and the Indonesian Sharia Stock Index (ISSI) indicates that there is no substitution relationship between the banking sector and the capital market. This means that the capital market is not a substitute for banking, but is a complement to banking. Investment decisions do not only involve technical factors but the psychological condition of investors also influences them, so existing theories do not always match the realities of the market.

Inflation, exchange rate, and BI Rate variables have influence on the Indonesian Sharia Stock Index simultaneously. From the research results it can be seen that the F count $> F_{table} (7,861 > 2.77)$, it can be concluded that the Inflation, Exchange Rate and BI Rate variables simultaneously have a significant effect on the Indonesian Sharia Stock Index (ISSI).

CONCLUSION

Based on the results of research on the variables Inflation, Exchange Rate (exchange rate), and the BI Rate on the Indonesian Sharia Stock Index (ISSI) for the 2017 – 2021 period, it can be concluded that simultaneously or together, Inflation, Exchange Rate, and the BI Rate have a positive influence significant to the Indonesian Sharia Stock Index for the period 2017 – 2021. While partially each variable gets different results where inflation has no effect on ISSI, the exchange rate has a significant negative effect on ISSI and the BI Rate has a significant positive effect on ISSI in 2017 – 2021.

The author hopes that this research can be a source of information that can add knowledge and insight for Islamic capital market investors, especially regarding the Indonesian Sharia Stock Index (ISSI) so that it can be used as a basis for making decisions in investing in the Indonesian Sharia Stock Index. The author realizes that this study only uses three independent variables and only five years of observation. For further researchers, they can extend the period of observation and add other variables to be studied, such as the variable Amount of Money in Circulation (JUB), Economic Growth, Bank Indonesia Sharia Certificates (SBIS), and others so that this research will further develop for the academic world in the future.

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