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Macroeconomic Variables and the Indonesian Sharia Stock Index

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Abstract

Macroeconomic development significantly impacts the movement of the Indonesian Shariah Stock Index (ISSI). This study analyzes the effects of five macroeconomic variables, namely exchange rate (ER), inflation (INF), BI Rate (BIRATE), oil price (OP), and money supply (MS) on ISSI using quantitative data from January 2015 to December 2022 and the Vector Error Correction Model (VECM) framework. The analysis revealed that in the short term, ER, INF, BIRATE, OP, and MS did not significantly affect ISSI. However, in the long-term, ER, BIRATE, OP, and MS significantly impact ISSI, whereas INF remains insignificant. Among these variables, ER and MS had the most substantial influence on ISSI. These findings underscore the importance of macroeconomic stability in shaping ISSI's long-term performance, providing valuable insights for policymakers and investors aiming to navigate the dynamic relationship between macroeconomic factors and Islamic financial markets. Maintaining macroeconomic stability is essential for supporting the growth and resilience of the Islamic financial market. Policymakers should focus on effectively managing exchange rates and money supply while fostering a stable economic environment to enhance ISSI performance.

Keywords: Macroeconomics; Indonesian Shariah Stock Index; Exchange Rate; Money Supply

Abstrak

Perkembangan makroekonomi memiliki dampak signifikan terhadap pergerakan Indeks Saham Syariah Indonesia (ISSI). Penelitian ini menganalisis pengaruh lima variabel makroekonomi, yaitu nilai tukar (ER), inflasi (INF), BI Rate (BIRATE), harga minyak (OP), dan jumlah uang beredar (MS) terhadap ISSI menggunakan data kuantitatif dari Januari 2015 hingga Desember 2022 dan kerangka Model Koreksi Kesalahan Vektor (VECM). Analisis menunjukkan bahwa, dalam jangka pendek, ER, INF, BIRATE, OP, dan MS tidak berpengaruh signifikan terhadap ISSI. Namun, dalam jangka panjang, ER, BIRATE, OP, dan MS memiliki pengaruh signifikan terhadap ISSI, sementara INF tetap tidak signifikan. Di antara variabel-variabel ini, ER dan MS memberikan pengaruh yang paling besar terhadap ISSI. Temuan ini menekankan pentingnya stabilitas makroekonomi dalam membentuk kinerja jangka panjang ISSI, memberikan wawasan berharga bagi pembuat kebijakan dan investor yang berupaya memahami hubungan dinamis antara faktor makroekonomi dan pasar keuangan Islam. Mempertahankan stabilitas makroekonomi sangat penting untuk mendukung pertumbuhan dan ketahanan pasar keuangan Islam. Pembuat kebijakan harus fokus pada pengelolaan nilai tukar dan jumlah uang beredar secara efektif sambil menciptakan lingkungan ekonomi yang stabil untuk meningkatkan kinerja ISSI.

***Kata kunci**: Makroekonomi; Indek Saham Syariah Indonesia; Nilai Tukar; Jumlah Uang beredar*

INTRODUCTION

The Islamic capital market in Indonesia experienced a milestone on July 3, 1997, when PT. Danareksa Investment Management issued Sharia Mutual Funds, followed by the issuance of Sharia bonds towards the end of 2002. The Jakarta Islamic Index (JII) was announced on July 3, 2000, as the first Sharia index. Further transformation occurred with the transition of BAPEPAM and LK to OJK in collaboration with DSN-MUI, launching the Indonesian Sharia Stock Index (ISSI) on May 12, 2011. The Islamic capital market is not only an analytical tool, but is also important for monitoring a country's economy (Asutay et al, 2023; Mubarok et al, 2020).

Changes in the stock index values reflect the overall health of the economy. The Sharia capital market provides investment based on Sharia principles and national economic insights. Capital markets are organized locations for trading securities, including stocks, bonds, and other financial instruments (Bahloul et al., 2017. Fathurrarman & Widiastuti, 2021; Fianto et al., 2023). The Sharia capital market operates in accordance with the Sharia principles, providing investment products that are attractive, safe, and provide high returns. Sharia financial instruments in the capital market are considered legal in accordance with the principles of musyarakah or syirqa (Firdausi et al., 201). Not all issuer shares are considered Sharia, but there are Sharia stock indices such as JII, JII70, and ISSI as options for investors who want a portfolio that complies with Sharia principles (Febriandika et al., 2023).

ISSI is a performance indicator for Sharia shares on the IDX, launched on May 12, 2011, with 214 Sharia shares on the BEI. The ISSI complements JII, covering all Sharia shares on the BEI and DES. The ISSI member review is conducted every six months, and the results are announced the following month. The ISSI calculation uses the weighted average market capitalization with a base year of December 2007. The ISSI data come from the BEI monthly index report, presented as a percentage. The ISSI movements from January 2015 to December 2022 are as follows:

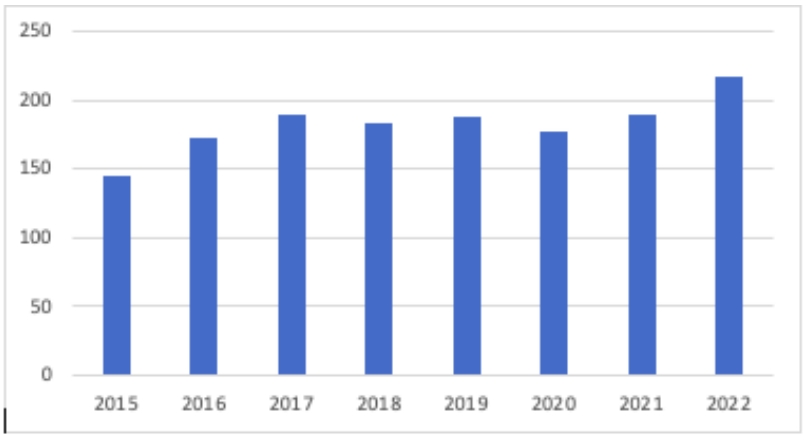

Figure 1. Movement of the Indonesian Sharia Stock Index 2015-2022
Source: Financial Services Authority, 2023

From Figure 1, it can be seen that the Indonesian Sharia Stock Index (ISSI) reached 145.06 in 2015. In the following period, the movement of the Indonesian Sharia Stock Index (ISSI) showed a positive trend, reaching 189.86 in 2017. In some cases, there are fluctuations. downwards, but the overall ISSI movement increased. The performance of the Indonesian Sharia Stock Index (ISSI), which has experienced significant development, is certainly influenced by various factors. To determine whether the capital market continues to develop sustainably, the main factors that determine this depend on two factors. This is Indonesia's macroeconomic situation and national political stability (Mohamad Shafi and Tan, 2023; Raza Rabbani et al., 2024).

Regarding the movement of the Indonesian Sharia Stock Index (ISSI), it can be concluded that many factors influence this trend. The main factors that influence the development of Sharia indices include various macroeconomic and monetary variables, such as Bank Indonesia Sharia Certificates, inflation rates, money supply (MS), and exchange rates so on (Ardana, 2016; Asmy et al., 2009; Suciningtias and Khoiroh, 2015; Sudarsono, 2018; Tripuspitorini, 2021; Usman et al., 2024). In addition, internal factors such as the national economic situation, security, political situation, and government policies influence index movements. The macroeconomic variables used in this research include exchange rates, inflation, BI rate, world oil prices, and money supply (MS). Several of these variables are expected to influence fluctuations in the Sharia stock index (Habib & Islam, 2017: Masrizal et al., 2021; Soyan et al., 2023).

This research re-examines the influence of several macroeconomic variables on ISSI by compiling several previous research models. The difference between this research and previous research is that in the research period, the research period is from January 2015 to December 2022, while the previous research was conducted before the 2022 period. The aim of this research is to re-analyze the exchange rate (ER), inflation (INF), and BI Rate (BIRATE) variables., oil prices (OP), and money supply (MS) against Indonesian Sharia Stock Index

LITERATURE REVIEW

Indonesian Sharia Stock Index (ISSI)

The Indonesian Sharia Stock Index (ISSI) is an important instrument in the Indonesian financial market, based on Sharia principles. ISSI is not only an indicator of stock market performance that meets Sharia standards, but also reflects the growth and development of the economic sector in accordance with Islamic values (Indonesian Stock Exchange, 2022). ISSI not only covers large issuers, but also includes small and medium companies that meet strict Sharia criteria. This helps expand market coverage for investors who wish to invest in accordance with the Sharia principles (Alam et al., 2017; Qoyum et al., 2024; Rachmawati & Laila, 2015).

ISSI management involves various parties, including the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), Indonesian Financial Services,

Financial Services Authority (OJK), and Indonesian Stock Exchange (BEI). The regular monitoring and evaluation process carried out by OJK and BEI helps ensure that the ISSI remains in accordance with Sharia principles and provides an accurate picture of the performance of the Sharia stock market in Indonesia (Ardana, 2016;Arfandi & Rahayu, 2022). ISSI also provides opportunities for companies oriented towards Sharia principles to gain access to wider capital and funding markets. Thus, ISSI is not only a tool for measuring Sharia stock market performance but also encourages sustainable economic growth in accordance with Islamic principles (Fathurrahman & Widiastuti, 2021; Mohnot et al., 2024; Nasir et al., 2016).

Exchange Rate (Exchange Rate)

The Rupiah exchange rate is the relative value of one rupiah against other currencies. This can be expressed as the amount of domestic currency required to purchase one unit of foreign currency or vice versa. The rupiah exchange rate is determined by economic factors, such as inflation, interest rates, and market conditions (Juniadi et al., 2021; Kennedy & Nourizad, 2016; Melvin et al., 2018). Currency rates have a direct impact on companies in the stock index. Companies that export benefit from local currency appreciation because they can increase revenue in the local currency. Conversely, companies that import may feel a heavier burden from local currency depreciation, as import costs increase. If many firms in an ISSI depend on exports, appreciation of the local currency may increase the value of the ISSI, whereas depreciation may decrease it. Several previous studies, such as research conducted by Kamal et al. (2021), found that the IDR/USD exchange rate had a negative impact on ISSI. These results indicate that changes in currency exchange rates can significantly impact ISSI performance. However, it is important to note that the impact can vary depending on how companies in the index are affected by changes in currency rates.

Inflation

In an economic context, inflation is a condition in which there is a general increase in the prices of goods and services in an economy over a certain period. Inflation can be caused by various factors including increased demand, increased production costs, and loose monetary policy. Most recently, Juniadi et al. (2021) and Kamal et al. (2021) highlighted that inflation has a positive and significant influence on ISSI performance. This positive impact is especially visible when the government succeeds in controlling the inflation rate effectively, as highlighted by Katmas and Indarningsih (2022) and Setyani (2017). Previous studies support the argument that inflation can provide a positive impetus for ISSI. This phenomenon can be explained in several ways. First, controlled inflation can reflect stable economic growth, which is generally beneficial for the stock market. Second, controlled inflation could be an indicator that interest rates remain low, which usually supports business growth and investment and, in turn, benefits companies in the ISSI.

WITH A*Rate* (Interest Rate)

The BI Rate concept refers to the reference interest rate set by Bank Indonesia (BI) as part of its monetary policy. BI Rate is the interest rate used by financial institutions as a guideline for determining interest rates on loans to customers. Bank Indonesia sets the BI Rate as a tool to control inflation, maintain currency stability, and promote healthy economic growth (Katmas & Indarningsih, 2022). The argument about how the BI Rate influences the Indonesian Sharia Stock Index (ISSI) can be divided into several aspects. First, an increase in the BI Rate tends to affect investment structure. Investors may prefer to park their funds in other financial instruments that offer higher returns than shares, especially those considered riskier, such as Sharia shares. Second, an increase in the BI Rate could negatively impact companies' profits owing to higher borrowing costs, which could affect their financial performance and, ultimately, their share prices. Previous research, such as that conducted by Fathurrhman and Widiastuti (2021) and Sudarsono (2018), supports the argument that BI Rate has a negative impact on ISSI movements. An increase in the BI Rate has been proven to influence share price fluctuations, and an increase in interest rates encourages investors to prefer investing in other financial instruments that offer safer and more stable returns. Thus, when BI increases interest rates, investors tend to switch from the stock market to safer financial instruments, resulting in decreased ISSI movements.

World Oil Prices (World Oil Prices)

The concept of world oil prices refers to the global market prices of crude oil and its derivatives. World oil prices play an important role in the global economy, as they influence production costs, consumer prices, and the performance of the energy sector as a whole. World oil price fluctuations are influenced by various factors, including global demand and supply, geopolitics, the production policies of producing countries, and other economic factors. World oil prices can significantly impact ISSI performance through several mechanisms. First, rising world oil prices tend to increase production costs for companies, especially in sectors highly dependent on energy, such as the manufacturing and transportation industries. This can reduce the profitability of companies and, as a result, lower their share prices, which contributes to a decrease in the value of the ISSI. Previous research, such as that conducted by Ardana (2016), supports the argument that global oil prices have a negative impact on ISSI movements. Although the share of the mining sector or petroleum raw materials sector in the ISSI is relatively small, fluctuations in world oil prices can still have a significant impact on the overall performance of the index. Investors tend to sell their shares in sectors affected by rising oil prices and seek more stable investment instruments, causing a decline in the ISSI value.

Money Supply (Amount of Money in Circulation)

Money Supply (MS) refers to the total cash, demand deposits, and cash equivalents circulating in a country's economy at a certain time period. This includes all forms of money that can be used for transactions, whether in the form of notes, coins, or short-term deposits, which can be easily liquidated. The MS concept is important in monetary analysis because it can provide an indication of the level of liquidity in the economy and provide insight into overall economic activity. Chotib (2019) showed that increasing MS has a positive impact on the performance of the Indonesian Sharia Stock Index (ISSI). They put forward the argue that increasing the MS can stimulate the economy by increasing liquidity and facilitating economic transactions. Furthermore, this increase in liquidity can increase company profits, because it encourages corporate sales growth. This increase in company profits can then be reflected in stock performance and ultimately contributes to changes in ISSI prices. Other research also supports the relationship between Money Supply (MS) and performance of the Indonesian Sharia Stock Index (ISSI). Another example is research conducted by other researchers, which highlights that increasing liquidity in the market can have a positive impact on stock performance, including ISSI-listed stocks.

From the explanation above, the following hypothesis can be formulated:
H1: The exchange rate has a negative effect on Indonesian Sharia Stock Index.
H2: The Inflation has an effect on the Indonesian Sharia Stock Index (ISSI).
H3: the BI Rate has an influence on the Indonesian Sharia Stock Index (ISSI).
H4: The oil prices have a negative effect on the Indonesian Sharia Stock Index
H5: Money supply has a positive influence on Indonesian Sharia Stock Index.

RESEARCH METHOD

The data used are secondary quantitative data in monthly time series format from January 2015 to December 2022, covering a total of 96 months of observations. This study focuses on Indonesia’s Islamic capital markets. There are economic and methodological reasons for using monthly data from such periods. First, a time period of eight years was chosen to allow the time series analysis to have a sufficient period for rigorous testing. Second, during the research process, the author experienced difficulties in obtaining independent variable data, particularly those related to world oil prices. It is hoped that by using a long time period, the potential for errors in the estimation and data processing can be minimized. Data sources are the Indonesian Stock Exchange, Financial Services Authority, Central Statistics Agency (2023), and Bank Indonesia (2022).

This study uses quantitative descriptive analysis methods to analyze the impact of exchange rate, inflation, BI Rate, oil prices, and money supply on the Indonesian Sharia Stock Index (ISSI). This method was implemented using Eviews 10 software. The analysis model used is called the Vector Autoregression (VAR) model, also known

as the Vector Error Correction Model (VECM). The VAR model is a regression model that utilizes time series data, while the VECM is used when the time series data are not stationary at the level level but are stationary at the first difference and cointegrated level. VECM estimation was used to observe the short- and long-term relationships between variables. The Impulse Response Function (IRF) is used to examine how ISSI reacts to changes in other variables, while Variance Decomposition (FEDV) is used to observe ISSI reactions to variations in other variables (Widarjono, 2018).

RESULTS AND DISCUSSION

The unit root test can be carried out using the Augmented Dickey-Fuller (ADF) test by comparing the statistical ADF value with the Mackinnon critical value. The data to be tested is data at the level *first difference*. If the statistical ADF value is smaller than the *Mackinnon critical value* means there is *unit root* or the data are not stationary. Conversely, if the statistical ADF value is greater than the *Mackinnon critical value* then it is concluded that the data do not contain *unit root*. The size of the comparison between the ADF value and *Mackinnon critical value* can be seen from the probability value at the α= 5% level.

Table 1 shows the ADF test at the α = 5% level of the variables ISSI, exchange rate, inflation, BI rate, oil price, and money supply at the first difference level, where the statistical ADF values of ISSI, EXCHANGE, INFLATION, BI RATE, OP, and MS were greater than the than*MacKinnon critical value*. The probability value of each variable in the ADF test shows a value that is smaller than α = 5% or stationary. With the statistical results for each variable, the appropriate analysis is VAR or VECM analysis.

Table 1. Level and First Different Unit Root Test Results

Variable	Level			First Different		
	t-statistic	Probability	Information	t-statistic	Probability	Information
ISSI	-1,180862	0,6802	Not Stationary	-8,510415	0,0000	Stationary
ER	-1,317219	0,6189	Not Stationary	-9,856170	0,0000	Stationary
INF	-1,960657	0,3037	Not Stationary	-7,973837	0,0000	Stationary
BIRATE	-1,829051	0,3645	Not Stationary	-5,883193	0,0000	Stationary
OP	-2,141116	0,2294	Not Stationary	-7,879202	0,0000	Stationary
MS	0,872686	0,9948	Not Stationary	-14,18666	0,0001	Stationary

The second stage of the VAR analysis determines the optimum lag. Determining the lag to be used can be based on the smallest Akaike Information Criterion (AIC) and Hannan Quinn Information Criterion (HQ). Testing*the best lag* VAR analysis is helpful in eliminating autocorrelation and heteroscedasticity problems in the model used for VAR stability analysis (Widarjono, 2007). The results in table 2 show that the optimal lag is the second lag, which is indicated by the lowest Akaike Information Criterion (AIC) value.

Table 2. Optimum Lag Test

Lag	LogL	LR	FPE	AIC	SC	HQ
0	658.3826	THAT	1.24e-14	-14.99730	-14.82724*	-14.92882*
1	707.7412	90.77439	9.11e-15	-15.30439	-14.11396	-14.82504
2	745.4414	64.13368*	8.86e-15*	-15.34348*	-13.13267	-14.45325
3	776.6025	48.71163	1.02e-14	-15.23224	-12.00105	-13.93114
4	803.8764	38.87315	1.32e-14	-15.03164	-10.78008	-13.31967
5	832.8799	37.33788	1.71e-14	-14.87080	-9.598861	-12.74795
6	862.4141	33.94727	2.30e-14	-14.72216	-8.429845	-12.18844
7	902.0866	40.12857	2.64e-14	-14.80659	-7.493896	-11.86199
8	955.1131	46.32201	2.47e-14	-15.19800	-6.864934	-11.84253

Then, a stability test was carried out via VAR*stability condition check* which is in the form of roots of the of*characteristic polynominal* for all variables studied in the model. VAR stability testing needs to be carried out because if the results of the VAR stability estimation are unstable, then analysis*Impluse Response Funcation* (IRF) and*Forecast Error Variance Decompostion* (FEVD) will become invalid. A VAR system is said to be stationary if all of its roots have a modulus that lies within the unit circle. Based on the results of the VAR stability test in Figure 2, coefficients between 0.4020 and 0.6387 were obtained, and it can be concluded that the VAR model is stable. Therefore, the resulting Impluse Response Function (IRF) and Forecast Error Variance Decomposition (FEVD) can be considered valid.

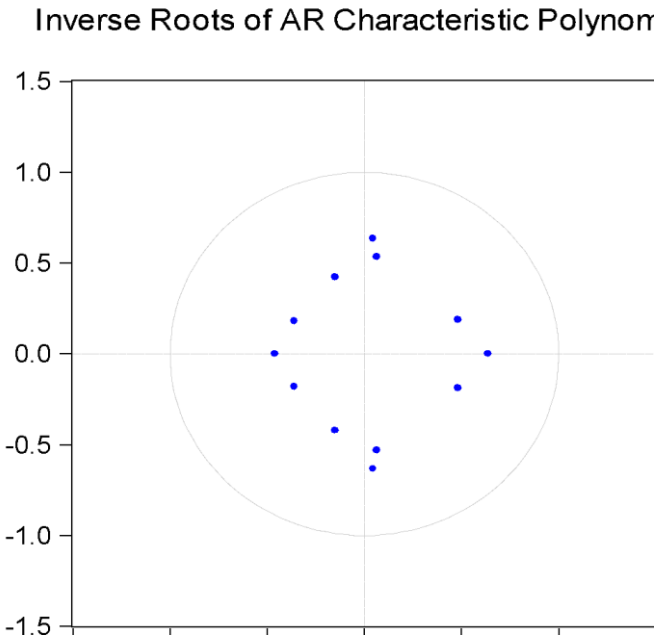

Figure 2. Model Stability Test

The Granger Causality Test was used to determine whether there was a significant causal relationship between one variable and another. If the probability value of the Granger causality test results is less than 5%, it can be concluded that there is a causal relationship between the tested variables.

Table 4. Granger Causality Test

	F-Statistics	Probability
ER does not Granger Cause ISSI	2.50564	0.0874
ISSI does not Granger Cause ER	6.72930	0.0019 *
INF does not Granger Cause ISSI	1.57480	0.2128
ISSI does not Granger Cause INF	6.03560	0.0035 *
BIRATE does not Granger Cause ISSI	2.26300	0.1100
ISSI does not Granger Cause BIRATE	1.19911	0.3063
OP does not Granger Cause ISSI	0.37641	0.6874
ISSI does not Granger Cause OP	12.3998	2.E-05
MS does not Granger Cause ISSI	1.97759	0.1444
ISSI does not Granger Cause MS	2.07598	0.1315

Table 4 shows that the ISSI and exchange rate have a two-way causal relationship. This can be concluded from a probability value greater than 10%. Changes in the rupiah exchange rate against foreign currencies, such as the US dollar, can directly affect the performance of the Sharia stock market. For example, when the rupiah exchange rate strengthens against the US dollar, import prices become cheaper for companies, which can increase their profit margins. This can cause an increase in company share prices in the related sector, which contributes to an increase in the ISSI value. Conversely, if the rupiah weakens against the US dollar, companies' import costs increase, which can reduce their profit margins and cause a decline in company stock prices. This can have a negative impact on the ISSI values. Changes in the rupiah exchange rate can also affect overall economic conditions, which can influence the performance of the Sharia stock market. For example, an appreciation of the rupiah can reduce the cost of importing raw materials for manufacturing companies, which, in turn, can increase their profitability and encourage an increase in their share prices, which then has a positive impact on ISSI. Conversely, depreciation of the rupiah can increase import costs and inflation, which can reduce people's purchasing power and suppress economic growth, which, in turn, can affect overall stock market performance.

Next, a cointegration test was carried out to test the possibility that there is a long-term and short-term balance relationship that can cause imbalance. If an imbalance occurs, it must be corrected using Jonhansen's Trace Statistics error-correction model. The results of this test were used to determine the number of equations in the cointegrated system. Testing was performed by comparing the trace statistical value with a critical value of 5%. Cointegration occurs when the trace statistical value is greater than the trace value. From the test results listed in Table 5, it can be concluded that the cointegration test results show that all trace statistics are greater than the critical value of 0.05% and exceed the eigenvalue. This shows that all variables are mutually integrated and that there is a stable long-term relationship between them. In addition, the presence of a sign (*) in "At most 1-5"

which does not exceed two numbers indicates that this equation requires Vector Error Correction Model (VECM) model testing.

Table 5. Cointegration Test

Hypothesized	Eigenvalue	Trace Statistic	Critical Value	Probability
None*	0.604103	223.9814	95.75366	0.0000
At most 1*	0.369205	138.7340	69.81889	0.0000
At most 2*	0.329443	96.34277	47.85613	0.0000
At most 3*	0.285500	59.57527	29.79707	0.0000
At most 4*	0.173981	28.64737	15.49471	0.0003
At most 5*	0.113298	11.06270	3.841466	0.0009

In the VECM estimation process, it is necessary to pay attention to both short-term and long-term relationships. The VECM describes the long-term relationship between cointegrated variables while considering short-term changes in the relationship. This cointegration is called error correction, because any deviation from the long-run equilibrium is adjusted gradually through a short-run adjustment process.

Table 6. VECM test

		Short-term	
Variable	Coefficient	t-statistics	Information
CointEq1	0,120546	1.29798	Not significant
IS	0.067776	0.23156	Not significant
INF	0.005960	0.55243	Not significant
YOU CHOOSE	0.028456	1.10237	Not significant
ON	0.018647	0.50243	Not significant
MS	- 0.438748	-1.23777	Not significant
		Long-term	
IS	3.263145	5.40369	Significant
INF	-0.004241	-0.22212	Not significant
YOU CHOOSE	-0.087074	-2.73004	Significant
ON	-0.377750	-5.52625	Significant
MS	3.395616	3.55057	Significant

From the VECM test in table 6, the VECM estimation results are obtained, which show that in the short term, the variables ER, INF, BIRATE, OP, and MS do not influence ISSI, because all variables have t-statistics < t-table. Meanwhile, in the long term, the VECM estimation results show that the variables ER, BIRATE, OP, and MS affect ISSI. The exchange rate variable has a positive effect on ISSI, with t-statistics of 5.40369 > t-table 1.9866745. This situation occurs when the rupiah exchange rate depreciates against the US dollar and the price of imported goods increases, especially for companies that rely on imported raw materials. The increase in production costs caused by the imports of these goods will directly increase production costs and ultimately result in a decrease in the company's profit level. This can impact company share price movements and trigger a weakening of the Indonesian Sharia Stock Index (Asmy et al. 2009).

The inflation variable has no effect on the ISSI, with a t-statistic value of -0.22212 < t-table 1.9866745. Therefore, investors do not use the inflation rate as a consideration or benchmark in investing, but observe other factors. This is because inflation in Indonesia tends to be controlled at less than 10%. A low and stable inflation rate means that its impact on stock market movements is minimal. Investors may not view inflation as a significant factor in their investment decisions in such situations. When inflation remains under control, investors tend to have a lower risk perception of the potential devaluation of the value of their investments. This can lead investors to focus on other factors when evaluating the potential returns from their investments, such as company performance, global market conditions, and monetary policy. Therefore, investors may be more inclined to focus on these factors when making investment decisions. Findings from research, as mentioned in Tripuspitorini et al. (2021), also show that inflation does not have a significant impact on ISSI. The results of such research provide additional legitimacy for investors to look at factors other than inflation when assessing their investment potential in the Islamic stock market (Hassan et al, 2020).

The variable BI*rate* has a negative effect on ISSI with a t-statistic value of -2.73004 > (table 1.9866745). The BI *rate* plays a very important role in contributing to ISSI. BI*rate* has a negative influence, indicating an unfavorable relationship between the two variables. The negative influence of the BI Rate (Bank Indonesia's reference interest rate) on the Indonesian Sharia Stock Index (ISSI) can be explained by the fact that an increase in the BI Rate results in an increase in the cost of capital for companies. Higher interest rates make borrowing more expensive for companies that finance their investment projects or operations. This reduces profit margins, especially for companies that depend on external financing. This reduction in a company's profit potential can trigger a decline in its share price, which in turn affects the overall ISSI value. Thus, a tight monetary policy with an increase in the BI Rate can cause a decline in overall economic activity. Public investment and consumption may decline because of higher borrowing costs, which could hamper corporate revenue growth. In a sluggish economic environment, a company's performance in the stock market may also be affected, leading to a decline in share price and ISSI value. An increase in the BI Rate can raise concerns among investors regarding the prospects for economic growth and company performance. Investors may become more cautious and tend to withdraw their investments from the stock market in search of instruments that are safer or produce higher returns. This can lead to a decrease in the demand for shares, which ultimately affects the ISSI value. The results of this study are in line with those of Sudarsono (2018) and Andani and Latief (2020), who stated that the BI rate has a significant negative relationship with ISSI.

An increase in world oil prices could have a greater negative impact on investment in the Indonesian Sharia Stock Index (ISSI). This is because of the positive correlation between world oil prices and fluctuations in production input prices in the real sector. When world oil prices rise, company production costs tend to rise because of higher production input prices. As a result, company profits may decrease because of increased production costs. When a company's production costs increase, this can result in a decrease in demand for the company's shares, which in turn can

cause a decrease in the value of the overall stock index. This finding is in line with those of previous research conducted by Rokhaniyah (2020) and Soyan et al. (2023). Thus, higher world oil prices can produce a greater negative impact on investments in the ISSI. It is important for investors to consider the external factors that may influence stock market performance.

The MS variable has a positive effect on ISSI, with a t-statistic value of 3.55057 > t-table of 1.9866745. The results of this study are consistent with those of Nofrianto and Arif (2023) and Sari and Latief (2020). As MS increases, market liquidity also increases because of the greater availability of money to invest in shares. This can encourage trading activity in the Islamic stock market and increase trading volumes, which in turn can encourage an increase in share prices and ISSI values. An increase in MS can provide additional stimulus for economic activity. With more money available to people and companies, consumption and investment tend to increase. This increase in economic activity can create a more positive perception of the stock market, which can help increase stock prices and ISSI values. An increase in MS can encourage a reduction in interest rates by the central bank to control inflation and encourage economic growth. Lower interest rates make investing in the stock market more attractive than other investment instruments, such as deposits or bonds. This may lead to additional funds flowing into the stock market, contributing to an increase in share prices and ISSI values. Stable economic conditions and high market liquidity caused by an increase in MS can improve overall investor sentiment. Investors tend to be more confident entering the stock market when they see positive market conditions and greater growth opportunities. This can create positive momentum for share prices and ISSI values.

***Impulse Response Function* (IRF)**

Impulse Response Function (IRF) describes how the estimated impact of a shock on one variable affects other variables, so it can describe how long the impact of a shock on a variable will last and be felt by other variables as well as determine which variable will provide the strongest response to the shock. The IRF on the horizontal axis shows the period in months and the IRF on the vertical axis shows the standard deviation value. The standard deviation value shows the magnitude of the response of a variable when a shock occurs in that variable.

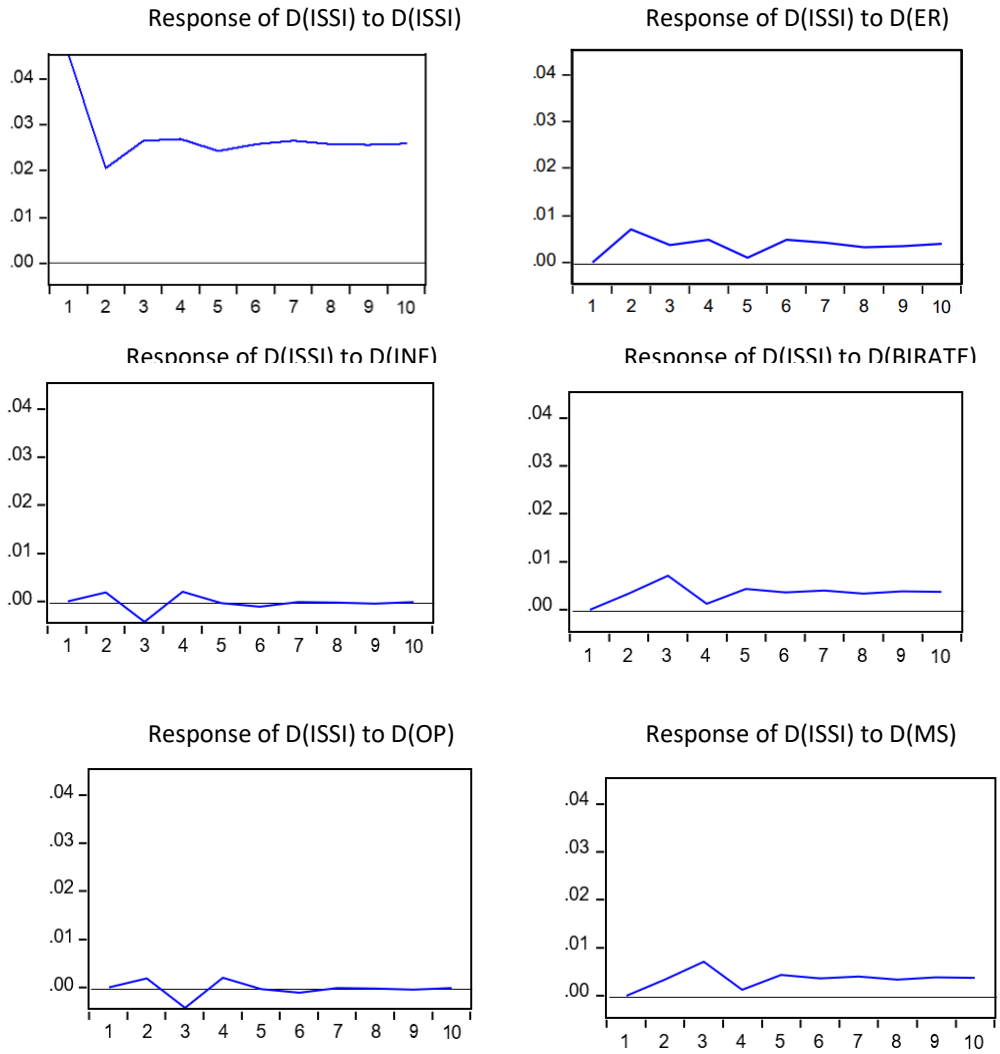

Figure 3. Impulse Response Regression Results

Figure 3 shows the IRF results between the variables ISSI, Exchange Rate, Inflation, BI*rate*, OP and MS. The first column of the first row shows that the ISSI response to the ISSI was a shock at the beginning of the period and a sharp decline until finally in the fifth period until the final period experienced relative stability. The next column on the results of ISSI shocks to the exchange rate shows that in the initial period, it experienced an increase until the second period, and then decreased until the fifth period, and thus the graph experienced stability. The next picture shows shocks from ISSI to inflation, where the results show that in the initial period, it experienced an increase until the second period and then decreased in the second and fourth periods. However, in the fifth period until the next period, the trend shows a stable graph. The next figure shows that the shock from ISSI to BI*rate* increased from the initial period to the third period, then decreased until the fourth period, in the fifth period, and so on, it experienced stability. The next picture shows the ISSI shock to the OP, namely, in the initial period until the fourth period, it experienced fluctuations; in the fifth period, it was stable until the seventh period and stabilized again from the ninth to tenth period. The last graph shows the ISSI shock to MS, namely that in the initial period it experienced stability until the third period, then from the fourth period to the sixth period, it experienced fluctuations until finally stabilizing again from the seventh period onwards.

***Varian Decomposition* (CEO)**

Varian Decomposition (VD) is an important component of VECM analysis that aims to improve the results of the previous analysis. VD estimates the extent to which a variable contributes to changes in itself and other variables over several future periods, measured in percentage form. Therefore, VD can be used to identify the variables that are most likely to contribute to changes in a particular variable.

Table 6. Regression Results *Variance Decomposition*

Varians Decomposition of ISSI							
Period	S.E.	D(ISSI)	D(ER)	D(INF)	D(BIRATE)	D(OP)	D(MS)
1	0.045140	100.0000	0.000000	0.000000	0.000000	0.000000	0.000000
2	0.050370	97.00879	1.975306	0.147813	0.453250	0.408571	0.006273
3	0.057632	95.21475	1.923867	0.665842	1.858143	0.329956	0.007439
4	0.063906	95.18270	2.140685	0.637091	1.549556	0.398863	0.091107
5	0.068560	95.29251	1.879323	0.556037	1.752437	0.362217	0.157476
6	0.073494	95.17911	2.071739	0.506234	1.762876	0.324796	0.155241
7	0.078378	95.19347	2.120654	0.445159	1.817662	0.285578	0.137479
8	0.082661	95.27155	2.063061	0.401473	1.798566	0.338791	0.126562
9	0.086702	95.33639	2.038370	0.368951	1.829255	0.311641	0.115394
10	0.090649	95.35866	2.064359	0.337682	1.841661	0.291862	0.105774

Source: Eviews Processed Results

Based on the data presented in Table 6, it can be concluded that the ISSI variable and the variable itself influenced each other by 100% at the beginning of the period. However, in subsequent periods, other variables began to influence ISSI, although smaller than ISSI itself, with the exchange rate variable of 1.97 in the second period having the second largest influence after ISSI, continuing to increase until it reached 2.06 in the last period. . Then, the BI rate variable started to have an influence of 0.45 in the third period, and increased to 1.84 in the final period. OP is another variable that influences the OP variable. It was the fourth most influential at a price of 0.40, but fell to 0.29 in the last period. The inflation variable is the fifth largest variable that influences ISSI, namely 0.14 at the beginning of the period and continues to increase until it reaches 0.33 at the end of the period. Finally, MS has the smallest influence, 0.006 at the beginning of the period and 0.10 at the end of the period.

The findings of this study reveal that macroeconomic variables play a pivotal role in shaping the dynamics of the Indonesian Sharia Stock Index (ISSI). In the short term, factors such as exchange rate (ER), inflation (INF), BI Rate (BIRATE), oil price (OP), and money supply (MS) do not exhibit significant impacts, and their long-term influences are profound (Asmy et al., 2009; Soyan et al., 2023). Notably, ER and MS emerged as the most influential determinants of ISSI, underscoring their importance in ensuring the stability and growth of Islamic capital markets. These results align with previous studies that highlight the critical relationship between exchange rates and stock performance (Kamal et al., 2021; Nasir et al., 2016), as well as the liquidity impact of money supply on market dynamics (Chotib & Huda, 2020; Nofrianto & Arif, 2023).

The insignificant effect of inflation on ISSI in both the short and long terms provides intriguing insights. This finding suggests that inflation, typically perceived as a crucial macroeconomic indicator, might not be a primary concern for investors in the Islamic stock market (Tripuspitorini et al., 2021; Hassan et al., 2020). Instead, controlled inflation rates in Indonesia, which have historically remained below 10%, could have mitigated its potential adverse effects. Consequently, investors might prioritize other factors such as monetary policy and exchange rate stability over inflation when making investment decisions. This finding supports the argument that controlled inflation fosters a stable economic environment conducive to sustained stock market growth (Setyani, 2017; Katmas & Indarningsih, 2022).

The BI Rate has a significantly negative impact on ISSI in the long term, consistent with the expectation that higher borrowing costs suppress corporate profitability and dampen investor interest (Fathurrahman & Widiastuti, 2021; Sudarsono, 2018). This finding underscores the importance of moderate interest rate policies for maintaining investor confidence and supporting capital market growth. Conversely, world oil prices exhibit a negative correlation with ISSI performance, reflecting increased production costs and reduced profitability of companies during periods of rising oil prices. This relationship highlights the vulnerability of the Islamic stock market to external economic shocks and the need for robust sectoral diversification to mitigate these risks (Ardana, 2016; Rokhaniyah, 2020).

Finally, the positive impact of money supply on ISSI reflects the crucial role of liquidity in driving stock market performance. An increased money supply not only enhances market liquidity, but also stimulates economic activities, fostering a favorable environment for investment (Sari & Latief, 2020; Nofrianto & Arif, 2023). These results emphasize the need for policymakers to maintain optimal liquidity levels to support the resilience and growth of the Islamic capital market. Collectively, these findings provide valuable insights for policymakers and investors, highlighting the necessity of macroeconomic stability and targeted policies to bolster the performance of the Indonesian Sharia Stock Index.

CONCLUSION

In the long term, various economic factors such as the exchange rate, BI Rate, oil prices, and money supply can have a significant impact on the Indonesian Sharia Stock Index (ISSI), while the inflation rate is not that significant. These results highlight the importance of Bank Indonesia in maintaining the stability of the value of the country's currency to prevent a decline in its value, which could weaken sharia-based capital markets. To increase public interest in investing in ISSI, Bank Indonesia needs to keep its BI Rate too high. A high BI Rate can reduce investor interest due to rising borrowing costs; therefore, keeping the BI Rate at a moderate level can encourage the growth of the Islamic capital market. In addition, investors need to make stricter selections of the companies they will invest in. This is because the impact of global oil prices can vary depending on a company's business sector. Selecting companies with strong fundamentals and good performance can help reduce the investment risk.

However, this study has several limitations that need to be considered. First, it does not focus on one main variable that influences ISSI and does not include

control variables such as Gross Domestic Product (GDP). Second, this research does not take into account the significant impact of Covid-19 in the 2019-2021 period, while the data used is monthly. Therefore, it is recommended that future research focus on one or two independent variables that influence ISSI, so that this research exploration is more optimal. In addition, it is important to include Covid-19 as a significant aspect that influences ISSI movements. This will provide a more comprehensive understanding of the dynamics of the Islamic capital market under today's changing economic conditions.

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