

Analysis of Macroeconomi Factor Effect on the Stock Price Index in Jakarta Islamic Index (JII)

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ABSTRACT

The country's economy slowdown causes the affected exchange rate or exchange rate to weaken, and Bank Indonesia's interest rate policy at the time of the economic downturn decreases, it has an impact on the stock index in the JII.

This research aims to determine the influence of macroeconomics on the IHS in JII. The method used is quantitative research, with an analysis model using the VAR technique. The data used is secondary data of a time series. The research results show that the influence of the ISSI and BI rate responded positively, while inflation responded positively. The exchange rate variable responded negatively to JII shocks until the end of the period. The results of the FEVD test show that the largest contribution was JII, inflation, ISSI, and BI rate, and the smallest contribution to JII was the exchange rate.

Implication and recommendation this research are Bank Indonesia as the institution responsible for controlling inflation, can maintain inflation stability, lower the exchange rate against the dollar and maintain interest rate stability.

Keywords: JII, Stock Price Index, Macroeconomics

ABSTRAK

Perlambatan perekonomian suatu negara menyebabkan nilai tukar yang terpengaruh melemah, dan kebijakan suku bunga Bank Indonesia pada saat krisis ekonomi menurun, hal ini berdampak pada indeks saham di JII. Penelitian ini bertujuan untuk mengetahui pengaruh makroekonomi terhadap IHS di JII. Metode yang digunakan adalah penelitian kuantitatif, dengan model analisis menggunakan teknik VAR. Data yang digunakan adalah data sekunder yang bersifat time series. Hasil penelitian menunjukkan pengaruh ISSI dan BI rate merespon positif, sedangkan inflasi merespon positif. Variabel nilai tukar memberikan respon negatif terhadap guncangan JII hingga akhir periode. Hasil uji FEVD menunjukkan kontribusi terbesar adalah JII, inflasi, ISSI, dan BI rate, dan kontribusi terkecil terhadap JII adalah nilai tukar. Implikasi penelitian ini adalah Bank Indonesia dapat menjaga stabilitas inflasi, menurunkan nilai tukar terhadap dollar dan menjaga stabilitas suku bunga. Kontribusi pada instrumen pasar modal syariah yaitu JII mampu meningkatkan investasi syariah di Indonesia secara signifikan

Kata Kunci: JII, Indeks Harga Saham, Makro Ekonomi



INTRODUCTION

Nowadays, the development of the Islamic economy is accelerating rapidly, and it is characterized by the many developments of Islamic financial institutions, both in the banking system and non-bank institutions. One of the non-bank institutions is an investment, and investment is the most important activity in Islamic economic activities. Islam teaches and advocates investment activity that increases the use value of the property owned (Ningtias & Laila, 2019). The forms of investment instruments vary, and what has been in demand in recent times in stock attracts investors to invest because stocks provide a high level of return. Shares are one of the instruments that are generally sold in the capital market (Indonesia Stock Exchange). Investors look at two factors before investing, namely return and risk (Widyastuti & Susilo, 2020).

Indonesia has two capital markets, namely the capital market and the Islamic capital market. According to the Law, Number 8 year 1995 concerning the Capital Market article 1, paragraph 12 explain about the activity related to the public offering and trading of securities of public companies related to securities issued by companies (Mu'arifah, 2019). Transactions experienced by meeting sellers and buyers for stock price index securities are carried out in the capital market, which becomes an official institution called the stock exchange (Kusnadi, et. al., 2020).

The beginning of the development of the Islamic capital market with the presence of a sharia stock index, namely the Jakarta Islamic Index (JII). Capital market instruments with sharia principles started by PT. Danareksa Investment Management (DIM) on July 3, 1997 (Rahmiyanti & Fianto, 2019). Launched 30 types of sharia stock in Jakarta Islamic Index (JII) with Islamic principles and criteria. The launch of the Jakarta Islamic Index (JII) is a collaboration of PT. Indonesia Stock Exchange with PT. Danareksa Investment Management (DIM) on July 3, 2000. Provisions regarding sharia shares have been approved by the Syariah Supervisory Board (DPS) (Sri Herianingrum, 2020). The Jakarta Islamic Index (JII) has fluctuations in the stock price index, which is a big concern for investors in making decisions to invest in the capital market because it greatly affects the level of return on investment result. The Financial Services Authority (OJK) Quarterly report on the Sharia Capital Market, which contains Sharia Securities, including 335 Securities types of Shares of Issuers and Public Companies. Sharia stocks are engaged in the Trade, Services, and Investment sectors. The capitalization value of the Jakarta Islamic Index (JII) in the capital market fluctuates every year (Ridha & Harmaini, 2019). Looking at the chart of fluctuations in the Jakarta Islamic Index (JII) capitalization index, it can be said that there is fluctuation in the JII from 2017 to 2021.

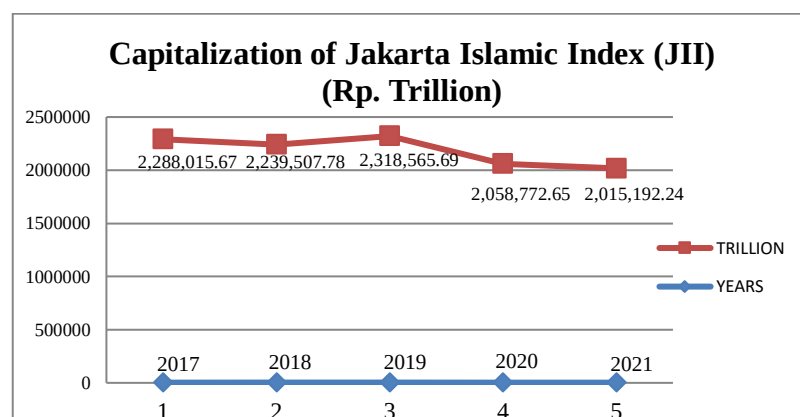


Figure 1. Capitalization Rate of Jakarta Islamic Index (JII)

Sourcer: Financial Services Authority (OJK)

The existence of research conducted by Rubina Dwi Ghassani and Raditya Sukmana stated that the decline that occurred from 2020 to 2021 caused the movement of stock price fluctuations in Indonesia, especially the Jakarta Islamic Index (JII), which experienced a decrease influenced by the Covid-19 pandemic phenomenon. It states that fluctuations in the stock price index are impossible regardless of the cause and effect resulting from macroeconomic variables and fundamental factors that

interfere with fluctuations in the stock price index (Ghassani & Sukmana, 2019).

Fluctuations that cause the rise and fall of the stock price in the economy are essential references for investors who want to invest their funds. Indonesia has macroeconomic indicators that are quite volatile following global economic developments in the rapid growth of the Islamic capital market in recent years. Fundamental factors analyze the individual activity of business actors in the state, while macroeconomic indicators analyze the state's economic activity or government (Sohib & Dahruji, 2021). The global economic crisis is the main reason for fluctuations in the stock price index in the Jakarta Islamic Index (JII) in 2020 due to the spread of Corona Virus Disease (Covid-19), which caused macroeconomic factors to fluctuate in decline. Sharia stock, inflation, interest rates, and rupiah exchange rates are macroeconomic factors that cause fluctuations in capital market stock indices, especially JII (Sri Herianingrum, 2020).

Economic growth has decreased, and the inflation rate has a positive impact on the stock price index because if the inflation rate is on a large scale, the investors are not interest to invest their money in the capital market (Setiyawati & Kisman, 2020). Another phenomenon, if the rupiah is exchange rate is stable against foreign currencies, it will maintain the stability of the price of goods and services (Septiani & Handayani, 2021). The rupiah's exchange rate is a record of the market price of foreign currencies with domestic currency prices, with unstable exchange rate fluctuations that will be able to reduce investor confidence (Novitasari & Pebruary, 2022). In addition to inflation and exchange rates, the interest rate/BI rate is a criterion for meeting the needs of sharia criteria. In running a company's business, capitals and capital are needed to be obtained from bank loans. When the interest rate rises, the cost of capital that the company must also incur increases, so that the profit of the company decreases and the increase in interest rates will result in a decrease in the stock price (Harahap, 2019).

Referring to the background above, it has been explained to the macroeconomic variables that affect the stock price index in the Jakarta Islamic Index (JII). When the country's economy slowdown causes the affected exchange rate or exchange rate to weaken, and Bank Indonesia's interest rate policy at the time of the economic downturn decreases, it has an impact on the stock index in the Jakarta Islamic Index (JII). The phenomena closely related to the Islamic capital market and Indonesia's macroeconomic indicators are quite following the development of the global economy (Primarta & Diana, 2021). Therefore, the researcher will take the title of research on macroeconomic factors regarding Islamic stock, inflation, exchange rates, and the BI rate against the stock price index in the Jakarta Islamic Index (JII).

LITERATURE REVIEW

1. Sharia Capital Market

Indonesia has two types of capital markets, namely the conventional and the shari'a capital market. The Islamic capital market has experienced a very rapid increase and has an important role in the country's economic growth (Hidayati & Sukmaningrum, 2019). The first function of the capital market is, as a means and funding for the company's business, it aims to obtain funds from the public for business development, cooperation, and capital increase. Second, the capital market a function as a means for the public to participate in investment activities in financial instruments so that they can place funds/assets owned that are in accordance with the characteristics of the profits and losses of each financial instrument (Hidayati & Sukmaningrum, 2019).

Sayyid Qutb interpreted Surah Yusuf verses 47-49 above as the king's advice to keep the grain harvest for seven years on its grains so that they would be durable and not quickly damaged or rotten unless only a small part was eaten. He advocated not to overdo consumption and to save money so that it could be used in times of difficulty in the next seven years. The problematic year was depicted with a skinny cow eating a fat cow, as supplies in a fertile year would continue to be used in difficult times for seven dry years. As Sayyid Qutb has stated in his interpretation, it seems as if a drought year will consume all the deposits prepared to face those years (Quthub, 1986).

a. Indonesia Sharia Stock Index (ISSI)

On May 12, 2011, the Indonesian Sharia Stock Index (ISSI) was launched with a composite of sharia stocks listed on the IDX, and it was even more interesting thanks to the launch of ISSI issued by Bapepam-LK and the National Sharia Council of the Indonesian Ulama

Council (DSN-MUI) (Suciningtias & Khoiroh, 2015). ISSI is an indicator of the performance of the Indonesian stock market. The ISSI Constituent is all sharia stocks listed on the IDX and has been included in the Sharia Securities List (DES) issued by the OJK. Therefore, IDX does not select sharia stocks listed in ISSI (Exchange, n.d.).

ISSI constituents are selected twice a year and participate in the DES review schedule. In 2019, there were 413 stocks included in the ISSI index. Issi calculation by following the calculation method of other IDX stock indices with a weighted average and market capitalization of December 2007 as the base year of ISSI calculation (Utami, 2019). Therefore, ISSI is a constituent issued by the IDX to determine sharia-based shares.

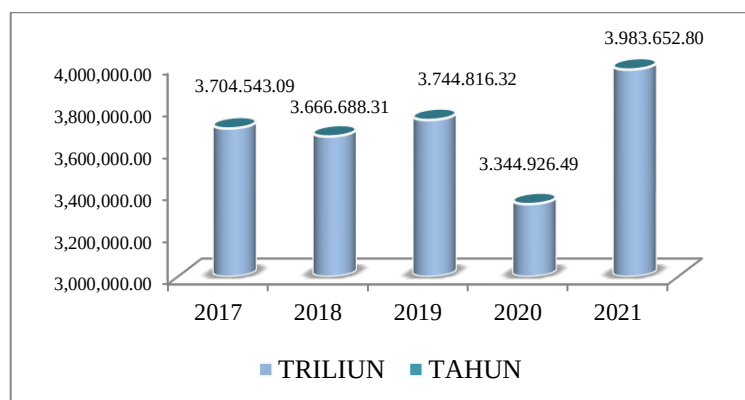


Figure 2. Indonesia Sharia Stock Index (ISSI)

Source: Financial Services Authority (OJK), data processed

The chart above shows the development of the Islamic stock index every year, although there is a decline in a certain years with significant factors. The Islamic stock index, explained by price capitalization results, had some of the highest declines in 2020, closing at a capitalization level of 3.344.926,49 trillion. Compared to 2019 and 2021, Indonesia's sharia stock capitalization is said to be stable and increasing.

In 2018, sharia stock closed with a sharia stock index capitalization of 3.666.688,31 compared to the previous year, namely 2017, Indonesia's sharia stock index decreased by 1.03%. The decline in the year was caused by several external factors engaged in the capital market industry. Meanwhile, in 2022 the Islamic capital market experienced an increase with a closing point of 209.42 point, according to the explanation of the chairman of the Board of Commissioners of the Financial Services Authority (OJK).

a. Jakarta Islamic Index (JII)

Jakarta Islamic Index (JII) is a place or forum that houses the type of investment with Islamic principles set by the National Sharia Council (DSN). The Indonesia Stock Exchange (IDX) prepares the Jakarta Islamic Index (JII) in conjunction with PT Danareksa Investment Management (DIM), and the Jakarta Islamic Index (JII) is used to be a benchmark for an investment based on Islam (Hakim, 2020). The Jakarta Islamic Index (JII) is an index related to Sharia stocks. Indonesia Stock Exchange together with PT. Mutual Fund Investment Management (DIM) launched Jakarta Islamic Index on July 3, 2000 (Ningtias & Laila, 2019). Jakarta Islamic Index (JII) is one of the groups of stocks that are in accordance with sharia-based investment principles listed in the Indonesian capital market. There are 30 shares of companies that have a large market capitalization and liquid, and liquidity can be a consideration and measure of confidence for investors or shareholders in the ability to pay dividends (Novita & Syarief, 2020).

The Jakarta Islamic Index (JII) constituents are conducted twice a year in May and November, in accordance with the DES review schedule by the OJK (Exchange, n.d.). IDX selects Sharia stocks to become constituents of JII by determining liquidity with the following criteria:

- 1) Sharia stocks that are included in the constituents of the Indonesian Sharia Stock Index (ISSI) have been recorded for the last six months.
- 2) Selected 60 stocks based on the order of the highest average market capitalization for one year.
- 3) The 60 shares are selected into 30 shares of the company according to the average daily transaction value in the highest stock market.
- 4) The remaining 30 shares of the company are preferred shares listed in the Jakarta Islamic Index (JII).

Determine the stock price index on the Jakarta Islamic Index with an average according to activities that meet Islamic criteria and have sharia principles (Jabar I & Cahyadi, 2020). It is also explained in the DSN-MUI Fatwa that the development of the Islamic capital market is related to the Islamic capital market industry. The fatwa is recorded in number 40/ DSN-MUI/X2003 concerning the capital market and general guidelines in accordance with sharia principles in the capital market (Septiani & Handayani, 2021). The following is a consistent stock index of companies over the past ten years listed on the Jakarta Islamic Index (JII) for the period of December 2010 to May 2021, PT Adaro Energy Tbk (ADRO), PT AKR Corporindo Tbk (AKRA), PT Indofood CBP Sukses Makmur Tbk (ICBP), PT Kalbe Farma Tbk (KLBF), PT Telkom Indonesia (Persero) Tbk (TLKM), PT United Tractors Tbk (UNTR), Unilever Indonesia Tbk (UNVR) (Mila Sania, 2021).

The calculation of JII selection by the IDX is based on the trading performance of Islamic stocks, but in the financial limitations of the Down Jones Islamic Index (DJII) is the most conservative in this regard. Shares may not fall into a debt ratio exceeding 33%, accounts receivable in shares to total assets must remain below 45% and interest earned represents less than 5% of total income. Thus JII requires an upper limit of 45%, 55%, and 10% for each of the ratios of debt, accounts receivable to total sets, and interest income to income (Listyaningsih, 2018).

Unlike the previous Jakarta Islamic Index (JII), the Jakarta Islamic Index 70 is a sharia stock index launched by the IDX on May 17, 2018, and the CONSTITUENT JII70 consists of 70 sharia stocks and is listed by the IDX. Similar to ISSI and JII, JII70 sharia stock reviews are carried out twice a year, namely in May and November. The population in JII70 is a consideration for investors to choose stocks because, based on previous research, there are many large-cap stocks with research samples directed to stocks listed in JII70 (Panigoro, 2021).

Jakarta Islamic Index is a stock price index used to calculate the average of stocks that have sharia rules and principles. JII's goal is to increase investor confidence in Islamic investment. Companies that own shares in ISSI and are listed on the IDX are listed in the Sharia Securities List (DES) and then issued by the OJK. Only 30 shares of the company were listed in JII and were reviewed as eligible in liquids twice a year (Nadya, 2022).

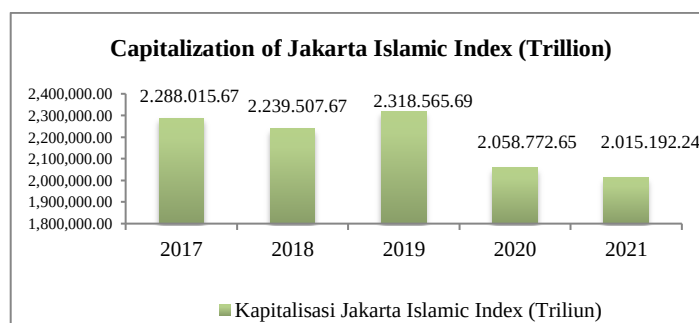


Figure 3. Capitalization of JII

Source: Financial Services Authority (OJK), data processed

Indonesia has investment instruments in the capital market, one of which is the Jakarta Islamic Index (JII) which has a trend of different stock price index levels every time. This

factor is caused by several things, either macroeconomic factors or internal factors of the company. At the beginning of 2017, JII's capitalization reached 2.288.015 trillion. The end of 2020 experienced a decrease in JII's share price capitalization by 2.058.772 with DES provisions in the first period with the circulat of the Decree of the OJK Board of Commissioners Number KEP-44/D.04/2020 concerning the Sharia Securities List. Until the end of 2021, it was closed with a downward trend in the stock price index of 2.015.192 trillion (OJK, 2020).

JII constituents are selected by the IDX twice for one year, in May and November, with predetermined criteria. Recorded for six months in ISSI, then selected to be the 60 companies with the highest market capitalization for one year, then selected as many as 30 company shares with the highest average market capitalization daily value recorded in JII (IDXChannel, 2022a).

2. Stock Price Index

A stock price index is a series of historical information related to fluctuations or movements in stock prices up to a certain time and a reflection of a value that serves as a means of measuring stock price performance on the stock exchange. The stock price can determine the demand for buying and selling shares between investors. The stock price is one of the indicators of the company's success. For example, the high stock price explains that the company's value has a high value because of the company's efficient performance (Sari et al., 2020). Fluctuations in stock prices affect several factors, including inflation, interest rates, and the rupiah exchange rate, which is an aspect of macroeconomics that has a negative or positive impact on stock price indices in the capital market (Giffarina, 2021).

A *composite Share Price Index* is a designation for a stock price index that is set to measure the performance of stocks listed on the Indonesia Stock Exchange. A stock price index is an index number that has been compiled and calculated in such a way that it can be used to compare activities and can be a change in stock prices from one time to another (Giffarina, 2021). Therefore, to see the growth or fluctuation of a stock, you must be able to find more than one data index number. Determinants of stock price indices can be analyzed from two factors, namely fundamental factors and macroeconomics.

Fundamental factors that affect the stock price index on the Jakarta Islamic Index (JII) are:

1) Debt to Equity Ratio (DER)

Debt to Equity Ratio (DER)) is a measure of a company's leverage. If the higher the Debt to Equity Ratio (DER) shows that the composition of the total debt (in the short and long term) is greater than the total capital owned by oneself and causes the greater the company's burden on parties outside (Amijaya et al., 2020). DER is a performance measure for finance that shows the company's ability to manage capital against debt (Graciela et al., 2021).

2) Gross Profit Margin (GPM)

Gross Profit Margin (GPM) is the ratio (gross profit) obtained by the company to the sales level achieved in the same year.

3) Return on Equity (ROE)

Return on Equity (ROE) is a ratio used to measure net profit after tax with the capital of the company itself. If the ROE has a high value, it will encourage investment because the company's performance is good and causes the stock price to move high or rise, and vice versa (Sari et al., 2020).

4) Return on Assets (ROA)

Return on Asset (ROA) is a ratio to compare net profit to total assets. The formulation of the ROA calculation is clarified by comparing net profit after tax to total assets (Sari et al., 2020).

5) Earning Per Share (EPS)

Earning Per Sharing is one accounting information that explains the amount of a net profit on a share per share generated by a company. If the higher the EPS, it indicates the more expensive or higher the share price of the company, and vice versa (Husnah, 2019). Or it can be shortened by explaining EPS, which is a picture of the amount of profit obtained from shareholders from each share that has been circulated (Graciela et al., 2021).

This research raises index variables that can affect the stock index in the Jakarta Islamic Index (JII) from macroeconomic factors, including Islamic stocks, inflation, exchange rates, and interest rates. Each of the data taken by the researcher will be described as follows:

a) Sharia Stock

Sharia stocks are shares found in the capital market that do not conflict with sharia concepts and principles. Sharia principle is a law established by Islam in activities in the capital market must be based on the fatwa of the National Sharia Council (DSN)-Indonesian Ulema Council (MUI), and as long as the provision does not conflict with the provisions of the Financial Services Authority (OJK) (Zein et al., 2021).

Sharia shares are securities, proof of ownership of a company issued by an issuer whose activities and management procedures are in accordance with Islamic law. Therefore, companies that issue sharia shares in all activities, both from product performance and responsibility, must be in accordance with sharia principles. And Islamic stocks are relatively more resilient to the turmoil that has an impact on the economy than regular stocks (Hana et al., 2020). Sharia stocks have advantages compared to conventional stocks, namely by the existence of halal investments, free from elements that harm each other, gharar, and avoid usury (Purboyo & Zulfikar, 2019).

b) Inflation

Inflation is a continuous or continuous and aggregate increase in prices, both the overall price of goods and services (Widyastuti & Susilo, 2020). The price of goods continues to increase. If it is not balanced with the level of money circulation, there will be inflation and a decrease in the value of money (devaluation), and the level of consumer prices in the community has increased by measuring the current price index compared to the index of the previous period, the consumer price index can measure it (Indonesia, n.d.-a).

Inflation is defined as the increase in commodity prices caused by the misalignment of the commodity procurement system program at a set price with the income earned by the people in a country (Giffarina, 2021). It is generally important for investors to reduce inflation because the increase in inflation will relatively have a significant negative impact on investors in the capital market. Inflation can increase specifically for the company's revenue and costs. If the increase in production costs is higher than the price increase that can be enjoyed by the company, it shows that the company's profitability will decrease (Hasanah et al., 2020).

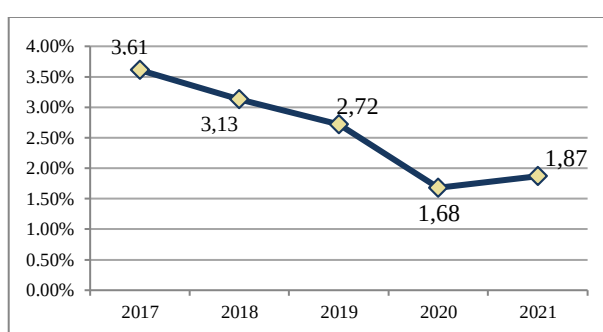


Figure 4. Inflation Rate 2017-2021

Source: Bank Indonesia (BI), data processed

In 2017 the inflation rate was relatively high at 3.61 percent. Inflation is under control with a target range of $4 \pm 1\%$ with positive pushback from domestic and external factors. Driven by positive development so that inflation expectations can be reached from managed demand pressures. The rupiah exchange rate is affordable to be stable from the external side with low global commodity prices to minimize inflationary pressures. Bank Indonesia, "Target Inflasi", at [23.50], <<https://www.bi.go.id/>>, viewed on 24 October

2022.

In the following years, from 2018 to 2020, the inflation rate decreased at a rate of 3.13 percent in 2018, 2.72 percent in 2019, and 1.68 percent in 2020. Factors globally that cause a decline in inflation occur globally that affect the level of food prices to decrease, thus positively affecting the inflation rate. Domestic factors that hinder the increase in inflation are also caused by domestic food barriers that suppress inflation to continue to decline. The inflation rate decreased to its lowest level in 2020, which is experiencing the Covid-19 pandemic, which has greatly impacted the economy and agriculture due to the Covid-19 pandemic not meeting the supply of a smooth distribution chain.

Indonesia in 2021 has an increased inflation rate of 1.87 percent due to the impact of the Covid-19 pandemic that occurred in 2020 but remained in the range of $3\pm 1\%$, and this is due to the increasing supply of prices for goods and services so that people cannot meet these needs.

c) Exchange Rate

The exchange rate rupiah exchange rate is a comparison of one country's currency with other countries. When a government makes a transaction of exchanging goods and services with another country, the country has made a currency exchange (Widyastuti & Susilo, 2020). Exchange rates are used for transactions, whether international warfare, international investment, tourism, or even the flow of money in the short term that crosses geographical boundaries or legal boundaries, and the rate presents the exchange price rate of one currency to another (JabarI & Cahyadi, 2020).

Bank Indonesia or BI rate is the policy rate issued by Bank Indonesia, reflecting the monetary attitude or policy set by Bank Indonesia and announced to the public. A high-interest rate can affect the current value of the company's cash flow so that the existing investment opportunities will no longer be attractive. High-interest rates will also increase the cost of capital that a company must bear (Amijaya et al., 2020). The determining factor of the BI rate or interest rate provisions is inflation in Indonesia. Inflation is caused by a large amount of money circulating in the country with the amount of production and public demand and is related to the rise and fall of prices for goods and services. If inflation is at a high level, the BI rate is also increased, and vice versa. If inflation decreases, the BI rate is also lowered (Giffarina, 2021).

Previous Research

Inayah S. Ratih, Mukhtar Adinugroho, and Sri Herianingrum (2019) researched the Jakarta Islamic Index (JII). This study aims to analyze the macroeconomic relationship, namely the Rupiah exchange rate against the dollar, inflation, Industrial Production Index (IPI), BI rate, and the Islamic capital market using the Jakarta Islamic Index (Sri Herianingrum, 2020). Irfan Syauqi Beik and Sri Wulan Fatmawati (2021) researched the Jakarta Islamic Index (JII). The study aims to test the effect of the international Islamic stock price index and macroeconomic variables on the Jakarta Islamic Index (JII) (Beik & Fatmawati, 2014). Syafrina Hidayati (2019) researched the Jakarta Islamic Index (JII), this study aims to determine the influence of Macroeconomic variables on the Sharia stock index, the Jakarta Islamic Index (JII) (Hidayati & Sukmaningrum, 2019). Masagus Zahidal Hakim (2020) analyzed the *Jakarta Islamic Index* (JII). This study aims to analyze the impact of macroeconomic variables, namely the Money Supply (M2), BI rate, inflation, and exchange rate (Hakim, 2020).

Roby Citra Awaludin dan Khairunnisa (2020), this study aims to determine how the money supply (M2), rupiah exchange rate against the dollar (USD), and BI 7 Day (Reverse) Repo Rate Affect JII Returns in 2014-2018 (Awaludin & Khairunnisa, 2020). Fatmawati, Hendri Tanjung, and Endri (2020), this study aims to analyze the effect of market risk premiums and exchange rates on the return of the Jakarta Islamic Index (Fatmawati et al., 2020). Rachmania Nurul Fitri Amijaya, Mohammad Yusron Sholikhin, and Azizah Esti Pratiwi (2020), the study aims to examine the determinants affecting sharia stocks, the Jakarta Islamic Index. Global economic development will have an impact on economic turnover in Indonesia (Amijaya et al., 2020). Devi Rachmiyanti (2019), the study aims to investigate the influence of macroeconomic variables and international stock indices on stock indices in the Jakarta Islamic Index (JII) (Rachmiyanti & Fianto, 2019). Rubina Dwi Ghassani (2019), the study aims to determine the influence of Macroeconomic Variables on the Sharia stock index in the Jakarta Islamic

Index. The quantitative approach uses the Vector Error Correction Model (VECM) analysis technique with the STATA program (Ghassani & Sukmana, 2019).

Pribawa E Pantas (2017) researching the Jakarta Islamic Index (JII), the study aims to empirically analyze the short-term and long-term influence of macroeconomic variables in the Jakarta Islamic Index (JII) on macroeconomic shocks from January 2011 to December 2016 (Pantas, 2017). Nora Ria Retnasih (2019), the study aims to determine and analyze the relationship between global economic variables (FFR and DJI) and domestic macroeconomic conditions (exchange rate and inflation) to the movement of Islamic Stock indices (JII) both in the long and short term (Retnasih, 2019). Muhammad Umar Azyka Alfuadi (2019), the research analyzes the impact of gold prices, oil prices, exchange rates, consumer price indexes, and BI rates on the Jakarta Islamic Index (Alfuadi, 2019).

Based on previous research that researchers have explained, the difference between the research above and the research used by researchers lies in the variable X used, namely, Sharia stocks, inflation, rupiah exchange rate, and BI rate. In addition, the novelty of the research in this period is a new period, namely the last five years before and during the Covid-19 pandemic starting from January 2017 to December 2021. The method used by researchers in this study is the Vector Auto Regressive/Vector Error Correction Model (VAR/VECM), used to measure and analyze the short-term and long-term effects of variable X with variable Y.

RESEARCH METHODS

This research uses a quantitative type method with a Vector Auto-Regressive (VAR) approach. Quantitative type research is a scientific approach based on the philosophy of positivism which is used to analyze time series data. This research aims to knowing and analyzing the determination of the stock price index in the Jakarta Islamic Index (JII) in the short-term. Due to its short term nature, this research is suitable for using the Vector Auto-Regressive (VAR) approach as a research problem solving method.

Time series data is categorized in equal time intervals, whether monthly, quarterly, or annually. Data collection with research instruments, with data analyzed with quantitative statistics and aimed at testing predetermined hypotheses. The data collection technique method used in this study used Vector Auto-Regressive (VAR) analysis processing. Data collection uses VAR in the study if the data obtained in this study is stationary and if data there is not a cointegration relationship between variables. The data in this study will be obtained with EViews10 software. The estimation tools in the Vector Auto-Regressive (VAR) model are easy to use and interpret. Here are some requirements for using VAR:

1. The data used is time-series data
2. Free in determining every variable that is owned between the variables that affect and the influence.
3. The data owned has a fairly large scale, which exceeds 50 observations.

The data source in this study uses secondary data, namely, data that is not directly given to the data collector, such as data processed from the results of other studies or from documentation sources. Unlike secondary data, primary data comes from data that is directly provided by the researcher or data collector (Suminto & Maharani, 2020). The data used in this study takes independent variables, namely Sharia stocks, inflation, exchange rates, and Interest Rates in Indonesia. The data is taken from the documentation of the annual report of the Financial Services Authority (OJK) related to data on Sharia Stocks and the Jakarta Islamic Index (JII). Meanwhile, data on Inflation, Exchange Rates, and Interest Rates in Indonesia are taken from the publication and documentation of Bank Indonesia (BI) reports. Data samples were taken over 60 months, starting from January 2017 to December 2021. The estimation tools in the Vector Auto-Regressive (VAR) model are easy to use and interpret (Rofiqo, Suminto, 2022).

In this research, the data analysis technique consisted of several tests:

1. Test variable stationary conditions. With each Augmented Dickey the fuller value comparison variable equal to the error value (0.05).
2. If the data is not stationary, then make a difference so that the stationary can be met and the data is stationary differencing.
3. Determine the value of the Akaike Information Criterion (AIC) against the match that has been tried.
4. Determination of VAR based on the smallest AIC value of some lag that has been performed.
5. VAR model analysis

6. Granger causality test and analysis
7. *Impulse Response Function (IRF) Test*
8. *Forecast Error Variance Decomposition (FEVD) Test*

Step in using Vector Auto-Regressive (VAR) with the following image:

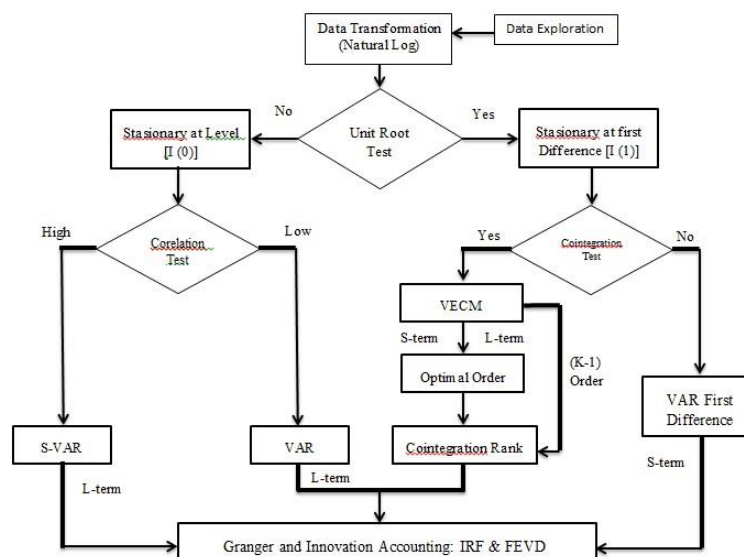


Figure 5. Steps to use Vector Auto-Regressive (VAR)

Source: Ascarya in PPT Best Quantitative Method for Research in Islamic Economics and Finance

RESULTS AND DISCUSSION

1. Econometric Tests

a. Stationary Test

Stationary testing is a step that must be done when evaluating economic data models because the data in the study is time series data. Generally, time series data does not have stationary, so stationary tests are carried out to test whether the data there is stationary in the unit root test to proceed to the next step. The method in the stationarity model uses the ADF (Augmented Dickey-Fuller Test) used with a significant level of alpha (α) or a critical value of 5 percent (0.05). Then it can be seen with the probability value of ADF. If it is smaller than the critical value, it can be said that the data is stationary.

Table 1. Variabel Stasionary Test with ADF Test Method

Variabel	Level			First Difference		
	Prob. ADF	<i>t</i> -statistic ADF	<i>p</i> -value 5%	Prob. ADF	<i>t</i> -statistic ADF	<i>p</i> -value 5%
LN_JII	0.1332	-2.449008	-2.911730	0.0000	-7.221046	-2.912631
LN_ISSI	0.4248	-1.702503	-2.911730	0.0000	-6.673798	-2.912631
INFLASI	0.7708	-0.933314	-2.911730	0.0000	-6.875949	-2.912631
BIRATE	0.8054	-0.821375	-2.912631	0.0006	-4.503207	-2.912631
LN_KURS	0.2219	-2.162782	-2.913549	0.0000	-7.737478	-2.913549

Source: Processed by researchers (Eviews 10)

b. VAR Stability Test

The next step after making sure the data obtained is stationary data is the VAR stability test. The VAR stability test is a test model in economics to see if the modulus in the AR root table has a value below number one or with a value of the reverse root characteristic of Polynomial AR. So it shows that the stability test used is stable data.

Table 2. VAR Stability Test Results

Root	Modulus
0.703482 - 0.643135i	0.953158
-0.177816 - 0.914681i	0.931805
-0.177816 + 0.914681i	0.931805
0.050745 - 0.922508i	0.923903
0.050745 + 0.922508i	0.923903
0.880245 + 0.274527i	0.922061
0.880245 - 0.274527i	0.922061
0.489468 + 0.773575i	0.915422
0.489468 - 0.773575i	0.915422
-0.791152 - 0.447844i	0.909112
-0.791152 + 0.447844i	0.909112
0.713260 + 0.533630i	0.890786
0.713260 - 0.533630i	0.890786
-0.161133 - 0.873384i	0.888123
-0.161133 + 0.873384i	0.888123
-0.440571 + 0.767166i	0.884673
-0.440571 - 0.767166i	0.884673
-0.868872	0.868872
0.260765 - 0.827715i	0.86782
0.260765 + 0.827715i	0.86782
0.80822	0.80822
-0.595504 + 0.540085i	0.803938
-0.595504 - 0.540085i	0.803938
-0.683159 + 0.339194i	0.762731
-0.683159 - 0.339194i	0.762731
-0.735767	0.735767
0.648764 + 0.201422i	0.679313
0.648764 - 0.201422i	0.679313
-0.233613	0.233613

Source: Processed by researchers (Eviews 10)

c. Optimum Lag Test

The optimum lag test is essential for determining how long the reaction or influence is from one variable to another. Determining the estimate of the VAR system, starting with performing the optimum lag length in this data. If the reaction in the variable data is too short, it is feared that in the data forecasting, it cannot be explained comprehensively, but if the variable data reactions are too long, it is feared that it will cause inefficient reaction results due to the lack of freedom from the variable. Therefore, it is necessary to do the optimum lag determination model to get a VAR estimate. The optimum lag test or lag length is determined based on the criteria of LR (*Likelihood Ratio*), FPE (*Final Prediction Error*), AIC (*Akaike Information Criterion*), SC (*Schwarz Criterion*), and HQ (*Hannan-Quin*). Determine VAR estimation by looking at the value at the lag rate compared to the SC value in the optimum lag model.

Table 3. Optimum Lag Test Results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	638.8483	NA	6.72E-17	-23.04903	-22.86654*	-22.97846*
1	665.238	47.02173*	6.42e-17*	-23.09956*	-22.00465	-22.67615
2	688.4424	37.12699	7.01E-17	-23.03427	-21.02693	-22.25802
3	708.7309	28.77285	8.83E-17	-22.86294	-19.94319	-21.73385
4	729.0859	25.16611	1.18E-16	-22.69403	-18.86185	-21.2121

Source: Processed by researchers (Eviews 10)

d. Cointegration Test

The next stage is the cointegration test. This test model is carried out to determine whether there is a stationary variable at the first degree of differentiation that has a cointegration value or not. This cointegration test aims to see if there is a long-term, same and stable movement between one variable and another. The cointegration relationship in this model implements in the equation system whether there is an error correction model, which explains that the short-term is in line with the long-term relationship. The method in this test uses the Johansen approach of the Cointegration Test. If there is cointegration in the research data, it can be continued with the VECM estimation test, but if it does not have cointegration in the data, it will be followed by VAR estimation and granger causality test.

Table 4. Cointegration Test

Hypothesized No. of CE(s)	Eigen value	Trace Statistic	0.05 Critical Value	Prob.**
None	0.453949	68.92133	76.97277	0.1754
At most 1	0.299584	33.82889	54.07904	0.7759
At most 2	0.128183	13.1762	35.19275	0.9832
At most 3	0.048499	5.22003	20.26184	0.9763
At most 4	0.039486	2.336608	9.164546	0.7102

e. Granger Causality Test

The granger causality test identifies and shows bidirectional relationships between one variable and another. This method can be said to be a causal test of the data to be obtained. If the value in the study data has a probability value greater ($>$) than 0.05 or 5 percent, then there is no causality between one variable and another. Vice versa, if the probability value contained in the research data is less than five percent (0.05), then the variables in the study have a causality relationship with other variables.

Table 4. Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
LN_ISSI does not Granger Cause LN_JII	59	0.00706	0.9333
LN_JII does not Granger Cause LN_ISSI		1.15641	0.2868
INFLASI does not Granger Cause LN_JII	59	2.7943	0.1002
LN_JII does not Granger Cause INFLASI		3.59773	0.063
BIRATE does not Granger Cause LN_JII	59	1.47207	0.2301
LN_JII does not Granger Cause BIRATE		0.22657	0.6359
LN_KURS does not Granger Cause LN_JII	59	0.00587	0.9392
LN_JII does not Granger Cause LN_KURS		5.05622	0.0285
INFLASI does not Granger Cause LN_ISSI	59	0.0431	0.8363
LN_ISSI does not Granger Cause INFLASI		2.72463	0.1044
BIRATE does not Granger Cause LN_ISSI	59	0.08888	0.7667
LN_ISSI does not Granger Cause BIRATE		1.01959	0.317
LN_KURS does not Granger Cause LN_ISSI	59	0.45145	0.5044
LN_ISSI does not Granger Cause LN_KURS		0.7549	0.3886
BIRATE does not Granger Cause INFLASI	59	0.81171	0.3715
INFLASI does not Granger Cause BIRATE		0.61597	0.4359
LN_KURS does not Granger Cause INFLASI	59	4.27835	0.0432
INFLASI does not Granger Cause LN_KURS		0.86955	0.3551
LN_KURS does not Granger Cause BIRATE	59	0.60311	0.4407
BIRATE does not Granger Cause LN_KURS		0.03341	0.8556

f. VAR Estimation Test

The results of the previous cointegration test revealed no data cointegration in this study. Therefore, the VAR estimation method aims to analyze macroeconomic reactions (Islamic stocks, inflation, BI rate, and exchange rate) to JII only in the short-term relationship between one variable and another by var method analysis. The estimate of VAR values in this study used a level of significance ($\alpha = 5\%$) with the determination of the t-table value of 1,645. If the t-statistical value in the table is smaller ($<$) than the t-value of the table, then the data is interpreted to affect other

data over the short term.

Table 5. VAR Estimation Test Result

	LN_JII	LN_ISS1	INFLASI	BIRATE	LN_KURS
LN_JII(-1)	3.95348	-0.67224	-0.67162	0.72268	-3.22801
t-tabel	1.645	1.645	1.645	1.645	1.645

Source: Processed by researchers (Eviews 10)

g. Impulse Response Function (IRF)

The analysis at this stage is the impulse response function using the Impulse Response Function (IRF). The IRF follows the reaction or shock of the current variable to the upcoming period in a certain time interval. The image on the IRF shows a movement close to the equilibrium point with the application of the Vector Moving Average to track how long the period has a shock caused by one variable against another.

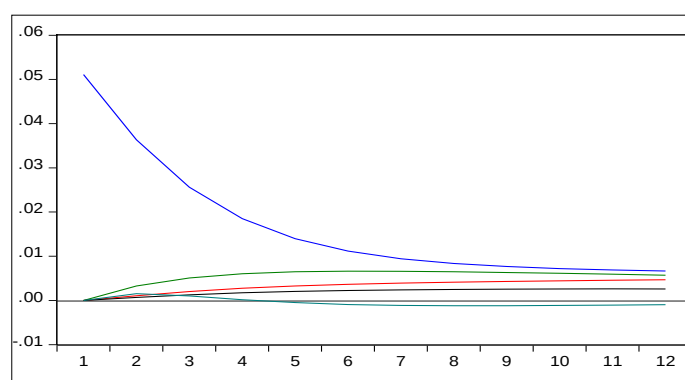


Figure 6. Impulse Response Function (IRF) Test

Source: Processed by researchers (Eviews 10)

h. Forecast Error Variance Decomposition (FEVD)

After analyzing the researcher's data with the impulse response function method, it was continued with the characteristics of the model, which can be seen with the Forecast Error Variance Decomposition (FEVD) method. This method aims to measure the influence of each variable on each other shocks or changes between variables. This analysis can be seen in figure 4.1.

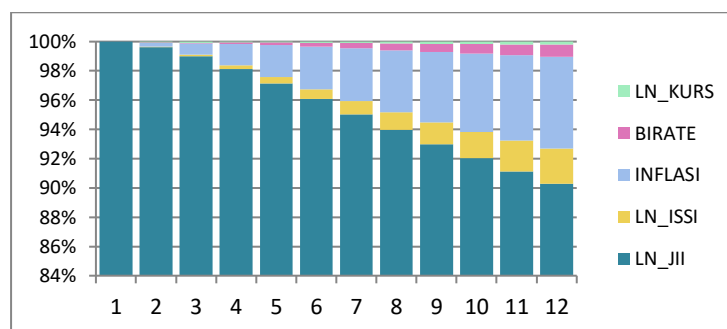


Figure 7. FEVD Test Results

Source: Processed by researchers (Eviews 10)

2. Discussion Analysis

H1: The effect of the exchange rate on the Jakarta Islamic Index in the short term.

The data processed in this study shows that the exchange rate variable has a significant but negative influence on the Jakarta Islamic Index (JII) partially in the short term, with the data processing results in Table 4.6. The result of the exchange rate in the processed data has a t-statistical value of -3.22801, greater than the t-table value, which explains that the exchange rate negatively influences JII. Supported by the fact that depreciating currency rates will lead to poor competitive payments, investors divert their capital abroad and are less interested in investing in JII, which has an impact on the decline in the stock price index in JII. The value of the stock price index follows the movement of the currency exchange rate, which is inversely proportional.

Accumulated from recent years, the exchange rate has depreciated in rupiah in 2020 and 2021, with the highest accumulation of Rp. 14.328 in 2021, but in 2019 the accumulated exchange rate was around Rp. 14,017, coincided with an increase in the stock price index in JII with a capitalization of Rp. 2,318,565 trillion. But in 2020 and 2021, a case was inversely proportional between the exchange rate and the number of stock price indices in JII. When the economy was in the midst of criticism of the Covid-19 pandemic, demand for the exchange rate weakened to the point of depreciating against the exchange rate of Rp. 14.173, with a decrease in JII's capitalization in 2020, reached Rp. 2,058,772 trillion. This is due to the weak public attractiveness and poor forecasts by investors on the impact of Covid-19 (Junaedi, 2020). Uncertainty about the exchange rate during Covid-19 has caused investors to be interested in investing in assets, namely bonds, US dollars, or gold (Abdullah, 2021). Supported by previous research, Syafrina Hidayati analyzed in her study that the exchange rate positively affects the stock price index in JII (Hidayati & Sukmaningrum, 2019).

The variable exchange rate in the short term negatively affects the JII stock price index. JII's capitalization performance will affect the reverse direction when the exchange rate depreciates the rupiah exchange rate. Here investors will see changes in the exchange rate that occur. If the exchange rate strengthens, there is a decrease in the stock price index in JII. This happened in 2020 with JII's capitalization decreasing significantly negatively by Rp. 2,058,772 trillion in a different direction from the depreciation of the rupiah exchange rate or exchange rate with the amount of Rp. 14.173. This theory is strengthened by Raka Abidzar Al Ghifari's research, which states that the exchange rate has a significant negative effect on JII. If the exchange rate is higher, it will reduce JII's performance. Depreciation of the Exchange Rate will affect the company's profitability. When the company's profitability decreases, investors switch to investing capital in other investments. This will cause JII's share price to decline in the previous stock price index (Al Ghifari et al., 2021).

H2: The Effect of Inflation on the Jakarta Islamic Index Stock Price Index in the short term.

Furthermore, with short-term variables, inflation does not influence JII. Looking at the priority of the inflation rate indirectly as an investment management factor, the decision is made to measure the stock price index in JII or for investors to invest in JII. It is proven that if the inflation rate increases, it will harm the company's shares and those who contribute to investment. Rising inflation will cause the price of goods and services also to increase because it will result in a decrease in company revenue and cause a decrease in stock prices. Investors who have observed the inflation rate will withdraw the stock funds of companies listed in JII, which will lower the stock price index in JII. Inflation that does not affect the JII stock price index is also stated in Harun Santosa's research from 2007-2017 (Santosa & Wisnu, 2018). Factors that occur in increasing inflation are caused by Covid-19 and depreciation of the exchange rate, which impacts the decline in the stock price index in JII with a JII capitalization index of Rp. 2,015,192 trillion in 2021 (Keuangan, n.d.).

Bank Indonesia's policy to review monetary policy in the economic development system to maintain inflation stability and control it by strengthening fast-growing technology with digital terms to strengthen domestic and investment scope. This is supported by Ayu Aizsa's research stating that inflation is not significant to JII's share price (Aizsa et al., 2020). The variable BI rate in the short term has no significant effect. Increased demand causes the price of goods and services to increase and increases inflation (Suciningtias & Khoiroh, 2015). Bank Indonesia has lowered the BI Rate to set a policy to deal with Covid-19 by 25bps to 4.75%, the Deposit Facility rate by 25bps to 4.00%, and the Lending Facility interest rate by 25bps to 5.50%. This is done to maintain domestic economic growth and to revive and restore the investment sector.

H1: Effect of Sharia Stocks on the Stock Price Index in the short-term Jakarta Islamic Index.

Whereas with ISSI, in the short term, it has no effect and is not significant to JII. This can lead to the increase and decrease of ISSI, not affecting investors investing in JII. Fluctuations in ISSI are not a consideration for investors to make investments. This can be caused by the public's perspective on shari'a investment literacy which still uses a lot of conventional perspectives, so it becomes a challenge for the Islamic capital market. If it cannot increase sharia literacy in the capital market, the stock price index in JII will have no effect.

The IRF results show in this study that the response given by the Jakarta Islamic Index to the variable shocks of ISSI, Inflation, and BI rate in the range of the 1st to 12th period was quite positive. Still, in the 8th period, the inflation variable was responded negatively by JII by 1%. In contrast to the shock of exchange rate fluctuations, which was responded negatively by JII from the first period to a decrease in the 5th period and received a negative response until the end of the period. In the first period, the exchange rate is at the point of horizontal shock. However, after the eke-10 period for inflation variables, the BI rate and ISSI provide positive and stable values against JII until the end of the period.

FEVD results in the study showed that JII dominated the contribution for the next year. At the beginning of the period, the more dominating JII variable itself. This is because JII has characteristics that are not contrary to sharia and are free from usury, *maysir*, and *gharar*. On the other hand, JII has a great opportunity to reach the channel of investors in the capital investment in JII during this contemporary era and will increase in number in recent years. The Capital Market in 2020 showed Islamic capital market instruments on a positive performance and were more advanced than conventional. Despite the shock of turmoil due to the Covid-19 pandemic, the leap in JII's capitalization value in 2020 was Rp. 2,050.772 trillion from the previous year's total capitalization with a value of Rp. 2,318,565 trillion. Although JII has not been able to compete strongly with conventional capital markets, the last five years have shown that JII's stock price index can grow high in the capital market in general. JII's growth instrument in the Islamic capital market is expected to make the market capitalization grow much better with transaction volume and the number of investors that continue to increase in the Islamic capital market, especially the Jakarta Islamic Index.

The next most significant contribution is inflation, as per Figure 4.1. from FEVD results. Indonesia, with the largest Muslim majority, still uses a dualist economic system, namely conventional and sharia. Inflation gives two sides to the contribution, either from positive or negative contributions. If the government can control inflation while stabilizing the prices of goods and services, it will increase the number of people buying these goods. The impact of this incident will increase the company's revenue and have an impact on increasing the JII stock price index. Investors tend to focus on paying attention to the relationship related to macroeconomics, inflation related to macroeconomics has the most contribution after JII itself.

The world was experiencing economic pressure when the Covid-19 pandemic hit, especially the unprofitable Indonesian economy. Indonesia experienced deflation from May 2019 to March 2021, and inflation fluctuated again until May 2021. The government's policy of implementing social distancing or new normal restrictions with PSBB (Large-Scale Sausage Restrictions) has caused many workers to be laid off and even out of business due to a lack of consumption levels. So Indonesia's experiencing an economic recession affects the level of investment interest. Judging from the decline in JII, which performed poorly and experienced a decline in the capitalization of the stock price index. This proves that inflation has a high contribution to JII compared to other variables.

Next is the ISSI variable, which has a high contribution after inflation. In theory, ISSI's growth is positive and will have a positive impact on the stock price index in JII, and the performance of the company in JII is forgiven, and public interest will invest in the Jakarta Islamic Index instrument and vice versa. The Covid-19 pandemic has created a large-scale social restriction policy that is very influential for Islamic capital market instruments, especially in the Jakarta Islamic Index. During the Covid-19 pandemic, ISSI depreciated in capitalization of ISSI, which was different from JII. However, ISSI has the advantage that the interest base that has been set does not exceed 45% of the total assets of companies listed in ISSI so that it can survive when there is uncertainty during the Covid-19 pandemic. ISSI is quite influential on JII because the shares of companies listed in JII have been selected twice a year by the Indonesia Stock Exchange. The explanation above concludes that ISSI has a small

contribution size after inflation to the Jakarta Islamic Index.

H4: The effect of the BI rate on the Stock Price Index in the Jakarta Islamic Index in the short term.

Next is the BI rate variable, which has a contribution to JII. The BI rate is adjusted from a low to a stable point for policies issued by Bank Indonesia so that people are interested in investing in JII. During the pandemic, the government set policies to deal with economic problems by lowering the BI rate. In December 2020, Bank Indonesia issued an interest rate provision of 3.75%, and at the end of 2021, Bank Indonesia lowered the BI rate to 3.5%. This policy was issued by Bank Indonesia to encourage people to continue investing even in poor conditions so that economic growth continues to grow during the Covid-19 pandemic. This is done to revive economic sectors threatened by a decline in the level of public consumption and a decrease in the level of investment during the pandemic. Such is the policy of Bank Indonesia in stabilizing the BI rate or interest rate to stabilize the country's economy sustainably. It is concluded from the statement above that the BI rate has a significant contribution to Islamic capital market instruments, especially the Jakarta Islamic Index, in the future.

The last and least contributing contribution is the exchange rate. The exchange rate contributes the least to the last variable that contributes to the JII. Foreign exchange is a major exchange rate factor. If the exchange rate depreciates or increases, the impact on JII will have a negative effect and vice versa. The state increase in the price of goods and services will have an impact on the decline in the value of the currency, which will have an impact on the Indonesian economy. The exchange rate is an external factor that directly affects investment. Investors are very careful when they want to invest. During the Covid-19 pandemic, the exchange rate is a comparison of investors' decisions when they want to invest in the capital market industry. Fluctuations caused by the spread of the Covid-19 virus have made the development of the global money market driven by uncertainty at the end of 2020. This condition can be concluded that the exchange rate has a significant contribution to investment growth which is more likely to use foreign currency as a means of transaction in investing, especially for foreign investors who invest in Indonesia.

CONCLUSION

This research shows that the researcher has shown all results on all variables. Based on the results of VAR estimates, it can be concluded that JII variables have a major effect on the variables themselves. Table 4.6. shows that in the short term, the exchange rate variable has a significant but negative influence on JII. Simultaneously, the ISSI, Inflation, and BI rate variables do not influence JII, while the Exchange Rate variables show significant negative influences on JII but are not in the same direction. The results of the Impulse Response Function (IRF) test show that the influence of ISSI and BI rate responds positively to shocks from JII to the end of the period, while inflation responds positively from the first period to the 7th period and experiences a negative response in the 8th period, then returns to stable until the end of the period. In contrast to the Exchange Rate variable, which responds negatively to shocks by JII until the end of the period. FEVD test results can be concluded that the largest contribution in this study is JII, Inflation, ISSI, and BI rate until the end of the period, and the smallest contribution to JII is the exchange rate.

Limitation, implication and recommendation this research are researchers hope that in this study, Bank Indonesia, as the institution responsible for controlling inflation, can maintain inflation stability, lower the exchange rate against the dollar and maintain interest rate stability. The largest contribution in Islamic capital market instruments, namely JII, can significantly increase Sharia investment in Indonesia. Because the spread of Covid-19 has impacted the condition of Indonesia's economic recession, and it is hoped that the performance of Sharia stocks can make the Jakarta Islamic Index the largest contribution to the increase in Sharia investment listed on the Indonesia Stock Exchange as the current economic recovery. This research is a picture of investments that must be managed in a certain portfolio by having the appropriate formulation and analysis. Hopefully, this research can be a reference for the future and can be complemented by variables that affect JII more in the next few periods.

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