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Impact of Inflation, Interest Rates, and Exchange Rates on the Performance of the Indonesian Sharia Stock Index (ISSI) during the Period 2012-2022

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Abstract:

This study aims to analyze the effect of inflation, interest rates and exchange rates on the rate of the Indonesian Sharia Stock Index (ISSI) for the period 2012-2022. This research method uses quantitative with VAR data type which is causal-distributive in nature, meaning that research is conducted to analyze a past situation and determine the direction of causality of the relationship between independent variables, namely Inflation, Interest Rates, Exchange Rates, and the dependent variable, namely the Indonesian Sharia Stock Index (ISSI). The operational data used by this researcher uses time series data. This research uses a method using the Eviews 12 computer program (software) with the Vector Auto regressive (VAR) model. The results of this study indicate that Inflation has a significant effect on ISSI. Interest rates have no effect on the ISSI. Exchange Rate has no effect on ISSI. The implications of this study reveal that Inflation has a relationship that can affect the growth rate of the ISSI. In addition, the growth rate of the ISSI can be suppressed if inflation can be controlled and exchange rates to interest rates can stabilize the rate of inflation that can affect the ISSI

Keywords: *Indonesia Sharia Stock Index (Issi), Inflation, Exchange Rate, Interest Rate*

1. Introduction

The capital market is a place where sellers and buyers meet. Unlike the market in general, here the sellers and buyers who meet are people who will conduct buying and selling transactions in financial instruments for long-term investment activities in the form of debt or equity. For example by buying securities in the form of stocks or bonds. So the capital market can be interpreted as a place where trading various types of securities using the services of securities brokerage, namely the stock exchange.

The Indonesia *Stock Exchange* (BEI) or in English called the *Indonesian Stock Exchange* (IDX) is a capital market owned by Indonesia. IDX itself is one of the alternative means that has an important role as a place for people to invest in capital investment. There are many choices for people to invest their capital in the form of

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investment, one of which is by investing their assets in the capital market. (Hermuningsih, S., Yuniati, H., & Mujino, 2017).

Economic actors are greatly helped in finding alternative funding for business activities by the existence of the capital market and also for investors who want to invest funds. (Fauzi Arif Lubis, Nurwani, 2023). The capital market performs an important function for Indonesia, especially for the economic sector as an intermediary institution that connects parties who need funds with parties who have excess funds in the capital market in the hope of getting profit sharing from the funds channeled. (Firdaus, 2012).

The development of the Islamic capital market in Indonesia is getting better with the birth of the Indonesian Sharia Stock Index (ISSI) issued by Bapepam LK and the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) on May 12, 2011. ISSI is a Sharia Stock Index consisting of all stocks listed on the Indonesia Stock Exchange and joined the Sharia Securities List (DES) issued by Financial Services Authority of Indonesia. Although only formed in May 2011, the development of the Indonesian Sharia Stock Index (ISSI) each period is quite significant. The presence of sharia products in the Indonesian capital market can open up investment opportunities for people who believe that conventional investment products contain elements that are forbidden. (Soemitra, 2014). Furthermore, all sharia stocks listed on the IDX are constituents of the ISSI. (Hendro, 2014).

Despite the dominance of Muslims in Indonesia, Islamic investment has not shown rapid growth. In fact, the Islamic capital market in Indonesia is still very shallow after 41 years of age. Investors do not automatically pursue Islamic investment products. In addition, the Islamic stock index has not been able to compete for the growth of the JCI.

According to Kevin Juido, Head of Research at Paramitra Alfa Sekuritas, the absence of financial sector stocks in this stock index has caused the slow growth of these three stock indices, which are the driving sectors of other stock indices. (Rahman, 2018). Because it is not allowed for bank stocks to be included in the list of sharia indices by sharia stock rules, it causes the absence of financial sector stocks in this sharia stock index. Furthermore, it can be seen in the following figure the development of the Indonesia Sharia Stock Index (ISSI) in the period 2012-2022.

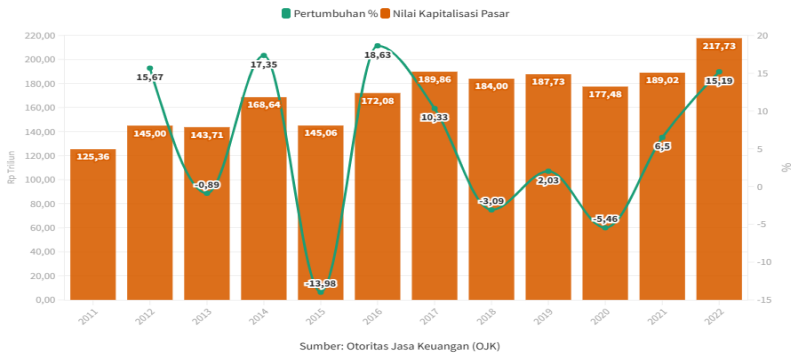

Figure 1. Growth Rate of Indonesian Sharia Shares in the Period 2012-2022
Source: *Financial Services Authority of Indonesia (2022)*

Figure 1 above shows that the ISSI value fluctuates from time to time. The lowest position occurred in 2015 and the highest in 2016. However, in 2020, the development of the Indonesian Sharia Stock Index (ISSI) has decreased. This decline is influenced by several factors such as micro and macroeconomic conditions such as Gross Domestic Product (GDP), Money Supply (JUB), Inflation, Interest Rates, Exchange Rates and others. (Kamal et al., 2021).

The data from the Inflation, Interest Rate and Exchange Rate variables on the Indonesian Sharia Stock Index (ISSI) variable from 2012 to 2022 can be seen as follows:

Table 1. Variable Statistical Data

Year	Inflation %	Interest Rate %	Exchange Rate %	ISSI %
2012	3,90	5.750	9,67	15,67
2013	6,22	6,50	12,189	-0,98
2014	6,41	7,50	12,440	17,35
2015	6,40	7,50	13,795	-13,98
2016	3,50	6,00	13,436	18,63
2017	3,80	4,50	13,548	10,33
2018	3,20	5,10	14,481	-3,09
2019	3,00	6,00	13,901	2,03
2020	2,00	4,25	14,105	-5,46
2021	1,56	3,50	14,269	6,5
2022	4,20	6,00	15,592	15,19

Source: *Data processed 2023*

Overall, the interest rate inflation variable in the last 2 years has experienced an increasing trend. While the ISSI in the last 2 years has increased. This is contrary to the existing theory if inflation and interest rates and ISSI have increased in the last 2 years.

Theoretically, there are several macroeconomic variables that affect stock price movements such as inflation, Bank Indonesia interest rates, exchange rates and others. When the conditions of macroeconomic variables are in a good and stable situation, this condition will be able to attract investors to invest their funds in the Islamic capital

market. Thus, there will be transactions in stock trading. When many people invest in stocks, it will make the capital market in good condition, which is reflected through the JCI.

Stock prices that occur in the capital market always fluctuate from time to time. Fluctuations in share prices will be determined by the forces of supply and demand. If the amount of supply is greater than the amount of demand, in general, the stock price rate will fall. Conversely, if the amount of demand is greater than the amount of supply for a security, the share price tends to rise. (Sudarsono, 2018).

Inflation can be said to be influential because a general and long-lasting change in prices will affect the desire of potential investors to invest in a company. (Aulia, R., & Latief, 2020). The inflation rate in Indonesia often fluctuates and causes general price instability. This affects stocks in the capital market. An increase in prices will reduce demand for stocks as people's real income decreases. When inflation increases, there is an increase in the company's production costs, thereby reducing the gross, operating and net profit values of the company. With a decrease in company profits, it results in a decrease in dividends to investors in the capital market. The fluctuating inflation rate will affect the level of investment in the capital market, including the Indonesian Sharia Stock Index. (Tripuspitorini, 2021).

Another macroeconomic factor that affects stock index development is interest rates. In general, investors expect Bank Indonesia to increase interest rates. However, in the long run this will be detrimental to investors. An increase in interest rates will lead to an increase in the rate of return on other investments with lower risk, compared to stock investments with high risk. That way, stock investment enthusiasts will move and reduce the number of shareholders, including Islamic stocks. (Tripuspitorini, 2021).

In addition to interest rates that affect the ISSI, the Exchange Rate can also affect the Indonesian Sharia Stock Index (ISSI). The factor that affects the development of the stock index is the exchange rate, in this case the Rupiah exchange rate against the Dollar. Exchange rates are determined by market mechanisms that measure the strength of market demand and supply as well as various ways of regulating government intervention in this field. The behavior pattern of the rupiah exchange rate or often referred to as the exchange rate depends on the monetary system prevailing in the country. This is due to the US dollar as the main currency in almost all countries. The exchange rate will affect the trade sector related to exports and imports. The Indonesian capital market also cannot be separated from companies that conduct trading transactions using the IDR / USD exchange rate so that changes in the IDR / USD exchange rate are expected to affect the movement of the stock index. (Herlina, M. S. T., & Latief, 2020).

Based on the data above, there is a simultaneous relationship between several variables, so these variables must be treated the same and there is no difference between the independent variable and the dependent variable, because of this it is necessary to develop a *Vector Auto regressive* (VAR) model. (Gujarati, 2013). The

reason researchers use VAR is because the ISSI is more global and covers the Islamic index as a whole. With the VAR model, there is no need to distinguish between dependent variables and independent variables and can describe the simultaneous relationship between economic variables. (Imsar, Nurhayati, 2023).

As in research that has been done before, according to (Nurwani, 2016)(Nurwani, 2016), the rupiah exchange rate has a positive and significant effect on Indonesian stocks. This positive effect means that the rupiah exchange rate and stock prices are directly proportional, if the rupiah exchange rate is getting stronger, the stock price will be better, and vice versa. The same results are also seen in the stock price index in Indonesia, as in research conducted by (Fauzan Fahmi Hasibuan, Andri Soemitra, 2023)(Fauzan Fahmi Hasibuan, Andri Soemitra, 2023), that the rupiah exchange rate, inflation and gold prices have a significant effect on the property sector stock price index on the Indonesia Stock Exchange. However, this is contrary to research conducted by (Iin Emy Prastiwi., 2020)which says that the rupiah exchange rate has a significant negative effect on the ISSI. This result shows that when the rupiah exchange rate decreases, it shows that the rupiah is weakening and economic conditions are unstable. Because economic conditions are unstable, many investors will sell their shares to avoid risk, where this sell-off will certainly result in a weakening of the ISSI. The difference in the results of this study arises because of differences in the research period and also in the data used, where (Ratih Kusumawardhani, 2021), (Nasution, 2015), using monthly data while (Iin Emy Prastiwi., 2020) uses annual data.

Different results are also seen in the inflation variable, as in research conducted by (Fuadi Fuadi, Saparuddin Saparuddin, 2 C.E.) and (Suyyinah & Affandi, 2018) which analyzed the effect of inflation, interest rates, exchange rates and GDP growth on the composite stock price index, that partially inflation, does not have a significant effect on the stock index. However, this is not in line with research conducted by (Sebo, S. S., & Nafi, 2021) and (Kiky, 2020) that the partial test of inflation has a positive and significant effect on the JCI on the IDX, while for the bank Indonesia interest rate variable these two researchers have the same result that the bank Indonesia interest rate has a significant negative effect on the ISSI. This difference can occur due to differences in the observation year studied, where the research conducted by (Fuadi Fuadi, Saparuddin Saparuddin, 2 C.E.) and (Suyyinah & Affandi, 2018) were conducted from 2000 to 2009 and in research conducted by (Sebo, S. S., & Nafi, 2021) and (Kiky, 2020) in 2007 to 2011. This is because Islamic stocks have good transaction and bargaining power. (Bimantara A, Nadhiroh, 2021).

The existence of different results between inflation, bank Indonesia interest rates and exchange rates on the ISSI makes this research important to be reviewed in order to ensure and strengthen the results of previous studies. So, in this study there is still a need for further research which can find out how the results of the influence of macroeconomic variables such as inflation, bank Indonesia interest rates and exchange rates on the ISSI accurately and in accordance with current circumstances. This study conducts further research on the Analysis of the Effect of Inflation, Interest

Rates and Exchange Rates on the Rate of the Indonesian Sharia Stock Index (ISSI) Priode 2012-2022.

2. Methodology

In research using a quantitative approach (Tarigan, 2015). The purpose of this study is to determine the cause and effect relationship between two variables. The method used is a historical research method which is causal-distributive in nature, meaning that research is conducted to analyze a situation that has been in the past and determine the direction of causality of the relationship between the independent variables, namely Inflation, Interest Rates, Exchange Rates, and the dependent variable, namely the Indonesian Sharia Stock Index (ISSI). Analysis of the Effect of Inflation, Interest Rates and Exchange Rates on the Rate of the Indonesian Sharia Stock Index (ISSI). The operational data used by this researcher uses *time series* data taken from the Financial Services Authority (OJK) data. (Nur Ahmadi Bi Rahmadi, 2016). This study uses a method using the Eviews 12 computer program (software) with the *Vector Auto regressive* (VAR) model, which is a model used to estimate an estimate of the short-term relationship and is more suitable for research using time series. The data used for analysis with the model is time series data and this short-term relationship can be known by cointegration testing analysis. The data analysis method carried out in this study is as follows:

a. Stationarity Test
b. Degree of Integration Test
c. Optimum Lag
d. Causality Test
e. VAR Model Test
f. Impulse Response Function
g. Variance Decomposition

3. Empirical Findings/Result

Data Stationarity Test

For further testing using the data stationarity test can be done in the same way as using the *Augmented Dickey-Fuller* (ADF) test, namely at different levels or until stationary data is obtained, namely stationary data here is that the variance is not too large and has a tendency to approach the average. (Ajija, 2011).

Table 2. Test In Level

Variables	**Probability ADF**	**ADF** t-statistic	Critica l va lue **(5% level)**	Descripti on
ISSI	0.0000	-5.359784	-2.886074	Stationary
EXCHANGE VALUE	0.0112	-3.447369	-2.886074	Stationary
INFLATION	0.2642	-2.052853	-2.886074	Non-stationary
INTEREST RATES	0.5503	-1.460787	-2.884109	Non-stationary

Source: Data Processed 2023

The test results can be determined by looking at the t-ADF value, McKinnon critical value and Prob* to see if the data is stationary (no longer contains unit roots) or non-stationary (still contains unit roots).

Judging from table 1 illustrates the conclusion of the *test* results conducted with Eviews 12, the results of testing the four research variables in the *test for unit root in level* turned out that there were only two stationary variables, namely the IISI and Exchange rate variables and two more variables were not stationary, namely the Inflation and Interest rate variables as evidenced by the Prob value not smaller than 0.05.

The Stationary Test must be continued with the *test for unit root in 1 st (First) difference*, because in the *test for unit root in level* some variables are not stationary. The stationary *test for unit root in 1 st (First) difference is* carried out with the same procedure using Eviews. Table 2 is the conclusion of the *test* results *for unit root in 1 st (First) difference* conducted for the six variables.

Table 3. Test In The Frist Difference

Variables	**Probability ADF**	**ADF** t-statistic	Critica l va lue **(5% level)**	Description
ISSI	0.0001	-4.878980	-2.886290	Stationary
EXCHANGE VALUE	0.0021	-3.983139	-2.886290	Stationary
INFLATION	0.0036	-3.815546	-2.886290	Stationary
INTEREST RATES	0.0000	-12.62621	-2.884109	Stationary

Source: *data processed 2023*

Based on table 2 above illustrates the conclusion of the test results conducted with Eviews 12 four variables *test for unit root in 1 st (First) difference*. By looking at Table 2, the results of testing the 4 (four) research variables in the *test for unit root in 1 st (First) difference* turned out to be stationary as evidenced by the Prob value being smaller than 0.05. Thus for the next process the data is tested at the *1 st (First) difference* level.

Optimum Lag Test

In determining the optimal lag, we also identified the criterion with the final prediction error correction at the least amount of AIC, SC, and HQ among the various lags proposed.

Table 4. Optimum Lag Test

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-1075.449	NA	191.5992	16.60691	16.69514	16.64276
1	-13.19022	2042.806	1.96e-05	0.510619	0.951778	0.689876
2	135.7914	277.3351*	2.53e-06*	-1.535253*	-0.741166*	-1.212589*

Source: Data processed 2023

Determining the optimal lag is very important because the independent variable used is none other than the lag of the endogenous variable. The optimal lag selection is done before the cointegration test, which is important before estimating the VAR

model (Gujarati, 1997). The choice of lag length is important because it can affect the acceptance and rejection of the null hypothesis, resulting in estimation bias and can produce inaccurate predictions.

The optimal interval length will be sought using the available information criteria. The selected interval candidates are the interval lengths according to the *Likelihood Ratio* (LR), *Final Prediction Error* (FPE) criteria. *Akaike Information Criterion* (AIC), *Schwarz Information Criterion* (SC) and *Hannan-Quin Criterion* (HQ).

Determination of the optimal lag used in this study is based on the shortest lag using *Akaike Information Criterion* (AIC). The test results of determining this optimal lag based on the SC and HQ optimum criteria at lag 2, the results of the numbers can be seen there is an asterisk (*) in table 3.

Granger Causality Test

This Granger Causality method is used to see and analyze the causal relationship between the variables observed in this study. (Ajija, 2011). In this study, the Granger causality test is used to see the direction of the relationship between the variables of ISSI, Inflation, Interest Rate and Exchange Rate.

Table 5. Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
ISSI does not Granger Cause NT	130	6.98083	0.0013
NT does not Granger Cause ISSI		1.39409	0.2519
ISSI does not Granger Cause INF	130	11.2729	3.E-05
INF does not Granger Cause ISSI		0.49708	0.6095
ISSI does not Granger Cause SB	130	0.61443	0.5426
SB does not Granger Cause ISSI		0.11674	0.8899

Source*: data processed 2023*

The 2 statements that have a Granger causality relationship can be seen as follows:

1. There is a causality relationship between ISSI and Exchange Rate
2. There is a causality relationship between ISSI and Inflation

Theoretically, there are several macroeconomic variables that affect stock price movements such as inflation, interest rates, exchange rates and others. When the conditions of macroeconomic variables are in a good and stable situation, this condition will be able to attract investors to invest their funds in the Islamic capital market. Thus, there will be transactions in stock trading. When many invest in stocks, it will make the condition of the capital market in good condition, which is reflected through the JCI. However, after conducting the granger causality test, it was found that from the data on Inflation, Interest Rates and Exchange Rates from 2012 to 2020 that only Inflation and Exchange Rate variables have a causal relationship with Indonesian Islamic stocks.

Cointegration Test

This test is used to determine whether the variables have a short-term relationship with each other on the condition that all variables are in the same degree, namely in degree 1 (*first difference*). If when this cointegration test is conducted there is

cointegration between variables then VECM estimation can be done. However, if there is no cointegration then VAR estimation can be done.

Table 6. Cointegration Test

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.
None	0.133307	40.66793	47.85613	0.1995
At most 1	0.111758	22.21183	29.79707	0.2869
At most 2	0.050586	6.923880	15.49471	0.5865
At most 3	0.001761	0.227398	3.841466	0.6335

Source: *data processed 2023*

Based on Table 6 above, the Cointegration test results show that all *Trace Statistic* values are less than the *critical* value *of* 0.05% and greater than the *Eigenvalue*. It can be concluded that all variables are not cointegrated and there is a stable short-term equilibrium relationship.

VAR Estimation Result

Table 7. VAR Test Estimation Result

Short Term			
Variables	**Coefficient**	**t-count**	**Description at (∝=0.05%)**
INFLATION	3.060775	2.25357	Significant
INTEREST RATES	-2.812435	-1.05425	Not Significant
EXCHANGE VALUE	3.187570	-0.79076	Not Significant

Source: data processed 2023

Based on the long-term table above, it is known that the t-table is 2.017. So if t count> t table then there is a significant relationship between variable X and variable Y. from Inflation data t count 2.25327> from t table 2.017 then inflation has a significant effect and has a positive relationship on the Indonesian Sharia Stock Index (ISSI) of 3.060775 which means that every 1% decrease in Inflation, the Sharia Stock Index will increase by 3.060775 and at the Interest Rate t count -1.05425 < from t table 2.017 then it is insignificant and has a negative relationship with the Indonesian Sharia Stock Index (ISSI). while the Exchange Rate is known that t count -0.79076 < from t table 2.017 then the exchange rate is insignificant and has a negative relationship with the Indonesian Sharia Stock Index (ISSI).

Im pulse Response Function (IRF)

After the VAR test, the next is the *Impulse Response Function* (IRF) test, this impulse response graph shows the movement that increasingly reaches the equilibrium point or returns to the previous equilibrium, the response of the variable due to a shock will increasingly disappear so that the shock does not leave a permanent influence on the variable. From the picture below, the Impulse Response analysis that occurs on the ISSI for 10 periods is as follows:

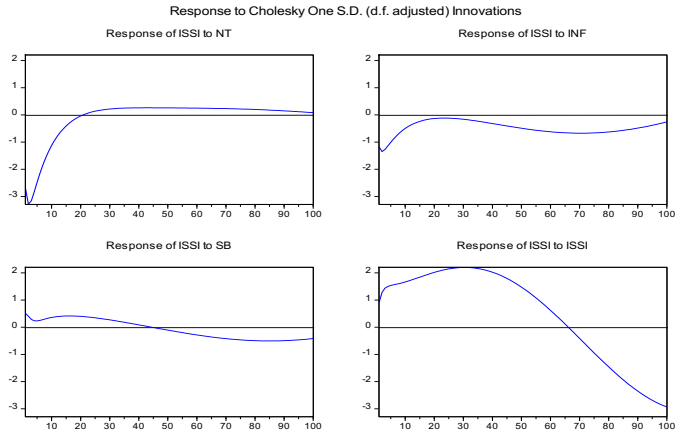

Figure 2. Impulse Response Function Test

Figure 2 above is the result of IRF between ISSI, Inflation, Interest Rate and Exchange Rate variables. In the first row of the first column, the response of ISSI to Inflation shows that in the initial period it tends to decrease until the graph stabilizes. In the next figure is a shock from the ISSI variable to the Interest Rate, where the results show that at the beginning of the period there is a decrease from the first period to the next period the *trend shows* a stable graph. The next column in the results of ISSI shocks to the Exchange Rate is a shock at the beginning of the period until the end of the period is relatively stable. The next graph shows that the shocks from the ISSI to the ISSI experienced a sharp decline at the beginning of the period until the next period. And the last graph shows.

Va ria n Decom position (VD)

Variance Decomposition or decomposition analysis will separate the variation of all estimated variables into a collection of shock components or into *innovation* variables, assuming that they are not correlated between *innovation* variables. Furthermore, *variance decomposition* can provide an influence on how much the movement of a variable shock on a variable shock on other variables in the current period and future periods.

Table 8. Variance Decomposition

Period	S.E.	INF	SB	NT	ISSI
1	0.104129	14.20830	2.607172	74.65736	8.527175
2	0.168664	13.24692	1.731248	74.76954	10.25229
3	0.218885	12.71515	1.322592	73.99712	11.96515
4	0.260520	12.36370	1.124315	72.81538	13.69661
5	0.297173	12.08455	1.033397	71.41818	15.46387
6	0.331029	11.82997	1.006636	69.88651	17.27688
7	0.363410	11.57919	1.023515	68.25808	19.13921
8	0.395108	11.32370	1.072118	66.55507	21.04912
9	0.426586	11.06061	1.144029	64.79461	23.00075
10	0.458102	10.78972	1.232513	62.99234	24.98543

Source: Data Processed 2023

Based on the table above regarding *Variance Decomposition* and variables that affect the ISSI, it can be seen at the beginning of the ISSI variable period and the variables themselves influence each other. In the period other variables began to affect the ISSI although not as much as the Exchange Rate. It can be seen that the Inflation variable provides the second largest influence after the Exchange Rate which is 14.2% in the first period but continues to decline until the final period with 10.7%. Furthermore, the one that affects the ISSI is the interest rate variable which gives an influence in the second period of Rp 2.6 and continues to increase until the tenth period with Rp 1.2.

5. Discussion

Inflation Has No Significant Effect on ISSI

This research has results in accordance with H1 that Inflation has a significant effect on ISSI in line with research from (Nugroho, S. W., Nugroho, S., & Rizal, 2016).. This means that in the long run the increase in ISSI can be caused by a decrease in Inflation. This is because inflation has a strong influence on the economy including in the profitability of a company and will affect investors' decisions in deciding to invest.

If profitability decreases, it will affect the decline in the company's share price and its shares will be considered less attractive in the eyes of investors. This is what makes consideration for investors and prefers to refrain from investing in companies listed on the Islamic capital market so that it affects the demand for Islamic shares and when the supply of Islamic shares is higher than demand, it will have a negative effect or reduce the Indonesian Sharia Stock Index (ISSI). (Saputro, 2020).

Interest Rate Has No Significant Effect on ISSI

The results of this study indicate that interest rates do not have a significant effect on the Indonesian Sharia Stock Index (ISSI) which means that it is not in accordance with H3, the same results as in (Mawarni, C. P., & Widiasmara, 2018). (Mawarni, C. P., & Widiasmara, 2018).This means that in the short and long term the increase in ISSI is not caused by the amount of BI *rate*. This indicates that interest rates cannot have a strong enough influence on changes in the movement of the Sharia Stock Index.

Investors generally expect Bank Indonesia to increase interest rates. However, in the long run this will be detrimental to investors. An increase in interest rates will lead to an increase in the rate of return on other investments with lower risk, compared to stock investments with high risk. That way, stock investment enthusiasts will move and reduce the number of shareholders, including Islamic stocks. (Tripuspitorini, 2021)

Exchange Rate Has No Significant Effect on ISSI

This research is not in accordance with research (Chotib, E., & Huda, 2020) with the result that the Exchange Rate has an insignificant effect on the ISSI, while the results

of this study found that the exchange rate has no significant effect in accordance with H2. This means that in the long run the increase in ISSI can be caused by an increase in the Exchange Rate. This statement is in line with (Anwar, 2020) which states that the exchange rate has a relationship with fluctuations between domestic exchange rates and foreign exchange rates.

The Exchange Rate can also affect the Indonesian Sharia Stock Index (ISSI). Exchange rates are determined by market mechanisms that measure the strength of market demand and supply as well as various ways of regulating government intervention in this area. The behavior pattern of the rupiah exchange rate or often referred to as the exchange rate depends on the monetary system prevailing in the country

6. Conclusions

In conclusion, the VAR analysis uncovered significant Granger causality relationships between ISSI and both Inflation and Exchange Rate. The Variance Decomposition data revealed that Inflation holds the second-largest influence on ISSI, contributing 14.2% initially and gradually decreasing to 10.7% in the final period. Additionally, the interest rate variable demonstrated an impact on ISSI, starting at Rp 2.6 in the second period and increasing to Rp 1.2 by the tenth period.

Summarizing the findings, Inflation was found to significantly influence ISSI, as evidenced by its t-value of 2.25327 surpassing the critical t-table value of 2.017. Conversely, Interest rates and Exchange Rate exhibited no significant effects on ISSI, with t-values of -1.05425 and -0.79076, respectively, falling below the critical t-table value of 2.017.

While the study provides valuable insights, it is not without limitations. The research confined itself to the period from 2012 to 2022, limiting the generalizability of its findings to other time frames. Additionally, the study focused on only three variables (ISSI, Inflation, and Exchange Rate), excluding potential influences from other essential economic indicators.

For future research endeavors, it is recommended to explore the impact of additional macroeconomic variables on ISSI, offering a more comprehensive understanding of its dynamics. Furthermore, investigating the interconnectedness of ISSI with other financial markets and extending the research period for a more extended assessment of identified relationships could enhance the depth of future studies. Consideration of alternative econometric models may also contribute to a more robust analysis of causal relationships in the financial markets.

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