
How Macroeconomic and Fundamental Factors Influence Stock Prices of Major Banks in Indonesia ?

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Abstract:

This study investigates the relationship between global macroeconomic variables and fundamental factors with the stock price performance of the banking sector in Indonesia. It is motivated by the significant impact of recent economic changes, particularly in the aftermath of the COVID-19 pandemic. Utilizing quantitative research methods, panel data regression analysis is employed to analyze the influence of various independent variables, including US inflation, Federal Reserve Rate, Indonesian inflation, BI Rate, Net Interest Margin, and Return on Equity, on the stock prices of the KBMI 4 banking sector. The research data, collected from secondary sources such as BPS, Otoritas Jasa Keuangan, Bank Indonesia, Bloomberg, and Investing.com, spans from 2013 to 2023. The findings aim to provide valuable insights for investors, analysts, and policymakers in understanding and responding to global economic challenges and making informed investment decisions.

Keywords: Banking Stock Prices, Investing, Macroeconomic, Fundamental

1. Introduction

The Indonesian economy has undergone significant changes in recent years, particularly in the aftermath of the COVID-19 recovery. According to data from the Central Statistics Agency (BPS), Indonesia experienced a contraction of -2.07 percent in economic growth in 2020. This condition led to deflation or a significant decline in the Indonesian economy due to instability in the country's economic movements, largely influenced by the Covid-19 pandemic.

Not only did the consumption sector suffer, but the investment sector also experienced a significant decline from 3.25 percent to 1.94 percent. This downturn directly impacted the Indonesian economy, yet Indonesia managed to recover more quickly than other countries, with positive GDP growth in the first quarter of 2022 reaching 5.01 percent. This GDP growth achievement marked Indonesia's highest annual economic growth rate in the last decade. Capital market investment has been key to economic function, facilitating resource and/or risk transfers, as well as revitalizing the economy during difficult times.

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In recent decades, the Indonesian capital market has undergone rapid transformation influenced by factors such as regulation, financial innovation, and technology. There is a close relationship between the capital market and macroeconomic factors, affecting stock price movements. In-depth analysis of this relationship is crucial for investors in making intelligent investment decisions.

In this scenario, it is evident that the capital market and macroeconomic variables, fundamentally, have evolved simultaneously, at least in their initial stages, indicating a certain correlation between the market and economic conditions, especially in facing significant crises. However, there is still uncertainty about whether this relationship can be applied generally to less extreme situations because markets tend to recover quickly after sharp declines, even though economic conditions are not as expected.

Macroeconomics is a branch of economics that deals with the overall activities, structure, behavior, and decision-making of an economy. Some aspects included in macroeconomics are the inflation rate and interest rates. Inflation is a phenomenon of extreme changes in the prices of goods and services, resulting in a decrease in the value of currency (Saefulloh et al., 2023). Interest rates are the remuneration provided by banks to customers for banking product transactions (Harahap.M.I, 2023)

In Indonesia, there are many types of capital market sectors, one of which is the banking sector. The banking sector plays a major role in the Indonesian capital market, as evidenced by its dominance in market capitalization and its contribution to GDP. The dynamics of the banking sector are heavily influenced by macroeconomic factors such as interest rates, inflation, and monetary policy. Changes in the global economic conditions, especially in the United States, also have a direct impact on banking stock prices in Indonesia. It can be interpreted that macroeconomics encompasses significant dynamics that affect the economy internationally and domestically, including important elements that shape our understanding of changes in the capital market.

The term "performance" refers to the performance or results achieved by an institution in achieving specific goals. Performance is derived from the English word "performance," referring to the term "performance." According to Wirawan, performance is the output generated by the functions or indicators of a job or a profession over a period of time (Wirawan, 2015). Stock price performance is the change in the stock price of a company over time. It is one of the key indicators for measuring the performance of investments in a company's stock or stock portfolio as a whole. Stock price performance is influenced by various factors, including company financial performance, general market conditions, industry trends, news and specific events affecting the company, and investor sentiment (Faisal, 2020). Stock price performance provides an overview of how the market evaluates a company's performance and its future prospects, as well as how well the investment in the stock has yielded profits for investors. According to Burton Malkiel in his book "A Random Walk Down Wall Street," stock price performance is more related to market efficiency aspects.

In an economic context, prices set are influenced by internal and external factors of a country. Internal factors include macroeconomic conditions, such as domestic inflation rates and interest rates. On the other hand, external factors include global capital market integration. For example, the Fed Rate, which is the interest rate set by the US central bank, theoretically considered to have a direct impact on the global economy, especially through the banking sector. Changes in US economic growth, inflation, or labor market conditions can affect international trade, foreign investment, and capital flows to and from other countries. Uncertainty arising from the significant influence of macroeconomic variables on stock and commodity markets often triggers price volatility. The stock market, as a crucial element in our country's financial structure, plays a vital role in directing savings flows from surplus sectors to deficit sectors (Keswani Sarika & Dr. Wadhwa Bharti, 2019).

The average price index data of INFOBANK15 each year from 2013 to 2023 shows an interesting trend. This increase can be interpreted as a response to changes in market conditions or other factors supporting the growth of the value of stocks of leading banks in the INFOBANK15 index. This indicates substantial growth in the performance of bank stocks that are components of the index during that period. As an index reflecting the performance of banks with strong fundamentals, changes in the index value can be interpreted as a reflection of financial market dynamics and the economic factors influencing them, including macroeconomic factors.

The capital market, as a primary investment instrument, is the arena where the connection between macroeconomic factors and investment is realized. Banking stocks, as one of the instruments in the capital market, are an integral part of this dynamics. Changes in global and domestic macroeconomics can directly reflect on banking stock prices. The performance of the banking sector in the capital market reflects to what extent investors respond to economic dynamics and adapt to changes in global and domestic conditions.

The domestic capital market cannot be separated from global economic dynamics. The inflation rate in Indonesia reflects economic stability and monetary policy adopted by Bank Indonesia, which is also related to interest rates. Therefore, understanding how macroeconomic impacts interact with the stock price performance of the banking sector is important. In fundamental analysis, attention is mainly focused on financial ratios, such as ROE and NIM, which serve as measures of banking sector performance and profitability. The ROE level, as an indicator of profitability, provides insights into the efficiency of banking equity utilization, while NIM reflects how well banks manage their net interest margins. Macroeconomic factors such as interest rates, economic growth, and inflation directly impact fundamental analysis of banking sector stocks. Interest rates, set by Bank Indonesia through the BI Rate, affect banking loan costs and can provide insights into their net interest margin. In a positive economic growth situation, the banking sector tends to benefit from higher lending activities, which are reflected in financial ratios such as NIM. Comprehensive fundamental analysis not only requires an evaluation of company internal but also considers external dynamics that can affect banking

performance. By combining these aspects, holistic analysis can help investors and analysts make more informed and adaptive investment decisions in response to changes in macroeconomic conditions.

By combining these variables, this study aims to provide a comprehensive understanding of how global macroeconomic and fundamental factors contribute to the movement of banking sector stock prices. This research is expected to provide valuable insights for institutions and the public in facing global economic challenges and making smarter investment decisions.

2. Theoretical Background

Capital Market

The concept of the capital market, as delineated in Law Number 8 of 1995 concerning the Capital Market (CML), encompasses various activities related to the issuance and trading of securities issued by public companies and traded to the general public. The capital market is a venue for trading various long-term financial instruments, including bonds, equities, mutual funds, derivatives, and other financial instruments. This scope also includes entities and professions involved in securities transactions. The capital market acts as an intermediary between buyers (investors) and sellers (issuers) through the trading of long-term financial instruments such as stocks, bonds, and others.

Macroeconomics

Macroeconomics is a branch of economics that deals with the overall activities, structure, behavior, and decision-making of an economy. At the macroeconomic level, variables such as inflation, interest rates, and economic growth rates can also have a significant impact on stock prices in the banking sector. A study by Widagdo et al., (2020) found that external factors such as macroeconomics have significant significance for investors because any changes can affect investments, especially stock price volatility. Strong economic growth tends to increase stock prices, while high unemployment rates can suppress stock prices. Additionally, stimulative fiscal policies can provide an additional boost to stock prices.

Foreign Investors

Foreign investors are individuals or business entities from other countries who invest in the financial markets or businesses in a country. They typically purchase stocks, bonds, or other assets in the domestic market to gain profits or diversify their investment portfolios. The presence of foreign investors can affect the domestic economy through capital flows, influence on exchange rates, and their impact on local financial and business markets. Foreign investment decisions are also influenced by investment return rates and interest rates (Agung et al., 2018). If the investment return is lower than the interest rate, the investment may not be profitable, leading to investment planning being canceled.

Bank Group Based on Core Capital

Tabel 1. Bank Group Based on Core Capital 2023

Group	Core Capital	Ticker
KBMI 1	6 Trillion Rupiah	BBMD, NOBU, BEKS
KBMI 2	> 6 Trillion Rupiah – 14 Trillion Rupiah	BTPN, BSIM, BTPS, BJTM, MAYA
KBMI 3	> 14 Trillion Rupiah – 70 Trillion Rupiah	BNGA, BNLI, NISP, BBTN
KBMI 4	> 70 Trillion Rupiah	BBCA, BBRI, BMRI, BBNI

Sumber: Bank Indonesia, OJK Indonesia, Bursa Efek Indonesia (2023)

According to Bank Indonesia, as of April 2023, there are 106 commercial banks in Indonesia. Of these banks, 47 are listed on the Indonesia Stock Exchange (IDX). In an effort to encourage the banking industry to achieve a higher level of economies of scale, according to Regulation Number 12/POJK.03/2021, banks are grouped based on the Market Capital they own or referred to as the Bank Group Based on Core Capital (KBMI). According to Bank Indonesia Regulation Number 7/15/PBI/2005, Core Capital is defined as contributed capital and additional reserve capital (Disclosed Reserves) as referred to in Bank Indonesia's regulations on the Obligation to Provide Minimum Capital for Commercial Banks.

Fundamental Factors

Internal factors, especially the fundamentals of a company, play a crucial role in determining stock market fluctuations (Widagdo et al., 2020). Understanding this is crucial for investors as it can provide insights into the health and growth potential of the company. Careful analysis of these factors helps investors make more informed investment decisions. Investors generally identify improvements in a country's economic conditions through fundamental analysis, which involves evaluating company performance, industry competition, economic situations, and macro and micro market factors. By considering these indicators, investors can make more informed investment decisions and understand the overall economic prospects of a country. As a public company, issuers on the Indonesia Stock Exchange regularly disclose their financial information, providing insights into the company's financial condition. This analysis allows investors to determine whether a company is worth investing in. Because they are quantitative, financial statements can be compared using various financial ratios. In this study, two financial ratios, namely ROE and NIM, will be used to analyze company financial statements.

Stock Price

Stock price is the value assigned to a stock at a particular time in the stock market, influenced by the interaction between market participants and determined by the mechanism of supply and demand in the capital market. Stock prices can be interpreted as the value assigned to a company's stock in the financial market, influenced by various factors such as company financial performance, macroeconomic conditions, market sentiment, and other factors that can affect supply and demand in the market. The essence of stock prices reflects the intrinsic value of the stock (Oktavia & Genjar, 2018) According to Wardhani et al. (2022:39), stock

price is the value determined by a company for others who want to obtain ownership rights to the company's stock.

Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) is a theory that states that stock prices reflect all available information in the financial market. In other words, EMH argues that stock prices already reflect all public information and it is impossible to predict future stock price movements (Kiky et al., 2018). EMH was first introduced by Eugene Fama in the 1960s and has become one of the fundamental theories in financial economics.

Overreaction Hypothesis

The Overreaction Hypothesis is a theory in financial economics that states that investors often overreact to new information emerging in the financial market. This hypothesis states that investors tend to evaluate information in an overly extreme manner, causing stock price evaluations to be too high or too low. As a result, stocks that have historically decreased in price (loser stocks) tend to produce high abnormal returns, while stocks that have historically increased in price (winner stocks) tend to produce low abnormal returns (Pamela Pembimbing & dan Devi Safitri, 2015).

Abnormal Return

Abnormal return explains the unusual or large profits or losses generated by a particular investment or portfolio over a specific period. This performance differs from what is expected or anticipated from the investment - that is, the estimated return rate based on asset valuation models or using long-term historical averages or other valuation techniques. Abnormal return is the difference between the actual profit rate and the expected profit rate (Amin Kadafi, 2018).

Stock Return

Stock return refers to the rate of return or investment outcome in the form of stocks over a specific period of time. Return is the main goal for investors in obtaining returns from their investments (Sutanto, 2021). Success in achieving high stock returns will be an attraction for investors to Pengembangan Hipotesis

Conceptual Framework

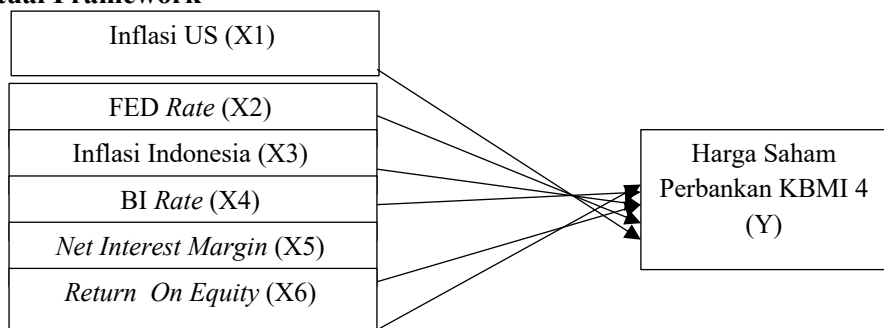


Figure 1. Research Framework

Research Hypothesis

The hypotheses in this research represent initial statements that will be tested using empirical data from the study. Based on the conceptual framework and variables that have been formulated, the research hypotheses are as follows:

- Hypothesis 1 (H1): It is hypothesized that the variable of US Inflation (X1) has a significant effect on the stock prices of the banking sector in Indonesia (Y). This implies that fluctuations in inflation in the United States will affect the stock prices of the banking sector in Indonesia.
- Hypothesis 2 (H2): It is hypothesized that the variable of Federal Reserve Rate (X2) has a significant effect on the stock prices of the banking sector in Indonesia (Y). This means that Federal Reserve interest rate policies will impact the stock prices of the banking sector in Indonesia.
- Hypothesis 3 (H3): It is hypothesized that the variable of Indonesian Inflation (X3) has a significant effect on the stock prices of the banking sector in Indonesia (Y). This means that fluctuations in inflation in Indonesia will affect the stock prices of the domestic banking sector.
- Hypothesis 4 (H4): It is hypothesized that the variable of BI Rate (X4) has a significant effect on the stock prices of the banking sector in Indonesia (Y). This means that Bank Indonesia's interest rate policies will impact the stock prices of the banking sector in Indonesia.
- Hypothesis 5 (H5): It is hypothesized that the variable of Net Interest Margin (X5) has a significant effect on the stock prices of the banking sector in Indonesia (Y). This implies that the level of net interest margin will affect the stock prices of the banking sector in Indonesia.
- Hypothesis 6 (H6): It is hypothesized that the variable of Return on Equity (X6) has a significant effect on the stock prices of the banking sector in Indonesia (Y). This means that the rate of return on equity will impact the stock prices of the banking sector in Indonesia

3. Methodology

The research conducted in this thesis is quantitative in nature. The research approach primarily relies on quantitative methods, focusing on the collection and analysis of numerical or statistical data to test the hypotheses formulated beforehand. Quantitative research methods are employed to measure the influence of macroeconomic factors and fundamentals on the stock prices of KBMI4 banking sector by utilizing empirical data that can be quantitatively measured.

The analytical method employed in this thesis is panel data regression analysis supported by the Eviews application. The selection of this method is based on the research objective of identifying the influence of several independent variables on the dependent variable, namely the stock prices of KBMI 4 Banking sector in Indonesia. This method is also aligned with the type of data obtained, which is quantitative data. The results of this analysis will aid in addressing the research questions and identifying the influence of each independent variable on the stock prices of KBMI 4 Banking sector in Indonesia.

This research takes place in Indonesia, utilizing quantitative data. The research data comprises secondary data obtained from secondary sources and can be readily used for publication purposes to the public. These data are available on the websites of BPS (Badan Pusat Statistik), Otoritas Jasa Keuangan, Bank Indonesia, Bloomberg, and Investing.com. Operational definitions of the research variables in this thesis explain concretely how each variable will be measured or observed within the research context. The aim is to ensure that data collection is done accurately and in line with the concepts under study, as well as to avoid errors or ambiguities in data collection.

Dependent Variable

The dependent variable in this thesis is the primary focus of the research. In this study, the dependent variable is the stock prices of the banking sector. The stock prices of the KBMI 4 banking sector refer to the closing values of stocks from an index or composite index representing the average performance of KBMI 4 banking sector stocks in the Indonesian capital market. This variable is used to measure the performance of the KBMI 4 banking sector in the Indonesian capital market.

Independent Variables

The independent variables in this thesis include:

- **US Inflation (X1):** The operational definition of this variable is the percentage increase in the Consumer Price Index (CPI) from the same month of the previous year in the United States. The variable is measured using CPI data issued by the US Bureau of Labor Statistics (BLS) and expressed in percentage form.
- **Federal Reserve Rate (X2):** The operational definition of this variable is the benchmark interest rate set by the Federal Reserve Board in the United States. The variable is measured in percentage form and obtained from data issued by the Federal Reserve Board.
- **Indonesian Inflation (X3):** The operational definition of this variable is the percentage increase in the Consumer Price Index (CPI) from the same month of the previous year in Indonesia. The variable is measured using CPI data issued by the Indonesian Central Statistics Agency (BPS) and expressed in percentage form.
- **BI Rate (X4):** The operational definition of this variable is the benchmark interest rate set by Bank Indonesia. The variable is measured in percentage form and obtained from data issued by Bank Indonesia.
- **Net Interest Margin (X5):** The operational definition of this variable is the difference between interest income earned from loans and investments and the interest expense paid on funds obtained from others. The variable is measured as a percentage of net interest income to total assets or interest income.
- **Return on Equity (X6):** The operational definition of this variable is the ratio of net profit earned by the company compared to shareholder equity. The variable is measured as a percentage of the company's net profit to shareholder equity.

These independent variables will be used to analyze the impact of each factor on the stock prices of the banking sector in the Indonesian capital market, thus enabling a better understanding of the factors influencing the performance of the KBMI 4 banking sector in the context of the Indonesian capital market. In this study, we will

define and measure the research variables operationally according to the nature and purpose of our research. Operational definitions are used to provide clear boundaries for variables to ensure consistent understanding of the variables. Measurement of variables explains the measurement process and units used in this research.

Nachrowi (2006, 318) states that the choice between Fixed Effect and Random Effect methods may depend on the desired analytical objectives or the characteristics of the data used to construct the model, owing to various mathematical technicalities underlying the calculations. In the Eviews software, the application of the Random Effect method is permitted only when the number of bank entities exceeds the number of coefficients including the intercept. Additionally, according to several econometrics experts, if the number of time periods (t) in the panel data exceeds the number of entities (i), it is advisable to employ the Fixed Effect method. Conversely, if the number of time periods (t) is fewer than the number of entities (i), it is recommended to utilize the Random Effect method.

4. Empirical Findings/Result

Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	54.829090	(3,166)	0.0000
Cross-section Chi-square	121.190142	3	0.0000

Figure 2. Chow Test Result

Based on the Chow test results, with a probability value (p-value) of 0.0000, which is smaller than the predetermined significance level of 0.05, the null hypothesis (H0) is rejected. This indicates a significant difference between the Common Effect Model (CEM) and the Fixed Effect Model (FEM) in depicting the relationship among the observed variables. Therefore, the selected model for panel data analysis is the Fixed Effect Model (FEM).

R-Square Test

R-squared	0.789404
Adjusted R-squared	0.777986
S.E. of regression	814.9877
Sum squared resid	1.10E+08
Log likelihood	-1424.344
F-statistic	69.13762
Prob(F-statistic)	0.000000

Figure 3. R-Square Test Result

The adjusted R-square value is 0.777986 or 77.7986%. This coefficient of determination indicates that the combined influence of the independent variables, including US Inflation, FED Rate, Indonesian Inflation, BI Rate, NIM, and ROE, on the dependent variable is 77.7986%, while the remaining 22.2014% (100 - adjusted R-square value) is influenced by other variables not included in this research model.

F Test

R-squared	0.789404
Adjusted R-squared	0.777986
S.E. of regression	814.9877
Sum squared resid	1.10E+08
Log likelihood	-1424.344
F-statistic	69.13762
Prob(F-statistic)	0.000000

Figure 4. F Test Result

The calculated F value of 69.13762 is greater than the critical F value of 2.2672, and the significance value is 0.000000, which is less than 0.05. Therefore, it can be concluded that there is a significant relationship between the variables US Inflation, FED Rate, Indonesian Inflation, BI Rate, Net Interest Margin (NIM), and Return on Equity (ROE) with the variable Banking Stock Price measured by KBMI 4. This implies that changes in these variables collectively have a significant impact on changes in banking stock prices.

t Test

Dependent Variable: HARGASAHAM
 Method: Panel Least Squares
 Date: 03/29/24 Time: 23:56
 Sample: 2013Q1 2023Q4
 Periods included: 44
 Cross-sections included: 4
 Total panel (balanced) observations: 176

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7333.793	701.7266	10.45107	0.0000
INFLASIUS	-9.214693	48.78006	-0.188903	0.8504
FEDRATE	580.0017	45.20327	12.83097	0.0000
INFLASIIDN	-76.35727	49.91396	-1.529778	0.1280
BIRATE	-318.0355	72.33803	-4.396519	0.0000
NIM	-622.0616	135.3558	-4.595751	0.0000
ROE	50.68613	19.96488	2.538765	0.0120

Figure 5. t Test Result

• The t-test result for the variable US Inflation (X1) yielded a t value of $-0.188903 < t$ table, which is 1.9736, and a significance value of $0.8504 > 0.05$. Therefore, the US

Inflation variable does not significantly influence the variable Banking Stock Price KBMI 4.

- The t-test result for the variable FED Rate (X2) yielded a t value of $12.83097 > t$ table, which is 1.9736, and a significance value of $0.0000 < 0.05$. Thus, the FED Rate variable significantly influences the variable Banking Stock Price KBMI 4.
- The t-test result for the variable Indonesian Inflation (X3) yielded a t value of $-1.529778 < t$ table, which is 1.9736, and a significance value of $0.1280 > 0.05$. Hence, the Indonesian Inflation variable does not significantly affect the variable Banking Stock Price KBMI 4.
- The t-test result for the variable BI Rate (X4) yielded a t value of $-4.396519 < t$ table, which is 1.9736, and a significance value of $0.0000 < 0.05$. Therefore, the BI Rate variable significantly influences the variable Banking Stock Price KBMI 4.
- The t-test result for the variable NIM (X5) yielded a t value of $-4.595751 < t$ table, which is 1.9736, and a significance value of $0.0000 < 0.05$. Consequently, the NIM variable significantly affects the variable Banking Stock Price KBMI 4.
- The t-test result for the variable ROE (X6) yielded a t value of $2.538765 > t$ table, which is 1.9736, and a significance value of $0.0120 < 0.05$. Therefore, the ROE variable significantly influences the variable Banking Stock Price KBMI 4.

5. Discussion

The movement of US Inflation on the performance of banking sector stock prices measured by KBMI 4.

The data analysis using Eviews13 software indicates that the US Inflation variable (X1) obtained a t value of $-0.188903 < t$ table, which is 1.9736, and a significance value of $0.8504 > 0.05$. Therefore, the US Inflation variable does not have a partial effect on the Banking Stock Price KBMI 4. However, simultaneously, the US Inflation variable, along with the FED Rate, Indonesian Inflation, BI Rate, ROE, and NIM variables, collectively influence the Banking Stock Price KBMI 4.

This research suggests that the difference in efficiency between the capital markets in the United States and Indonesia has significant implications for how the capital markets react to inflation information. The US capital market has better information content, meaning that market reactions to inflation information can be faster and more accurate. Conversely, the Indonesian capital market has weak market efficiency and lacks significant information content. Therefore, US inflation information does not affect the IHSG, especially the banking sector stock prices in Indonesia because the capital markets in the United States differ from those in Indonesia, where market efficiency tends to be weak and lacks significant information content, resulting in market reactions to US inflation information possibly being inefficient or not as swift and accurate as in the United States.

Consistent with the Efficient Market Hypothesis, stock prices reflect all available information. If information about US inflation is considered less relevant by market participants in Indonesia, then it will not affect stock prices in Indonesia. Market participants may focus more on more relevant information, such as domestic

economic conditions, Bank Indonesia's monetary policy, and the performance of local banking companies.

The movement of FED Rate on the performance of banking sector stock prices measured by KBMI 4.

The data analysis using Eviews13 software indicates that the FED Rate variable (X2) obtained a t value of $12.83097 > t$ table, which is 1.9736, and a significance value of $0.0000 < 0.05$. Therefore, the FED Rate variable has a partial effect on the Banking Stock Price KBMI 4. The test results also show that simultaneously, the FED Rate variable, along with the US Inflation, Indonesian Inflation, BI Rate, ROE, and NIM variables, collectively influence the Banking Stock Price KBMI 4.

The Federal Reserve's interest rate, or FED Rate, directly influences the stock prices of banking sector KBMI 4. The data indicates that the interest rate policy implemented by the Federal Reserve has significant implications for stock price performance. Interest rate and investment theory indicate that an increase in the FED Rate causes borrowing costs for banks to rise, which can reduce their profitability. With higher capital costs, banks may experience a decline in profit margins due to the narrowing spread between loan interest rates and deposit interest rates, ultimately suppressing their financial performance. This is reflected in the decline in the value of banking sector stocks.

On the other hand, the Overreaction Hypothesis also highlights how investor reactions to changes in the FED Rate can affect stock prices. An increase in the FED Rate may trigger market expectations of higher future interest rates, which can lead to a decline in bank stock valuations due to expectations of negative impacts on bank profitability. Conversely, a decrease in the FED Rate tends to increase market expectations for future bank financial performance, which may support stock price performance. This concept suggests that investors often are overly optimistic or pessimistic in evaluating new information that affects stock prices.

The movement of Indonesian Inflation on the performance of banking sector stock prices measured by KBMI 4.

The data analysis using Eviews13 software indicates that the Indonesian Inflation variable (X3) obtained a t value of $-1.529778 < t$ table, which is 1.9736, and a significance value of $0.1280 > 0.05$. Therefore, the Indonesian Inflation variable does not have a partial effect on the Banking Stock Price KBMI 4. However, simultaneously, the Indonesian Inflation variable, along with the FED Rate, US Inflation, BI Rate, ROE, and NIM variables, collectively influence the Banking Stock Price KBMI 4.

In this study, the Overreaction Hypothesis is used as a theoretical framework to interpret the relationship between Indonesian inflation and the performance of banking sector stock prices KBMI 4. This theory highlights how the capital markets respond to changes in economic variables, such as inflation, based on investor expectations of future economic conditions. This interpretation suggests that investors tend not to react to increases in inflation, especially when inflation remains below a

certain threshold, such as 10%. In this context, the capital markets accept relatively low inflation without significant impacts on the performance of banking sector stock prices. This indicates that market expectations of inflation can moderate investor reactions to changes in economic conditions.

The movement of BI Rate on the performance of banking sector stock prices measured by KBMI 4.

The data analysis using Eviews13 software indicates that the BI Rate variable (X4) obtained a t value of $-4.396519 < t$ table, which is 1.9736, and a significance value of $0.0000 < 0.05$. Therefore, the BI Rate variable has a partial effect on the Banking Stock Price KBMI 4. The test results also show that simultaneously, the FED Rate variable, along with the US Inflation, Indonesian Inflation, BI Rate, ROE, and NIM variables, collectively influence the Banking Stock Price KBMI 4.

Interest rate theories, as explained by Agung et al., (2018), highlight the influence of interest rates on investment decisions and monetary policy. In the context of this study, the finding that changes in the BI Rate have a significant impact on the performance of banking sector stock prices KBMI 4 aligns with this theory. When the BI Rate increases, funding costs for banks rise, reducing their potential profits and, consequently, may suppress stock values. Conversely, a decrease in the BI Rate tends to increase bank profits and support stock price increases, in line with interest rate theory. This can affect investment decisions where changes in interest rates can affect the level of investment in the economy.

The movement of Net Interest Margin on the performance of banking sector stock prices measured by KBMI 4.

The data analysis using Eviews13 software indicates that the NIM variable (X5) obtained a t value of $-4.595751 < t$ table, which is 1.9736, and a significance value of $0.0000 < 0.05$. Therefore, the NIM variable partially influences the Banking Stock Price KBMI 4. The test results also show that simultaneously, the NIM variable, along with the FED Rate, US Inflation, Indonesian Inflation, BI Rate, and ROE variables, collectively influence the Banking Stock Price KBMI 4.

Net Interest Margin (NIM) is a crucial indicator of bank financial performance that affects the prices of banking sector stocks KBMI 4. The data indicates that a high NIM reflects efficiency in bank asset and liability management, which can increase profits and stock valuations. However, a decrease in NIM over time may indicate pressure on interest margins due to increased competition or changes in financial market structure. Investors need to monitor changes in NIMs of relevant banks in the banking sector KB

The Impact of Return on Equity on the Performance of Banking Sector Stock Prices Measured by KBMI 4

The data analysis conducted using Eviews13 software revealed that the variable ROE (X6) obtained a t-value of 2.538765, which exceeds the critical t-table value of 1.9736, with a significance level of 0.0120, indicating that the ROE variable partially influences the Banking Stock Price KBMI 4. Furthermore, the test results indicate that

simultaneously, the ROE variable, along with the FED Rate, US Inflation, Indonesian Inflation, BI Rate, and NIM variables, collectively exert a simultaneous influence on the Banking Stock Price KBMI 4.

In the context of the movement of Return on Equity (ROE) on the performance of banking sector stock prices measured by KBMI 4, theories regarding internal fundamental factors of companies become pertinent. ROE, as one of the primary measures of equity utilization efficiency by companies, directly impacts stock prices. The interpretation of this theory indicates that a high ROE signifies the efficiency of a company in generating profits from invested equity, thereby enhancing the attractiveness of investment for shareholders.

6. Conclusions

Based on the findings of this study, it can be concluded that several key macroeconomic and fundamental factors have varying degrees of influence on the KBMI 4 Banking Stock Price in Indonesia. Firstly, inflation in the US was found to have no partial effect on the stock price of the banking sector represented by KBMI 4. Conversely, the Federal Reserve Rate (FED Rate) exhibited a significant partial influence on the KBMI 4 Banking Stock Price. Similarly, inflation in Indonesia was observed to have no partial impact on the KBMI 4 Banking Stock Price, while the Bank Indonesia (BI) Rate significantly affected it. Additionally, the Net Interest Margin (NIM) was found to exert a significant partial influence on the KBMI 4 Banking Stock Price, alongside the Return on Equity (ROE), which also exhibited a significant partial effect. Furthermore, collectively, the inflation rate in the US, FED Rate, inflation rate in Indonesia, BI Rate, Net Interest Margin (NIM), and Return on Equity (ROE) were observed to have a simultaneous and significant impact on the KBMI 4 Banking Stock Price, highlighting the interconnectedness of these factors in influencing stock market dynamics.

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