

# Macroeconomic And Net Foreign Factors That Affect The Composite Stock Price Index

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## ABSTRACT

*This study aims to examine the effect of Indonesia's macroeconomic and foreign transactions on the Composite Stock Price Index. The data analysis technique used in this study is to use linear regression analysis multiple. The data used in this study is the time series data for the 2016-2018 period. SBI variable has a negative and significant effect on composite. Inflation, Exchange Rate, SBI, Amount of Money Supply and net foreign transactions Simultaneously influence the composite. whereas partially the variables that influence the composite are the exchange rate, the SBI and the money supply. Macroeconomic variables used in this study can explain the composite of 61% while the rest is influenced by other variables. Investors should decide before investing to take into account macroeconomic variables. The difference between this study and previous research adds the variable Number of Outstanding Shares and foreign transactions in the Indonesian capital market*

**Keywords:** *Inflation, Exchange Rate, SBI, Money Supply, Net Foreign, Composite*

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## INTRODUCTION

The composite stock price index describes a series of historical information regarding composite share price movements, until a certain date. Usually These stock price movements are presented daily based on prices closing on the stock exchange on that day. The index is presented for certain period. composite reflects a value that functions as performance measurement stock on a stock exchange. composite movements in the capital market are influenced by various variables. The level of composite is one indicator of performance appraisal of all shares on the Indonesia Stock Exchange. Based on the development of the composite seen at the end of 2018 the composite has decreased from 2017 which had broken the record on the exchange, the composite closed at 6,194.50 or experienced a gain of 0.06%. Although it closed higher for a year, the index was minus 2.54% from the beginning of January to December 2018. This was the worst performance in the last 3 years, even though the closing in 2017 was at 6,355.65 with a return of 19.99%, in 2016 it closed at 5,296.71 level with a return of 15.32%.

The decline in the index during the past year was influenced by many factors both microeconomic and macroeconomic, negative catalysts from within the country for example economic growth that is still not growing. Macroeconomic conditions that experience development and change in a country can have an effect on the capital market. If the macro economy decreases it can have a negative impact on the development of the capital market because it will affect directly, on the contrary if the macro economy increases it will have a good impact on the condition of the capital market.

Investors who secure their funds in the capital market will see how much profit can be generated by the company because investors will see the prospects of the company in the future that depends on the economic situation of a country. The company's ability to generate profits Apart from the company's condition as an assessment of investors must look at macroeconomic conditions. Composite movement is influenced by several macroeconomic factors such as inflation, exchange rates, SBI, the money supply, unemployment rate, gross domestic product because the macroeconomic environment is one of the factors that affect a company's operations, in the future investors must

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be able to know and understand Macroeconomic conditions because it is useful in determining investors' decisions to invest in the capital market.

Inflation is a general price increase and continuously occurring in a certain period. Inflation for a country is an important factor because it can affect the country's economy. That caused the rate of inflation greatly paid attention by the government.

In 2017 inflation will increase theoretically if interest rates rise, meaning that the price of raw materials will also increase the burden on the company as a result the stock price will fall and will have an impact on the composite, in fact the composite value will actually increase or be directly proportional.

Further macroeconomic factors are necessarily considered in the movement of the stock price index the mining sector is the interest rate. Rising bank interest rates have a negative impact for the capital market. Investors will prefer save money instead of buying shares. Investors may also release shares owned as a result of rising interest rates. The reason for saving in the form of savings provide a smaller risk if compared to investing his money in buy shares. Economic variables that affect increases and decreases in prices are influenced by the exchange rate of the rupiah against foreign exchange or exchange rates. According to Septian (2012), the amount of money that is converted with foreign currencies purchased can describe other currencies that can express as a number of local currencies. This exchange of currencies is only done for companies conducting international trade where each transaction must make a purchase or pay using the IDR exchange rate against USD, The exchange rate of the rupiah against other currencies affects the profit of a company, because companies that use materials produced from abroad will experience an increase in the value of debt if the value of the rupiah against foreign currencies decreases or depreciates (Saudi, 2018).

In addition, the BI interest rate is the interest rate set by BI as a benchmark for lending and deposit rates for banks and or financial institutions throughout an Indonesia. Interest rates are one of the variables that can affect stock prices. Changes in interest rates will further affect one's desire to make an investment, because in general changes in SBI interest rates can affect deposit rates and lending rates in the community Amin ( 2012)

The money supply can also be affect price movements in the indexstock. Research conducted by Zaretta (2015) shows that the Amount of Money Circulating has a significant effect on stock prices. More and more numbers money in circulation will increase opportunities society to invest their money in the form of shares. This clearly will affect the stock index because it is increasingly many people buy shares.

Foreign domination in the market has a cost-benefit consequence for the capital market. One of the disadvantages is that if the foreign portion is too large, the capital market will fall when they decide to roll out their funds. This research was conducted to observe how the interest rate affects, the inflation, SBI, Kurs, the money supply well as world oil prices composite stock price index movements in Indonesia. This study uses 4 variables macroeconomic as well as coal prices because in some studies mention the variable has influence on stock price movements. Whereas for the period chosen in this research is 2016-2018.

## LITERATURE REVIEW

### Macroeconomic

Macroeconomic environment one part of economics that studies the economic mechanism of a country as a whole According there are several factors that are included in the macro economy such as:

1. Inflation

In theory, inflation is an activity that describes a national economy. According to Irham Fahmi (2014: 67) an event that shows the conditions and situation of the price of goods that have increased due to weakening of a country's currency or the value of the IDR.

2. Interest Rate

According to Kieso, Weygandt, Warfield (2011: 289) "Interest rate is a percentage of outstanding principal ". While Brigham and Houston (2010: 234-235) states "The stated (nominal) interest rate debt securities,  $r$ , consist of real risk-free interest rates,  $r^*$ , plus some premiums that reflect inflation, the risks of the effects, and their possibilities for marketed (or liquidity). "

3. Exchange rate

International trade will encourage the exchange of two or two more different currencies. This transaction will generate requests and bid against a certain currency, here are some notions about exchange rates. According to Nopirin (2012: 163) the exchange rate is Prices in exchange for two different currencies will there is a value or price comparison between two particular currencies, this value comparison is called the exchange rate.

4. Money Supply  
The definition of money supply is narrowly known or known (M1) and widely known or known (M2). Group M1 covers the currency already owned by the community and demand deposits in rupiah or demand deposits and M1 are included in M2, time deposits in rupiah and foreign currency, quasi money (including savings, and current accounts in foreign currencies), and securities that are issued in the monetary system owned by domestic private companies with a period of one year. ([www.bi.go.id](http://www.bi.go.id))
5. Gross domestic product  
Gross domestic product affects price fluctuations in the stock index as well. According to Mankiw (2012: 20) The increase in the value of gross domestic product in a country influences investor decisions.
6. Unemployment rate  
An unemployment rate illustrates how large the number of job vacancies that can be provided by the government in a country which is illustrated from the overall total percentage of workers who have not gotten Tandelilin jobs, (2010: 212).

### **Composite**

Composite is an indicator that describes the movement of stock prices. The index is used as an indicator of market development, meaning that the movement of the index indicates a market condition whether the market is active or lethargic ([www.idx.co.id](http://www.idx.co.id)).

Index movements will be influenced by various variables, not just demand and supply. Composite stock price index is the share price stated in the form index number. Composite Stock Price Index is one of the indices used on the Indonesia Stock Exchange. Calculation method in the composite stock price index is divided into two types, namely the average method (Average Method) and weighted average method (Weighted Average Method).

### **Net Foreign**

The main theory is about positive feedback trading from investors foreign (Neal, et.al, 2002). Positive Feedback Trading is the action of market participants foreigners to buy superior shares when the market is bullish and sell leading shares when the market is bearish. Indications of positive feedback trading can be seen incorrectly one of them is increasing net buying.

Usually positive feedback trading from foreign investors will trigger action also bought by domestic investors. This situation will make the market index rise. Different conditions (negative feedback trading) make the market index go down. Stock indices move following investor optimism and pessimism.

For Indonesia and some stock exchanges with market capitalization relatively small, optimism and pessimism of foreign stock investors is thought to very determine the movement of the stock index.

### **RESEARCH HYPOTHESIS**

Based on the theory, framework and empirical study, the hypothesis of this study:

H1 : There is a significant influence between the rate of inflation on the composite

H2 : There is a significant influence between the exchange rate of the rupiah against the composite

H3 : There is a significant influence between SBI interest rates on the composite

H4 : There is a significant influence between the money supply to the composite

H5 : There is a significant net foreign between the money supply to the composite

H6 : There is a significant influence between the inflation rate, the rupiah exchange rate, interest rates, the money supply and foreign transactions simultaneously on the composite.

### **RESEARCH METHODS**

This research is causal research. Causal research is research that aims to determine the relationship of a causal / causal of a thing. Method is an explanatory research with a quantitative approach. Model data analysis using multiple linear regression analysis. This study obtained data through several official sites. Where the Inflation Rate, Exchange Rate and Interest Rate data are obtained from the website [www.bi.go.id](http://www.bi.go.id). The Amount of Money Supply is obtained from the website [www.kemendag.go.id](http://www.kemendag.go.id), composite data foreign transactions are obtained from the site [www.idx.co.id](http://www.idx.co.id). The population used in this study is composite data on the Indonesia Stock Exchange during 2016-2018. So that the time series observation data is 36 months and data processing is performed using Eviews-10.

### **RESULT AND DISCUSSION**

#### **Statistic Descriptive**

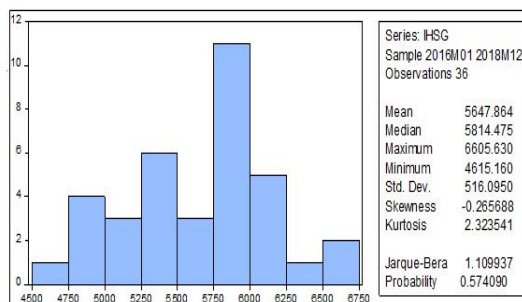
Based on data processing, the results of descriptive research statistics are obtained as follows

**Table 1.1 Statistic Descriptive**

	<b>INFLASI</b>	<b>KURS</b>	<b>SBI</b>	<b>JUB</b>	<b>FOREIGN</b>	<b>IHSG</b>
<b>Mean</b>	3.512500	12653.92	4.958333	5013654.0	4.23171	5647.864
<b>Median</b>	3.405000	13472.50	4.750000	5198863.0	2.34190	5814.475
<b>Maximum</b>	4.450000	15203.00	6.000000	5760046.0	6.14217	6605.630
<b>Minimum</b>	2.790000	13048.00	4.250000	452195.1	8.52129	4615.160
<b>Std. Dev.</b>	0.444402	541.7958	0.542810	858404.8	12.3148	516.0950

Source : Data Processing, Eviews 10

**NORMALITY TEST**



**Picture 1.1 Normality Test**

Based on the picture above shows the results of the Jarque-Bera value of 1.109937 < 2 with a probability value of 0.574090 greater than 0.05, it means that the data used in this study is normally distributed.

**MULTIPLE REGRESSION ANALYSIS**

The analysis in this study uses multiple regression analysis to determine the effect of the independent variables, Inflation, Exchange Rates, SBI ,Money Supply , Net Foreign and the Composite Stock Price Index. The regression equation results are as follows:

**Tabel 1.2  
 Result Multiple Regression Analysis**

<b>Variable</b>	<b>Coefficient</b>	<b>Prob.</b>	<b>Kesimpulan</b>
<b>C</b>	3247,462	0,0013	-
<b>INFLASI</b>	-73,07766	0,3029	Rejected
<b>KURS</b>	-0,285494	0,0140	Accepted
<b>SBI</b>	-19,68490	0,0137	Accepted
<b>JUB</b>	0,001470	0,0000	Accepted
<b>FOREIGN</b>	-12,926381	0,0800	Rejected

Source : Data Processing, Eview 10

The Equation is :

$$Y = 4367,322 - 73,07766 \text{ INFLASI } 0,285494 \text{ KURS} - 19,68490 \text{ SBI} + 0,001470 \text{ JUB} - 12,926381 \text{ FOREIGN}$$

A constant value of 4367,322 shows a positive influence on the independent variables, inflation, exchange rates, SBI, and Supply Money. The value of the regression coefficient on the inflation variable has a negative effect of - 73.07766 can be interpreted if inflation rises 1% will cause the composite to decrease 73.07%. The value of the regression coefficient on the variable exchange rate has a negative effect of - 0.285494 can be interpreted if the

exchange rate increases by 1% will cause the composite to decrease by 0.28%. The value of the regression coefficient on the sbi variable has a negative effect of - 197.6849, which can be interpreted if sbi increases by 1% will cause the composite to decrease by 19.68%. The value of the regression coefficient on the variable money supply has a positive effect of 0.001470 can be interpreted if the money supply rises by 1% will cause the composite to rise 0.14%. The value of the regression coefficient on the net foreign variable has a negative effect of -12.926381, which can be interpreted if the money supply increases by 1% will cause the composite to rise -0.13%.

### T-TEST

T-test testing was conducted to determine the effect of variables between independent and dependent, Inflation variable has a p-value of  $0.3029 > 0.05$  meaning that the inflation variable has no significant effect on the composite. This study supports research previously conducted by Panji Kusuma Prasetyanto (2016). Variable Amount of Money Supply at  $0,000 < 0.05$  means that the variable money supply has a positive and significant effect on composite.

Exchange rate variable at  $0.0140 < 0.05$  means that the exchange rate variable has a negative and significant effect on the composite. This study supports research previously conducted by Krisna and Wirawati (2013). The SBI variable of  $0.0137 < 0.05$  means that the SBI variable has a negative and significant effect on the composite. This study supports research previously conducted by Gumilang et al. (2014), Nadeem (2015), Kumalasari et al. (2016), Asih & Akbar (2016), Habib & Islam (2017) and variable Net foreign has no significant effect on the composite.

### F-TEST

F-test is used to determine whether there is a simultaneous influence of the independent variable on the dependent. The test results are as follows:

**Table 1.3**  
**F-Test**

<b>F-statistic</b>	<b>53,26106</b>
<b>Prob(F-statistic)</b>	<b>0,00000</b>

Source: Data Processing, Eviews 10

Based on table 1.3, the f value of 53.26106 is obtained with an F-statistic probability value of  $0.00000 < 0.05$  so that it can be interpreted that the inflation variable, exchange rate, SBI, the Amount of Money Supply and Net Foreign have a significant effect jointly on the composite.

### COEFFICIENT OF DETERMINATION

To find out how far the independent variables, inflation, exchange rates, SBI money supply and foreign transactions are able to explain the composite variable. The test results are as follows:

**Tabel 1.4**  
**Koefisien Determinasi**

<b>R-squared</b>	<b>0,61025</b>
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Source: Data Processing, Eviews 10

Based on table 1.4, the R-Squared result is obtained 0.61025, meaning that the inflation, exchange rate, SBI and money supply variables affect the IHSG by 61% while the remaining 39% is influenced by other variables.

### CONCLUSION

1. Simultaneous influence (together) each independent variables on the composite are done with F-test testing. From the results of the analysis multiple linear regression obtained variables free has a significant influence

simultaneously with composite. So it can be concluded that testing of hypothesis which states that it exists influence together (simultaneously) independent variables the composite variables can be accepted.

2. from the results of the t test using 5 independent variables used obtained 3 variables that significantly influence the composite, namely the exchange rate, the SBI and the amount of money in circulation.

## SUGGESTION

1. For Investor

Macroeconomic variables are proven to have a simultaneous influence on the Composite Stock Price Index on the Indonesian Stock Exchange, for this reason investors need to be more careful and alert to the ongoing market situation by taking into account changes in macroeconomic indicators and monetary policy taken by the government in making their investment decisions so they don't suffer losses.

2. Researcher

This study only uses 3 macroeconomic and Net Foreign variables while the macroeconomic factors are more numerous and the observation period of this study only uses 3 years from 2016 - 2018, it is better to use a longer observation period which will strengthen the actual situation related to the macroeconomic influence on the composite.

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**Website**

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[www.bi.go.id](http://www.bi.go.id)

[www.kemendag.co.id](http://www.kemendag.co.id)