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Moderating of Inflation Policy and Its Relation to the Effect of Interest Rate and Exchange Rate on Decreasing IHSG

M. Nuruddin Subhan*

Faculty of Economic and Business, Pancasila University, Indonesia*)

ABSTRACT

***Objectives**: The objectives of this research are: 1) to determine the effect of interest rates on the IHSG; 2) to determine the effect of the exchange rate on the IHSG; 3) to know the effect of the interest rate on the IHSG with inflation as moderation; and 4) knowing the effect of the exchange rate on the IHSG with inflation as moderation.* ***Methodology:** This research methodology was carried out using a quantitative model with a moderating effect analysis method which was processed using SmartPLS 3.0. The research findings and conclusions show that the significance value of interest rates is 0.747>0.05, which means that interest rates do not influence the IHSG. This means that interest rate movements during 2017-2022 are stable so that it does not cause investors to withdraw shares which has an impact on weakening the IHSG. Furthermore, the significance value of the exchange rate is 0.010<0.05, which means that there is an influence of the exchange rate on the IHSG. This is caused by the instability of the exchange rate in Indonesia during 2017-2022, because an increase in the exchange rate means that dividends distributed will decrease and investors will withdraw their shares, resulting in a weakening of the IHSG.* ***Finding:** The moderation of inflation on the effect of interest rates on the IHSG obtained a significance value of 0.000<0.05. Likewise, the moderation of inflation on the impact of the exchange rate on the IHSG obtained a significance value of 0.000<0.05.* ***Conclusion:** Inflation significantly moderates the influence of the interest rate and the exchange rate on the IHSG.*

Keywords: Inflation; Interest Rate; Exchange Rate; Composite Stock Price Index (IHSG)

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INTRODUCTION

As we know, the number of shares listed on the stock exchange is very large and each of these shares has a different market capitalization. When a potential investor wants to invest, he needs data that describes the actual situation of the various shares spread on the stock exchange. This is the reason for the existence of an index or reflection that describes the overall condition of shares or what we know as the Composite Stock Price Index (IHSG). Stock price movements such as the IHSG cannot be separated from the influence of macro variables such as interest rate, inflation, and exchange rate. IHSG is an indicator or reflection of overall stock price movements. IHSG has even become a benchmark for whether a country's economic system is declining or is doing well. IHSG is often associated with economic conditions and stability. In other words, if the IHSG rises, it means the economy is doing well. On the other hand, if the IHSG falls, then economic stability is being disrupted.

Picture 1.1. Composite Stock Price Index (IHSG) 2017- 2022

Source: IDX Trading View

Economic stability in recent years has been disrupted, this is due to the Covid-19 pandemic. The COVID-19 pandemic has also had an impact on the economies of all countries in the world, one of which is Indonesia. The pandemic-affected economy is pushing everyone to adapt. The government is trying to be a catalyst to encourage society and business actors to rise to face the pandemic. The government is trying to create a national economic recovery policy to protect, maintain, and restore the economic capacity of business actors. The COVID-19 pandemic has disrupted economic indicators, one of which is price instability which causes several goods to experience continuous price increases, thus causing inflation.

Based on data from the Indonesian Ministry of Trade regarding Indonesia's foreign trade, exports, and imports during 2021-23, shows that Indonesia is still experiencing a trade surplus where the value of exports is higher than the value of imports. As of 2021, the export value was

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231,609.47 million USD and the import value was 196,189.99 million USD or there was a trade surplus of 35,189.99 million USD. Then in 2022, the surplus value increased to 54,457.26 million USD, but in 2023 it decreased to 258,797.20 million USD. More details are presented in the following table:

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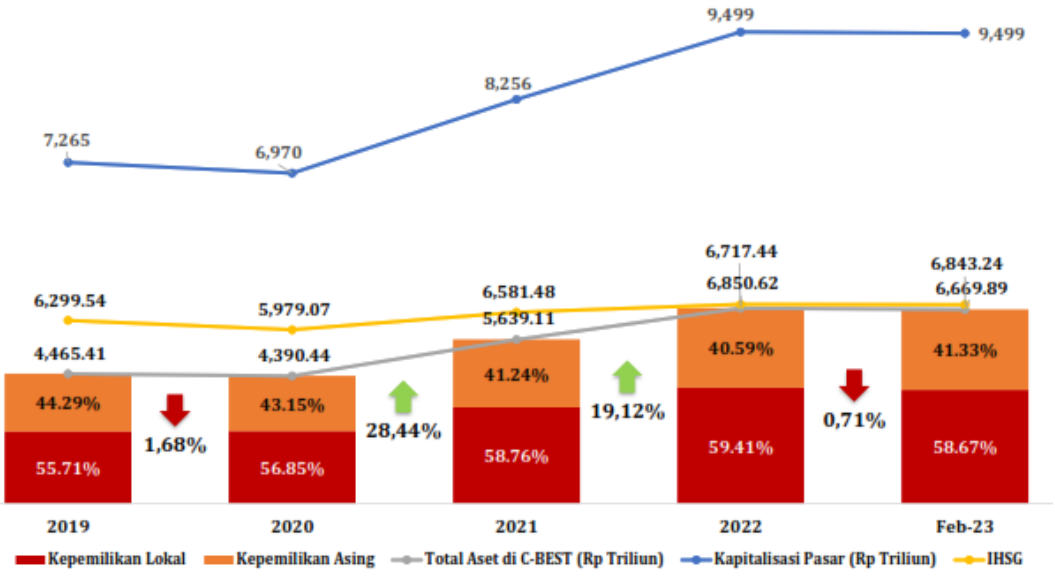
Table 1.1. Comparison of Exports and Imports for 2021-2023

No	Months	Year 2023		Year 2022		Year 2021	
		Export	Import	Export	Import	Export	Import
1	January	22,323.84	18,442.93	19,143.17	18,211.10	15,300.17	13,329.90
2	February	21,321.28	15,919.17	20,489.07	16,638.51	15,255.40	13,264.97
3	March	23,415.99	20,588.05	26,586.73	21,962.42	18,398.41	16,787.51
4	April	19,284.08	15,347.61	27,316.24	19,757.45	18,474.13	16,204.34
5	May	21,706.83	21,279.59	21,493.25	18,609.29	16,908.02	14,234.82
6	June	20,601.31	17,150.49	26,141.05	21,003.85	18,547.74	17,218.46
7	July	20,862.23	19,570.34	25,473.42	21,345.03	19,369.60	15,263.12
8	August	21,997.98	18,879.83	27,928.70	22,150.55	21,443.15	16,678.89
9	September	20,746.55	17,341.61	24,764.55	19,808.34	20,618.79	16,234.15
10	October	22,146.71	18,672.91	24,726.29	19,135.35	22,090.98	16,293.62
11	November	21,998.25	19,586.55	24,059.11	18,962.09	22,845.36	19,328.19
12	December	22,392.15	19,107.14	23,782.72	19,863.06	22,357.72	21,352.02
TOTAL		258,797.20	221,886.22	291,904.30	237,447.04	231,609.47	196,189.99
Surplus/Deficit		36,910.98		54,457.26		35,419.48	

Source: https://satudata.kemendag.go.id/ (data is processed, 2024)

The composition of foreign investors and domestic investors based on reports from KSEI from 2019 to the end of the period February 2023 shows that domestic investors still show their dominance as can be presented in the following graphic:



Picture 1.2. Growth in Stock and Other Securities Assets from Foreign and Domestic Investors
Source: KSEI (2024)

These things certainly influence the IHSG. The rise and fall of the rupiah against the USD have an impact on the rise and fall of the IHSG on the IDX. As we all know, Indonesia's macro economy is not only influenced by changes in exchange rates but is also influenced by inflation.

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Inflation is a phenomenon where stock prices generally experience a continuous increase. Increasing inflation causes a decrease in purchasing power. This means that each dollar's value can only be used to purchase goods and services in smaller quantities. As inflation rises, income stock prices often fall. This also means that dividend stocks will cause their shares to fall as inflation increases. In conditions like this, investors can take advantage of the situation by buying shares at lower prices (Riska and Purwanti, 2024).

When inflation occurs in a country, it causes prices to increase, this will cause people's buying interest in existing goods to decrease so that the economy will also decline. The decline in the economy will cause a decrease in investment, including capital market investment, so that the interest in buying shares will decrease and this will cause share prices to decrease so that the IHSG will automatically decrease. Inflation is a negative signal for the movement of the Composite Stock Price Index. If inflation increases it will cause the JCI to shrink and if inflation decreases then the Composite Stock Price Index will (Ahmad and Badri, 2022). Bank Indonesia (BI), which is the central bank of this country, has the power or authority to set interest rates, which we know as BI. This interest rate is determined as a reference for loan and savings interest rates. Banks in Indonesia must look at the BI interest rate as the basis for determining loan interest and savings (deposit) interest. However, the BI Rate is not coercive. This means that if BI sets an interest rate of 7.5%, banks may set interest rates on loans and deposits the same or higher or lower than BI.

The existing literature on the relationship between interest rates, inflation, and exchange rates, with the composite stock price index, is limited in several aspects, creating a research gap that can be addressed in this research: 1. Limited focus on the Indonesian context (Most studies examining the impact of interest rates, inflation, and exchange rates on stock prices have been conducted in developed economies. There is a lack of comprehensive research specifically focusing on the Indonesian Composite Stock Price Index and how these macroeconomic factors influence it. Therefore, investigating this relationship within the Indonesian context would contribute to filling this research gap); 2. Insufficient consideration of the interplay between multiple factors (While some studies have individually examined the impact of interest rates, inflation, or exchange rates on stock prices, there is a need for research that simultaneously considers the combined effect of these factors. Understanding how these variables interact and influence the composite stock price index can provide a more comprehensive understanding of the dynamics in the Indonesian stock market); 3. Limited period analysis (Many existing studies have focused on short-term relationships between macroeconomic factors and stock prices. However, it is important to investigate the long-term effects of interest rates, inflation, and exchange rates on the composite stock price index. Examining the relationship over an extended period can provide insights into the sustainability and stability of these relationships); 4. Neglected impact of external factors (Previous research has often overlooked the influence of external factors, such as global economic conditions or political events, on the relationship between macroeconomic factors and stock prices. Incorporating these external factors into the

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analysis can enhance the understanding of how interest rates, inflation, and exchange rates interact with other variables to affect the composite stock price index).

Addressing these research gaps can contribute to the existing literature by providing a more comprehensive understanding of the relationship between interest rates, inflation, and exchange rates, with the composite stock price index in the Indonesian context. Naturally, investors want to minimize risk, so they typically sell when things feel better economically. This selling action by investors will cause a decline in the stock price index on the IDX. Research on Inflation conducted by (Paryudi, et al., 2021) shows that inflation does not affect stock prices. The results of this research are not in line with research conducted by (Aryani, et al., 2023) which states that inflation affects stock prices. Research on the Rupiah Exchange Rate conducted by (Paryudi, et al., 2021) shows that the Rupiah Exchange Rate does not affect stock prices. The results of this research are not in line with research conducted by (Fuad & Yuliadi, 2021) which states that the Rupiah Exchange Rate affects stock prices. Research on interest rates carried out by (Paryudi, et al., 2021) shows that interest rates do not affect stock prices. The results of this research are not in line with research conducted by (Fuad & Yuliadi, 2021) which states that interest rates affect stock prices. Based on the research background that has been described, researchers try to fill the empirical gap and interest in researching the moderating effect of inflation policy and its relation to the impact of the interest rate and the exchange rate on IHSG, is intriguing for several reasons: 1. Relevance to Indonesia's Economy (Understanding how inflation policy moderates the impact of interest rates and exchange rates on the IHSG is crucial for policymakers, investors, and economists in Indonesia. The IHSG is a key indicator of the country's stock market performance, and its movement can have significant implications for economic stability and investor confidence); 2. Complex Interplay of Factors (The research topic delves into the intricate relationship between inflation, interest rates, exchange rates, and stock market performance. These variables are interconnected and can influence each other in various ways, making your research both challenging and valuable in uncovering the nuances of Indonesia's economic dynamics); 3. Policy Implications (By examining how inflation policy moderates the effects of interest rates and exchange rates on the IHSG, your research can provide insights into the effectiveness of monetary policy measures in stabilizing the economy and promoting sustainable growth. This knowledge can inform policymakers in designing more targeted and efficient policy interventions); 4. Investor Decision-Making (Investors often closely monitor inflation, interest rates, and exchange rates as they impact investment decisions and asset prices. This research can contribute to a better understanding of how these factors interact and influence stock market movements, thereby helping investors make more informed decisions); 5. Academic Contribution (Exploring the moderating effect of inflation policy on the relationship between macroeconomic variables and stock market performance adds to the academic literature in the field of economics and finance. This research has the potential to advance theoretical frameworks and empirical methodologies in this area. Overall, this research

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interest holds significant promise in contributing to both academic knowledge and practical insights into the factors driving stock market movements in Indonesia.

LITERATURE REVIEW

A. Inflation

1. Understanding Inflation

Ahmad and Badri (2022) state that inflation is a tendency to increase overall product prices, which results in a decrease in the purchasing power of money. Inflation is an overall and continuous increase in prices. An increase in the price of one or two commodities is not inflation. According to Bank Indonesia, inflation is simply defined as a general and continuous increase in prices over a certain period. An increase in the price of just one or two goods cannot be called inflation unless the increase is widespread or results in an increase in the prices of other goods. The opposite of inflation is called deflation. Inflation or price increases are more likely to influence the profit level of companies listed on the stock exchange. An increase in prices will usually be followed by an increase in company profits. If the company's profits increase, the value of the company's shares will tend to increase, followed by an increase in the IHSG. The impact of the currency rate on the IHSG is tied to investors' expectations for a country's economy. For example, if the rupiah's exchange rate versus the dollar falls, investors will become concerned.

2. Causes of Inflation

a. Inflation Increases Production Costs (Cost Push Inflation)

One of the causes of inflation is a scarcity of production and/or also a scarcity of distribution, even though demand in general has not changed significantly. There are several reasons why production may be reduced, including issues with the sources of production, weather, natural disasters, and a shortage of raw materials. As a result, there is a shortage of comparable goods on the market. In addition, price increases—such as those in the cost of raw materials—can also result in higher production costs. In addition, inflation may be brought on by an increase in wages or salaries; for instance, a rise in the pay of public servants may lead to an increase in the pricing of items sold by private companies (Blanchard Olivier, 2016)

b. Demand-Pull Inflation

The next cause of inflation occurs due to strong public demand or attraction for an item. Inflation occurs due to the emergence of excessive desires from a group of people who want to take advantage of more goods and services available on the market. Because of excessive desire, demand increases, while supply remains constant, which ultimately causes prices to rise (Dornbusch, 2018).

c. High Money Circulation

The cause of this inflation occurs because there is more money circulating in society than is needed. When the quantity of goods remains constant while the money in circulation doubles, prices can increase by up to 100%. This can happen when the government implements a deficit budget system, where the budget shortfall is overcome

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by printing new money. However, this causes the amount of money circulating in society to increase and results in inflation (Mankiw, 2017).

3. Inflation Theory

The following is a grand theory that is proper with the research model and with moderating inflation: Quantity theory explains that the high price of goods is determined by the amount of money circulating in society, the rapid movement of money, and the decline in goods production transactions. Quantity theory explains 3 things, including:

a. If in an economic system, the amount of money in circulation (M) and transactions in produced goods (T) are relatively fixed, then the price (P) will rise if the transfer of money (V) from one hand to another takes place quickly (society is too consumptive).
b. If in an economic system, the speed of movement of money (V) and the amount of goods produced (T) are constant. The price increase is caused by too much money being printed and circulating in society.
c. If in an economic system, the speed of money movement (V) and the amount of money in circulation (M) are constant. The increase in prices is caused by a decrease in transactions of production goods (T).

B. Interest Rate

1. Understanding Interest Rate

Boediono in Ahmad and Badri (2022) believes that the interest rate is the price that must be paid if there is an exchange between one Rupiah now and one Rupiah in the future.

2. Types of Interest Rate and Examples

The following are the types of interest rates and examples:

a. Savings Interest Rate

The deposit interest rate is the interest rate given as compensation to customers who save their money at the bank. Deposit interest is also the price that the bank must pay to the customer. Examples include savings interest, deposit interest, and current account services.

b. Loan Interest Rate

Loan Interest Rate is the interest rate charged to money borrowers or a price that must be paid by the customer to the bank for the capital loan used by the customer. Examples include credit interest.

c. Effective Interest Rate

The effective interest rate is the interest rate calculated based on the unpaid or outstanding principal amount. This interest rate is calculated at the end of each installment period, the value of interest paid by customers will become smaller over time, so the monthly installments will decrease over time. The second interest installment is smaller than the first interest installment, and so on. Formula: *Monthly Interest = End of Period Balance x Annual Interest Rate / 12*

Example:

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Dedi has a debt of IDR 100,000,000 to the bank, with principal installments of IDR 10,000,000 per month with effective interest of 12% per year.
The 1st month the interest is 1% x IDR 100,000,000 = IDR 1,000,000
The 2nd month the interest is 1% x IDR 90,000,000 = IDR 900,000
The 3rd month the interest is 1% x IDR 80,000,000 = IDR 800,000
In the 4th month the interest is 1% x IDR 70,000,000 = IDR 700,000
etc.

d. Flat Interest Rate

A flat interest rate is the interest rate paid based on the amount of principal debt payments and the amount of credit interest of the same amount every month. This interest rate is used for short-term credit such as KTA and vehicle loans. This flat interest rate is the easiest. Every month the amount of interest is the same, the installments are the same, and the principal installments are the same. Formula: Interest per Month = Loan Amount X Interest Rate per Year/12

Example:

Mr. Rahmat has a debt of Rp. 80,000,000 with a flat interest rate of 12% per year, so every month the amount of interest that Mr. Rahmat must pay is Rp. 800,000.

e. Annuity Interest Rate

The annuity interest rate is a modification of the effective interest rate. This is done to make it easier for customers to pay monthly installments because the installment amount is the same every month. With this interest rate, the monthly installment amount is fixed. However, the principal installments and interest composition will change each period. The monthly principal installment will increase and the monthly interest value will decrease.

f. Floating Interest Rate

A floating interest rate is an interest rate whose size will follow the rise and fall of the market interest rate. If the market interest rate rises, then the total credit interest rate will also rise, and vice versa. This interest rate is used for long-term credit such as working capital, business, and investment loans.

3. The Role of Interest Rate

Interest rates are an important factor in the economy. The interest rate determines the amount of investment because the interest rate is the capital cost that investors will incur when using loan capital. If low interest rates can encourage investment growth, because the cost of capital becomes cheap, and vice versa. Interest rates are explained by two theories, namely classical theory and Keynesian theory. According to classical theory, interest rates are the price that must be paid when the rupiah is exchanged between now and the future. Keynesian theory explains the close relationship between investment and interest rates, namely that when interest rates rise, investment demand increases, and vice versa when interest rates fall because investors consider the investments they make (Mete, et al., 2023). Investment decisions will be made if the level of income from investing is greater than the interest rate. The lower the interest rate, the more profit you will earn, and

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vice versa. Meanwhile, according to Keynes, investment activities are based on the concept of Marginal Efficiency of Investment which must be higher than the interest rate (Sudirman, et al., 2022).

C. Exchange Rate

1. Understanding Exchange Rate

According to Riska and Purwanti (2024), Exchange rate refers to the comparison of the value between a country's domestic currency and other foreign currencies. The currency exchange rate is the price of one currency against another currency. The exchange rate is determined in the foreign exchange market, that is, the market for exchanging different currencies. The exchange rate is a significant macroeconomic variable because changes in the exchange rate can affect economic stability and performance. Exchange rate instability can have an impact on capital flows and trade because many currencies are involved in international economic transactions.

2. Conceptual Foundation of Exchange Rate Theories

There are several theories of exchange rates each offering a different perspective to understand and predict their behaviour. These comprise the Purchasing Power Parity (PPP), Interest Rate Parity (IRP), International Fisher Effect (IFE), and Balance of Payment Theory (BOP).

a. Purchasing Power Parity*:* This theory suggests that in the absence of transaction costs and barriers to trade, the exchange rate between two countries should equal the ratio of the countries' price levels.

b. Interest Rate Parity*:* Here, the focus is the link between the nominal interest rates of two countries and the exchange rate between their currencies.

c. International Fisher Effect*:* This theory positions that an expected change in the current exchange rate between any two currencies is proportional to the difference between the two countries' nominal interest rates.

d. Balance of Payments*:* This exchange rate theory focuses on the supply and demand of currencies that result from international trade. Developing a solid comprehension of exchange rate theories offers several benefits for those involved in business and finance. For instance, it helps companies involved in international trade predict future exchange rates and manage related risks. Economists, scholars, and policy-makers can also use these theories to comprehend global economic dynamics and devise appropriate monetary policies.

CONCEPTUAL FRAMEWORK

The research framework concept that describes the effect of the interest rate and exchange rate on the IHSG with inflation as moderation can be described as follows:

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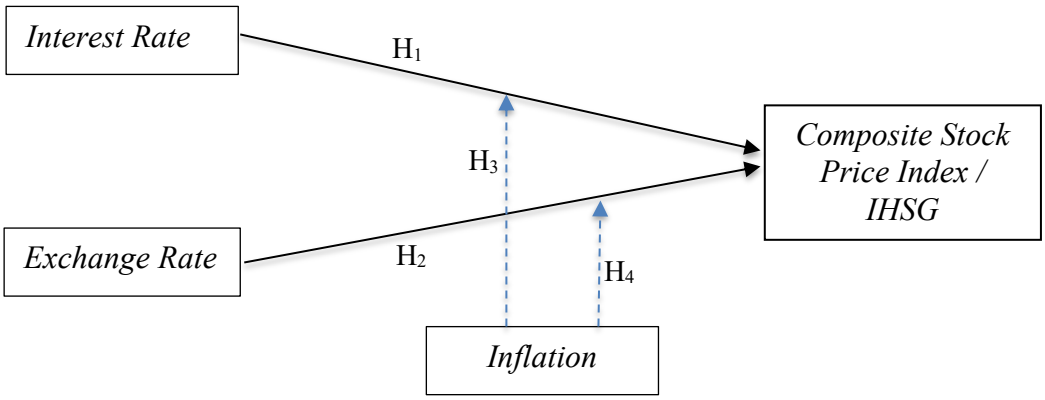

Picture 3.1. Conceptual Framework

Hypothesis of the conceptual framework
H1: Interest Rate Affects IHSG
H2: Exchange Rate Affects IHSG
H3: Inflation moderates the Effect of Interest Rate on IHSG
H4: Inflation moderates the effect of Exchange Rate on IHSG

Enriching the hypothesis of the conceptual framework by exploring the effects of inflation, interest rates, and exchange rates on the Indonesia IHSG, consider the following components:

A. Macroeconomic Indicators:
   Include key macroeconomic indicators such as GDP growth, unemployment rates, and industrial production. These factors can influence inflation, interest rates, and exchange rates, thereby impacting the stock market.
B. Global Economic Conditions:
   Recognize the interconnectedness of the global economy. Changes in global economic conditions, such as international interest rates, geopolitical events, or shifts in global demand, can have spill-over effects on Indonesia's economy and, subsequently, its stock market.
C. Government Policies:
   Explore the impact of fiscal and monetary policies on the stock market. Government interventions, such as changes in tax policies, interest rate adjustments, or monetary stimulus measures, can have profound effects on inflation, interest rates, and exchange rates.
D. Investor Sentiment and Behavior:
   Consider the psychological aspects of investors. Investor sentiment, risk appetite, and behavioral factors play a crucial role in stock market movements. External factors like news, social events, or market rumors can influence investor decisions.
E. Sectoral Analysis:
   Different sectors may respond differently to changes in inflation, interest rates, and exchange rates. Analyze the sensitivity of various industries to these macroeconomic variables, as this can provide a more nuanced understanding of the overall stock market dynamics.
F. Institutional Investors and Foreign Direct Investment (FDI):

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Evaluate the role of institutional investors and the impact of foreign direct investment on the stock market. Institutional investors often have a long-term perspective, and their actions can influence market stability, while FDI can affect exchange rates and overall economic growth.

G. Technology and Market Structure:
Assess the role of technology in financial markets. High-frequency trading, algorithmic trading, and market structure changes can impact the speed and efficiency of price adjustments in response to changes in inflation, interest rates, and exchange rates.

H. Crisis and Risk Management:
Consider the resilience of the stock market during economic crises. Explore how risk management practices, regulatory frameworks, and crisis response mechanisms contribute to the market's ability to withstand external shocks.

I. Environmental, Social, and Governance (ESG) Factors:
Incorporate ESG considerations as they become increasingly important for investors. Analyze how environmental, social, and governance factors can influence stock prices and overall market performance.

J. Long-Term Trends and Structural Changes:
Investigate long-term trends and structural changes in the economy. Demographic shifts, technological advancements, and evolving consumer preferences can shape the stock market over the years, affecting its sensitivity to inflation, interest rates, and exchange rates.

By incorporating these elements into the hypothesis of a conceptual framework, we can create a more comprehensive understanding of the intricate relationships between inflation, interest rates, exchange rates, and the Indonesia Composite Stock Price Index (IHSG).

METHOD

A. Research Category

Quantitative research is research based on assumptions and then variables are determined which are then analyzed using valid research methods. This research method translates data into numbers to analyze the results of the findings. Quantitative research can be descriptive, correlational, and associative based on the relationship between variables (Ali, et al., 2022). The type of research used in this research is quantitative research. The quantitative research intended in this research is to determine the relationship or, more precisely, the influence between the independent variable and the dependent variable. The independent variables raised in this research include inflation, interest rate, and exchange rate, while the dependent variable raised in this research is the Composite Stock Price Index (IHSG).

B. Variable Operationalization

1. Inflation (Z)
The definition of inflation on the official Bank Indonesia website is a general and continuous increase in the prices of goods and services over a certain period.
2. Interest Rate (X1)
The interest rate in Indonesia is referred to as the BI Rate. According to Bank Indonesia, the BI Rate is a policy interest rate that reflects the monetary policy attitude or stance established by Bank Indonesia and published to the public.
3. Exchange Rate (X2)

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The exchange rate refers to the comparison of the value between a country's domestic currency and other foreign currencies (Riska and Purwanti, 2024).

4. Composite Stock Price Index (Y)
   The Composite Stock Price Index (IHSG) is an indicator for monitoring the price movements of all shares listed on the Jakarta Stock Exchange (Fuadi, 2020).

C. Data Analysis Technique

The method used in data analysis is statistical methods which include descriptive statistical analysis and inferential statistics. Descriptive statistics are used to explain the uniqueness of data samples in the form of tables. Meanwhile, inferential statistical analysis is used to test the suitability of the data (model fit). The software used is SmartPLS 3.0 with analysis techniques including model fit testing and hypothesis testing.

RESULTS

A. Descriptive Analysis

1. Inflation (Z)

Inflation is a process of continuous increase in general prices. Inflation will result in a decrease in people's purchasing power. The inflation data used is monthly time series data from 2017 to 2022. Data from descriptive inflation calculations from observations from 2017 to 2022 are presented in the following table:

Table 4.1. Inflation Data

Month	*Year*					
	2017	*2018*	*2019*	*2020*	*2021*	*2022*
January	*3.49%*	*3.25%*	*2.82%*	*2.68%*	*1.55%*	*2.18%*
February	*3.83%*	*3.18%*	*2.57%*	*2.98%*	*1.38%*	*2.06%*
March	*3.61%*	*3.40%*	*2.48%*	*2.96%*	*1.37%*	*2.64%*
April	*4.17%*	*3.41%*	*2.83%*	*2.67%*	*1.42%*	*3.47%*
May	*4.33%*	*3.23%*	*3.32%*	*2.19%*	*1.68%*	*3.55%*
June	*4.37%*	*3.12%*	*3.28%*	*1.96%*	*1.33%*	*4.35%*
July	*3.88%*	*3.18%*	*3.32%*	*1.54%*	*1.52%*	*4.94%*
August	*3.82%*	*3.20%*	*3.49%*	*1.32%*	*1.59%*	*4.69%*
September	*3.72%*	*2.88%*	*3.39%*	*1.42%*	*1.60%*	*5.95%*
October	*3.58%*	*3.16%*	*3.13%*	*1.44%*	*1.66%*	*5.71%*
November	*3.30%*	*3.23%*	*3%*	*1.59%*	*1.75%*	*5.42%*
December	*3.61%*	*3.13%*	*2.72%*	*1.68%*	*1.87%*	*5.51%*

Based on this table every month from 2017 to 2022, the following results can be obtained:

Table 4.2. Descriptive Test Result

	X1
Mean	*2.972917*
Median	*3.130000*
Maximum	*5.950000*
Minimum	*1.320000*
Std. Dev.	*1.129572*
Observ.	*72*

Based on the table above, it can be seen that during the period 2017 to 2022, the minimum inflation was found to be 1.32%, which occurred in August 2022. Then the maximum inflation was obtained at 5.95%, which occurred in September 2022. The mean value (average) average) inflation was 2.972917% with a standard deviation of inflation of 1.129572. A standard

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deviation value that is smaller than the average indicates that the inflation variable data value has a good data distribution.

2. Interest Rate (X1)

Interest rate is the price paid for capital as well as capital gains which are the result of equity. The interest rate data used is monthly time series data from 2017 to 2022. Data from descriptive calculations of interest rates from observations from 2017 to 2022 are presented in the following table:

Table 4.3. Interest Rate Data

Month	*Year*					
	2017	*2018*	*2019*	*2020*	*2021*	*2022*
January	*4.75*	*4.25*	*6*	*5*	*3.75*	*3.5*
February	*4.75*	*4.25*	*6*	*4.75*	*3.5*	*3.5*
March	*4.75*	*4.25*	*6*	*4.5*	*3.5*	*3.5*
April	*4.75*	*4.25*	*6*	*4.5*	*3.5*	*3.5*
May	*4.75*	*4.5*	*6*	*4.5*	*3.5*	*3.5*
June	*4.75*	*5.25*	*6*	*4.25*	*3.5*	*3.5*
July	*4.75*	*5.25*	*5.75*	*4*	*3.5*	*3.5*
August	*4.5*	*5.5*	*5.5*	*4*	*3.5*	*3.75*
September	*4.25*	*5.75*	*5.25*	*4*	*3.5*	*4.25*
October	*4.25*	*5.75*	*5*	*4*	*3.5*	*4.75*
November	*4.25*	*6*	*5*	*3.75*	*3.5*	*5.25*
December	*4.25*	*6*	*5*	*3.75*	*3.5*	*5.5*

Based on this table every month from 2017 to 2022, the following results can be obtained:

Table 4.4. Descriptive Test Result

	X2
Mean	*4.506944*
Median	*4.375000*
Maximum	*6.000000*
Minimum	*3.500000*
Std. Dev.	*0.850613*
Observ.	*72*

Based on the table above, it can be seen that during the period 2017 to 2022, the minimum interest rate obtained was 3.5, which occurred from February 2021 to July 2022. Then the maximum interest rate obtained was 6.0, which occurred from November 2018 until June 2019. The mean (average) value of the interest rate is 4.506944 with a standard deviation of inflation of 0.850613. A standard deviation value that is smaller than the average indicates that the data value of the interest rate variable has a good data distribution.

3. Exchange Rate (X2)

The cost of a national currency with foreign currencies is known as its exchange rate. Exchange rates allow prices from different nations to be translated into the same language, hence currency values are vital when making purchases. The exchange rate data used is monthly time series

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data from 2017 to 2022. Data from descriptive calculations of the exchange rate from observations from 2017 to 2022 are presented in the following table:

Table 4.5. Exchange Rate Data

Month	Year (in Rupiah)					
	2017	2018	2019	2020	2021	2022
January	13,343.00	13,413.00	14,072.00	13,662.00	14,084.00	14,381.00
February	13,347.00	13,707.00	14,062.00	14,234.00	14,229.00	14,371.00
March	13,321.00	13,756.00	14,244.00	16,367.00	14,572.00	14,349.00
April	13,327.00	13,877.00	14,215.00	15,157.00	14,468.00	14,418.00
May	13,321.00	13,951.00	14,385.00	14,733.00	14,310.00	14,544.00
June	13,319.00	14,404.00	14,141.00	14,302.00	14,496.00	14,848.00
July	13,323.00	14,413.00	14,026.00	14,653.00	14,491.00	14,958.00
August	13,351.00	14,711.00	14,237.00	14,554.00	14,374.00	14,875.00
September	13,492.00	14,929.00	14,174.00	14,918.00	14,307.00	15,247.00
October	13,572.00	15,227.00	14,008.00	14,690.00	14,199.00	15,542.00
November	13,514.00	14,339.00	14,102.00	14,128.00	14,340.00	15,737.00
December	13,548.00	14,481.00	13,901.00	14,105.00	14,269.00	15,731.00

Based on this table every month from 2017 to 2022, the following results can be obtained:

Table 4.6. Descriptive Test Result

	X3
Mean	14280.50
Median	14285.50
Maximum	16367.00
Minimum	13319.00
Std. Dev.	627.2912
Observations	72

Based on the table above, it can be seen that during the period 2017 to 2022, the minimum exchange rate obtained was IDR. 13,319.00 occurred in June 2017. Then the maximum exchange rate was obtained at Rp. 16,367.00 occurred in March 2020. The mean (average) value of the exchange rate was IDR. 14,280.50 with an inflation standard deviation of 627.2912. A standard deviation value that is smaller than the average indicates that the data value of the exchange rate variable has good data distribution.

4. Composite Stock Price Index/IHSG (Y)

IHSG is a composite stock price index number that was established and computed through the development of a method. The index number is a numerical value that is processed in a manner that enables it to be utilized to compare events, which may occasionally manifest as fluctuations in stock prices. The IHSG data used is monthly time series data from 2017 to 2022. Data from descriptive IHSG calculations from observations from 2017 to 2022 are presented in the following table:

Table 4.7. IHSG Data

Month	Year					
	2017	2018	2019	2020	2021	2022
January	5,294.10	6,605.63	6,532.97	5,940.05	5,940.05	6,631.15
February	5,386.69	6,597.22	6,443.35	5,452.70	5,452.70	6,888.17
March	5,568.11	6,188.99	6,468.75	4,538.93	4,538.93	7,071.44
April	5,685.30	5,994.60	6,455.35	4,716.40	4,716.40	7,228.91
May	5,738.15	5,983.59	6,209.12	4,753.61	4,753.61	7,148.97

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June	*5,829.71*	*5,799.24*	*6,358.63*	*4,905.39*	*4,905.39*	*6,911.58*
July	*5,840.94*	*5,936.44*	*6,390.50*	*5,149.63*	*5,149.63*	*6,951.12*
August	*5,864.06*	*6,018.46*	*6,328.47*	*5,238.49*	*5,238.49*	*7,178.59*
September	*5,900.85*	*5,976.55*	*6,169.10*	*4,870.04*	*4,870.04*	*7,040.80*
October	*6,005.78*	*5,831.65*	*6,228.32*	*5,128.23*	*5,128.23*	*7,098.89*
November	*5,952.14*	*6,056.12*	*6,011.83*	*5,612.42*	*5,612.42*	*7,081.31*
December	*6,355.65*	*6,194.50*	*6,299.54*	*5,979.07*	*5,979.07*	*6,850.62*

Based on this table every month from 2017 to 2022, the following results can be obtained:

Table 4.8. Descriptive Test Result

	Y
Mean	*6098.600*
Median	*6037.290*
Maximum	*7228.910*
Minimum	*4538.930*
Std. Dev.	*617.6949*
Observations	*72*

Based on the table above, it can be seen that during the period 2017 to 2022, the minimum IHSG was obtained at 4,538,930 which occurred in March 2021. Then the maximum IHSG was obtained at 7,228,910 which occurred in April 2022. The mean (average) value of IHSG amounted to 6,098,600 with an inflation standard deviation of 617,6949. A standard deviation value that is smaller than the average indicates that the IHSG variable data values have good data distribution.

B. Inferential Analysis

1. Goodness of Fit

In this research, data analysis was processed using SmartPLS 3.0. The stages in testing goodness of fit performance will be carried out by paying attention to the model fit criteria and by looking at the adjusted r square value. The Goodness of fit model testing stage aims to test the predictive power of the model and the feasibility of the model. The criteria that must be met are Model Fit to see whether the model and data are appropriate or not to test the impact of variables. The condition is that SRMR must be less than 0.10 or NFI must be more than 0.90 (Aditya, et al., 2023)

Table 4.9. Model Fit Analysis Results

	Saturated Model	Estimated Model
SRMR	0.000	0.043
d_ULS	0.000	0.019
d_G	0.000	0.006
Chi-Square	0.000	2.179
NFI	1.000	0.954

From the results of the fit model above, the results can be seen that SRMR (Standardized Root Mean Square Residual) has a result of 0.043, which is smaller than 0.08, so this value can be an appropriate model size, so it does not give rise to model misspecification. The d_ULS output is 0.019 and d_G is 0.006, producing a value smaller than 0.05, this shows that the model suitability is good. These results show that there is no difference between the sample covariance matrix and the population

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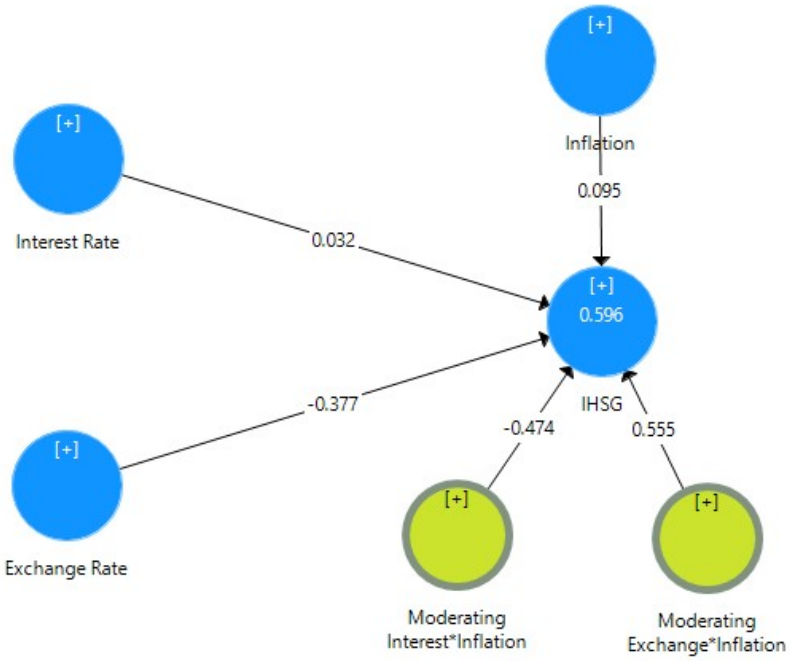
covariance matrix. The NFI output value of 0.954 is close to 1 indicating better model suitability.

The Adjusted R-squared value is a measure of the proportion of variation in the value of the affected (endogenous) variable that can be explained by the affected (exogenous) variable. This helps to see whether the model is good or bad. The Adjusted R Square value has several criteria, including, 0.75 a model is said to be substantial (strong), 0.50 a model is said to be moderate (moderate), and 0.25 a model is said to be weak (Aditya, et al., 2023). The following are the results of the Adjusted R-Square analysis.



Picture 4.1. Path Analysis & R Square

The test results prove that the R Square is 0.596, indicating a moderate model value. The R Square results can be explained by the fact that the influence of the interest rate, exchange rate, and inflation gave a value of 0.596, which can be interpreted as meaning that the dependent latent variable can be explained by the independent and moderating variables by 59.6%, while 40.4% is explained by other variables outside the test model in the research. This.

2. Hypothesis Testing

The results of hypothesis testing based on data processing with SmartPLS 3.0 regarding the influence of the interest rate and exchange rate on the IHSG with inflation as moderation can be seen from the results of the bootstrapping test in the following figure:

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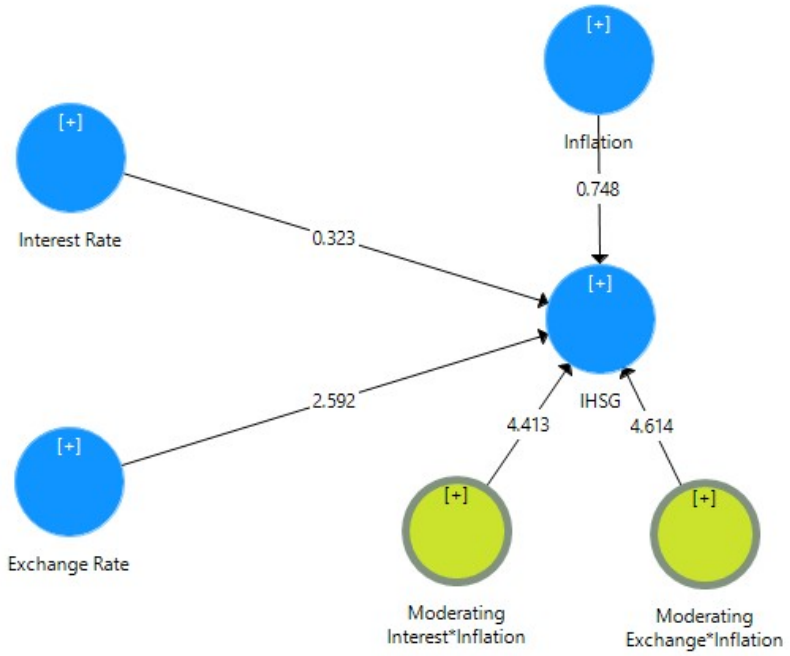

Picture 4.2. Model path coefficient with bootstrapping

In testing this hypothesis, researchers used the total influence analysis method. This analysis helps to test hypotheses regarding the influence of all variables that have an influence (exogenous) on the variables that are affected (endogenous). There are several criteria for this overall impact analysis. First, if the path coefficient value is positive then the influence between variables is in the same direction. Second, if the path coefficient value is negative then the influence between variables is in the opposite direction. Third, for negative values, the influence between variables is opposite. Fourth, the influence between variables is significant if the P-value is smaller than 0.05. Below are the results of the overall impact analysis.

Table 4.10 Hypothesis Test Results

	Original Sample (O)	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*T Statistics (|O/STDEV|)*	*P Values*	*Decisions*
Interest Rate -> IHSG	*0.032*	*0.029*	*0.101*	*0.323*	***0.747***	**Ho accepted**
Exchange Rate -> IHSG	*-0.377*	*-0.361*	*0.145*	*2.592*	***0.010***	**Ho rejected**
Moderating Interest*Inflation -> IHSG	*-0.474*	*-0.482*	*0.108*	*4.413*	***0.000***	**Ho rejected**
Moderating Exchange*Inflation -> IHSG	*0.555*	*0.543*	*0.120*	*4.614*	***0.000***	**Ho rejected**

Based on the table above, it can be seen that the path output variable interest rate is 0.032, which shows that the interest rate has a positive effect on the IHSG. However, based on the p-value of 0.747 > 0.05, it shows that the interest rate variable has no effect on the IHSG, so the first hypothesis (H1) is not proven. Furthermore, the path output variable exchange rate is -0.377, which shows that the exchange rate has a negative effect on the IHSG. Meanwhile, based on the p-value of 0.010 < 0.05, it shows that the exchange rate

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variable has a significant effect on the IHSG, so it can answer the second hypothesis (H2) and is proven.

The output results of interaction analysis 1, namely moderating effect 1 (interest rate*inflation) in moderating the influence of interest rate on IHSG, show a path coefficient of -0.474 in a negative direction, while the path values are 0.000 < 0.05, which means the moderating effect of inflation shows the significant influence. It can be concluded that inflation can negatively and significantly moderate the influence of the interest rate on the IHSG, so inflation moderation weakens the influence of the interest rate on the IHSG so that it can answer the third hypothesis (H3) and is proven.

The output results of interaction analysis 2, namely moderating effect 2 (exchange rate*inflation) in moderating the influence of the exchange rate on the IHSG, show a path coefficient of 0.555 in a positive direction, while the path values are 0.000 < 0.05, which means the moderating effect of inflation shows a positive influence. Significant. It can be concluded that inflation can positively and significantly moderate the influence of the exchange rate on the IHSG, so inflation moderation strengthens the influence of the exchange rate on the IHSG so that it can answer the fourth hypothesis (H4) and is proven.

DISCUSSION

1. Effect of Interest Rate on IHSG

The results of this research prove that the interest rate does not affect the IHSG. Thus, the rise and fall of the interest rate will not have much influence on the IHSG level. High interest rates or low interest rates directly will not have much impact on the IHSG. According to Paryudi, et al. (2021), this insignificant relationship is due to the type of investor who likes to make stock transactions in the short term (trader/speculator), so investors tend to take profit taking in the hope of obtaining quite high capital gains in the capital market.

This supports the findings of previous research by Dewi, et al. (2023) which proves that the interest rate does not affect the IHSG. Likewise, research by Safitri, et al. (2021) proves that the SBI interest rate does not affect the IHSG, because interest rates are seen from how large the interest rate ratio is when compared to the level of profit that the company will obtain on the stock exchange.

The Stock Exchange is a place for stock transactions where investors will buy or sell their shares if the share movement is in their favor. If stock prices move drastically, this has both positive and negative impacts on investors. If a country experiences a high level of inflation, its currency will fall, thereby reducing people's purchasing power, reducing corporate profits, and reducing real returns on investment. This also explains that an increase in interest rates will force larger funds, resulting in lower profitability. However, an increase in interest rates is a good signal for market players to invest more in the money market, thereby providing higher returns compared to equities; therefore, share prices fall (Aryani & Maupula, 2021).

The **theoretical** expectation is that changes in interest rates can influence stock prices through various channels: 1. Discount Rate Effect (Higher interest rates increase the discount rate used to value future cash flows from stocks, leading to lower present values of stocks,

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hence potentially decreasing stock prices); 2. Cost of Capital Effect (Interest rates affect the cost of capital for companies. Higher rates increase borrowing costs, potentially reducing corporate profits and investment, which can depress stock prices); 3. Substitution Effect (Investors may switch between stocks and bonds depending on relative returns. Higher interest rates can make bonds more attractive compared to stocks, leading to lower demand for stocks and thus lower prices). Based on the finding that interest rates have a negative and statistically insignificant effect on the IHSG, with a p-value of 0.747 which is greater than the commonly used significance level of 0.05**, the practical implications** can be interpreted as follows: 1. Limited Impact on Stock Prices (The empirical evidence suggests that changes in interest rates in Indonesia do not significantly impact stock prices on the Indonesian Stock Exchange (BEI). Investors and market participants may not need to react strongly to changes in interest rates when making decisions about stock investments); 2. Focus on Other Factors (Since interest rates are not a significant determinant of stock prices in this context, investors may need to focus on other factors such as corporate earnings, economic growth indicators, geopolitical events, and global market trends when predicting stock market movements in Indonesia). 3. Policy Implications: For policymakers, this implies that monetary policy changes aimed at influencing interest rates may not have a direct and immediate impact on stock market performance in Indonesia. Other policy tools or economic stimuli might be more effective in stimulating stock market activity or investor sentiment; 4. Investment Strategy Adjustments (Investors and fund managers in Indonesia may adjust their investment strategies knowing that interest rate changes are not a dominant factor affecting stock prices. This could involve placing more emphasis on industry-specific factors, company fundamentals, or macroeconomic indicators that have been shown to correlate more strongly with stock market movements in the region).

2. Effect of Exchange Rate on IHSG

The exchange rate has a negative and significant effect on the composite stock price index (IHSG). Therefore, the government must be able to manage the economy so that an economic recession does not occur which causes the rupiah exchange rate to weaken against the dollar. This is according to Pradita and Fidyah (2022). Stable macroeconomic conditions, one of which is influenced by the strengthening Rupiah exchange rate. The results of this research show that the Rupiah exchange rate against the USD has a negative influence on the IHSG. This indicates that when the exchange rate appreciates, the JCI will move in the opposite direction or there will be pressure on the IHSG. Conversely, if the Rupiah exchange rate experiences depreciation, the JCI moves bearish or experiences strengthening. A depreciating Rupiah exchange rate is a negative indication for the national economy because it will have an impact on increasing company expenses which will then have an impact on decreasing profits.

The results of this research support the findings of previous research by Dewi, et al. (2023) which proves that the exchange rate has a negative and significant effect on the IHSG. Likewise, research by Fuad and Yuliadi (2021) proves that the exchange rate has a negative and significant effect on the IHSG.

Foreign currency exchange rates show the price or value of one country's currency in other countries. It is also defined as the amount of domestic money, in this case, rupiah, required to obtain units of foreign currency. A decline in the rupiah exchange rate against foreign currencies can have a negative impact on the economy and capital markets. This will cause

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the cost of importing raw materials to be used for production as well as interest rates to soar, although this can also encourage companies to export. Apart from that, from a traditional perspective, exchange rates can influence the competitiveness of a company Dewi, et al. (2023).

Here are some **theoretical** mechanisms through which exchange rates can affect stock prices: 1). Export Competitiveness (A weaker domestic currency can enhance the competitiveness of exports for local companies. This can lead to increased revenues and potentially higher stock prices for export-oriented firms); 2. Import Costs (A stronger domestic currency can reduce the costs of imported goods and raw materials for companies, potentially boosting profitability and stock prices for import-dependent industries); 3. Foreign Investment (Exchange rate movements can influence foreign investors' decisions to invest in domestic stocks. A weaker currency might attract foreign capital inflows into the stock market, supporting higher stock prices); 4. Macroeconomic Stability (Exchange rate stability can contribute to overall economic stability, which can positively impact investor confidence and stock market performance). Based on the finding that the exchange rate has a negative and statistically significant effect on the IHSG, with a p-value of 0.010 which is less than the significance level of 0.05, **the practical implications** can be interpreted as follows: 1). Currency Risk Management (Investors and businesses in Indonesia should pay attention to exchange rate movements as they can significantly impact stock market performance. Hedging strategies or diversification into assets denominated in different currencies may be considered to manage currency risk); 2. Sectoral Impacts (Industries sensitive to currency movements, such as export-oriented sectors e.g., commodities, manufacturing) and import-dependent sectors e.g., retail and technology, may experience more pronounced effects on stock prices. Investors should assess sectoral exposure to currency risk when making investment decisions); 3. Foreign Investor Sentiment (Exchange rate movements can influence the attractiveness of Indonesian stocks to foreign investors. A stable or appreciating currency may attract foreign inflows, supporting higher stock prices, while a depreciating currency could deter foreign investment); 4. Policy Considerations (Policymakers in Indonesia should consider the implications of exchange rate policies on stock market stability and investor sentiment. Exchange rate stability and transparency in policy decisions can contribute to a more predictable investment environment); 5. Investment Strategy Adjustments (Given the significant impact of exchange rates on the IHSG, investors may adjust their portfolios and investment strategies accordingly. This could involve monitoring currency trends, assessing macroeconomic indicators, and considering global economic factors that influence exchange rates).

3. Effect of Interest Rate on IHSG with Inflation as Moderation

The results of this research prove that the inflation variable has succeeded in negatively and significantly moderating the influence of the interest rate on the IHSG. This means that inflation will weaken the influence of interest on the IHSG. The higher the inflation and the higher the interest rate, the more the IHSG will decline or become weaker.

The inflation rate can be interpreted as a figure in monetary policy transmission that indicates the current economic situation. This also shows a picture of the challenges in achieving the inflation target. It is fair to say that the interest rate refers to the costs that banks often incur to enable their customers to make deposits. IR is also aligned with capital markets for investment. A spike in interest rates will increase the company's interest expense. This

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increase will then reduce company profits; As a result, the company's share price will fall. Apart from that, high interest rates also affect the value of the company's cash flow. This will make available investment opportunities appear less attractive to investors. A higher interest rate will cause an increase in the company's cost of capital and the rate of return required by investors on an investment (Dewi, et al., 2023).

In financial and economic **theory**, the relationship between inflation, interest rates, and stock prices can be complex and nuanced: 1. Interest Rates and Stock Prices (Higher interest rates generally increase the cost of borrowing for companies, which can lead to lower corporate profits and reduced investment. This, in turn, may negatively affect stock prices); 2. Inflation and Interest Rates (Inflation refers to the rate at which the general level of prices for goods and services is rising. Central banks often respond to inflationary pressures by increasing interest rates to control inflation. Higher interest rates can potentially dampen economic growth and stock market performance); 3. Moderating Effect of Inflation (Inflation can moderate the impact of interest rates on stock prices through various mechanisms. Real Interest Rates: Inflation-adjusted interest rates are important for investors. Higher inflation can reduce real interest rates, making borrowing cheaper in real terms and potentially stimulating investment and stock prices. Economic Growth: Moderate inflation can sometimes be associated with economic expansion, which can support corporate earnings and stock market performance despite higher nominal interest rates). Based on the finding that inflation negatively and significantly moderates the influence of interest rates on the IHSG, **the practical implications** can be understood as follows: 1. Policy Response (Policymakers and central banks in Indonesia should consider the interplay between inflation, interest rates, and stock market performance when formulating monetary policies. A balanced approach is needed to manage inflation while supporting economic growth and stock market stability); 2. Investment Strategy Adjustments (Investors in Indonesian stocks should monitor both inflation and interest rate trends. In periods of moderate inflation, the negative impact of higher interest rates on stock prices may be mitigated. Understanding these dynamics can help investors adjust their portfolios and investment strategies accordingly); 3. Sectoral Impacts (Different sectors may respond differently to changes in inflation and interest rates. For instance, sectors that benefit from moderate inflation e.g., commodities, or are less sensitive to interest rate changes e.g., utilities may perform differently compared to sectors highly sensitive to interest rates e.g., financials; 3. Risk Management (Managing inflation risk alongside interest rate risk is crucial for investors. Diversification across sectors and asset classes, as well as using inflation-protected securities or assets, can help mitigate the impact of inflation on investment portfolios); 4. Market Sentiment (Market sentiment can be influenced by inflation expectations. Stable or well-managed inflation expectations can support investor confidence and stock market valuations even in the face of varying interest rate environments).

4. Effect of Exchange Rate on IHSG with Inflation as Moderation

The results of this research prove that the inflation variable has succeeded in positively and significantly moderating the influence of the exchange rate on the IHSG. This means that inflation will strengthen the influence of the exchange rate on the JCI. The higher the inflation and the higher the exchange rate, the more the JCI will increase or strengthen.

The results of this research are following research by Ratnaningrum, et al. (2023) which proves the positive influence of the exchange rate on the IHSG. These results show that the

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condition of strengthening the rupiah exchange rate against the dollar is a positive signal when the economy is experiencing inflation, conversely, if the condition of the rupiah exchange rate is expected to decline then it is very likely that these shares will experience inflation. The price index will decrease. This is because the depreciation of the Rupiah exchange rate against foreign currencies is a negative signal for investors so it will affect stock prices. On the other hand, when the value of the rupiah increases, there is an influence between the exchange rate and the composite stock price index (IHSG) because export-oriented companies are encouraged to increase their share prices as well (Ratnaningrum, et al., 2023).

In reality, inflation is an economic factor that cannot be avoided. Increases in the price of goods often occur in Indonesia, this has an impact on the decline in the IHSG which makes people withdraw their investments to meet their daily needs. However, in this research, the presence of inflation can strengthen the influence of the exchange rate on the IHSG. The research results of Safitri, et al. (2021) stated that the rupiah exchange rate partially has a positive and significant effect on the IHSG because the Rupiah Exchange Rate can have an impact on share ownership on the IDX, namely if investors come from outside and use the US Dollar currency. For foreign investors, the weakening of the rupiah exchange rate will cause investors to tend to sell US dollars to buy shares whose prices have fallen due to the influence of the currency exchange rate.

The relationship between inflation, exchange rates, and stock prices can be understood through several **theory** economic mechanisms: 1. Inflation and Exchange Rates (Inflation affects exchange rates indirectly through its impact on monetary policy and interest rates. Higher inflation can lead to higher nominal interest rates, which can attract foreign capital and strengthen the domestic currency); 2. Exchange Rates and Stock Prices (Exchange rate movements influence the competitiveness of exports, profitability of multinational companies, and foreign investor sentiment. A stronger domestic currency may benefit import-dependent industries but could hurt export-oriented sectors); 3. Moderating Effect of Inflation (Inflation can moderate the impact of exchange rate movements on stock prices. Competitiveness of Exports: Higher inflation might weaken the real exchange rate, adjusted for inflation differentials, making exports more competitive and potentially boosting the stock prices of export-oriented firms. Import Costs: Higher inflation may increase import costs, affecting the profit margins of import-dependent companies negatively, which can dampen stock prices in those sectors). Based on the finding that inflation positively and significantly moderates the influence of the exchange rate on the IHSG, **the practical implications** can be interpreted as follows: 1. Currency and Inflation Dynamics (Investors and businesses in Indonesia should consider the combined effects of inflation and exchange rate movements on stock market performance. Higher inflation may amplify the impact of exchange rate fluctuations on certain sectors of the economy). 2. Sectoral Performance (Export-oriented sectors e.g., commodities and manufacturing, may benefit from higher inflation if it leads to a depreciation of the exchange rate, making exports more competitive internationally and potentially boosting stock prices in those sectors). 3. Investment Strategy Adjustments (Investors may adjust their portfolios based on inflation and exchange rate expectations. For instance, anticipating higher inflation might lead investors to favor stocks in export-driven industries that could benefit from a weaker domestic currency). 4. Risk Management (Managing inflation and exchange rate risks is crucial for portfolio

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diversification and risk mitigation. Investors may consider hedging strategies or investments in assets that are less sensitive to inflation and exchange rate fluctuations). 5. Policy Considerations (Policymakers should take into account the interaction between inflation, exchange rates, and stock market dynamics when formulating economic policies. Ensuring stable inflation expectations and managing exchange rate volatility can contribute to a more predictable investment environment).

CONCLUSION

A. Interest rates have a negative and insignificant effect on the Composite Stock Price Index (IHSG), with a probability value of 0.747 (> 0.05). This demonstrates that interest rates in Indonesia have no impact on the IHSG on the Indonesian Stock Exchange (BEI).
B. The exchange rate has a negative and significant effect on the IHSG, with a probability value of 0.010 < 0.05. This demonstrates that the exchange rate in Indonesia affects the IHSG on the Indonesian stock exchange (BEI).
C. The inflation variable succeeded in negatively and significantly moderating the influence of the interest rate on the IHSG. This means that inflation will weaken the influence of interest on the IHSG.
D. The inflation variable succeeded in positively and significantly moderating the influence of the exchange rate on the IHSG. This means that inflation will strengthen the influence of the exchange rate on the IHSG. The higher the inflation and the higher the exchange rate, the more the IHSG will increase or strengthen.

SUGGESTIONS

A. The government of The Republic of Indonesia should continue to maintain inflation so that inflation is below 10% so that inflation doesn't affect the IHSG. Maintaining inflation stability aims to ensure that if inflation is below 10%, it will attract investors to invest, whereas if inflation is above 10%, investors will not invest. This is because if there is less inflation, the IHSG will rise further, then if inflation increases, the IHSG will fall further.
B. Bank Indonesia as The Central Bank in Indonesia should continue to maintain a stable interest rate, because if the interest rate rises, people will be more interested in saving in banks compared to investing, causing investors to withdraw their shares, which will then result in a decline in the IHSG, as well as on the contrary. Investors should invest in shares if the exchange rate is stable, because if the exchange rate rises the IHSG will fall, making investors lose money if they invest in shares.

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