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A Time Series Analysis of Macroeconomic Factors Influencing the Movement of the Indonesian Sharia Stock Index Between 2018 - 2024

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Abstract

The purpose of this study is to investigate how the Indonesian Sharia Stock Index (ISSI) is affected by current macroeconomic data between 2018 and 2024. These indicators include inflation, the money supply, the IDR/USD ratio, and the 7-Day BI Reverse Repo Rate. The quantitative methodology of this study uses time-based observations as secondary data. The technique used is multiple linear regression analysis. Before estimating, the Augmented Dickey Fuller (ADF) test is used to evaluate stationarity. Additionally, the validity and robustness of the model are confirmed using the traditional assumptions about multicollinearity, heteroscedasticity, and autocorrelation. When compared side by side, the findings demonstrate that every macroeconomic issue has a major impact on ISSI. Nevertheless, only the exchange rate had a statistically significant detrimental effect on ISSI in the partial study, indicating that a decline in currency value is associated with a decline in the index. Although their interactions are in line with theoretical expectations, inflation, BI interest rates, and the money supply do not exhibit a statistically significant influence. This study adds empirical literature that is relatively rare on the Islamic stock index by observing a long period of time that includes the pre-pandemic, pandemic, and post-pandemic phases. This provides new information about the responsiveness of ISSI to macroeconomic factors. The aforementioned results indicate that maintaining tukar stability is crucial for improving the Islamic market's efficiency. Because of this, those who create regulations and policies are encouraged to take steps to stabilize the value of the currency, while investors are encouraged to increase the flow of money when making investment decisions. The existing methodology and the utilization of domestic macroeconomic indicators form the foundation of this study. In the past, research has been conducted to analyze global factors and employ more sophisticated econometric techniques in order to get more comprehensive conclusions.

Keywords: *Exchange Rate, Inflation, ISSI, Macroeconomic Variables, Money Supply.*

Introduction

Essentially, the capital market provides information on stock performance that has been distilled into an index known as a stock market index. According to Hidayat et al. (2023), the stock market index serves as a gauge for the general performance of equities and illustrates how stock values change in the market. Through systems that operate in compliance with the guidelines established by the relevant organizations, the capital market serves as a performance indicator as well as a way to connect parties in need of money with those who have extra money to invest (Syazierah et al., 2025).

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The Indonesian Islamic capital market has experienced notable expansion and bright prospects for the future in line with the expansion of the Islamic banking industry. An expansion in the number of issuers on the Sharia Securities List and the existence of different Sharia-based investment products as a kind of innovation in the country's financial system are indicators of this development (Wardana, 2024). The Indonesia Sharia Stock Index (ISSI), which tracks price changes of all sharia stocks registered on the Indonesia Stock Exchange, is one of the primary indicators of the performance of Indonesia's Islamic capital market (Irwandi, 2024). Despite being founded on Sharia principles, macroeconomic factors like inflation rates, policy interest rates, and exchange rate fluctuations nevertheless have an impact on ISSI's movements (Katmas & Indarningsih, 2022).

Arbitrage Pricing Theory and the Efficient Market Hypothesis, which maintain that financial asset prices would reflect macroeconomic information, are two theoretical explanations of the relationship between macroeconomic conditions and the stock market (Jayawardhana, 2022). Though this relationship has been extensively researched, the majority of earlier studies have concentrated more on conventional stock indexes than Sharia stock indices. Furthermore, studies on how inflation, interest rates, and exchange rates affect Sharia stock indices have yielded inconsistent results (Nugroho et al., 2023). Additionally, there is currently a dearth of studies employing the most recent data to thoroughly analyze the time frame encompassing pre-pandemic circumstances, the pandemic period, and the post-pandemic recovery phase.

Despite the growing body of literature on Islamic capital markets, empirical studies specifically focusing on the Indonesia Sharia Stock Index (ISSI) remain relatively limited, particularly those that comprehensively capture the structural break during the COVID-19 pandemic period. Existing studies often either utilize shorter observation windows or do not explicitly differentiate between pre-pandemic, pandemic, and post-pandemic dynamics, thereby constraining the robustness of their conclusions (Alam et al., 2021; Haroon & Rizvi, 2020). Moreover, prior empirical findings exhibit notable inconsistencies regarding the direction and magnitude of macroeconomic variables' influence on sharia stock indices, indicating unresolved debates within the literature (Salisu & Vo, 2020). This combination of limited ISSI-focused studies and inconsistent empirical evidence highlights a clear research gap that necessitates further investigation using a more comprehensive and recent dataset. Owing to changes in monetary policy, the COVID-19 pandemic's economic impact, and stages of the nation's economic recovery, the years 2018–2024 have emerged as a crucial time in Indonesia's economic dynamics (Wartoyo et al., 2024). Compared to the prior period, this condition may have distinct consequences on the movement of Sharia stock indices. Consequently, it becomes pertinent and important to carry out empirical research that can offer up-to-date evidence on the ISSI's reaction to different macroeconomic circumstances (Nawindra & Wijayanto, 2020).

Investors and policymakers can benefit from knowing how sensitive sharia stock indexes are to shifts in macroeconomic factors (Sudarsono & Latifatunnisa, 2024). Investors can use this information as a foundation for risk management and investment decisions. In the meantime, when maintaining the stability of the Islamic capital market as a part of the nation's financial system, regulators may consider empirical findings (Rahman et al., 2021).

This study aims to investigate the impact of inflation, the money supply, the BI 7-Day Reverse Repo Rate, and the rupiah exchange rate (with respect to the dollar) on ISSI movements between 2018 and 2024 (Jubaedah et al., 2020). The analysis's findings show that macroeconomic factors significantly affect ISSI movements, with the rupiah exchange rate having a comparatively greater influence than other factors (Prakoso, 2022). This outcome shows that stable macroeconomic conditions greatly increase the resilience of Indonesia's

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Sharia capital market. Specifically, this study seeks to provide a more comprehensive and temporally robust empirical assessment by incorporating the pre-pandemic, pandemic, and post-pandemic periods within a unified analytical framework.

Method

This research applies a quantitative approach to examine the influence of several macroeconomic indicators on the performance of the Indonesian Islamic capital market, which is represented by the Indonesia Sharia Stock Index (ISSI). The study utilizes monthly secondary time-series data spanning from January 2018 until December 2024, with a total of 84 observations analyzed. Data on ISSI were collected from official reports published by the Indonesia Stock Exchange, whereas information regarding inflation, exchange rates, interest rates, and money supply was gathered from Bank Indonesia and Statistics Indonesia. The selection of these variables is based on their role in reflecting macroeconomic conditions that may affect investment behavior and fluctuations in prices within the Islamic capital market.

In operational terms, ISSI refers to a composite index that illustrates the performance of sharia-compliant shares traded within the Indonesian capital market. Inflation is proxied by the monthly growth of the Consumer Price Index (CPI), while the exchange rate variable is represented by the Rupiah's value against the United States Dollar (IDR/USD). Interest rates are reflected through the BI-Rate or BI 7-Day Reverse Repo Rate, whereas the money supply variable is measured using broad money (M2). To maintain uniformity and reliability in the time-series analysis, all variables are presented in monthly data frequency.

Based on the theoretical framework and previous empirical findings, the hypotheses formulated in this study are as follows:

H1: Inflation has a significant effect on the Indonesia Sharia Stock Index (ISSI).
H2: Exchange rates have a significant effect on the Indonesia Sharia Stock Index (ISSI).
H3: Interest rates have a significant effect on the Indonesia Sharia Stock Index (ISSI).
H4: Money supply has a significant effect on the Indonesia Sharia Stock Index (ISSI).
H5: Inflation, exchange rates, interest rates, and money supply simultaneously have a significant effect on the Indonesia Sharia Stock Index (ISSI).

The relationship between the independent and dependent variables is formulated in the following multiple linear regression model:

$$ISSI_t = \alpha + \beta_1 INF_t + \beta_2 EXC_t + \beta_3 INT_t + \beta_4 M2_t + \varepsilon_t$$

Where $ISSI_t$ represents the Indonesia Sharia Stock Index, INF_t denotes inflation, EXC_t denotes the exchange rate, INT_t denotes the interest rate, $M2_t$ represents money supply, α is the constant, $\beta_1 - \beta_4$ are regression coefficients, and ε_t is the error term.

A multiple linear regression model is used in this study's data processing to determine how macroeconomic factors affect ISSI movement. Before the estimating stage, the time series data is tested using the Augmented Dickey-Fuller (ADF) stationarity test. By ensuring that all variables are steady, this test seeks to prevent spurious regression. A differencing procedure is used to acquire data that satisfies the stationary requirements and is appropriate for regression analysis if the series does not yet exhibit stationary characteristics at the data level (Wahyudi et al., 2025).

After confirming that all variables were stationary, the study employed multiple linear regression analysis to assess the influence of inflation, exchange rates, interest rates, and money supply on fluctuations in the Indonesian Sharia stock index. Unlike regression models based on cross-sectional data, normality testing is not regarded as a crucial assumption in large-sample time-series regression analysis. Given that this study used 84 observations,

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which exceeds the minimum threshold of 30 observations, the normality test was therefore excluded from the classical assumption testing procedure.

Following the regression estimation process, several classical assumption tests were conducted to verify that the model produces unbiased and efficient estimates. These tests consist of an autocorrelation test to determine whether correlations exist among the residuals in the regression equation, a heteroskedasticity test to evaluate the consistency of the error variance, and a multicollinearity test to assess the presence of high correlations between the independent variables.

The t-test was applied to analyze the individual influence of each independent variable on ISSI, whereas the F-test was conducted to determine the combined effect of all independent variables on the movement of ISSI. (Aflah et al., 2025).

Results and Discussions

ADF Test (Stationary Data Test)

Table 1 displays the findings of the Augmented Dickey-Fuller (ADF) unit root test, which establishes whether or not the data is stable. If a variable's p-value is less than 0.05, it is deemed stationary.

Table 1. Results of the ADF Stationary Test

Variable	Level of Data		Data-First Distinction	
	ADF	P-Value	ADF	P-Value
The ISSI	-1.220	4,618055556	-8.388	0.0000
The rate of inflation	-1.095	4,980555556	-7.706	0.0000
BI rate	-0.519	6,16875	-4.588	0.0001
Exchange Rate IDR/USD	-2.572	0,686111111	-9.935	0.0000
Money Supply	-0.485	6,215277778	-16.211	0.0000

Source: Data analyzed using Stata 15 (2026)

All of the study's variables, ISSI, inflation, BI rate, IDR/USD exchange rate, and money supply, have not yet reached the stationary property at the level stage, based on the results of the Augmented Dickey-Fuller (ADF) method stationarity test. The probability values (p-values) of each variable exceeding the 5% significance level ($\alpha = 0.05$) represent this condition. As a result, the data at the level still shows signs of non-stationarity since the null hypothesis asserting the existence of a unit root cannot be rejected.

All variables, however, underwent considerable modifications after being converted to first differences. The probability values (p-values) of each variable ISSI (0.0000), inflation (0.0000), BI rate (0.0001), exchange rate (0.0000), and money supply (0.0000) that are less than 0.05 demonstrate this. Since all variables have attained a stationary condition at the first difference level, it is possible to reject the null hypothesis.

Test of Multiple Linear Regression

Multiple linear regression describes the relationships between variables, the validity of research hypotheses, and the estimation of the dependent variable's value based on changes in the independent variables.

The multiple linear regression results table is as follows:

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Table 2. Results of Multiple Linear Regression

Variable	coefficient	The standard error	t	P>|t|
The rate of inflation (x1)	-1.088027	2.009272	-0.54	0.590
BI rate (x2)	-.8874547	3.849366	-0.23	0.818
Exchange Rate IDR/USD (x3)	-9.649904	1.766652	-5.46	0.000
Money Supply (x4)	.4254193	.2313632	1.84	0.070
Constant	.1097887	.6960011	0.16	0.875

Source: Data analyzed using Stata 15 (2026)

The Prob > F value reported in Table 2 is 0.000, which is below the 0.05 significance threshold. This result demonstrates that inflation, the BI rate, exchange rates, and money supply jointly have a significant effect on the Indonesia Sharia Stock Index (ISSI). Therefore, the overall condition of the macroeconomy contributes substantially to the performance of the Islamic capital market in Indonesia. The finding also suggests that investors in the sharia stock market pay attention not only to company-related factors, but also to wider macroeconomic stability when determining their investment choices. The regression equation generated from the estimation results is presented as follows:

$$Y = 0.1098 - 1.0880X1 - 0.88745X2 - 9.6499X3 + 0.42541X4$$

The regression coefficients describe the direction as well as the strength of the relationship between the independent variables and ISSI. A negative coefficient suggests an opposite relationship, indicating that a rise in the independent variable is likely to decrease ISSI, whereas a positive coefficient shows that both variables move in the same direction. Nevertheless, interpreting these coefficients should not be limited to their sign and statistical significance alone, since broader macroeconomic conditions and investor responses throughout the observation period also need to be taken into account.

The estimation results reveal that inflation has a negative coefficient of -1.088 and a probability value of 0.590, suggesting that inflation does not have a significant impact on ISSI. One possible explanation for this insignificant relationship is that inflation throughout the observation period was relatively stable and still considered manageable by market participants. Inflation at a moderate level is generally not viewed by investors as a direct threat to Sharia stock investments because it is often interpreted as a normal part of economic dynamics. Moreover, many companies included in ISSI possess strong financial fundamentals and stable operational performance, enabling them to sustain profitability even under inflationary conditions. This result supports the findings of previous research conducted by Wahyudi et al., which also concluded that inflation had no significant effect on the performance of the Islamic stock market in Indonesia. Nevertheless, the finding contrasts with other studies stating that excessive inflation may lower purchasing power and weaken company profits, which can eventually put downward pressure on stock prices.

The BI rate variable was also found to have no significant influence on ISSI, as reflected by a coefficient of -0.887 and a probability value of 0.818. This result suggests that fluctuations in interest rates were not the main factor considered by investors in the Islamic capital market

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throughout the observation period. A possible reason is that Sharia investors are generally more concerned with adherence to Islamic investment principles and the long-term prospects of companies rather than short-term changes in interest rates. In addition, sharia-based stocks are conceptually less affected by interest-oriented monetary instruments because their business activities are designed to minimize dependence on conventional interest mechanisms. This outcome is consistent with the study conducted by Aflah et al., which also reported that the BI rate did not significantly affect sharia stock indices. Even so, the negative coefficient still indicates that rising benchmark interest rates could motivate some investors to transfer their funds from the capital market into financial instruments considered to carry lower risk.

Unlike inflation and the BI rate, the exchange rate variable demonstrates a significant negative relationship with ISSI, as indicated by a coefficient value of -9.649 and a probability value of 0.000. This result implies that a weakening Rupiah against the US Dollar is likely to negatively affect the performance of sharia stocks in Indonesia. From an economic perspective, fluctuations in the exchange rate can increase operational and production expenses, especially for firms that depend on imported materials or hold obligations denominated in foreign currencies. Such conditions may reduce company profitability and eventually encourage investors to lower their stock investments. Moreover, depreciation of the domestic currency is frequently viewed as an indicator of macroeconomic uncertainty, which may decrease investor confidence in the capital market. These findings are in line with earlier studies showing that exchange rates are among the key macroeconomic factors influencing stock market performance in developing countries, including Indonesia.

The money supply variable (M2) shows a positive coefficient of 0.425 and a probability value of 0.070. Even though the result is not statistically significant at the 5% significance level, it is relatively close to significance at the 10% level, implying that money supply may still contribute to movements in ISSI. The positive coefficient indicates that higher liquidity in the economy has the potential to stimulate investment activities, including investments in sharia-based stocks. Nevertheless, the insignificant finding may suggest that the additional liquidity circulating in the economy was not fully allocated to the capital market, but instead flowed into consumption, banking products, or alternative financial instruments. The result further implies that the impact of monetary expansion on the Islamic capital market may not take place instantly, as the adjustment process generally requires a longer period of time.

In general, the findings indicate that the exchange rate is the most influential macroeconomic variable affecting ISSI throughout the observation period. On the other hand, inflation, the BI rate, and money supply do not show a statistically significant effect when examined individually. These results suggest that the Indonesian Islamic capital market tends to be relatively stable against domestic monetary changes, yet it remains highly responsive to external economic conditions, especially fluctuations in the exchange rate.

Test for Multicollinearity

To ascertain whether there is a strong linear relationship between the independent variables in a regression model, multicollinearity testing is used (Pendi, 2021). Conditions involving multicollinearity can lead to instability when estimating regression coefficients, raise standard error values, and make it difficult to ascertain how each independent variable adds to the dependent variable's explanation.

The multicollinearity test result table is as follows:

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Table 3. Results of a Multicollinearity Test

Variable	VIF	1/VIF
The rate of inflation	1.03	0.971081
BI rate	1.01	0.993507
Exchange Rate between IDR and USD	1.09	0.920352
The quantity of money in circulation	1.07	0.933832
Average VIF	1.05	-

Source: Data analyzed using Stata 15 (2026)

All independent variables, including dkurs (1.09), djubmilyar (1.07), dinflasi (1.03), and dbirate (1.01), have very low Variance Inflation Factor (VIF) values, according to the multicollinearity test results. Additionally, the average VIF of 1.05 shows that there is very little correlation between the independent variables. Regression models are generally considered to be free of multicollinearity if the VIF value is less than 10, and under more stringent conditions, less than 5. These results indicate that every variable in this model satisfies the requirements. The lack of significant linear correlations between the independent variables is further supported by the inverse VIF values (tolerance) for each variable being over 0.90. Consequently, It may be concluded that the study's independent variables are mostly independent of one another and do not show a high correlation, and the regression model used is free from multicollinearity problems.

Test for Heteroskedasticity

To ascertain whether a regression model's residual variance is constant or fluctuates, heteroscedasticity testing is used. When heteroscedasticity is present, the error variance is not uniform, which might eventually lower the accuracy level of test findings and the efficiency of coefficient estimations (Suminto & Huda, 2025).

Table 4. Results of the Heteroskedasticity Test

The source	Chi2	DF	P
Heteroskedasticity	14.55	14	0.4098
Skewness	4.54	4	0.3382
Kurtosis	0.25	1	0.6169
Total	19.33	19	0.4356

Source: Data analyzed using Stata 15 (2026)

The White method's heteroskedasticity test yielded a chi-square (χ^2) value of 14.55 and a probability (Prob > chi2) of 0.4098. The null hypothesis (H_0), which states that there is no heteroskedasticity, cannot be rejected because the probability value is greater than the 5% significance level (0.05). Therefore, it may be said that the residual variance is constant (homoskedasticity) and there are no indications of heteroskedasticity in the regression model.

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Test of Autocorrelation

To determine whether residuals in one period and residuals in another period within a regression model are related, autocorrelation testing is used. Regression coefficient estimation is less effective and may result in bias in the standard errors if autocorrelation is present, which lowers the accuracy of statistical test results.

Table 5. Results of the Autocorrelation Test

The autocorrelation Breusch-Godfrey LM test

Lags (P)	Chi2	DF	Prob > chi2
1	0.104	1	0.7473
H0: no serial correlation			

Source: Data analyzed using Stata 15 (2026)

At lag 1, the autocorrelation test utilizing the Breusch–Godfrey LM test method revealed a chi-square (χ^2) value of 0.104 and a probability (Prob > chi2) of 0.7473. The null hypothesis (H_0), which states that there is no autocorrelation, cannot be rejected because this probability value is greater than the 5% significance level (0.05). Therefore, it may be said that the residuals between periods are independent and uncorrelated, and the regression model does not exhibit signs of autocorrelation.

Conclusion

Based on the outcomes of the statistical testing and analysis, this research concludes that macroeconomic indicators, including inflation, the BI 7-Day Reverse Repo Rate, the rupiah exchange rate against the US dollar, and the money supply, jointly exert a significant influence on the Indonesia Sharia Stock Index (ISSI) over the 2018–2024 period. The significance observed from the simultaneous test demonstrates that broader macroeconomic conditions, when considered together, play an important role in shaping the performance and fluctuations of the Islamic capital market in Indonesia.

Nevertheless, the partial analysis using the t-test reveals that only the exchange rate variable has a statistically significant influence on ISSI. The relationship is negative, meaning that a depreciation of the rupiah against the US dollar is likely to weaken the performance of sharia stocks in Indonesia. This finding illustrates that the Islamic capital market remains sensitive to external economic disturbances, especially fluctuations in the exchange rate, which may influence both investor confidence and the operational performance of companies.

On the other hand, inflation, the BI rate, and money supply were not found to have statistically significant individual effects on ISSI throughout the observation period. Even though these variables are theoretically associated with stock market performance, the empirical evidence indicates that their influence was not sufficiently strong to directly drive fluctuations in ISSI. One possible explanation is that the Indonesian Islamic capital market tends to be relatively resistant to domestic monetary changes and temporary inflationary pressures. Furthermore, investors in sharia stocks are likely to prioritize long-term corporate fundamentals and adherence to Islamic investment values over short-term macroeconomic developments.

The results of this study suggest that exchange rate stability plays a crucial role in maintaining the stability and development of the Indonesian Islamic capital market. Accordingly, policies directed at safeguarding the stability of the rupiah are essential not only for achieving broader macroeconomic stability, but also for strengthening investor confidence in sharia-based financial assets and investment instruments.

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From a methodological standpoint, the regression model applied in this research can be regarded as dependable since it successfully met the classical assumption requirements and satisfied the criteria necessary for regression analysis. Therefore, this study provides additional empirical support to the expanding body of literature on the Islamic capital market, especially in explaining the connection between macroeconomic indicators and the movement of ISSI during periods marked by economic uncertainty and recovery.

Future research is encouraged to include broader variables, such as global economic indicators, commodity price fluctuations, and international financial market indices, to obtain a more comprehensive understanding of the determinants affecting sharia stock market movements in Indonesia. In addition, applying more sophisticated econometric methods, including the Vector Error Correction Model (VECM) or Autoregressive Distributed Lag (ARDL) approach, could offer richer insights into both the short-run and long-run relationships among the variables.

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