How to Cite:
Karmawan, P. R., Purwanti, P. A. P., Yasa, I. N. M., & Tisnawati, N. M. (2024). Analysis of the influence of external factors of the capital market on stock prices and Indonesian economic growth. *International Journal of Economic Perspectives*, *18*(11), 1934–1942. Retrieved from https://ijeponline.org/index.php/journal/article/view/694

Analysis of the influence of external factors of the capital market on stock prices and Indonesian economic growth

Putu Ryan Karmawan
Master of Economics Study Program, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

Putu Ayu Pramitha Purwanti
Master of Economics Study Program, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

I Nyoman Mahaendra Yasa
Master of Economics Study Program, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

Ni Made Tisnawati
Master of Economics Study Program, Faculty of Economics and Business, Udayana University, Denpasar, Indonesia

***Abstract*---**The Jakarta Composite Stock Price Index (JCI) listed on the Indonesia Stock Exchange (IDX) is interrelated. Economic growth is determined by stock prices influenced by external factors, such as Inflation, Exchange Rates (exchange rates), and Interest Rates. This study aims to analyze the influence of inflation, exchange rate (exchange rate), and interest rate on Indonesian stock prices and look at the influence of inflation, exchange rate (exchange rate), interest rate, and stock price on Indonesia's economic growth. This study uses non-participant observation methods, literature studies, and online data searches. The data analysis techniques used are Descriptive Statistics and Path Analysis The results of this study show that 1) Inflation variables have a negative and insignificant influence on stock prices in Indonesia. Exchange rate variables have a positive and significant influence on stock prices in Indonesia. Interest rate variables have a negative and significant influence on stock prices in Indonesia; 2) Inflation variables and price variables have a negative and insignificant influence on economic growth in Indonesia. Exchange rate and stock price variables have a positive and

Corresponding author*: Karmawan, P. R., Email: ryanputu03@gmail.com*
Submitted: 09 August 2024, Revised: 18 September 2024, Accepted: 27 October 2024

significant influence on economic growth in Indonesia; 3) Inflation, exchange rates, and interest rates indirectly affect Indonesia's economic growth. The conclusion of this study is that external factors affect stock prices and Indonesia's economic growth.

***Keywords*---**Capital Market, Stock Price, and Economic Growth.

Introduction

Economic growth as a process of increasing output from time to time is an important indicator to measure the success of a country's development (Todaro, 2005). The Central Statistics Agency (BPS), Indonesia experienced a contraction in economic growth in 2020 of -2.07 percent. This caused the Indonesian economy in 2020 to experience deflation or a drastic decline because economic development in Indonesia has an unstable movement. Covid-19 has made the Indonesian economy tend to decline, various efforts have been made to maintain the Indonesian economy. One of the government's efforts is to encourage the acceleration of investment. Investment is a commitment to invest a certain amount of funds or other resources that are carried out at this time with the aim of obtaining a certain amount of profit in the future (Tandelilin, 2010)

The capital market is one of the alternatives for investors to invest funds in financial assets. According to Tandelilin (2001) generally securities (companies that obtain permission from the OJK to stock buying and selling activities) .traded in the capital market include stocks, bonds, mutual funds and other derivative instruments. Each of these securities provides different returns and risk levels. Stocks are one of the most widely offered investment instruments by companies and are most in demand by investors

In investing in the Capital Market, a very interesting phenomenon to observe is the fluctuation of individual stock prices, as well as the overall stock price movement that can be observed through the index. Stock prices are influenced by various factors. This can be seen from the fundamental conditions of the company, related industry conditions, and relevant macro conditions. All of this boils down to the business prospects of a company. Stock prices in the market fluctuate at any time in response to news/information that appears.

The factors that affect stock price movements are grouped into internal factors and external factors of the company. Some of the internal factors that have a significant influence on stock prices include company profitability, debt proportion, and dividends. External factors that affect stock prices are public information, macroeconomic policies, social conditions, and political conditions of a country (Iskandar, 2018). Nugroho (2008) in his research suspected that there was a relationship between the inflation rate and the movement of the JCI. However, Nugroho (2008) gives an argument with a slightly different perspective, stating that an increase in inflation will cause interest rates to increase and will ultimately reduce the level of investment.

The high inflation rate can reduce people's purchasing power and also increase the price of production factors, so that it can affect the company's stock price quotation and ultimately result in the movement of the stock price index (Weston and Copelan, 2010). According to Sukirno (2005), the amount of a certain amount of currency needed to obtain one unit of foreign exchange is called the foreign currency exchange rate. In terminology, the definition of an exchange rate is the price of a currency from a country measured or expressed in another currency.

The exchange rate is affected by several factors such as domestic interest rates, inflation rates, and central bank intervention in the money market if necessary. The exchange rate, commonly called the exchange rate, has an important role in the context of monetary stability and in supporting economic activities. The exchange rate (exchange rate) is a macroeconomic variable that also affects stock price volatility. The depreciation of the domestic currency will increase the volume of exports. If the demand in the international market is elastic enough, this will increase the cash flow of domestic companies, which in turn increases the stock price, which is reflected in the JCI

Interest rates are a reward for services from bank financial institutions to the public or customers of the bank. Increasing interest rates will reduce the quality of money loans because if interest rates rise, it means that the cost of debt will increase and debtors will have difficulty paying off their debts. (Eswanto, 2016). Interest rates affect people's speculation on whether to spend their money whether it is used for investment, consumption or savings. Because of this, interest rates are considered important and have a direct influence on people's lives, especially in financial decision-making (Prasasti & Slamet, 2020)High interest rates will cause stock prices to fall. This happens because investors tend to sell their shares and divert their funds in the form of deposits with the aim of obtaining higher profits with a safer level of risk. On the other hand, if the interest rate is low, it will cause the stock price to rise. Based on the background that has been explained, this study seeks to produce several findings that have not been explained in previous studies. The research seeks to analyze the influence of external factors on stock prices and Indonesia's economic growth

Research Methods

This study uses a type of quantitative research. Quantitative research design is also called research that uses the positivism paradigm, namely from other people's theories and findings which are then formulated hypotheses according to the research problem to be fired (Harys 2020)

The quantitative research approach as proposed by (Sugiyono, 2017), is defined as research based on the philosophy of positivism, used to research on a specific population or sample, data collection using research instruments, quantitative/statistical data analysis. This research was carried out in Indonesia using a secondary data approach from the Indonesian Central Statistics Agency (BPS) and the Indonesia Commodity and Derivatives Exchange (ICDX) data from 2006-2023.

The scope of this research focuses on the influence of inflation, exchange rate (exchange rate), interest rate, on stock prices and Indonesia's economic growth. The analysis techniques that will be used in this study are Descriptive Statistics and Path Analysis

Research Results

A. Results of Descriptive Analysis

The inflation variable had a maximum value of 17.1 percent in 2005 in Indonesia, the lowest value of 1.68 percent in 2020, and an average value of 6.10 percent. Then for the exchange rate variable, it has a maximum value of 15,731 rupiah/dollar in 2022, a minimum value of 8,468 rupiah/dollar in 2008 and has an average value of 1,164 rupiah/dollar. The variable interest rate has a maximum value of 18 percent in 2001 while the minimum value is 4 percent in 2021, and the average value is 7.72 percent. Furthermore, the Stock Price variable has a maximum value of 6,678 rupiah in 2022, a minimum value of 330 rupiah in 2000 and an average value of 3,401.79 rupiah. The economic growth variable has a maximum value of 6 percent in 2023, a minimum value of -2 percent in 2000 and an average value of 4.75 percent.Ruang lingkup penelitian ini berfokus pada pengaruh inflasi, nilai tukar (*kurs*), tingkat suku bunga, terhadap harga saham dan pertumbuhan ekonomi Indonesia. Teknik analisis yang akan digunakan dalam penelitian ini adalah Statistik Deskriptif dan Analisis Jalur (*Path Analysis*)

B. Results of Path Analysis

The test of this study also uses path analysis which is an extension of multiple linear regression analysis. Both equation models using simple regression analysis and multiple regression were carried out to determine the strength of the relationship of the independent variable to the intervening variable and also the strength of the relationship of the independent variable to the dependent variable.

1) The relationship between X1 and Y1 has a negative and insignificant effect can be seen in the value of the X1 coefficient of -0.93, meaning that if inflation increases, then the JCI tends to decrease, and vice versa. This negative coefficient indicates the direction of the relationship between the two variables. High inflation can lead to increased production costs, which in turn can reduce a company's profit margins. Although there is a downward trend in stock prices when inflation increases, empirical data shows that this influence is inconsistent or not large enough to be considered significant. This can be due to various factors, such as low inflation variability, effective monetary policy interventions, or other factors that affect the stock market and can offset the negative effects of inflation. The cause of inflation has a negative and insignificant effect on stock prices in the real sector. Companies in the real sector are able to stabilize product prices during inflation, besides that the government also provides subsidies or other interventions to reduce the impact of inflation on the real sector.
2) The relationship between X2 and Y1 has a positive and significant effect on

the value of the X2 coefficient of 0.657, meaning that if the exchange rate increases, the JCI will tend to increase. When a country's currency exchange rate strengthens, companies involved in exports can profit because their income in foreign currencies will have a higher value when converted to the local currency. This can increase the company's profitability and encourage an increase in the stock price.

3) The relationship between X2 and Y1 has a positive and significant effect on the value of the X2 coefficient of 0.657, which means, if the exchange rate increases, then the JCI will tend to increase. When a country's currency exchange rate strengthens, companies involved in exports can profit because their income in foreign currencies will have a higher value when converted to the local currency. This can increase the company's profitability and encourage an increase in the stock price.
4) The relationship between X3 and Y1 has a negative and significant effect can be seen in the value of the X3 coefficient of -0.305, meaning that if the interest rate increases, then the JCI decreases. When interest rates rise, the cost of borrowing for companies increases. This means that their cost of capital rises, which can reduce the company's profits and growth potential. This often leads to a decline in the stock price. Interest rate hikes usually make stocks less attractive to investors, thus lowering stock prices. Conversely, when interest rates fall, stocks often become more attractive, which can push stock prices up.

Discussion

A. The effect of inflation on Indonesian stock prices

Based on the results of hypothesis testing with a significance value of 0.547 > 0.05 which shows that inflation has a negative and insignificant influence on stock prices.

The high inflation rate can reduce people's purchasing power and also increase the price of production factors, so that it can affect the company's stock price offer and ultimately result in the movement of the stock price index. Inflation can increase a company's operating costs, including raw materials and labor. If a company is unable to pass on these costs to consumers through an increase in the selling price, then its net profit may decrease, which could depress the stock price. In addition, high inflation causes consumer purchasing power to decrease, which has an impact on companies experiencing a decrease in revenue.

Investors may have taken inflation into account in their assessments, so the JCI movement is not too affected. The cause of inflation has a negative and insignificant effect on stock prices in the real sector. Companies in the real sector are able to stabilize product prices during inflation, besides that the government also provides subsidies or other interventions to reduce the impact of inflation on the real sector. In an economy that has adjustment mechanisms such as wage increases in line with inflation, or effective monetary policy, the negative impact of inflation can be suppressed so that it becomes insignificant

B. Effect of exchange rate on Indonesian stock prices

Based on the results of hypothesis testing with a significance value of 0.00 > 0.05 which shows that the exchange rate has a positive and significant influence on stock prices. The exchange rate (exchange rate) is a macroeconomic variable that also affects stock price volatility. The depreciation of the domestic currency will increase the volume of exports. If the demand in the international market is elastic enough, this will increase the cash flow of domestic companies, which in turn increases the stock price, which is reflected in the JCI. The relationship of exchange rates to stock prices can have an impact on a company's costs and earnings, exchange rates can affect companies differently depending on whether the company is more involved in exports or imports, as well as how they are affected by fluctuations in exchange rates and debt costs. During the pandemic, global uncertainty and exchange rate changes also affect stock prices, with impacts varying depending on the sector and the company's exposure to international markets. The results of research from Dewi Kartikaningsih and Nugraha (2020) show that the exchange rate affects stock prices, meaning that an increase in the exchange rate will increase the stock price.

C. The effect of interest rates on Indonesian stock prices

Based on the results of hypothesis testing with a significance value of 0.063 > 0.05 which shows that interest rates have a negative and significant influence on stock prices. Increasing interest rates will reduce the quality of money loans because if interest rates rise, it means that the cost of debt will increase and debtors will have difficulty paying off their debts. Interest rates affect people's speculation on whether to spend their money whether it is used for investment, consumption or savings. Because of this, interest rates are considered important and have a direct influence on people's lives, especially in making financial decisions. Interest rates have a significant impact on stock prices in Indonesia, and this relationship can be influenced by various economic factors and market conditions.

D. The effect of inflation on Indonesia's economic growth

Based on the results of hypothesis testing with a significance value of 0.097 > 0.05 which shows that inflation has a negative and significant influence on economic growth. Economic activity that continues to occur will cause inflation, where the general price of goods and services increases. It is not always bad, because inflation is needed to maintain economic stability, of course, with a note that the increase is not too high. The inflation rate that is generally targeted is between 2 percent to 3 percent per year. An increase in inflation that is more than that, could endanger the economy. When inflation increases, the price of goods and services also rises, if income does not rise in line with inflation, then consumer purchasing power decreases. High inflation affects the increase in raw material prices and labor can increase production costs for companies.The effect of exchange rates on Indonesia's economic growth

Based on the results of hypothesis testing with a significance value of 0.002 < 0.05 which shows that the exchange rate has a positive and significant influence on economic growth. Many areas of life that require exchange rates are transaction activities involving two foreign currencies, activities in the foreign exchange market (forex), and export-import activities. The decline and increase in the Indonesian economy can be seen from the movement of the rupiah currency.

E. The influence of stock prices on Indonesia's economic growth

Based on the results of hypothesis testing with a significance value of 0.002 > 0.05 which shows that stock prices have a positive and significant influence on economic growth. In economic theory, the rise and fall of stock prices is something common because it is driven by the forces of supply and demand. If the demand is high then the price will go up, on the other hand if the supply is high the price will go down. Rising stock prices are often seen as a positive indicator of the health of the economy, reflecting investors' confidence in the prospects for economic growth. Companies listed on stock exchanges are typically more optimistic when it comes to expansion and investment when their stock prices rise, which in turn drives economic growth. When the stock price rises, it can be easier and cheaper for companies to raise capital through the issuance of new shares. This allows companies to invest in new projects, technologies, and business expansions, which drives economic growth.

F. Stock prices as a mediating variable of the influence of inflation on Indonesia's economic growth

Based on the calculation results of 0.612, it means that the stock price is a mediating variable in the influence of inflation on Indonesia's economic growth. High inflation will cause production costs to rise. With inflation, the price of goods has increased, so people's purchasing power will decrease. This will reduce investor interest in investing and affect Indonesia's economic growth. When inflation increases, the cost of goods and services rises. This can lead to costs inputs for companies also increased, which could reduce the company's profitability. If investors anticipate a decline in the company's profits, the stock price could fall. By mediating inflation, stock prices influence investment and consumption decisions. For example, high inflation lowers stock prices, which then reduces economic growth due to lower investment and consumption. Conversely, controlled inflation can increase stock prices, encourage investment and consumption, and ultimately increase economic growth.

G. Stock prices as a mediating variable of the influence of exchange rates on Indonesia's economic growth

Based on the calculation results of -4,908, it means that the stock price is a mediating variable in the influence of the exchange rate on Indonesia's economic growth. The influence of the exchange rate affects the rise and fall of stock prices and Indonesia's economic growth. When the rupiah weakens against foreign currencies, export-oriented companies can experience an increase in rupiah-denominated revenues as their goods become cheaper and more competitive in the international market. However, companies that rely on imports for raw materials will face higher costs. Overall, the depreciation of the rupiah can increase stock market volatility due to its varying effects on different companies. If the depreciation of the rupiah causes economic uncertainty, stock prices could fall. A decline in stock prices can reduce investors' wealth, which can lower consumption and investment, thus slowing down.

H. Direct and Indirect Influence

The standardized coefficient value is used to obtain coefficients that have the same unit base, so that they can be directly compared between exogenous variables, in their respective effects on endogenous variables. The results show that inflation has a negative and insignificant effect on Indonesian stock prices. Research conducted on the Indonesia Stock Exchange (IDX) shows that inflation has a significant negative influence on stock prices in the long term. In the short term, this influence can vary depending on other factors such as monetary policy and global economic conditions. Inflation has a diverse influence on stock prices in Indonesia, both through direct mechanisms such as production costs and income, as well as through indirect mechanisms such as monetary policy. The exchange rate has a positive and significant effect on Indonesia's stock price.

Conclusion

Based on the results of the research on the dynamics of small and medium industries (SMEs) with an analysis of the concentration of SMEs in Bali Province 2018 – 2023, the following conclusions can be given:

1) Inflation variables have a negative and insignificant influence on stock prices in Indonesia, an increase in inflation will not affect an increase in stock prices in Indonesia.
2) Exchange rate variables have a positive and significant influence on stock prices in Indonesia, an increase in the exchange rate will increase stock prices in Indonesia.
3) Interest rate variables have a negative and significant influence on stock prices in Indonesia, an increase in interest rates will reduce stock prices in Indonesia.
4) Inflation variables have a negative and insignificant influence on economic growth in Indonesia, an increase in inflation will not increase economic growth in Indonesia.
5) Exchange rate variables have a positive and significant influence on economic growth in Indonesia, an increase in the exchange rate will increase economic growth in Indonesia.
6) Interest rate variables have a negative and insignificant influence on economic growth in Indonesia, an increase in interest rates will not increase economic growth in Indonesia.
7) Stock price variables have a positive and significant influence on economic growth in Indonesia, an increase in stock prices will increase economic growth in Indonesia.

References

Central Statistics Agency. (2020). Statistics of the Elderly Population 2020. Jakarta: Central Statistics Agency

Eswanto 2016. Economic Growth Theory, BPFE Publishers, Yogyakarta.

Iskandar, P. (2018). Micro/Macro Introductory Economics. Media Discourse Partners.

Juli Meliza, & Isfenti Sadalia. (2021). Cryptocurrency. Journal of Trends

Nugroho, Heru. 2008. Analysis of the Influence of Inflation, Interest Rates, Exchange Rates, and Money Supply on the LQ45 Index (Case Study on IDX for the 2002-2007 Period). Semarang: Diponegoro University Semarang.

Prasasti, K. B. and Slamet, E. J. (2020). "The Effect of Money Supply on Inflation and Interest Rates and on Investment and Economic Growth in Indonesia". Airlangga Journal of Economics and Business 30(1): 39-48

Sadono Sukirno. 2005. Introduction to Microeconomic Theory. Third Edition. PT Raja Grafindo Persada: Jakarta.

Sugiyono. (2017). Quantitative, Qualitative, and R&D Research Methods Bandung: Alfabeta, CV

Tandelilin. (2010). Portfolios and Investments: Theory and Applications. Yogyakarta: Theory and Application.

Todaro, Michael. 2004. Economic Development in the Third World. Erlangga Publishers, Eighth Edition, 2004.

Weston and Thomas Copeland, 2012, Financial Theory a Corporation. Policy. Third Edition. York.