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INFLUENCE OF BI RATE, INFLATION, AND EXCHANGE RATE ON THE COMPOSITE STOCK PRICE INDEX DURING THE COVID 19 PANDEMIC

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Abstract:

This study aims to determine the factors that affect the Composite Stock Price Index during the covid 19 pandemic. Several factors were tested such as the influence of the BI Rate, Inflation, Exchange Rate. The Composite Stock Price Index is one of the stock market indexes used by the Indonesia Stock Exchange. This index includes the price movements of all common shares and preferred shares listed on the IDX. the method used in this research is to use multiple linear regression method. The data used in this study is sourced from the official website of world stocks, Bank Indonesia, the official website of the global stock exchange, and the official website of the Financial Services Authority which is processed through the Eviews application. The results of this study indicate that the JCI is influenced by the variables in this study by 32.43%. The BI rate has no effect on the JCI, Inflation has no partial significant effect on the JCI. And the exchange rate has a significant effect partially on the JCI variable with a positive effect of 0.513

Keywords: BI Rate, Inflation, Exchange Rate, Composite Stock Price Index

Background

JCI is the Composite Stock Price Index covering all stock price fluctuations as listed on the IDX as the basis for how the development of activities that occur in the capital market and the Indonesian economy. The JCI is very important and can show how the condition of the economy and the capital market in general is, so there are many various elements that can affect the rate of movement of the JCI, such as the money supply (Pratama, 2021).

The COVID-19 pandemic hit the world in 2019, where this pandemic was allegedly able to change the economic order of a country. World stock prices fluctuated during the COVID-19 pandemic. It is noted that the IDX composite moved around the high of 6572 and the low of 6093. The IDX compass moved between USD1204 to USD1201. The following is a graph of the development of the JCI when the world was hit by the COVID-19 pandemic (Ministry of Finance of the Republic of Indonesia, 2021).

JCI values tend to fluctuate during the covid pandemic. In the 1st quarter of 2019, the JCI was at 6181. Furthermore, in the 2nd quarter of 2019 the JCI was at 6379.7. In the 1st quarter of 2020 the JCI was at 6257.4 The JCI in the 4th quarter of 2021 was closed at 6,104.9. During the pandemic, even though the JCI failed to take off like other Asian stock exchanges, foreign companies still saw opportunities in the national stock market. This is reflected in foreign net buys in the regular market which reached Rp 948 billion

Changes in the Composite Stock Price Index are inseparable from changes in macroeconomic conditions. Seeing such a situation, during the COVID-19 pandemic, investors tend to look for bonds with short-term tenors because they are considered to have lower risk when there is an agenda for normalizing monetary policy as it is today (Cnbc Indonesia, 2021)

BI rate In the inflation targeting framework (ITF) regime which was fully adopted starting in July 2005, Bank Indonesia set the Bank Indonesia reference rate (BI rate) based on the targeted inflation rate target, as a guide for the market. BI rate is a policy rate, as a benchmark interest rate (benchmark). The impact of the BI rate is felt in the implementation of monetary operations carried out by BI through managing liquidity in the market. The instrument is the overnight interbank money market interest rate (PUAB O/N). For banks, PUAB is an alternative way to meet daily liquidity needs (Bank Indonesia, 2017).

The BI rate fluctuated in the first quarter of 2019 at 6%, in the second quarter of 2019 it was at 6%, in the third quarter of 2019 the BI rate was at 6%, in the fourth quarter of 2019 the BI rate was 6%, in the first quarter of 2020 the BI rate is at 5%, in the first quarter of 2021 the BI rate is at 3.75%. And in the fourth quarter of 2021 the BI rate will be at 3.5%. This indicates that the COVID-19 pandemic has an influence on the determination of the BI rate policy (I. Faiz, 2017).

The sharp rise in inflation in various countries, especially the US, made the central banks begin to take hawkish steps. The Fed itself took steps in the form of accelerating the process of reducing liquidity injection or better known as tapering. In addition, the Fed's boss, Jerome Powell, also said he was prepared to raise the benchmark interest rate as needed to tame inflation. The issue of the Fed's interest rate hike again made the rupiah exchange rate weaken. On the spot market, the rupiah corrected 0.1% against the US dollar to the level of Rp. 14,315/US$ (I. Faiz, 2017).

In previous research, it was concluded that the BI rate, inflation and exchange rate had an influence on the composite stock price index when the BI rate or interest rates rose. BI rate is a policy rate, as a benchmark interest rate (benchmark). The impact of the BI rate is felt in the implementation of monetary operations carried out by BI through managing liquidity in the market. The instrument is the overnight interbank money market interest rate (Bank Indonesia, 2017).

In addition, when inflation occurs, prices will rise and aggregate demand will decrease, and when the demand for goods and services decreases, it will affect the turnover obtained by the company, so profits will decrease. When this happens to companies that offer their shares, it will cause the market to immediately respond negatively and result in sluggishness in the stock market. Conversely, when inflation decreases, the price level of goods and services will decrease, and will increase public interest in increasing aggregate expenditure, so that the profits received by companies will increase, and will strengthen the JCI. So based on this description, inflation has a negative effect on the JCI (Gojali et al., 2021).

Exchange rate is the price/value of a country's currency compared to other countries' currencies. In this study, the exchange rate in question is the value of the rupiah against the US dollar. Exchange rate changes can affect the competitiveness of a company. Exchange rate fluctuations can affect the company's income and operating costs and in the end can affect the stock price of a company. In addition, for a country that is highly dependent on imports, a decline in the exchange rate can raise concerns about inflation. High imported raw materials will cause producers to increase

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the selling price of their products, and will eventually lead to an increase in the price of goods or inflation (Ilmi, 2017).

Fluctuating exchange rates in 2019 the first quarter of the exchange rate is 14064 then in the second quarter of 2019 the exchange rate is 14354 in 2020 the first quarter of the exchange rate is 16413. Then in 2021 the first quarter of the exchange rate is 14577. And in 2021 the fourth quarter the exchange rate is closed at 14542 The occurrence of the COVID-19 pandemic had quite an impact on the Indonesian economy, one of which was fluctuations in the stock price index and macroeconomic variables, so it attracted the author to make a study entitled The Effect of BI Rate, Inflation and Exchange Rate on JCI During the Pandemic Period.

THEORETICAL FRAMEWORK

1. JCI

Composite Stock Price Index (JCI) The movement of the Stock Price Index is very important for investors. Stock Price Index is an indicator that can be used by investors to find out market movements. The index is one of the guidelines for investors to invest in the capital market, especially stocks that serve as an indicator of market trends. Stock price index is a description of stock prices at a certain time or in a certain periodization as well. The stock price index is a record of changes and movements in stock prices since they were first circulated until a certain time, and the presentation of the stock price index is based on an agreed base number unit. The movement of the index value will indicate changes in the market situation that occur. The market is excited or there is an active (bullish) transaction, indicated by an increasing stock price index. This condition usually indicates the desired state. Stable condition is indicated by a fixed stock price index, while a sluggish (bearish) condition is indicated by a declining stock price index. The JCI can be used as a barometer of a country's economic health and as a basis for conducting statistical analysis of the latest market conditions (current market).

2. Interest Rate

The benchmark interest rate or the new policy interest rate is the BI-7 Day Reverse Repo Rate (BI7DRR), which has been effective since August 19, 2016, replacing the BI Rate. According to Sunariyah (2018: 80), the notion of interest rates is the price of loans. Interest rates are an alternative that can affect stock prices. In general, the mechanism is, if interest rates rise, deposit rates will increase, so investors will tend to deposit their capital compared to playing in the capital market. This will certainly have an impact on the decline in capital market activity and interest is the annual interest payment on a loan, in the form of a percentage of the loan obtained from the amount of interest received each year divided by the loan amount. interest rate is the price of the loan. The interest rate is expressed as a percentage of the principal per unit. Interest is a measure of the price of resources used by debtors paid to creditors. interest rate is the price of the use of investment funds (loanable funds). The interest rate is one indicator in determining someone will invest or save. In general, when interest rates are low, more funds flow, resulting in increased economic growth. Likewise, when interest rates are high, less funds will flow, which will result in low economic growth (Fathur, 2019).

3. Inflation

Inflation is the tendency of prices to increase in general and continuously. This means that the increase is not only for certain goods but for most of the goods. Known, there are three types of inflation, namely: (1) the severity of inflation, (2) the causes of inflation, and (3) the origin of inflation. Based on the results of the Price Index measurement, inflation is divided into four levels, namely: a. Mild inflation (below 10% per year), b. Moderate inflation (between 10-30% per year), c. Heavy inflation (30-100% per year), and d. Hyper-inflation (above 100% per year).

4. Exchange rate

The depreciation of the rupiah against foreign currencies, especially the US dollar, has a negative impact on the economy and the capital market." Appreciation or depreciation will occur if the country adopts a free floating exchange rate policy so that the exchange rate will be determined by market mechanisms. several factors that influence the movement of exchange rates, namely fundamental factors, technical factors and market sentiment. Kuncoro (2001:26-31), states that there are several currency exchange systems that apply in the international economy, namely the floating exchange rate system, the pegged exchange rate system, and the fixed exchange rate system. Fathur, 2019)

Research hypothesis:

1. There is an influence of the BI rate on the JCI
2. There is an effect of inflation on the JCI
3. There is an effect of the exchange rate on the JCI

METHOD

The method used in this study is a quantitative method. In an effort to answer the problem formulation in this study, the method used is multiple regression. This study has three variables that are the object of research where the JCI is the dependent variable (Y). While the independent variables are BI Rate (X1), Inflation (X2), and Exchange Rate (X3)

RESULT

The equation of the regression line in this study can be arranged as follows:

JCI=12702.51 SBI-5.819273INF-0.513000 USD/IDR

Based on the results of data processing, it is known that all independent variables have different effects on the JCI. The BI Rate variable has a negative effect on the JCI, each of which is -5.819273. While the inflation variable has a positive effect on the JCI of 25633.30. Among the three independent variables used in the study, it can be seen that the BI Rate variable has the greatest influence compared to other variables.

1. Effect of BI rate on JCI

Based on the results of the research described above, the results of the significance value for the BI rate variable show a value of 0.006 and a significance value of <0.05 so that there is a significant effect between the BI rate on the Composite Stock Price Index. In the model test the coefficient value is -0.5819 so that if the BI rate increases by one point, the JCI rate will increase by 0.5819. The JCI coefficient value is negative, which means that the higher the BI rate, the lower the JCI. It can be concluded that there is a significant negative effect of the BI rate on the JCI. This is in accordance with the interest rate theory which says that if interest rates fall, investment tends to rise. this is in line with previous research which said that interest rates and JUB had a significant effect on the JCI variable. (Ningsih & Waspada, 2018)

In another study, there was a difference in the effect of the BI rate on the JCI conducted by Astuti who said "From the results of the t test, it was concluded that interest rates had a negative and insignificant effect on the JCI on the IDX" (Astuti et al., 2016)

2. Effect of Inflation on JCI

Based on the results of the research described above, the results of the significance value for the inflation variable show a value of 0.3614 and a significance value of <0.05 so that there is no influence between inflation on the Composite Stock Price Index.

In other studies, there are differences in the results of the effect of inflation on the JCI, namely research conducted by Astuti which states "From the results of the t test, it is concluded that inflation has a positive and significant effect on the JCI on the IDX." (Astuti et al., 2016)

3. Effect of Exchange Rate on JCI

Based on the results of the research that has been described above, the results of the significance value for the exchange rate variable show a value of 0.9579 and a significance value of <0.05 so that there is no influence between the exchange rate on the Composite Stock Price Index. So it can be concluded that there is no influence between the exchange rate on the JCI

In other studies have different results, namely "Based on the results of the t test, it is partially proven that the USD exchange rate has a significant effect on the Composite Stock Price Index (JCI) (Sartika, 2017)

DISCUSSION

Based on the research results that have been determined, the researchers can provide implications for several related parties, including:

1. The BI rate has a significant negative effect on the JCI. BI rate is the interest rate issued by Bank Indonesia. Bank Indonesia as the central bank must be smart in determining the amount of interest rates so that investors in the capital market continue to invest their funds in the capital market

2. Inflation has no significant effect with a coefficient of 2.563 on the JCI. The government in this case must be able to manage inflation so that the rupiah exchange rate does not fall and have an impact on decreasing investment in the capital market

3. Exchange rate has no negative significant effect. Therefore, the government must be able to manage the economy so that there is no economic recession that causes the rupiah exchange rate to weaken against the dollar.

CONCLUSION

This study aims to examine how the influence of the BI rate, inflation and exchange rate on the JCI during the covid 19 pandemic. The object of the study is the Composite Stock Price Index listed on the Indonesia Stock Exchange (IDX). The data taken in this study uses secondary data in the form of reports on the BI rate, inflation and exchange rates with annual quarterly data for the 2019-2021 period which is accessed through the official website of the Indonesia Stock Exchange, Bank Indonesia, and the Central Statistics Agency. In this study, there were 12 data for each variable, then data were collected which had been published by the official website of each institution. The data analysis technique in this study was assisted by the application of Eviews statistical analysis. Based on the results of research and discussion that have been explained by previous researchers in chapter IV, several conclusions can be drawn, including:

1. The BI rate has a significant effect on the JCI with a coefficient of -0.5819 because if interest rates rise, people tend to reduce investment in the capital market and prefer to save funds in banks in order to get bigger and fixed interest.
2. Inflation does not have against JCI
3. Exchange rate has no effect on JCI

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