

Financial Sector Stock Index On The Indonesia Stock Exchange: Evidence From Interest Rates, Inflation, And Exchange Rates

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Abstract

This study examines the role of exchange rates, inflation, and interest rates in explaining movements in the Financial Sector Stock Index on the Indonesia Stock Exchange during 2022–2024. The study is quantitative in nature and utilizes secondary data from the Central Bureau of Statistics, Bank Indonesia, and the Indonesia Stock Exchange. The research sample consisted of 36 data points per month, analyzed using multiple linear regression with IBM SPSS Statistics 27. The findings reveal that exchange rates, inflation, and interest rates exert a negative and statistically significant influence on the Financial Sector Stock Index. These three factors have a big effect on the Financial Sector Stock Index all at once. The adjusted R-squared value of 0.765 implies that currency exchange rates, inflation and interest rates explain 76.5% of the variation in the movement of the financial sector stock index. This result implies that macroeconomic stability is an important factor to be considered in maintaining the performance of Indonesia's capital markets and financial sector.

Keywords: capital market, financial sector stock index, inflation, interest rate, and currency exchange rate.

INTRODUCTION

The capital market plays a strategic role in economic development by facilitating capital formation and providing investment opportunities for investors. Capital market development is often used as an indicator to assess the economic status of a country. This is because it reflects investor expectation about future economic prospects and business performance. Besides the internal company characteristics, macroeconomic

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variables, especially interest rates, inflation and currency rate within a nation, have been proven by many studies to affect the stock market movement (Barakat et al., 2016) (Bilson et al., 2000) (Sutrisno, 2017).

From the point of view of signaling theory, the macroeconomic condition changes can be understood as signals affecting the behavior of capital market investors and their investment decision. Data on inflation, interest rates and exchange rates are often used by investors to help determine risk levels and potential rewards. Connelly et al (2011) found that when economic indicators are volatile, investors tend to adjust their portfolios, which in turn affects the supply and demand of equities in the capital market. Consequently, the relationship between macroeconomic indicators and stock market performance remains a prominent topic in financial research.

Changes in the macroeconomy are closely linked to the financial sector. This industry comprises financial services companies that act as intermediaries in the financial system, including banking, insurance and investment firms. Raddant & Kenett (2017) argue that the financial sector is more sensitive to changes in monetary policy and the state of the world economy because it is closely connected to financial markets and economic dynamics. These findings suggest that changes in interest rates, inflation, and exchange rates may impact the financial firms' performance and, therefore, investors' perception of the financial industry.

One of the most often cited economic indicators in connection with fluctuations in the stock market is the exchange rate. Exchange rate fluctuations can influence foreign capital inflows, costs of international transactions, and investor sentiment towards a country's economy. According to Rawat et al (2021), the exchange rate is a macroeconomic indicator that is closely related to the stock market. This finding is in line with Raihan et al (2023), who showed that the exchange rate has a positive and significant effect on stock index volatility in Indonesia. Lakshmanasamy (2021) says that higher volatility of exchange rates can lead to higher volatility of the stock market as investors respond to changing assumptions about the state of the economy and the stability of the financial system.

Besides the exchange rate, inflation is another important factor that explains the changes in the stock market. Growing inflation can theoretically reduce people's purchasing power and increase production costs for businesses, which could reduce profitability. But empirical studies have produced mixed results. Sutrisno (2017) revealed that inflation had a little effect on most of the sectoral indices of Indonesia. Raihan et al. (2023) observed similar results that inflation did not significantly impact stock index

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volatility. However, several studies have shown that inflation can influence the performance of the stock market, especially when it is excessive and causes economic uncertainty.

Analysts often use interest rates as a macroeconomic variable to explain the movements of the stock market. Alam & Uddin (2009) revealed that there is a tendency of an inverse relationship between interest rates and stock market. Higher interest rates are encouraging investors to move their money to securities such as bonds and deposits that offer more predictable returns. Sutrisno (2017) in his research found that most of the sectoral indices on the Indonesia Stock Exchange were negatively affected by interest rates. This result is supported by the findings of Raihan et al. (2023) who found that interest rates have a significant and negative impact on the Indonesian stock index volatility.

Researchers have widely investigated the relationship between macroeconomic factors and stock markets in Indonesia and other emerging countries. According to Barakat et al. (2016) currency rates, inflation and interest rates are important factors affecting stock markets in developing countries. Yunita & Robiyanto (2018) showed that the exchange rate has a significant effect on the index of Indonesia's banking industry, unlike inflation and the BI Rate. Firman's (2023) found that macroeconomic conditions affect the financial sector index. On the other hand, the study conducted by Moorcy et al.'s (2021) found that the Jakarta Composite Index (JCI) was significantly negatively affected by the exchange rate and positively by inflation and interest rates. Other studies also found different results. Raihan et al (2023) found that interest and currency rates had a significant effect on the volatility of stock indices, whereas inflation did not show any noticeable effect.

The various results of the studies indicate that there is still no clear pattern in the effect of interest rates, inflation and currency rates on the stock market. In addition, most of the previous studies have concentrated on individual banking firm stocks, sectoral indices, or the Jakarta Composite Index (JCI). Currently, there is no research that specifically investigates the effect of interest rates, inflation, and currency rates on the financial sector stock index. This is despite the fact that the financial sector is different from other sectors in which monetary policy and financial system stability have a significant effect (Yunita & Robiyanto, 2018). This situation indicates a gap in the research that requires further study.

The novelty of this study is the use of the Financial Sector Stock Index as a proxy for the performance of the Indonesian financial sector during the observation period of

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2022-2024. This period is the economic recovery phase after COVID-19, characterized by changes in inflation rates, rupiah exchange rate volatility, and adjustments to Bank Indonesia interest rates. Therefore, this study is expected to provide more precise empirical data regarding the effect of macroeconomic factors on the movement of the financial sector stock index on the Indonesia Stock Exchange.

Research Objective

This study intends to investigate the impact of interest rates, inflation, and exchange rates on the Financial Sector Stock Index on the Indonesia Stock Exchange, both separately and collectively, based on the discussion above.

RESEARCH METHODS

This research used quantitative method with associative research design to study the effect of inflation, interest rates, and currency exchange rates on the movement of Financial Sector Stock Index on Indonesia Stock Exchange. The data used is secondary data obtained from official publications of Bank Indonesia (BI) and the Indonesia Stock Exchange (IDX).

The research population is all monthly data on the value of the rupiah against the US dollar, inflation, the BI 7-Day Reverse Repo Rate, and the Financial Sector Stock Index in 2022-2024. The whole population was the sample of the study, because the sampling strategy used was a saturated sampling method. This study applied 36 observations during 36 months period.

Dependent variable is Financial Sector Stock Index and independent variables are interest rate, inflation and currency rates. Data were analyzed using multiple linear regression analysis in IBM SPSS Statistics version 27.

Before hypothesis testing is carried out, the model is first examined using traditional assumption tests such as normality, multicollinearity, autocorrelation, and heteroscedasticity. Hypothesis testing uses t-test to find out the partial effect of each independent variable, F-test to find out the simultaneous effect of independent variables on the dependent variable, and the coefficient of determination (R^2) to find out the ability of the model to explain the change in the Financial Sector Stock Index.



RESEARCH RESULT

Before hypothesis testing, the regression model is subjected to the traditional data assumptions. The testing includes tests for heteroscedasticity, autocorrelation, multicollinearity and normality.

Tests of Normality and Multicollinearity

One-Sample Kolmogorov-Smirnov Test				Unstandardized Residual
N				36
Normal Parameters ^{a,b}	Mean			.0000000
	Std. Deviation			58.21934601
Most Extreme Differences	Absolute			.087
	Positive			.066
	Negative			-.087
Test Statistic				.087
Asymp. Sig. (2-tailed) ^c				.200 ^d
Monte Carlo Sig. (2-tailed) ^e	Sig.			.694
	99% Confidence Interval	Lower Bound		.682
		Upper Bound		.706

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 2000000.

Source: SPSS Version 27 (2025) Processed Data

Figure 1. Test of Normality

Coefficients ^a							
		Unstandardized Coefficients		Standardized Coefficients			
Model		B	Std. Error	Beta	t	Sig.	Collinearity Statistics
1	(Constant)	2511.815	275.167		9.128	<.001	
	Nilai Tukar Mata Uang	-.049	.019	-.372	-2.500	.018	.810
	Inflasi	-26.116	10.781	-.451	-2.422	.021	.518
	Suku Bunga	-39.726	14.794	-.537	-2.685	.011	.449

a. Dependent Variable: Indeks Saham Sektor Financials

Source: SPSS Version 27 (2025) Processed Data

Figure 2. Test of Multicollinearity

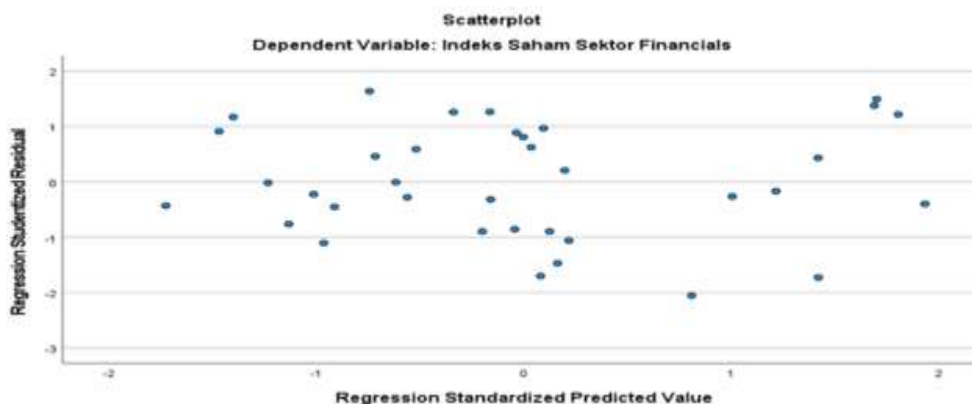
The normalcy test results show an asymptote. Sig. 0.200 (2-tailed) > .05. This outcome supports the regularity distribution of the data in the study, fulfilling one of the primary assumptions of linear regression. In addition, the multicollinearity test shows that all independent variables have VIF values below 10 and tolerance values above 0.10. This condition indicates that there is no strong relationship between independent variables so that the symptoms of multicollinearity are absent in the regression model.

Tests for Autocorrelation and Heteroscedasticity

Runs Test	
	Unstandardized Residual
Test Value ^a	-1.79066
Cases < Test Value	17
Cases ≥ Test Value	18
Total Cases	35
Number of Runs	15
Z	-1.025
Asymp. Sig. (2-tailed)	.305
a. Median	

Source: SPSS Version 27 (2025) Processed Data

Figure 3. Test of Autocorrelation



Source: SPSS Version 27 (2025) Processed Data

Figure 4. Test of Heteroscedasticity

When the data were considered normal and free of multicollinearity, the tests of autocorrelation and heteroscedasticity were performed. The runs test results gave an asymptotes. Mr. value of 0.305 that is higher than 0.05. It means that the study model

has no autocorrelation. In addition, the scatterplot graph shows a random distribution of points. There is no visible pattern. This suggests that the symptoms of heteroscedasticity are not present in the regression model. Thus the model is suitable to test hypotheses as all the traditional assumptions have been met.

Multiple Linear Regression Analysis

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	2511.815	275.167		9.128
	X1	-.049	.019	-.372	-2.500
	X2	-26.116	10.781	-.451	-2.422
	X3	-39.726	14.794	-.537	-2.685

a. Dependent Variable: Y

Source: SPSS Version 27 (2025) Processed Data

Figure 5. Multiple Linear Regression Analysis

After the model was declared to meet the classical assumptions, the next step was to analyze the effect of currency exchange rates, inflation, and interest rates on the Financial Sector Stock Index using multiple linear regression. The analysis yielded the following regression equation:

$$Y = 2511.815 - 0.049X_1 - 26.116X_2 - 39.726X_3$$

In this equation, Financial Sector Stock Index has negative correlation with the three independent variables. This points to the fact that over the study period falls in the stock index of the financial sector are usually preceded by rises in exchange rate, inflation and interest rates.



Partial and Simultaneous Hypothesis Testing

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	87888.359	3	29296.120	7.902	<.001 ^b
	Residual	118632.229	32	3707.257		
	Total	206520.588	35			
a. Dependent Variable: Indeks Saham Sektor Financials						
b. Predictors: (Constant), Suku Bunga, Nilai Tukar Mata Uang, Inflasi						

Source: SPSS Version 27 (2025) Processed Data

Figure 6. Partial Hypothesis Testing

From the test results the significance value of interest rates is 0.011, inflation is 0.021 and the currency exchange rate is 0.018. Since all the p-values are less than 0.05, it can be said that the Financial Sector Stock Index is significantly influenced by inflation, interest rates and currency exchange rates. The resulting regression coefficients show that all three variables are significant and have a negative influence as well.

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	87888.359	3	29296.120	7.902	<.001 ^b
	Residual	118632.229	32	3707.257		
	Total	206520.588	35			
a. Dependent Variable: Indeks Saham Sektor Financials						
b. Predictors: (Constant), Suku Bunga, Nilai Tukar Mata Uang, Inflasi						

Source: SPSS Version 27 (2025) Processed Data

Figure 7. Simultaneous Hypothesis Testing

The concurrent test resulted in an F-value of 7.902 with a significance level of less than 0.001. These results imply that the movements of the Financial Sector Stock Index are significantly affected by the interest rates, inflation, and currency rates. In other words, the constructed research model can explain the relationship between macroeconomic conditions and the movement of the financial sector stock index on the Indonesia Stock Exchange.



Determination Coefficient Test (R^2)

Model Summary^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.886 ^a	.785	.765	27.39926
a. Predictors: (Constant), Suku Bunga, Nilai Tukar Mata Uang, Inflasi				
b. Dependent Variable: Indeks Saham Sektor Financials				

Source: SPSS Version 27 (2025) Processed Data

Figure 8. Determination Coefficient Test (R^2)

The model's strength is further evidenced by an adjusted R-squared score of 0.765. From this figure it can be observed that interest rates, inflation and exchange rates explain 76.5% of the fluctuations in the Financial Sector Stock Index. The remaining 23.5% is explained by factors outside the research model that were not studied in this study.

DISCUSSION

The results of the study indicate that interest rates, inflation, and currency exchange rates have a large effect on the movement of the Financial Sector Stock Index on the Indonesia Stock Exchange. Moreover, these three factors have a great effect on the movement of the stock index of the financial sector at the same time. The findings suggest that macroeconomic conditions still played an important role in the investment decisions of investors in the financial sector.

The exchange rate was found to have significant and negative impact on the Financial Sector Stock Index. The results imply that a drop in the Financial Sector Stock Index is linked to rupiah depreciation. The findings are consistent with the view that investors treat exchange rate movements as an economic indicator in evaluating investment risk. Based on the signaling theory Connelly et al (2011) the variations in the exchange rate can impact the investors' perceptions of the prospects of the financial market and economic stability. The depreciation of the rupiah makes investors feel that the economy is more risk, and this makes the interest to invest in the stock market decrease. The findings of this research are consistent with Yunita & Robiyanto (2018) that the exchange rate is a major influence on the Indonesia financial industry index.

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These findings are in line with the findings of the study conducted by Rawat et al (2021) and Raihan et al. (2023) which asserts that exchange rate changes are one of the variables that influence stock market movements and stock index volatility.

The unfavorable findings of the study imply that investors in the financial sector were more aware of the hazards associated with the depreciation of the rupiah during 2022-2024 than of the possible benefits of the exchange rate fluctuations. The situation can be linked to the post-pandemic economic recovery period, which is still marked by fluctuating flows of foreign capital, rising international interest rates and uncertainty around the world. Lakshmanasamy T (2021) argues that the high exchange rate volatility may increase market uncertainty, which makes investors more cautious in making stock investments.

In addition to the exchange rate, inflation has been shown to negatively and significantly affect the Financial Sector Stock Index. The results show that the banking sector stock index generally has a negative performance as inflation increases. In theory, significant inflation can reduce people's purchasing power and increase operating costs for businesses, potentially cutting profits. This situation can influence investors' perception of a company's prospects and diminish demand for its shares. Barakat et al. (2016) suggest that inflation is a measure of economic stability that is highly correlated with changes in the capital market in developing countries.

The results of this research support the work of Firman (2023), which proved that inflation affects stock returns. However, these findings are inconsistent with Sutrisno (2017) and Raihan et al. (2023), who stated that inflation has no significant effect on some of the stock indices in Indonesia. This inconsistency shows that the impact of inflation on the stock market may differ based on the nature of the market, the sector of the study, and the underlying economic conditions during the study period. The usual response of investors to rising inflation in the financial industry is negative. They think that inflation adds to risk in the economy and diminishes the stability of the financial system.

Interest rate variable also had a significant negative effect on the Financial Sector Stock Index. The result implies that the stock index of the banking sector generally falls because of increases in interest rates. This result is in line with investment theory, which predicts that when rising interest rates make fixed-income investment products such as bonds and deposits more attractive, some investors will shift their money out of the stock market. Interest rates and the stock market are usually inversely related (Alam & Uddin, 2009). Changes in interest rates influence investment decisions and firms' costs of capital.



This is consistent with findings by Sutrisno (2017) and Raihan et al. (2023) who found interest rate has a negative impact on the stock market. Interest rate movements are strongly associated with financial intermediation activities, the cost of funds, and expectations for economic growth; thus, they have an important role in the financial sector. Therefore, the Financial Sector Stock Index declined due to the negative reaction of investors to the interest rate hike during the study period.

It was indicated that interest rates, inflation and currency rates have a significant effect on Financial Sector Stock Index at the same time. The results show that the dynamics of the financial sector stock index are determined by a number of macroeconomic factors that affect investor expectations and the state of the financial markets and cannot be explained by a single economic indicator. The results support the findings of Barakat et al (2016) who stated that macroeconomic factors play a significant role in explaining stock market changes in emerging countries.

The adjusted R-squared value of 0.765 suggests that 76.5% of the variation in the movement of the financial sector stock index is explained by currency exchange rates, inflation and interest rates. However, other variables not included in the research model, such as money supply, political climate, investor sentiment, economic growth and company-specific factors affect the remaining 23.5%. These outcomes indicate that macroeconomic stability is an important factor to maintain the success of the financial sector and to boost investor confidence in the Indonesian capital market.

CONCLUSION

This research is intended to analyze the influence of interest rates, inflation, and exchange rates toward the movement of the Financial Sector Stock Index on the Indonesia Stock Exchange in 2022-2024. The results reveal that Currency exchange rates have a significant negative impact on the Financial Sector Stock Index. The result shows that the financial sector stock index tends to fall after the rupiah's value increases against the US dollar or the rupiah depreciates. The Financial Sector Stock Index has also been proved to be negatively and significantly affected by inflation, suggesting an overall decline in the financial sector performance in the capital market due to an increase in inflation. Interest rates have a similar negative and significant impact on the Financial Sector Stock Index, where a rise in interest rates can be an impediment to investors in buying financial sector equities.

It was proved that interest rate, inflation and exchange rate have a significant effect on the Financial Sector Stock Index in the Indonesia Stock Exchange. These three

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macroeconomic variables explain 76.5% of the variation in the movement of the Financial Sector Stock Index, demonstrating the great explanatory ability of the model. These results suggest that in order to sustain the stability and performance of the financial sector in the Indonesian capital market, investors, market participants, and policymakers need to pay attention to inflation, interest rates, and exchange rate stability.

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