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The Effects of Various Internal and External Factors on the Movement of the Indonesian Sharia Stock Index on the Indonesia Stock Exchange

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ABSTRACT

This study analyzed several factors that affect the Indonesian Sharia Stock Index. The use of the inflation-currency rate, the availability of money, and the BI rate were all internal factors considered in this study. Meanwhile, the external factors used in this study were international gold and oil prices. The Engle-Granger Error Correction Model was used to analyze time series data in this study. The research used the monthly period started from May 2013 until January 2022. The long-term results of the research variables that could influence the exchange rate, total money supply, world oil prices, and world gold prices were all dependent on the Indonesian Sharia Stock Index. Meanwhile, the factors that influence the short-term movement of the ISSI exchange rates were inflation, and the BI rate variables.

1. Introduction

The role of the capital market can be rather significant in a country's economy. The capital market can provide facilities regarding requests or offers for the benefit of companies and industries in countries that are directly related to Suteja & Abas (2018), Basar et al. (2021), and Sugiyanto et al. (2023). According to Halisa & Annisa (2022), the index on the capital market is used as a leading indicator of market developments, i.e., the capital market stock index functions to determine whether the market is active or sluggish Azmy et al. (2019). The growth of Indonesia's sharia-based economy continues to experience a significant rise; among them are developments in the business world that are increasingly advanced, and of course, this will open up new ideas for the community to invest their wealth in more modern ways, in particular.

Market movements, whether they experience an increase in the form of an improvement or a decrease, can be measured by looking at the growth in the market value of the shares indexed on the Sharia Stock Exchange. The Stock Index movement is strongly influenced by various domestic factors and foreign factors, both internal and external (Lawal et al., 2016; Zahrok et al., 2021; Degiannakis et al., 2014). Specifically in the Sharia Stock Index Garnia et al. (2021) have found that oil prices are correlated with ISSI (Indonesian Sharia Stock Index). Furthermore Alam et al. (2020) have found that macroeconomic variables such as central bank interest rates, inflation, currency exchange rate, and return rates of Bank Indonesia Sharia Certificates (SBIS) are correlated with ISSI. In this study, it is assumed that the external factors that influence the ISSI movement come from global gold and crude oil prices. Meanwhile, intrinsic variables in this study are thought to influence the movement of the ISSI, including the money supply, the inflation rate, interest rates, and the JISDOR exchange rate.

The performance of all shares that adhere to Islamic law is gauged by the Indonesian Sharia Stock Index (ISSI), which has been declared to have traded on the Indonesia Stock Exchange and joined the Sharia Securities List. When viewed from the ISSI's minimum age, each of them is classified as young, but it can be said that the ISSI has developed significantly. The Jakarta Islamic Index, which already exists as a Sharia Stock Index, is intended to be supplemented by the Indonesian Sharia Stock Index.

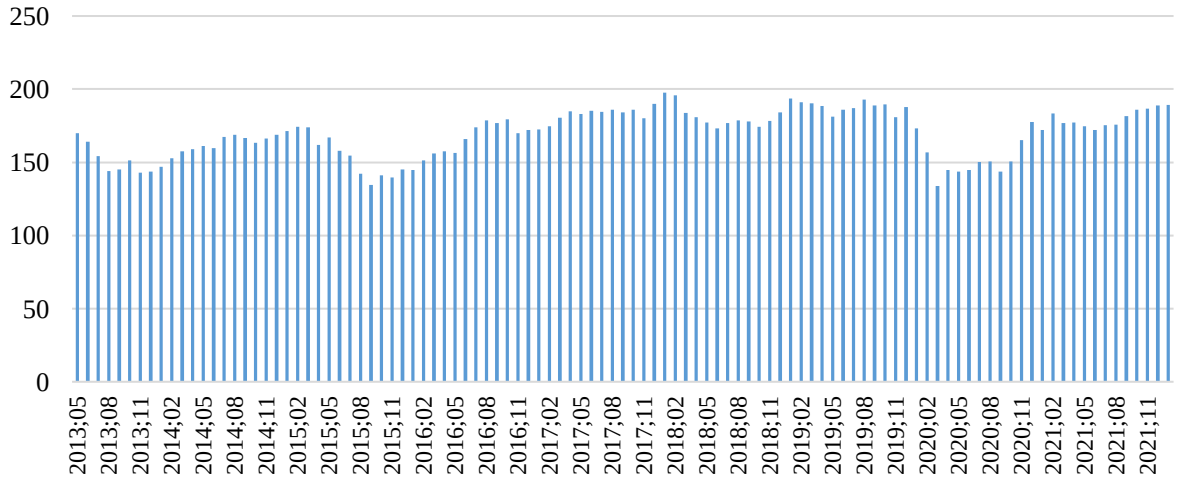

Figure 1. Movement of the Index of Indonesian Sharia Stocks
for May 2013– January 2022
Source: Indonesian Stock Exchange (2022)

From Graph 1.1 The Indonesian Sharia Stock Index fluctuated up and down between May 2013 and January 2022, as can be seen in the chart below. In December 2018, The Indonesian Sharia Stock Index was at 184.00, and in the following period December 2019. The Indonesian Sharia Stock Index had increased to reach 187.73 points. However, in the next period there was a decline to 177.48 points in December 2020. The ISSI has improved, and there was an increase in December 2021 to 189.02 points. This shows that the Indonesian Sharia Stock Index's fluctuating value shows that there are factors that affect it sensitively. In the capital market, ISSI fluctuations are normal. Improving education, expanding investment options, and strengthening the fundamentals of companies that are members of ISSI are crucial for improving ISSI performance and reducing its volatility. Investors can also make more rational and long-term investment choices with a good understanding of the components that influence ISSI performance (OlaOluwa, 2014). Therefore, it is important to carry out any research that may affect the capital markets, especially those related to ISSI.

This study investigates the performance of the Indonesia Sharia Stock Index (ISSI) and the internal and external factors influencing it. The research aims to provide a comprehensive analysis of how various internal factors such as inflation, exchange rates, money supply, BI rate, global oil prices, and external factors such as global gold and oil prices impact the ISSI over the period from May 2013 to January 2022. By employing quantitative methods using Engle-Granger Error Correction Model (EG-ECM) analysis. The findings indicate that exchange rate variables, inflation, money supply, and interest rates, which are internal factors, have a favorable impact on the movement of the stock index. When these variables increase or increase, they will give the Indonesian Sharia Stock Index a favorable indication (Sonia et al., 2022). Furthermore, the external factor refers to Istamar et al. (2019) that used oil price of crude oil in the world. This study contributes to the existing literature by highlighting the importance of external factor that represnted by gold and oil prices and internal factor that represented by macroeconomic stability in enhancing the performance of Sharia-compliant stocks in Indonesia.

2. Literature Review

The grand theory in this research is the capital market, which is a financial market for long-term funds and is a concrete market. In general, share prices on the capital market in Indonesia tend to fluctuate depending on the activity of the capital market itself (Ratih, 2021). The better the capital market activity, the higher the share price will be, and vice versa, if the capital market experiences a downturn, it will result in a decline in share prices. The research is referred to Suharyanto & Zaki (2021), who looked at inflation, interest rates, and exchange rates. According to the study's findings, inflation and the exchange rate has a significant negative effect on stock returns. However, this research is in contrary to research that had been conducted by Bassar et al. (2021), which stated that inflation did not affect the movement of the index of stocks. Research conducted by Istamar et al. (2019) was used to support this study who found that the movement of the ISSI was not significantly affected by the price of crude oil in the world. The research has several gaps or differences from the previous research. First, the research uses monthly periods, and the previous research used yearly. The time difference also shows the different phenomena that occur between both, thus affecting correlation. Second, the research uses Sharia stock indexed and the previously used non-sharia. Istamar et al. (2019) used ISSI, but in the dependent variable, they are not including gold price. Last, the research is capable to capture the condition of ISSI during and after COVID-19. This consider that COVID-19 caused global crisis, which changes many macroeconomic fundamentals tend to be weak (Zuhroh & Harpiyansa, 2022)

Research that had been conducted by Lawal et al. (2016) examined the impact of oil price and exchange rate volatility on stock market behavior in Nigeria. The research showed that stock price volatility was positively and significantly influenced by the exchange rate and oil prices. World gold and oil prices both had a positive correlation effect, where when these variables fluctuate, they will be able to have an advantageous impact on the economy or the city market (Zahrok et al., 2021). This was corroborated by studies carried out by Degiannakis et al. (2014) that the world oil price of have a significant influence on the movement of the stock index. We conclude that demand-side shocks to aggregate world oil prices affect volatility to a significant degree. But this study runs counter to research that has been conducted by Garnia et al. (2021) which found that world oil prices have a negative influence on the movement of the Indonesian Sharia Stock Index (ISSI). Research conducted by Smith (2001) with the title "The Price of Gold and American Stock Market Indices". According to his research, the stock index is unaffected by the price of gold.

Lak et al. (2016) the result shows partially that bi rate and exchange rate negatively impact Jakarta Islamic Index before global monetary crisis. After global monetary crisis, bi rate variable and money supply significantly gave a positive influence on Jakarta Islamic Index.

3. Research Method

The research aimed to analyze the factors that affect Indonesian Sharia Stock Index. Macroeconomic variables were used as independent variables, including external variables like international gold and oil prices. Macroeconomic indicators were often used to analyze several changes in stock indexes like as Indonesian Sharia Stock Index. Based on previous research changes in the Indonesian Sharia Index were influenced by inflation, rate of exchange, money supply, and Rate BI. The data used in this research were collected from Badan Pusat Statistik, Bank Indonesia, World Bank, and Indonesian Stock Exchange starting from May 2013 until January 2022.

Table 1. The detailed information from each variable.

Variables	Descriptions	Unit
Indonesian Sharia Stock Index	Astatistical measure that reflects the price movement of a group of Islamic stocks selected based on certain criteria	Percent (%)
Inflation	Increase in prices of goods and services and continuously within a certain period	Percent (%)
Rate of Exchange	The amount of domestic currency that must be paid to obtain one unit of foreign currency.	Percent (%)
Money Supply	The amount of money circulating in a certain area.	Percent (%)
Rate BI	The interest standard set by Bank Indonesia for commercial banks	Percent (%)
Gold Price	The International price of gold is reported daily	USD
Oil Price	The International price of oil is reported daily	USD

This research used a quantitative approach to explain the relationship between macroeconomic indicators and the Sharia stock index. The Engle-Granger Error Correction Model (EG-ECM) was used as an analytical tool. The error correction model was capable of covering many variables in analyzing long-term economic phenomena and studying the consistency of the empirical model with economic theory. In addition, this model could find remedies for the issues of non-stationary variables in time series and erroneous regression in econometrics (Insukindro, 1999, 2). Error correction, specifications include both level and difference models. Harmonic error correction mechanisms with long-run equilibrium

behavior. The Granger Representation Theorem emphasizes that cointegrating systems always have a mechanism for correcting errors. The study's primary methodology for estimation was the ordinary least squares method. The long-term equation of Engle-Granger or the basic model was formulated as follows.

$$ISSI=\beta 0+ \beta 1\ INFt+ \beta 2\ LnKURSt + \beta 3\ LnJUBt + \beta 4\ BIRt + \beta 5\ HMDt + \beta 6\ HEDt +\varepsilon t \ldots\ldots\ldots(1)$$

Next, the above model was converted into a short-term model to find an error correction term. The model was as follows:

$$D(ISSI)=\alpha 0+\alpha 1D(INF)t+\alpha 2D(LnKURS)t + \alpha 3D(LnJUB)t + \alpha 4D(BIR)t +\alpha 5\ D(HMD)t + \alpha 6\ D(HED)t +\varepsilon t \ldots\ldots\ldots(2)$$

Based on the equation, Ln was natural logarithmic form; ISSI was Indonesian Sharia Stock Index; INF was inflation; KURS was rate of exchange; JUB was money supply; BIR was BI rate; HMD was gold price; HED was oil price; ε was residual; and t was time of research. The long-term model was represented by β and the short-term model by α. Both symbols were used as parameters that show the value of the relationship between dependent and independent variables. D showed a lag between observations Nt and Nt-1. The model was a combination of the main research bySuharyanto & Zaki (2021), Lawal et al (2016), and Lak et al (2016). Other research also used to complement analysis, such as research by Bassar et al. (2021), Istamar et al. (2019), Zahrok et al.(2021), Degiannakis et al.(2014), Garnia et al. (2021), and Smith(2001).

There were three criteria that the error correction model fulfilled, the first, all variables must be stationary at the first difference or next difference called the unit root test, the second, all variables must be integrated called cointegration test, and the third, the value of ECT(-1) at the short-term estimation must be negative and significant (Gujarati, 2004). The unit root test uses Augmented Dickey-Fuller (ADF) method and the cointegration test uses Johansen method. If the data were found to not be stationary after testing the unit root, testing was repeated using the initial difference value data. If the data from the first difference was not yet stationary, then a test was carried out with data from the value of the second difference, and so on until stationary data were obtained. The nth difference indicated the degree of integration of these variables. This advanced test was referred to as the degree of integration test. After all, the variables were stationary, next was running the basic model using OLS to find out residuals in the estimated equation. If the score of statistics and Eigenvalue were smaller than the value on the critical value or Eigenvalue is significant at the level of significance that uses (0,05), it indicated that the model was integrated. There were shock conditions if estimated relationship economic variable, which caused disequilibrium between short-term and long-term relationships. The Engle-Granger model can be used to identify how long the adjustment occurs or how quickly the short-term reach equilibrium conditions in the long-term relationship (Studentmund, 2016). Value ECT(-1) in the estimated output of the short-term model was capture how long and quickly the adjustment occurs or equilibrium conditions are reached.

4. Results and Discussion

Unit Root Test and Integration Level

In this study, the first step to load the ECM model was carrying out a stationarity test on each variable in the long-term equation model. The stationary test ensured that the data used does lack a unit root, meaning that the data must be stationary using ADF, which stood for Augmented Dickey-Fuller. The criteria to test the hypothesis were as follows:

H0: ADF t-Statistic value < Mackinon Critical Value (5%), if the data were not stationary in the model or there is a unit root

HA: ADF t-statistic value > Mackinon Critical Value (5%), then a unit root exists or the data was stationary in the model

The findings of this study's stationarity test were as follows.:

Table 2. ADF Test Stationarity Results

Variable	Level	t-Statistic ADF	Critical Score Mackinon (5%)	Prob.
INF	Level	-2.078851	-2.889753	0.2536
	First Difference	-9.208465*	-2.889753*	0.0000*
KURS	Level	-3.288728*	-2.888932*	0.0178
	First Difference	-11.44225*	-2.889200*	0.0000*
JUB	Level	1.875466	-2.889753	0.9998
	First Difference	-15.09250*	-2.889753*	0.0000*
BIR	Level	-0.579803	-2.889200	0.8694
	First Difference	-6.951370*	-2.889200*	0.0000*
HMD	Level	-1.744180	-2.889200	0.4062
	First Difference	-8.146451*	-2.889200*	0.0000*
HED	Level	-0.387838	-2.888932	0.9063
	First Difference	-11.90254*	-2.889200*	0.0000*

Source: Eviews processed data

The results of the stationarity test showed that previously with the Augmented Dickey-Fuller Test in Table 1 only the exchange rate variable present at the level of stationarity. The next step was performing the unit root test followed by the first difference level (Level 1). Based on Table 2 after the data stationarity test was carried out, the results obtained for all factors in this study remained the same at the initial difference level (Level 1). An important implication of the stationarity test was that the cointegration test is performed to determine the long-term relationship.

Cointegration Test

For the cointegration test to ascertain whether the dependent and independent variables are related, a test was used for the association to be used as a long-term estimate. Because the basic idea behind an economic model was to demonstrate long-term behavioral relationships based on the economic theory used to estimate the model. The table below presented the Johansen cointegration test results.

Based on Table 3 of cointegration above, it can be explained that data processing in the research that had been done showed that cointegration occurs. Judging from the value listed on tracing statistics and Eigenvalue, it was smaller than the value on the critical value. Alternatively, cointegration can be demonstrated using the trace statistic and Eigenvalue statistical tests at a significance level of a = 5% (0,05). It was concluded that the data had a committed partnership. The next model the Error Correction Model, was utilized in data analysis.

Table 3. Johansen Cointegration Test Results

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None	0.316584	85.62292	95.75366	0.2027
At most 1	0.155247	47.55781	69.81889	0.7394
At most 2	0.145558	30.68676	47.85613	0.6832
At most 3	0.080334	14.95611	29.79707	0.7829
At most 4	0.051736	6.581616	15.49471	0.6267
At most 5	0.012613	1.269341	3.841466	0.2599

Source: processed data

Engle Granger-Error Correction Model

The Engle-Granger estimation's findings demonstrated that the model used was successful in explaining the factors that influence the stock index. The initial indication of the validity of using Engle-Granger can be seen from the significant error correction term coefficient, which had a negative sign as expected,

Long Term Estimation

The stationarity test and cointegration test were carried out at the beginning, and the results showed that in this study there were some stationary data at the level. Subsequently, it was tested with the first varying levels, and it was discovered that all the data was stationary and had a committed partnership with these variables. Immediately, an imbalance may occur, so the next method was a way called Error Correction Model (ECM). The ECM method used is that which has been popularized by Engle-Granger. The first thing that can be done is to do a long-term regression, and Table 4 provided a summary of the findings.

Table.4. Estimation Results Long-Term Error Correction Model

Variable	Coefficient	t-Statistic
C	-247.2205	-1.439648
INF	-0.522544	-0.538431
LOG(KURS)	-226.3783	-7.541822
LOG(JUB)	174.2423	8.883779
BIR	-1.007771	-0.745948
HMD	0.090703	1.440116
HED	-0.087799	-12.33798
R-squared	0.719930	
F-statistic	41.98544	
Prob(F-statistic)	0.000000	

Source: processed data

From the outcomes listed in Table 4, it could be stated that the variables that influence the Indonesian Sharia Stock Index's movements were the exchange rate, the money supply, the price of world oil, and the price of world gold. the R2 value indicates the existence of a difference. The independent variables' fluctuation may be used to explain the change in the dependent variable. The long-term estimation results with OLS showed that the model's R2 is 0.719930, indicating that changes in the autonomous variables explain 71.99 percent of the variation in the dependent variable.

Next stage was forming an error correction (ECT) variable from the residual results of the long-term regression equation that has been carried out. Then, it was followed by doing short-term regression equations by entering the ECT variable into the model as an independent variable. Table 5 showed the short-term regression results in the estimation of short-term error correction models.

Short Term Estimation

Variable	Coefficient	t-Statistic	Prob.
C	0.309199	0.552359	0.5820
D(INF)	-1.289411	-1.460256	0.1475
DLOG(KURS)	-138.5457	-6.733524	0.0000
LOG(JUB)	35.77151	0.925079	0.3572
D(BIR)	-4.996722	-1.984564	0.0500
D(HMD)	0.065150	0.834936	0.4058
D(HED)	-0.006985	-0.792065	0.4303
ECT	-0.216141	-3.455291	0.0008

R-Squared	0.446768
Adjusted R-Squared	0.406428
F-Statistic	11.07510
Prob.	0.000000

Source: processed data

Furthermore, it could be tested on the EG-ECM. It could be argued that in the short term, in light of Table 5, it was apparent that the variables that had an impact on the Indonesian Sharia Stock Index are inflation, exchange rates, and the BI rate. The t-statistic value, which was higher than the t-table, indicated this value at a 10% confidence level (1.290). Meanwhile, the variables of the money supply, world gold prices as well as world oil prices do not significantly affect the Sharia Stock Index for Indonesia. The t-statistic value, which was lower than the t-table value, serves as evidence for this.

The error correction coefficient of -0.216141 demonstrated that the adjustment's speed was the stock index towards a balance of21.61% per quarter for 3 months. In general, the independent variables affect the ISSI variable, which was indicated by the F-statistics probability value, which was lower than the level of confidence α = 5% (0,000000 < 0,05)

Discussion

a. Long-Term Analysis

The long-term analysis of this study showed that only the exchange rate (KURS), active circulation (JUB), crude oil prices (HMD) & global gold price (HED) variables were significant and influence the Indonesian Sharia Stock Index's movement. The coefficients were -226.3783, 174.2423, 0.090703, and -0.087799 respectively. The coefficient of the exchange rate variable is -226.3783, meaning that an increase in the exchange rate of 1% will reduce the Indonesian Sharia Index of Stocks by 22.63%. This result strengthen Suharyanto & Zaki (2021) and Lak et al. (2016) that found negative effect on the relationship between exchange rate and stock index.

The coefficient of the money supply variable is 174.2423, meaning that a 1% increase in the money supply will increase the ISSI by 17.42%. This result strengthen Lak et al. (2016), the result of the research found that after global monetary crisis money supply significantly gave a positive influence on Jakarta Islamic Index. The variable crude oil price (HMD) had a coefficient of 0.090703. It meant the ISSI would rise by 9.07% for every 1% increase in global oil prices. This result weakening Istamar et al. (2019) that found not significantly effect global oil prices to stock index. Furthermore, this result has similarity with Lawal et al. (2016) and Degiannakis et al. (2014) that found positive effect crude oil priceto stock index.

The variable world gold price variable has a coefficient of -0.087799, implying that the ISSI will decrease by 8.77% for every 1% increase in global gold prices. The difference between this study and previous studies is use of the dependent variable global gold price, which resulted that negative effect crude oil price to ISSI.

Other findings from this studies that the Indonesian Sharia Stock Index was unaffected by the BI rate (BIR) and the inflation variable (INF). This shows that inflation and the BI rate will only affect the Indonesian Sharia Stock Index shortly. The stock index's movement was unaffected by the inflation variable. This study supported research that had been conducted by Alam et al. (2020).

In addition, another research supporting this research was research carried out by Bassar et al. (2021) that claimed there was no impact of inflation on the performance of Islamic stocks, indicating that Islamic stocks can be an alternative investment option when inflation has increased. The Indonesian Sharia Stock Index did not contain the BI Rate variable

supports the research that had been conducted by Zahara (2020), which declared that when the BI Rate parameter increases or decreases, it did not affect the stock index's movement.

There is cointegration between the short-term and long-term models, meaning that there is an adjustment. Some independent variables are not significant in the short term but change in the long term. These variables are JUB, HMD, and HED. JUB is an internal factor, experiencing adjustments in the long term because economic activity, especially in Sharia companies, began to flourish after the COVID-19 pandemic cases began to decline. The HMD and HED are external factors, experiencing adjustments in the long term because Islamic stocks in Indonesia have been growing and include various external factors in market development.

b. Short-Term Analysis

For short-term analysis, it showed that only the inflation (INF), exchange rate (KURS), both BI rate (BIR) factors impact the Indonesian Sharia Stock Index (ISSI). The coefficients were -1.289411, -138.5457, and -4.996722 respectively. At = 10%, the inflation variable had a negative correlation and was statistically significant. The magnitude of the inflation coefficient was -1.289411. This meant that every 1% increase in inflation caused a decrease in the stock index of1.28%. The coefficient for the exchange rate variable was negative. and had a statistical significance of 10%. The magnitude of the exchange rate coefficient was -138.5457. This means that every 1% rise in the exchange rate will result in a 0.1 percent drop in the stock index. 1.38%. The BI Rate variable had a negative coefficient that was statistically significant atα = 10%. The magnitude of the BIR coefficient was -4.996722. This meant that for every 1%expansion of the BI rate, the stock index decreased by 4.99%.

The results of this study were also supported by Okechukwu et al. (2019) that the exchange rate in the short term had a negative and significant effect on the stock index in Nigeria. This research was in line with research that had been conducted by Okechukwu et al. (2019) which explained that the BI Rate had a negative coefficient and significantly affects the stock index in the short term.

Meanwhile, the other variables were the active circulation (JUB), both global gold and oil prices did not significantly affect the Indonesian Sharia Stock Index (ISSI) variable. This study supported research that had been conducted by Nur Hidayah et al. (2022) which stated that the money supply did not affect the stock index. In this research, the fluctuating global oil price did not influence the changes in the stock index as supported by studies carried out by Istamar et al. (2019) which stated that the world oil price variable had no discernible impact on the stock index because when unstable geopolitical conditions trigger oil price increase which leads investors to switch investments to other sectors. Furthermore, this study explains research demonstrates that the global gold price has no impact on the stock index,as has been conducted by Prastiani (2021).

5. Conclusions

The research aims to analyse the variables affecting the Indonesian Sharia Stock Index. The independent variables used in the analysis were macroeconomic variables, which included external factors such as international gold and oil prices. Based on Engle-Granger Error Correction Model analysis, there is cointegration in the model, so it can be stated that it has a significant long-term relationship. This research found that the exchange rate, money supply, world oil prices and world gold prices have a significant influence on the movement of the Indonesian Sharia Stock Index (ISSI) in the long term. In the short term, inflation, exchange rates, and BI interest rates have a significant impact on ISSI. The Engle-Granger Error

Correction Model (ECM) shows that there is an adjustment towards long-run equilibrium of 21.61% per quarter.

This study found that world oil prices have a significant influence on the movement of the Indonesian Sharia Stock Index (ISSI), which is in line with the findings of Lawal et al. (2016) and Degiannakis et al. (2014). This study also shows that the exchange rate has a significant negative effect on ISSI, supporting the research results of Suharyanto & Zaki (2021) and Lak et al. (2016). The results of this study indicate that the amount of money in circulation has a significant positive effect on ISSI, which is consistent with the findings of Lak et al. (2016). This study found that inflation does not affect ISSI in the long run, supporting the research results of Bassar et al. (2021).

Meanwhile the Covid-19 pandemic has had a fairly strong influence on the Islamic stock market, internal factors such as the money supply during the post-pandemic economic recovery period were very influential in stimulating the Islamic stock market. Likewise, external factors such as international gold and oil prices which also began to move during the pandemic recovery also affected the development of the Islamic stock market. Next research can use research during the pandemic recovery period and post-pandemic, to compare changes whether there are changes in internal and external factors that affect the Islamic stock market, especially from the several independent variables used in the model.

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