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Research Article

The Effect of Inflation and Exchange Rate on the Jakarta Composite Index (JCI) at the Indonesia Stock Exchange (IDX)

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Abstract: This research seeks to examine the impact of inflation and exchange rates on the Jakarta Composite Index (JCI) on the Indonesia Stock Exchange (IDX) from 2019 to 2024. The study uses secondary monthly data for inflation, exchange rates, and the JCI, which were sourced from the official websites of Bank Indonesia and IDX. A quantitative approach is employed, utilizing multiple linear regression analysis along with classical assumption tests and both simultaneous and partial hypothesis testing. The findings reveal that, individually, both inflation and exchange rates have a significant effect on the JCI. When analyzed together, inflation and exchange rates also significantly influence the JCI. These results underscore the importance of macroeconomic stability, particularly the stability of the rupiah exchange rate, in shaping stock market trends in Indonesia. The study suggests that fluctuations in the inflation rate and the exchange rate can lead to uncertainty in the stock market, impacting investor decisions and market performance. These findings are particularly relevant in the context of Indonesia's open economy, where external factors and global economic conditions can also influence domestic financial markets. This research aims to offer valuable insights to investors, policymakers, and academics, helping them understand how key macroeconomic variables, such as inflation and exchange rates, influence the dynamics of the capital market. The study emphasizes the need for maintaining economic stability to foster a conducive environment for market growth and investor confidence. By analyzing these macroeconomic factors, the study provides a clearer understanding of their role in stock market performance and offers a foundation for future research and policy development in the Indonesian financial market. Additionally, the results of this research could serve as a basis for further studies that explore the relationship between macroeconomic factors and stock market behavior in emerging markets.

Keywords: Exchange Rate; Financial Market; Inflation; Indonesia Stock Exchange; JCI.

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1. Introduction

Indonesia's economy is significantly influenced by the movement of the Jakarta Composite Index (JCI), which serves as a key indicator of the capital market and a barometer of the nation's economic health. The JCI not only reflects the value of traded stocks but also mirrors investor confidence and sentiment toward the national economic situation(Indrayana et al., 2023). The JCI's fluctuations are affected by various macroeconomic factors, such as inflation and the Indonesian rupiah exchange rate against the US dollar, both of which have substantial impacts on the stock market(Triyono, 2017; Zubaidah et al., 2023).

Historically, Indonesia has experienced several economic crises that have profoundly affected the JCI and other economic indicators. For instance, the 1997-1998 monetary crisis saw inflation peak at 70%–80% in 1998, triggering economic slowdown and investor distrust that caused the JCI to plummet by more than 80% from its pre-crisis peak (Doner et al., 2006; Walsh, 2022). Subsequently, the 2008 global financial crisis also had a significant impact in Indonesia. This crisis was triggered by the US Subprime Mortgage Crisis, which resulted in

stock market panic and a depreciation of the rupiah to a low of Rp12,000 per USD. The Indonesia Stock Exchange (IDX) responded to this turbulence with various control measures, including the prohibition of short selling and temporary suspension of stock trading (Erlina & Paulus, 2022; Zakiar et al., 2024)

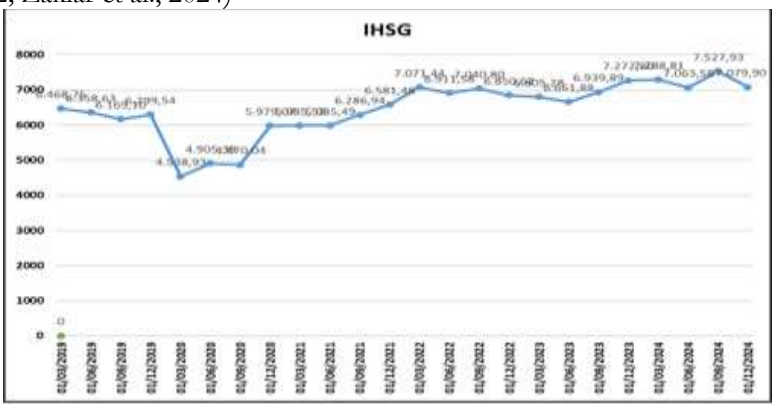

Figure 1. shows the Graph of the Jakarta Composite Index (JCI)

The Jakarta Composite Index (JCI) experienced several distinct movements between March 2019 and December 2024. Initially, from early 2019 to early 2020, the JCI experienced a gradual decline from around 6,468 points to approximately 4,538 points, reflecting the significant impact of global and domestic uncertainties at the onset of the COVID-19 pandemic. After reaching its lowest point in March 2020, the index began a notable recovery, climbing steadily to reach 6,581 points by December 2021. This rebound was largely driven by the stock market's adaptation to the pandemic environment and supported by fiscal and monetary stimulus policies implemented by the Indonesian government and Bank Indonesia. Throughout 2022, the JCI saw a peak near 7,071 points followed by some fluctuations; despite these variations, the index maintained a relatively stable level above 6,800 points, underscoring a market that, while facing external uncertainties such as global interest rate shifts and geopolitical tensions, remained resilient. The upward trend continued into 2023 and 2024, with minor fluctuations, culminating in the JCI reaching a high of around 7,527 points in December 2024. This trend reflected growing investor optimism and stronger economic recovery toward the end of the period.

Based on this observation, several research questions arise. Primarily, the study seeks to understand how the COVID-19 pandemic influenced the trajectory of the JCI during the 2019-2024 period. Additionally, it aims to explore the extent to which inflation and the rupiah exchange rate impacted stock market trends over the same timeframe(Hardi et al., 2023; Zainudin et al., 2024). Further attention is paid to external factors, such as global monetary policies and geopolitical developments, to assess their contribution to the fluctuations recorded in the JCI. Finally, the effectiveness of government and central bank stimulus actions in supporting the market's recovery and stability is examined to better understand policy impacts on investor confidence and economic resilience(Arestis, 2021; Armia, 2023).

The development of the JCI from 2019 to 2024 shows significant fluctuations in response to various economic dynamics, including the COVID-19 pandemic that caused a sharp decline in the JCI in March 2020. However, a gradual recovery followed through 2024, reflecting market optimism regarding the economic recovery process. Similarly, Indonesia's inflation over the past six years has shown dynamic spikes and declines, especially in the initial years following the pandemic, then demonstrating a consistent downward trend in 2023-2024, indicating the effectiveness of government and Bank Indonesia's monetary and fiscal policies in maintaining price stability.

The rupiah exchange rate against the US dollar also faced major challenges with sharp fluctuations, particularly during the pandemic and the global economic uncertainty caused by high-interest rate policies by the US Federal Reserve as well as geopolitical tensions that affected foreign capital flows(Prasad, 2015; Siddiqui, 2020). Exchange rate instability reflects the economy's vulnerability to external factors and remains a critical concern for maintaining investment climate and overall economic stability.

High inflation can reduce purchasing power, negatively impacting corporate performance and stock prices(Priyatna & Suryadi, 2025). When inflation rises, the cost of living increases and product demand declines, resulting in decreased corporate revenues and subsequent pressure on the JCI. Previous research has also shown a strong relationship between inflation, exchange rates, and stock market performance in Indonesia (Deni Sunaryo,

Etty Puji Lestari, Siti Puryandani, 2024; Sia et al., 2023; Sunaryo et al., 2022, 2025; Sunaryo & Lestari, 2023).

2. Literature Review

Literature Review, explains the foundational theory of Signaling Theory as proposed by Michael Spence in 1973(Spence, 2002) and further developed by Ross in 1977(Ross, 1978). This theory emphasizes the use of signals by individuals or entities to convey important information about quality or capability to others, particularly within the financial market context where information asymmetry exists between management and investors. The theory highlights the importance of transparent communication through financial reporting and dividend announcements as positive signals for investors(Akron et al., 2020; Tonye & Raymond, 2025). Furthermore, the chapter discusses the Jakarta Composite Index (JCI) as the primary indicator of stock price movements on the Indonesia Stock Exchange, reflecting the condition of the capital market and the national economy. The JCI is calculated based on an average stock price method adjusted for various corporate actions. The chapter also addresses inflation as a general and sustained increase in the prices of goods and services that reduces the purchasing power of money, measured by the Consumer Price Index (CPI), and explains its relevance to the economy. Lastly, the exchange rate is described as the price of one country's currency in terms of another currency, serving as a crucial indicator in money and capital markets(Flassbeck, 2001; Jamil et al., 2023). A stable and strong exchange rate sends positive signals to investors, whereas a weakening exchange rate can lead to declines in stock prices.

3. Methodology

The research methodology section elaborates on the conceptual framework, operational definitions of the key variables, and the hypotheses formulated for this study. The conceptual framework illustrates the relationships between the variables under observation, clarifying which variables are included in this study and which are not. Operational definitions serve as clear and precise guidelines on how the variables—namely inflation, exchange rate, and the Jakarta Composite Index (JCI)—are measured using standardized methods and scales. The JCI acts as the dependent variable that represents the performance of the Indonesian stock market, while the independent variables include inflation and the exchange rate, both of which are believed to have an influence on the JCI. The hypothesis testing focuses on assessing the effect of inflation and exchange rate on the JCI, supported by theoretical foundations and previous research findings that have produced varied outcomes, thus necessitating a fresh examination of these relationships in the current research context.

To explain further, the study's conceptual framework outlines how inflation and exchange rate, as independent variables, relate to the dependent variable represented by the JCI. Inflation is quantified through changes in the Consumer Price Index (CPI), while the exchange rate is measured by the value of the rupiah against the US dollar. The JCI reflects the stock price movements in the Indonesian capital market, which are affected by these macroeconomic indicators.

Clarifying measurement standards, inflation is calculated by tracking changes in the CPI, the exchange rate is derived as the average between the buying and selling rates to obtain a middle rate, and the JCI is computed as the ratio of actual stock prices to a base price level(Fatmala & Hariasih, 2023; Wardana & Masdjojo, 2024). Using ratio scales for these variables allows for accurate quantitative analysis and comparison.

Regarding the research hypotheses, it is posited that inflation and exchange rate have significant effects on the JCI. High inflation rates can reduce corporate profitability, leading to declines in stock prices, whereas a weakening exchange rate may indicate adverse economic conditions that erode investor confidence(Ali, 2018; Famubode & Ali, 2024). Despite these theoretical expectations, previous empirical studies have reported inconsistent results, making it important to re-examine the influence of these macroeconomic factors on the Indonesian stock market within the timeframe studied.

4. Analysis and Discussion

4.1 Analysis

In this chapter, the researcher conducts an analysis of the collected data, specifically focusing on inflation and exchange rates, in relation to the Composite Stock Price Index (IHSG) on the Indonesia Stock Exchange (IDX) over the period 2019–2024. The study uses the IHSG as the dependent variable, while inflation and exchange rates serve as the independent variables. The following sections provide detailed explanations of the various testing methods used in this analysis.

Descriptive statistical analysis was carried out to obtain an overview of the characteristics of the data for each research variable. This analysis provides information about central tendency and data dispersion using indicators such as the mean, standard deviation, maximum, and minimum values (Ghozali, 2018). The variables analyzed include both the dependent and independent variables in this study. A summary of the descriptive statistical analysis results is presented in Table 1

Table 1. Descriptive Statistics

	N	Minimum	Maximum	*Mean*	Std. Deviation
Inflation	72	1,32	5,95	2,8033	1,22471
Exchange Rate	72	13662	16394	14854,13	715,013
JCI	72	4538,93	7670,73	6478,1624	739,29968
Valid N (listwise)	72				

For the inflation variable, the descriptive statistics reveal a minimum value of 1.32, occurring in August 2020, and a maximum value of 5.95, which occurred in September 2022. The mean inflation rate was recorded at 2.8033, representing the central value of the data. The standard deviation of 1.22471 indicates significant variation in inflation rates, reflecting considerable fluctuations during the study period. The wide range between minimum and maximum values indicates that inflation experienced substantial variability.

Regarding the exchange rate variable, the analysis shows a minimum value of 13,662 in January 2020 and a maximum of 16,394 in June 2024. The average exchange rate was 14,854.13, representing the median of the analyzed data. The standard deviation of 715.013 suggests noticeable variation in exchange rates, demonstrating fluctuations throughout the period under study. However, the relatively low standard deviation in comparison to the range between minimum and maximum indicates that the exchange rate values tend to cluster around the mean.

For the Composite Stock Price Index (IHSG), the descriptive statistics indicate a minimum value of 4,538.93 in March 2020 and a maximum value of 7,670.73 in August 2024. The average IHSG value was 6,478.1624, with a standard deviation of 739.29968. The minimum and maximum values represent the range of index fluctuations, while the mean reflects the central tendency of the data. The standard deviation being lower than the mean suggests that the data is relatively close to the average value, implying less fluctuation in individual data points. A low standard deviation signals that values tend to cluster around the mean, suggesting the phenomenon under study exhibits a regular and predictable pattern, often considered a positive sign in data analysis.

The classical assumptions test began with a normality test aimed at determining whether the data distribution in this study is normal. Following Ghozali's (2018) recommendation, the Kolmogorov-Smirnov test was used, a widely accepted non-parametric statistical method for residual distribution testing. The null hypothesis (H_0) states that the data is normally distributed, while the alternative hypothesis (H_1) states the data is not normally distributed. The decision criterion for the Kolmogorov-Smirnov test is as follows: a significance value below 0.05 leads to the rejection of normality, and a value above 0.05 confirms normal distribution.

The normality test was conducted using SPSS version 20 software, with results displayed in Table 2. The test yielded an Asymp. Sig. (2-tailed) of 0.005, which is less than the 0.05 significance level. Therefore, the null hypothesis was rejected, concluding that the data does not have a normal distribution.

Table 2. Before Outlier One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			72
Normal Parameters[a,b]	*Mean*		,0000000
	Std. Deviation		639,54699238
Most Extreme Differences	Absolute		,203
	Positive		,082
	Negative		-,203
Kolmogorov-Smirnov Z			1,722
Asymp. Sig. (2-tailed)			,005
Monte Carlo Sig. (2-tailed)	Sig.		.005[c]
	99% Confidence Interval	Lower Bound	,003
		Upper Bound	,006
a. Test distribution is Normal.			
b. Calculated from data.			
c. Based on 10000 sampled tables with starting seed 2000000.			

Complementing the statistical normality test, a visual inspection was performed using a Probability-Probability (P-P) Plot, which compares observed probabilistic values with expected values from a normal distribution. The graph demonstrates that the unstandardized residuals deviate substantially from the diagonal line, consistent with the statistical test result indicating non-normal distribution.

Due to the non-normality, the researcher decided to remove outliers—data points with characteristics significantly different from others, appearing as extreme values. Following Ghozali's (2018) procedure for univariate outlier detection, data was standardized into z-scores with a mean of zero and a standard deviation of one. In small samples (less than 80), z-scores ≥ 2.5 indicate outliers, while in large samples, scores between 3 and 4 serve as the threshold.

Table 3. After Outlier One-Sample Kolmogorov-Smirnov Test

			Unstandardized Residual
N			68
Normal Parameters[a,b]	*Mean*		89,2478189
	Std. Deviation		492,55452884
Most Extreme Differences	Absolute		,139
	Positive		,064
	Negative		-,139
Kolmogorov-Smirnov Z			1,143
Asymp. Sig. (2-tailed)			,146
Monte Carlo Sig. (2-tailed)	Sig.		.131[c]
	99% Confidence Interval	Lower Bound	,123
		Upper Bound	,140
a. Test distribution is Normal.			
b. Calculated from data.			

After removing outliers, the normality test was repeated on the adjusted dataset using the Kolmogorov-Smirnov test, with results shown in Table 3. The new Asymp. Sig. (2-tailed)

was 0.146, higher than 0.05, indicating acceptance of the null hypothesis. Hence, the data is now considered normally distributed.

The multiple linear regression analysis was applied to understand the direction of the relationship between the independent variables and the dependent variable. Unlike simple regression analysis, which involves only one dependent variable, multiple regression analysis encompasses several aspects that need to be analyzed to gain deeper insight beyond the resulting regression equation. Several aspects to pay attention to in the regression analysis include the regression equation, coefficient of determination, standard error of estimate, standard error of regression coefficients, as well as the calculated F and t values.

The regression equation can be analyzed through the coefficient test table produced by the output of SPSS version 20. This table presents information regarding the influence of inflation and exchange rate variables on the Composite Stock Price Index (IHSG), which can be found in Table 4:

Table 4. Multiple Linear Regression Test Coefficientsa

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
B	Std. Error	Beta		
(Constant)	-1314.196	1259.144		-1.044
Inflation	158.843	51.051	0.293	3.111
Exchange Rate	0.501	0.086	0.547	5.810
Dependent Variable: IHSG				
Source: Processed SPSS Data 2025				

Explanation:

- The constant (-1314.196) indicates that if the inflation and exchange rate variables were zero, the predicted value of IHSG would be -1314.196. Although in reality these variables never reach zero, this constant serves as a mathematical adjustment in the model.
- The coefficient for inflation (158.843) means that for each 1% increase in inflation, the IHSG is expected to increase by 158.843 units, assuming other variables remain constant. This suggests a positive influence of inflation on the IHSG movement.
- The coefficient for the exchange rate (0.501) indicates that for each 1 unit increase in the exchange rate (depreciation of Rupiah), the IHSG increases by 0.501, assuming other variables remain constant. This reflects a positive but relatively small effect of the exchange rate on IHSG.

Coefficient of Determination (R2): The coefficient of determination measures how much of the variation in the dependent variable can be explained by the independent variables in the regression model. It ranges between 0 and 1, where a lower value indicates a limited ability of the independent variables to describe the dependent variable variations (Ghozali, 2018). In other words, it aims to quantify how much influence the independent variables have on the dependent variable. The closer the value to 1, the higher the proportion of the dependent variable's variance explained by the independent variables.

The criteria for interpreting R-squared values are as follows:

- Strong (≥ 0.67): The model explains most of the dependent variable's variation.
- Moderate (0.33 – 0.67): The model explains a moderate level of variation in the dependent variable.
- Weak (0.19 – 0.33): The model explains a low level of variation.
- Very Weak (≤ 0.19): The model cannot adequately explain the dependent variable's variation.

Table 5. Coefficient of Determination (R2):

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.669a	0.447	0.430	490.64974

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Predictors: (Constant), Exchange Rate, Inflation				
Dependent Variable: IHSG				

Source: Processed SPSS Data 2025

The analysis shows an R-squared value of 0.447, indicating that 44.7% of the variation in IHSG can be explained by inflation and exchange rate variables, while the remaining 55.3% is influenced by other factors not included in this model. These factors could include macroeconomic aspects such as economic growth, interest rates, government monetary policies, as well as company financial performance including earnings and financial ratios, which also play a significant role in influencing IHSG movements.

Partial t-Test: The t-test is conducted to evaluate the individual effect of each independent variable, inflation and exchange rate, on IHSG. The t-test determines whether the hypothesis can be accepted or rejected at a 5% significance level. The hypotheses are formulated as follows:

- Null hypothesis (H0): Inflation and exchange rate variables do not significantly influence IHSG.
- Alternative hypothesis (H1): Inflation and exchange rate variables significantly influence IHSG.
- The decision making uses the significance column and calculated t-values compared to the critical t-value at $\alpha = 0.05$:
- If significance value < 0.05 and t_calculated > t_table, H0 is rejected and H1 accepted.
- If significance value > 0.05 and t_calculated < t_table, H0 is accepted and H1 rejected.

The results from Table 5 are:

Table 6. t-Test Results Coefficientsa

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
B	Std. Error	Beta		
(Constant)	-1314.196	1259.144		-1.044
Inflation	158.843	51.051	0.293	3.111
Exchange Rate	0.501	0.086	0.547	5.810
Dependent Variable: IHSG				

Source: Processed SPSS Data 2025

From this, the partial hypothesis tests demonstrated that:

- Inflation has a significant positive effect on IHSG, with a significance value of 0.003 (<0.05) and t_calculated 3.111 > t_table 1.995. Thus, H0 is rejected and H1 accepted for inflation.
- Exchange rate also has a significant positive effect on IHSG, with a significance value of 0.000 (<0.05) and t_calculated 5.810 > t_table 1.995. Hence, H0 is rejected and H1 accepted for exchange rate.

Simultaneous F-Test: The F-test is used to evaluate whether the independent variables simultaneously have a significant effect on the dependent variable (Ghozali, 2018). This test was employed to assess if inflation and exchange rate together influence IHSG. The hypotheses are:

- Null hypothesis (H0): Inflation and exchange rate do not simultaneously affect IHSG.
- Alternative hypothesis (H1): Inflation and exchange rate simultaneously affect IHSG.
- The decision rule is:
- If significance > 0.05, accept H0 and reject H1 (no simultaneous significant effect).
- If significance < 0.05, reject H0 and accept H1 (there is a simultaneous significant effect).

[Note: The complete ANOVA data from Table 4.10 was not fully provided but would be used here to finalize the interpretation.].

5. Discussion

The Effect of Inflation on the Composite Stock Price Index (IHSG) Based on the analysis presented in Table 4.9, the significance value for the inflation variable (X1) is 0.003. This value is lower than the established significance level of $\alpha = 0.05$ ($0.003 < 0.05$), indicating sufficient evidence to assert that inflation has a significant effect on the Composite Stock Price Index (IHSG). Furthermore, the analysis shows that the calculated t-value for inflation is 3.111, whereas the critical t-value with the relevant degrees of freedom is 1.995. Since the calculated t-value (3.111) is greater than the critical t-value (1.995), the conclusion can be drawn that inflation exerts a positive and significant influence on the IHSG. Thus, the null hypothesis (H_0), which states that inflation does not affect the IHSG, is rejected, and the alternative hypothesis (H_1) stating that inflation affects the IHSG is accepted.

The positive influence of inflation on the IHSG can be interpreted as investors tending to increase their expectations of corporate profits in response to rising inflation rates. This phenomenon may occur because inflation is often accompanied by increased company revenues, which in turn can enhance stock value(Girdzijauskas et al., 2022; Hong, 1977). Additionally, moderate inflation is typically indicative of healthy economic growth, which contributes to increased investor confidence in the stock market.

However, it is important to note that the effect of inflation on the IHSG is not always linear. Excessively high inflation can cause economic uncertainty and reduce the purchasing power of the public, ultimately negatively impacting company performance and stock prices(Chen, 2022; Famubode & Ali, 2024; Priyatna & Suryadi, 2025). Therefore, continuous monitoring of inflation rates and their effects on the stock market is crucial for investors and stakeholders.

Overall, the findings from this study indicate that inflation plays a substantial role in influencing IHSG movements. This result aligns with previous research by (Parulian & Mahendra, 2021; Sumaryoto et al., 2021), which also demonstrated a positive and significant impact of inflation on the IHSG.

The Effect of Exchange Rate on the Composite Stock Price Index (IHSG) From the analysis displayed in Table 4.9, the significance value for the exchange rate variable (X2) is 0.000, which is well below the significance threshold of $\alpha = 0.05$ ($0.000 < 0.05$). This indicates very strong evidence that the Rupiah exchange rate has a significant impact on the IHSG.

The calculated t-value for the exchange rate is 5.810, whereas the critical t-value for the relevant degrees of freedom is 1.995. Since the calculated t-value (5.810) far exceeds the critical t-value (1.995), it can be concluded that the exchange rate has a positive and significant effect on the IHSG. Therefore, the null hypothesis (H_0) stating that the exchange rate does not affect the IHSG is rejected, and the alternative hypothesis (H_1) that the exchange rate affects the IHSG is accepted.

The positive influence of the exchange rate on the IHSG suggests that each increase in the exchange rate (i.e., depreciation of the Rupiah) tends to boost investor confidence in the stock market. A strengthening Rupiah exchange rate may reflect economic stability and market confidence in monetary policies implemented by the government and central bank. Investors may perceive a stronger Rupiah as a signal that companies listed on the stock exchange will benefit more from exports, which can lead to increased corporate profitability.

However, it is worth noting that the exchange rate's influence on the IHSG is not always positive under all conditions. For example, rapid and drastic appreciation of the exchange rate may raise concerns among investors about the competitiveness of domestic products in the international market. Hence, while the findings of this study show a positive influence of the exchange rate on the IHSG, broader market dynamics should be considered to fully understand this relationship.

In summary, this study shows that the Rupiah exchange rate is a significant factor influencing IHSG fluctuations. This finding accords with prior research by(Dinata & Yusbardini, 2025; Fuad & Yuliadi, 2021; Parulian & Mahendra, 2021; Yunanto & Medywati, 2021), which likewise reported a positive and significant impact of the exchange rate on the IHSG.

The Influence of Inflation and Exchange Rate on the Composite Stock Price Index (IHSG) The regression analysis results demonstrate that both inflation and the exchange rate significantly affect the IHSG. The calculated F-value is 26.284 with a significance of 0.000,

which is well below the 0.05 threshold, indicating that these two independent variables simultaneously contribute significantly to the IHSG.

Consequently, the null hypothesis (H_0) stating that inflation and exchange rate do not affect the IHSG is rejected, while the alternative hypothesis (H_1) is accepted. Moderate inflation may reflect positive economic growth, enhancing corporate income and stock value, whereas a stable or strengthening exchange rate can boost the competitiveness of domestic products.

However, the effects of inflation and exchange rate are not always positive. High inflation can create economic uncertainty, and sharp exchange rate fluctuations can disrupt the market. Therefore, understanding this relationship is crucial for investors when making decisions. Overall, this research confirms that inflation and exchange rate are key factors impacting the IHSG and must be taken into account in investment strategies.

These findings are consistent with prior studies, such as those by (Parulian & Mahendra, 2021; Ramadhani et al., 2024; Ratnaningrum et al., 2023), which indicated that inflation and exchange rate jointly have a significant effect on the IHSG.

6. Conclusions

Based on the research results, the following conclusions are drawn from the partial tests of inflation, exchange rate, and simultaneous tests on the Composite Stock Price Index (IHSG).The t-test results show that the inflation variable (X_1) has a positive and significant effect on the Composite Stock Price Index (IHSG). With a significance value of 0.003, which is less than the alpha level of 0.05, and a t-statistic of 3.111, which is greater than the critical value of 1.995, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted. This indicates that inflation significantly contributes to the movement of the IHSG.The positive influence of inflation on the IHSG demonstrates that each increase in inflation rate encourages investors to anticipate higher corporate profits. This is due to the tendency of inflation to be accompanied by company revenue growth, which ultimately contributes to an increase in stock prices. Additionally, stable inflation is often viewed as an indicator of healthy economic growth, which further strengthens investor confidence in the capital market.The t-test for the exchange rate variable (X_2) also shows a positive and significant effect on the IHSG. The significance value obtained is 0.000, which is less than the alpha level of 0.05, and the t-statistic is 5.810, much higher than the critical value of 1.995. Therefore, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted, confirming that the exchange rate has a significant impact on the IHSG.The positive influence of the exchange rate on the IHSG indicates that any increase in the exchange rate of the rupiah (rupiah depreciation) can boost investor confidence. This reflects economic stability and confidence in monetary policy, as well as suggests that companies have the potential to achieve greater profits from exports, which in turn can enhance profitability.The F-test indicates that the variables of inflation and exchange rate jointly have a significant effect on the IHSG. With an F-statistic of 26.284 and a significance level of 0.000, which is below 0.05, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted. This shows that these two independent variables together contribute significantly to the movement of the IHSG, providing strong evidence of the relationship between inflation, exchange rate, and IHSG. Moderate inflation reflects positive economic growth, increasing corporate revenue and stock value, while a stable or strengthening exchange rate enhances the competitiveness of domestic products.

Recommendations

For Companies

Companies need to pay attention to the stability of the exchange rate and inflation, as both significantly impact the Composite Stock Price Index (IHSG). It is recommended that companies manage risks related to exchange rate fluctuations, diversify sources of income, establish competent analysis teams, and address inflation by gradually adjusting product prices, optimizing the supply chain for cost efficiency, and investing in productivity-enhancing technologies. Additionally, companies should regularly monitor macroeconomic data and conduct impact analyses to maintain stock performance and stay responsive to changes affecting the IHSG.

For Investors

Investors interested in stock market activities on the Indonesia Stock Exchange (IDX) should consistently monitor information related to inflation and exchange rates before making investment decisions. These macroeconomic factors have significant influence over IHSG movements on the IDX. By understanding and analyzing these factors, investors can make more strategic decisions and minimize risks arising from economic conditions.

For Academics

Academics are encouraged to continue conducting in-depth research on the relationship between inflation, exchange rate, and IHSG, and to develop analytical models that can provide further insights into the dynamics of Indonesia's capital market.

For Future Researchers Future researchers are advised to further explore the relationship between inflation, exchange rates, and IHSG by considering other variables that may affect IHSG, such as monetary policy and global conditions. Additionally, comparative studies of the impact of inflation and exchange rate on capital markets in other developing countries could provide broader and deeper insights.

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