

Analysis of Macro Economic Variables on The Jakarta Islamic Index

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Abstract

Sharia shares have advantages over conventional shares. Sharia shares emphasize that transactions are halal and free from fraudulent manipulation. The development of sharia finance on the stock exchange has an important role because it provides various investment options for the community, especially the majority of the population in Indonesia is Muslim. This research aims to analyze the influence of macroeconomic variables, namely the Exchange Rate, Industrial Production Index, Mutual Funds, Inflation on the Jakarta Islamic Index in Indonesia during Covid-19 and post-Covid-19. Then this research uses time series data from 2019:M01-2023:M12 with the OLS method. The research results showed that the exchange rate variable had a positive effect on JII and inflation had a negative effect on JII. The implications of the research are that the government needs to increase people's purchasing power and maintain exchange rate stability.

Keywords: *Islamic Mutual Funds, Financing, Economic Growth, OLS*

Introduction

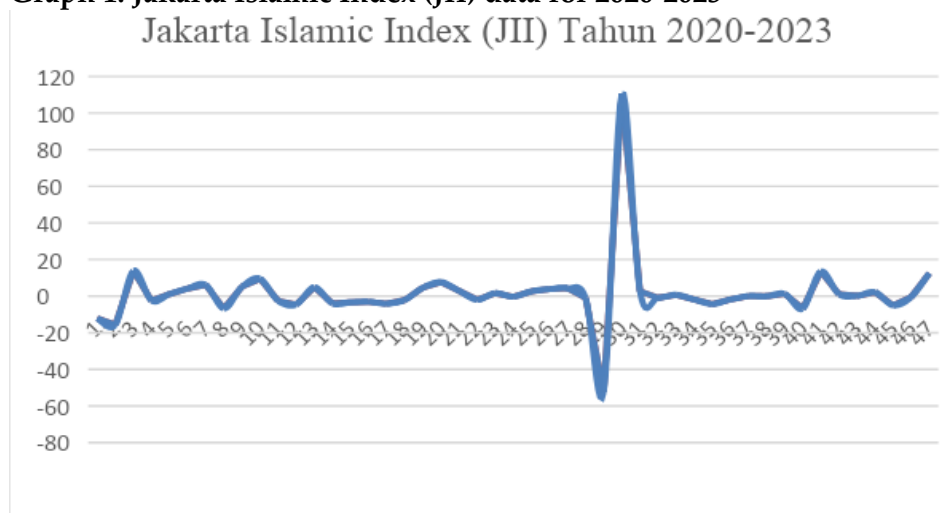
This chapter describes the problem and background or the motivation of the study; the research gap; objective; and the organization of the study. Motivations should be supported by reputable references and/or data from its authoritative sources. The global economy has recently been characterized by a high level of uncertainty, which has had a significant impact on the domestic economy. Even though Indonesia has managed to maintain an economic growth rate of around 5-6 percent over the last decade, this figure is still considered stagnant by various parties, including academics and the government. Low economic growth shows that there are challenges in increasing consumption levels, which is one of the main drivers of economic growth in Indonesia as a developing country. As global uncertainty persists, there is an urgent need to seek new approaches to managing and strengthening the foundations of the domestic economy. To respond to this, Islamic finance appears as an attractive alternative. Sharia finance is based on Islamic principles, such as prohibitions on interest and high-risk transactions, and encourages investment in sectors that produce positive social impacts.

The financial crisis that hit the conventional stock market meant that sharia stocks were marginalized. If examined, sharia shares have advantages over conventional shares. Sharia shares prioritize transactions that are halal and free from fraudulent

manipulation. The development of sharia finance on the stock exchange has an important role because it provides various investment options for the community, especially the majority of the population in Indonesia is Muslim. In recent years, the Islamic capital market has experienced progress, with the increase in the index in the JII. JII (Jakarta Islamic Index) is a collection of sharia-based shares (blue chips) which was founded in Indonesia in July 2000. JII consists of 30 sharia shares listed on the Jakarta Stock Exchange, the price is relatively expensive but offers a high rate of return. (Rof'ah, 2020).

According to (Nurhidayah, Hidayati, & Habib, 2022), the growth of sharia mutual funds in the capital market has had a positive, but not yet significant, impact on national economic growth. This is caused by various obstacles in the sharia mutual fund operational system which still need to be overcome. This can function as an increased capacity to achieve effective aggregate production goals, which will ultimately increase a country's economic growth.

Graph 1. Jakarta Islamic Index (JII) data for 2020-2023



Graph 1: Development of JII (Jakarta Islamic Index) in 2020-2023

Source: OJK (Financial Services Authority)

The table above shows the movement of the Jakarta Islamic Index shares from 2020-2023, the Jakarta Islamic Index experienced fluctuations. In 2020 JII had a small value because in 2020 the Covid-19 pandemic occurred. The lowest value for the Jakarta Islamic Index was in June 2022, because at that time the Covid-19 pandemic was still experiencing a significant impact on the global economy and capital markets. This situation can cause a decrease in the value of shares, including shares that are members of JII. The largest value will occur in 2023, namely 250148569, in 2023 Indonesia will experience recovery from Covid-19. The improvement in Indonesia's economic performance, as demonstrated by stable GDP growth and decreasing inflation, can have a positive impact on the value of JII shares. More stable economic conditions can increase investor confidence and encourage share prices to rise. This research aims to analyze the influence of macroeconomic variables, namely the Exchange Rate, Industrial Production Index, Mutual Funds, Inflation on the Jakarta Islamic Index in Indonesia during Covid-19 and post-Covid-19.

Literature Review

Mutual Funds

Sharia mutual funds are investment instruments designed to comply with sharia principles by avoiding usury and speculation (Mikou, Lahrichi, & Achchab, 2024). This

instrument gathers many investors and invests them in accordance with sharia principles, namely helping to strengthen the sharia capital market. Research by Lia Vebrina Siregar (Siregar, 2018) shows that mutual funds can influence the Jakarta Islamic Index (JII), variable These basically have the same object, namely shares. Therefore, the development of shares in both variable These will have similarities, especially in determining prices in the Islamic capital market.

This causes the two variables to have the same causal correlation. Mutual funds also influence JII, by increasing market liquidity and providing wider access for various investors. Play a role in advancing financial inclusion by introducing sharia-compliant investment options. However, challenges regarding transparency and compliance with sharia principles remain a concern. The consensus shows that mutual funds can make a significant contribution to JII's performance by increasing liquidity and investment variety. However, transparency and compliance must remain a priority. Additionally, Islamic mutual funds help attract more retail investors to the Islamic stock market. With the increase in retail investors, demand for sharia shares will increase.

Sharia financing and company growth in JII

Sharia financing covers a wide range instrument such as murabahah, ijarah, and musyarakah which are designed in accordance with sharia principles. This financing provides much needed capital for companies that operate in accordance with sharia principles. With access to Islamic capital, companies can expand their operations, improve financial performance, and ultimately increase their share prices.

Research by Khalid and Sharia (Khalid & Sharia, 2024) shows that companies that receive sharia financing tend to show stronger growth compared to companies that use conventional financing. This research finds that companies that obtain Islamic financing can increase their assets and reduce the cost of capital, which can increase profitability. When these companies are included in the JII, their improved financial performance contributes to the growth of the JII.

Sharia financing also supports fairer and more transparent business practices, which are key principles in Islamic economics. Thus, companies that obtain Islamic financing tend to have better governance and lower risks, which increases investor confidence. Another study by Farooq et al. (Farooq, Usmani, & Latif, 2023) indicate that companies with good governance and high transparency are preferred by investors, which increases demand for their shares and influences JII performance positively.

In addition, sharia financing allows companies to participate in large and profitable projects that comply with sharia principles. By participating in these projects, companies can increase the scale of their operations, ultimately improving their stock performance. Research by Ahmed and Zulkarnain (Ahmed & Zulkarnain, 2024) shows that large projects supported by sharia financing have a significant positive impact on the share prices of the companies involved, which contributes to JII's growth.

Increasing Demand for Sharia Shares Through Investment Diversification

One of the main effects of the increasing use of sukuk, sharia mutual funds, and sharia financing is an increase in demand for sharia shares. As more and more investors

are interested in financial instruments that comply with sharia principles, demand for shares included in JII increases. This creates positive market dynamics, where increased demand can push share prices up.

Research by Nahar et al. (Nahar, Hashim, & Abd Rahim, 2023) found that investment diversification through sharia financial instruments helps increase demand for sharia shares. This shows that investors who invest in sharia sukuk and mutual funds also tend to buy shares that comply with sharia principles. This increase in demand can increase market liquidity and encourage sharia share prices to rise, which ultimately affects JII's performance positively.

Additionally, with the increasing popularity of sharia financing, more and more companies are interested in complying with sharia principles in their operations. This not only helps companies to obtain the required financing but also makes their shares more attractive to Islamic investors. Research by Latif and Rahim (Latif & Rahim, 2024), shows that companies that comply with sharia principles tend to have better stock performance on the sharia stock market. Investment diversification also helps spread risk, which can provide additional stability to the Islamic stock market. With investors investing in a variety of Islamic financial instruments, the risk of concentration on one type of asset can be reduced. Investment diversification through Islamic financial instruments helps reduce stock market volatility and supports sustainable growth in the Islamic stock market (Hassan, Aliyu, & Yousaf, 2024).

Research Method

This research analyzes the Jakarta Islamic Index (JII) which is influenced by variables such as the Exchange Rate, IPI (Industrial Production Index), Mutual Funds, and Inflation. This research uses monthly data from 2020 to 2023. This research data comes from OJK, BPS, and BI.

Variable	Notation	Information	Source
Jakarta Islamic Index (JII)	Y	Billion	OJK
Exchange Rate (Exchange Rate)	X1	Rupiah	BI
IPI (Industrial Production Index)	X2	Index=100	BPS
Mutual funds	X3	Billion	OJK
Inflation	X4	Percent	BPS

Source: BPS, OJK, BI

This research uses the Ordinary Least Square (OLS) method to determine the effect of independent variables on the dependent variable. In this research, to determine the influence of macroeconomic variables, namely, Jakarta Islamic Index, Exchange Rates, IPI, Mutual Funds and Inflation. The OLS method equation is as follows:

$$\ln Y = \beta_0 + \beta_1 X_1 + \beta_2 \ln X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_t$$

Where Y is Foreign Direct Investment, X_1 is the Jakarta Islamic Index, X_2 is the exchange rate, X_3 is IPI, X_4 is inflation, β_0 is the constant value, $\beta_1 - \beta_4$ is the coefficient value of the independent variable, ε_t is the error term and \ln is logarithmic form. To fulfill the BLUE concept (best linear unbiased estimator), the research applies the classic assumption test consisting of normality, autocorrelation, multicollinearity and heteroscedasticity.

Result and Discussion

Regression Analysis

Regression analysis was applied in this research to test whether or not there was an influence between the independent variables on the dependent variable. From table 2 it can be shown that: X1 (exchange rate) with a t value statistical of 0.40 which shows that the independent variable has a positive effect on the Dependent Jakarta Islamic Index (JII) variable. This is because the exchange rate has a significant influence on JII. Due to the increasing differentiation of the exchange rate, people tend to use part of their wealth in the form of investments in shares, one of which is in JII, rather than for consumption.

X2 (Industrial Production Index) with a t statistic value of 0.66, which shows that the independent variable has no effect on the dependent variable Jakarta Islamic Index (JII). This is because the IPI movement focuses on company performance that meets Islamic sharia standards rather than the industrial sector as a whole

X3 (Mutual Funds) with a t statistic value of -0.34, which shows that the independent variable has no effect on the dependent variable. This is because these mutual funds do not invest in shares that meet sharia criteria which can be used as a basis for JII, therefore the movement or performance of these mutual funds will not directly affect JII.

X4 (Inflation) with a t statistic value of -2.80. This shows that the independent variable has an effect on the dependent variable. The reason is that high inflation can reduce people's purchasing power and reduce consumption. This can have a negative impact on the performance of companies that have joined JII, especially companies that depend on domestic consumption. A decrease in consumption can also affect the prices of shares included in JII.

Regression Data Table

Variable	Coefficient
C	21,42 (3,87)
X1	0,40 (1,76)**
X2	0,01 (0,66)
X3	-0,34 (-0,58)
X4	-0,07 (-2,80)**
Model Diagnosis	
Normality	0,06
Autocorrelation	0,13

Heteroscedasticity	0,88
Multicollinearity	Free from multicollinearity problem

Source: Data Processing Results

Conclusion

The results of the regression analysis of this research show that the exchange rate (X1) has a positive influence on the Jakarta Islamic Index (JII), with a t-statistic value of 0.40. This means that when the exchange rate weakens, people tend to prefer investing in shares included in the JII rather than using their wealth for consumption. On the other hand, the industrial production index variables (X2) and mutual funds (X3) have no influence on the JII. This is shown by the t-statistic values, namely 0.66 and -0.34. The absence of influence from the industrial production index is due to its focus on the performance of companies that comply with Islamic sharia standards, not on the entire industrial sector. Meanwhile, mutual funds do not affect JII because their investments are not focused on shares that comply with sharia criteria.

Inflation (X4) shows a negative influence on JII, with a t-statistic value of -2.80. High inflation can reduce people's purchasing power and reduce consumption, which ultimately has a negative impact on the performance of companies in JII, especially those that depend on domestic consumption. This model meets normality assumptions, does not have autocorrelation, heteroscedasticity or multicollinearity problems.

The advice that researchers can get from the results of macroeconomic research, these variables, is that the government needs to increase people's purchasing power to increase consumption and savings in the Jakarta Islamic Index stock sector.

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