

Determinants of the Indonesian Sharia Stock Index Using the Vector Error Correction Model (VECM) Approach

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Abstract

Various models of choices that people have to invest their capital in the form of investment, including by investing their capital in the capital market. ISSI is present as one of the stock indicators that displays all sharia stocks on the Indonesia Stock Exchange. The purpose of this study is to see the level of interaction between inflation, exchange rates, BI rates, oil prices, and gold, and how this impacts the Indonesian Sharia Stock Index (ISSI) in the short and long term from 2015 to 2024. This study uses a quantitative approach using the Vector Error Correction Model (VECM) method. The results of the VECM show three long-term variables – inflation, BI rates, and oil prices – and two short-term variables, namely gold prices and exchange rates. The results of the causality test show a two-way relationship between ISSI and the exchange rate. The results of the Variance Decomposition test show that oil prices make the largest contribution, namely 25.6 percent. followed by the exchange rate of 18.3 percent, inflation of 7.1 percent, BI rate of 6.9 percent and gold prices of 0.6 percent to the variation of ISSI. The results of the causality test show that the BI rate significantly affects the gold price, the oil price affects the exchange rate, the ISSI affects the exchange rate, and the exchange rate affects the ISSI. This confirms that the ISSI and the exchange rate have a strong causal relationship.

Keyword : Indonesian Sharia Stock Index, Inflation, Exchange Rate, BI Rate, Oil Price, Gold Price, Vector Error Correction Model, Causality Relationship, Variance Decomposition.

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INTRODUCTION

The capital market plays a strategic role as a bridge that brings together parties who have surplus funds – whether from individuals, institutions, companies, or governments – with parties who need funding, namely issuers. Through the capital market mechanism, issuers can collect funds from the investor community to support various company needs. The funds obtained are generally allocated to fund productive activities, such as additional working capital, business development or expansion, and meeting other corporate needs that have been designed in accordance with the company's medium to long-term strategies and objectives (Soemitra, 2021). Based on the Capital Market Law Number 8 of 1995, the capital market is defined as everything related to the public issuance and trading of securities, public companies that issue securities, and institutions and professions involved in these activities (Imsar et al., 2024). Stocks play an important role in investment activities and are one of the most common investment instruments in the capital market. As a security that shows that someone owns a company, shares are often traded by investors on the stock exchange. This instrument offers profit opportunities, but also contains risks that depend on company conditions and market movements (Astuti et al., 2022).

With the fourth largest population in the world, Indonesia is also recorded as the country with the largest Muslim population in the world. According to data released by Pew Research Center, one of the institutions think tank non-partisan United States, the population of Indonesia is 87 percent Muslim, followed by Christians at 10.2 percent. This potential is quite large to increase the Islamic financial market in Indonesia, especially one of which is an opportunity to revive the Islamic capital article in Indonesia (Yuslem et al., 2023). However, the level of literacy and public knowledge about Islamic finance is still very low. According to OJK in 2019, only 8.93% were aware of Islamic finance (Nurbaiti et al., 2023).

ISSI market capitalization shows quite striking variations throughout the observation period. Although there was a fairly sharp decline in 2020, overall data from January 2016 to December 2020 showed a movement that tended to be stable and did not experience a significant spike. That year coincided with the Covid-19 pandemic which resulted in a decline in the economic level. However, after Covid subsided, ISSI capitalization grew very rapidly from 2022 by 4,786,015.74 to 6,825,306.13 in 2024.

Stock price indexes in the capital market are very sensitive to changes in macroeconomic situations. Any instability or fluctuations that arise are a reflection of direct reactions to changes in a number of macroeconomic indicators such as inflation rates, interest rates, and exchange rates. exchange rate, and the rate of national economic growth. The strong relationship between these variables indicates the extent to which investor perceptions and expectations are influenced by overall economic conditions (Pulungan, 2024). For example, including the inflation rate, benchmark interest rate (BI Rate), currency exchange rate, crude oil price, and gold price.

Table 1 : Data on Inflation Variables, BI Rate, Oil Price Exchange Rate, Gold Price, ISSI 2015-2025

Year	Inflation % (X1)	BI Rate % (X2)	Mark Exchange/Rp (X3)	Price Oil/(\$) (X4)	Price Not/ gr (X5)	THEM Billion/Rp (Y)
2015	3,35	7,52	13.795	37,04	493.167	2.600.850,72
2016	3,02	4,75	13.436	51,09	504.825	3.170.056,08
2017	3,61	4,56	13.548	60,42	563.352	3.704.543,09
2018	3,13	5,1	14.481	45,41	595.832	3.666.688,31
2019	2,72	5,62	13.901	61,06	680.183	3.744.816,32
2020	1,68	4,25	14.105	48,52	854.076	3.344.926,49
2021	1,87	3,52	14.278	75,21	843.847	3.983.652,80
2022	5,51	4	15.592	80,47	931.526	4.786.015,74
2023	2,61	5,81	15.439	71,65	1.016.691	6.145.957,92
2024	1,57	6,1	16.157	71,72	1.392.843	6.825.306,13

Source: Bank Indonesia, Investing.com, logammulia.com, and OJK (processed).

The Indonesian Sharia Stock Index (ISSI) showed quite significant capitalization growth, increasing from IDR 2,600,850.72 in 2016 to IDR 6,825,306.13 in 2024. In 2020, there was a sharp decline in ISSI capital from IDR 3,744,816.32 to IDR 3,344,926.49 followed by a decrease in the inflation rate of 2.72% to 1.68%. This is in line with the Covid 19 pandemic which had an impact on the economy at that time. In 2023, there was a large spike in capitalization from the previous year, starting from IDR 4,786,015.74 to 6,145,957.92. In 2024, ISSI capitalization was at its highest figure in the last 7 years, namely IDR 6,825,306.13.

According to Asfia (2009) a higher inflation rate results in a decrease in the amount of output produced by producers. Since investors are unlikely to receive the expected return on capital in this scenario, they will also reduce their investment. If we look at the data above in 2017, 2021 and 2022 there was an increase in the inflation rate from the previous year. However, capitalization in ISSI has increased. This is different from the data for the last 3 years that the inflation rate has decreased consecutively and capitalization has increased. So it can be concluded that for the last 3 years it is directly proportional to the theory.

According to Mankiw (2006:60) the demand for investment goods will decrease along with the increase in interest rates, and fewer investment projects will be profitable. Based on the data above, the BI interest rate has experienced fluctuating developments. In 2018 the BI rate reached 5.1% and increased from the previous year, but capitalization in ISSI also increased, as well as in the last 3 years. This indicates that the related data is not yet directly proportional to the theory even based on the last 3 years of data. In line with Sugeng et al. (2024) that ISSI is not affected by interest rate increases.

Then, if we examine Triyono (2008: 156) a constant currency value will indicate that the economy of a country or region is running quite well. Exchange rate instability can have a significant impact on capital inflows and outflows, as well as affect international trade activities as a whole. In 2018, the rupiah exchange rate weakened significantly, as seen from the increase in the exchange rate against foreign currencies, especially the US dollar. This condition raises concerns among market players and affects investor sentiment. We can also see this in the declining capitalization of ISSI. However, in 2019 the rupiah strengthened from the previous year as did the capitalization of ISSI. In the last 3 years the rupiah has strengthened and weakened fluctuatingly, but not with ISSI which continues to strengthen its capitalization.

According to Bjorland (2008) global oil price shocks have an impact on a country's stock market, and stock returns are affected by uncertainty in oil supply. Because the shock affects the stock market, this study found that global oil prices significantly and positively affect stock returns in exporting countries. This is also in line with Muan (2022) who stated that the Indonesian Sharia Stock Index greatly benefits from world oil prices. The data shows that oil prices continue to change. Following the ISSI capitalization which has a positive impact on crude oil prices. In the last three years, oil prices have experienced slight increases and decreases, followed by an increase in ISSI capitalization which also increased. This proves that the data has not been said to be in line with theory.

In general, economic conditions have an inverse relationship with gold prices. This is because if the economy grows, the price of gold is stable, but if the economy is sluggish, the demand for gold increases, which causes prices to tend to rise. This is supported by Marsis (2013) that gold prices usually follow inflation. Gold prices usually rise with inflation. The increase in gold prices is often faster than the increase in inflation. This means that it can be concluded that gold is directly proportional to inflation as stated by Asfia (2009) that increasing inflation results in a decrease in the amount of output produced by producers. As a result, investors will reduce their investment. However, the data presented in the table shows that there is a negative correlation with ISSI. In the last 4 years, gold prices have tended to rise but were followed by an increase in ISSI capitalization. This is not directly proportional to the theory mentioned above.

Another study found that ISSI is significantly negatively affected in the long run by inflation and BI interest rates. On the other hand, ISSI is greatly benefited by fluctuations in the rupiah exchange rate. All macroeconomic factors have no real short-term impact on ISSI (Lusiana et al., 2023)

Indah Nawindra and Andhi Wijayanto (2020) found that the BI Rate has a major impact on ISSI. However, in a study Maulana & Maris (2022) The BI Rate variable does not have a significant effect on the Indonesian Sharia Stock Index (Kamal & Thamrin, 2021). Furthermore, according Rachmawaty (2024) changes in exchange rates can affect the dynamics of the Indonesian Sharia Stock Index. However, research by Suyanto (2007), and Kewal (2012) found that exchange rates negatively affect stock prices. Investors tend to offer more money in the stock market when the exchange rate weakens, resulting in an increase in stock prices (Silim, 2013).

The movement of the Indonesian Sharia Stock Index is significantly influenced by fluctuations in world gold and oil prices, considering that both commodities play an important role in the dynamics of the global financial market which also influences sharia investor sentiment (Hasibuan et al., 2023). This is supported by a study (Andriyani & Arief Budiman, 2021) that the amount of money in circulation, world gold and oil prices, and other factors all affect the stock price index of businesses in the consumer products sector. However, on the other hand, research by Mahfudz and Nurhadi (2021) states that world oil prices have a negative effect on the Indonesian Sharia Stock Index.

The Vector Error Correction Model (VECM) method is used in this study, a quantitative approach designed to analyze and test the short-term and long-term stable relationships between the Indonesian Sharia Stock Index (ISSI) and various related variables. In addition, this model is also used to see the extent to which deviations from long-term equilibrium can affect the dynamics of ISSI changes in the short term. VECM was chosen because of its advantage in capturing the dynamics of the relationship between variables more comprehensively. Research on ISSI using the VECM approach is still relatively limited, especially those that simultaneously involve gold price variables. Most previous studies tend to focus on the relationship between

ISSI and only two or three variables, without considering the influence of gold prices simultaneously as in the study conducted Mulyadi & Wibowo (2023) about the influence and contribution of macroeconomics to the Indonesian sharia stock index for the 2011-2021 period which still connects to 3 variables and does not discuss other variables such as world gold and oil prices. Then followed by Latifatunnisa (2024) which also examined ISSI with VECM but did not involve gold prices in it. There are still many who have not emphasized 5 variables at once as a development of this research topic. For the period up to 2024, there are still many studies that have not developed related to ISSI. Considering that the VECM approach is a breakthrough in finding long-term relationships.

Sharia Investment

According to Susilo (2009:2) investment will generate profits (*return*) in the future that encourages people to do so. Investment in the Islamic perspective is one of the strategic efforts to improve the quality of life and welfare in the future, while still being based on fair, transparent, and responsible sharia principles. The principles of investment are described in the following verses of the Qur'an:

قَالَ تَزْرَعُونَ سَبْعَ سِنِينَ دَائِبًا ۖ فَمَا حَصَدْتُمْ فَذَرُوهُ فِي سُنْبُلِهِ إِلَّا قَلِيلًا مِّمَّا تَأْكُلُونَ ۚ ثُمَّ يَأْتِي مِنْ بَعْدِ ذَلِكَ سَبْعٌ شِدَادٌ يَأْكُلْنَ مَا قَدَّمْتُمْ
ثُمَّ يَأْتِي مِنْ بَعْدِ ذَلِكَ عَامٌ فِيهِ يُغَاثُ النَّاسُ وَفِيهِ يَعَصِرُونَ لَّهُنَّ إِلَّا قَلِيلًا مِّمَّا نَحْنُصِّرُو

“Yusuf said, “You should cultivate as usual for seven years in a row. You should keep the harvest in its stalks, except for a little that you will use for food. After that, there will come seven years of hardship that will consume your savings, except for a little that you will be able to save. Then, after that hardship, there will come a year in which there will be sufficient rain, and in that year the people will be able to press grapes again (QS Yusuf (12): 47-49).

Quraish Shihab in his work Tafsir Al-Mishbah This verse explains that. This verse is the answer of the Prophet Yusuf to the king of Egypt who dreamed about seven fat and thin cows and seven green and dry ears. Yusuf said that during the seven years of Egypt's productive period, the people were asked to plant as usual. Rain will fall again after seven years of drought. In addition, fruits such as olives and grapes can be used to make drinks (Shihab, 2009). This verse emphasizes the importance of long-term planning and wise management of resources. and In order to prepare for unexpected things in the future, humans must be able to set aside some of the wealth they have. This means that humans are only able to guess and predict the future with common sense. Therefore, the command of the Prophet Yusuf in the verse above to set aside some of his wealth for consumption in the future. This is in accordance with Susilo (2009:2) namely that investment is an investment that will generate profits (*return*) in the future that encourages people to do so (Silalahi, 2023).

Stock Index

Stock index or stock index costs obtained from the general calculation of a group of stocks according to certain standards. A representative indicator of changes in the price of all equities is the stock index (Rachmawati et al., 2021). The Jakarta Islamic Index (JII), which is currently one of the main benchmarks for sharia-based stocks, is now strengthened by the presence of the Indonesian Sharia Stock Index (ISSI). The stocks included in the ISSI are stocks that have passed the selection based on sharia

principles, are registered in the Sharia Securities List (DES), and are actively traded on the Indonesia Stock Exchange (IDX).

Inflation

Inflation is when prices generally increase rapidly for goods and services over a period of time in a country. This phenomenon is characterized by symptoms of continuously increasing prices, which can affect people's purchasing power and overall economic stability (Rosyidi, 2012:131). Inflation can have a dual impact, namely positive and negative impacts. In the context of a country's economy, uncontrolled inflation can cause disruption, because it can reduce people's interest in saving, investing, or carrying out production activities. This occurs due to decreased purchasing power and uncertainty about the value of money in the future (Nuzula Agustin et al., 2023).

Inflation is divided into two, according to Al-Maqrizi, namely due to natural factors (*natural inflation*) caused by natural disasters and inflation due to human error factors (*human error inflation*) caused by human negligence as stated in Al Quran Surat Ar-Rum: 41. *Corruption has clearly occurred on land and in the sea due to the actions of human hands. Allah allows this to happen so that they will feel the impact of their own actions, so that they will be aware and return to the right path.*" (Annizar et al., 2025).

In Widyantoro's research (2023) with the VECM approach, the significant factor influencing ISSI volatility is inflation. This is different from the research of Maulana & Maris (2022) and Yulfiswandi & Jenny Yang (2024), That inflation does not have a significant effect on ISSI.

Theory of Exchange Value

According to Triyono (2008) The stability of the currency value reflects the relatively strong and well-managed economic conditions in a country or region. In the global context, exchange rate volatility plays an important role in influencing international trade activities and cross-country investment flows. Exchange rate fluctuations can have a major impact, depending on the exchange rate system applied, whether free floating, managed floating, or fixed. Changes in the balance between supply and demand for a currency will directly affect its exchange rate. If demand for foreign currency increases beyond demand for domestic currency, the domestic currency exchange rate tends to depreciate. Conversely, if demand for domestic currency strengthens, the exchange rate will appreciate. This phenomenon is in line with the theory of purchasing power parity, the exchange rate of two countries tends to change so that goods and services have the same price in both countries after being converted into the same currency will adjust proportionally to the difference in price levels in each country. This theory is especially relevant in the long term, when the real exchange rate deviates from equilibrium due to differences in inflation between countries (Darsono & Rahman, 2018).

Ibn Taimiyah is of the opinion that money is essentially a means of exchange whose material can be obtained from anything agreed upon by custom ('urf) and is also not limited to gold and silver (Edwin Nasution et al., 2015). However, in this case, money is meant *be it* that is, it is not related to any other purpose but only as a means of exchange.

According to Kamal & Thamrin (2021), partially the Rupiah exchange rate variable has a significant effect on ISSI. Litriani, (2017) also revealed that the exchange rate has a negative relationship and is very influential. However, according to Agnestiani and Susanto, (2019) the exchange rate has no effect on ISSI.

BI Rate

Reported from Bank Indonesia (2018), *BI Rate* is the interest rate that follows Bank Indonesia's monetary policy and is conveyed to the public. In other words, changes in the BI Rate will have an impact on the amount of interest rates on savings and loans at banks.

According to Keynes' view, the interest rate is determined by the interaction between the demand and supply of money. Money plays an important role in influencing overall economic activity, including *Gross National Product* (GNP). In addition, interest rates are also influenced by the amount of money circulating in the economy, so that changes in the demand or supply of money can have a direct impact on interest rate fluctuations and general economic dynamics. Furthermore, by Mankiw (2006) the number of profitable investment projects will decrease if interest rates increase, and the amount of investment goods demanded will decrease. Changes in interest rates will then have an impact on the interest or tendency of economic actors to invest. When interest rates fluctuate, this can affect investors' decisions in allocating funds, because the cost of capital and potential returns are the main considerations in determining the feasibility of an investment (Yuni et al., 2018). If the BI interest rate falls, the rupiah exchange rate may decline and rupiah assets will no longer be attractive to foreign investors (Suharto, 2024).

Interest in Islam is referred to as *riba* because there is an addition in it *ziadah*) without compensation due to the delay of previously promised payments (Siregar & Kurniawan, 2023). Surah Al-Baqarah, 188, An-Nisaa', 29, and At-Taubah, 161, explain this.

According to Sugeng (2024), Partially, the BI Rate has no effect on the ISSI. This is also supported by Novitasari (2023) Investors who want to invest in Sharia stocks are not affected by the BI-Rate. However, in Rachmawaty (2024), Mulyadi & Wibowo (2023) BI Rate has a long-term positive impact on ISSI.

Oil Price

In economics, scarcity is said to be a limited resource that will become more valuable as demand increases and supply decreases (Mankiw, 2006). Crude oil is one of the natural resources included in the category The whole world is divided, namely assets that have value and can be utilized in accordance with Islamic law. Islamic economic scholars, such as Al-Ghazali and Ibn Taimiyyah, emphasize that Scarcity is not only an economic phenomenon, but also a test for humans in managing resources fairly and not excessively (*waste*) (Edwin Nasution et al., 2015).

According to Blanchard (2006) Stock prices can be influenced by various interrelated factors or variables. Among them are changes in interest rates set by central banks, global economic conditions, fluctuations in world energy prices such as oil and gas, and the level of political stability in certain countries. These factors can cause uncertainty in the financial markets and contribute to the dynamic rise and fall of stock values. Logically, the increase in crude oil prices has a major impact on companies that depend on oil or its derivatives, either as the main raw material or as a source of energy

for production and operations. The increase in crude oil prices will affect operating costs, which in turn will have an impact on the company's profits. According Basher & Sadorsky (2006) Since there are no substitutes for crude oil, rising oil prices are expected to increase production costs for countries that import oil.

Crude oil is one of the important components in the global financial system, on par with foreign currencies and gold, because of its highly sensitive nature to various events and its tendency to experience dynamic price fluctuations. Changes in oil prices in the global market can have a significant impact on a country's financial condition, both through the trade balance, state revenues, and overall economic stability (Yulfiswandi & Jenny Yang, 2024).

According to research conducted by Muan and Susilo (2022), the movement of the Indonesian sharia stock index is significantly and positively influenced by world oil prices. This finding is supported by the fact that various global factors, such as the amount of money in circulation, oil prices, and gold prices, also play a role in influencing stock price index fluctuations, especially in businesses engaged in the consumer goods industry (Andriyani & Arief Budiman, 2021).

World Gold Prices

Since 1968, global gold pricing has followed a standard market benchmark known as London Gold Fixing, which is a mechanism for determining the price of gold in the London market. The price of gold is determined in three major currencies, namely the United States Dollar (USD), *Pound Sterling* (GBP), and *Euro* (EUR). In the market mechanism, if the amount of gold supply exceeds demand, then the price of gold tends to decrease. Conversely, if the demand for gold is higher than the amount of supply available, then the price of gold will increase (Andriyani & Arief Budiman, 2021).

According to Sunariyah (2006) Gold investment is not too risky. The value of gold tends to be stable and increases over time. Gold price declines are very rare, and gold can also be used as a means to reduce the impact of inflation each year. In general, investors tend to choose types of investments that offer high returns but with low levels of risk. Low-risk gold is able to provide attractive profits through increased selling value. If a large number of investors shift their investments to gold instruments, then this can cause a decline in the stock price index. This shift in investment preferences reflects a decline in interest in stock-based assets, which ultimately depresses the value of the stock market index as a whole, especially when gold is considered a safer hedge asset amid economic uncertainty (Sartika, 2017).

According to Islamic jurisprudence experts, gold and silver metamorphosed into dirhams and dinars, the means of exchange used in every trade in the Islamic world. "All types of tools used by the community to make exchanges or transactions, be it dinars made of gold, dirhams made of silver, or fulus made of copper" by the scholar Al-Sayyid Ali (Ilyas, 2017).

Research by Purwo Astuti (2021) revealed that the increase in gold prices has a positive impact on the performance of sharia stocks. One of the main reasons why gold prices tend to increase from year to year is because gold is seen as an asset with a relatively low level of risk. This characteristic makes gold a popular investment instrument, especially amid market uncertainty. The increase in gold prices can ultimately affect the movement of stock price indices, including sharia-based stocks, due to changes in investor preferences for more stable assets.

METHODOLOGY

This study uses quantitative research, namely choosing a research topic, which data or information will be collected, data collection methods, and treatments to be carried out (Rohman et al., 2023). The type of data used in this study is called secondary data. Information that is not obtained directly is called secondary data on the research object, but is collected through previously existing sources. In other words, this data is obtained from other parties or through published documents. Secondary data sources can include various references such as the internet, books, scientific journals, official agency reports, and various other library works that are relevant to the research topic (Nissa et al., 2022). The population used is inflation data, BI Rate, Exchange Rate, World Oil Prices and Gold Prices in 2016-2024 and interpolated into monthly form. Data obtained from the OJK website, Bank Indonesia, Investing.com and Logam mulia.com.

The software program used in this research is EViews 10, with an analytical approach Vector Error Correction Model (VECM). VECM is an econometric method used to analyze short-term and long-term relationships between variables that have cointegration. This model allows researchers to understand the dynamics of short-term adjustments towards long-term equilibrium, so it is very relevant in studying the relationship between variables in a time system (Basuki & Rudiana, 2024). When the data is not stationary. The estimation process with the VECM model consists of several steps, such as data stationarity testing, determining the optimal lag, cointegration testing, VECM model formation, Impulse Response Function (IRF) analysis, and Variance Decomposition.

(Lusiana et al., 2023). Meanwhile, the Granger causality test is used to determine whether there is a causal relationship between the variables.

RESULTS AND DISCUSSION

The Impact of Inflation on the Indonesian Sharia Stock Index

The results of the analysis show that there is a positive and significant relationship in the long term between inflation and the Indonesian Sharia Stock Index (ISSI). This is indicated by the t-statistic value which is greater than the t-table value. This finding is consistent with research conducted by Widyantoro (2023) which states that inflation is a key factor contributing to the level of ISSI volatility. This is different from the research of Yulfiswandi & Jenny Yang (2024) That inflation does not have a significant influence on ISSI. According to Asfia (2009) When the inflation rate increases, it causes a decrease in the level of production by producers. As a result, investors will also reduce their investment levels. This is different from the previous conclusion which showed that inflation has a positive impact on ISSI.

The Influence of BI Rate on the Indonesian Sharia Stock Index

Based on the test results, in the long term the BI Rate has a positive and significant effect on the Indonesian Sharia Stock Index (ISSI) because the t-statistic value is greater

than the t table. This finding is in line with research Mulyadi & Wibowo (2023) that the BI Rate has a long-term positive impact on ISSI. However, according to Sugeng (2024) the BI Rate has no partial effect on ISSI. This is also supported by Novitasari (2023) in terms of stock investment, the BI Rate is not a reference. Given the t-value The test result statistics are smaller than the t-table value, so the BI rate does not have a short-term effect on the ISSI.

According to Mankiw (2006:60) demand for investment goods tends to decrease when interest rates increase, because fewer investment opportunities are considered profitable in such situations. In general, increasing interest rates have a negative impact on capital market activity, because investors tend to shift their funds to fixed-income financial instruments that are considered safer. Therefore, theoretically, the relationship between interest rates and capital markets is negative. However, the results of this study indicate that the BI rate actually has a significant effect on the Indonesian Sharia Stock Index (ISSI). This finding indicates that in certain contexts, the relationship between interest rates and the movement of the sharia stock market is not entirely consistent with Mankiw's theory.

The Influence of Exchange Rates on the Indonesian Sharia Stock Index

The results show that gold prices do not affect the Indonesian Sharia Stock Index (ISSI) in the long term. The t-table value is greater than the t-statistic value, which shows this fact. However, in the short term, gold prices actually have a significant effect on the ISSI, because the t-statistic value is higher than the t-table value. This result is in line with the research of Ahmad (2021) which states that gold prices have a significant effect on the capital market in the short term.

According to Triyono (2008:156) the stability of the currency value reflects that a country or region is in a relatively strong, healthy, and reliable economic condition. This stability plays an important role in maintaining the smooth flow of capital and encouraging international trade activities. Exchange rate fluctuations, on the other hand, have the potential to cause uncertainty that has an impact on investment decisions and capital movements across countries. Therefore, countries with currencies that tend to be stable will usually be more advantaged in terms of investment absorption and global economic activity. When associated with the results of this study, the theory is in line with the findings in the short term, where the exchange rate is proven to have a significant influence on the movement of the ISSI; however, the exchange rate does not show a significant influence in the long term, thus indicating a difference in the dynamics of the relationship.

The Impact of Oil Prices on the Indonesian Sharia Stock Index

The test results reveal that in the long term, oil prices have a positive and significant effect on the Indonesian Sharia Stock Index (ISSI), as evidenced by the t-statistic value exceeding the t-table value. This finding is in line with research conducted by Muan (2022) which concluded that world oil prices significantly contribute positively to the movement of the ISSI. However, the results of research by Mahfudz and Nurhadi (2021) showed different findings, where world oil prices had a negative impact on the

ISSI. However, because the t-table value is lower than the t-statistic value, oil prices do not have a significant effect on the ISSI in the short term.

According to Bjorland (2008) Volatility of world oil prices affects a country's stock exchange, while uncertainty of oil availability creates pressure on equity returns in the country. Then according to many elements that can affect the stock index, such as the state of the global economy, energy prices around the world, the country's political stability, and weakening central bank interest rates, and many more. So it can be concluded that the theory is directly proportional to the results of the study because oil prices have a significant effect on ISSI.

The Influence of Gold Prices on the Indonesian Sharia Stock Index

According to the study, there is no significant effect of the Indonesian Sharia Stock Index (ISSI) on gold prices in the long term, as indicated by the lower t-statistic value compared to the t-table value. On the other hand, in the short term, gold prices show a significant effect on ISSI because the t-statistic value is greater than the t-table value. This finding is in accordance with previous research by Ahmad (2021) who concluded that gold prices have a significant impact on the capital market in the short term.

According to Frensidy (2013:38) in general, gold prices are counter-cyclical or inversely correlated with economic conditions. This shows that gold prices usually remain stable when the economy and market are bullish (increase). On the other hand, when there is a lot of volatility or uncertainty in the market, people will want gold which will cause its price to rise. On the other hand, stock prices fluctuate according to market and economic conditions, rising when bullish and down when bearish. According to the theory above, the capital market is negatively affected by the price of gold. If concluded in the long term the results of the study are in line with the theory but not in the short term which has a significant effect on the capital market.

CONCLUSION

This study is intended to explore the level of correlation between inflation, the relationship between exchange rates, BI rates, gold prices and global oil prices compared to the performance of the Indonesian Sharia Stock Index (ISSI) reviewed from a short-term and long-term perspective. This is done by analyzing data and discussing the determining variables of ISSI. Method Vector Error Correction Model (VECM) was used during the period 2015 to 2024, it was concluded that the application of the VECM method processed using EViews 10 software succeeded in providing a clear and in-depth mapping of the dynamics of the relationship between these variables.

Results Vector Error Correction Model shows that:

1. In the short term, the exchange rate and gold price variables have been shown to have a significant influence on the movement of the Indonesian Sharia Stock Index (ISSI). The statistically significant relationship between these two variables and the ISSI is indicated by a t-statistic value that is greater than the t-table value.
2. Three variables are shown to have a significant influence on the Indonesian Sharia Stock Index (ISSI) in the long term: inflation rate, oil prices, and the Bank Indonesia (BI) benchmark interest rate. This third variable shows a t-statistic value that is greater than the t-table value. which indicates a significant statistical relationship with ISSI in the long-term period.

Based on the decomposition variant test in a time span of 100 periods, it can be seen that the variable that provides the largest contribution in the research in this test is the oil price of 25.66 percent, followed by the exchange rate of 18.37 percent, inflation of 7.12 percent, BI rate of 6.90 percent and gold price of 0.6 percent.

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