Rupiah Exchange Rate, Inflation, BI Rate against IDX Composite (2021-2025)

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Abstract

This research aims to analyze in depth the influence of macroeconomic indicators, including the Rupiah Exchange Rate, Inflation, and BI Rate, on the Indonesia Stock Exchange Composite Index (IDX Composite) during the 2021-2025 period. This study is driven by market anomalies where Rupiah depreciation and Inflation fluctuations actually accompanied the achievement of IDX Composite record highs. Using a quantitative with a purposive sampling method comprising 60 monthly data points and multiple linear regression analysis SPSS version 26, the results show that, partially, the Rupiah Exchange Rate and Inflation have a positive and significant effect on the IDX Composite. This phenomenon indicates a competitive advantage for exporting issuers when the Rupiah weakens (goods market approach) and a positive market perception of moderate inflation (2.5%-2.92%) as a signal of economic expansion. Conversely, the BI Rate was found to have no significant direct influence, suggesting the operation of a transmission mechanism through the Exchange Rate channel. Simultaneously, these three variables contribute significantly to the movement of the IDX Composite, with an Adjusted R Square value of 50.1%. These results emphasize the importance for investors to be rational in responding to macroeconomic sentiments and the need for monetary authorities to maintain stability so that market volatility remains measured.

Keywords: bi rate, inflation, macroeconomics, exchange rate.

Introduction

Capital market has a very crucial role in driving the economic growth of a country. This instrument functions as an efficient intermediation mechanism to distribute funds from surplus units to various productive sectors, thereby facilitating long-term capital accumulation essential for national development Basudewa et al., (2025). This is reinforced by cross-country empirical evidence from which emphasizes that a liquid and well-functioning stock market provides unique financial services.In line with the argument of Omar et al., (2022), the maturity of the capital market reflects the level of economic development of a country, where a market-oriented financial system has a strong correlation with the efficiency of resource allocation. Theoretically, a weakening of macroeconomic indicators tends to increase systematic risk, bringing negative sentiment to the stock market Triwardana et al., (2025). In conventional economic conditions, the combination of currency weakening and rising inflation would generally increase the discount rate, trigger concerns of foreign capital flight, and in turn put pressure on the overall performance of the stock market (Eric & Hikmah, 2025).

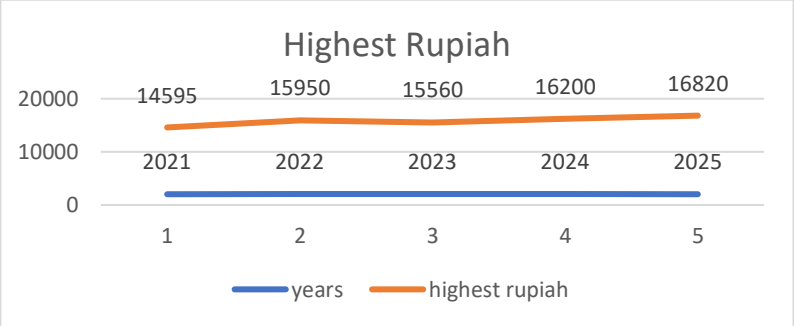
In Indonesia, the composite stock price index (IDX Composite) not only functions as a barometer of capital market performance but is also often used as a key parameter reflecting market participants' expectations and confidence in the stability of macroeconomic conditions. The dynamics of this index's movements are highly susceptible to various fundamental sentiments, including shifts in inflation rates, fluctuations in benchmark interest rates, and the resilience of the domestic currency exchange rate. Theoretically, a weakening of macroeconomic indicators tends to increase systematic risk, bringing negative sentiment to the stock market (Pratama, 2023). However, historical data from the Indonesian capital market often show a unique and complex interaction between the Rupiah exchange rate, inflation, and the direction of IDX Composite movements. The causal relationship among these macroeconomic variables is often proven to be non-linear and highly dependent on certain economic momentum Prananta & Alexiou, (2024).

In addition to being influenced by capital flow sentiment, the direction of the IDX Composite movement heavily depends on the fundamental performance of large-cap sectors relative to the banking and commodity sectors. Fluctuations in macro indicators such as the benchmark interest rate not only impact investor expectations but also directly affect issuer profitability. Empirical evidence Safitri & Oktavia, (2022) highlights that the interest rate plays a crucial role in moderating the effects of non-performing loans and capital adequacy on banking

profitability. The resilience of banking sector profits ultimately becomes one of the main anchors determining the direction of the IDX Composite.
An anomaly, which was very striking, occurred in 2025. During that period, the Rupiah exchange rate experienced a sharp depreciation, reaching Rp 16,820 per USD in April, which was then accompanied by an inflation rate creeping up to 2.92% at the end of December. n conventional economic conditions, the combination of currency weakening and rising inflation would generally increase the discount rate, trigger concerns of foreign capital flight, and in turn put pressure on the overall performance of the stock market (Sebo & Nafi, 2021). Medyawati, (2021) found that exchange rate volatility and inflation are negatively related to stock returns during global monetary pressure However, surprisingly, the market responded in the opposite way. The IDX Composite instead went against the trend and recorded its peak score of 8,710, while also providing an exceptionally significant annual return of 22.13%. In line with the findings Safitri & Oktavia, (2022) ,this condition suggests that the dynamics of the trade balance and the dominance of the commodity sector may be distinguishing variables in responding to exchange rate shocks.

This paradoxical phenomenon certainly disrupts the perspective of classical investment theory. However, this condition aligns with several recent empirical findings that suggest that exchange rate depreciation at extreme levels or inflation that is still considered moderate can actually provide a positive boost for stock indexes, especially those dominated by export-oriented issuers Ervina & Azwar, (2023). This anomalous condition triggers profound questions and suggests the need for further empirical investigation to unravel how the transmission of exchange rates, inflation rates that may be considered as signals of economic expansion, and the responses of monetary authority policies interact in shaping the direction of domestic stock market movements.

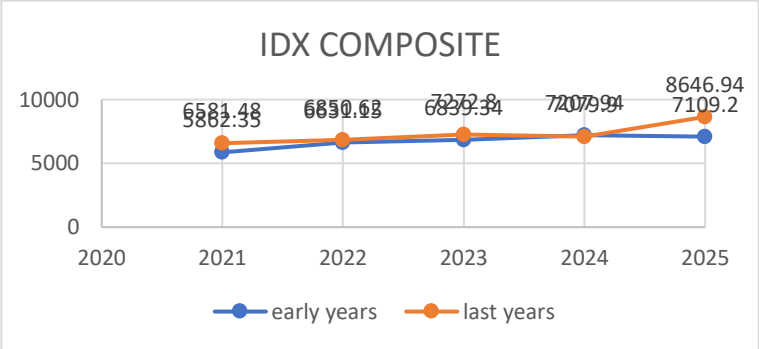
Figure 1. Highest Rupiah



Source: Data from Bank Indonesia

The dynamics of the Rupiah exchange rate over the five-year observation period show a fairly continuous depreciation trend, evidenced by the movement of the peak point from 14,595 in 2021, rising significantly to 15,950 in 2022, and although it experienced a positive correction to 15,560 in 2023, the currency depreciated again to 16,200 in 2024, peaking at 16,820 at the end of the period in 2025, this pattern clearly indicates consistent pressure on the domestic currency year after year. The depreciation phenomenon shown by that range of statistical data not only represents a shift in numbers, but also signals the potential for broader macroeconomic challenges. This weakening trend can trigger higher costs for imported raw materials (imported inflation) and increase the burden of financial obligations in foreign currency.

Figure 2. early years and last years IDX Composite



Source: Data from one trading and BI

Based on observations of the trends in the movement of the Composite Stock Price Index (IHSG) over five consecutive years, it is confirmed that there is a consistent expansion pattern in the performance of the domestic equity market, where the year-end closing positions always record levels higher than the opening. In the period from 2021 to 2024, the market showed relatively moderate movements and indicated a phase of consolidation. This indicator is reflected in the shift of the index at the beginning of the year at the level of 5,862.35, closing at 6,581.48 in 2021, continuing with a relatively narrow growth range in 2022 (from 6,631.13 to 6,850.62), 2023 (from 6,839.34 to 7,272.8), up to 2024 which started at an opening position of 7,079.94 and ended at 7,307.94. Although movements in the first four years appeared limited, the momentum of very massive growth acceleration was convincingly recorded in 2025. Stock index that opened the year at a base of 7,109.2 managed to record an aggressive appreciation rally, breaking the closing record at 8,646.94. The extremely sharp value difference surge in this last year of observation serves as empirical evidence of peak investor optimism and high capital inflows, which simultaneously confirms the strong resilience of the national capital market fundamentals at the end of the research period.

Table 1: *key data on the rupiah exchange rate, inflation, and IHSG (2021 – 2025) source BI, IDX, CEIC DATA*

Year	average USD/IDR	highest USD/IDR	Annual inflation rate	Year-end IDX	Return IDX (%)	BI Rate
2021	14.285	14.595 (September)	1,87%	6.510	+ 8,61	3,50%
2022	15.120	15.950 (October)	5,51%	6.512	+ 0,03	5,50%
2023	15.250	15.560 (April)	2,61%	7.204	+ 10,60	6%
2024	15.780	16.200 (August)	2,5% - 2,8%	7.079	- 1,74	6%
2025	16.291	16.820 (April)	2,92%	8.647	+ 22,13	4,75%

Based on the five-year observation period, a continuous dynamic interplay was recorded between exchange rate fluctuations, price stability, the direction of monetary policy, and capital market responses. From the domestic currency side, there was a sustained depreciation trend against the US Dollar, with the average rate shifting from 14,285 in 2021 to 16,291 in 2025, with the heaviest pressure occurring in April 2025 when the exchange rate dropped to 16,820. This dynamic was also colored by price stability turmoil, especially in 2022 when the annual inflation spike reached 5.51 percent. As a mitigation step, the monetary authority responded by raising and maintaining the reference interest rate (BI Rate) at six percent during the 2023 to 2024 period. This tightening policy has proven effective in curbing the inflation rate back to 2.92 percent, which was then followed by a relaxation step in the form of a cut in the BI Rate to 4.75 percent in 2025. This series of macroeconomic conditions directly impacted the volatility of the Composite Stock Price Index. After briefly correcting with a negative return of 1.74 percent at an index position of 7,079 in 2024, the stock market responded very positively to monetary easing the following year, as evidenced by the impressive closing of the index at the 8,647 level at the end of 2025, with a positive growth surge of 22.13 percent.

The depreciation of the rupiah is actually like a double-edged sword; on one side it can strengthen the competitiveness of export products, but on the other side it triggers a surge in import costs which ultimately

affects inflation and interest rates. El-Diftar, (2023) analyzing the Emerging 7 (E7) including Indonesia using OLS, ARDL-ECM, and GARCH, finding a positive long-term relationship between exchange rate-inflation and stock returns in most countries, but significantly negative in Indonesia (rupiah appreciation plus low inflation suppress stock returns).

Mroua & Trabelsi, (2020) In the Journal of Economics, Finance and Administrative Science on BRICS, a long-term cointegration was found between exchange rates and stock indices, with exchange rate shocks and inflation affecting volatility. Chang et al., (2019) in the South Asian Journal of Business Studies on Pakistan (ARDL) showed that the exchange rate and inflation (CPI) have a negative long-term effect on stock prices. Rjoub et al., (2009) A study in economics and finance in Istanbul found that exchange rates and inflation are negatively related to stock returns.

Prananta & Alexiou, (2024) finding a non-linear relationship between the exchange rate, bond yields, and the JCI during COVID-19 using NARDL, COVID-era rupiah depreciation is actually positively non-linear to the JCI in extreme conditions. Suriani et al., (2021) show the exchange rate as a monetary policy transmission channel to financial assets, with the BI-Rate leading to the exchange rate and then to the IDX. Masrizal et al., (2021) evidence of country risk including exchange rates and inflation) predictive of JLL (Jones Lang LaSalle) with conventional implications for IDX Composite.

Thai Hung, (2023) emphasizing that during periods of crisis, the interconnection between macro variables is very high, where shocks in oil prices and exchange rates have a very dynamic impact. In addition, the factor of institutional stability is also crucial, Ben-Ammar, (2025) finding that external risks (such as climate risk) can undermine the stability of banks and finance, but this negative impact can be mitigated in countries with strong governance and regulatory quality.

Previous research conducted during the pandemic crisis period shows that macroeconomic variables are very dynamically connected, but most of these studies only partially focus on the period 2015-2022. Therefore, this research aims to fill the gap in the literature by conducting a multivariable analysis using multiple regression for the period 2021 to 2025 in order to capture the effects of the pandemic and current economic anomalies.

Literature Review

Asset Pricing Theory

This theory states that the stock price equals the present value of future cash flows discounted at the required rate of return. Systematic macro factors (inflation, exchange rate) affect cash flow and discount rate. Exchange rate volatility and inflation uncertainty are included in the systematic risk factors that investors must hedge Prananta & Alexiou, (2024).

This assessment mechanism is very sensitive to macroeconomic dynamics, especially through the discount rate channel. Increases in risk indicators such as the reference interest rate (BI Rate) and inflation will theoretically raise the discount rate implied by investors. An increase in the divisor in the formula for the intrinsic value or the fair value of stocks on the exchange (Ahmad & Badri, 2022).

Arbitrage Pricing Theory (APT) is an asset pricing model that assumes a stock's return doesn't just depend on a single market factor but is influenced by various systematic risk factors. Unlike the single-factor model, APT provides a framework showing that stock prices are very sensitive to broad macroeconomic conditions. According to (Sitasari & Firmansyah, 2022), the APT model confirms that macroeconomic variables, like inflation rates, currency exchange fluctuations, and interest rate changes, act as systematic risk factors that directly affect investor expectations and stock price movements, especially in the financial sector.

Goods Market Approach

Based on the goods-market approach, currency exchange rate movements have a direct impact on international trade competitiveness (Nugroho, 2026), fluctuations in exchange rates will change the prices of export and import goods produced or consumed by companies. Changes in cost and revenue structures will ultimately affect cash flow and the fundamental performance of companies, which will continuously be reflected in their stock price movements in the capital market. This approach states that the weakening of the local currency will logically make domestic market prices much cheaper and more competitive in the global market Febriana & Khairunnisa, (2022). This approach states that the weakening of the local currency will make domestic market prices much cheaper in the global market (Pratama, 2023). This relative price reduction creates a competitive advantage that instantly boosts the demand volume for export goods Ervina & Azwar, (2023).

The advantage in the goods market then creates a domino effect on the stock exchange; an increase in export volume paid in US Dollars will result in a surge in profits when converted back to the weakening Rupiah. This profitability prospect is positively responded to by rational investors through the accumulation of stock purchases, which ultimately drives up the share prices of issuers on the exchange Prananta & Alexiou, (2024). Changes in the exchange rate affect profitability through the trade channel; depreciation refers to higher competitive exports but higher import costs. Indonesia's trade openness of 45% explains the sensitivity of the IDX to the exchange rate Suriani et al., (2021).

IDX Composite

The relationship between macroeconomics and stock prices rests on two main frameworks. Based on asset pricing theory, macro indicators (Inflation and BI Rate) act as systematic risks that discount the expectations of a company's future cash flows (Paryudi, 2021). As a result, every economic shock will immediately trigger adjustments in the fair value of equity assets on the stock exchange.

On the other hand, exchange rate fluctuations are explained through the goods market approach. This theory states that the depreciation of the Rupiah actually provides a competitive advantage by making domestic export products cheaper in the global market Ervina & Azwar, (2023). Considering that the IDX is heavily supported by export-oriented issuers, this currency weakening logically proves to act as a positive capitalist supporting stock market appreciation (Cahyani & Wirakusuma, 2025).

The causal and logical relationship between Rupiah Exchange Rate and IDX Composite

Based on the goods market approach Sitasari & Firmansyah, (2022), the depreciation of the rupiah exchange rate can actually provide a competitive advantage because it makes domestic export product prices cheaper in the global market Ervina & Azwar, (2023). The relationship between the Rupiah exchange rate and the IDX Composite (IHSG) operates logically and causally through the international trade, production costs, and capital flow channels. Logically, when the Rupiah depreciates, domestic companies relying heavily on imported raw materials face a surge in operational costs, which can squeeze profit margins and prompt foreign capital outflows to avoid exchange rate risk (Pratama, 2023). The depreciation of the exchange rate, accompanied by previously occurring inflation and interest rate shocks, is also interpreted more dominantly as a pure systematic risk that pressures capital market performance Paryudi, (2021). This indicates that the dynamic linkage between macroeconomic variable shocks and stock returns in developing countries such as Indonesia does not always move linearly, but rather highly depends on economic momentum as well as the dominance of the fundamental composition of issuers in the market Medyawati, (2021). This indicates that the dynamic linkage between macroeconomic variable shocks and stock returns in developing countries such as Indonesia does not always move linearly, but rather highly depends on economic momentum as well as the dominance of the fundamental composition of issuers in the market (Prananta & Alexiou, 2024). Despite these risks, the implication of a positive trade balance resulting from an export surplus logically implies an overall strengthening of the IDX composite index Safitri & Oktavia, (2022a).

The causal and logical relationship between Inflation and IDX Composite

The stock market's response to inflation is highly dependent on the economic cycle. Although inflation at a moderate level is actually perceived by the market as a signal of demand-pull inflation, indicating that the economic expansion engine is turning (Febriana & Khairunnisa, 2022). This inflation stability fosters market optimism towards the increase in corporate profit projections, which ultimately leads to the appreciation of the IDX Composite Index (Larasati et al., 2023).

This theoretical argument is empirically confirmed by the findings of Larasati et al., (2023) who concluded that inflation at reasonable levels will not be a systematic risk that erodes returns, but rather provides positive sentiment and significant momentum for the movement of stock price indices in the domestic market. This is in line with the market's positive perception of moderate inflation (2.5%–2.92%) as an indicator of healthy economic growth.

The causal and logical between inflation and the stock market is essentially determined by its underlying source and severity. Logically, mild or moderate inflation is perceived as a symptom of a growing economy (demand-pull inflation), indicating strong public purchasing power, increasing money circulation, and active economic expansion (Febriana & Khairunnisa, 2022). In this scenario, companies can logically increase their sales volume and adjust prices without losing consumers, translating to higher corporate earnings.

The causal and logical relationship between BI Rate and IDX Composite

The increase in the benchmark interest rate (BI Rate) creates tight monetary conditions, forcing investors to raise the discount rate higher, thereby correcting down the fair value of stocks Ahmad & Badri, (2022). The rise in banking interest rates triggers a portfolio substitution effect, where rational investors will move their funds from the stock market to safe haven instruments that offer high returns with low risk Warjiyo, (2019). The phenomenon of capital flow shifts from this exchange is confirmed by empirical findings Wulan et al., (2023) which proves that the consistent increase in the BI Rate suppresses equity market liquidity, thereby exerting significant negative pressure on the movement of the IDX Composite. Through the company's fundamental channel, interest rate adjustments have a direct impact on banking issuers, which are the main movers of the IDX Composite. Safitri & Oktavia, (2022) prove that the interest rate plays a vital moderating role on bank profitability.

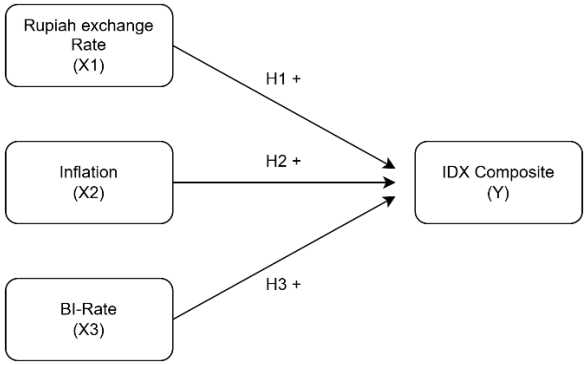
The central bank's benchmark interest rate (BI Rate) logically and causally influences the stock market through monetary tightening, the cost of debt, and portfolio substitution effects. Logically, when Bank Indonesia raises the BI Rate, it increases the borrowing costs (cost of funds) for corporate expansions, which suppresses future earnings (Pratama, 2023). Causally, this creates tight monetary conditions, forcing investors to raise the discount rate higher and correcting down the fair value of stocks (Ahmad & Badri, 2022).

Regarding the fundamental relationship between the financial market and the economy, according to Boadi et al., (2019) Market development has a strong positive influence on economic growth compared to bank-based systems, especially in high-income countries; these findings reinforce the argument that strong IDX performance can be an indicator of economic resilience even amid exchange rate pressures. In the context of exchange rate volatility during periods of uncertainty, according to Thai Hung, (2023) During a crisis, there is a significant risk spillover from global energy prices to the exchange rate market, with the connectivity index reaching more than 57 percent in the early wave of the crisis. The implication for the Indonesia Stock Exchange (IDX) is that current exchange rate movements are no longer static but highly responsive to external shocks that are time-varying.

In addition to classical economic factors, the new literature highlights the role of institutional factors, according to Ben-Ammar, (2025) The stability of the financial sector is greatly influenced by the quality of a country's institutions; countries with weak governance tend to experience greater negative impacts from external risks on the stability of their banks and financial markets. This research model sets up the direction of the relationship where macroeconomic variables (the Rupiah Exchange Rate, Inflation, and the BI-Rate) act as systematic indicators that simultaneously affect stock price index performance. Theoretically, this research moves from the assumption that macroeconomic volatility in Indonesia has different transmission channels to the capital market.

This research direction emphasizes that there are two main transmission paths: first, through the goods market approach where exchange rate fluctuations affect the competitiveness of export issuers, and second, through the asset pricing channel where inflation and interest rates dictate investor profit expectations. By placing the Indonesia Stock Exchange (IHSG) as the sole dependent variable, this model is aimed at testing whether the market anomalies that occurred during 2021-2025 were a rational response to economic signals or just short-term fluctuations. The results of this model are expected to provide theoretical implications that the integration between monetary policy and real sector fundamentals is the main driver of domestic capital market stability, which does not always move linearly according to conventional theory.

Figure 3. Conseptual Framework



H1: The rupiah exchange rate has a significant positive effect on the IDX.
H2: Inflation has a significant positive effect on the IDX.
H3: The BI-Rate has a significant positive effect on the IDX.

Method

The research method used in this study is the quantitative method using secondary data as the research instrument. According to Sugiyono, (2013) The quantitative research method is a method based on the philosophy of positivism, used to study a particular population or sample. Data collection and analysis are conducted using the SPSS version 26 application for statistical testing with descriptive statistical analysis and multiple regression data analysis. To determine the (partial) impact of each financial Ratio and Valuation proxy on stock price volatility, the hypotheses were tested using a T-test, with a standard significance level of 5% (α = 0.05) .The sample and this research include monthly time series data from January 2021 to December 2025 source from Bank Indonesia bursa, CEIC DATA and Indonesia Stock Exchange, covering the exchange rate of the Rupiah against the US Dollar, inflation, the BI Rate, and the composite stock price index. The sampling technique used is Non-Probability Sampling. The selected data doesn't have any missing values or gaps in the monthly data that could mess up the multiple regression analysis results.

Results and Discussion

A. CLASSICAL ASSUMPTION TEST

Table 2. Descriptive Statistics

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
kurs rupiah	*60*	*13903*	*16849*	*15346.73*	*844.934*
Inflasi	*60*	*-.001*	*.060*	*.02733*	*.013769*
Bi rate	*60*	*.035*	*.063*	*.04942*	*.010915*
IHSG	*60*	*5862.35*	*8646.94*	*6961.7155*	*583.89771*
Valid N (listwise)	*60*				

Source: secondary data analysis using SPSS 26

Based on the results of descriptive statistical tests on 60 observation data points (N=60), all research variables show good and representative data distribution characteristics. The movement of the rupiah exchange rate recorded an average value of 15,346.73, while macroeconomic indicators such as inflation and the BI rate have central values of 0.02733 and 0.04942, respectively, and stock market performance represented by the IHSG is centered at the level of 6,961.7155. The most crucial aspect of this test is that all variables consistently have standard deviation values far smaller than their respective means, namely a standard deviation of the rupiah exchange rate of 844.934; inflation 0.013769; BI rate 0.010915; and IHSG 583.89771. This low level of fluctuation indicates that the data variation clusters reasonably around the central value and is free from extreme data imbalances (outliers).

Table 3. NORMALITY TEST

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	401.89650481
Most Extreme Differences	Absolute	.050
	Positive	.050
	Negative	-.044
Test Statistic		.050
Asymp. Sig. (2-tailed)		.200[c,d]
Source: secondary data analysis using SPSS 26		

Based on the table above, a significant value of 0.200 was obtained, indicating sig > 0.05. It can be concluded that the data is normally distributed.

Table 4. AUTOCORRELATION TEST

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.725[a]	.526	.501	412.52115	.471

Source: secondary data analysis using SPSS 26

Based on the table above, the Durbin Watson (d) obtained is 0.471. According to the autocorrelation test criteria dU < d < 4 - dU, it can be concluded that there is no autocorrelation.

Table 5. MULTICOLLINEARITY TEST

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Rupiah exchange rate	.479	2.086
	Inflation	.964	1.037
	Bi rate	.477	2.096

Source: secondary data analysis using SPSS 26

Based on the table above, the tolerance value obtained for the exchange rate variable (X1) is 0.479 > 0.1. For the inflation variable (X2) it is 0.964 > 0.1. And for the Bi Rate variable (X3) it is 0.477 > 0.1. The VIF value for the exchange rate is 2.086 < 10, for the inflation variable it is 1.037 < 10, and for the Bi Rate variable it is 2.096 < 10. Therefore, it can be concluded that there is no multicollinearity among the independent variables in the regression model.

Table 6. HETEROSKEDASTICITY TEST

Correlations

			Rupiah exchange rate	Inflation	Bi rate	Unstandardized Residual
Spearman's rho	Rupiah exchange rate	Correlation Coefficient	1.000	.083	.639**	.024
		Sig. (2-tailed)	.	.531	.000	.856
		N	60	60	60	60
	Inflation	Correlation Coefficient	.083	1.000	.132	.126
		Sig. (2-tailed)	.531	.	.314	.339
		N	60	60	60	60
	Bi rate	Correlation Coefficient	.639**	.132	1.000	.064
		Sig. (2-tailed)	.000	.314	.	.626
		N	60	60	60	60
	Unstandardized Residual	Correlation Coefficient	.024	.126	.064	1.000
		Sig. (2-tailed)	.856	.339	.626	.
		N	60	60	60	60

Source: secondary data analysis using SPSS 26

The significance value for the exchange rate variable is 0.856 > 0.05. For the inflation variable, it is 0.339 > 0.05, and for the BI rate variable, it is 0.626 > 0.05. Therefore, it can be concluded that there is no heteroscedasticity in this research data.

B. MULTIPLE LINEAR REGRESSION TEST

Table 7. MULTIPLE LINIER REGRESSION TEST

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1626.997	1202.814		-1.353	.182
	Rupiah exchange rate	.577	.092	.835	6.282	.000
	Inflation	12950.704	3972.393	.305	3.260	.002
	Bi rate	-12472.438	7122.931	-.233	-1.751	.085
Source: secondary data analysis using SPSS 26						

The results from the table above can be explained in 2 varieble significant against IDX Composite and 1 variable no significant. Value of significant variable must be less than 5% (0,05).

C. HYPOTHESIS TESTING

Table 8. T TEST

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1626.997	1202.814		-1.353	.182
	Rupiah exchange rate	.577	.092	.835	6.282	.000
	Inflation	12950.704	3972.393	.305	3.260	.002
	Bi rate	-12472.438	7122.931	-.233	-1.751	.085
Source: secondary data analysis using SPSS 26						

1. The Exchange Rate variable (X1) has a t-count of 6.282 and a significance value of 0.000. Since the sig value 0.000 < 0.05, H1 is accepted. This indicates that the Exchange Rate has a positive and significant effect (B = 0.577) on the IDX, meaning that every weakening of the rupiah will significantly increase the IDX value.
2. The Inflation variable (X2) has a t-count of 3.260 and a significance value of 0.002. Since the sig value 0.002 < 0.05, H2 is accepted. This indicates that inflation has a positive and significant effect (B = 12950.704) on the IDX. This means that an increase in inflation will significantly encourage an increase in the IDX value.
3. The BI Rate variable (X3) has a t-count of -1.751 and a significance value of 0.085. Since the sig value 0.085 > 0.05, H3 is rejected. This indicates that the BI Rate does not have a significant effect on the IDX. Although its regression coefficient is negative (B = -12472.438), fluctuations in the BI Rate statistically do not provide a real impact on this research model.

Table 9. F TEST

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10585528.489	3	3528509.496	20.735	.000[b]
	Residual	9529727.234	56	170173.701		
	Total	20115255.723	59			

Source: secondary data analysis using SPSS 26

Based on the table above, it shows that the calculated F value is 20.735 with a significance probability level of 0.000. This significance value is much smaller than the 0.05 significance level. It can be concluded that H0 is rejected and Ha is accepted. This proves that the variables of Exchange Rate, Inflation, and BI Rate simultaneously have a significant effect on the IHSG variable.

Table 10. DETERMINATION COEFFICIENT TEST

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.725[a]	.526	.501	412.52115

Source: secondary data analysis using SPSS 26

In the table above, it shows that the Adjusted R Square value is 0.501. This can be explained that 50.1% of the IDX Composite variable is influenced by the exchange rate, inflation, and BI Rate. The remaining 49.9% of the IDX Composite variable is influenced by other variables that are not discussed in this study.

Discussion

The model estimation results show that the Rupiah exchange rate is the most significant determinant affecting the Composite Stock Price Index (IDX Composite) dynamics during the 2021-2025 period, with a Beta coefficient of 0.835. The size of this coefficient indicates that movements in the Rupiah exchange rate have the strongest impact compared to other macroeconomic variables in this model. Theoretically, the dominant influence of the exchange rate aligns with the structure of the Indonesian capital market, which is dominated by export-oriented companies and commodity sector issuers. When the Rupiah depreciates, these issuers actually gain a competitive advantage in the global market, which is then positively responded to by investors through accumulation of stock purchases, thus boosting the IHSG. This phenomenon confirms that the market's sensitivity to exchange rate fluctuations is higher compared to the influence of inflation or benchmark interest rate policies during the observation period.

The Effect of the Rupiah Exchange Rate on the IDX.

Based on the results of the t-test, the rupiah exchange rate variable has been empirically proven to have a positive and significant effect on the IDX. The positive relationship (B = 0.577) indicates that when the exchange rate weakens, the IDX actually experiences an increase. This finding directly addresses the paradoxical phenomenon of 2025, where a significant weakening of the rupiah (peaking at Rp 16,820) was accompanied by a record high IDX. Theoretically, this is in line with the goods market approach and is supported by research El-Diftar, (2023) which states that in the context of Indonesia, weakening is actually tends to be favored by the stock market. This confirms the findings Prananta & Alexiou, (2024) that the effect of depreciation in extreme regimes actually provides a significant positive sentiment boost to stock index movements. This is also supported by recent empirical findings in the domestic capital market Ervina & Azwar, (2023) which proves the existence of a one-way correlation between exchange rate fluctuations and the movement of the IDX.

The Effect of Inflation on the IDX Composite

Statistical test results show that the inflation variable has a positive and significant effect on the movement of the IDX Composite. An increase in the inflation rate in this research model acts as a catalyst that drives the rise in the IDX Composite value. The inflation rate during the research period, ranging from 2.5% to 2.92%, is likely still perceived by market participants as a positive fundamental signal; a moderate and controlled inflation rate reflects healthy economic growth as well as an increase in aggregate demand. These analysis results are consistent with findings Chang et al., (2019) which proves that inflation can have a significant positive impact on stock prices in the long term. Responding to it as a threat that erodes purchasing power, the market interprets this moderate level of inflation as a positive signal of the circulation of the economic wheel. This is in line with (Febriana & Khairunnisa, 2022) which proves that in the expansion phase, controlled inflation is positively correlated with equity earnings expectations.

The Effect of the BI Rate on the IDX

The results of testing the third hypothesis showed that the BI Rate does not have a significant effect on the IDX (p-value > 0.05). Logically, this can be explained by the indirect transmission mechanism of monetary policy.

Changes in the BI Rate in Indonesia do not instantly affect stock prices; instead, they are first absorbed through exchange rate channels or adjustments in commercial bank interest rates (loans and deposits) before eventually impacting investment decisions in the capital market. Moreover, during the 2021-2025 period, the Indonesian capital market showed high resilience to interest rate policies, where expected profitability of issuers especially in the commodities and export sectors played a more dominant role in influencing investor decisions than changes in the benchmark interest rate itself. Its lack of direct significance has been previously discussed by findings Suriani et al., (2021) which states that the exchange rate is the main channel of monetary policy transmission to financial asset instruments, thus shocks or changes in the BI Rate will not directly impact the IDX. The insignificance of the BI Rate directly aligns with the concept of the monetary policy transmission mechanism in Indonesia Warjiyo, (2019) where the benchmark interest rate instrument works indirectly and requires a time lag. The impact of changes in the BI Rate will first be absorbed and transmitted through the exchange rate channel before moving asset prices in the stock exchange.

The Influence of Exchange Rate, Inflation, and BI Rate on IDX Composite
Based on the model feasibility test (F test), it is proven that the rupiah exchange rate, inflation, and BI Rate together (simultaneously) have a very significant effect on the IDX Composite. The result of the coefficient of determination (Adjusted R Square) shows a figure of 0.501. This means that the combination of these main macroeconomic variables has strong explanatory power, namely being able to explain 50.1% of the total variation in IHSG movements during the research period.

Conclusion
Referring to a series of statistical tests and analyses related to the impact of exchange rates, inflation, and the BI rate on the movement of the IDX Composite from 2021 to 2025, the following key findings were obtained:

1. Exchange rate: There is an anomaly phenomenon in the domestic stock market, where the depreciation of the Rupiah is actually responded to with an appreciation of the IDX Composite. The weakening of the currency provides a significant positive boost to the index, which is theoretically driven by the increased competitiveness of export-oriented issuers that dominate the market capitalization.
2. Inflation: The increase in goods and services prices (inflation) has been proven to bring a significant positive impact on stock index movements. Moderate inflation ranges (2.5% - 2.92%) during the observation period were perceived by investors as indicators of an expanding economy and maintained purchasing power.
3. BI Rate: The dynamics of the benchmark interest rate (BI Rate) have been proven to have no significant direct influence on the movement of the IDX Composite. This indicates that the interest rate instrument works indirectly through the exchange rate channel transmission mechanism before finally impacting the equity market.
4. Collectively, the three macroeconomic indicators (Exchange Rate, Inflation, and BI Rate) have a very strong predictive power, with the ability to explain 50.1% of the total dynamics of domestic stock market movements during the observation period. The alignment of these variables underscores the importance of macroeconomic stability in maintaining positive sentiment in the stock market.

Advice
Based on the conclusions that have been outlined, the recommendations that can be proposed include:

1. For investors, the presence of market anomalies where currency depreciation and moderate inflation actually support the stock market indicates the need for rationality in responding to short-term macroeconomic sentiment. Investors are advised not to panic-sell during Rupiah depreciation, but rather to take advantage of it by reallocating portfolios to companies in the commodities and export sectors that benefit from the strengthening of the US Dollar. Investment decisions should still be based on the evaluation of individual companies' fundamentals and resilience.
2. For monetary authorities and the government, although current depreciation and moderate inflation provide positive sentiment for the IDX, the government and Bank Indonesia must remain vigilant. Steps to maintain monetary stability remain crucial so that the exchange rate weakening does not shift into imported inflation, which could massively damage the production cost structure of industries. Policies should be focused on volatility management so that market fluctuations remain measured.
3. Considering the capability of this regression model in explaining the variance of the IDX has only reached 50.1%, there is a remaining 49.9% that has not been explained by the variables in this study. Future researchers are strongly advised to include dynamic external risk variables (such as global

energy or commodity prices), as well as institutional governance quality variables, to obtain a more comprehensive predictive model.

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