

Causality Analysis of Economic Growth, Inflation, and Interest Rates on the Jakarta Composite Index (JCI) in Indonesia: An ARDL Approach

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Abstract

One important indicator of Indonesia's economic condition is the Jakarta Composite Index (JCI). As the measure of all listed stocks, its movement directly reflects economic stability and investor confidence. The JCI is, however, highly susceptible to both global and domestic macroeconomic pressures, making its relationship with key fundamentals, such as economic growth, inflation, and interest rates. The purpose of this study is to analyze the short-term and long-term impacts of inflation, interest rates, and economic growth on the JCI. This study uses the Autoregressive Distributed Lag (ARDL) model on time series data using secondary data and quantitative correlation techniques. The results show that although economic growth has no short-term impact on the JCI, it does have a significant long-term impact. On the other hand, neither inflation nor interest rates have a significant impact on the JCI in the short or long term. An adjustment rate of 50.49% was achieved using an error correction mechanism, indicating a tendency towards long-term equilibrium. Additional causality analysis shows a unidirectional relationship between inflation and the JCI and between the JCI and economic growth. However, neither the JCI nor interest rates and economic growth have a reciprocal relationship on the JCI, and there is no causal relationship between the both.

Keywords: Autoregressive Distributed Lag, Economic Growth, Inflation, Interest Rates, Jakarta Composite Index.

1. Introduction

The Jakarta Composite Index (JCI) plays a crucial role in the Indonesian economy, demonstrating economic stability and significant opportunities for sustainable growth. Various external challenges, such as the trade conflict between the US and China and tight global interest rate policies, have put pressure on the Indonesian stock market. Investors have great confidence in Indonesia's capital market thanks to stable GDP growth, well-controlled inflation, and appropriate interest rate policies (Kamara & Widyawati, 2024; Laksono et al., 2020).

This indicates that the Indonesian stock market, despite its potential, is heavily shaped by several macroeconomic factors, including inflation, economic growth, and interest rates, both domestically and internationally. This uncertainty suggests that the JCI does not yet fully reflect a robust market resilient to economic changes, posing a significant challenge for investors and policymakers (Jakarta Stock Exchange Composite Index (JKSE), 2025).



In general, positive economic growth can reflect increased economic productivity, which is intended to impact increased corporate revenue and profits. This increase in profits will boost stock prices, thus potentially increasing the value of the Jakarta Composite Index in Indonesia. This finding aligns with Silalahi and Sihombing (2021) which stated that economic growth has a positive and influential impact on the JCI in Indonesia because strong economic growth will increase investor confidence in investing in the stock market, thereby increasing the increase in the JCI, while slowing economic growth will tend to lower the JCI.

Based on the description above, economic growth and the Jakarta Composite Index (JCI) have a very close and significant link, as they are two variables that can influence each other. In addition to economic growth, several other key supporting variables influence the movement of the JCI in Indonesia, namely the inflation rate and interest rates. Inflation is defined as a prolonged increase in the prices of goods and services, generally occurring year after year. Still, in the context of the stock market, inflation is a crucial variable, as it has both direct and indirect effects on various aspects. When inflation is at a controlled level, this situation is often interpreted as a signal that the economy is growing healthily and stably (Farichah, 2022).

Besides inflation and economic growth, one of the main supporters of Indonesia's Composite Stock Price Index (JCI) is interest rates. According to Al Faruqi et al. (2022), BI Rate is the reference interest rate as a symbol of Bank Indonesia's (BI) monetary policy, so this BI Rate is used as consideration for all local investors who represent 50% of total stock investors in Indonesia to invest in stocks, this will certainly affect the composite price level of all these stocks, because investment is made when the investment is considered efficient, where interest rates are used as comparison.

A number of studies have examined the influence of macroeconomic variables such as inflation, interest rates, and exchange rates on the Jakarta Composite Index (JCI), but there are still research gaps that need to be filled. Feriansyah & Ghozali (2022) using the ARDL model for the 2011-2021 period showed that in the long term, interest rates and the Covid-19 health crisis have a significant positive effect, while inflation is not significant on the JCI, and short-term effects show that inflation is significant but interest rates and exchange rates are not. Triwardana et al. (2025) found that interest rates have a significant negative effect on the JCI, while inflation is not significant and the rupiah exchange rate is significantly positive. Another study using the VECM approach and data from the 2018-2024 period. Eric & Hikmah (2025) also analyzed JCI responses to macro variables such as inflation, interest rates, and exchange rates, offering a deeper picture of short-term and long-term dynamics. The research Stability Analysis of Macroeconomic Effect on The Jakarta Composite Index (2006-2021) added that besides GDP, commodity variables such as gold and oil prices also affect the JCI and there are changes in regression stability over time (Ningrum & Mustafa, 2023). In Covid-19 research, (Aryani & Maupula, 2021) tested the effects of the pandemic, inflation, and interest rates in the 2020 period (before and after LSSR), and found that all three variables affected the JCI partially and simultaneously. From the causality side, research by Yolanda & Samsuddin (2025) using the VECM model found a long-term relationship between variables - although short-term causality effects are not always significant with inflation variables being the most responsive variable in correcting long-term disequilibrium.

Based on this literature review, there are still research gaps that have not been comprehensively answered. Recent research using the post-Covid-19 pandemic period and the global monetary policy tightening phase (2022–2025) is still limited, even though this period has new dynamics on JCI movements. In addition, most studies focus more on correlative relationships without testing causality between main macroeconomic variables such as

economic growth, inflation, and interest rates in depth. Previous research results also show inconsistencies, especially regarding the influence of inflation and interest rates on the JCI, where some studies find significant effects while others do not, even with different directions. This misalignment indicates other factors such as differences in research periods, methodological variations, and the influence of external variables such as global commodity prices that have not been fully considered.

Based on the description above, the desire to conduct this research is to understand the phenomenon. The objectives of this study are (1) to determine the direct influence of economic growth on JCI. (2) to determine the influence of inflation on JCI. (3) to determine the direct influence of interest rates on JCI. (4) to determine the adjustment mechanism (error correction) in the relationship between economic growth, inflation and interest rates with JCI. (5) to determine the causality relationship between economic growth, inflation and interest rates on JCI. Based on the description above, the researcher writes this article by examining test results proven observationally and accompanied by independent thinking supported by research results that have been conducted.

2. Literature Review

The development of the Jakarta Composite Index (JCI) is theoretically influenced by fundamental macroeconomic conditions, particularly economic growth, inflation, and interest rates. Fair value theory emphasizes that stock prices are basically determined by real economic performance and monetary policy, so changes in these variables have direct implications for capital market dynamics. In the context of inflation, the Quantity theory of money states that continuous price increases will affect purchasing power and production costs, thus impacting company profitability (Friedman, 1970). Moderate inflation is usually interpreted as a sign of healthy economic growth, but high inflation can reduce the real value of stock returns and suppress investment interest. Fisher Effect theory also explains that inflation rates are positively related to nominal interest rates, so investors demand compensation for inflation risk in the form of interest rate increases (Chen, 2015).

Meanwhile, the liquidity preference theory proposed by Keynes affirms that interest rate levels are determined by the interaction of money demand and supply. Rising interest rates encourage investors to move their assets to fixed-income instruments such as bonds or deposits, thus reducing demand for stocks and weakening capital market index performance (Brigham & Ehrhardt, 2017). Thus, theoretically, the relationship between economic growth and JCI is positive, while inflation and interest rates potentially have negative impacts, although their effects may differ in the short term and long term.

Empirical research results strengthen this theoretical framework, although they still show variations in findings. Suhartini & Widoatmodjo (2022) reported that inflation, exchange rates, and interest rates did not significantly affect the JCI in the 2016–2020 period, while other studies found that economic growth and foreign capital flows contributed positively, while inflation and interest rates tended to suppress stock indices. Research by Al-aboody (2023) showed that inflation, interest rates, and exchange rates significantly affected the JCI both partially and simultaneously in the 2017–2022 period, but different results emerged when the Covid-19 pandemic period was included, where short-term dynamics were more dominant.

In addition, analysis of relationships between variables in the short term can be strengthened with Granger causality tests, which can detect predictive directions between macroeconomic variables and JCI. This test provides important methodological contributions

although it is inferential and must be interpreted carefully (Zegarra-Mendez et al., 2021). Given that previous research results still show differences, especially regarding the influence of inflation and interest rates, and there have not been many studies that integrate the post-Covid-19 pandemic period and the global monetary tightening phase (2022–2025), the use of the ARDL approach combined with causality tests is expected to provide more comprehensive findings.

3. Methods

3.1. Types and Data Sources

This research uses secondary data in the form of annual data for the 2010–2024 period which is then transformed into quarterly data so that 14 observations are obtained. The variables used include the Jakarta Composite Index (JCI), economic growth, inflation, and the benchmark interest rate (BI Rate). Data was obtained from official sources namely Investing.com, the Central Statistics Agency (BPS), and Bank Indonesia (BI).

3.2. Population and Sample

The research population includes all Indonesian macroeconomic data related to research variables. The sampling technique uses purposive sampling, which is selecting data based on availability and suitability with research objectives.

3.3. Analysis Methods

This study uses inferential data analysis with Autoregressive Distributed Lag (ARDL) and Granger Causality techniques. ARDL is a combination of the Autoregressive (AR) and Distributed Lag (DL) models, which aims to account for long-term and short-term influences (Sukmana et al., 2025). Research using the ARDL model was also conducted by Rezeki & Indrawati (2022) to examine the influence of education, population, job seekers on employment opportunities in West Java, their research results show that the independent variables, namely education and job seekers have positive and significant effects on employment opportunities in the long term and population variables show negative and significant effects on employment opportunities in the long term. However, in the short term, all three variables have positive and insignificant effects. Therefore, from the explanation above, the following are the steps used in ARDL model estimation:

3.3.1. Stationarity Test

The unit root test, often referred to as the unit root test, is a method for ensuring that data is stationary. Stationary data does not contain unit roots, while non-stationary data contains unit roots (Dewi, 2022).

3.3.2. Optimal Lag Selection

Determining the optimum lag is a crucial step, with the goal of determining how many lags should be used in the ARDL model to achieve optimal estimation results. Several information criteria can be used to determine the optimal lag, including the minimum value of each criterion for each lag: LR, AIC, SIC, FPE, and HQ (Holifah and Laut, 2022).

3.3.3. Cointegration Test (Bound Test)

The ARDL Bounds Test approach allows cointegration testing without requiring all variables to be integrated at the first order (I(1)) as in the Johansen or Engle-Granger methods. Therefore, this method is very suitable for application to time series data that is a combination of stationary at the level (I(0)) and stationary after the first differentiation (I(1)), as long as no

variables are integrated at the second order (I(2)). With the criteria, if the F-statistic > Upper Bound, then H₀ is rejected, there is cointegration (long-term relationship) and if the F-statistic < Lower Bound, then H₀ is accepted, then there is no cointegration (Sukmana et al., 2025).

3.3.4. ARDL Model Estimation

According to Rezeki & Indrawati (2022), ARDL (Autoregressive Distributed Lag) model is used to examine or calculate long-term and short-term effects on dependent variables against unit changes in independent variable values. After long-term relationships are found, the ARDL model is used to calculate relationship dynamics. The general ARDL model can be written in equation form as follows:

$$y_t = \alpha + \sum_{p=1}^P \beta_p y_{t-p} + \sum_{q=0}^Q \delta_q x_{t-q} + \varepsilon_{it}$$

The ECM form of ARDL is:

$$\Delta y_t = \alpha + \sum_{p=1}^{P-1} \gamma_p \Delta y_{t-p} + \sum_{q=0}^{Q-1} \theta_q \Delta x_{t-q} + \lambda \cdot ECT_{t-1} + \varepsilon_t$$

Long Run Form obtained from:

$$JCI_t = a^* + \theta_1 \cdot PE_t + \theta_2 \cdot INF_t + \theta_3 \cdot SB_t + u_t$$

3.3.5. Normality Test

The normality test aims to determine whether the confounding variables or residuals in a regression model have a normal distribution. This study uses the Jarque-Bera test, a statistical method used to determine whether data exhibits skewness and kurtosis consistent with the characteristics of a normal distribution (Widarjono, 2018).

3.3.6. Heteroscedasticity Test

Heteroscedasticity refers to a situation where residual variances differ from each other. Inefficient estimation of regression coefficients, caused by heteroscedasticity, can lead to erroneous analytical findings (Widarjono, 2018). If the residuals or regression error values are heteroscedastic (have different variances), then the test indicates heteroscedasticity. If they are homoscedastic, then the model is considered valid.

3.3.7. Autocorrelation Test

Autocorrelation test is a statistical analysis that looks for relationships between variables in prediction models and how these variables change over time (Widarjono, 2018). Therefore, regression models free from autocorrelation are ideal models. This study uses the Breusch-Godfrey LM Serial Correlation Test as an autocorrelation test. The ARDL model, based on distributed lags, makes this test more flexible compared to the Durbin-Watson test.

3.3.8. Model Stability Test

Model stability test is an equation model that if used is stable then estimation results can be trusted very effectively. Generally, Recursive Residuals, which can be further classified into CUSUM Test and CUSUM of Squares Test, can be used to evaluate the stability of research model variables (Rezeki & Indrawati, 2022).

3.3.9. Granger Causality Test

Causality itself is a short-term relationship between certain groups, using econometric methods including reciprocal relationships. When one variable affects another variable (Syamputri, 2021). The model in causality testing can be written as follows:

$$Y_t = \sum_{i=1}^n \alpha_i Y_{t-1} + \sum_{j=0}^q \beta_j x_{t-j} + \varepsilon_t$$

If Probability < 0.05 (5%), then there is a causality relationship and if Probability > 0.05 (5%), then there is no causality relationship.

4. Results and Discussion

4.1. Research Results

4.1.1. Stationarity Test

Based on the results of the stationarity test seen from the ADF-Augmented Dickey Fuller value, which was carried out in this study, it is said to be stationary at the first difference level, namely the IHSG data, inflation, and interest rates, while economic growth is stationary at the mixed level, namely the level and first difference. Data is said to be stationary if Prob. ADF < 0.05.

4.1.2. Determining Optimum Lag

Based on the results of determining the optimum Lag, it can be said that Lag 1 was chosen in forming the ARDL (Autoregressive Distributed Lag) model estimation in the research that has been conducted.

4.1.3. Cointegration Test

There is a Boud Test cointegration which produces an F-statistic value of 5.70573 > Upper Bound 5.445, HO is rejected and there is a significant cointegration or long-term relationship.

4.1.4. ARDL Model Estimation

Table 1. Long-Term and Short-Term ARDL Results

Variable	Coefficient	Std.Error	t-Statistic	Prob.
ARDL Long Run Form				
PE	188.8415	90.66194	2.082919	0.0424
INF	2494.606	6599.870	0.377978	0.7070
SB	-7507.734	9090.887	-0.825853	0.4128
ARDL ECM				
C	1691,787	330.2947	5.122053	0.0000
D(JCI(-1))	0.301551	0.122896	2.453717	0.0177
D(PE)	15.01959	20.85919	0.720047	0.4748
CointEq(-1)*	-0.504954	0.102663	-4.918566	0.0000

Source: EViews12 Output (processed data), 2025

The long-term ARDL estimation results show that economic growth has a positive and significant influence on the JCI with a Prob. value of 0.0424, indicating that economic growth plays an important role for investors as a benchmark for making long-term investment decisions. Meanwhile, the inflation rate and interest rates do not have a significant influence in the long or short term, thus proving that the stock market tends to be influenced by real

economic fundamentals rather than monetary fluctuations. Meanwhile, the results of the Error Correction Model or ECM confirm that there is an error correction mechanism with a coefficient value of -0.504954 which is at a significant level, indicated by an adjustment of around 50.49% per observation period. However, when viewed from the short-term ARDL estimation results, no significant influence was found between economic growth and the JCI, indicating that the stock market is more dependent on temporary factors including monetary policy, market sentiment and global conditions.

4.1.5. Model Diagnostic Test

Table 2. Model Diagnostic Test Results

Diagnostic Model	Prob.
Normality (Jarque-Bera)	0.9549
Heteroscedasticity	0.2143
Autocorrelation (Breusch-Godfrey LM Test)	0.5137

Source: EViews12 Output (processed data), 2025

It can be said that the data in the study passed the model diagnostic tests, namely the normality test and the heteroscedasticity test, and there were no autocorrelation problems in the model. Because all three tests were at a significance level, with a p-value > 0.05, the model met the classical assumptions

4.1.6. Model Stability Test

Based on the results of the CUSUM and CUSUM of Squares model stability tests, it can be seen that the blue lines are both within the significance line or the 5% significance limit. This indicates that the regression model used was structurally stable during the observation period and there were no sudden structural changes in the model parameters.

4.1.7. Granger Causality Test

Table 3. Granger Causality Test Results

Null Hypothesis	Obs	F-Statistic	Prob.
PE does not Granger Cause JCI	59	2.79681	0.1000
IHSG does not Granger Cause PE	59	6.18348	0.0159
INF does not Granger Cause JCI	59	5.29467	0.0251
IHSG does not Granger Cause SB	59	1.23847	0.2705

Source: EViews12 Output (processed data), 2025

Based on the Granger Causality estimation, there is a one-way causal relationship from the Jakarta Composite Index (JCI) to economic growth, meaning that stock market movements are a leading indicator of the economy. However, for investors, the JCI movement can be used as a primary benchmark for assessing sustainable economic prospects. The causality from inflation to the JCI indicates that changes in inflation can preemptively affect the stock market. Investors should be aware of this; inflationary trends caused by inflationary pressures can reduce purchasing power and ultimately depress stock prices. This causal relationship can be strengthened based on the Prob. value, which is at a significance level <0.05. Meanwhile, the Granger Causality estimation did not find a two-way causal relationship between the JCI and interest rates or between economic growth and the JCI, indicating that the JCI value cannot be directly influenced by interest rate policies or economic

growth in the short term. This means that the Indonesian stock market is more sensitive to market expectations and inflation factors.

4.2. Discussion

4.2.1. The Impact of Economic Growth on JCI

Indonesia's economic growth has a positive and significant impact on the Jakarta Composite Index (JCI) in the long term, confirming that the Indonesian capital market is quite responsive to economic stability. This is indicated by increases in production output and national income. Good and positive economic growth will be a focus for investors, as increased corporate profits will influence stock prices and can also signal investors to invest for the long term. However, for the national economy, this relationship indicates that it will contribute to job creation and support future economic growth.

However, the economic growth variable has no significant impact on short-term JCI fluctuations. Therefore, market participants rely solely on market fluctuations, monetary policy, benchmark interest rates, and other indicators in the short term. Therefore, it can be concluded that economic growth is an important indicator for the JCI, as changes in the economic structure and the accumulation of corporate performance will be reflected in the capital market itself.

In addition to economic growth, inflation and interest rates are also significant macroeconomic factors affecting JCI movements. High inflation tends to reduce people's purchasing power and increase production costs, thus having a negative impact on company profits and stock prices, as found by Rahayu & Hutajulu (2023), which shows that inflation negatively affects the JCI. In the short term, the impact of inflation on stock indices is also influenced by the government's monetary policy response, so investors adjust their investment strategies according to current economic conditions. Meanwhile, high interest rate levels increase capital costs for companies and encourage investors to switch to safer instruments, thus suppressing the JCI, as explained by Tarigan et al. (2025) emphasizing that the influence of interest rates on stock indices is also highly dependent on economic conditions and monetary policies implemented. Thus, inflation and interest rate stability are important factors that must be considered by investors and policymakers to create an investment climate conducive to Indonesia's capital market, complementing the role of economic growth as a fundamental indicator of JCI.

4.2.2. The Impact of Inflation on JCI

During the observation period, inflation did not show a significant effect to consistently influence changes in the Jakarta Composite Index (JCI) both in the short term and long term. This indicates that investors may not make inflation the main indicator in investment decision-making, even when inflation is at a stable level. The Indonesian stock market's reaction to inflation tends to be relatively insensitive, although its directional movement remains positive.

This phenomenon occurs because inflation during the research period was within a relatively controlled and consistent range, so it did not shake investor expectations or cause significant purchasing power decline. In other words, inflation stability provides certainty for investors that economic growth can run sustainably. This condition encourages investor confidence in stable economic growth prospects, both in the short term and long term, so the stock market continues to show healthy movements and is not too affected by minor inflation fluctuations.

4.2.3. The Impact of Interest Rates on JCI

An increase in interest rate levels will generally increase borrowing costs, so theoretically it reduces the attractiveness of investment in the stock market. However, the results of this research show that interest rate changes do not have a significant effect on the Jakarta Composite Index (JCI) both in the short term and long term. This phenomenon can be explained through several factors. Market expectations of interest rates may have been previously reflected in stock price movements, so when interest rates rise, market reactions are relatively limited. Investors tend to pay more attention to other macroeconomic indicators that are considered more relevant for investment decisions, such as economic growth and inflation rates, because these factors have direct influence on company profit prospects and market sentiment in general.

Thus, interest rates are not the main factor driving JCI changes in this research. The insignificance of interest rate effects also shows that interest rate policies implemented during the research period were relatively stable and had been predicted by the market, thus reducing uncertainty elements that usually can trigger stock market volatility. Hence, although theoretically interest rate increases can reduce investment interest in the stock market, in the context of this research such effects are limited because the market has adjusted expectations and investor focus is more directed toward broader macroeconomic conditions and company fundamentals.

4.2.4. Error Correction Adjustment Mechanism Between Economic Growth, Inflation and Interest Rates with JCI

The economic growth variable had a positive and significant effect in the previous period, which would boost the JCI in the long term. Meanwhile, the inflation and interest rate variables were insignificant, indicating that inflation and interest rates have no significant impact on the JCI in the long term. These findings indicate that the model used has strong long-term correction capabilities. This indicates a balance in the dynamic relationship between macroeconomic factors. This adjustment mechanism, which will be corrected by 50.49%, may reflect the long-term relationship between variables within a valid model. Therefore, this can provide an assumption about the existence of a long-term equilibrium relationship within the system.

This will impact investors. Correcting these errors will provide confidence that the capital market is relatively more balanced and favorable in terms of long-term macroeconomic factors. This will also encourage investors to develop rational investment strategies that focus on long-term opportunities. Meanwhile, for the government and financial authorities, this underscores the importance of maintaining macroeconomic stability, as any policy changes will be reflected in the capital market in the long term. However, for companies, this situation presents an opportunity by utilizing the capital market as a source of long-term funding, which will ultimately increase productivity and create jobs.

4.2.5. Causal Relationship Between Economic Growth, Inflation and Interest Rates on JCI

The variable that does not have a causal relationship is economic growth on the JCI, this indicates that the stock market cannot directly respond to changes in GDP values in the short term and is only long-term, because data on economic growth in fact tends to be released quarterly, while data on the stock market is daily and is determined by future expectations. The Jakarta Composite Index (JCI) and economic growth have a causal relationship. This can also be linked to the statistical results of previous tests, because the relationship between the JCI and economic growth cannot be viewed from only one direction or statically. This means

that the JCI is one indicator used in short-term economic perception, while economic growth is one indicator that drives stock market value in the long term. The aim is to determine whether there is a reciprocal or causal relationship, with different time periods (short-term and long-term) or only viewed in one direction. Thus, this is vital for investors who consider the direction of influence between macroeconomic factors and the observed time period.

The Indonesian stock market is indicated to be quite responsive to changes in price conditions in the Indonesian economy. Therefore, the inflation rate deserves attention when analyzing the Jakarta Composite Index (JCI), especially in the short term. Therefore, this study reinforces the view that the results of the causality test using ARDL estimates imply that the stock market can predict increases in inflation or other factors, such as interest rates or global macroeconomic conditions, to mediate the effect of inflation on the JCI. Therefore, if inflation increases, the stock market will react through adjustments in stock valuations, which may indicate risk perception and monetary policy.

Further, there is a two-way relationship between the JCI and interest rates, implying that interest rate fluctuations have no direct impact on the JCI. This proves that investment decisions in the Indonesian capital market are shaped not only by interest rates but also by other macroeconomic factors such as inflation and economic growth. Hence, maintaining macroeconomic balance is key to the performance of the Indonesian capital market.

5. Conclusion

Based on the results of research conducted by the author, several key conclusions can be drawn regarding the relationship between macroeconomic factors and the Jakarta Composite Index (JCI). Economic growth demonstrates a significant influence on the long-term movement of the JCI, yet shows no effect on short-term changes in the index's value. This finding suggests that while investors should concentrate on other macroeconomic issues such as monetary policy and global market conditions for short-term considerations, economic growth serves as a valuable baseline indicator for long-term investment strategies. The inflation rate presents a different pattern, showing no significant impact on the JCI in either short or long-term periods. This absence of correlation indicates that investors should prioritize other macroeconomic factors that directly influence the stock market when making investment decisions, rather than depending solely on inflation rate indicators. Similarly, interest rates demonstrate no statistical correlation with JCI dynamics across both time horizons, suggesting that investors do not rely exclusively on interest rate movements to assess JCI changes. Instead, issuer performance and other macroeconomic variables ultimately determine investor decisions regarding portfolio adjustments.

The research reveals that through an error correction process, the long-term relationship between inflation, interest rates, and economic growth in the JCI undergoes correction over time. The analysis indicates that 50.49% of any imbalance occurring in the previous period will be adjusted in the subsequent period, providing investors with signals to develop stable and logical investment planning strategies. Furthermore, the study identifies significant causal relationships between the Jakarta Composite Index and economic growth, as well as between inflation and the JCI. However, no causal relationship was discovered between economic growth and the JCI, nor was there evidence of a bidirectional relationship between the JCI and interest rates in the short term. While inflation requires monitoring due to its capital market impact, the JCI can function as a leading indicator of economic growth. The absence of additional causal relationships highlights the dominance of external factors and policy influences in short-term market movements.

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