

# CHAPTER I

## INTRODUCTION

### 1.1 Identification Problem

The capital market plays a significant part in the public economy since it gives an outline in regards to the condition of the economy. It is also an alternative for raising public funds apart from the banking system. Based on market function, capital market is a meeting place between buyers and equity sellers at risk of profit and loss (Handiani, 2014). In a broad sense, investment is a sacrifice made right now determined to acquire a higher worth later on, as should be visible from information from the Indonesian Central Securities Depository (KSEI). In view of KSEI data November 30, 2020, the number of registered capital market investors reached 3.615 million investors. This number grew by 45.51 percent compared to the end of 2019, which was 2.484 million investors. From KSEI's data, it can be seen that investors in the capital market are increasing every year. As indicated by the Constitution Number 8 of 1995 about the Capital Market, which explains capital market activities in relation the Presentation and trading of securities to the public, public companyies relating into issued securities, as well as securities-related organizations and industries.

In view of information from the Otoritas Jasa Keuangan (OJK), the growth of retail investors in the stock market in the midst of the pandemic increased to 4.16 million from the 2019 position of 2.48 million. With Indonesia's population of

productive age of 189 million and the number of retail investors in the capital market at 4.16 million, the ratio is only around 2.2 percent. The ratio of the involvement of the Indonesian population who invests in the capital market is less than 5 percent, far behind the United States with a ratio of 55 percent, Singapore's 26 percent, and even Malaysia's 9 percent. Therefore, there is still a large space to develop retail investors in Indonesia. So it is hoped that in the future the number of domestic investors will continue to grow, and will no longer depend on foreign investors. The stock market plays an important role in financial intermediation in both developing and developing countries. In fact, it provides a platform for excess resources to target regional deficits. The development of a country requires resources from organizations and governments. The stock exchange is one way for companies to increase capital by selling it to investors. A sustainable economy is considered to have a beneficial stock market. Developing useful stock markets that are lacking in developing countries (Coleman,2008:306).

Even after adjusting for growth-related economic variables, the relationship between stock market development and economic growth appears to be inextricably linked. The stock market plays an important role in the transfer of funds from borrowers to investors, which is important for economic growth. In other words, the stock market plays a crucial role in driving economic growth by increasing the liquidity of financial assets and diversifying global risks, allowing investors to make smarter investment decisions. Make it easier. A well-functioning stock market strongly supports economic activity through growth and savings, efficient investment

allocation and the attraction of FDI (Foreign Direct Investment). The stock market builds the trust of savers by providing investable capital to domestic households, an innovation in financial products that helps diversify risk. Share better investment projects (Muhammad et al., 2012:97).

Investors' ability to understand and predict future macroeconomic conditions will greatly help them make profitable investment decisions. For this reason, investors need to consider some macroeconomic indicators to help investors make investment decisions. Macroeconomic indicators commonly associated with capital markets are changes in interest rates, inflation, rupee exchange rates, and gross domestic product. Theoretically, interest rates and stock prices are inversely proportional. Excessive interest rates can affect the value of a company's cash flow and make existing investment opportunities unattractive. This will increase the cost of capital incurred by the business and improve the return on investment of investors. Like inflation, high inflation is often accompanied by overheated economic conditions. In other words, in economic conditions, the demand for products exceeds the supply capacity, and prices tend to rise. Excessive inflation can lead to a decline in the purchasing power of money. In addition, high inflation also reduces the actual level of income investors receive from their investments (Tandelilin, 2010).

The conversion standard is a macroeconomic variable that also affects the level of price volatility. A depreciation of the domestic currency will increase exports. If the demand in the international market is elastic enough, it will increase the cash flow of domestic companies, thereby pushing up stock prices. On the other

hand, if the issuer buys gross domestic product and takes on debt in US dollars, the stock price will fall. (Suramaya et al., 2012).

Gross domestic product (GDP) is one factor influencing changes stock prices. Estimate GDP determines economic development. GDP comes from the amount of consumer goods that are not a means of production. As the number of consumer goods grows and the economy develops, the scale of merchandise sales grows because the community is a consumer. As sales increase, so does the company's profits. Increased profits lead to higher stock prices of the company (Suramaya et al., 2012).

In Indonesia the banking sector assumes a significant part in the Indonesian stock market, because the banking sector has large assets and market capitalization, thus attracting attention investors invest in banking sector. This should be visible from information from the Indonesia Stock Trade in 2020, in the first quarter of 2020 there were 10 banks with the largest assets, the total assets of these 10 banks reached Rp 6,017.59 trillion or representing 68.4% of the total assets. Indonesian banks. Table 1.1 is the information of saves money with the biggest resources in 2020:

**Table 1.1 Banks with the largest assets in 2020 in Trillion Rupiah**

No	Name Bank	Asset
1	Bank Rakyat Indonesia (Persero) Tbk	1,287.09
2	Bank Mandiri (Persero) Tbk	1,130.7
3	Bank Central Asia Tbk	953.7
4	Bank Negara Indonesia (Persero) Tbk	803.2
5	Bank Tabungan Negara (Persero) Tbk	308.1
6	Bank CIMB Niaga Tbk	271.8
7	Bank OCBC NISP Tbk	191.5
8	Bank Pan Indonesia Tbk	185.1
9	National Pension Savings Bank Tbk	184.9
10	Bank Danamon Tbk	178.3
	Total Asset	6,017.59

Source: [www.idx.co.id](http://www.idx.co.id) 2020

In view of table 1.1 it tends to be reasoned that Bank Rakyat Indonesia (Persero) Tbk has the largest assets in 2020. With the large assets owned by banks, it makes the performance of a bank better and banks can reduce the risk they will face in the future and make investors believe in investing their capital in the banking. Since stock market plays an important role economic growth and development the banking industry can be one of the government's targets to increase the number of investors.. Because the banking sector has large assets and also as a stabilization of the country's economy.

Bank Indonesia is one of the biggest national banks in Indonesia which has the obligation to implement monetary policy, namely controlling economic stability so that it does not experience inflation or deflation. The financial business is constantly connected with loan costs, trade rates, and furthermore expansion that influences stock costs. Banking assumes a significant part in controlling strength and the wheels of the economy in Indonesia, domestic banks are tasked with distributing credit, holding money, exchanging money, money trading, credit and remittances, while abroad banks play a role in controlling the rate of foreign exchange, trade, and also the monetary of a country.

The organization's inventory cost reflects the value of the organization in terms of people as a whole, assuming the organization's inventory cost is high, then at this point, the organization's value by local area is also very large and vice versa. Factors that affect stock price volatility, one of which is external factors. External factors are factors that come from outside companies, such as rising inflation, changes in exchange rates and interest rates. These elements will influence the public's interest and supply for the offers exchanged in the capital market so it can influence the stock cost of the organization, regardless of whether there will be an increment in stock costs or the other way around (Shabrina et al., 2018)

Several studies have shown that stock prices are heavily dependent on various macroeconomic fundamental variables such as interest rates, inflation and exchange rates. (Sidek, 2014). Studies show that there is an important relationship between exchange rates and stock prices. Some studies on emerging market stock markets and

exchange rates have shown that the relationship between stocks and the forex market is institutionally dependent and that stock prices react disproportionately to forex market events (Chaker, 2011). This is supported by Aggarwal's previous research (1981) shows there is significant causal relationship between exchange rates and stock prices. Likewise, fluctuations in interest rate structure are caused by changes in inflation expectations. Bashir and Hassan (1997:01) explain there is certain relationship between stock prices and changes in interest rates.

Furthermore, impact of changes in loan costs, expansion, unfamiliar trade rates and gross domestic product on bank stock prices is that changes in these macroeconomic variables can directly affect the bank's balance sheet. Tunc (2011) underscores this assumption that the interest rate sensitivity of a bank's common stock price depends on the amount of assumed net worth held by the bank. Nominal assets and liabilities affect the price of common stock through the redistribution effect of unexpected inflation and unexpected changes in expected inflation (James, 1984). Therefore, the public authority plays a significant part in expanding the quantity of homegrown financial backers, on the grounds that the public authority goes about as a macroeconomic regulator and the steadiness of the nation's economy.

## **1.2 Research Problem**

In accordance with the identification of the problems described previously, the definition of the issue in this review is as per the following: "Is there a significant

influence between interest rates, inflation and exchange rates on stock prices of the bank sector listed on the Indonesia Stock Exchange in 2011 - 2020?" .

### **1.3 Research Question**

Research questions in this exploration are as per the following :

1. What is the effect of the interest rate on the area banking stock at the Indonesian stock exchange?
2. What is the effect of the conversion standard on the area banking stock at the Indonesia stock trade?
3. What is the impact of inflation on bank value on the Indonesian stock market?

### **1.4 Research Aim**

The research objectives in this study are as follows :

1. To discover, test, and break down the effect of interest rates on the area banking stock at Indonesia stock trade.
2. To discover, test, and break down the effect of conversion scale on the area banking at Indonesia stock trade.
3. To discover, test, and break down the effect of inflation on the financial stock at the Indonesia stock trade.

## 1.5 Research Advantages

With the holding of this research, it is hoped that the following benefits will be provided:

### 1. Theoretical Benefits

- a. As a reason for growing further exploration for academics and scientists who are keen on the capital market.
- b. As a study material and contribute conceptually, especially regarding the capital market, macroeconomic variables, and stock price.

### 2. Practical Benefits

- a. As a reference for investors in buying or selling shares.
- b. This research is expected to help a company or government leader in determining policy.

