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Analysis of the Relationship Between Interest Rates, Inflation, and Exchange Rates on Stock Price Movements in KBMI 3 and 4 Banking Companies Listed on the IDX Period 2019–2023

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A B S T R A C T

Macroeconomic variables and monetary conditions are critical factors for investors in stock trading. Economic fluctuations, such as interest rates (BI Rate), exchange rates, and inflation, can significantly influence stock prices, including in the banking sector. This study examines the impact of macroeconomic variables on stock prices changes in KBMI 3 and KBMI 4 banks listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. Using a quantitative approach and multiple linear regression, 14 banking companies were analyzed, selected through purposive sampling. Results show that: (1) interest rates have a positive but insignificant effect on stock prices; (2) inflation has a positive and significant effect; and (3) exchange rates have a positive and significant effect on stock prices for KBMI 3 and KBMI 4 banks on the IDX.

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INTRODUCTION

The COVID-19 pandemic has significantly increased investment interest in Indonesia, particularly among the millennial generation, driven by technological advancements and the role of financial influencers in enhancing public knowledge about investment. By the end of July 2021, the number of investors in the capital market had surged by 93% compared to the previous year, with total funds raised from public offerings amounting to IDR 363.28 trillion (OJK, 2021). The capital market serves as a crucial platform for corporate funding and investment activities, playing a strategic role in driving a nation's economy, with stocks being the most dominant instrument (OJK, 2016). Stocks represent ownership in a company and are known as high-yield investment instruments, offering returns through capital gains and dividends. A company's dividend policy can influence investor perceptions and stock prices movements (Wijaya, 2014).

Stock investment is considered a high-risk, high-return instrument. While it offers the potential for substantial profits, it also carries significant risks. To manage these risks, investors need to conduct stock analysis using either fundamental approaches, which assess a company's performance, or technical analysis, which relies on historical stock price data (Bodie et al., 2021; Damodaran, 2012). Successful investment requires the ability to analyze company data using both approaches while also considering macroeconomic factors that may affect a company's performance. Positive macroeconomic growth, for example, has the potential to attract investors and drive corporate expansion, highlighting the importance of understanding these variables in investment decision-making (Kewal, 2012).

Interest rates and inflation are key macroeconomic variables closely linked to stock prices fluctuations. Changes in benchmark interest rates, such as Indonesia's BI7DRR, directly affect economic activities, including consumption, savings, and investments. Historically, interest rates have had a negative correlation with stock prices, emphasizing the importance of monitoring this variable (Tandelilin in Kewal, 2012). A rise in interest rates often prompts investors to shift funds from stocks to lower-risk instruments, such as deposits or bonds, which can reduce market activity and stock prices (Gujarati, 2006). This finding is supported by Samsul (2006), who observed that higher interest rates negatively impact stock prices as investors tend to prefer safer instruments. However, research by Rizky and Fadillah (2020) shows that, in certain periods, interest rates did not significantly affect banking stock prices in Indonesia, possibly due to market stability or policy interventions that reduce stock price sensitivity to interest rate fluctuations.

Research by Wismantara and Darmayanti (2017) indicates that rising interest rates can have positive effects under specific economic conditions. In stable macroeconomic environments, higher interest rates can enhance investor confidence in the banking sector, as they are seen as a signal of monetary stability. Similarly, Mardiana and Suyanto (2019) found that the impact of interest rates on stock prices in developing countries, such as Indonesia, is more pronounced compared to developed countries. This disparity stems from the higher dependence of developing economies on domestic monetary policies.

Inflation, defined as a sustained increase in the general price level of goods and services (Utari et al., 2016), is another critical factor influencing economic stability and stock markets. Both high and low inflation levels signal economic instability, a primary concern for investors, particularly in the stock market. Controlled inflation within reasonable limits is crucial for stimulating economic growth. According to Keynesian economics, inflation can prevent the Paradox of Thrift by encouraging consumption (Oner, 2021). Central banks, including Bank Indonesia, implement various strategies to manage inflation, such as the Inflation Targeting Framework adopted in 2005, which was later enhanced to the Flexible ITF post the 2008/2009 financial crisis.

The exchange rate is a crucial factor influencing stock prices, with Bank Indonesia's policies aimed at maintaining the stability of the rupiah in accordance with the mandate of Undang-Undang No. 3 Tahun 2004, focusing on reducing exchange rate volatility rather than targeting specific levels, in alignment with national economic stability goals (Bank Indonesia, 2023). Studies by Antonakakis et al. (2017) suggest that the impact of exchange rates on stock prices varies depending on the stability of a country's capital market. In developing nations like Indonesia, exchange rate volatility has a greater influence compared to developed countries with more stable financial markets.

Based on the aforementioned background, this study aims to analyze the relationship between interest rates, inflation, and exchange rates on the stock prices of banking companies classified under KBMI (Bank Group based on Core Capital) 3 and 4 on the Indonesia Stock Exchange. Banks in these categories play a significant role in managing public funds and distributing credit across various economic sectors. Their stock prices are often influenced by macroeconomic dynamics, such as inflation, interest rates, and exchange rates, making them ideal subjects for evaluating the impact of macroeconomic variables on the stock market. This research seeks to provide insights that benefit investors, regulators, and policymakers in addressing challenges within the financial sector.

LITERATURE REVIEW

Stock Price

Stock prices indicate how the market perceives a company's performance and future potential. They represent a firm's intrinsic value, which is calculated as the present value of its expected future cash flows, adjusted for the anticipated rate of return (Graham & Dodd, 2009; Damodaran, 2012). In financial markets, stock prices fluctuate based on the balance of supply and demand, which is influenced by fundamental factors, technical analysis, and market sentiment. The efficient market hypothesis, introduced by Fama (1970), suggests that stock prices incorporate all publicly available information, meaning price changes result from newly released data. Market efficiency is classified into three levels: the weak form, where prices reflect only past data; the semi-strong form, where they incorporate both past and publicly available information; and the strong form, where prices account for all data, including private information. Macroeconomic factors such as interest rates, inflation, and exchange rates affect stock prices by shaping expectations about corporate earnings and investment choices (Samsul, 2006; Mankiw, 2020).

Interest Rates

Interest rates are a key macroeconomic variable playing a crucial role in a country's economy and monetary policy. Interest rates represent the cost borrowers pay lenders for the use of funds, typically expressed as an annual percentage of the principal amount. Additionally, interest rates signify the return investors earn on certain financial instruments. They are used as a tool to control inflation, regulate money supply, and influence investment and savings levels in the economy (Mishkin, 2019; Mankiw, 2020).

Inflation

Inflation is a fundamental macroeconomic concept due to its impact on purchasing power, economic stability, and investment decisions. Inflation is defined as the sustained increase in the general price level of goods and services over a period, resulting in a decrease in the value of money. It refers to the overall and sustained rise in the price levels within an economy (Samuelson & Nordhaus, 2019; Mankiw, 2020). According to Mankiw (2020), inflation reduces the purchasing power of money and affects consumer behavior, business strategies, and government policies.

Exchange Rates

The exchange rate represents the value of one country's currency in relation to another's. It is a crucial economic factor that influences international trade, capital movements, and overall economic stability. By indicating the relative worth of a currency, exchange rates help assess a nation's competitiveness in the global market (Krugman & Obstfeld, 2018). These rates are determined by the balance of supply and demand in the foreign exchange market (Mankiw, 2020; Mishkin, 2019).

Relationship Between Interest Rates and Stock Prices

Interest rates significantly influence stock prices. Theoretically, the relationship between interest rates and s is negative. When interest rates rise, borrowing costs for companies increase, which suppresses profitability and stock values. Conversely, lower interest rates encourage investment growth by reducing capital costs (Modigliani & Miller, 1958; Gordon, 1959; Ross, 1976). Previous studies highlight the significant impact of interest rate fluctuations on banking sector stock prices. Lee and Miki (2017) observed a negative correlation between interest rates and stock prices in emerging markets, where lower interest rates increase the attractiveness of stocks as an investment. Narayan et al. (2015) emphasized that monetary policy related to benchmark interest rates affects stock prices in Asian countries, with higher rates leading to stock price declines due to rising capital costs. Similar findings were reported by Dewi and Hadi (2020) in Indonesia, where higher benchmark interest rates negatively affected bank stocks due to increased borrowing costs and reduced credit demand.

H1: Interest rates significantly influence the stock prices of banking sub-sector companies in KBMI 3 and KBMI 4 categories listed on the IDX.

Relationship Between Inflation and Stock Prices

According to classical finance theory, inflation impacts interest rates, which in turn affect corporate capital costs. High inflation is often addressed by central banks raising interest rates, reducing investor interest in stocks and shifting investments to safer instruments (Fama, 1981). However, moderate or controlled inflation can support positive economic growth, enhancing corporate performance, including in the banking sector. Research findings on the relationship between inflation and stock prices in the banking sector are mixed. Antonakakis et al. (2017) identified a non-linear relationship, where high inflation in developing countries, including Indonesia, reduced stock prices due to increased credit costs and lower profitability. Dewi and Hadi (2020) confirmed the negative impact of inflation on Indonesian bank stocks due to reduced consumer purchasing power and market liquidity pressures. Narayan et al. (2015) highlighted inflation's varied effects on economic sectors, with the banking sector adversely affected by rising operational costs. Conversely, Iqbal et al. (2022) found that moderate inflation could boost bank stock prices, while high inflation diminished investor confidence in economic stability.

H2: Inflation significantly influences the stock prices of banking sub-sector companies in KBMI 3 and KBMI 4 categories listed on the IDX.

Relationship Between Exchange Rates and Stock Prices

The relationship between exchange rates and stock prices has been the subject of extensive research due to its significance in the global economy. Theoretical models suggest that exchange rate fluctuations impact stock prices by influencing competitiveness, import/export costs, and investor expectations of corporate performance (Madura, 2021). In the banking sector, exchange rates are often linked to currency risk, affecting profitability and corporate stability. Kim and Nguyen (2020) found that local currency appreciation in developing countries increased banking sector stock prices by enhancing international financing capacity and reducing foreign debt costs. Dewi and Hadi (2020) demonstrated that rupiah depreciation against the U.S. dollar negatively affected Indonesian bank stock prices due to heightened foreign exchange risks and declining investor expectations. Narayan et al. (2015) emphasized that exchange rate fluctuations significantly impact banking sector stocks, especially in countries heavily reliant on foreign funding. Iqbal et al. (2022) noted that the impact of exchange rate fluctuations could be positive with effective hedging policies but negative if foreign exchange risks are poorly managed.

H3: Exchange rates significantly influence the stock prices of banking sub-sector companies in KBMI 3 and KBMI 4 categories listed on the IDX.

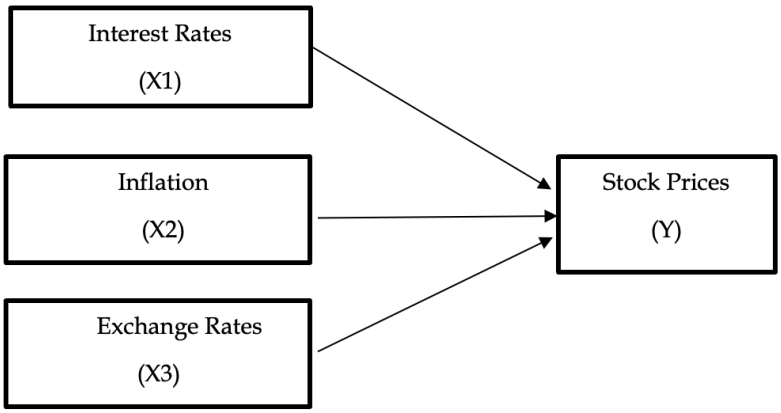

Figure 1. Conceptual Framework

METHODOLOGY

This study was conducted on banking companies that are publicly listed on the Indonesia Stock Exchange (IDX). The population in this research comprises banks classified under the Core Capital Bank Group (Kelompok Bank dengan Modal Inti, KBMI) categories 3 and 4, listed on the IDX from 2019 to 2023, totaling 13 banking companies. The sampling technique employed is saturated sampling, meaning the entire population in this study is used as the sample. The following is the list of banking companies included as the research sample:

Table 1. Banks Classified Under KBMI Categories 3 and 4

No	Code	Issuer Name	Category
1	BBCA	PT Bank Central Asia Tbk.	KBMI 4
2	BBNI	PT Bank Negara Indonesia Tbk.	KBMI 4
3	BBRI	PT Bank Rakyat Indonesia Tbk.	KBMI 4
4	BBTN	PT Bank Tabungan Negara Tbk.	KBMI 3
5	BDMN	PT Bank Danamon Indonesia Tbk.	KBMI 3
6	BMRI	PT Bank Mandiri Tbk.	KBMI 4
7	BNGA	PT Bank CIMB Niaga Tbk.	KBMI 3
8	BNII	PT Bank Maybank Indonesia Tbk.	KBMI 3
9	BNLI	PT Bank Permata Tbk.	KBMI 3
10	BTPN	PT Bank BTPN Tbk.	KBMI 3
11	MEGA	PT Bank Mega Tbk	KBMI 3
12	NISP	PT Bank OCBC NISP Tbk.	KBMI 3
13	PNBN	PT Bank Pan Indonesia Tbk.	KBMI 3

Source: Processed Data, 2024

This study uses secondary data collected through the official government websites: www.idx.co.id , www.bi.go.id , and www.bps.go.id . As these are official sources, the data obtained is reliable and accountable. The data analysis technique applied in this research is panel data analysis, utilizing EViews 12 software as the data processing tool.

RESEARCH RESULT

The data used in this study is panel data, which combines cross-sectional and time-series data. The cross-sectional data includes all banks classified under KBMI categories 3 and 4 listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, totaling 13 companies.

Table 2. Results of Descriptive Statistical Tests

	STOCK PRICE	BID PRICE	ASK PRICE	INFLATION	INTEREST RATE
Mean	7.642795	14574.03	14720.47	2.903333	4.401500
Median	7.757897	14407.11	14551.90	2.700000	4.225000
Maximum	10.34013	16285.17	16448.84	5.950000	6.910000
Minimum	4.927254	13593.69	13730.31	1.320000	2.960000
Std. Dev.	1.018817	557.8834	563.5164	1.288620	1.193143
Observations	840	840	840	840	840

Source: Processed Data Results from E Views 12, 2024

Table 2 presents the range and distribution of various financial variables. The Stock Price Ratio varies between 4.93% and 10.34%, with a standard deviation of 1.018817, which is lower than the mean value of 7.757897, indicating a well-distributed dataset. The Purchase Price ranges from 13.6% to 16.3%, with a standard deviation of 557.8834, also lower than the mean of 14.574, suggesting a balanced data distribution. Similarly, the Selling Price falls between 13.7% and 16.4%, with a standard deviation of 563.516, which is less than the mean of 14.720, reflecting consistent data quality. The Inflation variable fluctuates from 1.320% to 5.950%, with a standard deviation of 1.2886, which is lower than the mean of 2.903, demonstrating a well-spread dataset. Lastly, the Interest Rate ranges from 2.960% to 5.916%, with a standard deviation of 1.193, smaller than the mean value of 4.403, further confirming a stable data distribution.

Panel Data Regression Models

The panel data regression analysis in this study employs three approaches: the common effect model, the fixed effect model, and the random effect model. The common effect model assumes that both the intercept and slope are constant over time and across individuals. The regression results for the common effect model in this study are presented in Table 3**.**

Table 3. Common Effect Model Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.943512	1.137045	7.865576	0.0000
BID_PRICE	0.187041	0.221525	0.844335	0.3987
ASK_PRICE	-0.185280	0.219319	-0.844796	0.3985
INFLATION	0.042523	0.033149	1.282798	0.1999
INTEREST_RATE	0.007847	0.034163	0.229695	0.8184
Root MSE	1.015557	R-squared		0.005205
Mean dependent var	7.642795	Adjusted R-squared		0.000439
S.D. dependent var	1.018817	S.E. of regression		1.018593
Akaike info criterion	2.880656	Sum squared resid		866.3385
Schwarz criterion	2.908831	Log likelihood		-1204.875
Hannan-Quinn criter.	2.891454	F-statistic		1.092204
Durbin-Watson stat	0.014716	Prob(F-statistic)		0.359147

Source: Processed Data Results from EViews 12, 2024

The fixed effect model assumes that the behavior of data across companies is consistent over different time periods. The regression results for the fixed effect model in this study are provided in Table 4**.**

Table 4. Fixed Effect Model Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.943512	0.359178	24.89998	0.0000
BID_PRICE	0.187041	0.069977	2.672903	0.0077
ASK_PRICE	-0.185280	0.069280	-2.674362	0.0076
INFLATION	0.042523	0.010471	4.060940	0.0001
INTEREST_RATE	0.007847	0.010792	0.727142	0.4673

Root MSE	0.318294	R-squared	0.902280
Mean dependent var	7.642795	Adjusted R-squared	0.900259
S.D. dependent var	1.018817	S.E. of regression	0.321760
Akaike info criterion	0.591175	Sum squared resid	85.10130
Schwarz criterion	0.692605	Log likelihood	-230.2933
Hannan-Quinn criter.	0.630050	F-statistic	446.4596
Durbin-Watson stat	0.149808	Prob(F-statistic)	0.000000

Source: Processed Data Results from EViews 12, 2024

The random effect model accounts for differences in intercepts and slopes due to variations across individuals or objects. The regression results for the random effect model in this study are shown in Table 5**.**

Table 5. Random Effect Model Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.943512	0.448766	19.92914	0.0000
BID_PRICE	0.187041	0.070238	2.662963	0.0079
ASK_PRICE	-0.185279	0.069538	-2.664416	0.0079
INFLATION	0.042523	0.010510	4.045846	0.0001
INTEREST_RATE	0.007847	0.010832	0.724443	0.4690
Root MSE	0.320820	R-squared		0.049816
Mean dependent var	0.318406	Adjusted R-squared		0.045264
S.D. dependent var	0.329318	S.E. of regression		0.321779
Sum squared resid	86.45725	F-statistic		10.94435
Durbin-Watson stat	0.147458	Prob(F-statistic)		0.000000

Source: Processed Data Results from EViews 12, 2024

Panel Data Regression Analysis

Using regression estimation methods such as the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), along with model selection tests including the Chow Test, Hausman Test, and Lagrange Multiplier Test, the Random Effect Model (REM) was chosen as the most suitable approach for the panel data linear regression analysis. The resulting estimation model based on the REM is formulated as follows:

Table 6. R Square Test Results

Adjusted R Square: 0.045264
Substituted Coefficients: Y = 8.943 + 0.0007X1 + 0042X2 - 0,185X3+ e

Source: Processed Data Results from EViews 12, 2024

The panel data regression analysis results, as presented in Table 6, show an Adjusted R-Square value of 0.045264, indicating that the independent variables account for 45.2% of the variation in the dependent variable, while the remaining 54.6% is influenced by external factors not included in the model. The purchase price has a regression coefficient of 0.187, meaning a 1% increase in the purchase price leads to a 1.87% rise in the stock price. In contrast, the selling price has a regression coefficient of -0.185, suggesting that a 1% increase in the selling price results in a 1.85% decline in the stock price. The inflation coefficient is 0.042, indicating that a 1% increase in inflation raises the stock price by 0.42%. Similarly, the interest rate, with a coefficient of 0.007, implies that a 1% increase in the interest rate leads to a 0.07% rise in the stock price. These interpretations assume that all other independent variables remain unchanged.

Hypothesis Testing

The t-statistic test is used to determine the partial effect of variable X on variable Y.

Table 7. Results of the t-Test (t-Statistic)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.943512	0.448766	19.92914	0.0000
BID_PRICE	0.187041	0.070238	2.662963	0.0079
ASK_PRICE	-0.185279	0.069538	-2.664416	0.0079
INFLATION	0.042523	0.010510	4.045846	0.0001
INTEREST_RATE	0.007847	0.010832	0.724443	0.4690

Source: Processed Data Results from EViews 12, 2024

Based on Table 7, the following results were obtained:

a. Purchase Price: The probability value of 0.007 (<0.05) indicates a significant positive impact on stock prices. The positive t-statistic (2.662963) confirms that an increase in the purchase price leads to a rise in the stock prices of KBMI 3 and 4 banking companies listed on the Indonesia Stock Exchange (IDX).
b. Selling Price: With a probability value of 0.007 (<0.05), the results suggest a significant negative effect on stock prices. The negative t-statistic (-2.664416) indicates that an increase in the selling price leads to a decline in the stock prices of KBMI 3 and 4 banking companies on the IDX.
c. Inflation: A probability value of 0.0001 (<0.05) signifies a significant positive impact on stock prices. The positive t-statistic (4.045846) suggests that higher inflation contributes to an increase in the stock prices of KBMI 3 and 4 banking companies listed on the IDX.

d. Interest Rate: The probability value of 0.4690 (>0.05) indicates an insignificant effect on stock prices, despite being positive. The t-statistic (0.724443) suggests that fluctuations in interest rates do not have a statistically significant influence on the stock prices of KBMI 3 and 4 banking companies on the IDX.

DISCUSSION

The Effect of Interest Rates on Stock Prices of KBMI 3 and 4 Banking Companies Listed on the IDX

The regression analysis results indicate that the probability value for the interest rate is 0.4690 (>0.05), suggesting that the interest rate variable has an insignificant but positive partial effect on stock prices. The positive t-statistic value (0.724443) implies that an increase in interest rates would lead to a rise in the stock prices of KBMI 3 and 4 banking companies listed on the Indonesia Stock Exchange (IDX).

According to financial theory, higher interest rates generally increase a company's cost of capital and reduce profitability, which may subsequently lead to lower stock prices (Mishkin, 2019). However, in certain cases, the banking sector can benefit from rising interest rates, particularly when banks have strong net interest margins or the ability to adjust lending rates more rapidly than funding rates (Saunders & Cornett, 2018). In the context of these results, the insignificant effect of interest rates may be attributed to the flexible business strategies employed by KBMI 3 and 4 banks to adapt to interest rate changes. Additionally, macroeconomic stability and investor expectations for the banking sector in Indonesia may reduce the sensitivity of stock prices to interest rate fluctuations. Narayan et al. (2015) observed that the response of stock prices to interest rate changes can vary depending on the economic sector and market conditions. In the banking sector, the impact often depends on the structure of a bank's assets and liabilities. Iqbal et al. (2022) highlighted that in some emerging markets, the effect of interest rates on stock prices may become insignificant when other factors, such as macroeconomic stability or monetary policies, play a more dominant role. Dewi and Hadi (2020) found that in Indonesia, rising interest rates tend to negatively affect banking stock prices, but these effects are often mitigated by banks' strategies to adjust products and services to maintain profitability.

The Effect of Inflation on Stock Prices of KBMI 3 and 4 Banking Companies Listed on the IDX

The regression analysis results show that the probability value for inflation is 0.0001 (<0.05), indicating that the inflation variable has a significant and positive partial effect on stock prices. The positive t-statistic value (4.045846) suggests that an increase in inflation leads to a rise in the stock prices of KBMI 3 and 4 banking companies listed on the Indonesia Stock Exchange (IDX). In economic theory, moderate inflation is often considered a sign of stable economic growth, which can boost investor confidence in certain sectors, including banking. While excessive inflation may erode purchasing power and heighten economic uncertainty, controlled inflation levels can provide opportunities for banks to benefit from higher interest rates and profit margins (Mishkin, 2019).

In this context, the positive effect of inflation on banking stock prices in Indonesia can be interpreted as a market response to controlled inflation, which signals economic stability favorable to the banking sector. Furthermore, appropriate monetary policies can keep inflation at a level conducive to economic growth without causing adverse instability for the banking industry. Antonakakis et al. (2017) found that moderate inflation could enhance banking sector stock prices in developing countries, as banks can adjust their lending rates to maintain profitability despite rising living costs. Dewi and Hadi (2020) similarly observed that inflation in Indonesia has a positive effect on banking stock prices, as controlled inflation demonstrates economic stability, motivating investors to invest in the sector. Narayan et al. (2015) concluded that inflation's impact varies across economic sectors, with the banking sector being more sensitive to moderate inflation that boosts their interest income.

The Effect of Purchase Price on Stock Prices of KBMI 3 and 4 Banking Companies Listed on the IDX

The regression analysis results reveal that the probability value for purchase price is 0.0079 (<0.05), indicating a significant positive partial effect on stock prices. The positive t-statistic value (2.662963) suggests that a higher purchase price increases the stock prices of KBMI 3 and 4 banking companies listed on the Indonesia Stock Exchange (IDX). In the context of stock markets, a higher purchase price often reflects market confidence in the company's performance. According to stock market theory, an increase in purchase price is perceived as an indicator of brighter company prospects, which in turn raises demand for shares and drives stock prices higher. This aligns with the Efficient Market Hypothesis (EMH), which posits that stock prices reflect all available information, including investor expectations about the company's future performance.

Kim and Nguyen (2020) found that changes in purchase prices, particularly in the banking sector, significantly impact stock prices, as they often indicate positive developments in the company's performance and stability. Dewi and Hadi (2020) also observed that purchase price factors are critical predictors of stock price movements in Indonesia's banking sector, where higher purchase prices tend to enhance stock performance. Narayan et al. (2015) similarly noted that changes in purchase prices, especially in stable sectors like banking, positively affect stock prices, as investors often view purchase price trends as a measure of confidence in the company's management. Therefore, these findings are consistent with previous theories and studies, showing that higher purchase prices are considered a positive signal for investors, encouraging them to buy shares, which ultimately boosts the stock prices of banking companies. .

CONCLUSIONS AND RECOMMENDATIONS

Interest rates have a positive but insignificant effect on the stock prices of KBMI 3 and 4 banking companies listed on the Indonesia Stock Exchange (IDX). This suggests that while, in theory, an increase in interest rates may influence stock prices, the impact is not strong enough to significantly explain the variability of stock prices in this context. Inflation has a significant and positive effect on the stock prices of KBMI 3 and 4 banking companies listed on the IDX. This indicates that any increase in inflation has the potential to raise banking sector stock prices, even though inflation is typically associated with negative effects on the stock market in general. Exchange rates have a positive and significant effect on the stock prices of KBMI 3 and 4 banking companies listed on the IDX. This demonstrates that investors perceive an increase in purchase prices as a positive indicator, potentially reflecting financial stability and future profitability for these companies.

Banking companies should pay attention to Interest Rate Management. Although interest rates do not significantly affect stock prices, banks must manage interest rate fluctuations, particularly in investment decisions and operational costs, to maintain the perception of financial stability in the eyes of investors. Utilizing Inflation: Inflation has a positive effect on stock prices. Banks can leverage this condition by adjusting pricing and interest rate policies and transparently communicating how they manage inflation to attract investor interest. Exchange Rate Management: Positive exchange rates have a favorable impact on stock prices. Therefore, banking companies need to manage foreign exchange risks through effective hedging policies to mitigate the adverse effects of exchange rate fluctuations.

ADVANCED RESEARCH

Future researchers may explore the influence of other potentially more significant factors, such as government policies, banking regulations, or global factors like geopolitical uncertainties or economic crises. For more in-depth analysis, researchers can employ more complex models, such as time-series analysis or structural models, to identify long-term relationships between variables. This study is limited to KBMI 3 and 4 banking companies in Indonesia. Future research could include banking companies in other countries or other economic sectors to determine whether the results are consistent across different markets.

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