

CHAPTER I

INTRODUCTION

1.1 Background of Study

Recently, there have been various occurrences that have resulted in relentless turmoil in the world economy, starting from the COVID-19 pandemic which spread throughout the world that resulted in drastic changes in aspects of life, such as the existence of social distancing rules, communication methods that have changed a lot to online; people's consumption power has changed, and others. The changes that occur simultaneously throughout the world have made the crisis of economics. It affects various existing financial instruments in the money market and capital market, such as stocks, commercial paper, bonds, treasury bills, debt securities, and others. Especially stock markets around the world experienced deep price falls at the beginning of the pandemic, but over time some of them managed to rise again and even exceed their pre-pandemic prices, but some are still depressed because they were the most affected by this pandemic. One of them is the property sector. This sector is still depressed because until now Covid-19 is not yet known when it can be completely overcome, as well as macroeconomic conditions have not fully returned to normal.

On the other hand, while there is a sector that has not yet recovered due to the effects of the economic crisis, the opportunity to invest in attractive stock

appears. In doing an investment, it needs to have the ability to analyze various aspects that affect the stock prices of a company, so that it can maximize the level of profit that will be gained. According to Lo Kheng Hong, the way to determine the decision to invest in a company can be done by doing a fundamental analysis. Fundamental analysis is used by stock investors to take the right steps in investing so that their investments can grow (Bisnis, 2021). Aspects of fundamental analysis were global and national macroeconomic conditions, sectoral conditions, industry prospects, and microeconomic or the condition of the company itself. Current conditions are more inclined to uncertainty in global macroeconomic conditions, due to Covid-19 and the war between Ukraine and Russia that has spread with the participation of Europe, America, Russia, and several other countries imposing sanctions on each other, which has caused a significant increase in commodity prices. Sadono Sukirno, Robert S. Pindyck, and Daniel L. Rubinfeld stated macroeconomics has variables in the form of inflation, trade balance, unstable economic activity (exchange rate), level and average growth of national production, unemployment rate, and interest rates (Zaki Izzani Akbar, 2020). In this research, 3 macroeconomic variables will be used to find the effect on stock prices in the property sector.

The recent rising inflation has attracted the attention of many investors, because the higher the inflation rates, the smaller the purchasing power of the people in that country. Inflation causes the prices of goods and services to increase from time to time; this is due to the pressure on supply, demand, and the forecasting of inflation (BI, n.d.). Inflation must be controlled because it can

create uncertainty conditions that affect the decisions making of investors. Reflecting on empirical experience, unstable inflation will tend to cause a decline in economic growth because the level of production, consumption, and investment in the country decreases. Comparison of inflation between countries must also be considered because having a higher inflation rate than neighboring countries will cause uncompetitiveness to compete for investment from foreign investors (BI, n.d.). As most property companies have business that engages in the construction of houses that depend on building materials. So, high inflation will result in the price of building materials becoming more expensive and lead to high building costs (Indraini, 2022). With this situation, the company faces high building costs, but not able to increase the selling price, because it is not comparable to the purchasing power of the people in the country. So, it will lead to the decrease in company profit. The bad performance will decrease investors' interest in the stock of property companies and cause the stock prices down.

The next variable is exchange rate. Exchange rate has a role as a benchmark for the economic condition of a country. The high volatility of the exchange rate of a currency can disrupt the monetary and real sector in the country. Thus maintaining the stability of currency exchange rates needs to be done as an effort to achieve good and stable economic conditions. Based on Good Market theory (Fischer & Dornbusch, 1980), the fluctuation of exchange rate will affect the competitiveness of a company and its earnings as also the movement of the stock price.

In Indonesia, many property companies make loans using foreign currencies, which it was a risk to the company's sustainability and will affect the stock price of the company, as it increases the worries of investor. According to Jachinta Poh (Vice President and Senior Credit of Moody's), two out of three property companies in the Indonesia Stock Exchange have debt denominated in USD, while the company's income is denominated in Rupiah. This can weaken the company's ability to pay off its debts, especially Rupiah currency is quite volatile against the USD and property sales in Indonesia are still under pressure (Gumilar, 2020). With the condition of Rupiah weakening against USD, this can affect the performance of the company, because when paying debt, the company must pay more for the foreign exchange changes that occurs. Then, it will increase the debt expense and reduces company profits. This causes investors reluctant to invest in stock of property company, which causes the demand for property stock to decrease and the stock price will also decrease.

In Indonesia, interest rates are regulated by Bank Indonesia or commonly known as the BI rate. On 19 August 2016, the BI-7 Day Reverse Repo Rate (BI7DRR) was implemented to replace the BI rate to strengthen the framework for monetary operations. This adjustment was made to maintain the country's economic stability, such as inflation and money market. Interest rates have a reverse relationship with stock prices; aligned to the statement from (Manurung & Rahardja, 2004), which setting interest rates that are higher than expected stock returns will divert investors to put their money into low-risk investments, such as

deposits, savings, and bonds. Thus, the demand for stocks will decrease and cause stock prices to decrease, and vice versa (Larasati, 2021).

Other than the above mentioned factors, There are number of factors determine the stock price of the company such as performance of the company, company prospects in the future, government policy, etc. These factors affect stock prices because they can affect the interest of investors to invest in a company. As example: property companies get benefit from government policy that provide VAT exemption facilities up to 50% for buyers as regulated in the Minister of Finance Regulation (PMK) Number 6/PMK.010/2022. This policy is a positive sentiment for property companies, because it might increase people's ability to buy property, said Monica Koesnovagril (Head of Advisory at Colliers Indonesia) (Nurdifa, 2022). During the effective period of Minister of Finance Regulation (PMK) Number 6/PMK.010/2022, it has shown positive result, which is proofed by the sales of property in 2nd and 3rd quarter 2022 growth compared to last year's quarter (BI, n.d.). As government policy can increase the sales of property company, it might increase investor confidence that property companies have a good prospect as it can generate better performance, so it will attract investors to buy stock of property companies, which cause the demand for the stock to increase and lead to the increase of the stock price.

Table 1.1 Inflation, Exchange rate, Interest rate, and Stock Price During 2016- 2021

Period	Inflation (%)	Exchange Rate (Rp.)	Interest Rate (%)	Stock Price	
				PT. Summarecon Agung, Tbk (Rp.)	PT. Ciputra Development, Tbk (Rp.)
2016	3.02	13436	4.75	1325	1335
2017	3.61	13548	4.25	945	1185
2018	3.13	14481	6	805	1010
2019	2.72	13901	5	1005	1040
2020	1.68	14105	3.75	780	985
2021	1.87	14278	3.5	835	970

Source: Prepared by Writer (2022)

Table 1.1 shows the stock price movements of PT. Summarecon Agung, Tbk and PT. Ciputra Development, Tbk during the year 2016 - 2021. The table shows the fluctuation of the stock prices of these two companies, which are caused by fluctuations in Inflation, Exchange Rate, Interest rate, and the performance of the company itself. In the last 6 years, it shows that stock prices of both companies tend to decrease. Two years in a row in 2017 and 2018, there was a significant decline in share prices in both companies. In 2017, the economic weakening mentioned by Hans Kwee (Director of Investa Saran Mandiri) (Yusuf, 2022) and the company's declining performance were the cause of the decline in the stock prices of both companies. For the net profit in 2017, PT. Summarecon Agung, Tbk has decreased by 12% from the previous year and PT. Ciputra Development, Tbk faced a decrease of 12.44% from the previous year.

The rupiah exchange rate against the dollar in 2018 touched the 15,000 level on October 8, 2018, and then gradually dropped to the 14,000 level. According to the Minister of Finance, Sri Mulyani, the reason of the weakening of Rupiah was because the yield on state bonds or 10-year sovereign bonds belonging to the United States continued to strengthen to above 3.4%, which

generally does not exceed 3% (Prasongko, 2018). On the other hand, BI has increased the BI-7 Day Reverse Repo Rate (BI7DRR) 6 times during 2018 with a total increase of 175 points compared to the previous year and ended with BI7DRR 6%. According to Perry Warjiyo, this was done to maintain Indonesia's domestic economic stability amid global uncertainty, namely reducing the CAD (Current Account Deficit) to a safe level, as well as to strengthen the attractiveness of domestic financial assets by anticipating an increase in global interest rates in the next few months (Prima, 2018).

Still in 2018, Indra Prasetya stated that stock price of property companies had reached the bottom level, so it was difficult to get lower again (Putri, 2018). With the condition of high interest rates at the level of 6% and the weakening of Rupiah exchange rate, then in 2018 the share price of PT. Summarecon Agung, Tbk fell to the price of Rp.805 or decrease 14.8% from the previous year, even though it generates a slight increase in the sales and increase of net profit by 29.89%. A similar condition happened to PT. Ciputra Development, Tbk. Although PT. Ciputra Development, Tbk has experienced an increase in sales around 19.1% from the previous year, but its share price significantly decline to the price of Rp.1,010 or decreased by 14.77% from the previous year.

Compared to 2018, 2020 looks more depressed for the property sector. Because at the beginning of the Covid-19 pandemic, most people held their money on buying property, which shows from various housing price segments, only in the range of 1 - 2 billion rupiah experienced an increase in sales compared to 2019, while others experienced a sales decline of more than 20% and it is the

worst level of sales since 2013 said Ali Traghanda, CEO of Indonesia Property Watch (Lubis, 2021). According to Joey Faustina (Analyst at Sucor Security) the low rate of BI7DRR at 3.75% will increase the desire of people to buy property on credit and the condition of property companies are being able to survive in 2020 (Qolbi, 2020).

A lot of research has been done to find various variables that affect the stock price of a company. As research conducted by Gampito and Yeni Melia in 2022 entitled *Pengaruh Inflasi Dan Nilai Tukar Rupiah Terhadap Harga Saham Perusahaan Properti Efek Syariah* states that inflation and exchange rate have significant effect toward stock price of sharia securities property companies for the period 2010 - 2020. While the other research made by Stefani Chandra and Wilina Defia (2018) with the title *Pengaruh Suku Bunga, Pertumbuhan Ekonomi, Dan Nilai Tukar Terhadap Harga Saham Sektor Properti Dan Real Estate Yang Terdaftar Di Bursa Efek Indonesia (BEI) Periode 2010 - 2016* states that interest rate, GDP, and Exchange rate have significant effect toward stock price of property companies in period 2010 – 2016.

Based on those backgrounds, to better understand the above issues, then this research will be conducted with the title *The Effect of Inflation, Exchange Rate and Interest Rate Toward Stock Price of Property Companies Listed on the Indonesia Stock Exchange*.

1.2 Problem Limitation

The limitations of this research are:

1. The population used in this research is limited to property companies listed on the Indonesia Stock Exchange during 2016 - 2021.
2. The Exchange Rate considered in this research is limited only to Indonesia Rupiah towards US Dollar.
3. The variable focus in this research is limited to Inflation, Interest Rate, and Exchange Rate as the macroeconomics determinants

1.3 Problem Formulation

From the above background of study, several research problems can be formulated as follows:

1. Does the Inflation have a significant effect toward stock price of property companies listed on the Indonesia Stock Exchange for the period of 2016 – 2021 partially?
2. Does the Exchange Rate have a significant effect toward stock price of property companies listed on the Indonesia Stock Exchange for the period of 2016 – 2021 partially?
3. Does the Interest Rate have a significant effect toward stock price of property companies listed on the Indonesia Stock Exchange for the period of 2016 – 2021 partially?
4. Do Inflation, Exchange Rate and Interest Rate have significant effect toward stock price of property companies listed on the Indonesia Stock Exchange for the period of 2016 – 2021 simultaneously?

1.4 Objectives of the Research

Based on problem formulation, this research has objectives to:

1. To identify the significant effect of Inflation toward stock price of property companies listed on the Indonesia Stock Exchange for the period of 2016 – 2021 partially.
2. To identify the significant effect of Exchange Rate toward stock price of property companies listed on the Indonesia Stock Exchange for the period of 2016 – 2021 partially.
3. To identify the significant effect of Interest Rate toward stock price of property companies listed on the Indonesia Stock Exchange for the period of 2016 – 2021 partially.
4. To identify the significant effect of Inflation, Exchange Rate and Interest Rate toward stock price of property companies listed on the Indonesia Stock Exchange for the period of 2016 – 2021 simultaneously.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

1. Future Research

The result of this research can be a reference for the next student that is going to make a research on the same field.

1.5.2 Practical Benefit

1. Company

This research result is expected to become insight for property company to maintain their company stock price and make sure to keep the stock price

in stable rate while those variables in this research occur. So, it might be more attractive for market actor to buy the company stock.

2. Investor

Investor can use the result of this research as a consideration when they are analyzing the factors in this research toward the company that they consider to invest.

