International Journal of Business and Applied Economics (IJBAE)
Vol. 4, No. 4, 2025: 1941-1958

The Influence of the IHSG, BI Rate, Exchange Rate, and Indonesian Government Bond Yield on Foreign Portfolio Investment in Indonesia

Rio Ferdinand Simarmata[1*], Riko Setya Wijaya[2], Putra Perdana[3]
Universitas Pembangunan Nasional "Veteran" Jawa Timur, Indonesia
Corresponding Author: Rio Ferdinand Simarmata
21011010105@student.upnjatim.ac.id

ARTICLEINFO

Keywords: Foreign Portfolio Investment, IHSG, BI Rate, Exchange Rate, Government Bond Yield

Received : 11, June
Revised : 27, June
Accepted: 29, July

ABSTRACT

Foreign portfolio investment in Indonesia refers to the placement of funds by foreign investors in domestic financial instruments. This study aims to analyze the influence of the Indonesia Composite Stock Price Index (IHSG), interest rate (BI Rate), exchange rate, and the yield of Indonesian government bonds on foreign portfolio investment, both in the short and long term. The data were obtained from Bank Indonesia, BPS, and Investing.com, covering the period from the first quarter of 2014 to the fourth quarter of 2023. The study employs a quantitative approach using the Error Correction Model (ECM) method. The results show that in the long term, the IHSG and exchange rate have a positive and significant effect, while in the short term, only the BI Rate shows a positive and significant influence.

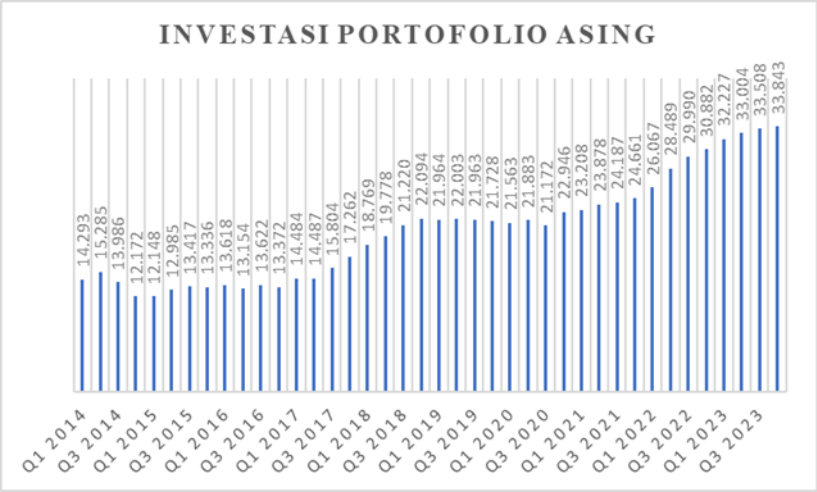
DOI: https://doi.org/10.55927/ijbae.v4i4.216
ISSN-E: 2963-6124
https://nblformosapublisher.org/index.php/ijbae

INTRODUCTION

The Portfolio investment refers to the allocation of funds into various financial instruments, such as stocks in the capital market and debt securities or bonds, with the primary objective of generating returns in the form of dividends, interest, or capital gains from asset value appreciation (Hady, 2020). This type of investment is characterized by its flexibility and high liquidity, allowing investors to buy and sell assets quickly in response to market dynamics. Foreign portfolio investment, meanwhile, is recorded in the international investment position and reflects foreign ownership of domestic financial assets. The inflow of foreign portfolio investment plays a crucial role in providing additional funding sources or liquidity that supports economic activities and national development. Such capital inflows contribute to enhancing economic activity, generating employment, and fostering productivity and economic growth in the host country (Jamil et al., 2021).

Investor decisions to allocate funds in a country's portfolio instruments are significantly influenced by pull factors—various aspects that affect the potential return on investment. Macroeconomic indicators of the host country, such as the rate of return, country risk, and overall economic stability, are key considerations in the decision-making process. Investors are generally more inclined to invest in portfolio instruments, such as stocks and bonds, when a country demonstrates economic stability and favorable growth prospects (Koepke, 2019).

According to the Indonesian Economic and Financial Statistics report, foreign portfolio investment in Indonesia—particularly in stock and bond markets—has experienced substantial growth over the past decade, especially during the period from the first quarter of 2014 to the fourth quarter of 2023.



Source : Bank Indonesia

Figure 1. Foreign Portfolio Investment in Indonesia

The increase in foreign portfolio investment in Indonesia cannot be separated from the role of pull factors, which signal the potential returns investors may gain when allocating their funds in portfolio instruments within the country. One of the key factors attracting such investment is the Indonesia Stock Exchange Index / IHSG, which serves as a primary indicator of the

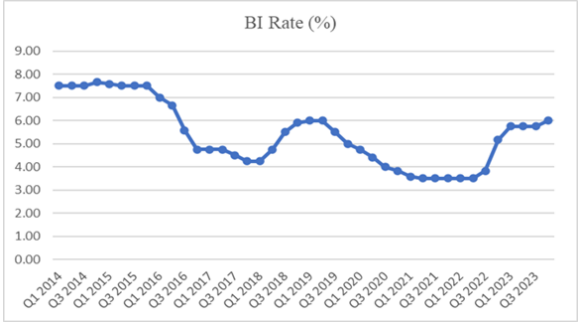
performance of Indonesia's capital market. The IHSG is commonly used by investors to assess the profit potential of equity investments in Indonesia.

Source : Investing . Com

Figure 2. The Development of the Indonesia Stock Exchange Index (IHSG) in Indonesia, Q1 2014 – Q4 2023

Over the past decade, the Indonesia Stock Exchange Index / IHSG has experienced three significant corrections, occurring in 2015, 2018, and 2020. The corrections in 2015 and 2018 were driven by a slowdown in domestic economic growth and the monetary tightening policy implemented by the Federal Reserve, which led investors—including foreign investors—to engage in sell-offs (Kevin, 2018a). According to a CNBC report, throughout 2018, foreign investors recorded a net sell of IDR 50.75 trillion (Kevin, 2018b). In 2020, pressure on the IHSG was triggered by the COVID-19 pandemic, which created global uncertainty and led to several temporary trading halts on the stock exchange.

Despite these periods of pressure, the IHSG has maintained an overall positive growth trend throughout the last decade. This indicates that Indonesia's capital market has a strong foundation and resilience in the face of challenging conditions. The improving performance of the IHSG has also strengthened foreign investor confidence in the prospects of the national stock market. Moreover, this growth trend has become an attractive factor for global investors seeking portfolio diversification opportunities with promising returns in the Indonesian equity market.

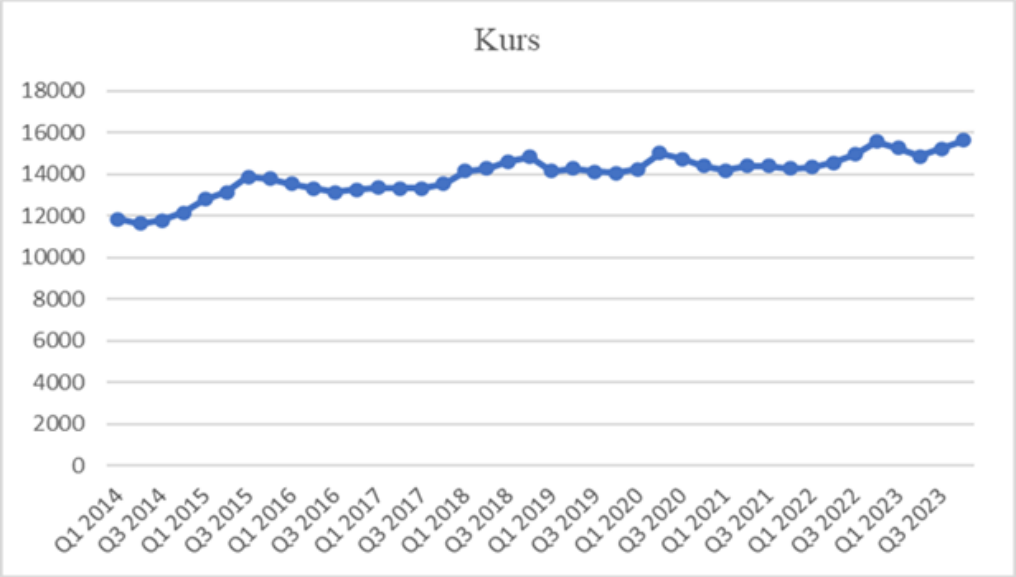


Source : Badan Pusat Statistik

Figure 3. BI Rate / Interest Rate in Indonesia

Based on the available data, the BI Rate—Indonesia's benchmark interest rate set by Bank Indonesia—experienced a significant increase throughout 2022 and 2023. This rise was a response to the increasingly tight monetary policies adopted by advanced economies, particularly the United States, which is expected to maintain high interest rates for an extended period ("higher for longer") in an effort to curb domestic inflation. This situation has led to capital outflows from Emerging Market Economies (EMEs) toward financial instruments in advanced economies, which are perceived as safer, such as U.S. Treasury securities ank Indonesia, 2023).

The BI Rate also plays a crucial role in determining the attractiveness of investment, as it provides an indication of potential returns in the future. A study by Sihombing & Sundoro, 2017) revealed that increases in interest rates significantly affect bond yields. Therefore, changes in the BI Rate can have a direct impact on investor interest—both domestic and foreign—in allocating funds within Indonesia's financial markets.



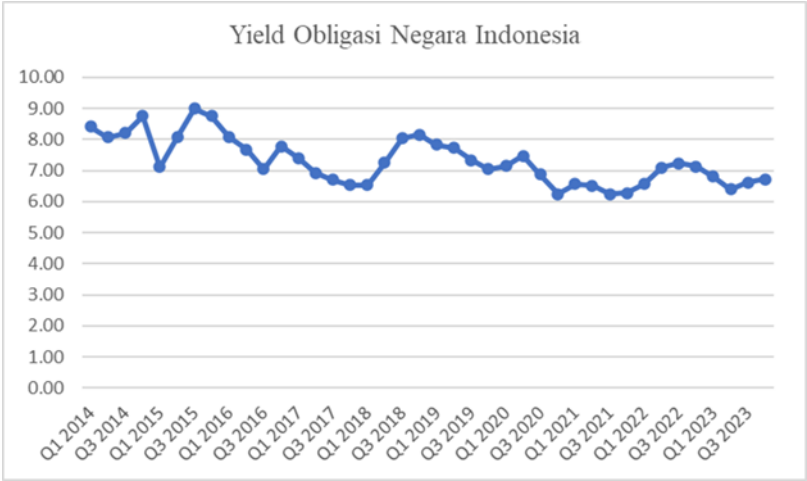
Source : Bank Indonesia

Figure 4. Exchange Rate Trends

The exchange rate is one of the crucial elements influencing foreign investors' decisions to allocate capital into portfolio instruments. During the period from the first quarter of 2014 to the fourth quarter of 2023, the Rupiah exchange rate exhibited significant volatility, with a general tendency to weaken against the U.S. dollar. One of the main drivers of this trend was global economic uncertainty and the tightening monetary policy implemented by the United States through increases in the Federal Reserve Rate, as reflected in 2018 when the Rupiah depreciated to its weakest point (Wahid & Chaidir, 2025).

This situation presents additional challenges for foreign investors, as returns from domestic investments—whether in the form of dividends or capital gains—lose value when converted back into their home currency, namely the U.S. dollar. Currency depreciation is a major deterrent to portfolio investment in developing countries, as it can reduce the expected net returns for investors. Moreover, exchange rate instability can trigger substantial capital outflows,

ultimately threatening the stability of the national financial sector (Lindelwa Makoni, 2020).



Source : Investing. Com

Figure 5. Trends in Indonesian Government Bond 10 Years Yields

The yield on Indonesian government bonds is one of the key indicators that can influence foreign investors' interest in investing in the national financial market. As part of the group of emerging market economies, Indonesia tends to offer higher bond yields compared to developed countries such as the United States. This yield differential reflects a higher level of risk but also serves as a strong attraction for international investors seeking high returns (Rahmawati & Makaliwe, 2021). During the 2014–2023 period, the movement of government bond yields was strongly influenced by the benchmark interest rate (BI Rate) set by Bank Indonesia. This policy not only responds to domestic inflation but also takes into account global dynamics, particularly the monetary policy of the Federal Reserve. For instance, in 2022–2023, Bank Indonesia raised its policy rate in response to rising U.S. Treasury yields to prevent capital outflows .

The significant increase in foreign portfolio investment, commonly referred to as "hot money," over the past decade has become a critical concern for the government and domestic policy authorities. Anticipatory measures are needed to prevent a large-scale outflow of such funds, which could destabilize and disrupt the domestic financial markets. A similar event occurred during the Asian financial crisis in 1997, when Indonesia's capital market came under severe pressure due to substantial foreign capital flight, triggered by a regional crisis and the contagion effect spreading across Asian economies (Muntasir, 2015). Given this background, this study is considered important in examining and identifying the key factors that drive foreign portfolio investment into Indonesia. The research aims to assess the extent to which each pull factor influences the flow of portfolio investment funds in the form of securities in the national financial market. The findings of this study are expected to provide strategic insights for policymakers in formulating effective measures to attract and sustain

foreign portfolio inflows, thereby supporting the stability of Indonesia's financial system.

LITERATURE REVIEW

Investment

According to (Hartono, 2022), investment is a form of commitment involving the allocation of funds or other resources in the present with the goal of obtaining future benefits or returns. By allocating capital to productive assets, investors expect a growing rate of return over time, which can ultimately enhance economic well-being through the gains generated from the investment.

Portfolio Theory

According to (Hady, 2020) , one of the main motivations for engaging in portfolio investment is the desire to achieve higher returns. In a global context, investors from one country tend to invest in stocks or bonds in other countries that offer more competitive return potential. Additionally, diversification strategies are also an important consideration in international portfolio investment.

Fisher Separation Theory

Fisher Separation Theory explains that interest rates serve as the primary reference in investment and consumption decisions, both for individuals and firms. In practice, firms will undertake investment projects that offer returns exceeding the prevailing interest rate (Arifin, 2005). In the context of this study, individual investors tend to choose financial instruments that provide returns higher than the prevailing interest rate, such as high-yield bonds.

Portfolio Investment

portfolio investment refers to capital flows in the form of financial assets such as stocks, bonds, and other commercial securities. This type of investment is characterized by high mobility, allowing capital to flow rapidly across countries through money markets and capital markets (Hady, 2020).

Indonesia Stock Exchange Index / IHSG

The Indonesia Stock Exchange Index / IHSG is the primary indicator used to measure the overall performance of the stock market in Indonesia. This index reflects the average price movement of all stocks listed on the Indonesia Stock Exchange (IDX). Since its introduction on April 1, 1983, the IHSG has become a vital reference for monitoring capital market dynamics and the national economic condition. In addition, the IHSG serves as a strategic benchmark for investors in assessing risks, evaluating potential returns, and making investment decisions. It is also frequently used as a benchmark for evaluating portfolio investment performance (Ervina et al., 2023).

BI Rate

The BI Rate, set by Bank Indonesia, serves as a benchmark for financial institutions—particularly banks—in determining interest rates for both lending and deposit products. This interest rate is announced regularly through the monthly Board of Governors Meeting. The BI Rate plays a strategic role in maintaining economic stability by controlling inflation, stabilizing the exchange rate, and supporting economic growth (Bank Indonesia, 2024).

In the context of foreign portfolio investment, especially in debt instruments such as bonds, an increase in the BI Rate leads to higher yields due to a decline in bond prices in the market. This condition makes Indonesian debt securities more attractive to foreign investors seeking high returns with relatively low risk (Samsul, 2006).

Exchange Rate

The exchange rate is a price indicator used in international trade and cross-border transactions. Specifically, the Rupiah to U.S. Dollar (USD) exchange rate represents the amount of Rupiah required to obtain one U.S. Dollar. For example, when the selling rate is at IDR 15,000 per USD, an investor must exchange IDR 15,000 to receive 1 U.S. Dollar (Ardiansyah & Wijaya, 2023).

Yield Indonesian Government Bonds

Bond yield refers to the rate of return earned by investors from holding a bond, expressed as a percentage of the bond's price (Sharpe et al., 1995). In the context of Indonesia, government bonds are debt instruments issued by the government as part of the State Budget (APBN) financing strategy. The yield on Indonesian government bonds is one of the key considerations in investment decision-making, as it reflects the income investors will receive from both coupon payments and price differentials.

With principal and coupon payments guaranteed by the state, these instruments are considered relatively safe and stable investments, making them attractive to foreign investors seeking exposure to Indonesian bonds. In addition to providing fixed income, government bonds also offer portfolio diversification benefits and contribute to financing national development (DJPPR, 2023).

Conceptual Framework

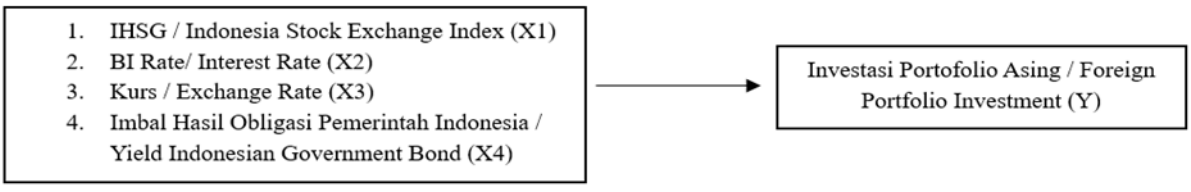


Figure 6. Conceptual Framework

Hypothesis

1. It is hypothesized that the Indonesia Stock Exchange Index /IHSG has a positive and significant influence on foreign portfolio investment in Indonesia.

2. It is hypothesized that the BI Rate has a positive and significant influence on foreign portfolio investment in Indonesia.
3. It is hypothesized that the exchange rate has a negative and significant influence on foreign portfolio investment in Indonesia.
4. It is hypothesized that the yield on Indonesian government bonds has a positive and significant influence on foreign portfolio investment in Indonesia.

METHODOLOGY

This research involves the analysis of numerical data using statistical methods. The study is conducted in Indonesia, with the object of study being foreign portfolio investment over a ten-year period, from the first quarter of 2014 to the fourth quarter of 2023. The data used in this study were obtained from various official sources. Bank Indonesia (BI) serves as one of the primary sources, providing data on the development of foreign portfolio investment, including exchange rates. Additionally, data on the benchmark interest rate or BI Rate were obtained from the Central Bureau of Statistics (BPS). Meanwhile, information such as the Jakarta Composite Index (IHSG) and government bond yields was sourced from the Investing.com website. Furthermore, the research technique used is the Error Correction Model (ECM) to examine the influence of pull factors on foreign portfolio investment in both the short and long term.

Error Correction Model

The Error Correction Model (ECM) technique, also known as the error correction model, is used to examine the long-term and short-term relationships or influences of variables within a model. However, before applying this technique, the data must meet specific requirements, namely passing the stationarity test and the cointegration test first (Sugiyanto et al., 2022). The model is as follows :

Long-Term Estimation :

$IPA = \beta 0 + \beta 1 IHSG + \beta 2 BI\ RATE + \beta 3 Kurs + \beta 4 Yield\ ONI$

Short-Term Estimation:

$d(IPA) = \beta 0 + \beta 1 d(IHSG) + \beta 2 d(BI\ RATE) + \beta 3 d(Kurs) + \beta 4 d(Yield\ ONI) + ECT(-1)$

Description :

d(IPA) =*Perubahan Investasi Portofolio Asing*/Diffrence Foreign Portoflio Investment

d(IHSG) = *Perubahan IHSG* / Diffrence Indonesia Stock Exchange Index (IHSG)

d(BI RATE) = *Perubahan BI Rate* / Diffrence BI Rate (Interest Rate)

d(Kurs) = *Perubahan Kurs* / Diffrence Exchange Rate

d(Yield ONI) = *Perubahan Yield Obligasi Pemerintah Indonesia* / Diffrence on Indonesian government bonds

$\beta 0$ = *Konstanta* / Constanta

$\beta 1, \beta 2, \beta 3, \beta 4$ = *Koefisien* / Coefficient

E*CT* = *residualt-1*/Error Correction Term

Stationarity Test

Uji The stationarity test is a crucial step in time series analysis, especially when using the Error Correction Model approach The primary objective of this test is to evaluate whether the data exhibit stable statistical properties over the observation period, such as the mean, variance, and covariance. A time series is considered stationary if these three characteristics remain constant over time (Wardhono, 2019).

Cointegration Test

Cointegration testing is an essential step in time series data analysis, aimed at preventing spurious regression and determining whether a long-term equilibrium relationship exists among the variables in an econometric model (Wardhono, 2019).

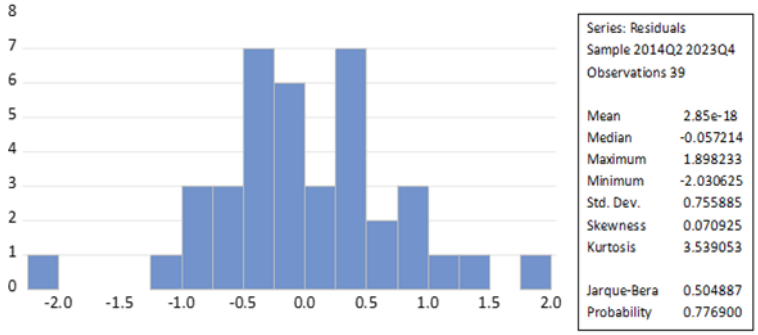
Classical Assumption Test

The classical assumption testing is a crucial step that must be fulfilled in a regression model to ensure that the resulting estimates are unbiased, consistent, and efficient. When these assumptions are met, the model is considered capable of minimizing errors and producing estimates with expected values that closely approximate the true population parameters (Wahyudi, 2020).

RESEARCH RESULT

Normality Test

The normality test is a method used to examine whether the residuals in a regression model are normally distributed. This test is important to ensure that the regression estimates are valid and reliable. Normality can be tested statistically, such as using the Jarque-Bera test, or visually through histograms and normal probability plots. If the data are normally distributed, then the classical assumptions of regression are considered to be satisfied.



Source: Eviews 12 Output

Figure 7. Normality Test

Based on the results of the normality test using the Jarque-Bera test, a value of 0.504887 was obtained with a probability (p-value) of 0.776900. Since the probability value is greater than the significance level of 0.05, it can be concluded that the residuals in the model are normally distributed.

Multicollinearity test

The multicollinearity test is conducted to evaluate whether there is a high correlation among the independent variables in a regression model. The presence of multicollinearity can be identified through the Variance Inflation Factor (VIF) values or by analyzing the correlation coefficients between variables. If the VIF value exceeds 10 or the correlation coefficients between variables are very high, it typically indicates signs of multicollinearity.

Variance Inflation Factors
Date: 05/23/25 Time: 16:11
Sample: 2014Q1 2023Q4
Included observations: 39

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.021744	1.288927	NA
D(IHSG_X1)	1.18E-07	1.468955	1.441702
D(BI_RATE_X2)	0.124556	1.250492	1.239570
D(KURS_X3)	2.49E-07	1.728066	1.589227
D(YIELD_ONI_X4)	0.079447	1.236076	1.227128
ECT(-1)	0.003395	1.248804	1.248699

Source: Eviews 12 Output

Figure 8. multicollinearity test

Based on the multicollinearity test above, the model is free from multicollinearity since the VIF values are well below 10.

Heteroskedasticity Test

Heteroskedasticity testing aims to determine whether the variance of the errors (residuals) in a regression model is constant (homoscedastic) or not. Inconsistent residual variance (heteroskedasticity) can lead to biased or inefficient estimation results. One commonly used method for testing this is the Breusch-Pagan test. If the test result shows a p-value greater than 0.05, it can be concluded that there is no indication of heteroskedasticity in the model.

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	0.910585	Prob. F(5,33)	0.4861
Obs*R-squared	4.728367	Prob. Chi-Square(5)	0.4499
Scaled explained SS	4.297854	Prob. Chi-Square(5)	0.5074

Source: Eviews 12 Output

Figure 9. Heteroskedasticity testing

In the heteroskedasticity test, the model has a probability value (Obs R-squared) of 0.4499, which exceeds the significance level of 0.05. Therefore, the model does not exhibit any indication of heteroskedasticity.

Autocorrelation Test

Autocorrelation testing is the process of determining whether there is a relationship or specific pattern between the residual values of one period and those of the previous period in a regression model. Autocorrelation often occurs in time series data and can lead to biased and inefficient estimation results.

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	1.873684	Prob. F(2,31)	0.1705
Obs*R-squared	4.205998	Prob. Chi-Square(2)	0.1221

Source: Eviews 12 Output

Figure 10. Autocorrelation testing

Based on the Serial Correlation LM test, the Chi-Square probability value is 0.1221, which exceeds the 0.05 significance level. This indicates that the model does not suffer from autocorrelation.

Long Run Estimation

Dependent Variable: INVESTASI_PORTFOFOLIO_Y
Method: Least Squares
Date: 05/22/25 Time: 17:45
Sample: 2014Q1 2023Q4
Included observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-43.33037	10.21461	-4.241999	0.0002
IHSG_X1	0.003811	0.000711	5.358394	0.0000
BI_RATE_X2	0.870024	0.493445	1.763161	0.0866
KURS_X3	0.003584	0.000590	6.072780	0.0000
YIELD_ONI_X4	-1.750217	0.936262	-1.869367	0.0700

R-squared	0.858545	Mean dependent var	20.61130
Adjusted R-squared	0.842379	S.D. dependent var	6.634408
S.E. of regression	2.633964	Akaike info criterion	4.891326
Sum squared resid	242.8219	Schwarz criterion	5.102436
Log likelihood	-92.82652	Hannan-Quinn criter.	4.967656
F-statistic	53.10704	Durbin-Watson stat	0.620989
Prob(F-statistic)	0.000000		

Source: Eviews 12 Output

Figure 11. Long Run Estimation Test (ECM)

1. Constant (C) of -43.33037 indicates that when all independent variables are held constant (at zero), foreign portfolio investment is -43.33037. With a probability value of 0.0002 ($p < 0.05$), this result is statistically significant and has a negative effect.
2. Indonesia Stock Exchange Index / IHSG (X1) has a positive and significant effect on foreign portfolio investment, with a p-value of 0.0000 ($p < 0.05$) and a coefficient of 0.003811. This means that an increase of 1 point in the IHSG will raise foreign portfolio investment by 0.003811.
3. BI Rate (X2) has a positive but not statistically significant effect, with a p-value of 0.0866 ($p > 0.05$) and a coefficient of 0.870024. This indicates that an increase in the BI Rate may raise foreign portfolio investment in Indonesia by 0.870024 however, the effect is not statistically significant.
4. Exchange Rate (X3) has a positive and significant effect, with a p-value of 0.0000 ($p < 0.05$) and a coefficient of 0.003584. This means that a depreciation of the rupiah by 1 unit will attract an increase in foreign portfolio investment by 0.003584.
5. Yield on Indonesian Government Bonds (X4) has a negative but not statistically significant effect, with a p-value of 0.0707 ($p > 0.05$) and a

coefficient of -1.750217. This indicates that a 1-point increase in the yield of Indonesian government bonds would reduce foreign portfolio investment by 1.750217 units; however, the effect is not statistically significant.

Short Run Estimation

Dependent Variable: D(INVESTASI_PORTFOFOLIO_Y)
Method: Least Squares
Date: 05/22/25 Time: 18:36
Sample (adjusted): 2014Q2 2023Q4
Included observations: 39 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.508894	0.147459	3.451076	0.0015
D(IHSG_X1)	0.000189	0.000344	0.549049	0.5867
D(BI_RATE_X2)	0.781367	0.352924	2.213979	0.0339
D(KURS_X3)	7.30E-05	0.000499	0.146370	0.8845
D(YIELD_ONI_X4)	-0.015040	0.281864	-0.053359	0.9578
ECT(-1)	-0.127860	0.058265	-2.194458	0.0353

R-squared	0.202582	Mean dependent var	0.501282
Adjusted R-squared	0.081761	S.D. dependent var	0.846472
S.E. of regression	0.811130	Akaike info criterion	2.559862
Sum squared resid	21.71177	Schwarz criterion	2.815795
Log likelihood	-43.91731	Hannan-Quinn criter.	2.651688
F-statistic	1.676717	Durbin-Watson stat	1.474647
Prob(F-statistic)	0.167734		

Source: Eviews 12 Output

Figure 12. Short Run Estimation

1. The constant (C) of 0.508894 indicates that when all independent variables are held constant (at zero), foreign portfolio investment amounts to 0.508894. With a probability value of 0.0015 ($p < 0.05$), this effect is statistically significant and positive.
2. The Indonesia Stock Exchange Index / IHSG (X1) has a positive but not statistically significant effect on foreign portfolio investment, with a p-value of 0.5867 ($p > 0.05$) and a coefficient of 0.000189. This implies that a 1-point increase in IHSG leads to an increase in foreign portfolio investment by 0.000189, although the effect is not significant.
3. The BI Rate (X2) has a positive and statistically significant effect, with a p-value of 0.0339 ($p < 0.05$) and a coefficient of 0.781367. This means that an increase in the BI Rate raises foreign portfolio investment in Indonesia by 0.781367.
4. The Exchange Rate (X3) has a positive but not statistically significant effect, with a p-value of 0.8845 ($p > 0.05$) and a coefficient of 7.30E-05. This suggests that a 1-unit depreciation of the rupiah would increase foreign portfolio investment by 7.30E-05, although the effect is not statistically significant
5. The Yield on Indonesian Government Bonds (X4) has a negative but not statistically significant effect, with a p-value of 0.9578 ($p > 0.05$) and a coefficient of -0.015040. This indicates that a 1-point increase in bond yields would reduce foreign portfolio investment by 0.015040, though the effect is not statistically significant.
6. The ECT (-1) coefficient is -0.127860 with a probability value of 0.0353 ($p < 0.05$), indicating a significant adjustment mechanism from short-term

disequilibrium toward long-term equilibrium. This means that approximately 12.7860% of the disequilibrium from the previous period is corrected in the current period. Since the probability value is significant at the 5% level, it can be concluded that the ECM model used is valid.

Coefficient of Determination (R^2) Test

LONG RUN ESTIMATION	
R-squared	0.8585
Adjusted R-squared	0.8424
SHORT RUN ESTIMATION	
R-squared	0.202582
Adjusted R-squared	0.0818

Source: Eviews 12 Output

Figure 13. The R-squared

- In the Long Run Estimation:
  The R-squared value of 0.8585 (or 85.85%) indicates that the independent variables (IHSG, BI Rate, Exchange Rate, and Yield on Indonesian Government Bonds) are able to explain 85.85% of the variation in foreign portfolio investment in the long run, while the remaining 14.15% is explained by other variables outside the model. The Adjusted R-squared value of 0.8424 corrects the R-squared for potential bias due to the number of variables, and still reflects a high explanatory power. Therefore, this long-run model demonstrates a very strong ability to explain the dependent variable.
- In the Short Run Estimation:
  The R-squared value of 0.202582 (or 20.25%) indicates that, in the short run, the variables IHSG, BI Rate, Exchange Rate, and Yield are able to explain only about 20.26% of the variation in changes in foreign portfolio investment. This means that approximately 79.75% of the variation is influenced by other factors outside the model, such as market sentiment, global external factors, or unexpected events. The Adjusted R-squared value of 0.0818 shows that, after adjusting for the number of variables, the explanatory power of the short-run model is relatively low. This is common in ECM models.

Simultaneous F-Test

LONG RUN ESTIMATION	
Prob (F-Statistic)	0.000000
SHORT RUN ESTIMATION	
Prob (F-Statistic)	0.167734

Source: Eviews 12 Output

Figure 14. Simultaneous F-Test

- In the Long-Run Estimation:
  The probability value of the F-statistic is 0.000000, which is far below the significance level of 0.05. This indicates that, collectively, the independent

variables—IHSG, BI Rate, Exchange Rate, and Yield on Indonesian Government Bonds—have a significant influence on foreign portfolio investment in the long run.

- In the Short-Run Estimation:
  The F-statistic probability value of 0.167734, which is higher than the significance level of 0.05, indicates that, collectively, the variables IHSG, BI Rate, Exchange Rate, and Yield on Indonesian Government Bonds do not have a significant impact on foreign portfolio investment in the short run.

DISCUSSION

The Influence of the IHSG on Foreign Portfolio Investment in Indonesia

Based on the estimation results for both the long-run and short-run periods, it is evident that the IHSG / Indonesia Stock Exchange Index contributes positively to foreign portfolio investment inflows in Indonesia. However, this effect is only statistically significant in the long run, while in the short run, it does not show strong significance. This suggests that foreign investors are more responsive to the IHSG as an investment-attracting factor over the long term rather than the short term. Looking at the IHSG's growth from Q1 2014 to Q4 2023, there has been a notable increase. The IHSG itself serves as an indicator of returns in Indonesia's equity market, so its upward trend reflects attractive profit potential for investors. According to (Janardana & Ibrahim Wiriandi, 2024), long-term investments tend to yield higher returns due to the compounding effect. A longer investment horizon allows the compounding process to work more effectively, highlighting the importance of patience and long-term planning in achieving optimal investment returns. Therefore, investors tend to place greater emphasis on the IHSG from a long-term perspective when making investment decisions, as it reflects the overall stability of the capital market.

The Influence of the BI Rate on Foreign Portfolio Investment in Indonesia

Based Based on the estimation results, it was found that the BI Rate is only significant in the short term, while in the long term it does not show statistical significance. This finding indicates that foreign investors are more sensitive to changes in the BI Rate over short time periods compared to the long term. This is likely due to the sharp and rapid fluctuations in the BI Rate between 2014 and 2023. Interest rates themselves are closely related to bond yields—when interest rates rise, bond prices in the secondary market tend to fall, which in turn increases bond yields.

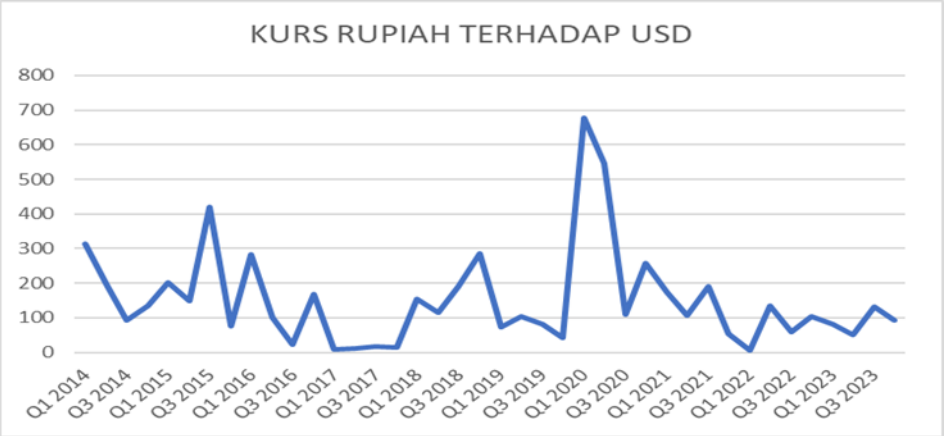
According to (Mishkin, 2008), bonds carry interest rate risk. He explains that investing in bonds involves the risk of changes in interest rates. For example, if an investor purchases a fixed-rate bond with a 4% yield and interest rates rise to 6% six years later, the investor faces two scenarios. If the bond is sold before maturity on the secondary market, its value will decrease, resulting in a loss. However, if the bond is held until maturity, the investor does not experience a nominal loss but misses the opportunity to earn higher returns due to the rise in interest rates. Therefore, in the context of portfolio investment, the BI Rate has a

more significant impact on foreign portfolio investment in Indonesia in the short term, especially because the BI Rate can experience sharp and sudden changes.

This finding is also consistent with the study by (Sihombing & Sundoro, 2017), which revealed that an increase in interest rates significantly affects the rise in bond yields, thereby attracting foreign portfolio investment to Indonesia.

The Influence of the Exchange Rate on Foreign Portfolio Investment in Indonesia

Based on the results of both long-term and short-term estimations, the exchange rate of the Indonesian Rupiah against the US Dollar has a positive relationship with foreign portfolio investment, although it is only statistically significant in the long term. This means that Rupiah depreciation can increase foreign portfolio investment in Indonesia. This occurs because a weaker Rupiah makes investment assets in the Indonesian capital market relatively cheaper for foreign investors. Moreover, investor confidence in the central bank's policy to maintain exchange rate stability is relatively strong, as can be observed through the following exchange rate standard deviation:



Source : Bank Indonesia (Data Processed)

Figure 15. Volatility Exchange Rate

From the image above, it can be seen that when the Rupiah experiences depreciation, the currency tends to strengthen again. This condition provides additional benefits for investors, not only from capital gains, coupons, or dividends, but also from favorable exchange rate differences. This aligns with the findings of (Syarifuddin, 2020), which emphasize the importance of maintaining exchange rate stability as a key strategy to preserve the attractiveness of foreign portfolio investment in Indonesia and to prevent sudden capital outflows that could harm the domestic financial market. However, in this study, the exchange rate variable is only significant in the long term, while it does not have a significant effect in the short term. This may be due to the fact that investors place more importance on the central bank's credibility in maintaining long-term exchange rate stability.

The Influence of Indonesian Government Bond Yields on Foreign Portfolio Investment in Indonesia

The results long-term and short-term estimations show that the yield of Indonesian government bonds does not have a significant effect on foreign portfolio investment. Although statistically insignificant in both periods, the government bond yield variable shows a negative relationship with portfolio investment. This suggests that an increase in yields tends to reduce the flow of portfolio investment. In theory, higher yields should attract foreign investors by offering more competitive returns. In Indonesia, rising yields are generally driven by increases in the BI Rate in response to hikes in the Fed Rate, aimed at preventing large-scale capital outflows from emerging markets like Indonesia and encouraging the return of foreign capital.

However, investors also take into account the level of risk reflected in bond ratings. As of now, Indonesian government bonds are rated BBB by Fitch Ratings (Puspasari, 2022), which is lower than the AAA rating assigned to government bonds of developed countries such as U.S. Treasuries. Research by (Wagdi & Salman, 2021) supports this view, stating that bond ratings significantly influence foreign portfolio investment flows, as these ratings reflect the level of risk considered by investors—particularly for instruments like government bonds.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Overall, the research results show that in the long term, the IHSG and exchange rate have a positive and significant effect on foreign portfolio investment in Indonesia, indicating that foreign investors respond to market indicators and exchange rate movements as signals of long-term investment prospects. Meanwhile, the BI Rate is only significant in the short term, reflecting the sensitivity of foreign investors to interest rate changes when making short-term investment decisions. As for bond yields, although they show a negative relationship, they are not proven to have a significant effect in either the long or short term.

Recomendation

Based on the research findings, it is recommended to maintain the stability of the Indonesia Stock Exchange Index / IHSG, especially during market corrections, through stock buyback policies without requiring shareholder approval and by tightening the listing requirements on the stock exchange. Bank Indonesia should also be responsive to global dynamics, such as increases in the Fed Rate and U.S. Treasury yields, while maintaining exchange rate stability to foster a conducive investment climate. Furthermore, the government is advised to strengthen economic fundamentals and fiscal governance to improve the country's sovereign credit rating, which is still less attractive to global portfolio investors.

ADVANCED RESEARCH

For This study focuses on pull factors, specifically domestic indicators. For future research, it is recommended to expand the variables by including external factors such as global monetary policy (e.g., the Fed Rate), U.S. Treasury yields, geopolitical conditions, and international market sentiment in order to provide a more comprehensive analysis of foreign portfolio investment

REFERENCES

Ardiansyah, A. F., & Wijaya, R. S. (2023). The effect of inflation, dollar exchange rate, ROA, and dividend payout ratio (DPR) on earnings per share (EPS) of IDX30 listed companies. JEMSI (Jurnal Ekonomi, Manajemen, dan Akuntansi), 9(4), 1550–1562. https://doi.org/10.35870/jemsi.v9i4.1383

Arifin, Z. (2005). Teori keuangan dan pasar modal. Ekonisia.

Bank Indonesia. (2024, September 3). Memahami suku bunga acuan BI: Kunci ambil keputusan keuangan yang tepat. Departemen Komunikasi BI. https://www.bi.go.id/id/publikasi/ruang-media/cerita-media/cerita-bi/pages/data-suku-bunga-bi-saat-ini.aspx

DJPPR. (2023). Surat utang negara: Pengertian, dasar hukum, dan tujuan penerbitannya. Direktorat Jenderal Pengelolaan Pembiayaan dan Risiko.

Ervina, N., Aswar, K., & Susanti, E. (2023). Variabel makroekonomi yang mempengaruhi pergerakan IHSG di masa pandemi COVID-19 (E. Damayanti, Ed.). Widina Bhakti Persada Bandung.

Hady, D. H. (2020). Ekonomi internasional: Teori dan kebijakan keuangan internasional (2nd ed.). Ghalia Indonesia.

Hartono, J. (2022). Portofolio dan analisis investasi: Pendekatan modul (2nd ed.). ANDI Yogyakarta.

Jamil, P. C., Hayati, R., & Makaliwe, P. U. A. (2021). Capital market and foreign investment in Indonesia. Business and Accounting, 4.

Janardana, K., & Wiriandi, D. I. (2024). The application of compound interest in investment portfolios. International Journal of Quantitative Research and Modeling, 5(4), 427–431.

Kevin, A. (2018a, April 28). Kondisi saat ini mirip 2015, IHSG bisa jatuh 25%. CNBC Indonesia.

Kevin, A. (2018b, December 30). Tembus Rp 50 T, nett sell asing tertinggi dalam 15 tahun. CNBC Indonesia.

Koepke, R. (2019). What drives capital flows to emerging markets? A survey of the empirical literature. Journal of Economic Surveys, 33(2), 516–540. https://doi.org/10.1111/joes.12273

Makoni, P. L. (2020). Foreign portfolio investments, exchange rates and capital openness: A panel data approach. International Journal of Economics and Business Administration, 8(2). https://orcid.org/0000-0002-9038-1411

Mishkin, F. S. (2008). The economics of money, banking, and financial markets (8th ed.). Pearson Education, Inc.

Muntasir, A. (2015). Cross-border portfolio investment and the volatility of stock market index and Rupiah's rate. Buletin Ekonomi Moneter dan Perbankan, 17.

Puspasari, R. (2022). Fitch Ratings mengafirmasi peringkat kredit Indonesia BBB outlook stable. Kementerian Keuangan Republik Indonesia.

Rahmawati, W. T., & Makaliwe, W. A. (2021). The effect of economic growth, corruption control, and yield on foreign investment in the SUN market. EKUITAS (Jurnal Ekonomi dan Keuangan), 5(2). https://doi.org/10.24034/j25485024.y2021.v5.i2.4550

Samsul, M. (2006). Pasar modal & manajemen portofolio. Penerbit Erlangga.

Sharpe, W. F., Alexander, G. J., & Bailey, J. V. (1995). Investment (5th ed.). Prentice-Hall Inc.

Sihombing, P., & Sundoro, H. S. (2017). The effect of macroeconomic factors and liquidity on the yield curve of Indonesian government bonds. Media Ekonomi, 25, 117–132. https://doi.org/10.25105/me.v25i2.4894

Sugiyanto, E. K., Subagyo, E., Adinugroho, W. C., Jacob, J., Berry, Y., Ani, N., Sudjono, & Syah, S. (2022). Konsep dan praktik ekonometrika menggunakan EViews (M. Surur, Ed.). Academia Publication.

Syarifuddin, F. (2020). The dynamics of foreign portfolio investment and exchange rate: An interconnection approach in ASEAN.

Wagdi, O., & Salman, E. (2021). The impact of sovereign credit ratings on foreign portfolio investment flows to emerging markets. Indian Journal of Economics and Business, 20(3), 751–768. https://www.researchgate.net/publication/355467454

Wahid, M. R. J., & Chaidir, T. (2025). The effect of Federal Reserve System interest rates and exchange rate on inflation in Indonesia. ECo-Fin, 7(1), 533–546. https://doi.org/10.32877/ef.v7i1.2157

Wahyudi, S. T. (2020). Konsep penerapan ekonometrika menggunakan EViews (2nd ed.). PT RajaGrafindo Persada.

Wardhono, A. (2019). Analisis data time series dalam model makroekonomi (F. O. Pribadi, Ed.). CV. Pustaka Abadi.