CHAPTER V

CONCLUSION

5.1 Conclusion

The objective of this research is to investigate the effect of macroeconomic variables on Jakarta Islamic Index (JII) by Vector Error Correction Model (VECM). Some significant conclusions were drawn from the analysis. First, finding all variables cointegrated after the first difference by testing the stationarity of original variables. Second, the cointegration test results demonstrate a long-term relationship between macroeconomic variables and the JII, indicating that the dynamics of the Indonesian Islamic stock market are inextricably linked to the movements of domestic macroeconomic indicators. Furthermore, the results of the optimal lag selection indicate that the two-lag model is the best specification for capturing the dynamic relationship between variables. Stability tests confirm that the model is stable, so the estimation results can be relied upon to explain both short- and long-term relationships. Granger causality tests reveal a reciprocal relationship between the JII and several macroeconomic variables, particularly inflation and the rupiah exchange rate, while international trade variables (export and import) tend to show a weaker relationship. Impulse response function (IRF) analysis shows that shocks to inflation and the rupiah exchange rate significantly impact the JII. Inflation tends to depress the JII because rising prices of goods and services reduce purchasing power and increase production costs, ultimately degrading issuer performance. The rupiah exchange rate shows a significant response, where its depreciation leads to increased import expenses and lowers sharia stock market appeal. On the other hand, export impacts positively on the

Jakarta Islamic Index (JII), albeit in an irregular pattern, and are more prone to external stimuli. Imports exhibit a general downward pressure towards the sharia index. Results of variance decomposition (VD) also reinforce impulse response function (IRF) findings, as they depict that inflation, as well as rupiah exchange rate, remain main identifiers in explaining changes in JII movements, as opposed to export, as well as import, variables. This finding confirms that Indonesia Islamic capital market continues to derive significant influence from domestic macroeconomic conditions, more so price stability, as well as exchange rate stability. Though international trade offers a share, its influence remains relatively lesser, considering global external stimuli strengthen over export, as well as import, performance for Indonesia. This research concludes that Jakarta Islamic Index (JII), representing a barometer for Indonesia sharia-compliant stock market, shows responsiveness towards changes in domestic macroeconomic conditions, more so inflation, as well as rupiah exchange rate. Therefore, Indonesian sharia-compliant capital market development needs to continuously factor in macroeconomic variation dynamics, considering that they form crucial factors that influence the direction of index movement.

5.2 Recommendation

1. For Policy Makers
    a. It is crucial that the government and financial authorities, in particular Bank Indonesia, prioritize inflation stability as well as rupiah exchange rate stability as the core macroeconomic policy tenet. Research shows that inflation as well as rupiah exchange rate represent the most influential factors affecting Jakarta Islamic Index (JII) performance, accordingly emphasizing maintaining such stability in both measures

as a condition for retaining investor confidence in the Islamic capital market.

b. In accordance with this, an effective coordination between monetary and fiscal policies remains crucial for forecasting inflationary pressures as much as exchange rate volatilities. Efforts towards maintaining adequate foreign exchange reserves, setting a believable inflation goal, as well as controlling imported inflation, will increase macroeconomic resilience as well as investor interest toward Indonesia's Islamic capital market.

c. It is crucial for the government to strengthen links between the real sector and the Islamic capital market by encouraging export-oriented industries while at the same time reducing dependency on imported raw materials. By increasing the competitiveness of halal products and developing export financing instruments based on Islamic principles, it is possible to promote, indirectly, long-term development and soundness of the Islamic capital market.

2. For Sharia Capital Market Stakeholders

a. The Financial Services Authority (OJK) in partnership with Indonesia Stock Exchange (IDX) is projected to continue boosting transparency, accessibility, as well as product variety in the Sharia capital market. Such improvements are crucial to empower investors to respond to changing macroeconomic conditions with investment decisions that are more rational as well as based on accurate information.

b. Investment managers and sharia investors need to consider macroeconomic indicators, including changes in exchange rates or inflation, as an important input for risk analysis for a particular portfolio. Active observation of macroeconomic developments will minimize desired losses as well as offer appropriate investment opportunities.

3. For the Further Research

   a. It will be helpful to conduct more studies to encompass external macroeconomic variables, for instance, world oil prices, gold prices, global Islamic stock indices, or geopolitical shocks, to further enhance analysis for Indonesian Islamic capital market interacting with externalities across the world.

   b. Moreover, it is also possible for subsequent studies to further this notion by making more sophisticated econometric estimation, for example, Structured Vector Error Correction Model (SVECM) or Autoregressive Distributed Lag (ARDL) Bound Testing, for more accurate estimation of the direction as well as magnitude of the effect that macroeconomic factors contribute to the Islamic capital market.