ABSTRACT

This study analyzes the integration of Indonesia's stock market with five developed equity markets—namely the United States (DJIA), the United Kingdom (FTSE 100), Germany (DAX), Japan (Nikkei 225), and China (CSI 300)—using daily excess return data from 2006 to 2025. A Vector Autoregression (VAR) model, Granger Causality Test, Impulse Response Function (IRF), and Variance Decomposition are employed to examine the direction, strength, and duration of cross-market effects on the Indonesian Composite Index (IHSG). The Granger Causality Test reveals bidirectional relationships between IHSG and DJIA, FTSE 100, and Nikkei 225. The IRF analysis indicates that shocks from DJIA, FTSE 100, and DAX have strong and persistent positive effects on IHSG, while shocks from Nikkei 225, and CSI 300 tend to be weaker and inconsistent. Variance decomposition shows that in the short term (period 1), IHSG fluctuations are largely explained by domestic factors (89%), but in the medium to long term (up to period 30), the influence of DJIA increases significantly, contributing up to 19.7% of the variability. These findings confirm a significant degree of market integration between Indonesia and two major global markets, namely the United States (DJIA) and the United Kingdom (FTSE 100), while linkages with Japan, Germany, and China appear more limited.

Keywords: Capital Market Integration, Excess Return, VAR, Granger Causality, Impulse Response Function, Variance Decomposition.