

**THE DIFFERENCE IN BEHAVIOR BETWEEN ISLAMIC AND  
COMPOSITE INDEX IN DUAL FINANCIAL SYSTEM  
IN INDONESIA AND MALAYSIA**

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## ABSTRACT

Indonesia has implemented the dual financial system since 1998, but Malaysia has implemented it since 1983 when first Islamic bank (Bank Islam Malaysia Berhad (BIMB)) commenced its operations. From that time, conventional and Islamic finance have been experiencing high growth, including the Islamic capital market. This study aims to analyze whether there is difference in behavior of Islamic index (Jakarta Islamic Index (JII) and Kuala Lumpur Shariah Index (KLSI)) as well as conventional index (Jakarta Composite Index (JCI) and Kuala Lumpur Composite Index (KLCI)) in Indonesia and Malaysia. This study uses Vector Autoregression (VAR) or Vector Correction Model (VECM) to respectively ascertain if cointegration exists.

The results of Impulse Response Function (IRF) indicate that JCI has responded positively to the shocks of exchange rate (ER), JII and money supply (MS), while it has responded negatively to the shocks of inflation rate (INF) and Bank Indonesia Certificate (SBI). JII has responded positively to the shocks of ER and MS, while it has responded negatively to the shocks of JCI, INF and SBI. KLCI has responded positively to the shocks of KLSI, MS and overnight policy rate (OPR), while it has responded negatively to the shocks of ER and INF. KLSI has responded positively to the shocks of OPR and MS, while it has responded negatively to the shocks of ER, KLCI and INF.

The results of Forecast Error Variance Decomposition (FEVD) indicate that JCI could be explained by INF, SBI, ER and JII. JII could be explained by INF, JII, ER, JCI, and SBI. KLCI could be explained by KLSI, INF and KLSI. KLSI could be explained by KLSI, INF and KLCI.

Based on the results, it shows that there is no difference in behavior between Islamic index and conventional index in Indonesia and Malaysia. It is suggested that both countries make some changes in the Islamic index structure to differentiate from the conventional and the investors should pay more attention to the inflation rate rather than the other macroeconomic variables because inflation rate consistently determine these indexes.

## ABSTRAK

Indonesia telah melaksanakan sistem dwi kewangan sejak 1998, tetapi Malaysia telah melaksanakan sistem dwi kewangan sejak tahun 1983 apabila bank Islam pertama (Bank Islam Malaysia Berhad (BIMB)) memulakan operasinya. Dari masa itu, kewangan Islam dan konvensional telah mengalami pertumbuhan yang tinggi, termasuk pasaran modal Islam. Kajian ini bertujuan untuk mengkaji sama ada terdapat tingkah laku perbezaan indeks Islam (Jakarta Islamic Index (JII) and Kuala Lumpur Shariah Index (KLSI)) serta indeks konvensional (Jakarta Composite Index (JCI) and Kuala Lumpur Composite Index (KLCI)) di Indonesia dan Malaysia. Kajian ini menggunakan Vector Autoregression (VAR) atau Vector Correction Model (VECM) jika cointegrasi wujud.

Keputusan dari Impulse Response Function (IRF) menunjukkan bahawa JCI telah bertindak balas positif kepada kejutan exchange rate (ER), JII dan money supply (MS), manakala ia telah bertindak balas negatif kepada kejutan inflation rate (INF) dan Bank Indonesia Certificate (SBI). JII telah bertindak balas positif kepada kejutan ER dan MS, manakala ia telah bertindak balas negatif kepada kejutan JCI, INF dan SBI. KLCI telah bertindak balas positif kepada kejutan KLSI, MS dan overnight policy rate (OPR), manakala ia telah bertindak balas negatif kepada kejutan ER dan INF. KLSI telah maklum balas positif kepada kejutan OPR dan MS, manakala ia telah bertindak balas negatif kepada kejutan ER, KLCI dan INF.

Keputusan dari Forecast Error Variance Decomposition (FEVD) menunjukkan bahawa JCI boleh dijelaskan oleh INF, SBI, ER dan JII. JII boleh dijelaskan oleh INF, JII, ER, JCI, dan SBI. KLCI boleh dijelaskan oleh KLCI, INF and KLSI. KLSI boleh dijelaskan oleh KLSI, INF and KLCI.

Berdasarkan keputusan ini, ia menunjukkan bahawa tidak ada perbezaan tingkah laku di antara Indeks Islam dan Indeks Konvensional di Indonesia dan Malaysia. Adalah dicadangkan untuk membuat beberapa perubahan dalam struktur indeks Islam untuk membezakan dari konvensional dan pelabur harus memberi perhatian yang lebih kepada kadar inflasi berbanding pembolehubah makroekonomi yang lain kerana kadar inflasi ini konsisten ditentukan oleh indeks.

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