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NET FOREIGN BUYING, GLOBAL EQUITY MARKETS AND THE INDONESIA SHARIA STOCK INDEX: AN ARDL ANALYSIS

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Abstract: This study examines how net foreign buy and global capital market indices affect the Indonesia Sharia Stock Index (ISSI). Research Methods: The study uses monthly secondary data for 2019–2024 obtained from the Indonesia Stock Exchange (IDX), the Financial Services Authority (OJK), Bank Indonesia and international financial databases. The data are analysed with the Autoregressive Distributed Lag (ARDL) model and its error correction form. Results and Discussion: Net foreign buy has no significant contemporaneous effect on the ISSI in the short run, although its third lag is negative and significant; in the long run, its effect is positive and significant. Global capital market indices have a positive and significant effect on the ISSI in both the short and the long run. The error correction term (−0.153; $p < 0.01$) shows that about 15% of any deviation from the long-run equilibrium is corrected each month. Conclusion: Investors should incorporate global capital market indicators into their investment decisions and portfolio risk management. Regulators need to strengthen the resilience of Indonesia's Islamic capital market against global financial shocks and broaden its domestic investor base.

Keywords: Net foreign buy, Global capital market indices, Indonesia Sharia Stock Index (ISSI), Islamic capital market, ARDL

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INTRODUCTION

Over the past five-year period, the global market has experienced significant disruptions that exerted an impact upon the global economy. These upheavals occurred

between 2019 and 2024, ranging from the US-China trade war (Lei & Song, 2022), the COVID-19 pandemic (Altig et al., 2020), global inflation fluctuations (MacChiarelli et al., 2021), to geopolitical conflicts such as the Russia-Ukraine war (Mariotti, 2022). These fluctuations affect the economic activity and significantly impact the stability of international financial markets.

This is reflected in the fluctuations of global capital market indices, which are important indicators of the direction of the world economy and the level of global uncertainty. Global capital market indices reflect positive or negative sentiment toward the global economy, influencing the behavior of international market players. This global sentiment is reflected in changes to investor risk preferences during times of economic turmoil. The effect of these disruptions on the Indonesian capital market has been so substantial that it has influenced investor sentiments regarding investments in the capital market (Soraya, 2023).

With regard to the volatility of conventional capital markets, Islamic capital markets have demonstrated robust growth over the past decade. The emergence of Islamic capital markets represents more than just an investment alternative for Muslim-majority countries; it is also a component of broader endeavors to establish an economic system that aligns with Islamic principles (Mashilal et al., 2023). Islam places a high value on fairness, transparency, the prohibition of usury (*riba*), speculation (*maisir*), and uncertainty (*gharar*) in economic activities. This distinguishes sharia-based investments from conventional ones. This fundamental precept undergirds the development of Islamic financial instruments, including the Sharia capital market.

A literature has indicated that Sharia stocks demonstrate a tendency to exhibit superior performance during periods of global turbulence. This finding suggests that Sharia stocks exhibit lower capital withdrawals and reduced downside risks in comparison to conventional stocks (Salisu & Shaik, 2022). In the context of global financial crises, the literature demonstrated the resilience, reduced volatility, and superior performance of Sharia stocks, as evidenced by higher average returns (Jawadi et al., 2020). This resilience lends further credence to the notion that the Sharia capital market is not merely a religiously compliant investment vehicle, but also a rational and sustainable alternative in the face of global economic uncertainty (Huda et al., 2023).

Figure 1. Comparison of movements between the IHSG and ISSI



Source: Google finance (2025)

A notable Indonesian Islamic capital market that has demonstrated a positive growth is the Indonesian Sharia Stock Index (ISSI) price (Maulana et al., 2022). According to the latest IDX data, ISSI prices demonstrated a significant increase of 12.39% from 2019 to 2024 (Google Finance, 2025). This increase exceeded that of the IHSG, which experienced a mere 9.78% growth in the same period (Google Finance, 2025). The positive growth of the ISSI prices is evident in the increase in the number of stocks listed on the index and the growing investor interest in sharia-based financial instruments (Maulana et al., 2022). ISSI offers a unique prospect as a reflection of stock performance that complies with sharia principles on the IDX. This distinctive attribute serves as a key driver, attracting investors to the sharia capital market. The ISSI price encompasses all equities included in the Sharia Securities List (DES), as published by the Financial Services Authority (OJK) (Al Amin & Sholahuddin, 2023).

This growth indicates a heightened level of interest among investors in Islamic financial instruments. However, it is imperative to acknowledge that this growth may be associated with intricate interactions between external and internal factors that influence investor behavior (Maulana et al., 2025). In order to comprehend these fluctuations, it is imperative to understand the primary factors that contribute to ISSI dynamics. It is evident that foreign investor activity and global capital market conditions exert the most significant influence on these outcomes.

Despite comprising a negligible percentage of the total investor base in the Indonesian capital market—approximately 0.27% for the capital market as a whole and 0.34% for stocks and other securities as of January 2025—foreign investors maintain a substantial stake, reaching 43.18% in the C-BEST (stock market settlement) system (KSEI, 2026). This indicates that foreign investors maintain a substantial presence within the Indonesian capital market, exerting considerable influence over asset allocation and market dynamics. Their trading activities frequently elicit substantial fluctuations in key stock indices, a notable example being the ISSI.

With regard to study on the relationship between foreign investment flows, international financial market dynamics, and the exchange rate, Portfolio-Balance Theory may be used. Dooley & Isard (1983) stated that the Portfolio-Balance Theory is a theory in international financial economics that explains how exchange rates are determined by the interaction between the supply and demand for domestic and foreign financial assets. The theory assumes that investors are risk-averse and view domestic and foreign assets as imperfect substitutes. Hence, investors' decisions to allocate their wealth across various financial instruments will be influenced by expected rates of return, investment risk, and the composition of assets available in the economy (Dooley & Isard, 1983)

A salient indicator of the activity of foreign investors in the market is net buy, defined as the differential between the value of the stocks purchased and the value of the stocks sold by foreign investors (Setyawan, 2007). Empirical literature documents that net purchases by foreign investors are positively linked with stock returns in emerging markets, including Indonesia (Rudiawarni et al., 2024). This relationship also extends to Sharia-compliant equities listed on the Jakarta Islamic Index (JII), where foreign capital

flows have been found to exert a positive and statistically significant influence on stock returns (Ansari et al., 2022). Moreover, an examination of relevant data reveals that following the significant capital withdrawals by foreign investors in 2020 due to the pandemic, there was a notable return to robust net buying by these investors in 2021 and 2022, with net buying flows amounting to IDR 37,974.54 billion and IDR 60,575.42 billion, respectively (OJK, 2024). Their contribution to the total value of stock trading exhibited a consistent upward trend, reaching 42.75% in 2024 (OJK, 2025). This indicates that net foreign buy has an impact on the capital market, especially on the ISSI.

Moreover, prominent global capital market indices function as benchmarks for international investors when allocating capital to markets. Consequently, these indices influence the ISSI via net foreign buy fluctuations and exchange rate volatility (Ahmad & Yusniar, 2018). In the context of favorable global capital market indices, investors often enhance their investment allocations to markets, including Indonesia. This phenomenon subsequently exerts an influence on the performance of ISSI. Therefore, the present study posits that the influence of global capital market indices on the Indonesian Sharia stock market merits attention in contemporary financial studies.

The rupiah exchange rate is another channel through which external conditions may reach the Islamic stock market. Foreign investors must convert their funds into rupiah before buying shares on the IDX, so currency movements change the return they expect in their home currency. The exchange rate also affects firms that carry foreign-currency debt or depend on imported inputs, and through them the liquidity of, and investment decisions in, the Indonesian capital market. This study does not include the exchange rate as a separate variable; its role is discussed as a possible transmission channel and left for further research.

Empirical evidence on the exchange rate and the ISSI is mixed. One study finds that the exchange rate alone has no significant effect on the ISSI (Fisamawati, 2025) but becomes significant when combined with inflation and the BI rate (Tripuspitorini, 2021). Other studies find a negative and significant effect of the exchange rate on stock market movements both before and during the COVID-19 pandemic (Kusuma & Setiyono, 2021; Ansari et al., 2022).

Although several studies have examined the effects of net foreign buying and global stock market indices on stock market performance, few have examined these effects on Islamic stock indices, particularly the ISSI. Previous findings on the links between foreign investment flows, global market movements and stock market performance are also inconsistent. These inconsistencies call for further empirical work that separates the short-run and long-run effects of net foreign buying and global stock market indices on the ISSI.

The period 2019–2024 was chosen because it covers major economic and financial market developments, including the COVID-19 pandemic, which heightened global market uncertainty, and the subsequent recovery. These conditions produced large swings in foreign investment flows and global capital market indices, which makes the period a relevant setting for examining their effects on the ISSI. Accordingly, this study

examines how net foreign buy and global capital market indices affect the ISSI in the short and the long run over 2019–2024. The study contributes to the Islamic finance literature by estimating both the short-run dynamics and the long-run relationship within an ARDL framework, and it offers input for policymakers and market participants on how global shocks are transmitted to the Islamic capital market.

METHODS

This study takes a quantitative approach. Data were collected from official and reliable sources, including Bank Indonesia (BI), Yahoo Finance, the Financial Services Authority (OJK), Bloomberg, the Indonesia Stock Exchange (IDX), and other global financial websites.

The study employs monthly time-series data for the period 2019–2024. The dependent variable is the ISSI, measured by its monthly closing value and expressed in natural logarithms. The independent variables are net foreign buy (NFB, X1), measured as the monthly net value of foreign investors' stock purchases in IDR trillion, and global capital market indices (X2), a composite measure of global equity market performance constructed by summing the monthly closing levels of five stock market indices, namely IBEX 35, Nikkei 225, Nasdaq Composite, S&P/ASX 200, and South Africa Top 40, and taking the natural logarithm of the sum (ln(IBEX35 + Nikkei225 + Nasdaq + ASX200 + Top40)) (Chellai, 2025). Because the indices are summed in their original units, indices with higher nominal levels carry more weight in the composite; this is acknowledged as a limitation of the study.

The Autoregressive Distributed Lag (ARDL) framework is employed to examine short-run dynamics and long-run relationships between global capital market indices, net foreign buy, and ISSI prices. The effect of net foreign buy and global stock indices on ISSI index are presented in the following formula. The optimal lag structure was selected automatically in EViews 13, yielding an ARDL(1, 4, 1) specification, which corresponds to the lag terms reported in Table 5.

$$ISSI_t = \alpha_0 + \sum_{i=1}^{p} \alpha_i ISSI_{t-i} + \sum_{j=0}^{q1} \beta_j NFB_{t-j} + \sum_{k=0}^{q2} \gamma_k GSI_{t-k} + \varepsilon_t$$

Note:

ISSI = Indonesia Sharia Stock Index (natural logarithm); NFB = Net Foreign Buy; GSI = composite global stock market index (X2), in natural logarithm*;*

α_0 = Constant of the ARDL model;

α_i = Coefficients of the lagged dependent variable (ISSI);

β_j = Coefficients of net foreign buy;

γ_k= Coefficients of GSI;

t= Time period (month);

ε_t= Error term in period t.

RESULT AND DISCUSSION

1. Diagnostic tests

Diagnostic tests were conducted to ensure that the estimated ARDL model is valid and suitable for drawing conclusions. These tests included autocorrelation, heteroscedasticity, and residual distribution checks.

Table 1. Diagnostic tests

Test	Type	Prob.	Exp.
Autocorrelation	Breusch-Godfrey	0.5521	No Autocorrelation
Heteroskedasticity	Breusch-Pagan-Godfrey	0.1431	No Heteroskedasticity
Normality	Jarque-Bera	0.7611	Normal

Source: EViews 13 output (data processed, 2026)

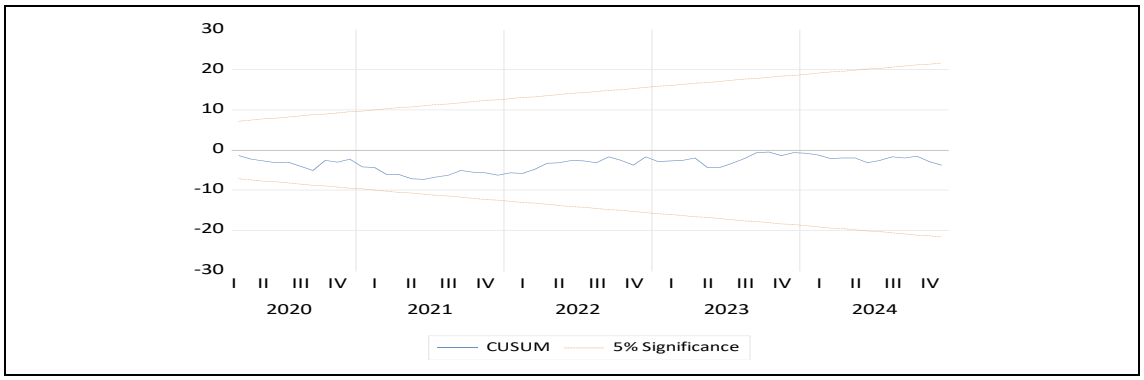
Based on Table 1, autocorrelation examined by using the Breusch–Godfrey test, the result shows that the chi-square probability value is 0.5521, which exceeds the 5% significance level, indicating ARDL model is free of autocorrelation. In terms of heteroskedasticity, it found that there is no heteroscedasticity as based on Breusch-Pagan-Godfrey Test, the probability value of Obs*R-squared is 0.1431, which exceeds the critical value of 0.05. Meanwhile, the normality of residuals was tested using the Jarque–Bera statistic to see whether the distribution of residuals followed a normal distribution pattern. The results of the test showed that the Jarque–Bera value was 0.7611, which exceeds the 5% significance level. This finding suggests that the residuals of the ARDL model are normally distributed.

2. Stability Diagnostics

a. CUSUM

The CUSUM test evaluates whether regression parameters change significantly over time. Test results indicate that the CUSUM line remains within the critical limit (confidence interval) at a 5% significance level throughout the entire estimation period. This suggests that no systematic shift in the parameters exists that could affect the stability of the model.

Figure 2. CUSUM result

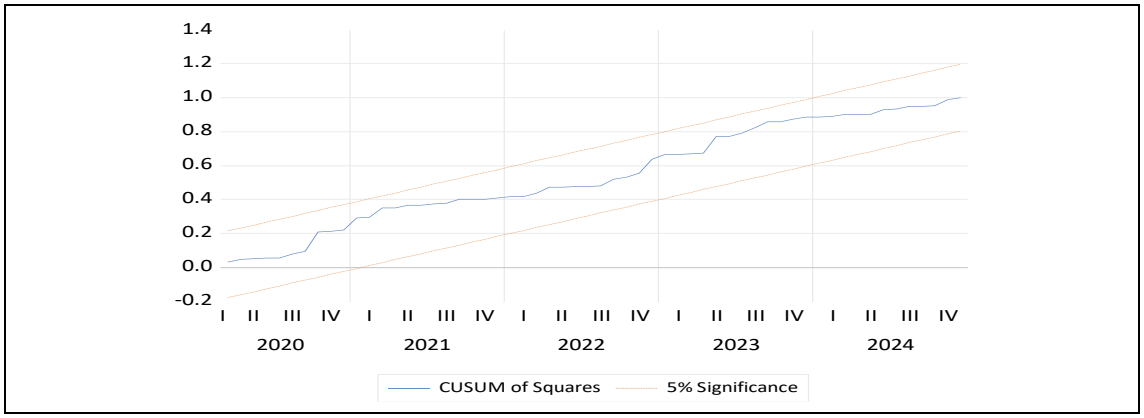


Source: EViews 13 output (data processed, 2026)

b. CUSUM of Squares

The CUSUM of Squares (CUSUMSQ) line also remains within the critical limits at the 5% significance level, indicating that the residual variance is stable throughout the observation period. Together, the two tests show that the estimated model does not undergo substantial structural change, even though the study period includes economic turbulence, so the short-term and long-term estimates can be interpreted validly.

Figure 3. CUSUMSQ result



Source: EViews 13 output (data processed, 2026)

3. Stationary Test

Stationary testing constitutes a critical preliminary step in the domain of time series research. This process ensures that the data does not contain trend patterns that could lead to incorrect results. The test utilizes the Augmented Dickey-Fuller (ADF) method. A variable is defined as stationary if its probability value is less than the specified significance level (α = 5%).

Table 2. Stationary Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Exp.
X1	-0.857962	0.118595	-7.234366	0.0000	Stationary
X2	0.029622	0.030015	-0.986908	0.7538	Not stationary
Y	-0.044010	0.038064	-1.156218	0.6889	Not stationary

Source: EViews 13 output (data processed, 2026)

Based on the results as presented in Table 2, the stationary test indicates that only one variable is of order zero integration, while the others require further transformation. Because of this condition, the study used the ARDL method. This method can handle a combination of variables with integration orders I(0) and I(1).

Table 3. First difference

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Exp.
X1	-3.640743	0.402009	-9.056363	0.0000	Stationary
X2	-1.061247	0.120790	-8.785907	0.0000	Stationary
Y	-0.942299	0.121020	-7.786318	0.0000	Stationary

Source: EViews 13 output (data processed, 2026)

After conducting stationary testing and finding that most variables are non-stationary at the level, the next step is to conduct stationary testing at the first difference level. This testing also uses the Augmented Dickey-Fuller (ADF) method to ensure that each variable does not have a unit root after differentiation. Table 3 presents results of the first difference level which shows the probability values for all variables (X1, X2, and Y) are below the significance level of 0.05, indicating that all the variables have become stationary at the first difference level. Pesaran et al. (2001) suggest that the ARDL method is particularly useful in econometrics due to its capacity to accommodate models with variables of different orders, provided that there are no second-order integrated variables (I(2)). Consequently, the outcomes of the stationary test at both levels and first differences provide a robust and valid foundation for the continuation of the analysis employing the ARDL model. This model is employed to test the short-term and long-term relationships between the research variables

4. Bounds Test

Before the long-run coefficients are interpreted, the existence of a long-run relationship among the variables was tested with the ARDL bounds test (Pesaran et al., 2001). Table 4 reports the bounds test for the long-run equilibrium relationship between net foreign buying, global stock market indices, and the ISSI.

Table 4. ARDL bounds test

Significance level	I(0) bound	I(1) bound	F-statistic vs I(1)
5%	2.924	3.860	10.736 > 3.860

Note: F-statistic = 10.736366; k = 2.

Source: EViews 13 output (data processed, 2026)

As shown in Table 4, the F-statistic (10.736) is greater than the I(1) upper bound at the 5% significance level. Therefore, there is a long-term relationship (cointegration) between the ISSI (dependent variable) and the two independent variables, net foreign buying and global stock market indices. The negative and significant coefficient of Y(−1) in Table 5 (−0.153; p = 0.0086) is consistent with the existence of such a long-run relationship.

5. Short-term estimation

A short-term analysis is conducted to determine the effect of changes in each independent variable on the dependent variable over a relatively short time horizon. In the ARDL model, short-term estimates are derived through the coefficients of differentiated variables (D), which represent changes in variables between periods.

Table 5. Error Correction Model (ECM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Y(-1)	-0.153132	0.056331	-2.718450	0.0086*
X1(-1)	0.001904	0.000889	2.141787	0.0364*
X2(-1)	0.110675	0.047069	2.351316	0.0221*
C	-0.290524	0.976511	-0.297512	0.7671
D(X1)	0.000630	0.000426	1.480086	0.1443
D(X1(-1))	-0.000920	0.000583	-1.576821	0.1203

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(X1(-2))	-0.000760	0.000488	-1.555639	0.1252
D(X1(-3))	-0.001022	0.000362	-2.823074	0.0065*
D(X2)	0.565538	0.103146	5.482897	0.0000*

Note: Dependent variable: ISSI index; *Significant level = 0.05

Source: EViews 13 output (data processed, 2026)

Table 5 presents the short-run estimates of the ARDL model in error correction form for net foreign buy (X1), global capital market indices (X2) and the ISSI (Y). Net foreign buy has no significant effect on the ISSI in the current period or at lags one and two. However, net foreign buy three months earlier has a negative and significant effect on the ISSI ($p = 0.0065$). This indicates that the ISSI responds to foreign fund flows with a delay rather than immediately. The negative sign at the third lag, set against the positive long-run coefficient, suggests a short-lived correction: months of heavy foreign buying may be followed by profit taking and price adjustment before the market returns to its long-run path.

Meanwhile, global capital market indices have a positive and significant short-run effect on the ISSI, with a coefficient of 0.5655 ($p = 0.0000$). This means that a rise in global capital market indices is followed by a rise in the ISSI in the same month, other things being equal. The estimated coefficient of 0.5655 represents an elasticity, indicating that a 1% increase in the global capital market is linked with a 0.5655% increase in the ISSI, assuming other variables are consistent. The ISSI is therefore highly responsive to developments in global capital markets.

The coefficient of $Y(-1)$ in Table 5, which acts as the error correction term, is -0.1531 and significant ($p = 0.0086$). The negative sign confirms that the ISSI returns to its long-run equilibrium after a shock: about 15.3% of any deviation is corrected each month, so roughly half of a deviation disappears within about four months. This fairly slow adjustment suggests that external shocks transmitted through foreign flows and global markets persist in the Islamic stock market for several months.

6. Long-term estimation

Estimating long-run coefficients in the ARDL model aims to identify the long-run equilibrium relationship between variable Y and its independent variables. This long-run relationship is important because, unlike short-run dynamics, it reflects permanent and sustainable effects.

Table 6. Long-term estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1(-1)	0.012436	0.006162	2.018050	0.0478
X2(-1)	0.722743	0.229438	3.150050	0.0025
C	-1.897210	6.281886	-0.302013	0.7636

Source: EViews 13 output (data processed, 2026)

Table 6 shows that the long-run coefficient of net foreign buy is 0.0124 ($p = 0.0478$), indicating that net foreign buy has a positive and significant effect on the ISSI in the long run. This finding is consistent with Ansari et al. (2022), who report a positive

influence of foreign capital flows on Islamic stock returns, and with Rudiawarni et al. (2024), who show that net purchases by foreign investors raise stock returns in Indonesia. Further, the long-run coefficient of global capital market indices is 0.7227 and significant ($p = 0.0025$). This finding indicates that, in the long term, ISSI movements are shaped by global financial market dynamics. This result is supported by Fauziyah et al. (2023) and Fitriansyah & Nurzaman (2025), who have documented a positive association between global sharia stock indices and domestic sharia stock indices, including the Jakarta Islamic Index (JII).

The long-run results are consistent with the short-run estimates in Table 5: each long-run coefficient equals the lagged level coefficient of the variable divided by the absolute value of the error correction term ($0.001904/0.153132 \approx 0.0124$ for net foreign buy and $0.110675/0.153132 \approx 0.7227$ for global indices). Taken together, the two tables show that foreign flows affect the ISSI mainly through the gradual build-up of positions over time, whereas global market movements are transmitted both immediately and in the long run.

These findings can be explained by the Portfolio-Balance Theory (Dooley & Isard, 1983). Because foreign investors treat domestic and foreign assets as imperfect substitutes, an improvement in global markets raises their risk appetite and leads them to rebalance their portfolios towards emerging markets, including Indonesia. The resulting inflows raise demand for liquid sharia-compliant stocks, which make up the ISSI, and push the index up over time. The negative effect at the third lag shows that this rebalancing is not smooth: foreign investors also take profits and withdraw when risk perceptions change, as happened in 2020 (OJK, 2024). The strong link between global indices and the ISSI also qualifies the view that Islamic stocks are insulated from global turbulence (Jawadi et al., 2020; Salisu & Shaik, 2022). Sharia screening may reduce exposure to highly leveraged and speculative firms, but it does not separate the ISSI from global sentiment, because the same foreign investors trade both sharia and conventional stocks on the IDX.

CONCLUSION

This study examined how net foreign buy and global capital market indices affect the ISSI over 2019–2024. The results indicate that net foreign buy has a positive and significant long-term effect on the Indonesian Sharia Stock Index (ISSI), although its short-term effect is not significant in the current period and the two preceding periods, and it exhibits a negative and significant effect at the third lag. Global capital market indices have a positive and significant effect on the ISSI in both the short and long term, and deviations from the long-run equilibrium are corrected gradually, at about 15% per month. This study suggests that investors need to incorporate global capital market indicators into their investment decision-making and portfolio risk management. When global markets come under pressure, investors need to be more alert about the potential transmission of risk to the ISSI. Because global market indices have a significant impact on the ISSI in both the short and long term, the government and regulators need to

strengthen the resilience of Indonesia's Islamic capital market against global financial shocks.

The finding that shows Net Foreign Buy has a positive impact on the ISSI in the long term indicates that foreign capital flows continue to play a role in the development of Indonesia's sharia stock market. However, excessive reliance on foreign investors can increase the market's sensitivity to shifts in global sentiment. Therefore, the government and regulators need to strengthen the domestic investor base as a source of stability for the sharia capital market. This study has three main limitations. First, the analysis covers the period from 2019 to 2024, which includes distinctive economic and financial market conditions, particularly the COVID-19 pandemic. Hence, the findings may be influenced by exceptional market dynamics during this period and may not fully represent the long-term behaviour of the Indonesian Sharia Stock Index (ISSI) under normal economic conditions. Second, the study focuses primarily on net foreign buying and global capital market indices as explanatory variables. Although these variables provide important insights into foreign investment flows and international market linkages, other potentially relevant determinants of ISSI, such as exchange rate fluctuations, domestic interest rates, inflation, commodity prices, monetary policy, and geopolitical uncertainty, are not explicitly incorporated into the model. Third, the global market is represented by a composite of five indices, so the separate influence of each foreign market is not identified; moreover, because the indices are summed in their original units, those with higher nominal levels weigh more heavily in the composite. Future studies could estimate the indices individually, extend the sample period and test the exchange rate as a transmission channel between global markets and the ISSI.

DECLARATIONS

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Author Contributions

Conceptualization: HM and AMM; Methodology: HM and AMM; Software: AMM; Validation: HM and MKRA; Formal Analysis: HM; Investigation: AMM; Resources: AMM; Data Curation: AMM; Writing – Original Draft Preparation: AMM; Writing – Review and Editing: HM and AMM; Visualization: ARB; Supervision: HM. All authors (HM, AMM, MKRA and ARB) have read and agreed to the published version of the manuscript.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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Declaration of generative AI and AI-assisted technologies in the writing process
During the preparation of this manuscript, the authors used Grammarly, ChatGPT and Gemini to improve the English grammar. After using these tools, the authors reviewed and edited the content as needed and take full responsibility for the content of the publication.

Declaration of Conflicting Interest
The authors declare that they have no conflicts of interest, known competing financial interests, or personal relationships that could have influenced the work reported in this paper.

Ethic approval and consent to participate
Ethical approval was not required because this study used publicly available secondary market data and did not involve human participants.

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