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Event Study of the Indonesian Presidential Election on the Capital Market in Indonesia

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ABSTRACT

This study aims to evaluate the impact of the 2024 Presidential Election of the Republic of Indonesia on the capital market, specifically on companies listed in the LQ45 index. Utilizing an event study approach, this research measures changes in Abnormal Return (ART), Trading Volume Activity (TVA), and Bid-Ask Spread (BAS) before and after the election. The analysis results indicate no significant difference in ART, suggesting that the Indonesian capital market tends to be efficient in absorbing political information related to the presidential election. Investors seem to have already anticipated various political scenarios, minimizing the volatility of abnormal returns. On the other hand, there is a significant difference in TVA, indicating changes in investor trading behavior, such as portfolio repositioning and an increase in speculative activity. However, there is no significant difference in BAS, reflecting the stability of liquidity and market efficiency despite the occurrence of a major political event. Overall, the findings of this study reflect the maturity of the Indonesian capital market and provide insights for investors and regulators on how the market reacts to political dynamics, as well as the relevance of market efficiency in an emerging economic environment.

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INTRODUCTION

The capital market holds a strategic role in a country's economy as a source of financing for businesses and an investment platform for the public. According to Draženović & Kusanović, (2016) the capital market is a crucial source of funding for viable investment projects and further economic development. In Indonesia, the role of the capital market is regulated by Law No. 8 of 1995 concerning the Capital Market, which defines the capital market as activities related to public offerings and trading of securities, public companies, and institutions and professions related to those securities (Kemenkumham, 1995). The capital market serves as a sensitive barometer of various economic and political events, both domestic and global. The market's reaction to such events can provide valuable insights into how investors respond to uncertainties and shifts in the political and economic landscape. This aligns with the findings of Nieto Parra & Santiso (2011) which state that financial markets in developing democracies have historically been highly sensitive to political events, with all major financial crises in Latin America occurring during election years. The interconnection between political dynamics, particularly significant events such as presidential elections, and the capital market has been widely researched in various countries. Jensen & Schmith, (2005) in their study, found that the stock market's response to political events, such as elections, leads to increased market profits when politicians are expected to implement market-friendly policies. In the Indonesian context, political events are also believed to have a significant impact on the capital market, influencing investor sentiment and stock price movements. This was evident during the 2014 Indonesian presidential election, where research by (Nurlita & Naomi, 2019) revealed that the election asymmetrically affected stock return volatility on the Indonesia Stock Exchange, with positive shocks having a greater impact than negative ones.

Capital market efficiency is one of the fundamental concepts used to analyze how new information, including political events, is reflected in stock prices. Eugene (1970) explained that an efficient market fully incorporates all available information. Furthermore Santoso & Ikhsan, (2020) stated that the more efficient a capital market is, the more accurately and immediately stock movements will respond, making them unpredictable or randomly fluctuating from day to day. Political events, such as presidential elections, represent a form of information that can influence the volatility and activity of capital markets, including in Indonesia.

Although numerous studies have been conducted on the impact of political events on capital markets in various countries, research specifically examining the effect of the Indonesian Presidential Election on the Indonesian capital market remains limited. Several studies have focused more on the political impact in developed countries, such as the United States and Europe. For instance, (Hartwell, 2018) found that informal political volatility significantly reduces stock returns in EU member countries and neighboring states, while formal political institutions lead to higher financial volatility than changes in monetary policy. (Vortelinos & Saha, 2016) stated that political risk significantly affects international stock and foreign exchange markets, with Europe facing higher risks of economic crisis, while political risks explain high volatility and discontinuities in other regions. Furthermore, according to (Nazir, Khan, Akram, & A. Ahmed, 2018) political and terrorist events significantly impact stock market returns in South Asian countries, contradicting the efficient market hypothesis and highlighting the need for investor caution in unstable countries. In contrast, the context of Indonesia, particularly in the capital market, has not been thoroughly explored. This gap presents an opportunity for more in-depth and relevant research, especially in identifying how capital market volatility and activity react to presidential elections in Indonesia.

This study aims to evaluate the impact of the Indonesian Presidential Election on the capital market in Indonesia (Shaikh, 2017). Specifically, the research will analyze changes in Abnormal Return, Trading Volume Activity, and Bid-Ask Spread of companies listed in the LQ45 index, representing key sectors of the Indonesian economy. The study adopts an event study approach to examine how the market reacts to this political moment.

This research is relevant both theoretically and practically. Theoretically, it will contribute to the literature on the interaction between politics and capital markets, particularly in the context of developing countries such as Indonesia. Practically, it offers valuable insights for investors, regulators, and policymakers in formulating more responsive investment strategies and economic policies in light of political events, particularly presidential elections.

Based on the identified gap, the research hypothesis is that the Indonesian Presidential Election has a significant impact on the capital market, particularly on the Abnormal Return variable. Abnormal Return is often used as a basis for testing the information content of an event announcement and is ultimately employed to test market efficiency. A return that corresponds to the risk of a stock is referred to as a normal return. If the market is inefficient, securities will generate higher-than-normal returns, referred to as abnormal returns (Tandelilin, 2010:219). An announcement containing valuable information will generate an abnormal return in the market. Conversely, an announcement that lacks informative content will not generate abnormal returns (Hartono, 2017:624).

According to Suganda (2018), Trading Volume Activity (TVA) is a measure used to observe the capital market's reaction to information circulating in the market by utilizing stock trading volume as a parameter. Meanwhile, Bid-Ask Spread, according to Howe & Lin (1992), is the economic compensation given to market makers for their services. The spread represents the percentage difference between the bid price and the ask price. The bid price is the highest price at which investors are willing to buy a stock, while the ask price is the lowest price at which investors are willing to sell their shares. This study also aims to answer whether there is a significant difference in market reactions before and after the presidential election.

The novelty of this research lies in its focus on the Indonesian capital market, particularly on companies listed in the LQ45 index, which reflects the overall condition of the national economy. By using the event study approach, this research will provide new insights into how the Indonesian capital market reacts to major political events such as the presidential election, a topic that has not been extensively explored in the Indonesian context. This study is expected to contribute to the development of capital market efficiency theory in developing countries and offer a foundation for investors and regulators in navigating political dynamics.

METHOD

Research Design

This study employs a comparative quantitative approach utilizing an event study design. The event study is used to analyze how the capital market reacts to an event whose information has been published, specifically in this case, the presidential election of the Republic of Indonesia. The estimation period refers to the timeframe prior to the event period, which is used to determine the estimations of parameters a and b. The model employed is the market model, with the estimation period in this study set at 100 days and the event window spanning 12 days. This includes 6 days prior to the event, 1 day on the day of the event (which is not included in the calculations due to a holiday), and 6 days following the event.

Participants/Sample Selection and Data Sources (Second Heading)

The population of this research comprises stocks listed on the LQ-45 Index of the Indonesia Stock Exchange (IDX). The sample is obtained using a saturation sampling technique, where the entire population is utilized as the sample. The data employed are secondary data, consisting of daily stock prices, trading volumes, and bid-ask spreads, which are sourced from the official website of the Indonesia Stock Exchange (www.idx.co.id) and Yahoo Finance.

Instrumentation/Data Collection

Data collection was conducted using documentation methods to obtain daily trading data for 45 issuers listed on the LQ-45 Index, as well as literature studies to gather relevant information from various sources. The variables under investigation include abnormal return, trading volume activity, and bid-ask spread, which are measured according to the established operational definitions.

Data Analysis/Estimating Model/Variable Measurement (Second Heading)

Data analysis includes the following:

Descriptive Analysis Test: This is conducted to provide an overview of the mean, standard deviation, and variance of the research variables.

Normality Test: The Kolmogorov-Smirnov test is utilized to determine whether the data are normally distributed.

Hypothesis Testing:

If the data are normally distributed, the Paired Sample t-Test is employed.

If the data are not normally distributed, the Wilcoxon Signed Rank Test is used.

Pengukuran variabel dilakukan sesuai dengan definisi operasional yang telah ditetapkan, meliputi perhitungan actual return, market model, abnormal return, trading volume activity, dan bid-ask spread.

Tabel 1 Operational Definitions of Variables

No	Variables	Operational Definitions	Measurment	Scale
1	Actual return	The daily stock price of security I at time t (Pt) minus the daily stock price of security I at time t-1 (Pt,t-1) divided by the daily stock price of security I at time t-1 (Pt,t-1).	$R_t = \frac{P_t - P_{t-1}}{P_{t-1}}$	Ratio
2	Market Model	Where the intercept of the security is added to the beta coefficient multiplied by the return of the market index, and then added to the residual error of the security.	$_t = \alpha_{\mathrm{i}} + \beta_{\mathrm{i}} . R_{\mathrm{m,\,t}} + \mathrm{E}_{\mathrm{i,t}}$	Ratio
3	*Abnormal return*	The difference between actual return and expected return	$RTN_{i,t}$=$R_{i,t}$ - $E(R_{i,t})$	Ratio

No	Variables	Operational Definitions	Measurment	Scale
4	*Trading Volume Activity*	The value of the company's traded stock divided by the number of outstanding shares of the company.	TVA= $\frac{\sum saham\ i\ yang\ ditransaksikan\ hari\ ke{-}t}{\sum saham\ \ i\ yang\ beredar\ pada\ hari\ ke{-}t}$	Ratio
5	Bid-ask Spread	The total difference between the daily ask price and bid price divided by the average of the daily ask price and bid price.	Spread$_{it}$ = $\sum_{t=1}^{n} \frac{\boldsymbol{ask_{it} - bid_{it}}}{(\boldsymbol{ask_{it}} + \boldsymbol{bid_{it}})/2}$ x 100	Ratio

RESULTS

Descriptive statistical analysis was conducted on the variables used in this study, namely Abnormal Return, Trading Volume Activity, and Bid-ask Spread. The descriptions of each research variable pertain to the LQ-45 Index during the event period of the Presidential Election of the Republic of Indonesia, as detailed in the following descriptive statistical analysis:

Tabel 2 Descriptive Statistical Analysis ART, TVA dan BAS Indeks LQ-45

	N	Minimum	Maximum	Mean	Std. Deviation
ART Before	270	-0.111217	0,108074	-0.000569	0,022010
ART After	270	-0.076144	0,131208	-0.002501	0,024349
TVA Before	270	-0.000126	0,068641	-0.002203	0,007601
TVA After	270	-0.000100	0,085600	0.002403	0,007209
BAS Before	270	0.458716	10,89987	2.898812	1,801613
BAS After	270	0,455927	13,74046	3,059319	1,848564
Valid N (listwise)270					

(Source: processed data by the researcher, 2024)

Based on Table 2 above, descriptive statistical analysis of stocks on the LQ-45 Index indicate that before the presidential election of the Republic of Indonesia, the abnormal return (AR) had a minimum value of -0.111217 and a maximum of 0.108074, with an average of -0.000569. This indicates a slight decrease in the average abnormal return prior to the election, with moderate variation reflected by a standard deviation of 0.022010. After the election, AR experienced a further slight decline, with an average of -0.002501, and greater variation evidenced by a standard deviation of 0.024349.

In terms of Trading Volume Activity (TVA), before the presidential election, the minimum value reached -0.000126 and the maximum was 0.068641, with an average of -0.002203, indicating a decrease in trading volume activity on average. However, after the election, TVA increased with an average of 0.002403, suggesting a rise in trading activity, although its variation was slightly smaller, as indicated by a standard deviation of 0.007209.

Regarding the Bid-ask Spread (BAS), before the election, there was significant variation with a minimum value of 0.458716 and a maximum of 10.89987, along with an average of 2.898812. After the election, the bid-ask spread slightly increased, with an average of 3.059319, and greater variation reflected in the increased standard deviation of 1.848564. Overall, there are noticeable changes in AR, TVA, and BAS before and after the election, with several indicators showing increased variation following the election..

Normality Test

The normality test is used to determine whether the distribution of the variable data follows a normal distribution. Based on the results of the normality testing for Abnormal Return, Trading Volume Activity, and Bid-ask Spread, it was found that the data do not follow a normal distribution, as follows:

Tabel 3. Normality Test ART, TVA dan BAS Index LQ-45

No	Variabel	Probability	Keterangan
1	Abnormal Return (ART)	0.000000	Not Normally Distributed
2	Trading volume activity (TVA	0.000000	Not Normally Distributed
3	Bid-ask Spread (BAS)	0.000000	Not Normally Distributed

(Source: processed data by the researcher, 2024)

Based on the results of the normality test in the table above using EViews 12, it can be explained that all the tested variables—namely Abnormal Return (AR), Trading Volume Activity (TVA), and Bid-Ask

Spread (BAS)—are not normally distributed. This is indicated by the probability values (p-values) of 0.000000 for all three variables, which are smaller than the significance level of 0.05 (α = 5%). In other words, p-value < 0.05 indicates that the distribution of the data differs significantly from a normal distribution, thus the assumption of normality is not met. Therefore, to proceed with the analysis when the data are not normally distributed, the alternative is to conduct a non-parametric test, specifically the Wilcoxon test.

Statistical Test

The results of the normality test for Abnormal Return (AR), Trading Volume Activity (TVA), and Bid-Ask Spread (BAS) during the observation period before and after the 2024 Indonesian Presidential Election indicate that the data are not normally distributed. Therefore, the comparative test used is the Wilcoxon Signed Rank Test. Below are the results of the statistical test:

Tabel 4. Comparative Test ART, TVA dan BAS Indeks LQ-45

Variable	Probability	Description
ART Before the Presidential Election - ART After the Presidential Election	0.700	There is no significant difference.
TVA After the Presidential Election - TVA Before the Presidential Election	0.0034	There is a significant difference.
BAS Before the Presidential Election - BAS After the Presidential Election	0.2166	There is no significant difference.

The results of the Wilcoxon test indicate that there is no significant difference in Abnormal Return before and after the presidential election. The probability value of 0.700 is well above the standard significance level (α = 0.05), suggesting that the 2024 presidential election did not have a meaningful impact on the abnormal returns of stocks in the LQ45 index.

The Wilcoxon test shows a significant difference in Trading Volume Activity (TVA) before and after the presidential election. The probability value of 0.0034 is far below the significance level of 0.05, indicating that the presidential election had a tangible effect on trading activity of stocks in the LQ45 index.

The results of the Wilcoxon test demonstrate that there is no significant difference in the Bid-Ask Spread before and after the presidential election. The probability value of 0.2166 is greater than the significance level of 0.05, meaning that the presidential election did not significantly affect the spread between the bid and ask prices of stocks in the LQ45 index.

DISCUSSION

Abnormal Return

The absence of a significant difference in Abnormal Return (AR) before and after the presidential election offers intriguing insights into the behavior of the Indonesian capital market, particularly the LQ45 index, in response to major political events. These results may indicate that the efficiency of the Indonesian capital market, at least for the stocks in the LQ45 index, is sufficiently adept at absorbing information. The Efficient Market Hypothesis posits that stock prices reflect all available information. In this context, information related to the presidential election may have been incorporated into stock prices well before the election day. The lack of significant AR suggests that market participants have anticipated various electoral outcome scenarios. They may have developed investment strategies that are adaptive to different possible outcomes, so that when the actual results were announced, there were no significant surprises triggering abnormal price movements.

These results also reflect investor perceptions of political stability in Indonesia, where if the transition of leadership is seen as likely to proceed smoothly without drastic changes in economic policy, the potential for abnormal return (AR) may be minimized. Investors tend to focus more on long-term macroeconomic factors such as economic growth, inflation, and monetary policy rather than short-term political events like presidential elections. Furthermore, stocks in the LQ45 index are generally held by institutional investors with well-diversified portfolios, thus mitigating the impact of specific events like presidential elections on overall portfolio returns. The absence of significant AR also reflects the maturity of the Indonesian capital market, where investors respond more rationally to political events without being swayed by short-term sentiment or unfounded rumors. The high liquidity of LQ45 stocks facilitates smoother and more efficient price adjustments, reducing the risk of extreme price spikes or declines that could trigger significant AR. In an era of globalization, the Indonesian capital market is also influenced by global factors, so the presidential election may have limited impact compared to the influence of global economic trends or the policies of major countries.

Trading Volume Activity

The significant difference in Trading Volume Activity (TVA) before and after the presidential election indicates that, although Abnormal Return (AR) did not show significant changes, the Indonesian capital market remains responsive to this major political event. This is reflected in substantial changes in trading behavior, which could have long-term implications for market dynamics and investment strategies.

This suggests a massive portfolio repositioning, where both institutional and retail investors make significant adjustments to their portfolios in anticipation of potential economic policy changes post-election. The change in TVA also indicates a shift in sector sentiment; for example, the infrastructure sector may benefit from new policies, leading to increased trading volume for related stocks. The entry of new investors, including foreign investors who previously awaited political certainty, could be a contributing factor to the rise in TVA.

Additionally, some investors who took speculative positions ahead of the election may liquidate their positions once the election results are known, contributing to higher trading volumes. The domino effect of movements in large-cap stocks can trigger increased trading activity across the index, especially if these large stocks experience significant movements. Responses to high price volatility may also enhance trading activity, particularly among short-term traders looking to capitalize on price fluctuations. Portfolio adjustments based on expectations of the new government's economic, fiscal, and monetary policies also become another important factor.

Furthermore, intense media coverage and market analysis following the election could influence investor trading decisions, further driving trading activity. Finally, the influence of mass psychology plays a role, as investors tend to follow observable market trends, whether bullish or bearish.

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Bid-Ask Spread

The absence of a significant difference in the Bid-Ask Spread (BAS) before and after the 2024 Indonesian presidential election demonstrates the resilience and maturity of the Indonesian capital market, particularly for stocks in the LQ45 index. The performance of LQ45 stocks during the presidential election period suggests that the market was able to absorb a major political event without significant disruption to price-setting mechanisms and transaction execution. This reflects consistent market efficiency, where buyers and sellers can meet with stable transaction costs. This condition also indicates the maturity of market participants in responding to political events, where investors and market makers are not provoked into drastically altering their strategies in ways that would widen the spread.

Furthermore, the stability of the BAS also signals balanced information flow in the market, with minimal information asymmetry, as election-related information is seen as evenly distributed or insignificant in influencing short-term company valuations. Market makers play a critical role in maintaining liquidity stability by anticipating election-related volatility and preparing strategies to keep the spread under control. The confidence of market participants in Indonesia's economic fundamentals is another factor strengthening this stability, assuming that the economic foundation is robust enough to maintain market stability regardless of the election outcome.

Moreover, investor portfolio diversification strategies reduce the impact of political events on individual trading decisions, ultimately preserving BAS stability. The effectiveness of market regulations also contributes to maintaining liquidity stability during potentially volatile periods such as presidential elections. This reflects that investors are more focused on long-term expectations rather than short-term fluctuations caused by political events. The absence of significant liquidity shifts into other instruments such as bonds or foreign currencies further underscores that the stock market remains the primary choice during this period.

Overall, the stability of the BAS has positive implications for investors, issuers, regulators, analysts, and policymakers. Investors can continue their trading strategies without having to make major adjustments, while issuers can feel assured that the election does not significantly impact the liquidity of their stocks. For regulators, this stability is a positive indicator of the effectiveness of market regulations, and for policymakers, the resilience of the capital market to political turbulence can serve as an important consideration in future economic policy formulation..

CONCLUSION

Based on the analysis above, it can be concluded that the presidential election has varying impacts on different aspects of the stock market, particularly the LQ45 index:

There is no significant impact on Abnormal Return, indicating that investors tend not to overreact to this political event in terms of return expectations.

There is a significant impact on Trading Volume Activity, which suggests that there is a change in investor trading behavior in response to the election results.

There is no significant impact on the Bid-Ask Spread, indicating that liquidity and market efficiency remained stable during this period.

These findings suggest that, although the presidential election is an important political event, its impact on the stock market tends to be limited and more noticeable in trading activity than in stock returns or liquidity. This may reflect the maturity of the Indonesian capital market in handling major political events.

AUTHORS' DECLARATION

The authors made substantial contributions to the conception and design of the study. The authors took responsibility for data analysis, interpretation and discussion of results. The authors read and approved the final manuscript.

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