

The Effect of Indonesia's Presidential Election on the Indonesian Stock Market

Kenneth August Sahetapy^{1*}, Amelia Tanasale¹

k.sahetapy@unklab.ac.id

¹Universitas Klabat

Abstrak

Political events that happen tend to affect the stability and the condition of the economy. One of the most important political events that happens in a country is a presidential election as it can greatly affect the direction of that nation for the next few years. This research analyses the effect of Indonesia's 2024 presidential election season on the stock price of Indonesia's leading firms (LQ45). By using the paired sample t-test method to analyse three events surrounding the elections namely, the registration of the candidates, the election, and the announcement of the ruling from the election dispute, this research found that the registration of certain candidates negatively affect stock prices while another candidate registration has no significant effect on stock prices. Meanwhile, the election itself is found to have a positive effect on stock prices, while the ruling of the lawsuit does not affect stock prices. This shows that certain political events do affect stock prices while on other events, the market does not react significantly to the events.

Keywords: election, politics, stock performance, stock price



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Introduction

The stock market is one of the most if not the most important financial markets in the modern age. A place that connects demanders of funds and suppliers of funds in a way that can benefit both parties (Smart, Gitman, & Joehnk, 2017). It is a place where the demanders of funds can sell a part of their company to the general public and obtain the funds that they want, and where the suppliers of funds give their money by investing in the company with the expectation of a positive return from the money given in the form of income such as dividends or capital gain which is the increase in the value of the investment.

Regarding the value of an investment, specifically the value of a stock, it can change due to several factors. At the most basic level, the price or value of something can increase because there is a large amount of demand in the market for that thing or because the supply in the market is low. On the other hand, the price or value can drop if the demand is low or the supply is high (Mankiw, 2017). This also applies to the value of stocks. Furthermore, the supply and demand of stocks can be affected by many things such as dividend announcements (Suwanna, 2012), mergers and acquisitions (Hackbarth & Morellec, 2008), macroeconomic factors (Flannery & Protopapadakis, 2002), microeconomic factors (Sadeghzadeh, 2018), companies' performance (Sukesti, Ghazali, Fuad, Amasyhari, & Nurcahyono, 2021), and many other things.

One other factor that is relevant in affecting the value of a stock is national economic policy and the politics of a country. This is because a political event is closely related to the stability of a country's economy that in turn will affect the performance of the stocks within that country. Therefore, political events that are assumed to threaten the stability of a country such as the general election, changes in the heads of state, or political unrest tend to get a response from the market (Suryawijaya & Setiawan, 1998).

In 2024, the country of Indonesia holds a general election to determine the president and the vice president of Indonesia. It is an important political event in Indonesia that happens once every 5 years, and it will determine the course of Indonesia as a country for the next 5 years. This 2024 election is also significant as it will elect a new president because the previous president of Indonesia has served for the maximum number of terms which is 2 terms for 10 years. Therefore, this is an event that is important to the potential of the stock market in the future.

Prior research on this topic has shown conflicting results. Research from the election in 2004 by Anwar (2004) shows that there is a difference in stock returns in the period prior to and after the 2004 presidential election, while Fendiyani, Kunthi, and Hana (2020) support this result when they analyse the 2019 election shows that there is a reaction from the market because of the election. On the other hand, research from Trisnawati (2011) and Sihotang and Mekel (2015) found that there is no difference in the stock price return caused by the election of 2009 and 2014.

Expanding on the prior studies, this research will analyse the effect of the political events happening in the Indonesian presidential election of 2024. Not limited to just the election day, this research will also analyse the effect of the presidential nominees registering their candidacy, the presidential election itself, and the effect of the decision of the Mahkamah Konstitusi (MK) or the constitutional court regarding the lawsuit of the election result.

Literature review

Stock Market

As one of the cogs of the financial world, the stock market plays a large part in making the financial world go round. Through the stock market, companies can obtain the much-needed funds to help in the operation of the company while also benefitting those suppliers of funds with the ownership of the companies and the promise of a return in the future (Gitman & Zutter, 2014). Because of this, the stock market is seen as beneficial for all parties that participate in it as it benefits the suppliers of funds and also the demanders of funds.

From the perspective of the companies or the demanders of funds, they can already get the benefit of the financial market when they obtain their funding. Meanwhile, from the suppliers of funds' point of view, they can already obtain ownership of the companies when supplying their funds, however, the return aspect of their investment is not guaranteed just yet.

The purchasers of stocks can get their return in two ways, income and capital gain. Income from owning stocks comes from dividends given by the companies. On the other hand, capital gain which is the majority of returns from stocks is obtained when the value of the stocks changes (Smart, Gitman, & Joehnk, 2017). The higher the price goes, the higher the amount of return received. Therefore, stock owners generally want to be able to predict the movement of the stock prices to obtain the highest possible return.

The Election

The general election for the president and vice president in Indonesia for the period of 2024-2029 was conducted on February 14th, 2024. The election season however started with the registration of the candidates to the General Election Commission of Indonesia or the Komisi Pemilihan Umum (KPU). Three pairs of candidates officially registered themselves to run for the presidency and vice presidency of Indonesia (Komisi Pemelihan Umum, 2023). On October 19th, 2023, two pairs of candidates registered themselves. The first one is pairing number 1 of Anies Baswedan, the governor of DKI Jakarta, with Muhaimin Iskandar, the Deputy Speaker of the House of Representatives of Indonesia. The second pair that registered is Ganjar Pranowo and Mahfud Mahmodin, the governor of Jawa Tengah and the coordinating minister for political, legal, and security affairs respectively as pairing number 3. Lastly, pairing number 2 of Prabowo Subianto, the defence minister and Gibran Rakabuming, the mayor of Surakarta registered themselves as the third pair in this election on October 25th, 2023.

The election itself was conducted on February 14th, 2024 (Komisi Pemilihan Umum, 2024). Later that day, the quick count result of the election shows that the election was won by pairing number 2 of Prabowo Subianto and Gibran Rakabuming by obtaining more than half of the total votes. Due to obtaining more than 50 per cent of the votes, there will be no need for a second round of election.

With the quick count and KPU's official count showing the victory of Prabowo-Gibran (Komisi Pemilihan Umum, 2024), the two other pairings, Anies-Imin and Ganjar-Mahfud filed several lawsuits concerning the result of the election to the MK of Indonesia. However, on April 22nd 2024, the MK rejected all the lawsuit claims (BBC News Indonesia, 2024) which was followed by the official confirmation of the election result by the KPU two days later that pronounced Prabowo Subianto as the elected president and Gibran Rakabuming as the elected vice president.

Efficient Market Hypothesis Theory

The efficient market hypothesis is a theory that revolves around how the market reacts to information. The theory argues that markets are efficient where prices reflect information that is available and therefore beating the market is impossible (Fama, 1970). The hypothesis is also expanded regarding the amount of information that is reflected in the prices at the market. A weak efficiency means that only past information is reflected. Meanwhile, if past and all publicly available information is reflected in the market, the market is deemed to have a semi-strong efficiency level. If all information which includes past, publicly available, and inside information is reflected in the market price, the market is categorised to have a strong efficiency level.

How the Election Affect the Stock Market

The politics and the government of a nation, especially regarding the stability and its outlook have a pronounced influence on the condition of the nation and also its stock market. A stable politic with a positive outlook in the future shows a sign of a stable nation and also a stable economy which in turn will influence the decision of investors on whether to invest their money in that country or not. Therefore, stable politics and a well-run government will increase the value of securities in the market. On the other hand, unstable politics and a badly run government will harm the prices of securities in the market.

The 2024 presidential election of Indonesia is an event that presents a potential shake-up of the politics in Indonesia. It can go both ways, whether the potential shake-up is a positive sign or a negative sign for the things to come. To look into it, we can see the effect of the events of the election season on the stock market. Therefore, the hypothesis of this research is:

H1: The presidential candidate registration has an effect on the stock market.

H2: The election has an effect on the stock market.

H3: The MK ruling of the election result lawsuit has an effect on the stock market.

METHODS

The object of this research is stocks of companies that are included in the LQ45 index of Indonesia. The LQ45 index consisted of the leading firms in the Indonesian stock market with the highest market capitalisation and the highest liquidity or transaction value in Indonesia.

The sampling method used in this research is the purposive sampling method, which is a sampling technique that chooses the samples based on certain criteria. The sampling criteria are stocks that are listed and are actively traded in the Bursa Efek Indonesia (BEI), the Indonesian stock market, and are included in the LQ45 index. Furthermore, the observation period analysed for this research is 1 day prior to the political event and 1 day after the political event.

The political events studied in this research are events that are related to the 2024 presidential election of Indonesia. These events consist of the registration of the presidential candidates, namely the Anies-Imin (1) and Ganjar-Mahfud (3) on October 19th, 2023, and Prabowo-Gibran (2) on October 25th, 2023, the election day on February 14th, 2024, and the announcement of the MK ruling regarding the election result's dispute on April 22nd, 2024.

The type of data used in this research is secondary data. The data is the closing price of the stocks of companies in the LQ45 during the observation period. The data were obtained through the Yahoo Finance website.

To analyse the data and to test the hypothesis, this research used the paired sample t-test method, which is a statistical test conducted to compare the average of two paired data groups. This study uses an alpha value of 5%, so the criterion for accepting the hypothesis is if the sig. number is less than 0.05.

Results and discussion

The average stock price data for D-1 and D+1 of the observed events are presented in Table 1 below.

Table 1

Average Share Price at D-1 and D+1 and the Statistical Test Results

	Mean	t	sig
Registration of Pairing 1 & 3, D-1	4729.76	2.382	.022 *
Registration of Pairing 1 & 3, D+1	4665.63		
Registration of Pairing 2, D-1	4611.01	1.093	.280 ^{ns}
Registration of Pairing 2, D+1	4570.63		
Election Day D-1	4405.21	-3.165	.003 **
Election Day D+1	4471.41		
MK Announcement D-1	4325.10	-.138	.891 ^{ns}
MK Announcement D+1	4327.43		

* = significant at 5%

**** = significant at 1%**

ns = not significant

Source: Calculated by authors

From the results of the statistical tests shown in Table 1, it was found that in the registration of Anies-Imin (1) and Ganjar-Mahfud (3), there was a statistically significant decrease in the LQ45 stock price. This shows that there was a negative reaction from the market towards both candidates. This may be caused by the vision of both candidates which is promoting changes from the prior presidency. This can cause instability in the government and the economy which gives a negative signal to the market.

Meanwhile, during the registration of Prabowo-Gibran (2), there is no significant difference in the stock prices of the LQ45 companies. This may be caused by the market already expecting the registration of candidate number 2 as the presidential candidate, Prabowo Subianto, has entered the presidential race in the previous two elections. Other than that, several days before their registration, MK has just passed a new law giving an exemption for people under the age of 40 to be able to be nominated as the president or vice president as long as he or she has been an elected official. This paves the way for Gibran Rakabuming, the son of the incumbent president, who is 36 years old at the time of the registration to be the expected partner as the vice president to Prabowo.

So, for the first hypothesis, there are differing results where there is a significant decrease in stock prices for the registration of pairing numbers 1 and 3, while there is a significant difference for the registration of pairing number 2.

For the second hypothesis, it is found that the election event has a significant impact on stock prices. From the statistical results, it is shown that there was a significant positive increase in stock prices during the election. This shows that the market reacted positively to the victory of Prabowo-Gibran (2). This shows that the market sees the potential leadership of Prabowo-Gibran which promises to continue the programs of the previous government, especially in improving infrastructures across Indonesia and a commitment to improve the economy as a promise of stability and a sign of good things to come.

For the third hypothesis concerning the last event during this election season, it is found that there is no significant difference in stock prices around the time of the ruling announcement of the election result dispute by the MK. This may be caused by the market already expecting the MK to reject the lawsuit filed by the losing candidates. Furthermore, since the presidential election in Indonesia started to elect the individual president and vice president candidates instead of electing political parties, after every election there has been a lawsuit filed by the losing party and all have been rejected. So, it seems like the market already expected the same to happen for this lawsuit.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

A political event like the presidential election of a country has the potential to affect the economy and the stock market of that country. Not just the election itself, but the surrounding events during the election season can also affect the economy as they may shape the state of the nation for several years to come.

This research analyses the events surrounding the presidential election of Indonesia and sees whether those events affected the stock price of companies in Indonesia, namely companies in the LQ45. The result of this research found that during the 2024 election season, some events such as the registration of Anies-Imin and Ganjar-Mahfud and the election event do affect stock prices negatively for the registrations and positively for the election, while other events such as the registration of Prabowo-Gibran and the MK announcement regarding the election result dispute have no significant effect on stock prices.

The result of this study provides an argument that political events that promote stability or no changes from the status quo have a positive or no effect on the movement of stock prices. Meanwhile, political events that can signal a change from the norm may cause instability and bring a negative effect on the stock market.

This study is limited to the number of companies analysed as this only analyses the LQ45 index and not the whole market. The effect of political events may be different for smaller companies. Therefore, further research may include all companies. This study is also limited to the events in Indonesia. Political events in other countries may not have the same results as this research. Another avenue for future research is to find out whether the choices in the minister positions affect the market as they will play a large role in the new government.

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