THE IMPACT OF POLITICAL EVENTS ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

This study was conducted to determine the effect of events or political occurrences on the presidential and vice-presidential elections in Indonesia in 2019. This study employs an event study method, which examines an event in relation to the abnormal returns of property sector stocks on the market before and after the elections in 2019. This research was conducted seven days before and seven days after the election in 2019. The sampling technique was conducted using the purposive sampling method, yielding 20 samples. Analysis of the data in this study utilized the Shapiro-Wilk one-sample test for normality, and hypothesis testing employed the one-sample t-test and paired samples t-test. The results of the one-sample t-test and the paired sample t-test indicated that there were no abnormal stock returns during the period before and after the presidential and vice-presidential elections in 2019.

Keywords*: Abnormal Return; Average Abnormal Return; Election; Event Study; Political Events*

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INTRODUCTION

The event study examines events that pertain to economic or political occurrences and their effects on stock prices by adopting various performance measures (Basdas & Oran, 2014). From the events that occur, abnormal stock returns associated with these events can be estimated, and the significance of these events can then be tested. Investors typically expect stock prices to react to certain notable events; however, they remain uncertain about the timing and magnitude of the impact these events have on the stock (Fama, 1970).

The magnitude of the impact of an event on each type of stock is not the same. This is due to some shares being positively affected, while others are negatively affected or have no impact at all. The market reaction is indicated by the change in the price of the relevant stock, measured through abnormal returns. Until now, unforeseen events can change a company's stock price by altering the company's profit or risk potential. If the financial markets anticipate the upcoming event, it could change the stock price in the days or weeks before it actually occurs and continue to influence the stock price for some time afterward (Fama, 1970).

According to Schweitzer (1989), the stock market will quickly digest all new public information about companies and rapidly reflect it in changes in stock prices, based on the methodology often used in financial analysis to provide knowledge or insight into how capital markets react to new information by analyzing the "event study."

Previous studies of event studies have been conducted both in Indonesia and in other countries, (e.g., Schweitzer, 1989; Pantzalis et al., 2000; Sitthipongpanich, 2011; Castells and Trillas, 2013; Ghanem and Rosvall, 2014; Ramesh and Rajumesh, 2015; Sundiyah and Sudana, 2015; Ndekugri and Pesakovic, 2017; Iyengar et al., 2017), In general, these studies consistently demonstrate that capital markets respond to various types of events, with changes in stock prices—measured by abnormal returns—serving as the primary indicator of such reactions. Information plays a crucial role in stock price movements, which in turn have diverse impacts on companies, event-based investment strategies, and policy and regulatory frameworks.

Markets in a country are generally sensitive to various events, particularly political events (Roberts, 2018). Political events such as coups, wars, changes in power, leadership shifts, and unpopular political decisions will certainly affect activities in the capital market. Investors and the market will respond to any political events that occur because they contain information relevant to the investments they make in a country, including markets in Indonesia (Panda & Devi, 2018).

Indonesia, as a developing country, must not be separated from conditions caused by the political changes that have occurred. Various events related to the political situation in Indonesia, such as candidate selections, contribute to this context. The presidential election serves as an indicator for capital market players and is used to generate future profits. Investors will wait to assess the prospects for investing in the future, especially concerning foreign direct investment (Roberts, 2018). This situation can induce Indonesian domestic political risks, making it a matter of concern in both the short and long term (Amtiran and Indiastuti, 2017).

Sundiyah and Sudana (2015) explain the stock market's reaction to each political event based on market expectations regarding the content of the information obtained. The stock market will react positively if the information content is considered capable of providing future investment benefits (MacKinlay, 1997). This will encourage share purchases and trigger an increase in stock market prices. Conversely, the stock market will react negatively if the information content is deemed unprofitable in the

future, prompting share sales and causing a decline in stock market prices. The stock market will not react when the information content obtained is regarded as insignificant and does not affect future investments (MacKinlay, 1997).

The consistency of the stock market's reaction to the three political events related to Jokowi depends on how the stock market responds to each political event associated with Jokowi. The stock market's reaction to Jokowi's political events can be reflected in changes in market prices of the relevant shares and can be measured using returns as changes in stock market prices or by using abnormal returns. If each political event related to Jokowi has informative content, then the market will exhibit a significant abnormal return, and vice versa. If there is no informational content, then there will be no abnormal return (Sundiyah and Sudana, 2015).

Pantzalis et al. (2000) explain that general elections are especially important because they provide residents of a country the opportunity to vote, which can affect the country's medium- and long-term programs. They may choose the old leader again or opt for a new leader with a new work program because they no longer trust the old leader.

One investment that has seen rapid development is in the property sector, where property sector stocks listed on the Indonesia Stock Exchange have persisted despite the global economic crisis and instability in the world economy (detik.com). There are two factors that can impact the performance of the property sector on the Indonesian Stock Exchange ahead of the presidential and vice-presidential elections: (a) external factors slowing global economic growth , leading to a trend of rising interest rates and tighter global liquidity in 2019; (b) internal factors such as macroeconomic conditions leading up to the presidential and vice-presidential elections, policies and regulations, as well as the policymaking issued by the winners of the presidential and vice-presidential elections (World Economic Outlook IMF 2019). These factors cause investors to be inclined to be cautious when buying and investing in property assets (Bodie et al., 2014).

The events of the 2019 elections concerned investors because they were tied to regulations, macro policies, and policy-making that would be issued by the winners of the presidential and vice-presidential elections. If there is a change in leadership, it will certainly impact economic policies related to interest rates on homeownership loans and development in the property and infrastructure sectors. Therefore, investors with large investments will wait until there are certainties of improved political stability, while medium investors remain optimistic about the developing political conditions (Castells & Trillas, 2013).

Based on the description, the study was conducted to determine the impact of the political events of the presidential and vice-presidential elections in 2019 on the abnormal returns of the property sector.

LITERATURE REVIEW AND HYPOTHESIS

According to Sitthipongpanich (2011), an event study is commonly developed to measure whether an unanticipated event could affect stock prices and the direction and magnitude of any perceived effects on those stock prices. Research on event studies was conducted to see how quickly the market reacted to an event whose information was published as an announcement.

Researchers around the world have focused on the effects of various company announcements, such as quarterly earnings, bonus issues, rights issues, stock splits, mergers, share repurchases, and more (MacKinlay, 1997). There are also various other events that affect stock prices, such as demonetization, U.S. presidential election results,

and fiscal budget announcements. The standard methodology used to evaluate stock price reactions to public announcements is the event study (Hasan et al., 2018).

The event study method was conducted to observe investor responses related to information received that could potentially affect stock prices. It is one of the technical analyses used to assess investments in the short term, meaning that investors can decide whether to continue investing or to stop investing in a country (Sitthipongpanich, 2011). In general, there is little direct evidence of the link between political events and market movements due to the difficulty in identifying and quantifying political changes. The limited literature that does exist can be divided into two groups: (i) short -window event studies and (ii) long -horizon studies (Zach, 2003).

Castells and Trillas (2013) found that the bomb terror on the last day of the election in Spain did not have an impact or influence on overall macro policy, including the effects on stock market profit expectations. This is attributed to the Spanish stock market, including the semi-strong market. Research conducted by Mahmood et al. (2014) investigated the changes in political party leadership and their effects on stock market behavior in Pakistan. In their research, they explain how the market will be affected by domestic and international events. Their results reveal that the Pakistani market is actually one of the best choices for investing; however, due to Pakistan's unstable political conditions and a number of events that have disrupted the market's performance, investors are hesitant to invest and shift capital to other countries.

While research conducted by Ramesh and Rajumesh (2015) found that political events occurred which provided significant negative information for investors in the Sri Lankan capital market, most shares react negatively to information related to politics. Investors believe that if a political event occurs, it will add additional negative cash flow in the future. In addition, these findings accelerate market responses that support the efficient dissemination of information to stock market players, as stock prices adjust quickly to political risk information. Furthermore, market participants cannot obtain abnormal returns by trading shares after the event, even though the event does not provide an efficient market advantage under market-related information events.

The research conducted by Iyengar et al. (2017) found that the announcement of the results of the presidential election in the US did not significantly affect the company's stock price. There is no difference in the value of abnormal returns before and after the announcement of the US presidential election on capital markets in India; thus, investors cannot obtain abnormal returns when the announcement of the US presidential election occurs. Additionally, the form of the capital market in India is a semi -strong capital market. Dangol (2008), in his research, revealed that the informational effects of political events have an impact on Nepal's capital markets, where investors respond both positively and negatively to announcements of political events that occur. Furthermore, Dangol (2008) explains that the Nepal stock market is ineffective or still a weak stock market.

Hartono and Sulistiawan (2014) provide evidence that technical analysis signals before the announcement of earnings generate profit. In that situation, technical analysis signals capture price reactions prior to earnings announcements. Conversely, technical analysis signals after the announcement of earnings do not generate profits because stock prices are not influenced by new information. The study provides evidence of these conditions that impact the return of technical analysis. In short, using Indonesian market data, they show signals from technical analysis around earnings and informative announcements.

Research conducted by Sundiyah and Sudana (2015) revealed that there were four stock market reactions to Jokowi's announcement as a presidential candidate on March 14, 2014. These reactions were: (a) the majority of AAR and CAAR had significant positive values, indicating that the information was considered good news, prompting a positive market reaction ; (b) there was a stock market reaction to the announcement of the quick count results of the presidential election on July 10, 2014, which included three days of significant positive AAR and three days of significant negative AAR, with the majority of negative CAAR indicating that the information was deemed bad news , leading to a negative market reaction ; (c) there was a stock market reaction at the announcement of the work cabinet on October 27, 2014; specifically , the majority of AAR and CAAR that had significant positive values indicated that the information was viewed as good news, resulting in a positive market reaction ; and (d) the positive reaction of the stock market to Jokowi's announcement as a presidential candidate is consistent with the stock market's reaction to the announcement of the work cabinet but inconsistent with the stock market's reaction to the announcement of the results of quick election elections, due to the negative market reaction .

Based on the literature review, in the context of the research hypothesis, this study is as follows:

Ho: There is no difference between the average abnormal return before and after the elections.

Ha: There are differences in the average abnormal return before and after the elections.

METHOD

This study uses the event study method to analyze the presidential and vice-presidential elections that occurred on April 17, 2019. It will test whether the market reacts to the presence of these political events, particularly in the stocks of the property and real estate sectors listed on the Indonesian Stock Exchange.

The population in this study comprises all property and real estate companies listed on the Indonesia Stock Exchange. The sampling technique employed was purposive sampling, resulting in 20 samples. The data collection method utilized secondary data, which was acquired from the Indonesia Stock Exchange and included stock transactions and the number of properties and real estate shares circulating during the research observation period.

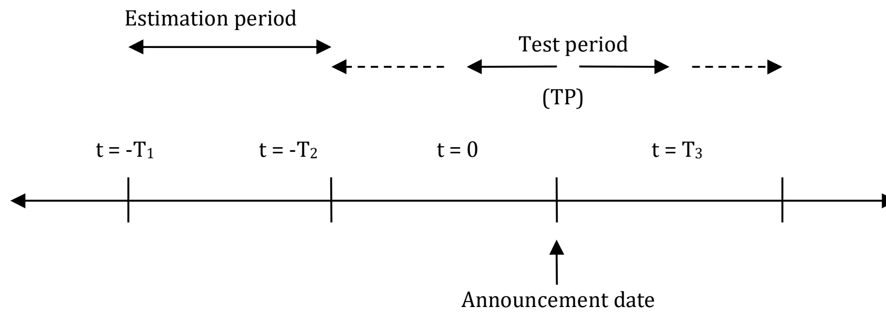
This study employs the event study method with the observation period divided into two parts: the estimation period, namely before the election of the president and vice president, and after the election of the president and vice president in 2019. The data analysis techniques used are the One-Sample Shapiro-Wilk test for normality and hypothesis testing using the One-Sample T-Test and Paired Samples T-Test (Field, 2018).

The steps employed in the event study analysis are as follows:

(1) Identifying the event and selecting sample forms or stocks, this first step is necessary for researchers to pinpoint specific events and determine the dates on which they occurred. Next, identify and collect data from companies used as research samples.

(2) Identifying the time period of the event that occurred is essential. This time period is referred to as the event window; a time frame is necessary to measure the existence of abnormal returns that occurred before and after the event. The impact of an event on stock prices and returns will be examined during the test

period. It spans from -T1 to T3 around the announcement date, as shown in Figure 1.



Source: Adapted Sitthipongpanich, 2010

Figure 1
Time Period of an event study

(3) Estimating the actual expected return for each sample stock during the study period.

a. Mean-Adjusted Returns:
If the market is efficient and stock returns vary randomly around the actual value, then the average stock returns calculated from the previous period can be used as expected returns, which are formulated by the equation:

$$E(R_{i,t}) = \overline{R_\iota}$$

b. Market-Adjusted Returns:
Individual stock movements are often associated with joint movements in the market. Therefore, abnormal returns are calculated by subtracting market returns on day t (R_M, t) of stock returns, as shown in the following equation:

$$E(R_{i,t}) = R_{i,t} - R_{M,t}$$

c. Market Model Return:
This model illustrates the relationship between stocks and markets in a simple linear regression equation between stock returns and market returns, which is illustrated in the following equation:

$$R_i = \alpha_1 + \beta_i R_m + e_i$$

(4) Calculating the abnormal return (AR); An abnormal return for an individual is the difference between the actual return on time (t) in the event window and the expected return of an individual stock, shown in the following equation:

$$AR_{i,t} = R_{i,t} - E(R_{i,t})$$

To measure the amount of cumulative abnormal return (CAR) the following equation is used:

$$CAR_i = \sum_{t=1}^{N} AR_{i,t}$$

(5) Testing the significance of abnormal returns
To test the significance of abnormal returns, most studies use a statistical approach.

RESULTS AND DISCUSSION

Normality Test

The normality test is a fundamental inferential statistical procedure used to evaluate whether a sample data set originates from a normally distributed population (Field, 2018). The test is performed using several methods, one of which is the Shapiro-Wilk test. This test is preferred for smaller sample sizes (usually N < 50) because it is considered more powerful than the Kolmogorov-Smirnov test for small samples. The normality test method used is the Shapiro-Wilk (Field, 2018). From the results of the Shapiro-Wilk normality test, the results shown in Table 1 are obtained, as follows:

Table 1
Shapiro-Wilk Test

No		Shapiro-Wilk Test	
		Average Abnormal Return	*Sig.*
1	Before Elections	.967	.874
2	After Elections	.837	.093

Source: Data Analysis, 2019

Table 1 is the result of normality testing for property abnormal average return before and after the election of the president and vice president on April 17, 2019. Based on table 1, it shows that the average abnormal return (AAR) during the study period is seven days before and after the presidential and vice-presidential elections are normally distributed. This is indicated by the results of the Shapiro -Wilk test, where a significant value of seven days was obtained before the presidential and vice-presidential election of 0.874 and seven days after the presidential and vice-presidential election of 0.093, where the significant value was greater than 0.05, meaning the average data return seven before and after the 2019 presidential and vice-presidential election it was normally distributed. Basic decisions for normality tests (a) If the value of sig is > 0.05, then the data is normally distributed; (b) if the value of sig is < 0.05, the data is not normally distributed. From the results of the normality test, the significance value is > 0.05, it can be concluded that the data is normally distributed.

One Sample T-Test

One-sample t-test hypothesis testing is an analytical technique used to compare one independent variable. The methods used to determine whether certain values differ significantly from the average of a sample vary (Field, 2018). The results of the one-sample t-test in this study are presented in Table 2, as follows:

Table 2
One Sample T-Test

		N	Mean	Std. Deviation	Std. Error Mean
AAR	Before	7	.4827	.00779	.00294
	After	7	.4805	.00631	.00238

Source: Data Analysis, 2019

Based on the statistics results, it can be seen that the mean AAR period of seven days before the election is 0.4827 or 48.27%, while the AAR period of seven days after the election is 0.4805 or 48.05%. From the comparison of the AAR averages of the two periods, there was no difference between the AAR before and after the election. According to the calculated results, the F value of Levene's Test is 0.022 with a significance value of 0.885. Because the significance value is greater than 0.05, it can be concluded that Ho accepted: the AAR population variance before and after the election is the same (there is no difference).

Paired Sample Test

The paired sample test was conducted to determine whether there were differences in the averages of two samples that were paired or related (Field, 2018). From the results of the paired sample test concerning average abnormal returns before and after the presidential and vice-presidential elections, the results shown in Table 3 are as follows:

Table 3
Paired Sample Test

	df	Sig. (2-tailed)
Before Elections After Elections	6	.660

Source: Data Analysis, 2019

The results shown in Table 3, using a different test, the paired sample t-test, compare the AAR seven days before and the AAR seven days after. The output results obtained a significant value of 0.660, greater than 0.05, which means that there is no significant difference in AAR before and after the presidential and vice-presidential elections.

The impact of political factors is a temporary element that will affect the stock market. In developing countries, domestic events such as political situations and imbalances in macroeconomic factors pose greater risks to the economy than international events. Political occurrences consistently impact the stock market index, both in the short and long term. Negative abnormal returns are caused by instability in the government. As a result, investors become reluctant to make long-term investments in a country and may divert their investments to other countries.

Political events and populist policies that are typically launched before elections in a country can trigger uncertain sentiment among investors in the market, where the market is less able to take advantage of capital transactions, thereby reducing overall market performance. Investors will respond quickly to events and information related to politics. If the information received contains "good news," then investors respond to the information swiftly and positively, which can enhance market performance. Conversely, if the information received contains "bad news," then the investor reacts negatively, causing market performance to decline and resulting in asymmetric stock market

returns. Therefore, it is particularly important for policymakers to find ways to reduce unnecessary political uncertainty.

From the statistical results, it is found that there is no difference in the Average Abnormal Return of Property Stocks before and after the presidential election in 2019. This shows that despite a slowdown in the growth of the property sector in Indonesia, market participants did not respond negatively to the 2019 presidential and vice-presidential elections; instead, property sector players tended to wait for the determination of the presidential election results. Thus, it can be said that the occurrence of the presidential election event did not significantly affect property stocks on the Indonesia Stock Exchange. This is indicated by the positive response of market players who acted rationally by increasing the property index by 4%, though market participants and investors are still awaiting the official results of the elections in 2019.

Changes in property sector shares tend to be caused by macro policies such as the ratio of credit to value in the property sector in order to encourage credit growth, the potential for changes in domestic interest rates and the policy of rising interest rates by the United States. Investors who invest in the property sector believe that the property market will continue to grow after the presidential and vice-presidential elections in 2019, in order to get a greater return compared to market returns. Therefore, they will carry out both fundamental analysis and technical analysis. This study is in line with research conducted by Iyengar et al., (2017); Castells and Trillas (2013) which states there is no difference in average abnormal returns before and after political events.

CONCLUSION AND SUGGESTION

There is no difference in the average abnormal return of property shares in the seven-day period before the presidential and vice-presidential elections on April 17, 2019. There is also no difference in the average abnormal return in the seven days following the presidential and vice-presidential elections on April 17, 2019. Furthermore, there is no difference in the average abnormal return of property stocks in the seven days before and after the presidential and vice -presidential elections on April 17, 2019.

The change in the average abnormal return of property stocks on the Indonesia Stock Exchange is primarily due to macro-policy factors issued by the government as well as external factors, especially changes in federal interest rates from the United States government. Market participants, particularly investors involved in the property sector, tend to wait for the announcement of the results of the presidential and vice-presidential elections in 2019 to take action and respond to the information they receive, enabling them to make informed decisions about the future of their investments.

For further research, comparative studies could be conducted to determine whether market reaction patterns to political events remain consistent or change over time. This approach could also be applied to other sectors, such as banking, which may be more sensitive to political sentiment.

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