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MARKET REACTIONS TO DOMESTIC AND GLOBAL POLICY EVENTS: AN EVENT STUDY OF THE INDONESIAN CAPITAL MARKET IN EARLY 2025

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ABSTRACT

This study examined the reactions of the Indonesian capital market to selected domestic and global policy events during January–February 2025, a period marked by the early phase of a new administration and heightened policy uncertainty. Using an event study approach, the analysis focused on five key events: the implementation of the Biodiesel B40 policy, the announcement of a foreign exchange retention requirement for export earnings, the Federal Open Market Committee (FOMC) statement, the release of January 2025 inflation data, and Bank Indonesia's monetary policy decision. Results indicated that the Biodiesel B40 policy and low inflation release generated positive sentiment, reflected in rising prices, higher trading activity, and increased foreign buying. Conversely, the export earnings retention policy triggered negative market responses, particularly increased foreign selling in export-oriented sectors. Findings suggested that the market displayed characteristics of semi-strong form efficiency, responding promptly to public information but with some delayed adjustments. The study concluded that both domestic and global policy events significantly shaped short-term market dynamics, though reactions varied by event type. Future research was recommended to employ statistical tests on abnormal returns and trading activity for stronger empirical validation.

1. INTRODUCTION

The event study conducted during the first two months of 2025 holds substantial relevance, as this period coincides with the early stage of a new administration in Indonesia, during which strategic policies began to be announced and implemented. Such a transition period typically heightens policy uncertainty, making the market more sensitive to news and events (Cao & Tut, 2024). In addition to domestic factors, this timeframe also overlaps with the global policy cycle, including Federal Open Market Committee (FOMC) meetings and the release of key economic data, both of which influence international capital flows. Furthermore, the beginning of the year marks a portfolio rebalancing period for institutional investors, meaning that any event occurring within this window has the potential to reinforce market trends in terms of price, volume, and foreign investor activity.

At the start of 2025, the Indonesian capital market experienced a series of significant events that had the potential to influence stock prices, trading frequency, and foreign investor activity. One of the most notable strategic policies was the initial implementation of the Biodiesel B40 program, in which the government, through the Ministry of Energy and Mineral Resources (ESDM), mandated the use of a 40% palm oil–based biodiesel blend in diesel fuel. This policy involved palm oil industry players, biodiesel producers, the transportation sector, and logistics companies, generating positive sentiment particularly for plantation and energy sector issuers(Sahara et al., 2022). Beyond improving company revenue prospects, the policy was expected to support CPO (Crude Palm Oil) prices and strengthen the trade balance, ultimately stimulating investor demand.

Shortly thereafter, the government announced a policy requiring all foreign exchange earnings from natural resource exports to be retained domestically for at least one year. This policy focused on strengthening foreign reserves and stabilizing the rupiah, engaging stakeholders such as Bank Indonesia,

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the Ministry of Finance, banks, and exporters, particularly in mining, plantation, and fisheries sectors. While beneficial for macroeconomic stability, the policy raised investor concerns over exporters' financial flexibility and liquidity, potentially putting pressure on stock prices in related sectors and influencing short-term investment strategies(Nik et al., 2023).

Market dynamics were also affected by external factors, including the Federal Open Market Committee (FOMC) statement following its monetary policy meeting. The FOMC's decisions and outlook on U.S. interest rates have direct implications for global capital flows, as changes in returns in the U.S. market can trigger international fund reallocations.(Brusa et al., 2019) For the Indonesian capital market, sentiment stemming from U.S. monetary policy can influence the rupiah exchange rate, foreign capital flows, and investor risk perceptions.From a domestic perspective, the release of Indonesia's January 2025 inflation data by the Central Statistics Agency (BPS) further boosted market optimism. With inflation recorded at just 0.76% year-on-year, the lowest in 24 years, price stability was evident, providing Bank Indonesia with room to maintain or even cut interest rates. This condition fostered positive sentiment for sectors sensitive to interest rates, such as banking, property, and consumer goods, while enhancing the capital market's attractiveness to both domestic and foreign investors.

The culmination of early-year events occurred when the Bank Indonesia Board of Governors decided to maintain the BI-7 Day Reverse Repo Rate (BI-7DRRR) at 5.75%. This decision reflected the central bank's prudence in safeguarding macroeconomic stability and the rupiah exchange rate, while signaling policy consistency to the market. For capital market participants, the decision became an important factor in shaping investment strategies, particularly in relation to foreign capital flows and risk asset preferences. In summary, these domestic and global events created a dynamic capital market landscape in the first two months of 2025, where the interaction of local and international factors presented both opportunities and challenges for investors.

2. METHODS

This study applies an event study approach to analyze the impact of economic and policy events on the Indonesian capital market during the January–February 2025 period. The events analyzed include the implementation of the Biodiesel B40 policy, the announcement of the foreign exchange retention policy for export earnings, the FOMC statement, the January 2025 inflation release, and Bank Indonesia's monetary policy meeting. The data set comprises closing prices, trading frequencies, and foreign buy and foreign sell values from the Indonesia Stock Exchange (IDX) for all trading dates relevant to the observation period with the figures representing the average values across all listed issuers on the exchange. The analysis maps each event to the nearest trading date and examines changes in these variables before, during, and after the event. The observation period is divided into event windows that cover the days preceding and following the event to identify market reactions occurring in both pre-event and post-event periods. The analysis is conducted descriptively and comparatively, highlighting trend differences and identifying potential spillover effects that occur outside the primary event date.

3. RESULTS AND DISCUSSIONS

Impact of Events on Closing Price

Figure 1. Closing Price in Average Values across all listed issuers in IDX

The movement of closing prices during January–February 2025 demonstrated a significant response to several key events. The implementation of the Biodiesel B40 policy in early January generated positive sentiment, particularly for plantation and energy sector issuers, as reflected in the rise in closing prices in the days following its implementation. This impact was multi-point in nature, as the B40 policy represents an ongoing initiative rather than a one-time announcement. On January 21, the announcement of the mandatory retention of export earnings for at least one year placed downward pressure on stock prices, particularly for export-oriented companies. This pressure persisted beyond the announcement date, continuing for several days afterwards (Mansilla-Lopez et al., 2025). Subsequently, the FOMC statement on January 29 triggered notable price volatility on the event day, although trends returned to stability within two to three days. The release of low January 2025 inflation (0.76% y/y) on February 3 provided Bank Indonesia with room to maintain or lower interest rates, resulting in moderate increases in closing prices over the following two to three days. Bank Indonesia's policy meeting on February 19 had minimal impact on price trends, as the decision to hold rates met market expectations.

Impact of Events on Trading Frequency

Figure 2. Trading Frequency across January-February 2025

Trading frequency also exhibited response patterns consistent with movements in closing prices, though with varying intensity. The early January implementation of the Biodiesel B40 policy stimulated higher trading activity, as reflected in a rise in transaction frequency compared to prior days.(Ito et al., 2024) This suggests a market reaction that began early in the year, even before the official announcement, and continued after implementation. The January 21 announcement of the export earnings retention policy was followed by a decline in trading frequency, possibly due to a wait-and-see stance by market participants. The January 29 FOMC statement caused a sharp spike in transaction frequency on the event day, though the effect subsided quickly. The February 3 low inflation release triggered a moderate increase in trading frequency, whereas the February 19 Bank Indonesia policy meeting produced no significant change, suggesting the outcome was largely anticipated.

Impact of Events on Foreign Buy and Foreign Sell

Figure 3. Foreign Investor Activities during January to February 2025

Foreign investor behavior, as represented by foreign buy and foreign sell variables, showed notable responses to major events during this period(Sukmadilaga et al., 2022). In early January, the implementation of the Biodiesel B40 policy prompted increased foreign buying in relevant issuers, accompanied by capital inflows in the days following the event. However, the January 21 export earnings retention policy announcement spurred an increase in foreign selling, reflecting concerns over liquidity and financial flexibility for exporters. The January 29 FOMC statement prompted mixed reactions: some foreign investors took profit, while others held positions pending greater clarity on global monetary policy. The February 3 low inflation release moderately boosted foreign buying, given that stable or lower domestic interest rates could enhance the appeal of Indonesian assets. The February 19 Bank Indonesia policy meeting elicited clearer reactions in both foreign buy and sell activity in the days after the event, indicating that despite the decision aligning with expectations, foreign investors still adjusted their portfolios (Tsai et al., 2019).

4. CONCLUSION

The analysis shows that most events in January–February 2025 had a significant impact on at least one of the observed capital market variables, and some events influenced all variables simultaneously. The implementation of the Biodiesel B40 policy and the low inflation release tended to generate positive sentiment, evident in rising closing prices, increased trading frequency, and greater foreign buy activity(Wuri et al., 2024). Conversely, the export earnings retention policy prompted a negative reaction, particularly from foreign investors, as indicated by higher foreign selling and pressure on related sector stock prices. Global events such as the FOMC statement produced varied impacts depending on market interpretations of U.S. monetary policy direction. The Bank Indonesia decision to hold the policy rate at 5.75% yielded moderate market reactions, consistent with the decision being in line with expectations. Based on the observed patterns, there is evidence that the Indonesian capital market exhibits characteristics approaching the semi-strong form of the Efficient Market Hypothesis (EMH). This is reflected in the market's relatively quick responses to public information releases such as government policy announcements, economic data publications, and central bank decisions(Narthana et al., 2025). However, the persistence of reactions for several days after certain events suggests that price adjustments are not entirely instantaneous, indicating that market efficiency is not yet perfect (Kim et al., 2018). This study has several limitations. First, it does not employ quantitative methods to test direct causal relationships between events and changes in the observed capital market variables. Second, it does not quantitatively measure the level of market efficiency in Indonesia within the EMH framework, meaning that conclusions regarding market form remain indicative rather than definitive. Future research is recommended to conduct quantitative analysis using event study methods complemented by statistical testing of abnormal returns and trading volume activity to strengthen empirical evidence of event impacts. Additionally, formal testing of market efficiency levels, through approaches such as the market model, autocorrelation tests, or variance ratio tests, could provide a more accurate assessment of Indonesia's position within the EMH framework. Expanding the study to cover longer periods and a wider range of events would also allow for more comprehensive findings.

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