INTERNATIONAL JOURNAL OF SOCIAL SCIENCE HUMANITY & MANAGEMENT RESEARCH
ISSN (print) 2833-2172, ISSN (online) 2833-2180
Volume 05 Issue 11 November 2026
DOI: 10.58806/ijsshmr.2026v5i11n01, Impact Factor: 7.888
Page No. 2695-2701

Stock Market Reaction to the Announcement of the Change of Minister of Finance of the Republic of Indonesia (An Event Study Analysis)

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ABSTRACT: The objective of this study is to measure the response of the capital market to the announcement of the change in the Minister of Finance of the Republic of Indonesia by means of event study. Market response is calculated through abnormal return (AR), cumulative abnormal return (CAR), trading volume activity (TVA), and standard deviation (SD) of stocks of companies in the banking sector that are listed on Indonesia Stock Exchange (IDX). The event date for this study is set as September 8, 2025, where the change in the Minister of Finance was announced. The data observation period will employ an event window of 30 days before and 30 days after the event. The research sample will include banking stocks that were actively traded throughout the research period and that had all the required data. The secondary data used for the analysis will be the stock prices and trading volumes that are available from Indonesia Stock Exchange. The analytical procedures involve calculation of actual return, market return, abnormal return, average abnormal return, cumulative abnormal return, and trading volume activity. Testing of hypothesis is done by using One-Sample t-Test for AR and CAR and Paired-Sample t-Test for examining the difference in trading volume activity and standard deviation of stock prices before and after the event. It is shown from the results that there is a significant abnormal return and cumulative abnormal return at the announcement date, which implies that there is a capital market reaction to the event. Furthermore, the existence of significant difference in trading volume activity and stock standard deviation before and after the announcement indicates the change in trading activity and stock volatility of banks in the capital market. This research supports efficient market hypothesis and signaling theory, as information about the change of the Minister of Finance is useful information for investors.

KEYWORDS: Event Study, Abnormal Return, Cumulative Abnormal Return, Trading Volume Activity, and Standard Deviation

INTRODUCTION

Transitions in politics may affect capital market dynamics through the expectations of investors in relation to government fiscal policies, economic stability, and capital markets. In Indonesia, the appointment of Purbaya Yudhi Sadewa as the Minister of Finance on September 8, 2025, replacing Sri Mulyani Indrawati, was an important occurrence for the investors. The reason behind this is the fact that the position of the Minister of Finance is a very important one in relation to economic and fiscal matters.

The behavior of the Indonesian capital market in reaction to political and economic information can be evaluated using variables such as stock price, abnormal stock return, trading volume, and volatility. This will help understand the behavior of investors in processing and responding to such information. This becomes very important for the banking industry because there is a strong link between stock returns and macroeconomic, fiscal policy, and financial stability issues. Nevertheless, the market reaction to a political event does not mean that there is causality because there are other economic variables involved.

According to the Efficient Market Hypothesis, public information becomes reflected in security prices rapidly and the timing and nature of the adjustment are based on how market actors perceive the information. Event studies provide a framework for evaluating the adjustment process through the study of abnormal returns, trading behavior, and stock return volatility around the event. In the case of ministerial change, these indicators may be used to gauge the level of material information contained in the announcement and whether there was a difference between the periods before and after the event.

Despite being common in capital market studies, literature on the effects of changes in key political positions on the market behavior is contextual in nature. Specifically, the effect of the change of position of the Minister of Finance on the behavior of the stocks of Indonesian banks in 2025 requires special attention. Analysis of state owned banks such as Bank Mandiri (BMRI), Bank Negara Indonesia (BBNI), and Bank Rakyat Indonesia (BBRI) can provide an insight into market behavior in the industry.

Hence, the current research paper analyzes the effects of the announcement made on September 8, 2025, about the transition of the Minister of Finance in the Indonesian capital market, specifically the abnormal returns, trading activities, and the volatility of returns

of some selected state-owned banks. The comparison of market performance variables before and after the event announcement will provide empirical data for the literature on political events, information processing, and market efficiency.

LITERATURE REVIEW

Capital Market

The capital market is an organized financial intermediary, broadly known as the market place of different types of tradable long-term financial assets like bonds or stocks. The significance of the capital market lies in its function as the intermediary between surplus units who have money in excess and deficit units who need money for their long-term investments. The capital market helps to collect money from the people for productive uses through the process of capital formation and ultimately economic development. In Indonesia, its functioning is well-regulated by the Financial Services Authority (OJK) based on Law No. 8 of 1995 on the Capital Market (Capital Market Law, 1995).

In conceptual terms, there are basically two approaches through which the capital market can be explained. The first approach is the primary market in which security, like stocks and bonds, is initially issued to the general public via Initial Public Offerings (IPOs). Proceeds generated in the primary market reach the treasury of the firm. On the other hand, the secondary market is where trading of securities that have already been issued happens among the investors. The secondary market works on the stock exchange and does not earn any proceeds for the issuing firm, rather it earns liquidity for the investor by selling his/her asset. The importance of secondary markets lies in the fact that they make investments in the primary market attractive (Bodie et al., 2021).

As (Tandelilin, 2017) states, apart from being a means for raising funds and liquidity provision, the function of the capital market goes further. First of all, the capital market functions as a barometer of a country's economy. The movement of prices on stocks and bonds frequently demonstrates the business outlooks and investors' attitudes towards business and efficiency of the government policies. As a result, the reaction of the capital market to the macroeconomic events, such as the change in interest rates or, in this case, to the replacement of the Minister of Finance, becomes an important signal of the state of the economy and finance.

Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH) is one of the most important theories in finance. The EMH asserts that prices of financial instruments like stocks include all the information in the system. This hypothesis was formulated in detail in 1970 by Eugene Fama. In general, the EMH suggests that it is impossible to make abnormal profits (gains higher than the return on risk) as the prices in the capital market respond instantly and correctly to any news. Since there is no possibility of mispricing, as prices include all the necessary information, there is no chance to earn anything more than intrinsic value, and active investing is practically useless (Fama, 1970). Thus, under efficient market conditions, the prices of stocks will be changing instantly according to every new piece of information. That is why there is no chance of earning abnormal profits as stocks always trade at their intrinsic value.

Efficient Market Hypothesis (EMH) is classified into three main categories depending on the nature of information contained in security prices. The first category is the weak-form efficiency which takes into account past price and volume information. It implies that technical analysis is not capable of earning profits. The second category of efficiency is the Semi-strong form efficiency which applies in this case study. The semi-strong form of efficiency states that all publicly available information is already reflected in security prices. For example, a change in government ministers. In this case, the announcement of the appointment of a new Minister of finance would have been incorporated in the stock prices. Thus, fundamental analysis of publicly available information becomes futile in earning abnormal profits (Fama, 1991).

The Efficient Market Hypothesis (EMH) is broadly divided into three types based on the kind of information available in the prices of securities. The first type is Weak Form Efficiency which takes into consideration past price and volume information. It means that it is not possible to make money by using technical analysis. The second type of EMH is the Semi-strong Form Efficiency which applies in this case study. The Semi-strong form efficiency is where all publicly available information has been already priced in security prices. For instance, change in government ministers. In this case, the appointment of a new Minister of finance would have already been incorporated in the stock prices. Therefore, it becomes fruitless to use fundamental analysis in making money.

Signalling Theory

Signal theory is a finance concept that addresses the ability of individuals or organizations with better knowledge of their intrinsic value or future potential to send signals to other entities or people with lesser information through the use of communication or actions. This concept has come about due to the information advantage of one entity over another (Bodie et al., 2021). In capital markets, a significant event such as a funding choice or a reaction to a change in the Minister of Finance, as in this case, serves as a signal. According to signaling theory, a credible manager or policymaker performs actions which are too expensive for any other inferior party to replicate, thereby guaranteeing the credibility of the signal. This results in changing the expectation of investors, leading to stock price movements. Overall, the signaling theory provides the rationale behind the concept of signal which is an action or information used to influence the decision-making of another party. In capital markets, a signal is information provided by the firm or the government.

The signaling theory states that the information that the entity communicates through publications sends subliminal signals that might affect how investors perceive and make decisions. Developed by (Spence, 1973), signaling theory has found many applications in research on capital market policies and government policies. The information such as strategy announcement, creation of new entities or economic policies is taken as the signaling about the quality and future of a nation or institution (Connelly et al., 2010). With respect to capital markets, a change in the Minister of Finance should be viewed as a significant signal. In case this piece of information is considered to imply that there might be improvements in the way state resources are managed as well as the way the state-owned firms are performing, this information should be viewed as a positive signal that increases market confidence (Habermann & Steindl, 2025). Otherwise, the market reaction will be negative (Bhatia & Anu Thakur, 2018).

Event Study

Event study is a research methodology that aims to evaluate market responses to a particular event by measuring abnormal return and volume. According to (Mackinlay, 1997), event study seeks to determine whether any information has any new information content and its effects on stock prices.

The term 'event study' as per (Sunaryo, 2021) is stated as a research that analyzes how the market reacts to the event, where the information will be available in terms of a public announcement. The internal and external situations of the issuer could both affect the investor's decision making because the investor would evaluate the information in assessing the event. Internal events are related to activities such as dividends and financial statement releases. On the other hand, the external events are normally economic such as monetary policies, inflation, and interest rate changes. The non-economic external events include government or political and national security events.

Abnormal Return (AR) means the difference between the return on an asset in reality for a certain period of time and the expected return derived from the existing asset pricing model under normal conditions. Concerning the Efficient Market Hypothesis (EMH) and event studies approach, the real return (R_{it}) represents the return made by security i on day t, whereas the expected return ($E[R_{it}]$) represents the return that could have been made if a certain event (for example, change in ministers) did not happen. The abnormal return is calculated as follows: $AR_{it} = R_{it} – E[R_{it}]$. Thus, the AR figure is the main indicator that can be used for measuring the response of the market to new information. If AR is positive, it means that the market responded better than expected, but in case AR is negative, it means that the market response was worse than expected.

Abnormal Return (AR) is significant since it helps to examine the semi-strong form of capital market efficiency. Under efficient markets, the expected return will be equivalent to the actual return such that the AR will not be statistically significant (will be close to zero). Statistically significant AR that occurs during the event window implies that the event has some information which influences asset valuation in the market; thus, this represents inefficient markets. Event studies try to determine whether AR occurs, its direction and duration as empirical evidence of the market reaction to a particular announcement. According to (Mackinlay, 1997), this is evident through the assertion that measurement of AR is essential for testing EMH.

Abnormal return as defined by (Hartono, 2018) is the excess return above the normal return where the normal return is the expected return by the investors. Event studies may be used to measure the abnormal return of securities in the case where there is an event announced. Abnormal return is also the difference between the actual return and expected return (Suganda, 2018).

Trading Volume Activity

Trading Volume Activity (TVA) is a concept explained by (Suganda, 2018) as a tool for measuring the market reaction in terms of reactions to information or incidents taking place in the market. Stock price changes that affect the stock supply and demand in the capital market happen due to information and incidents. Every transaction that happens in the stock market because of the factors influencing the stock movement is referred to as Trading Volume Activity.

Trading Volume Activity (TVA), popularly referred to as trading-volume activity, is an index that helps analyze the reaction of the capital market to the information available in it by studying stock trading volume. Trading Volume Activity is often used as a liquidity index for stocks. The higher the stock trading volume, the more liquid the stock becomes, resulting in high trading volume activity.

An event is the reason why the trading volume behavior of the stock is affected, and this is based on the actions taken by the investors. The changes in the daily volume and frequency of transactions take place since the investors get information which acts as a benchmark for their decisions. It is not a result of the spread of public information, but the revelation of private information through the process (Dewi et al., 2017).

TVA (Trading Volume Activity) is the measure that is used to calculate the liquidity of stocks and the interpretation of information by the investors, including the statement regarding the increase in the rate of BI. Formula of TVA calculation:

$TVA = (\Sigma \text{ Shares Traded}) / (\Sigma \text{ Shares Outstanding})$

Source: (Cahyaningdyah & Cahyasani, 2017)

Standard Deviation

The standard deviation is a statistical tool used in quantifying the degree of variation or dispersion of the data within a dataset concerning the average. In statistics, standard deviation measures how much individual values differ from the average of the whole data set. The higher the standard deviation, the greater the variance or the spread of the data, whereas the lower standard deviation implies closer the data is to the average value. The significance of this tool in statistics is that it gives more detailed information about the data distribution compared to just the average (Walpole et al., 2011).

In financial and capital markets analysis, standard deviation is used as an instrument that shows how volatile the asset in question is. In other words, the more the fluctuations in stock prices or returns, the higher the uncertainty is for investors, and the higher the risk. An asset with a higher standard deviation is perceived to be risky since its returns are not stable, while an asset with a smaller one implies lower risks (Hull, 2023).

Standard deviation is computed using the probability distribution of the data set, whereby all data values are first subtracted from the average, squared, summed, and later divided by the total number of data points less one, after which square root is taken. This procedure results into an exhaustive dispersion of the data that cannot be obtained through simply looking at the range or variance of the data. In addition, the computation of standard deviation forms the basis of various statistical and financial models, including Value at Risk, CAPM, and market risk measurement (Ross et al., 2022).

RESEARCH METHOD

Type and Approach of the Research

This research is done using quantitative research design through event study method. Data will be used that will consist of Jakarta Composite Index (IHSG), stock closing price, and trading volume of SOE companies at the Indonesia Stock Exchange for 31 days-exactly 15 days before and after the appointment of the Minister of Finance. This research will measure abnormal return and change in volume trading, as a response to the appointment of the Minister of Finance during the reign of President Prabowo Subianto on September 8, 2025.

Data Analysis Technique (Event Study)

The Data Analysis Method, called the Event Study, is a statistical and econometric approach for measuring the effect of a certain event on the value/return of a financial instrument, especially stocks. Data Analysis Method includes calculating returns, expected returns, abnormal returns, and Trading Volume Activity (TVA) using statistical tools like t-test. The study analyzes the same stocks (BMRI, BBNI, BBRI) in two periods of time. As the subject matter is the same in both cases, there is no independence of data. The paired-difference test is specifically constructed to detect changes in an individual/unit that happen after "treatment." In our case, "treatment" is a change in the position of the Minister of Finance.

The analysis tool that will be applied in the current study is the Paired Difference Test. It is the right test because of the longitudinal or paired characteristics of the data used in this research in which the variables of Abnormal Return, Cumulative Abnormal Return, Trading Volume Activity, and Standard Deviation are tested on the same stock subjects for two separate times (before event and after event).

RESULTS AND DISCUSSION

Development of Banking Stock Prices during the Research Period

The behavior of the prices of the banking stocks during the study period shows the investors' reactions to different types of information in the market. Before the announcement of the change in the Minister of Finance, the prices of the banking stocks were quite stable in line with the expectations of the investors in terms of economic policies.



Figure 4.1 Development of Banking Stock Prices / IHSG Period 14 August 2025 – 29 September 2025
Source: Indonesia Stock Exchange (data processed), 2026.

According to the price behavior pattern of banking stocks, as seen from Figure 4.1, the pre-announcement stage of banking stock prices had relatively constant fluctuations. Hence, the pre-announcement market condition is seen as being normal, with no information pressure in the market. However, in the post-announcement period, the price fluctuation level is higher compared to the pre-announcement period. The increase in the price fluctuations indicates that investors revise their expectations about the future policies of fiscal policy stability. This revision of expectation is caused by the political information that is seen as having an impact on the performance of the banking sector because of its link to government financial policies.

Stock price variations that took place during the research period are used as a source of data for the calculation of daily stock returns and abnormal returns. Stock price variations analysis gives a first impression before further analysis is carried out through the event study approach.

The results of the event study analysis show that the event under consideration generated a considerable response from the market in terms of returns and banking stocks transaction. This is confirmed by the statistical tests of the Abnormal Returns (AR) and Average Abnormal Return (AAR), whose results proved to be statistically significant. The conclusion is drawn that the investors received abnormal returns relative to the normal conditions on the event date. As explained in the semi-strong form of efficient market hypothesis (Astawa & Suaryana, 2024), the capital market rapidly absorbs all the available information, and abnormal returns appear in response to changes in the stock prices due to new information.

Moreover, the high Cumulative Abnormal Return (CAR) implies that the event has had a detrimental effect on the performance of the stock, which means that the information provided to the market is not good for investors. Within the framework of the information content theory, the significance of the CAR result helps further prove that the event under investigation contains valuable information that can affect the decision-making process of investors over a prolonged period of time.

From the perspective of trading activity, the Trading Volume Activity (TVA) test outcomes indicate that there is a statistically significant difference between the period before and the period after the event for all the sample issuers. The increase in trading activity is due to change in behavior of the investor in reaction to the information, which is shown in terms of purchase or sale of securities. This is consistent with market microstructure theory in which new information increases the intensity of trading activity.

The findings of the standard deviation (SD) test reveal that there has been an increase in the volatility of stock returns for some firms such as BMRI and BBRI but not for BBNI. The implication is that while the reaction of the market to the event can be said to be consistent with the theory that the market reacts to events, the perception of uncertainty varies depending on the stock considered. This is because, in addition to price and volume, market reactions may also be revealed through risk variations.

Based on the analysis, the announcement of change of the Minister of Finance of the Republic of Indonesia has created a considerable reaction in the capital market specifically among the banking sector stocks that formed the research sample. This reaction in the capital market can be seen from the creation of significant abnormal returns (AR) and cumulative abnormal returns (CAR) surrounding the event date. Thus, the information about the change of the Minister of Finance can be viewed as important for the investors, hence, creating a situation where there is adjustment in the stock prices on Indonesia Stock Exchange. In addition to the movement in the stock prices, the reaction in the capital market can be observed in the increase in the trading volume activity (TVA) before and after the event. The significant difference in the TVA represents an increase in trading activity as a form of investor's reaction to the uncertainty and expectations. This can be related to the semi-strong form of efficient market hypothesis that suggests that the market reacts to the relevant public information quickly using stock price and trading volume.

This study brings substantial contributions in terms of scholarship since it further develops the field of event studies in the Indonesian capital market by doing a comprehensive study that takes into account abnormal returns, cumulative abnormal returns, trading volume, and standard deviation at the same time. This study differs from previous research in that while other studies usually limit themselves to only one or two market reaction variables, this study provides a more comprehensive view of dimensions such as price, liquidity, and stock risk caused by the strategic political event of changing the Minister of Finance. Moreover, this study contributes to the empirical literature after 2020 since it provides evidence for semi-strong form of efficiency in the Indonesian capital market.

CONCLUSION AND RECOMMENDATIONS

CONCLUSION

1. According to the findings on the AR test, the abnormal return is statistically significant for banking shares during the event period. This is supported by the one-sample t-test whose p-value is less than the 5 percent significance level ($\alpha = 0.05$). The findings show that there was an abnormal reaction of the capital market towards the information concerning the change of the Minister of Finance, resulting in abnormality in the share prices of banks.
2. The results of the Cumulative Abnormal Return (CAR) test clearly show that there was an important market response during the entire event window period. This means that the abnormality in CAR was statistically significant and suggests that the impact of the event did not occur on just one trading day but was a cumulative effect over several trading days around the event.

This is an indication that the abnormal return test was effective as the announcement about the change in the Minister of Finance was an important piece of information affecting investors' expectations.

3. TVA test outcomes, which were conducted through the paired sample t-test, show that there is a significant difference in TVA between before and after the event. There is an increase in trading volume after the event due to investors' reactions in terms of buying and selling actions. From this result, one can deduce that not only did the change in the Minister of Finance affect the stock prices but also the actions of investors.
4. Standard Deviation (SD) results for stock market volatility show a change during the event period. An increase in standard deviation is an indication of increased uncertainty and risk associated with information from the government regarding finance and policies. This is because the change in the Minister of Finance had an effect on the returns and volume of trades and also on stock price fluctuations in the banks sector.

RECOMMENDATIONS

1. In general, it is important for the investor to take note of the macroeconomic indicators as well as the government policies, especially the ones related to fiscal and financial policy, because they have proven to affect the performance of the banks' stock returns, trading activity and the volatility of the banks' stock returns.
2. Effective communication and information disclosure by the bank's management will be essential for improving the quality of information provided to the public, particularly during times of uncertainty due to political activities or government strategies. This is important for keeping investors' trust and avoiding extreme stock market fluctuations.
3. The government and capital market regulators are supposed to make clear and timely communications about policies to ensure that the market reacts effectively. Communicating policies clearly helps minimize uncertainty and create stability within the capital market, particularly within important sectors such as banking.
4. Any future research could use different return calculation methods like the Market Adjusted Return Calculation Model or the Fama-French Three Factor Return Model to test the results against those from the Market Model.

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