

Impact of Indonesia's Financial Minister Reshuffle on Market Sentiment: A Market Reaction of the Jakarta Composite Index (IHSG)

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Abstract

This research looks on how the Indonesian stock market responded to the sudden announcement of the Minister of Finance reshuffle on September 8, 2025. By observing the Jakarta Composite Index (IHSG) within a 21-day window (t-10 to t+10), we sought to determine if such high-level political shifts trigger significant investor movement. Given the severe data limitations encountered during the cleaning process (N=10), this study specifically adopted the Zero-Return Model to estimate expected returns. Our descriptive findings point to a positive trend, with an Average Abnormal Return (AAR) of +0.37% and a Cumulative Abnormal Return (CAR) reaching +3.69%. Despite this upward trajectory, the One-Sample t-Test resulted in a P-value of 0.2466, confirming that the reaction was not statistically significant. This suggests that the Indonesian market functions under the Semi-Strong Form of the Efficient Market Hypothesis (EMH), where information is likely absorbed through an anticipation effect before the official announcement.

Keywords: Financial Minister Reshuffle; Investor Sentiment; Market Reaction; Zero Return Model; Jakarta Composite Index (IHSG).

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INTRODUCTION

The capital market serves as a barometer of a country's economic health, reflecting both economic fundamentals and political stability. In Indonesia, the Jakarta Composite Index (IHSG) is highly sensitive to public information, particularly regarding changes in the economic cabinet. The Minister of Finance, as the chief architect of fiscal policy, holds a strategic position that significantly influences investor perception.

Previous studies on cabinet reshuffles have yielded inconsistent results. Some researchers found significant reactions due to the "signaling effect" of new leadership, while others observed no significant impact, suggesting that the market may have already priced in the information. This study aims to fill the research gap by analyzing the market reaction to the Finance Minister reshuffle on September 8, 2025. Unlike traditional event studies that require large estimation periods, this research adopts a Market Reaction Analysis approach using the Zero-Return Model, which is specifically suited for scenarios with severe data constraints.

Signaling Theory and EMH

In the volatile landscape of emerging economies, the stock market often acts as a sensitive barometer for political stability. For Indonesia, the position of Minister of Finance is not merely administrative; it is a signal of fiscal credibility. Therefore, any reshuffle in this role is expected to resonate throughout the Jakarta Composite Index (IHSG). Interestingly, existing literature presents a divided view. While some studies suggest that cabinet changes act as powerful market signals, others find that markets remain indifferent. This research aims to bridge this gap by analyzing the reshuffle that occurred on September 8, 2025. We focus on a crucial question: does the announcement itself drive the market, or has the "smart money" already by employing a Market Reaction Analysis rooted in the Zero-Return Model, this study provides a methodological workaround for researchers facing the common challenge of restricted data samples in emerging markets.

METHOD

We utilized a quantitative framework to track the IHSG's movements over a 21-day window surrounding the announcement date ($t=0$). A significant hurdle in this research was the sample size. After filtering out confounding events and non-trading days, we were left with a focused sample of $N=10$. Traditional models like the Market Model often fail under such constraints due to the lack of an adequate estimation period. Consequently, we opted for the Zero-Return Model. This approach assumes that without the event, the expected return would be zero, allowing us to isolate the abnormal returns directly.

Conceptual Framework

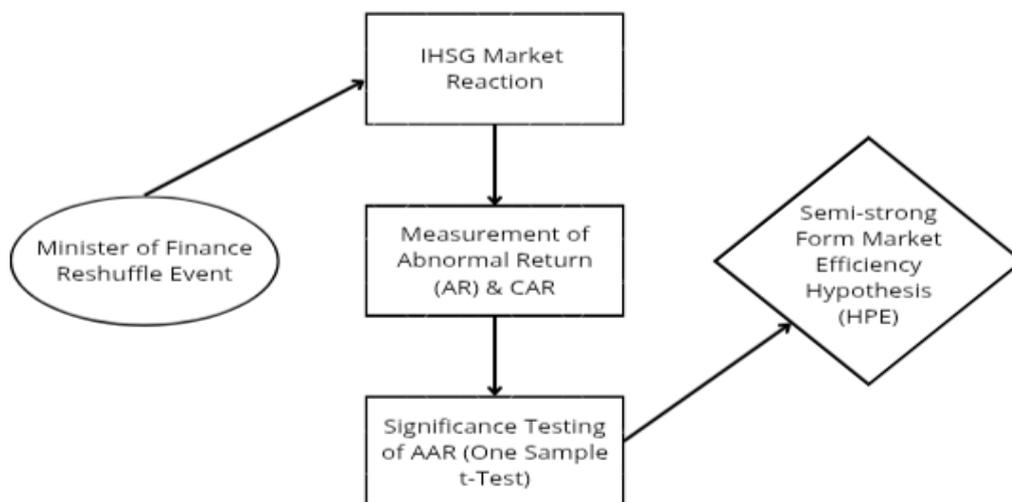


Figure 1. Conceptual Framework

Research Focus

The focus of the research is to measure market reaction in aggregate through the Jakarta Composite Index (IHSG), which is the main proxy for Indonesian capital market sentiment.

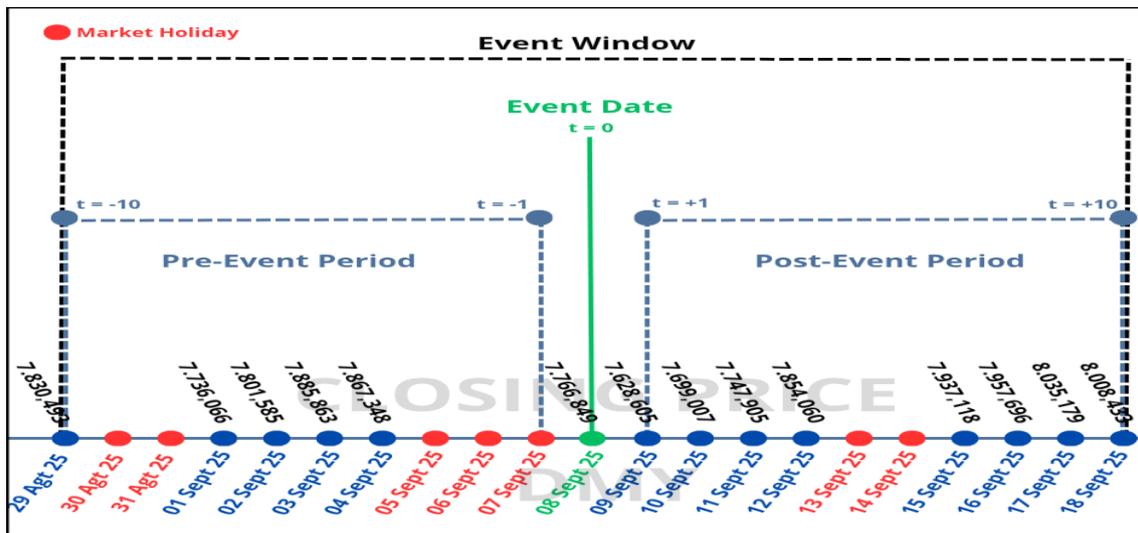


Figure 2. Event Window

Source: Closing Price Retrieved From The Indonesia Stock Exchange (IDX).

Event Date (t = 0): This is set as the date of the official announcement of the Minister of Finance reshuffle. Based on the data processed, this date is set on September 8, 2025.

Event Window: The test period used is [-10, +10] Trading Days, consisting of the Pre-Event Period (t=-10) up to (t=-1) and the Post-Event Period (t=+1) up to (t=+10). This window is selected to observe the potential anticipation effect as well as the quick market reaction to the announcement.

Data Analysis Method

The data analysis method in this research follows the Market Reaction Analysis procedure, which is performed in stages, starting from data collection to statistical testing. This procedure can be viewed schematically in Figure 3.

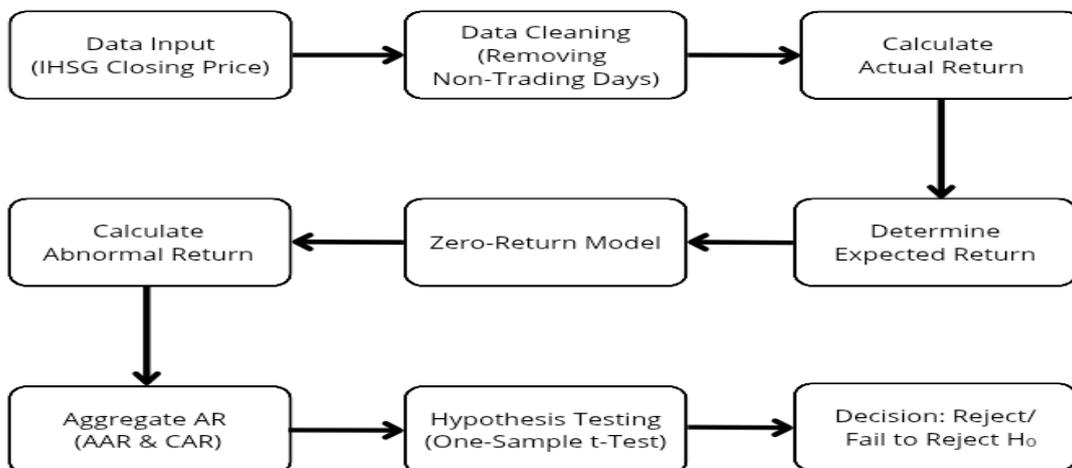


Figure 3. Market Reaction Analysis Procedure Flowchart

RESULTS AND DISCUSSION

Our data shows that the market did not panic. On the contrary, the Average Abnormal Return (AAR) stood at +0.37%, with a Cumulative Abnormal Return (CAR) of +3.69%.

One-sample t test						
Variable	Obs	Mean	Std. err.	Std. dev.	[95% conf. interval]	
AR	10	.0036939	.0029806	.0094255	-.0030488	.0104365
mean = mean(AR)				t =	1.2393	
H0: mean = 0				Degrees of freedom =	9	
Ha: mean < 0		Ha: mean != 0		Ha: mean > 0		
Pr(T < t) = 0.8767		Pr(T > t) = 0.2466		Pr(T > t) = 0.1233		

Figure 4. One Sample t-Test

Data Source: Processed Results of STATA 17, Processed in 2025.

However, the statistical test yielded a P-value of 0.2466, which exceeds the 0.05 threshold. Therefore, we fail to reject the null hypothesis, meaning the abnormal returns were not statistically significant.

Theoretical Interpretation: The Anticipation Effect

The lack of statistical significance can be explained by the "Anticipation Effect." In political contexts, rumors of a reshuffle often circulate in the media long before the official announcement. Consequently, rational investors likely adjusted their portfolios progressively, causing the information to be absorbed into the IHSJ price before t=0. This reinforces the semi-strong form of market efficiency in Indonesia, where prices reflect public information so efficiently that the official announcement itself does not trigger a radical price jump.

CONCLUSION

While the reshuffle of the Minister of Finance in 2025 was a major political event, its impact on the IHSJ was statistically invisible. This lack of significance is a testament to the market's ability to anticipate and absorb information early.

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