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ELECTION UNCERTAINTY, ECONOMIC POLICY UNCERTAINTY: AN EVENT STUDY APPROACH

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Abstract: This study aims to analyze the impact of election uncertainty and economic policy uncertainty on stock market performance in Indonesia using an event study approach. Data obtained from the Indonesia Stock Exchange and the Central Bureau of Statistics during the 2010-2021 period. This study uses the OLS regression model and event study analysis to measure the impact of stock market performance on significant events related to election uncertainty and economic policies. The research results show that the uncertainty of the election and economic policies significantly affect the performance of the stock market in Indonesia. The impact is visible in the period before, during and after the significant events related to the uncertainty. In addition, the results of the analysis also show that elections and more stable economic policies tend to have a positive impact on stock market performance. In conclusion, this study shows that election uncertainty and economic policies have a significant impact on stock market performance in Indonesia. Therefore, it is important for investors to pay attention to political and economic conditions in making their investment decisions.

Keywords: Election Uncertainty; Economic Policy Uncertainty; Study Approach.

INTRODUCTION

Political events that are taking place in a country create uncertainty and are very likely to have an impact on economic stability in that country (Alesina & Perotti, 1996). Political events such as general elections, changes of heads of state, changes of ministers in the cabinet (reshuffle), political riots, and various other political events tend to get responses from market participants (Ekman & Amnå, 2012) Market response or reaction can be in the form of fluctuations in stock prices in response to a political event. An event has information content that can be assessed positively or negatively by investors (Beaver, 1968). Changes in stock returns due to changes in stock prices are an indicator of market reaction to information content (Aaker & Jacobson, 1994).

This study examines the events of President Joko Widodo's inauguration on October 20, 2014, as Indonesia's seventh president. The inauguration of President Joko Widodo is a very interesting political event in Indonesia and became the motivation for this study. Joko Widodo, who is very popular as Jokowi was previously the governor of DKI Jakarta, is a presidential candidate from the Indonesian Democratic Party of Struggle (PDIP). Joko Widodo is known as a figure who is very pro-small people, clean from bribes, and firm in making decisions, thus giving great hope for the people for a better future life. Joko Widodo's popularity is thought to improve capital market performance in conducting stock transactions.

This event is often researched with an event study approach. This event study looks at price movements in 100-day event windows. If an event increases stock returns, then the event receives a positive response from investors as a picture of certainty in the market Aaker, D. A., & Jacobson, R. (1994). In the opposite case, investors will respond negatively to an event that they value poorly and result in a decrease in stock returns, as a picture of uncertainty in the market (Filis et al., 2011). Given the preferences of different political parties towards macroeconomic issues, elections create policy uncertainty. The 5-day window event wants to test market reaction shortly after Jokowi's inauguration. The 100-day window event period is a testing period for policy uncertainty. (Ulupinar & Camyar, 2020) stated that election uncertainty in the US increases the cost of equity due to lower investor demand for equity issuance. This study examined 34 stock portfolios on the Indonesia Stock Exchange. The examination of 34 stock portfolios is the latest issue in connection with research into policy uncertainty in elections.

1. Hypotheses Development

This study examined the event of the inauguration of President Joko Widodo as president of Indonesia in 5 days and 100 days event windows. The inauguration of Joko Widodo as Indonesia's seventh president was an interesting political event. Joko Widodo

is known as a figure who is very pro-small people, clean from bribes, and firm in making decisions, thus giving great hope for the people for a better future life. Joko Widodo's popularity is thought to improve capital market performance in conducting stock transactions. If an event increases stock returns, then the event receives a positive response from investors. In the opposite case, investors will respond negatively to an event that they value poorly and resulting in a decrease in stock returns (Woolridge & Snow, 1990). Stock market reaction to strategic investment decisions. Strategic management journal, 11(5), 353-363.

An event study is research that aims to test the concept of an efficient market (Bhagwat et al., 2020). Event study methodology in the marketing literature: an overview. Journal of the Academy of Marketing Science, 45, 186-207. is classified as an efficient market if no one, both individual and institutional investors, can obtain abnormal returns, after adjusting for risk, using existing trading strategies. In this case, the prices formed in the market are a reflection of existing information or stock prices have reflected all available information (Sujana, 2017). (Latif et al., 2011) said if stock prices already reflect all currently available information, then price changes will reflect new information. Event studies examine price changes during the period an event occurs, and can then conclude whether an event contains valuable information or not by predicting abnormal returns (Krivin et al., 2003). The higher the abnormal return, the greater the profit obtained by the investor (Jacobsen, 1988).

This study developed a hypothesis that is an investigation as follows:

Hypothesis I: There was a significant average abnormal return (AAR) during the event window due to the announcement of Jokowi's presidential inauguration.

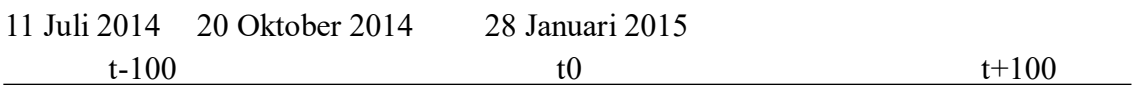
Hypothesis II: There was a significant average cumulative abnormal return (CAAR) during the event window due to Jokowi's presidential inauguration announcement.

MATERIALS AND METHODS

The first step in an event study is to determine the window length of an event to obtain a trade-off of an event (McWilliams et al., 1999). In particular, the window should be able to capture the stock price reaction of the total stock trade, without distorted stock price fluctuations caused by other causes. The decision to determine the length of the window is a subjective decision of the researcher. The length of the window may vary according to market conditions and the events studied. (MacKinlay, 1997) says that usually event studies determine the length of the window around an event of interest to capture market reactions in the time before the event and after the event occurs (Hirschey, 2021). Information leakage can cause investor anticipation so that they stop trading, so it is important to define the trading day within an event window.

The period used in this study is during the 200 days of the president-

elect's administration which is divided into two periods, namely the period 5 and 100 days before and 5 and 100 days after the event. If the research period is described in the form of events, windows will be presented as follows:



The determination of the research wheel was based on consideration of the working days of the stock exchange throughout the first 5 and 100 days of the elected president's administration. Saturdays, Sundays, and public holidays are not taken into account, because on these days the Jakarta Stock Exchange does not operate, as well as Idul Fitri, Christmas, and New Year holidays.

a. Data

The data used in this study is secondary data which includes daily stock prices, the Composite Stock Price Index, Stock trading volume, and the Number of shares traded every day during the observation period. The data sources used to collect the required data are Indonesia Stock Exchange daily report 2014-2015.

b. Data analysis is carried out in the following ways:

1) Test JCI during event windows to find out market tendencies.
2) Abnormal return of stock I on day t.
3) The expected return is calculated using the Single Index Market Model.
4) Daily Cumulative Abnormal Return (CAR) of each share during the event period.
5) The abnormal average return of all stocks on day t.
6) Cumulative average abnormal portfolio return (CAAR).
7) Standardized abnormal return t distribution for portfolios.
8) The standard deviation of average cumulative abnormal return (SCAR) during the event period
9) Calculates the abnormal average return of all stocks sampled before and after the event.
10) Calculates the standard deviation of the average return before and after the event:
11) Calculates the statistical test t at significance level = 5%.
12) Calculates the activity of stock trading volume I in period t.
13) Calculates the average trading volume activity of all stocks sampled before and after the event.
14) Calculates the standard deviation of the average return before and after the event:

Calculates the statistical test t at significance level = 0.05

RESULTS AND DISCUSSION

The results of data testing are displayed in the form of images. Through image visualization, it will be able to conclude stock price movements, abnormal returns, and cumulative abnormal returns. The picture can also explain more concretely the condition of each stock portfolio.

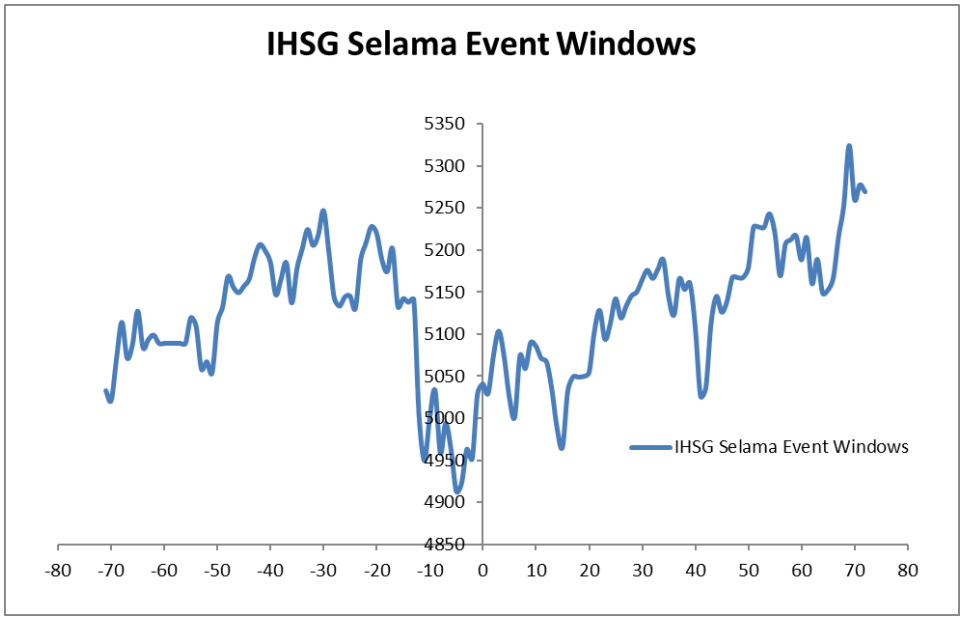
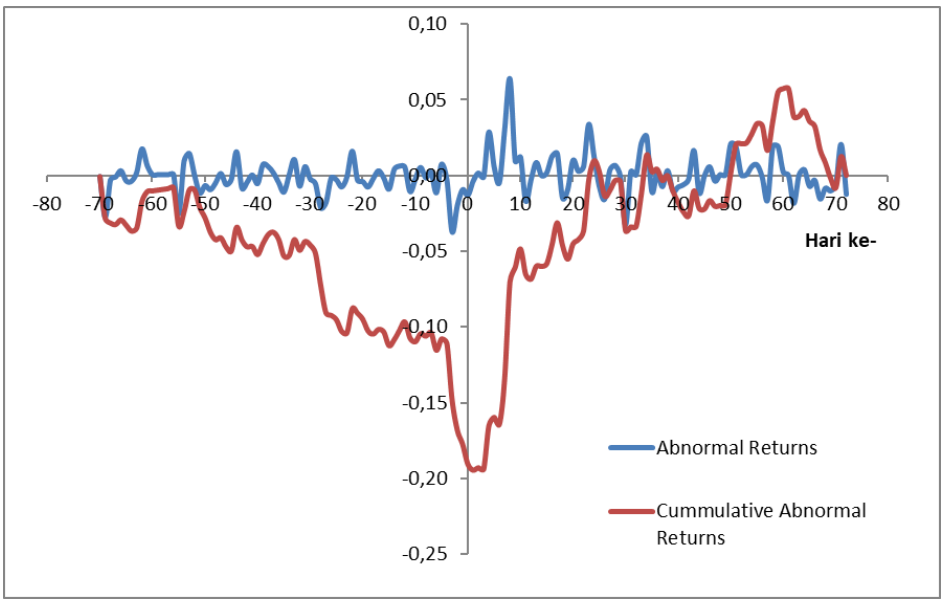


Figure 1 shows price movements 100 days before and 100 days after the inauguration of President Joko Widodo on October 20, 2014. The 100 days before the inauguration date are assumed to be the days that contain political uncertainty that has an impact on uncertainty in the capital market. Composite stock prices that tend to fall on the day before the inauguration reflect uncertainty in the stock market. In the 100 days following the date of the president's inauguration, the composite stock price tends to rise. Stock market conditions after the inauguration date reflect that stock market uncertainty can be overcome, so investors can be passionate about trading.

The composite stock price index in the Indonesian capital market consists of 34 portfolios. Each stock portfolio has varied responses to political events that contain uncertainty. The next section will show variations in the abnormal return and cumulative abnormal return of several portfolios. The variation of abnormal return and cumulative abnormal return images is a description of the response of each portfolio 100 days before and 100 days after the inauguration of President Joko Widodo as President of the Republic of Indonesia.

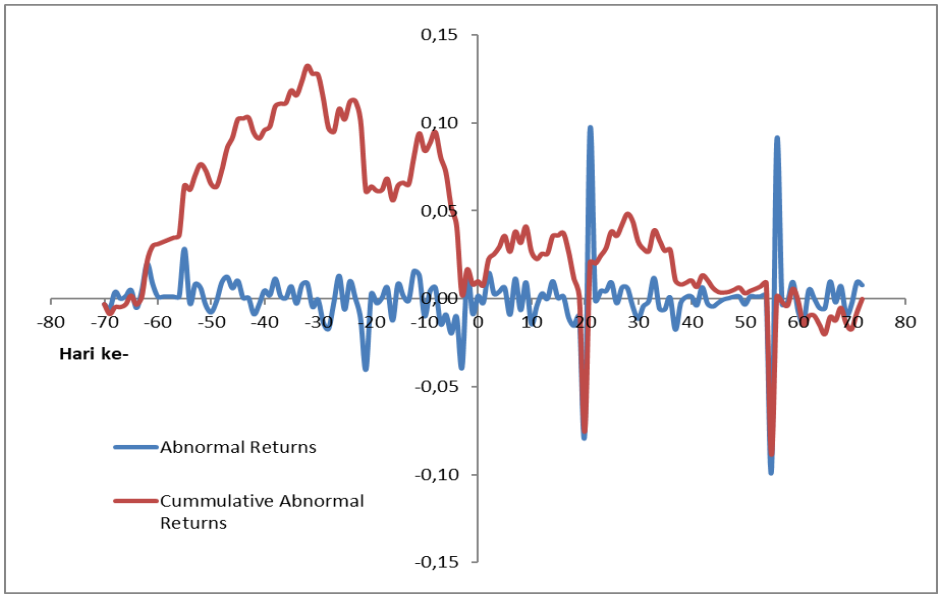
Agriculture



The stock price of the agricultural portfolio is further processed and produces abnormal returns and cumulative abnormal returns. Figure 2 shows the tendency of cumulative abnormal returns to fall to the lowest point at the time of the presidential inauguration. In this case, during times of political uncertainty, the prices of stocks in the agricultural sector tend to be sluggish. The stock price of the agricultural sector after the presidential inauguration. Cumulative abnormal returns tend to increase until the 100th day after the presidential inauguration.

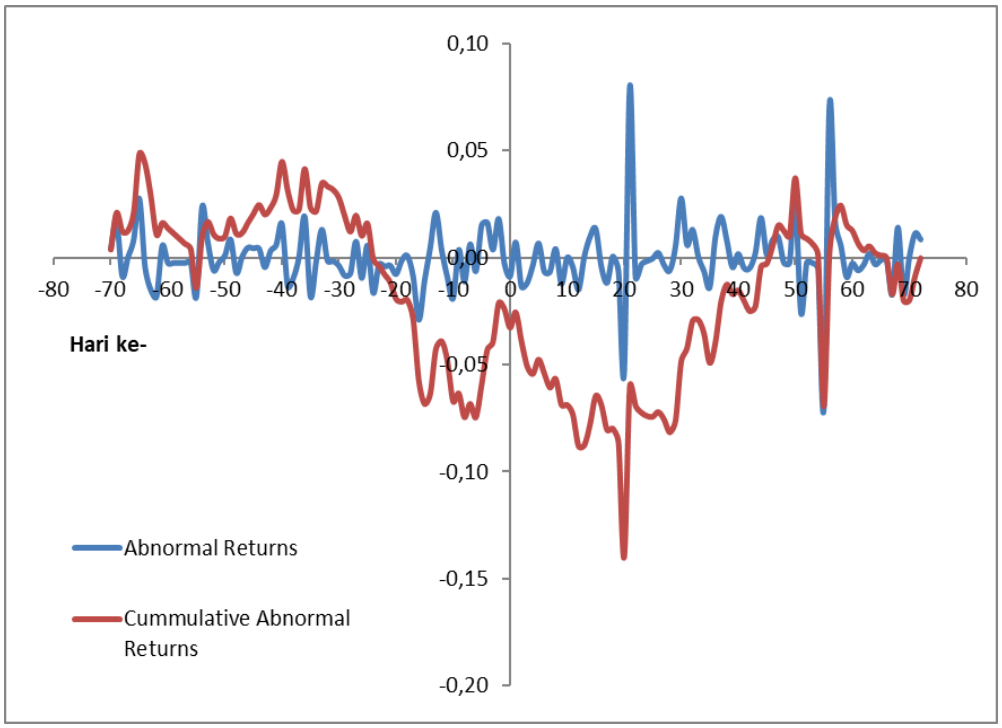
Mining

The stocks in the mining portfolio showed significant differences between before and after the events of the presidential inauguration. Cumulative abnormal returns tend to fall in the period after the presidential inauguration. This picture shows that the stock price of the mining sector tends to fall, in this case, investor interest in the mining sector tends to fall.

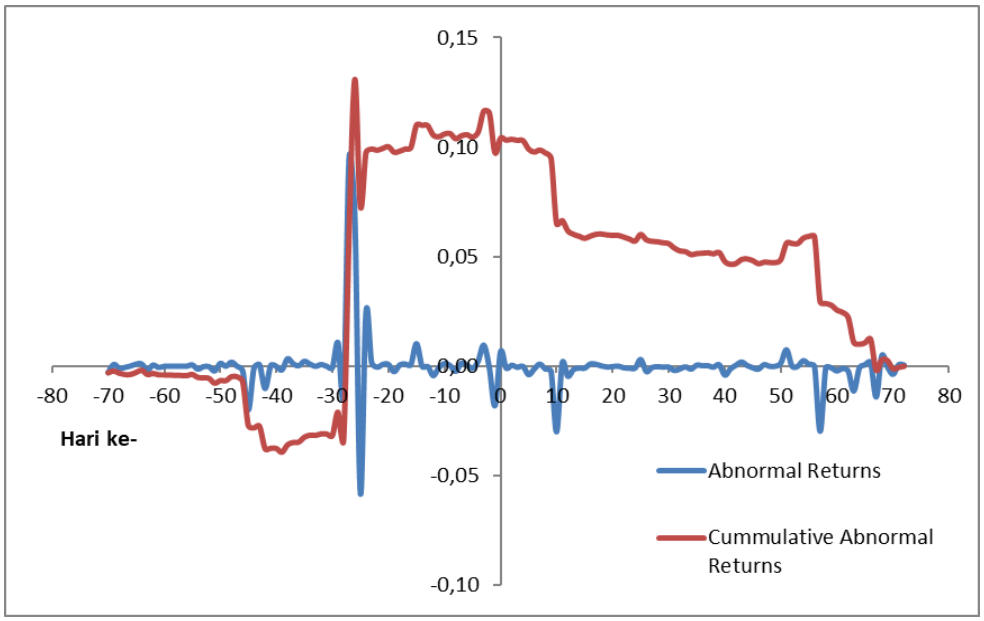


The next figure is a picture of abnormal returns and cumulative abnormal returns in the portfolio of construction, food, textile, chemical, cement, metal, manufacturing, automotive, pharmaceutical, banking, and credit. The visualization is a condition of 100 days before to 100 days after the presidential inauguration on October 20, 2014.

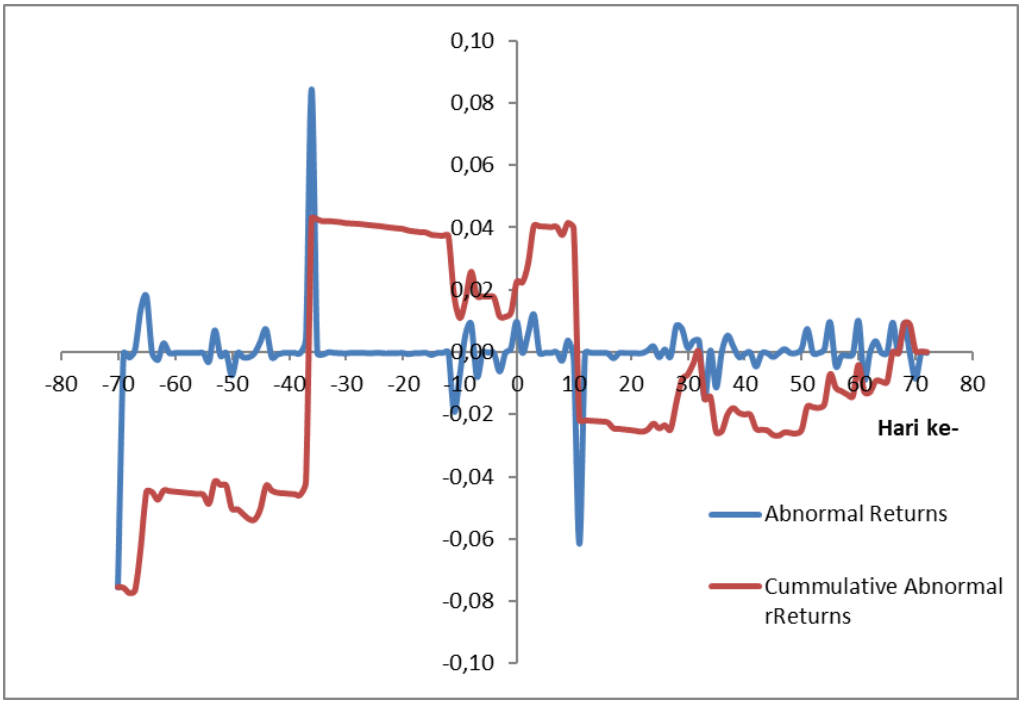
Construction



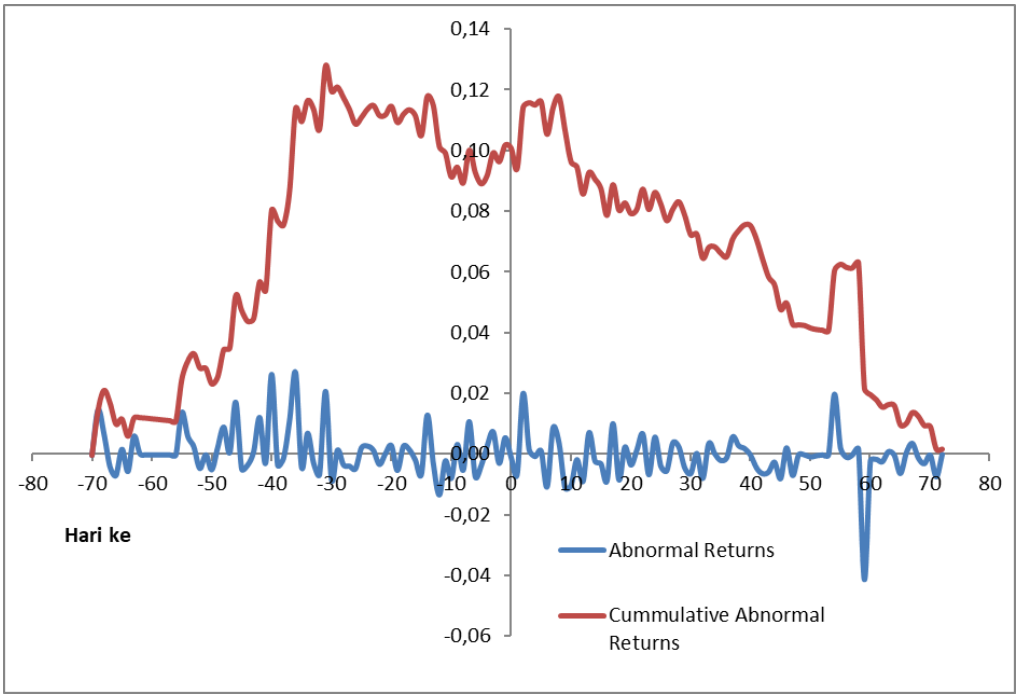
Food



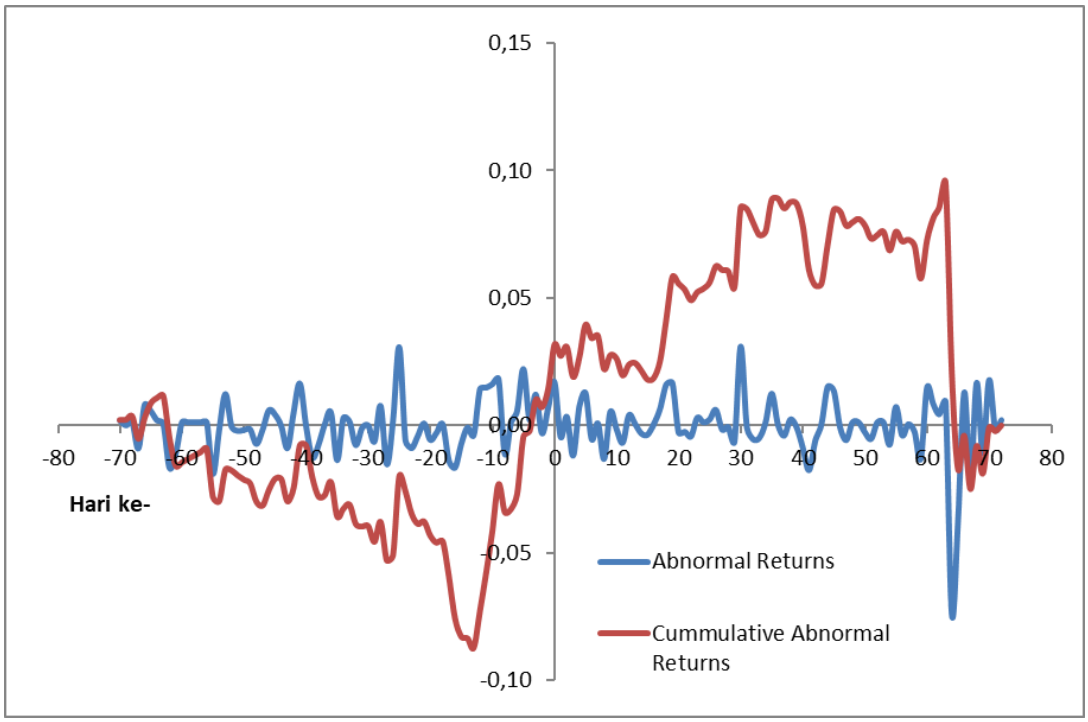
Textile



Chemical



Semen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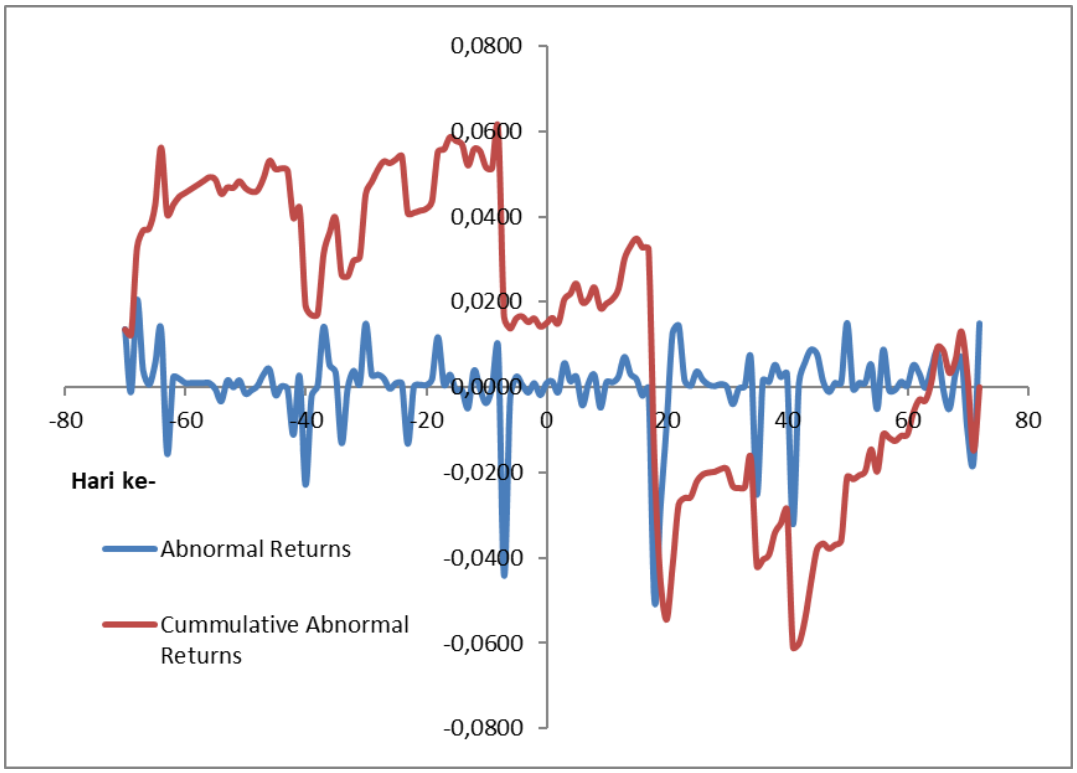
Hari ke-
Abnormal Returns
Cummulative Abnormal Returns

Metal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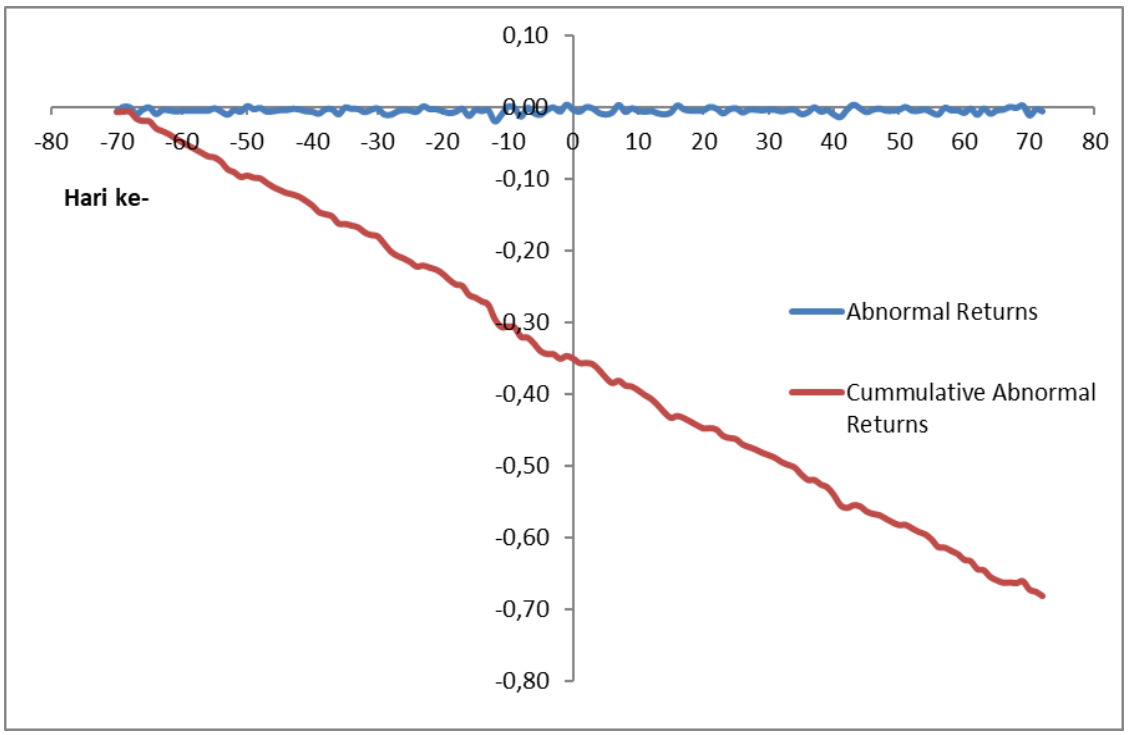
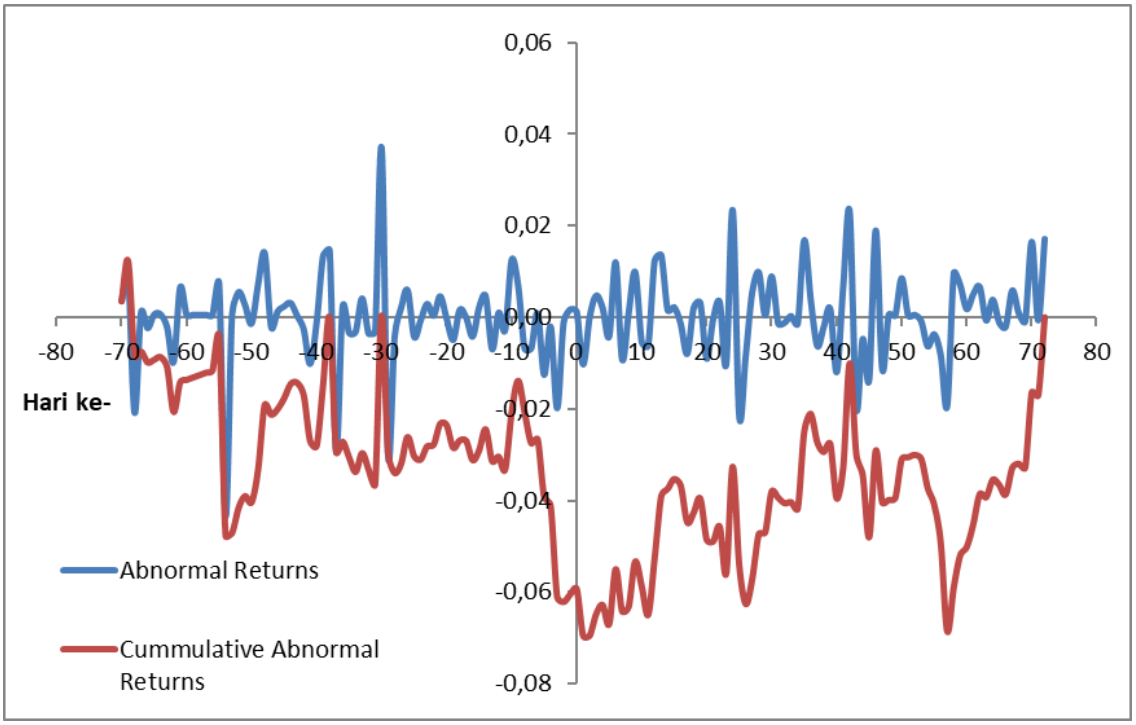
Hari ke-
Abnormal Returns
Cummulative Abnormal Returns

Manufacturing

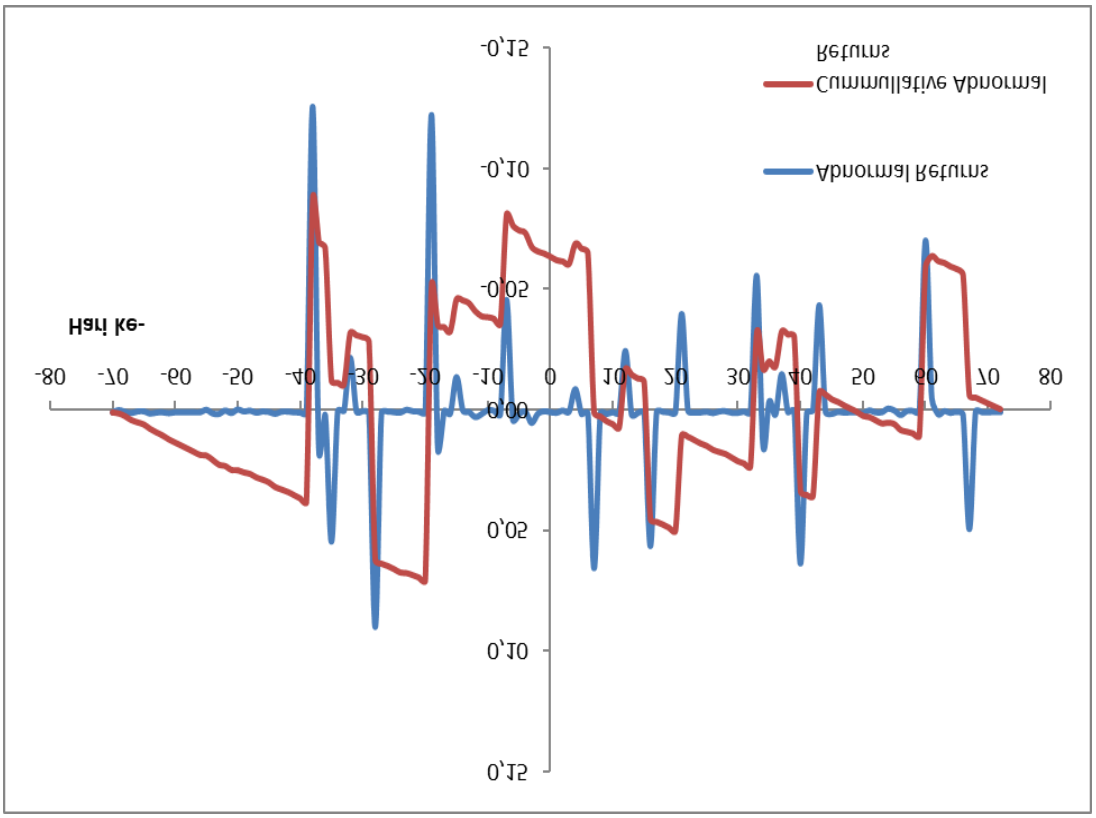


The stocks in the manufacturing portfolio showed significant differences before and after the presidential inauguration. Cumulative abnormal returns tend to fall in the period after the presidential inauguration. This picture shows that the stock price of the private sector tends to fall. This picture shows that investor interest in manufacturing stocks is declining.

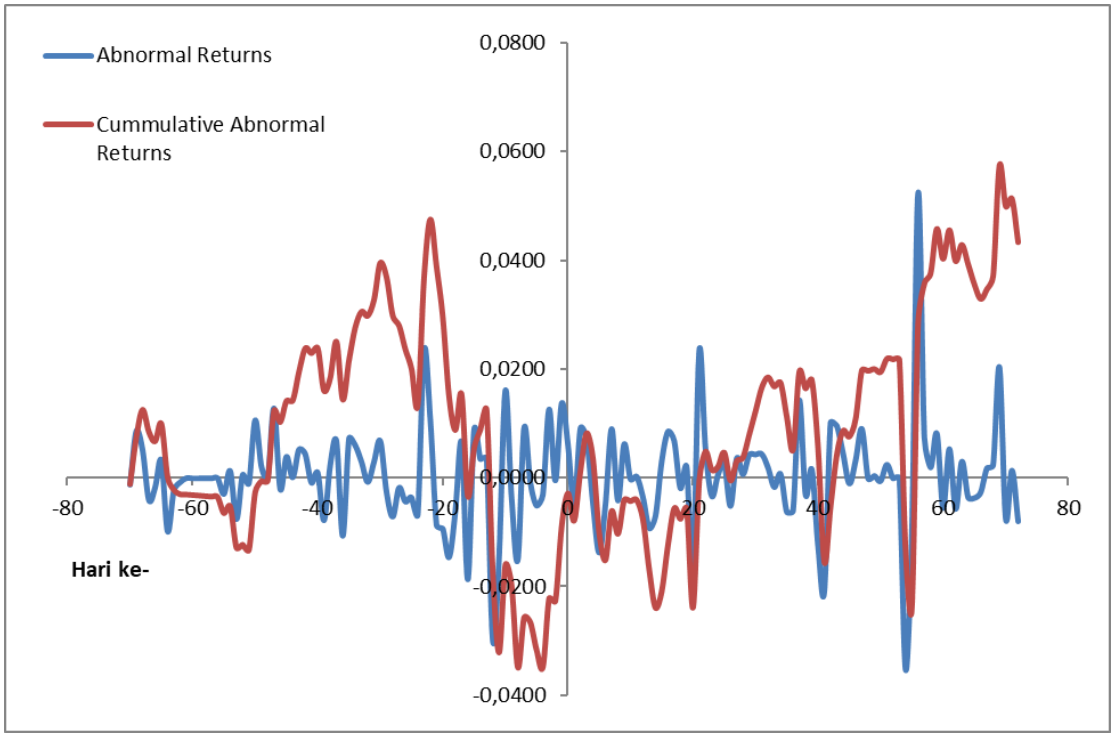
Automotive



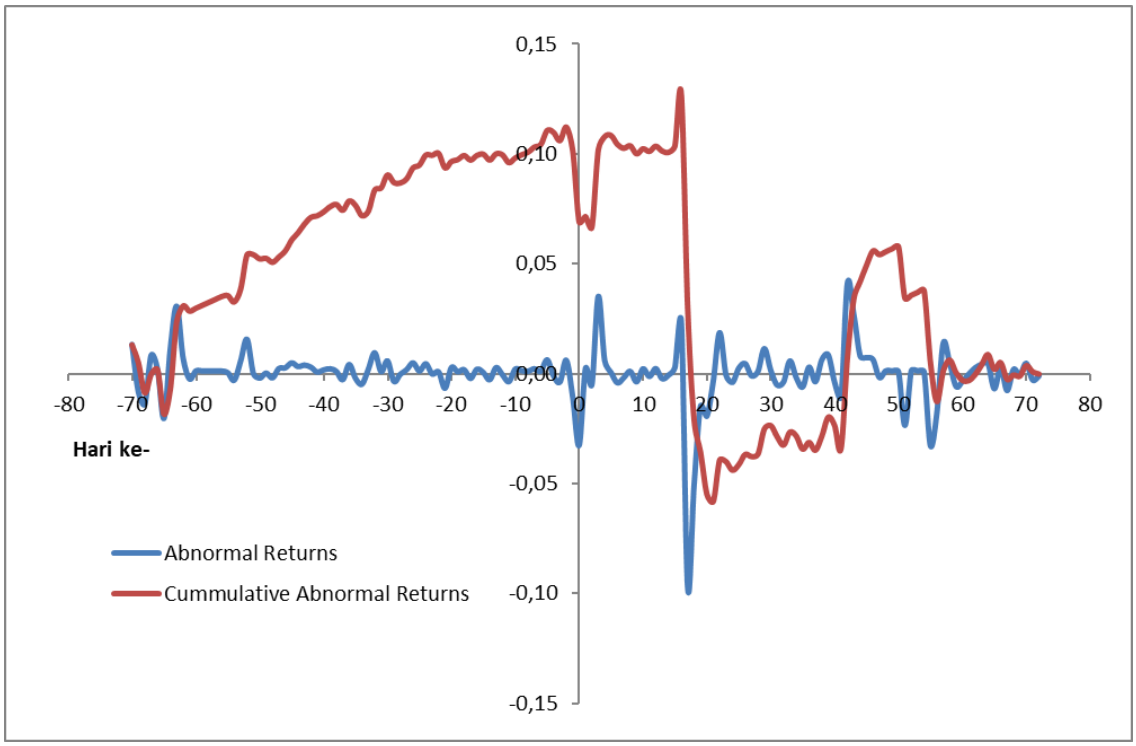
Pharmacy



Banking



Credit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20
30
40
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60
70
80
Hari ke-
Abnormal Returns
Cummulative Abnormal Returns

No.	Portofolio	Jendela Sebelum Peristiwa									
		-5		-4		-3		-2		-1	
		Rata-rata AR	CAAR	Rata-rata AR	CAAR	Rata-rata AR	CAAR	Rata-rata AR	CAAR	Rata-rata AR	CAAR
1	Agriculture (12)	-0,0126	-0,1507***	-0,0166**	-0,1592***	-0,0200**	-0,1713***	-0,0142**	-0,1789***	-0,0113	-0,1843**
2	Animal (4)	0,0018	0,1345***	0,0013	0,1366***	-0,0013	0,1369***	-0,0005	0,1386***	-0,0096	0,1332**
3	Mining (34)	-0,0103	0,0219**	-0,0084	0,0159	-0,0079	0,0094	0,0025	0,0118**	-0,0034	0,0092
4	Constructions (11)	0,0070	-0,0364***	0,0053	-0,0319**	0,0026	-0,0291***	0,0022	-0,0258**	-0,0057	-0,0281
5	Food (19)	-0,0003	0,1076***	-0,0001	0,1082***	-0,0007	0,1085***	-0,0041	0,1059***	-0,0058	0,1009**
6	Tobbaco (4)	0,0023	0,0558***	0,0022	0,0575***	0,0026	0,0598***	0,0008	0,0610***	0,0014	0,0636**
7	Textile (8)	0,0008	0,0155***	0,0010	0,0151***	0,0012	0,0145**	0,0037	0,0155**	0,0056	0,0176
8	Apparel (7)	-0,0067	-0,0143	-0,0090	-0,0142	-0,0064	-0,0159	-0,0126	-0,0132	-0,0007	0,0059
9	Lumber (1)	0,0005	-0,1470***	0,0006	-0,1465***	-0,0002	0,0065***	0,0024	-0,1446***	0,0018	-0,1421**
10	Paper (6)	0,0000	-0,0422***	-0,0002	-0,0423***	-0,0012	-0,0434***	-0,0002	-0,0440***	0,0007	-0,0441**
11	Chemical (9)	0,0013	0,0965***	0,0023	0,0980***	0,0022	0,0995***	0,0005	0,0996***	0,0022	0,1013***
12	Adhesive (4)	-0,0015	-0,0207***	-0,0031	-0,0231**	-0,0052	-0,0281***	0,0028	-0,0265***	-0,0001	-0,0278
13	Plastics (11)	-0,0095	-0,0695***	-0,0112	-0,0776***	-0,0081	-0,0839***	-0,0022	-0,0857***	-0,0018	-0,0880**
14	Cement (4)	0,0098	0,0094	0,0072	0,0122	0,0084	0,0158	0,0072	0,0177	0,0122	0,0229
15	Metal (15)	0,0002	0,0155***	-0,0002	0,0154***	-0,0004	0,0151***	-0,0001	0,0151***	-0,0006	0,0146**
16	Fabricated (2)	-0,0035	-0,3460***	-0,0021	-0,3471***	-0,0016	-0,3479***	-0,0020	-0,3492***	0,0001	-0,3485***
17	Stone (5)	0,0077	-0,2320***	0,0091	-0,2292***	0,0106	-0,2258***	0,0157	-0,2186***	0,0227	-0,2051**
18	Cables (6)	-0,0007	-0,0073***	-0,0011	-0,0079***	-0,0009	-0,0084***	-0,0003	-0,0084**	-0,0016	-0,0094**
19	Electronic (3)	-0,0024	0,1566***	-0,0007	0,1559***	-0,0004	0,1554***	0,0007	0,1558***	-0,0020	0,1534**
20	Automotive (18)	-0,0054	-0,0540***	-0,0040	-0,0569***	-0,0045	-0,0608***	0,0006	-0,0607***	0,0014	-0,0599***
21	Photographic (3)	0,0001	-0,0264***	0,0083	-0,0217***	0,0061	-0,0189**	0,0052	-0,0172	0,0037	-0,0178
22	Machinery (5)	-0,0001	-0,0015	0,0000	-0,0001	-0,0017	0,0002	-0,0028	0,0003	-0,0041	0,0004
23	Pharmaceuticals (8)	0,0022**	-0,0680***	0,0022	-0,0667***	0,0025	-0,0652***	0,0014**	-0,0644***	0,0011	-0,0639***
24	Transportations (26)	-0,0081***	0,1440***	-0,0086**	0,1404***	-0,0098075**	0,1359***	-0,0096	0,1319***	-0,0131**	0,1251**
25	Telecommunication (7)	-0,0054	0,0223***	-0,0045	0,0195***	-0,0030	0,0180***	-0,0009	0,0185**	-0,0032	0,0176
26	Wholesale (29)	0,0042	0,1240***	0,0048	0,1255***	0,0059	0,1276***	0,0080	0,1313***	0,0104	0,1371**
27	Banking (31)	0,0040	-0,0206***	0,0058	-0,0184	0,0080	-0,0143	0,0065	-0,0116	0,0099	-0,0060
28	Credit (13)	-0,0059	0,1017***	-0,0083	0,0999***	-0,0102	0,0974***	-0,0123	0,0945**	-0,0216	0,0855
29	Securities (11)	0,0006	0,0943***	0,0003	0,09401***	0,0006	0,0939***	0,0017	0,0945***	0,0017	0,0948**
30	Insurances (7)	0,0186	0,2854***	0,0091	0,2939***	0,0084	0,3036***	-0,0100	0,2987***	-0,0130	0,2906***
31	RealEstate (42)	0,0039	-0,0221***	0,0037	-0,0199***	0,0050	-0,0163***	0,0024	-0,0146**	0,0027	-0,0120
32	Hotel (14)	-0,0004	0,0164***	-0,0018	0,0159***	-0,0022	0,0153**	-0,0022	0,0149	-0,0070	0,0105**
33	Holding (12)	-0,0040	0,0405***	-0,0048	0,0375***	-0,0051	0,0340***	-0,0051	0,0299**	-0,0041	0,0252
34	Others (32)	-0,0016	0,0540***	0,0001	0,0541***	0,0008	0,0551***	-0,0034	0,0521***	-0,0002	0,0511**

No.	Portofolio	Jendela Sesudah Peristiwa									
		1		2		3		4		5	
		Rata-rata AR	CAAR	Rata-rata AR	CAAR	Rata-rata AR	CAAR	Rata-rata AR	CAAR	Rata-rata AR	CAAR
1	Agriculture (12)	-0,0085	-0,1928***	-0,0051	-0,1929***	-0,0041	-0,1932***	0,0025	-0,1876***	0,0030	-0,1830***
2	Animal (4)	0,0007	0,1339**	0,0007	0,1353***	0,0013	0,1368***	0,0037	0,1403***	0,0073	0,1469***
3	Mining (34)	-0,0003	0,0089	0,0047	0,0135	0,0043	0,0165**	0,0042	0,0191**	0,0046	0,0219***
4	Constructions (11)	-0,0008	-0,0290	-0,0050	-0,0323**	-0,0067	-0,0369***	-0,0061	-0,0403***	-0,0039	-0,0415***
5	Food (19)	0,0028	0,1038***	0,0020	0,1037***	0,0014	0,1036***	0,0011	0,1035***	0,0003	0,1028***
6	Tobbaco (4)	-0,0108*	0,0527	-0,0089**	0,0490***	-0,0091*	0,0448***	-0,0085**	0,0410***	-0,0054	0,0402***
7	Textile (8)	0,0049	0,0225***	0,0052	0,02441***	0,0070	0,0284***	0,0055*	0,0308***	0,0046*	0,0324***
8	Apparel (7)	0,0067	0,0105	0,0071	0,0020	-0,0004	-0,0042	-0,0003	-0,0083	-0,0044	0,0003
9	Lumber (1)	-0,0079**	-0,15002**	-0,0053	-0,1514***	-0,0041	-0,1522***	-0,0002	-0,1495***	-0,0014	-0,1491***
10	Paper (6)	0,0030**	-0,0411**	0,0027*	-0,0399***	0,0024*	-0,0389***	0,0036**	-0,0366***	0,0037	-0,0344***
11	Chemical (9)	-0,0039	0,0974**	0,0041	0,1030***	0,0035	0,1062***	0,0026	0,1079***	0,0024	0,1093***
12	Adhesive (4)	0,0066*	-0,0212	0,0073**	-0,0174	0,0074**	-0,0135	0,0060**	-0,0111	0,0060**	-0,0085
13	Plastics (11)	0,0009	-0,0870**	0,0060	-0,0824***	-0,0004	-0,0849***	-0,0023	-0,0884***	0,0035	-0,0853***
14	Cement (4)	0,0065	0,0294**	0,0055	0,0299***	0,0012	0,0272***	0,0024	0,0270***	0,0042	0,0291***
15	Metal (15)	0,0010	0,0156**	0,0003	0,0154***	0,0016	0,0167***	0,0015	0,0177***	0,0017	0,0188***
16	Fabricated (2)	-0,0049	-0,3535***	-0,0033	-0,3545***	-0,0029	-0,3554***	-0,0040*	-0,3576***	-0,0051**	-0,3608***
17	Stone (5)	0,0016	-0,2035***	0,0005	-0,2051***	0,0001	-0,2062***	0,0011	-0,2058***	0,0017	-0,2048***
18	Cables (6)	0,0002	-0,0091**	-0,0019	-0,0110***	-0,0017	-0,0123***	-0,0017	-0,0133***	-0,0011	-0,0138***
19	Electronic (3)	0,0102	0,1636**	0,0038	0,1630***	-0,0003	0,1596***	-0,0002	0,1576***	0,0032	0,1596***
20	Automotive (18)	-0,0045	-0,0645	-0,0030	-0,0662***	-0,0011	-0,0658***	-0,0005	-0,0653***	-0,0011	-0,0655***
21	Photographic (3)	0,0133	-0,0045**	0,0144433**	0,0024	0,0142*	0,0092	0,0146**	0,0166	0,0125**	0,0218
22	Machinery (5)	-0,0024	-0,0019	-0,0012	0,0006	-0,0060	-0,0033	-0,0066	-0,0074	-0,0064	-0,0110
23	Pharmaceuticals (8)	0,0014**	-0,0625***	0,0010933*	-0,0621***	0,0011**	-0,0617***	-0,0008	-0,0631***	-0,0003	-0,0637***
24	Transportations (26)	-0,0048	0,1203***	-0,0050	0,1190***	-0,0034	0,1187***	-0,0029	0,1183***	0,0018	0,1222***
25	Telecommunication (7)	-0,0004	0,0172	0,0007	0,0193**	-0,0003	0,0196***	-0,0005	0,0195***	-0,0002	0,0196***
26	Wholesale (29)	0,0053	0,1424***	0,00443*	0,1440***	0,0024	0,1438***	0,0021	0,1439***	0,0017	0,1439***
27	Banking (31)	0,0006	-0,0055	0,0034	-0,0033	0,0043	-0,0004	0,0025	0,0004	-0,0002	-0,0014
28	Credit (13)	-0,0150	0,0705**	-0,0116	0,0693***	0,0001	0,0775***	0,0013	0,0836***	0,0011	0,0878***
29	Securities (11)	0,0073	0,1022**	0,0045	0,1035***	0,0049	0,1056***	0,0025	0,1054***	0,0000	0,1034***
30	Insurances (7)	0,0178	0,3084**	0,0359	0,3390***	0,0044	0,3318***	0,0054	0,3293***	0,0062	0,3293***
31	RealEstate (42)	-0,0003	-0,0123	-0,0006	-0,0120***	-0,0012	-0,0126***	-0,0017	-0,0138***	-0,0010	-0,0141***
32	Hotel (14)	-0,0016*	0,0088	-0,0011	0,0086***	-0,0022	0,0070**	-0,0013	0,0066***	-0,0033	0,0041
33	Holding (12)	0,0065	0,0318**	0,0079	0,0356**	0,0077**	0,0392***	0,0073**	0,0425***	0,0084**	0,0470***
34	Others (32)	0,0005	0,0516**	0,0005	0,0510***	0,0021	0,0525***	-0,0021	0,0496***	-0,0017	0,0477***

Description: **Significant at α 5%, df=3, one-tailed test.

Significant at α 1%, df = 3, one tailed test

Discussion

Presidential elections are political events that generally have an impact on economic issues. The preferences of political parties carrying presidential candidates vary on macroeconomic issues. Such differences create policy uncertainty. This study aims to examine the presence of abnormal returns and cumulative abnormal returns during the event window due to the announcement of Jokowi's presidential inauguration. The test was conducted on 34 stock portfolios that contribute to the combined share price index. The test results show that the composite stock price index in the period 100 days before the date of the presidential inauguration is a period of uncertainty. The period 100 days after the date of the presidential inauguration is a more definite period, in which case the level of uncertainty is overcome. Political uncertainty can create policy uncertainty and can increase the cost of equity (Ulupinar & Camyar, 2020).

The 100-day period after the inauguration of the president is a period of the political contract to measure the performance of the new government, especially related to various policies practiced. Pástor and Veronesi (2013) suggest a relationship between market predictions and political uncertainty and financial uncertainty. The uncertainty that occurs in sequence from stock prices in the capital market, political turmoil that occurs during the general election period, and turmoil in the financial sector occur as a result of various policies applied to various sectors. The findings of Pastor and Veronesi (2013) require deeper examination using data from the Indonesian capital market. This is in connection with the findings of this study after testing 34 stock portfolios incorporated in the stock price index. The results reported some abnormal returns and cumulative abnormal returns of some stock portfolios

CONCLUSIONS

This study examines political uncertainty due to election events and the inauguration of President Joko Widodo as president of Indonesia on October 20, 2014. The study also examined the uncertainty of policies implemented over 100 working days by the new administration. The test was applied to 34 stock portfolios incorporated in the stock price index on the Indonesia Stock Exchange. This study has limitations, only testing abnormal returns and cumulative abnormal returns. Future research can be developed by examining the capital structure of companies affected by political uncertainty, to provide a better explanation. This research can be developed by raising macroeconomic issues related to policy uncertainty more deeply for leading sectors during the election campaign period.

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