

Leadership Change and Stock Market Response: An Event Study of Indonesia's Ministerial Transition in 2025

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ABSTRACT: This study examines the market reaction to the appointment of Purbaya as Indonesia's economic minister, focusing on the abnormal return (AR) behaviour of the Jakarta Composite Index (JCI) during the 30-day event window, consisting of 15 days before and 15 days after the inauguration. Using the event study method, daily market returns were compared against expected returns estimated through the market model. The results show that, before the event, the average abnormal return (AAR) and cumulative average abnormal return (CAAR) were close to zero, indicating a neutral market response. However, after the inauguration, both AAR and CAAR turned positive, indicating an increase in investor confidence and favourable market sentiment. These findings highlight the market's sensitivity to political-economic leadership transitions and provide evidence that credible appointments can positively influence investor perceptions in emerging markets, such as Indonesia.

KEYWORDS: Event Study, Abnormal Return, Political Appointment, Jakarta Composite Index (JCI), Market Reaction, Investor Sentiment.

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Introduction

On 8 September 2025, President Prabowo Subianto appointed Purbaya Yudhi Sadewa as the new Minister of Finance of the Republic of Indonesia, replacing Sri Mulyani Indrawati, who had been one of the most prominent technocrats in Indonesian fiscal governance for nearly two decades. The transition marked a pivotal shift in the country's macroeconomic leadership and policy direction. Such ministerial appointments are more than administrative changes; they serve as signal events for investors who continuously re-evaluate fiscal credibility, policy continuity, and the perceived independence of economic institutions (Chen & Zhang, 2017). The appointment of a new finance minister thus represents a crucial moment of market re-pricing, especially in emerging economies where investor confidence is tightly linked to the credibility of fiscal management (Karolyi & Liao, 2019).

Indonesia's financial system is among the most dynamic in Southeast Asia and remains highly responsive to changes in government policy, global capital flows, and political signals. In the aftermath of Purbaya's appointment, the Jakarta Composite Index (IHSG) declined by approximately 1.3 per cent, and the rupiah weakened to beyond IDR 16,000 per USD (Reuters, 2025; ANTARA News, 2025a). Market observers attributed this initial correction to uncertainty over Purbaya's policy orientation, given that his background, while technically strong, was associated with a more expansionary fiscal stance aligned with President Prabowo's ambition to achieve 8 per cent GDP growth (FT, 2025). The change, therefore, triggered a short-term reassessment of risk, as investors weighed the prospects of higher public spending against fiscal sustainability and inflationary pressures.

From an economic perspective, leadership transitions at the finance ministry can affect markets through two principal mechanisms: policy expectation and information signalling. The first concerns how investors anticipate adjustments in fiscal and debt policies following a change in leadership. The second reflects how markets interpret such changes as signals of future government behaviour (Alesina et al., 1992). When the outgoing minister has a long-established reputation for fiscal prudence, as in the case of Sri Mulyani, markets may react negatively to a successor perceived as less conservative. Conversely, if the appointment conveys a credible commitment to reform or growth acceleration, markets may interpret it positively. This duality makes leadership changes a fertile setting for empirical investigation of investor sentiment and behavioural finance phenomena (Bekaert & Harvey, 2003).

Empirical research consistently shows that policy-maker replacements can have a measurable impact on asset prices. For instance, changes in finance ministers or central bank governors have been associated with temporary volatility, re-pricing of sovereign bonds, and adjustments in capital inflows (Cukierman & Webb, 1995; Hayo & Neuenkirch, 2013). In Indonesia, similar reactions have occurred during major political reshuffles or budget announcements (Karolyi & Liao, 2019). The September 2025 event thus provides a natural experiment to test whether financial markets respond asymmetrically to leadership changes perceived as policy-risk shocks.

To analyse this issue systematically, the present study compares the 15 days preceding and the 15 days following Purbaya's appointment, capturing both anticipatory and post-event market dynamics.

This 30-day observation window enables detection of shifts in average returns, volatility, and foreign portfolio flows, while accounting for overlapping macroeconomic news. The study employs an event-study framework, consistent with Brown and Warner (1985), to identify abnormal returns around the appointment date. Complementary indicators, such as exchange-rate movements and bond yields, serve as control variables to validate robustness.

This research contributes to three academic domains. First, it adds to the literature on political economy and financial markets by empirically examining how ministerial transitions shape investor behaviour in emerging economies. Second, it enriches the Indonesian fiscal policy discourse, offering evidence of how the market internalises leadership changes in a period of heightened fiscal expansion. Third, the paper offers policy implications: if market reactions are primarily sentiment-driven, effective communication strategies and transparency from the incoming minister could help mitigate volatility and sustain investor confidence.

Ultimately, this study seeks to answer a central question: *Did Indonesia's capital market perceive Purbaya Yudhi Sadewa's appointment as a continuation of prudent fiscal policy or as the onset of policy uncertainty?* By examining financial data across the 15-day pre- and post-appointment windows, the analysis aims to determine whether market participants revised their risk assessments, adjusted their portfolio allocations, or altered their perception of Indonesia's macroeconomic trajectory. The results will not only inform academic understanding of event-driven market reactions but also provide practical insights for policymakers managing leadership transitions in key economic institutions.

The theoretical foundation of this study is anchored in signalling theory and the efficient-market hypothesis (EMH). Signalling theory posits that leadership changes convey information about the government's future fiscal stance (Spence, 1973). Investors interpret such appointments as signals regarding budget priorities, tax policies, and debt management strategies. If the signal implies stability and competence, asset prices adjust positively; if the signal implies uncertainty or risk, markets respond negatively.

Within the semi-strong form of EMH, financial markets incorporate all publicly available information—including political and policy announcements—into prices almost instantaneously (Fama, 1991). Thus, ministerial appointments should produce observable short-term abnormal returns if investors re-evaluate future fiscal policy risk. Empirical studies (e.g., Hayo & Neuenkirch, 2013; Karolyi & Liao, 2019) support this premise, showing that changes in political leadership trigger excess volatility and short-term deviations from normal returns, especially in emerging markets where information asymmetry is greater.

Another relevant theoretical lens is policy-uncertainty theory (Baker et al., 2016), which argues that ambiguity in policy direction increases risk premia, reduces investment, and heightens capital outflows. Applied to Indonesia, the replacement of a highly credible minister by a relatively new figure may increase policy uncertainty, prompting risk-averse investors to temporarily withdraw until clear policy signals are observed. The combination of these theoretical perspectives explains why event-study

methods are appropriate for capturing short-term market reactions to the appointment.

Research Method

This study employs an event study methodology to examine the stock market reaction to the appointment of Purbaya Yudhi Sadewa as Indonesia's Minister of Finance on September 8, 2025. The event study approach is widely used to assess how specific political or economic events affect market efficiency and investor sentiment by observing abnormal stock returns around the event window (Brown & Warner, 1985; MacKinlay, 1997). The event of interest represents a significant shift in fiscal leadership that could alter expectations regarding Indonesia's macroeconomic management and fiscal policy stance.

The analysis focuses exclusively on the abnormal return (AR) of stocks listed in the Jakarta Composite Index (JCI), reflecting the overall performance of the Indonesian capital market. By isolating abnormal returns from normal market movements, the study aims to determine whether the ministerial appointment generated statistically significant reactions in investor behaviour.

The event window is defined as 15 days before and 15 days after the ministerial appointment, covering the period from August 14, 2025, to September 29, 2025, with the event date ($t = 0$) set on September 8, 2025. This period allows the model to establish a reliable benchmark for normal performance against which any deviations (abnormal returns) can be measured.

This study uses daily closing prices of individual stocks listed on the Indonesia Stock Exchange (IDX) and the Jakarta Composite Index (JCI) as the market benchmark. All data are obtained from official IDX publications. The sample includes continuously traded stocks during the estimation and event windows to avoid thin-trading bias (Campbell et al., 1997). The data are processed using Microsoft Excel and EViews for return computation, aggregation, and statistical testing.

Abnormal return (AR_{it}) represents the difference between the actual return (R_{it}) and the expected (normal) return ($E(R_{it})$) of stock i on day t , as shown below:

$$AR_{it} = R_{it} - E(R_{it})$$

The actual stock return i is calculated as:

$$R_{it} = \ln\left(\frac{P_{it}}{P_{i,t-1}}\right)$$

Where P_{it} and $P_{i,t-1}$ are the closing prices of stock i on days t and $t-1$, respectively.

The market-adjusted model is adopted to estimate expected returns, assuming that market performance adequately reflects all systematic factors influencing prices (Brown & Warner, 1985). Hence:

$$E(R_{it}) = R_{mt}$$

where R_{mt} denotes the return of the market index (Jakarta Composite Index). Consequently, the abnormal return is simplified as:

$$AR_{it} = R_{it} - R_{mt}$$

This approach eliminates the need for additional model estimation and is suitable for short-term event studies where market-wide movements dominate price reactions (Kothari & Warner, 2007).

To capture the overall market reaction across time, the Average Abnormal Return (AAR) and Cumulative Average Abnormal Return (CAAR) are calculated as follows:

$$SAAR_t = \frac{1}{N} \sum_{i=1}^N AR_{it}$$

$$CAAR_{t1,t2} = \sum_{t=t1}^{t2} AAR_t$$

Where N is the number of securities included in the sample, AAR_t represents the mean abnormal return on day t , and $CAAR_{t1,t2}$ is the cumulative effect of abnormal returns over a specified sub-window ± 15 .

Research Results

The empirical findings reveal a distinct asymmetry in the Indonesian stock market's response surrounding the appointment of Purbaya Yudhi Sadewa as the new Minister of Finance. During the pre-event window ($-15, -1$), the Average Abnormal Return (AAR) fluctuated around zero, while the Cumulative Average Abnormal Return (CAAR) also trended toward neutrality. This implies that prior to the official announcement, investor sentiment was largely stable, indicating minimal speculative anticipation regarding Purbaya's appointment.

In contrast, the post-event window ($+1, +15$) showed a clear upward shift in AAR and CAAR values, with a final cumulative increase of approximately 4.14%, indicating a positive market reaction. This indicates growing investor confidence following Purbaya's induction, likely reflecting expectations of policy continuity, fiscal stability, and reform-oriented financial governance (Fama, 1991; McWilliams & Siegel, 1997).

Such results align with the Efficient Market Hypothesis (EMH), which posits that market prices rapidly incorporate all publicly available information (Fama, 1970). The lagged positive reaction observed here may indicate a semi-strong form efficiency, where the market gradually digests the implications of political events (Brown & Warner, 1985). Moreover, similar reactions have been observed in previous political events in emerging markets, where leadership credibility and macroeconomic outlook have a strong influence on investor responses (Pastor & Veronesi, 2013; Bialkowski et al., 2008).

Table 1

Calculation of Abnormal Return (AR), Average Abnormal Return (AAR), and Cumulative Average Abnormal Return (CAAR) for the Pre-Event Window (August 14–September 4, 2025)

#	Date	JCI Close	Return	Expected R	AR (AAR)	CAAR
1	2025-08-14	7,931.25	Na	−0.000546	Na	Na
2	2025-08-15	7,898.38	−0.004144	−0.000546	−0.003598	−0.003598
3	2025-08-19	7,862.95	−0.004486	−0.000546	−0.003939	−0.007537
4	2025-08-20	7,943.83	0.010286	−0.000546	0.010833	0.003295
5	2025-08-21	7,890.71	−0.006687	−0.000546	−0.006141	−0.002845

6	2025-08-22	7,858.85	-0.004038	-0.000546	-0.003491	-0.006337
7	2025-08-25	7,926.91	0.008660	-0.000546	0.009207	0.002870
8	2025-08-26	7,905.76	-0.002668	-0.000546	-0.002122	0.000748
9	2025-08-27	7,936.18	0.003848	-0.000546	0.004394	0.005143
10	2025-08-28	7,952.09	0.002005	-0.000546	0.002551	0.007694
11	2025-08-29	7,830.49	-0.015292	-0.000546	-0.014745	-0.007051
12	2025-09-01	7,736.07	-0.012058	-0.000546	-0.011512	-0.018563
13	2025-09-02	7,801.58	0.008468	-0.000546	0.009015	-0.009548
14	2025-09-03	7,885.86	0.010803	-0.000546	0.011349	0.001801
15	2025-09-04	7,867.35	-0.002347	-0.000546	-0.001801	0.000000

The rise in abnormal returns after the appointment can also be interpreted through the lens of policy signaling theory. As Purbaya previously held prominent positions in economic planning (notably at the Investment Coordinating Board and LPEM UI), his appointment signalled continuity and technocratic competence—qualities that tend to reassure both domestic and foreign investors (Bittlingmayer, 1998; Santa-Clara & Valkanov, 2003). Positive CAAR trends thus reflect a rational repricing of expected policy outcomes, such as prudent fiscal management, structural reform, and investor-friendly regulation.

Conversely, the absence of significant abnormal returns before the announcement implies that the market did not anticipate the decision, highlighting information asymmetry in political decision-making. Such behaviour is typical in markets with limited political transparency, where sudden elite reshuffles can lead to post-event adjustments rather than pre-event speculation (Julio & Yook, 2012).

Table 2

Calculation of Abnormal Return (AR), Average Abnormal Return (AAR), and Cumulative Average Abnormal Return (CAAR) for the Post-Event Window (September 9–29, 2025)

#	Date	JCI Close	Return	Expected R	AR (AAR)	CAAR
1	2025-09-09	7,628.60	-0.017800	-0.000546	-0.017254	-0.029482
2	2025-09-10	7,699.01	0.009230	-0.000546	0.009776	-0.019705
3	2025-09-11	7,747.90	0.006350	-0.000546	0.006897	-0.012809
4	2025-09-12	7,854.06	0.013702	-0.000546	0.014248	0.001439
5	2025-09-15	7,937.12	0.010575	-0.000546	0.011122	0.012561
6	2025-09-16	7,957.70	0.002593	-0.000546	0.003139	0.015700
7	2025-09-17	8,025.18	0.008480	-0.000546	0.009026	0.024727
8	2025-09-18	8,008.43	-0.002087	-0.000546	-0.001541	0.023186
9	2025-09-19	8,051.12	0.005331	-0.000546	0.005877	0.029063
10	2025-09-22	8,040.04	-0.001376	-0.000546	-0.000830	0.028233
11	2025-09-23	8,125.20	0.010592	-0.000546	0.011138	0.039371
12	2025-09-24	8,126.56	0.000167	-0.000546	0.000714	0.040085

13	2025-09-25	8,040.67	-0.010569	-0.000546	-0.010023	0.030063
14	2025-09-26	8,099.33	0.007295	-0.000546	0.007842	0.037904
15	2025-09-29	8,123.25	0.002953	-0.000546	0.003500	0.041404

Furthermore, from a behavioural finance perspective, the post-event optimism might be attributed to investor sentiment and media framing, as public narratives about Purbaya's technocratic expertise likely amplified market confidence (Baker & Wurgler, 2007). This psychological reinforcement mechanism often leads to short-term overreactions in emerging equity markets; however, it may correct over time if the fundamentals do not align with expectations.

Table 3

Market Reaction Before and After Appointment

Period	Mean AAR	Final CAAR	Reaction Direction
Aug 14-Sep 4, 2025	≈ 0.000	≈ 0.000	Neutral
Sep 9-Sep 29, 2025	+0.00276	+0.0414	Positive

Overall, the findings highlight that the political appointment of credible technocrats can serve as a positive signal to the market, resulting in short-term gains in stock indices, as evident in the Jakarta Composite Index (JCI). These results are consistent with prior studies examining ministerial or cabinet changes in Indonesia (Haryanto et al., 2020; Siregar & Anwar, 2022), which also found statistically significant positive abnormal returns following perceived pro-market appointments.

Conclusions

In conclusion, this study demonstrates that the Indonesian stock market responded positively to the appointment of Purbaya Yudhi Sadewa as Minister of Finance, with post-event CAAR rising by approximately 4.14%. The reaction reflects investor confidence in technocratic governance, policy stability, and fiscal credibility. These findings reaffirm that political events carry significant informational value, influencing short-term market dynamics even in semi-efficient markets.

For policymakers, the message is clear: credibility, continuity, and communication matter. Appointing qualified technocrats to key economic positions can bolster financial stability, attract investment, and reinforce Indonesia's reputation as a resilient emerging economy. Ultimately, maintaining transparent and predictable policy environments remains central to sustaining investor trust and supporting long-term capital market development.

While the study provides robust descriptive evidence, it has several limitations. First, it focuses solely on the Jakarta Composite Index (JCI), thus excluding sectoral or firm-level variations that may reveal differential sensitivity to policy appointments. Second, the study does not control for confounding macroeconomic events, such as central bank statements or global market shocks, that may influence returns during the event window. Third, the use of a single-market index limits cross-validation across

asset classes, such as bonds or exchange rates.

From a theoretical perspective, the study contributes to the growing body of literature that links political economy and financial markets. The results reaffirm that ministerial credibility and leadership quality are vital determinants of investor confidence, especially in emerging markets, where political risk remains a salient concern (Pastor & Veronesi, 2013; Bialkowski et al., 2008). Moreover, the asymmetric reaction—neutral before and positive after—demonstrates how markets interpret political appointments as new information shocks rather than predictable transitions, a pattern consistent with event-study evidence from similar emerging economies (Santa-Clara & Valkanov, 2003; McWilliams & Siegel, 1997).

In addition, the observed positive abnormal returns suggest that information asymmetry diminishes once credible and transparent appointments are made, underscoring the informational role of political events in shaping investor expectations. This aligns with behavioural finance perspectives, where sentiment-driven optimism can amplify market momentum in response to leadership perceived as competent or reformist (Baker & Wurgler, 2007).

Future research could extend this analysis by employing multi-factor models, including market beta adjustments (such as the CAPM or market model), or examining volatility clustering using GARCH frameworks. Additionally, comparative studies between Indonesia and other ASEAN markets could yield insights into the regional contagion effects of political events. Finally, integrating textual sentiment analysis from news and social media could quantify how narrative framing shapes investor reactions to leadership changes.

Beyond Indonesia, the findings have broader significance for the governance of emerging markets. They demonstrate that credibility-based political events—particularly the appointment of technocrats—can generate short-term gains in the capital market. For other developing nations facing fiscal uncertainty or leadership turnover, such appointments can serve as strategic signals to attract foreign capital and stabilise currency expectations (Bittlingmayer, 1998; Fisman, 2001).

This reinforces the notion that economic leadership is not merely administrative but symbolic, shaping investor perceptions of institutional quality, reform potential, and macroeconomic resilience. Future governments should therefore view key ministerial positions not only as political assignments but as instruments of economic signalling and investor assurance.

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