TATOHI: Jurnal Ilmu Hukum

Volume 5 Issue 3 May, 2025: p. 138-144
E-ISSN: 2775-619X
https://fhukum.unpatti.ac.id/jurnal/tatohi/index
: 10.47268/tatohi.v5i3.2987

TATOHI: Jurnal Ilmu Hukum

Juridical Analysis of Stock Market Response to Government Economic Policy: The Case of Declining IHSG in Indonesia

Harly Clifford Jonas Salmon

Faculty of Law, Universitas Pattimura, Ambon, Indonesia.
: harlyclifford@outlook.com
Corresponding Author*

Abstract

Introduction: *Acroeconomic changes in Indonesia have a significant impact on the industrial sector and capital markets. High inflation, the depreciation of the rupiah, and rising interest rates can reduce purchasing power and corporate profitability, ultimately leading to a decline in the Composite Stock Price Index (IHSG). This economic instability may prompt investors to withdraw their capital from the stock market, further worsening the IHSG condition.*

Purposes of the Research: *This study aims to analyse how government economic policies influence IHSG movements by examining market responses to the fiscal and monetary policies implemented by the Indonesian government.*

Methods of the Research: *This research adopts a normative juridical approach by analysing laws and legal norms related to economic policies. The study examines regulations affecting stock market stability and their impact on investment decisions.*

Findings of the Research: *The findings indicate that unclear fiscal and monetary policies negatively affect IHSG. The 5% decline in IHSG on March 18, 2025, reflects economic and political uncertainty, causing investors to be more cautious. Policies such as budget cuts for ministries and the free nutritious meal program have triggered negative market reactions. Additionally, inconsistent tax policies have further increased economic uncertainty. This study concludes that transparency and policy consistency are crucial in maintaining IHSG stability and enhancing investor confidence in Indonesia's capital market.*

Keywords: Fiscal and Monetary Policy; Jakarta Composite Index (IHSG); Investor Protection and Capital Market Regulation.

Submitted: 2025-04-07 *Revised: 2025-05-25* *Accepted: 2025-05-26* *Published: 2025-05-31*

How To Cite: Harly Clifford Jonas Salmon. "Juridical Analysis of Stock Market Response to Government Economic Policy: The Case of Declining IHSG in Indonesia." *TATOHI: Jurnal Ilmu Hukum* 5 no. 3 (2025): 138-144. https://doi.org/10.47268/tatohi.v5i3.2987

INTRODUCTION

Macroeconomic changes in Indonesia inevitably impact the national economy and all industrial sectors. For instance, high inflation and the depreciation of the rupiah can exert pressure on many industries, reducing production due to rising raw material costs, which ultimately leads to lower profits. This decline in profitability affects stock prices in the sector, as shareholder dividends also decrease, prompting many investors to withdraw their investments. Additionally, rising interest rates may encourage investors to save their money in bank deposits rather than investing in the capital market. The decline in stock prices within these industries also contributes to the overall decrease in the Jakarta Composite Index (IHSG) on the Indonesia Stock Exchange (BEI).

Theoretically, high inflation results in a decline in the purchasing power of money and reduces the real income investors receive from their investments. High-interest rates also affect the present value of corporate cash flows, making investment opportunities less attractive. The depreciation of the domestic currency against foreign currencies discourages investment in the capital market, as the weakening of the rupiah against the U.S. dollar indicates a poor economic outlook for Indonesia. This depreciation may stem from weak economic fundamentals, strengthening the U.S. dollar, which in turn suppresses the IHSG[1].

The Jakarta Composite Index (IHSG) is a key indicator reflecting the performance of Indonesia's stock market. As a barometer of economic health, IHSG reflects investor sentiment toward economic growth prospects and political stability. The movement of IHSG is influenced not only by internal factors such as the performance of listed companies but also by government policies, global macroeconomic conditions, and international market dynamics. In the context of Indonesia's growing economy, monitoring IHSG is crucial to understanding investment trends and market confidence. A significant decline in IHSG often signals economic uncertainty or risk, influencing both domestic and foreign investment decisions. Therefore, analysing the factors affecting IHSG movements is highly relevant in providing insights for policymakers and market participants.

There are two key factors that contribute to IHSG[2] fluctuations: macroeconomic and microeconomic factors. The microeconomic environment focuses on individual decision-making by businesses and households in allocating their resources to meet needs. A company's financial performance can be assessed through financial ratios, which are regularly published by issuers. However, not all financial ratios are relevant to investors.

The macroeconomic environment, on the other hand, refers to external conditions affecting a company's daily operations[3]. It examines the national economy as a whole, including consumers, the banking sector, the government, and businesses. Macroeconomic factors that directly influence corporate and stock market performance include interest rates, economic cycles, inflation, government policies affecting specific industries, exchange rates, tax regulations, budget deficits, foreign loan interest rates, global economic conditions, economic ideologies, money supply, private investment, and trade and payment balances[4].

Government economic policies play a significant role in influencing the Composite Stock Price Index (IHSG) as an indicator of stock market health. Fiscal and monetary policies implemented by the government can either create a conducive investment climate or, conversely, generate uncertainty among investors. For instance, policies such as tax increases or subsidy reductions can lower corporate profitability, negatively impacting stock prices and IHSG as a whole[5]. Additionally, monetary policies, such as changes in interest rates, directly affect borrowing costs for businesses. An increase in interest rates tends to reduce consumer purchasing power and business investments, which in turn can lead to a decline in the performance of certain sectors in the stock market[6]. Political and economic uncertainty resulting from government policies can also trigger sell-offs by both foreign and domestic investors.

This was reflected in the 5% decline in Indonesia's IHSG, a sharp drop that occurred on March 18, 2025, prompting the Indonesia Stock Exchange (BEI) to implement a 30-minute trading halt as part of the circuit breaker mechanism designed to anticipate market panic

[1] Kamal, Mustafa, and Husni Thamrin. "Pengaruh Tingkat Inflasi Dan Nilai Tukar (Kurs) Rupiah Terhadap Indeks Saham Syariah Indonesia (ISSI)." *Jurnal Tabarru': Islamic Banking and Finance* 4, no. 2 (2021): 521-531.

[2] Alwi, Iskandar Z. *Pasar Modal: Teori Dan Aplikasi*. (Jakarta: Yayasan Pancur Siwah: Adinasri, 2003).

[3] Samsul, M. *Pasar Modal & Manajemen Portofolio*. (Surabaya: Erlangga, 2006)

[4] Tandelilin, Eduardus. *Portofolio dan Investasi: Teori dan aplikasi*. (Jakarta: Kanisius, 2010).

[5] Sukirno, S. *Ekonomi Makro: Teori dan Aplikasi*. (Jakarta: Rajawali Pers. 2018)

[6] Mankiw, N. G.. *Principles of Economics*. Cengage Learning. (2020)

and extreme volatility. This sharp decline in IHSG reflected the market's response, particularly from foreign investors, to economic and political uncertainties in Indonesia. One of the main triggers was the lack of clarity in the Indonesian government's fiscal policy direction, including a national spending plan that was not backed by solid funding sources. The state budget deficit in the first two months of 2025, along with budget cuts across various ministries and institutions, also affected the market.

Beyond government policies, a massive sell-off of big-cap stocks in the state-owned banking sector further worsened the situation. The policy of writing off People's Business Credit (KUR) debts and related regulations received a negative response from the market. The ambiguity of regulations and potential conflicts of interest have led investors to reduce their investments in the financial sector. Another policy that has drawn attention is the Free Nutritious Meal (MBG) program, which costs $28 billion per year. While this program offers significant social benefits, it also poses risks to fiscal stability.

Based on the discussion above, this study focuses on the legal analysis of stock market responses to government policies, particularly the decline in IHSG in Indonesia. The main issue addressed is how government economic policies impact IHSG. The objective of this research is to explain and understand the relationship between government policies and stock market responses.

METHODS OF THE RESEARCH

The normative juridical approach is a research method focusing on analyzing statutory regulations and applicable legal norms[7]. This method involves studying legal texts, doctrines, and court practices to understand how laws are applied in specific contexts[8]. In this study, the researcher will identify and analyze regulations relevant to government economic policies and their impact on IHSG. This approach aims to provide an in-depth understanding of the relationship between public policies and existing legal norms.

RESULTS AND DISCUSSION

The Jakarta Composite Index (IHSG) experienced a sharp decline of 5% on March 18, 2025, prompting the Indonesia Stock Exchange (BEI) to implement a 30-minute trading halt. This circuit breaker mechanism was designed to mitigate market panic and extreme volatility, reflecting market reactionsparticularly from foreign investors—to economic and political uncertainty in Indonesia. One of the primary triggers of the decline was the ambiguity in the government's fiscal policy direction, including inconsistent budget planning and sudden regulatory changes.

This uncertainty raised concerns among investors about long-term economic stability and potential negative impacts on the performance of publicly listed companies. Ambiguous fiscal policies disrupt economic growth projections and affect both domestic and foreign investment decisions. This situation was further exacerbated by government policies that increased investor scepticism. Some of the policies identified as triggers include the Free Nutritious Meal Program (MBG), a government initiative providing meals for public schools at all levels, which costs approximately $28 billion per year. The government also plans to expand the MBG budget in 2026, drawing funds from the state budget (APBN). At

---

[7] Peter Mahmud Marzuki, *Penelitian Hukum* (Jakarta: Kencana Prenada Media Group, 2017)
[8] Soerjono Soekanto and Sri Mamudji, *Penelitian Hukum Normatif* (Jakarta: Rajawali Pers, 2018).

TATOHI: Jurnal Ilmu Hukum, 5 (3) May 2025: 138- 144
E-ISSN: 2775-619X
Published by: Faculty of Law, Universitas Pattimura

the same time, the government implemented budget efficiency measures across multiple ministries, further destabilizing Indonesia's economic stability[9].

Initially, the government planned to raise the corporate income tax (PPh) to 12% in 2024, but the plan was cancelled. Instead, budget efficiency measures were applied across various ministries to address the fiscal deficit. These efficiency measures affected not only ministry budgets but also led to increased unemployment, particularly among contract workers. Furthermore, the hotel sector suffered as government spending cuts affected operational expenses such as official travel and seminar activities held in hotels, indirectly impacting the economy.

Government policies significantly influence the economy and, consequently, IHSG. Many investors became hesitant to invest in Indonesia, resulting in capital outflows that contributed to IHSG's decline. The government's response to the falling IHSG was minimal, further exacerbating market uncertainty. The decline in IHSG signified high market uncertainty, affecting various economic sectors in Indonesia. One of the key factors driving this decline was investor concerns about Indonesia's economic stability[10], particularly regarding exchange rate fluctuations, rising inflation, and global economic influences shaping investor perceptions of the Indonesian stock market.

Indonesia's capital market is regulated by laws designed to ensure transparency, protect investors, and control market volatility caused by economic policies. One of the key regulations is Law Number 8 of 1995 on Capital Markets, which governs various aspects of securities trading, including disclosure obligations for issuers, investor protection mechanisms against unfair market practices, and the role of regulatory bodies such as the Financial Services Authority (OJK) in overseeing market activities.

Additionally, financial services regulations for non-banking institutions are outlined in Law Number 21 of 2008 on Islamic Banking, which sets investor protection standards and regulatory oversight for non-bank financial entities such as securities firms and investment managers. This law enhances capital market regulations by ensuring transparency in Sharia-compliant investment products and strengthening supervision of non-bank financial institutions operating in the capital market.

To address extreme market volatility, the Indonesia Stock Exchange (BEI) has implemented the Circuit Breaker mechanism, which temporarily halts trading when IHSG declines significantly within a single day. For example, on March 18, 2020, BEI halted trading after IHSG dropped by more than 5% due to the COVID-19 pandemic[11]. This mechanism is designed to prevent panic selling that could worsen market instability and allows investors time to reassess their investment decisions.

On the other hand, monetary policies implemented by Bank Indonesia (BI) also have a significant impact on the capital market. One of the most commonly used monetary policy instruments is the adjustment of the benchmark interest rate or BI-Rate, which aims to control inflation and maintain liquidity stability within the financial system. For example, when BI lowers interest rates, it can increase market liquidity, encourage investment in stock instruments, and reduce market volatility caused by economic uncertainty[12].

---

[10] https://s1-aktuaria.fmipa.unesa.ac.id/post/penurunan-ihsg-indonesia-dampak-dan-analisis-ekonomi-serta-aktuaria

[11] Bursa Efek Indonesia, "Penerapan Circuit Breaker di BEI," 2020

[12] Marzuki, Peter Mahmud. *Hukum dan Ekonomi: Suatu Pendekatan Interdisipliner*. (Jakarta: Kencana Prenada Media Group, 2017).

Economic Law Theory examines the interaction between law and economics, as well as how regulations influence market behavior. In the context of stock market declines in Indonesia, government intervention through fiscal and monetary policies significantly affects investment decisions. When the government enacts unclear or unfavorable policies - such as tax hikes, stringent regulations, or sudden changes in budget allocation policies - it can create uncertainty among investors. This uncertainty often triggers massive sell-offs by both foreign and domestic investors, which in turn exerts downward pressure on the Indonesia Composite Index (IHSG).

For instance, when abrupt economic policy changes are made without adequate public dissemination, the market tends to react negatively. Therefore, understanding Economic Law Theory is essential to analyzing how public policies contribute to IHSG fluctuations and the overall stability of the stock market. In addition to Economic Law Theory, Distributive Justice Theory focuses on how resources and wealth are distributed within society, as well as the principles underlying such distribution. This theory emphasizes that justice is not only related to legal processes but also to the outcomes of resource allocation. In economic contexts, it underscores the importance of equal access to wealth and opportunities for all individuals.

Fair public policies should consider the needs of disadvantaged communities and establish mechanisms to reduce social inequality. For instance, subsidy programs or social assistance can be utilized to improve the welfare of marginalized groups. Furthermore, this theory highlights the government's role in fostering distributive justice through progressive taxation and income redistribution. In Indonesia, the application of Distributive Justice Theory is highly relevant given the ongoing economic inequality. Government policies should be directed toward ensuring that economic growth benefits not just a select few but the entire population.[13]

Investor protection in the Indonesian capital market is regulated under Law Number 8 of 1995 concerning the Capital Market, which governs information transparency and prevents unfair trading practices that could harm investors. However, in the face of inconsistent fiscal and monetary policies, investor protection remains a challenge. For example, changes in Bank Indonesia's (BI) interest rate policies can cause sudden stock price movements that retail investors may not anticipate. Additionally, erratic fiscal policies—such as the introduction of new taxes on stock transactions or inconsistent investment incentives—can create market uncertainty and heighten volatility, posing risks to investors.

To enhance economic policy transparency and curb excessive speculation, stricter regulations on fiscal and monetary policy disclosures are needed. One solution is strengthening disclosure regulations enforced by the Financial Services Authority (OJK) and the Indonesia Stock Exchange (BEI), requiring the government and central bank to systematically announce economic policies with sufficient lead time before implementation. Moreover, Indonesia could adopt a Forward Guidance mechanism similar to that used by central banks in advanced economies, wherein BI provides clearer signals regarding long-term monetary policy directions to reduce market uncertainty. With more transparent and structured regulations, investors would be better equipped to make rational decisions, thereby

[13] Rukmana, D., & Supriyadi, A. "Keadilan Sosial dalam Kebijakan Ekonomi di Indonesia." *Jurnal Ilmu Sosial*, 12 no 1 (2020): p, 45-60.

Several aspects illustrate how government policies contribute to IHSG declines, Uncertainty in Economic Policy Direction A lack of clear economic policy direction can create uncertainty among investors. If investors perceive that the government has no clear plan to address economic challenges, they may withdraw their investments from the stock market. For example, sudden changes in tax regulations or monetary policies without adequate socialization can raise concerns about corporate profitability and investment attractiveness.

Negative Reactions from Foreign Investors, IHSG declines are also triggered by negative reactions from foreign investors toward domestic political and economic conditions. When the government fails to provide legal certainty or political stability, foreign investors may opt to withdraw their funds from the Indonesian market. Large-scale sell-offs by foreign investors can exacerbate market conditions and further drive down stock values.

Fiscal and Monetary Policies, Fiscal policies perceived as unsupportive of economic growth-such as budget cuts for social or infrastructure programs—can increase uncertainty among market participants. Additionally, if Bank Indonesia implements monetary measures such as interest rate hikes without clearly communicating their long-term objectives, borrowing costs for businesses may rise, thereby dampening investment interest.

Market Volatility The implementation of circuit breaker mechanisms in response to IHSG declines indicates that extreme volatility has occurred due to swift market reactions to negative news related to government policies. This volatility often creates a negative cycle where stock price instability triggers further sell-offs, worsening overall economic conditions.The decline of the Indonesia Composite Index (IHSG) carries significant legal implications for both the government and market participants. One major consequence is financial losses suffered by investors, particularly those holding shares listed on the Indonesia Stock Exchange (IDX). When IHSG experiences a sharp decline, investor confidence in market stability can be shaken, prompting widespread sell-offs and exacerbating market downturns.

In this context, if government economic policies are unclear or inconsistent—such as due to negligence in decision-making processes—the government may be deemed to have violated principles of good governance. This could potentially lead to legal liability for the government concerning investor losses resulting from market uncertainty and volatility. Furthermore, policy ambiguities could prompt lawsuits from affected parties and regulatory interventions to uphold the integrity and stability of the capital market for investor protection.thus, it is crucial for the government to ensure transparency and consistency in economic policies to minimize the risk of IHSG declines and their adverse effects on the economy as a whole.

CONCLUSION

The decline in the Jakarta Composite Index (IHSG) in Indonesia demonstrates a strong correlation between government economic policies and market reactions. Unclear fiscal and monetary policies, sudden regulatory changes, and a lack of transparency in economic decision-making have increased uncertainty among investors. This situation has led to massive sell-offs, particularly by foreign investors, exacerbating market volatility. Additionally, large-scale government programs, such as the Free Nutritious Meal Program (MBG), and budget efficiency measures in various ministries have heightened market concerns about Indonesia's fiscal stability. Poorly communicated monetary policies also worsen conditions by increasing borrowing costs and reducing investment interest in the real sector. To mitigate capital market volatility caused by inconsistent economic policies, the government must enhance transparency in economic decision-making. One approach is to implement clearer and more structured communication mechanisms regarding fiscal and monetary policies, such as publishing long-term policy plans to provide certainty for investors. Strengthening disclosure regulations in the capital market, enforced by the Financial Services Authority (OJK) and the Indonesia Stock Exchange (BEI), is essential to enable investors to make more rational investment decisions and reduce excessive speculation. The government must also ensure that economic policies are well-founded and do not change abruptly to minimize market panic. Through improved coordination between the government, regulators, and market participants, Indonesia's capital market can develop more stably and contribute optimally to the national economy.

REFERENCES

Alwi, Iskandar Z. *Pasar Modal: Teori Dan Aplikasi*. Jakarta: Yayasan Pancur Siwah: Adinasri, 2003.

Bursa Efek Indonesia, "Penerapan Circuit Breaker di BEI," 2020.

https://s1-aktuaria.fmipa.unesa.ac.id/post/penurunan-ihsg-indonesia-dampak-dan-analisis-ekonomi-serta-aktuaria.

Kamal, Mustafa, and Husni Thamrin. "Pengaruh Tingkat Inflasi Dan Nilai Tukar (Kurs) Rupiah Terhadap Indeks Saham Syariah Indonesia (ISSI)." *Jurnal Tabarru': Islamic Banking and Finance* 4, no. 2 (2021): 521-531.

Mankiw, N. G.. *Principles of Economics*. Cengage Learning. 2020.

Marzuki, Peter Mahmud. *Hukum dan Ekonomi: Suatu Pendekatan Interdisipliner*. Jakarta: Kencana Prenada Media Group, 2017.

Peter Mahmud Marzuki, *Penelitian Hukum*, Jakarta: Kencana Prenada Media Group, 2017.

Rukmana, D., & Supriyadi, A. "Keadilan Sosial dalam Kebijakan Ekonomi di Indonesia." *Jurnal Ilmu Sosial*, 12 no 1 (2020): p, 45-60.

Samsul, M. *Pasar Modal & Manajemen Portofolio*. Surabaya: Erlangga, 2006.

Soerjono Soekanto and Sri Mamudji, *Penelitian Hukum Normatif*, Jakarta: Rajawali Pers, 2018.

Sukirno, S. *Ekonomi Makro: Teori dan Aplikasi*. Jakarta: Rajawali Pers. 2018.

Tandelilin, Eduardus. *Portofolio dan Investasi: Teori dan Aplikasi*. Jakarta: Kanisius, 2010.