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The Impact of the 2019 Indonesian Presidential Election and Inauguration on the Return of the Jakarta Islamic Index (JII)

ABSTRACT

The purpose of present study is to determine the impact of political events, namely, Election Inauguration for President and Vice President of Republic of Indonesia in 2019 on Abnormal Returns on the Jakarta Islamic Index (JII) Shares. This exploration employs the event study analysis method. The time-period used was 230 bourse days from November 7, 2018 to October 30, 2019, including 7 days before and 7 days after the election's inauguration for the President and Vice President of Indonesia in 2019. From two political events, there is an abnormal return that decreases after the event compared to before event occurred, but the decrease is statistically no significant difference.

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Please cite this article as
Tanjung, H. (2019). The impact of the 2019 Indonesian presidential election and inauguration on the return of the Jakarta Islamic Index (JII), *Kashmir Economic Review*, 29(2), 1-11.

1. INTRODUCTION

The capital-market has a very vital role for any nation's economy, because capital-market has two functions that are carried out at once. First, the economic function which states that the capital market functions as a facility that brings together two interested parties, namely the excess funds (investors) with those needing funds (issuer). Second, the financial function which states that the capital market can provide opportunities to obtain return for investors in- accordance with features of selected investment (Ananto, 2014).

In "Law Number 8 of 1995 regarding the Capital Market defined capital market as activities related to public offering and trading of securities, public companies related to securities issuance, and Institutions and professions related to securities". Like general definition, the Indonesian capital-market is formed to connect investors (investors) with companies or government institutions. Investors are those who have excess funds, while companies or government agencies need funds to finance various projects (Tandelilin, 2010).

The capital-market will be attractive if it provides benefits for investors. The value of profit or loss can be seen from the movement of the price of shares owned. A common indicator for investors to consider is the stock price index. The stock price index is a "report card" for a group of selected shares. Currently, Indonesian Stock Exchange has a variety of indices, including: "Composite Stock Price Index (CSPI), Sectoral Index, LQ45 Index, Jakarta Islamic Index (JII)", Kompas100 Index, Business-27 Index, Pefindo-25 Index, Sri-Index Kehati, and the Issuer's Individual Index.

Non-economic events can affect stock price movements. One of them is a political event that is often associated with share price movements. Investors consider political events in making decisions on the stock market, either to gain profits or avoid the risk of loss. Political events contain information that can influence future economic policies.

One of the interesting events to test the information content is the General Election for President and Vice President 17 April 2019 and Inauguration of President and Vice President 20 October 2019. Testing information content of these political events on the activity of the stock exchange is intended to see the market reaction. This reaction is gauged using event study approach to measure significance of stock returns in pre and post two political events.

Reminder of the article is divided into sections 2, 3, 4 and 5 representing literature review, Research methods, data analysis, results and discussions, and finally conclusions and policy implications respectively.

2. LITERATURE REVIEW

In statistical analysis, normally distributed data are needed so that the data can be further analyzed. According to Hendri Tanjung, 'The actual data comes from many shapes. There are some theoretical distributions and the statistics have to take the data set and try to match it with theoretical shapes. The theoretical shapes are always regular, smooth and they have mathematical formulas. Actual data is irregular and can have many different shapes. One of the most important theoretical distributions is a normal distribution'. Knowing what data sets fit the theoretical distribution is important, because theoretical forms are always organized, smooth and have mathematical formulas.

Event study is an approach to test the information content of an event. The purpose of testing information content is to test the market's reaction to an event. If the market reacts when the information is received by the market, it can be said that the event contains sufficient information. Market reaction occurs when there is a change in the price of the security concerned. Market reaction can be measured using returns or abnormal returns as the value of changes in stock prices. According to Hartono (2016: 620), abnormal

returns will occur in events that contain information; otherwise abnormal returns will not occur in events that do not contain information.

To conduct an event study, the steps that must be taken according to McKinley (1997) consist of the following important steps:

1. Define interesting events, in the form of new information available in the market.
2. Develop theories that give reasons or explain financial responses to new information.
3. Identify the group of companies that experienced the event and identify the date of the event.
4. Choose an appropriate window event and justify the distance. In this case it means identifying the period in which the prices of the shares of companies involved with the event will be tested.
5. Eliminating or adjusting companies that experience other relevant events during the event window.
6. Calculate the abnormal return during the event window and test its significance.
7. "Report the percentage of negative returns and statistical testing".

One important thing in event study is to compute abnormal returns. Abnormal returns are results of calculating difference between actual and expected returns that can occur before the official announcement of information or information leakage after the information is officially announced (Samsul, 2006; 275).

The expected return calculation can use the Adjusted Return approach. If the market is efficient and stock returns vary randomly around actual value, then the average security return calculated from previous period can be used as an expected return. This means that adjusted return model assumes that expected return is a constant value that is equal to the average of realized returns before the estimated period.

Setyawasih (2007) in a paper titled "An Event Study: A Guide to Financial Management Research in the Capital Market", published in the Optimal Journal, concluded that before conducting research on the effects of an event on something else we wanted to measure, researchers must first analyze the presence or absence of the relationship. If we just claim that the relationship exists, it is very likely that what will happen is the emergence of disinformation, it could be that our results show a significant but actually theoretically unrelated relationship.

Suwaryo (2008), in a paper entitled "Impact of Presidential and Vice President Elections on Abnormal Returning Investors", published in Kinerja, concluded that the presidential and vice presidential election events have been responded to by the capital markets in Indonesia as evidenced by investor's abnormal return on LQ45 shares. This proves that the event has informational content. Although the event produced abnormal returns, the average-abnormal-returns in pre and post-election period's event were statistically in-significant. It can be concluded that this event can be anticipated by capital market players.

Diniar and Kiryanto (2015), in a paper titled "Impact Analysis of Jokowi's Presidential Election on Stock Returns (Case Study of "LQ-45 Shares) on the Indonesia Stock Exchange", published in the Indonesian Accounting Journal, concluded that the presidential election on July 9, 2014 provided a significant change in abnormal returns on TVA and shares 5 days before and after the election. After the presidential election, abnormal-returns on shares are lower than before the presidential election. If seen based on the reaction per day from investors for 5 days pre and post-presidential election, a significant reaction is obtained 4 and 2 days before presidential election which is a positive reaction from investors.

Saraswati and Mustanda (2018), in a paper entitled "Indonesian Capital Market Reaction to the announcement of vote count results and the inauguration of the president of the United States, published in e-Journal Manajemen at Udayana University, concluded that there were differences in abnormal-returns before and after the announcement of the results of United States presidential election. This shows that there is a market reaction around the announcement of the results of the United States' presidential election.

Katti (2018), in a paper entitled "The Influence of Political Events (Presidential Election and Cabinet Regulation Announcement) on Industrial Sector Shares in the Indonesia Stock Exchange", published in Capital, concluded that the significance of the average-abnormal-returns that occurred earlier and afterward the announcement period of cabinet arrangement from t-1 to t + 2 indicates that there has been a leak of information from the announcement of cabinet arrangement. This means that the capital market as a whole has absorbed information from the announcement so that no significant abnormal returns occur after 3 days of the event. The capital market itself is increasingly sensitive in responding to national political events that occur, including responding to any political policy under the government led by Jokowi.

Ivani (2019), in a paper entitled "The Influence of the 2019 Indonesian Presidential Election on Abnormal Returns and Trading Volume Activity Study on Lq45 Shares", published in Al Qardh Journal, concluded that the results of test of average-abnormal-return earlier and subsequently the presidential election showed no significant difference.

3. RESEARCH METHODS

Present research is a quantitative study that analyzes data on JII (Jakarta Islamic Index) stock price movements using the event study method. This method analyzes market reactions in the form of abnormal returns from an event whose information is informed as announcement.

The data source in this study uses JII (Jakarta Islamic Index) data published on the Indonesia Stock Exchange website www.idx.co.id. The Jakarta Islamic Index (JII) is an Islamic stock index that was launched on the Indonesian capital market on July 3, 2000.

The population studied is all company shares listed on Jakarta Stock Exchange which includes the criteria for Islamic shares. Samples taken are shares included in the JII constituents, which are as follows:

- Sharia shares included in the constituents of the Indonesian-Sharia-Stock-Index (ISSI) have been recorded for the past 6 months
- 60 shares were chosen based on the highest average market capitalization in the past 1 year
- Out of 60 shares, 30 shares are then chosen based on the average daily transaction value in the highest regular market
- The remaining 30 shares are selected shares.

The investigation "period with event study procedure consists of 2 time periods, namely the estimation period and the event period. The date of the event being published is set as the day of event (t0). If the date is a holiday for stock trading activity, the next closest trading date is set as the day of the event. The time span of the study, the period of events taken is from seven trading days before the event (t-7) to seven trading days after the event (t + 7). The estimated period is taken from 100 (one hundred) days before the event period (event period)".

The estimation period is used to calculate stock returns from the sample under normal circumstances. What is meant by normal conditions is that no particular event has occurred that affects the sample stock in the estimation period. The event period is used to calculate the abnormal return of the sample when the event takes place. In this study, the hypotheses used are:

Election for President and Vice President:

$H_0: \mu\_difference = 0$: There is no difference between the average abnormal return before and after the selection.

$H_1: \mu\_difference \neq 0$: There is a difference between the average abnormal return before and after the selection Event of President and Vice President Inauguration:

$H_0: \mu\_difference = 0$: There is no difference between the average abnormal return before and after the inauguration.

$H_1: \mu\_difference \neq 0$: There is a difference between the average abnormal return before and after inauguration".

4. DATA ANALYSIS, RESULTS AND DISCUSSIONS

Analysis tools and stock return calculation models used in current study are abnormal-return testing. Data processing and calculation are done using the Minitab19 program. The stages of data analysis are as follows:

1. Determine sample size: The sample in this study is daily closing stock price of JII (Jakarta Islamic Index) from the span of the study period.
2. Identifying event day, namely election of President and Vice President on April 17, 2019 and inauguration of President and Vice President on October 20, 2019.
3. Determine research period including the estimation period and the event period, namely:

Event	Estimation-Period		Event-Period	
	t_{-107}	t_{-7}	t_0	t_{+7}
Presidential election	7th November 2018	8th April 2019	17th April 2019	30th April 2019
Presidential inauguration	15th May 2019	10th October 2019	20th October 2019	30th October 2019

4. Conduct a Normality Test: The normality test aims to test the research variables in the regression model having a normally distributed residual. If the data used is not normal or abnormal, then analysis cannot work.
5. Calculating Actual Return (AR), which is the return that has occurred in each sample every day during observation period with the formula:

$$ARt = \frac{(JII_t - JII_{t-1})}{JII_{t-1}} \, JII \, t - 1 \qquad Where$$

$ARt = Actual \, Return \, JII \, on \, day \, t$

$JII \, t = JII \, closing \, price \, on \, day \, t$

$JII \, t - 1 = JII \, closing \, price \, on \, 1 \, day \, before \, t$

6. Calculating Expected Return (ER), the return expected by investors. The expected return calculation in this event study uses an adjusted, average model approach. This model assumes that the expected return is equal to the average actual return during the estimation period, i.e. the period before event period.

$$ER = \frac{\sum AR_{t-107...t-8}}{n}$$

$ER = Expected \, Return$

$AR_{t-107...t-8} = Actual \, Returns \, during \, the \, Estimation \, Period$

$n = Amount \, of \, data$

7. Calculating the Abnormal Return (AbR), which is the difference between the Actual Return when an event occurs (Event Period) and expected return (Expected Return). Mathematically, abnormal return is stated as follows:

$$AbRit = ARIT - ER$$

$$Where :$$

$$AbRit = Abnormal\ Return\ on\ day\ t$$

$$ARit = Actual\ Return\ on\ day\ t$$

$$ER = Expected\ Return$$

8. Performing average difference test (paired t test). To test whether there are differences in average abnormal return before and after the event (event period) is used t test, by comparing t value calculated with the value of the statistical table.

4.1 Period of Observation of Election of President and Vice President

a. Normality test

JII Stock Index Movement, with highest return value of 2.56% and the lowest of - 2.66%, can be seen in the following time series graph:
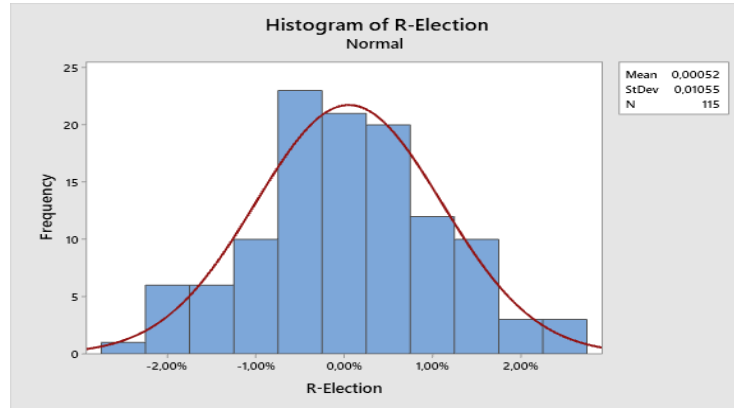
Fig 1: Time Series Plot of R-Election
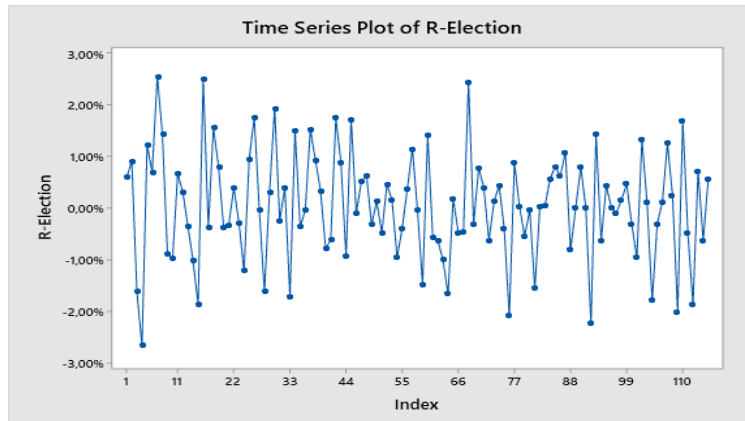
There is a decrease in 4-day return in a row that is from 23 November 2018 to 28 November 2018, while an increase in 4-day return in a row occurs from 08 March 2019 to 14 March 2019.
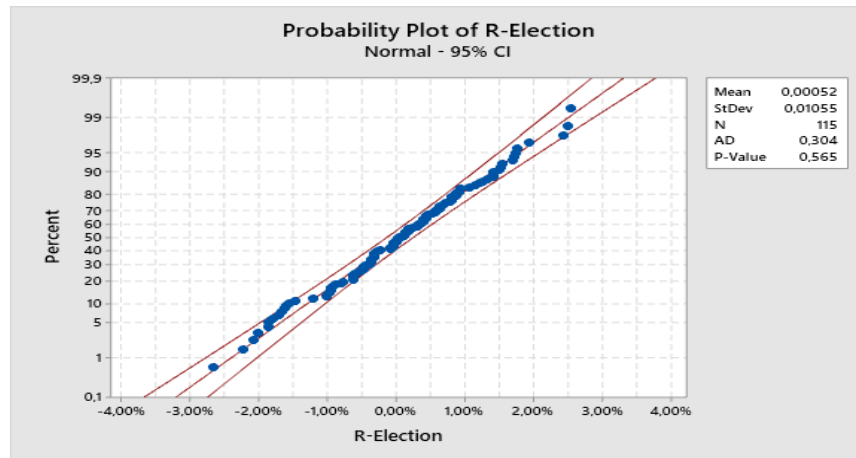
The average JII return value of 0.052% can be seen in the following histogram chart:

Fig 2: Histogram of R-Election

A probability value of 56.5% (P-Value) exceeding a significance level of 5% can be seen in the following Probability Plot chart:

Fig 3: Probability Plot of R-Election

From the graph above it can be seen that the normal distribution sample data is indicated by P-Value> Significant Value or 56.5%> 5%.

b. Calculates the Expected Return in the Estimation Period

Based on calculation of total Expected Return value of 100 data before Event Period the following results are obtained:

AR t-107 ... t-8 = Actual Return during Estimation Period = 0.0796, so:

ER = Expected Return = 0.0796 / 100 = 0,000796

So the results of data calculation are in accordance with the Table 1.

Correlation Test results obtained Correlation numbers of 0.846, it shows the value of a strong and positive correlation between 2 variables. At t-7 up to t-1 days before the election, the average abnormal return tends to be negative, with a mean of minus 0.00112. The average abnormal return is getting negative at t + 1 to t + 7 after the election, with a mean of minus 0.00364. This shows the negative market sentiment towards the Election of President and Vice President.

Table 1. Abnormal Return-Presidential and Vice President Election Events in Event Period

| Date	Time	AR	ER	AbR
08/04/2019	T-7	- 0.0096	0.000796	- 0.010396
09/04/2019	T-6	0.0133	0.000796	0.012504
10/04/2019	T-5	0.0011	0.000796	0.000304
11/04/2019	T-4	- 0.0179	0.000796	-0.018696
12/04/2019	T-3	- 0.0030	0.000796	-0.003796
15/04/2019	T-2	0.0012	0.000796	0.000404
16/04/2019	T-1	0.0126	0.000796	0.011804
18/04/2019	T-0	0.0024	0.000796	0.001604
22/04/2019	T+1	- 0.0201	0.000796	-0.020896
23/04/2019	T+2	0.0170	0.000796	0.016204
24/04/2019	T+3	- 0.0049	0.000796	-0.005696
25/04/2019	T+4	- 0.0186	0.000796	-0.019396
26/04/2019	T+5	0.0072	0.000796	0.006404
29/04/2019	T+6	- 0.0062	0.000796	-0.006996
30/04/2019	T+7	0.0057	0.000796	0.004904

d. Hypothesis testing

Results of the Paired t-Test Abnormal-Return shows value of t arithmetic of $0.907 < 2.447$ (t table value) or hypothesis $H0 = 0$ accepted, meaning that there is no significant difference in the average abnormal return 7 days before and 7 days after the election. Probability value or p value Paired T Test Abnormal-Return Test is $0.399 > 0.05$ (significance level) implies "that there is no significant difference in abnormal-return between before and after" Election of President and Vice President.

4.2 Period of Observation of the Event of the Inauguration of the President and Vice President

a. Normality test

JII Stock Index Movement, with the highest return value of 2.41% and the lowest of - 3.00%, can be seen in the following time series graph:
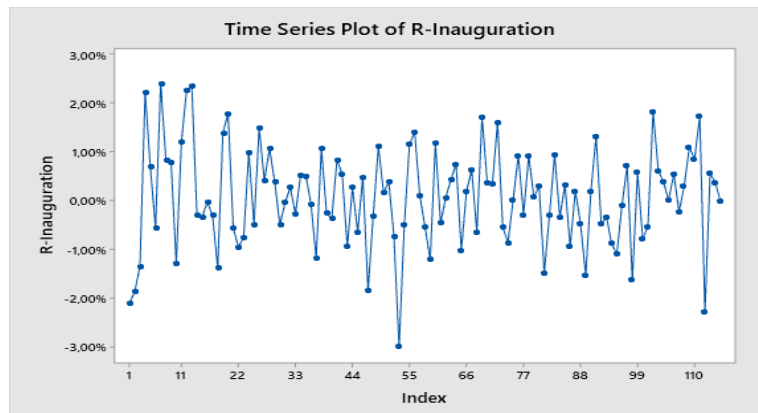
There is a decrease in return for 3 days in a row .i.e. from May 23, 2019 to May 27, 2019, while an increase in return for 3 days in a row occurred from May 15, 2019 to May 20, 2019.
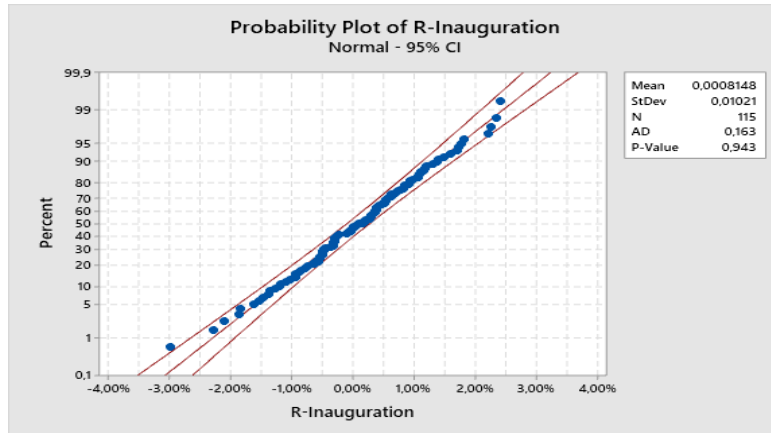
The average return value of the JII Stock Index of 0.082% can be seen in the following histogram chart:

Fig 4: Histogram of R-Inaguration
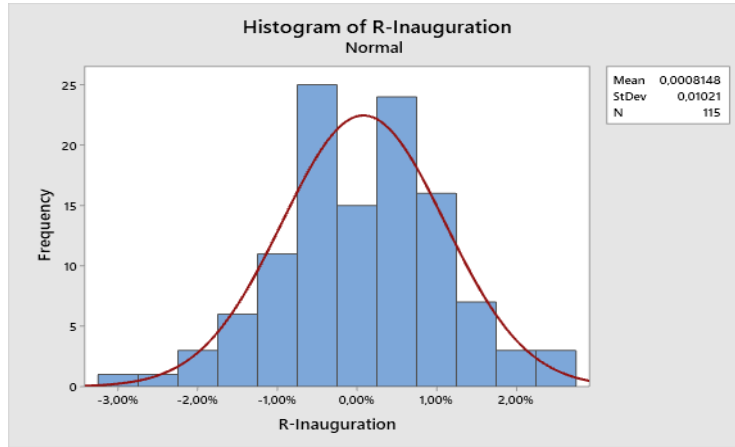
The probability value of 94.3% (P-Value) exceeds the significance level of 5% can be seen in the following Probability Plot chart:

Fig 5: Probability Plot of R-Inaguration

From graph above it can be seen that normal distribution sample data is indicated by P-Value> Significant Value or 94.3%> 5%

b. Calculates the Expected Return in the Estimation Period

The calculation of the total Expected Return value of 100 data before Event Period the following results are obtained:

AR t-107 ... t-8 = Actual Return during Estimation Period = 0.0412, so:

ER = Expected Return = 0.0412 / 100 = 0.000412

So the results of data calculation are in accordance with the table 2.

Table 2: Abnormal Return-Event of the Inauguration of the President and Vice President in the Event Period

DATE	TIME	AR	ER	AbR
10/10/2019	T-7	- 0.0053	0.000412	-0.005712
11/10/2019	T-6	0.0183	0.000412	0.017888
14/10/2019	T-5	0.0062	0.000412	0.005788
15/10/2019	T-4	0.0038	0.000412	0.003388
16/10/2019	T-3	0.0001	0.000412	- 0.000312
17/10/2019	T-2	0.0055	0.000412	0.005088
18/10/2019	T-1	- 0.0023	0.000412	- 0.002712
21/10/2019	T-0	0.0030	0.000412	0.002588
22/10/2019	T+1	0.0110	0.000412	0.010588
23/10/2019	T+2	0.0085	0.000412	0.008088
24/10/2019	T+3	0.0173	0.000412	0.016888
25/10/2019	T+4	- 0.0228	0.000412	- 0.023212
28/10/2019	T+5	0.0056	0.000412	0.005188
29/10/2019	T+6	0.0037	0.000412	0.003288
30/10/2019	T+7	- 0.0001	0.000412	- 0.000512

c. Data analysis by suing Minitab19
Fig 6: Matrix Plot of AbR Pre Inaguration; AbrRPost Inaguration
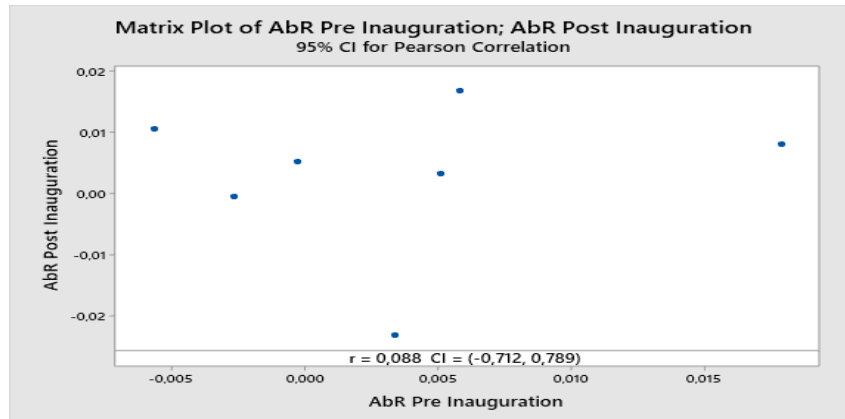
Correlation Test Results obtained a figure of 0.088, this shows the value of the correlation that is not strong (weak) between the 2 variables. At t-7 to t-1 days after inauguration, the average abnormal return is at a positive number, with an average of 0.00335. The average abnormal return drops at t + 1 to t + 7 after inauguration, with an average of 0.0029. This shows the negative market sentiment towards the inauguration of the President and Vice President.

d. Hypothesis test

Based on results of the Paired T Test Abnormal Return shows the value of t arithmetic of 0.0819 <2.447 (t table value) or hypothesis H0 = 0 accepted, meaning that there is no significant difference in the average abnormal return 7 days before and 7 days after the inauguration. Probability value or p value

Paired T Test Abnormal Return Test is 0.94> 0.05 (significance level) means that there is no significant difference between before and after Inauguration of President and Vice President.

5. CONCLUSION AND POLICY IMPLICATIONS

Research using the Event Study approach is an approach to testing the information content of an event. If the market reacts when the information is received by the market, it can be said that the event contains sufficient information. The Indonesian capital market (in this case the Jakarta Islamic Index) reacts to national political events that occur. This is evidenced by the presence of abnormal-returns around event-period. Abnormal-return after event decreases when compared to abnormal-return before the Election and Inauguration of President and Vice President of Republic of Indonesia in 2019.

The value of the decrease in abnormal returns in the two political events, after the Paired t test and P Value, was concluded that the change was statistically insignificant. This can be interpreted that event can be anticipated by capital market players. Several things that have caused capital market players to anticipate political events include:

a. The two candidates' programs are relatively the same as the issue of independence and economic programs.
b. There is a peaceful campaign between the Presidential and Vice President Candidates.
c. Reconciliation between presidential candidates can eliminate the issue of fraud, riots which can cause the failure of inauguration.

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