

The Influence of Foreign Investors, Government Policy, Economic and Political Conditions on the Growth of the Indonesian Capital Market

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Abstract

This research aims to explore the impact of foreign investors, government policies, and economic and political conditions on the growth of the Indonesian capital market. The data used is secondary data obtained from official sources such as government agency websites and official publications. Researchers conducted the analysis using the multiple linear regression method, testing classical assumptions prior to its implementation. The research results show that foreign investors and government policies do not significantly influence the growth of the Indonesian capital market. Economic factors, such as economic growth, inflation, and interest rates, have a greater influence on capital market performance. Apart from that, political conditions also play an important role, where political stability and consistent government policies can create a positive investment climate. Overall, these factors together influence the growth of the capital market in Indonesia, showing the complexity of capital market analysis that requires a holistic approach.

Keywords: *foreign investors, government policies, economic and political conditions, capital markets.*

INTRODUCTION

Both the community and the government need to provide funding for national economic development. The government or private companies that need funds can issue bonds, debt securities, and securities in the form of shares. The capital market's role as a source of company funding has significant implications for the country's economy. It not only serves as an alternative but also has the potential to become the primary source of funding (Yenni Samri Juliati, 2015). A country's economic growth directly correlates with the capital market, as it performs both financial and economic functions (Magdalena, 2019). In its function in a country's economy, the capital market brings together two parties, namely those who have excess funds (investors) and those who need money (issuers). With the existence of a capital market, investors can invest their capital in issuers, and companies can use these funds for company operations and expansion. On the other hand, the financial function in the capital market provides investors with benefits in the form of returns according to their respective characteristics and risk profiles.

Globalization and economic integration make capital markets highly dependent on and directly proportional to national and international economic performance. Macroeconomic factors such as inflation, interest rates, and exchange rates greatly influence the development and growth of the capital market. The economic development of large and developed countries, such as America, China, Russia, and others, also greatly

influences economic growth and capital markets throughout the world. If global problems arise, these policies will impact Indonesia, a developing country.

Based on data from BPS, there will be a decrease in the volume and turnover of the IHSG in 2023. Several events and macro-conditions, with global impacts, are responsible for this decline. For example, the Russia-Ukraine war and the Israel-Palestine war caused global inflation, which required the government to take a policy of increasing interest rates to reduce the inflation rate. High interest rates and inflation levels cause a decline in public consumption levels and have an impact on the sluggish economy and capital markets due to small transactions and liquidity.

Indonesia is a developing country that still needs foreign investment to develop the economy and capital markets. The role of foreign investors and government policies is very important in expanding market liquidity and bringing foreign capital into the Indonesian economy. Capital market development is a policy that accommodates funds from the public and private sectors and foreign investment to increase sources of state income. Foreign direct investment (FDI) is something that foreign companies usually do to build real assets in a country. Meanwhile, foreign institutional investment (FII) is investment in the form of a portfolio on the secondary market or stock exchange of a country. This flow of foreign funds aims to increase the availability of capital and the performance of a company, which will ultimately have an impact on economic growth. This type of investment usually has a short-term and indeterminate time period (Yang & Pangastuti, 2016).

Enthusiasm and belief in positive economic growth are attractive to foreign investors because they show opportunities for better profits and a sense of security to reduce investment risks. Political events, a non-economic factor, can impact capital market conditions as they typically align with a country's economic stability. The presence of a new leader has the potential to trigger expectations among market players, especially regarding the economic progress that may occur under the new leadership (Eichler, 2020). If the new leader is able to implement positive strategies, policies, and innovations for the economy, the possibility is wide open that this can make a positive contribution to improving Indonesia's economic conditions.

Currently, the dominance of foreign investors is the main driver of capital market growth in Indonesia. Government policies, both fiscal and monetary, influence investors' investment decisions. Political and economic stability creates a sense of security for foreign investors, which in essence increases their confidence and optimism in investing in the Indonesian capital market. Generally, investors anticipate the evolution of each political event, and the capital market's price or trading volume reflects their expectations. This shows how important government policies and political and economic factors are in shaping investor sentiment and influencing the dynamics of the capital market in Indonesia.

RESEARCH METHODS

Research methods are a series of steps or activities carried out based on basic assumptions, philosophical and ideological views, and relevant questions and issues (Sukmmadinata, 2008). The study employed a survey as the method. In this research, the author uses primary data obtained by distributing questionnaires to investors who have invested in the Indonesian capital market. This type of data originates directly from the source and necessitates additional processing by the author. The secondary data in this

research includes a brief history of the company's founding, its vision and mission, its organizational structure, and other relevant information. Descriptive analysis is a statistical method that can be used to carry out data analysis by elaborating on or describing data that has been collected in the real research process without any action to make generalized conclusions. In this research, we use the descriptive analysis method as a guide to examine the data, offering a detailed description or explanation, without the intention of drawing general conclusions. We conducted the analysis using the multiple linear regression method, testing classical assumptions prior to the analysis.

RESULTS AND DISCUSSION

The analysis's results indicate that foreign flow has no impact on the growth of the Indonesian capital market. The results of the T statistical test (t-test) in the research showed that the foreign flow variable had a regression coefficient of 0.048 with a significance level of 0.962, which was above 0.05, so that the foreign flow variable had no effect on the growth of the capital market in Indonesia. Sofyan Halim's (2021) research, which asserts that foreign flow has no impact on the Indonesian sharia stock index or composite stock price index, forms the basis for these results.

Foreign flow has no effect on the growth of the Indonesian capital market due to the very high dominance of local investors. According to the Main Director of the Indonesian Central Securities Depository, the composition of local and foreign investors in the Indonesian capital market is still unbalanced. Based on KSEI data, of the 12.15 million capital market investors, 99.69% of investors in the Indonesian capital market are domestic investors. Only 0.31%, or the equivalent of 37,680 investors, are foreign investors. Even though the number is small, he continued, in terms of assets, foreign investors control 41.96% of assets in the capital market. Local investors control the remaining 58.04% of assets in the capital market.

The analysis's results indicate that inflation has no impact on the growth of the Indonesian capital market. The results of the T statistical test (t-test) in the research showed that the inflation variable had a regression coefficient of -1.100 with a significance level of 0.279, which was above 0.05, so that the inflation variable had no influence on the growth of the Indonesian capital market. This result aligns with the findings of Anissa Ramadhanti and Muthia Pramesti's (2023) research, which determined from IHSG data that inflation had no impact on stock returns from 2015 to 2019.

Inflation has no effect on capital market growth because the inflation trend in Indonesia in the 2014-2023 period tends to be stable and is below the maximum inflation rate set. This is because Bank Indonesia has implemented a careful and conservative monetary policy, using instruments such as interest rates to keep inflation under control. Apart from that, balanced economic growth during this period also played a role in maintaining price stability. Indonesia, as a country that relies on exports of several main commodities, has also experienced stability in commodity prices, which has helped prevent excessive inflationary pressures. In addition, appropriate fiscal policy and controlled government spending have also contributed to keeping inflation under control, and relative exchange rate stability has also helped prevent excessive inflation.

Based on the analysis, interest rates have no effect on the growth of the Indonesian capital market. The results of the T statistical test (t-test) in the research showed that the rate variable had a regression coefficient of -0.321 with a significance level of 0.750, which was above 0.05, so that the rate variable had no influence on the growth of the

Indonesian capital market. Anissa Ramadhanti and Muthia Pramesti's research from 2023, which found that rates had a negative effect on stock returns calculated from IHS data, differs from this result.

Interest rates have no effect on the growth of the Indonesian capital market. Due to the increase in interest rates, it has a significant impact on investor behavior. When interest rates rise, investors tend to sell their shares and switch to investing in assets that have low risk. This is due to the fact that investing in low-risk instruments or assets will provide a higher rate of return as interest rates increase. Investors prefer to avoid the risks associated with investing in high-risk instruments or assets, such as shares, because such risks become more expensive with rising interest rates. Therefore, they choose to allocate their capital into instruments or assets that are considered more stable and provide more certain returns. Thus, rising interest rates do not only affect the stock market but also shape investors' investment preferences towards assets with different levels of risk.

Based on the analysis, growth in the domestic product (GDP) influences the growth of the Indonesian capital market. The study's t-test showed a regression coefficient of 4.000 for the rate variable, with a significance level of 0.001, which is less than 0.05. This means that the growth of the Indonesian gross domestic product (GDP) had an effect on the growth of the Indonesian capital market, which supports the hypothesis.

Hismendi et al. (2013) conducted research that supports this finding. GDP growth is a reflection of a country's economic health. When the economy grows, people's purchasing power tends to increase. This also has an impact on company performance, where increased sales can result in higher profits. These promising profits can attract investors to inject capital into the capital market and buy company shares, which in turn can increase the composite stock price index. Increasing GDP growth has an impact on broader economic growth in a country, which in turn can increase people's purchasing power and attract investors to participate more actively in the capital market.

Based on the analysis, trading volume activity has an influence on the growth of the Indonesian capital market. The results of the T statistical test (t-test) in the research showed that the volume activity variable had a regression coefficient of 5.934 with a significance level of 0.001, which was below 0.05, so that the trading volume variable had an influence on the Indonesian capital market.

Nadhifah Kirana et al. (2019) conducted research that supports this finding. Trading volume shows an increase in the average daily trading volume at each time or event period. This shows that investors should pay more attention to financial and non-financial information, such as company performance based on annual reports, before making investment decisions in the stock market and events held because this influences the capital market. The greater the trading volume movement in a stock, the greater the movement in the entire capital market.

CONCLUSION

The results of this research show that foreign investors have no influence on the growth of the Indonesian capital market because the results of the T statistical test (t-test) in the research show that the foreign flow variable has a regression coefficient of 0.048 with a significance level of 0.962, which is above 0.05. Government policy has no effect on the growth of the Indonesian capital market because the results of the T statistical test (t-test) in the research show that the inflation variable has a regression coefficient of -

1.100 with a significance level of 0.279, which is above 0.05, and the interest rate variable has a regression coefficient amounting to -0.321 with a significance level of 0.750, which is above 0.05. Economic conditions influence the growth of the Indonesian capital market because the results of the T statistical test (t-test) in the research show that the GDP variable has a regression coefficient of 4,000 with a significance level of 0.001, which is below 0.05. As shown in the study's T statistical test (t-test), the trading volume activity variable has a regression coefficient of 5.934 and a significance level of 0.001, which is less than 0.05. This means that political conditions affect the growth of the Indonesian capital market. Foreign investors, government policy, and economic and political conditions influence the growth of the capital market in Indonesia because the F statistical test shows a probability level (p-value) of 0.001, which is much smaller than 0.05.

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