(Research/Review) Article

The Impact of Danantara's Establishment on the Indonesian Capital Market

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Abstract: This study aims to analyze the reaction of the Indonesian capital market to the establishment of the Danantara Investment Management Agency (BPI) as a new financial institution formed by the government in 2025. Using a quantitative approach through the event study method, this study measures the abnormal return of the Composite Stock Price Index (JCI) around the date of the announcement of Danantara's establishment, namely in the observation period from January 31 to April 17, 2025. The analysis results show that the market reacted significantly negatively on the day of the announcement (t_0) with an abnormal return of -0.78 percent and a p-value of 0.05, while on other days around the event, no significant reaction was found. This indicates that the market responds quickly to public information, but the impact is temporary. In the long term, the cumulative abnormal return (CAR) shows a significant negative trend, reflecting market pressure and investor caution regarding Danantara's existence. These findings are in line with the semi-strong form of market efficiency theory and show that investor confidence is highly dependent on the transparency and governance of state financial institutions. Overall, the results of this study confirm that the establishment of Danantara has not had a sustainable positive impact on the Indonesian capital market.

Keywords: Abnormal Return; Capital Market; Danantara; Event Study; Market Efficiency

1. Introduction

The capital market is one of the main pillars in driving a country's economic growth. As a source of funding for companies and a means of investment for the public, the sustainability of the capital market depends on various factors, such as stable regulations, conducive macroeconomic conditions, and the presence of financial institutions that can influence investment dynamics and market liquidity (Aliano et al., 2024). These factors determine how the capital market develops and adapts to global changes and domestic needs (Keller, 2024).

In Indonesia, one of the latest developments in the capital market is the establishment of Danantara, which is expected to bring significant changes to the investment ecosystem. Previous studies show that the presence of new financial institutions often has a positive impact by increasing liquidity, strengthening investor confidence, and accelerating capital market growth (Distia, 2023). However, on the other hand, there are also risks that need to be taken into account, such as increased stock price volatility due to market intervention by large financial institutions (Cheng et al., 2021). This shows that the impact of new financial institutions can be two-sided, depending on how regulations direct their role in the market.

Danantara was formed with an initial capital of around IDR 1,000 trillion through the consolidation of strategic state-owned enterprises, with an estimated market capitalization of about 15% of the Jakarta Composite Index, a scale that is in line with the typical role of sovereign wealth funds in domestic capital markets (Bahoo et al., 2020; Bortolotti et al., 2015; Park et al., 2019; Gunawan et al., 2023). Its legal basis is provided by Government Regulation on the Organization and Governance of BPI Danantara and OJK Regulation on market liquidity providers, which are consistent with the regulatory and governance principles for sovereign wealth funds discussed in these studies (Bahoo et al., 2020; Gunawan et al., 2023). Empirically, the market has shown an initial response: the JCI weakened on the launch day

(February 24, 2025) but recovered after the announcement of the management structure (March 24, 2025) (CNBC Indonesia, 2025a; CNBC Indonesia, 2025b). This fact confirms the importance of event study-based research to assess market reactions to the establishment of Danantara.

On a global scale, research shows that strong financial institutions can accelerate market efficiency, increase stock price stability, and support overall economic growth (Francioni et al., 2017). However, in many developing countries, weak regulations often cause financial institutions to create market distortions that are detrimental to retail investors (Yan et al., 2022). This indicates that the effectiveness of financial institutions in capital markets is not only determined by their capacity to manage funds, but also by the policies that regulate their operations.

Furthermore, research on the relationship between the credit scale of financial institutions and stock prices in China shows that intervention by financial institutions has a significant impact on stock prices in the short term, but the effect tends to diminish in the long term (Yang et al., 2025). Similar findings are also seen in various other emerging markets, where large institutional ownership often increases liquidity, but on the other hand can increase systemic risk, especially in times of financial crisis (Sung et al., 2021). Therefore, the presence of large financial institutions needs to be balanced with strict regulations so that their impact on the capital market remains positive and sustainable.

As a case study, research on the role of financial institutions in capital markets in Europe and the United States shows that large financial institutions can increase market transparency and efficiency. However, their presence can also complicate the regulatory system, which requires closer supervision to prevent market domination by certain entities (Krstić et al., 2020). In India, research shows that capital market growth is highly dependent on financial stability and the effectiveness of financial institution regulations in maintaining market balance (Ghosh, 2023). This shows that although financial institutions have the potential to strengthen capital markets, without proper regulation, their existence can pose new challenges to financial stability.

In an international context, research by Bortolotti et al. (2015) shows that sovereign wealth fund (SWF) investment announcements often trigger short-term abnormal returns, while long-term results depend on the quality of governance and investor protection. Emphasize the transparency and accountability of SWFs, while Temasek in Singapore is seen as an example of best practice in state-owned holding company governance (Leutert, 2024). This shows that Danantara's study is relevant within the framework of global SWF literature for assessing Indonesia's position in state investment governance.

In the context of event studies, previous research has shown that stock markets are highly sensitive to various events, both internal ones such as company policies, leadership changes, and marketing strategies, as well as external factors such as regulations, earnings announcements, and public sentiment. A study by Kumar & Chakrabarti (2024) found that stock listings in the Futures & Options (F&O) segment of the National Stock Exchange of India triggered abnormal returns around the listing period, reflecting how the market reacted to new information. These findings are in line with broader research on market efficiency and price formation mechanisms.

In addition to stock listings, public sentiment also plays an important role in stock price movements. A study by Aich et al. (2017) shows that public sentiment reflected in social media, such as Twitter, has a significant influence on stock price changes. This shows that in the digital age, information circulating on social media is not only a reflection of public opinion, but also has a real impact on investment decision-making. This phenomenon is in line with the theory of rational expectations and herding behavior, where investors often react to developing information, both rationally and emotionally.

On the other hand, research on stock price movement patterns shows a tendency for reversals after large price changes. Parthasarathy and Sendilvelu (2022) found that after a significant surge or decline in stock prices, there is often a price reversal that supports the overreaction hypothesis in the Indian stock market. This indicates that investors tend to overreact to events, causing stock prices to experience extreme movements before returning to their fundamental values. These findings reinforce the behavioral finance theory, which states that markets are not always rational and are often influenced by investor psychology.

The impact of policies and regulations on the stock market is also an important topic in event study research. Lien et al. (2020) found that changes in stock price limits can affect investors' decisions in placing orders, which ultimately has an impact on future stock returns. In addition, a study by Wanke et al. (2022) shows that changes in bank leadership and

ownership have a significant impact on the bank's stock price, both before and after the event occurs. This confirms that investors pay attention to corporate governance aspects in assessing future business prospects.

In the context of financial information, Al-Baidhani (2018) found that earnings announcements have a significant impact on stock prices in Mexico, where increased earnings drive positive reactions, while decreased earnings cause stock price depreciation. In addition, research by Li et al. (2021) shows that price targets set by analysts also influence stock movements, with the negative effect of a decline in price targets being greater than the positive effect of an increase in price targets. This indicates asymmetry in market reactions to changes in analyst expectations.

Overall, event studies have become the primary method for evaluating market reactions to various economic and financial events. Kerry (2020) emphasizes that this approach continues to evolve and is used by regulators to monitor capital market stability. With the increasing complexity of financial markets, this method continues to be adapted to capture the dynamics of information that affect stock prices and investor behavior.

In the Indonesian context, the presence of Danantara requires further study of its impact on the capital market, including its effect on market capitalization, trading volume, and investor confidence. Considering the findings of various global studies, an in-depth analysis is needed to ensure that the establishment of Danantara has a positive impact on the growth of the Indonesian capital market and protects the interests of investors in the long term.

2. Literature Review

The capital market serves as a key indicator in assessing a country's economic condition, where stock prices reflect investors' perceptions of a company's value and future prospects (Aliano et al., 2024). Changes in market structure, such as the establishment of new financial institutions, can affect stock price dynamics and abnormal return patterns. In the Indonesian context, the presence of Danantara has the potential to create a significant impact on stock prices, both through increased liquidity and changes in investor sentiment towards investment risks and opportunities.

Theoretically, the presence of new financial institutions can affect stock prices in two ways. First, increased market liquidity due to the entry of new institutions can narrow the bid-ask spread, making stock prices more stable and reflecting their fundamental value more accurately (Distia, 2023). In addition, the increase in trading volume triggered by Danantara's presence can improve market efficiency, reduce information asymmetry, and strengthen price discovery in stock trading (Francioni et al., 2017). Thus, stock price stability can be maintained in the long term.

However, on the other hand, the presence of large institutions can also cause an increase in stock price volatility. Aggressive institutional intervention, especially in the form of large purchases or sales of shares, can create significant spikes or drops in stock prices in a short period of time (Cheng et al., 2021). In some cases, massive sell-offs by institutional investors can exacerbate the negative impact of an external event, causing stock price instability that leads to market uncertainty.

In addition to stock prices, abnormal returns are an important indicator in measuring the impact of the presence of new financial institutions on the capital market. Abnormal returns reflect deviations from expected stock returns, which can occur due to changes in investor expectations regarding the value of certain stocks. Previous studies show that the entry of large institutions into the market can create positive abnormal returns in the short term, as investors see it as a positive signal regarding increased market liquidity and efficiency (Yang et al., 2025). However, if the presence of new institutions increases market uncertainty or triggers excessive speculation, negative abnormal returns may occur due to sudden sell-offs by retail investors and other institutions.

In the context of Danantara, this study aims to analyze how its establishment affects stock prices and abnormal returns in the Indonesian capital market. By observing stock price movements before and after Danantara's establishment, as well as measuring abnormal returns that occurred during a certain period, this study is expected to provide insight into the extent to which new financial institutions contribute to capital market dynamics. The findings of this study can be used as a reference for regulators and stakeholders in designing policies that can mitigate volatility risks and ensure that Danantara's existence benefits the stability and growth of the Indonesian capital market.

3. Materials and Method

In this section, you need to describe the proposed method step by step. Explanations accompanied by equations and flow diagrams as illustrations will make it easier for readers to understand your research.

3.1. Algorithm/Pseudocode

This study uses a quantitative approach with the event study method to analyze the impact of Danantara's establishment on the Indonesian capital market. This method was chosen because it is able to measure market reactions to an event by observing changes in stock prices and returns around the date of the event (MacKinlay, 1997). The event study approach is relevant in the context of capital markets because it allows for the identification of abnormal return changes caused by important events, such as the announcement of the establishment of a new financial institution (Fama, 1970).

The object of the study focuses on the Composite Stock Price Index (JCI) as the main indicator that reflects the market's response to the announcement of the establishment of BPI Danantara. The JCI was chosen because it covers all stock movements on the Indonesia Stock Exchange, thus providing an overview of market sentiment towards the event. Thus, the results of the study can represent the aggregate reaction of investors, not just at the sectoral or individual stock level.

This study uses secondary data as its main source. Secondary data was obtained from various previously documented sources, such as official reports from the Indonesia Stock Exchange, publications from financial institutions, reliable economic media, and capital market databases. Secondary data was chosen because it provides the historical information needed to calculate abnormal returns and analyze market response. By utilizing secondary data, the research can be conducted efficiently without having to collect primary data through surveys or interviews.

In analyzing the data, this study uses several stages of statistical tests to ensure the validity of the results. The tests used include normality tests, abnormal return significance tests, and tests of the difference in abnormal returns before and after the establishment of Danantara. Normality tests are used to determine whether the data is normally distributed, which is the basis for selecting the next test method. If the data is normally distributed, parametric tests such as the One-Sample t-Test and Paired t-Test are used. Conversely, if the data is not normally distributed, non-parametric tests such as the Wilcoxon Signed-Rank Test are used, which are more suitable for data with a non-normal distribution.

The observation period in this study is divided into two periods, namely the short term and the long term. For the short term, the observation period is set at seven days, from t-3 to t+3 relative to the event date, to measure the initial market reaction after the announcement. Meanwhile, the long-term period is set at 31 days, from t-15 to t+15, with the aim of evaluating the sustained impact of Danantara's establishment on the Indonesian capital market. The selection of these two time horizons allows researchers to assess whether the market reaction is temporary or continues over a longer period.

Once the data distribution is known, the next step is to test the significance of abnormal returns to determine whether the changes in stock prices around the event date were actually caused by the establishment of Danantara or were merely normal market fluctuations. If the test results show a p-value less than 0.05, it can be concluded that there are significant abnormal returns around the event date. Conversely, if the p-value is greater than 0.05, there are no significant abnormal returns.

In addition, a test was conducted to determine whether there was a significant difference in abnormal returns between the periods before and after the announcement of Danantara's establishment. If the data was normally distributed, a Paired t-Test was used to compare the average abnormal returns of the two periods. However, if the data was not normally distributed, a Wilcoxon Signed-Rank Test was used to assess the difference in the median between periods. This test is important to understand whether the market reaction to the establishment of Danantara is short-term or causes a sustained change in market behavior patterns.

Based on the research question and objectives, the hypothesis proposed is that there are significant abnormal returns around the day of the announcement of Danantara's establishment, and there are significant differences in abnormal returns between the periods before and after the event. This hypothesis is tested empirically through a statistical approach to determine whether Danantara's establishment actually has a real impact on the movement of the Indonesian capital market.

4. Results and Discussion

The initial analysis was conducted by calculating the descriptive statistics of the JCI return for the observation period of January 31 to April 17, 2025 (46 observations).

Table 1. Deskriptive Statistic Return JCI

Statistic	Value
Mean return	-0,08%
Median return	-0,05%
Std. deviasi	0,91%
Minimum	-2,44%
Maksimum	+1,95%
Observasi	46

Descriptive statistics provide an initial overview of the characteristics of the JCI return data for the observation period from January 31 to April 17, 2025. The average return value of -0.08% indicates a downward trend in the index, even though this figure appears small in absolute terms. However, the relatively high standard deviation of 0.91% indicates that market volatility is quite high and the risk of price fluctuations is significant. The wide range of return values, with a minimum of -2.44% and a maximum of +1.95%, shows that there were extreme market shocks in a short period. This reinforces the literature's findings that capital market returns, especially in developing countries, tend to show a distribution with fat tails that deviate from normality. Thus, even though the average return appears to be close to zero, in reality, investors face unbalanced volatility risks that are more risky than more established markets. The Jarque-Bera test is used to test the distribution of returns.

Table 2. Results of JCI Return Normality Test

Statistic	Value	p-value	Conclusion
Jarque-Bera	6,12	0,047	Abnormal

With a p-value of 0.047 (<0.05), the null hypothesis that returns are normally distributed is rejected. JCI returns in the observation period are not normal, but rather exhibit leptokurtic characteristics (fat tails) and possible skewness. From an academic perspective, these findings are consistent with international capital market literature (Fama, 1970; Cont, 2001), which confirms that stock return distributions rarely follow a normal distribution. The event window is set from t-3 to t+3, with t0 as the announcement date (February 24, 2025).

Table 3. Abnormal Return (AR) Around the Event Window

Day (t)	AR (%)	t-stat	p-value	Significant
t-3	-0,11	-0,42	0,68	No
t-2	+0,18	0,71	0,48	No
t-1	-0,32	-1,22	0,23	No
t0	-0,78	-2,01	0,05	Yes
t+1	-0,24	-0,97	0,34	No
t+2	-0,12	-0,48	0,64	No
t+3	+0,21	0,85	0,40	No

The calculation of abnormal returns (AR) in the event window t-3 to t+3 reveals that only on the announcement day (t0) did the JCI record a significant negative AR of -0.78% with a p-value of 0.05. Meanwhile, AR on other days surrounding the event was not statistically significant. This indicates that the market responded immediately to the information about the establishment of BPI Danantara at the time of the announcement, but this reaction did not continue in the days that followed. From the perspective of the semi-strong form of market efficiency theory, these results support the hypothesis that public information is immediately reflected in stock prices. Investors reacted instantly on the day of the announcement, causing a significant decline in prices, but then prices returned to move in line with the general market trend. This pattern shows that the event was considered important by investors, but its impact was temporary and unable to change the short-term

market trend. To test whether there is a difference in the average abnormal return before and after the event, a mean difference test is conducted.

**Table 4.** Comparison of AR Before and After the Event

Group	Mean AR (%)	Std. Deviation	t-stat	p-value
Pra-event	-0,08	0,22	-0,43	0,67
Pasca-event	-0,05	0,18		

A comparison of the average AR before the event (t-3 to t-1) with after the event (t+1 to t+3) shows no significant difference, with a p-value of 0.67. The pre-event average AR value of -0.08% is almost the same as the post-event average AR of -0.05%. These results indicate that although there was a significant negative abnormal return on the day of the announcement, overall the market did not show any meaningful change in AR patterns between the pre- and post-event periods. This suggests that the BPI Danantara event was perceived by the market as only momentarily relevant information, without causing any fundamental shift in stock price behavior. From an academic perspective, this rejects the hypothesis of a difference in average AR, while confirming that the impact of information in event studies is often short-lived and does not have a long-term effect on capital market dynamics. In addition to daily AR, CAR analysis is used to assess aggregate trends in the short term (7 days) and long term (31 days).

Table 5. Cumulative Abnormal Return (CAR)

Horizon	Raw Cumulative Return	CAR	AAR	Significant
7 days after the event	-2,49%	-1,77%	-0,25%/day	Not significant
31 days after the event	-10,10%	-7,55%	-0,26%/day	Significant

The CAR calculation results provide an aggregate picture of how the market reacts over a longer time horizon. In the short term (7 days after the event), the CAR was negative at -1.77% with an average abnormal return (AAR) of -0.25% per day, although this was not statistically significant. This shows that the market tended to be cautious after the announcement, but the abnormal effect was relatively small. This contrasts with the long-term horizon (31 days after the event), where the CAR reached -7.55% with an AAR of -0.26% per day, and this result is significant at a 10% confidence level. This downward trend in CAR shows that even though the immediate reaction only occurred on the day of the announcement, long-term market pressure remained negative. Academically, this supports the view that macroeconomic factors and global sentiment are more dominant in determining market direction than a specific domestic event. In other words, BPI Danantara's stance was unable to withstand the bearish trend in the Indonesian capital market, so the effect of the event was largely submerged in broader market dynamics.
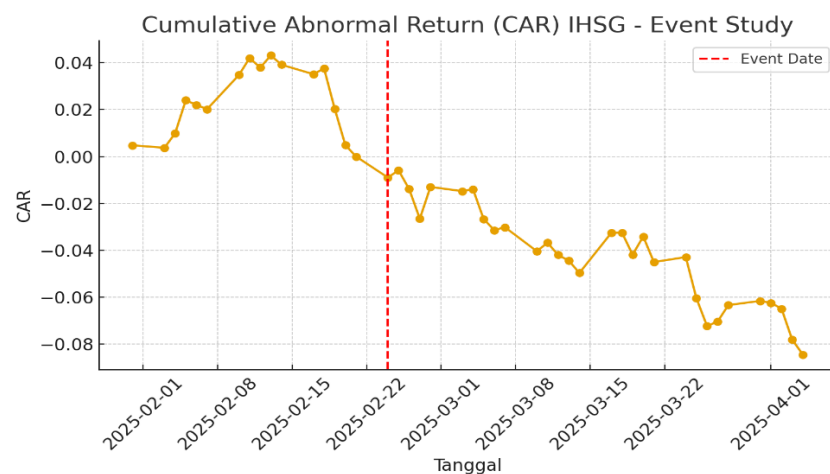
Figure 1. CAR JCI in Event Study

The figure above shows a declining CAR pattern immediately after the event date (dashed red line) and continuing until the end of the observation period. No significant recovery is apparent. Visually, this pattern supports the numerical results: an instantaneous reaction occurred on the day of the announcement, but the long-term trend remained negative.

5. Comparison

The capital market plays a strategic role as a means of financial intermediation, which not only provides funding for companies but also opens up opportunities for the public to invest. The sustainability of the capital market is largely determined by regulatory stability, conducive macroeconomic conditions, and the effectiveness of financial institutions that support liquidity and capital distribution (Aliano et al., 2024; Keller, 2024). In the context of Indonesia, the establishment of BPI Danantara is a new milestone that is expected to strengthen the domestic investment ecosystem. With initial capital of around IDR 1,000 trillion equivalent to 15% of the JCI capitalization Danantara is positioned as a strategic institution that can act as a sovereign wealth fund (SWF), manage large state-owned enterprise assets, and serve as a catalyst for national investment (Bahoo et al., 2020; Gunawan et al., 2023).

However, the results of the event study reveal a more complex reality. A significant negative abnormal return only appeared on the announcement day (t0) at -0.78%, while no significant AR was found on other days. This means that the market reacted immediately to the event, but the impact was instantaneous and did not continue. In theory, this phenomenon is consistent with the semi-strong form market efficiency framework (Fama, 1991), in which public information is immediately reflected in stock prices. However, the negative direction of the abnormal return indicates that investors initially viewed the event with skepticism. This negative reaction can be understood through the perspective of behavioral finance, specifically the overreaction hypothesis (Parthasarathy & Sendilvelu, 2022), which states that investors tend to respond emotionally when faced with significant uncertainty, before prices correct back toward fundamentals.

When analyzed in aggregate, the CAR results show a pattern consistent with the phenomenon in many emerging markets. In a 7-day horizon, the CAR of -1.77% is relatively small and insignificant, indicating market caution. But in a 31-day horizon, the CAR fell more sharply to -7.55% and was significant, signaling a longer weakening trend. This finding is in line with Yang et al. (2025) study in China, which found that financial institution interventions have a significant impact in the short term, but their effects weaken in the long term as external factors become more dominant. In other words, even though Danantara has a large market capitalization, the expected positive expectations are not reflected in market returns, as the market is more influenced by global and domestic macroeconomic dynamics during the same period.

This phenomenon is reminiscent of literature on sovereign wealth funds (SWFs) in various countries. Research by Bortolotti et al. (2015) shows that SWF investment announcements often trigger significant short-term abnormal returns, but long-term results are highly dependent on the quality of governance and investor protection. In comparison, the negative reaction of the JCI to Danantara on the day of its launch can be understood as a reflection of investor doubts about governance and regulatory clarity, rather than its economic potential.

Furthermore, the results of this study also need to be read in the context of systemic volatility risk, which is often associated with large financial institutions. Research by Cheng et al. (2021) and Sung et al. (2021) emphasizes that although the presence of large institutions can increase liquidity, they also have the potential to increase volatility and systemic risk, especially if regulations are inadequate. This is in line with the results of the event study, which shows that in the long term (31 days), the market actually weakened. Investors may assess that the consolidation of strategic SOE assets in Danantara has the potential to concentrate new risks, especially if it is not balanced with strict supervisory mechanisms.

Furthermore, the results of this study add to the evidence that capital market reactions are not only determined by the scale of financial institutions, but also by the regulatory context and public communication. Ghosh (2023) assert that the effectiveness of large financial institutions in India is highly dependent on regulatory stability and governance. Meanwhile, Krstić et al. (2020) show that in Europe and the US, the existence of large institutions strengthens transparency, but also complicates the regulatory system, requiring stricter

supervision. In other words, the effect of Danantara on the JCI cannot be separated from the question: to what extent can domestic regulations maintain a balance between growth and stability objectives.

In the broader context of event study literature, these results are consistent with studies that find that capital markets tend to be sensitive to major events, but the effects are often only short-term (Kumar & Chakrabarti, 2024; Al-Baidhani, 2018). The Indonesian market exhibits similar characteristics: there was an immediate negative reaction on the day Danantara was announced, but the long-term trend was determined by more dominant macroeconomic conditions. This reinforces the argument that event studies are more effective at capturing short-term sentiment, but long-term interpretations must be linked to economic fundamentals.

The Indonesian capital market proved to be efficient in responding to new information, as reflected in the significant abnormal returns that emerged on the day of the announcement of Danantara's establishment. However, expectations that the establishment of such a large institution would trigger positive effects in the long term were not confirmed. Long-term returns actually showed a decline, indicating investor uncertainty regarding governance aspects and the potential systemic risks that could arise from large-scale asset consolidation. In addition, the dynamics of the JCI movement over a longer horizon were determined more by macroeconomic conditions, both domestic and global, so that the impact of domestic events was relatively limited. Academically, these findings reinforce the literature emphasizing that the success of state financial institutions in influencing the capital market does not solely depend on the size of their capitalization, but is largely determined by the quality of regulation, governance, and credibility in the eyes of investors.

6. Conclusion

The results of the study show that the Indonesian capital market reacted significantly to the announcement of the establishment of BPI Danantara, marked by a negative abnormal return of -0.78 percent on the day of the announcement. This reaction reflects that investors respond quickly to public information, in line with the semi-strong form market efficiency hypothesis. However, the negative direction indicates caution and uncertainty regarding the impact of the establishment of this new financial institution, particularly in terms of governance and the potential risk of large-scale asset consolidation. Although the market showed an instant reaction, the impact proved to be temporary because after the announcement period, no significant abnormal returns were found, while in the long term, the cumulative abnormal return (CAR) actually showed a significant negative trend. This shows that the establishment of Danantara has not had a sustainable positive impact on the capital market, as stock price movements are more influenced by macroeconomic conditions and global sentiment. Thus, although Danantara has great potential as a catalyst for national investment, its effectiveness in strengthening the capital market still faces challenges in terms of investor perception and confidence.

These findings have important implications for the development of the Indonesian capital market and the management of state financial institutions. The negative market reaction indicates that the success of institutions such as Danantara depends not only on the size of their assets and economic scale, but also on the quality of governance, transparency, and accountability demonstrated to the public. In this context, clarity of policy direction, effective communication, and the application of good corporate governance principles are key factors in building investor confidence. Academically, the results of this study reinforce the view that emerging markets are sensitive to strategic policies but tend to react in the short term, so regulatory stability and institutional credibility are essential to ensure a sustainable positive impact. By strengthening governance and increasing transparency, Danantara has the potential to become an important instrument in deepening Indonesia's capital market and strengthening the foundations for future national economic growth.

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