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Impact of Indonesia Presidential Election Quick Count on Political Connected Stock Volatility: An Event Study

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Abstract: This study assesses the impact of the 2024 Indonesia Presidential Election quick count results on the stock volatility of politically connected firms listed on the Indonesia Stock Exchange. An event study methodology is employed, analyzing four politically affiliated companies PMMP, TOBA, BRMS, and WIRG across a six-day event window (T-3 to T+3). A market-adjusted return model calculated abnormal returns (AR) and cumulative abnormal returns (CAAR). The findings reveal a significant market reaction before the event, particularly on T-2, where the average abnormal return (AAR) peaked at 5.82%, mainly driven by PMMP's strong return of 16.66%. However, the AAR fell sharply to -3.91% on T+3, indicating a market correction. The cumulative abnormal return (CAAR) reached a high of 6.63% on T-2 before declining to 1.48% on T+3. A T-test yielded a p-value of 0.092 at a 10% significance level, showing a statistically weak significance in pre-and post-event returns. While the quick count results impacted stock performance, the market reaction was moderate. This study provides valuable insights for investors, helping them understand the influence of political uncertainty on politically connected firms in emerging markets and make informed investment decisions.

Keywords: Event study, Presidential election, Quick Count, Stock Volatility, Political Connection

INTRODUCTION

Indonesia, as a democratic country, held a momentum general election in 2024. However, this year, there were some exceptional cases since one presidential and vice presidential candidate had strong connections with the incumbent, both minister and crown prince. Presidential elections are one political event that can be analyzed to see if they contain information affecting issuers' capital market performance (Rakinaung & Sopacua, 2021). The election uncertainty information suggests that stock market volatility rises as market uncertainty about election results rises. According to the political uncertainty hypothesis (Bernanke, 1983), elections influence market volatility when unanticipated information enters the market. Investors must make investment timing decisions that weigh the extra returns from early commitment against the benefits of increased information gained by waiting. The finance literature also provides data supporting the premise that political uncertainty is an essential factor influencing risk-taking and performance (King et al., 2021).

Political uncertainty during the presidential election often triggers stock market volatility due to potential changes in economic policies that can affect various business sectors, especially politically connected companies (Maswiguno & Yunita, 2020; Saragih et al., 2019). According to Faccio (2006), politically connected enterprises in developing nations frequently benefit from favorable policies but are also sensitive to policy changes if a regime changes. This is why the stock volatility of corporations with political links tends to rise during election seasons. Similar results were also found by Saragih et al. (2019), that companies heavily connected to political interests exhibit higher trading volatility during the presidential election. Meanwhile, Leuz and Oberholzer-Gee (2006) discovered that enterprises with political links incur increased volatility during elections due to uncertainty regarding the relationship's continuance.

Quick count's role as an early projection of the presidential election results makes it a significant concern for candidates and investors, especially those who invest in companies with political ties to competing candidates or parties. Nevertheless, Candra et al. (2019) found that the announcement of voting events and election results did not affect the stock index and stock trading volume of the Indonesia Stock Exchange. Other researchers (Wibowo & Darmanto, 2019; Maswiguno & Yunita, 2020) also found no significant abnormal returns around the event date. Meanwhile, Listyaningsih et al. (2020) showed a significant positive abnormal return on the tenth day before and the seventh day after the event.

While many studies discuss the impact of elections in general on market volatility, few focus on the role of quick counts in influencing stock volatility in Indonesia, especially for politically connected companies. There are extremely few empirical studies that consider a company's "close relationship with politicians" when determining its political connectedness, even though such research does exist (Saeed et al., 2019; Asquer & Calderoni, 2011). Based on their research, a business is also deemed politically connected if a significant shareholder or one of its top executives is a close friend or relative of a minister, head of state, or member of parliament. Quick counts provide early projections of election results before the official announcement, which is often enough to influence investor expectations. This creates a gap in the literature that this study aims to fill, specifically focusing on how quick counts affect stock volatility in politically connected companies. This study aims to fill this gap by focusing on quick count events and analyzing the stock volatility of politically connected companies as a particular case.

METHOD

This study uses the event study methodology to investigate whether new information influences investors. In this case, it analyzes how the stock market reacts to political events (Akbar et al., 2019; Blau et al., 2019; Diaraya et al., 2019). An event study examines the market reaction to an event using information presented as an announcement (MacKinlay, 1997).

The typical analysis in event research determines the amount of the abnormal return (AR) not only on the event day but also in the pre-event and event windows to describe the event window as being more significant than the precise period of interest. This allows for an analysis of the periods around the incident." The author recommends including at least the day of the announcement and the day after to capture the price effects of announcements made after the stock market closes on the announcement day. Furthermore, if information leaks before the disclosure, we should observe a market reaction (Sorescu, 2017) before the announcement date; nevertheless, there may also be a market reaction after the announcement. Therefore, this study employs the event study analysis approach with a shorter period (Martinez-Blasco et al., 2023) $[T-3, T+3]$. A total of six effective days, with three effective days of the stock exchange preceding and three effective days following the voting event, were only used as the event window to capture these possible effects.

This study's sample consists of stocks in the Indonesia Stock Exchange (IDX) throughout the observation period, which ran from February 07, 2024, to February 19, 2024. The impact of the announcement of quick count on February 14, 2024, on the four politically connected stocks in this study to illustrate the objective. They are PMMP, TOBA, BRMS, and WIRG. Stock of PT Panca Mitra Multiperdana Tbk. (PMMP) which is affiliated with Kaesang Pangarep; PT TBS Energi Utama (TOBA), which is affiliated with Pandu Sjahrir, Deputy Treasurer of the Prabowo-Gibran National Campaign Team (TKN), and nephew of Luhut Binsar Pandjaitan; shares of the Bakrie Group, namely PT Bumi Resources Mineral Tbk. (BRMS); PT WIR ASIA Tbk (WIRG). Currently, the company is led by Aryo PS Djojohadikusumo, the son of Hashim Djojohadikusumo. Hashim Djojohadikusumo is the older brother of Prabowo Subianto.

Applied methodology

Figure 1 highlights the nine stages to be completed to implement the methodology, which are detailed below.

Step 1: Identification of the event to be studied: The 2024 election quick count on February 14th, 2024, was chosen as a significant event.



Figure 1. Flowchart of event study methodology. Source: Created by authors

Step 2: Sample selection and data: The stock of sample companies is coded into PMMP, TOBA, BRMS, and WIRG.

Step 3: Identify the event windows: In this study, as shown in Figure 2, the event date was $t = 0$, the same for all the companies studied. The quick count was on February 14, 2024, and the observation period is six days; T-3 is February 07th, 12th, and 13th, 2024, and T+3 is February 15th, 16th, and 19th, 2024.



Figure. 2 Returns between event windows

Source: Created by authors

Step 4: Collect daily stock data and market index from event windows, as shown in Table 1.

Table 1. Daily Stock Data and Market Index from Event Windows

Day	EVENT WINDOW	IHSG	Stock Code			
			BMRS	TOBA	PMMP	WIRG
06-Feb		7247.41	144	262	384	92
07-Feb	T-3	7235.15	144	266	388	92
12-Feb	T-2	7297.67	148	272	452	93
13-Feb	T-1	7209.74	149	272	424	93
14-Feb	T=0					
15-Feb	T+1	7303.28	147	272	396	99
16-Feb	T+2	7335.54	150	266	348	95
19-Feb	T+3	7296.7	148	260	356	95

Source: Created by authors

Step 5: Calculate Daily Return. To calculate the daily stock return based on close-to-close prices, you can use the following equation (1) (Bodie, 2014) :

$$R_t = \frac{(P_t - P_{t-1})}{P_{t-1}} \times 100 \quad (1)$$

Where:

- R_t is the daily stock return on day t,
- P_t is the closing price of the stock on day t,
- P_{t-1} is the stock's closing price on the previous day (t-1).

Table 2. Daily Stock and Market Return (Close to Close Price)

Day	EVENT WINDOW	RETURN				
		IHSG	BMRS	TOBA	PMMP	WIRG
07-Feb	T-3	-0.17%	0.00%	1.53%	1.04%	0.00%
12-Feb	T-2	0.86%	2.78%	2.26%	16.49%	1.09%
13-Feb	T-1	-1.20%	0.68%	0.00%	-6.19%	0.00%
14-Feb	T=0					
15-Feb	T+1	1.30%	-1.34%	0.00%	-6.60%	6.45%
16-Feb	T+2	0.44%	2.04%	-2.21%	-12.12%	-4.04%
19-Feb	T+3	-0.53%	-1.33%	-2.26%	2.30%	0.00%

Source: Created by authors

Step 5: Calculate excess or abnormal return $A_{i,t}$ using the market-adjusted and cumulative abnormal return. The researchers employ Brown & Warner's (1985) Equation (2) to calculate market-adjusted returns and cumulative average abnormal returns (CAAR).

$$A_{i,t} = R_{i,t} - R_{m,t} \quad (2)$$

Where $R_{m,t}$ is the return on the IDX Stock index for day t.

$$AAR \text{ or } \bar{R}_i = \frac{1}{n} \sum_i^t A_{i,t} \quad (3)$$

Where $\bar{R}_i$ in equation (3) is the average abnormal return (ARR) of all share kinds subject to daily analysis is the average abnormal return (Brown & Warner, 1985; Hartono, 2016). Of all stock kinds, ARR can exhibit the most vigorous reaction on some days during the window period, both positively and negatively.

$$CAAR_{t1,t2} = \sum_{t=t1}^{t2} AAR_t \quad (4)$$

Where $CAAR_{t1,t2}$ in equation (4) is the cumulative average abnormal return for all stocks in period t .

Interpretation of CAAR under the Efficient Market Hypothesis (EMH) that Cumulative Average Abnormal Returns (CAAR) should ideally be zero over time ($CAAR \approx 0$); thus, CAAR over time indicates that the stock's returns do not deviate significantly from expected returns based on the available information. Market efficiency is categorized into three conditions (Fama, 1970; Campbell & Mackinlay, 1997; Schweizer & Koscher, 2023): 1). Strong Efficiency: Abnormal returns are impossible if the market is powerfully efficient since all information is already factored into the prices. This is because, in a strong-form, efficient market, all available public, private, and insider information is fully reflected in stock prices. As a result, there should be no systematic way for investors to earn abnormal returns consistently, meaning the CAAR across an event window should average to zero. 2). Semi-Strong Efficiency: In a semi-strong efficient market, only public information is reflected in prices. Investors cannot earn abnormal returns by trading on public information, so CAR should also tend toward zero after public announcements or events; 3). Weak Efficiency: In a weak-form efficient market, past price and volume data are already reflected in stock prices. However, some abnormal returns may still be possible based on new public or private information, so CAR may deviate slightly from zero but not drastically

Step 6: Plot of Average Abnormal Return (AAR) and Cumulative Average Abnormal Return (CAAR) in Graph (as shown in Figure 3).

Step 7: Complete T-test statistics. This research hypothesizes that the quick count of the 2024 Indonesian Presidential Election significantly affects politically connected stocks—the T-test, which compares pre- and post-event anomalous returns, aids in validating or rejecting this hypothesis (Maswiguno & Yunita, 2020; Martinez-Blasco et al., 2023). For example, if the T-test reveals substantial variations in returns before and after the event, it implies that the event had a measurable impact on stock prices.

RESULTS AND DISCUSSION

Below is the analysis that focuses on the average abnormal return (AAR) and cumulative average abnormal return (CAAR) across a specific event window for numerous stocks (BMRS, TOBA, PMMP, and WIRG). Table 3 shows that on February 12 (T-2), the greatest AAR was reported at 5.82%, most likely affected by PMMP's exceptional return of 16.66%. This shows that the market responded significantly positively on this date, possibly right before the event. On February 19th (T+3), the AAR decreases considerably to -3.91%, indicating an adverse market reaction following the occurrence. This is due mainly to the sharply negative returns of PMMP (-11.95%) and TOBA (-2.04%).

The changes in AAR reflect market reactions around the event day. The sharp gain on T-2 implies market optimism before the event, but the sharp decrease on T+3 signals likely disappointment or a market correction following the event. The difference in anomalous returns between individual equities (e.g., PMMP vs. BMRS) indicates that the stocks react differently to the event, maybe owing to company-specific reasons.

Table 3. Market Adjusted Return, AAR, & CAAR

Day	EVENT WINDOW	MARKET ADJUSTED RETURN				AVERAGE	
		BMRS	TOBA	PMMP	WIRG	CAR	CAAR

07-Feb	T-3	0.17%	1.70%	1.21%	0.17%	0.81%	0.81%
12-Feb	T-2	2.95%	2.42%	16.66%	1.26%	5.82%	6.63%
13-Feb	T-1	0.84%	0.17%	-6.03%	0.17%	-1.21%	5.42%
15-Feb	T+1	0.17%	0.17%	0.17%	0.17%	0.17%	5.59%
16-Feb	T+2	-1.17%	0.17%	-6.43%	6.62%	-0.20%	5.39%
19-Feb	T+3	2.21%	-2.04%	-11.95%	3.87%	-3.91%	1.48%

Table 3 also shows the CAAR peaks on February 12th (T-2) at 6.63%, indicating the market's overall optimistic sentiment before the event. The CAAR steadily declined after the event, reaching 1.48% on February 19th (T+3). This demonstrates that, despite a post-event fall, the aggregate cumulative return remains positive, implying that, on average, the companies in the portfolio benefited from the event despite unfavorable reactions. The positive CAAR over the event window implies that the event had an excellent overall impact despite specific equities experiencing negative anomalous returns following the event. The steep fall in CAAR from T+2 to T+3 (-3.91%) indicates a reversal or market correction post-event. PMMP's behavior considerably impacts the total AAR and CAAR due to its very volatile returns ranging from +16.66% on T-2 to -11.95% on T+3.

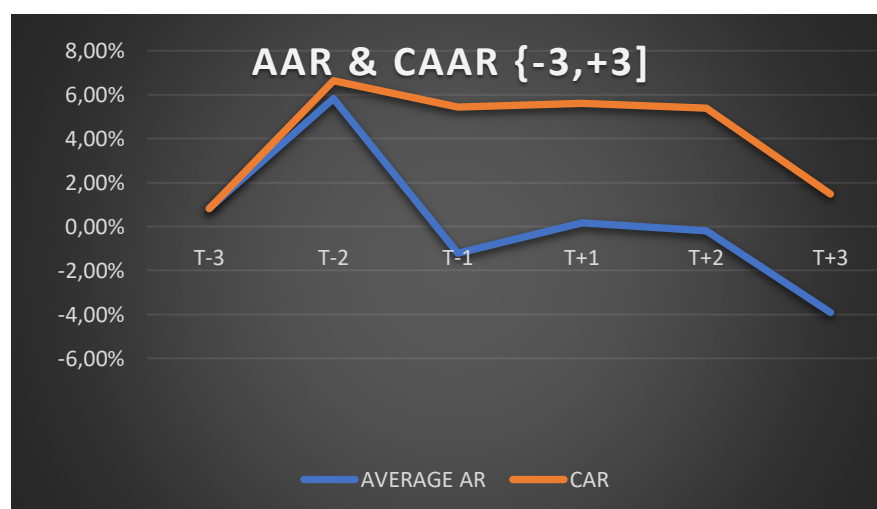


Figure 3. Chart of AAR and CAAR,

Source: Created by authors

Figure 3 below shows the Average Abnormal Return (AAR) and Cumulative Average Abnormal Return (CAAR) over various periods relevant to the event (in this case, a quick count on February 14, 2024). The critical findings observed: 1). Pre-event period (T-3 to T-1): There was a considerable increase in aberrant returns, with AAR peaking on T-2. This indicates that the market was responding positively to the expectations around the election results. The CAR has also been continuously rising during this period. 2). Event date (T=0): Abnormal returns appear to diminish significantly on the event day, as seen by the AAR line approaching zero. This reduction shows that the market may have anticipated the election outcome, resulting in a lower return impact than projected. 3). Post-event period (T+1 to T+3): After the election, abnormal returns decline, with the AAR falling below zero on T+2 and T+3. The dropping CAAR implies that the market's expectations may have been modified after the event, leading to a recalibration of stock values.

This tendency can be attributed to semi-strong market efficiency, in which fresh public information (quick count results) is immediately incorporated into stock prices, resulting in

quick count results. Investors are likely to have modified their positions as the market processes the election results, which explains the negative returns following the event.

Table 4. T Test Paired Two Sample for Means

	<i>Variable 1</i>	<i>Variable 2</i>
Mean	0.018078796	-
		0.013159298
Variance	0.001311267	0.000509155
Observations	3	3
Pearson Correlation	0.662123766	
Hypothesized Mean Difference	0	
df	2	
t Stat	1.991140633	
P(T<=t) one-tail	0.092357193	
t Critical one-tail	2.91998558	
P(T<=t) two-tail	0.184714385	
t Critical two-tail	4.30265273	

Source: Created by authors

Table 2 demonstrates that, at a significance level of 10%, the p-value of 0.092 is now less than 10%, showing a weakly significant difference in abnormal returns before and after the event. The market's reaction, as measured by the AAR and CAR before and after the occurrence, is statistically significant. The graph in Figure 3 and the statistical findings in Table 4 are consistent when viewed together. The graph shows that the market reacts significantly before the event (with positive returns) and then adjusts after the event (with negative returns). This further supports the semi-strong form of efficiency, where public information impacts stock prices, but the effect may not always lead to dramatic or sustained abnormal returns.

Market correction after the event happened when the market realized that pre-event expectations were overly optimistic. It aligns with Fama et al. (1969), Brown & Warner (1985), and Mnasri & Essadam (2020), which demonstrated how markets react in anticipation of events, followed by corrections after the event. Before the event, uncertainty may create abnormal returns as investors try to predict the outcome. Once the event occurs and the uncertainty is resolved, the need for speculation diminishes, and prices adjust to reflect the new reality, often reducing abnormal returns. This results in a post-event correction where stock prices adjust downwards as new, more rational future assessments are made, leading to lower AAR values. Profit-taking for the post-event drop is that investors who had bought stocks in anticipation of the quick count may now take profits, leading to a temporary decline in prices. This is a typical and rational market response, especially in short-term speculative scenarios.

CONCLUSION

This study sought to test the hypothesis that the 2024 Indonesian Presidential Election quick count would majorly impact politically affiliated companies' abnormal returns (AAR) and cumulative abnormal returns (CAAR). The data provide partial support for the idea. While the market reacted strongly before the event, particularly on T-2, with a peak AAR of 5.82%, the overall impact of the quick count was minor. The T-test results show a weakly significant difference in abnormal returns before and after the event, with a p-value of 0.092, indicating that the market responded to the quick count, although not as strongly as expected.

The CAAR analysis shows that cumulative returns remained positive, peaking at 6.63% on T-2 and falling to 1.48% on T+3. This indicates a post-event correction as the market reacted to the quick count results. This pattern is consistent with the semi-strong Efficient Market

Hypothesis (EMH) variant, in which market prices swiftly reflect publicly available information, but overreaction and subsequent correction are conceivable. In conclusion, while the quick count significantly impacted politically connected stock returns, the market reaction was more modest than expected. This implies that investors anticipated the outcomes, resulting in a less dramatic adjustment post-event.

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