

**COMPOSITE STOCK PRICE INDEX INCREASE: MOMENTUM OR MIRROR OF PUBLIC ECONOMIC STABILITY**

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**ABSTRACT**

*Indonesia's capital market exhibited a positive trend as the Composite Stock Price Index reached the 8,000 level during August-October 2025. This article examines whether that rise constitutes a short-term momentum driven by market sentiment and fiscal measures or instead reflects more fundamental public economic stability. Employing a literature review that synthesizes theoretical and empirical findings with emphasis on recent empirical studies while incorporating relevant seminal works the study also includes a case study of the government's placement of IDR 200 trillion in state-owned banks (Himbara) on 12 September 2025. The case study is accompanied by a descriptive analysis of index movements and a simple event-study procedure to assess short-term market reactions. The review indicates that the Composite Stock Price Index is influenced by a mix of macro-fundamental factors (inflation, interest rates, exchange rates, and growth) and psychological or institutional factors (fiscal policy and government credibility). Although liquidity-enhancing fiscal action acted as a catalyst for sentiment-driven momentum, preliminary evidence suggests the index's rise alone does not yet confirm medium-term public economic stability without corroborating improvements in macro-fundamental indicators.*

*Keywords: Composite Stock Price Index; Capital Market; Economic Stability; Fiscal Policy; Public Economics.*

## INTRODUCTION

The Composite Stock Price Index (Indeks Harga Saham Gabungan, IHSG) is a principal indicator reflecting the overall performance of Indonesia's capital market. As a national economic barometer, the index measures the extent of investor confidence in macroeconomic conditions, fiscal stability, and the direction of government policy. According to (Hayes, 2022), stock indices serve as economic barometers that convey the health of an economy through share-price movements driven by market expectations about economic growth, interest rates, inflation, and political factors.

The IHSG's rise above the 8,000 threshold in 2025 marks a notable milestone for Indonesia's capital market. This achievement raises a crucial question, does the surge represent a temporary momentum driven by investor psychology and market expectations, or does it reflect a more fundamental stabilization of public economic conditions. (Nur Hafifa, 2025) argues, the IHSG is not merely a mirror of market activity but also an indicator of public trust in the government's ability to maintain macroeconomic stability. Indeed, fluctuations in the index can serve as early signals of shifting sentiment about the nation's economic prospects.

Within the framework of public economics, the IHSG occupies a strategic position because it influences state revenue through taxes, dividends from state-owned enterprises (BUMN), and public investment (Salmon, 2025). A sustained positive movement in the index can strengthen fiscal capacity and increase government revenues, whereas a sharp decline can weaken household purchasing power and suppress real-sector activity. Moreover, macroeconomic variables such as inflation, interest rates, and the exchange rate are closely linked to capital-market performance (Ujang Syaiful Hidayat, 2025). When macroeconomic stability is preserved, investor confidence rises, capital inflows are encouraged, and both the exchange rate and economic growth may be supported.

From a market-behavior perspective, the Efficient Market Hypothesis suggests that prices fully and correctly reflect available information (Burton, 1989) accordingly, the IHSG's ascent to 8,000 could be interpreted as the market's rational reaction to newly available information. However, research by (Scott R. Baker, 2019) demonstrates that political and psychological factors often provoke market overreactions, particularly during changes in key economic personnel such as the finance minister. This evidence implies that market movements are driven not only by objective economic data but also by perceptions and sentiment toward public policy.

The urgency of this study stems from the IHSG's dual role as both an indicator of national economic health and a reflection of public confidence in economic governance. If the index's increase genuinely signals improved public economic stability, policymakers must maintain fiscal consistency, ensure transparency, and protect institutional credibility. Conversely, if the surge mainly constitutes a short-lived momentum, then a deeper analysis of the underlying fundamentals supporting sustainable growth is required.

Against this background, this article aims to analyze the IHSG's rise to the 8,000 level as an interaction between capital-market dynamics and public-economy conditions. By employing a literature-review approach, the study seeks to offer a comprehensive understanding of the extent to which the IHSG can serve as a valid indicator of national economic stability and to inform the design of fiscal and monetary policies that are responsive to market dynamics.

## RESEARCH METHODS

This article employs a literature-review method to analyze the rise of the Composite Stock Price Index (Indeks Harga Saham Gabungan, IHSG) as a reflection of public economic stability in Indonesia. This approach was chosen because it enables the authors to examine and synthesize a range of prior studies relevant to the capital market, fiscal policy, and public-economy dynamics.

The literature search strategy involved querying various scholarly sources, including journal articles, research reports, academic books, and credible online publications. Searches were conducted using keywords such as "IHSG," "Indonesian capital market," "fiscal policy," "public economy," "investor confidence," and "market stability." Selected literature emphasized scholarly works with high relevance and academic reliability in explaining the relationship between the capital market and the public economy. The selection and filtering of literature proceeded in three stages:

1. Initial screening: Articles that were not peer-reviewed or that took the form of opinion pieces were excluded.
2. Eligibility assessment: Literature focusing on the Indonesian context or on developing countries with comparable market structures was prioritized.

3. Thematic analysis: Selected articles were analyzed in depth to identify patterns linking IHSB movements, macroeconomic fundamentals, fiscal policy, and public confidence in economic stability.

The analysis was carried out using thematic and comparative approaches, grouping principal findings into major themes such as macroeconomic stability, market psychological reactions, and fiscal-policy credibility. This approach aims to elucidate the linkages between capital-market dynamics and public-economy conditions and to determine the extent to which the IHSB can function as a valid indicator of national economic stability.

## **RESULTS AND DISCUSSION**

### **The Composite Stock Price Index as a Barometer of Public Economic Health**

The Composite Stock Price Index (Indeks Harga Saham Gabungan, IHSB) is more than a mere market statistic; it functions as an economic barometer that reflects public perceptions of macroeconomic conditions and government policy. The “economic barometer” concept implies that the stock market can serve as an indicator of trends and future expectations for an economy (Hayes, 2022).

In the Indonesian context (Hafifa, 2025) notes that the IHSB covers all ordinary and preferred shares listed on the exchange and serves as a gauge of investor confidence in national economic conditions. Market participants, policymakers, and the public frequently interpret changes in the IHSB as early signals of shifts in sentiment or in real public-economic conditions. Empirical studies in Indonesia further indicate that macroeconomic variables such as inflation, interest rates, and the exchange rate are significantly related to IHSB movements. For instance, (Shabran Jamil Ahmad, 2022) finds that inflation and interest rates negatively affect the IHSB, suggesting that inflationary pressure and higher rates can reduce purchasing power and firms’ profit prospects, thereby weakening the index. Moreover, the study “Determinants of the Composite Stock Price Index (IHSB)” confirms that, in addition to inflation, exchange-rate fluctuations and world oil prices also influence IHSB volatility. These findings support the view that the IHSB responds to a range of macroeconomic variables that affect expectations about corporate profitability.

Nevertheless, it is important to remember that although the IHSB can function as a barometer, it is not a perfect reflection of real economic conditions experienced by the population. As discussed in the article “When Experts Say ‘The Stock Market Is Not the Economy,’” stock-price increases are often driven more by profit expectations, investor sentiment, and market structure than by everyday socio-economic conditions. Therefore, the IHSB’s role as a barometer should be interpreted cautiously: it provides signals rather than serving as an absolute mirror of public economic health (Investopedia, 2025).

### **Market Momentum and Psychological Factors.**

The IHSB’s surge past the psychological threshold of 8,000 cannot be explained solely by fundamentals such as economic growth, interest rates, or inflation. From the perspective of behavioral finance, capital-market movements are strongly influenced by investor psychology particularly sentiment, expectations, and collective behaviors (herding) which can generate short-term price momentum.

Classic research (Wurgler, 2006) demonstrates that investor sentiment plays a critical role in price formation, especially during periods of excessive optimism. When market sentiment is high, investors tend to discount fundamental information and rely more on perceptions of economic conditions. This behavior can cause stock prices to rise faster than intrinsic values, creating temporary market momentum. In the IHSB context, media coverage of “IHSB Breaking 8,000” may produce a positive psychological effect that reinforces investor belief in economic stability, even when fundamentals do not fully support that perception. Empirical work by (Da, 2011) on attention-driven trading shows that spikes in public attention measured via Google Search Volume Index (SVI) correlate with increased trading volume and short-term price increases. Public attention to major economic events, like a record high for the IHSB, can draw retail investors into market euphoria and produce a self-reinforcing cycle in which rising prices attract more participants and thus strengthen the trend.

Beyond attention and sentiment, herding behavior where investors imitate the actions of the majority also drives momentum. (Zheng, 2010) in *Emerging Markets Review* documents evidence of herding in several international equity markets, including some Asian markets such as Indonesia.

Their findings indicate that herding tends to intensify during crises, increasing asset co-movement, strengthening short-term price trends, and raising market volatility. A later study by (Li, 2020) shows that investor sentiment is closely linked to momentum and reversal effects, strong sentiment amplifies momentum because investors sustain optimism, but when expectations are no longer supported by fundamentals, the market corrects (reversal). This explains why optimism-driven IHSG rallies can devolve into volatility if not backed by real economic data. (Tubbs, 2018) describes a “multiplicative combination of sentiment and momentum,” meaning that the interaction of market sentiment and momentum effects is a robust predictor of short-term price movements. Markets dominated by investor euphoria frequently exhibit temporary price spikes followed by corrections. Thus, from a public-economy standpoint, the IHSG’s rise may represent a collective emotional response to perceptions of government policy and economic conditions rather than a pure reflection of fundamental national economic strength.

From a policy perspective, understanding these psychological market dynamics is important for governments and fiscal authorities. Clear, transparent, and consistent public communication can mitigate market overreactions and preserve policy credibility. By carefully managing public expectations, policymakers can harness positive market momentum to strengthen confidence without creating long-term imbalances in the economy.

### **Fiscal Policy and Government Credibility**

Fiscal credibility is a central instrument for building market confidence in a country’s economic stability. In Indonesia’s case, credible fiscal policy is not measured solely by the government’s ability to manage budget deficits and the debt-to-GDP ratio, but also by the extent to which fiscal measures send credible signals to markets and the public about the government’s commitment to macroeconomic stability. (Fitri Mustika Sari, 2024) argues that high fiscal credibility generates positive expectations among economic agents, attracts investment, and reinforces confidence in the country’s economic prospects. When fiscal policy is managed transparently, with discipline and a pro-investment orientation, the government is perceived to possess adequate capacity to stabilize the economy, which may be reflected in improved IHSG performance.

The Ministry of Finance’s recent placement of IDR 200 trillion in state-owned banks (Himbara) is an example of fiscal action intended to stabilize the economy. This measure was structured as a temporary fund placement rather than a loan, aimed at increasing banking-sector liquidity so that banks have greater capacity to extend credit to the real sector, particularly micro, small, and medium enterprises (MSMEs). Finance Minister Purbaya Yudhi Sadewa described the policy as an effort to “fuel the market mechanism,” with the expectation that greater bank liquidity would stimulate investment and household consumption (BBC Indonesia, 2025). From a market-credibility perspective, this move signals that the government has sufficient fiscal buffers and is willing to support financial stability and growth through pro-investment measures. However, the policy’s effectiveness depends on whether these funds are actually channeled into productive lending. Economists such as Doddy Ariefianto and Yusuf Rendy Manilet note that the main constraint may not be liquidity per se but weak credit demand caused by low purchasing power. In other words, additional bank liquidity will not be fully effective if the private sector is reluctant to borrow due to pessimistic market prospects (BBC Indonesia, 2025). In this context, fiscal measures should be complemented by social and structural policies that boost domestic demand so that fiscal credibility encompasses both market credibility and public (social) credibility. This distinction aligns with (Mandelkern, 2024), who distinguishes market credibility focused on financial-market stability from social credibility focused on the government’s commitment to welfare and economic equity.

If the fund placement successfully increases productive lending, the policy could yield dual benefits: stronger economic growth and enhanced fiscal credibility in the eyes of both the public and investors. The IHSG’s passage of the 8,000 mark could thus be interpreted as reflecting increased market trust in disciplined and responsive fiscal management. Conversely, if the policy fails to stimulate productive investment and merely increases banks’ liquidity buffers without real-economy impact, fiscal credibility may be called into question. Such outcomes risk policy misallocation and a reduced long-term effectiveness of fiscal instruments.

To preserve medium-term fiscal credibility, the government must ensure that each policy instrument has clear, evidence-based objectives and robust implementation oversight. As Teuku Riefky from the University of Indonesia has emphasized, fund-placement measures require strict supervision to prevent deviation from their primary goal strengthening the real sector and creating

employment (BBC Indonesia, 2025). Transparency and accountability in implementation are also crucial so that markets and the public continue to view the government as a credible fiscal actor. Balancing fiscal discipline with support for the real economy is key to sustaining both market and social credibility.

Therefore, the Ministry of Finance's placement of IDR 200 trillion can be understood as a fiscal stabilization strategy with dual dimensions. On one hand, it strengthens market credibility by demonstrating fiscal capacity and a readiness to stabilize financial markets. On the other hand, its success as evidence of social credibility depends on whether the funds mobilize the real sector, expand employment opportunities, and boost household purchasing power. If both dimensions are maintained, the IHSG's rise beyond 8,000 may indicate not only market momentum but also a reflection of sustainable public economic stability.

### **Analytical Gap: Momentum versus Stability.**

Stock markets often display dynamics driven not only by economic fundamentals but also by investor sentiment and attention. Under the Efficient Market Hypothesis, security prices should reflect available information, so price movements are seen as responses to fundamentals and random shocks (random walk). Yet empirical evidence highlights limitations of this assumption about momentum phenomena (where winning stocks continue to perform well in the short term) and attention-driven reactions demonstrate that investor behavior and psychology can cause temporary deviations from intrinsic value. Classic studies on momentum and investor attention such as (Titman, 1993) and (Engelberg, 2011) document these effects and show how momentum strategies and attention spikes account for short-term return variation.

Global empirical examples reveal episodes of divergence between financial markets and real economic conditions. During the COVID-19 pandemic, major U.S. stock indices recovered and even returned to pre-crisis levels despite severe deterioration in labor-market indicators and household incomes such as, the spike in unemployment in April 2020. This episode underscores that market rallies can precede full recovery in underlying fundamentals.

In Indonesia, the IHSG's rise to around 8,000 in 2025 should therefore be assessed with caution. The index's approach to this psychological threshold coincided with the government's placement of IDR 200 trillion in Himbara banks a move perceived by markets as a liquidity-strengthening and fiscally supportive signal. This placement may have functioned as a sentiment catalyst, driving short-term IHSG momentum. However, whether the increase reflects fundamental improvements such as greater productive lending, higher purchasing power, and increased output must be verified using real indicators and by evaluating the actual implementation of fund disbursement.

The definition and detection of asset bubbles further complicate assessment, if asset prices significantly exceed fundamentals over an extended period, markets become vulnerable to sharp corrections that harm the real economy. Authorities therefore need to distinguish between price rises supported by genuine fundamental improvement and those primarily driven by sentiment. Policy literature recommends that clear communication and transparency in implementation be used to manage market expectations and prevent speculative escalation.

The policy implications of this gap are clear coordination between fiscal and monetary policy and strict oversight of fiscal-program implementation are essential. If fiscal stimulus such as the placement of funds in state-owned banks effectively promotes productive credit and real-sector activity, then the IHSG's rise may legitimately reflect improved fiscal credibility and better economic conditions. If, however, added liquidity remains trapped on bank balance sheets without corresponding real demand, the stock-market increase is more likely to be a transient momentum. Therefore, monitoring tools such as measures of productive-credit disbursement, MSME credit growth, capacity-utilization rates, and employment indicators are needed to validate whether IHSG movements correspond to public-economic stability.

As a closing recommendation for this subsection, two complementary analytical steps are proposed. First, implement a simple event study to measure abnormal IHSG returns around the announcement date of the fund placement to assess short-term market reaction. Second, perform a post-placement analysis of real indicators such as the rate of productive-credit disbursement, changes in MSME lending, and labor-market statistics to evaluate whether market momentum persists alongside fundamental improvement. The combined evidence from these analyses will help

determine whether the IHSG's 2025 increase is better characterized as a fleeting momentum or as a reflection of medium-term public economic stability.

## CONCLUSIONS

Based on the literature review and discussion, the Composite Stock Price Index's rise above the 8,000 level during August to October 2025 can be interpreted from two related perspectives: as a short-term market momentum driven by investor sentiment, public attention, and liquidity support from fiscal intervention, and as a possible sign of stronger fiscal credibility if it is supported by improvements in macroeconomic fundamentals and real-sector fund disbursement. In this context, IHSG movements reflect the interaction between macroeconomic factors, such as inflation, interest rates, exchange rates, and economic growth, and psychological and institutional factors, including expectations, herding behavior, and government credibility. The government's placement of IDR 200 trillion in Himbara banks served as a catalyst by increasing liquidity and signaling fiscal support, but its role as an indicator of medium-term public economic stability depends on whether the funds are channeled into productive credit, stimulate domestic demand, and improve employment and capacity utilization. Without evidence from these real-sector indicators, the increase in the IHSG may remain sentiment-driven and vulnerable to correction. Therefore, the rise of the IHSG beyond 8,000 cannot be treated as conclusive proof of economic stability, but rather as an important signal that still requires verification through macroeconomic evidence, transparent policy implementation, strong fiscal and monetary coordination, strict oversight, and further empirical analysis of real-sector outcomes.

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