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Banking Stock Market Reaction to the Announcement Bank Indonesia Interest Rate Event: Announcement of BI Benchmark Interest Rate Reduction, By the Board of Governors Meeting, August 19, 2025

Islamiah[1], Iwan Kusmayadi[2]
[1]Management Study Program, Faculty of Economics and Business, University of Mataram
[2]Management Study Program, Faculty of Economics and Business, University of Mataram
E-mail: islamiah614@gmail.com, iwankusmayadi304@unram.ac.id

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Abstract

This study examines the reaction of banking sector stocks on the Indonesia Stock Exchange to Bank Indonesia's announcement of a 25 basis point BI-Rate cut to 5.00 percent on August 19, 2025. The objective is to assess the market response through abnormal returns around the event. Using a comparative quantitative approach with an event study method, the population is all listed banking issuers, a purposive sample of 41 companies with complete daily closing price data. Secondary data from the IDX and the Jakarta Composite Index (JCI) are analyzed through a market model on the estimation window t-40 to t-11, AR and AAR calculations on the event window t-10 to t+10, Wilcoxon Signed-Rank test due to non-normal data (a = 0.05). The results show no significant difference in AAR before the event (mean = 0.002638, SD = 0.018113) and after (mean = 0.002395, SD = 0.008696), with p = 0.164. In conclusion, the policy did not cause a market surprise because it had been anticipated.

INTRODUCTION

The capital market plays a crucial role as a mechanism for allocating funds and as an indicator of investor expectations regarding economic dynamics. Stock prices efficiently reflect relevant information, both from internal company factors and macroeconomic policies such as changes in benchmark interest rates, which affect the cost of capital, consumption, investment, and asset valuation through discount rates and projections of future cash flows (Brown & Warner, 1985; Fama, 1970).

On August 19-20, 2025, Bank Indonesia, through a Board of Governors Meeting, decided to lower the BI-Rate by 25 basis points to 5.00 percent, accompanied by adjustments to the Deposit and Lending Facility Interest Rate (Bank Indonesia, 2025). This policy theoretically serves as a signal to investors regarding risk and return, potentially triggering a market reaction in banking sector stock returns on the Indonesia Stock Exchange (Mackinlay, 1997; Khairani, 2025).

The banking sector is at the forefront of monetary policy transmission, where a reduction in the benchmark interest rate can affect deposit rates, credit, the cost of funds, and the net interest margin (NIM). While potentially boosting credit demand and economic growth, which supports interest income and asset quality, this reduction could also depress income if credit interest rates adjust slower than the cost of funds or due to competition for deposits (Hartono, 2020; Tandelilin, 2020).

Previous empirical studies in Indonesia have shown inconsistent results regarding market reactions to interest rate announcements. Some found insignificant abnormal returns despite changes in trading volume, influenced by investor expectations, period conditions, and sample size (Cahyaningdyah & Cahyasani, 2017; Sayudha & Rasmini, 2021).

The diversity of these findings, including the absence of significant differences in pre-post announcement AARs for similar events, emphasizes the need for specific empirical testing in the banking sector for the 2025 BI-Rate cut event, given the potential for market anticipation or delayed impacts (Khairani, 2025).

This study aims to examine the reaction of the banking stock market to the announcement of the BI-Rate reduction on August 19, 2025, through measuring abnormal returns using a market model with the JCI as a proxy, in the event window T-10 to T+10. Its urgency lies in providing the latest empirical evidence for investors and regulators regarding the effectiveness of monetary policy transmission amid economic fluctuations in 2025-2026. Meanwhile, the novelty of this study is in the focus of the specific event of August 2025 with a sample of 41 banking issuers and the Wilcoxon test for non-normal data, complementing previous studies whose results varied (Sayudha & Rasmini, 2021; Brown & Warner, 1985).

RESEARCH METHODS

This study adopts a quantitative approach with a comparative type, which aims to compare market reaction conditions before and after the announcement of the BI-Rate reduction on August 19, 2025. The analytical method applied is an event study, namely a systematic procedure to assess whether a public event such as a monetary policy announcement contains information that affects stock prices by measuring abnormal returns around the event date (MacKinlay, 1997; Brown & Warner, 1985; Sugiyono, 2021).

The research instrument consists of secondary data in the form of daily closing prices of banking issuers and the Jakarta Composite Index (JCI) as a proxy for market returns, collected through documentation from official IDX publications and historical databases. Data analysis techniques include calculating daily returns, estimating market model parameters in the estimation window t-40 to t-11, abnormal returns (AR) as the difference between actual and expected returns, and Average Abnormal Return (AAR); testing the difference in AAR before (t-10 to t-1) and after (t+1 to t+10) the event using the Wilcoxon Signed-Rank Test in the latest version of SPSS with α=0.05 due to the data being non-normal (Hartono, 2020; Tandelilin, 2020; Creswell & Creswell, 2022).

The study population included all banking sector issuers listed on the Indonesia Stock Exchange during the study period. A sample of 41 companies was selected through purposive sampling based on the following criteria: listed and actively traded, and complete daily price data for the estimation window and event window from t-10 to t+10 (a total of 21 trading days, with t0=August 19, 2025). This selection ensures the validity of return calculations and avoids bias from incomplete data (Sugiyono, 2021; Sudaryono, 2023).

The research procedure begins with event identification and window determination, followed by secondary data collection, estimation of the α and β market model parameters in the estimation period, calculation of AR_{i,t} = R_{i,t} - (\alpha_i + \beta_i R_{m,t}), aggregation into AAR_t = (1/N) \sum AR_{i,t}, and hypothesis testing H0 (no significant difference in AAR) versus H1 using Wilcoxon. This approach follows the event study standard to comprehensively capture anticipated leakage and delayed reactions (MacKinlay, 1997; Emzir, 2022; Hardiansyah, 2024).$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \epsilon_{i,t}$

RESULTS ANDDISCUSSION

This segment presents the analysis of market responses to banking industry stocks on the Indonesia Stock Exchange, in relation to the announcement of a benchmark interest rate cut by Bank Indonesia. Market responses are analyzed through abnormal returns calculated over the research event window period. Market responses are measured using abnormal returns calculated through a market model (single index model) with the Jakarta Composite Index (JCI) as a proxy for market returns. Observations are made over the event window from t−10 to t+10 with an estimated period of 30 trading days (t−40 to t−11). Statistical processing and testing are performed using SPSS, with a sample size of 41 banking issuers (N=41).

Descriptive Statistics

Based on descriptive data, the AAR value before the event (AARSBLM) has an average (mean) of 0.002638 with a standard deviation of 0.018113. The lowest and highest values of AARSBLM are −0.021615 and 0.110350, respectively. On the other hand, the AAR after the event (AARSSDH) shows an average of 0.002395 with a standard deviation of 0.008696, with the lowest value being −0.014514 and the highest being 0.043023. In general, the average AAR at both times gives a positive number, but the difference is quite small. The fluctuation of the AAR before the event appears to be larger when compared to after the event, which is seen from the higher standard deviation in the previous period.

Table 1. Descriptive Statistics of AAR before and after

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AARSBLM	41	-.021615277	.1103501465	.0026377637	.0181126009
AARSSDH	41	-.014514035	.0430228630	.0023950426	.0086959502
Valid N (listwise)	41				

To evaluate whether the difference in AAR before and after the event is statistically significant, the Wilcoxon Signed Ranks Test was used. The findings of this test indicate that there are 25 issuers that experienced positive changes (AAR after > AAR before), 16 issuers with negative change (AAR after < AAR before), and 0 which is balanced. The test statistic shows Z = −1.393 with Asymp. Sig. (two-tailed) = 0.164. Since the significance value of 0.164 is more than 0.05, there is no significant difference in AAR between the periods before and after the announcement of the BI interest rate cut on August 19, 2025. Therefore, the alternative hypothesis stating that there is a difference in market reaction before and after the event is not supported by the test results.

Table 2. Results of the Wilcoxon Signed Ranks Test (AAR After - AAR Before)

Ranks

		N	Mean Rank	Sum of Ranks
AARSSD - AARSBLM	Negative Ranks	16[a]	20.19	323.00
	Positive Ranks	25[b]	21.52	538.00
	Ties	0[c]		
	Total	41		

a. AARSSD < AARSBLM

b. AARSSD > AARSBLM

c. AARSSD = AARSBLM

Test Statistics[a]

	AARSSD - AARSBLM
Z	-1.393[b]
Asymp. Sig. (2-tailed)	.164

a. Wilcoxon Signed Ranks Test

b. Based on negative ranks.

The main findings of this study indicate that the announcement of the BI interest rate cut on August 19, 2025, was not accompanied by significant changes in abnormal returns in banking sector stocks during the observation period, from t−10 to t+10. In terms of direction, the number of issuers experiencing an increase in AAR after the event was indeed greater (25 issuers) than those experiencing a decrease (16 issuers). However, the Wilcoxon test results indicate that this difference is not statistically strong enough ($p = 0.164$). In other words, the abnormal return movements that occurred did not form a consistent and striking aggregate pattern between the time before and after the event. This finding is also in line with the descriptive picture, namely the mean AAR values before (0.002638) and after (0.002395) which differed only slightly. Furthermore, the larger standard deviation of the AAR before the event (0.018113) compared to after the event (0.008696) indicates that market responses in the period before the announcement tended to be more varied. This diversity can cause market reactions to not be concentrated in the same direction, so that when tested in aggregate, the differences before and after are not significant.

Interpretatively, the insignificant difference in AARs may indicate that the interest rate cut policy during that period did not generate a strong enough information shock for banking investors, or that investor responses tended to vary across issuers. Consequently, the interest rate announcement event was not reflected as an unusual yield shift that differed significantly between the periods before and after the incident within the applicable observation window.

CONCLUSION

This study concludes that the announcement of a 25 basis point reduction in the BI-Rate

benchmark interest rate to 5.00 percent on August 19, 2025, by the Bank Indonesia Board of Governors Meeting did not result in a significant difference in the average abnormal return (AAR) of banking sector stocks on the Indonesia Stock Exchange, as indicated by the results of the Wilcoxon Signed-Rank Test with an Asymp. Sig. (2-tailed) value of 0.164 ($p > 0.05$) in a sample of 41 issuers during the event window t-10 to t+10. This finding reflects that the policy information did not cause a surprise to the market, with the AAR before the event (mean = 0.002638, SD = 0.018113) and after (mean = 0.002395, SD = 0.008696) only slightly different, although 25 issuers experienced an increase in AAR. Limitations of the study include a single focus on the banking sector and the specific event of 2025, as well as the use of a simple market model that may not capture confounding factors such as global sentiment or JCI volatility.

The practical implication is that banking stock investors may disregard BI-Rate announcements like this as a primary signal for short-term transactions, as the potential for abnormal returns is volatile. For regulators such as Bank Indonesia and the Financial Services Authority (OJK), these results indicate the effectiveness of monetary transmission, as anticipated by the market. Therefore, similar policies need to be combined with fiscal stimulus for a more tangible impact. Suggestions for future research include expanding to other sectors such as property or manufacturing, comparing return estimation methods (e.g., market-adjusted models), and analyzing moderating factors such as bank size or credit ratios, to deepen our understanding of Indonesian capital market dynamics amid post-2025 economic fluctuations.

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