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FOREIGN VS DOMESTIC STOCK INVESTORS – CAUSAL RELATIONSHIP IN THE FIRST HALF OF PRABOWO'S PRESIDENTIAL LEADERSHIP

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Abstract

This research dwells on the dynamic interaction between foreign and domestic investors in the Indonesian stock market during the first half of President Prabowo Subianto's leadership. Using daily data on foreign and domestic buy and sell transaction values and volumes from October 2024 to April 2025, along with IHSG daily return, Granger causality tests are conducted to identify causality through lead–lag relationships. The results show a feedback trading among domestic investors, reflected in bidirectional causality between domestic purchase and sales values. Domestic investors purchase decision also affected by the previous foreign purchase and previous market return. On the other hand, trading volume plays a limited role. Overall, the dynamic between foreign and domestic investors during the research period is driven mainly by price rather than trading volume.

Keywords: Foreign and Domestic Investors, Indonesian Stock Market, Granger Causality, Market Return Dynamics

1. INTRODUCTION

Along with the implementation of liberalization in the Indonesian capital market, there has been an increase in foreign transactions from foreign investors. Nonetheless, domestic investors also grew significantly in the past five years. According to KSEI (Kustodian Sentral Efek Indonesia), as of December 2025 data, the number of stock investors had exceeded 20 million Single Investor Identification (SID), increased by 37% compared to 2024 numbers (around 14.87 million). There were 5.35 million new investors in 2025 only. Based on the domestic and foreign investor proportions, 99.78% were dominated by local investors, while foreign investors were only 0.22%.

Despite experiencing a decline in the proportion, foreign investors still actively trade on the Indonesian Stock Exchange, and since many of foreign investors are institutional investors, the trading volume are usually high. Thus, foreign investors can significantly affect trading liquidity and market volatility. Several facts contribute to the net foreign inflows and or outflows. One of them is the macro and global factor which reflects the global investors' sentiment and risk appetite.

In 2024, Prabowo and Gibran has been chosen as the new president and vice president for the Republic of Indonesia. This political event will certainly affect the activities in the Indonesian capital market because the new policies implemented by the new president will affect country's economy growth. Pantzalis et al. (2000) also noted that presidential election will affect the medium and long-term policies of a country. As policies may shift, investors prefer to wait and see to assess their investment prospects in the future (Robert, 2018).

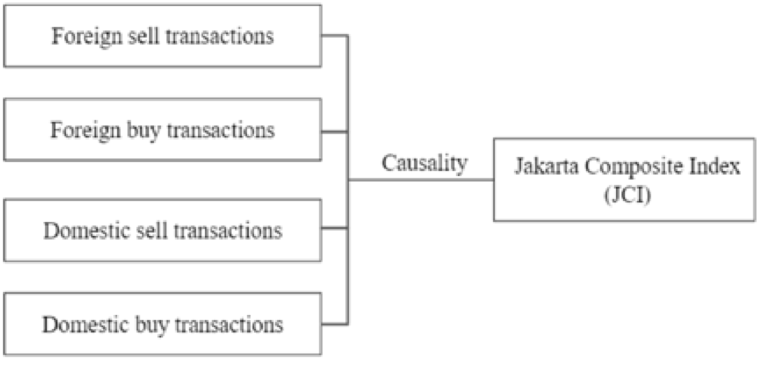
Many studies have documented evidence on how capital market responds to political events, such as presidential elections under the assumption that political information may or may not carry important values for investors regarding their investment in Indonesia. Sundiyah and Sudana (2015) found that market react positively on Jokowi's first presidential nomination in 2014, and during the announcement of Jokowi's working cabinet. Moreover, market had positive response once policy credibility became more apparent, not just promised. During Jokowi's second presidential election in 2019, Akbar et al. (2019) also found the positive reaction on the stock return and volume of Indonesian public state-owned-enterprise (SOE). On the other hand, when we talk about more specific sector, market reaction might not be present. Amtiran (2025) found that there was no market reaction on the property sector before and after the 2019 presidential election.

As a part of G20 countries, Indonesia has attracted many of foreign investors to invest in Indonesian companies' stock. Yet, domestic participations cannot be underestimated too since Indonesian stock market is dominated by domestic investors. Dvorak (2001) found the evidence that domestic investors in Indonesia buy prior to positive returns, suggesting that they had information advantage than foreign investors. However, the direction of change in the information asymmetry was inconsistent during the research period (1995 – 2001). In terms of foreign purchases or sales, foreign sales contained more information than foreign purchases. In a more recent time frame, from 2008 to 2017, Arroisi and Koesrindartoto (2019) found that domestic investors in Indonesia affect stock return negatively while foreign investors did not have impact on return. Moreover, Arroisi and Koesrindartoto (2019) also found that domestic and foreign investors herd themselves strongly. Different findings were mentioned by Rudiawarni et al. (2024) as they found that from 2016 – 2021, net foreign purchases in Indonesia reflect investor's optimism, hence was positively related to the future abnormal return. Thus, net inflows from foreign investors helped to reduce the information asymmetry.

Herding behaviour is defined as an act of imitating the actions of others. An investor can be said to herd when their action relies on other investors' investment decisions. In other words, herding occurs when information or knowledge from other investors led one investor to change their decision to invest. Agoes et al. (2016) mentioned that herding can drive market prices and market volatility If it is carried out on a large scale. Herding behaviour can be done by foreign and domestic investors.

Combining the effect of presidential election and the dynamics between foreign and domestic transaction in the Indonesian stock market, this research will delve into the causal relationship between foreign transactions, domestic transactions, and the market return during the first half of Prabowo's leadership. We examine the foreign and domestic transactions based on the changes in transaction value and transaction volume. The research framework is formulated in Figure 1.

Figure 1. Research Framework



2. METHODOLOGY

The data uses in this research are foreign sell transaction volume and value, foreign buy transaction volume and value, domestic sell transaction volume and value, and domestic buy transaction volume and value. These data are retrieved from statistical reports on the IDX website. We also use JCI closing price, which was obtained from Capital IQ. We use Prabowo's inauguration day, 20 October 2024, to determine the time-period of the research. However, since it was Sunday on that date, 21 October 2024 is chosen as the starting period of this research. Thus, the time-period of this research is based on daily transaction data of foreign investors, domestic investors, and the JCI closing price from 21 October 2024 to 21 April 2025. The time-period is chosen to gather the short-term dynamic between foreign and domestic investors during the first half of Prabowo's leadership.

To fulfil the objective of this research, we will use Granger Causality test based on Granger (1969). In reality, foreign and domestic transactions do not move at the same time. Thus, Granger causality is useful because it reflects incremental predictability to capture the dynamic between foreign and domestic investors. Eviews is used when conducting Granger Causality test.

The operation consists of a few steps:

a. Data stationarity test using Augmented Dickey-Fuller (ADF) test
b. Optimal lag test using the Schwarz Information Criterion (SIC) method
c. Causality test using the Granger Causality test method

3. FINDINGS AND DISCUSSION

DESCRIPTIVE STATISTICS

A total of 114 daily values is obtained from 21 October 2024 to 21 April 2024. During this period, IHSG level has down around 17%, from IDR 7,772.6 to IDR 7,140.9.

Overall, domestic transactions were much higher than foreign transactions in terms of values and volumes. In terms of transaction values, both domestic sales and domestic purchases transactions had similar daily deviation, while for foreign transactions, foreign sales had higher deviation than foreign purchases transactions. Similar to the values, daily domestic transactions volume was higher than foreign, followed with higher deviation too. Table 1 and Table 2 represents descriptive statistics for IHSG price, foreign transactions value, domestic transactions value, foreign sales volume, foreign purchases volume, domestic sales volume, and domestic purchases volume.

Table 1. Descriptive Statistics (1)

	IHSG Price (IDR)	Foreign Sell Transactions Value (IDR)	Foreign Buy Transaction Value (IDR)	ic Sell TransactionValue (IDR)	Domestic Buy Transaction Value (IDR)
Mean	6,963	5,090,000,000,000	4,410,000,000,000	7,430,000,000,000	8,110,000,000,000
Median	7,080	4,620,000,000,000	3,990,000,000,000	6,790,000,000,000	7,440,000,000,000
Maximum	7,789	15,000,000,000,000	12,600,000,000,000	41,400,000,000,000	41,100,000,000,000
Minimum	5,968	2,300,000,000,000	1,750,000,000,000	4,610,000,000,000	5,260,000,000,000
Std. Dev.	428	2,160,000,000,000	1,760,000,000,000	3,980,000,000,000	3,900,000,000,000
Skewness	- 0.25	2.26	1.98	6.75	6.26
Kurtosis	2.27	9.70	8.18	53.86	49.49

Source: Eviews (processed)

Table 2. Descriptive Statistics (2)

	Volume of Foreign Sell (Unit)	Volume of Foreign Buy (Unit)	Volume of Domestic Sell (Unit)	Volume of Domestic Buy (Unit)
Mean	5,530,000,000	4,910,000,000	15,200,000,000	15,800,000,000
Median	4,560,000,000	4,210,000,000	14,200,000,000	14,700,000,000
Maximum	18,700,000,000	16,900,000,000	41,600,000,000	44,400,000,000
Minimum	2,900,000,000	2,050,000,000	9,170,000,000	9,500,000,000
Std. Dev.	2,700,000,000	2,200,000,000	4,560,000,000	4,780,000,000
Skewness	2.55	2.25	2.25	2.45
Kurtosis	10.95	10.30	11.78	13.26

Source: Eviews (processed)

STATIONARITY TEST

To ensure stationarity in the variables, we will use the change of transactions values,change of transactions volumes, and IHSG return. The variables being tested have anull hypothesis stating that each variable has a unit root or is non-stationary. The resultof stationarity test provides significant results under 1% alpha, meaning that all the variables are already stationer. Figure 2 summarizes the result of stationarity test.

Figure 2. Result of The Stationarity Test

Group unit root test: Summary
Series: DOMESTIC_BUY_CHG, DOMESTIC_BUY_VALUE_CHANG, DOMESTIC_SELL_CHG, DOMESTIC_SELL_VALUE_CHAN, FOREIGN_BUY_CHG, FOREIGN_BUY_VALUE_CHANGE, FOREIGN_SELL_CHG, FOREIGN_SELL_VALUE_CHANG, IHSG_RETURN
Date: 01/31/26 Time: 13:33
Sample: 10/21/2024 4/21/2025
Exogenous variables: Individual effects
Automatic selection of maximum lags
Automatic lag length selection based on SIC: 0 to 2
Newey-West automatic bandwidth selection and Bartlett kernel

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-35.1134	0.0000	9	1002
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-35.6976	0.0000	9	1002
ADF - Fisher Chi-square	638.496	0.0000	9	1002
PP - Fisher Chi-square	643.960	0.0000	9	1008

** Probabilities for Fisher tests are computed using an asymptotic Chi -square distribution. All other tests assume asymptotic normality.

Source: Eviews

OPTIMAL LAG TEST

We tested the optimal lag using the Akaike Info Criterion (AIC) method rather than SIC(Schwarz Info Criterion) because AIC captures richer short-term dynamics better thanSIC since it incorporates more lags. The lowest value is indicated as the optimal lag. Lower AIC will represent better model precision. The optimal lag shows numbers of periods required by a variable in the past to affect other variables.

We divided the variables into two groups. The first group consists of IHSG return andthe change in daily transaction values between foreign and domestic investors. The second group consists of IHSG return and the changes in daily transaction volumes between foreign and domestic investors. The optimal lag for the first group is lag 4, meaning that the past four days data should be included to best predict today. For the second group, the optimal lag is lag 2. Figure 3 shows the result of optimal lag test for the first group, while Figure 4 shows the result of optimal lag test for the second group.

Figure 3. The Optimal Lag Test for the First Group

VAR Lag Order Selection Criteria
Endogenous variables: DOMESTIC_BUY_VALUE_CHANG DOMESTIC_SELL_VALUE_CHAN ...
Exogenous variables: C
Date: 01/31/26 Time: 13:49
Sample: 10/21/2024 4/21/2025
Included observations: 105

Lag	LogL	LR	FPE	AIC	SC	HQ
0	285.8016	NA	3.27e-09	-5.348603	-5.222224*	-5.297391*
1	311.7153	48.86577	3.22e-09	-5.366006	-4.607731	-5.058738
2	333.7053	39.37249	3.42e-09	-5.308672	-3.918502	-4.745347
3	360.0974	44.74101	3.36e-09	-5.335189	-3.313124	-4.515808
4	391.5391	50.30663	3.01e-09*	-5.457887*	-2.803927	-4.382450
5	409.3864	26.85598	3.54e-09	-5.321646	-2.035790	-3.990152
6	436.4283	38.11615*	3.54e-09	-5.360538	-1.442787	-3.772988
7	459.7752	30.68457	3.86e-09	-5.329052	-0.779405	-3.485445
8	480.1759	24.86942	4.53e-09	-5.241446	-0.059904	-3.141783

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Source: Eviews

Figure 4. The Optimal Lag Test for the Second Group

VAR Lag Order Selection Criteria
Endogenous variables: DOMESTIC_BUY_CHG DOMESTIC_SELL_CHG FOREIGN_BUY_CH...
Exogenous variables: C
Date: 01/31/26 Time: 14:05
Sample: 10/21/2024 4/21/2025
Included observations: 105

Lag	LogL	LR	FPE	AIC	SC	HQ
0	209.4692	NA	1.40e-08	-3.894652	-3.768273*	-3.843441*
1	237.8195	53.46061	1.31e-08	-3.958468	-3.200193	-3.651200
2	268.7943	55.45955*	1.18e-08*	-4.072272*	-2.682103	-3.508948
3	283.3910	24.74488	1.45e-08	-3.874114	-1.852049	-3.054734
4	295.5328	19.42694	1.88e-08	-3.629197	-0.975236	-2.553760
5	314.4872	28.52175	2.16e-08	-3.514041	-0.228185	-2.182548
6	336.9937	31.72344	2.35e-08	-3.466546	0.451205	-1.878996
7	348.5082	15.13336	3.21e-08	-3.209679	1.339967	-1.366073
8	357.7756	11.29747	4.67e-08	-2.910012	2.271530	-0.810349

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Source: Eviews

GRANGER CAUSALITY TEST

In the first group, from all possible causality relationships that were formed, there arefour causality relationships. Bidirectional relationship between domestic sales and domestic purchase transactions was found, along with the unidirectional relationship from foreign purchases to domestic purchases, and IHSG return to domestic purchases. Table 3 summarizes the statistical results for Granger causality test in thefirst group.

Table 3. Summary of Statistics for Granger Causality in Group One

F-Statistics [p-value]	Causes				
Caused By	IHSG Return	Change in Foreign Sell Value	Change in Foreign Buy Value	Change in Domestic Sell Value	Change in Domestic Buy Value
IHSG Return		1.661 [0.165]	1.557 [0.192]	1.681 [0.160]	2.125 [0.084]*
Change in Foreign Sell Value	0.687 [0.603]		0.367 [0.832]	0.316 [0.867]	0.52 [0.721]
Change in Foreign Buy Value	1.018 [0.402]	0.419 [0.795]		1.89 [0.118]	2.166 [0.078]*
Change in Domestic Sell Value	0.78 [0.541]	1.507 [0.206]	1.02 [0.402]		3.0443 [0.021]**
Change in Domestic Buy Value	0.654 [0.625]	1.268 [0.288]	0.764 [0.551]	3.155 [0.017]**	

Source: Eviews (processed)

Note: * indicates statistical significance at 10% alpha, ** indicates statistical significance at 5% alpha

For the second group, from all possible causality relationships that were formed, thereis only one significant causality relationship, which is from IHSG return to change in foreign sales volume. Table 4 summarizes the statistical results for Granger causalitytest in the second group.

Table 4. Summary of Statistics for Granger Causality in Group Two

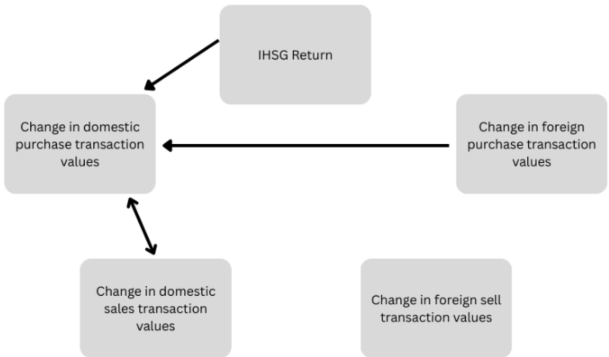
F-Statistics [p-value]	Causes				
Caused By	IHSG Return	Change in Foreign Sell Volume	Change in Foreign Buy Volume	Change in Domestic Sell Volume	Change in Domestic Buy Volume
IHSG Return		3.829 [0.0248]**	1.586 [0.21]	0.0109 [0.989]	0.283 [0.754]
Change in Foreign Sell Volume	0.549 [0.579]		0.451 [0.638]	1.915 [0.152]	1.558 [0.215]
Change in Foreign Buy Volume	1.295 [0.278]	0.983 [0.378]		0.496 [0.610]	0.308 [0.736]
Change in Domestic Sell Volume	0.290 [0.749]	0.328 [0.721]	0.684 [0.507]		1.761 [0.177]
Change in Domestic Buy Volume	0.45 [0.639]	0.302 [0.74]	0.325 [0.724]	1.869 [0.159]	

Source: Eviews (processed)

Note: * indicates statistical significance at 10% alpha, ** indicates statistical significance at 5% alpha

DISCUSSION

Figure 5. Causality Results for Group One

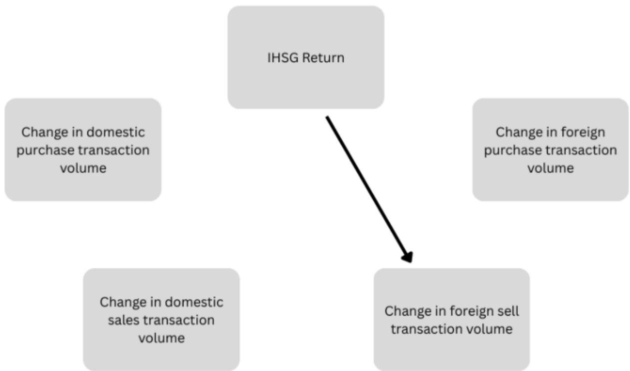


Source: Eviews, Canva

The causal relationship in the transaction values between foreign and domestic purchase and sales during the first half of Prabowo's leadership can be seen in Figure 5. Based on the change in transaction values (Group 1), we find that feedback tradingbehaviour was present since there was a bidirectional relationship between domesticpurchase and domestic sales transaction values. Thus, it means that domesticinvestors still look at weekly price or volume (the optimum lag is 4) to determine whether they want to buy or sell the stocks. Domestic purchase transaction values arealso affected by previous one-week foreign buy transaction values and IHSG return. There is also a chance that domestic investors tend to follow the purchase of foreign investors. This finding is consistent with Rudiawarni et al. (2024), implying that domestic investors may use foreign net purchase as a trading strategy cue. Given thatdomestic purchase was the most present in the research period, it showed that domestic investors saw the declining in the stock market as an opportunity to buy.

Transaction value consists of price and volume. To find out whether investors use volume or price, we also test the causal relationship in the foreign, domestic transaction volumes, and IHSG return (Figure 6). Turns out that transaction volume may not be able to capture the dynamic between domestic and foreign investors in the first half of Prabowo's leadership. The only significant causal relationship is from IHSG return to the foreign sell transaction volume, implying that the past two days IHSG return may affect the decision of foreign investors to sell their stocks. However, the impact of foreign sales transaction volume to IHSG return is not significant, since we do not find the causality from foreign sales transaction volume to IHSG return. To put it another way, the causality findings in the transaction values are driven by the change in the stock price, rather than volume.

Figure 6. Causality Results for Group Two



Source: Eviews, Canva

CONCLUSION

This study finds that the interactions between foreign and domestic investors in Indonesia's stock market during the first half of Prabowo's leadership are primarily driven by price dynamics rather than trading volume. The causality results based on transaction values suggest feedback trading behaviour among domestic investors and indicate that domestic purchase decisions are influenced by lagged foreign buy transactions and market returns, suggesting that foreign investor activity serves as a useful informational signal for domestic investors. Foreign investor's lack of presence during the first half of Prabowo's leadership indicates their preference to wait and see to assess the investment prospect in the future. Thus, it will be beneficial for the future research to extend the sample period to better capture the dynamic between foreign and domestic investors in the longer term, when the new policies under Prabowo's leadership become clearer and begin to affect economy growth.

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