

The Effect of Financial Stress on the Composite Stock Price Index (IHSG)

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Abstract: This study is motivated by the increasing instability of the global economy, which impacts the Indonesian financial market, particularly through financial stress that affects the movement of the Composite Stock Price Index (IHSG). The aim of this study is to analyze the influence of the Financial Stress Index (FSI) on the IHSG in Indonesia. The research method used is a quantitative approach with multiple linear regression analysis based on monthly data over a specific period. The results indicate that the FSI has a significant effect on the movement of the IHSG, reflecting that financial stress has a spillover effect on the domestic stock market. These findings highlight the importance of financial stability policies to minimize the impact of financial stress on the Indonesian capital market.

Keywords: Composite Stock Price Index, Economic Policy Uncertainty, Financial Stress Index

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1. INTRODUCTION

The stock market is one of the main indicators in assessing the economic condition of a country (Jannah, 2019). In Indonesia, the Composite Stock Price Index (IHSG) serves as the main barometer reflecting the overall performance of the capital market (Sasono & Syukri, 2023). The IDX Composite is very sensitive to various factors, both internal and external, including macroeconomic conditions, government policies, and global dynamics (Nurjanah & Purwanto, 2023). Economic policy uncertainty in developed countries, such as the United States and China, also affects the Indonesian stock market. This uncertainty causes volatility in global stock markets, which then spills over into the Indonesian stock market (Tan, 2025).

Financial stress can be defined as pressure or tension in the financial system caused by economic uncertainty, market volatility, or liquidity crises (ADB, 2023). Financial stress is more closely related to direct indicators that affect financial stability within an economy, subregion, or area, which include four main financial markets, namely the banking sector, foreign exchange market, stock market, and debt market (Park & Mercado, 2014). This phenomenon is often reflected in increased market volatility, interest rate spikes, currency depreciation, as well as reduced liquidity in the financial sector. In the context of an interconnected global economy, the spillover effects theory proposed by Mundell & Fleming (1963) explains that problems occurring in other countries, such as financial stress, can have systemic impacts on other countries, including Indonesia (Mwase et al., 2016). Amid global dynamics, Indonesia as a developing country is also not immune to financial pressures, both originating domestically, such as inflation and fiscal deficits, and from abroad, such as geopolitical tensions, the monetary policies of developed countries, and global crises (Saputra & Hendri, 2024). These pressures have the potential to exert a significant influence on investor behavior in the stock market and ultimately affect the movement of the IDX Composite. In the context of global economic integration, the dynamics of international financial markets can potentially create spillover effects on the economies of other countries. The Spillover Effect theory introduced by Mundell & Fleming (1963) explains that changes in economic conditions or monetary policies in a country, especially in developed countries like the United States, can affect the financial stability of developing countries through various transmission channels such as capital flows, exchange rates, and investor sentiment (Forbes & Rigobon, 2002).

In this context, the financial pressure occurring in the United States often spreads to other countries, including Indonesia. When the U.S. financial markets experience financial stress due to changes in the Fed's interest rates, rising inflation, or geopolitical tensions, global investors tend to engage in a flight to quality, which involves withdrawing funds from emerging market and moving them to assets considered safer, such as the U.S. dollar and U.S. government bonds. (Ji et al., 2024). This condition causes capital outflows from Indonesia, a depreciation of the rupiah, and a decline in the Composite Stock Price Index (IHSG).

Domestic financial pressures can also trigger stock market volatility through internal channels such as reduced liquidity, currency depreciation, and increased banking sector risks. Both global and domestic financial stress can affect the IHSG, making it necessary to pay attention to both, either directly or through spillover effects from global financial centers to domestic markets. This research is

important because it can show the differences in the intensity of influence between global factors (the United States) and domestic factors on the movement of the IHSG in Indonesia.

Although there has been a lot of research related to economic uncertainty, studies on the relationship between financial stress and the Indonesia Stock Exchange (IHSG) are still relatively limited. In fact, understanding the influence of financial stress on stock index movements is very important for market participants, policymakers, and academics in developing risk mitigation strategies and maintaining financial market stability. In the financial literature, the IHSG has often been associated with economic uncertainty in influencing the IHSG, for example Andisman et al. (2020) found that increased economic policy uncertainty in the European region contributes to a decline in bank lending.

In this case, the Economic Policy Uncertainty Index (EPU) is more frequently used than the Financial Stress Index (FSI). Nevertheless, the Financial Stress Index has its own advantages, particularly because it can more comprehensively represent the actual conditions of financial markets, considering that the FSI includes various risk and volatility indicators in the financial sector (ARIC, 2023). Referring to several studies related to the financial stress index on stocks as found Zhang & Li (2022) and Xu et al. (2023) found that the financial stress index can predict stock returns. The same was also found by Guo & Feng (2022) where financial stress can predict stock volatility. Sherlim & Ekaputra (2025) and Liang et al. (2023) to find where the financial stress index can measure stock volatility. Previous studies have mostly focused on the ability of the Financial Stress Index (FSI) to predict short-term and long-term stock market volatility (Guo & Feng, 2022; Zhang & Li, 2022; Liang et al., 2023; Xu et al., 2023). However, studies that directly analyze the impact of global or domestic financial stress on the Composite Stock Price Index (IHSG) are still limited, especially in Indonesia. In fact, direct analysis of the IHSG is important to understand the extent to which financial pressures affect market direction and the stability of the national financial system (Forbes & Rigobon, 2002; Ji et al., 2024).

In Indonesia, most previous research has still focused on the economic policy uncertainty and geopolitical risk on the stock market. Royhana & Warninda (2021) found that economic policy uncertainty has no effect on the Jakarta Islamic Index, whereas Oktavian & Prasetyo (2023) shows that the uncertainty of economic policies in the United States and China negatively impacts stock returns in Indonesia. Saputra et al. (2023) confirming that geopolitical risks also affect domestic stock market performance. Therefore, this study seeks to expand the literature by empirically examining the impact of global and domestic financial stress on the IDX, thereby contributing to the understanding of the transmission of financial pressures across countries in the context of the Indonesian capital market.

Unlike previous studies that focused on predicting market volatility or economic policy uncertainty, this study examines the direct impact of global and domestic Financial Stress Index (FSI) on Indonesia's Composite Stock Price Index (IHSG). Using the Spillover Effect Theory as a basis, this study seeks to explain how cross-country and domestic financial pressures can affect the stability of the national stock market. This approach provides a new contribution to the literature by highlighting global and domestic financial transmission mechanisms that have not previously been extensively tested empirically in the Indonesian context.

2. LITERATURE REVIEW

Financial Stress Index (FSI)

Financial stress is a condition in which the financial system experiences significant pressure or tension, characterized by increased market uncertainty, decreased liquidity, and high volatility in various financial instruments such as stocks, bonds, and exchange rates (ARIC, 2023). This condition usually reflects systemic risks that could potentially disrupt market stability and affect the behavior of investors and economic actors overall. To measure the level of financial stress, an indicator called the Financial Stress Index (FSI) is used, which is a composite index of several financial variables such as stock market volatility, bond yield spreads, exchange rate fluctuations, and liquidity levels (Sherlim & Ekaputra, 2025).

Financial stress can be categorized into two types based on its scope, namely global financial stress and domestic financial stress. Meanwhile, domestic financial stress focuses on the pressure occurring within Indonesia's own financial system. This index is built from local variables such as bank sector stock yields, IHSG returns and volatility, Indonesian government bond spreads, and the rupiah exchange rate. Factors causing domestic financial stress include political instability, issues in the national banking sector, and domestic economic slowdowns that can reduce investor confidence in the local market. Domestic financial stress provides a direct picture of the health condition of Indonesia's financial system.

Global financial stress reflects the pressure occurring in international financial markets, which is usually measured by a combination of financial indicators from major and developing countries such as the United States, the European Union, Japan, and China. Situations such as a global financial crisis, changes in monetary policy in developed countries, or geopolitical tensions can lead to an increase in global financial stress, which then impacts other countries' markets, including Indonesia, through spillover mechanisms such as capital outflows and changes in investor sentiment.

Composite Stock Price Index (IHSG)

The Composite Stock Price Index (IHSG) is an index that reflects the movement of prices of all stocks listed on the Indonesia Stock Exchange (IDX). The IHSG is used as a key indicator of the stock market conditions in Indonesia and serves as a barometer of the health of the domestic capital market. Changes in the IHSG value reflect the overall rise and fall of stock prices, influenced by various factors such as economic conditions, government policies, investor sentiment, and global market conditions. The IHSG is very important for investors as a reference for investment decision-making, as well as for analysts and policymakers to monitor the development of Indonesia's financial market (Wisuandto et al., 2021).

Spillover Effect

The spillover effect theory (in the context of economics and finance) refers to the impact of an economic event or condition in one sector or region that extends to other sectors or regions. When related to the relationship between the financial stress index (FSI) and the composite stock price index (IHSG) in Indonesia, the

spillover effect theory explains how financial pressure (both domestic and global) can "spread" or influence stock price movements in Indonesia (Mwase et al., 2016).

Previous research has shown that the Financial Stress Index (FSI) has an influence on stock market movements, both in terms of returns and volatility. Referring to the findings Zhang & Li (2022) and Xu et al. (2023), FSI significantly affects stock returns, especially in unstable global market conditions. Meanwhile, Guo & Feng (2022) indicate that financial stress has the ability to forecast stock volatility, which becomes more evident as market uncertainty increases. Similar findings are also put forward by Sherlim & Ekaputra (2025) and Liang et al. (2023), which emphasizes that FSI is an important indicator in influencing stock volatility, both in the short term and the long term.

Previous studies have also shown that the Financial Stress Index (FSI) not only affects global stock markets but also has a significant impact on domestic stock markets. Research conducted by Ozcelebi et al. (2025) found that domestic FSI has a negative effect on domestic stock market performance. This means that when the level of domestic financial stress increases, investors tend to respond by becoming more cautious, which impacts a decline in market activity and puts pressure on stock prices. This condition may be caused by a decrease in investor confidence, increased liquidity risk, as well as potential disruptions in the national financial system. The findings from Ahir et al. (2023) shows that the effect of financial stress on output is highly dependent on its intensity. In other words, if financial stress is only low, its impact on economic variables (and implicitly the stability of the financial system) tends to be statistically insignificant. Roncagliolo et al. (2022) also found the same thing where the effect of financial stress on financial stability only impacts developed countries and does not significantly affect developing countries. Based on this explanation, the hypothesis proposed in this study is as follows:

H₁: Domestic financial stress has a significant impact on the Composite Stock Price Index (IHSG) in Indonesia.

H₂: Financial stress in the United States has a significant impact on the Composite Stock Price Index (IHSG) in Indonesia.

3. RESEARCH METHOD

This study uses an explanatory quantitative approach to explain the cause-and-effect relationship between financial stress and the Composite Stock Price Index (IHSG) in Indonesia (Sari et al., 2022). The data used are secondary time series data for the period January 2007–August 2023, sourced from the Indonesia Stock Exchange (IDX), Yahoo Finance, and the Asia Regional Integration Center (ARIC).

The independent variables consist of the domestic Financial Stress Index (FSI Indonesia) and the United States Financial Stress Index (FSI-US), while the dependent variable is the Indonesia Stock Exchange Composite Index (IHSG). The selection of these two countries was done through purposive sampling based on the theoretical consideration that the US represents the global financial center, while Indonesia reflects domestic factors that influence the national stock market.

Data analysis was conducted using multiple linear regression to examine the partial influence of each FSI variable on the IDX. The data were processed using SPSS software to ensure valid and reliable results. The equation model used is:

$$IHSG_t = \alpha + \beta_1 FSI_{INDt} + \beta_2 FSI_{US_t} + \varepsilon_t \dots \dots \dots (1)$$

Description:

- IHSG = Composite Stock Price Index (IHSG) (Y)
- FSI IND = Indonesia Financial Stress Index (X₁)
- FSI US = United States Financial Stress Index (X₂)
- β₁- β₂ = Regression Coefficient
- α = Constant
- ε = Error

This approach is expected to provide an empirical understanding of the extent to which domestic and global financial pressures affect the movements of the Indonesian stock market.

4. RESULTS AND DISCUSSION

This section presents the results of data analysis regarding the influence of the Financial Stress Index (FSI) of Indonesia and the United States on the Indonesia Stock Exchange Composite Index (IHSG) in Indonesia. The analysis was conducted using the multiple linear regression method after undergoing the classical assumption tests to ensure the validity of the model. The results of descriptive statistical tests, classical assumptions, and regression, which form the basis of the discussion, are presented below:

Table 1. Descriptive Statistical Results

		FSI IND	FSI US	IHSG
N	Valid	200	200	200
	Missing	0	0	0
Mean		-0.4502	0.3237	4,673.4
Median		-0.6843	-0.6153	4,874.2
Std. Deviation		1.2496	3.0810	1,600.1
Minimum		-2.8954	-3.1336	1,241.5
Maximum		6.0023	12.9673	7,228.9

Source: Processed Data (2026)

Based on the results of descriptive statistics, it is known that the average IHSG value during the observation period was 4,673.4 with a median value of 4,874.2. The relatively close average and median values indicate that the IHSG data distribution is fairly symmetrical. The maximum IHSG value recorded was 7,228.9, while the minimum value was 1,241.5, with a standard deviation of 1,600.1, indicating that IHSG movements were relatively stable during the observation period. For the Indonesian Financial Stress Index (FSI IND) variable, the average value was -0.4502 with a median of -0.6843. The negative average value indicates that, in general, financial stress in Indonesia was relatively low or not extremely stressed. However, there was a very high maximum value of 6.0023 and a minimum of -2.8954, as well as a large standard deviation of 1.2496, indicating that financial stress conditions in Indonesia experienced significant fluctuations during the observation period and indicates the possibility of an extreme financial crisis or shock occurring.

As for the United States Financial Stress Index variable, it shows different results. The US FSI has an average of 0.3237, but its median value is -0.6153,

indicating that most of the data is in the low or neutral stress range, although there are some periods with very high financial pressure. This is reinforced by the maximum value of 12.9673 and minimum of -3.1336, as well as a very large standard deviation of 3.0810, indicating that financial stress in the US is highly volatile, with a wide range of values and likely containing outliers due to global crises or market turmoil. In general, the data shows that the IHSG is relatively stable, while financial stress in Indonesia and the US (FSI) tends to fluctuate significantly, which can have a substantial impact on the domestic stock market, especially under conditions of global economic uncertainty.

Table 2. Results of the Classical Assumption Test

Classical Assumption Test	Jarque-Bera Test	VIF	Glejser	LM test
Normality Test	0.200	-	-	-
Multicollinearity Test	-	2.374	-	-
Heteroscedasticity Test	-	-	0.856	-
Autocorrelation Test	-	-	-	0.195

Source: Processed Data (2026)

The results of the classical assumption tests indicate that the regression model in the normality test, with a Jarque-Bera probability value of 0.200, suggests that the residuals are normally distributed. This aligns with Ghozali (2018), who stated that if the probability value is greater than 0.05, the residuals are normally distributed. In the multicollinearity test, the Variance Inflation Factor (VIF) value of 2.374 indicates that there is no multicollinearity problem among the independent variables in the model, thus this assumption is met. This is consistent with Ghozali (2018), who explained that multicollinearity can be observed from the VIF value, where $VIF < 10$ means there is no multicollinearity. The Glejser test for heteroskedasticity shows a probability value of 0.856, and the LM test for autocorrelation shows a probability value of 0.195, indicating that both assumptions are satisfied. According to Ghozali (2018), if the probability value is < 0.05 then the model experiences heteroskedasticity and autocorrelation. Simply put, the model does not experience heteroskedasticity problems. This is also reinforced by Sugiyono (2017), who asserts that a regression model must meet classical assumptions in order for the research results to be valid, reliable, and unbiased.

Table 3. Financial Stress Index (FSI) against the Composite Stock Price Index (IHSG)

Variable	Coefficient	P-value
Constanta	0.309	0.001
Indonesia	0.019	0.856
Amerika Serikat	-0.323	0.002
R Squared	0.095	
Adjusted R Squared	0.086	
F Statistik	10.361	
N	200	

Source: Processed Data (2026)

Based on the results of the regression analysis, a constant value (C) of 0.309 was obtained with a significance level of 0.001. This constant value does not reflect the actual figure of the Composite Stock Price Index (IHSG), which is on a scale of thousands, but rather represents the baseline value of the regression model after data transformation. This constant functions as the intercept of the model, serving as the starting point for predicting the IHSG. In other words, when the Indonesian FSI and the U.S. FSI variables are zero (no financial pressure either domestically or in the United States), the model predicts the IHSG value at 0.309 on the transformed scale. This indicates that the constant can be interpreted as the baseline condition of the IDX (Indonesia Stock Exchange) in a state free from financial stress from both countries, although the figure is not the actual IDX value, but rather a mathematical representation in the statistical model.

The Indonesian FSI variable, which represents the level of domestic financial stress, has a regression coefficient of 0.019 with a probability value of 0.856. Since the p-value is greater than 0.05, it can be concluded that the Indonesian FSI does not have a statistically significant effect on the IDX during the observation period. Economically, although the coefficient is positive, meaning that theoretically an increase in domestic financial stress is followed by an increase in the IDX, this relationship is not strong enough to be considered empirically relevant. This could be due to various factors, such as investor confidence in the resilience of the domestic market, or monetary and fiscal policies that are able to mitigate the effects of domestic financial stress.

In contrast, the U.S. FSI variable shows different results. A regression coefficient of -0.323 and a p-value of 0.002 indicate that this variable has a negative and significant effect on the IDX at a 2% confidence level. This means that every two-unit increase in financial stress in the United States will be followed by a 0.323-point decrease in the IDX. These results indicate that the Indonesian stock market is highly sensitive to global financial dynamics, particularly to stress in the U.S. financial markets. This is very likely given that the U.S. is a global financial center, and disturbances occurring there often have systemic impacts on developing countries, including Indonesia.

Overall, the R-squared value of 0.095 indicates that this model is able to explain 9.5% of the variation in the Jakarta Composite Index (IHSG), while the remaining 90.5% is explained by other factors not included in the model, such as domestic macroeconomic factors, political conditions, and other global market sentiments. The Adjusted R-squared value of 0.086, which is not much different from the R-squared, reinforces the model's consistency. Although the explanatory power of the model is relatively low, the F-statistic value of 10.361 with a p-value of 0.000 confirms that simultaneously, both independent variables, namely Indonesia's FSI and the United States' FSI, have a significant effect on the IHSG. These results indicate that although domestic financial pressure does not have a significant partial effect, global financial pressure, particularly originating from the United States, plays an important role in the movement of the Indonesia Stock Exchange (IDX). Based on these results, market participants and policymakers need to pay attention to global financial market conditions when making investment decisions and formulating national economic policies.

Discussion

The Influence of Indonesia's Financial Stress Index (FSI) on the Composite Stock Price Index (IHSG)

The analysis results indicate that Indonesia's Financial Stress Index (FSI) has a positive coefficient of 0.019 with a p-value of 0.856, indicating that it does not statistically significantly affect the Indonesia Stock Exchange (IDX) Composite Index (IHSG). This suggests that domestic financial stress does not have a tangible impact on the movement of the Indonesian stock market during the observation period. Economically, although in theory increasing financial stress can trigger market reactions, in practice factors such as strong investor confidence in the resilience of the domestic economy, as well as responsive monetary and fiscal policies, able to mitigate the negative impact of such pressure. The influence of domestic financial pressure on the Indonesia Stock Exchange Index (IHSG) tends to be minimal and indirect. In relation, the Spillover Effect Theory explains that financial shocks occurring in one region can impact other regions or sectors that have economic and financial connections (Mwase et al., 2016). In the context of this research, the theory is relevant both for illustrating cross-country effects, such as financial pressure from the United States on the Indonesian stock market, and the spillover of financial pressure at the domestic level that occurs between sectors within the national financial system. The empirical results of this study, which show no significant impact of domestic FSI on the IDX, can be explained by two factors. First, domestic financial pressure is not yet strong enough to trigger a direct effect on the stock market, because the Indonesian financial system is relatively stable and has strong shock-absorbing mechanisms, particularly through banking and accommodative monetary policies (Bank Indonesia, 2023; IMF, 2023). Second, the main channels affecting the Indonesian stock market mostly originate from external pressures (spillover) coming from global financial markets rather than domestic pressures themselves. This is in line with the findings Kalemli-Özcan (2019) and indicating that U.S. monetary policy and financial pressures have significant spillover effects on emerging market stocks, including Indonesia.

As a result, policymakers need to continuously maintain domestic financial stability through proactive policies to ensure the stock market remains resilient to internal pressures. Since the direct impact of the domestic FSI on the IDX is limited, policy focus also needs to be directed towards external factors such as managing foreign capital flows, coordinating global macroprudential policies, and mitigating external risks that could potentially cause spillover effects on the domestic stock market (OFR, 2023; Ahir et al., 2023).

The Influence of the United States Financial Stress Index (FSI) on the Composite Stock Price Index (IHSG)

Conversely, the United States Financial Stress Index (FSI) has a significant negative impact on the Indonesia Stock Exchange (IHSG) with a coefficient of -0.323 and a p-value of 0.002. This indicates that an increase in financial stress in the US leads to a decline in the IHSG, confirming that the Indonesian stock market is highly sensitive to global financial conditions, particularly from the US as a global financial center. Financial turmoil or stress in the US can quickly create systemic effects that ripple through emerging markets, including Indonesia. The findings of this study are in line with the theory of spillover effects, which explains that problems occurring in one country can impact other countries with economic connectivity, either through trade or financial channels (Mwase et al., 2016). The

findings in this study are also in line with the results of previous research Ilgin (2024) and Ozcelebi et al. (2025), which indicates that financial stress has a negative impact on the stock market. An important implication of this finding is the need for stronger external risk mitigation efforts, such as investment market diversification, enhanced coordination of international economic policies, and preparedness in facing global volatility. This is important so that the domestic stock market is not easily shaken by the dynamics of global financial pressures originating from the United States. Indonesia needs to improve its preparedness against global financial shocks by strengthening risk mitigation mechanisms, such as investment diversification and enhanced coordination of international economic policies. This is crucial so that the domestic stock market is not easily affected by external pressures, particularly from the United States.

5. CONCLUSION

Based on the research results, it can be concluded that the Financial Stress Index (FSI) of Indonesia does not have a significant effect on the movement of the Composite Stock Price Index (IHSG). Although its coefficient is positive, the p-value indicates that the effect is not statistically significant. This suggests that domestic financial stress has not yet been able to have a meaningful impact on the Indonesian stock market, possibly due to strong investor confidence in the resilience of the national economy as well as the effectiveness of monetary and fiscal policies in mitigating pressures. In contrast, the US FSI has been proven to have a significant negative effect on the IHSG. These findings indicate that the Indonesian stock market is highly sensitive to global financial dynamics, particularly pressures originating from the United States, as the world's financial center. Financial turmoil in the US can create systemic effects that quickly spread to emerging markets such as Indonesia.

Based on these findings, it is recommended that policymakers continue to maintain domestic financial stability through proactive and adaptive policies, even though domestic financial pressures have not yet had a direct impact on the Indonesia Stock Exchange (IDX). These policies are important to preserve the resilience of the stock market against potential internal pressures in the future. Given the significant influence of global financial pressures, particularly from the United States, Indonesia needs to make efforts to prevent external shocks. This can be achieved through investment market diversification, strengthening international economic policy coordination, and developing a more responsive risk mitigation system. These efforts are crucial to maintain the stability of the domestic stock market so that it is not easily shaken by global dynamics.

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