BI RATE AND ITS IMPACT TO STOCK RETURN
OF FINANCIAL SECTOR COMPANY

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ABSTRACT

The purpose of this research were: (a) to analyze the impact of BI Rate announcement to stock return of financial sector company, (b) to analyze the speedy of market reaction in absorbing BI rate information that reflected from adjustment to the new price balance, (c) to formulate the implication of the investment policy of investor in capital market and the implication of central bank policy if the same event happen in the future. Event Study method was used to detect market response to the stance change of central bank policy that was at the beginning of BI rate decrease or increase. This research was not only to find the fact of abnormal return “available” or “unavailable” around the event but also to examine informationally semistrong efficient market. Window period that was used to see the impact of BI rate announcement to the stock price of financial sector company was 11 (eleven) days, whereas the duration of estimation period was 120 days before window period.

Based on examination result and analyses to abnormal return showed that; announcement information about the beginning of expansive or contractive monetary policy included information that was showed by market response to its announcement along window period. Market response against BI rate announcement through the process of the company sector stock price adjustment to the new price balance, took a long time. It showed that the stock market of financial sector was semistrong inefficient market. Vice versa, at the announcement event when BI rate increase began, the stock market of fund company group and other financial company was semistrong efficient market. For the investor, in order to get the better return, that condition should be response by active strategy in investment; whereas, for central bank, because of the market very reactive to many expectations before BI Rate announcement, it is important to be transparency in deciding monetary policy stance and continuously efforts in better communicating monetary policy stance.

Key words: Abnormal return, Event study, BI rate, Financial sector company.