

CHAPTER I

INTRODUCTION

1.1 Research Background

A precipitous disease called coronavirus disease 2019 (COVID-19) has spread worldwide since December 2019. The virus firstly broke out from the World Health Organization (WHO) after confirmed the first case in Wuhan, China, and officially became a pandemic on March 11, 2020. The COVID-19 is an infectious and hazardous disease caused by a new coronavirus (SARS-CoV-2) discovered in China. Reportedly to (World Health Organization, 2020), this virus spread almost all around the world and has resulted in over more than 40 million confirmed cases as well as over more than 1 million deaths across the world as of October 21, 2020. Joko Widodo, the Indonesian President, declared the coronavirus a national disaster on April 13, 2020, after severe criticism and denunciations of a relatively slow reaction to the COVID-19 pandemic, especially regarding the first informed case was confirmed in Indonesia on March 2, 2020 (McBeth, 2020).

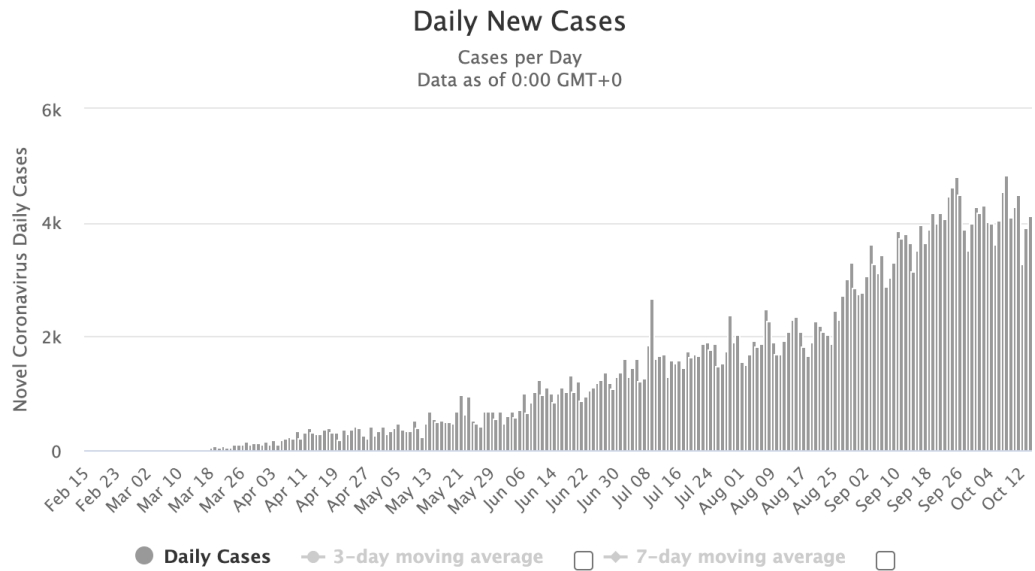


Figure1. Daily New COVID-19 Cases in Indonesia

<https://www.worldometers.info/coronavirus/country/indonesia/>

Based on the graph above, the spread of COVID-19 in Indonesia has affected at least more than 344,000 confirmed cases in 34 provinces as of October 12, 2020, and it will increase day by day. Jakarta, the capital city, recorded 1,045 new confirmed cases, bringing the total tally to 92,382. Meanwhile, West Sumatra reported 484 new cases, Central Java 443 new cases, West Java 424 new cases, East Java 291 new cases, and Riau 278 new cases. However, there were 65,299 active cases, or 19.2%, compared to the world average of 21.9%. The cumulative number of recovered cases was 263,296, or 77.3%, where the world average of recovered cases was 75.1%. A total of 12,027 cases died, or 3.5%, compared to a world average of 2.85% (www.worldometers.info)

The brunt on the economy because of COVID-19 in Indonesia has been extremely disruptive. The pandemic can involve many channels, for example, in global

supply chains, political, consumption, labour markets, behaviour, and others. All of these can affect the global economy, especially triggers the stock return worldwide. The COVID-19 outbreak has disturbed the investment and business environment in Indonesia. Indonesia's economic downturn is likely to be more dreadful than previously predicted as Southeast Asia's largest economy struggles to contain the coronavirus pandemic. The economic impact is noticeable through the fall sharply in the IHSG and the Rupiah. Indonesia's gross domestic product (GDP) is now expected to drop off by 1,5% this year rather than the 0,3% contraction the IMF had predicted in June. The downward revision for Indonesia comes as the IMF has passed less pessimistic about the global economy. Indonesia's economic state remains uncertain because of the continuing spread of COVID-19 and the adverse impact on severely affected sectors (www.thestar.com)

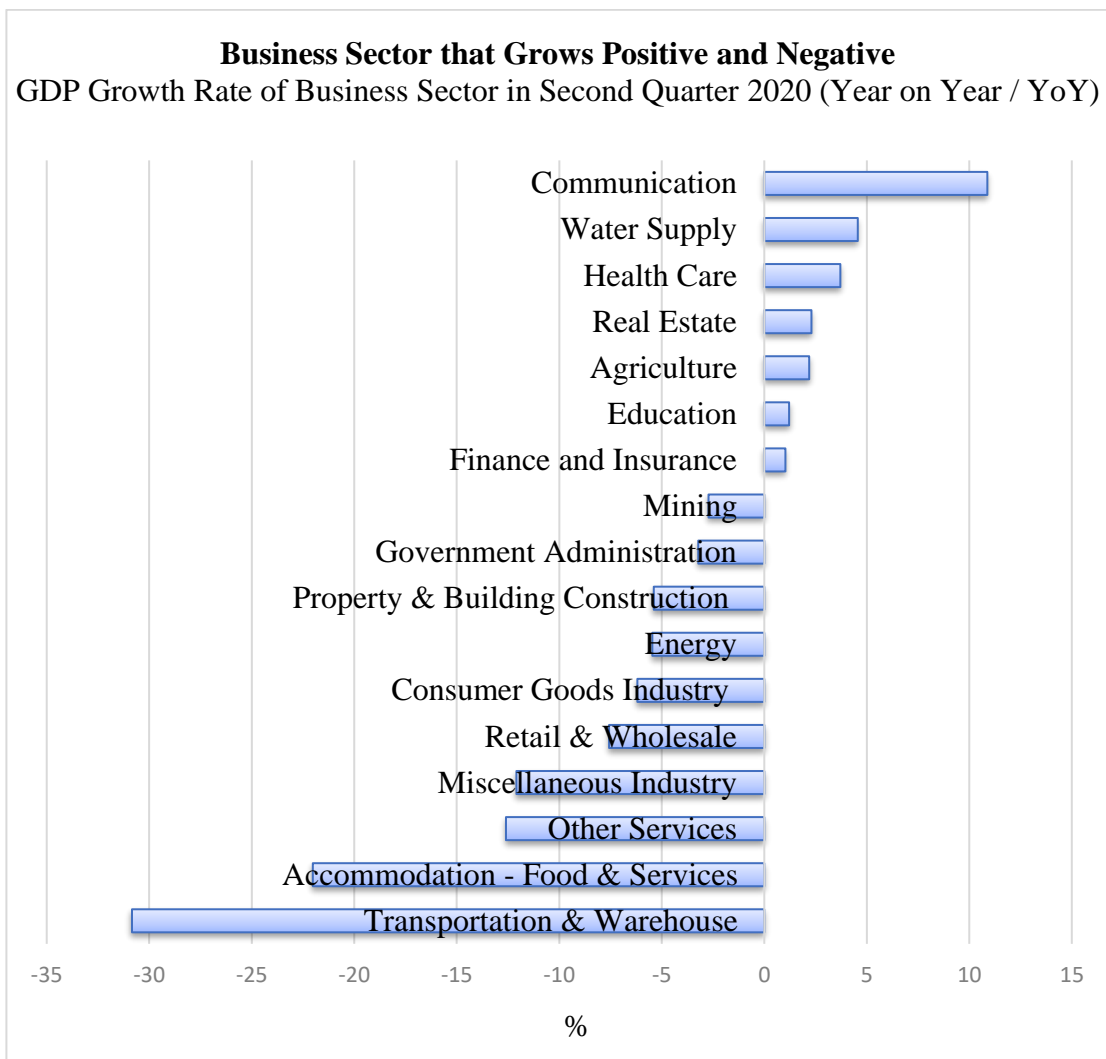


Figure 1.2 Growth Rate of Business Sectors in Second Quarter 2020

Source: databoks by www.katadata.co.id

The COVID-19 pandemic on the economy can be observed from growth between the first quarter of 2020 and the second quarter of 2020. Indonesia's economic growth projection for 2020 to between -1,7 percent and -0,6 percent from between -1,1 percent to 0,2 percent as the country's failure to contain the COVID-19 spread making it unlikely for the largest economy in Southeast Asia to escape recession. Given the

slowest measure of economic growth and lack of capital inflows, emerging markets have relatively limited resources to cope with the impacts of the pandemic and, therefore, are expected to suffer worst. Based on Figure 1.2, Indonesia's economic sectors that experienced the worst contraction included transportation-warehouse (-30.84%), accommodation-food and beverages (-22.02%), other services (-12.60%), and miscellaneous services (-12.09%). However, to find the silver lining in the dark cloud of this pandemic, several sectors recorded positive growth, such as information and communication (10.88%), water supply (4.56%), health services (3.71%), real estate (2.30%), and agriculture (2.19%).

Statistics Indonesia (BPS) informed three provinces on Java Island recorded relatively high growth rates for the agricultural sector: West Java (7.64%), Yogyakarta (10.06%), and East Java (7.46%). West Nusa Tenggara (NTB) also recorded a growth of 7.87% in the agricultural sector. The agricultural sector's grant to the national economy was the second-highest (15.46%) after the manufacturing industry (19.87%). That indicates that the agricultural sector is still the cornerstone of the economy in Indonesia.

Indonesia is rapidly developing an emerging economy and the stock return in the world. Following (Indonesia Stock Exchange, 2020), 532 of the stock listed on the Indonesia Stock Exchange (IDX). IHSG in the year to date has fallen by 29,92% until the end of March 2020. The deadly infectious virus COVID-19 caused the price on the Indonesia stock exchange to decrease by 6.283 on January 2, 2020, to 5.053 on October 9, 2020. The sharpest decline of 5% occurred on March 24, 2020, by 3.937; this is the lowest level for about two decades. The Indonesia Stock Exchange (IDX) has forced

trading to be suspended several times due to a sharp drop in the index of more than 5 percent on the same day. With the impact of the COVID-19 virus, stock return have slumped. The COVID-19 pandemic is a grave threat to the poise of global markets. Several sectors felt the blow in the form of significant disruptions in cash flow and business operations as the outbreak spread like wildfire, forcing some employees to work from home, while others became victims of unemployment (www.thejakartapost.com)

To anticipate the spread of the virus, Indonesia began the first phase of partial lockdown on April 10, 2020, in Jakarta, as major capital, and had many cases. As of April 10, 2020, the total number of Jakarta cases was 3.512 cases soar significantly day by day (Sagita, 2020). This partial lockdown resulted in all shopping centre, worships, bars, schools, and universities all being closed, and this will have a brunt on Indonesia's economy. The Indonesian government has already followed countermeasures implemented by social distancing and strong work encouragement from home policies. Due to widening the case of COVID-19 in Jakarta, the government extended the period of partial lockdown. Stock return are pricing in fear because of economic stagnation. After the partial lockdown of the first phase, Jakarta, as the capital city of Indonesia, implemented the new normal era on July 10, 2020, to describe Indonesia's post-pandemic era, and the government had changed its phrasing to "adapting to new habits" to prevent false interpretations or misunderstandings.

The partial lockdown constraints placed the supply chain into stress and lack of transparency in streamlining essential commodities. The most affected and at-risk

groups are the informal sectors and daily wages (Sandeep Kumar M., 2020). Several industries in Jakarta have been closed due to the full lockdown measures, but industries are operational in many parts of the archipelago (Dekker, 2020). Around a million Indonesian workers have been furloughed due to the pandemic, with hundreds of thousands more laid off (Firdaus, 2020). Unemployment has been highest in urban areas, like in Jakarta as the capital city, with 55% of men and 57% of women reporting that they have lost their jobs (UNICEF, 2020). Workers in the Indonesian informal sector have experienced especially severe financial effects of the lockdown measures. The implementation of government policies regarding the coronavirus lockdown has an impact on economic growth, especially for the stock price, which has decreased very significantly.

Indeed, several businesses, due to their small size and resource constraints, do not reach the post-disaster stage (Samantha, 2018). Moreover, due to the lack of sufficient governmental support, most Indonesian firms face financial decline and even go bankrupt. Most firms have limited capacity and resources to recover from such a crisis, especially those operating in developing countries like Indonesia with high poverty rates and economic and political instability. Therefore, this study moved its foundation to examine the impact of COVID-19 and suggest policy recommendations for firms' survival in Indonesia.

1.2 Problem Statement

This research will examine the impact of the COVID-19 partial lockdown on the stock return. This research using the sample from public firms in Indonesia listed in LQ45 Indonesia Stock Exchange (IDX). Based on the research background above, the problem of the investigations is as below:

- a. Is there any impact of the COVID-19 to the stock return of the LQ45?

1.3 Scope of the Study

This study tries the effects of the COVID-19 outbreak and its following partial lockdown on daily stock returns in Indonesia, a fast-growing emerging market that successfully revived after the pandemic lockdown. This research only focused on analysing the impact of the COVID-19 pandemic on stock return for public firms in Indonesia. The firm of size will be determined using microeconomic factors to market capitalization. Numerous public firms listed in IDX consistently from 3 February, 2020 – 30 July 2020 will be selected as the firms for analysing the data later.

1.4 Research Objective

This research aims to examine whether the COVID-19 pandemic influences the stock return performance. The objective of this research is as follow:

- a. To examine the impact of COVID-19 to the stock return of the LQ45

1.5 Research Benefits

a. Researcher

The researcher will know more about whether there is an impact of the COVID-19 pandemic on the Indonesia stock return, with the limitation of only choose and use public firms in Indonesia based on LQ45.

b. Financial advisors

This research expects to make financial advisors understand more about the impact of the Covid19 lockdown on stock return performance, whether there is a significant impact. Thus, eventually, the financial advisors could give the best suggestion, especially for their clients, to help make the right decision to allocate their assets well.

c. Investor

This research expects to help the investors, thus can understand more about the positive or negative impact on the stock return performance, especially during the COVID-19 pandemic era, to make the right decision before investing on stock return activities. Moreover, this research is expected to bring additional information to analyze about the corporations, because the investors should be cautious and have a robust fundamental analysis in order to decide the investment.

d. Academic

This research expects to be a reference for the readers. It aims to give information about whether to invest in the stock return during the COVID-19 pandemic, affecting stock movements.

1.6 Research Report Outline

The study is organised as follows:

CHAPTER I: INTRODUCTION

This chapter provides the background of the study, problem formulation, problem limitation, objective of the research, benefits of the research, scope of the study and writing structures.

CHAPTER II: LITERATURE REVIEW

This chapter will be divided into four parts, firstly is about the theoretical background, secondly is about the previous researches, thirdly is about the theoretical framework, fourthly is about hypothesis development.

CHAPTER III: RESEARCH METHODOLOGY

This chapter contains the population and sample of the research, data gathering technique, research variables, the methods and steps in analysing the data.

CHAPTER IV: DATA ANALYSIS

This chapter contains the research object description, test the variable and discusses the output of the data analysis method and presents the explanation from the output.

CHAPTER V: RESEARCH METHODOLOGY

This chapter contains the conclusion, limitation of the study, managerial implication, and suggestion for future research in the same field.

