# Analysis of the Causes of the IHSG Decline in March 2025

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## ABSTRACT

The Indonesia Stock Exchange Composite Index (IHSG) is a vital indicator reflecting the dynamics of economic expectations, investor sentiment, and both domestic and global macroeconomic conditions. This study aims to identify the factors that caused the significant decline of the IHSG in March 2025 through a qualitative approach based on literature review. The analysis reveals that the sharp drop in the IHSG was not triggered by a single factor but rather by an accumulation of global and domestic pressures: the second wave of the China–US trade war, the state budget deficit (APBN), weakening consumer purchasing power, and national political issues such as speculation about the resignation of the Minister of Finance. The sharp decline on March 18, 2025, which resulted in a temporary trading halt, reflects a market panic driven by systemic uncertainty and sudden shifts in investor expectations. Compared to the stable conditions of March 2024, this turmoil indicates a market landscape that has become increasingly vulnerable to speculative information and a crisis of confidence. This study recommends strengthening fiscal policy, improving public communication transparency, and enhancing the resilience of the capital market system against external volatility.
**Keywords**: IHSG; Market Crisis; Investor Sentiment

## INTRODUCTION

The Jakarta Composite Index (JCI), known locally as the IHSG (Indeks Harga Saham Gabungan), serves as a crucial barometer of Indonesia's capital market performance. More than just a series of numbers, the JCI reflects the country's economic pulse, capturing the collective expectations, fears, and decisions of investors regarding the nation's financial outlook. As a market indicator, the JCI often moves ahead of actual economic data, responding not only to concrete financial reports but also to investor sentiment, policy signals, and global developments.

Historically, the JCI has experienced significant fluctuations triggered by both domestic and international factors. For instance, during the 1998 Asian Financial Crisis, the index fell dramatically. In March 2020, at the onset of the COVID-19 pandemic, the JCI also suffered a severe drop of around 37%, driven by widespread panic in the financial markets. Similarly, in early 2025, the JCI experienced another sharp decline, particularly in March. This period became a pivotal point due to a convergence of global uncertainties and domestic pressures that influenced market behavior.

Stock market dynamics are inherently linked to various factors. According to Pandji Anoraga and Piji Pakarti (2008), shares represent ownership in a company and provide investors with potential financial benefits such as dividends and capital gains. The two main types of shares traded are common stock and preferred stock, each with distinct rights and characteristics. Movements in stock prices, particularly in large-cap blue-chip stocks, heavily influence the JCI's performance, making it sensitive to both market fundamentals and speculative sentiment.

The JCI is also influenced by broader economic indicators. As noted by Taufik (in Pratama Nanang, 2022), the JCI tracks the weighted average of stock prices listed on the Indonesia Stock Exchange (IDX). It functions as a measure of market sentiment, a benchmark for portfolio performance, and a proxy for the nation's economic trajectory. Terms such as "bullish" and "bearish" describe market trends, while "market cap" and "transaction volume" reflect market scale and liquidity.

In March 2025, the JCI faced an extraordinary downturn, culminating in a sharp correction on March 18 that triggered a temporary trading halt. This unprecedented event was not due to a single cause but rather a combination of global tensions—such as the second wave of the China–US trade war, ongoing geopolitical conflicts, and tightening global monetary policies—alongside domestic issues including fiscal deficits, weakened purchasing power, and political uncertainties surrounding government leadership transitions.

Given the complex nature of market movements, this study aims to analyze the factors that led to the sharp decline of the IHSG in March 2025. By employing a qualitative method through literature review, the research seeks to provide a comprehensive understanding of the event, offering insights for investors, policymakers, and financial market stakeholders.

## LITERATURE REVIEW

### Design and Sample

This study uses a qualitative research design with a literature review approach to explore the causes of the IHSG (Jakarta Composite Index) crash in March 2025. Qualitative research is suitable for describing complex financial phenomena because it focuses on understanding events through descriptive analysis rather than statistical measurement (Sugiyono, 2015). The purpose of this study is to examine the multidimensional factors that led to the sharp decline of the IHSG by analyzing various secondary data sources. The data in this research were gathered from multiple written materials, including market reports, news articles, financial data from the Indonesia Stock Exchange (IDX), and academic literature related to the capital market. The primary data set consists of real-time IHSG market movement reports from January to March 2025. Secondary data were collected from books, journals, previous research, and financial analyses that discuss stock market fluctuations, economic instability, and market crises.

**Instruments and Procedures**

As the main instrument of the study, the researcher played an active role in collecting, selecting, and interpreting the data. In qualitative research, the researcher serves as a human instrument, requiring deep knowledge of financial markets and economic indicators to ensure valid and meaningful analysis (Sugiyono, 2015). The data collection procedure followed a structured literature review process. First, the researcher collected data from credible sources, including financial market reports from the IDX, economic news portals such as CNBC Indonesia and Katadata, and official documents from financial authorities. These sources were selected based on their relevance to the study, focusing on the IHSG crash in March 2025, its causes, and its broader impact. After collecting the data, the researcher performed triangulation by comparing multiple sources to ensure the credibility and accuracy of the information. Triangulation helped verify the data by cross-checking between financial reports, market analysis, and academic perspectives.

**Data Analysis**

The data analysis in this study followed a descriptive-analytical approach. After gathering and organizing the data, the researcher categorized the information into several key themes, including global factors (such as the China–US trade war and geopolitical conflicts), domestic factors (such as the national fiscal deficit, weakening purchasing power, and political instability), and market behavior (such as the role of retail investors, panic selling, and the decline in blue-chip stocks). The researcher then conducted content analysis to identify patterns and relationships between these factors and the IHSG decline. To strengthen the analysis, a comparative study was carried out between the IHSG performance in March 2024 and March 2025. This comparison highlighted the differences in market conditions, volatility, and investor sentiment. Finally, the researcher interpreted the findings within the context of market dynamics and crisis theory, providing a comprehensive explanation of the IHSG crash as the result of both external global pressures and internal structural weaknesses in Indonesia's economy and financial system.

## RESULT AND DISCUSSION

The findings of this study reveal that the decline of the Jakarta Composite Index (IHSG) in March 2025 was the result of an accumulation of global and domestic factors, leading to severe market instability.

**Global Economic and Geopolitical Pressures**

One of the key triggers of the IHSG collapse was the worsening of global geopolitical tensions. The ongoing Russia–Ukraine war and the renewed Israel–Palestine conflict created sustained global uncertainty. Additionally, the escalation of the second phase of the China–United States trade war placed further strain on international trade and finance, impacting global supply chains and market sentiment.

Another critical factor was the monetary policy tightening by the United States Federal Reserve, which increased interest rates to combat inflation. This led to capital outflows from emerging markets, including Indonesia. The strengthening of the US dollar put pressure on the Indonesian rupiah, causing foreign investors to reduce their positions in the Indonesian stock market. These global conditions contributed to heightened risk aversion and led to a domino effect in regional stock markets, including the IHSG.

**Domestic Economic and Fiscal Instability**

At the national level, Indonesia faced substantial fiscal and economic challenges that contributed to market panic. As of February 2025, the state budget (APBN) recorded a deficit of IDR 31.2 trillion. Tax revenue fell by 30% compared to the previous year, reflecting a severe contraction in the government's fiscal capacity to support the economy. The weak fiscal posture raised investor concerns about Indonesia's ability to manage future economic shocks.

Purchasing power also declined significantly. The Center of Economic and Law Studies (Celios) reported that deflation in February 2025 reached -0.7% month-to-month, the sharpest deflation in 25 years. This was coupled with a sharp decrease in consumer spending, as recorded in the Mandiri Spending Index (MSI), which showed a dramatic slowdown in household consumption even before the Ramadan season—a rare phenomenon that typically indicates consumer stress and reduced economic activity.

**Political Uncertainty and Ministerial Resignation Rumors**

Political instability also played a major role in the market downturn. The inauguration of the Prabowo–Gibran administration in October 2024 initiated a period of policy transition and adaptation. However, rumors about the resignation of the Minister of Finance, Sri Mulyani, sparked significant panic in financial markets. Investors feared potential shifts in fiscal policy and economic management, leading to increased uncertainty about Indonesia's financial leadership. This speculation led to accelerated stock selling and contributed to the IHSG crash.

**Downgrade of Indonesia's Stock Rating by International Institutions**

Adding to the pressure, international financial institutions such as Goldman Sachs and Morgan Stanley downgraded Indonesia's stock rating from "overweight" to "market weight." This downgrade reflected growing concerns about Indonesia's fiscal stability and long-term growth prospects. The rating revisions prompted foreign investors to withdraw their investments from Indonesian stocks, causing capital flight and intensifying the market downturn.

**Market Behavior: Panic Selling and Retail Dominance**

Another important factor in the IHSG crash was the shift in market participant behavior. The market became dominated by retail investors, who accounted for a large portion of the daily trading volume. Retail investors typically have shorter investment horizons and are more reactive to market sentiment compared to institutional investors. During March 2025, speculative trading patterns and short-term strategies dominated market activity, increasing volatility.

On March 3, 2025, the IHSG recorded a daily gain of nearly 4%, giving the false impression of a market rebound. However, this rally was purely technical, not supported by fundamental improvements. By mid-March, panic selling intensified, especially in the technology and property sectors, leading to sharp declines and auto-rejection limits being triggered. On March 14, 2025, the IHSG dropped 1.98%, closing at 6,515.63. The technology sector experienced the worst performance, declining by 12.71% in one day.

**The March 18, 2025 Trading Halt and Market Collapse**

The most severe decline occurred on March 18, 2025, when the IHSG plunged by 7% during the trading session, prompting the Indonesia Stock Exchange (IDX) to impose a temporary trading halt to prevent further market collapse. This event mirrored the sharpest decline since the COVID-19 market crash in 2020. At the close of trading, the IHSG had fallen by 3.84%, closing at 6,223.38 after reaching an intraday low of 6,011.84. This significant drop reflected deep investor panic and a systemic loss of market confidence.

**Comparison to March 2024: From Stability to Systemic Panic**

A comparative analysis between March 2024 and March 2025 highlights the extent of the market shift. In March 2024, the IHSG maintained relatively stable growth. The index showed controlled volatility, supported by healthy foreign investment inflows, moderate inflation, and accommodative monetary policy from Bank Indonesia. The main contributors to market strength were the banking and consumer goods sectors, reflecting positive economic momentum and strong domestic consumption.

In contrast, March 2025 represented a rapid transition from optimism to panic. The market shifted from consolidation to a systemic crisis, driven by global shocks, fiscal deficits, political instability, and sudden shifts in investor sentiment. The severe correction in blue-chip stocks, massive foreign capital outflows, and widespread retail speculation transformed the market landscape from stable growth to high-risk volatility.

The IHSG crash in March 2025 is best understood as a result of both external and internal factors converging to create a financial crisis. Global economic tensions, domestic fiscal weaknesses, political instability, and speculative trading behavior combined to destabilize the market. The sharp decline on March 18, 2025, was not an isolated incident but rather the culmination of systemic risks that had been building over time. These findings underscore the vulnerability of the Indonesian capital market to global shocks and internal structural imbalances, emphasizing the need for stronger fiscal resilience, better market regulation, and improved investor education to mitigate future crises.

The findings of this study reveal that the IHSG crash in March 2025 was not an isolated market fluctuation but a systemic event driven by the convergence of global shocks, domestic fiscal instability, political speculation, and speculative investor behavior. The event illustrates the high level of interdependence between global financial dynamics and emerging market performance. The escalation of geopolitical tensions, including the second wave of the China–US trade war and the ongoing conflicts in Ukraine and the Middle East, created an atmosphere of heightened global uncertainty. In financial theory, periods of geopolitical tension often trigger capital flight from emerging markets as global investors reallocate assets to safer investments in developed economies. The Federal Reserve's decision to maintain high interest rates further exacerbated this trend, strengthening the US dollar and leading to significant capital outflows from Indonesia. The rupiah's depreciation during this period reflects the vulnerabilities of Indonesia's capital markets to external financial pressures.

Domestically, the fiscal deficit became a major concern for investors. The IDR 31.2 trillion shortfall in the state budget (APBN) as of February 2025 signaled a weakening government capacity to maintain economic stability. Reduced tax revenues, partly due to declining consumer spending and slowing business activity, led to concerns over the government's fiscal sustainability. This aligns with previous research, such as Bhima Yudhistira's (2025) analysis, which emphasizes that a deteriorating fiscal position often erodes market trust, especially when paired with political uncertainty. The deflation of -0.7% recorded in February 2025, the worst in 25 years, further compounded the problem. Consumer spending, typically a stabilizing factor in Indonesia's economy, declined sharply as reflected in the Mandiri Spending Index. This contraction in purchasing power directly impacted corporate earnings projections, further weakening stock valuations and adding to the overall pessimism in the market.

Political instability played a catalytic role in accelerating the market downturn. The speculation surrounding the possible resignation of Finance Minister Sri Mulyani created widespread panic. In Indonesia's financial ecosystem, the role of the finance minister is central to maintaining market confidence, particularly regarding fiscal policy. Sri Mulyani, known for her reformist stance and fiscal discipline, has long been viewed as a stabilizing figure in the government. Rumors of her resignation sparked fears of policy discontinuity and fiscal mismanagement, triggering massive sell-offs in both the equity and bond markets. This reaction reflects the psychological dimension of financial markets, where perception and confidence can override fundamentals, leading to rapid systemic shocks.

Another significant finding is the dominant role of retail investors during this crisis. Unlike institutional investors, who typically have longer-term strategies, retail investors often respond emotionally to market news, rumors, and short-term price movements. Throughout March 2025, retail participation accounted for a large share of trading activity, resulting in increased market volatility. The sharp rally on March 3, 2025, where the IHSG rose by nearly 4%, was not supported by institutional accumulation or improved fundamentals. Instead, it was driven by speculative behavior and a temporary technical rebound. However, this artificial rally collapsed when panic selling resumed, particularly in the technology and property sectors. The heavy correction in the technology sector, which declined by 12.71% in one day, underscores the vulnerability of sectors with inflated valuations during bearish market conditions.

The most dramatic point of the crisis occurred on March 18, 2025, when the IHSG plunged by 7% intraday, triggering a trading halt by the Indonesia Stock Exchange. The index eventually closed down 3.84%, with trading stopped to prevent further collapse. This market halt represents a critical regulatory response aimed at calming panic, yet it also signals the severity of the systemic risk faced by Indonesia's capital market. Compared to March 2024, when the IHSG was characterized by stable growth and healthy foreign investment inflows, the 2025 market environment reflects a dramatic reversal. Investor sentiment shifted from cautious optimism to widespread panic, fueled by a combination of weak fiscal indicators, political uncertainty, global shocks, and speculative trading.

These findings highlight the fragility of financial markets in the face of both real economic challenges and psychological triggers. The IHSG crash in March 2025 serves as a case study of how intertwined factors ranging from geopolitical risks to domestic fiscal policy, from retail speculation to political rumors can converge to destabilize a national stock market. The event underscores the need for improved fiscal management, stronger regulatory frameworks, and enhanced market transparency. Moreover, it reveals the importance of educating investors to reduce the tendency for herd behavior, panic selling, and speculative trading without regard for market fundamentals. In the future, Indonesia must strengthen its financial market resilience by addressing both structural economic weaknesses and the behavioral dimensions of market participation.

## CONCLUSION

The IHSG crash in March 2025 was a critical event in Indonesia's financial market history, characterized by sharp declines, high volatility, and systemic panic. The findings of this study indicate that the decline was not triggered by a single cause but by the accumulation of multiple global and domestic factors. Global geopolitical tensions, including the escalation of the China–US trade war and ongoing conflicts in Ukraine and the Middle East, led to widespread investor risk aversion and capital outflows from emerging markets. The United States Federal Reserve's monetary tightening further pressured the Indonesian rupiah and contributed to foreign sell-offs.Domestically, Indonesia's fiscal deficit, weakening consumer purchasing power, and declining tax revenues created additional stress on the market. Political instability, particularly the rumors surrounding the resignation of the Minister of Finance, exacerbated the situation by fueling fear of policy discontinuity and fiscal mismanagement. The dominance of retail investors in the market during this period also intensified volatility, as speculative trading behavior and panic selling accelerated the downturn. The technology and property sectors suffered the most severe corrections, while even blue-chip stocks were unable to withstand the systemic decline.

The trading halt on March 18, 2025, marked a historical low point, signaling the market's inability to stabilize amid overlapping crises. Compared to the stable conditions of March 2024, the events of March 2025 reflect a shift from market confidence to systemic vulnerability, revealing weaknesses in Indonesia's market resilience. This study concludes that financial market stability requires more than just strong fundamentals; it demands transparent communication, consistent fiscal policy, and effective market regulation. To prevent similar crises in the future, Indonesia must focus on strengthening fiscal resilience, improving investor education, and establishing safeguards against panic-driven market behavior. Enhancing both structural and psychological aspects of market dynamics is essential for creating a more robust and adaptive capital market system.

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