Indonesian Development of Economics and Administration Journal
ISSN (*online*) : 2963-5896 & ISSN (*print*) : 2964-0482

Vol. 3 • No. 3 • April 2025
Pege (*Hal.*) : **226 – 230**

ISSN (*online*) : 2963-5896
ISSN (*print*) : 2964-0482

DOI No : 10.70001/idea.v3i3.315
Website. : https://ojs.ideanusa.com/index.php/idea

Article info : *Received :* January 2025 ; *Revised :* February 2025 ; *Accepted :* March 2025

Capital Market in Indonesia

Sarjan[1]; Nadya Aisya Setiawanti[2]; Masno Marjohan[3]

[1-3]Pamulang University, Email: sarjansam@outlook.com[1]; nadyaaisyaas98@gmail.com[2]; dosen00124@unpam.ac.id

Abstract. The capital market in Indonesia has experienced rapid development in recent decades, along with the increasing need for corporate funding and public interest in investment. This study aims to analyze the role of the capital market in the national economy, focusing on the mechanisms, challenges, and opportunities faced. This research uses a qualitative method based on a literature study to evaluate the dynamics of the capital market, including regulation, the role of the Indonesia Stock Exchange (IDX), and the contribution of financial technology. The analysis shows that the capital market provides efficient resource allocation, increases liquidity, and enables risk diversification. However, this market faces challenges such as low financial literacy and dependence on foreign capital. Great opportunities also arise from technological advances and the development of ESG-based financial instruments. The study concludes that increased collaboration between regulators, market participants, and the public can support the inclusiveness and growth of Indonesia's capital market.

Keywords: Capital Market Financial Literacy; Investment; Instruments; Indonesia Stock Exchange; Financial Technology

A. INTRODUCTION

The capital market in Indonesia has experienced rapid development in recent decades, along with the increasing need for corporate financing and public interest in investing. The Indonesia Stock Exchange (IDX) plays an important role as a facilitator, while the Financial Services Authority (OJK) acts as a regulator to ensure transparency and fairness in the market. The capital market provides an efficient channel for companies to raise funds through the issuance of securities, while offering the public a variety of potential investment options.

The capital market in Indonesia continues to grow and adapt to the needs of the times. As one of the main means to raise funds from the public, the capital market allows companies to obtain funding to support business expansion, and provides the public with potential investment alternatives. The capital market in Indonesia also experiences various challenges including low financial literacy among the public and market volatility influenced by global

ISSN (*online*) : 2963-5896 & ISSN (*print*) : 2964-0482

economic conditions. However, opportunities such as the rising middle class and advances in financial technology pave the way for greater market participation. By increasing collaboration between regulators, market participants, and the public, capital markets can play a more inclusive and transformative role in the nation's economy. This journal was created to educate readers on what capital markets are, and why they can thrive in Indonesia.

B. LITERATURE REVIEW

The capital market is defined as an organized system for trading securities, allowing companies to raise long-term funds. According to Fahmi (2022), the capital market facilitates the efficient allocation of financial resources, while Sunariyah (2020) emphasizes its role in providing alternative investment opportunities. Previous studies highlight the impact of market regulation, financial literacy, and technological innovation on capital market participation and performance.

Key concepts in capital markets include:

Efficiency of Resource Allocation, Capital markets that have more funds to those who need them for various productive purposes.

Liquidity, Instruments traded in the capital market, such as stocks and bonds, provide opportunities for investors to sell their assets at any time, thus creating high liquidity.

Risk Diversification, The capital market provides a wide selection of instruments and investments that allow investors to spread risk, such as through mutual funds or diversified portfolios. **Economic Indicators,** The movement of capital market indices, such as the JCI in Indonesia, is often used as an indicator of a country's economic health. **Transparency and regulation,** Capital markets are strictly regulated by regulators, such as the Financial Services Authority (OJK) in Indonesia, to ensure fairness, transparency and protection for investors.

The parts of the capital market are:

Primary Market, According to Tandelilin (2017), the primary market is where companies first offer shares or bonds to the public through a process called IPO (Initial Public Offering). **Secondary Market ,** According to Menaung et al. (2022), the secondary market is a market that allows investors to buy and sell existing stocks or bonds, creating liquidity in the capital market.

In the capital market there are types of securities that are traded, including: Stocks, According to Tandelilin (2017): Shares are a sign of participation or ownership of a person or entity in a company or limited liability company. Shareholders have claims to the company's income and assets and have the right to attend the General Meeting of Shareholders (GMS).

Shares are proof of ownership of a company, which gives shareholders the right to receive dividends and profits from rising share prices.

Bonds, According to Sunariyah (2011): Bonds are long-term debt securities issued by companies or governments with a promise to pay interest periodically and pay off the principal at a predetermined time to bondholders. Debt securities issued by companies or governments to obtain funds with the obligation to pay interest periodically and principal at maturity.

Mutual Fund, According to Capital Market Law No. 8 of 1995 Article 1 Paragraph (27): Mutual funds are containers used to raise funds from the investor community to be invested in securities portfolios by investment managers.

According to Tandelilin (2017): Mutual funds are a form of collective investment in which funds collected from the investor community are invested in various capital market instruments by investment managers.

Capital Market Impact: For Companies: The capital market provides an opportunity for companies to obtain additional funds through the issuance of shares or bonds, which can be used for business expansion, new product development, or financing other large projects. For the Government: The government can obtain funds to finance infrastructure development or other activities through the issuance of bonds. For Investors: The capital market provides opportunities for investors to benefit from investment returns in the form of dividends, interest, or capital gains from changes in securities prices. For the Economy: The capital market contributes to economic development as the funds raised can be used to increase production capacity and expand economic activities.

Benefits of the Capital Market:

Increases Liquidity: Makes it easy for investors to buy and sell stocks or bonds at any time as needed. Source of Financing: Provides alternative financing for companies or governments other than bank loans. Transparency and Supervision: A well-organized capital market provides transparency and oversight that can increase investor confidence.

C. RESEARCH METHODOLOGY

The research methodology used is qualitative and uses a literature study method that uses various references from books, journals and so on. This approach allows for in-depth analysis of capital market concepts, regulations, and dynamics without involving primary data collection or interviews. The literature used includes up-to-date sources to ensure the relevance and accuracy of the analysis results.

D. RESULTS AND DISCUSSION

Regulatory Framework

The capital market in Indonesia operates under Law No. 8 of 1995 on the Capital Market, which sets guidelines for trading activities, issuer responsibilities, and investor rights. The Financial Services Authority (OJK) oversees regulatory compliance and market stability.

Role of the IDX

The IDX facilitates securities trading, offering an integrated electronic platform for efficient transactions. The IDX also actively promotes financial literacy through education programs and outreach activities.

Stocks

Shares are the most popular investment instrument in the capital market. The advantages of stocks include potential capital gains and dividends. However, the drawbacks are significant price fluctuations and the risk of losing capital. Buying shares involves opening a securities account with a securities company, followed by transactions through digital platforms such as investment apps.

Shares are characterized in that they are proof of ownership of a company. Shareholders are entitled to dividends and have voting rights at the General Meeting of Shareholders (GMS). The advantages of stocks are the potential for capital gains from rising share prices and dividends. While the disadvantages of stocks are the risk of high price fluctuations and the potential loss of capital if the company's performance declines.

Types of Stocks:

Growth stocks: These stocks come from companies that have the potential for rapid profit growth, such as technology companies. They tend to have high volatility, but the potential for price increases is also great in the long run:

Dividend Stocks: These stocks come from companies that pay dividends regularly. Usually stable and well-established companies, such as those in the utilities or consumer sectors, pay dividends that can serve as passive income for investors. Blue Chip Stocks: Stocks owned by Blue Chip Stocks: Stocks owned by large, well-known and established companies. These companies have a solid track record and are generally more stable than higher risk stocks.

Value Stocks: Stocks that trade below their intrinsic value, often because the market doesn't value them correctly, Investors who focus on value stocks usually invest to make a profit once the stock is re-valued to its true value.

It can be seen that growth stocks tend to be more profitable in the long run compared to dividend or blue chip stocks due to their faster growth potential. Companies that fall into the

Indonesian Development of Economics and Administration Journal
ISSN (*online*) : 2963-5896 & ISSN (*print*) : 2964-0482

growth category often have rapid innovation and expansion, which can lead to significant increases in share prices. Despite their higher volatility, for investors with a higher risk profile and long-term investment goals, growth stocks can provide greater returns. Dividend stocks, on the other hand, are more stable with more consistent returns in the form of passive income, but do not offer the potential for price growth as quickly as growth stocks. Blue chip stocks are usually more stable and less risky, but they don't always provide the same returns as growth stocks over shorter periods.

Bonds

Bonds are debt securities issued by companies or governments. The advantages of bonds are steady income from coupons and return of capital at maturity. The disadvantages are the risk of default by the issuer and a decline in bond value if interest rates rise. To buy bonds, investors must apply through banks or securities companies that offer bonds in the primary or secondary market.

The types of bonds: Government Bonds: Bonds issued by the government, be it the central or local government. These bonds are considered very safe because they are guaranteed by the state. Although the risk is low, the yield also tends to be smaller than other types of bonds. Corporate Bonds: Bonds issued by companies to raise funds. These bonds tend to provide higher yields than government bonds due to the higher risk associated with the financial health of the issuing company. Municipal Bonds: Bonds issued by local governments or local authorities to finance public projects. The main advantage of these bonds is that they are often tax-free, which can increase the net value of returns for investors.

Convertible Bonds: Bonds that can be converted into shares of the issuing company at a certain price after a certain period. This provides the potential for higher returns if the company's stock price increases sharply.

Floating Rate Bonds: Bonds that have interest rates that fluctuate with market interest rates. These bonds tend to be more profitable when market interest rates are rising because the interest received by investors will adjust to the market interest rate.

Mutual Fund

Mutual funds are investment instruments that combine funds from many investors. The advantages of mutual funds include risk diversification and professional management by investment managers. The downside is management fees that may reduce investment returns. The enrollment process involves selecting a mutual fund product through a bank, investment app, or directly to the fund manager.

Stages of Investment in the Capital Market:

Understanding investment instruments and the associated risks. Registration: Opening a securities account with a securities company. Initial Deposit: Depositing funds as investment capital. Instrument Selection: Choose stocks, bonds or mutual funds according to your risk profile. Transaction: Make a purchase or sale through the app or broker.

Challenges in the capital market:

Limited financial literacy among retail investors. Economic uncertainty that affects investor confidence. Reliance on foreign capital which increases the risk of volatility.

Opportunities in the capital market: Growing participation of the middle class. Technological advancements that enable wider market access. Development of new instruments such as green bonds and sukuk to attract ESG-based investors.

E. CONCLUSIONS AND SUGGESTIONS

The capital market in Indonesia has an important role in supporting national economic growth by providing a mechanism for companies to raise funds and giving the public access to various investment instruments. The role of the Indonesia Stock Exchange (IDX) as a facilitator and the Financial Services Authority (OJK) as a regulator is significant in ensuring the transparency, fairness and sustainability of the capital market.

ISSN (*online*) : 2963-5896 & ISSN (*print*) : 2964-0482

Despite facing challenges such as low financial literacy and market volatility due to global economic factors, great opportunities are opening up through the increasing participation of the middle class and technological advancements. New instruments such as green bonds and ESG sukuk provide the potential to attract more investors with sustainability preferences.

This research highlights the importance of collaboration between regulators, market participants, and the public in creating an inclusive capital market. Thus, Indonesia's capital market can continue to grow and contribute more to economic growth and public welfare.

REFERENCES

Fahmi, I. (2022). "Pasar Modal: Teori dan Aplikasi," Jakarta: Salemba Empat.

Sunariyah. (2020). "Pengantar Pengetahuan Pasar Modal." Yogyakarta: UPP STIM YKPN.

Tandelilin, E. (2017). "Portofolio dan Investasi." Yogyakarta: Kanisius,

Husnan, S. (2015). "Dasar-dasar Teori Portofolio dan Analisis Sekuritas." Yogyakarta: UPP AMP YKPN.

Weston, J. F., & Copeland, T. E. (1992). "Manajemen Keuangan." Jakarta: Erlangga.

Otoritas Jasa Keuangan (OJK). (2024). "Apa Itu Pasar Modal?"

Bursa Efek Indonesia (BEI). (2024). "Panduan Pasar Modal untuk Pemula." Republik Indonesia. (1995). Undang-Undang Pasar Modal No. 8 Tahun 1995, Pasal 1 Ayat (27). Jakarta: Sekretariat Negara.

Aini, M. (2019). Pengaruh Reksa Dana terhadap Investasi Pasar Modal. Jakarta: UIN Syarif Hidayatullah Repository. Tersedia di: repository.uinjkt.ac.id.

PINA Center of Investment. (2023). Peran Reksa Dana dalam Perkembangan Pasar Modol. Jakarta: Kementerian Keuangan RI.

E-Journal Universitas Indonesia. (2022). Analisis Saham dan Obligasi di Pasar Modal Indonesia. Jakarta: Universitas Indonesia