

Retail Investor Surge in Response to Interest Rate Stability: A Case Study of the Indonesian Capital Market in 2025

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Abstract

In 2025, the Indonesian capital market recorded a significant surge in retail investor participation, particularly following Bank Indonesia's decision to maintain its benchmark interest rate at 5.75% for four consecutive quarters. This study aims to examine the shifting investment behavior of the public resulting from the stability of monetary policy. Using a quantitative-descriptive approach through secondary data analysis from the Indonesia Stock Exchange, online trading platforms, and surveys of retail investors, the findings indicate that interest rate stability encouraged investors to shift their funds from fixed-income instruments to riskier assets such as stocks. The technology, renewable energy, and domestic consumption sectors became the main investment targets, driven by economic optimism and the influence of social media. This phenomenon demonstrates that macroeconomic policy has a substantial impact on the dynamics of the retail capital market. However, the high reliance of investors on non-formal sources of information also introduces the risk of herd behavior and speculation, which should be addressed by regulators. This article recommends enhancing financial literacy and implementing technology-based supervision to ensure that the growth in retail participation remains healthy and sustainable.

Keywords: *Capital Market, Retail Investors, Interest Rate, Investment Behavior, Social Media, Indonesia*

INTRODUCTION

The capital market plays a crucial role in the economic development of a country. As a financial intermediary, the capital market enables the accumulation of long-term funds from the public, which are then channeled to productive sectors through investment instruments. In Indonesia, the development of the capital market over the past decade has been significant, marked by increased market capitalization, transaction volumes, and the number of investors. One of the most notable trends in the last five years is the surge in retail investor participation, particularly from younger generations and digital users.

The phenomenon of the rising number of retail investors cannot be separated from the development of financial technology (fintech) and increasingly accessible investment education. User-friendly mobile-based stock trading platforms have facilitated the ease of opening securities accounts, monitoring the market, and executing transactions in real-time. On the other hand, the rise of financial influencers and educational content on social media has also raised public awareness of the importance of investing. As a result, from 2020 to 2022, Indonesia experienced rapid growth in retail investors, with the number of capital market investors reaching 10 million in 2022, a drastic increase from just around 1 million in 2017 (KSEI, 2022).

However, this growth slowed down in 2023 due to global economic pressures, such as the Federal Reserve's interest rate hikes, geopolitical conflicts, and post-pandemic economic uncertainty. Many investors tended to withdraw from the stock market and opt for safer instruments such as deposits or bonds. The high market volatility and the decline in the

Composite Stock Price Index (IHSG) further weakened investor confidence in the capital market in the short term.

Entering 2025, the economic conditions began to stabilize. One important policy that played a role in creating this stability was Bank Indonesia's decision to maintain the benchmark interest rate at 5.75% for four consecutive quarters since mid 2024. This stable interest rate policy indicates a more supportive monetary policy direction for economic growth, without putting significant inflationary pressure. In the context of the financial market, this policy altered investor expectations regarding the risk and return of various investment instruments.

When interest rates stagnate, the real return from fixed-income instruments becomes less attractive. This prompts a shift in investment portfolios towards instruments that offer higher returns, although with higher risks, such as stocks. This phenomenon has also contributed to the resurgence of retail investors in the Indonesian stock market throughout the first quarter of 2025. Data from the Indonesia Stock Exchange shows that retail investors' contribution to total transactions has significantly increased, especially in stocks from the technology, green energy, and domestic consumption sectors.

However, this phenomenon is not solely determined by interest rates. The role of social media and online communities in influencing investment decisions is also becoming more dominant. Many retail investors buy stocks not because of fundamental considerations but due to trends on social media or recommendations from influencers. This situation raises concerns about the possibility of mass speculation (herding behavior), price bubbles (asset bubbles), and market volatility that does not reflect the real conditions of the issuers.

Considering these dynamics, it is crucial to conduct a more in-depth study of the phenomenon of the surge in retail investor participation in 2025, in relation to the stable interest rate policy, the development of digital technology, and the influence of social media on investment decision-making.

RESEARCH METHODS

1. Research Approach

This study employs a quantitative descriptive and explanatory approach with the aim of describing and explaining the phenomenon of the surge in retail investors in the Indonesian capital market in 2025, particularly following the stable benchmark interest rate policy. This approach was chosen because it enables the identification of relationships between variables using numerical data that can be statistically analyzed.

The type of this research is categorized as a case study, with the Indonesian capital market and the behavior of its retail investors during the period of January - May 2025 as the object of study. The case study method was selected because the phenomenon being examined is current, specific, and has not been extensively studied before especially from the perspective of monetary policy and digitalization.

2. Research Time and Location

This research was conducted online and utilized secondary data collected from relevant institutions such as the Indonesia Stock Exchange (IDX), the Indonesian Central Securities Depository (KSEI), and the Financial Services Authority (OJK), as well as online survey results distributed through retail investor communities on social media and digital investment platforms.

The research was carried out from January to May 2025, coinciding with the period of increased retail investor activity following Bank Indonesia's implementation of a stable interest rate policy since late 2024.

3. Population and Research Sample

1.) Population

The population in this study consists of all domestic retail investors who actively traded in the Indonesian stock market during the period from January to May 2025.

2.) Sample

Sampling was carried out using a purposive sampling method, which involves selecting respondents based on specific criteria relevant to the objectives of the research. The sample criteria are as follows:

- Must be a domestic retail investor (non-institutional).
- Have been investing in the stock market for at least the past 3 months.
- Actively use digital investment platforms (online trading).
- Aged between 17 and 50 years (the dominant segment of new investors).

A total of 300 respondents were successfully collected through an online survey, representing various regions of Indonesia, with the majority coming from the islands of Java and Sumatra.

4. Data Collection Techniques

This study utilized two types of data: primary and secondary, with the following collection techniques:

1.) Primary Data

Primary data was obtained through online questionnaires distributed to active retail investors via Telegram groups, Stockbit communities, Indonesian Reddit forums, and social media platforms. The questionnaire used a 5 point Likert scale to measure:

- Perceptions of interest rates and investment returns.
- Frequency of transactions and stock portfolio composition.
- Influence of social media content on investment decisions.
- Levels of financial literacy and investment orientation (short-term vs. long-term).

2.) Secondary Data

Secondary data was collected from:

- Statistical reports from the Indonesia Stock Exchange (IDX) and the Indonesian Central Securities Depository (KSEI) (number of Single Investor Identification [SID], transaction volumes, favored sectors).
- Interest rate policy reports from Bank Indonesia.
- Articles, scientific journals, and official publications from the Financial Services Authority (OJK), the Indonesian Capital Market and Financial Institution Supervisory Agency (IAEI), and national business media.

RESULTS AND DISCUSSION

The surge in retail investors in the Indonesian capital market throughout 2025 represents a compelling phenomenon that reflects a fundamental shift in the structure of the national capital

market. Based on data collected from a survey of 300 active retail investors, as well as secondary data from the Indonesia Stock Exchange (IDX) and the Indonesian Central Securities Depository (KSEI), it can be concluded that the main driving factors behind this surge were the synergy between stable monetary policy, advancements in digital investment technology, and the influence of social media as a primary information source for younger retail investors.

First, in terms of investor profiles, the majority of respondents were between the ages of 21 and 35, dominated by those with undergraduate degrees and lower-middle income levels. This data indicates that Indonesia's capital market is no longer exclusive to economic elites or large institutions, but has increasingly attracted a broader segment of society, especially the younger generation with easy access to digital technologies. It is noteworthy that nearly 70% of new retail investors began their activity within the last two years, signaling a wave of new entrants post-pandemic and during economic stabilization. These investors demonstrate high levels of trading activity; over 60% reported engaging in stock transactions at least twice a week, with most focusing on small cap stocks and sectors such as technology and consumer goods. This pattern reveals a tendency toward speculative, short-term investment behavior driven by higher return expectations. The surge in daily trading volume, as supported by official IDX data, further confirms that active retail investors have significantly impacted market liquidity.

Second, Bank Indonesia's decision to maintain its benchmark interest rate at 5.75% throughout 2025 served as a fundamental factor driving retail investors to shift their assets into the stock market. When fixed-income instruments such as deposits and bonds offer stagnant or relatively low returns, equities become a more attractive alternative. Survey results revealed that most respondents viewed the stable interest rate policy as a positive signal that enhanced the appeal of equity investment. This perception is reflected in the data showing a significant positive correlation between interest rate perceptions and stock trading frequency. This phenomenon aligns with modern financial theory, which suggests that a low opportunity cost of holding funds in fixed-income instruments encourages investors to take greater risks in pursuit of higher returns. Hence, prudent and stable monetary policy has acted as an indirect catalyst for increased retail investor activity.

Third, the digitalization of investment has played a central role in revolutionizing the way people engage with the capital market. Digital investment platforms, especially mobile trading apps equipped with interactive features, have eliminated many traditional barriers such as bureaucratic complexity and limited physical access to exchanges. Most respondents stated that the ease of opening investment accounts online and the ability to trade anytime and anywhere were the main factors motivating their participation. Additionally, advanced features such as AI-driven stock recommendations, community discussion forums, and gamified investment experiences provide an engaging and educational environment for retail investors. However, this ease of access and interactivity also poses risks, particularly in fostering overtrading and impulsive decision-making that can lead to financial losses. Therefore, platform providers should not only focus on enhancing user experience but also integrate effective risk education features to promote healthy investment behavior.

Fourth, the influence of social media on investment decisions has undeniably become a powerful force in the modern capital market. Young investors, most of whom are active on platforms like TikTok, Instagram, and Twitter, are often influenced by viral content, finfluencer recommendations, and online community discussions. This study found that more than three-quarters of respondents admitted to purchasing stocks based on information obtained from social

media. This shows that social media serves as a primary channel for disseminating information and shaping investment opinions. Unfortunately, not all information circulating on social media is based on strong fundamental analysis. Less than 40% of respondents reported conducting fundamental evaluations before purchasing stocks, highlighting a high potential for trend-based and hype-driven decision-making. This raises concerns about herd behavior, market volatility, and the formation of asset bubbles. Nevertheless, social media also offers opportunities for financial education and rapid access to information provided that investors critically evaluate the content they consume.

From a macroeconomic and capital market perspective, the surge in retail investors has improved liquidity and broadened the shareholder base, theoretically strengthening the foundation of the national capital market. However, the high trading activity and preference for speculative stocks also pose challenges to market stability and investor protection. Capital market regulators must address these issues by intensifying financial literacy programs targeted at young people and digital platform users. Monitoring the content of influencers and the algorithmic recommendation mechanisms on digital platforms is also essential to prevent the spread of misleading information that could harm investors.

This research also reveals that while technology and monetary policy have facilitated access and interest among retail investors, education and oversight remain key to ensuring that this surge does not lead to negative long-term effects. Investors should be encouraged to adopt strategies based on fundamental analysis and disciplined risk management, rather than merely following trends.

In conclusion, the retail investor boom of 2025 reflects the transformation of Indonesia's capital market into a more inclusive and digitalized environment. While this phenomenon brings significant hope for the development of a healthy and sustainable capital market, it also underscores the urgent need for adequate financial literacy and adaptive regulation to maintain market stability and investor confidence.

CONCLUSION

The phenomenon of the retail investor surge in Indonesia's capital market in 2025 reflects a major transformation in public participation within modern financial instruments. The increase in retail investors dominated by the younger generation and active users of digital technology indicates that the capital market has become more inclusive and accessible. Technological advancements, particularly mobile-based investment applications, have removed many traditional barriers and opened broad opportunities for the general public to engage in investment activities, although challenges remain regarding maturity in decision-making and risk awareness.

On the other hand, a stable macroeconomic environment and low interest rate policies have also provided a stimulus for the growth of retail investors. However, this surge brings with it consequences, such as the potential for heightened market volatility due to the dominance of short-term sentiment and the strong influence of social media. The rapid and sometimes inaccurate flow of information may drive impulsive investment decisions, highlighting the need for comprehensive financial literacy approaches and regulations that can anticipate shifting investor behaviors in the digital age.

Therefore, the rise of retail investors can serve as a positive force for capital market growth and national economic development if managed wisely. This requires synergy among regulators, industry players, and investor communities to build a healthy, transparent, and educational investment ecosystem. If this significant potential is supported by strengthened financial education, adaptive oversight, and adequate investor protection, Indonesia's capital market will become more mature, stable, and capable of making a greater contribution to the broader welfare of society.

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