

Consumer Confidence in Mediating Fiscal and Monetary Policy Effects on Indonesia's Markets

Consumer Confidence
and Monetary Policy
Effect

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ABSTRACT

This study explores how consumer confidence mediates the effects of fiscal and monetary policies on Indonesia's real investment and stock market performance. Fiscal and monetary policies are critical for economic stability, yet their effectiveness may depend on public sentiment, an area underexplored in emerging markets. The research aims to examine the mediating role of consumer confidence in these relationships, using quarterly data from 2000 to 2024 sourced from Indonesian Economic and Financial Statistics, Central Statistics Agency, and Indonesia Stock Exchange. A quantitative approach employs Principal Component Analysis to create composite policy indices, Vector Autoregressive models, Granger Causality tests, and Sobel tests to analyze direct and indirect effects. Findings reveal that fiscal and monetary policies significantly influence investment and stock markets, with consumer confidence strongly mediating monetary policy effects and moderately mediating fiscal policy impacts. These results highlight the psychological dimension of economic policy, emphasizing consumer sentiment's role in enhancing policy outcomes. The study concludes that policymakers should integrate public sentiment into macroeconomic strategies to foster sustainable economic growth in Indonesia.

Keywords: Consumer Confidence, Emerging Market, Fiscal Policy, Monetary Policy, Real Investment, Stock Markets.

ABSTRAK

Studi ini mengeksplorasi bagaimana keyakinan konsumen memediasi dampak kebijakan fiskal dan moneter terhadap investasi riil dan kinerja pasar saham Indonesia. Kebijakan fiskal dan moneter sangat penting untuk stabilitas ekonomi, namun efektivitasnya mungkin bergantung pada sentimen publik, area yang kurang dieksplorasi di pasar negara berkembang. Penelitian ini bertujuan untuk menguji peran mediasi keyakinan konsumen dalam hubungan ini, dengan menggunakan data triwulanan dari tahun 2000 hingga 2024 yang bersumber dari Statistik Ekonomi dan Keuangan Indonesia, Badan Pusat Statistik, dan Bursa Efek Indonesia. Pendekatan kuantitatif menggunakan Analisis Komponen Utama untuk membuat indeks kebijakan komposit, model Vektor Autoregresif, uji Kausalitas Granger, dan uji Sobel untuk menganalisis efek langsung dan tidak langsung. Temuan mengungkapkan bahwa kebijakan fiskal dan moneter secara signifikan memengaruhi investasi dan pasar saham, dengan keyakinan konsumen memediasi efek kebijakan moneter secara kuat dan memediasi dampak kebijakan fiskal secara moderat. Hasil ini menyoroti dimensi psikologis kebijakan ekonomi, yang menekankan peran sentimen konsumen dalam meningkatkan hasil kebijakan. Studi ini menyimpulkan bahwa pembuat kebijakan harus mengintegrasikan sentimen publik ke dalam strategi ekonomi makro untuk ekonomi berkelanjutan di Indonesia.

Kata kunci: Keyakinan Konsumen, Pasar Berkembang, Kebijakan Fiskal, Kebijakan Moneter, Investasi Riil, Pasar Saham.

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INTRODUCTION

Fiscal and monetary policies are pivotal in fostering economic stability and growth in emerging markets like Indonesia. Fiscal policy, encompassing government spending and taxation, aims to stabilize the economy and reduce unemployment, while monetary policy, through tools like interest rates and money supply, influences liquidity and investor confidence (Dajčman, 2020; Fujiono & Nugroho, 2023). These policies significantly impact the stock market, which reflects corporate valuations and investor expectations, and real investment in sectors like infrastructure and manufacturing, which drives job creation and economic expansion (Shengjie et al., 2022). For instance, coordinated fiscal and monetary strategies enhance macroeconomic stability, as evidenced by their role in sustaining Indonesia's economic growth (Simorangkir, 2007; Zulaikah, 2025). Additionally, government spending stimulates demand, boosting economic activity, while monetary easing fosters positive public perceptions, further supporting growth (Su et al., 2024; Trisnawati et al., 2024). The interplay between these policies and economic outcomes is complex, often mediated by psychological factors such as consumer confidence, which shapes public sentiment and economic behavior (Dajčman, 2020).

Consumer confidence, as measured by the Consumer Confidence Index (CCI), plays a critical role in economic dynamics by reflecting public perceptions of current and future economic conditions. Shiller (2015) emphasizes that economic decisions are driven by subjective beliefs and expectations, not just objective data, influencing spending and investment behaviors. High consumer confidence encourages consumption and investment, fueling economic growth, whereas low confidence can hinder recovery by reducing economic activity (Ekici, 2016; Hamzah et al., 2023). For example, rising stock prices signal positive economic prospects, boosting consumer confidence and stimulating demand (Jansen & Nahuis, 2003). Similarly, investor sentiment, closely tied to consumer confidence, directly affects stock returns, creating a feedback loop between confidence and market performance (Lemmon & Portniaguina, 2006). Historical data from Indonesia between 2000 and 2024 illustrates this relationship, showing periods of high consumer confidence, such as in 2004 with a CCI of 119.10, correlating with strong real sector growth of 23% and stock market growth of 47%, while lower confidence in 2000, with a CCI of 16.80, coincided with negative stock market performance of -38% (Dominitz & Manski, 2004). These trends underscore the pivotal role of consumer confidence in amplifying or mitigating the effects of economic policies.

Despite extensive research on fiscal and monetary policies, a significant research gap exists regarding the mediating role of consumer confidence in their impact on Indonesia's investment and stock markets. According to Juhro and Iyke (2020), consumer confidence influences consumption expenditure, yet its specific role in mediating policy effects on real investment and stock market performance in emerging markets remains underexplored. Similarly, Meiyenti et al. (2023) highlight that fiscal policy enhances consumer confidence, but few studies examine how this mediation affects macroeconomic outcomes in Indonesia's context. This gap is critical, as psychological factors like consumer sentiment can significantly alter policy effectiveness, particularly in emerging markets where economic volatility is pronounced (Georgarakos & Kenny, 2022). Previous studies, such as those by Fujiono and Nugroho (2023), focus on direct policy impacts but overlook the indirect pathways through consumer confidence, limiting the understanding of policy transmission mechanisms. This study aims to address this gap by investigating how consumer confidence mediates the effects of fiscal and monetary policies on Indonesia's real investment and stock market performance. By employing a quantitative approach with quarterly data from 2000 to 2024, this research seeks to provide empirical evidence on the mediating role of consumer confidence, offering novel insights into its influence on economic outcomes. The findings aim to inform policymakers on designing strategies that integrate public sentiment to enhance policy effectiveness, fostering sustainable economic growth in Indonesia's emerging market context.

LITERATURE REVIEW

Fiscal, Monetary Policy and Consumer Confidence

Monetary and fiscal policies play an important role in maintaining economic stability and promoting growth. Fiscal policy involves the use of taxation and government spending to stabilize the economy and reduce unemployment (Dajčman, 2020). During economic downturns, expansionary fiscal policies such as tax cuts and increased public spending are used to stimulate aggregate demand (Demyanyk et al., 2019; Kirchner, 2020; Juhro & Iyke, 2020; Sahin, 2021; Ghosh, 2022). Fujiono and Nugroho (2023) explain that lowering interest rates or monetary easing signals that monetary authorities support growth, which increases public confidence in the sustainability of the economy.

Accommodative monetary policy not only increases liquidity but also forms positive perceptions among economic actors. Furthermore, Dominitz and Manski (2004) explain that the Consumer Confidence Index is the result of subjective perceptions of government and central bank actions, which are reflected in expectations about future economic conditions. Shengjie et al. (2022) provide evidence that monetary policy in China is able to change public expectations quickly and significantly. Overall, the literature shows that the effectiveness of economic policy is greatly influenced by the extent to which it is able to build public trust, making it a key element in achieving macroeconomic goals (Georgarakos & Kenny, 2022).

H1: Fiscal and monetary policies have a positive and significant effect on consumer confidence.

Fiscal Policy, Monetary, Real Investment and Stock Market Performance

Real investment plays a strategic role in driving economic growth through job creation, increasing productivity, and expanding production capacity. In the literature, fiscal and monetary policies are often referred to as the main drivers of investment activity and financial market dynamics. Fujiono and Nugroho (2023) noted that although the Indonesian government has implemented various policies such as fiscal stimulus and monetary easing, the results have not always been consistent with increasing real investment. Psychological factors such as business and consumer confidence often become obstacles to effective policy transmission (Perveen, 2018; Ohrn, 20218; Lawal et al., 2018).

Ali et al. (2008) explained that in the long run, government spending and investment have a direct impact on Gross Domestic Product (GDP), making fiscal policy an important instrument to encourage real sector investment growth. Monetary policy has a role in maintaining macroeconomic stability, especially through the management of interest rates and money supply. This stability is an important prerequisite for investors to make long-term decisions. Simorangkir (2007) emphasized that the synergy between fiscal and monetary policies produces a stronger effect on stability and growth. Trisnawati et al. (2024) highlighted the importance of a balance between controlling inflation and encouraging growth as a prerequisite for effective policy. Zulaikah (2025) strengthened this argument by emphasizing that coordination between policies is the foundation for creating a healthy investment climate and stable financial markets (Stoian & Iorgulescu, 2020; Lamperti et al., 2021).

H2: Fiscal and monetary policies have a positive and significant effect on stock market performance.

Consumer Confidence as a Mediator

A stable long-run relationship between these policies, consumer confidence, and real GDP, which is very important for economic recovery (Dasman & Purnama, 2021; Tanjung, 2022; Eko, 2022; Rachmawaty et al., 2024). Government fiscal spending positively affects consumer confidence, which in turn drives demand and overall economic activity. However, fluctuations in consumer sentiment can lead to adjustments

in fiscal policy strategies (Su et al., 2024). Dajčman (2020) further argues that economic confidence is a key element influencing the effectiveness of fiscal and monetary policies. The Consumer Confidence Index (CCI) plays an important role in shaping economic behavior, reflecting public perceptions of current and future economic conditions.

Shiller (2015) emphasized that economic decisions are not only based on objective data but are also shaped by psychological factors such as trust and expectations (Ekici, 2016). Dominitz and Manski (2004) emphasized that the CCI significantly influences consumer spending and investment decisions. Similarly, Jansen and Nahuis (2003) note that rising stock prices increase consumer confidence by signaling positive economic prospects, and that overall economic conditions influence confidence more than individual financial circumstances. Lemmon and Portniaguina (2006) add that investor sentiment, which is closely related to consumer confidence, directly affects stock returns and strengthens the feedback loop between confidence and investment..

H3: Consumer confidence mediates the impact of fiscal and monetary policy on real investment and stock market performance.

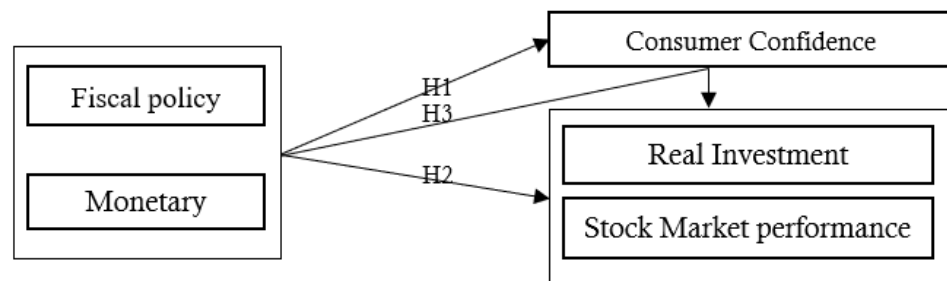


Figure 1. Research framework

Figure 1 illustrates the research framework that explains the relationship between fiscal and monetary policies, consumer confidence, and their impacts on real investment and stock market performance. The framework consists of three main strands. First, fiscal and monetary policies are assumed to have a direct effect on consumer confidence (H1), reflecting how government and monetary authority decisions affect public perceptions. Second, these policies are also assumed to directly affect real investment and the Jakarta Composite Index (JCI) (H2), which represent the response of the real sector and the market to economic stimulus or tightening. Third, consumer confidence is positioned as a mediating variable that bridges the relationship between economic policies and economic outcomes (H3), emphasizing that public perceptions and sentiments can strengthen or weaken the effectiveness of policies. This framework forms the basis for testing causal and mediation relationships using quantitative approaches such as VAR and the Sobel test.

RESEARCH METHOD

This study uses a quantitative approach with descriptive and causal methods to analyze the effect of fiscal and monetary policies on stock market performance and real investment in Indonesia, with the consumer confidence index as a mediating variable. Secondary data was obtained from official and credible sources, such as the Indonesian Economic and Financial Statistics (SEKI), the Central Statistics Agency (BPS), and the Indonesia Stock Exchange (IDX), covering quarterly data from 2000 to 2024. The variables and operationalization in this study use the independent variables consist of three fiscal policy indicators: tax revenue, government spending, and government financing.

Data Analysis Techniques in this study to reduce multicollinearity between policy variables, Principal Component Analysis (PCA) is used, as recommended by Ghazali and Ratmono (2017). PCA is used separately for fiscal and monetary policies to form a composite policy index. The main model uses the Vector Autoregressive (VAR) approach

to analyze the dynamic relationship between variables. The Augmented Dickey-Fuller (ADF) test is used to test the stationarity of the data, and if it is found to be non-stationary, differencing is carried out until the data becomes stationary. The selection of the optimal lag length is carried out using the Akaike Information Criterion (AIC) criteria. The Granger Causality test is carried out to test the causal relationship between variables and to see whether a variable can predict another variable. Mediation Test in this study to determine the mediating role of the consumer confidence index, the Sobel Test is used. The analysis was conducted using EViews 13 software.

RESULTS

Descriptive statistics offer a concise summary of key research variables: fiscal policy (PCAFiscal), monetary policy (PCAMonetary), consumer confidence (CCI), real investment (RI), and stock market performance (IHSG). By analyzing the mean, median, standard deviation, skewness, and kurtosis, the data reveal central tendencies, dispersion, and distribution patterns of each variable. For instance, the mean and standard deviation highlight average values and variability, while skewness and kurtosis indicate the shape and normality of the data distribution. This statistical overview is essential for identifying data characteristics before conducting further econometric analysis.

Table 1. Descriptive Statistics

Parameter	PCAFiscal	PCAMonetary	CCI	RI	IHSG
Mean	-4.44E-18	-2.40E-16	101.3078	2108137.	3721.179
Median	-0.070173	-0.094121	107.4400	1770837.	4172.730
Maximum	3.184016	3.543675	128.1600	5415103.	7527.930
Minimum	-3.359867	-2.261667	9.600000	120072.7	381.0500
Std. Dev.	1.424872	1.552000	25.24326	1651357.	2344.177
Skewness	-0.122818	0.551045	-1.895720	0.370242	-0.080421
Kurtosis	2.541763	2.554602	7.091349	1.732669	1.565082
Jarque-Bera	1.126328	5.887418	129.6423	8.976850	8.686915
Probability	0.569405	0.052670	0.000000	0.011238	0.012992
Observations	100	100	100	100	100

Table 2. Unit Root Test

Variable	ADF Statistics	Critical Value 1%	Critical Value 5%	Critical Value 10%	p-value	Explanation
PCAFiscal	-2.448	-3.498	-2.891	-2.583	0.132	Not Stationary
PCAMonetary	-1.241	-3.501	-2.892	-2.583	0.654	Not Stationary
CCI	-3.697	-3.498	-2.891	-2.583	0.006	Stationary
RI	1.083	-3.501	-2.892	-2.583	0.997	Not Stationary
IHSG	-0.612	-3.498	-2.891	-2.583	0.862	Not Stationary
1st Difference Level Unit Root Test						
PCAFiscal	-9.009	-3.498	-2.891	-2.583	0.000	Stationary
PCAMonetary	-6.500	-3.501	-2.892	-2.583	0.000	Stationary
CCI	-10.52	-3.498	-2.891	-2.583	0.000	Stationary
RI	-2.543	-3.501	-2.892	-2.583	0.109	Not Stationary
IHSG	-9.908	-3.498	-2.891	-2.583	0.000	Stationary
2nd Difference Level Unit Root Test						
PCAFiscal	-11.06	-3.501	-2.892	-2.583	0.000	Stationary
PCAMonetary	-6.771	-3.505	-2.894	-2.584	0.000	Stationary
CCI	-10.94	-3.501	-2.892	-2.583	0.000	Stationary
RI	-10.72	-3.501	-2.892	-2.583	0.000	Stationary
IHSG	-8.832	-3.501	-2.893	-2.583	0.000	Stationary

Table 1 presents descriptive statistics for the key variables: fiscal policy (PCAFiscal), monetary policy (PCAMonetary), consumer confidence (CCI), real investment (RI), and stock market performance (IHSG). PCAFiscal and PCAMonetary show means close to zero, reflecting balanced policy stances, with standard deviations of 1.42 and 1.55, respectively. CCI has a mean of 101.31 and a median of 107.44, indicating stable consumer sentiment, ranging from 9.60 to 128.16. RI and IHSG exhibit means of

2,108,137 and 3,721.18, with high volatility shown by maximum values of 5,415,103 and 7,527.93, respectively. Skewness and kurtosis highlight varied distributions, with CCI indicating non-normality (Jarque-Bera p-value = 0.000).

Table 2 reports the Augmented Dickey-Fuller (ADF) unit root test results. At the level, CCI is stationary at the 5% significance level (p-value = 0.006), while PCAFiscal, PCAMonetary, RI, and IHSG are non-stationary (p-values > 0.05). After first differencing, PCAFiscal, PCAMonetary, CCI, and IHSG become stationary (p-values = 0.000), but RI remains non-stationary (p-value = 0.109). Second differencing renders RI stationary (p-value = 0.000).

Table 3. VAR Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-2850.834	NA	4.75e+19	59.49654	59.63010	59.55053
1	-2270.073	1088.926	4.45e+14	47.91820	48.71955*	48.24212*
2	-2240.347	52.64120*	4.05e+14*	47.81972*	49.28888	48.41358
3	-2218.412	36.55757	4.37e+14	47.88358	50.02054	48.74738
4	-2194.840	36.83067	4.59e+14	47.91334	50.71810	49.04707

Table 3 displays the VAR lag order selection criteria, including LogL, LR, FPE, AIC, SC, and HQ for lags 0 to 4. The Akaike Information Criterion (AIC) and Final Prediction Error (FPE) identify lag 2 as optimal, with AIC = 47.81972 and FPE = 4.05e+14, indicating the best model fit.

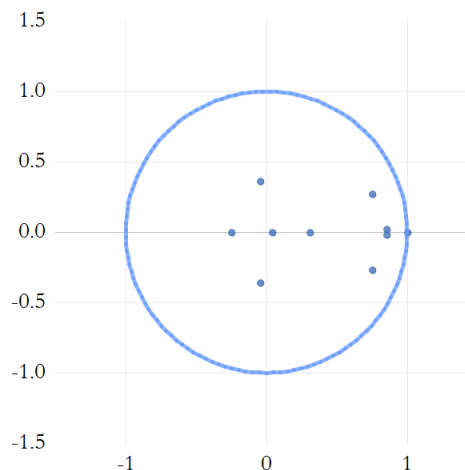


Figure 2. Inverse Roots of the AR Characteristic Polynomial

Figure 2 illustrates the inverse roots of the AR characteristic polynomial for the Vector Autoregressive (VAR) model. All roots lie within the unit circle, confirming the model's stability.

The Granger Causality test results in Table 4 show that it reveals some important insights into the relationship between fiscal and monetary policy, stock market performance, real investment, and consumer confidence. Fiscal policy and monetary policy are causally related in both directions. The test shows that changes in monetary policy have a large impact on fiscal policy (p-value = 0.011) and that changes in fiscal policy have a significant impact on monetary policy (p-value = 0.007). There is a significant predictive correlation between the stock market and fiscal policy (p-value = 0.004), indicating that changes in the stock market can affect fiscal policy. Fiscal policy does not appear to affect the stock market substantially, as evidenced by the lack of a significant predictive relationship between the two (p-value = 0.101). A significant causal relationship between Real Investment and Fiscal Policy has been found (p-value = 8e-04), indicating that changes in Real Investment substantially affect Fiscal Policy. Similarly, there is a bidirectional causal relationship between these variables, as Fiscal Policy has a

significant impact on Real Investment (p-value = 0.012). The correlation between consumer confidence and fiscal policy is highly predictive, as evidenced by the test (p-value = 6e-05), indicating that consumer confidence can substantially influence fiscal policy. However, the p-value of 0.334 indicates no significant predictive relationship in the other direction, implying that fiscal policy has minimal influence on consumer confidence. Su et al. (2024) stated that fiscal spending significantly influences consumer confidence and vice versa. The findings of this study indicate that fiscal policy minimally influences consumer confidence, while consumer confidence significantly influences fiscal policy.

Table 4. Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
PCAMonetary Does not Granger Cause PCAFiscal	98	4.786	0.011
PCAFiscal Does not Granger Cause PCAMonetary		5.242	0.007
IHSG does not Granger Cause PCAFiscal	98	5.908	0.004
PCAFiscal does not Granger-cause IHSG		2.354	0.101
RI Does not Granger Cause PCAFiscal	98	7.780	8E-04
PCAFiscal Does not Granger Cause RI		4.641	0.012
CCI Does not Granger Cause PCAFiscal	98	10.85	6E-05
PCAFiscal Does not Granger Cause CCI		1.110	0.334
IHSG Does not Granger Cause PCAMonetary	98	4.182	0.018
PCAMonetary Does not Granger Cause IHSG		3.188	0.046
RI Does not Granger Cause PCAMonetary	98	6.284	0.003
PCAMonetary Does not Granger Cause RI		0.957	0.388
CCI Does not Granger Cause PCAMonetary	98	2.886	0.061
PCAMonetary Does not Granger Cause CCI		1.164	0.317
RI Does not Granger Cause IHSG	98	1.563	0.215
IHSG Does not Granger Cause RI		18.73	1E-07
CCI Does not Granger Cause IHSG	98	0.294	0.746
IHSG Does not Granger Cause CCI		4.905	0.009
CCI Does not Granger Cause RI	98	3.284	0.042
RI Does not Granger Cause CCI		1.881	0.158

The relationship between the stock market and monetary policy is significantly causal (p-value = 0.018), indicating that changes in the stock market can influence monetary policy. Furthermore, the stock market is also affected by monetary policy (p-value = 0.046), indicating a causal relationship between the two variables. There is no evidence of significant causality between the two variables; Consumer confidence has an insignificant impact on monetary policy (p-value = 0.061), and monetary policy does not cause consumer confidence (p-value = 0.317). The analysis shows that consumer confidence substantially affects real investment, as evidenced by the p-value of 0.042. The correlation between real investment and consumer confidence is not statistically significant in the opposite direction, as evidenced by the p-value of 0.158. There is no significant predictive relationship between real investment and the stock market (p = 0.215). In contrast, stock market performance significantly affects real investment (p = 1e-07), indicating that although real investment does not predict stock market performance, stock market performance has a strong effect on real investment.

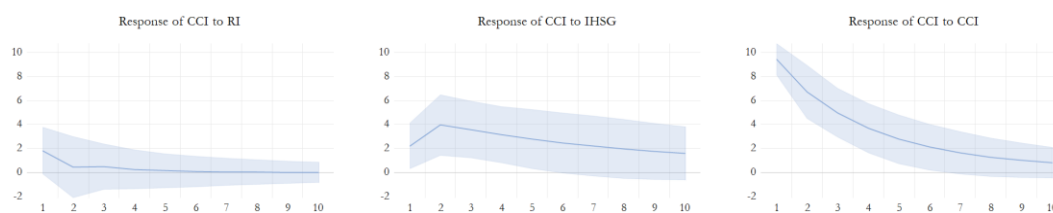


Figure 3. Response to Cholesky One S.D 95% CI Using Analytic Asymptotic Standard Errors

The Impulse Response results in Figure 3 show the VAR model depicting the impact of shocks to various variables on the Consumer Confidence Index (CCI) over a 10-period

time frame. The first graph shows that the CCI response to Real Investment remains relatively stable with a slight decline, indicating minimal impact of changes in investment on consumer confidence. The second graph shows a significant increase in the CCI response to the stock market index, indicating a positive relationship between consumer confidence and stock market performance, where an increase in the stock market greatly improves consumer sentiment. The third graph shows that the CCI responds negatively to its past values, gradually declining. This suggests that, although consumer confidence is influenced by its history, it adjusts towards equilibrium. The shaded areas in all graphs represent confidence intervals, which provide insight into the uncertainty surrounding the impulse response estimates. The VAR model representations for the Consumer Confidence Index, Stock Market Index (CSPI), and Real Investment (RI), along with their relationships to fiscal policy and monetary policy, illustrate the dynamic interactions between these variables.

$$CCI_t = \alpha + \beta_{11}PCAFiscal_{t-1} + \beta_{12}PCAFiscal_{t-2} + \beta_{13}PCAMoneter_{t-1} + \beta_{14}PCAMoneter_{t-2} + \beta_{15}CCI_{t-1} + \beta_{16}CCI_{t-2} + \epsilon$$

$$CCI_t = 31.99 - 3.33 * PCAFiscal_{t-1} + 5.20 * PCAFiscal_{t-2} - 1.80 * PCAMoneter_{t-1} - 1.61 * PCAMoneter_{t-2} + 0.73 * CCI_{t-1} - 0.03 * CCI_{t-2} + (1)$$

The relationship between real investment (RI) and fiscal and monetary policies (PCAFiscal, PCAMonetary):

$$RI_t = \alpha + \beta_{21}PCAFiscal_{t-1} + \beta_{22}PCAFiscal_{t-2} + \beta_{23}PCAMoneter_{t-1} + \beta_{24}PCAMoneter_{t-2} + \beta_{25}RI_{t-1} + \beta_{26}RI_{t-2} + \epsilon$$

$$RI_t = 25580.51 + 30208.42 * PCAFiscal_{t-1} - 4218.2 * PCAFiscal_{t-2} + 2610 * PCAMoneter_{t-1} - 21735.14 * PCAMoneter_{t-2} + 0.89 * RI_{t-1} + 0.12 * RI_{t-2} \quad (2)$$

The relationship between real investment (RI), fiscal and monetary policies (PCAFiscal, PCAMonetary), and consumer confidence (CCI):

$$RI_t = \alpha + \beta_{31}PCAFiscal_{t-1} + \beta_{32}PCAFiscal_{t-2} + \beta_{33}PCAMoneter_{t-1} + \beta_{34}PCAMoneter_{t-2} + \beta_{35}CCI_{t-1} + \beta_{36}CCI_{t-2} + \beta_{37}RI_{t-1} + \beta_{38}RI_{t-2} + \epsilon$$

$$RI_t = -23323.93 + 32248.29 * PCAFiscal_{t-1} - 12259.59 * PCAFiscal_{t-2} + 10248.43 * PCAMoneter_{t-1} - 23905.71 * PCAMoneter_{t-2} + 195.41 * CCI_{t-1} + 389.63 * CCI_{t-2} + 0.88 * RI_{t-1} + 0.14 * RI_{t-2} \quad (3)$$

The relationship between stock market performance (IHSG) and fiscal and monetary policies (PCAFiscal, PCAMonetary):

$$IHSG_t = \alpha + \beta_{41}PCAFiscal_{t-1} + \beta_{42}PCAFiscal_{t-2} + \beta_{43}PCAMoneter_{t-1} + \beta_{44}PCAMoneter_{t-2} + \beta_{45}IHSG_{t-1} + \beta_{46}IHSG_{t-2} + \epsilon$$

$$IHSG_t = 373.47 - 107.05 * PCAFiscal_{t-1} + 63.29 * PCAFiscal_{t-2} - 127.96 * PCAMoneter_{t-1} + 42.02 * PCAMoneter_{t-2} + 0.92 * IHSG_{t-1} - 0.001 * IHSG_{t-2} \quad (4)$$

The relationship between the stock market, fiscal and monetary policies, and consumer confidence (CCI):

$$IHSg_t = \alpha + \beta_{51}PCAFiscal_{t-1} + \beta_{52}PCAFiscal_{t-2} + \beta_{53}PCAMoneter_{t-1} + \beta_{54}PCAMoneter_{t-2} + \beta_{55}CCI_{t-1} + \beta_{56}CCI_{t-2} + \beta_{57}IHSg_{t-1} + \beta_{58}IHSg_{t-2} + \epsilon$$

$$IHSg_t = 179.06 - 92.10 * PCAFiscal_{t-1} + 22.97 * PCAFiscal_{t-2} - 96.45 * PCAMoneter_{t-1} + 18.86 * PCAMoneter_{t-2} + 3.67 * CCI_{t-1} - 0.82 * CCI_{t-2} + 0.89 * IHSg_{t-1} + 0.007 * IHSg_{t-2} \quad (5)$$

CCI mediates the relationship between fiscal and monetary policy with IHSg and RI as measured by the Sobel test. The calculation of indirect effects allows to assess whether CCI mediates the relationship between these variables significantly. The results of the Sobel test show that the relationship between consumer confidence, fiscal policy, and real investment is not significant at the 5% significance level with a p value of 0.0546. However, at the 10% significance level, the p value is 0.0546, below 0.10, indicating that consumer confidence mediates the effect of fiscal policy on real investment. Likewise, the Sobel test for the mediation effect of consumer confidence on the relationship between fiscal policy and the stock market shows a p value of 0.0529. This result is not significant at the 5% level but shows significance at the 10% level, meaning that consumer confidence mediates the effect of fiscal policy on the Indonesian stock market. The results of the Sobel test show that the relationship between consumer confidence, monetary policy, and real investment is significant at the 5% significance level, with a p value of 0.0067. Since the p-value is less than 0.05, it shows that consumer confidence mediates the effect of monetary policy on real investment in Indonesia. Likewise, the Sobel test for the mediation effect of consumer confidence on the relationship between monetary policy and the stock market shows a p-value of 0.0000, which indicates significance at a significance level of 5%. These results indicate that consumer confidence also mediates the impact of monetary policy on the stock market in Indonesia.

DISCUSSION

Based on the research, several important insights regarding the relationship between fiscal and monetary policy, stock market performance, real investment, and consumer confidence. This shows a reciprocal relationship where the two variables influence each other. Research by Trisnawati et al. (2024), Simorangkir (2007), and Zulaikah (2025) all examine the reciprocal relationship between fiscal and monetary policy. Although using different approaches, these studies have the same goal of exploring how fiscal and monetary policies influence each other and impact economic stability. There is a significant predictive correlation between the stock market and fiscal policy. According to Lee et al. (2022) argue that fiscal policy has a substantial impact on stock market returns, with different impacts during budget expansions and contractions. This finding contradicts their conclusions. However, Chen (2021) argues that although fiscal stimulus is considered important for economic recovery, it negatively affects the stock market during normal macroeconomic times but positively during recessions. This shows how fiscal policy and the stock market relationship depend on the circumstances (Lewier et al., 2024; Hanif et al., 2024).

A significant causal relationship between Real Investment and Fiscal Policy has been found indicating that changes in Real Investment substantially affect Fiscal Policy. The findings of this study indicate that fiscal policy minimally affects consumer confidence, while consumer confidence significantly affects fiscal policy. This difference may arise from differences in data intervals, analytical methodologies, or economic conditions. This study shows that consumer sentiment significantly affects fiscal policy decisions, more than the two-way relationship noted by Su et al. (2024). The relationship between the stock market and monetary policy is significantly causal. This finding is in line with

previous studies such as Nguyen et al. (2020), Shengjie et al. (2022), Devpura et al. (2024), and Akpokerere et al., (2024) that monetary policy has a significant impact on stock market performance, indicating that changes in monetary policy can affect stock returns.

There is no evidence of significant causality between the two variables; consumer confidence has an insignificant impact on monetary policy. According to Dajčman (2020), there is a stronger and reciprocal relationship between monetary policy and economic confidence, which contradicts this conclusion. Economic actors' beliefs are shaped by monetary policy, and the two factors influence each other. In this case, the absence of strong causality raises the possibility that the relationship between monetary policy and consumer confidence is more limited or context-specific than previously believed. Analysis shows that consumer confidence substantially affects real investment (Gultom et al., 2024; Lestari et al., 2025).

CCI mediates the relationship between fiscal and monetary policy with IHSG and RI, as measured by the Sobel test. This finding is in line with the research of Juhro and Iyke (2020) which emphasizes that consumer confidence drives consumption spending, which supports real investment. Dajčman (2020) further highlights that fiscal policy that supports consumer confidence can stimulate investment. In addition, Meiyenti et al. (2023) also found that good fiscal policy increases consumer confidence, stimulates investment, and supports economic growth, strengthening the important role of fiscal policy in fostering a stable economic environment. Juhro and Iyke (2020) found that high consumer confidence has a positive impact on consumption spending, the main driver of real investment. Monetary policy that supports low interest rates and liquidity can increase consumer confidence, which in turn encourages real investment. Ekici (2016) emphasizes that consumer confidence serves as a projection of investment trends in the capital market, which influences investment decisions. Chen (2021) highlights the role of consumer confidence in predicting responses to monetary policy, although the results may vary depending on the economic context.

CONCLUSION

This study confirms that fiscal and monetary policies play an important role in influencing consumer confidence, real sector investment, and stock market performance in Indonesia. The main findings show that both fiscal policy (through tax revenue and government spending) and monetary policy (through interest rates, inflation, and money supply) have a direct relationship to macroeconomic performance. Furthermore, consumer confidence is proven to be a significant mediating variable, especially in channeling the impact of monetary policy on investment and the stock market. This confirms that public perception and expectations have a large weight in transforming policies into real economic outcomes. From a practical perspective, this impressive study shows the importance of aligning economic policies with efforts to strengthen public optimism. The government and Bank Indonesia can design fiscal and monetary stimuli that are not only quantitative, but also pay attention to their impact on public perception, through more transparent and consistent policy communication. Thus, consumer confidence can be strengthened, which ultimately drives consumption, investment, and financial market growth in a sustainable manner.

However, this study has limitations. First, the data coverage is limited to 2024, so that structural changes in the post-pandemic economy or global geopolitical factors have not been fully reflected. Second, the VAR approach and Granger test are linear, which may not capture complex dynamics or non-linear relationships between variables. External factors such as the global crisis or commodity price fluctuations have also not been included in the model. For further research, it is recommended to conduct analysis with non-linear approaches such as VAR thresholds or Markov-switching models to capture policy dynamics in different economic conditions. In addition, considering exogenous variables such as global volatility, economic downturn index, and geopolitical factors will enrich the model. The study of the interaction between economic digitalization and

consumer confidence can also be a relevant future research direction, as the role of technology in shaping people's expectations and economic decisions increases.

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