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Navigating Capital Flows Volatility: Corporate Financing Behaviour in Emerging Markets - Insight from Indonesia

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ABSTRACT

Purpose: This study examines how Indonesian corporations adjust their financing strategies in response to global financial market volatility and the implications of these adjustments on domestic financial stability.

Methodology: The research applies *Vector Autoregression* (VAR) analysis to explore the dynamic relationships among capital flows, corporate external debt, exchange rates, bank lending to corporations, and non-performing loans. The Volatility Index (VIX) is employed as the primary measure of global financial uncertainty, serving as the main indicator of external shocks.

Findings: Results show that corporations act as potential conduits for the transmission of global financial shocks to the Indonesian domestic economy. Periods of elevated global uncertainty are often associated with rupiah depreciation and reduced access to foreign funding for Indonesian firms. In such circumstances, corporations tend to adjust by shifting from foreign borrowing to domestic bank loans, which could, in turn, reallocate certain financial risks from firms to local banks. This observed pattern of financing substitution reflects the adaptive strategies employed by corporations in managing funding sources during episodes of global financial stress.

Originality: This research offers valuable insights into the ways Indonesian corporations respond to global financial volatility, particularly through adjustments between foreign and domestic financing sources. The study adds to the existing body of knowledge by shedding light on potential risk transmission pathways from international markets to domestic banking systems via corporate financing behavior, thereby enhancing the understanding of macro-financial linkages in emerging economies.

Keywords: Banking exposure; Capital inflows; Financing behaviour; Financial vulnerability; Macro-financial linkages.

1. INTRODUCTION

Capital inflows have become a significant source of funding for emerging countries like Indonesia. These inflows can drive economic development, investment, and job creation. The unpredictability of capital inflows may pose a threat to financial stability. Sudden capital outflows can lead to currency devaluation, interest rate increases, and financial market instability. The Indonesian financial system has vulnerabilities, as demonstrated by empirical evidence.

Shah (2025) provides an in-depth analysis of capital flows to emerging markets, revealing pronounced volatility driven by a combination of tight monetary policies in

advanced economies, heightened geopolitical uncertainty, and shifts in investor sentiment. The report underscores significant regional heterogeneity. These findings highlight the critical role of macroprudential policy frameworks and the diversification of external financing sources as strategic measures to mitigate the risks of sudden stops

Empirically, Indonesia's financial system stability is vulnerable to changes in capital flows. This international financing is a primary funding source for firms, and the relationship between foreign funds and the corporate sector is significant (not publicly acknowledged). Capital inflow volatility can significantly impact a company's financing decisions. When capital inflows decline, firms may struggle to obtain funding, resulting in a slowdown in economic activity and an increase in corporate defaults.

As capital inflows fluctuate, they can cause financial instability (Davis dan Presno 2017; Rey 2015). This study investigates how firms manage their financing to respond to fluctuations in capital inflows. Despite evidence of corporate exposure to external shocks, few studies employ a dynamic VAR model to capture transmission mechanisms from capital flows to domestic financial institutions. This study has significant practical implications that can inform policy decisions and corporate strategy. This study aims to enhance the understanding of how corporate financing behavior in Indonesia responds to fluctuations in capital inflows. By explaining these processes, the study offers valuable insights that can help policymakers develop effective solutions to manage the risks associated with capital flow volatility. The findings aim to inform policymakers in adopting policies that promote financial stability while fostering long-term economic growth.

Theoretical Framework

The theoretical basis for this study is the concept of macro-financial linkages, which holds that the financial and real economies are interconnected and that shocks in one can affect the other. (Loukoianova 2018). External shocks can reduce capital inflows, thereby influencing a company's financing behaviour.

Stewart C. Myers introduced the Pecking Order Theory in 1984. It is a financial theory that explains how corporations prioritise their sources of financing. It is a generally established theory in corporate finance that provides a framework for comprehending company financing behaviour. The theory's fundamental concepts include the Financial Hierarchy, which posits that, according to the Pecking Order Theory, corporations prefer internal financing (retained earnings) over external debt and equity. Firms with more profitable projects and higher retained earnings will generally rely less on external funding and have lower debt levels.

In summary, the Pecking Order Theory provides a framework for understanding corporate financing behaviour by emphasising the role of information asymmetry and the relative costs of different financing sources. It highlights that firms prefer to use internal funds first, then debt, and consider equity as a last resort. In Indonesia, the Pecking Order Theory is particularly relevant given the high information asymmetry and volatility in external capital sources faced by corporations.

Many studies examine these concepts regarding capital flows and their impact on business behaviour. According to (Leroy and Pop, 2019), Macro-financial links are crucial for understanding how capital flows influence corporate behaviour, particularly in emerging markets. Their research suggests that capital inflow volatility can have a significant impact on corporate finance decisions, influencing how organizations manage risks, allocate resources, and choose among various funding sources. They emphasize the importance of considering global and local financial conditions, as these variables interact dynamically to inform a corporate strategy in response to external economic shocks.

(Aikman *et al.* 2015; and Aikman dan Haldane 2013) underline the strong two-way interaction between the financial system and the macroeconomy, primarily through the interconnectivity of business and financial cycles. The study argues that financial conditions—such as loan availability, interest rates, and asset prices—are inextricably linked to macroeconomic activities, including GDP growth, employment, and investment. Aikman et al. (2013) present a feedback mechanism in which financial system shocks (for example, a sudden loan contraction) have a negative impact on the real economy by lowering investment and consumption. Similarly, macroeconomic shocks (such as a recession) can damage the financial sector by increasing defaults and reducing confidence. The interaction of financial and business cycles can aggravate economic shocks. For example, a financial crisis can worsen a recession if the banking sector collapses, limiting the.

Rodrik and Subramanian (2009) analyze the substitution effect of foreign and domestic loans in emerging nations. Their research investigates how changes in the availability and cost of foreign capital affect reliance on domestic bank loans and vice versa. Here is a rundown of their main points: 1). Substitution Effect: This is an economic principle in which an increase in the cost or decrease in the availability of one type of financing (for example, foreign loans) causes firms or economies to replace it with another type of financing (for example, domestic bank loans). This effect can be particularly noticeable in developing countries, where financial markets and institutions may require more maturation. 2) Foreign vs. Domestic Loans: Foreign loans, particularly those from international banks or investors, are frequently used by developing-country businesses to fund growth, expansion, and operations. However, these loans fluctuate due to global economic conditions, exchange rate volatility, and shifting attitudes among foreign investors. 3). The Impact of Capital Fluctuations: When foreign capital inflows drop owing to global financial conditions or other external factors, enterprises in developing nations may seek funding from domestic banks. In contrast, as foreign capital becomes more accessible or cheaper, enterprises may prefer international loans over domestic bank loans due to potentially lower interest rates or more favourable terms. 4). Relevance in Developing Countries: Developing countries' financial systems are frequently less sophisticated and may need more risk management tools. Thus, the impact of substitution on domestic and international loans is significant. Developing countries may experience more significant adjustments in their financing sources due to external economic shocks, policy changes, or fluctuations in investor confidence. 5). Policy Implications: Policymakers must comprehend the substitution effect. It emphasizes the importance of strong and resilient financial systems that can transition between different sources of financing. It also emphasizes the importance of adopting a balanced approach to managing foreign capital inflows and fostering a robust domestic banking industry. Rodrik and Subramanian's study sheds light on funding patterns in developing countries, including the impact of both external and internal factors on them. While Rodrik and Subramanian (2009) emphasise substitution effects, our study refines this by incorporating balance sheet risk exposure via NPL and credit variables Vuong et al. (2022) investigate the nexus between the CBOE Volatility Index (VIX) and the market leverage of firms listed on the US stock market. They find that an increase in the VIX index has a positive impact on corporate market leverage. The implied volatility index is a good proxy for measuring investors' fear of investing in securities. It provides a solid foundation for making capital structure decisions for firms listed on the US stock market.

Numerous studies have examined the impact of capital inflows on company financing decisions. However, this analysis builds on Loukoianova's (2018) and (Filiz, 2011) work

by examining the macro-financial links between capital inflows and business financing decisions in Indonesia. This study employs a vector autoregression (VAR) model with Cholesky decomposition to examine the dynamic relationships between key variables, including the Volatility Index (VIX), corporate liabilities to banks, the banking sector, and the exchange rate. The VAR model computes impulse-response functions to determine how capital outflows and currency rate depreciation shocks affect domestic bank lending to firms. The study uses annual data from 2001 to 2016, divided into two periods—2001-2014 and 2014-2016—to address inconsistencies in the VIX-exchange rate relationship during 2014-2015.

Furthermore, bank lending to firms has increased, suggesting that corporations tend to shift their financing sources in response to capital outflows and global financial concerns, as indicated by spikes in the VIX. These findings show that firms can be a source of vulnerability, channelling external shocks into the domestic economy. A one-standard-deviation increase in the VIX has a negative impact on capital inflows, currency depreciation, a decline in foreign funding for firms, and increased exposure of the local banking sector to corporate risk. This study confirms the premise established in earlier sensitivity analyses that corporations can partially substitute local bank loans for international financing, hence conveying vulnerabilities. In conclusion, Loukoianova (2018) and (Igan & Tan, 2015) discovered that emerging-market firms tend to change financing sources in reaction to capital inflows. When capital inflows increase, firms tend to rely on international borrowing while reducing their reliance on bank borrowing. When capital inflows decline, firms tend to increase their bank borrowing while decreasing their international borrowing. The study's limitations include a small sample size, the absence of robustness testing, and the inability to quantify the extent to which capital outflows influence corporate bank funding. Samarina and Bezemer (2016) Investigated the effects of capital flows on domestic credit allocation in 36 countries from 1990 to 2011, finding a significant substitution effect between domestic bank loans and foreign capital, particularly in economies with limited investment opportunities. Their findings underscore the importance of macroprudential laws and regulations in influencing international capital flows. Furthermore, Rusydiana et al. (2019) used the Analytic Network Process (ANP) to identify crucial indicators of financial system stability in Indonesia, indicating that debt levels, macroeconomic indicators, and balance of payments factors are essential in assessing financial stability.

This analysis expands on the foundational work of Loukoianova (2018) and (Igan & Tan, 2015) by concentrating on macro-financial links in Indonesia. Previous research has identified the impact of capital inflows on corporate financing behaviour; nonetheless, there is still a limited understanding of the intricate interconnections between capital inflows and corporate financing decisions. A research study or analysis aims to understand how firms adjust their financing strategies in response to fluctuations in capital inflows. Understanding how firms respond to variations in capital inflows is crucial for several reasons. Economic insights explain how businesses adapt financing methods to changing economic situations, providing significant insights into corporate behaviour and decision-making processes. This is the first study to combine REER, NPL, and NFC foreign debt in a VAR model specific to Indonesia, mapping substitution effects during global volatility episodes. Policy Implications: These findings can inform policymakers in designing effective strategies to attract foreign investment and promote economic growth. Risk management helps detect potential hazards associated with changes in capital inflow, enabling organizations to implement suitable risk mitigation measures. This research aims to fill this gap by employing a Vector Autoregressive (VAR) model to analyze the

dynamic responses of corporate financing to capital flow and exchange rate shocks.

Based on the literature review, we propose the hypothesis that corporations adjust their financing sources in response to external shocks.

Hypothesis: Capital flows, particularly those from foreign sources, significantly influence corporate financing decisions. It has significant consequences for how businesses can adjust to changing financial conditions.

2. RESEARCH METHOD

This study employs a Vector Autoregression (VAR) model to examine the impact of changes in capital inflows on a company's financing behavior. The model considers five main variables: the Volatility Index (VIX), non-financial corporation foreign debt, Real Effective Exchange Rates, Net Non-Financial Corporation Liabilities to Banking, and Non-Performing Loans. The VAR model is a statistical technique that represents dynamic interactions among multiple variables.

The VAR model integrates macroeconomic variables with the Balance Sheet NFCs matrix to identify exposures within the NFC sector. Specifically, it estimates impulse-response functions following a one-standard-deviation negative shock to capital inflows. The VAR model is defined as follows:

$yt = B0 + B1(L)yt + ut,$ (1)

Where y is (5 × 1) variable vectors; A_i (i=0,1, 2, p) is the coefficient matrix (5 × 5); and ε_t is (5 × 1) multivariate white noise error.

Table 1. Variable and definition

Variable	Definition
y_t	The vector containing the Balance Sheet NFCs and macroeconomic variables
B_0	Vector of constants
B_1	The vector of coefficients
L	Lag, based on the results of the optimum lag test
u_t	The vector of residuals.

Specifically, the authors expand or deepen the analysis from the Loukoianova (2018) model, focusing on the relationship between capital flows and corporate financing. This research adds REER (Real Effective Exchange Rate) and NPL (Non-Performing Loans).

The Nominal Exchange Rate (NER) variable is adjusted to the Real Effective Exchange Rate (REER) to improve the accuracy of the estimates by accounting for inflation and competitiveness effects. Additionally, interest rate variables and Non-Performing Loans (NPLs) are included to provide a more comprehensive understanding of the transmission mechanisms of capital flows. REER is used as an inflation-adjusted measure of competitiveness, while VIX leads the ordering in Cholesky decomposition to reflect its exogeneity in capital flow shocks. The model includes four macroeconomic variables and two Balance Sheet NFC variables:

Table 2. Variable and definition

Variable	Description	Source
	Macroeconomic Variables:	
VIXt	This index reflects investor uncertainty and expected price fluctuations across the broader financial market, such as proxy capital inflow. The first difference is the VIX, a proxy for capital flows (higher VIX indicates lower capital inflows). Loukoianova, Petrova, and Zlatev (2018).	Bloomberg, processed
REERt	Real Effective Exchange Rates (%)	Bank Indonesia processed
RIRt	Real Interest Rate (%)	
NPLt	Non-Performing Loan as Banking Risk Indicator.	
	Balance Sheet NFC Variables:	

NFC_FDt	Non-Financial Corporation (NFC) Foreign Debt, The growth rate of Net Corporate Sector Obligations to Foreign Countries (%) Riil	Bank Indonesia processed
NFC_Bt	Net Non-Financial Corporation Liabilities to Banking, The growth rate of NFC net positions with banks (%) Riil	

A represents the fixed intercept term and the regression coefficient, respectively, while u represents the error term. This study utilizes data from various sources, including Bank Indonesia, Statistics Indonesia, and international organizations. Quarterly Data, 2010Q1-2021Q4 (Table 2 describes each variable).

3. RESULTS AND DISCUSSIONS

Stationarity, lag optimum, causality, and cointegration test

A stationarity test is performed before the Vector Autoregression (VAR) test to ensure that the variables employed are stationary. A stationary variable has a probability value less than 0.05. A stationarity test at the first difference level is used if the variables are not stationary at the level. In this study, all variables passed the stationarity test at the first-difference level, with a probability of less than 0.05, allowing the VAR model to proceed. The data for these variables (excluding VIX) are first-differenced (Table 3).

Table 3. Stationary test

Variable	t-Statistics	5% Critical Value	Prob.
VIX	-11.66684	-2.87	0.000
D_REER	-11.07421		0.000
D_NFC_FD	-12.28357		0.000
D_NFC_B	-23.83004		0.000
D_NPL	-7.752324		0.000

Determining the proper lag duration is critical for eliminating autocorrelation in the VAR system. Using the proper lag helps to avoid autocorrelation concerns. In a VAR model, the appropriate lag duration is often determined by the Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Criterion (SC), and Hannan-Quinn Information Criterion (HQ).

Table 4. Lag optimum

Lag	LogL	LR	FPE	AIC	SC	HQ
0	179.7674	NA	7.64e-08	-2.198332	-2.101825*	-2.159141*
1	217.2638	72.16288	6.53e-08	-2.355519	-1.776480	-2.120378
2	247.0589	55.46764	6.15e-08*	-2.415835*	-1.354264	-1.984742
3	259.4040	22.20579	7.23e-08	-2.256655	-0.712552	-1.629611
4	274.9981	27.06890	8.17e-08	-2.138341	-0.111706	-1.315346
5	292.6594	29.54659	9.03e-08	-2.046030	0.463137	-1.027084
6	319.2646	42.83602*	8.94e-08	-2.066221	0.925478	-0.851324

Notes: Endogenous variables: D_VIX D REER D NFC FD D NFC_B D NPL.
Exogenous variables: C. Sample: 2010M01 2023M12. Included observations: 159

The Granger causality test determines whether two variables have a reciprocal relationship. In other words, it determines if one variable significantly influences the other. This study uses the Pairwise Granger Causality technique within the VAR frame-work to apply the Granger Causality Test at a 5% significance level. Each variable can function as both a dependent and an independent variable.

Furthermore, the cointegration test determines if the variables are in long-term equilibrium, as evidenced by their shared movement and stable correlations. Johansen's Cointegration Test is used in this study because the VAR approach allows for including all variables without distinguishing between dependent and independent variables. In the table below, the max-eigen statistic value is smaller than the critical

value at both 5% and 10%, indicating that there is no convergence.

Table 5. Cointegration.

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	5 Percent Critical Value	1 Percent Critical Value
None	0.176652	29.93404	37.52	42.36
At most 1	0.156137	26.14388	31.46	36.65
At most 2	0.087920	14.17218	25.54	30.34
At most 3	0.070041	11.18275	18.96	23.65
At most 4	0.053440	8.457846	12.25	16.26

Notes: Max-eigenvalue test indicates no cointegration at both 5% and 1% levels.
***(**) denotes rejection of the hypothesis at the 5%(1%) level**

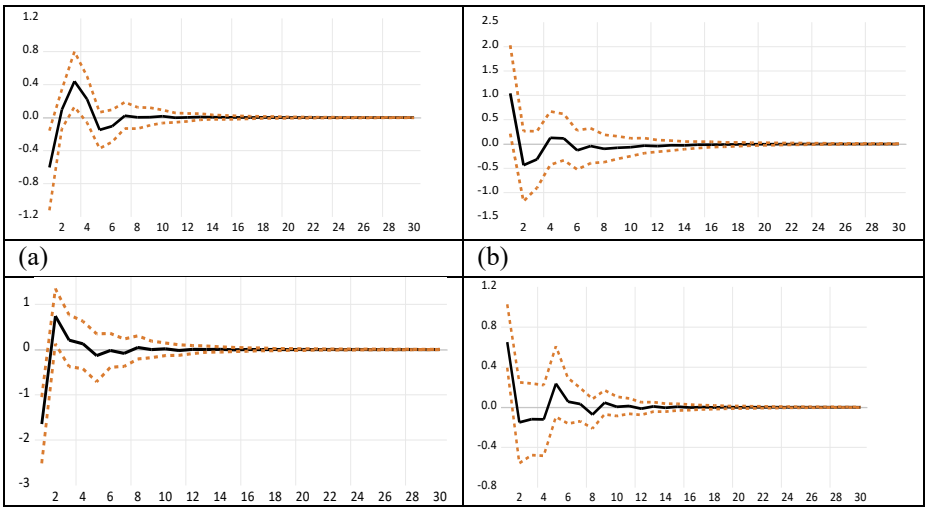
VAR Model Estimation

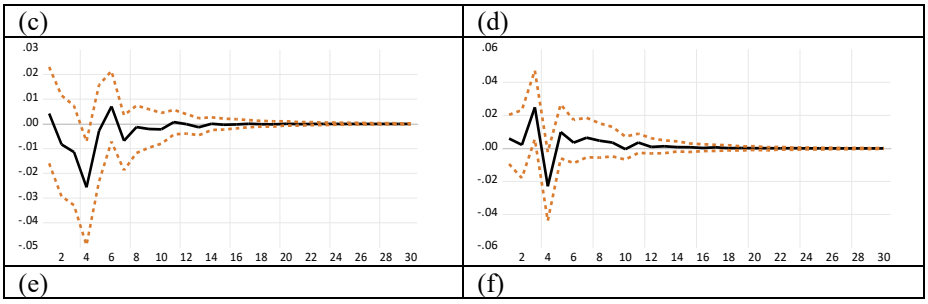
Table 6. VAR Model Estimation

Variable	Coefficient	Std. Error	z	Prob.
D (VIX (-1))	-0.095230	0.0854913	-1.11	0.265
D (VIX (-2))	-0.167953	0.0855655	-1.96	0.050
D (REER_SA (-1))	0.683134	0.2812013	2.43	0.015
D (REER_SA (-2))	-0.261940	0.2659653	-0.98	0.325
D (LN_ULN_NFC_IDR_SA (-1))	32.937810	20.32397	1.62	0.105
D (LN_ULN_NFC_IDR_SA (-2))	-9.355728	20.36964	-0.46	0.646
D (NPL_INV_SA (-1))	2.787753	3.689468	0.76	0.450
D (NPL_INV_SA (-2))	-1.824024	3.614429	-0.5	0.614
D (LN_CREDIT_INV (-1))	0.156916	13.07349	0.01	0.990
D (LN_CREDIT_INV (-2))	5.031631	10.35612	0.49	0.627
C	-0.289632	0.46899	-0.62	0.537
R-Squared	0.103162			

Impulse Response Function (IRF) Analysis

Cholesky decomposition is used to create impulse-response functions, enabling us to assess the impact of VIX shocks on capital inflows, currency rates, and business financing patterns. The IRF study demonstrates how a shock to the VIX, representing global financial uncertainty, propagates via the model variables. The model's structure indicates a specific order of shock propagation: the VIX comes first, followed by the Balance Sheet NFC variables, and then the currency rate. The findings of this study are presented in Figure 1.





(a) Response of D_REER to VIX; (b) Response of D_NFC_FD to VIX; (c) Response of D_NFC_FD to D_REER; (d) Response of D_NFC_B to D_NFC_FD; (e) Response of D_NPL to D_NFC_B; (f) Response of D_NPL to VIX.

Figure 1. Impulse response to a negative shock to capital inflows.

DISCUSSION

Overall, the Impulse Response Function (IRF) estimates indicate that global uncertainty shocks, as reflected by an increase in the VIX index, trigger significant responses across various domestic macroeconomic and financial indicators—including the external sector, banking, and non-financial corporations. These findings are consistent with the IMF (2022) report, which states that Indonesia's financial markets are capable of responding swiftly to global shocks, albeit with lingering vulnerabilities in the short term. The response patterns reveal a pronounced spike in volatility during the first four to six quarters following the shock, before gradually subsiding and exhibiting a tendency toward stabilization in the medium term. This suggests that the impact of global shocks is temporary; however, the initial period exerts considerable pressure that can influence the overall stability of the financial system.

1. **The analysis finds many crucial insights about the impact of capital inflow changes on company financing behaviour:**

(a) Response of Real Effective Exchange Rate (REER) to VIX Shocks

An initial shock to the VIX induces a rapid depreciation of the REER, indicating a weakening of the exchange rate in response to global uncertainty. Interestingly, a temporary rebound occurs in the third period, followed by a gradual depreciation before converging back to equilibrium. This pattern suggests underlying structural pressures that cause the REER to weaken, reflecting deteriorating macroeconomic fundamentals due to external shocks.

(b) Response of NFC External Debt to VIX and REER

Following a rise in VIX, the external debt ratio of non-financial corporations (NFC_FD) declines sharply in the second period, signaling capital outflows from the private debt market. This decline is exacerbated by the REER depreciation, which increases the burden of foreign-currency-denominated debt. After a temporary rebalancing in the third period, external debt continues to decline until the eighth period, reflecting gradual corporate adjustment in financing strategies. These findings align with the literature suggesting that external shocks trigger a "flight to safety" behavior, whereby investors withdraw from emerging markets and firms reduce their foreign exchange exposure.

(c) Response of Domestic Credit to the Decline in External Debt

The drop in NFC external debt is met with a rise in domestic bank loans (NFC_Bank) during the initial period, indicating a shift in funding sources toward domestic financing. Following this surge, a decline in the fourth period reflects temporary credit tightening due to increased demand. A second surge in the fifth period suggests that banking sector liquidity adjustments are enabling credit expansion to resume. This highlights the role of the domestic banking system as a shock absorber during capital inflow reversals, though with potential risks to credit quality.

(d) Response of Credit Risk (NPL) to NFC Credit

Non-performing loans (NPLs) exhibit a dynamic pattern. A mild increase in the early period is followed by a sharp decline until the fourth period, indicating a lagged effect of credit growth on asset quality. However, the spike in NPLs during the sixth period suggests that credit expansion may not be accompanied by sound borrower quality, potentially due to loosened credit standards amid financing pressures.

(e) Response of Credit Risk to VIX Shocks

VIX shocks directly increase NPLs in the initial period, indicating that global uncertainty raises vulnerabilities in the financial system. After a decline in the fourth period, NPLs rise again before reverting to equilibrium, implying the presence of temporary but systemic risks that warrant policy attention.

These findings are consistent with Loukoianova (2018), who documented that in emerging markets, firms adjust their financing sources in response to capital flow volatility. Specifically, during periods of rising capital inflows, firms tend to rely more on external borrowing while reducing their reliance on domestic bank loans. Conversely, when capital inflows decline, firms increase their reliance on domestic bank credit and reduce foreign borrowing.

2. Analytical Implications and Economic Relevance

The analytical and economic implications of the above findings can be summarized as follows:

Corporations as Channels of External Shock Transmission: Impulse response functions (IRFs) suggest that non-financial corporations (NFCs) act as transmission channels for external shocks into the domestic financial system through: heavy reliance on foreign-currency-denominated external financing; and substitution toward domestic loans during capital flow reversals. This highlights the importance of monitoring corporate foreign exchange liabilities and currency exposure.

1) Banks as Shock Absorbers and Vulnerability Points: Domestic banks absorb corporate financing pressure during capital outflows. However, this function increases medium-term credit risk, particularly if loan growth is not matched by sound lending practices.
2) Effectiveness of Hedging Policies and Macroprudential Intervention The findings support the hedging requirements for external debt implemented in Indonesia since 2015: While they do not eliminate shock impacts, these policies help dampen volatility transmission to the banking system;
3) Nonetheless, stronger macroprudential tools are still needed to mitigate spillovers to the broader financial sector.

Policy Implications

Based on the empirical analysis, the following policy implications are proposed:

1) Expansion of Counter-Cyclical Macroprudential Instruments
   Authorities should enhance counter-cyclical macroprudential measures to anticipate surges in domestic credit demand amid declining capital inflows.
2) Integrated Monitoring of NFC Exposure
   Sectoral reporting system is required to monitor corporate foreign debt structures and exposure to external shocks.
3) Selective Strengthening of Financial Intermediation
   Financing incentives (e.g., macroprudential liquidity loans) should be selectively targeted toward sectors with strong financial resilience to maintain the effectiveness of intermediation in supporting sustainable economic growth.

4. CONCLUSIONS

Our findings, based on the Impulse Response Function (IRF) estimates, indicate that NFCs serve as channels for external shocks to permeate the domestic economy. A rise in the Volatility Index (VIX), signalling increased global financial uncertainty, leads to

exchange rate depreciation and reduced foreign funding for non-financial companies (NFCs). Consequently, NFCs increase their reliance on domestic bank loans, transferring balance sheet risks to local financial institutions. The results suggest that corporations switch their financing sources in response to external shocks. When global financial uncertainty increases, corporations rely less on foreign borrowing and more on bank loans.

Overall, the findings show that global uncertainty shocks, proxied by increases in the VIX index, generate substantial short-term volatility across Indonesia's macroeconomic and financial sectors before stabilizing in the medium term, The findings of this study can provide policymakers with valuable input for formulating more effective external debt management strategies to maintain financial stability

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