Russia-Ukraine Geopolitical Crisis Indirect Effects on Indonesia's Financial System Stability

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| Article Info	Abstract
    JEL Classification; E31, E43, E44, F41	*The Russia-Ukraine geopolitical crisis that has occurred since February 2022 is known to have resulted in a surge in food and energy prices at the global level. The escalation of the situation has expanded to cause the Fed to respond by raising the benchmark interest rate. The interest rate hike is caused by high inflation, which reduces the purchasing power of the domestic community. Financial system stability in Indonesia is essential considering that US monetary policy is still the mecca of the country's economy. In addition, the dollar currency is still the main means of payment in international trade. This study was conducted to analyze whether there is an indirect influence of this geopolitical crisis on Indonesia's financial system stability. The research method used to analyze is the Error Correction Model (ECM). The study results show that the interest rates of the US, JCI, Money Supply, and government bonds significantly affect the short and long term. Meanwhile, inflation variables only have a significant effect in the long term. This research has policy implications where synergy resilience is needed to maintain proactive and holistic risk management in systemic Evaluating potential dangers and developing methods to reduce NPL to maintain stabilities and sustainability during changes in change and interactions between institutions included in the Financial System Stability Committee.*

INTRODUCTION

The uncertainty of global economic growth after The worldwide outbreak of COVID-19 is likely to lead to a decrease in economic growth across the globe. This slowdown is influenced by several challenges, one of which is the Russia-Ukraine geopolitical crisis. This crisis was triggered by Ukraine's desire to become a member of NATO, threatening Russia's security and sovereignty. This crisis has resulted in global geopolitical instability that has a wide impact, including on the international trade sector. Rating agencies continue to monitor the impact of the global economic slowdown on *emerging markets* affected by the acceleration of monetary policy normalization due to geopolitical tensions (Bank Indonesia 2023). This is what causes global economic development to slow down due to the disruption of international flows of goods and services, which affects the performance of the export-import sector.

Russia ranks as one of the world's largest countries. Who make and sell goods to other countries of oil and energy. The escalating crisis has resulted in the country

experiencing a decline in exports due to trade restrictions to reach -6.75 percent in 2022. This causes the availability of oil and energy supplies to decrease in various countries, thereby increasing global prices (Hamza et al. 2024). The increasing fluctuations in the energy commodity market have led the Fed to issue Public Law No. 117-169 on Inflation Reduction to suppress high inflation. This condition occurs considering that before the crisis, Russia was the third largest oil importer in the United States. Policy tightening began when the Fed raised its benchmark interest rate, resulting in a decline in US economic growth to reach the point of 2.06 percent.

Figure 1. US dollar Index and global Crude Oil Price Development Chart 2018 – 2023
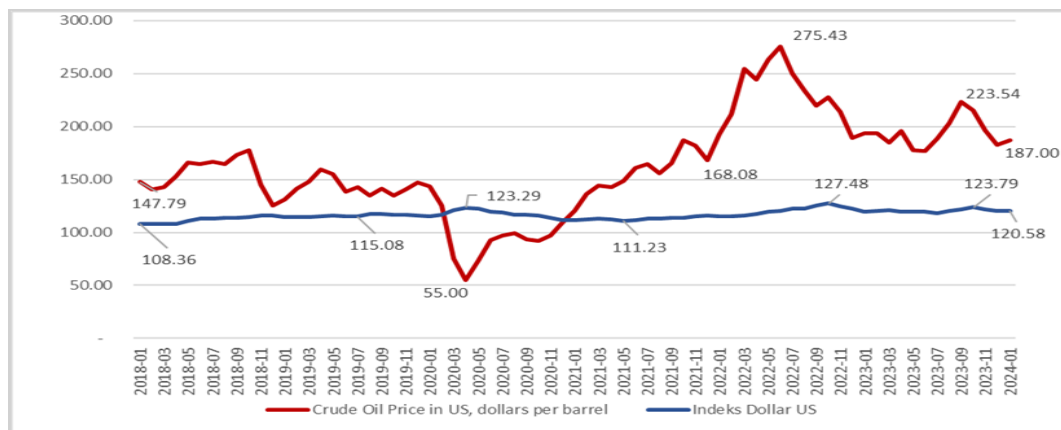
Source: IMF, processed in 2024

When oil prices go up, countries that export oil often see improvements in their current account balance. This can cause their national currency to become more valuable. In other words, rising oil prices tend to strengthen the currencies of oil-rich nations. On the flip side, countries that don't have oil and need to import it may see their currencies lose value when oil prices increase (Ohikhuare, 2023). This condition was immediately responded to by the Fed by raising the benchmark interest rate and resulting in the strengthening of the US dollar index. The appreciation of the US dollar has resulted in the depreciation of the rupiah, affecting the balance sheet of the financial system in Indonesia. One of the sources of shocks to the financial system can come from exogenous shocks, which are sourced from outside the financial system, such as when affected by the spread of global economic conditions (Long & Li, 2023). When the condition of the financial system is vulnerable and gets a shock, it will result in financial system instability. Following previous research, it is explained that the process of risk transmission from this crisis is characterized by four stages, namely risk transmission to neighbouring countries, the risk of worsening relations between Russia and Ukraine, further adverse impacts, and weakened but persistent impacts, so it is very important to be referenced for investors to mitigate risk transmission in the CDS market of each country (Shen et al., 2024).

Vulnerable financial conditions will experience increased systemic risk so there is potential for financial instability because of contagion disturbances. Stability is achieved when policy instruments run effectively. The stability of the financial system itself can be seen through various approaches, one of which is through the Financial

Stress Index (FSI). If credit does not increase currently, then the stability of the banking subsector will be disrupted. The banking sub-sector still dominates intermediation activities in the Indonesian financial sector, this has an impact on the stability of Indonesia's financial system. (Yosefina and Korohama 2017). The management of bad loans carried out by banks shows the quality of credit and monitoring efforts that what has been done will succeed or fail. (Karyono et al. 2022).

This crisis does not directly affect but contagion effects cannot be avoided by Indonesia. The contagion effect describes how problems or crises in one financial market can quickly spread to other markets due to interconnected systems and shared vulnerabilities (Sri Wahyuni et al., 2024). Countries with open economic systems with high financial integration experience greater capital withdrawals and pressures on their financial systems, threatening the overall stability of the financial system (Purwanto Rizqi & Kresna Rachmat, 2024). This is by previous research, namely that a high level of economic and financial integration between countries with the concept of an open economy can accelerate the process of spreading (contagion) economic shocks or crises, both on the trade side and foreign capital flows (Iskandar Firdaus et al., 2021).

There are four criteria used to detect the presence or absence of a contagion effect, one of which is the transmission of volatility changes. This change is marked by the response to the tightening of monetary policy carried out by the US so that it has an effect in bilateral countries, including Indonesia. Policy tightening began when the Fed raised its benchmark interest rate until it was carried out similarly by Bank Indonesia. Rising U.S. interest rates are likely to have a major impact on emerging market economies shortly, impacting the steadiness of global money markets and banking networks, but will not be contagious when policy tightening does not last long. However, emerging markets countries with higher GDP growth rates and trade balances will not be vulnerable and can minimize the impact of contagion (Zehri, Madjd-Sadjadi, and Saleh Iben Ammar 2024).

Monetary policy adjustments through interest rate increases occur due to an increase in inflation in a country. High inflation that passes the nominal interest rate, will reduce people's ability to pay loans because the cost of spending for households and companies increases, thereby reducing the amount of funds available for debt repayment and increasing credit risk (Ghosh, 2015). This condition will certainly affect the management of the money supply in a country to overcome the disruption. An increase in the money supply typically causes prices to go up. As prices rise to match the growth in money circulation, interest rates tend to drop. Lower interest rates often encourage more investment and boost economic output. (Nguyen 2015). This study's findings build upon earlier research by (Wiku and Juniwati Ayuningtyas 2021); (Syaputra, Roza Adry, and Ilmu Ekonomi Fakultas Ekonomi Universitas Negeri Padang Jl Hamka Air Tawar Padang 2019);(Tri Wahyudi & Sofie Nabella Nurul Badriyah, 2019); dan (Wati et al., 2019).

Global financial markets are experiencing risk due to the acceleration of the Fed's policy to overcome inflation, thereby boosting demand for safe-haven investments and lowering stock prices. Stock markets in developing countries tend to be more depressed due to the strengthening of the USD currency as investments in USD-denominated assets become more attractive to investors, so they tend to withdraw funds from emerging markets. This can trigger capital outflows from developing countries to

relatively safer USD assets (Anggaran et al., 2020). An increase in borrowing by developing countries can affect investors' perception of risk to the economy, thereby increasing government bond interest rates (Muktiyanto & Aulia, 2019). The increase in government bond interest rates can encourage an increase in bank lending rates, which will ultimately increase the interest burden for debtors and increase the risk of NPL. From the macroprudential side, we must carefully monitor two important factors: how well banks are recovering loans from each other, and the extent to which companies own shares in one another. Previous research explained that both have shown a significant influence on increasing financial systemic risks, especially short-term loans that are more dynamic so that they can disrupt financial system stability (Jin et al., 2024).

Financial system stability in a broad sense, is not only limited to the health of individual financial institutions but also includes interactions and transmission risks between institutions (Barrdear & Kumhof, 2022). However, in maintaining stability, the focus is needed on financial institutions to maintain the stability of the system as a whole (Pratiwi et al., 2022). Then, in terms of policy coordination, the importance of close coordination between macroprudential policy and monetary policy is urgently needed to maintain financial system stability (Cao et al., 2021). However, on the other hand, macroprudential policy must also be separated from monetary policy to avoid conflicting objectives and increase effectiveness (Blanchard & Viñals, 2013). Macroprudential policy instruments are closely related to maintaining financial system stability. A combination of macroprudential instruments that focus on preventing the formation of systemic risks so that they can build the resilience of the financial system (Frost et al., 2020). However, excessive and poorly coordinated use of macroprudential instruments will also hinder credit growth and reduce economic activity (Eric Matheus, 2016).

Effective coordination between monetary and fiscal policies is very necessary in a country. The Mundell-Fleming model asserts that the power of monetary and fiscal policies to influence aggregate income depends on the exchange rate regime. (N. Gregori Mankiw 2015). When there is an increase in risk premiums due to political turmoil or unexpected crises, this model will raise interest rates, reducing investment and making the goods market decline. In addition, reducing the demand for money because the rise in the money market will result in increased income and a depreciation of the currency. The high-risk premium will limit the effectiveness of fiscal and monetary policies in increasing output and maintaining exchange rate stability, thus maintaining financial system stability. (Corsetti et al. 2013).

Previous research conducted by (Shen et al., 2024) Found that there are contagion effects from the Russia-Ukraine Geopolitical Crisis which goes through 4 stages of transmission. The risk contagion process is characterized by four stages: risk contagion to neighbouring countries, risk exacerbation between Russia and Ukraine, further outward spillover, and weakening but persistent spillover. This study helps to provide a reference for investors to mitigate risk contagion in the sovereign CDS market. In addition, other research conducted by Agustina & Barus, 2023 Also found that the stock market (JCI and NASDAQ) experienced a downward condition after the crisis. Similarly, Cryptocurrencies (Bitcoin, Ethereum, and Ripple) also declined as a result of the Russia-Ukraine war crisis. However, world gold prices and the US Dollar

Exchange Rate strengthened during the Russia-Ukraine war crisis. So it can be concluded that the world gold price and the US Dollar exchange rate are the safest type of haven investment when a crisis occurs.

Figure 2. Research Concept Framework
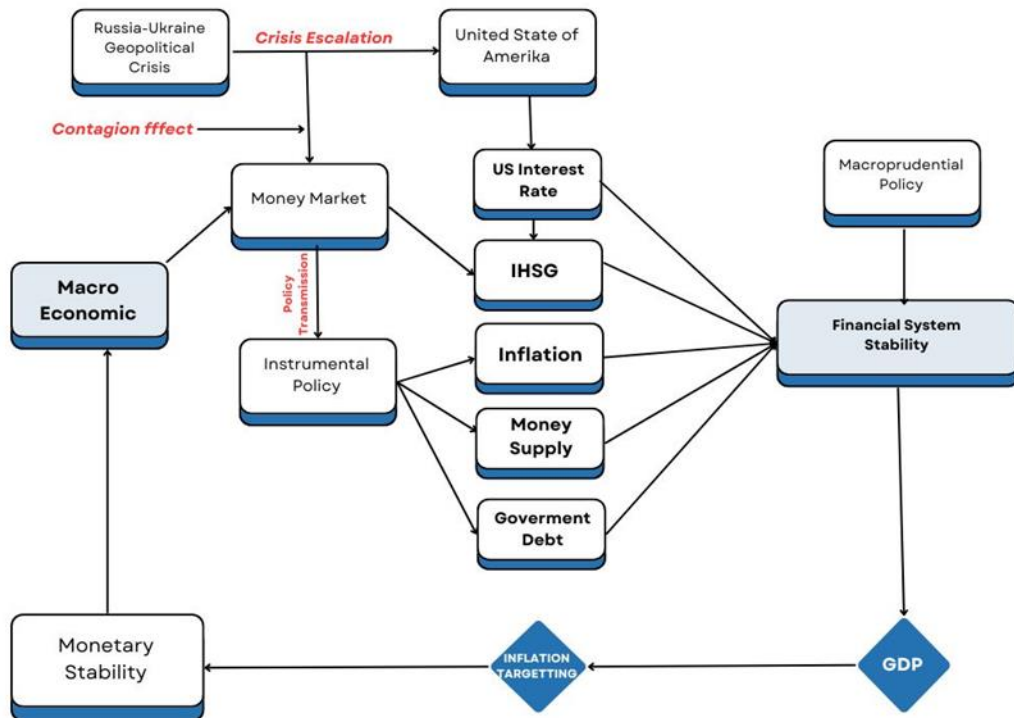
Based on the description of the problem, the theoretical study above and the research concept framework, the main objective of this research is to analyze the Russia-Ukraine Geopolitical Crisis Indirect Effects on Indonesia's Financial System Stability. This study aims to explore whether there is an indirect influence of the ongoing Russia-Ukraine geopolitical crisis and results in global instability, especially in food and energy supply chains, on economic conditions in Indonesia, especially on financial system stability through exchange rate surges. The Feds' policy condition will increase interest rates, thereby increasing the value of the United States dollar. This certainly has the opportunity to pressure domestic currencies, especially in developing countries, so that it has the opportunity to disrupt the stability of the financial system, especially at the rupiah exchange rate.

The focus of the research using data from September 2020 to December 2023 is the first reference to why this study is related to the geopolitical crisis that peaked in February 2022. Despite the many challenges that threaten global countries, this crisis became the main highlight when in March 2022 inflation reached the point of 8% in the United States, causing the Feds to issue the Inflation Reduction Act due to the lack of oil supply and increasing the cost of shipping goods. This research is a new study that relates the existence of Russia Ukraine geopolitical crisis to the stability of the financial system in Indonesia through the exchange rate route.

RESEARCH METHODS

This study uses quantitative data, which Araea includes in the ratio data. Regarding timing, this study uses data collected over some time, known as time series data. The method used to identify the influence of dependent variables regarding the soundness and resilience of Indonesia's monetary and banking structures using the Error Correction Model (ECM) analysis technique. The Error Correction Model is a statistical approach used to examine how independent variables affect a dependent variable in both the short term and the long term. This model helps analyze the immediate impacts as well as the gradual adjustments over time. The data in this study includes data on financial system stability, US interest rates, IHSG, inflation, JUB/M2, and Government Bonds in Indonesia with a period of 2020 from September to 2023 in December. The data sources for this research come from SEKI Bank Indonesia, the International Monetary Fund (IMF), the Indonesia Stock Exchange (IDX), and the Financial Services Authority (OJK). The financial system stability data in this study is precluded from using the value of Non-Performing Loans (NPL). When small and medium-sized businesses borrow more, it can improve financial stability. This improved stability is seen in two ways: fewer loans aren't being paid back, and banks are less likely to fail (Morgan & Pontines, 2014).

In this study, the binding variable is NPL (Y). The independent variables in this study are US Interest Rates (X_1), IHSG (X_2), Inflation (X_3), JUB/M2 (X_4), and Government Bonds (X_5). *Non-performing loans* referred to in this study are the percentage of non-performing loans to total loans disbursed by banks using a percentage scale of units. The US interest rate refers to the key rate established by the Federal Reserve, America's central bank. This rate, expressed as a percentage, is used as a tool to implement monetary policy in the United States. IHSG is The Composite Stock Price Index is a tool that tracks how well all stocks are performing on Indonesia's main stock exchange. It looks at stocks on both the main and development sections of the exchange, with an initial value in 1982 of 100. The inflation variable is the percentage of a widespread rise in the cost of products and services across the economy in a certain period using a percentage scale. The JUB variable referred to in this study is JUB/M2 which is the overall sum of currency available for use in the financial system, including money in the hands of the public (transaction money/currency and current payments) plus quasi-money (savings, time deposits, foreign exchange accounts, etc.) owned by the public in banks using a unit scale of billions of rupiah. The last independent variable used in this study is Government Bonds which are securities issued by the government to finance the budget deficit or partially cover the financing of government projects on a scale of billions of rupiah.

The model specifications in this study are as follows: The ECM regression model used in this long-term study is as follows:

$$NPL = \alpha_0 + \alpha_1 IR_{1t} + \alpha_2 IHSG_{2t} + \alpha_3 INF_{3t} + \alpha_3 JUB_{3t} + \alpha_4 SUN_{4t} \quad \text{......................(1)}$$

Where NPL is the amount of non-current loans (percent); IR is the US benchmark interest rate (percent); IHSG is: the Composite Stock Price Index; JUB is the Amount of Money Supply (billion); SUN is government Bonds (Billion)

The formation of the ECM model is carried out by inserting the first residual lag of the regression result in the equation into the regression of stationary variables at the same difference. The ECM model in this study can be written as follows:

$$DLN\_NPLt = \beta 0 + \beta 1 DLN\_IRt + \beta 2 DLN\_IHSGt + \beta 3 DLN\_INFt + \beta 4 DLN\_JUBt + \beta 5 DLN\_SUNt + \beta 6 ECTT + et \dots\dots(2)$$

ECT or Error Correction Term indicates an imbalance in the short term or is often also referred to as an imbalance error.

RESULT

Result Of Stationary Test

Before estimating the ECM model, a stationary test was carried out on the data used in the model to avoid the occurrence of presumptuous regression. In the study, the stationary test was carried out by conducting a root test unit according to the form of determination on each research variable using the Augmented Dickey-Fuller (ADF) indicator, as can be seen from Table 1 below:

Table 1. Results of the Stationary Test with the Augmented Dickey-Fuller Indicator (ADF)

| Variables | Augmented Dickey-Fuller (ADF) | | | |
| | Level I (0) | | *First Difference* I (1) | |
	t-statistic	Probability	*t-statistic*	Probability
NPL	0,440	0,983	-7,600	0,00
IR	0,312	0,977	-4,601	0,00
IHSG	-3,791	0,003	-5,524	0,00
INF	-1,135	0,700	-5,647	0,00
JUB/M2	-0,558	0,880	-7,054	0,00
SUN	-3,662	0,004	-5,468	0,00

According to the unit root analysis findings, not all variables are stationary at the level. However, at *the first difference,* all variables have been stationary.

Result Of the Cointegration Test

Based on Table 2, the cointegration test was carried out to identify the existence of a long-term relationship between financial system stability, US interest rates, IHSG, inflation, JUB/M2, and Government Bonds.

Table 2. Results of the Cointegration Test using Engle-Granger

| *Cointegration Test* | *t-Statistic* | *Mac-Kinnon Critical Value* | | |
		1%	5%	10%
Augmented Dickey-Fuller test	-5,485	-5,940	-5,151	-4,766

The results of the cointegration using Engle-Granger show that the trace statistical value is greater than the critical value using alpha 5%, which means that there is a long-term interaction between the variables of financial system stability, US interest rates, IHSG, inflation, JUB/M2, and Government Bonds in Indonesia. Furthermore, an ECM model was estimated to see the influence of US interest rates,

IHSG, inflation, JUB/M2, and Government Bonds on the financial factor's stability in Indonesia from both short-term and long-term perspectives.

Result Of the Error Correction Model Test

Based on the results of the study presented in Table 3, it show that the American interest rate variable has a negative and significant effect on NPLs in Indonesia in the long and short term. In the long term, it means that every interest rate increase by 1 percent will reduce NPLs by 0.287 percent. Meanwhile, in the short term, every 1 percent increase in American interest rates will reduce NPLs by as much as 0.231 percent. Both JCI variables have a negative and significant effect on NPLs in Indonesia in the long and short term. In the long term, it means that if every JCI increases by 1 percent, it will reduce NPLs by 0.357 percent. Meanwhile, in the short term, every 1 percent increase in JCI will reduce NPL by 0.388 percent. The three inflation variables have a positive and significant effect on the long term but not on the short term. In the long term, when inflation rises by 1 percent, it will increase NPLs by 0.013 percent.

The Money Supply variable has a negative and significant effect on NPLs in Indonesia in the long and short term. In the long term, it is interpreted that if every Money Supply increases by 1 percent, it will reduce NPLs by 1.022 billion rupiahs. Meanwhile, in the short term, every 1 percent increase in Money Supply will reduce NPLs by 0.473 billion rupiahs. Finally, the government bonds variable has a positive and significant effect on NPLs in Indonesia in the long and short term. In the long term, it is interpreted that if every government bond increases by 1 percent, it will increase NPLs by 0.720 billion rupiahs. Meanwhile, in the short term, every 1 percent increase in government bonds will increase NPL by 0.805 billion rupiahs.

Table 3. Results Of Long Run and Short Run Relationship

Variable	Coef.	Std. Error	t-Statistic	Prob.
		Long-term		
NPL	9,869	2,119	-9,43	0,000
IR	-0,287	0,030	-2,61	0,000
IHSG	-0,357	0,136	3,18	0,013
INF	0,0135	0,004	-4,78	0,003
JUB/M2	-1,022	0,213	4,21	0,000
SUN	0,720	0,171	4,66	0,000
Adj. R^2 = 0,96, F-statistic = 0,00				
		Short-term		
LN_NPL	-0,005	0,006	-0,85	0,404
LN_IR	-0,231	0,106	-2,17	0,037
LN_IHSG	-0,388	0,149	-2,59	0,014
LN_INF	0,010	0,011	0,97	0,342
LN_JUB/M2	-0,473	0,315	-1,50	0,143
LN_SUN	0,805	0,321	2,50	0,018
ECT	-0,779	0,209	-3,73	0,001
Adj. R^2 = 0,41, F-statistic = 0,00				

Result Of the Diagnostic Test

Autocorrelation Test

The result of the Autocorrelation Test is shown in Picture 3 below.

Table 3. Results of the Autocorrelation Test Breusch-Godfrey LM Test for autocorrelation

Lags (*p*)	Chi2	df	Prob > chi2
1	1,295	1	0,2551

H0 = no serial correlation

The results of the autocorrelation test in Picture 3 show that the values of Prob > chi2 are 0.2551, respectively. These values are above the significance level of 0.05. This indicates no correlation between the errors in the ECM model.

Heteroskedasticity Test

The result of the Autocorrelation Test is shown in Picture 4 below.

Table 3. Results of the Heteroskedasticity Test Breusch-Pagan/Cook-Weisberg test for heteroskedasticity

Assumption: Normal error terms	
Variable: resid	
H0: Constant variance	
Chi2(1)	0,70
Prob > chi2	0,4042

The results indicate the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity, as seen from the Chi-Square and Prob. Chi-square values exceed the significance level of 0.05. Thus, the ECM model is free from heteroskedasticity issues.

DISCUSSION

The findings presented in Table 3, derived from the ECM model estimation, indicate that changes in US interest rates have a significant negative impact on the stability of Indonesia's financial system. A higher interest rate in the United States tends to reduce borrowing, which helps maintain the stability of Indonesia's financial system. This supports the research conducted by (Ozili 2019); (Japlani 2018); (Anwar et al. 2023); (Szarowska 2018) (Zehri et al. 2024) stated that the Fed interest rate hike will reduce the amount of non-current loans, which will help make Indonesia's financial system more stable, both now and in the future. The Federal Reserve's increase in interest rates makes dollar-denominated assets more valuable for companies in developing countries. This, in turn, improves these companies' ability to pay back their loans. Considering that interest rate hikes will directly affect the appreciation of the US dollar exchange rate, it will impact both immediate and future outcomes.

During times of crisis, increases in interest rates negatively impact the Composite Stock Price Index. This index, in turn, has a significant adverse effect on Indonesia's financial system stability, both in the short and long term. This indicates that the higher the index level, the more positive it will have a positive effect on reducing the number of non-current loans in Indonesia. The results of this study are following what was previously conducted which stated that in the short and long term, IHSG significantly hurts financial system stability (Wahyudi & Badriyah, 2019). The increase in JCI illustrates that the company's performance on the stock exchange in general has improved so that it tends to increase its ability to pay loans. Following previous research, it was found that when the JCI rises, NPL will tend to decrease because companies have a better ability to pay off their loans. (Andika Pratama et al.

2021).In addition, the increase in JCI reflects the high level of investor confidence in the economic outlook, thereby encouraging increased investment and economic growth, which will ultimately increase the ability of debtors to repay loans.

Over the long run, inflation has been shown to significantly improve the stability of financial systems. However, in the short term, its impact on financial stability is not significant. Higher inflation rates in the economy tend to lead to an increase in long-term non-performing loans. This trend could potentially undermine the stability of Indonesia's financial system. However, this will not happen in the short term given the lag effect due to the time lag between price increases and decreases in real purchasing power. In addition, from the banking side in determining policies, it will tolerate delays in payments in the short term so that it can delay the increase in inflation and reduce the number of non-current loans. Following previous research, the inflation variable has a positive coefficient on NPL in the long term in Southeast European countries but does not have a statistically significant influence in the short term. (Rizal et al. 2017). The long-term effect was explained in previous research which found that when people's purchasing power decreases due to high prices – prices in the market will directly change consumption and savings patterns. Therefore, the change will reduce people's ability to repay loans, thereby increasing the risk of bad loans. (Mishra and Dubey 2022).

The money supply has proven to have a negative and significant effect on the stability of the financial system in the long term but has no effect in the short term. The existence of this influence indicates that the more money circulating in the community, the lower the number of non-current loans thus maintaining the stability of the financial system in Indonesia. Following previous research which explained that the increase in JUB in the long term contributes to the decrease in NPL through indirect effects on economic growth and financial stability (Wiku and Juniwati Ayuningtyas 2021). When the government implements a sustainable expansionary monetary policy, it can increase the debt servicing capacity of companies and households so that in the long run, the increase in JUB will have an impact on lowering interest rates and increasing liquidity in the market. This drives economic growth, increases investment, and improves overall business performance.

Finally, based on the results of the estimation of the variable of government bonds, it is proven to have a positive and significant effect on the stability of the financial system both in the short and long term. The issuance of large amounts of SUN will result in a crowding-out effect on private investment. Banks and financial institutions tend to prefer to invest in SUN which is considered safer than providing loans to the private sector. As a result, the availability of credit for productive sectors will be reduced and hinder economic growth in the long term. In addition, a high reliance on SUN can increase systemic risks in the financial system. This can affect the bank's ability to disburse credit and increase the risk of NPL. Given that banks with high exposure to government debt are more vulnerable to systemic risks and have higher NPL rates during crisis periods (Velliscig, Floreani, and Polato 2023).

The estimation results in Table 3 show that the value of the Error Correction Term (ECT) coefficient or adjustment coefficient is -0.77993 and significant. This indicates that the short-term adjustment process towards long-term equilibrium occurs quite quickly. The value of financial system stability in the past was above the equilibrium condition, but there will be an adjustment towards the equilibrium value in the long term. An Adjusted R^2 value of 0.4113 shows that by considering the degree of freedom, the total number of free variables covered in the model can explain the bound variables by 41%, while the remaining 59% is explained by other factors outside the model.

CONCLUSION

Considering the points discussed above, we can conclude that US interest rates, IHSG, inflation, JUB/M2, and SUN impact Indonesia's financial stability. This explains that there is an indirect influence of the Russia-Ukraine geopolitical crisis. The US interest rate variables, IHSG, and JUB/M2 which have a negative and significant effect on NPL in Indonesia both immediately and in the future prove the Indonesian economy is more resilient and less vulnerable to external conditions in maintaining financial system stability. However, in this period, the government must still be vigilant against the effects of inflation which is expected to increase NPL so that it could disrupt the stability of the financial system in Indonesia in the long term. In addition, the management of state debt must also be considered as the results of this study show that the SUN variable has a positive and significant effect which means that the increase in the amount of SUN will increase NPL in the short and long term thereby disrupting the stability of the financial system in Indonesia.

From the results of these conclusions, suggestions or implications for policies can be submitted to the government together with Bank Indonesia, OJK, the Ministry of Finance, and related institutions in the Financial System Stability Committee when a geopolitical crisis occurs on a global scale are expected to maintain policy coordination synergy, especially in proactive and holistic risk management, systemic risk assessment, and NPL strategies to reduce non-performing loans play a crucial role in maintaining the stability and long-term viability of the financial system, during changes in economic dynamics. The next study is recommended to use data with a longer time frame looking at the results of this study when the geopolitical crisis conditions are ongoing, all variables have a significant effect on the stability of the financial system in Indonesia, although indirectly in the long term. Given the limited time frame, the research has not been able to capture long-term economic conditions and see the trend of risk dynamics.

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