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Monetary Shocks as Legal Risk: Exchange Rate Depreciation, Stock Market Decline, and Bank Credit Quality in Indonesia

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Highlights:

- Introduces monetary shocks as a new concept of legal risk in banking law.
- Explains how rupiah depreciation weakens bank credit quality.
- Links stock market decline to prudential banking obligations.
- Proposes mandatory FX stress testing and integrated supervision.

Abstract: This article aims to examine the legal implications of rupiah depreciation and declines in the Composite Stock Price Index (CSPI/IHSG) for bank credit quality within the framework of Indonesian banking and monetary law. Using normative legal research with statutory, conceptual, and law-and-economics approaches, the study analyses the Banking Act, the Bank Indonesia Act, the Financial Services Authority (OJK) Act, the Financial System Crisis Prevention and Resolution Act (PPKSK), and the Financial Sector Development and Strengthening Act (P2SK), complemented by scholarly literature on monetary instability, credit risk, and financial-system stability. The analysis demonstrates that exchange-rate depreciation and equity-market decline affect bank credit quality through multiple transmission channels, including rising financing costs, deteriorating debtor solvency, collateral devaluation, heightened non-performing loan (NPL) risk, and pressure on bank liquidity and capital adequacy. These consequences operate on two interconnected legal dimensions. At the private-law level, banks are required to strengthen prudential standards, enhance risk-management practices, and implement credit-restructuring measures to preserve portfolio quality. At the public-law level, Bank Indonesia, the Financial Services Authority (OJK), the Financial System Stability Committee (KSSK), and the Deposit Insurance Corporation (LPS) bear coordinated responsibilities for preventing the transmission of monetary shocks into systemic financial crises. The article argues that exchange-rate depreciation and stock-market decline should be understood not merely as sources of economic risk but

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as forms of legal risk capable of transforming banking obligations and activating regulatory responsibilities. It further proposes four regulatory reforms: the integration of mandatory foreign-exchange stress testing into supervisory review mechanisms, enhanced disclosure of debtor foreign-currency exposure, risk-sensitive supervisory frameworks calibrated to external shocks, and real-time crisis-monitoring infrastructure within the KSSK framework. The originality of this article lies in the development of the concept of monetary shock as legal risk, which bridges monetary economics and banking law while reinforcing financial stability as a legal value grounded in prudential regulation, regulatory accountability, distributive justice, and public-interest protection.

Keywords: Monetary; Stock Price Index; Bank Credit Quality; Financial System Stability.

1. Introduction

In contemporary financial systems, exchange rate volatility and stock market fluctuations are not isolated macroeconomic indicators but interconnected channels through which monetary shocks are transmitted into banking risk. A sharp depreciation of the Indonesian rupiah against major foreign currencies, particularly the United States dollar, increases import costs, inflates foreign-currency liabilities, and weakens the financial position of corporation's dependent on external financing. Simultaneously, a decline in the Composite Stock Price Index (CSPI/IHSG) reflects deteriorating investor confidence, capital outflows, and declining asset valuations. These developments have consequences extending beyond the realm of economics. When monetary instability impairs debtor solvency, weakens collateral values, and threatens the quality of bank credit portfolios, it generates legal consequences that activate prudential obligations, supervisory interventions, and financial-stability mechanisms established under banking and monetary law. In the banking context, these dual shocks are not merely economic events: they are legal events, because they affect credit portfolio quality, compliance with prudential principles, and the statutory obligations of regulatory authorities to preserve financial system stability[1]. International literature confirms this nexus. Studies on Indonesia document that foreign portfolio flows are systematically associated with rupiah dynamics, while research on the global financial cycle demonstrates that Bank Indonesia responds actively to exchange rate volatility and credit cycles as part of its policy mix to manage large and rapidly shifting capital flows. Domestically, empirical evidence shows that monetary variables including the discount rate, base money, and exchange rate policy substantially determine bank credit growth, particularly during episodes of monetary stress.

The relationship between exchange rate movements, capital flows, and financial stability has received considerable attention in economic literature. Empirical studies on Indonesia demonstrate that foreign portfolio flows significantly influence rupiah dynamics and domestic financial markets. Research on the global financial cycle further indicates that Bank Indonesia actively employs monetary and macroprudential instruments to manage exchange-rate volatility and capital-flow reversals. Other studies reveal that monetary variables, including interest rates, money supply, and exchange-rate policy, substantially affect bank lending behavior and credit growth during periods of economic stress. While these studies provide valuable insights into the economic transmission of monetary shocks, they

[1] M.M. Addury and A.K.P. Ramadhani, "The Influence of Financing Model and Credit Risk on Financial Stability (Study of Islamic Rural Banks in Java Island)," Journal of Islamic Monetary Economics and Finance 10, no. 3 (2024): 427–444, https://doi.org/10.21098/jimf.v10i3.1788.

predominantly analyse such phenomena from macroeconomic, financial, and policy perspectives. Banking law, in this context, must be read not merely as a body of administrative norms, but as an instrument that allocates systemic risk fairly and efficiently.

Despite the growing literature on monetary instability and financial markets, limited attention has been devoted to the legal consequences of exchange-rate depreciation and stock-market decline for bank credit quality. Existing scholarships generally treat currency depreciation, capital outflows, and equity-market corrections as economic variables affecting banking performance. However, insufficient analysis has been undertaken regarding how these shocks transform into legal risks that alter the rights and obligations of banks, debtors, regulators, and financial-safety-net institutions. Consequently, the legal architecture governing the transmission of monetary shocks into credit deterioration, prudential compliance, supervisory intervention, and crisis-management mechanisms remains underexplored, particularly within the Indonesian legal framework.

This gap is significant because banks occupy a unique position as both financial intermediaries and the principal transmission channel of monetary policy. When the rupiah depreciates and the CSPI declines simultaneously, banks confront multiple layers of risk. Corporate borrowers exposed to foreign-currency liabilities may experience declining repayment capacity, thereby increasing the probability of default. The value of collateral linked to financial assets and equity holdings may deteriorate, reducing credit protection and increasing provisioning requirements. At the same time, worsening market sentiment may induce tighter lending standards and constrain credit expansion. These developments directly engage legal norms governing prudential banking, risk management, loan restructuring, capital adequacy, and regulatory supervision.

This article advances the argument that exchange-rate depreciation and stock-market decline should be understood not merely as sources of economic risk but as forms of legal risk capable of transforming banking obligations and activating institutional responsibilities under Indonesian banking and monetary law. The concept of monetary shock as legal risk provides a framework for understanding how macroeconomic instability generates legal consequences affecting credit quality, supervisory authority, and financial-system resilience. Through this perspective, financial stability is viewed not solely as an economic objective but also as a legal value requiring regulatory accountability, prudential discipline, and the protection of broader public interests. Accordingly, this article analyses the legal consequences of rupiah depreciation and CSPI decline through three interconnected dimensions. The first concerns operational legal consequences relating to credit quality deterioration, non-performing loans, restructuring mechanisms, and risk-management obligations. The second addresses institutional legal consequences involving the supervisory and crisis-management functions of Bank Indonesia, the Financial Services Authority (OJK), the Financial System Stability Committee (KSSK), and the Deposit Insurance Corporation (LPS). The third explores the philosophical foundations of financial-system stability as a legal principle aimed at balancing efficiency, prudential regulation, accountability, and distributive justice within Indonesia's financial governance framework.

2. Methods

This study employs a normative legal research design integrating statutory, conceptual, and law-and-economics approaches. The statutory approach is used to examine the legal framework governing monetary policy, banking supervision, prudential regulation, and financial-system stability in Indonesia.

The conceptual approach is applied to analyze the relationship between monetary shocks, credit risk, and regulatory intervention, while the law-and-economics perspective provides an analytical framework for assessing how legal institutions respond to macroeconomic disturbances affecting banking stability. Primary legal materials consist of five principal regulatory instruments: (i) Law No. 7 of 1992 concerning Banking, as amended by Law No. 10 of 1998; (ii) Law No. 23 of 1999 concerning Bank Indonesia, as amended by Law No. 3 of 2004 and subsequent legislation; (iii) Law No. 21 of 2011 concerning the Financial Services Authority (OJK); (iv) Law No. 9 of 2016 concerning the Prevention and Resolution of Financial System Crises (PPKSK); and (v) Law No. 4 of 2023 concerning Financial Sector Development and Strengthening (P2SK). These instruments constitute the core legal architecture governing the allocation of responsibilities among monetary authorities, banking supervisors, and financial-safety-net institutions during periods of financial stress[23]. Secondary legal materials comprise peer-reviewed journal articles, books, policy reports, and scholarly works addressing exchange-rate volatility, stock-market fluctuations, bank credit quality, financial-system stability, and prudential regulation. Emphasis is placed on literature examining the transmission of macroeconomic shocks into banking-sector vulnerabilities and regulatory responses.

The analysis proceeds in three stages. First, the study identifies the economic transmission mechanisms through which rupiah depreciation and CSPI decline affect debtor solvency, collateral values, and bank credit portfolios. Second, these economic consequences are examined through the applicable legal framework to determine their implications for prudential obligations, supervisory powers, crisis-management mechanisms, and institutional accountability. Third, the findings are evaluated through a law-and-economics perspective to assess whether the existing legal framework adequately internalizes the risks generated by monetary shocks and supports the objective of financial-system stability. By combining doctrinal legal analysis with economic reasoning, this methodology enables the study to conceptualize exchange-rate depreciation and stock-market decline not merely as economic disturbances but as forms of legal risk capable of triggering regulatory obligations and institutional responses within the Indonesian banking system. This approach is particularly suitable for examining the intersection between monetary instability, credit deterioration, and financial governance, where economic consequences and legal responsibilities are intrinsically interconnected.

3. Results

3.1. Financial Market Instability and Prudential Banking Obligations: The Impact of Rupiah Depreciation and IHSG Decline

Rupiah depreciation has two interrelated dimensions. Economically, it raises the price of imported goods, compresses the margins of import-dependent enterprises, and amplifies foreign-currency debt obligations. Legally, it triggers heightened prudential obligations for banks, because credit portfolios face elevated quality deterioration risk[4]. A debtor that was performing on a nominal basis may become

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[3] David Aikman, Andrew Haldane, and Benjamin Nelson, "Curbing the Credit Cycle," The Economic Journal 125, no. 585 (2015): 1072–1109.
[4] Kern Alexander, Rahul Dhumale, and John Eatwell, Global Governance of Financial Systems: The International Regulation of Systemic Risk (Oxford: Oxford University Press, 2006).

non-performing when the cost of debt rises, cash flows contract, and asset values fall. Banks cannot assess credit merely on historical payment conduct; they must also account for exchange rate risk, debtor funding structures, and business sensitivity to currency weakness. Evidence from Indonesia confirms that foreign portfolio investment flows are systematically correlated with rupiah movements, and that global shocks are transmitted to domestic markets through asset price and credit channels[5][6]. Rupiah depreciation is therefore not merely a market signal but a legal signal to policymakers and supervisors that systemic risk is rising.

From the perspective of Indonesian banking law, exchange-rate depreciation transforms macroeconomic volatility into a legally relevant form of credit risk. The prudential principle embodied in Article 2 of the Banking Act requires banks to conduct their activities in a manner that preserves soundness, risk awareness, and public confidence in the banking system[7][8]. This obligation is further reinforced by risk-management regulations issued by the Financial Services Authority (OJK), which require banks to identify, measure, monitor, and control risks arising from credit, market, liquidity, operational, legal, reputational, strategic, and compliance factors[9][10]. Consequently, a substantial depreciation of the rupiah cannot be treated merely as an external economic event beyond the bank's responsibility. Rather, it constitutes a foreseeable source of legal risk requiring ex ante mitigation through prudent credit assessment, foreign-exchange exposure monitoring, and borrower stress testing.

The legal significance of exchange-rate risk becomes particularly evident where a mismatch exists between the currency denomination of a debtor's liabilities and the currency source of its revenue. In such circumstances, a deterioration in the debtor's repayment capacity is not solely attributable to managerial failure but may result from systemic monetary conditions. This distinction is important because Indonesian banking law does not merely impose obligations of credit discipline; it also recognizes the broader objective of maintaining financial-system stability[11][12]. Accordingly, the prudential principle should be interpreted as imposing a continuing obligation upon banks to evaluate whether emerging credit distress reflects idiosyncratic debtor behavior or macroeconomic shocks capable of affecting a wider segment of borrowers.

The same reasoning applies to a sustained decline in the Composite Stock Price Index (CSPI/IHSG). Although stock-market fluctuations are generally associated with capital-market regulation, a significant decline in equity values may directly affect banking-sector resilience through collateral impairment, declining corporate valuations, and increased credit risk. Where pledged shares constitute a material

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[6] John Armour et al., *Principles of Financial Regulation* (Oxford: Oxford University Press, 2016).
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[12] Markus K. Brunnermeier and Yuliy Sannikov, "A Macroeconomic Model with a Financial Sector," American Economic Review 104, no. 2 (2014): 379–421.

component of secured lending arrangements, a sharp correction in market prices may weaken collateral coverage and increase expected credit losses. Consequently, the legal duty to maintain asset quality and adequate risk management requires banks to reassess collateral sufficiency and provisioning requirements in response to significant market deterioration[13].

Viewed through a law-and-economics perspective, these developments illustrate that monetary shocks generate externalities extending beyond individual contractual relationships. The costs arising from widespread debtor distress, deteriorating loan quality, and declining financial confidence may ultimately be transferred to depositors, taxpayers, and the broader economy[14]. For this reason, prudential regulation functions not merely as a compliance mechanism but as an institutional device for internalizing systemic risk[15]. The concept of monetary shock as legal risk therefore provides a normative justification for enhanced supervisory intervention whenever exchange-rate depreciation and stock-market decline threaten the stability of the banking system.

A falling CSPI reflects declining market capitalization, reduced investor appetite, and frequently the exit of foreign capital from equity markets. In the banking context, CSPI weakness carries at least four legal-economic consequences. First, banks' own investment portfolios in equity instruments or mutual funds may depreciate[16]. Second, corporate debtors that have pledged shares as collateral face collateral value erosion[17]. Third, declining equity markets alter profit expectations, dampening demand for new credit[18]. Fourth, stock market weakness tends to transmit to credit markets as firms defer expansion and cut capital expenditure[19].

Bank credit conditions in an environment of rupiah weakness and CSPI decline typically pass through four stages. The first is heightened internal vigilance: credit committees tighten verification standards, require more conservative cash-flow projections, and review exposures in import-dependent sectors[20]. The second is credit repricing and collateral adjustment: lending rates are raised, tenors shortened, or supplementary collateral demanded[21]. The third is gradual NPL emergence, particularly among highly leveraged debtors with unhedged foreign-currency obligations[22]. The fourth is restructuring or intensive

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[22] K.P. Prabheesh, R. Anglingkusumo, and S.M. Juhro, "The Dynamics of Global Financial Cycle and Domestic Economic Cycles: Evidence from India and Indonesia," Economic Modelling 94 (2021): 831–842, https://doi.org/10.1016/j.econmod.2020.02.024.

collection, in which contract law, secured transactions law, and banking law operate in concert to prevent risk from becoming systemic default[23].

Empirical studies on Indonesia show that credit growth is determined by macro variables including the exchange rate, inflation, interest rates, third-party funds, and NPL ratios[24]. During periods of monetary stress, the credit channel can become impaired as banks encounter capital constraints, collateral valuations deteriorate, and firms defer financing demand[25]. Research on credit cycles further establishes that excessive credit expansion tends to be followed by abrupt tightening when external shocks materialize[26]. From a legal standpoint, when credit weakens under macro shocks, banks must not automatically characterize all debtor underperformance as individual default. Many payment failures during episodes of rupiah depreciation are systemic in character attributable to macro conditions rather than moral failure[27]. Banking law on credit restructuring must therefore be understood as a corrective instrument that avoids premature liquidation of debtors that retain viable business prospects. In EAL terms, restructuring is a social cost-reduction mechanism that is less expensive than compelled full enforcement when shocks are macroeconomic in origin.

Based on the foregoing analysis, this article proposes normative reconstruction in four directions. First, mandatory foreign-exchange stress testing. Banks should be required to conduct stress tests that explicitly model scenarios of rupiah depreciation, CSPI decline, and elevated credit burden on corporates with foreign-currency exposure. Results should constitute the basis for OJK's risk-based supervisory review, not to remain internal documents alone. Second, enhanced debtor exposure disclosure. Reporting obligations on foreign-currency exposure, currency mismatch, and sector concentration for material debtors should be strengthened and consolidated. Enhanced disclosure will improve price discovery, reduce information asymmetry, and support financial system stability. Third, clarification of the restructuring regime as a systemic protection instrument. Credit restructuring law should be unambiguously characterized as a systemic protection tool when shocks are macroeconomic in origin not as a permanent concession to chronic defaulters. This characterization is necessary to direct judicial interpretation, supervisory guidance, and market behavior towards resolution strategies that minimize social cost. Fourth, real-time data infrastructure for KSSK. The Financial System Stability Committee requires real-time data support to assess the relationships among exchange rate movements, CSPI behavior, credit quality, and liquidity conditions. Timely and granular data are the preconditions for early and proportionate intervention. These reconstructions do not weaken credit discipline they render it more rational by building it upon complete data and proportionate policy. Under EAL, a sound rule induces market actors to price risk accurately and prevents external costs from being shifted to the public

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[26] Joseph E. Stiglitz, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent* (New York: W.W. Norton, 2019).

[27] A. Widodo, "The Role of Integrated Islamic Commercial and Social Finance for Curbing Credit Cycles and Achieving Macroprudential Objective," Journal of Islamic Monetary Economics and Finance 3, no. 2 (2018): 139–180, https://doi.org/10.21098/jimf.v3i2.887.

without compensation[28]. Under monetary theory, a sound rule helps policy transmission operate without amplifying instability. Under legal philosophy, a sound rule makes financial stability an instrument of general welfare.

3.2. Risk Containment Through Prudential Regulation: Supervisory and Restructuring Mechanisms

The most immediate legal consequence of rupiah depreciation and CSPI decline is the intensification of banks' prudential obligations. Under Indonesia's banking law regime, banks are accountable not only to shareholders but to the public as collectors of community funds. Credit decisions must be grounded in reasonable risk analysis, exposure limitation, and stress testing against adverse macro scenarios. Failure to manage foreign-currency risk can result in asset quality deterioration, capital adequacy reduction, and supervisory sanctions. OJK, as the independent regulator and supervisor of the financial services sector, is mandated to ensure that banks implement sound prudential principles and governance. However, following P2SK, the discourse on OJK's independence has become more contested: certain consultation mechanisms between OJK and the legislature have raised concerns about the displacement of substantive independence. EAL demands a balance supervision must be sufficiently robust to prevent risk, but must not be so politicized as to obscure the technocratic function of oversight. The legal implications for banks translate into obligations to strengthen risk appetite frameworks, stress testing protocols, early warning indicators, and internal NPL resolution mechanisms. Banks with large exposures to import-intensive sectors, export-supply-chain manufacturing, or debtors with foreign-currency obligations are required to put in place hedging policies, enhanced covenants, and tighter monitoring. Modern banking law operates through a combination of hard rules and soft incentives: sanctions need not always take the form of formal penalties but may include elevated capital requirements, intensive supervision, and business expansion constraints.

Bank Indonesia's single statutory objective is to achieve and maintain the stability of the rupiah value. This mandate means that monetary policy cannot be viewed solely as inflation control; it simultaneously guards the credit financing system's stability. When the rupiah is under pressure, BI responds through interest rate adjustment, foreign exchange intervention, liquidity management, and macroprudential policy coordination, placing BI at the center of the relationship between the exchange rate, the CSPI, and bank credit. Research on the global financial cycle confirms that Bank Indonesia responds to exchange rate volatility and credit cycles to manage the risks associated with large and volatile capital flows. This demonstrates that monetary policy is not neutral with respect to credit, it shapes banks' capacity to extend financing and influences debtors' decisions to borrow. At the same time, excessively aggressive interest rate tightening can intensify pressure on high-risk debtors. The relevant monetary theory framework is therefore not unidirectional but one of interdependence among exchange rate, interest rate, credit, and market expectations.

From a legal perspective, BI's mandate requires clear legitimacy for each stabilization action. Foreign exchange market intervention, liquidity regulation, and interest rate adjustment are administrative-economic acts that are lawful by virtue of statutory authorization. Yet legitimacy demands accountability: BI must explain how its policies affect credit conditions and why specific choices were

[28] C. Yusuf, "Pengawasan terhadap Informasi Asimetri dalam Laporan Keuangan Perusahaan," *Jurnal Hukum Ius Quia Iustum* 29, no. 2 (2022).

made over alternatives. Legal philosophy enters here monetary authority is not limitless power but public power constrained by the objectives of welfare and stability.

3.3. Monetary Shock as Legal Risk: The Institutional Dimension

The legal significance of monetary shocks extends beyond their impact on individual banks and debtors. Exchange-rate depreciation and stock-market decline generate risks that are simultaneously private, regulatory, and systemic. Once these shocks threaten the stability of credit intermediation, they activate a network of statutory responsibilities distributed among Bank Indonesia, OJK, KSSK, and LPS. In this sense, monetary instability is transformed into legal risk because it alters the scope of institutional obligations and may trigger supervisory, interventionist, and crisis-management powers. Unlike ordinary commercial risks that remain internal to contractual relationships, monetary shocks create externalities capable of affecting depositors, creditors, investors, and the wider economy. The legal system therefore cannot remain passive. Banking law, monetary law, and financial-stability law collectively operate as mechanisms for internalising systemic costs before they materialise into financial crises. The concept of monetary shock as legal risk thus provides a doctrinal explanation for why supervisory authorities may legitimately intervene before actual insolvency occurs. The objective is not merely to preserve individual institutions but to maintain the continuity of financial intermediation and public confidence in the financial system.

This perspective reflects a broader evolution in financial regulation. Modern banking supervision is no longer confined to assessing the soundness of individual institutions; it increasingly focuses on the resilience of the financial system as a whole. Consequently, prudential obligations, macroprudential measures, and crisis-prevention mechanisms should be understood as interconnected legal responses to risks originating from monetary instability and capital-market volatility.

OJK plays a central role in macroprudential supervision. When exchange rates are volatile and the CSPI is declining, OJK must ensure that banks maintain financing quality, capital adequacy, risk management standards, and information transparency. The OJK Act grounds institutional authority in independence across regulatory, supervisory, examination, and investigation functions. Post-P2SK developments, however, signal that this independence cannot be construed as absolute autonomy detached from national coordination particularly in crisis conditions, where coordination is essential to prevent policy overlapping. Following P2SK, the financial sector is legally understood as an integrated ecosystem: banks, capital markets, finance institutions, and crisis authorities can no longer be managed in rigid silos. In the context of rupiah depreciation and CSPI decline, this integration is vital because shocks move across markets simultaneously. OJK must read the correlations between stock market weakness, liquidity pressure, credit quality, and bank lending behaviour. Supervision that examines each institution in isolation risks failing to detect systemic risk. OJK must also maintain a consumer and depositor protection perspective. Debtors affected by macro shocks cannot be treated as if they occupy equal bargaining positions with their banks. Where restructuring is warranted, OJK should encourage equitable schemes that nonetheless preserve market discipline. From an EAL standpoint, this corrects the perfect-market assumption: actual financial markets are permeated by information asymmetries, unequal bargaining power, and externalities. OJK's supervisory posture must occupy the median between protection and efficiency.

The PPKSK Act situates financial system crisis prevention and resolution as a coordinated inter-agency function. KSSK is not merely an administrative coordination forum but an institution with crucial authority that links early detection, stability monitoring, and systemic bank resolution. Rupiah depreciation and CSPI decline are early indicators that must be read as signals of potential crisis, requiring preventive action by KSSK. From an EAL perspective, crisis prevention is more efficient than crisis management: the costs of coordination and supervisory investment are substantially lower than the costs of bailouts, output contraction, unemployment, and reputational damage. P2SK reinforces this architecture by embedding financial system stability management within a broader integrated financial ecosystem. The consequence is that Indonesian banking law has migrated from a sectoral to a systemic model, evaluating banks not only by individual soundness but by their contribution to systemic resilience; this reflects a transformation where the objective of law is to sustain the continuity of the national economic function.

The existing legal regime provides a reasonably sound foundation but leaves three normative gaps. First, the relationship between exchange rate risk, stock market risk, and bank credit quality is not sufficiently explicit in any single integrated early-warning legal framework. Second, disclosure requirements on debtor and bank foreign-currency exposure are scattered across various technical regulations, impeding uniform early detection. Third, while P2SK strengthens coordination, it has not fully resolved the tension between technocratic independence and political influence in financial sector supervision. These gaps matter because in a crisis, speed of response determines the magnitude of damage. If data on foreign-currency exposure, collateral quality, and business sector pressure are not available in a timely fashion, legal responses will systematically lag. In legal-economic terms, information asymmetry amplifies social costs and enlarges moral hazard. The required reforms are not merely additional sanctions but the integration of data systems, cross-market risk reporting obligations, and operationally functional coordination mechanisms. In a legal-philosophical register, these reforms align with a conception of the rule of law that is not neutral towards social suffering. The rule of law in the financial sector must protect society from the domino effects of crisis. Legal certainty cannot be narrowly construed as procedural certainty alone it must also mean certainty of protection against systemic collapse. At this juncture, economic law converges with social justice.

Indonesia's existing legal framework already provides an adequate foundation for responding to exchange rate and stock market shocks. The challenge lies not in normative lacunae but in implementation fragmentation: each authority has a specific mandate, but these mandates are not always connected through crisis protocols genuinely responsive to exchange rate, asset price, and credit quality transmission. Forward-looking reform should be directed at three instruments. First, a mandatory stress-testing regime that explicitly incorporates rupiah depreciation, CSPI decline, and elevated debtor credit burdens for entities with foreign-currency exposure. Second, consolidated foreign-currency exposure and collateral sensitivity disclosure requirements for material debtors, enabling banks to price risk more accurately. Third, operationalised BI-OJK-KSSK-LPS coordination protocols establishing action thresholds from the early stage, so that liquidity tightening, credit restructuring, or market intervention can proceed before pressure matures into systemic crisis.

Philosophically, these reforms matter because banking law should protect not only bank balance sheets but the social function of credit as the engine of real economic activity. When the exchange rate weakens and equity markets correct, the risks are not solely private they are social risks that can affect workers,

entrepreneurs, and consumers. Prudential norms must therefore be read alongside principles of justice, proportionality, and public-interest protection, so that financial stability is understood as a precondition for sustainable economic welfare, not merely a technocratic interest. To strengthen the normative arguments advanced here, future research should integrate legal analysis with empirical indicators standard in financial stability scholarship. The most relevant variables include changes in the rupiah exchange rate, CSPI movements, credit growth, NPL ratios, capital adequacy ratios, loan-to-deposit ratios, and the proportion of credit extended to import-oriented debtors or those carrying foreign-currency obligations. With this configuration, researchers can assess whether rupiah depreciation and CSPI decline are genuinely correlated with credit quality deterioration, or whether effects are mediated by monetary policy responses and banking sector liquidity dynamics. This kind of enquiry also enables evaluation of the effectiveness of the existing legal regime. If the data show that CSPI decline and rupiah weakness systematically precede rising credit risk, banks' prudential obligations, OJK's risk-based supervision, and BI's lender-of-last-resort function should be understood as a mutually reinforcing normative chain. If the relationship weakens in specific sectors, policy can be calibrated more precisely for example, toward industries heavily dependent on imports, global supply chain finance, or debtors with rupiah revenues but foreign-currency liabilities. EAL here serves as the analytical tool for selecting interventions that yield the greatest social benefit at the lowest compliance cost.

4. Conclusion

This article demonstrates that rupiah depreciation and declines in the Composite Stock Price Index (CSPI/IHSG) should not be understood solely as macroeconomic disturbances but also as forms of legal risk capable of affecting bank credit quality, activating prudential obligations, and triggering regulatory intervention. Through multiple transmission channels including deteriorating debtor solvency, collateral devaluation, increased non-performing loan (NPL) risk, and pressure on bank liquidity and capital adequacy monetary shocks reshape the legal relationships among banks, debtors, supervisors, and financial-safety-net institutions. The analysis confirms that the legal consequences of these shocks operate on two interconnected dimensions. At the micro level, banks are required to strengthen prudential standards, enhance risk-management mechanisms, and utilise restructuring frameworks to preserve credit quality. At the macro level, Bank Indonesia, the Financial Services Authority (OJK), the Financial System Stability Committee (KSSK), and the Deposit Insurance Corporation (LPS) bear coordinated responsibilities for preventing the transmission of monetary instability into systemic financial crises.

The principal contribution of this article lies in the development of the concept of monetary shock as legal risk. Existing scholarship largely treats exchange-rate depreciation and stock-market decline as economic variables affecting financial performance and market behaviour. This study demonstrates that such shocks also possess normative significance because they alter legal obligations, expand supervisory responsibilities, and influence the institutional architecture of financial-system stability. By integrating monetary theory, law-and-economics analysis, and legal-philosophical perspectives, the article advances a framework through which financial stability can be understood not merely as an economic objective but as a legal value requiring prudential discipline, regulatory accountability, and public-interest protection. Accordingly, the article proposes four directions for legal and regulatory reform: the integration of mandatory foreign-exchange stress testing into supervisory review mechanisms, enhanced

disclosure of debtor foreign-currency exposure, risk-sensitive supervisory frameworks calibrated to external shocks, and real-time crisis-monitoring infrastructure within the KSSK framework. These measures are intended not to weaken market discipline but to ensure that risks generated by monetary volatility are identified, priced, and managed before they evolve into systemic instability. Ultimately, a resilient banking system depends not only on sound economic fundamentals but also on a legal framework capable of translating monetary shocks into timely, proportionate, and coordinated regulatory responses.

Supplementary data

The authors confirm that the supplementary data are available within this article.

Data Availability Statement

No new datasets were generated or analyzed in this study. The findings are derived from publicly available legal sources, including Indonesian legislation, regulatory instruments, official policy documents, and published academic literature. All materials used in this research are fully referenced in the manuscript, and no supplementary research data are associated with this article.

Declaration of Generative AI and AI-assisted Technologies

The authors did not use generative AI or AI-assisted technologies in the preparation, writing, or editing of this manuscript.

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Authors' contribution

Conceptualization, Reka Dewantara; methodology, Reka Dewantara; formal analysis, Reka Dewantara; investigation, Reka Dewantara; resources, Reka Dewantara; data curation, Reka Dewantara; writing original draft preparation, Reka Dewantara; writing review and editing, Reka Dewantara; visualization, Reka Dewantara; supervision, Reka Dewantara; project administration, Reka Dewantara. The author has read and agreed to the published version of the manuscript.

Conflicts of interests

The author declares no conflict of interest regarding the publication of this manuscript.

Ethical statement

Ethical approval was not required for this study because it is a normative legal research based exclusively on publicly available legislation, regulatory documents, and published scholarly literature.

The study did not involve human participants, animals, human biological materials, or identifiable personal data.

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