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# Trump Policy 2.0: Implications For Fiscal And Monetary Stability And The Resilience Of The Islamic Financial Sector In Indonesia

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## ABSTRACT

The protectionist policies implemented by the United States under Donald Trump, particularly through impor tariffs on trading partners, including Indonesia, have created uncertainty in global trade. These tariff increases will disrupt the economic stability of partner countries, including Indonesia. The impact can be reflected in fiscal stability, monetary stability, and the resilience of the financial sector, particularly Islamic finance. Therefore, this study aims to analyze how US tariff policy impacts these three pillars of economic stability using VAR and VECM methods. Data used ranges from 2016 to 2025. Overall, the VAR model estimation results indicate that all variables have a long-term relationship. Therefore, the VECM model, measured by the error correction term (ECT), estimates the impact of Trump's import tariffs on fiscal, monetary, and Islamic financial stability indicators. The variables with significant effects are state budget deficit, government debt, rupiah exchange rate, foreign exchange reserves, Indonesia Sharia Stock Index (ISSI), and Financing to Deposit Ratio (FDR). Meanwhile, the variables with insignificant effects are state revenue, inflation, and Non Performing Financing (NPF). Furthermore, in the short term, the variables with significant effects are all fiscal stability variables (state revenue, state budget deficit, government debt), and Islamic financial stability (ISSI and FDR). The variables with insignificant effects are monetary stability variables (rupiah exchange rate, inflation, foreign exchange reserves) and Islamic financial stability (NPF).

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## 1. INTRODUCTION

The 10% base tariff imposed by the United States on all countries has disrupted global trade flows, prompting a subsequent response from trading partner countries. This tariff increase not only reduces bilateral trade volume but also increases global uncertainty. Global uncertainty continues to be one of the biggest challenges for developing countries in maintaining domestic economic stability. Geopolitical conflicts are a source of uncertainty that further exacerbates the global economic situation (Ekasari et al., 2025). example, Russia's invasion of Ukraine disrupted global supply chains, particularly for energy and

food commodities. Middle East conflicts (Iran-Israel, Houthi-US, Israel-Palestine, and others) led to rising energy prices. Furthermore, the United States-China trade war has created uncertainty in international trade. Political dynamics and foreign policy in major countries like the United States have a broad impact on the Indonesian economy. One major source of uncertainty is the United States' economic policy, which has revived the "America First" agenda, particularly since Donald Trump became the president-elect of the United States, which has shocked financial markets. Trump's return to the global political stage in a second term, known as Trump 2.0, is projected to bring a more protectionist economic approach, aggressive import tariff policies, and uncertainty in international cooperation (Zhanaltay & Amirbek, 2025).

Trade tensions peaked in early 2025 when President Donald Trump imposed reciprocal tariffs on several countries, including Indonesia. In addition to the 10% base tariff on all imported goods, the tariffs also included an additional 32% tariff on Indonesian products exported to the United States. This was the US's response to the trade imbalance and what the US government considered unfair trade. Indonesia attempted to open negotiations with the United States, although the reciprocal tariffs on Indonesia remained unchanged. However, these negotiations aimed to reduce tensions and minimize the impact of the tariff policy on the domestic economy. These diplomatic efforts were undertaken in line with increasing pressure on the trade balance and declining export volume. Based on data from Reuters in April 2025, Indonesia's trade balance only had a surplus of USD 0.16 billion, the lowest since April 2020. This was supported by the value of Indonesian exports in January-April 2025 reaching USD 87.36 billion, an increase of 6.65% compared to the same period in 2024. Then the value of Indonesian imports in January-April 2025 reached USD 76.29 billion, an increase of 6.27% compared to the same period in 2024 (Statistik, 2025). Based on these data, the policy of increasing import tariffs could potentially cause global shocks that impact the fiscal sector, monetary sector, and financial sector of trading partner countries such as Indonesia.

As an open country, Indonesia is highly vulnerable to external shocks, including changes in US trade policy. The impact of Trump's protectionist policies, such as increased import tariffs, could impact Indonesia's export performance, the rupiah exchange rate, state revenues, and fiscal financing structures. Trade protectionism is often accompanied by stricter market access regulations in importing countries, such as restrictions on foreign companies participating in government procurement or certain industries (Meng et al., 2025). Global Macro Research states that increasing trade uncertainty and a backdrop of high inflation in the US will make it difficult for developing countries to navigate (Global Macro Research, 2024). Indonesia's primary export destination is the United States, and the US is a source of direct investment (FDI) in Indonesia, spanning various sectors, particularly mining, manufacturing, and services. Therefore, any policies implemented will impact various sectors in Indonesia (Luh et al., 2024). External dynamics such as these have the potential to impact national macroeconomic stability, both fiscal and monetary (Mrabet et al., 2025). Global shocks can cause exchange rate fluctuations, spikes in imported inflation, decreased state revenue from the export sector, and even increased government debt. Exchange rate volatility is a fundamental component of the competitiveness of export and import trade. Therefore, according to Mundell (1961), exchange rate fluctuations are not only a reflection of market forces but also a determinant of macroeconomic stability and competitiveness. For a country, geopolitical pressures, often considered exogenous, can pose significant challenges due to their unpredictable nature and potential for widespread economic disruption (Hodula et al., 2024).

On the other hand, the resilience of the Islamic financial sector is also a crucial concern. Amidst the dynamics of global uncertainty, the Islamic financial sector in Indonesia is beginning to demonstrate its

strategic role as an alternative economic pillar. Increased geopolitical tensions influence financial channels through uncertainty, leading to increased risk aversion and shifts in investment portfolio allocation and capital flows (Hodula et al., 2024). As part of a national financial system that is increasingly actively promoting its transformation into a global Islamic economic hub, Islamic banking and capital markets are not immune to global shocks. Changes in foreign policy, such as Trump 2.0's protectionist policies, can have indirect impacts through exchange rate transmission, stock market volatility, and changes in investment portfolio allocation (Luh et al., 2024). When Trump tariffs are implemented, companies exporting to that country will experience increased export costs, triggering a shift in stock market sentiment, particularly for investors who perceive tariff policies as a signal of economic uncertainty. The profit-sharing system in Islamic investments encourages fairer economic distribution and minimizes speculative elements that can exacerbate market volatility (Karimah et al., 2023).

Thus, Islamic investment has the potential to act as an adaptive stabilization instrument in response to global pressures. Furthermore, aggressive tariff policies impact not only the real sector and capital markets but also the stability of the banking sector, including Islamic banking. Global pressures will target the banking sector, as producers experience increased costs and decreased orders for export and import companies. Some companies will then experience pressure to cut production and adjust through restructuring (Wang et al., 2021). Therefore, it is important to examine how Trump 2.0 policies impact the resilience of the Islamic financial system in Indonesia. Thus, this study aims to assess the impact of Trump's tariff policy shock on fiscal stability, monetary stability, and the resilience of the Islamic financial sector in Indonesia. Using a quantitative approach based on a Vector Auto Regression (VAR) model, this study is expected to provide an empirical picture of the extent to which external pressure from US government policies can influence the internal conditions of the Indonesian economy, particularly from a Islamic economic perspective.

## **2. THEORETICAL FRAMEWORK AND HYPOTHESES**

### **2.1. Trump 2.0 Policy & Global Uncertainty**

US President Donald Trump imposed reciprocal tariffs on more than 90 trading partner countries, including Indonesia, aimed at increasing imports of US products and narrowing the trade surplus with its trading partners. The issuance of the new reciprocal tariff policy by the United States has received mixed reactions from several countries, including Indonesia, which imposed a 32% tariff on Indonesian goods, such as textiles and electronics. The imposition of US reciprocal tariffs has a significant impact on the competitiveness of Indonesian exports to the US. For example, if Indonesia exports goods such as textiles or electronics to the United States at a 32% tariff, their prices will increase. As a result, US consumers are more likely to purchase international or local products at lower prices. This causes Indonesia's export volume to the United States to decline, directly impacting Indonesia's trade balance. If exports decline, Indonesia's trade balance could experience a widening deficit, meaning more goods are imported than exported (Fisardi et al., 2024).

Indonesia, as a country with an open economic system, is highly dependent on international trade. The current global trade environment is leaning towards deglobalization, creating barriers to international trade, accompanied by stricter market access regulations for importing countries, such as policies that restrict foreign companies from participating in government procurement or certain industries (Meng et al., 2025). Furthermore, these policy changes can reduce the ability of exporting companies to access markets, and in some cases, can lead to complete market loss (Steinberg & Tan, 2023).

As explained in a study, the impact of United States policies will lead to increased global trade tensions and a decline in international trade volume (Fajgelbaum et al., 2024). Emphasize that developing countries are more vulnerable to the external policies of developed countries, particularly regarding tariffs and non-tariff trade barriers (Bown & Kee, 2011). When tariffs are increased, Indonesian exports are affected, reducing GDP, depressing the current account balance, and creating fiscal instability. Increased trade uncertainty due to trade war conditions will weaken investment, R&D spending, and corporate profits, and regions of China affected by US tariffs experience a greater decline in per capita income than regions with less tariff exposure (Benguria et al., 2022).

## **2.2. Fiscal Stability & the Impact of Global Shocks**

Fiscal stability refers to the measures taken by governments to manage state revenues and expenditures to influence the economy. This policy involves the use of state budget instruments, such as taxes, government spending, and public debt, to achieve macroeconomic goals. According to research increasing global tariffs can reduce exports, ultimately depressing state revenues and widening the fiscal deficit (Luh et al., 2024). Government debt also tends to increase as a strategy to finance the deficit. GDP per capita in several developing countries has slowed compared to that of developed countries, with worsening external conditions currently hampering progress in some countries (Global Outlook, 2025). Another study states that the impact of global shocks is stronger in countries with lower buffers, such as fiscal space and foreign exchange reserves (Boussard et al., 2024).

This finding suggests that the economies of fragile and conflict-affected countries (FCS) are more vulnerable to global shocks than non-FCS countries (low- and lower-middle-income countries), driven by procyclical fiscal responses exacerbated by a lack of effective expenditure controls. Global uncertainty narrows fiscal space in developing countries, making them more vulnerable to external volatility (Sakar et al., 2025). Another study found that there was a negative impact of the trade war, with companies with a higher proportion of exports to the United States in several developing countries showing negative market reactions (Wang et al., 2021). Furthermore, due to global uncertainty and the post-pandemic period, countries tend to increase debt and adjust spending to maintain a balanced state budget. Therefore, fiscal resilience is crucial for maintaining the sustainability of public policy when export revenues decline (Nursawitri et al., 2025).

## **2.3. Monetary Stability in a Global Uncertainty**

Monetary stability refers to the measures taken by central banks to control the money supply, interest rates, and liquidity in the economy to achieve price stability and sustainable economic growth. Monetary policy is an important tool used by financial authorities (central banks) to control the money supply, thereby mitigating the negative impacts of various situations and maintaining economic stability (Putri et al., 2025). A controlled (low and stable) inflation rate is an indicator of monetary stability. High inflation can erode people's purchasing power and disrupt economic stability. The rupiah exchange rate against the US dollar (USD) is an important indicator of monetary stability. A stable (non-volatile) exchange rate creates certainty for economic actors in trade and investment transactions. When the rupiah strengthens (against the USD), imported goods become cheaper, but exports become more expensive. Conversely, when the rupiah weakens, imported goods become more expensive, but exports become cheaper. One way to maintain financial system stability is through foreign exchange reserves, which are financial assets held in foreign currency. Adequate foreign exchange reserves can be used to maintain the stability of the rupiah exchange rate, repay foreign debt, and maintain investor confidence. High foreign exchange reserves demonstrate a country's ability to withstand external economic shocks.

Global uncertainty shocks have uneven impacts across countries depending on their structural characteristics, allowing central banks to mitigate some of the impacts of global uncertainty shocks, leading to smaller domestic currency depreciation and lower domestic interest rate increases at the expense of foreign exchange reserve losses (Kohler et al., 2023). Other research states that global uncertainty can affect economic growth, inflation, exchange rates, and unemployment rates in developing countries (Ardian & Putra, 2024). Furthermore, uncertainty can trigger volatility in financial markets, leading to higher exchange rate fluctuations and inflation. Other research shows that uncertainty positively and significantly affects inflation in the short term, along with GDP (Marasanti & Verico, 2024). Exchange rate volatility can significantly impact the trade balance, inflation, and foreign investment flows in developing countries like Indonesia, making managing exchange rate stability a top priority for monetary authorities in Indonesia (Purba et al., 2025). Another study shows that effective monetary policy can reduce economic fluctuations and support stable growth, such as after the financial crisis in Indonesia (Oanh et al., 2023).

#### **2.4. Islamic Financial Resilience**

The resilience of the Islamic financial sector is an important indicator in assessing the Islamic financial system's ability to withstand external shocks. One indicator, the Indonesia Sharia Stock Index (ISSI), reflects the performance of the Islamic capital market and its sensitivity to global economic dynamics. Another research shows that Islamic stocks in Indonesia have a higher risk profile during the pandemic and crisis than during periods of stability (Nofrianto et al., 2024). However, the impact of the pandemic and crisis is not as significant as that of Islamic stocks in Asia as a whole. Another study shows that uncertainty in US economic policy has a significant negative effect on Islamic stock prices in Indonesia (Setiawan & Satrianto, 2020). This means that high levels of US policy uncertainty (USEPU) will also affect Islamic stock prices in Indonesia. In addition to the capital market, indicators of Islamic financial resilience are also found in the banking sector. Geopolitical risk (GPR) negatively impacts banking stability in the US (Phan et al., 2022).

The main indicator of the banking sector is NPF, which measures non performing financing. Non performing financing includes financing that is substandard, doubtful, and bad. The higher the NPF, the higher the financing risk faced by Islamic banks, and this can indicate a decline in financing quality. Another research found that non performing loans have a significant impact on the supply and demand of financing, influencing the stability of Islamic banks' performance during the Covid-19 pandemic (Zainuri & Bawono, 2022). Another indicator is Financing to Deposit Ratio (FDR), which measures the comparison between the amount of financing disbursed by Islamic banks and the third-party funds collected. FDR indicates a bank's ability to finance customers compared to available funds. A high FDR level indicates aggressive financing but can indicate liquidity pressure if not balanced with good risk management. Other research show that when geopolitical risk is high, both medium-sized and large banks, measured by total assets and total loans, as well as banks specializing in commercial banking and savings, are at higher risk (Banna et al., 2023).

### **3. METHOD**

In this study, we present the methodology used to assess the impact of Trump's tariff policy shock on fiscal stability, monetary stability, and the resilience of the Islamic financial sector in Indonesia. The analysis is conducted using the Vector Autoregressive (VAR) model, a widely used econometric framework that allows for dynamic interrelations between variables (Ozcelebi, 2011). Specifically, we estimate three VAR models to capture various dimensions of the transmission of Trump's tariff policy.

The baseline model focuses on Trump's tariff policy and measures of fiscal stability such as state revenues, the state budget deficit, and government debt, while the first alternative model extends the baseline framework by incorporating measures of monetary stability such as the rupiah exchange rate, inflation, and foreign exchange reserves. The second alternative model extends the baseline framework by incorporating measures of the resilience of the Islamic financial sector in Indonesia such as Indonesia Sharia Stock Index (ISSI), Non Performing Financing (NPF), and Financing to Deposit Ratio (FDR). The baseline model allows us to assess the impact of Trump's tariff policy on fiscal stability, while the first alternative model provides insight into how Trump's tariff policy affects monetary stability, and the second alternative model provides insight into how Trump's tariff policy affects the resilience of the Islamic financial sector in Indonesia. Before explaining the model specifications, we first introduce the data sources and variables used in the analysis.

Data is taken from Bank Indonesia and Ministry of Finance websites for the period from January 2016 to March 2025 with a monthly frequency. The data period describes the conditions during Trump policy 1.0 (2017-2021), post Trump policy 1.0 (2021-2025), and Trump policy 2.0 (2025). (1) Trump tariff variable, uses import tariffs set by the US government to Indonesia when President Donald Trump was in office. (2) State revenue variable, uses the amount of state revenue of the Indonesian government. (3) State Budget deficit variable, uses the deficit of the Indonesian government's State Revenue and Expenditure Budget (APBN). (4) Government debt variable, uses Indonesian government debt consisting of foreign government debt and domestic government debt.

Next, to estimate the first alternative model, data is taken from the Bank Indonesia website for the period from January 2016 to March 2025 with a monthly frequency. (5) Rupiah exchange rate variable, using the rupiah exchange rate against the US dollar. (6) Inflation variable, using the inflation rate that occurred in Indonesia. (7) Foreign exchange reserve variable, using foreign exchange reserves held by the Indonesian government. Then to estimate the second alternative model, data is taken from the Financial Services Authority website and [www.investing.com](http://www.investing.com) for the period from January 2016 to March 2025 with a monthly frequency. (8) Indonesia Sharia Stock Index (ISSI) variable, using Indonesia Sharia Stock Index which is an index that describes all Islamic stocks included in the Islamic Securities List published by Financial Services Authority and listed on the main board and development board of Indonesia Stock Exchange. (9) Non Performing Financing (NPF) variable, using Non Performing Financing (NPF) ratio of Islamic commercial banks and Islamic business units in Indonesia. (10) Financing to Deposit Ratio (FDR) variable, using Financing to Deposit Ratio of Islamic commercial banks and Islamic business units in Indonesia.

**Table 1. Summary of Indicators and Calculation Methods**

Indicators	Definition	Calculation Method	Data source
<b>Trump Tariffs</b>	Import tariffs imposed by the US government on Indonesia when President Donald Trump took office	Tariffs (%)	World Trade Organization (WTO)
<b>State Revenue</b>	Indonesian government state revenue	State revenue log	Official website of Ministry of Finance
<b>State Budget Deficit</b>	The Indonesian Government's State Budget Deficit Compared to Gross Domestic Product	$(\text{State Budget Deficit} / \text{GDP}) \times 100$	Official website of Ministry of Finance
<b>Government Debt</b>	Indonesian government debt compared to Gross Domestic Product	$(\text{Government Debt} / \text{GDP}) \times 100$	Bank Indonesia's official website
<b>Rupiah exchange rate</b>	Rupiah exchange rate against the US dollar	Ln-rupiah exchange rate	Bank Indonesia's official website
<b>Inflation</b>	Changes in prices of goods and services in Indonesia	Inflation (%)	Bank Indonesia's official website
<b>Foreign</b>	Foreign exchange reserves held by the Indonesian	Foreign exchange	Bank Indonesia's official

exchange reserves	government	reserves ln	website
Indonesia Sharia Stock Index	An index that describes all Islamic stocks included in Islamic Securities List published by Financial Services Authority and listed on the main board and development board of Indonesia Stock Exchange.	Ln-Indonesia Stock Index	Sharia www.investing.com
Non Performing Financing (NPF)	Non performing financing divided by total financing of Islamic commercial banks and Islamic business units in Indonesia	(NPF / Total Financing) x 100	Official website of Financial Services Authority
Financing to Deposit Ratio (FDR)	Financing is shared with third party funds of Islamic commercial banks and Islamic business units in Indonesia.	(Financing / Third Party Funds) x 100	Official website of Financial Services Authority

#### 4. RESULTS AND DISCUSSION

In this section, it is explained the results of research and at the same time is given the comprehensive discussion. Results can be presented in figures, graphs, tables and others that make the reader understand easily. The discussion can be made in several sub-sections.

##### 4.1. Unit Root Test

The initial step in testing the VAR method is the stationarity test to ensure the data used is stationary. In this test, a unit root test is used, using the DJ (Dickey Fuller) test and the ADF (Augmented Dickey-Fuller) test. If the probability value is greater than 0.05 (prob > 0.05), it indicates that the data is not stationary. Conversely, if the statistical probability value is smaller (prob < 0.05), the data is stationary (Hasanah et al., 2020). The following are the results of the unit root test using the DJ (Dickey Fuller) test and the ADF (Augmented Dicky-Fuller) test:

Table 2. Results of the Unit Root Test at the Level Stage

Variable	ADF statistics (level)	Mackinnon 5% critical value	PP statistics (level)	Information
State Revenue	-8.479847	-2.887909	0.0000	Stationary
State Budget Deficit	-6.136782	-2.887909	0.0000	Stationary
Government Debt	-1.195638	-2.887909	0.6745	Non-Stationary
Rupiah exchange rate	-1.518195	-2.887909	0.5208	Non-Stationary
Inflation	-2.338872	-2.888669	0.1619	Non-Stationary
Foreign exchange reserves	-2.008289	-2.887909	0.2830	Non-Stationary
ISSI	-0.719903	-2.887909	0.8365	Non-Stationary
NPF	-1.7798332	-2.889474	0.3796	Non-Stationary
FDR	-4.553596	-2.888157	0.0003	Stationary
Import Tariffs	-1.295014	-2.887909	0.6300	Non-Stationary
Variable	ADF statistics (first-degree difference)	Mackinnon 5% critical value	PP statistics (first-degree difference)	Information
State Revenue	-9.272054	-2.888932	0.0000	Stationary

State Budget Deficit	-11.87693	-2.888411	0.0000	Stationary
Government Debt	-10.51105	-2.888157	0.0000	Stationary
Rupiah exchange rate	-11.27843	-2.888157	0.0000	Stationary
Inflation	-4.049711	-2.888669	0.0017	Stationary
Foreign exchange reserves	-10.00837	-2.888157	0.0000	Stationary
ISSI	-10.39921	-2.888157	0.0000	Stationary
NPF	-4.262547	-2.889474	0.0009	Stationary-
FDR	-10.08172	-2.888669	0.0000	Stationary
Import Tariffs	-10.41556	-2.888157	0.0000	Stationary

Source: Data processed by Eviews, 2025

Based on the results obtained from the unit root test using the Dicky Fuller test and the Augmented Dickey Fuller test at the level, the results of the stationary variables at the 5% significance level are the state revenue, APBN deficit, and FDR variables. Meanwhile, the results of the Dicky Fuller test and the Augmented Dickey Fuller test at the first difference level show that all variables are stationary at the 5% significance level.

#### 4.2. Optimal Lag Test

The optimum lag test is a step used to determine the optimal lag length for subsequent analysis in the VAR model (Febrianti et al., 2021). The criteria used to determine the lag are the Likelihood Ratio (LR), Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Information Criterion (SC), and Hannan-Quin Criterion (HQ). The following are the optimum lag test results, which show the highest number of asterisks (\*):

Table 3. Optimal Lag Results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	40.54809	NA	7.39e-11	-0.625925	-0.422510*	-0.543516*
1	78.78240	69.85113	1.22e-10	-0.130431	1.700301	0.611253
2	111.1258	54.11296	2.28e-10	0.478350	3.936400	1.879308
3	272.5917	245.3040	3.69e-11	-1.395994	3.689373	0.664238
4	429.7888	214.6346*	6.83e-12*	-3.188246*	3.524438	-0.468741
5	477.7839	58.14794	1.11e-11	-2.880460	5.459542	0.498319
6	541.7806	67.68878	1.48e-11	-2.880396	7.086923	1.157658

Source: processed data Eviews (2025)

Based on Table 3, it can be concluded that lag 4 is the most optimal lag because it has the most asterisks (\*) compared to the others. Therefore, lag 4 was selected as the best lag and will be used in further analysis.

#### 4.3. Cointegration Test

The cointegration test uses the Johansen test method, which aims to examine the long-term relationship between each variable. In this study, the cointegration relationship is determined by a trace statistic value greater than the critical value (trace statistic > 5% critical value), indicating that the

observed variables are cointegrated, indicating a long-term relationship. The cointegration test results are shown in the table below:

**Table 4. Cointegration Test Results**

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistics	0.05 Critical Value	Prob.**
None*	0.764318	759.7460	239.2354	0.0000
At most 1*	0.638548	425.1020	197.3709	0.0000
At most 2*	0.580140	316.2162	159.5297	0.0000
At most 3*	0.491814	223.3579	125.6154	0.0000
At most 4*	0.381487	150.9288	95.75366	0.0000
At most 5*	0.280843	99.52192	69.81889	0.0000
At most 6*	0.216856	64.24661	47.85613	0.0007
At most 7*	0.153422	38.09162	29.79707	0.0044
At most 8*	0.113092	20.27041	15.49471	0.0088
At most 9*	0.067073	7.428878	3.841465	0.0064

Source: processed data Eviews (2025)

Based on the cointegration test results in Table 4, it shows that all variables or 10 variables in the model have long-term relationships. Therefore, there is a cointegration relationship in this equation, so the next method used is the VECM (Vector Error Correction Model).

#### 4.4. Vector Error Correction Model (VECM)

The VECM model estimation in this study includes long-run and short-run equations. The criteria for cointegration equations are that if the t-statistic is >2%, the variable is considered significant at the 5% level. The following VECM estimation results are shown in the table below:

**Table 5. Results of the Vector Error Correction Model (VECM)**

Long-Term Cointegration			
Variables	Coefficient	T-Statistic	Information
<b>Fiscal Stability</b>			
State Revenue	-0.270374	0.75950	Not Significant
State Budget Deficit	-2.211322	3.79907	Significant
Government Debt	63.13414	3.34083	Significant
<b>Monetary Stability</b>			
Rupiah exchange rate	-76.29035	2.67400	Significant
Inflation	-1.780290	1.36877	Not significant
Foreign exchange reserves	-135.7303	4.94987	Significant
<b>Islamic Financial Stability</b>			
ISSI	6.762218	9.04489	Significant
NPF	5.373437	1.86131	Not significant
FDR	-1.367109	-11.5424	Significant
<b>Short-Term Cointegration</b>			
<b>Fiscal Stability</b>			

State Revenue	0.146543	2.27479	Significant
State Budget Deficit	0.066964	2.64185	Significant
Government Debt	-0.002602	-4.55529	Significant
<b>Monetary Stability</b>			
Rupiah exchange rate	0.000770	1.17398	Not significant
Inflation	0.014852	1.80468	Not significant
Foreign exchange reserves	6.72E-05	0.10137	Not significant
<b>Islamic Financial Stability</b>			
ISSI	-0.085418	-10.1086	Significant
NPF	-0.002067	-0.42270	Not significant
FDR	0.811537	3.64376	Significant

Source: processed data Eviews (2025)

Based on table 5, the results of the VECM model estimation which is then measured by the error correction term (ECT) so as to estimate the effect of Trump's import tariffs on the indicators of fiscal, monetary, and Islamic financial stability in the long and short term show that (1) state revenue with a coefficient value of -0.270374 and a t-statistic of 0.75950 means that import tariffs do not significantly affect state revenue in Indonesia. This could be caused by state revenue being more dependent on domestic factors such as taxes and PNPB, rather than directly on import tariffs from trading partner countries such as the US. Meanwhile, in the short term, the coefficient value of 0.146543 and a t-statistic of 2.27479 means that in the short term, US import tariffs significantly increase state revenue. This means that when import tariffs increase, state revenue increases. This can happen because countries look for new markets in other countries that offer lower import tariffs and then export goods in large quantities to countries that offer lower import tariffs. The Terms of Trade show that a large economy like the US can increase its export-import price ratio through tariffs, thereby reducing export revenues for the targeted countries (Rao et al., 2025).

(2) State budget deficit with a coefficient value of -2.211322 and a t-statistic of 3.79907 means that the increase in US import tariffs significantly reduces state budget deficit in the long term. This is likely due to adjustments in state spending or compensatory fiscal policies by the Indonesian government in response to external pressures such as spending efficiency or increasing alternative state revenues. While in the short term, state budget deficit with a coefficient value of 0.066964 and a t-statistic of 2.64185 means that the increase in US import tariffs significantly increases state budget deficit. This indicates an increased fiscal burden because it is possible that state spending will increase to maintain economic stability during global trade turmoil.

(3) Government Debt with a coefficient value of 63.13414 and a t-statistic of 3.34083 means that US import tariffs cause a significant increase in government debt in the long term. This shows that global pressures such as US import tariffs or the consequences of protectionist policies by President Trump encourage Indonesia to mine debt, both to maintain fiscal stability and support the exchange rate and foreign exchange reserves. While in the short term, government debt with a coefficient value of -0.002602 and a t-statistic of -4.55529 means that US import tariffs can actually reduce government debt significantly in the short term. This could be caused by debt repayment in the short term but substantially the negative direction in the short term is contrary to the results in the long term so that in the short term the government may tend to refrain from increasing debt and focus more on government budget efficiency.

As for the monetary stability indicators, namely (4) Rupiah exchange rate with a coefficient value of -76.29035 and a t-statistic of 2.67400, US import tariffs cause significant exchange rate depreciation in the long term. This could be caused by global uncertainty, thus increasing demand for dollars and encouraging capital outflow from developing countries. Meanwhile, in the short term, Rupiah exchange rate with a coefficient value of 0.000770 and a t-statistic of 1.17398, US import tariffs do not have a significant impact on the movement of the Rupiah exchange rate in the short term. This is because the Rupiah exchange rate tends to be influenced by government intervention or Bank Indonesia and other global factors. Monetary policy and import tariffs play a crucial role in the Indonesian economy, maintaining the stability of the rupiah exchange rate and inflation, as well as supporting economic growth (Pratama & Wanusmawatie, 2025).

(5) Inflation with a coefficient value of -1.780209 and a t-statistic of 1.36587, import tariffs do not have a significant effect on inflation in the long term. This is because most inflation is influenced by internal factors such as subsidies, food prices, and government policies. Moreover, currently the focus of the government during President Prabowo's period is on the food sector, so that inflation can be controlled. As stated on the official website of the President of the Republic of Indonesia (2024) that President Prabowo made food and energy self-sufficiency a top priority as a step to face global pressure. Meanwhile, in the short term, inflation with a coefficient value of 0.014852 and a t-statistic of 1.80468 means that inflation is still stable and is not significantly affected in the short term. This is likely due to the effect of tariffs not immediately suppressing the price of imported goods or caused by an effective price control policy.

(6) Foreign exchange reserves with a coefficient value of -135.7303 and a t-statistic of 4.94987 means that US import tariffs reduce foreign exchange reserves significantly in the long term. This could be caused by Bank Indonesia intervening in the foreign exchange market to maintain the stability of the Rupiah. Meanwhile, in the short term, foreign exchange reserves with a coefficient value of 6.72E-05 and a t-statistic of 0.10137 mean that in the short term there is no change in foreign exchange reserves, this is likely because BI maintains foreign exchange reserves to remain stable amidst global pressure through import tariffs by intervening in the foreign exchange market.

As for the Islamic financial stability indicator, namely (7) ISSI (Indonesia Sharia Stock Index) with a coefficient value of 6.762218 and a t-statistic of 9.04489, US import tariffs increase Indonesia Sharia Stock Index (ISSI). It is interesting because the Indonesia Sharia Stock Index (ISSI) actually increases with global shocks, this could be because investors are looking for more stable assets and based on the real sector when global uncertainty increases. Due to the principle of prudence in Islamic stocks, the Islamic stock index tends to be more resistant to speculation. ISSI with a coefficient value of -0.085418 and a t-statistic of -10.1086, US import tariffs reduce the Islamic stock index significantly in the short term. This is likely because investors experience panic with Trump's tariff policy, especially Trump 2.0, so investors react negatively by withdrawing funds from the Islamic stock market, especially from the real sector. (8) NPF with a coefficient value of 5.373437 and a t-statistic of 1.86131, import tariffs do not significantly affect NPF. This means that the quality of Islamic financing has not been directly affected by Trump's tariffs. This could reflect the resilience of the Islamic financial sector in conditions of global uncertainty. While in the short term, NPF with a coefficient value of -0.002067 and a t-statistic of -0.42270 means there is no significant influence on the quality of Islamic financing in the short term. This shows that the Islamic financial sector has resilience to global pressures in the short term.

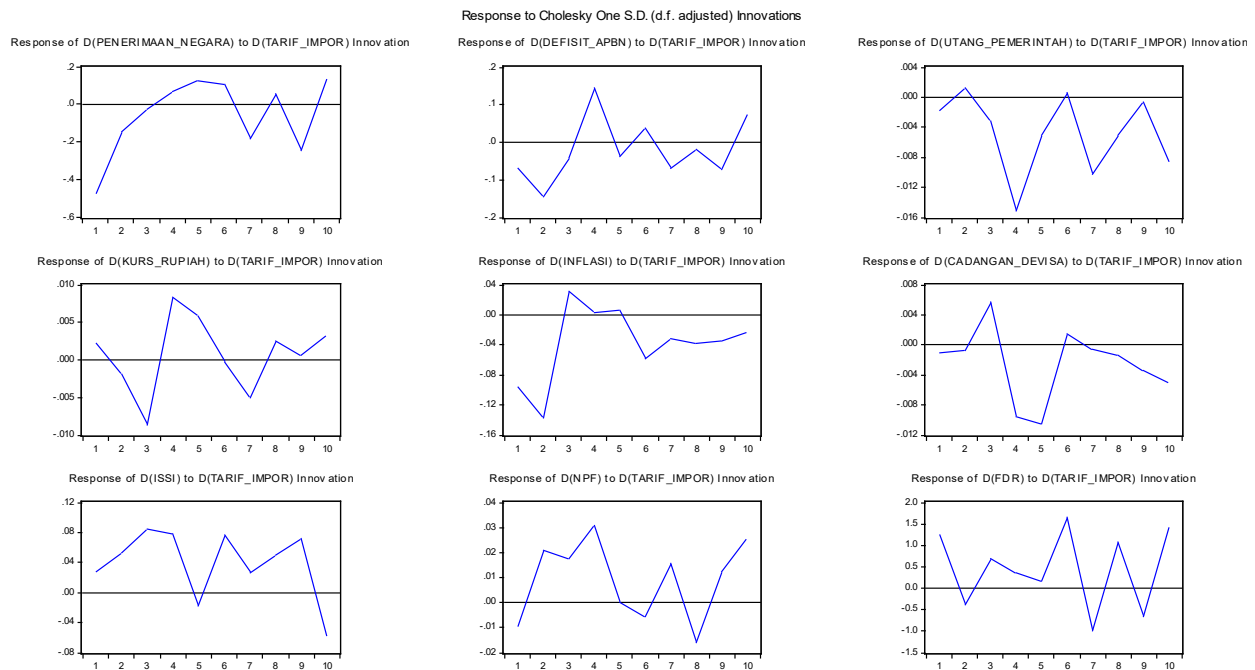
(9) FDR with a coefficient value of -1.367109 and a t-statistic of -11.5424, import tariffs can significantly reduce FDR. This shows that the decline in FDR indicates that the distribution of Islamic

financing has decreased, caused by decreasing demand or Islamic banks becoming more conservative in distributing funds when uncertainty increases. The level of non-performing financing (NPF) is quite high due to the instability of economic conditions, so banks will reduce the provision of financing (Munandar, 2022). Meanwhile, in the short term, the FDR coefficient is 0.811537 and the t-statistic is 3.64376. US import tariffs significantly increase the FDR in the short term. This indicates that Islamic banks are channeling more aggressive financing to the funds they collect, likely to maintain real sector activity amid global uncertainty.

#### 4.5. Impulse Response Function

The Impulse Response Function (IRF) illustrates how a shock to import tariffs impacts various variables, including fiscal stability (state revenue, state budget deficit, government debt), monetary stability (rupiah exchange rate, inflation, foreign exchange reserves), and Islamic financial stability (ISSI, NPF, FDR) over the next 10 periods. The graph below shows this:

**Figure 1. Results of Impulse Response Function (IRF) Analysis**



Based on the IRF results in Figure 1, (1) State revenue: in the initial period the response to import tariffs was sharply negative, then increased significantly until the 5th period, then fluctuated. The increase in import tariffs at the beginning of the period reduced the state, possibly due to a decrease in import volume. However, the subsequent period had a positive impact, possibly due to income adjustments. (2) State budget deficit: at the beginning of the period the response was fluctuating (up and down), but approached positive on average. This increase in import tariffs does not directly reduce state budget deficit consistently, but if it continues to suppress economic activity, it will worsen the state budget deficit. (3) Government debt: government debt due to US import tariffs has a mild but consistent negative impact. This is likely because the shock of import tariffs can reduce government debt in the short term, due to increased revenue or decreased foreign expenditure. Moreover, with President Prabowo's policy which tends to reduce debt and tends to emphasize budget efficiency. (4) Rupiah exchange rate:

The shock of US import tariffs provides a depreciatory response to the rupiah exchange rate against the US dollar. This could be due to policy uncertainty or pressure from a decline in international trade.

(5) Inflation: a negative response at the beginning of the period, then increased, but the findings remain below zero. Increased import tariffs actually reduced inflation in the short term, possibly due to decreased consumption or weakening demand. (6) Foreign exchange reserves: an initial positive response, then negative, and then stabilized. This was due to the import tariff shock, which initially increased foreign exchange reserves due to reduced imports, but this effect was not sustainable. (7) Indonesian Sharia Stock Index: a sharp increase until the third period, then fluctuated and declined. This reflects the market's perception of protectionist policies as an effort to support domestic industry, although the effects are short-term. (8) Non Performing Financing (NPF): NPF response tended to be negative, indicating that trade uncertainty, which drove higher import tariffs, did not significantly worsen the quality of Islamic financing. It could even be due to reduced financing in high-risk trade sectors. (9) Financing to Deposit Ratio (FDR): a significant positive response of up to 2% at the beginning of the period, then fluctuated. This could encourage increased financing to non-bank funds, possibly due to a shift in financial institutions' financing strategies following the protectionist policy or in response to external pressures.

## 5. CONCLUSION

Overall, the VAR model estimation results indicate that all variables have a long-term relationship. Therefore, the VECM model, measured by the error correction term (ECT), estimates the impact of Trump's import tariffs on fiscal, monetary, and Islamic financial stability indicators. The variables with significant effects are state budget deficit, government debt, rupiah exchange rate, foreign exchange reserves, the Indonesia Sharia Stock Index (ISSI), and Financing to Deposit Ratio (FDR). Meanwhile, the variables with insignificant effects are state revenue, inflation, and Non-Performing Financing (NPF). Furthermore, in the short term, the variables with significant effects are all fiscal stability variables (state revenue, state budget deficit, government debt), and Islamic financial stability (ISSI and FDR). The variables with insignificant effects are monetary stability variables (rupiah exchange rate, inflation, foreign exchange reserves) and Islamic financial stability (NPF).

Overall, the IRF results indicate that the import tariff shock has a significant short-term impact on several macroeconomic indicators and the Islamic financial sector in Indonesia. The largest responses occurred in state revenues, ISSI, inflation, and FDR, with effects lasting for most of the year, lasting four to six months. This indicates the need for vigilance in responding to global trade policy uncertainty, particularly those implemented by the United States, as they could disrupt fiscal, monetary, and financial sector stability in Indonesia. Contains a description of the conclusions and suggestions that answer questions and formulation of the problem with succinctly and clearly. Because, without a description of the clear cover, reviewers are and the reader would find it difficult to give an assessment of your article. Do not repeat the Abstract, or simply describe the results of research. Give a clear explanation regarding the possible application and / or suggestions related to the research findings.

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