ABSTRACT

Overtime, credit cycle and business cycle connection has increased which indicate that credit or lending creation also become more important to the real economic activity. Thus, it is also important to know how banking industry shocks could affect the macroeconomics conditions. In this case, the relationship between the financial sector and economic development has been an interesting topic to study by several researchers. This study also want to examine how would the unexpected credit spread shock will affect the macroeconomic conditions for both before the Covid-19 pandemic and after the Covid-19 Pandemic, and how the credit spread shock could explain the variability of the macroeconomic condition. This study using Structural VAR using monthly observation data from 2005M1 until 2022M6 and found that, the unexpected shocks in credit spread will contract the economy slightly deeper and increase the fluctuations in several macroeconomic variables. However, using FEVD, it found that credit spread shocks tend to affect the macroeconomy indirectly

Keywords: *Credit spread shocks, SVAR, macroeconomic*