



MARKET REACTION ON PT GARUDA INDONESIA DEBT RESTRUCTURING ANNOUNCEMENTS

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ABSTRACT

Corporate debt restructuring is a meaningful mechanism for firms in supervising their financial challenges. This study examines the market reaction to debt restructuring announcements by PT Garuda Indonesia, a prominent Indonesian airline facing financial distress. The research employs an event study methodology, analyzing stock price movements 7 days before and after key restructuring announcements. Data was collected from the Indonesia Stock Exchange (IDX). The method employed in this study was the Shapiro-Wilk to test the normality and paired sample t-test to test the hypothesis. The results show a significant difference in stock prices for the announcements on December 30, 2020 and December 29, 2023. These results provide implications that the market can provide a positive response or provide appreciation for corporate debt restructuring events as in the case of PT Garuda Indonesia. This study provides an understanding of market efficiency and the impact of corporate financial strategies related to debt issues that are still rarely found in the literature.

Introduction

Corporate debt restructuring has surfaced as an essential mechanism for firms navigating financial distress, particularly in the wake of economic skepticism such as the COVID-19 widespread. Debt restructuring tolerate companies to uncertain of their liabilities, as a consequence avoiding insolvency and ensuring operational continuity. Firms that engage in proactive debt restructuring are more presumably to preserve stakeholder value and maintain long-term viability (Campello, Graham, & Harvey, 2010). This is particularly relevant in industries with high capital intensity, where financial flexibility is crucial for sustaining operations. The strategic importance of debt restructuring has been further underscored by its role in mitigating the adverse effects of macroeconomic shocks on corporate balance sheets (Ding, Levine, Lin, & Xie, 2021).

The academic literature on debt restructuring has evolved significantly, with recent studies focusing on the interplay between corporate governance and restructuring outcomes. For instance, Effective governance can facilitate smoother entry and exit from bankruptcy, ensuring that the market mechanism functions properly (Yanagawa, 2014). This is because effective governance

reduces information asymmetry and aligns the interests of stakeholders, facilitating smoother negotiations. On the other way around, debt restructuring can boost corporate governance accomplishment in the short-lived by alleviating financial distress and reducing debt burdens (Zhou, Liu, & Peng, 2014).

Another critical dimension of debt restructuring is its impact on firm performance and market valuation. Empirical studies have shown that successful restructuring can steer to weight improvements in financial health and stock performance. Firms bearing debt restructuring experienced a marked lessen in default risk and an increase in shareholder value (Altman, Iwanicz-Drozdowska, Laitinen, Suvas, & accounting, 2017). Similarly, it is concluded from energy sector in India, that those firms demonstrated significant improvements in operating performance post-restructuring (Joshi & Desai, 2019).

The legal and regulatory background also plays a pivotal role in shaping debt restructuring outcomes. Recent research has examined how variations in bankruptcy laws across jurisdictions influence the likelihood and success of restructuring. Creditor-friendly legal frameworks tend to facilitate faster and more efficient restructuring processes (Djankov, Hart, McLiesh, & Shleifer, 2008). Conversely, overly stringent regulations can impede restructuring efforts, leading to suboptimal outcomes for all parties involved. This underscores the importance of regulatory reforms aimed at creating a balanced legal environment that supports both debtors and creditors during financial distress.

One company that still struggle with the financial distress problem is PT Garuda Indonesia. This company is a flag carrier of Indonesia that was founded in 1947, it is the second largest airline in Indonesia and has operated many routes across Asia, Europe and Australia. Garuda Indonesia has conducted an initial public offering in the Jakarta Stock Exchange in the year of 2011 by selling 6.335 billion shares to the public. Garuda Indonesia has experienced problem in its financial company, recently this company focus on the effort to restructuring its massive debt. From the Springate S-score analysis, the score is very low in the year of 2021, indicating the high probability of bankruptcy, although the score for 2022 was moderately improved, but it was getting worse again in 2023 (Sazly, Erri, Prana, & Dewi, 2024).

The market reaction to corporate debt restructuring has been a focal point of academic research, particularly as firms increasingly turn to restructuring to navigate financial distress. Debt restructuring often signals a company's efforts to address liquidity challenges and avoid bankruptcy, which can have significant implications for investor sentiment. While the study about market reaction is still rare in the literature, this study would like to investigate the market reaction of the debt restructuring of PT Garuda Indonesia, one of the prominent Indonesian companies that has been experienced debt restructuring program from the year of 2020.

Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH), posits that financial markets are informationally efficient, meaning that asset prices fully reflect all available information at any given time (Eugene F Fama, 1970). This hypothesis is rank into three forms: weak, semi-strong, and strong efficiency, each representing varying degrees of messages incorporation. The weak form suggests that past price movements and historical data cannot predict future prices, while the semi-strong form asserts that all publicly available information is instantly reflected in asset prices. The strong form extends this to include even private or insider information. Empirical studies, have supported the weak and semi-strong forms, weak form empirically revealed from the European Stock Market (Aktan, Iren, & Omay, 2019), while semi-strong form has been found recently in Russian Stock Market (Avrutskaya & Maricheva, 2021). These two samples indicated that market is efficient in dealing out information that is available to the public. However, the strong form has faced significant criticism due to evidence of insider trading and anomalies that challenge the notion of complete efficiency (Jensen, 1978).

Despite the theoretical appeal of the EMH, numerous empirical studies have identified market anomalies that challenge its validity. For instance, the momentum effect, demonstrates that

stocks with strong past performance continue to outperform in the short term, contradicting the weak form of EMH (Jegadeesh & Titman, 1993). Similarly, the value premium, shows that value stocks tend to outperform growth stocks over the long term, suggesting that markets may not fully incorporate fundamental information (Eugene & French, 1992). Behavioral finance scholars, argue that these anomalies arise due to cognitive biases and irrational investor behavior, which are not accounted for in the traditional EMH framework (Shleifer, 2000). These findings have led to a growing consensus that while markets are generally efficient, they are not perfectly so, and inefficiencies can persist due to psychological and institutional factors.

In recent years, the EMH has faced increasing scrutiny, particularly in light of financial crises and the rise of high-frequency trading (HFT). Critics argue that occurrence including the 2008 economic downturn reveal significant market inefficiencies and mispricing, which are inconsistent with the EMH (Lo, 2004). Additionally, the proliferation of HFT and algorithmic trading has introduced new complexities, with some studies suggesting that these technologies may exacerbate market inefficiencies by creating artificial liquidity and amplifying volatility (Kirilenko, Kyle, Samadi, & Tuzun, 2017). Furthermore, the growing influence of behavioral finance has provided alternative explanations for market dynamics, emphasizing the role of investor psychology and herd behavior. While the EMH dwell an elemental theory in finance, modern research increasingly acknowledges its limitations and advocates for a more refined comprehend of market efficiency that incorporates rational and irrational factors.

Event Study

Event studies are a widely used methodology in finance and economics to assess the impact of specific events on the value of firms or financial markets. The foundational framework for event studies was established by introducing the concept of using stock price movements to measure the economic impact of events such as earnings announcements, mergers, or regulatory changes (Eugene F Fama, Fisher, Jensen, & Roll, 1969). The methodology typically involves estimating abnormal returns, which are calculated as the difference between actual returns and expected returns derived from a market model, such as the Capital Asset Pricing Model (CAPM). This approach allows researchers to isolate the effect of the event from broader market movements. Over the years, the methodology has been refined to address issues such as event clustering, heteroskedasticity, and non-normality of returns (MacKinlay, 1997). Despite these advancements, the core principles of event studies remain rooted in the efficient market hypothesis, which assumes that markets quickly and accurately incorporate new information into asset prices.

Event studies have been extensively applied in corporate finance to evaluate the impact of corporate actions such as mergers and acquisitions (M&A), dividend announcements, and stock splits. For example, for the shareholders of the purchasing company, M&A announcements frequently resulted in short-term positive abnormal returns. According to studies on Indian manufacturing companies, for example, buying shares the day before and selling them the day after the announcement yields substantial gains (Gupta & Raman, 2022). Likewise, several studies showed that dividend announcements provide the market with important information that causes market prices to change significantly, one example can be seen in the Stock Market of Vietnam (Truong, Huong, & Van Anh, 2017). These applications highlight the versatility of event studies in capturing the market's reaction to a wide range of corporate events.

While event studies are a powerful tool, they still have a weakness. A primary challenge is accurately identifying the event window. For instance, a study on the Russia-Ukraine war observed that the impact was greater in the shorter window surrounding the event date (Mishra, Ansari, Bansal, & Maurya, 2024). Additionally, the presence of confounding events during the event window can distort the measurement of abnormal returns. To address these issues, researchers have developed advanced techniques like multi-factor models, robust standard errors, and non-parametric tests. Another area of innovation is the application of event studies to non-traditional

settings, such as the impact of macroeconomic announcements, regulatory changes, or geopolitical events on financial markets (Binder, 1998). Furthermore, the rise of big data and machine learning has enabled more sophisticated analysis of high-frequency data, allowing researchers to capture market reactions with greater precision. These advancements underscore the ongoing relevance and adaptability of event studies in financial research.

Market Reaction on Debt Restructuring Announcement

Debt restructuring announcements are critical corporate events that often signal a firm's financial distress or strategic realignment, prompting significant market reactions. According to the signaling theory, such announcements convey information to investors about the firm's future cash flows and risk profile, leading to adjustments in stock prices (Ross, 1977). Empirical studies have shown that the market's reaction to debt restructuring announcements is generally negative. In reality, even five years after debt restructuring, the restructured firms' performance was still much worse than that of their industry counterparts, and they were unable to recover (Kaur & Srivastava, 2017). The magnitude and direction of the reaction can vary depending on the type of restructuring, such as debt-for-equity swaps, maturity extensions, or interest rate reductions. The firm's prior financial health also influences the market's response, the credibility of the restructuring plan, and the broader economic environment. These factors underscore the complexity of interpreting market reactions to debt restructuring announcements.

Empirical research has consistently demonstrated that debt restructuring announcements are associated with negative abnormal returns, reflecting investor concerns about the firm's financial viability. This adverse response is consistent with signaling theory, which postulates that refinancing can be a sign of unfavorable circumstances such as trouble paying down existing debt or a lack of prospects for future growth (Grossmann & Ngo, 2025). Similarly, another study observed that the market reaction to debt restructuring is more severe for firms with higher leverage and weaker cash flows, as these firms are perceived to have a higher risk of default (Franks & Torous, 1994). However, other studies have noted that the market reaction can be less negative or even positive if the restructuring is seen as a proactive measure to improve financial stability and avoid more severe outcomes, such as liquidation (James, 1996). These findings highlight the nuanced nature of market reactions to debt restructuring announcements.

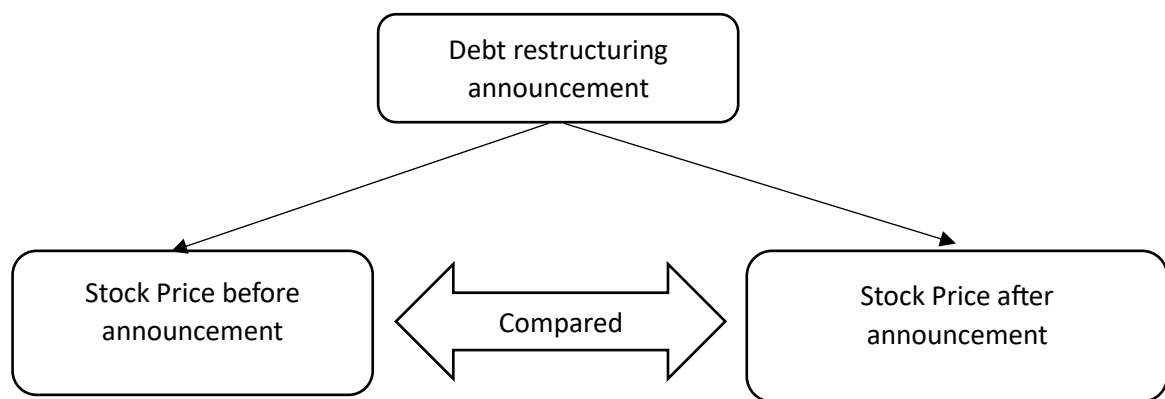
The market's reaction to debt restructuring announcements is not uniform and can be influenced by several moderating factors. For example, the involvement of institutional investors or creditors in the restructuring process can mitigate negative market reactions, as their participation is often seen as a vote of confidence in the firm's recovery prospects (Hotchkiss & Mooradian, 1997). Additionally, the transparency and credibility of the restructuring plan play a crucial role in shaping investor perceptions. Firms that provide clear and detailed information about their restructuring strategies tend to experience less severe negative reactions (DeAngelo, DeAngelo, & Wruck, 2002). In the long term, the success of debt restructuring in restoring financial health and improving firm performance can lead to a reversal of initial negative market reactions. However, firms that fail to achieve their restructuring goals often face continued skepticism from investors and further declines in stock prices. These dynamics highlight the importance of effective communication and execution in debt restructuring processes.

Hypothesis Testing

Signaling theory states that company statements tell investors about the company's risk profile and future cash flows, which causes stock prices to fluctuate (Ross, 1977). In term of debt restructuring, signaling theory view that this may indicates adverse conditions such difficulties repaying current debt or a lack of opportunities for future progress of company (Grossmann & Ngo, 2025). This study hypothesizes that there is a significant divergence in the share price of PT Garuda Indonesia previous and afterward the statement of its debt restructuring, as debt restructuring announcements often signal financial distress and prompt market reactions. Empirical studies have shown that debt restructuring announcements are generally associated with

negative abnormal returns, reflecting investor concerns about the firm's financial viability (Asquith, Gertner, & Scharfstein, 1994; Franks & Torous, 1994). Additionally, some opinions highlight that such announcements convey information about the firm's future cash flows and risk profile, leading to stock price adjustments (Gilson, John, & Lang, 1990). However, the market reaction can be less negative or even positive if the restructuring is perceived as a proactive measure to improve financial stability (James, 1996). Therefore, this study aims to test whether the announcement of PT Garuda Indonesia's debt restructuring led to a significant change in its stock price, considering the nuanced nature of market reactions to such events. In doing so, the event study will be deployed to contrast the price of stock before and after the event of debt restructuring announcement in certain moment during years of restructuring process of this company.

H1: There is a difference in the share price of PT Garuda Indonesia 7 days before and after the announcement of debt restructuring.



Source: Research Data, 2025

Figure 1. Research Model

Research Method

Event study as a research approach that attempts to study the information content in an event or incident, where the market responds to the event. Quantitative research is used in this investigation and the type of data is secondary data which sourced from www.idx.co.id.

Company used in this study is PT. Garuda Indonesia Tbk. This company has experienced financial distress for many years and has entered series of debt restructuring programs since the year of 2020 onwards.

Operational definition of variable for measuring the market reaction is using stock price of PT Garuda Indonesia. The share price data taken in this study covers the time window, which is 7 days previous and 7 days afterward the statement of debt restructuring. During this window periods, the market behavior will be examined. Whether there will be a significant reaction related to the announcement of debt restructuring or not.

The estimation techniques to make an analysis in this research are descriptive statistics, normality test, and hypothesis test. We use Shapiro Wilk to test normality and paired sample t test to test the hypothesis. This method has been used extensively by many authors in the event studies research (Darmayanti, Mildawati, & Susilowati, 2020; Febriyanti, 2020; Panjaitan, 2022; Putri, 2020; Santoso, 2014; Saragih, 2019).

Result and Discussion

The important date related with the debt restructuring process of PT Garuda Indonesia are as follow:

1. On December 30, 2020, Garuda Indonesia signed a debt restructuring agreement with PT Pertamina to extend the debt repayment period for three years.
2. On September 2, 2021, Garuda Indonesia reached a debt restructuring agreement with 11 creditors, including LPPNPI (AirNav), which agreed to debt restructuring during 2020 with installment payments until 2023.
3. On June 29, 2021, Bank BRI and BNI approved the restructuring of Garuda Indonesia's short-term loans by converting part of the loans into long-term loans maturing in 2026.
4. On June 17, 2022, in the process of Suspension of Debt Payment Obligations (PKPU), the majority of creditors approved Garuda Indonesia's debt restructuring proposal, allowing the company to continue its operations.
5. On 28 December 2022, Garuda Indonesia completed the restructuring process by issuing New Debt Certificates and New Sukuk, marking the completion of the corporate debt restructuring process.
6. On 29 Desember 2023, Garuda Indonesia conducted the payment of bond and sukuk partially, reducing the number of corporate debts.

The supervene are the outcome of descriptive statistics for the share prices of PT. Garuda Indonesia Tbk which are provided in table 1.

Table 1
Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
7 days previous 30 Des 2020	7	432	462	442.57	11.646
7 days afterward 30 Des 2020	7	398	416	408.00	7.303
7 days previous 2 Sept 2021	7	222	222	222.00	.000
7 days afterward 2 Sept 2021	7	222	222	222.00	.000
7 days previous 29 Juni 2021	7	222	222	222.00	.000
7 days afterward 29 Juni 2021	7	222	222	222.00	.000
7 days previous 17 Juni 2022	7	222	222	222.00	.000
7 days afterward 17 Juni 2022	7	222	222	222.00	.000
7 days previous 28 Des 2022	7	204	204	204.00	.000
7 days afterward 28 Des 2022	7	163	204	191.43	16.712
7 days previous 29 Des 2023	7	70	77	72.43	2.992
7 days afterward 29 Des 2023	7	73	76	74.29	.951
Valid N (listwise)	7				

Source: Processed Data, 2025

Normality Test Results

Shapiro Wilk is used to test the normality of the data because the research data is less than 50. The outcomes are presented below.

Table 2
Saphiro-Wilk Result of Tests of Normality

	7 days before	7 days after
Stock price on 30 December 2020	.230	.271
Stock price on 2 September 2021	Omitted	Omitted
Stock price on 29 June 2021	Omitted	Omitted
Stock price on 17 June 2022	Omitted	Omitted
Stock price on 28 December 2022	Omitted	.040
Stock price on 29 December 2023	.053	.183

Source: Processed Data

The normality test for the 7 days before and after December 30, 2020 showed significance values of 0.230 and 0.271. The value is above 0.05 so it can be sum up that the research data is normally distributed. On December 30, 2020, PT. Garuda Indonesia signed a debt restructuring agreement with PT Pertamina, the state company of oil and gas that supply PT Garuda Indonesia plane fuel, to extend the debt repayment period for three years.

The outcome of the normality test for the 7 days before and after September 2, 2021 cannot provide quantitative results because the stock price on that date is the same, namely at 222. Thus, this differential test cannot be carried out. On September 2, 2021, Garuda Indonesia reached a debt restructuring agreement with 11 creditors, including LPPNPI (AirNav), which agreed to debt restructuring during 2020 with installment payments until 2023.

The outcome of the normality test for the 7 days before and after June 29, 2021 cannot provide quantitative results because the stock price on that date is the same, so this difference test cannot be carried out. On June 29, 2021: Bank BRI and BNI approved the restructuring of Garuda Indonesia's short-term loans by converting part of the loans into long-term loans maturing in 2026.

The outcome of the normality test for the 7 days before and after June 17, 2022 cannot provide quantitative results because the stock price on that date is the same and no further test can be carried out. On June 17, 2022, the company was in the process of Suspension of Debt Payment Obligations (PKPU), the majority of creditors approved Garuda Indonesia's debt restructuring proposal, allowing the company to continue its operations.

The outcome of normality test 7 days before 28 December 2022 cannot be quantitatively concluded, however the result 7 days after value was 0.040 where it was less than 0.05. Consequently, the normality test of 7 days before was not normally distributed. Even though the result of 7 days after was normal, but this pair of data cannot be processed using statistical method. On this date, Garuda Indonesia completed the restructuring process by issuing New Debt Certificates and New Sukuk, marking the completion of the company's debt restructuring.

The normality test for the 7 days before and after December 29, 2023 showed significance values of 0.053 and 0.183. The value is above 0.05 so it can be concluded that the research data is normally distributed. Garuda Indonesia repaid part of the debt securities and sukuk, reducing the company's total debt.

Based on the outcome of the normality test as presented in the table 2 above, it is evident that just two out of six announcement date can pass the normality test. Therefore we will just use those two announcement date, they were 30 December 2020 and 29 December 2023 to the later stage, the hypothesis test.

Hypothesis Test Results and Discussion

Paired Sample t-test used to test the hypothesis because the research data shows a normal distribution. We will process the hypothesis test for the two announcements date that will be explained below.

a. Stock Price Difference Test 7 Days Previous and Afterward 30 December 2020.

On December 30, 2020, Garuda Indonesia signed a debt restructuring agreement with PT Pertamina to extend the debt repayment period for three years.

Table 3

Paired Sample t-test results 7 days previous and afterward 30 December 2020

		t	df	Sig. (2-tailed)
Pair 1	Stock price - 7 days pre & post 30 Des 2020	76.657	13	.000

Source: Processed Data

Table 3 shows a significance value of 0.000 which means that there is a divergence in the stock price in the 7 days before and 7 days after December 30, 2020.

b. Stock Price Difference Test 7 Days Previous and Afterward 29 Desember 2023

On 29 December 2023, Garuda Indonesia conducted the payment of bond and sukuk partially, reducing the number of corporate debt.

Table 4
Paired Sample t-test results 7 days previous and afterward 29 December 2023

		t	df	Sig. (2-tailed)
Pair 1	Stock price - 7 days pre & post 29 Des 2023	123.399	13	.000

Source: Processed Data

Table 4 shows a significance value of 0.000 which means that there is a divergence in the stock price in the 7 days before and 7 days after December 29, 2023.

The result of those two statistical estimation revealed that announcement of debt restructuring programs has attracted the reaction of market. Further, market have seen this corporate action as a signal that convey the message to the market participant about the future cash flow and the change in the risk profile of company. Therefore this announcement signal is significant that end up in the stock prices adjustment (Ross, 1977).

The debt restructuring program usually seen as a signal of poor management decision or financial instability. Therefore, the announcement of this action generally responded negatively by market (Asquith et al., 1994; Franks & Torous, 1994; Gilson et al., 1990). However, this is different in PT Garuda Indonesia case, it can be seen from the value of the t value which is positive, reflecting that the stock price of post announcement were higher than the before, means that market reacted positively for this event. Perhaps this was caused by the type of restructuring process which is conducted by extension of debt and the partial payment of debt by PT Garuda Indonesia. Another possible reason is because the credibility of restructuring plan that in this case, backed by the government as the owner of PT Garuda Indonesia, and so obtain the market trust because government is credible institution.

This result that market reaction was positive or market participants appreciate the announcement of debt restructuring might be caused by the reason that this action is a proactive and strategic corporate action to improve the financial condition of firms. Moreover, by doing so, the company can avoid more detrimental outcome of financial distress such as the bankruptcy or liquidation (James, 1996). Therefore, the debt restructuring program has been seen as should be appreciated because will save the prospect of company in the future.

Conclusion

The findings reveal significant stock price differences for the two analyzable dates, with significance values of 0.000, indicating strong market reactions to the restructuring announcements. On December 30, 2020, Garuda Indonesia signed a debt restructuring agreement with PT Pertamina, leading to a notable difference in stock prices. Similarly, the December 29, 2023 announcement of partial bond and sukuk repayments also resulted a significant market response. These outcomes in line with prior probes suggesting that debt restructuring signals the positive market respond. This is because market assume that this is a proactive action to avoid the more destructive outcome for company. This study supply to the comprehend of market efficiency and investor behavior in emerging economies such as Indonesia, particularly in response to corporate debt problems. Limitations of this study include the lack of stock price variability for some announcement dates, which restricted the scope of analysis. Subsequent-

studies could amplify the sample size or integrate additional variables, for instance trading volume or macroeconomic factors, to provide a more comprehensive assessment of market sentiments to debt restructuring events. Overall, the study extends valuable insights for policy-makers, investors, and corporate managers in directing firm facing financial distress in volatile markets.

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