

## DEBT MANAGEMENT: STRATEGIES TO MINIMISE FINANCIAL RISK

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### Abstract

Debt management: Strategies to minimize financial risk are a set of practices and strategies implemented by an individual or company to effectively manage debt. The goal is to meet payment obligations on time, reduce liquidity and credit risks, and stabilize debt costs by diversifying financing sources and using hedging instruments. The research methodology was conducted using a literature review approach. The results of this study indicate that good cash flow management is a key factor in minimizing liquidity risk, including measures such as aligning debt repayment plans with income sources and maintaining adequate cash reserves. Diversified funding sources have also been shown to be effective in reducing concentration risk and reliance on a single loan type or creditor, while hedging instruments such as interest rate swaps and foreign exchange forwards help stabilize borrowing costs. In addition, the results show that consistent and structured credit assessments can strengthen credit risk control and reduce default risk. Companies that actively assess their own credit and use detailed credit reports are better able to handle credit issues. The use of scenario analysis and stress models in risk profile management also provides important insights to support better decision-making.

**Keywords:** Debt Management, Strategy, Financial Risk

### Introduction

Debt management is an important aspect of financial management, both at the individual and business level. Debt, simply defined as an obligation that must be repaid in the future, can be a very powerful tool to achieve financial goals such as business expansion or asset purchases (Aquanno, 2021).

Debt often stems from a loan agreement, such as a bank loan, bond, or credit card, in which the borrower agrees to repay the borrowed amount plus interest and related fees on a specified date. In the business world, debt is often used as a tool for expansion, investment, and financing day-to-day operations (Badi & Ishengoma, 2021). While debt can help improve financial and operational performance, failure to manage debt can have serious consequences, including liquidity difficulties, credit deterioration, and even bankruptcy (Tahir & Ahmed, 2021).

Effective debt management is essential to achieving financial stability and sustainable growth. Through good debt management, companies can ensure that they have sufficient liquidity to meet payment obligations without sacrificing key investments or operations. In addition, good debt management also helps optimize the company's capital structure, maximize shareholder value and minimize capital costs