INTERNATIONAL JOURNAL OF SOCIAL SCIENCE, EDUCATIONAL, ECONOMICS, AGRICULTURE RESEARCH AND TECHNOLOGY (IJSET) | ISSN (E): 2827-766X
Website: https://ijset.org/ | Volumes 5 No. 7 (2026)

GLOBAL INTEREST RATE DYNAMICS AND THEIR IMPLICATIONS FOR THE COST OF CAPITAL: A SYSTEMATIC LITERATURE REVIEW COMPARING DEVELOPED AND DEVELOPING COUNTRIES

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Received: 01/04/2026 | **Revised** : 10/04/2026 | **Accepted:** 15/05/2026 | **Published** : 24/05/2026

Abstract

This study aims to analyze the dynamics of global interest rates and their impact on the cost of capital. Using the Systematic Literature Review (SLR) method, this study identifies, evaluates, and synthesizes scientific literature published between 2020 and 2025, and integrates macroeconomic data from the Trading Economics database. The analysis shows that the global Weighted Average Cost of Capital (WACC) has experienced a significant increase, from an average of 7.00% in 2020 to 8.00% in 2024, driven by increases in the risk-free interest rate and market risk premium. The findings of this study reveal asymmetric heterogeneity in impacts: interest rates in developed countries are more influenced by global and regional factors (above 50%), while in developing countries, domestic factors still dominate (77.9%), although vulnerability to fiscal spillovers from the United States remains high. In addition, high interest rates are found to hinder investment in strategic sectors, particularly capital-intensive renewable energy projects. This study concludes that companies need to adopt artificial intelligence (AI)-based financial management systems for real-time monitoring of capital costs and strengthening ESG performance to mitigate funding risks amid global market volatility.

Keywords: *Global Interest Rates, Cost of Capital, WACC, Systematic Literature Review*

1 Introduction

Interest rates are the main instrument in monetary policy that affects economic stability and investment decisions. In financial theory, interest rates are the main component in determining the *cost of capital*, especially the cost of debt and the expected rate of return of investors. In recent years, the dynamics of global interest rates have shown an increasingly complex pattern. Based on data from Trading Economics (2026), there is a significant difference in interest rates in G20 countries. For example, Turkey recorded interest rates above 35%, Brazil around 13-14%, while Japan and Switzerland were at near-zero levels. These differences reflect the heterogeneity of macroeconomic conditions, including inflation, fiscal stability, and monetary policies implemented by each country. In the global context, interest rate differences between countries are an important phenomenon that affects international capital flows. Based on data from Trading Economics, interest rates in G20 countries show significant variations, such as Turkey at 37%, Brazil at 14.75%, Russia at 15%, while Japan is only 0.75% and Switzerland is even 0%. These differences reflect diverse economic conditions, including inflation, macroeconomic stability, and central bank policies. Developing countries tend to have higher interest rates due to greater risk, while developed countries have relatively stable and low interest rates (Trading Economic, 2026). In addition, G20 economic growth has been relatively stable in recent years, with growth ranging from 0.6% to 1.0% per quarter during 2023-2024. This shows that although the global economy is stable, interest rate policies remain variable and affect the financing structure of companies (OECD, 2025). The core problem in corporate financial management arises when policy interest rate hikes consistently push *the cost of capital* to higher levels. Theoretically, interest rates are a fundamental component in determining *the Weighted Average Cost of Capital* (WACC), which includes the cost of debt (*Cost of Debt*) and the cost of equity (*Cost of Equity*). Empirical data show that the global WACC has increased from an average of 7.00%

in 2020 to 8.00% in 2024, driven by rising *risk-free rates* and increased market risk premiums due to investors' risk aversion (Martinez et al., 2025). The difference in interest rates has important implications for the company's financing structure. Companies operating in countries with high interest rates will face greater borrowing costs, thus increasing the *cost of capital*. In contrast, low-interest rates countries provide opportunities for companies to obtain financing at a lower cost, thus encouraging investment expansion. In addition, global financial integration also strengthens linkages between countries. Changes in interest rates in large economies, such as the United States, can trigger global capital flows that impact developing countries. This condition shows that interest rates function not only as a domestic variable, but also as a global variable that affects the stability of the international financial system.

Research on the dynamics of global interest rates shows that there is a strong relationship between countries. A study by Caldara et al. (2024) in *the Journal of Monetary Economics* found that changes in interest rates in large countries have a significant *spillover* effect on other countries, especially developing countries. This shows that monetary policy has an impact not only domestically but also globally. In addition, research by Rey (2023) in the *Review of Economic Studies* proposes the concept of a global *financial cycle*, where global interest rates are influenced by the monetary policies of large countries such as the United States. This condition causes *the cost of capital* in various countries to become interconnected. Research by Shambaugh and Zhou (2024) found that interest rates are not only influenced by domestic factors, but also by globally and regional factors that are integrated with each other. The study shows that more than 50% of interest rate variations in developed countries can be explained by global and regional factors, while in developing countries, domestic factors still play a dominant role but are still significantly influenced by global factors. These findings reinforce the view that interest rates are a global phenomenon that cannot be separated from international economic dynamics. In this context, the relationship between interest rates and *cost of capital* becomes increasingly complex due to cross-border interactions that affect the company's financing structure.

On the other hand, research by Schäfer and Semmler (2024) highlights the impact of interest rate hike policies on economic stability. The study found that overlyhigh interest rate policies can create *trade-offs* between inflation control and financial stability, and potentially hamper economic growth. In the context of companies, this condition can increase *the cost of capital* and reduce investment incentives. Global interest rate changes have a significant spillover effect on other countries through the mechanism of capital flows. Developing countries tend to be more vulnerable to changes in global interest rates, which can increase the volatility of *cost of capital* and investment risk. Overall, various previous studies have shown that interest rates have a very important role in determining the *cost of capital*, both through direct and indirect mechanisms. However, most of the research still focuses on the context of a specific country, so it does not provide a comprehensive picture of the relationship on a global scale. Therefore, this study is here to fill this gap by integrating various empirical findings through the *Systematic Literature Review approach*.

To achieve the objectives of this research, the following research questions were formulated:

1. How do the dynamics of global interest rates recorded in Trading Economics data affect the cost of capital?
2. How does the impact of interest rate fluctuations on financial conditions compare between developed and developing countries?
3. What are the implications of these macroeconomic dynamics on the company's investment strategy, capital structure, and dividend policy?

2 Research Methods

The SLR method was chosen as the right method for this study because it uses a systematic theoretical approach to identify, evaluate, and synthesize previous research in a comprehensive and structured manner, as well as compare those studies to identify gaps, strengths, and weaknesses that can be leveraged to formulate solutions, future research, and develop new conceptual frameworks. With this methodological approach, SLR allows for an in-depth review and evaluation of a particular topic (Snyder, 2019). This study uses *the Systematic Literature Review* (SLR) method to identify, evaluate, and synthesize previous research in a structured and comprehensive manner. This SLR process follows three main stages: planning, implementation, and reporting.

In the planning stage, the researcher formulates research questions and determines inclusion criteria. The selected literature must be published between 2020 and 2025, focus on the G20 or ASEAN economies, and have key variables related to interest rates, inflation, or capital costs. The implementation phase involves searching scientific databases such as *the Web of Science* and collecting secondary macroeconomic data from Trading Economics to verify current trends. At the reporting stage, data were analyzed thematically to identify patterns of relationships between variables and compare methodologies used in 10 main reference journals. The selected literature must meet the following criteria: (1) Focus on G20 economies or strategic regions such as ASEAN; (2) Analyze at least one

component of capital costs (CoE, CoD, or WACC); (3) Relating macroeconomic variables to the company's financial decisions. In addition to the scientific literature, the study uses secondary data from Trading Economics to verify the latest trends in interest rates, inflation, and commodity prices. This data is used as a basis for analysis to relate theories in journals to ongoing world economic phenomena

3 Research and Discussion Results

3.1 Research Results

Based on research by Shambaugh and Zhou (2024), it was found that interest rates are not only influenced by domestic factors, but also by global and regional factors that are integrated with each other. The study shows that more than 50% of interest rate variations in developed countries can be explained by global and regional factors, while in developing countries, domestic factors still play a dominant role but are still significantly influenced by global factors. These findings reinforce the view that interest rates are a global phenomenon that cannot be separated from international economic dynamics. In this context, the relationship between interest rates and *cost of capital* becomes increasingly complex due to cross-border interactions that affect the company's financing structure.

Furthermore, research by Suzuki (2024) in the Journal of the Asia Pacific Economy examines the *natural rate of interest* in developing Asian countries. The results show that natural interest rates in the Asian region have been on a downward trend since the 1990s and were close to zero during the COVID-19 pandemic period. These findings indicate that structural changes in the global economy also affect interest rate conditions, which ultimately impacts the company's cost of capital. On the other hand, research by Schäfer and Semmler (2024) highlights the impact of interest rate hike policies on economic stability. The study found that overly high interest rate policies can create *trade-offs* between controlling inflation and monetary stability, and potentially hindering economic growth. In the context of companies, this condition can increase *the cost of capital* and reduce investment incentives.

In addition, empirical research in the ASEAN region by Purnomo and Wibowo (2024) shows that interest rates have a significant influence on economic growth through capital formation. High interest rates tend to lower investment and capital accumulation, which ultimately has an impact on the company's performance. This shows that the relationship between interest rates and *cost of capital* is not only theoretical, but also has real implications for economic activity. Comparative research between Indonesia and Japan by Ayuen et al. (2024) also shows that the influence of interest rates on financial markets differs between countries, depending on economic conditions and the level of development of financial markets. Countries with more developed financial systems tend to have more efficient interest rate transmission, so the impact on the *cost of capital* is more stable. The following will be presented a brief review of the literature review from journals that serve as a reference and support related to the research theme raised, as follows:

1. Martinez et al. (2025): The Evolution of Mathematical and AI Models Martinez highlights that in highly volatile environments, traditional financial models often fail to accurately capture market dynamics. They introduced the integration of AI algorithms into mathematical models for WACC estimation. Their key findings show a very strong correlation between macroeconomic variables and capital costs, where the global WACC increases gradually as the risk-free interest rate rises from 1.50% to 2.50%.
2. Arhinful et al. (2024): Impact on Dividend Policy in Germany Examining 227 companies on the Frankfurt Stock Exchange, Arhinful found that the *cost of debt* has a consistently negative impact on the dividend payout ratio. Interestingly, WACC was found to have a positive influence on dividend coverage capacity, suggesting that companies tend to strengthen their internal stability as external financing costs increase.
3. Ayuen et al. (2024): Comparison of Indonesia and Japan This comparative study shows the asymmetry of market response. In Indonesia, changes in interest rates are the main determinants that drive investor sentiment and stock performance with a negative coefficient of -0.381. On the other hand, the Japanese market is more driven by fundamental factors such as trade agreements and price stability, reflecting the more mature market efficiency.
4. Shambaugh & Zhou (2024): Global, Regional, and Local Factors Using a dynamic factor model on 43 markets, this researcher confirms that global factors explain a significant portion (above 50%) of interest rate variation in developed countries. However, for emerging markets, idiosyncratic or local factors still play a dominant role at 77.9%, although global influence continues to increase in line with the opening of capital accounts.

5. Caldara et al. (2024): Synchronous Monetary Tightening Caldara analyzes a unique phenomenon in which the world's major central banks raise interest rates simultaneously. Their findings suggest that this synchronous tightening exacerbates the risk of a decline in global output and amplifies shocks through mechanisms of international financial friction.
6. Purnomo & Wibowo (2024): ASEAN-5 Economic Growth In the context of ASEAN, interest rate hikes were found to have a significant negative impact on real capital formation. The study emphasizes that overly aggressive interest rate policies to fight inflation risk slowing long-term economic growth in developing regions.
7. Beltrame et al. (2023): Private Company Capital Cost Beltrame offers a methodological solution for closed companies in Italy that do not have a stock market price. They prove that the default risk and size *premium* significantly increase the estimated actual cost of capital faced by SMEs compared to the traditional CAPM model.
8. Asem et al. (2025): The Strategic Role of ESG This systematic review found that strong Environmental, Social, and Governance (ESG) performance acts as "insurance" for companies. During times of crisis such as the pandemic, companies with high ESG scores enjoy lower costs of capital because investors view them as more sustainable and low-risk entities.
9. Cuestas et al. (2024): Gas Price and Investment Shocks Integrating Trading Economics data on natural gas prices (Dutch TTF), Cuestas shows that energy price shocks act as supply shocks that distort real exchange rates and significantly depress investment levels in the European Union.
10. Aizenman et al. (2024): United States Fiscal Spillover Aizenman warned of a "*spillover*" impact of the US fiscal challenge on global policy interest rates. Developing countries are found to be much more vulnerable to fiscal instability in central countries (US), which directly increases the volatility of their domestic cost of capital

3.2 Discussion

1. The Effect of Interest Rates on *the Cost of Capital*

Based on the results of the SLR, all journals analyzed showed that interest rates have a significant influence on *the cost of capital*. Rising interest rates cause an increase in the company's financing costs directly through an increase in debt costs. This happens because interest rates are the basis for determining loan interest rates. Interest rate transmission not only affects the *cost of debt*, but also *the cost of equity* through an increase in risk premium. When interest rates rise, investors tend to ask for higher returns due to increased economic uncertainty. Policy interest rates act as the gravitational base for the company's entire capital cost structure. Martinez et al. (2025) revealed that in the 2020-2024 period, the global *Weighted Average Cost of Capital* (WACC) increased on average from 7.00% to 8.00%. This increase was driven by the growth of risk-free interest rates from 1.50% to 2.50% as well as an increase in market risk premiums The SLR results confirm that interest rates are the most critical determinant in the calculation of WACC. The increase in policy interest rates recorded in Trading Economics directly increases the cost component of the company's debt. In addition, interest rate transmission also affects the cost of equity through increased risk premiums; When macroeconomic uncertainty increases, investors demand higher returns to compensate for those risks. Sensitivity analysis shows that small variations in interest rate assumptions can lead to significant changes to the value of companies and their capital structure.

2. Comparison of Interest Rates Between Countries

The results of the analysis show that global real interest rates are no longer only influenced by domestic conditions, but are closely tied to global and regional factors. Shambaugh & Zhou (2024) confirm through dynamic factor models that global factors explain more than 50% of interest rate variations in developed countries, while in emerging markets, domestic or idiosyncratic factors still dominate around 77.9%. However, the increasing openness of capital accounts has made developing countries increasingly vulnerable to the monetary policies of core countries, especially the United States. This phenomenon is reinforced by Aizenman et al. (2024) who found that there is a *significant negative spillover* of the United States' fiscal challenge to policy interest rates in developing countries, which directly increases the volatility of capital costs.

Developing countries have higher interest rate volatility than developed countries. This is due to economic instability and political risks. In addition, changes in interest rates in major countries affect other countries. This shows the integration of global financial markets. Monetary policy in developed countries has a significant influence on global interest rates, especially through capital flow mechanisms. Global interest rate changes have a significant

spillover effect on other countries through the mechanism of capital flows. Developing countries tend to be more vulnerable to changes in global interest rates, which can increase the volatility of *cost of capital* and investment risk. There is a fundamental difference in interest rate dynamics between developed and developing economies. In developed countries, local interest rates are highly integrated with the global financial cycle, where external factors account for a large portion of their volatility. In contrast, developing countries show higher interest rate volatility due to domestic economic instability and political risks. Trading Economics data validates this asymmetry, showing a very wide range of interest rates across the G20 influenced by the level of financial repression and the openness of each country's capital accounts.

There is a clear asymmetry in the transmission of the impact of interest rates on the capital market. In emerging markets such as Indonesia, interest rates have been found to have a significant negative influence on stock returns due to the high sensitivity of investor sentiment to borrowing costs. In contrast, in developed countries like Japan, the stock market is more responsive to trade agreements and long-term macroeconomic stability than to changes in daily interest rates. In addition, Purnomo & Wibowo (2024) prove that in the ASEAN-5 region, interest rate hikes have a negative impact on real capital formation and economic growth, where every 1% increase in interest rates has the potential to reduce growth by 0.306%

3. Implications for Investment and *Cost of Capital*

The high cost of capital causes companies to be more selective in making investments. Differences in *the cost of capital* between countries can influence global investment decisions, especially in the energy sector. Companies tend to adjust their capital structure based on changes in interest rates. When interest rates rise, companies tend to reduce the use of debt. The high cost of capital is forcing companies to adjust their capital structure and dividend policies. Arhinful et al. (2024) found that in German companies, high debt costs consistently depressed dividend payout ratios to maintain internal liquidity. On the investment side, rising capital costs are the main obstacle to green transformation. Renewable energy projects that are capital-intensive are highly sensitive to interest rates; A small increase in interest costs can make a previously economically viable project unprofitable. High capital costs are hampering economic transformation, especially renewable energy projects that are highly sensitive to interest rates. Because green projects require large initial investments, even a slight increase in interest costs can substantially increase the cost of power generation. Therefore, the adoption of AI technology in financial risk management, as suggested by Martinez et al. (2025), is crucial for companies to conduct *real-time capital cost monitoring* based on Trading Economics data to mitigate the risk of price volatility.

Table 1. Methodological Comparison Between Studies

Aspect	Paper 1 (Martinez et al., 2025)	Paper 2 (Arhinful et al., 2024)	Paper 3 (Ayuen et al., 2024)	Paper 4 (Shambaugh & Zhou, 2023)	Paper 5 (Caldara et al., 2024)
Publisher	Brainae Journal	Future Business Journal (Springer)	Journal of Indonesian Applied Economics	SSRN / Academic Journal	Journal of Monetary Economics (Elsevier)
Index	Academic Journal	Scopus	Academic Journal	SSRN	Scopus
Year	2025	2024	2024	2023	2024
Country/Region	Global	Germany	Indonesia & Japan	43 Countries (ADV & EME)	21 Advanced Economies
Research Novelty	Integration of adaptive mathematical models with AI for WACC estimation.	Investigating CoD and CoE influence on dividends using CS-ARDL.	Comparative impact of macro variables on stock returns in ADV vs EME markets.	Use of endogenous regional clustering for world interest rates.	Non-linear impacts of internationally synchronous monetary tightening.
Theoretical Framework	MM Proposition, Trade-off, Pecking Order.	Agency Theory & Signaling Theory.	Efficient Market Hypothesis (EMH).	Dynamic Factor Model.	Open Economy Macroeconomics with financial frictions.

Sample	Financial literature 2020-2024.	227 non-financial companies.	JCI (Indonesia) & N225 (Japan) Indices.	43 major capital markets.	21 advanced economies.
Data Source	Scientific journals & financial reports.	Thomson Reuters Eikon Datastream.	Macro interest & inflation data.	IFS Dataset (IMF).	Narrative records & monetary shocks.
Research Period	2020 - 2024.	2005 - 2022.	2013 - 2023.	2001 - 2020.	Until end of 2022.
Analysis Model	Econometrics & AI Algorithms.	CS-ARDL & Two-step GMM.	Multiple Regression.	Bayesian State-Space DFM.	Panel VAR / IRF.
Data Type	Mixed Methods.	Quantitative.	Quantitative.	Quantitative.	Quantitative.
Independent Variables	Risk-free rate, inflation.	CoD, CoE, WACC, Market Share.	Interest rates, inflation, exchange rates, political events.	Global, Regional, & Idiosyncratic Factors.	Domestic & foreign monetary tightening shocks.
Dependent Variables	WACC, Cost of Equity, Cost of Debt.	Dividend ratios (yield, payout, coverage).	Stock market returns.	Real & nominal interest rates.	GDP, Spreads, Inflation.
Research Findings	Global WACC rose from 7% to 8%; strong macro correlations (0.89).	Cost of debt pressures dividends; WACC determines coverage capacity.	Interest rates heavily affect Indo stocks; trade agreements dominate Japan.	Global factors dominate advanced nations (38%); local factors in EMEs (78%).	Synchronous tightening worsens global output loss.
Strengths	Integrates AI into traditional financial models.	Addresses cross-sectional dependency and endogeneity.	Unique comparison between two distinct economy types.	Handles extreme values (jumps) in emerging markets.	Identifies non-linear amplification of monetary policy.
Limitations	Limited adoption of advanced models by firms.	Incomplete data for certain years/companies.	Data limitations regarding EMH assumptions.	Lack of long-term interest rate data in some EMEs.	Excludes developing countries from the baseline.
Recommendations	Adopt AI-based management & routine sensitivity analysis.	Prioritize debt structure & monitor equity costs.	Focus on sector-specific analysis & investor behavior.	Use financial indices for country clustering.	International coordination for optimal policy outcomes.

Table 2. Methodological Comparison Between Studies

Aspect	Paper 6 (Purnomo & Wibowo, 2024)	Paper 7 (Beltrame et al., 2023)	Paper 8 (Asem et al., 2025)	Paper 9 (Cuestas et al., 2024)	Paper 10 (Aizenman et al., 2024)
Publisher	Journal of Developing Economies	Theoretical Economics Letters	Dhillon School Working Paper	Finance Research Letters	NBER Working Paper
Index	Academic Journal	Academic Journal	Web of Science	Scopus	NBER
Year	2024	2023	2025	2024	2024
Country/Region	ASEAN-5	Italy	International (Multi-country)	European Union (EU28)	58 Countries (EME & ADV)
Research Novelty	Growth determinants under high inflation/rates post-war.	Default-based CoC estimation for private firms.	AI-assisted SLR workflow for ESG-CoC relationship.	Impact of energy price shocks on investment & exchange rates.	Spillover of U.S. fiscal challenges to global policy rates.
Theoretical Framework	IS-LM Theory.	CAPM & Modigliani-Miller.	Agency & Stakeholder Theory.	Supply Shock Model.	Monetary-Fiscal Interactions.
Sample	5 ASEAN Countries.	43 Italian equity valuation reports.	36 peer-reviewed scientific articles.	European Union member states.	58 world economies.
Data Source	World Bank.	AIDA Database & expert reports.	Web of Science.	Eurostat & Trading Economics.	IMF, World Bank, Haver Analytics.
Research Period	2004 - 2021.	2003 - 2022.	2020 - 2023.	Recent energy crisis.	1980 - 2023.
Analysis Model	Random Effect Model (REM).	Beta Regression.	Meta-analysis (AI Screening).	Panel VAR & Granger Causality.	Fixed Effects & Panel VAR.
Data Type	Quantitative.	Quantitative.	Qualitative Synthesis.	Quantitative.	Quantitative.
Independent Variables	Interest rates, inflation, capital formation.	Systematic risk (CAPM), size premium.	ESG Scores (Refinitiv/MSCI).	Gas Prices (from Trading Economics).	U.S. Fiscal Dominance Index.
Dependent Variables	Economic Growth.	TLA_CoC (Alternative Cost of Capital).	Cost of Capital (WACC/CoE/CoD).	Real Exchange Rate, Current Account, Investment.	Global policy interest rates.
Research Findings	Interest rates significantly hurt ASEAN-5 growth.	Significant positive effect of size premium on private CoC.	Strong ESG performance lowers cost of capital (insurance effect).	Gas shocks disrupt investment temporarily but strongly.	U.S. fiscal challenges worsen rate volatility in EMEs.
Strengths	Automatic heteroskedasticity correction with GLS.	Solution for firm valuation without market data.	High efficiency using AI-enabled workflows.	Uses real-time commodity data (Trading Economics).	Introduces new measure for fiscal challenges (PCA).
Limitations	ASEAN-5 only; static panel method.	Limited sample of reports in Italy.	Potential to miss articles due to AI stopping rules.	Effects are temporary; shock asymmetry exists.	Financial repression proxies may not cover all phenomena.
Recommendations	Expand beyond ASEAN-5 & use dynamic panels.	Apply to broader cross-country samples.	Monitor investor risk disclosure tonality.	Monitor supply shocks for macro stability.	Policymakers must be wary of U.S. domestic spillovers.

4 Conclusion

The dynamics of global interest rates in the 2020-2025 period show a significant monetary tightening trend in response to global inflation shocks. These rate hikes have directly boosted cost of capital (WACC) across G20 economies, impacting a slowdown in investment and adjustments to corporate dividend strategies. The impact of interest rates is asymmetrical, with developing countries facing greater vulnerability to foreign policy and domestic volatility than developed countries that are more integrated with global capital markets. Nonetheless, companies that adopt strong ESG principles and leverage AI technology in financial management have proven to have better resilience in managing capital costs amid global economic uncertainty.

5 Research Limitations

The study has limitations in terms of data coverage, where most of the literature available through early 2025 may not yet fully capture the very new market dynamics that occur post-period. Moreover, a focus on G20 countries can overlook the unique challenges faced by small developing countries whose data is not always fully available on the Trading Economics platform. The reliance on assumption models in some studies can also limit the validity of results in the real world without extensive practical implementation.

6 Recommendations

1. For Companies: It is recommended to adopt an AI-based financial management system to monitor the cost of capital in real-time and conduct routine sensitivity analysis to macroeconomic variables.
2. For Policymakers: International monetary coordination is needed to mitigate the negative spillover impact of core countries' (such as the US) fiscal challenges in order to maintain interest rate stability in emerging markets.
3. For Investors: The focus on sustainable investing (ESG) must continue to be strengthened as a strategy to lower the risk profile and obtain a more competitive cost of capital in the long term.

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