The Effect of the Financial Services Authority's Credit Relaxation Policy Against Commercial Bank Credit Risk Before and During Pandemic Covid-19

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Abstract

The COVID-19 pandemic that has been going on since March 2, 2020 has had an impact on changes in the social order of life as well as a decline in the performance of the national economy and the banking industry. The pressure of the Covid-19 pandemic has the potential to reduce the performance of commercial bank debtors which in turn will reduce credit quality and increase the risk of debtor default (credit risk) which is reflected in the indicatorsNon-Performing Loans (NPL).
Financial Services Authority (OJK))issued a credit relaxation policy package through OJK Regulation (POJK) Number 11/POJK.03/2020 as amended by POJK Number 17/POJK.03/2021, to anticipate increasing credit risk. The purpose of this research isto find out ifthere is an effect of the OJK credit relaxation policy on the credit risk of Commercial Banks before and during the covid-19 pandemic. This research is a qualitative research using secondary data taken from Indonesian Banking Statistics. The results of the study concluded that the OJK credit relaxation policy, which implemented credit quality assessments based solely on the ability to pay debtors, was proven to have been able to suppress the spike in the credit risk level of Commercial Banks during the Covid-19 pandemic.

Keyword : Covid 19 Pandemic, Credit Risk, Credit Relaxation Policy, Commercial Banks.

INTRODUCTION

The spread of the SARS-Cov-2 (Covid-19) corona virus in Indonesia began on March 2, 2020, where on that date the President announced that there were 2 Indonesian citizens who were positive for the virus. After the announcement, the spread of the Covid-19 virus occurred massively throughout Indonesia, so the President of t he Republic of Indonesia established Presidential Decree No. 12 of 2020 concerning the Determination of Non-Natural Disasters for the Spread of Corona Virus Disease 2019 (Covid-19) as a national

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disaster. It was further determined that the handling of this disaster was handled by the Task Force for the Acceleration of Handling Covid-19. The increasingly massive spread of the virus not only causes health problems and the joints of life but also has an impact on the national economy.

The Covid-19 pandemic has directly or indirectly impacted all sectors of the economy. The declining condition of the national economy has resulted in the financial condition of the real and service sectors as well as people's incomes, and this of course has an impact on the banking industry because the traffic of payments and funding of the real sector and services still relies on banking. The pressure of the Covid-19 pandemic has finally been felt by the banking industry, where the decline in these various sectors will result in a decline in the performance of commercial bank debtors. To anticipate the weakening of the national economy, the Financial Services Authority (OJK) issued a policy package for relaxation of credit restructuring (POJK Number 11/POJK.03/2020 as amended by POJK Number 17/POJK.03/2021), adjustments to the implementation of several banking regulations, and delaying the implementation of Basel III Reforms. This article will focus more on the relaxation policy on credit restructuring.

OJK's policy to implement relaxation of credit restructuring aims to boost the performance of commercial banks, particularly in the intermediation function, maintain financial system stability, and support economic growth. The form of the policy provided is to provide special treatment for credit or bank financing in a certain amount and restructuring debtors affected by the pandemic, including debtors classified as micro, small and medium enterprises.

The economic stimulus as a countercyclical policy in the relaxation of credit restructuring policies is needed for banks to anticipate increasing credit risk, and this will certainly disrupt bank performance and for OJK itself, this policy is needed to maintain financial system stability and support economic growth. There are two main policies in this regulation, namely the policy for determining asset quality and the policy for restructuring credit/financing. In its application, banks are required to compile guidelines for determining debtors who are affected by Covid-19, in which the guidelines must at least contain criteria for debtors and sectors affected by Covid-19.

Determination of credit quality according to POJK 40/POJK.03/2019 is based on three assessment factors, namely business prospects, debtor performance and ability to pay. Assessment of business prospects is based on business growth potential, market conditions and business competition position, quality of management and labor problems, business group support and debtor's efforts to protect the environment. The assessment of debtor performance is based on profitability, capital structure, cash flow and sensitivity to market risk, while the assessment of ability to pay is based on the accuracy of paying principal and interest, availability of financial information, completeness of credit documentation, compliance with credit agreements, suitability of the use of funds and fairness. source of payment of obligations.

The three factors used in determining credit quality will of course be difficult for banks, considering that business prospects and debtor performance

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will definitely experience a decline during the Covid-19 pandemic. This then underlies the OJK to establish a policy that the determination of credit quality according to POJK Number 11/POJK.03/2020 is simplified into one factor, namely based on the accuracy of principal and interest payments or margin/profit sharing/ujrah. In this asset valuation policy, it is also stipulated that those who receive the treatment are affected debtors, including MSME debtors with a maximum credit limit of Rp. 10,000,000,000 (ten billion rupiah). This relaxation of credit quality assessment is expected to reduce the potential for increased credit risk in banks.

The policy on credit restructuring is provided with the stipulation that the quality of the restructured credit or financing is determined to be in the current category since the restructuring. This applies to credit/ financing before and after the Covid-19 pandemic. Banks are still given the opportunity to provide new credit or financing to debtors affected by Covid-19, including the MSME sector, and the quality determination is carried out separately from the quality of credit/financing that has been given previously. This will help banks reduce credit risk because the quality of credit/financing does not follow the category of the previous facility which may be in the non-current category. This separation of credit/financing quality assessment is enforced with the same requirements, namely debtors who are affected, including MSME debtors with the highest credit limit of Rp. 10,000,000,000 (ten billion rupiah). For banks that implement the credit restructuring relaxation policy, they are required to submit reports to the OJK at the end of each month, and this policy is limited to March 31, 2021. In line with the ongoing Covid-19 pandemic, the OJK has extended the relaxation period for this credit restructuring. until March 31, 2022 through POJK Number 48/ POJK.03/2020 and extended again until March 31, 2023 through POJK Number 17/POJK.03/2021.

In line with the various policy packages from the OJK in order to anticipate the increasing credit risk in banks, it is necessary to evaluate the extent to which the relaxation policy package for credit restructuring can run effectively. Research conducted by Susilowati (2021) shows that countercyclical policies are able to reduce bank credit risk. Susilowati's research (2017) uses the Non-Performing Loan (NPL) indicator in 33 provinces in Indonesia for the period 2017 to 2020. There has been a tendency to increase NPLs since March 2020, namely the period since the discovery of residents affected by the Covid-19 virus, but it is concluded that the increased risk the credit can still be controlled properly. The weakness of Susilowati's research (2021) is the use of data during 2017 to 2020, which means that the trend analysis carried out is still mixed with the period before the Covid-19 pandemic.

Other research on stimulus policies during the Covid-19 pandemic was also carried out by Saragih and Handayani (2021), where the data used were the fourth quarter of 2019 to the first quarter of 2021. Bank performance assessment was represented by 30 banks selected by the random sampling method, where the sample represents state-owned banks, regional development banks, and national private commercial banks, while the evaluation of respondents' perceptions

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obtained 19 questionnaires that were filled out and could be processed. It was concluded that the Covid-19 pandemic had resulted in a contraction in economic growth throughout 2020, and it was also concluded that the credit restructuring policy succeeded in maintaining the NPL ratio, profitability and bank capital.

The weakness of this research is the limited number of banks studied, because banking conditions during the pandemic should be observed in all banks considering the spread of Covid-19 is very evenly distributed throughout the country. Research by Lestari and Permatasari (2021) actually concludes that there has been an increase in risks faced by commercial banks, especially credit risk even though credit distribution experienced a slowdown during the Covid-19 pandemic.

METHOD

This research is a qualitative research using secondary data. Evaluation of the credit performance of commercial banks is carried out using monthly data from 2018 to 2021. The data is taken from Indonesian Banking Statistics downloaded from the OJK website (www.ojk.go.id). Consideration of the use of monthly data during this period is based on the consideration that Covid-19 cases began to appear in March 2020 and tended to slope in December 2021, so that evaluations were carried out on data 2 years before the Covid-19 case (2018-2019) and 2 years during the pandemic. Covid-19 (years 2020-2021).

RESULTS AND DISCUSSION

Commercial Bank Intermediation Performance

Commercial banks during the pandemic can still carry out their intermediation duties, namely as financial institutions that collect public funds and distribute them in the form of credit to the public. Figure 1 shows the trend of growth in third party funds and lending to commercial banks (in billion rupiah). There is a tendency to increase the collection of third party funds and lending during 2018 – 2021. The growth of third party funds and credit distribution was still consistent during the period before March 2020. In April 2020, which is the month after the discovery of the first Covid-19 case in Indonesia , third party funds and credit decreased significantly. In April 2020, third party funds decreased by 1.39% compared to the position in March 2020, while lending decreased by 1.79%. This is due to the economic turmoil in line with the outbreak of the Covid-19 case and the Government and OJK have not provided a policy stimulus so that commercial banks are also still holding back from increasing their business.

The trend of growth in third party funds has consistently increased even though it has entered a period of the spread of the Covid-19 virus, while credit distribution tends to be sloping after the spread of the Covid-19 virus. This condition certainly has an impact on the performance of the intermediation function of commercial banks. The intermediation function is measured using the Loan to Deposits Ratio (LDR), which is the ratio between loans extended to non-bank third parties to third party funds collected by commercial banks. The LDR

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ratio until March 2020 tends to increase with an average figure of above 90%. In March 2020, the LDR position was 92.55% but began to correct with a continuous decline so that it was in the position of 77.49% in December 2021.

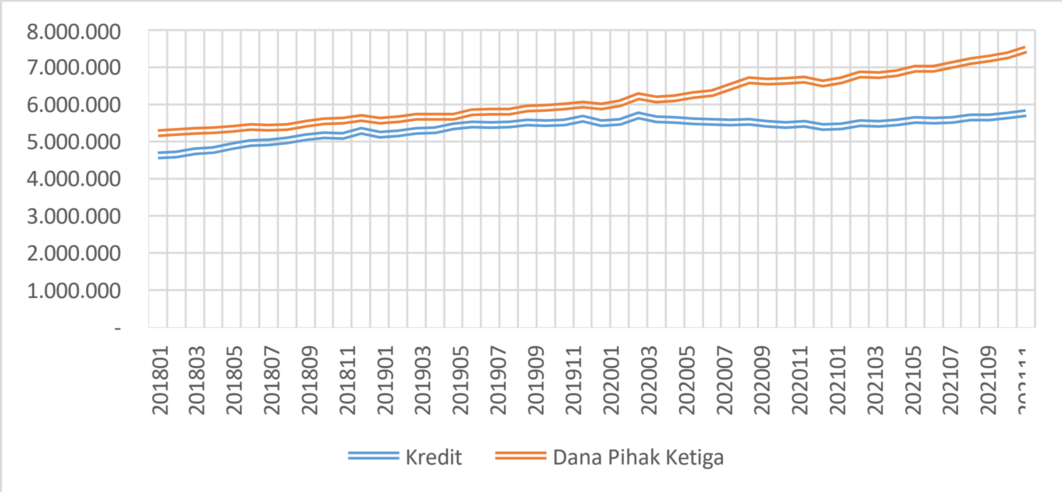

Figure 1. Growth Trend of Third Party Funds and Credit Distribution Commercial Banks (in billion rupiah)

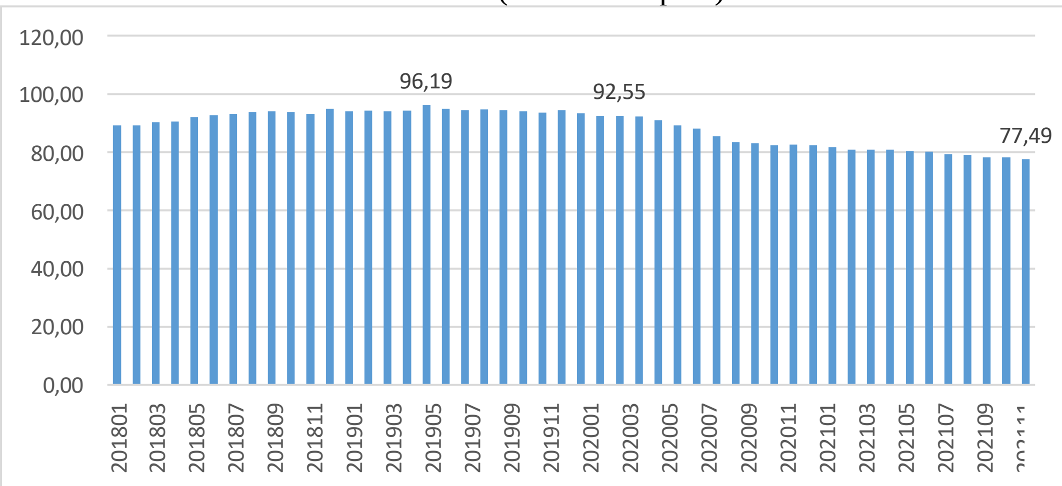

Figure 2. Trend Loan to Deposit Ratio Commercial Banks

If the LDR data is grouped into the period before the Covid-19 pandemic (January 2018 - February 2020) and the period during the Covid-19 pandemic (March 2020-December 2021), then the average LDR before the pandemic is 93.27% while the average LDR during the pandemic is 83.16%. This means that there has been a decline in the bank intermediation function before and during the Covid-19 pandemic, and the decline is significant at the 5% significance level. So it can be concluded that the Covid-19 pandemic in Indonesia has caused a decline in the intermediation function of commercial banks. However, commercial banks can still maintain their intermediation function by maintaining the average LDR position above 75%. This decline in intermediation performance certainly has an impact on the decrease in interest margin (Net Interest Margin/NIM), where the

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average NIM before the Covid-19 pandemic was 4.99% to 4.54% during the Covid-19 pandemic. The average difference in NIM during these two periods is also significant at the 5% significance level.

Commercial Bank Loan Performance

Assessment of asset quality prior to the Covid-19 pandemic refers to POJK Number 40/POJK.03/2019, where the assessment is based on 3 aspects, namely business prospects, debtor performance and ability to pay. In line with the issuance of POJK Number 11/POJK.03/2020, the assessment of asset quality is based on the ability to pay debtors with a record that commercial banks must develop guidelines and continue to apply the precautionary principle. Thus, as of March 13, 2020, the assessment of asset quality is only based on the debtor's ability to pay. The implementation of asset quality assessment by only paying attention to the ability to pay is also applied to debtors who meet the requirements as stated in the OJK policy, including for MSME debtors.

Assessment of asset quality, particularly credit quality to non-bank third parties, is generally used with the Non-Performing Loan (NPL) ratio, which is the ratio between non-performing loans and total loans disbursed by commercial banks. What is meant by non-performing loans are loans that are included in the substandard category, doubtful category and bad category. The data used in the evaluation of credit performance is credit and NPL data for commercial banks based on business fields. Prior to the emergence of the Covid-19 pandemic, the average NPL of commercial banks was 2.67% with the lowest NPL occurring in December 2018 of 2.37%. In line with the emergence of the Covid-19 pandemic, in March 2020 it turned out that NPL increased to 2.77% and tended to increase until July 2021 and from August 2021 to December 2021 it decreased again.

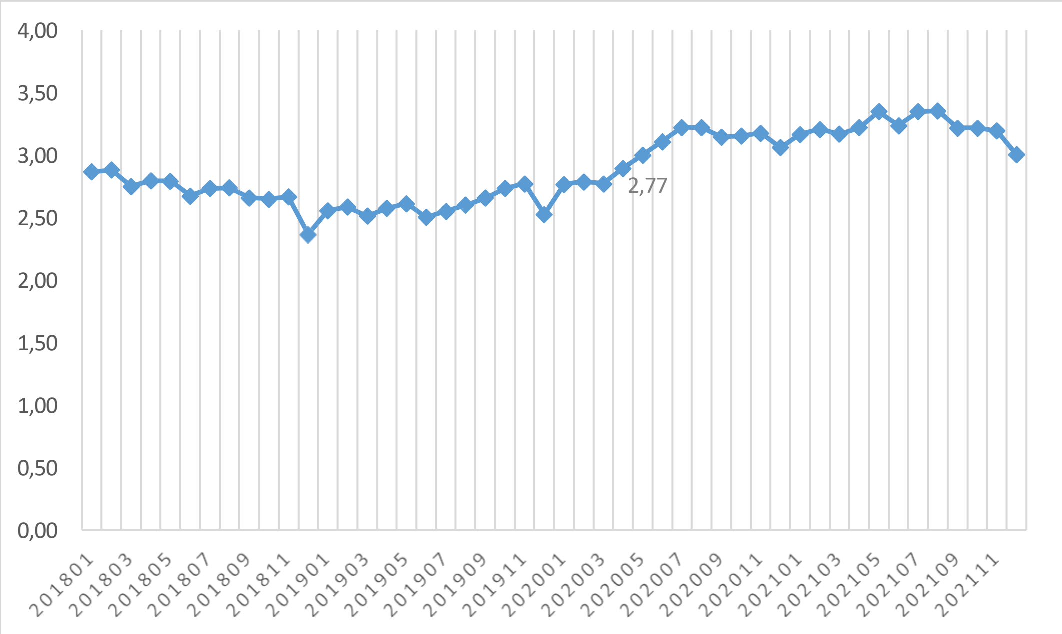

Figure 3. Trend of Non-Performing Loans for Commercial Banks 2018 – 2021

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In Figure 3 it can be seen that the NPL since January 2018 tends to decline and is maintained below 3%. In May 2021, the NPL began to touch the 3.00% figure and continued to increase above that number, where the highest NPL during the Covid-19 pandemic was at 3.35% which occurred in July-August 2021. Average NPL before the Covid-19 pandemic was 2.67%, while the average NPL during the Covid-19 pandemic was 3.16%. This means that there has been an increase in the average NPL between the period before the Covid-19 pandemic and the time of the Covid-19 pandemic, and the increase that occurred was significant at the 5% significance level. Despite the increase in the average NPL, the NPL at commercial banks was still maintained below 3.50%. Thus, it can be concluded that OJK's policy of granting leniency in credit quality assessment is quite helpful because although there is an increase in NPL, the increase is still below the threshold. This also helps commercial banks to streamline the formation of non-performing loan reserve costs.

Commercial Bank Loan Performance

During the period 2018 to 2021, there were seven business fields that experienced a decline in NPL between before the Covid-19 pandemic and during the Covid-19 pandemic. The seven business fields are (1) electricity, gas and water, (2) construction, (3) transportation, warehousing and communication, (4) financial intermediaries, (5) government administration, defense and compulsory social security, (6) services health and social activities, and (7) individual services serving households. Other business fields experienced an increase in NPLs, including NPLs on loans to households. The three business fields with the highest average NPL are (1) provision of accommodation and provision of food and drink, (2) mining and quarrying, (3) fisheries. If only using data during the Covid-19 pandemic, then the three fields also have NPLs with the highest numbers with NPLs above 5%.

The business fields most affected during the Covid-19 pandemic are the provision of accommodation and the provision of food and drink. This is in accordance with the policy to overcome the Covid-19 virus pandemic, where the government implements a large-scale social restriction (PSBB) policy. During the PSBB period, the government closed tourist destinations and limited services to food and drink providers such as restaurants and depots.

In table 1, there are 5 business fields that actually experienced a decrease in NPL during the Covid-19 pandemic, where the highest decrease in NPL occurred in the health service business field and social activities, which decreased by 0.59%. This is understandable because the concentration of public spending is focused on the health sector during the Covid-19 pandemic. Funding sourced from the government is also directed at this business field in an effort to overcome the pandemic. Other business fields that experienced a decline in NPLs were (1) financial intermediaries, (2) construction, (3) services serving households, (4) electricity, gas and water. During the restrictions on large-scale social activities, the business sector actually experienced an increase in business, for example the

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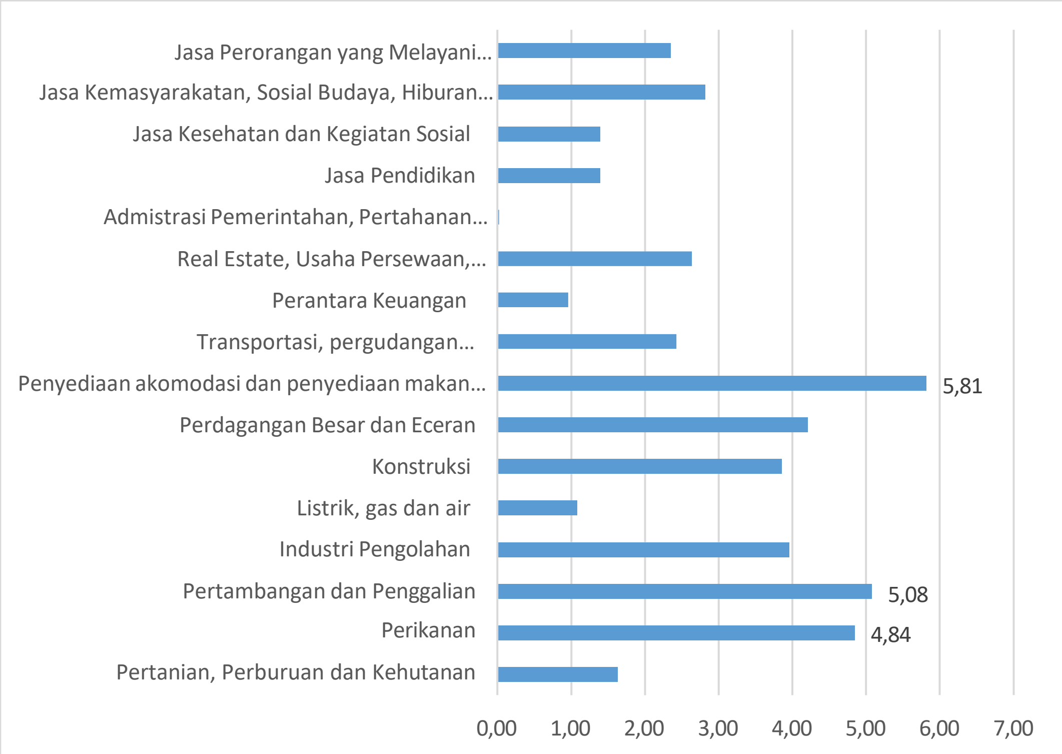

Figure 4 Average NPL per Business Field During the Pandemic Period (Mar 2020 – Dec 2021)

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Although the business field for providing accommodation and providing food and drink experienced the highest NPL during the pandemic, when compared to before the Covid-19 pandemic, the increase in NPL was not significant. This shows that OJK's policy to implement credit quality assessment is quite effective in reducing the increasing credit risk. If there is no relaxation policy on credit quality assessment, there can be a significant increase in NPL considering that it must also take into account the business prospects and performance of the debtor. The highest increase in NPL occurred in the processing industry, which increased

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by 1.74%, and during the pandemic the position of NPL in the processing industry had approached 5%. The next highest increase in NPL is mining and quarrying (+1.37%) and fisheries (+1.25%) so that these two business fields have exceeded the NPL threshold during the Covid-19 pandemic.

Table 1 NPL Before the Pandemic and the Pandemic Period by Business Field
(in %)

Lapangan Usaha	Sebelum Pandemi	Pada Masa Pandemi	Selisih	Sign
Pertanian, Perburuan dan Kehutanan	1.42	1.87	0.45	Sig
Perikanan	4.27	5.51	1.25	Sig
Pertambangan dan Penggalian	4.45	5.82	1.37	Sig
Industri Pengolahan	3.16	4.90	1.74	Sig
Listrik, gas dan air	1.10	1.07	-0.03	Tdk Sig
Konstruksi	3.99	3.69	-0.30	Sig
Perdagangan Besar dan Eceran	3.97	4.48	0.52	Sig
Penyediaan akomodasi dan penyediaan makan minum	5.71	5.94	0.23	Tdk Sig
Transportasi, pergudangan dan komunikasi	2.61	2.22	-0.39	Sig
Perantara Keuangan	1.19	0.68	-0.52	Sig
Real Estate, Usaha Persewaan, dan Jasa Perusahaan	2.28	3.05	0.77	Sig
Admistrasi Pemerintahan, Pertahanan dan Jaminan Sosial Wajib	0.03	0.02	-0.01	Sig
Jasa Pendidikan	1.12	1.72	0.60	Sig
Jasa Kesehatan dan Kegiatan Sosial	1.67	1.08	-0.59	Sig
Jasa Kemasyarakatan, Sosbud, Hiburan & Perorangan lainnya	2.70	2.96	0.25	Sig
Jasa Perorangan yang Melayani Rumah Tangga	2.46	2.22	-0.24	Sig
Bukan Lapangan Usaha - Rumah Tangga	1.80	2.06	0.25	Sig

CONCLUSION

Based on the evaluation carried out previously, it can be concluded that there has been a significant increase in the average NPL before the Covid-19 pandemic from 2.67% to 3.16% during the Covid-19 pandemic, but NPL during the Covid-19 pandemic -19 is still maintained below the threshold below 5% even during the Covid-19 pandemic, it is still below 3.50%.

The policy in POJK No. 11/POJK.03/2020 which applies credit quality based only on the ability to pay debtors has proven to be able to reduce the spike in credit risk during the Covid-19 pandemic.

Based on the conclusion on the evaluation of the credit performance of commercial banks, the OJK needs to be more careful when it comes to

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normalizing the provisions by reinstating the credit quality assessment by considering 3 aspects of the assessment. If the credit quality assessment is returned to POJK rules Number 40/POJK.03/2019, namely by considering 3 aspects (business prospects, debtor performance and ability to pay), this can lead to increased credit risk for commercial banks.

The credit quality assessment that only considers the debtor's ability to pay is proven to reduce the credit risk of commercial banks. In line with the easing of the Covid-19 pandemic, OJK needs to reconsider the assessment of asset quality by adding an assessment of business prospects but not implementing a debtor performance assessment first. Business prospects can be re-applied with the consideration that the economic situation has improved, while assessing the performance of debtors still seems to take at least the next few years.

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