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Banking credit restructuring policy on the impact of COVID-19 spread in indonesia

Hari Sutra Disemadi[1] , Ali Ismail Shaleh[2]

Faculty of Law Diponegoro University, Semarang, Indonesia[1]
Faculty of Law Diponegoro University, Semarang, Indonesia[2]

Abstrac
In Indonesia, the spread of Coronavirus Disease 2019 (COVID-19) affects the economic stability. The problem faced by Indonesia today is that the performance and capacity of debtors in carrying out their credit obligations have been disrupted by the spread of COVID-19, which has the potential to disrupt banking performance in credit management. Encouraging the optimization of the banking intermediary function a policy is needed in tackling the impact of the spread of COVID-19. The research method used is a normative legal research method using secondary data. The results of this study indicate that policy settings in overcoming economic instability due to the spread of COVID-19 are the issuance of policies to provide national economic stimulus through the application of Financial Services Authority Regulation No. 11/POJK.03/2020. This policy regulates the existence of credit restructuring, namely the quality of restructured loans can be determined smoothly if given to debtors identified as being affected by the spread of COVID-19. The implementation of the restructuring scheme can vary and is determined by the policies of each bank depending on the assessment of the debtor's profile and capacity to pay.

Keywords: Banking credit; restructuring policy; COVID-19

Introduction

In 2019, the world will be shocked by the emergence of new viruses. This virus was first reported from Wuhan-China and named Coronavirus Disease 2019 or better known as COVID-19. The disease caused by COVID-I9 is a very contagious infection and is caused by acute coronavirus respiratory syndrome which then spreads to several other countries in the world (Lupia *et al,* 2020); (Sun *et al*, 2020); (Shereen *et al*, 2020). The emergence of infectious diseases such as COVID-19 reminds us as humans of a very dangerous threat, which of course affects the social security and economic stability of a country.

The rapid spread of COVID-19 due to its transmission ability is from "human to human". This critical condition caused the World Health Organization (WHO) to establish an International Level Public Health Emergency on January 31, 2020. Given the empirical fact that there are no effective drugs available to treat COVID-19, prevention measures include controlling the source of transmission, early detection patients, cutting off transmission, and protecting vulnerable populations are the most important things. In Indonesia, COVID-19 has spread to 32 provinces. As of March 31, 2020 based on the COVID-19 infographic it was confirmed that there were 1,528 citizens who were infected with covid-19, of which 136 citizens had died and 81 citizens had recovered (Gugus Tugas Percepatan Penanganan COVID-19, 2020).

The existence of a contagious virus in a country will provide a negative influence on human mobility in social interaction and economic activities. In economic activities in Indonesia, the development of the spread of COVID-19 has a direct or indirect impact on the performance of banks including on Islamic Commercial Banks (BUS) and financial system stability in a

[1] *haridisemadi@gmail.com*
[2] *aliisnailshaleh@gmail.com*

country. The problem faced by Indonesia today is the performance and capacity of debtors in carrying out their credit obligations has been disrupted by the spread of COVID-19 so that it has the potential to disrupt the performance of Islamic Commercial Banks (BUS) in credit or financing management. Therefore, in encouraging the optimization of the intermediary function of Sharia Commercial Banks, maintaining financial system stability and supporting economic growth requires a policy to cope with the impact of the spread of COVID-19.

Lending or financing by Islamic Commercial Banks (BUS) is based on the purpose of the credit or financing itself, namely profitability and safety. The purpose of this loan is intended to obtain benefits in the form of interest from the principal of the loan and other goals for achievement in repaying loans given to customers (Chosyali & Sartono, 2019). The business wheel of a Sharia Commercial Bank (BUS) will be very dependent on income from credit or financing for reuse as the next business capital (Damanik & Prananingtyas, 2019).

Credit management is very important, which if it fails to do it will have a detrimental impact on the bank and on other stakeholders such as entrepreneurs who will face difficulties in funding business (Suhardi, 2006). Credit management is very dependent on the pro-active debtor in returning the loan so that credit management by the bank will be very disrupted if the debtor does not carry out his credit obligations.

Previous studies related to current research are: by Ashofatul Lailiyah in 2014 which focused on the analysis of the principle of prudence (5C) on lending in minimizing risk (Lailiyah, 2014); by Achmad Chosyali and Tulus Sartono in 2019 focusing on improving credit quality in order to overcome credit risk (Chosyali & Sartono, 2019); and by Gabriela Ibrizul Wanura in 2020 focusing on the principle of prudence as an effort to prevent corruption in the granting of People's Business Credit or KUR (Wanura, 2020). Based on several studies that have been done before, there are differences in the focus of research with this research. Even though it has the same research theme related to credit risk management, the focus of this research is on credit restructuring as an effort to prevent credit risk of Islamic Banks due to the spread of COVID-19 so that this research becomes an important and actual matter for further study.

Research Method

The research method used is a descriptive normative legal research method. The type of approach used in this research is the statutory approach (Suteki & Taufani, 2018). The statutory approach is an approach that refers to statutory provisions such as Financial Services Authority Regulation Number 11/POJK.03/2020 concerning National Economic Stimulus as Countercyclical Policy on the Impact of Coronavirus Disease 2019 Spread and Regulation of Financial Services Authority Number 65/POJK.03/2016 concerning the Implementation of Risk Management for Sharia Commercial Banks and Sharia Business Units.

The technique used in collecting secondary data is through library research or documentary studies. This technique examines a variety of documents both legislation and other documents available. This study uses qualitative secondary data analysis techniques (Salim & Nurbani, 2014). The data obtained will be analyzed based on the statutory approach to provide an overview of the research topic so that it helps in making a correct conclusion.

Result and Discussion

In Indonesia, the presence of COVID-19 which spreads so fast has resulted in a weakening of the debtor's performance and capacity. The reduced performance and capacity of these debtors can directly increase credit risk which will certainly impact the disruption of banking performance and financial stability in Indonesia. This empirical fact encourages the Indonesian Government through the Financial Services Authority (OJK) to take legal steps to provide movement towards banks so as not to interfere with financial performance and stability. The effort or legal step chosen by the government is the policy of providing national economic stimulus to reduce the impact of COVID-19. The policy came into force on March 13, 2020 until

March 31, 2021 through the implementation of POJK No. 11/POJK.03/2020 concerning National Economic Stimulus as a Countercyclical Policy on the Impact of Coronavirus Disease 2019 (POJK No. 11/POJK.03/2020).

Said to be a countercyclical policy because POJK No. 11/POJK.03/2020 This is a policy used in maintaining the stability of the economic cycle. Countercyclical policies are the character of fiscal and monetary policy (Alim & Kurnia, 2014). The countercyclical policy is interpreted as a pro-active policy from the government to overcome the movement of extreme economic cycles. This extreme economic cycle movement can be a boom “very rapid development” (Abdurahman, 2009). Booming conditions, the government can directly reduce economic activity so that economic activity does not enter into overheating “warming of economic activity”. The existence of overheating economic activities will be able and can have an impact on rising inflation rates, so the need for policies to put the brakes on or stop it in the form of monetary policy, fiscal policy or a combination of monetary policy with fiscal policy. The pattern of applying these policies is known as countercyclical monetary policy (Warjiyo & Solikin, 2003).

Issuance of countercyclical policies at a glance is deemed appropriate to be implemented so that the Indonesian economic cycle is able to avoid the movement of extreme economic cycles (booming) such as structural shocks or fluctuations in economic activity (Warjiyo & Solikin, 2003). The presence of POJK No. 11/POJK.03/2020 in Indonesia is due to fluctuations in economic activity, fluctuations in economic activity are present due to the development and spread of COVID-19 in Indonesia. The spread of COVID-19 has a very direct and indirect impact on the debtor's performance and capacity. This impact has the potential to present a disruption to the performance of banks in Indonesia and disrupt financial system stability, which ultimately affects Indonesia's economic growth. Therefore, in order to be able to encourage the optimization of the banking intermediary function, support economic growth, and maintain the stability of the country's financial system, an economic stimulus policy is needed due to the impact of the spread of COVID-19.

The issuance of POJK No. 11/POJK.03/2020 it is hoped that banks will be able to proactively identify debtors or their customers who are affected by the spread of COVID-19, which then banks are required to immediately implement or apply POJK No. 11/POJK.03/2020 referred to. In general POJK No. 11/POJK.03/2020 was issued to minimize the impact of the spread of COVID-19 on debtor performance and capacity. The performance and capacity of debtors affected by COVID-19 are expected to decline so that ultimately can increase credit risk. This credit risk has the potential to interfere with banking performance in Indonesia. Therefore, this policy based on the general provisions of POJK No. 11/POJK.03/2020 explanation can be implemented by banks while taking into account the prudential banking principle or the principle of prudence in banks accompanied by risk management related to the credit risk monitoring mechanism.

The main substance regulated in POJK No. 11 / POJK.03 / 2020 this policy applies to Conventional Commercial Banks (BUK), Sharia Commercial Banks (BUS), Sharia Business Units (UUS), Rural Credit Banks (BPR), and Sharia Rural Credit Banks (BPRS). This provision is contained in Article 1 POJK No. 11 / POJK.03 / 2020. With this POJK, banks can implement policies that actively support economic growth stimuli for customers or debtors, directly or indirectly, the spread of COVID-19, including debtors from the Micro, Small and Medium Enterprises. In implementing this policy requires banks to continue to pay attention to the prudential banking principle and the active application of bank risk management. This provision is contained in Article 2 POJK No. 11 / POJK.03 / 2020. As for the implementation of banking risk management, it must be based on the existing legal guidelines, such as: 1). POJK No. 18/POJK.03/2016 for BUK; 2). POJK No. 65/POJK.03/2016 for BUS and UUS; 3). POJK No. 13/POJK.03/2015 for BPR; and 4). POJK No. 23/POJK.03/2018 for BPRS.

Provisions in Article 2 POJK No. 11 / POJK.03 / 2020 also classifies criteria for debtors to receive special treatment to obtain credit stimulus policies, which are customers or debtors affected by the spread of COVID-19. These debtors are those who have difficulty fulfilling obligations to banks because the debtor or business of the debtor affected by the spread of COVID-19 is either directly or indirectly affected. As mentioned earlier the examples of debtors affected by the spread of COVID-19 are 1). Debtors affected by the closure of transportation and tourism routes to and from countries affected by COVID-19 and travel warnings of several countries; 2). Debtors affected by the significant decrease in the volume of import and export due to supply chain and trade links with countries that have been affected by COVID-19; and 3). Debtors affected by infrastructure development projects are hampered due to the cessation of the supply of raw materials, labor, and machinery from countries that have been affected by COVID-19.

Economic stimulus policy in POJK No. 11 / POJK.03 / 2020 consists of banking obligations in assessing the quality of credit or financing or providing other funds based solely on the payment of principal and/or interest for credit or financing or providing other funds with a ceiling of up to 10 billion rupiahs. This provision is regulated in Article 3 and 4 POJK No. 11/POJK.03/2020. Regarding the assessment of asset quality for BPR and BPRS must be based on existing provisions, namely POJK concerning the quality of productive assets and the establishment of an allowance for possible losses on productive banks for BPR, POJK regarding the quality of productive assets and the formation of allowance for earning sharia productive bank assets for BPRS. Then the existence of banking obligations in improving the quality of credit or financing to be smooth after the restructuring process during the validity of this POJK. The terms of restructuring can be applied by banks regardless of credit or financing ceiling limits or types of debtors (customers). This provision is regulated in Article 5 and Article 6 POJK No. 11/POJK.03/2020. The method of credit or financing restructuring is carried out as stipulated in the POJK regarding asset quality assessment, including by reducing bank interest rates, extending credit or financing terms, reducing loan principal arrears or financing, reducing arrears on credit or financing interest, adding credit facilities or financing and/or banking to convert credit or financing into Temporary Equity Participation.

Banks can provide credit or financing or provide other new funds to debtors who have received special treatment by this credit stimulus policy by determining the quality of credit or financing or providing other funds carried out separately with the quality of credit or financing or provision of other funds by previous provisions contained in Article 7 POJK No. 11/POJK.03/2020. Banks are required to submit periodic reports on the application of this credit stimulus policy for Supervisory monitoring by Article 8 and Article 9 POJK No. 11/POJK.03/2020. Then, the application of the credit stimulus policy provisions only applies to debtors affected by COVID-19 from the enactment until March 31, 2021, by Article 10 POJK No. 11/POJK.03/2020. POJK No. 11/POJK.03/2020 related to bank credit stimulus can be said as a policy in accommodating fluctuations in the economic cycle due to COVID-19. Countercyclical bank credit stimulus policies are intended to mitigate the impact of the spread of COVID-19 on the performance and capacity of debtors that have the potential to generate credit risk and can disrupt financial system stability and banking performance in Indonesia.

Then policies related to the mechanism and restructuring of credit or financing, namely the quality of restructured credit or financing, can be smoothly determined if given to debtors identified as being affected by the spread of COVID-19. Credit quality assessment of other funds is only based on the accuracy of payment of principal and/or interest for loans up to Rp. 10 billion. Credit or financing restructuring is carried out by POJK regarding asset quality assessment, among others by a. lower interest rates; b. extension of the period; c. reduction of principal arrears; d. reduction of interest arrears; e. addition of credit or financing facilities; and/or f. conversion of credit or financing to Temporary Equity Participation. These various schemes are left entirely to the bank and are very dependent on the results of the bank's identification of the debtor's financial performance or an assessment of the business prospects and capacity to pay debtors affected by COVID-19. The period of this restructuring varies greatly depending on the bank's assessment of its debtors with a maximum term of 1 (one) year.

In general, in granting restructuring, banks refer to the POJK for asset quality assessment. However, the implementation of the restructuring scheme can vary and is determined by the policies of each bank depending on the assessment of the profile and capacity to pay debtors. To be understood also by the public that the Financial Fervices Authority emphasizes to all banks that the granting of restructuring policies is carried out responsibly and so that there is no “moral hazard”. Do not let this be used by parties who are not responsible (free-rider). This is related to debtors who previously went smoothly but then clearly declined their business performance as a result of COVID-19, Financial Fervices Authority instead asked banks to proactively help their debtors by offering appropriate restructuring schemes, both in terms of timeframe, the number of installments or interest relaxation. As an illustration of the form of moral hazard and irresponsible restructuring, among others, the restructuring policy is given to customers who have had problems before the outbreak of COVID-19 but take advantage of this stimulus by providing a restructuring so that the status of the debtor is smooth. This dishonorable action must be avoided by banks.

The lease up to 1 (one) year refers to the restructuring period as stipulated in this POJK No. 11/POJK.03/2020. The loan installments referred to are intended more for small-scale informal debtors, micro-businesses, daily-income workers who have credit payment obligations to run their productive businesses. For example, informal workers who have a certain type of homeownership bill or simple house program, a food stall entrepreneur is forced to close because there is a “work from home” policy. Relaxation with the postponement of principal payment up to 1 (one) year can be given to the priority debtor. In the 1 year, the debtor may be given a delay or schedule of the principal and/or interest within a certain period by the agreement or bank assessment, for example, 3, 6, 9 or 12 months. Delay period policy that is given is very closely related to the impact of COVID-19 on the debtor, including the recovery period of the business and the progress of handling / decreasing the outbreak of COVID-19.

The implementation mechanism is left entirely to the policies of each bank and adjusted to the debtor's capacity to pay. Implementation of restructuring: a. credit for BUK is carried out by the Financial Services Authority regulations regarding the assessment of the quality of assets of commercial banks; b. financing for BUS and UUS is carried out by the Financial Services Authority regulations regarding the assessment of the quality of assets of sharia commercial banks and sharia business units; c. credit for BPR is carried out by the Financial Services Authority regulations regarding the quality of productive assets and the establishment of allowance for earning assets of productive banks; or d. financing for BPRS is carried out by the Financial

Services Authority regulations regarding the quality of productive assets and the establishment of allowance for possible losses on productive BPRS.

The policy related to the spread of COVID-19 is a relaxation given by the government through the Financial Services Authority can be said to be very helpful to banks in reducing the deterioration of credit quality affected by COVID-19, both through the process of restructuring and relaxation of the collectibility of credit whose valuation is only based on one pillar. However, the policy regarding credit relaxation will lead to different understandings for BPR and BPRS that are different from other commercial banks. This will then have an impact on liquidity risk in the form of a BPR and BPRS that has cash flow difficulties, is affected by liquidity problems because no installments are coming in and depositors will tend to take their funds. From credit risk, there is the potential for a moral hazard to not pay installments and the BPR and BPRS industries have the potential to be unable to provide credit risk and allowance by regulatory provisions.

Then, this policy, if done improperly, will trigger debtors' cheating to take advantage of the credit relaxation so that it will adversely affect the banking and national economy. Credit relaxation policies must be examined more deeply. Because credit relaxation is only intended for businesses that have a direct impact on declining purchasing power due to the spread of the COVID-19 and not for all debtors.

Besides only for debtors affected by the COVID-19, it can be said that this relaxation policy does not mean delaying the overall repayments, because interest obligations also need to be paid. It is clear that the source of bank funds is public funds in the form of current accounts, savings, and deposits that must be paid interest to the public so that the relaxation policy in the form of delaying installments will return to the policies of each bank by looking at the debtor's risk profile so that the debtor does not necessarily can suspend installments. Related POJK No. 11/POJK.03/2020 it has been clearly stated that credit restructuring has a mechanism, that is, it must propose for restructuring so that it cannot be automatically just like current issues.

Conclusions

In Indonesia, the spread of COVID-19 has weakened the debtor's performance and capacity. The reduced performance and capacity of these debtors can directly increase credit risk which certainly disrupts banking performance and financial stability in Indonesia. The government's effort to overcome credit risk due to the spread of COVID-19 is to issue a policy of providing national economic stimulus to reduce the impact of COVID-19. The policy is POJK No. 11/POJK.03/2020. This policy is a policy to accommodate economic cycle fluctuations due to COVID-19. This bank credit stimulus policy is countercyclical, which is simply countercyclical, which is defined as mitigating the impact of the spread of COVID-19 on the performance and capacity of debtors that have the potential to present credit risk and can disrupt banking performance and financial system stability in Indonesia. Credit or financing restructuring is carried out by POJK regarding asset quality assessment, among others by a. lower interest rates; b. extension of the period; c. reduction of principal arrears; d. reduction of interest arrears; e. addition of credit or financing facilities; and/or f. conversion of credit or financing to Temporary Equity Participation. These various schemes are left entirely to the bank and are very dependent on the results of the bank's identification of the debtor's financial performance or an assessment of the business prospects and capacity to pay debtors affected by COVID-19. The period of this restructuring varies greatly depending on the bank's assessment of its debtors with a maximum term of 1 (one) year.

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