

OJK STIMULUS PACKAGES AS COUNTER CYCLICAL POLICY TO COVID-19 OUTBREAK AND ITS IMPLICATION TO NON-PERFORMING LOAN OF INDONESIAN BANKS

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ABSTRACT

This study examines Indonesian Financial Services Authority (OJK) stimulus policy applicable to Indonesian banks (ie. commercial banks and its sharia unit, sharia banks, rural credit banks (BPR) and sharia rural credit banks (BPRS)) as set out under OJK Regulation No.11/POJK.03/2020 on National Economic Stimulus as Countercyclical Policy of Coronavirus Disease 2019 (COVID-19). OJK COVID-19 stimulus packages are valid from 16 March 2020 until 31 March 2021.

Most notably, there are two main policies under OJK COVID-19 stimulus packages: i) special treatment on the credit quality assessment; and ii) special treatment on the determination of credit quality after credit restructuring.

All debtors of Indonesian banks are eligible for these OJK COVID-19 stimulus packages if based on banks' assessment such debtors or its business are impacted by the Covid-19 pandemic. OJK COVID-19 stimulus packages will have impact to the non-performing loan of Indonesian banks.

Keywords: OJK COVID-19 stimulus packages, credit quality assessment, NPL

INTRODUCTION

Since 31 December 2019 and as of 30 March 2020, 715 660 cases of COVID-19 (in accordance with the applied case definitions and testing strategies in the affected countries) have been reported, including 33 579 deaths.¹

COVID-19 also attacking Indonesia and the development of the spread of coronavirus disease 2019 (COVID-19) also affected the Indonesian economy in particular tourism, transportation, retail, as well as small-micro enterprises businesses. The revenue streams of the impacted debtors are adversely affected by the COVID-19 outbreak. Ultimately, this condition will affect impact, either directly or indirectly to the debtor performance and their capacity including, the potential disrupt banking performance and financial system stability which can affect economic growth of Indonesia.

Indonesian Financial Services Authority, known as OJK, recently in March 2020 issued a stimulus package to counter the impact of COVID-19 outbreak to the Indonesian economy as set out under OJK Regulation No. 11/POJK.03/2020 on National Economic Stimulus as Countercyclical Policy of Coronavirus Disease 2019 (COVID-19). This is a countercyclical policy issued by OJK to maintain Indonesian financial system stability, and supporting economic growth.

OJK COVID-19 stimulus packages are valid from 16 March 2020 until 31 March 2021.

¹ <https://www.ecdc.europa.eu/en/geographical-distribution-2019-ncov-cases>

FORMULATION OF PROBLEM

Grounded by the elucidation above, the following issue arises:

1. What are the impacts of the OJK COVID-19 stimulus packages to the Non-Performing Loan of Indonesian banks?

METHOD

The design of this study makes use of a type of normative legal research. In this legal research the law is often conceptualized as what is written in legislation (law in books). Normative legal research method is a method or technique used in legal research by examining existing library materials.² The approach used in this study is the statute approach. This approach is carried out by examining all laws and regulations relating to the problems (legal issues) that are being examined.³

DISCUSSION

According to the OJK Regulation No. 11/POJK.03/2020 on National Economic Stimulus as Countercyclical Policy of Coronavirus Disease 2019 (COVID-19), Indonesian Financial Services Authority (locally known as OJK), has provides stimulus packages as countercyclical policy for COVID-19 outbreak which applicable to Indonesian banks (ie. commercial banks and its sharia unit, sharia banks, rural credit banks (BPR) and sharia rural credit banks (BPRS)).

Most notably, there are two main policies under OJK COVID-19 stimulus packages, as follows:

- (i) special treatment on the credit quality assessment; and
- (ii) special treatment on the determination of credit quality after credit restructuring.

All debtors of Indonesian banks are eligible for these OJK COVID-19 stimulus packages if based on banks' assessment such debtors or its business are impacted by the Covid-19 pandemic. Banks are required to have guideline in determining COVID-19 impacted debtors.

These OJK COVID-19 stimulus packages are valid from 16 March 2020 until 31 March 2021.

Credit Quality Assessment

Under OJK regulations, Indonesian banks are required to determine the credit quality of its debtors, namely: (i) liquid, (ii) special mentioned, (iii) sub-standard, (iv) doubtful and (v) loss. There are several parameters that banks must comply with in determining this credit quality, as follows:⁴

- (i) business prospects;
- (ii) debtor performance; and
- (iii) ability to pay.

Each of the parameters above has further indicators and under the OJK COVID-19 stimulus packages, now those parameters and its derived indicators can be waived in determining

² Soerjono Soekanto dan Sri Mamudji, 2009, Penelitian Hukum Normatif Suatu Tinjauan Singkat, PT Raja Grafindo Persada, Jakarta, p. 13-14.

³ S. Nasution, 2011, Metode Research (Penelitian Ilmiah) usulan Tesis, Desain Penelitian, Hipotesis, Validitas, Sampling, Populasi, Observasi, Wawancara, Angket, PT. Bumi Aksara, Jakarta, p. 16.

⁴ Article 10 of OJK Regulation No. 40/POJK.03/2019 on Assets Quality Assessment of Commercial Banks

credit quality applicable for bank's debtors with credit plafond up to IDR10 billion and impacted by COVID-19. The credit scoring parameter for these debtors can be based only on the "payment punctuality" factor of the principal and interest of the loan.⁵

Determination of Credit Quality after Credit Restructuring

In general according to the applicable OJK regulation, if a credit facility is restructured, the credit quality of such restructured credit facility will be determined pursuant to the following rules:

- a. The credit quality will have (maximum) the same quality with the previous credit quality (before the credit restructuring), if the debtors have not fulfill the payment obligation of principal and/or interest for three consecutive periods (eg. loan with "doubtful" will remain have "doubtful" score);
- b. The credit quality can be increased one level up (before the credit restructuring), if the debtors have fulfill the payment obligation of principal and/or interest for three consecutive periods (eg. loan with "sub-standard" can be increased to "special mentioned"); and
- c. According to the standard credit scoring several parameters, depends on the fulfillment of the debtors to the credit restructuring agreement.

The COVID-19 Credit Stimulus Policy allows banks to raise their credit score for restructured loan assets to the highest level (ie, "liquid") when a loan is restructured without needing to fulfill any of the above conditions. This stimulus applies to all debtors affected by the COVID-19 pandemic, whatever the type or amount of the loan asset.

As one of the mechanic to restructure debts, Indonesian banks can provide additional funding to its debtor. For provision of funding to its debtors up to IDR 10 billion, the credit quality assessment is based on the punctuality of payments by the debtor. For funding above IDR 10 billion, the credit quality assessment is based on the previously existing requirements under OJK regulations on asset quality.⁶

COVID-19 stimulus packages and its impact to the Banks's Non-Performing Loan

COVID-19 global pandemic has adversely affected many business sectors in Indonesia, in particular tourism, transportation, retail, as well as small-micro enterprises businesses. Ultimately, the ability to pay the credit facility of debtors to their banks will be affected. This situation may impact the non-performing loan (NPL) ratio of Indonesian banks. Under relevant OJK regulations, a non-performing loan ("NPL") is a loan that is in default or close to being in default categorised as credit quality "sub-standard", "doubtful" or "loss".

A high ratio of NPLs has a negative impact on the economy as it can lead to a disintermediation of bank- system lending brought on by banks' reduced profitability, a stagnation of economic resources (including labour and capital) in fields with low productivity, and cautious behaviour of companies and consumers because of a decline in confidence in the country's financial system.⁷

⁵ Article 3 and 4 of OJK Regulation No. 11/POJK.03/2020 on National Economic Stimulus as Countercyclical Policy of Coronavirus Disease 2019

⁶ OJK Regulation No. 11/POJK.03/2020 on National Economic Stimulus as Countercyclical Policy of Coronavirus Disease 2019

⁷ <https://www.indonesia-investments.com/news/todays-headlines/indonesian-banks-non-performing-loans-rising-sharply-in-four-sectors/item2414>

By the issuance of OJK COVID-19 stimulus packages, the NPL ratio of Indonesian banks will not significantly impacted due to the COVID-19 global pandemic, because banks are allowed to raise their credit score for restructured loan assets to the highest level (ie, “liquid”) and credit scoring parameter for debtors impacted by COVID-19 and with loan amount below IDR 10 billion can be based only on the “payment punctuality” factor of the principal and interest of the loan therefore bank can easily make the loan have to the highest level quality (ie, “liquid”). Consequently, there will be no new NPL to be formed in particular from debtor who impacted by the COVID-19.

COVID-19 Stimulus Packages: Other things to be considered

Despite the COVID-19 stimulus packages will help Indonesian banks to reduce their NPL level due to the COVID-19 pandemic which impact their debtor businesses, however these COVID-19 stimulus packages in other hand may deceive or cover up the actual assets quality of Indonesian banks, what should be a low quality assets or NPL in a normal circumstances, such low quality assets or a junk assets loan for a while will be considered as a high quality asset in light of these COVID-19 stimulus packages.

If there is a proposed acquisition to a bank or its loan assets, investor should be aware that the assets due diligence is not sufficient only based on the formal assessment, but they should look into it more deeper to obtain actual condition of the loan assets.

CONCLUSION

OJK COVID-19 stimulus packages omits certain parameters that normally must be considered by banks to assess a debtor’s credit quality. If a debtor has been affected by the COVID-19 pandemic and has a credit ceiling of up to IDR 10 billion, OJK now permits banks to assess such debtor’s credit scores by looking only at punctuality of payments for loans principal and interests.

Further banks allowed to raise the credit score of all debtors affected by the COVID-19 pandemic to “liquid” if such debtor’s loan is restructured. This stimulus applies to all affected debtors irrespective of the type or amount of loan.

By the issuance of OJK COVID-19 stimulus packages, OJK has relaxed asset quality determination by banks and consequently the NPL ratio of Indonesian banks will not significantly impacted due to the COVID-19 global pandemic, however in other hand may deceive or cover up the actual assets quality of Indonesian banks, what should be considered as an low quality assets or NPL in a normal circumstances, such low quality assets or a junk assets loan for a while will be considered as a high quality asset in light of these COVID-19 stimulus packages.

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