Covid-19 Pandemic, What Is The Financial System Stability Policy In Indonesia?

Ashinta Sekar Bidari [1], Frans Simangunsong[2*] , Berlian Sesaria[3]

[1]Lecturer at the Faculty of Law, Universitas Surakarta, Indonesia
[2] Lecturer at the Faculty of Law, Universitas 17 Agustus 1945 Surabaya, Indonesia
[3] Faculty of Law, Universitas Surakarta, Indonesia
* Corresponding author:
Email: frans@untag-sby.ac.id

Abstract.
This article aims to examine the preparedness and procedural policies of the Indonesian government in handling the impact of the Covid-19 pandemic on the banking sector. Where the current state of Indonesia is being hit by the Coronavirus outbreak which in terms of the economy has an impact, especially regarding Indonesia's economic growth. The policy issued by the Government is an anticipatory step to avoid an economic recession. In addition, the existence of system support and community behavior such as imposing a lockdownstaying and at home can reduce the spread of the epidemic to accelerate the process of economic recovery.

Keywords: *Policy, Financial System Stability, Covid-19*

I. INTRODUCTION

Coronavirus or known as Covid-19 is a virus that has just occurred in Indonesia at this time, as quoted in an International Journal, namely:Coronavirus Disease 2019 (COVID-19) is a highly infectious and sometimes deadly pathogen. It was first reported as an unknown form of pneumonia to the World Health Organization (WHO) at the end of December 2019. A single-stranded RNA genome consistent with a coronavirus was isolated and given the name severe acute respiratory syndrome coronavirus 2 (SARS- CoV-2), which the WHO labeled COVID-19 in early February 2020. [1] COVID-19 has affected communities, businesses and organizations globally, inadvertently affecting the financial markets, and the global economy.[2]Coronavirus is a virus that has a very high transmission rate and is deadly. It started developing in December 2019 and then in February 2020 by the WHO it was given the name Covid-19. The development of Covid has affected business activities, the economy and financial markets globally. The Coronavirus itself began to enter Indonesia in early March 2020, which then over time the spread of the Corona virus was very rapid. The increasingly rapid spread of the virus has forced all sectors, especially the economy, to become paralyzed, and each individual to apply *physical distancing* to suppress the spread of the virus.

The spread of the Coronavirus pandemic has put the world in a recession and the role of the banking sector is indispensable. The key holder of the future of banking in Indonesia lies in the current banking policies.[3]Financial system stability in the economy must always be maintained to maintain public and investor confidence in financial institutions, financial markets, and financial infrastructure. The role as the central bank of Bank Indonesia has the function of determining monetary policy, which is very necessary in maintaining good financial system stability by the duties and authorities of BI as regulated by Law No. 6 of 2009 amendments to BI Law No. 23 of 1999.The collapse on the banking system will have a *domino effect* for banks. others that can have a major impact on the financial system. Thus, maintaining the stability of the banking/financial system is very important. The market share of 82% is currently controlled by banks. Plus, banking is only controlled by the 10 largest banks whose ownership has changed after the 1998 crisis. According to the Infobank Research Bureau, the crisis will have an impact on the financial and banking system shocks. First, the paralysis of the banking sector as an intermediary due to the bad impact of the crisis.

This damaged banking condition has caused in its role in promoting economic growth. The loss of trust in banking is a serious problem for banking as an institution of public trust. The bank is essentially a *financial institution* whose function is to bridge the depositors (surplus funds) and borrowers (lack of funds). Excess existing funds are used by the Bank to assist parties in need by providing funds. Banks as recipients of funds (deposits) and disburse them in the form of loans/credits. The position of the banking sector is very important in the economic development sector. The downturn in the banking sector will affect the economic sector will become worse. Thus, the stagnation of the economic sector will have an impact on the non-functioning of banks as intermediary institutions. [4] Reviewing the condition of Indonesia in the emergency status of the disease outbreak due to the Coronavirus. The stipulation of this status is based on the Law on Disaster Management No. 24 of 2007. Article 23 of the Law stipulates that the status of a disaster emergency at the national level is inaugurated by the President. The format of the article reads:

(1) Article 21 letter b The Government/Local Government implements a disaster emergency status by the disaster level.
(2) The President stipulates disaster emergency status at the provincial level, and the Regent/Mayor at the district/city level.

The purpose of certain conditions in a certain states of emergency is a disaster outbreak due to the Corona virus according to Presidential Regulation Number 17 of 2018 concerning the Implementation of Disaster Management in Certain Circumstances, it is explained that certain conditions are conditions where the disaster emergency has not ended and/or has not been extended, but action is needed to reduce risk and the wider impact that occurs. This epidemic has created panic globally, which in the end all countries imposed a lockdown to anticipate the spread of the virus. The duty of the state to protect all citizens is enshrined in the 1945 Constitution. The safety of citizens and the community has the right to physical and spiritual well-being is the government's obligation.

The step *rush* is plain language that banking institutions are no longer trusted. Second, the business world is experiencing financial difficulties. High-interest rates, the depreciating rupiah exchange rate has caused the real sector to be disrupted. The damaged real sector is characterized by various things, notably the decline of companies, the increasing debt position of companies and difficulties in meeting their short-term obligations, and especially liquidity problems. Generally marked by massive layoffs that have an impact on people's purchasing power. Third, the deteriorating macroeconomic condition. Slowing economic growth, low people's purchasing power, high unemployment and poverty rates are the adverse effects of the weakening of the banking sector, and the real sector which immediately resulted in a worsening of the macroeconomy. Fourth, the cost of the crisis is enormous. In 1998, the government's policy of bailing out private debts and saving banks had incurred enormous crisis costs. Funds have been disbursed to overcome the banking crisis of Rp. 647 trillion, in the context of crisis costs, Indonesia is the largest country in issuing crisis costs, reaching 34.5% of GDP.[5]

II. METHODS

In compiling this article the author uses a logical thinking methodology in a theoretical framework with a normative study. Secondary legal materials such as laws and other regulations and research journals.

III. RESULT AND DISCUSSION

A. Government Policy in the Banking Sector

Market conditions were volatile and the banking sector was at a point of concern due to the Covid-19 virus outbreak in Indonesia. The impact of this outbreak is hitting public health and threatening the economy into a recession. Banks with a function as an intermediary system are one of the driving elements of the national economy. Economic sustainability must be supported by the banking sector to overcome the threat of recession by issuing a policy.Bank Indonesia (BI) has a mandate to maintain financial system stability (SSK). BI as Lender of the Last Resort (LOLR) has the authority to provide liquidity during a crisis. Shocks in the monetary sector will have an impact on the FSS, and vice versa, SSK shocks will also have an impact on the monetary sector. The legal basis for BI's authority in maintaining SKK are:

1. Law on Prevention and Handling of Financial System Crisis No. 9 of 2016
2. OJK Law No. 21 of 2011
3. PBI Macroprudential Regulation and Supervision No. 16/11/PBI/2014
4. Board of Governors Regulations Macroprudential Policy Framework No. 17/17 /PDG/2015

Initially. there were three major pillars of Bank Indonesia, namely; first) focus on setting and implementing monetary policy; two) payment system to maintain its smooth operation; three) regulate and supervise banks. After the formation of the OJK, BI only focused on implementing and determining monetary policy.

The integration of BI policies is essential in achieving the objectives and maintaining a stable and effective rupiah value that is achieved effectively and efficiently. By BI's mission, Law No. 6/2009 changes from Law No. 23/1999, namely the achievement, and maintenance of a stable rupiah value, maintained monetary stability and financial system stability that continues to develop in the context of long-term national development. Bank Indonesia as the policy implementer has an interest in financial system stability. This is because the financial system has been the instrument of monetary policy. The two must complement each other. In realizing financial stability several factorsmust be considered. First, macroeconomic stability and policy. Second, the absence of moral hazard practices in the management of financial institutions. Third, the availability of institutional infrastructure. Fourth, the availability of good financial institution supervision. Fifth, the reliability of the payment system. Sixth, the availability of complete financial institutions. Seventh, the availability of a central bank has dependencies in the duties, and authorities that must be independent of government intervention, political institutions, and the power of private capital.

The role of BI in maintaining FSS [6]

1. BI plays a role in determining monetary policy in an appropriate and balanced manner, monetary policy is closely related to the economic sector. So BI in setting interest rates must think about the sustainability of economic activities.
2. BI plays a role in realizing the health of financial institutions, especially banks. It should be remembered that an unhealthy and failing banking sector is closely related to disrupted economic growth.
3. BI plays a role in keeping the payment system safe and smooth.
4. BI is authorized to monitor and provide recommendations to the relevant authorities on information that may disrupt financial stability on a macroprudential basis.
5. BI as lender of the last resort (LoLR) by providing liquidity, especially during a crisis.

In the Perpu on State Financial Policy and SSK in Handling Covid-19, Article 16 also stipulates that in supporting the SSK, BI is authorized to:

1. Provide short-term liquidity loans/liquidity financing for Systemic/other than systemic banks.
2. Provide a systemic bank in the form of special liquidity loans.
3. Purchase of state bonds/state Islamic securities.
4. Purchase of LPS government securities in overcoming systemic and non-systemic bank problems.

5. Regulates the use and receipt of foreign exchange.
6. The existence of providing access to corporations or the private sector related to funding through repo of Government Securities / State Sharia Securities through banks.

Financial System Stability (SSK) is a condition in which the financial system does not experience a crisis and survives economic shocks, in the sense that the intermediation function, risk payment system runs well. [7] SSK is very important because with the stability of the financial system, it will create public trust, namely depositors/investors in making deposits in financial institutions, then with the stability of the financial system will also realize economic growth and encourage investment and with a stable financial system the market will be encouraged to operate and there is an improvement in the allocation of economic resources. [8]Bank Indonesia follow-up (BI) to strengthen the face of the Covid-19 pandemic, to maintain macroeconomic and financial system stability by issuing several policies, including: [9]

1. The follow-up to PP instead of Law no. 1 Year 2020

   The issuance of provisions related to the provision of Short Term Liquidity Loans (PLJP) for Conventional Commercial Banks and Islamic Commercial Banks (PLJPS), consisting of:

a. PBI No. 22.05/PBI/2020 which regulates short-term liquidity loans for conventional commercial banks;
b. PBI Np 22/6/PBI/2020 concerning short-term liquidity financing of Islamic commercial banks.

The two rules are a continuation of PP instead of Law no. 1 of 2020 State Financial Policy and Financial System Stability in order to deal with the Pandemic *Coronavirus Disease 2019*(COVID-19)and/or facing dangerous threats to the national economy/financial system stability.Based on Article 16 letter a of Perppu No. 1 of 2020, to deal with financial system problems, BI has the authority to provide short-term liquidity loans to banks that are systemic affected or other banks other than systemically affected based on sharia principles. As a consideration, it must receive consideration from the OJK. Related to this, it is necessary to adjust the rules in the PBI regarding the requirements for PLJP/PLJPS, collateral arrangements, and application documents.

2. The follow-up to the April 2020 Board of Governors Meeting Decision (RDG)

a. PDAG No. 22/10/PDAG/2018 concerning Foreign Statutory Reserves (rupiah and foreign currency) for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units, effective May 1, 2020.In the form of regulations regarding the reduction of Statutory Reserves, stipulating a decrease of 2% (5.5% to 3.5%) for Conventional Commercial Banks (BUK), as well as a decrease of 0.5% for Islamic Commercial Banks (BUS) and Sharia Business Units (UUS). (from 4% to 3.5%) with the average Statutory Reserves remaining at 3.0% each. This policy is in the framework of BI to support efforts to recover the national economy due to Covid-19.

b. PDAG No 22/11/PADG/2019 applies May 1, 2020 for conventional commercial banks, shariah and sharia business units related to the Macroprudential Intermediation Ratio (RIM), and Macroprudential Liquidity Buffer (PLM).

Changes in RIM and PLM, which include:

a. Fulfillment of RIM Current Accounts and Sharia RIM Current Accounts within the period 1 May 2020 to 30 April 2021, with a value of 0 (zero).

b. The Macroprudential Liquidity Buffer Ratio (PLM) for Commercial Banks is 6% of TPF and Sharia Commercial Banks are 4.5% of TPF.

c. The purchase of SUN/SBSN issued by the Government in the primary market must increase its PLM Ratio.

d. Sharia securities/securities can be used for a maximum of 6% and 4.5% of TPF within a certain time can be used in repo transactions with Bank Indonesia in open market operations for Conventional Commercial Banks and Sharia Commercial Banks.

3. Adjustment of BI Provisions due to the COVID-19 Pandemic

The issuance of PBI NO 22/7/PBI/2020 is related to the Government's policy regarding large-scale social restrictions effective from April 30, 2020. These provisions are to fulfill obligations for parties whose rules and supervision are under BI in the monetary sector, financial system stability, and payment system amidst the implementation of the Government's policy to accelerate the handling of COVID-19. In setting monetary policy, BI coordinates with the Government, the Financial Services Authority (OJK), and relevant authorities constantly reviewing the developments of the COVID-19 pandemic to mitigate and reduce the impact on the national economy by establishing policies.Then to deal with the economic impact of the Coronavirus, the Financial Services Authority (OJK) has mandated the banking sector to accelerate the transmission of government policies, OJK, BI for economic stimulus. According to POJK No. 11/POJK.03/2020 concerning National Economic Stimulus as policy *countercyclical*.

These provisions regulate relaxation that can be carried out by banks related to credit facilities/provision of funds for affected customers in the form of delayed payments and /or margin relief /profit sharing which of course the period and conditions are adjusted to the economic sector, criteria, and customer regularly. refers to the provisions of the OJK. Xiaoqiang Cheng and Hans Degryse (2010) stated that high economic growth must be supported by the banking financial sector and the non-bank financial sector.[10]Meanwhile, the Financial Services Authority urged the banking sector to respond to the issuance of the POJK as an implementation of the relaxation of MSME loans by being more proactive in identifying debtors affected by Covid. The goal is to control bad loans and provide new credit facilities for bank debtors. However, in practice, the precautionary principle is still observed along with mechanisms to prevent misuse of the implementation of existing provisions *(moral hazard)*. Stimulus policies are in the form of:

(1) Credit quality assessment with a ceiling of up to Rp 1 billion only based on payment of principal and/or interest.

(2) The increase in credit collecbility becomes smooth by restructuring, without any limit on the ceiling and type of debtor.

In addition to the fiscal stimulus carried out by the Indonesian state, other countries also set fiscal policies to maintain the economy, namely:[11]

(1) the United States: an allocation of funds of up to USD3 billion to meet the needs of research and developed vaccines. There are funds for treated patient smillion, for the *Centers for Disease Control and Prevention* (CDC) of USD 2 billion, US *Food and Drug Administration* amounting to USD 800(US FDA) amounting to USD 61 million, USStates. *Agency for International* Development worth USD 1 billion, as well as health care in the United states more than $1 billion, and healthcare institutions worth $500 million.

(2) China: there is an injection of liquidity reaching 1.2 trillion yuan, the existence of a program *Reverse repo*, the allocation of funds to the value of 71.85 billion.

(3) South Korea: 11.7 trillion won for medical, business, and household responses, as well as reduced tax and rental subsidies.

(4) Thailand: soft loans, tax breaks, and cash grants of 100 billion baht (USD 3.2 billion).

(5) Singapore: additional funds set aside worth 48 billion Singapore dollars (33.17 billion USD). This additional stimulus spending comes a month after Singapore announced an economic and health policy of S$6.4 billion to tackle the Covid-19 pandemic. Meanwhile, the government will withdraw up to 17 billion Singapore dollars from state reserves.

(6) Malaysia: support for business, tourism, infrastructure improvements, tax extensions, lower pension premiums by 20 billion ringgit (USD 4.8 billion).

(7) Italy: the allocation of funds for the employment sector and to support the health system is around 25 billion euros to 10 billion euros.

(8) India: assistance for low-income households worth 1.7 trillion Rupees or the equivalent of USD22.5 billion or Rp. 360 trillion (exchange rate of IDR 16,000 per USD).

B. The Other Side of Government Policies in the Banking Sector

Economic policies issued by Bank Indonesia during the Covid-19 pandemic cannot be separated from the history of new debts if they are not managed properly and maturely. Even though the IMF is committed to using *lending capacity* and the World Bank has approved funding of USD 14 billion to help the crisis experienced by countries affected by the global pandemic, Indonesia should not be tempted by this offer like when dealing with the 1998 Asian crisis. The IMF has been proven to intervene in Indonesia's economic policies when providing loans. to overcome the economic crisis of 1997 to 1998. The IMF has plunged Indonesia into a deeper abyss, so the move to borrow from the IMF and the World Bank is very dangerous for Indonesia.

Precisely from Indonesia at the stage of not depending on the IMF and *World Bank, this* is the key to the independence of this nation to know the strength of resources in improving economic conditions and not being trapped in IMF and assistance *World Bank* which is often tied to Indonesian policies, *policies* economic and politics. [12] There are several solutions for domestic funding sources that can be utilized, such as the use of excess budget balance (SAL) in the form of accumulation of excess budget financing for the relevant year (SILPA). In addition, Government Securities may also be issued to be purchased by Bank Indonesia (BI). Reallocation and *refocusing* of central and regional budgets are also very important in this situation with the emphasis on shared commitment. The budget for infrastructure development and the construction of the new capital city can be used temporarily as a source of financing.

IV. CONCLUSION

The outbreak of the Covid-19 virus in Indonesia brought huge changes due to the stagnation of activities in the economic sector. Bank Indonesia as an institution that plays a role in creating monetary policy has issued several policies during Covid 19. BI as the central bank plays an important role in maintaining financial system stability. Although Indonesia did not implement a total lockdown, economic activity was greatly shaken, especially for the business sector. The policies that have been issued by BI in coordination with the relevant authorities have been very responsive in dealing with economic shocks during the Covid-19 pandemic. The very widespread Covid pandemic has put pressure on the global economy, BI should continue to improve its response in the form of policies to respond to the risk of the impact of Covid 19 in coordination with the Government, OJK and related authorities.

REFERENCES

[1] Afshin A. Anoushiravani, MD, Casey M. O'Connor, MD, Matthew R. DiCaprio, MD, and Richard Iorio, MD, Economic Impacts of the Covid-19 Crisis, ***Journal of Bone and Joint Surgery***, pp.937

[2] Maria Nicolaa, Zaid Alsafib, Catrin Sohrabic, Ahmed Kerwand, Ahmed Al-Jabird, Christos Iosifidisc, Maliha Aghae, Riaz Aghaf, The socio-economic implications of the coronavirus pandemic (COVID-19):A review***, International Journal of Surgery 78*** (2020), pp. 187

[3] Galih Prasetyo. Ancaman Resesi akibat Pandemi Corona. Media Indonesia. 4 April 2020 pp. 6

[4] Billy Arma Pratama. 2010. Analisis Faktor-Faktor Yang Mempengaruhi Kebijakan Penyaluran Kredit Perbankan. Semarang: FE UNDIP pp. 1

[5] Wijaya, Krisna. 2010. Analisis Kebijakan Perbankan Nasional. Jakarta: PT. Elex Media Komputindo pp. 12
[6] ojk.go.id
[7] Suhartono, Peran Bank Sentral Dalam SSK dan Implementasi Jaring Pengaman Sektor Keuangan (JPSK), Jurnal Keuangan dan Perbankan Vol. 13 No 3 September 2009, pp.522
[8] Fransiska Ari Indrawati, Peranan Bank Indonesia Dalam Menjaga SSK : Telaah Aspek Hukum, Buletin Hukum Kebanksentralan Volume 14, No 1, 2017, pp. 3
[9] bi.go.id
[10] Novia Nengsih. 2015. Peran Perbankan Syariah Dalam Mengimplementasikan Keuangan Inklusif Di Indonesia. Jakarta: Pascasarjana UIN Syarif Hidayatullah Jakarta hlm. 1
[11] http://www.idxchannel.com/market-news/daftar-stimulus-negara-di-dunia-hadapi-ancaman-krisis-ekonomi-covid-19 (10 April 2020)
[12] http://amp.beritasatu.com/ekonomi/614233-hadapi-corona-pemerintah-tak-perlu-utang-ke-imf-dan-bank-dunia (10 April 2020)