IJJM
Ilomata International Journal of Management
P-ISSN: 2714-8971; E-ISSN: 2714-8963
Vol. 1 No. 4 October 2020 pp.191-197 https://www.ilomata.org/index.php/ijjm

Effects of Pandemic Covid 19 on Indonesia Banking (Comparison of Covid 19 With Monetary Crisis 1998)

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Submitted : October 21, 2020 Revised : October 25, 2020 Published : October 30, 2020

ABSTRACT

The Covid 19 pandemic befell the world and Indonesia was no exception. This pandemic affects not only health but also socio-economic. When the economy is hit then the banking sector is also hit. This study attempts to look at the effects of the Covid 19 pandemic and compare it with the 1998 monetary crisis. By comparing these two crises we can see the differences and similarities of the current crisis. But the most important thing is how regulators and banking can draw lessons from the 1998 crisis to be applied to the current crisis. This research is an applicative research that is by applying the existing framework to a new situation. The framework used in this study is a seven-tier system in managing bank assets and liabilities. From the results of this study can be seen the fundamental differences between the crisis of Pandemic Covid 19 and the monetary crisis of 1998. This study concludes that the banking conditions in Indonesia are currently in a more resistant to crisis. However, government support, especially in the adoption of macroeconomic policies, is still needed to maintain economic stability.

Keywords: Econometric, Bank Assets, Liabilities, Covid-19

INTRODUCTION

The Covid 19 pandemic struck all nations of the world. To prevent the rapid spread of the Corona virus and prevent casualties, the government has implemented a Large-Scale Restriction. The Indonesian government forbids the public to gather and make crowds during the restriction period. This means that people are not allowed to eat on the spot, go to the mall in addition to buying basic goods and various other restrictions (Nicola et al, 2020). The consequences of this are various businesses related to mobility of people and the accumulation of people being beaten. Then this decrease further results in a downward spiral effect to other areas.

The bank as a customer asset manager will perform an intermediation role through the distribution of customer assets. To eliminate systematic risk, banks diversify loans into various industries, in various periods and in various products. The hope is that when one customer or even several customers in one industry fall bankrupt can still survive because of the risk of diversification. But when there is a crisis like Pandem Covid 19 when many companies experience a decline in revenue at the same time so that the lack of liquidity then diversification becomes useless. Other approaches need to be taken to address systematic risks. This study examines what banks and stakeholders can do to overcome this systematic risk by learning from previous crises (Campa et al, 2020).

Crisis according to Barton (2001) is an unexpected incident, giving a negative impact and large-scale. Crisis can occur in one area or it can be in different areas. Crisis can occur in a country, a region or globally. Crisis can be local or contagious. Crisis can occur in a short period of time, medium or long. Through these dimensions then the crisis can be identified and distinguished from each other.

A crisis can occur because a system in a country fails to perform its function. The United States is currently in crisis due to the accumulation of education debt. This is not the case in Indonesia where borrowing for education costs is not a common norm or in India where education is available cheaply or in Malaysia where the government subsidizes higher education in large amounts. But other systems will cause other problems. In Indonesia, many are unable to afford higher education and the price of higher education on high-quality campuses is also high. Returning to the banking context, Indonesia has its own system to maintain banking stability. This system consists of several layers.

The first layer is the debtor selection system. Borrowers need to be analyzed using a good credit analysis system such as 5C (character, capacity, capital, condition, collateral) and independent parties such as public accountants who give reasonable opinion of financial statements and public appraisers who give reasonable value to the value of debtor collateral assets. Lailiyah (2014) wrote the importance of making 5C in credit lending as an unquestionable criterion because there is a tendency for banks to loosen this in order to achieve profit targets.

The second layer is the loan distribution system where there is a rule of maximum percentage of assets that can be lent to a single debtor. This rule is made to ensure that no assets are concentrated on one debtor but the assets will be distributed to several debtors (Asnel et al, 2020). Thus the risk will be diversified.

The third layer is the minimum capital owned by the bank. This minimum amount of capital is regulated by the government in accordance with the percentage of total bank assets.

The fourth layer is to use asset insurance with the establishment of Savings Guarantee Institution. Insurance is one of the efforts to transfer the risk borne by the bank to a third party, namely here the banking insurance.

The fifth layer is the bank's health monitoring system which is routinely daily, weekly, quarterly and annually regularly monitored by Bank Indonesia and the Financial Services Authority.

The sixth layer is the monetary policy system included in various banking policies and architectures in Indonesia to create a healthier banking system.

The seventh layer is when all these systems fail then special government intervention is needed such as banking rescue packages (Rosas, 2006). These seven layers are the steps taken in the banking world to face various crises in banking. Various policies have been implemented by the government during the previous periods to address the banking crisis by using these layers.

In this extraordinary situation, the government in this case, the financial authorities of both Bank Indonesia and the Financial Services Authority have a crucial role in overcoming the crisis. Looking at the history of Indonesia, the Indonesian government has overcome various crises by creating new policies and creating a healthier financial system and stronger expectations.

One example is the economic turmoil due to very high inflation in the era of President Sukarno because Indonesian banks do not do good monetary policy and solve problems by printing money continuously (Woo, 1994). The government that later in the early era of President Soeharto's government solved the problem of high inflation by giving distance between political and economic policies. President Soeharto put technocrats, consisting of economists, to formulate economic policies that create economic stability.

Indonesia then faced economic stability until the end of the twentieth century. However, this does not mean that there was no crisis in those years. One is the crisis caused by banking deregulation. Indonesia in the mid-eighties experienced a decline in oil sales capacity and an increase in oil consumption which resulted in a decrease in government revenue. As an alternative form of development funding, the government encourages the creation of commercial banks and people's credit banks to attract public funds and equalize development in the regions. In order to encourage this, banking deregulation policy is made (Resosudarmo, 2006). Policy deregulation facilitates the creation of new banks but unfortunately this is used by conglomerate companies to create banks and attract cheap funds from the public. As a result, the bank does not diversify its assets and is heavily exposed to the specific risks of conglomerate companies. In 1988 the October Package was issued which was a policy to stop the operation of unhealthy banks. Furthermore, the government requires banks to diversify their assets and limit the maximum loan concentration of a debtor (Riyadi, 2003).

METHOD

This research is an applicative research (Cavana, 2001) where this application applies the existing framework of the framework of the seven layers of policy in the period of Pandem Covid 19. Applicant research is useful to bridge the gap between theory and practice in the field. To compare the condition of banks in the 1998 crisis and the Corona Pandemic using several methods.

The first step in this study is to use the existing dimensions. He hopes that using various dimensions will provide different perspectives on both events. Looking at it using various dimensions also gives a clearer picture of the current event.

The second step is to use the literature study method. Literature study methods are useful to find the results of previous research that can explain current events. The results of the literature study were used to identify what steps could potentially be taken to cope with the Covid 19 pandemic.

The third step is to apply the steps to the existing framework. In this research the framework used is a seven-layer policy framework. In short, this framework is a framework that can be used by banks and banking regulations to minimize risks both systematically and banking-specific risks. By using these three approaches, it is hoped that the difference between this crisis and the previous crisis in 1998. By knowing the differences that exist, the steps that were successfully used to overcome the crisis in 1998 can be adapted for use in this crisis.

RESULTS AND DISCUSSION

The 1998 crisis was a major crisis that hit countries in Southeast Asia. Indonesia is one of the countries hit hard by the crisis. One of the consequences of the 1998 monetary crisis was the fall in the exchange rate of rupiah from about 2,500 rupiah per dollar to about 15,000 rupiah per dollar. This of course causes private debt in the form of dollars to be multiplied in value in rupiah units. So failure to pay becomes inevitable and banks that provide loans to the private sector are not paid (Wijaya, 1998). Although the situation looks very difficult, the Indonesian nation can get out of the 1998 crisis and even enter a more democratic era.

From this, the 1998 crisis can be used as a lesson to take policy in the face of the Covid 19 Pandemic. In table 1 is compared between the 1998 monetary crisis and the current Covid 19 crisis. The dimensions used are the source of the crisis, the type of crisis, the scale of the crisis, the nature of the crisis spread, the consequences in the banking sector, and the sectors benefited by the crisis.

Table 1.
Comparison between the 1998 Monetary Crisis and the Covid Pandemic Crisis 19
is seen from various dimensions

Dimension	1998 Monetary Crisis	Covid 19 Pandemic Crisis
Source	The high demand for the dollar in Southeast Asia compared to existing supply due to private foreign loans that matured over a relatively short period of time (Corsetti et al, 1999).	Corona virus which causes the government to restrict so that business activity is reduced especially those related to the gathering of people and the relocation of people.
Scope	The crisis is regional, especially in Southeast Asia.	The crisis is global and affects almost every country in the world.
Scale	The crisis hit mainly large companies that have debt in foreign currency.	The crisis hit all sectors in the economy to the small and medium micro enterprises.
Type	The monetary crisis is a crisis mainly caused by the fall of the rupiah exchange rate against the US dollar.	An overall economic crisis in which all parts of the economy are affected.
Nature	The crisis started in Thailand and immediately spread throughout Southeast Asia.	The virus that first appeared in Wuhan spread all over the world and caused various restrictions that paralyzed the economy.
Consequences toward banking sectors	The big debtors have failed because the amount of their debt in rupiah has soared many times over.	Large and small debtors as well as retail consumers have difficulty with liquidity and have difficulty repaying debts to banks.
Sector that benefit from cirisis	Exporters, especially those who receive income in foreign currency and production costs in rupiah are benefited by the rupiah exchange rate.	Almost the entire sector was hit. Even industrial sectors with rising incomes still need to be restructured due to changes in the global supply chain (Goodel, 2020).

In the 1998s crisis the government was unable to cope with the high level of private debt. The government itself has made a rescue by forming a National Banking Health Agency and providing Bank Indonesia Liquidity Assistance. But that is not enough to restore economic conditions. Therefore, the government requested a loan from the International Monetary Fund and subsequently implement policies given by the IMF (Kho et al, 2000).

In 1998, the SME sector became the motor of national economic recovery. Bank Rakyat Indonesia which at that time had a large portfolio of borrowers from SMEs recorded the best performance among Bank BUKU 4 (Purwanto, 2002). Although there was a lot of large-scale restructuring, unemployment did not rocket because the parties affected by the severance of working relations entered the SME sectors. Therefore, there is a large increase in the number of SMEs in Indonesia. In general, the informal sector, which is the main absorber of labor in Indonesia, survives.

The occurrence of bank runs in some private banks mainly due to fear of customers. After the National Banking Health Agency injected capital, these banks recovered and later became the big banks of Indonesia.

The government spends government spending directly with a solid work policy that is actually a transfer payment that comes from foreign loans. This transfer payment is given in the form of salaries for the workforce which is contractually paid by the state to temporarily absorb unemployment (Runmin et al, 2008). Thus the Indonesian government is the largest employer in Indonesia. Another consequence is the multiplier effect of salary will grow the economy, especially SMEs because these contract workers will immediately spend their salaries and the economy will spin.

In a relatively short time with a democratic General Election and the emergence of a new era then economic indicators began to recover. Although the exchange rate of the rupiah has never returned as before the crisis, economic indicators such as inflation and unemployment are approaching the figure before the crisis.

This study applies the seven layers of the banking system to analyze the steps that can be taken in overcoming the Covid 19 Pandemic crisis both by banks and by regulators. Since the 1998 crisis there have been some fundamental changes in Indonesian banking. The changes have been reflected in the second, third and fourth layers (Pratama, 2010).

In the second layer, the government has required each bank to diversify its assets. There are restrictions that a bank can lend to its debtors. Banks can no longer use schemes such as special loans to a subsidiary entity of the debtor where the money was actually used for the benefit of its parent company. In addition, banks, especially government-owned banks, are encouraged to provide loans to the SME sector which is proven to be able to withstand the crisis.

In the third layer, the Indonesian government has implemented Basel III and even now will enter Basel IV. The principle of Basel III is the use of market oversight to monitor the minimum capital of banking. So there are three layers of supervision, namely internal bank oversight, government oversight and market oversight. Taskinsoy (2018) in research shows that Indonesia and the Philippines are two countries where financial authorities require higher minimum capital than international provisions.

In the fourth layer, the government has formed a Savings Guarantee Agency which collects premiums from all existing banks. Furthermore, premium funds will be used to insure customer funds (Mamuaja, 2015). However, the funds insured are only two billion rupiahs. The excess of these funds is not borne by the Savings Board. But this has proven to be effective in helping customers in the case of Century banks. Only customers with loans in excess of two billion in excess of their money do not get a return. One advantage of having LPS is to increase customer trust so that in the current crisis there are no bank runs caused by the crisis. Baldwin (2020) says the importance of maintaining public trust because bank runs are contagious. If people do not believe and see a bank that has fallen due to the crisis then they will withdraw money from their bank.

The next change is In the sixth layer where Bank Indonesia through the Indonesian Banking Architecture divides banks into strata based on capital adequacy and encourages banks to increase strata in order to increase efficiency. This policy has proven to have increased the number of BOOK 4 banks which have been numbering four for more than a decade has now become seven. In the seventh layer the government encourages government banks to restructure debt. Although debt restructuring at State-Owned Enterprises Banks can actually cause problems in the future. One of them is that restructured loans will not necessarily be able to recover and will eventually go into unsecured loans that the bank must absorb. And if the bank continues to keep these loans in the restructuring section then the actual valuation of the bank does not reflect the actual value.

CONCLUSION

This study shows the difference between the 1998 crisis and the Covid 19 pandemic crisis. In general, Indonesian banking has a better banking infrastructure today. This will make banks more resilient to the crisis. The public's trust in the bank is still maintained which is proven by the absence of bank runs caused by the pandemic. In monetary policy the government did not take the drastic measures taken in the 1998 monetary crisis. This could be a double-edged sword because it is better to over react than to under react. Indonesia can slip into a recession that is not short. But beyond that as long as public trust in the banking sector is still maintained and there is still credit for the productive sector and especially SMEs then this can encourage economic growth (Johnson et al, 2001).

This research is limited to the dimensions used to differentiate the crisis. In the study did not measure the impact of the crisis in the monetary unit. The findings of this study need to be combined with econometric approaches to be able to produce measurements of the impact of the current crisis.

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