



Credit Restructuring for Bank Debtors Affected by the Covid 19 Pandemic

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Abstract. This study aims to examine how the acceleration of economic recovery can predict the success of restructuring non-performing loans for bank debtors due to the Covid-19 pandemic. A triangulation method with a qualitative approach was conducted to investigate primary data obtained from interviews with bank managers, credit staff, and several debtors. The study results show that economic recovery efforts, through credit restructuring in the accommodation services business sector, trade, processing industry, and credit, can predict the success of debtors affected by the pandemic. The undetermined tenor of the pandemic cannot support the prediction of the success of bank debt restructuring.

Keywords: Credit · restructuring · triangulation · the covid-19 pandemic

1 Introduction

Coronavirus disease 2019 (Covid-19) is a pandemic declared by WHO [1]. In Indonesia, Presidential Decree No. 11 of 2020 concerning the Determination of Public Health Emergency states that Covid-19 has been a public health emergency since March 2, 2020 [2].

The sector most affected by the pandemic are households, corporations, finance, and MSMEs [3]. The household sector experienced a significant decline in consumption due to low purchasing power. The corporation experienced a decline in business performance, and there were layoffs to the threat of bankruptcy.

The financial sector was also under pressure, with banking and finance companies potentially experiencing liquidity and insolvency problems. The pandemic affected the Micro, Small, and Medium Enterprises (MSME) sector because it could not carry out business activities, and the ability to meet credit obligations was disrupted [4].

Furthermore, Presidential Decree Number 12 of 2020 concerning the Determination of Non-Natural Disasters for the Spread of Corona Virus Disease 2019 as a National Disaster emphasizes that this pandemic is a disaster. Implementing the health protocol in strict social distancing has stopped almost all community activities [5]. Economic growth slows down or even declines [6].

The decline in economic growth affected the banking sector [7]. Since March 2020, OJK data showed an increase in non-performing loans. The debtors who are 1–2 months

late (Credit Col-2) increased to 27.3% year on year. The number of non-current credit groups (Col-3) and non-performing loans (Col-5) increased by 19.10%.

The decline in the performance and capacity of debtors can increase credit risk. It disrupts banking performance and financial stability in Indonesia [8]. This empirical fact prompted the Government of Indonesia, through the Financial Services Authority (OJK), to issue a policy of providing economic stimulus to reduce the impact of Covid-19 on financial performance and stability.

The policy runs from March 13, 2020, to March 31, 2021, through the implementation of POJK No. 11/POJK.03/2020 concerning National Economic Stimulus as Against the Impact of the 2019 Coronavirus Disease (POJK No. 11/POJK.03/2020). POJK Number 11/POJK.03/2020 is a product of countercyclical policies to maintain economic stability with a fiscal and monetary character [9]. The countercyclical policy means a proactive policy from the government to overcome extreme economic cycle movements [10].

Banking needs to proactively identify the performance and capacity of debtors affected by the Covid-19 pandemic [8]. Lower debtor performance and capacity will increase credit risk and potentially disrupt banking performance in Indonesia [11]. These Circumstances will complicate economic recovery in the future.

Studies related to economic recovery stated that this phase would continuously improve business activity [12]. The economic sectors will self-medicate for a new expansion. Meanwhile, the credit restructuring program makes customers not lose their collateral and can carry out their business again [13]. The countercyclical policy (11/POJK.03/2020) keeps banks in a healthy, liquid, solvent, and good condition [14].

This study seeks to explain the extent to which economic recovery acceleration can predict the success of restructuring non-performing loans for debtors due to the Covid-19 pandemic at a bank branch office in East Java, Indonesia.

2 Research Methods

This research is a case study and field research on debtors at East Java, Indonesia bank branch office. A qualitative approach with the triangulation method was applied to investigate primary data obtained from interviews with bank managers, credit staff, and several debtors [15, 16].

The total number of informants was 30 people, consisting of branch managers, credit staff, and bank debtors. The data collection technique used was an interview.

The data were analyzed qualitatively and described in descriptive form. Data analysis was carried out simultaneously with the data collection process. The data analysis technique of this research applied the following stages: data collection, data reduction, data display, and conclusion drawing and verification [17].

3 Results and Discussion

3.1 Economic Recovery Can Predict the Success of Credit Restructuring for Debtors Affected by Covid-19

Based on the interviews, 90% of the informants stated that the economic recovery could support the prediction of the success of the restructuring. The strongest argument is that

the debtor's business will run smoothly when economic conditions have recovered, so there is no need for credit restructuring. Only 10% of informants stated that the economic recovery could not support the prediction of the success of credit restructuring.

Economic recovery is an economic situation with a conjuncture pattern marked by increased consumption and production, demand for credit, the money supply, and increased employment opportunities. Conjuncture is a fact that shows that economic activity does not develop regularly but an increase or decrease that changes from time to time.

3.2 Credit Restructuring Can Predict the Success of Debtors by Covid-19

Based on the results of interviews, all informants (100%) stated that credit restructuring could support the prediction of the success of debtors affected by the Covid-19 pandemic. Restructuring is an effort made by banks to improve debtors' credit activities who have difficulty fulfilling their obligations by providing relief from delays in payment of principal and interest based on mutual agreement and assessment between debtors and creditors.

The debtor needs to go directly to the bank or leasing company that provides credit by meeting the requirements, namely having good business prospects to meet obligations after credit restructuring and experiencing difficulties in paying installments.

3.3 The Debtor Business Sector Affected by Covid-19 Can Predict the Success of Credit Restructuring

Based on the results of interviews, 83% of informants stated that the business sectors that can support the prediction of the success of debt restructuring affected by Covid-19 include the accommodation services business sector, trade, processing industry, and mortgages.

Meanwhile, 17% of informants stated that the business sector that could not support the prediction of the success of debt restructuring affected by Covid-19 includes consumption and construction.

3.4 Debtor Experience Can Predict the Success of Credit Restructuring Affected by Covid-19

Based on interviews, 50% of informants stated that the debtor's experience could support the prediction of the success of credit restructuring affected by Covid-19 if the debtor's business has been running for >3 years.

Meanwhile, 50% of other informants stated that the debtor's business experience running for <3 years could not support the prediction of the success of credit restructuring affected by Covid-19.

3.5 The Tenor of the Covid-19 Pandemic Can Predict the Success of Debtor Credit Restructuring

Based on the interviews, all informants (100%) stated that they could not predict the success of the restructuring at the Bank because the Covid-19 pandemic cannot be known when it will end.

4 Conclusion

The study show that economic recovery efforts, through credit restructuring in the accommodation services business sector, trade, processing industry, and credit, can predict the success of debtors affected by the pandemic. The undetermined tenor of the pandemic cannot support the prediction of the success of bank debt restructuring.

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