INTERMEDIATION AND SUSTAINABLE FINANCIAL SYSTEM STABILITY AMIDST THE COVID-19 PANDEMIC

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(Received: January 20, 2023; Revised: May 15, 2023; Approved: June 16, 2023; Published: July 4, 2023)

ABSTRACT
This review aims to analyze the function of internalization and stabilization of the monetary-finance sector for the sustainability of financial system stability during the Covid-19 pandemic in Indonesia. The Covid-19 pandemic caused a deep recession in the national economy and a significant drop in the capital market index. Policy uncertainty over handling the pandemic and the continued emergence of various variants of Covid-19 exacerbated economic conditions. Bank Indonesia (BI) made several monetary policies to complement the policies taken by the government to maintain sustainability during the Covid-19 pandemic. Strengthening financial stability and supporting the intermediation recovery policy strengthens the monetary sector's sustainability and stabilization so that banks do not experience excessive pressure during Covid-19 and remain profitable. These perspectives were tested in the context of the Covid-19 pandemic, and the Indonesian banking and financial stability industry has shown sustainability in the last two years. On the other hand, the competition stability in the Covid-19 pandemic approach assumes that the borrower side of the relationship must be considered. Banks can charge exorbitant interest rates in collusive markets, increasing the cost of borrowing for businesses and triggering the moral hazard problem. Specifically for ASEAN and Indonesia, as a result of the recent global financial crisis in 2020, BI implemented expansionary monetary and fiscal policies in response to the crisis to stabilize its economies.

Keywords: monetary, financial, sustainability, stabilization, policy, Covid-19

ABSTRAK
Judul: Intermediasi dan Stabilitas Sistem Keuangan yang Berkelanjutan di Masa Pandemi Covid-19


**Kata Kunci:** moneter, keuangan, keberlanjutan, stabilisasi, kebijakan, Covid-19

**INTRODUCTION**

The financial system is essential to the economy's functioning, especially in Indonesia as an emerging country. It supports the process of financial intermediation, which promotes cash movement between savers and borrowers, guaranteeing that financial resources are appropriately distributed to promote economic growth and sustainability. Financial stability is a state of affairs in which the financial intermediation process runs smoothly, and there is trust in the operation of the economy's leading financial institutions and markets (Can et al., 2020). Financial instability and its economic consequences may be extremely costly owing to its contagion or spillover effects on other sectors of the economy. Indeed, it may precipitate a financial crisis with adverse economic effects. As a result, it is critical to have a robust, stable, and healthy financial system that enables effective resource allocation and risk distribution across the economy (Dau & Sethapramote, 2019).

Policy spillovers may be enhanced during the crisis when many nations implement appropriate fiscal and monetary measures to stabilize their economies. However, with intergovernmental coordination in policymaking, policy responses may remain the same by country, harming the economy of other countries (Dau & Sethapramote, 2019). When the economy is in a recession due to the Covid-19 pandemic in ASEAN and Indonesia, bank credit shows a slow increase and continues to show encouraging growth. The economic performance continued to strengthen at the end of semester I/2021, both by type of use and business segment. BI noted that by sector, positive credit growth occurred in almost all economic sectors, especially in sectors that still had controlled prospects and risks amidst the pandemic (Bank of Indonesia, 2021). On the other hand, financing from the Non-Bank Financial Industry (IKNB) also showed positive performance due to a decrease in the contraction of financing companies (PP), and other INKB financing began to improve.

Global economic recovery is ongoing, despite the resurgence of the epidemic. Covid-19's fault lines appear to be more persistent—near-term divergences are predicted to have a lasting effect on medium-term performance. The gaps are caused mainly by vaccine access
and early policy support. Global economic growth is anticipated to be 5.9 percent in 2021 and 4.9 percent in 2022, down 0.1 percentage points from the July prediction for 2021. The lower revision for 2021 involves a reduction for advanced economies due to supply disruptions and low-income developing countries, owing primarily to deteriorating pandemic dynamics (IMF, 2021).

In line with the vaccination program that continues to increase, the rate of transmission of Covid-19 continues to decline in Semester I/2021, providing a significant impetus for increasing business activity in general. BUMN and private corporation/MNC performance continue improving after slumping to its lowest position in Quarter II/2020. Capital market players and issuers of large capitalization still seem hesitant to boost their investment again, even though the global economy has recovered. The doubts of capital market players, especially foreign investors, caused the JCI only to experience a prolonged sideways in the narrow range of 5900-6100. The government's claim for successfully handling the spread of Covid-19 was greeted positively by various groups but has yet to trigger significant long-term investment.

However, the trend of increasing Covid-19 from Semester I 2021 until the end of Quarter III/2021, which reached its highest point, triggered widespread doubts among business people. The government was forced to adopt a policy restricting community mobility to prevent more comprehensive transmission. This condition will undoubtedly lead to a significant setback in economic recovery because it can hold back demand for financing from companies and households. In this case, the government and BI should take various economic policies, both fiscal and monetary, in anticipation of the impact of the second wave of Covid-19 that hit the national economy. Of course, these economic policies must be balanced with government policies to suppress the transmission of Covid-19, known as the Delta variant. At the beginning of October 2021, PPKM and vaccinations promoted by the government began to show results where the transmission of Covid-19 was increasingly sloping until the situation was under control again.

**MATERIAL AND METHOD**

The writing method used is a literature study reviewed from several data sources and journals relevant to the topic. The review was conducted by analyzing data and related information regarding stabilizing the financial system when Covid-19 hit the world, especially in Indonesia. Financial data and information were obtained from Bank Indonesia, and journals
RESULT AND DISCUSSION

Economic and Monetary Policies Maintain Sustainability in The Covid-19 Pandemic

Economic policies, particularly banking and monetary policies, are considered stable and under control to maintain the sustainability of the national economic recovery. From the corporate and household side, it is supported by relatively stable liquidity in which debt installment payments are smooth throughout Semester I/2021. The people's economy through MSMEs is generally stable, although some sectors are experiencing financial problems. Bank credit risk is generally entirely safe, with an NPL of 3.14%, even though the Loan at Risk (LaR) is relatively high. Several fiscal incentives help economic recoveries, such as the abolition of VAT for the automotive industry and property-real estate with specific criteria. This policy is reflected in the decline in credit restructuring until the end of Semester I/2021. However, the pandemic seriously affects several sectors, such as the construction, processing, and trade industries. The banking sector still looks stable because it has solid liquidity and CAR and financing from INKB, which recorded Non-Performing Financing (NPF) of 3.96% after being above 5% during Semester II/2020. This condition also supports the gearing ratio of financing companies (PP) below the threshold value of 10% (Bank of Indonesia, 2021). The financial sector's stability shows a consistent, sustainable economic recovery amid the pandemic.

Covid-19 also hit people's businesses, namely MSMEs, but towards the end of Semester I/2021, positive growth began to be recorded. The conducive business conditions have stimulated the demand for MSME financing needs, especially export-oriented MSMEs. The increase in MSME exports was also supported by developing a reasonably massive digital business in various aspects, especially marketing, and logistics. The use and application of digital technology in MSMEs have proven effective in preventing performance declines and can be relied upon to support people's businesses, even though the supply side is more relaxed than before. Digital technology or digital business supports corporate and household businesses and MSMEs to maintain the momentum of the national economic recovery.

BI reports that economic financing growth in Semester I/2021 is improving. During Semester I/2021, bank credit will continue to grow slowly. Credit growth contraction
continued to slow until it managed to record positive growth of 0.59% (YoY) at the end of the semester (Figure 1) or grew by 1.83% (YTD). Credit growth is driven by growth in the BUMN and BPD bank groups, while the BUSN and credit KCBA groups are still contracting, although it is improving (Figure 2).

Figure 1. Development of banking credit (yoy) by bank group

Figure 2. Development of banking credit (ytd) by bank group

The tendency of business players, corporations, and MSMEs seems to need clarification and be careful about making long-term investments. Investments made are more conditional and short-term to anticipate future economic uncertainty. As a result, investment credit growth continued to contract by 0.41% (yoy), as shown in Figure 3. Data from BI also illustrates that credit growth was driven by improvement in Working Capital Loans and Consumption Loans, which grew by 0.34% (yoy) and 1.96% (yoy), respectively. Credit growth also occurred in the consumption, corporate, and MSME segments. There was credit recovery in almost all sectors during 2021, followed by the corporate sector's performance during the pandemic (Bank of Indonesia, 2021).
The government has strengthened synergies between authorities through the National Economic Recovery Program (PEN), including credit realization policies regulated in POJK No. 11/POJK.03/2020 and POJK NO. 48/POJK.03/2020. This policy has successfully reduced pressure in the real sector from the demand and supply side, impacting the financial sector, especially banking. The pandemic pressure is evident through the relatively high LaR of 22.65%, which is in line with the increase in restructuring loans during the pandemic. Based on this policy, the NPL ratio in Semester I/2021 was recorded at 3.24%, which is still below the 5% threshold value (Bank of Indonesia, 2021).

In Indonesia, intermediation for economic recovery during the pandemic aided by credit expansion with manageable financial risk. Credit continues to increase during Semester I/2021, reaching a positive growth rate of 0.59 percent (yoy) by the semester's conclusion. This expansion was primarily fueled by lending to sectors that are mostly unaffected by the Covid-19 epidemic and have favorable prospects and a low degree of credit risk, including agriculture, transportation, social services, and the other sector (Household Consumption). This trend is consistent with improved corporate, household, and SME performance. Positive growth in intermediation is facilitated by enough banking capacity and more favorable opinions of banking risk. Third-Party Fund (DPK) growth as the primary source of funds is high, but the low RIM of 79.49 percent indicates that banking still has space to enhance credit distribution. Meanwhile, the Credit Distribution Standard Index on The Easier First Semester of 2021 reflects an improvement in the perception of banking risk, particularly regarding loan interest rates, approval costs, and administrative procedures.
Additionally, the relaxation of automobile industry rules aids financing from Financing Companies (FC). FC finance contracted at a slower rate of 11.06 percent (yoy) in Semester I/2021, an improvement over the 18.23 percent contraction at the end of 2020. (Figure 5). This development was affected by the new sales tax on luxury goods (PPnBM) auto subsidies in March 2021. Easing the policy has successfully raised new automobile sales, which has increased PP financing. By kind, financing motorized vehicles is classified as multipurpose finance, with financing representing more than 40% of the total (Figure 6).

Reduced income due to the epidemic encourages people to pursue alternative finance to satisfy their necessities—more accessible and faster conditions and payout than applying for a bank loan. Additionally, consumers are interested in alternative financings such as fintech loans and capital participation in digitally related firms, such as venture capital in e-commerce, fintech, edutech, and e-commerce firms that are health tech.

![Figure 5. FC financing growth](image1)
![Figure 6. FC financing per financing type](image2)

As of June 2021, venture capital and fintech lending have grown by 17.6 percent and 98.68 percent, respectively (Figure 7) (yoy). Despite significant growth, the share of financing from fintech is still very small, responsible for roughly 4% of IKNB financing or 0.42 percent of total bank financing in June 2021 (Figure 8). Meanwhile, venture capital funding has increased due to the potential in e-commerce, fintech, edutech, and e-commerce businesses. Health technology is in line with the digital acceleration caused by the pandemic. The rise in venture capital involvement in these firms will likely be favorable to year-end.

On the other hand, despite continuing to experience a decrease in financing disbursement compared to the previous year, the Export Financing Agency Indonesia (LPEI) is beginning to register repairs. In contrast, Non - bank financial financing continues to
decrease due to cash flow (cash flow) customers who are decreasing and causing customers not to redeem the collateral. The relatively stagnant gold price in 2021, in contrast to the significantly improved conditions in 2020, also resulted in a decrease in financing disbursed by the pawnshop. It is worth noting that gold is one of the most common commodities used as collateral.

Intermediation-driven recovery improves corporate performance in conjunction with increased mobility during Semester I 2021. Following vaccination initiation at the beginning of Semester I 2021, the Google Mobility index in the non-residential region indicates a substantial improvement (Figure 9). Enhancement of these activities has a beneficial influence on corporate sales performance, continuing to improve after having the lowest sales in June 2020. Large firms and medium-sized businesses had a huge sales recovery, increasing by 26 percent (yoy) and 34 percent (yoy) in Semester I 2021, respectively (Figure 10). Meanwhile, small firms have been noted to begin getting closer in the same period after having contracted more profoundly in Semester II/2020.

![Figure 7. Pawnshop financing, LPEI, venture capital](image1)

![Figure 8. Market share of financing INKB](image2)
Firms serving export markets recover more quickly than firms primarily focused on local markets. 17 Exporters have seen an improvement in their sales success. A reverse primarily drove this implication in global demand, which coincided with the resumption of regular social and economic activity in partner nations with significant trade, such as the United States, the Union Region of Europe, and China, among others (Figure 11). The industry, Trade, and Mining (ITM) sector was the most significant contribution to the recovery of corporate sales performance in Semester I 2021, while the agriculture sector is a sector that has shown the ability to grow favorably throughout the pandemic. Recovery, greater mobility, and economic activity have increased activity in the industry and trade sectors. Temporarily significant sales growth in the agriculture and mining sectors coincided with increased demand and prices for export commodities, particularly crude palm oil, and coal.
Increases in sales performance are crucial for improving the ratio of activity to corporate profitability. The Asset Turnover (ATO) ratio has risen since the first quarter of 2021, following a sustained fall, particularly in 2020, resulting from a significant decline in sales volume (Bank of Indonesia, 2021). According to the corporate ATO reported in Quarter II 2021 (Figure 12), the company can replace 56 percent of its total assets in the year sales activity occurs. As a result, since the first quarter of 2021, the profitability ratio has shown improvement. After a decrease in Quarter I 2021, the average Return on Equity (ROE) earned by shareholders and corporate investors is 4.30 percent in Quarter II 2021, increasing from 2.57 percent in Quarter I 2021 (Figure 13).

It appears the firm is still on the market about making long-term commitments. The increase sees this in capital expenditure (capital expenditure/Capex) that remains accessible in the contraction zone despite the relative rate dropping. The firm continued to expand capital expenditures at a -4 percent (yoy) rate in Q2 2021 (Figure 14), although spending capital was sufficiently reduced in 2020 compared to the previous year. Also, exporting firms whose performance is generally stable are reserving capital expenditures (Figure 15). Thus, the corporation's ability to realize long-term investment will be mainly decided by its effectiveness in containing the COVID-19 outbreak and future macroeconomic prospects.
Recovery HH credit requests also influence intermediation in development. After declining by -0.42 percent (yoy) in Q1 2021, household consumption credit begins to expand favorably in Quarter II at 2.75 percent yoy (Figure 16). This rise is fueled by several factors, including the relatively rapid growth of mortgage loans, the growing interest of the investment community in real estate, and the relaxation of sector LTV policies. Additionally, the contraction of KKB growth, in line with the Government's PPnBM subsidies and Bank Indonesia's zero percent minimum KKB down payment policy, supported the favorable development of HH credit during Semester I/2021.

Improved business success also supports workforce expansion, as the job vacancy index continues to rise and has a favorable effect on household income and consumption—enhancement of employment opportunities, followed by a rise in income HH. As of June 2021, the job vacancy index was 47.35, but the household income index climbed to 99.46.
(Figure 17). Both of these indices are greater than they were last semester. Additionally, HH tends to boost consumption when income improves, as seen by the transaction index and the value of household expenditure from February to June (Figure 18). This fix boosted consumption in retail products for meeting necessities in the HH class midrange, while the home class at the top remained stagnant due to limited mobility. However, following Eid Al-Fitr (Lebaran) in May 2021, the transaction index and household spending value decreased with lower HH mobility due to increased Covid-19 cases and the implementation of mobility limitations.

Figure 16. Growth of consumption credit

Figure 17 Job Vacancies growth, HH income, and corporate income

Figure 18. Development of transaction index and HH shopping value

Figure 19. Growth of HH deposits and financial assets
Low-interest rates on deposits stimulate the reinvestment of HH money in other financial assets. HH deposit growth gets smaller and will even fall to -2.45 percent (yoy) by the end of Semester I 2021, while financial asset growth continues to accelerate to 35% (yoy) (Figure .19). In Semester I 2021, the average yield on SBN was 6.64 percent, exceeding the average 12-month Rupiah deposit interest rate by 5.06 percent. Meanwhile, in Semester I 2021, the average yield share was 24.60 percent. The rising proportion of retail investors in financial assets is represented in the increasing percentage of retail investors in market capitalization, which increased from 12.09 percent in Semester II 2020 to 14.17 percent in Quarter II 2021. Meanwhile, retail SBN sales exceeded the planned oversubscription for two February and March 2021 editions.

HH’s property acquisitions have also increased. After declining in 2020, sales of homes increased by 13.95 percent (yoy) in the first quarter of 2021 (Figure. 20). Nonetheless, in keeping with the increase in Covid-19 cases and the adoption of mobility limitations, property sales in the second quarter of 2021 decreased by 10.01 percent (yoy). The fall in sales was concentrated in small and big-type homes, whereas medium-type homes increased by 3.63 percent during Semester I 2021. (yoy). Despite the contraction, the impact of mobility at the end of Semester I 2021 is still smaller than the previous year, when it declined by -26.60 percent (yoy), and at the end of 2020, when it decreased by -20.59 percent.

Re-spread (Second-wave) of the Delta Covid-19 variation by the end of Semester I 2021 may impede corporate and real estate performance improvement, resulting in a decline in financing demand while raising perceptions of banking risk. To prepare for the spread of Covid-19, the government moved swiftly through the Enforcement of Restrictions on Community Activities (PPKM). Mobility restriction is followed by limits on company operations in some sectors associated with community mobility, such as hotels, restaurants, and commerce, particularly shopping malls, harming the corporation's financial performance and employment.
According to the Household Balance Sheet Survey (SNRT), the lower-income group's HH is the most impacted by income. In 2020, the group's HH dropped by 26.06 percent (yoy). Meanwhile, the middle HH group is the least affected, with a 1.12 percent fall in income (yoy). Income declines will be followed by consumption declines, as seen by decreased mobility to retail business locations and entertainment (Figure 21).

**Conclusion**

Economic theory offers two perspectives on the relationship between bank competition, sustainability, and financial stability, referred to as the "competition fragility hypothesis" and the "competition stability hypothesis." According to the competition fragility theory, when competition intensity grows, banks lose their ability to charge premium monopoly rents due to a loss of market power (interest rate effect) (Sihombing et al., 2014; Santosa, 2021). This condition reduces banks' charter value, making them more vulnerable during times of crisis related to pandemics.

Additionally, it exacerbates the risk-taking incentive for banks by encouraging them to engage in hazardous portfolios in quest of large margins, jeopardizing the financial system's stability. The notion of competition stability is further explained by the bank moral hazard problem, which happens when too-big-to-fail banks obtain governmental assurances in financial distress, collusive markets, and bank bailouts. (Ijaz et al., 2020). These perspectives were tested in the context of the Covid-19 pandemic, and the Indonesian banking and financial stability industry has shown sustainability in the last two years.
On the other hand, the competition stability in the Covid-19 pandemic approach assumes that the borrower side of the relationship must be considered. Banks can charge exorbitant interest rates in collusive markets, increasing the cost of borrowing for businesses and triggering the moral hazard problem. Entrepreneurial moral hazard incentivizes borrowers to engage in hazardous ventures to avoid paying rising interest payments, which increases loan defaults. It has a risk-shifting impact and destabilizes the banking sector and financial stability. Specifically for ASEAN and Indonesia, as a result of the recent global financial crisis in 2020, BI implemented expansionary monetary and fiscal policies in answer to the crisis in order to stabilize its economies (Santosa, 2021; Ijaz et al., 2020).

**REFERENCE**


