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The Implications of the Countercyclical COVID-19 Policy on the Performance of Rural Banks and Sharia Rural Banks in Indonesia

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Abstract: This study investigated the impact of the Indonesian government policies implemented through POJK No. 11/POJK.03/2020 on the banking performance of Rural Bank (BPR) and Sharia Rural Bank (BPRS) after the implementation of countercyclical policies to stimulate the country's economy affected by the COVID-19 pandemic in Indonesia between March and December 2020. Mixed method approaches were applied to analyze the contributing factors to different performances between seven Rural Banks and seven Sharia Rural Banks in West Sumatra that were randomly selected through purposive sampling based on proportionate assets. The quantitative data were financial statements sourced from the OJK 2021 Publications, and the qualitative data were collected from in-depth interviews with eight Directors of Rural Banks and Sharia Rural Banks selected from the snowball sampling. Analyzing Indonesian government policies embodied in the countercyclical policy, we found that banking policies in Sharia Rural Banks outperformed those of conventional Rural Banks, as reflected by the average ROA (1.16% vs 1.33%), ROE (0.09% vs. 0.08%), and NPL (6.67% vs. 6.82%). The contributing factor to this gap was the different internal policies of each institution to translate the countercyclical concept based on the operational principles, such as the interest rate of Rural Bank and margin of Sharia Rural Bank despite the fact that both banks shared practice in the principal deferment and credit extension.
Keywords: Policies; Countercyclical; Banking Performance; COVID-19

Introduction

The COVID-19 pandemic has brought immeasurable impacts not only on health and mortality rates but also economy (Kakhkharov & Bianchi, 2022). The consequences of the pandemic include collateral damage to humans and the economy globally (Padhan & Prabheesh, 2021). In addition, the pandemic has made supply and demand for goods and services plummet significantly (Aday & Aday, 2020; Raimo et al., 2021) and the declining aggregate demand is driven by shrinking income and unemployment (Antipova, 2021; Couch et al., 2020). On the other hand, the cause of declining supply is reduced productivity and labor. Similarly, Maliszewska et al. (2020) explained that the pandemic had multifarious impacts on the economy, namely 1) direct impacts on shrinking job opportunities; 2) escalation of international transactions; 3) a decrease in the travel service industry; and 4) a decrease in demands for human services due to social restrictions.

The economic crisis arising due to the COVID-19 pandemic also impacted the banking sector (Çolak & Öztekin, 2021; Aliani et al., 2022) including Indonesian banks. As bank debtors lost their livelihood, banks faced a two-pronged problem: how to channel credit loans and how to mitigate existing bad credit. The Financial Service Authority (Otoritas Jasa Keuangan/OJK) stated that at the height of the COVID-19 pandemic, the ratio of bad credit known as Non-Performing Loan crept from 3.06% in December 2020 to 3.35% in May 2021 (Statistik Perbankan Indonesia, https://ojk.go.id/). Banks, like the government, must commit to mitigating this issue (Kakhkharov & Bianchi, 2022).

In light of addressing NPL during the force majeure while keeping bank performance in check, banks should take mitigating actions through restructuration, liquidity reinforcement, cost efficiency, and change of business strategies, whereas the Indonesian government, through the Financial Service Authority (OJK), created policies of economic stimulus as stipulated in the Regulation of Financial Service Authority Number 11/POJK.03/2020 on National Economic Stimulus as Countercyclical Policy on the Impact of Coronavirus Disease (COVID-19) Spread in 2019. The countercyclical policies aimed at anticipating bank collapses due to the debtors' declining ability to pay as the implication of the COVID-19 pandemic. While this type of policy may not be a common practice, it is considered a feasible measure to allow the financial sector to bounce back and enable economic stimulus (Calderón et al., 2016; Reinhart & Rogoff, 2011).

It has been reported that the countercyclical policies implemented by the Indonesian government through POJK No. 11/POJK.03/2020 have brought positive impacts on the banking sector (Srimurti, 2020) as well as funding collection and allocation by third parties (Sumadi, 2020). In line with this, Hartadinata (2021) concludes in his study that countercyclical policies have significantly affected the stability of bank performance. Another study reported that the countercyclical policies have significantly closed the gap in Return On Asset (ROA), Return On Equity (ROE), and Non-Performing Loan (NPL) between the era before and after the COVID-19 pandemic (Rolianah et al., 2021). Wardhani et al (2021) concluded that the bank soundness level, particularly Roe and RoA, before and after the pandemic and the implementation of countercyclical policies are not significantly different. Similar to commercial banks, rural banks (BPR) have been subjected to investigation by scholars, such as Yasin (2021) compared Rural Bank financial performance in terms of Loan Deposit Ratio (LDR) and Capital Adequacy Ratio (CAR) before and after the COVID-19 pandemic, and Jha et al., (2014) focused on the effectiveness of the countercyclical policies in several Asian countries. In Indonesia, most studies on Rural Bank focused on bank competition, diversification, and margin (Trinugroho et al., 2018) or compared the performance between conventional rural banks and Sharia rural banks without connecting them to the countercyclical policies during the pandemic (Wasiaturrahma et al., 2020).

Other previous studies probed deeper into the impacts of the countercyclical policies on commercial banks but did not associate these impacts with the policies. As of today, there have been limited to no studies that primarily compare banking financial performance – particularly the nonperforming profit and credit after the stipulation of countercyclical policies in light of the impact of the COVID-19 pandemic and the contributing factors to different performance between commercial and rural banks. Accordingly, this study attempts to contribute to established studies by probing deeper into the impacts of the countercyclical policies according to POJK No. 11/POJK.03/2020 on the banking financial performance of two rural banks, namely the conventional Rural Bank and the Sharia Rural Bank. This paper is inspired by previous findings that the government policies in mitigating the economic crisis due to the pandemic resulted in different performances between conventional Rural Banks and Sharia Rural Banks that stemmed from different operational principles and internal policies in each institution.

Literature Review

The Countercyclical Policies di Indonesia

The countercyclical policies issued by BASEL III as the countercyclical capital buffer are the mitigation initiatives for capital and liquidity due to the 2008 crisis (Ben Maatoug et al., 2019; Brasliņš & Arefjevs, 2014). The policy objective is to prevent the systemic risks arising from higher credit growth and loss-absorbing capacity. The countercyclical policies will hamper credit development in economic expansion by diverting credit growth as the implication of the banking institution's goal to improve credit capital and reduce procyclicality behavior arising as the source of systemic risks (Shara, 2021).

The countercyclical policy was implemented in Indonesia on March 13, 2020, as stipulated in the Regulation of Financial Service Authority (POJK) No. National Economic Stimulus as Countercyclical Policy on the Impact of Coronavirus Disease (COVID-19) Spread. This policy is implemented in all banks in Indonesia, either conventional commercial banks, Sharia commercial banks, or conventional rural banks and Sharia rural banks, as an anticipating measure to the impact of the COVID-19 pandemic on banking industry by enabling the freedom to apply for credit restructuring and financing tailored to the capacity of the bank customers either through rescheduling, restructuring, reconditioning, deferment of interest/margin, credit extension according to the capacity of the customers (https://www.kemenkeu.go.id/).

Another implication of the countercyclical policy is the fluent collectability status bestowed on debtors' restructured credit or financing regardless of whether the post-restructured financing is fluent or otherwise. Compared to the normal condition, the fluent statement mentioned in POJK No. 11/PJOK.3/2020 carries a different meaning from that in POJK No. 33/2018 stipulating that a credit/financing is deemed fluent if the debtor does not show bad credit history for 3 (three) months in a row after credit restructuration, or if the debtor is not in arrears for 3 (three) months in a row after the restructuration, or if the debtor shows similar quality of not paying the loan before and after the restructuration. However, in the event of force Majeure, this policy is necessary to boost bank optimization as an intermediary institution to maintain economic stability and growth (Bidari & Nurviana, 2020). Accordingly, the countercyclical policy is an essential policy to make in urgent situations and contradictory to the conditions that should be able to prevent the accumulation of financial risk (Pfeifer & Hodula, 2021).

Financial Service Authority (OJK) released the stimulus regulation based on considerations of (a) the massive spread of COVID-19 that may directly or indirectly affect the performance and capacity of debtors, including those of MSMEs, that potentially disrupt bank performance and the stability of financial systems that bring implication to economic growth; (b) the COVID-19 pandemic has directly or indirectly impacted the debtors' ability to pay credit/financing loan; (c) credit risks that potentially arise due to debtors' inability to fulfill their responsibility which, by extension, affects bank performance and economic growth; and (d) the goal of optimizing bank as an intermediary institution as well as financial stability and increasing economic growth (Otoritas Jasa Keuangan, 2020).

Rural Banks and Sharia Rural Banks

In Law of the Republic of Indonesia Number 7 of 1992 on Banking as amended by Law of the Republic of Indonesia Number 7 of 1998 on Sharia Banking, it is stipulated that banks in Indonesia include Commercial Banks (Conventional and Sharia) and Rural Banks (conventional and Sharia). Rural Banks operate in either conventional or sharia principles that cater to customers as the actors of micro, small, and medium enterprises. The difference between conventional Rural Banks and Sharia Rural Banks is the former operate with conventional principles and does not provide transaction services while the latter operate with sharia (Islamic) principles that do not provide transaction services (Otoritas Jasa Keuangan, 2020).

Based on the category of funding generation, Rural Bank gives interest compensation in the form of savings or deposits whereas Sharia Rural Bank gives their customers (in the category of wadi'ah or entrustment) bonus as the bank initiatives without prior agreement in the form of proportionate profit sharing from the bank revenue for customer of deposits as a practice known as *mudharabah* (DSN-MUI, 2000b, 2000a). In channeling funds, conventional Rural Banks loan money to the customers and charge them interest rates while Sharia Rural Banks provide funds to the customers according to their need to purchase goods and services. Three dominant practices in Sharia Rural Bank are *murabahah* contract (DSN-MUI, 2000c) in which bank impose margins onto their customers; *ijarah*, where banks provide services in rental of goods or skills/labor (DSN-MUI, 2000f); *ujrah*/fee/wage and capital loan (investment) for the customers known as *musyarakah* (DSN-MUI, 2000e); or *mudhabarah* (DSN-MUI, 2000d), which is the revenue generated from the business shared proportionately between the bank and the customers.

The Forms of Countercyclical Policies in Rural Bank/Sharia Rural Bank

The forms of countercyclical policies tailored to Rural Bank/Sharia Rural Bank as stipulated in POJK No. 11/PJOK/2020 include the implementation of Rural Bank/Sharia Rural Bank asset quality in form of credit and/or financing to all debtors affected by the COVID 19 – including debtors from micro, small, and medium enterprises – who can earn financing facility up to IDR 10,000,000,000 (ten billion rupiah) based on their fluency in payments of principals, interests, or margin/profit sharing/ujrah. The credit ceiling applies to one debtor or one project or similar enterprise (Otoritas Jasa Keuangan, 2020). In addition, banks can give credits or financing and/or other funds to debtors affected by the COVID-19 pandemic, including debtors from micro, small, and medium enterprises. The application of credit quality or new financing is done separately from the quality of previous credit or loan (Otoritas Jasa Keuangan, 2020). Based on these principles, the customers can get leniency and the opportunity to get credit funds or financing despite having a history of bad records due to the COVID-19 pandemic. In this way, the policy has become a stimulus to the community economy, particularly bank customers.

Banking Financial Performance

Financial performance is the embodiment of a company's capability to manage finances to gain profit. The financial condition at a period of time is illustrated in a system of financial statements that is made perfect and true to the actual data (Fahmi, 2012). Financial performance refers to the achievement of corporate management in a given period of time that contributes added value to the company (Rudianto, 2013). inancial performance illustrates the financial condition of a company in a given time that conveys good and profitability. Financial performance compares one period with another to capture the trend that may affect the capital-adequacy ratio, profitability, and liquidity (Sujarweni, 2017).

The parameters measuring banking financial performance in terms of profit include Return on Asset (RoA) which compares the total profit gain relative to the total wealth of a bank; Return on Equity (RoE) which compares the bank profits relative to the net wealth of the shareholders (paid-in capital, retained earnings, and the current profit/loss); and measurement of credit risks by drawing ratio of problematic or bad balance to total balances, either in the form of either Non-Performing Loan (NPL) for conventional banks or Non-Performing Financing (NPF) for sharia banks (Sutojo, 1997). Wisner et al., (2012) define RoA as the ratio of a company's net profit to the company's total assets, while Angelia & Suryaningsih (2015) stated that RoE is the ratio to measure the return rate of all existing business capital.

Method

This study used mixed method approaches that encompassed a quantitative analysis through a document study on financial statements published by the Financial Service Authority (OJK) and a qualitative analysis through a field study to identify the contributing factors to different performances between Rural Banks and Sharia Rural Banks in West Sumatera. In the quantitative analysis, we selected Sharia Rural Bank through a total sampling (n=7). In terms of Rural Banks, we applied purposive sampling based on asset equity between Rural Banks and Sharia Rural Banks, in which <IDR 65 billion of Rural Banks was deemed proportionate to IDR 62,279,974,000 as the highest asset value of Sharia Rural Bank (PT Sharia Rural Bank al-Makmur), thus sampling 7 out of 84 Rural Banks. Data on financial performance specific to RoA, RoE, and NPL/NPF were generated from financial statements between March and December 2020 (the early implementation of countercyclical policy at the peak of the COVID-19 pandemic) published by OJK. In the qualitative analysis, we used snowball sampling to select eight Directors in financial performance division of Rural Banks and Sharia Rural Banks as our respondents. In-depth interviews with each Director sought to identify the contributing factors to differences between Rural Banks and Sharia Rural Banks.

Results

District Financial Performance of Rural Bank and Sharia Rural Bank in 2020 after the Countercyclical Policy

Table 1.
Published Report
ROA, ROE, NPL, P/L Rural Bank of 2020

Unaudited Financial Service Authority

(000)

No.	Nama BPR	Kabupaten/Kota	2020						
			Desember			L/R			
			ROA %	ROE %	NPL %	Maret	Juni	Sept.	Des
1	PT BPR Cincin Permata Andalas	Kab. Padang pariaman	1.25	0.09	4.10	119,685	444,931	448,206	660,883
2	PT BPR Pagaruyung	Kab. Tanah Datar	0.82	0.10	11.09	278,223	(49,074)	75,311	375,221
3	PT. BPR Lengayang	kab. Pesisir selatan	1.77	0.10	2.88	289,761	353,778	693,201	721,825
4	PT BPR Swadaya Anak Nagari	kab. Pasaman	0.03	0.00	10.30	11,894	10,049	(167,103)	4,226
5	PT. BPR Tambun Ijuk	Kab. 50 Kota	1.22	0.07	1.73	30,297	77,081	162,510	246,457
6	PT BPR Durian Mandiri	Kota Sawahlunto	2.16	0.12	3.34	65,750	120,456	207,606	309,654
7	PT BPR Mutiara Nagari	Kab. Sawahlunto/Sjj	0.84	0.05	14.29	70,920	107,751	(43,901)	61,551
	Rata-rata		1.16	0.08	6.82	123,790	152,139	196,547	339,974

Source: Processed data based on OJK Publication in 2021

Table 2.
Published Report
ROA, ROE, NPL, P/L Sharia Rural Bank of 2020
Unaudited Financial Service Authority

(000)

No.	BPRS	Daerah	2020						
			Desember			L/R			
			ROA %	ROE	NPL/NPF	Maret	Juni	Sept.	Des.
1	PT. BPRS Ampek Angkek Candung	Kab. Agam	1.48	0.09	13.22	170,621	362,838	510,019	687,179
2	PT. BPRS Carana Kiat Andalas	Kab. Agam	1.34	0.04	7.78	109,890	(11,055)	109,562	278,164
3	PT. BPRS Haji Miskin	Kab. Tanah Datar	2.14	0.17	2.83	477,890	876,374	1,310,821	1,528,947
4	PT. BPRS Mentari Pasaman Saiyo	Kab. Pasaman Barat	0.07	0.04	8.51	100,869	41,893	101,092	319,926
5	PT BPRS Gajahtongga Koto Piliang	Kab. Sawah Lunto	4.52	0.15	3.64	305,048	658,050	1,049,234	1,265,657
6	PT. BPRS Barakah Nawaitul Ikhlas	Kota Solok	(1.15)	(0.00)	8.24	(4,530)	(6,837)	(36,475)	(11,109)
7	PT BPRS Al Makmur	Kota Payakumbuh	0.90	0.11	2.49	222,514	526,839	800,445	887,353
	Rata-rata.		1.33	0.09	6.67	197,472	349,729	549,243	708,017

Source: Processed data based on OJK Publication in 2021

Tables 1 and 2 illustrate that after the government implemented the countercyclical policy in 2020 Rural Banks and Sharia Rural Banks gained an average profit of IDR 812,450,000 and IDR 1,804,461,000, respectively. The profit gain ratio of Sharia Rural Bank relative to Rural Bank was 1:2.22.

As of December 2020, the financial performance of Rural Banks compared to Sharia Rural Banks was reflected in the Return on Asset or RoA (1.16 % vs. 1.33%), Return on Equity or RoE (0.08 % vs. 0.09 %), and Non-Performing Loan/Financing (6.82% vs. 6.67%), indicating a lower NPF of Sharia Rural Banks than NPL of Rural Banks.

The figure above is indicative that, following the implementation of countercyclical policy, Sharia Rural Banks have outperformed Rural Banks in asset management, equity, and anticipation of bad credit. Relative significant differences were observed in key aspects except the profits between Sharia Rural Bank and Rural Bank.

Contributing Factors to Different Financial Performance between Rural Bank and Sharia Rural Bank after the Countercyclical Policy Implementation

Multiple policies in credit and financing restructuring were implemented by the directors in Rural Banks and Sharia Rural Bank to alleviate the burdens imposed on debtors who were impacted by the COVID-19 pandemic.

The Existing Condition of Rural Bank

The Director of a Rural Bank, CPA, explained: "Credit restructuring that we applied based on the countercyclical policy included the implementation policy of deferred principal payment, extended payment terms, and reduced credit interests by 1-3%. Although this policy was applied to only 41.7% of the total outstanding debt balance, it undoubtedly affected bank revenue. This strategy was taken to alleviate the debtors' burden to pay credit installments during the pandemic. On a side note, while many customers withdrew their money, banks had to balance this liquidity by increasing the deposit interest rate up to 3-6% per year." (Interview, November 21, 2021).

On a different occasion, RA, the Director of Rural Bank P explained: "The follow up to the countercyclical policy is creating another policy to reduce the average interest rate by 2% to anticipate bad credit while maintaining bank soundness level in a time period when banks relied heavily on credit interests as the main income streams. On the other hand, regular expenses such as employee salary and others were not reduced. The other form of policy is the credit grace period – the customers must prioritize paying the interests first to delay paying the principal. Although this policy affected only 24.3% of the total credit outstanding, it still contributed to the plummeted bank earnings." (Interview, November 9, 2021).

A slightly different statement was conveyed by FT, the Director of Rural Bank L, as follows: "Rural Bank L was greatly affected by the implications of the COVID-19 pandemic, especially the accumulated bad credits of our customers that disrupted the Bank Business Plan (BBP). That said, the management policy we implemented was the deferral principal while keeping the interest rate at its original percentage. This policy was implemented for certain customers who were severely impacted by the COVID-19 pandemic, and therefore, taking up 11.4% of the total credit. While banks could avert loss, banks failed to gain profit and assets as originally targeted." (Interview, November 10, 2021)

BS, the Director of Rural Bank SAN revealed in the interview: "The community put more savings in the COVID-19 pandemic, either in saving accounts or deposit accounts. Many other customers paid off their credit before it was due because they were concerned about not being able to make payments as normal due to economic uncertainty. Meanwhile, banks released a policy of a grace period for principal payments and decreased the interest rate by 1-2% for existing and potential credit customers who are likely to face problems. Despite this, the number of new credit applicants was relatively low and it affected bank revenue because the bank consistently paid interest to its customers but generated far less revenue from the credit interests." (Interview, November 10, 2021)

Sharia Rural Bank Condition

The Sharia Rural Bank condition is conveyed by Directors of Sharia Rural Bank as a form of policy translated from the countercyclical policy. The Director of Sharia Rural Bank CKA, H, stated: "During the pandemic, we had less loan demands but higher bad loans, particularly from our customers in the trade sectors. On the other hand, the third-party funds in the form of a savings balance grew more significantly and gained more priority than high-interest deposits because our customers resisted spending their funds as business capital due to concerns about the implications of the COVID-19 pandemic. Also, this strategy had non-significant effects on the saving account fees because wadi'ah saving contracts regulate the distribution of incentives to the customers as a bonus in an amount determined solely by the bank policy instead of an upfront agreement with the customers. The restructuring policy is embodied in the prioritization of margin payment for buy and sell financing (the predominant contract of murabahah) and deferment of principal payment without reducing the initially agreed margin (sharia compliance) except for granting deduction to select customers who were impacted by the pandemic to such extent that paying installments became challenging. The restructuring constituted 28.25% of the total payment (Interview, November 12, 2021)

HK, the Director of Sharia Rural Bank HM shared common view, as follows: "Among other impacts of the pandemic is the increase in arrears and decrease in applications for new loans. On the other hand, while the number of savings account customers increased, it did not affect funds distributed to these customers because we implemented *wadi'ah* saving balance where the profit-sharing system was regulated solely by the bank. When bank revenue declined, the incentives share to the saving account holders were also reduced. The restructuring policy is implemented in the form of deferred principal payments, and we allowed the debtors to pay only the margin. Despite this, the margin value was the same as that of the initial agreement." (Interview, November 14, 2021).

In line with this, the Director of Sharia Rural Bank MPS (H) and the Director of Sharia Rural Bank GTKP (A) implied: "The restructuring policy is to defer the installment period for the remaining installments without addition to the margin. That said, it reduces the amount of monthly installment from the one before the countercyclical policy." (Interview, November 15, 2021).

Discussion

The substantial implication of the countercyclical policy stipulated by the government in POJK No. 11/PJOK/2020 reflects favor to the customers/debtors from the micro, small, and medium enterprises who are affected by the COVID-19 pandemic, but the policy did not impose negative implications to the banks despite experiencing a decline in revenue. New loans/financing disbursement shall remain in place to assist in paying off the credit or the remaining installments or supporting the debtors' business development.

A deeper investigation into Rural Bank and Sharia Rural Bank in our study revealed that the follow-up actions to the government's countercyclical policy have affected the financial performance of both banks due to internal policies in the respective banks. Rural Bank's strategy to anticipate 6.82% bad credit (NPL) is reducing the average credit interest rate by 2%. While this policy resulted in a significant loss to Rural Bank revenue that is mainly sourced from credit interests, it has evidently helped the customers affected by the pandemic. On the other hand, Sharia Rural Bank did not issue a policy to change its margin (sharia compliance) although the buy and sell scheme (*murabahah*) remains the predominant practice (Miah & Suzuki, 2020) that has been agreed upon from the start of the transaction (DSN-MUI, 2000c). Nevertheless, Sharia Rural Bank's policy to address the average 6.67% NPL is by reducing the bank's share of profit. This strategy aligns with the sharia economy system stipulated in Fatwa DSN No. 16/DSN-MUI/IX/2000 on Discount in Murabahah and No. 23/DSN-MUI/III/2002 on Deduction of Pay-off in Murabahah (DSN-MUI, 2005) but did not significantly affected Sharia Rural Bank profit.

In terms of measures to generate funds, Rural Banks are bound to the pre-determined interest rate or the fixed return, whereas the interest rate tends to follow an upward trend to attract both existing and potential depositors. This is when the negative spread — a condition where the deposit rate is higher than the lending rate — occurs (Wong, 1997) and results in revenue decline or loss. Meanwhile, Sharia Rural Banks generally apply the Wadi'ah yad Dhamanah (Guarantee Depository) that considers saving funds as entrustment to the bank. This system excludes any agreement of profit sharing from bank revenue but rather a bonus or incentives at a value determined by the bank (Iska, 2012). In this case, Sharia Rural Banks are not bound to any concerns in case they share a low bonus due to the COVID-19 pandemic. It is as such because the depositors have consented from the start about the risks of wadi'ah savings. Also, the amount of profit sharing for depositors is less than the bonus for regular saving balance. The risk of deposit savings in *mudharabah* transaction, as stipulated in Fatwa DSN No. 03/DSN-MUI/IV/2000 (DSN-MUI, 2000d), is the amount of profit sharing that largely depends on bank revenue. In other words, earning declines in Sharia banks will significantly affect their profit-sharing ratio. This condition should be understood by the depositors at the beginning of the contract, particularly the unprecedented impacts of the pandemic.

The first policy implementation in Rural Banks and Sharia Rural Banks is the credit and financing restructuring by either payment terms extension or principal payment deferral based on the negotiation between the banks and the debtors to reduce the NPL/NPF ratio. To illustrate, Rural Bank's restructuring strategy to extend the payment terms is by multiplying the remaining loan principal by the annual interest rate that has been reduced after adding up the payment terms. For example, the original principal loan is IDR 30,000,000, with a 15% annual interest rate and a 24-month term (2 years) equals IDR 39,000,000 in total loan and IDR 1,625,000 in monthly installments. When the COVID-19 pandemic started and the countercyclical policy was introduced, the remaining loan was IDR 15,000,000 to be paid off in 12 months with a 13% interest rate (2% less before the countercyclical policy). Upon negotiation with the debtor, Rural Bank restructured the credit by extending the payment term to another 12 months. Therefore, in the new scheme, the total payment term is 24 months (2 years) and the interest rate is 2x13% = 26%, and the total loan is IDR 15,000,000 + IDR 3,900,000 = IDR 18,900,000. This results in a lower monthly payment from what was IDR 1,690,000 to IDR 787,500.

The second policy implementation is the deferring principal payment that enables the debtors to pay for the interest rate for the remaining term, then pay off the loan principal at the term end (provided that the condition has bounced back to normal after the pandemic) without extending the payment term. For example, using the case in the previous paragraph, the remaining settlement is IDR 15,000,000, the remaining term is 12 months and the interest rate is deducted from 15% to 13%. The new monthly installment is IDR 15,000,000 x 13%: 12 = IDR 162,500.

The illustrations above show that the countercyclical policy has substantially reduced the monthly installment burden of the debtors although reducing the profit revenue of Rural Bank. Nevertheless, this restructuring is not applied to all existing debtors (around 28% of the total customers/transactions). It means that the restructuring depends on the debtors' ability to take responsibility for making installments based on their types of business and the indicators of NPL.

In the Sharia Rural Bank context, the first policy implementation is embodied in the extended payment terms. The initial agreement was 24 months, but after 12 months the manager extended the term to another 12 months without changing the value of the initial transaction due to the *murabahah* contract (buy and sell). As an illustration, a *murabahah* transaction is valued at IDR 39,000,000 {acquisition cost (money to purchase goods from the distributor) is IDR 30,000,000 plus 30% margin = IDR 9,000,000} to pay off within a 2-month term, and therefore, the installment is IDR 1,625,000/month. After 12 12-month installments, which coincides with the countercyclical policy due to the pandemic, the remaining loan is IDR 19,500,000 and the bank applies the policy to extend the payment term to another 12 months, thus 24 months remaining. Due to this extension, the current monthly installment is IDR 19,500,000 divided by 24 equals IDR 812,500/month, which is lower than the original IDR 1,625,000.

The second policy implemented in Sharia Rural Bank is deferring principal payments to allow the debtors to pay only the margin. For example, the remaining available margin after 12 12-month installments is IDR 4,500,000, so the monthly installment is determined by dividing IDR 4,500,000 by 12 months equals IDR 375,000. The downside of this policy, similar to that of Rural Bank, is the unpaid loan principal. The illustrations above have demonstrated a policy that can alleviate the debtors' monthly installments although not implemented equally to all but select debtors who are proven unable to fulfill their obligation to pay the installment due to the pandemic.

The restructuring policy implemented based on the countercyclical policies issued by OJK has affected Rural Bank and Sharia Rural Bank differently, particularly in profit gain. Previous studies reported evidence that Sharia or Islamic banks outperform conventional banks in terms of efficiency, even at times of global economic crisis (Alqahtani et al., 2017; Khan, 2010; Ben Maatoug et al., 2019) and during the pandemic (Le et al., 2022). One key feature and its impact on the performance of Sharia banks is the profit-loss sharing pattern that is not bound to the credit system (fixed return) implemented due to the crisis (Albaity et al., 2022)

Conclusion

The countercyclical policy implemented by the Indonesian Government through the Regulation of the Financial Service Authority (POJK) No. 11/POJK.3/2020 has impacted the performance of Sharia Rural Banks (Sharia Rural Bank) and Rural Banks (Rural Bank). We found that Rural Bank outperformed Sharia Rural Bank in terms of Return on Equity (RoE), Return on Asset(RoA), and Non-Performing Loan/Financing (NPL/NPF). The contributing factor to this performance gap is different restructuring policies due to dissimilar operational principles of funding generation and channeling of the two banks.

This study is not without limitation; it focuses on Rural Bank and Sharia Rural Bank in West Sumatra, a province renowned for its ethnic and religious customs, and the research data were limited to the financial year of 2020 after the issuance of countercyclical policy at the height of the COVID-19 pandemic. Further studies on a more extensive scope of banking and a longer financial year post-2020 are strongly advised.

Conflict of Interest

There are no conflicts of interest to declare.

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