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Macroprudential Inclusive Policy: Strategies for Banking Sustainability in Indonesia During the Covid-19

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ABSTRACT: The main challenge that remains in the process of economic recovery and financial system stability in Indonesia is restoring the banking intermediation function. The purpose of this research is to explain the macroprudential policy as one of the central bank policies in maintaining banking sustainability in Indonesia. This research was conducted using a descriptive qualitative method based on the philosophy of post-positivism. The data collection technique was carried out by interview, so that the final result gave rise to a statement or a thesis. The informants in this study are economic practitioners who are observers of banking monetary policy in Indonesia and senior managers of government bank areas who are experts in the formulation of bank monetary policy. Informants were selected using the snowball sampling technique. The results of this study conclude that macroprudential policies have an impact on the sustainability of banking in Indonesia during the Covid-19 pandemic. In general, macroprudential policies maintain the stability of the Indonesian financial system from two dimensions (cross-section and time series). This macroprudential policy is not a popular policy, but it is very important in order to prevent banking systemic risk in Indonesia.

KEYWORDS: Macroprudential policy; monetary policy; Sustainability Macroeconomics

JEL Classification Code: B22; E44; E52; E58; F65

1. INTRODUCTION

Various synergized policy responses between the Government, Bank Indonesia, and the Financial Services Authority have been able to withstand the impact of the pandemic on the economy and financial system. The economy, which had contracted very deeply in the second quarter of 2020, has slowly started to improve since the third quarter of 2020. Financial stability remains secure, with relatively stable financial markets and maintained banking resilience, both in terms of capital, liquidity and profitability. The main remaining challenge in the process of economic recovery and financial system stability is how to restore the banking intermediary function and continue to oversee it so that credit quality can be maintained after the credit restructuring process ends (Disemadi & Shaleh, 2020).

In the corporate sector, the easing of economic pressure has improved corporate resilience, which is indicated by the gradual improvement in corporate performance (Bari et al., 2022). Improved export demand has enabled a reduction in sales contraction, especially for large corporations. However, in carrying out its business, corporations still tend to rely on internal sources of funds, suspending credit disbursement, and accelerating the settlement of obligations (Rusly et al., 2021). Improved corporate performance has driven improvements in corporate paying ability, as reflected in the recovery of the Interest Coverage Ratio (ICR), especially for large corporations, although in aggregate it is still below the threshold. Corporate vulnerability has also relatively reduced, as seen from the Probability of Default value which has decreased after reaching its peak in the second quarter of 2020. As corporate performance is slowly improving, the performance of the household sector is also starting to improve. This condition is reflected in the gradual increase in consumption although it is still limited to meeting primary needs, the increasing interest in retail investment and the emergence of a shift in employment as a means of survival.

Declining economic activity due to limited mobility and declining income coupled with uncertainty going forward has encouraged people to increase their savings with a precautionary saving motive (Prasetyo, 2020). This causes public savings in banks to tend to increase compared to pre-pandemic conditions. However, in the midst of low interest rates on deposits, households, especially the upper middle class, have started to choose to invest in financial assets such as stocks, state bonds and mutual funds in search of better returns. The household's enthusiasm became one of the supporters of the recovery of the Jakarta

Composite Index and increased sales of government securities. In addition to financial assets, property investment, especially large-type houses, is starting to be in demand, reflected in house sales figures which are starting to improve, although they have not yet reached pre-pandemic levels (Farida et al., 2022). In the midst of the real sector starting to show optimism, the resilience of the banking and Non-Bank Financial Industry is also maintained. Various policies issued by Bank Indonesia, the Government and other authorities have been able to synergistically support credit and financing risk management (Warjiyo, 2016). However, the still weak demand for credit by debtors and the high perception of risk by banks has resulted in a decline in banking intermediation performance. The reduction in outlets for placement of funds also prompted banks to increase placements in securities (Warjiyo, 2016).

To anticipate worsening credit risk during the cliff-edge effect period, banks have established allowance for impairment losses amid the NPL ratio, which is basically still at a safe level with strong capital (Kohn, 2015). In addition, the resilience of finance companies' capital is also maintained with a gearing ratio that continues to fall (Purnawan & Nasir, 2015). In an effort to reduce deterioration in the quality of financing, financing companies tend to focus on maintaining customer payment levels rather than providing new financing. The maintenance of financial sector resilience is a success of the Government, Bank Indonesia, and related authorities in implementing shared responsibility in the financial sector (Warjiyo & Juhro, 2022). Various policy synergies with extraordinary measures related to National Economic Recovery have been carried out to overcome the adverse effects of the pandemic on the economy and financial system.

On the macroprudential policy side, Bank Indonesia published an Assessment of Prime Credit Interest Rates, easing Loan to Value for Home Ownership Credit and Advances for Motor Vehicle Loans (Purnawan & Nasir, 2015). Reactivation of the Macroprudential Intermediation Ratio in stages to encourage bank credit growth. Going forward, incentives to boost credit for priority and export-related sectors will be launched to accelerate economic recovery. Meanwhile, to increase access to financing for Micro, Small and Medium Enterprises, Bank Indonesia will also expand the scope of MSME financing, through the issuance of the Macroprudential Inclusive Financing Ratio regulation.(Kohn, 2015). This policy refinement provides a mandate for each bank to allocate its productive assets for an inclusive financing portfolio (Agénor & Pereira da Silva, 2013). Based on the explanation of these various things, the purpose of this study is to explain macroprudential policy as one of the central bank policies in maintaining banking sustainability in Indonesia. 19.

2. THEORITICAL FRAMEWORK

2.1. Macroprudential Policy

In anticipation of the global financial crisis, macroprudential policy instruments are needed. In Indonesia, macroprudential policy is controlled by the monetary authority, namely Bank Indonesia (Warjiyo, 2016). Meanwhile, microprudential policy is controlled by the Financial Services Authority. Macroprudential policy was chosen as one of the central bank's policies in maintaining financial system stability by preventing systemic risk, promoting a balanced and quality intermediary function, and increasing financial system efficiency and access to finance (Kohn, 2015). Macroprudential policies are selected based on the principle of prudence in the financial system in order to maintain a balance between macroeconomic and microeconomic objectives. In addition, this policy is also aimed at supporting monetary and payment system stability, including minimizing the costs of handling systemic crises (Franklin Allen et al., 2010). Besides that, green economy become an important issue in the present that can relate to macroprudential. This is our responsibility for the next generation, so that it can become a sustainable economy in terms of climate change issues that must come to the fore in the future (Rounaghi, 2019). Thus, macroprudential policy includes efforts to regulate and supervise institutions in the financial services sector (which are macro in nature), and focuses on preventing systemic risks in order to promote the stability of the Indonesian financial system.

The global financial crisis has provided a lesson that monetary and microprudential policies are not sufficient in maintaining macroeconomic stability (Agénor & Pereira da Silva, 2013). Thus, macroprudential policies are needed to maintain overall financial system stability. draftmacroprudentialas a tree and a forest. Where microprudential focuses on the health of individual financial institutions, while macroprudential focuses more on efforts to maintain the financial system as a whole, not just individual financial institutions (Purnawan & Nasir, 2015). Macroprudential policy is the main pillar of Bank Indonesia's policy to achieve and maintain stability in the value of the rupiah in addition to monetary policy and payment system policy. There are 3 pillars of macroprudential policy, namely; balanced intermediation; financial system resilience; and financial inclusion (Warjiyo, 2016). Where in intermediation aims to maintain that credit growth is not excessive and sufficient for economic growth. In the second pillar, macroprudential policy can play a structural role in protecting the financial system from being strong in the face of shocks when a bank collapses. In the third pillar, macroprudential policies can also encourage an inclusive financial system (everyone has access). Because if not, it will result in shadow banking.

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Macroprudential policy is countercyclical in nature to reduce over-optimism and over-pessimism and reduce materialization due to the contagion effect (Purnawan & Nasir, 2015). During a boom, banks are required to maintain a buffer to curb excessive expansion. Meanwhile, during a bust, banks can use buffers to reduce credit contraction. If economic growth is good, tighter credit should be given. With increased capital, and lowered credit. Conversely, when economic conditions are weak, the central bank needs to encourage ease in the process of granting credit and loosening capital.

2.2. Banking sustainability during the Covid-19 pandemic

The role of banks is very important as institutions, intermediaries, media, or financial bridges, therefore banks are required to have good performance in order to gain the trust of the public (Chitan, 2012). Good and smooth operational activities greatly determine the welfare and increase in company value (Fuadah & Kalsum, 2021). The outbreak of the COVID-19 virus has also had a very significant impact on a number of business sectors, one of which is the banking sector (Disemadi & Shaleh, 2020). Consequence The pandemic also affected customers' ability to pay, resulting in an increase in problem loans. Even so, banks continued to restructure credit financing during this pandemic (Disemadi & Shaleh, 2020). Banks are also optimistic because the economic recovery followed by an increase in credit demand will have a positive impact on financial performance.

Step the major actions carried out by banks are taking a write-off policy and writing off accounts receivable (write off) for loans that have been categorized as bad for a long time (Disemadi & Shaleh, 2020). The act of writing off this book was in line with the significant increase in Net Performing Loans (NPL). When the policy is implemented, the NPL will automatically decrease and affect reduced income which erodes profits with the consequent decrease in the bank's capital (Lebdaoui & Chetioui, 2020). In addition, gIn order to face the impact of the weakening of the financial services sector due to the Covid-19 virus pandemic, the financial services authority also received new powers that could force banks to merge. Unmitigated, the Government has prepared a maximum sanction of Rp 1 trillion for banks that deliberately refuse or ignore and hinder the consolidation process. This effort is an appropriate, good and systematic policy in an effort to reduce the number of banks that are considered to be overdosed in Indonesia, because Indonesia is one of the countries with the most number of banks in Southeast Asia. Therefore, during the Covid-19 pandemic, with the reduced number of banks, it is hoped that bank supervision and development will get better and can focus more on quality rather than bank quantity. At the same time also hope to become stronger, healthier,

Indonesia is very experienced and almost used to dealing with crises. The crisis is a very expensive lesson, but valuable. The crisis in Indonesia began with the crisis that occurred in 1965. Then in the 1970s the energy crisis, the 1998 crisis, and the 2008 global financial crisis. heavy and dangerous. Because it has the potential to spread everywhere and cause problems. It's like facing a simalakama fruit that poses multiple threats in the form of health and economic threats. The possible next impact is no different from the previous crisis which could turn into a multi-dimensional crisis at any time if it is not handled carefully, meticulously, and intelligently. Therefore, The Financial Services Authority is also considering extending the credit relaxation policy which will expire in March 2022. This is being done as an effort to recover the national economy which has been hampered by restrictions on people's mobility due to the surge in the positive number of Covid-19. This regulation extension is also intended to provide room for the banking and business world to survive and continue their efforts to support the recovery of the national economy. The reduction in the risk premium prompted a reduction in new loan interest rates in almost all bank groups This regulation extension is also intended to provide room for the banking and business world to survive and continue their efforts to support the recovery of the national economy. The reduction in the risk premium prompted a reduction in new loan interest rates in almost all bank groups This regulation extension is also intended to provide room for the banking and business world to survive and continue their efforts to support the recovery of the national economy. The reduction in the risk premium prompted a reduction in new loan interest rates in almost all bank groups (Chitan, 2012). Based on the type of credit, the decline in new loan interest rates was most pronounced in the type of micro credit, followed by investment and working capital loans (macroprudential policy) (Purnawan & Nasir, 2015).

3. RESEARCH METHOD

This research was conducted using a descriptive qualitative method based on the philosophy of post-positivism. Data collection techniques are carried out by interviews, so that the final result raises a statement or a thesis. Then, this information will be compared with relevant theoretical perspectives to avoid individual researcher bias in the resulting findings. The analysis carried out is inductive/qualitative in nature, so that the findings emphasize meaning rather than generalizations. Because in qualitative research, humans are research instruments and the results of the writing are in the form of statements that are in accordance with the actual situation (Jaya, 2020). Informants in this study were senior economic practitioners observing banking monetary policy in Indonesia (SKM) (1 informant) and senior managers in the area of government banks who were experts in the formulation of bank monetary policy (SMA) (1 informant). Thus, this study used 2 informants. Informants were selected using the snowball sampling technique, so that the conclusions of this study can be in the form of new findings (Jaya, 2020). These findings can be in the form of a description or description of an object that was previously still dim to become clear. Or it could be a casual or interactive relationship, or it could even be a hypothesis or theory (Jaya, 2020). Other data used in this research is secondary data obtained through the media, and other information related to banking macroprudential policies in Indonesia.

4. THEORITICAL FINDINGS

The following is an excerpt from an interview with an informant who works as a senior economic practitioner who observes banking monetary policy in Indonesia (SKM). We asked his opinion regarding the macroprudential policies chosen by the central bank, in order to maintain bank sustainability during the Covid-19 pandemic in Indonesia.

The maintenance of financial sector resilience is a success of the Government, Bank Indonesia, and related authorities in implementing shared responsibility in the financial sector. Various policy synergies with extraordinary steps related to National Economic Recovery have been carried out to overcome the adverse effects of the pandemic on the economy and financial system. This policy synergy was primarily pursued within the framework of the Financial System Stability Committee through the formulation of a coordinated "Integrated Policy Package for Increasing Business Financing in the Context of Accelerating Economic Recovery". The policy package consists of: (i) Fiscal Incentive Policy and Government Expenditure and Financing Support; (ii) Monetary, Macroprudential and Payment System Policies; (iii) Financial Sector Prudential Policy; (iv) Deposit Guarantee Policy; and (v) Structural Strengthening Policy. These policies are formulated based on the mapping of the business sector according to the challenges and prospects of each. There are three priority sector categories that have been successfully mapped, namely: resilience, growth driver and slow starter. With this mapping, the implementation of each element of the national policy mix pursued by each member of the Financial System Stability Committee can be based on the needs of the said sectors.

In line with the Integrated Policy Package, Bank Indonesia implemented various policy mixes in a measurable manner. On the macroprudential policy side, Bank Indonesia published an Assessment of the Basic Credit Interest Rate, easing Loan to Value for Home Ownership Credit and Advances for Motor Vehicle Loans. The reactivation of the Macroprudential Intermediation Ratio is carried out in stages in order to encourage bank credit growth. Going forward, incentives to boost credit for priority and export-related sectors will be launched to accelerate economic recovery. Meanwhile, to increase access to financing for Micro, Small and Medium Enterprises, Bank Indonesia will also expand the scope of MSME financing, through the issuance of the Macroprudential Inclusive Financing Ratio regulation.

Bank Indonesia will continue to strive to formulate new policies in an innovative, appropriate and measurable manner in order to accelerate national economic recovery while maintaining the resilience of financial system stability. Going forward, the success of the vaccination program is the main prerequisite for the recovery of mobility, which in turn will lead to an improvement in the prospects for the global and domestic economy. Bank Indonesia predicts that financial system stability will be maintained with increased banking intermediation in line with the continued recovery of the national economy. Corporate performance is predicted to continue to improve, which in turn will drive increased demand for credit. As a result, it is hoped that the prospect of increasing income coupled with high household liquidity reserves will further encourage consumption and demand for credit. In the banking sector, macroprudential policies that tend to remain accommodative and wider transparency of prime lending rates are expected to encourage credit expansion and further financing. In line with the prospects for recovery in the real sector, the role of the capital market in financing the economy is expected to increase, supported by capital inflows and the enthusiasm of domestic retail investors. Learning from experience, the success of preventing a deeper crisis during 2020, Bank Indonesia will strive to accelerate national economic recovery by always prioritizing strengthening collaboration and synergy between authorities in formulating and implementing various policies. Macroprudential policies that tend to remain accommodative and wider transparency of the Prime Lending Rate are expected to encourage credit expansion and further financing. In line with the prospects for recovery in the real sector, the role of the capital market in financing the economy is expected to increase, supported by capital inflows and the enthusiasm of domestic retail investors. Learning from experience, the success of preventing a deeper crisis during 2020, Bank Indonesia will strive to accelerate national economic recovery by always prioritizing strengthening collaboration and synergy between authorities in formulating and implementing various policies. Macroprudential policies that tend to remain accommodative and wider transparency of the Prime Lending Rate are expected to encourage credit expansion and further financing. In line with the prospects for recovery in the real sector, the role of the capital market in financing the economy is expected to increase, supported by capital inflows and the enthusiasm of domestic retail investors. Learning from experience, the success of preventing a deeper crisis during 2020, Bank Indonesia will strive to accelerate national economic recovery by always prioritizing strengthening collaboration and synergy between authorities in formulating and implementing various policies. the role of the capital market in financing the economy is expected to increase, supported by capital inflows and the enthusiasm of domestic retail investors. Learning from experience, the success of preventing a deeper crisis during 2020, Bank

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In 2020, the global economy was marked by the COVID-19 pandemic which had an extraordinary impact, not only on health, but also on the economy and financial system stability. In Quarters III and IV 2020, global economic performance began to improve after experiencing a deep contraction in Quarter II 2020. In line with this improvement in the global economy, world trade volume and world commodity prices have increased. In addition, global uncertainty has begun to subside, although it is still at a higher level than before the pandemic.

During the second half of 2020, various government policy responses and financial sector authorities in various countries were able to maintain banking resilience, both from the aspects of capital, liquidity and credit risk. The very accommodative condition of the financial system and high market optimism regarding the response of the authorities have triggered an increase in the price of financial assets in several developed countries and an increase in the vulnerability of the global financial system, which can affect future economic growth. The outlook for global economic recovery in various countries is predicted to show divergence between developed and developing countries. This condition has spillover effects across countries, especially for developing countries with delayed economic recovery processes. Therefore,

Domestically, the Indonesian economy began to improve in Semester II 2020 in line with inter-agency policy synergies accompanying the improvement in the global economy. This improvement in the domestic economy is reflected in the improved performance of the Business Fields, especially those related to exports and mobility. Along with the recovery of the domestic economy, external stability was maintained, reflected in Indonesia's overall balance of payments surplus in 2020, as well as the strengthening of the exchange rate in the second half. Financial system stability in Semester II 2020 was also maintained. Fiscal, monetary, macroprudential and microprudential policy synergies were pursued by the financial sector authorities in order to encourage national economic recovery, both in the real sector and the financial sector.

Various policy responses to strengthen the financial sector that were implemented throughout 2020 have effectively been able to maintain the resilience of financial system stability. This is reflected in the low credit risk in the banking industry, abundant banking liquidity which has continued to increase throughout 2020, and banking profitability which is still in the positive zone. Despite this, weak domestic demand and banking caution regarding high perceptions of future risks still held back banking intermediation performance. In addition, the weakening of the economy due to the COVID-19 pandemic also caused a slowdown in economic financing in Semester II 2020.

Synergy of fiscal, monetary, macroprudential, and microprudential are pursued various authorities in order to encourage national economic recovery in the sector real and financial sector. This was implemented based on Law Number 2 of 2020. As a response to dealing with the crisis caused by COVID-19, the Government has adopted an expansionary fiscal policy through various stimulus packages. As of the end of 2020, the National Economic Recovery program that has been implemented has recorded a realization of IDR 579.8 trillion or 83.4% of the total budget allocation.

This first interview excerpt explains that To strengthen monetary policy transmission, Bank Indonesia returned to policy accommodative macroprudential(Kohn, 2015).Policy accommodative macroprudential is done by considering a fixed financial system stable and financing cycles that are under long term pattern. This condition gives room for Bank Indonesia to support economic recovery through strengthening the role intermediary, without disturbing the stability of the system finance. Macroprudential policy focus that accommodative is directed at effort encourage increased banking intermediation directed with a controlled level of risk. This accommodative macroprudential policy to mitigate credit risk aggravation (cliff edge effect) And credit crunch.

During the COVID-19 pandemic, the policy responses adopted by various authorities, both in developed and developing countries, in handling COVID-19 were relatively the same. The thing that distinguishes more on magnitude support measures from the Government. The average in developing countries is 5.5% of GDP, compared to developed countries of 20% of GDP. Furthermore, developing countries tend to be more significant to respond policies to increase liquidity and facilitate digital payments. In general, the policy response is directed to support financing to the sector real estate, support financial intermediation, and maintain the stability of the global financial system can be grouped into: Guarantee Program and Government Financing, and Other Fiscal Support; Central Bank Policy to Ease Financial Conditions and Maintain Financial Market Functions; and Prudential Policy to Support Financing Sustainability. To ensure that the authorities' policy response in handling COVID-19 does not have a negative impact on competition equality or cause market fragmentation, the G20 agreed on the importance for authorities to pay attention to the following five principles in designing and implementing policy responses, namely conducting intensive monitoring and information sharing, Understanding and utilizing flexibility in implementing financial standards, for example through the use of macroprudential buffers, remaining consistent in implementing international standards, and coordinating through the Financial Stability Board (FSB) and Standard-Setting Bodies (SSB) in coordinating the unwinding of policy support that needs to be carried out carefully.

The following is an excerpt of an interview with an informant who works assenior manager area of a government bank who is an expert in the field of bank monetary policy formulation (SMA). We asked his opinion regarding the macroprudential policies chosen by the central bank, especially for state-owned banks, in order to maintain the sustainability of banks during the Covid-19 pandemic in Indonesia.

As the monetary, banking and payment system authority, the main task of Bank Indonesia is not only to maintain monetary stability, but also financial system stability (banking and payment system). Bank Indonesia's success in maintaining monetary stability without being followed by financial system stability will not mean much in supporting sustainable economic growth. Monetary stability and financial stability are like two sides of a coin that cannot be separated. Monetary policy has a significant impact on financial stability and vice versa, financial stability is the pillar that underlies the effectiveness of monetary policy. The financial system is one of the monetary policy transmission channels. so that if financial system instability occurs, monetary policy transmission cannot run normally. Conversely, monetary instability will fundamentally affect financial system stability due to the ineffective functioning of the financial system. This is the background why financial system stability is still the duty and responsibility of Bank Indonesia.

As a central bank, Bank Indonesia has five main roles in maintaining financial system stability. The five main roles which include policies and instruments in maintaining financial system stability are: First, Bank Indonesia has the duty to maintain monetary stability, among others through interest rate instruments in open market operations. Bank Indonesia is required to be able to set monetary policy in an appropriate and balanced manner. This is because disturbances to monetary stability have a direct impact on various aspects of the economy. Monetary policy through the application of interest rates that are too tight, will tend to kill economic activity. Vice versa. Therefore, to create monetary stability, Bank Indonesia has implemented a policy called the inflation targeting framework.

Second, Bank Indonesia has a vital role in creating sound performance of financial institutions, especially banks. Creation of the performance of such banking institutions is carried out through monitoring and regulatory mechanisms. As in other countries, the banking sector has a dominant share in the financial system. Therefore, failure in this sector can lead to financial instability and disrupt the economy. To prevent such failures from occurring, an effective banking monitoring and policy system must be upheld. In addition, market discipline through supervision and policy-making powers as well as law enforcement must be implemented. The available evidence shows that countries that apply market discipline have strong financial system stability. Meanwhile, Law enforcement efforts are intended to protect banks and stakeholders and at the same time encourage confidence in the financial system. To create stability in the banking sector in a sustainable manner, Bank Indonesia has developed the Indonesian Banking Architecture and Basel II implementation plan.

Third, Bank Indonesia has the authority to regulate and maintain the smooth operation of the payment system. If a failure to settle occurs at one of the participants in the payment system, a potentially serious risk will arise and disrupt the smooth operation of the payment system. Such failure may pose a contagion risk, thus causing systemic disturbances. Bank Indonesia is developing mechanisms and arrangements to reduce risk in the payment system, which tends to increase. Among other things, by implementing a payment system that is real time or known as the RTGS system (Real Time Gross Settlement) which can further improve the security and speed of the payment system. As an authority in the payment system,

Fourth, through its function in research and monitoring, Bank Indonesia can access information deemed to threaten financial stability. Through macroprudential monitoring, Bank Indonesia can monitor financial sector vulnerabilities and detect potential shocks that impact financial system stability. Through research, Bank Indonesia can develop macroprudential instruments and indicators to detect financial sector vulnerabilities. The results of this research and monitoring will then become recommendations for the relevant authorities in taking appropriate steps to reduce disruptions in the financial sector.

Fifth, Bank Indonesia has a function as a financial system safety net through the central bank's function as lender of last resort (LoLR). The LoLR function is Bank Indonesia's traditional role as the central bank in managing crises in order to avoid financial system instability. The function as LoLR includes providing liquidity in normal as well as crisis conditions. This function is only given to banks that face liquidity problems and have the potential to trigger systemic crises. Under normal conditions, the LoLR function can be applied to banks experiencing temporary liquidity problems but still have the ability to repay. In carrying out its function as LoLR, Bank Indonesia must avoid moral hazard. Therefore,

Macroprudential policies are central bank policy packages aimed at "regulating" the situation in the financial system, particularly credit activities. The aim is to prevent financial system instability which could have a systemic impact and to improve the quality of the banking intermediation function. In Indonesia, this policy is implemented by Bank Indonesia as the monetary authority. Bank Indonesia uses this policy instrument to achieve the desired economic indicators, such as economic growth, and to stabilize an unbalanced condition of financial services.

Bank Indonesia implements macroprudential policy as a "partner" of the benchmark interest rate policy. Thus, the two policies can mutually support each other. For example, when Bank Indonesia wants to direct an increase in inflation, the monetary authority will launch an accommodative macroprudential policy and lower the benchmark interest rate. However, their relationship is also somewhat unique. This is because macroprudential policy can also restrain the financial system from the negative impacts arising from a reference interest rate policy. For example, the central bank will certainly increase its benchmark interest rate if inflation is inflamed. This will be responded by financial service institutions to also increase their lending rates. However, credit demand will surely slow down if credit interest rates rise. Meanwhile, stagnant credit growth will threaten consumption and investment growth, which are two of the four main engines of economic growth. Therefore, to reduce instability in the financial services system and support economic growth, the central bank launched macroprudential policies that could stabilize public demand for bank credit.

However, in the context above, the meaning of "stable" does not mean that the demand for credit must skyrocket when the benchmark interest rate is rising. This is because credit growth that is too fast can also increase inflation more quickly and can threaten the stability of the financial system itself. Thus, the meaning of the word "stable" here is a condition in which demand and supply in the financial services system remain balanced. QThere are five types of macroprudential policies which are as follows:

1. Countercyclical Buffer

Countercyclical Buffer (CCB) is additional capital that must be formed by banks and functions as a buffer to anticipate losses due to excessive credit growth or bank financing. It is feared that this condition could disrupt the stability of the financial system. Bank Indonesia said that this macroprudential policy needs to be implemented in Indonesia due to a pattern of procyclicality. That is, conditions in which credit growth and credit growth are always directly proportional. Hence, bank lending tends to increase when the economy is expanding and slow down when the economy is contracting. How is this policy mechanism? So, banks are required to increase their capital when the economy is expanding, which they can later use to deal with pressure when the economy is in decline. At the moment, Bank Indonesia requires every bank to have a CCB of 0% to 2.5% of the bank's Risk Weighted Assets (ATMR). Later, Bank Indonesia will periodically evaluate the amount of CCB at least once every six months. This policy is inseparable from the banking capital provisions issued by the Financial Services Authority.

2. Loan to Value or Financing to Value Ratio

Macroprudential policies, commonly abbreviated as LTV and FTV, often adorn the daily news. Meanwhile, LTV and FTV are the ratios between credit scores and financing provided by banks. Usually, this policy is aimed at car loans and home loans. An LTV and FTV policy will be said to be loose if the ratio between the two is close to 100%. In other words, under the relaxed LTV and FTV policies, a consumer can get a vehicle or property loan simply by paying a smaller down payment. In fact, consumers do not need to pay down credit if the LTV and FTV ratios are at 100%. On the other hand, LTV and FTV policies are said to be tight if their ratios are getting smaller and closer to 0%. One of the goals of LTV and FTV macroprudential policies is to maintain financial system stability and mitigate systemic risks stemming from rising property prices. In addition, it is hoped that the relaxed LTV and FTV policies will increase demand for vehicles and property, which will also have an impact on economic growth. This macroprudential policy instrument is countercyclical in nature or can be adjusted to changes in economic and financial conditions.

3. Macroprudential Intermediation Ratio (RIM)

RIM is a macroprudential instrument aimed at assessing a bank's credit capacity. RIM itself is an expansion of the ratio of loans to funding, which is familiarly called the Loan to Funding Ratio (LFR). In this macroprudential policy, Bank Indonesia sets a RIM figure as a reference. Currently, Bank Indonesia requires banks to have RIM at 84% to 94%. That is, if the bank's RIM is below 84%, then the bank's credit distribution is not optimal. Meanwhile, if RIM is almost stuck at 94%, it means that the bank has almost no room left to extend credit. Alias, the bank needs to put the brakes on lending or focus on finding Third Party Funds. Bank Indonesia enforces this ratio in order to encourage a balanced and fair intermediary function between each bank. As well as,

4. Macroprudential Liquidity Buffer

Macroprudential Liquidity Buffer (PLM) is a minimum liquidity reserve in rupiah, which must be maintained by banks in the form of rupiah-denominated securities, which can be used as part of monetary operations. The amount is determined by Bank

Indonesia by taking a certain percentage of Third Party Funds. PLM also has flexibility features. Namely, the conditions under which these securities can be used for repo transactions with Bank Indonesia in open market operations in the amount of a certain percentage of the bank's Third Party Funds denominated in rupiah. With the PLM policy, Bank Indonesia hopes to overcome the problem of liquidity procyclicality and to become a liquidity-based macroprudential instrument that applies to all banks.

5. Short Term Liquidity Loan

Short Term Liquidity Loans (PLJP) are loans from BI to banks that are experiencing short term liquidity difficulties. Short-term liquidity difficulties are conditions in which the flow of funds into a bank is somewhat smaller than the outflow of funds in rupiah. As a result, this condition can make the bank unable to fulfill the Statutory Reserves obligation.

Macroprudential policy is still unfamiliar to the public, even though monetary policy and microprudential policy are not sufficient to maintain macroeconomic stability, so macroprudential policy is needed to promote financial system stability. This macroprudential policy transformation is urgent in responding to the need to address or respond to future policy challenges and predictions. The challenges and forecasts for the future include strengthening the digitalization of the financial sector, the strategic role of consumer inclusion and protection, and Environmental, Social, & Governance(ESG).

This second interview excerpt explains that The Covid-19 pandemic has changed the architecture of the world economy, including Indonesia's economy.Recession, a word that is respected by many countries during 2020. Because a recession shows a decrease in national economic performance, which also means a decrease in welfare. The rapid decline in welfare, targeting Indonesia's gross domestic product (GDP), is roughly the technical term. GDP itself talks about the total production of final goods and services in the territory of Indonesia during a certain period (quarter or year). The decline in GDP is related to Indonesia's macro stability. Shrinking national output indicates a decline in production (goods and services) due to declining purchasing power, both in domestic and foreign markets (exports). The closure of economic centers (lockdown) and transportation flows in various countries during the Covid-19 pandemic has caused export performance to decline. Tourism industry, flights, to hotels and restaurants were hit hard. This is increasingly felt when the Chinese market, which has been the target of our commodity exports, also experienced a setback during 2020.

This global uncertainty has prompted companies to tighten their belts, hoping to survive until the pandemic is over. Cutting salaries and wages up to termination of employment continues to be carried out by corporations for efficiency.This condition has contributed to worsening Indonesia's macroeconomic performance, amid increasing data on Covid-19 sufferers. Like a simalakama fruit, between the health side and the economic side. The government faces a difficult choice, opening up economic activities has the potential to worsen the health side (Covid-19 patients have the potential to increase), while closing the economy has the potential to push the Indonesian economy to the point of depression (a prolonged recession).

Economic recovery will then become the focus of the government to restore or at least contain it so that the economic downturn does not deepen. Macroprudential policy was chosen as one of the policies of the central bank to be able to maintain financial system stability by preventing systemic risk, encouraging a balanced and quality intermediary function, and increasing financial system efficiency and access to finance.In addition, this policy is also aimed at supporting monetary and payment system stability, including minimizing the costs of handling systemic crises. Thus, macroprudential includes efforts to regulate and supervise institutions in the financial services sector (which are macro in nature), and focuses on preventing systemic risks in order to promote the stability of the Indonesian financial system.

Experience from various world economic crises and their resolutions teaches us that the cost of handling a crisis is very expensive and requires a long recovery time. Therefore, efforts to mitigate systemic risk through macroprudential policies are important at this stage. Macroprudential policies are taken as a measurable preventive measure in maintaining Financial System Stability and ensuring the continued contribution of the financial sector to economic growth in Indonesia.This policy covers the financial system as a whole, so it is not limited to the banking sector only. Non-bank financial institutions, financial infrastructure, corporations, households and financial markets are also elements that are considered in this policy. The broad scope of this policy is due to the fact that the source of systemic risk does not only come from banks, but can also come from other elements of the financial system. In addition, the contagion effect due to the linkages between elements in the financial system also has the potential to disrupt an economy as a whole (systemic impact) (Acemoglu et al., 2015).

5. CONCLUSIONS

The results of this study conclude that macroprudential policies have an impact on the sustainability of banking in Indonesia during the Covid-19 pandemic. In general, macroprudential policy maintains the stability of the Indonesian financial system from two dimensions (cross-section and time series). The cross-sectional dimension explains that the characteristics of the financial system have the potential to trigger systemic risk. There are at least three characteristics in the financial system that need attention. First, the elements in the financial system are interconnected; second, too big to fail (a corporation that is too big and then fails, will pose a very fatal risk); and third, other common risk factors. The time series dimension addresses a different issue. In this dimension, Macroprudential policy places more emphasis on the behavior of financial institutions which tend to be procyclical in nature. This behavior leads to a risk-taking cycle which refers to excessive optimism when the economic cycle improves (boom), and vice versa to excessive pessimism when the economic cycle worsens (bust). Macroprudential policy in this time-series dimension must be able to balance this procyclicality behavior, by obliging banks to accumulate capital to put the brakes on excessive expansion when economic conditions improve. Meanwhile, when economic conditions worsened, Bank Indonesia provided leeway for banks to use capital, thereby reducing credit contraction. This macroprudential policy is indeed not a popular policy.

This research is still descriptive in nature, giving rise to new hypotheses that need to be investigated further. This limitation is because we have not conducted data analysis tests. Thus, the instrument is only validated by experts. We hope that in future research, scientific data testing regarding the relationship between the implementation of macroprudential policies can be carried out quantitatively.

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