

NEWSLETTER

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OJK ISSUES REGULATION ON THE COUNTERCYCLICAL POLICY FOR BANKS AND THEIR DEBTORS TO MITIGATE THE IMPACTS OF THE COVID-19 PANDEMIC

The Financial Services Authority (*Otoritas Jasa Keuangan*/"**OJK**") issues the regulation No. 11/POJK.03/2020 of 2020 concerning the Stimulation of National Economic as the Countercyclical Policy of the Coronavirus Disease 2019 Spread ("**POJK No. 11/2020**"). POJK No. 11/2020, which was enacted on 16 March 2020, appears to mitigate the impacts of the spread of Coronavirus Disease 2019 ("**COVID-19**") which may disrupt the economic growth in Indonesia.

The ongoing COVID-19 pandemic is having a worldwide impact upon debtors in relation to their abilities to fulfill their credit or financing payment obligations. Essentially, the issuance of POJK No. 11/2020 is aimed: i) to mitigate the non-performance of the debtors' obligations to the banks, which directly or indirectly are affected by the COVID-19 spread; ii) to encourage the optimization of the intermediation function of banks; iii) to maintain the stability of the finance system; and iv) to support the recovery and the economic growth.

In order to achieve the above purposes, POJK No. 11/2020 permits conventional banks ("**Conventional Bank**"), sharia banks ("**Sharia Bank**") and rural banks ("**Rural Bank**") to implement policies that will support the stimulation of the economic growth for debtors that are affected by the COVID-19 spread, including Micro-Small-Medium Enterprise (*Usaha Mikro-Kecil-Menengah*/"**UMKM**"). The policies are in the form of (i) asset quality determination policy; and (ii) credit or financing restructuring policy, by still taking into account of the risk management application based on the prevailing regulations. The implementation of such policies can be carried out until 31 March 2021.

Banks must also provide guidance that addresses the determination of debtors who are being impacted by the COVID-19 pandemic. This guidance must at least include the criteria for the said debtors and the various sectors that are being impacted by the outbreak, including tourism, hospitality, trade, processing, agriculture, and mining. Further, the explanation of POJK No. 11/2020 describes the examples of the condition of the debtor as follows:

1. Debtors affected by the blockage of transportation and tourism routes to and from China or other countries that have been affected by COVID-19 and travel warnings in several countries.
2. Debtors affected by the significant decrease in export and import volume due to supply chain and trade links with China or other countries that have been affected by COVID-19.

3. Debtors affected by infrastructure development projects which are hampered due to the cessation of the supply of raw materials, labor, and machinery from China or other countries that have been affected by COVID-19.

Details of the policies and other notable provisions set out in POJK No. 11/2020, among others:

1. Asset Quality Determination Policy

Asset Quality Determination Policy can be in the form of the followings:

- a. Credit on the Conventional Bank and Rural Bank;
- b. Financing on the Sharia Bank, sharia business unit, and Sharia Rural Bank; and/or
- c. Other forms of funding provision (i.e. Bank Guarantee or Letter of Credit) for Conventional Bank, Sharia Bank, or Sharia Business Unit.

2. Credit or Financing Restructuring

Restructuring can be taken in relation to the credit or financing which were obtained both before and after the negative effects of the pandemic impacting the debtors, including UMKM. The purpose of the restructuring is to increase the credit performance granted to its debtors.

3. Granting of New Credit

Banks may grant a new credit or other funds to the debtors, including UMKM, which are affected by COVID-19 with the provision that the credit quality determination shall be conducted separately with the credit that has been previously granted to the debtors or UMKM.

4. Obligation of Reporting

Banks which implement Asset Quality Determination Policy based on the accuracy of the repayment of principal loan and/or interest or margin/sharing profit or *ujrah* for Sharia Bank are obligated to submit a report of credit stimulation and/or granting of new credit which assessed by the accuracy of the repayment. Meanwhile, banks that grant a credit restructuring are also obligated to submit a report with regard to such restructuring ("**Report**").

Further, the Report must be submitted manually to OJK based on the end of month report position for the end position of April 2020, June 2020, September 2020, December 2020 and March 2021. The submission of the Report must be done no later than the end of the following month after the position of the report month.

If you have any queries or would like us to assist you with any aspects of compliance and/or related to POJK No. 11/2020, please feel free to reach us by email through info@yangandco.com.