

# COVID-19, stability and regulation: evidence from Indonesian banks

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regulation

Putra Pamungkas, Taufiq Arifin and Irwan Trinugroho  
*Faculty of Economics and Business, Universitas Sebelas Maret, Surakarta, Indonesia and Center for Fintech and Banking, Universitas Sebelas Maret, Surakarta, Indonesia*

Evan Lau  
*Faculty of Economics and Business, Universiti Malaysia Sarawak, Kuching, Malaysia, and*

Bruno S. Sergi  
*Davis Center for Russian and Eurasian Studies, Harvard University, Cambridge, Massachusetts, USA and Department of Economics, University of Messina, Messina, Italy*

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## Abstract

**Purpose** – This study aims to investigate the effect of credit relaxation policy during the COVID-19 pandemic and its efficacy as a countercyclical policy on bank risk and stability.

**Design/methodology/approach** – Using a sample of 39 listed Indonesian banks, the authors investigate the effect of credit relaxation policy on banks' risk and stability. Data were retrieved from Eikon DataStream from monthly financial statements from June 2019 to December 2020. The authors use panel data analysis with a fixed-effect estimator to estimate the model.

**Findings** – The authors find that the credit relaxation policy affects banks' stability. The authors also find no significant relationship between the policy and bank risk measured by non-performing loans. The authors also find that the policy mainly affects small banks and both state-owned and private banks.

**Originality/value** – This research has some policy implications that issuing prompt regulations to respond to urgent situations is needed and is very important to face crisis conditions and reduce the negative impact of such crises.

**Keywords** Indonesia, Stability, COVID-19, Credit relaxation, Credit restructuring

**Paper type** Research paper

## 1. Introduction

The coronavirus (COVID-19) pandemic is a game-changer for the world. It is no longer just a health threat but has also shocked society, leading to economic damage and crisis. The crisis came as an unprecedented shock to market participants, the government and society. It was

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