BPR RESILIENCE IN ECONOMIC UNCERTAINTY: COMPARISON OF BPR FINANCIAL PERFORMANCE IN INDONESIA BEFORE AND DURING THE COVID-19 PANDEMIC

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Abstract

The primary objective of this study was to examine the performance of BPRs in Indonesia before and during the Covid-19 pandemic. The focus was on assessing financial performance variables, including Loan to Deposit Ratio (LDR), Non-Performing Loan (NPL), Return on Asset (ROA), and Credit Disbursement. To achieve the study's objectives, a Descriptive Statistical Analysis was employed to provide a detailed overview of BPR performance during the two distinct periods. Additionally, a Difference Test, utilizing the Wilcoxon Test, was conducted to assess the significance of the differences observed between the pre-pandemic and pandemic periods. The results of the analysis revealed notable differences in the condition of BPRs before and during the Covid-19 pandemic. Significant changes were observed in financial performance variables such as NPL, ROA, and Credit Disbursement. However, LDR exhibited a tendency to be insignificant during this comparative analysis. It is crucial to acknowledge certain limitations in this study. The analysis focused primarily on financial performance variables, and other relevant factors may need consideration for a comprehensive understanding. Additionally, the study's findings are specific to the given time frame and may not account for potential longer-term effects. The identified differences in BPR performance provide valuable insights for policymakers and industry stakeholders. These findings can serve as a foundation for designing effective policies and strategies to address the economic impact of the pandemic. Moreover, the study offers essential insights for the banking industry, guiding them in adapting and building resilience in response to unexpected external changes.

Keywords : *BPR, Covid-19, Financial Performance, Wilcoxon Test*

Abstrak

Tujuan utama dari penelitian ini adalah untuk mengkaji kinerja BPR di Indonesia sebelum dan selama pandemi Covid-19. Fokus penelitian ini adalah untuk menilai variabel kinerja keuangan, termasuk Loan to Deposit Ratio (LDR), Non Performing Loan (NPL), Retur non Aset (ROA), dan Penyaluran Kredit. Untuk mencapai tujuan penelitian, Analisis Statistik Deskriptif digunakan untuk memberikan gambaran rinci tentang kinerja BPR selama dua periode yang berbeda. Selain itu, uji beda dengan menggunakan Uji *Wilcoxon*, dilakukan untuk menilai signifikasi perbedaan yang diamati antara periode sebelum pandemi dan periode pandemi. Hasil analisis menunjukkan adanya perbedaan yang mencolok pada kondisi BPR sebelum dan selama pandemi *Covid-19*. Perubahan signifikan terlihat pada signifikan pada variabel kinerja keuangan seperti NPL, ROA dan Penyaluran Kredit. Namun, LDR menunjukkan kecenderungan tidak signifikan pada analisis komparatif ini. Sangat penting untuk mengakui adanya beberapa keterbatasan dalam penelitian ini. Analisis ini berfokus pada variabel kinerja keuangan, dan faktor-faktor lain yang relevan mungkin perlu dipertimbangkan untuk pemahaman yang komprehensif. Selain itu, hasil penelitian ini temuan studi ini spesifik untuk jangka waktu tertentu dan mungkin tidak memperhitungkan potensi efek jangka panjang. Perbedaan yang teridentifikasi dalam kinerja BPR memberikan wawasan yang berharga bagi para pembuat kebijakan dan pemangku kepentingan industri. Temuan-temuan ini dapat berfungsi sebagai landasan untuk merancang kebijakan dan strategi yang efektif untuk mengatasi dampak ekonomi dari pandemi. Selain itu, studi ini juga memberikan wawasan penting bagi industri perbankan, memandu mereka dalam beradaptasi dan membangun ketahanan dalam menghadapi perubahan eksternal yang tidak terduga.

Kata Kunci : BPR, *Covid-19*, Kinerja Keuangan, Uji *Wilcoxon*.

Introduction

Rural Banks (BPRs) are financial institutions that play a crucial role in supporting the local economy, particularly by serving the Micro, Small and Medium Enterprises (MSMEs) and individuals with limited income (Hamidi, 2017). Governed by Law Number 4 of 2023 regarding the Development and Strengthening of the Financial Services Sector, BPRs operate either conventionally or based on sharia principles and do not engage directly in giral traffic.

The Covid-19 pandemic has brought unprecedented challenges, leading to significant changes in the operational landscape of BPRs. The government's imposition of national-scale restrictions to curb the virus's spread adversely impacted BPRs, particularly in their primary function of providing loans. The increased risk of default among debtors, especially MSMEs, due to reduced income (Agustina & Said, 2021), posed a serious threat to BPRs. The Financial Services Authority (OJK) noted that the pandemic heightened credit risk, potentially disrupting banking performance and financial stability, thereby affecting economic growth (Financial Services Authority, 2020a). This scenario also led to a decline in BPRs' profitability, which subsequently affected their liquidity and ability to meet obligations to customers (Dwihandayani, 2017).

In response, the OJK introduced a policy in 2021 (POJK Number 2 of 2021) to mitigate the impact of Covid-19 on BPRs and Sharia Rural Banks (BPRSs). The policy included measures like credit restructuring for affected debtors, particularly MSMEs. Credit restructuring aims to assist debtors facing difficulties in fulfilling their obligations, classifying restructured loans as current, regardless of

their previous status, until March 2024 (Financial Services Authority, 2018). This policy seeks to optimize banking intermediation, maintain financial system stability, and support economic growth (Financial Services Authority, 2020a). However, the efficacy of this policy in stabilizing BPRs' financial performance during the pandemic remains uncertain.

Existing literature offers mixed findings on the financial performance of banks during the Covid-19 pandemic. While some studies reported significant differences in variables like ROA, CAR, and BOPO (Juniasti, 2023), others found no significant changes in NPL and LDR (Widiyaningtias & Dura, 2022). These conflicting results, coupled with the diversity of research objects, highlight the need for a more comprehensive investigation into BPRs' financial performance. This study aims to fill this gap by comparing the financial performance of BPRs before and during the Covid-19 pandemic, using variables such as Return on Asset (ROA), Non-Performing Loan (NPL), Loan to Deposit Ratio (LDR), and Credit Disbursement.

By addressing the gap in the literature and providing a detailed analysis of BPRs' performance during a critical period, this research contributes to a better understanding of the impact of global crises on rural banking institutions. The findings will not only inform policy decisions but also provide insights for BPRs to enhance their resilience against future economic shocks.

Furthermore, this study would pay attention to the condition of rural banks throughout Indonesia. According to Ministry of Cooperatives and MSMEs, the role of MSMEs is very important to support Indonesia's economic growth with the number reaching 99% of all business units until 2019. MSMEs have contributed to Indonesia's Gross Domestic Product (PBD) for about 61% and absorbed as much as 97% of the workforce.

Figure 1. Development of MSMEs in Indonesia
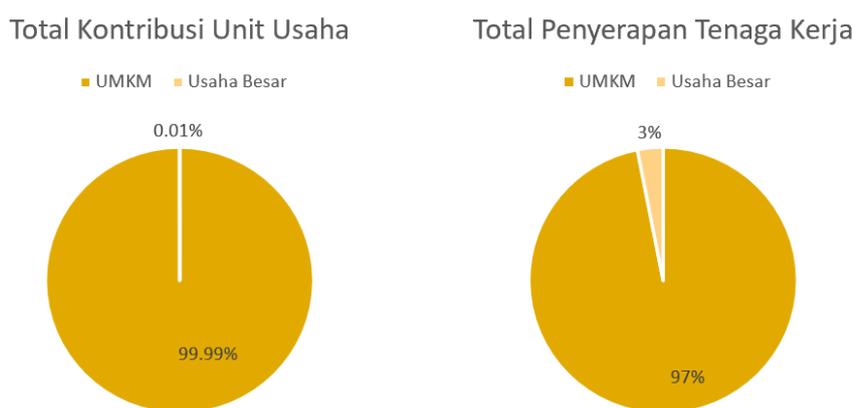
Source: Ministry of Cooperatives and MSMEs (2019)

With such a great potential, MSMEs face difficulties, particularly in terms of capital, thus being in need of financial institutions to support increased income to grow and contribute to the regional to national scale economy (Devina &; Lusy, 2020). In this case, BPRs play an important role in supporting local economic growth and equal access to finance by providing loans for MSMEs. The Covid-19 pandemic has caused serious challenges for BPRs,

with mobility restrictions, business closures, and economic uncertainty, all of which have impacted financial performance (Zakiya, 2020).

Selecting research objects nationally can provide a more comprehensive picture related to the phenomenon that occurs in the overall financial performance of rural banks because the policies issued by the OJK have a large and significant impact on all rural banks in Indonesia. By looking at the national coverage, general identification of trends or patterns of financial performance problems before and during the Covid-19 pandemic in BPRs throughout Indonesia can be done. In addition, BPRs stand out as exclusive microfinance institutions in Indonesia. By POJK Number 62 of 2020 About rural banks, BPRs can only be established by Indonesian citizens (WNI), Indonesian legal entities whose owners are all Indonesian citizens, as well as local governments. This is one of the uniqueness of BPRs compared to other financial institutions in Indonesia.

The expected benefit of this research is its contribution to the literature, both regionally and nationally in issues related to Rural Banks. It is also expected to be a reference for BPRs in preparing strategic plans to evaluate their financial performance after the Covid-19 pandemic and provide an overview of the condition of rural banks before and during the Covid-19 pandemic to the OJK as the regulator, as a reference in formulating relevant policies to improve the stability of BPRs' financial performance and encourage the growth and sustainability of local banks.

Literature Review and Hypotheses Formulation.

Regulatory Theory

Regulatory theory states that a centralized economy is the reason for protecting the public interest. In this theory, the legislature makes rules to protect users of reports by improving economic performance (Suhartono, 2018). This regulation can be a response to public demands to correct market failures (Scott, 2015).

When assessing the current performance of rural banks, the OJK, as a regulatory authority, has implemented a policy stimulus with the objective of preserving the stability of financial performance during the Covid-19 pandemic. The intention is to mitigate credit risk and enhance investor confidence, encouraging continued investment in these rural banks. Among the regulations introduced by the OJK is the policy of credit restructuring. This regulation serves as a relief mechanism for debtors impacted by the Covid-19 pandemic, aiming to categorize the restructured credits as current (Financial Services Authority, 2020a). The issuance of this regulation indicates that the impact of Covid-19 is considered significant for the financial performance of BPRs, so it is necessary for the OJK to issue this regulation to protect the interests of BPRs, debtors, and investors. This is in accordance with one of the theories of public interest in regulatory theory that states that a regulation is arranged to respond to public demand in improving inefficient or unfair market conditions (Posner, 1974).

Referring to the regulation that has been arranged, rural banks are required to increase transparency in their financial reporting. In this case, according to POJK Number 11 of 2020, rural banks are required to submit credit stimulus reports revealing that rural banks have properly carried out restructuring activities in accordance with applicable regulations. This is also aimed at reducing information asymmetry in investors, to increase investor

confidence that BPRs have maintained their financial performance in accordance with applicable regulations during the Covid-19 pandemic.

Environmental Uncertainty Theory

Environmental uncertainty is a state where a person cannot anticipate and predict the future accurately. Environmental uncertainty stems from lack of access to adequate information during the decision-making process and an individual's inability to anticipate the future (Darvishmotevali et al., 2020).

One of the environmental uncertainties faced today is the presence of the Covid-19 pandemic. This condition requires companies to adapt by changing their operational strategies and policies to survive until the Covid-19 pandemic ends. In fact, since the announcement of the onset of the Covid-19 pandemic in Indonesia, scientists, the government, regulators, the public, and other stakeholders have been facing a lack of information regarding the definitive conclusion of this condition. Although the President of Indonesia, Joko Widodo, has announced that Community Activities Restrictions Enforcement (PPKM) is officially lifted and the Covid-19 pandemic has become endemic, there is nothing to declare that Covid-19 is over (Yanwardhana, 2022). This means that there is potential in the future that Covid-19 cases will surge again, not only on a national scale but on a global scale. This uncertainty requires companies to prepare risk management to avoid bankruptcy.

In the banking sector, especially rural banks, this environmental uncertainty can affect investors' decisions in investing and debtors' decisions in applying for credit loans as it creates greater financial risk than expected. Investors can become reluctant to allocate their capital when they are unsure about the potential benefits or associated risks; debtors can be hesitant to apply for credit loans because they are unsure whether or not they can meet their repayment obligations (Li et al., 2021). Therefore, the behavior that occurs to investors and debtors in this uncertain environment has the potential to affect the financial performance of BPRs. So, it is necessary to disclose financial information that is more relevant to current conditions to prevent information asymmetry between BPRs and stakeholders, both investors and debtors.

Financial Performance

According to Esomar &; Christianty (2021), financial performance is a reflection of a company's financial situation which is analyzed using financial analysis instruments to identify weaknesses and achievements achieved by the company in a certain period. Financial performance is one of the factors used in evaluating the quality of a company. If the value is positive, it can lead to a positive evaluation of the company's quality, or a negative value would result in an unfavorable assessment (Purwanti, 2021). Financial performance, according to Rahayu (2020), reflects the success or failure of the company or the company's ability to generate value in an efficient and effective way. A similar perspective is conveyed by Hutabarat (2020), describing that financial performance is an evaluation of the proper and correct application of financial principles in company operations.

It can be concluded that company financial performance is a picture of financial condition that is analyzed using financial analysis tools to assess the shortcomings, achievements, and quality of a company in a certain period. Good financial performance reflects effective and efficient value creation for the company and its capital owners, and is measured based on good and correct financial implementation rules. Poor financial

performance will give a negative assessment of the quality of the company.

According to Hutabarat (2020), financial performance appraisal involves analyzing past performance to forecast the company's future potential. Performance is also the result of an assessment of the work that has been done, by comparing it with the standards that have been set together in advance. Therefore, periodic assessments or measurements are required for each completed job.

The appraisal of financial performance has several objectives. The first is to understand the profitability of the company or the company's ability to make a profit within a certain period of time. The second is to assess the company's liquidity or the company's ability to meet obligations that must be resolved immediately. The third one is to measure the company's solvency or the company's ability to meet its long-term obligations. The fourth objective is to evaluate business stability or the company's ability to pay interest expense on its debts, including its principal debt, in a timely manner, and to understand the company's ability to pay dividends to shareholders (Hutabarat, 2020; Rahayu, 2020).

Assessing a company's financial performance involves several stages. The first is an evaluation of financial statement data, with the aim of ensuring that the financial statements that have been prepared are in accordance with generally accepted accounting principles. The second is to perform calculations using calculation methods that are adjusted to the situation and problem at hand, so that the results of these calculations can produce conclusions in accordance with the desired analysis. The third stage is to compare the calculation results that have been obtained. Generally, the method used for comparison involves time series analysis (comparison between periods) and cross sectional approaches (comparison with similar companies).

From both methods, it is concluded whether or not the company assessed is in a positive condition. The fourth stage is to interpret the various problems that arise. Finally, the next one is to find and present solutions to the problems found (Hutabarat, 2020).

Research Hypothesis

Based on the theoretical basis and research framework above, hypotheses can be formed regarding the differences in the financial performance conditions of rural banks in Indonesia before and during the Covid-19 pandemic as follows:

- *H1: There are differences in ROA of BPRs in Indonesia before and during the Covid-19 pandemic.*

- *H2: There are differences in NPL of BPRs in Indonesia before and during the Covid-19 pandemic.*

- *H3: There are differences in LDR of BPRs in Indonesia before and during the Covid-19 pandemic.*

- *H4: There are differences in the credit performance of BPRs in Indonesia before and during the Covid-19 pandemic*

Research Method

In this study, the authors used data types with a comparative-quantitative approach. The quantitative approach involves collecting numerical data that is usually obtained through structured questions (Sekaran &; Bougie, 2020). The comparative-quantitative approach describes the comparison of a situation with data in the form of numbers. Based on the source, the data used in this study were secondary data, which according to Sekaran &; Bougie (2020) were information taken from existing sources, such as statistics, government publications, media, websites, and the internet.

The data used were monthly data on the financial performance of BPRs from the time period 2017 to 2022, representing the situation before and during the Covid-19 pandemic. The sources of data used in this study were financial performance ratio data and credit distribution information available in the Indonesian Banking Statistics Report through the Financial Services Authority website. The operational definitions of variables are as follows.

Table 1. Variable Operational Definition

No.	Variable	Variable Definition	Measurement	Measurement Scale
1.	Return on Assets (ROA)	A ratio that describes the efficiency of the company in generating net profit based on the number of assets owned.	$$ROA = \frac{Net\ profit}{Total\ Assets} \times 100\%$$	
2.	Non Performing Loan (NPL)	A comparison is made between the total credit provided by the bank with the proportion of non-performing loans or the level of collectibility.	$$NPL = \frac{Total\ NPL}{Total\ Loans} \times 100\%$$	A ratio scale is a scale that has an absolute value and includes all scale components, such as nominal, ordinal, and interval (Sekaran &; Bougie, 2020).
3.	Loan to Deposit Ratio (LDR)	Ratio that describes the comparison between the amount of credit disbursed by the bank to customers with the funds received by the bank.	$$LDR = \frac{Total\ Credit\ Disbursement}{Third\ Party\ Fund} \times 100$$	
4.	Credit Disbursement	Disbursement of funds carried out by the Bank in the form of credit from funds	Amount of credit disbursed	

that have been collected through public deposits.

In this study, there were four variables used to measure financial performance, namely ROA, NPL, LDR, and credit disbursement. These variables were selected in consideration of the current conditions, which necessitate regulatory stimuli, particularly from the OJK, especially in terms of lending. Low credit disbursement can lead to increased credit risk due to decreased performance and capacity of debtors in fulfilling obligations payment credit or financing. Increased credit risk has the potential to disrupt banking performance and financial stability, which can affect economic growth (Financial Services Authority, 2020a). Then, the profitability of BPRs can also decrease along with the increase in credit risk (Singh et al., 2021). If the profitability of BPRs decreases, it can lead to a reduction in the liquidity of BPRs. This is attributed to the limited availability of funds, which hinders BPRs from fulfilling all their obligations to customers (Dwihandayani, 2017).

Analysis Methods

To achieve the research objectives, the authors employed two data analysis methods. The first method involved a descriptive statistical analysis test, which examined the average, maximum, and minimum values derived from ROA, NPL, LDR, and BPR lending in Indonesia over the period from 2017 to 2022. The results of the descriptive statistical analysis will serve a reference in analyzing the results of the comparison test.

The second method employed was the comparison test, designed to assess the impact of specific treatment on the same sample group across different observation periods. Before testing the hypotheses through the comparison test, the authors conducted a preliminary normality test on the data. The Skewness-Kurtosis test was employed to determine if the data exhibited a normal distribution. If the normality test results indicated a normal distribution, the paired sample t-test was applied. Decisions were made based on the following criteria:

1. There is no difference in the comparative model if the significance value (α) is more than 0.05.

2. There is a difference in the comparative model if the significance value (α) is less than 0.05.

If the normality test results indicated results that were not normally distributed, the authors would perform the Wilcoxon test. Decisions were made based on the following criteria:

1. There is no difference in the comparative model if the significance value (α) is more than 0.05.

2. There is a difference in the comparative model if the significance value (α) is less than 0.05.

Analysis Results

To find out the general description of the four variables in this study, the authors conducted a descriptive statistical test. The results of the descriptive statistical test are as follows.

Table 2. Descriptive Statistical Test

Variable	Mean	Std. Dev.	Min	Max
LDR	76.83	1.9801	72.58	83.2
NPL	7.36	0.5529	6.15	8.66
ROA	2.17	0.3929	1.60	3.26
CREDIT	105552.5	12672.98	81867	129295

Based on the results of the descriptive statistical test above, the average values of the variables LDR, NPL, and ROA were 76.83 percent, 7.3 percent, and 2.17 percent, respectively and the amount of credit disbursement amounted to 105552.5 billion rupiah. Furthermore, the minimum and the maximum values for LDR were 72.58 in January 2022 and 83.2 in April 2021, respectively. For the variable NPL, the minimum and the maximum values were 6.15 in December 2017 and 8.66 in October 2022, respectively. Furthermore, for the variable ROA, the minimum and the maximum values were 1.60 in April and May 2022 and 3.26 in January 2020, respectively. The variable credit got its minimum value of 81867, namely in January 2017, and its maximum value of 129295 in December 2022.

At first glance, it can be seen that the Covid-19 pandemic has had an impact that can be seen from the descriptive statistical analysis. For example, the higher the NPL means the greater the bad loans that occur in BPRs. The results of the descriptive statistical test showed that NPL had a maximum value of 8.66 in October 2022 when the Covid-19 pandemic was still happening. For comparison, the minimum NPL value was 6.15, occurring in December 2017; In December 2019, its

value was 6.81. It can be seen that before the Covid-19 pandemic, NPL values tended to be lower than those during the Covid-19 period, illustrating that the Covid-19 pandemic caused an increase in bad loans in rural banks throughout Indonesia.

Another example is ROA or Return on Asset which provides an overview of the profitability of BPRs in Indonesia having the lowest value in April and May 2022 where the month is still in the Covid-19 period. This is reinforced by the highest ROA value which was in January 2020 where at that time the Covid-19 pandemic had not yet entered Indonesia. To get a more valid picture, the author conducted a different test analysis on all variables during the period before the Covid-19 pandemic and when the Covid-19 pandemic occurred in Indonesia.

Before performing the comparison test, it was necessary to conduct a normality test to find out whether or not the data on each variable was normally distributed. Such normality test determined whether the comparison method used would be the paired sample t-test method or the Wilcoxon test. The following are the results of the normality test using the Skewness-Kurtosis approach.

Table 3. Skewness-Kurtosis Normality Test

Variable	Adj chi^2	Prob>chi^2
Pra_ldr	0.68	0.7106
Post_ldr	5.80	0.0549
Pra_npl	6.81	0.0331
Post_npl	0.53	0.7688
Pra_roa	1.14	0.5662

Post_roa	36.26	0.0000
Pra_kredit	6.05	0.0485
Post_kredit	5.24	0.0727

Based on the results of the normality test above, it can be concluded that the four variables were not normally distributed. Although in pra_npl the data were normally distributed, the data in post_npl was not normally distributed. So, the data in the variable npl were not normally distributed. The same applied to other variables. Therefore, the comparison method used was the Wilcoxon test.

Table 4. Wilcoxon Test

Variable	Z	Prob
LDR	1.265	0.2060
NPL	-5.232	0.0000
ROA	4.667	0.0000
CREDIT	-5.232	0.0000

By using alpha 5% from table 3, it can be concluded that the variables NPL, ROA, and CREDIT of rural banks in Indonesia have significant difference performance between before and after the Covid-19 pandemic. LDR had no significant difference before and after the Covid-19 pandemic. Based on the results of the Wilcoxon test, in general, the Covid-19 pandemic has put pressure on the financial performance of rural banks in Indonesia.

The Non-Performing Loan (NPL) ratio, which provided an overview of bad loans, was affected by the Covid-19 pandemic; so were the Return on Asset (ROA) ratio, which described the profitability of rural banks, and the Total Credit Disbursement (CREDIT). The Loan to Deposit Ratio (LDR), which provided an overview of the liquidity condition of rural banks, did not have a significant impact. One limitation of the comparison test method is that it could not tell whether the difference was negative or positive. Therefore, it is necessary to explain further in the discussion about the trends of the data of each of these variables before and after the Covid-19 pandemic in Indonesia.

Discussion

Financial Performance of BPRs Before and During Covid-19

Based on the study results, overall, the financial performance variables were significantly affected by the Covid-19 pandemic. The impact of Covid-19 can be broadly categorized into two patterns: a sharp decrease and a deceleration in the rate of increase. Further trends in financial performance can be observed in the figure below.

Figure 2. Trends of Financial Performance of BPRs in Indonesia (Fourth Quarter Data)
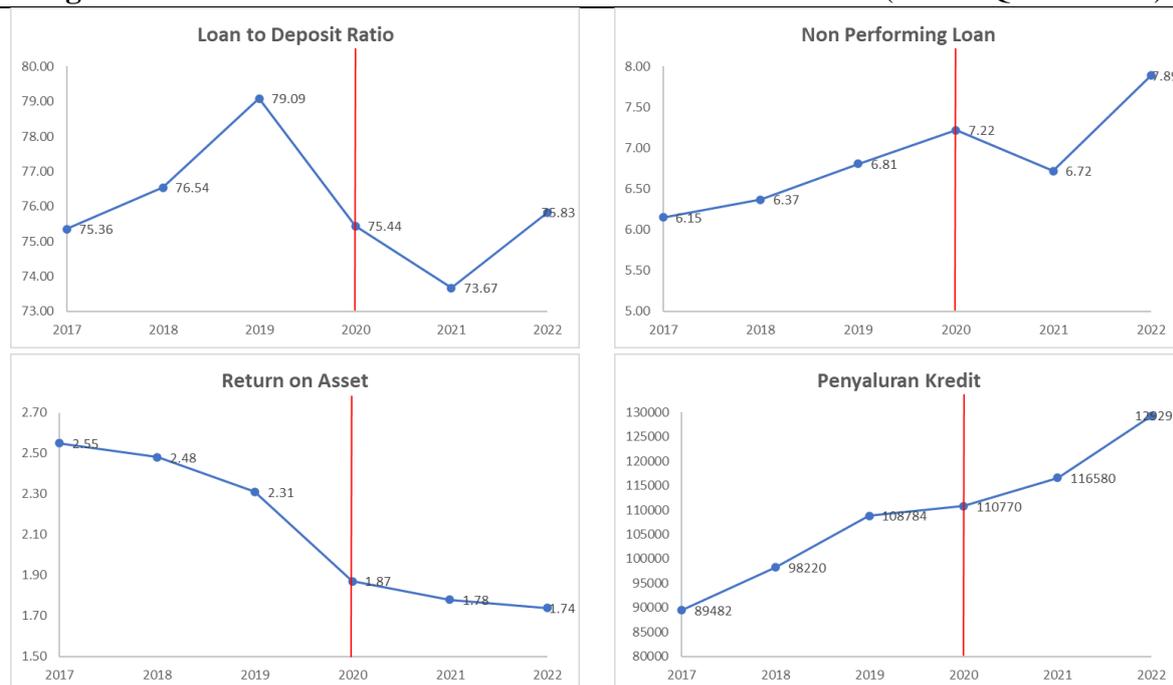
Source: Indonesian Banking Statistics (2022)

Loan to Deposit Ratio (LDR) is an indicator that measures the proportion of loans provided by BPRs to the amount of deposits received by BPRs. Trend-wise, the LDR of BPRs tended to be relatively high before the Covid-19 pandemic. This could be caused by BPRs' businesses strategies that were more aggressive in providing loans to support economic growth at the local level. When the Covid-19 pandemic hit, the overall economy was shaken in various sectors, including the banking sector. But in this case, even though the economy was shaken by the pandemic, some MSMEs continued to operate and even needed additional funding to survive. BPRs, as one of the MSME capital support institutions, might continue to provide loans to support business continuity (Srinadi &; Putri, 2022). Furthermore, credit restructuring regulations and liquidity assistance issued by the OJK during the Covid-19 pandemic allowed BPRs to continue lending despite a decrease in revenue or an increase in credit risk. This was intended as a step by the OJK to stabilize the banking sector during the Covid-19 pandemic crisis (Pavita &; Mukhlis, 2022).

Non Performing Loan (NPL), which provides an overview related to bad loans in BPRs, based on the NPL chart above, experienced a decline significantly, meaning that bad loans in rural banks throughout Indonesia tended to decrease dramatically. This decline was attributed to the economic stimulus policies implemented by the government and rigorous credit restructuring undertaken by the OJK during the Covid-19 pandemic. The restructuring policy aimed to provide credit relief to debtors affected by the pandemic, particularly MSMEs. However, in 2022, NPL numbers experienced a drastic increase (Yasin &; Fisabilillah, 2021). This increase in 2022 might be attributed to several factors such as normalization policies taken by the government and regulators. Examples include increased supervision of credit, cessation or reduction of economic stimulus, and an elevation in interest rates. These factors could exert additional pressure on customers' ability to repay

loans, particularly for MSMEs that are still in the recovery phase (Widiyaningtias &; Dura, 2022).

Regarding the Return to Asset (ROA), which describes the profitability of BPRs in Indonesia, based on the graph, there was a significant decrease in December 2019 (before Covid-19) to December 2020 (during Covid-19). This decrease in ROA clearly occurred because BPRs as financial institutions that generally provide credit to the MSME sector were directly exposed to economic uncertainty caused by restrictions on business activities and financial market instability. In addition, economic stimulus policies and credit restructuring carried out during the pandemic could also have a negative impact on interest margins and operational efficiency of rural banks, all of which can affect overall ROA (Juniasti, 2023).

The last financial performance variable observed in this study was the amount of credit disbursed by BPRs in Indonesia. In trend, the number of loans was always increasing. However, interestingly, the increase in the amount of credit disbursed from 2019 to 2020 tended to be more flat compared to that in other years. This happened because the Covid-19 pandemic made BPRs more careful in lending and involved a stricter risk analysis process. In addition, customers also became more cautious in applying for loans due to economic uncertainty, resulting in a slower increase in credit demand (Seto &; Septianti, 2021).

Relationship Between BPRs Financial Ratios

As a supporting institution for local economic capital, BPRs get its main income through lending to the community, especially MSMEs. In addition to policy factors that can encourage financial performance ratios, the relationship between financial performance ratios is also interesting to discuss during the Covid-19 pandemic.

Figure 3. Comparison of Financial Performance Trends (Fourth Quarter Data)
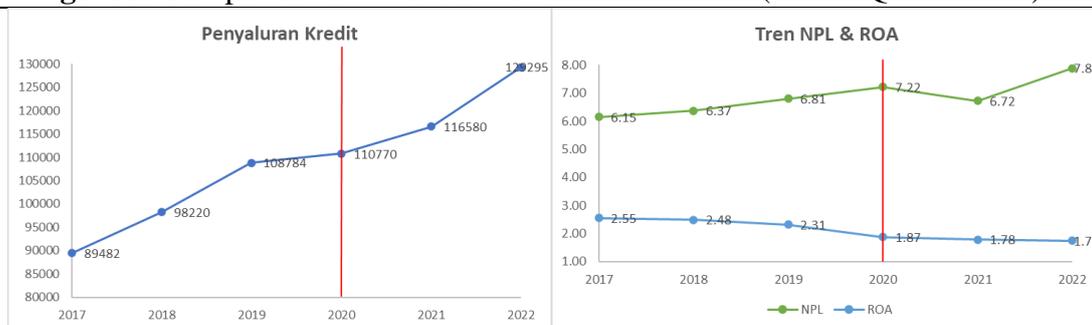
Source: Indonesian Banking Statistics (2022)

Credit disbursement that tended to increase during the Covid-19 pandemic can be explained by several factors. First, there was an urgent need from MSME players to get additional funds to survive in the midst of the economic impact caused by the pandemic. BPRs, which generally focus on lending to the sector, might be aware of the need to support their customers by increasing lending (Widiyaningtias &; Dura, 2022). Furthermore, this increase could be caused by various economic stimuli imposed by the government or regulators to support economic recovery, such as implementing credit restructuring policies to help customers who were experiencing financial difficulties due to the impact of the pandemic, which in turn

could increase credit disbursement (Putra &; Hasibuan, 2021).

However, such increase in credit disbursement was not always accompanied by an improvement in credit quality. An increase in NPLs or non-performing loans could be attributed to high economic uncertainty during the pandemic. Many businesses were experiencing financial difficulties in paying back their loans. Factors such as declining incomes, business closures, or declining consumer purchasing power could contribute to increased credit risk. Increased credit risk in NPLs could put pressure on BPRs' net profit (Sullivan &; Widoatmodjo, 2021).

With the increase in Non-Performing Loans (NPLs) and the potential decline in interest income resulting from low interest rates, Return on Assets (ROA) exhibited a tendency to decrease during the pandemic. This trend is observable in the chart above, reflecting the strain on the profitability of BPRs arising from heightened credit risk and diminished interest margins. Despite efforts by BPRs to boost lending, a negative impact on ROA may occur if credit risk is not effectively managed (Sufriyani &; Kelen, 2021). In addition, the operational costs of BPRs might increase due to operational adjustments and the implementation of health protocols during the pandemic. The combination of decreased revenue and increased operating expenses can negatively affect ROA (Setyaningsih et al., 2023).

Furthermore, despite the increase in lending, LDR might not experience significant changes. This could be caused by an increase in public savings in line with efforts to overcome economic uncertainty during the pandemic. Rural banks can maintain a level of vigilance in managing the ratio of loans to deposits to maintain liquidity stability and avoid unwanted risks (Pavita &; Mukhlis, 2022).

Overall, the situation in rural banks during the pandemic has presented a dilemma—a balancing act between efforts to support the economy and increase lending, while concurrently dealing with escalated credit risk and pressure on profitability. Consequently, it is important to note that BPRs can enhance resilience by developing internal policies and implementing risk management strategies that are in accordance with the prevailing local economic conditions.

Conclusion

Overall, this study successfully identified significant differences in the financial performance of rural banks (BPRs) in Indonesia before and during the Covid-19 pandemic, particularly in the variables of NPL (Non-Performing Loans), ROA (Return on Assets), and credit disbursement. These findings underscore the substantial impact of the Covid-19 pandemic on BPRs in Indonesia, as reflected in the shifts observed in these performance indicators. The discrepancies were driven by factors such as government economic stimulus policies, credit restructuring by the OJK, and the cautious behavior of both the rural banks and the public as lenders and borrowers amid economic uncertainty.

The results of this study offer several recommendations. For the government, more targeted policy measures are necessary to optimize the performance of BPRs in the post-pandemic era. This includes the development of more specific stimulus policies and credit restructuring strategies that are better adapted to current economic dynamics. Additionally, it is recommended that rural banks enhance their risk management capacity and provide support to ensure that the public can continue to access credit under conditions conducive to economic recovery.

This research contributes to the literature on the impact of global health crises on the performance of local financial institutions. Our findings reinforce the understanding that government policy interventions and institutional responses play a critical role in mitigating the adverse effects of crises on the financial sector. The study also highlights the importance of analyzing financial performance across various indicators to assess the resilience of local financial institutions to external economic shocks.

Practically, the findings of this study provide guidance for BPR management in formulating strategies to enhance their resilience to future crises. Recommended steps include strengthening risk management capabilities, implementing more flexible credit policies, and deepening customer relationships to improve BPR performance during periods of economic uncertainty. BPRs are also expected to be more proactive in collaborating with the government and financial authorities to optimize policies that support local economic stability and growth.

For future research, it is recommended to conduct an impact analysis by examining the effects using BPR data at the provincial level. This approach would offer a more comprehensive overview of the Covid-19 pandemic's effects on BPRs in different regions of Indonesia. Additionally, future studies could explore the role of other factors, such as the digitalization of financial services and changes in customer behavior, in influencing BPR performance during and after the crisis.

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