

The Impact of The Covid-19 Pandemic on The Financial Performance of Islamic Rural Banks in Central Java

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Submitted: 1 November 2021; Accepted: 18 September 2022; Published: 21 September 2022

Abstract

Islamic Rural Banks have a priority scale in the real sector, which is solely dependent on economic conditions. Admittedly, the Covid-19 pandemic caused serious economic instability and Central Java is one of the regions in Indonesia most affected by the phenomenon. Therefore, this study aims to determine the impact of the Covid-19 pandemic on the financial performance of Islamic Rural Banks in Central Java using a descriptive quantitative approach. Based on purposive sampling, 23 Islamic Rural Banks in Central Java were selected as the research sample. The results of this study show that the Islamic Rural Bank in Central Java had very healthy capital and liquidity and this was determined by the quality of assets owned by the bank. However, it was observed that the profitability state of OER was not healthy while that of ROA was quite healthy. This proves that the Covid-19 pandemic caused a significant decrease in the various bank's ability to generate profits. To successfully face the potential risk of losing during events such as the Covid-19 pandemic, adequate capital is needed in the bank's reserve. The Islamic Rural Banks are more careful in terms of asset management to maintain the bank's healthy condition, therefore, they store adequate funds in their reserves to help them combat problems similar problems like this one. The practical implication of this research is that it will be useful for banking management, policy makers and users of banking services. Lastly, this research provides information that can be used by regulators in formulating appropriate policies to minimize the adverse effects of Covid-19.

Keywords: covid-19 pandemic, financial performance, Islamic rural banks

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INTRODUCTION

The Covid-19 pandemic was a global outbreak that has a major impact on several countries around the globe, including Indonesia. The first found case of Covid-19 in Indonesia was on March 2020, then the virus spread to different regions in the country. Data obtained from the Ministry of Health in March 2021 showed that Central Java Province had the most death casualties resulting from the virus compared to other Indonesian regions (Kementerian Kesehatan, 2021).

Following this, the Islamic Rural Banks have a priority scale in the real sector of Micro, Small and Medium Enterprises (MSMEs) which are the main contributors to economic growth. The Covid-19 pandemic, however, caused the economy to decline significantly in such a way that in the second quarter of 2020, it contracted by -5.32 percent (Badan Pusat Statistik, 2021). The pandemic had a significant impact on the real sector including MSMEs (Otoritas Jasa Keuangan, 2020), and the Islamic Rural Banks were not exempted because the banks' operations are closely linked to the real economic sector.

Subsequently, the financial performance measurement of the Islamic Rural Banks in Central Java needs to be reviewed considering the fact that their business activities are directly related to the real sector. The economy is, however, unstable due to the Covid-19 pandemic. The Financial Services Authority, in accordance with what was stated on Regulation No. 28/SEOJK.03/2019, provided guidance in measuring the level of health specifically applied to the Islamic Rural Banks. Furthermore, the assessment considers aspects of capital, asset quality, liquidity and profitability (Otoritas Jasa Keuangan, 2019).

Various research has been conducted to measure the impact of the Covid-19 pandemic on the banking sector in different countries. Almonifi, Rehman, and Gulzar (2021) examined the financial performance of Islamic banks in Saudi Arabia. However, this research was limited to only one object, the Al Rajhi Bank in Saudi Arabia. The study was carried out to determine four factors namely profitability, liquidity, efficiency, and market capitalization. The results show that there is a change in financial performance as profitability decreased during the crisis.

Similar results were also observed by (Ibrahim, 2020; Salih, Ghecham, & Al-Barghouthi, 2018; Majeed & Zainab, 2021). The financial crisis caused the GCC Islamic Banks to experience a decline in profits and efficiency (Salih, Ghecham, & Al-Barghouthi, 2018). This research was in contrast to that of Saddique et al. (2016) which stated that Islamic banks were affected lower than conventional banks. Meanwhile, some banks' ability to generate profits was not affected during the crisis. The results of Arafat, Rashid, and Jan (2021)'s research on profitability as measured by ROA at Islamic banks in the GCC Region, Malaysia and Pakistan showed that the Banks situated in the area grew continually in profits during the Covid-19 pandemic.

Furthermore, banking efficiency during the period of crisis was analyzed by Rosman, Wahab, and Zainol (2013) at Islamic banks located in the Middle Eastern and Asian Countries. The results show that these banks were able to maintain their operations during the crisis. Majority of them, however, were inefficient in their operations during the pandemic. Inefficiency in operations also had a negative impact on the bank's returns. Andries and Ursu (2016), in the article on European commercial banks, noted specifically that the global financial crisis caused banks to experience inefficiency, although large banks experience a lower impact than small banks.

In addition, Marcu (2021) stated that the crisis caused by the Covid-19 pandemic in 2020 is a challenge for banking management. Banking capital and liquidity buffers were substantially stronger during the crisis. Majeed and Zainab (2021), in their study, emphasized on the importance of strong capital, using the Islamic banks as a case study. Similarly, El-Chaarani and Ragab (2018) identified the financial resilience of Islamic banks in the Middle East Region during the Arab Crises. The results show that Islamic banks increase capital adequacy and focused on reducing costs and improving asset quality to increase efficiency during the economic crisis. Saddique et al. (2016) contrastingly noted that the financial crisis had a negative effect on the banks' capital adequacy. Almonifi, Rehman, and Gulzar (2021) also stated that there was a decreased financial performance CAR during the crisis.

The financial crisis exposed a lot of banks to liquidity risk (AbdulGaniyy & AbdulKareem, 2020). Boukhatem and Djelassi (2020) stated that the Islamic banks in Saudi have a wider funding gap compared to others. The liquidity position of Islamic banking is less because the Bank reserves more of its returns for capital strengthening. Admittedly, Covid-19 significantly impacted the economy. The impact of liquidity support is one of the steps in overcoming abnormal bank returns. Less liquid banks could experience positive impacts through liquidity support (Demirgüç-Kunt, Pedraza, & Ruiz-Ortega, 2021). Following this, Karim et al. (2021) analyzed the impact of the pandemic on banking liquidity and financial health in Bangladesh. The results show a decline in the banks' liquidity and financial health. Islamic banks have poor liquidity and cash ratios. This is, however, different from the results obtained from the research conducted by Tabash and Dhankar (2014) which shows that Islamic banks store more liquid assets during crisis conditions.

Based on previous research, it can be seen that there is a gap between the results obtained from the research on Islamic banking performance during the crisis period. This study intends to identify the impact of the crisis caused by the Covid-19 pandemic on the Islamic Rural Banks located in Central Java. The subject matter involves capital, asset quality,

profitability, and liquidity. Furthermore, the study adds a map of performance profiles at Islamic Rural Banks in Central Java during the Covid-19 pandemic. It also compares the banks' performance before and during the Covid-19 period, to properly identify the impact of the pandemic.

METHOD

This research uses a descriptive quantitative approach to identify the impact of the Covid-19 pandemic on Islamic Rural Banks. The population of this research are the Rural Banks in Central Java Province (Otoritas Jasa Keuangan, 2021). 26 bank's were selected based on the Purposive Sampling technique out of the banks in Central Java that have completed financial reports in the first, second, third, and fourth quarters of the year 2020 serving as the criteria. When this study was conducted, 23 out of the 26 banks had completed their financial reports. The following is the research sample which consists of Islamic Rural Banks.

Table 1. Research Sample

No.	Islamic Rural Banks
1.	Artha Amanah Ummat
2.	Artha Mas Abadi
3.	Saka Dan a Mulia
4.	Bina Amanah Satria
5.	Khasanah Ummat
6.	Artha Lek sana
7.	Suriyah
8.	Bumi Artha Sampang
9.	Gunung Slamet
10.	Buana Mitra Perwira
11.	Ikhsanul Amal
12.	Al Mabror Klat en
13.	Dharma Kuwera
14.	Sukowati Sragen
15.	Insan Madani
16.	Artha Surya Barokah
17.	Bina Finansia
18.	Mitra Harmoni Kota Sem arang
19.	Harta Insan K arimah Bahari
20.	Dana Mulia
21.	Dana Ama nah Surakarta
22.	Central Syariah Utama
23.	Harta Insan Karimah Surakarta

This study uses panel data sourced from the quarterly reports of the Islamic Rural Banks in Central Java in 2020 on the 23 banks which was used as the sample in this study. The quarterly financial reports were selected to get an overview of the research data development in the quarterly period considering the uncertain wave of Covid-19 cases per day. The data collected consists of capital, asset quality, profitability, and liquidity. The Eviews 10 program for research data analysis was used in this study. Accordingly, Ghozali (2018) defines descriptive analysis as a description of data. The analytical method was used in this financial approach to measure the health level of Central Java's Islamic Rural Banks during the Pandemic.

The assessment was carried out based on the regulations issued by OJK No. 28/SEOJK.03/2019 concerning the Rating System for the Soundness of Islamic Rural banks (Otoritas Jasa Keuangan, 2019). Furthermore, it was conducted on aspects of capital, asset quality, profitability, and liquidity. A Rating Range from 1 to 5 was used to represent the banks' health condition, with each value representing Very healthy, Healthy, Healthy enough, Less healthy and Unhealthy respectively. The financial approach of Islamic Rural Banks resulted in a cluster ranked from 1 to 5. The following are the assessment and measurement instruments.

Table 2. Research Instruments

Factor	Instrument		
Capital			
CAR	Capital/ATMR	PK-1	$CAR \geq 15\%$
		PK-2	$13.5\% < CAR \leq 15\%$
		PK-3	$12\% < CAR \leq 13.5\%$
		PK-4	$8\% < CAR \leq 12\%$
		PK-5	$CAR < 8\%$
Asset Quality			
NPF	Non Performing Financing/ Total Financing	PK-1	$NPF \leq 7\%$
		PK-2	$7\% < NPF \leq 10\%$
		PK-3	$10\% < NPF \leq 13\%$
		PK-4	$13\% < NPF \leq 16\%$
		PK-5	$NPF > 16\%$
Profitability			
ROA	Earning Before Tax/ Total Asset	PK-1	$ROA > 1.450\%$
		PK-2	$1.215\% < ROA \leq 1.450\%$
		PK-3	$0.999\% < ROA \leq 1.215\%$
		PK-4	$0.765\% < ROA \leq 0.999\%$
		PK-5	$ROA \leq 0.765\%$
OER	Operating Expenses/ Operating Income	PK-1	$OER \leq 83\%$
		PK-2	$83\% < OER \leq 85\%$
		PK-3	$85\% < OER \leq 87\%$
		PK-4	$87\% < OER \leq 89\%$
		PK-5	$OER > 89\%$
Liquidity			
CR	Cash and Cash Equivalent/ Current Liabilities	PK-1	$CR \geq 6\%$
		PK-2	$5.5\% \leq CR < 6\%$
		PK-3	$5\% \leq CR < 5.5\%$
	Liabilities	PK-4	$4\% \leq CR < 5\%$
		PK-5	$CR \leq 4\%$

RESULT AND DISCUSSION

Capital at Islamic Rural Banks in Central Java

The capital assessment was carried out to evaluate the capital adequacy of the Islamic Banks in Central Java to minimize the impact of risk (Otoritas Jasa Keuangan, 2019). The Capital Adequacy Ratio is the ratio used to measure the adequacy level of the banks' capital. Furthermore, CAR is measured by comparing capital and Risk-Weighted Assets. The following are the results of the CAR measurement of an Islamic bank in Central Java at 2020.

Table 3. Descriptive Statistical of Islamic Rural Banks' CAR

	CAR
Mean	24.91033
Maximum	46.31000
Minimum	4.170000
Std. Dev.	8.803008
Observations	92

Table 3 shows the results of the capital assessment of Islamic Rural Banks in Central Java using the CAR Ratio. The mean or average capital of the Islamic banks in the target area had a CAR value of 24.91 percent. Based on OJK Regulation No.28/ SEOJK.03/2019 concerning the Rating System for the Soundness of Islamic Rural Banks in Central Java is rated as Category 1 in terms of capital, which shows that the banks are in a Very Healthy state. These results indicated that the Islamic Rural Banks in Central Java has adequate capital and is able to absorb the risk of loss. Furthermore, Islamic Rural Banks with the largest CAR value during the 2020 period was the Mitra Harmoni Semarang, which was 46.31 percent.

This study shows that from a total of 23 Islamic Rural Banks, those with ratings from 1 to over 15 percent during the study period were 19. Meanwhile, the other 4 banks showed fluctuations in their capital. These four include Islamic Rural Banks are Khasanah Ummat, Gunung Slamet, Buana Mitra Perwira and Central Syariah Utama. Table 4 outlines all the Islamic Rural Banks whose capital is included in the first rating category.

Table 4. Islamic Rural Banks Rank 1 on Capital

Islamic Rural Banks	Score
Mitra Harmoni Kota Semarang	45 .30
Insan Madani	38 .24
Ikhsanul Amal	36 .17
Sukowati Sragen	32 .89
Bumi Artha Sampang	32 .61
Artha Leksana	31 .09
Bina Amanah Satria	30 .89

Artha Mas Abadi	29 .68
Artha Amanah Ummat	27 .10
Artha Surya Barokah	24 .24
Al Mabror Klaten	22 .43
Harta Insan Karimah Bahari	22 .28
Dana Mulia	21 .29
Saka Dana Mulia	20 .57
Bina Finansia	20 .27
Dharma Kuwera	20 .12
Dana Amanah Surakarta	18 .96
Sur iyah	17 .50
Harta Insan Karimah Surakarta	17 .16

Asset Quality of Islamic Rural Banks in Central Java

The Asset Quality Assessment was conducted to obtain information about the condition of the Islamic Rural Banks assets in Central Java while managing risks arising from fund management. The Non-Performing Financing (NPF) ratio is generally used to calculate how much non-performing financing has been disbursed relative to the total financing (Otoritas Jasa Keuangan, 2019). The following are the results of NPF measurements of the Islamic Banks in Central Java during 2020.

Table 5. Descriptive Statistical of Islamic Rural Banks' NPF

	NPF
Mean	8.285761
Maximum	48.26000
Minimum	0.850000
Std. Dev.	7. 207726
Observations	92

Table 5 shows the results of measuring the asset quality of Islamic Rural Banks in Central Java using the NPF Ratio. As depicted, the mean or average NPF value was 8.28 percent. Based on the OJK regulation on the Rating System for the Soundness Level of Islamic Rural Banks No.28/SEOJK.03/2019, the asset quality is Ranked as 2 or Healthy. The results show that the Islamic Banks in Central Java has productive assets with a high return rate (Otoritas Jasa Keuangan, 2019). Furthermore, the five Islamic banks with the lowest NPF are Islamic Rural Banks Harta Insan Karimah Bahari, Artha Amanah Ummah, Artha Surya Barokah, Bina Amanah Satria, and Harta Insan Karimah Surakarta (which has the lowest NPF at 0.85%). While the bank that had the largest NPF during the year 2020 was the Central Sharia Utama which was 48.26 percent.

This study shows that from a total of 23 rural banks, only 10 were ranked between 1 to 7 during the 2020 Covid-19 Pandemic period from the first to the fourth quarter of the year. Meanwhile, the 14 other banks showed fluctuations in their asset rating quality. Table 6 shows the banks with an asset quality rating of 1.

Table 6. Islamic Rural Banks Rank 1 on Asset Quality

Islamic Rural Banks	Score
Harta Insan Karimah Bahari	1.17
Harta Insan Karimah Surakarta	1.64
Artha Amanah Ummat	3.84
Artha Surya Barokah	4.06
Bina Amanah Satria	5.04
Dana Mulia	5.45
Artha Leksana	5.58
Mitra Harmoni Kota Semarang	5.68
Artha Mas Abadi	5.74
Sukowati Sragen	5.98

Profitability at Islamic Rural Banks in Central Java

The aim of assessing the banks' profitability was to obtain information on the Bank's operational ability as well as its Capital activities. Accordingly, the Operational Efficiency Ratio (OER) and Return on Assets (ROA) are ratios that are used to measure the Profitability of Islamic Rural Banks. The Operational Efficiency Ratio (OER) was used to measure the Banks' operational efficiency. It is measured by comparing Operating Expenses with Operating Income. Meanwhile, Return on Assets (ROA) aims to measure the level of profitability of the Banks on its assets (Otoritas Jasa Keuangan, 2019). Return on Assets (ROA) is measured by comparing profit and tax with the total assets of the bank. The following are the results obtained from measuring the Islamic Rural Bank's profitability in Central Java during 2020.

Table 7. Descriptive Statistical of Islamic Rural Banks' Profitability

	OER	ROA
Mean	94.27 598	1.212174
Maximum	361.3200	31.15000
Minimum	48.73000	- 38.38000
Std. Dev.	46.20286	9.321173
Observations	92	92

Table 7 shows the results of measuring the profitability of Islamic Rural Banks using the OER Ratio. The obtained results show that the mean or average OER value of the rural banks was 94.27 percent. Based on OJK Regulation No.28/SEOJK.03/2019 Rating System for Soundness Level of Islamic Rural Banks falls under the Rank 5 or Unhealthy category. Furthermore, the results show that these banks have very low efficiency which implies that they have high losing potential (Otoritas Jasa Keuangan 2019). The five Islamic banks with the lowest OER include Islamic Rural Banks are Harta Insan Karimah Bahari, Harta Insan Karimah Surakarta, Buana Mitra Perwira, Artha Surya Barokah, and Dana Mulia.

Following this, the mean ROA value obtained was 1.21 percent, which is included in Rank 3. The Islamic rural banks in Central Java, in terms of profitability, are those ranked as being Healthy enough because of their ROA ratio. The five banks with the highest average ROA include Islamic Rural Banks are Gunung Slamet, Harta Insan Karimah Bahari, Harta Insan Karimah Surakarta, Artha Mas Abadi, and Dana Mulia. Islamic Rural Banks with the smallest ROA (-38.38%) was the Khasanah Ummat.

It is observed from this research that out of the 23 Islamic Banks, only 8 had an OER that is ranked 1 or less than 83% in the fourth quarter of 2020, while the other Islamic Banks showed fluctuations in their OER ratings during the same period. Lastly, 10 out of the 23 banks had a ROA with a rating of 1 or more than 1,450%, while that of the other banks fluctuated in ROA ratings. Table 8 shows the Islamic Rural Banks with Rank 1 profitability.

Table 8. Islamic Rural Banks Rank 1 on Profitability

Islamic Rural Banks – OER	Score
Harta Insan Karimah Bahari	51 .27
Harta Insan Karimah Surakarta	64 .63
Buana Mitra Perwira	72 .93
Artha Surya Barokah	73 .70
Dana Mulia	75 .03
Artha Leksana	77 .52
Artha Mas Abadi	78 .68
Sukowati Sragen	80 .15
Islamic Rural Banks – ROA	
Gunung Slamet	15 .91
Harta Insan Karimah Bahari	8 .14
Harta Insan Karimah Surakarta	5 .15
Artha Mas Abadi	3 .37
Dana Mulia	2 .86
Sragen	2 .82
Buana Mitra Perwira	2 .75
Artha Leksana	2 .74
Artha Surya Barokah	2 .69
Bumi Artha Sampang	2 .31

Liquidity of Islamic Rural Banks in Central Java

Liquidity measurement was carried out to obtain information on the Bank's ability to meet short-term obligations and the level of adequacy of its liquidity risk management. Cash Ratio (CR) is a financial ratio that is generally used to measure bank liquidity or the ability of a Islamic Rural Banks to meet its short-term liquidity needs of up to one month. The Cash Ratio (CR) is measured by comparing cash and cash equivalents with current liabilities (Otoritas Jasa Keuangan, 2019). The following are the results of the CR Assessment of Islamic Rural Banks in Central Java during 2020.

Table 9. Descriptive Statistical of Islamic Rural Banks' Liquidity

	CR
Mean	32.62380
Maximum	94.02000
Minimum	8.340000
Std. Dev.	18.28140
Observations	92

Table 9 The obtained mean or average CR value of the Islamic Rural Banks in Central Java was 32.62 percent. Based on the OJK regulation regarding the measurement of the Soundness Level of Islamic Rural Banks No.28/SEOJK.03/2019, the liquidity factor of these banks is included in Rank 1 which means that it is very healthy. The results show that the banks has a very low potential for short-term liquidity problems (Otoritas Jasa Keuangan 2019). Furthermore, five Islamic Banks with the highest CR include Islamic Rural Banks are Sukowati Sragen, Harta Insan Karimah Surakarta, Dana Amanah Surakarta, Artha Leksana, and Bina Amanah Satria. The Islamic Rural Banks with the largest and smallest (8.34%) CR during 2020 was Sukowati Sragen and Central Syariah Utama in the third quarter of the year 2020. In addition, all 23 Islamic Rural Banks observed in this research were ranked 1 or more than 6% during the four quarters of 2020. Table 10 shows the Islamic Rural Banks with Liquidity Rank 1.

Table 10. Islamic Rural Banks Rank 1 on Liquidity

Islamic Rural Banks – CR	Score
Sukowati Sragen	74.25
Harta Insan Karimah Surakarta	61.66
Dana Amanah Surakarta	61.12
Artha Leksana	45.42
Bina Amanah Satria	43.99
Buana Mitra Perwira	41.94
Artha Surya Barokah	41.93
Mitra Harmoni Kota Semarang	37.82
Suriyah	35.72

Al Maburr Klaten	32.34
Bumi Artha Sampang	29.82
Artha Amanah Ummat	29.33
Ikhsanul Amal	25.93
Harta Insan Karimah Bahari	22.74
Saka Dana Mulia	22.32
Khasanah Ummat	22.26
Artha Mas Abadi	19.09
Gunung Slamet	18.36
Bina Finansia	16.16
Dana Mulia	15.86
Dharma Kuwera	15.57
Central Syariah Utama	13.49
Insan Madani	10.63

Based on the four aspects of measurement assessed in this study which include capital, asset quality, profitability, and liquidity, 7 banks were obtained from a total of 23 Islamic Rural Banks ranked as 1 or that maintained a very healthy condition during the Covid-19 pandemic for the first, second, third, and fourth quarters of 2020. The seven Islamic Rural Banks are Artha Mas Abadi, Artha Leksana, Sukowati Sragen, Artha Surya Barokah, Dana Mulia, Harta Insan Karimah Bahari, and Harta Insan Karimah Surakarta.

Comparison of Financial Performance of the Islamic Rural Banks before and during the Pandemic

The comparison results of the Islamic Banks' financial performance in Central Java before and during the pandemic show that their various Capital during and before the crisis was 24.91 and 21.58 percent respectively, especially the Bank's Capital during the pandemic was higher. Capital can be used to anticipate the impact of emerging risks. Thus, the Covid-19 pandemic requires the Bank to provide more capital than during normal conditions (Fahmi, 2014; Arifin, 2006; Otoritas Jasa Keuangan, 2019).

Furthermore, the asset quality of the Islamic Rural Banks during and before the pandemic was 8.29 and 7.36 percent respectively, also showing that the asset quality was higher during the crisis period. Asset quality assessment aims to assess the condition of bank assets and anticipate the risk of default from financing, for example, risks resulting from non-payment of loans or investments that have been given by the bank (Kasmir, 2008; Muhammad, 2020). According to Umam (2016) the higher the NPF ratio, the worse the quality of Islamic bank financing. Thus, the Covid-19 pandemic condition causes a greater financing risk than normal economic conditions.

Subsequently, the Islamic Banks' profitability was assessed using Return on Assets ratio. The results showed that the banks' profitability before and during the pandemic was 2.13 and 1.21 percent respectively. This indicated that the banks profitability was higher, before the crisis. According to Ihsan (2013), profitability simply refers to a banks' ability to increase its profits. A healthy bank is one whose profitability continues to increase. Furthermore, Return on Assets ratio can be used to provide an overview of the bank's ability to earn profits (Syaifullah, Anwari, & Akmal, 2020). The Covid-19 pandemic made it difficult for Banks to make profits than normal economic conditions. Also, it was observed that the Operational Efficiency Ratio (OER) during the pandemic was higher than before. The values were 94.28 and 85.26 percent respectively (Otoritas Jasa Keuangan, 2019). The Operational Efficiency Ratio is one of the ratios for measuring profitability and it is used to evaluate the banks' level of efficiency in terms of its operations. Hence, the Covid-19 pandemic caused the banks' efficiency level to decrease compared to conditions before the pandemic.

Lastly, the liquidity. During the pandemic, the liquidity was observed higher than before and the values were 24.91 and 21.59% respectively. According to Otoritas Jasa Keuangan (2019), Cash Ratio (CR) is one of the ratios commonly used to measure the ability of a Bank's liquid assets to meet its short-term liquidity needs. Therefore, during the Covid-19 pandemic, banks were forced to provide more cash and cash equivalent balances than under normal conditions.

CONCLUSION

The Covid-19 pandemic has had a major impact on Islamic Rural Banks in Central Java. The performance of these declined significantly during the pandemic and the quality of bank assets also declined due to the increase in non-performing financing. The uncertainty of the economy made it difficult for the business sector to make profits, some businesses even had to close up due to economic instability. The business sector was drastically affected by the Covid-19 pandemic.

Furthermore, there was an increasing trend in banks capital. Banks keep larger reserves because adequate capital helps institutions to overcome potential risks, especially during a crisis. They also had difficulty obtaining profits as indicated by the decline in the banks' operability and efficiency. In addition, banks' limited the distribution of financing, which is followed by an increase in banking liquidity during the Covid-19 pandemic.

The results of this study show that the Covid-19 pandemic caused serious economic instability and played a major role in the declining banking performance. The performance of Islamic Rural Banks generally declined. However, seven banks were able to maintain a very healthy banking condition. This indicates that they can survive with proper management. This research is limited to the assessment of only Islamic Rural Banks, further research can be carried out on other financial institutions and further analysis of the risks faced by banks during the Covid-19 pandemic can be conducted.

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