

## THE INFLUENCE OF INTERNAL AND EXTERNAL FACTORS ON THE PROFITABILITY OF STATE-OWNED BANKS IN INDONESIA FOR THE 2009-2019 PERIOD

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### Abstract

This research was conducted with the aim of estimating the influence of internal factors in the form of Capital Adequacy Ratio (CAR), Non-Performing Loan (NPL), Operating Costs/Operating Income (BOPO), and Loan to Deposit Ratio (LDR) as well as external factors in the form of inflation, interest rate, exchange rate, and gross domestic product (GDP) on the profitability of BUMN banks in 2009-2019 using a measuring instrument in the form of Return on Asset (ROA). This study uses data obtained from the annual financial reports of each BUMN banks and from Bank Indonesia website. The data analysis technique used is panel data regression and hypothesis testing in the form of F test - Global dan t test - Parsial using a significance level of 5%. In addition, the Wald test was also carried out to see which independent variables could be eliminated in this study. The result shows that LDR has a positive effect on profitability. Meanwhile NPL, BOPO, and exchange rate have a negative effect on profitability.

**Keywords:** *Profitability, ROA, CAR, NPL, BOPO, LDR, Inflation, Interest Rate, Exchange Rate, GDP.*

### INTRODUCTION

The unstable situation occurred in the performance of banks in Indonesia, where during the economic crisis that hit the United States and the economic recovery of the European region, it did not have a significant impact on bank performance. However, when Indonesia experienced a slowdown in economic growth in 2013 from 6.49% to 6.23%, this had an impact on banking performance.

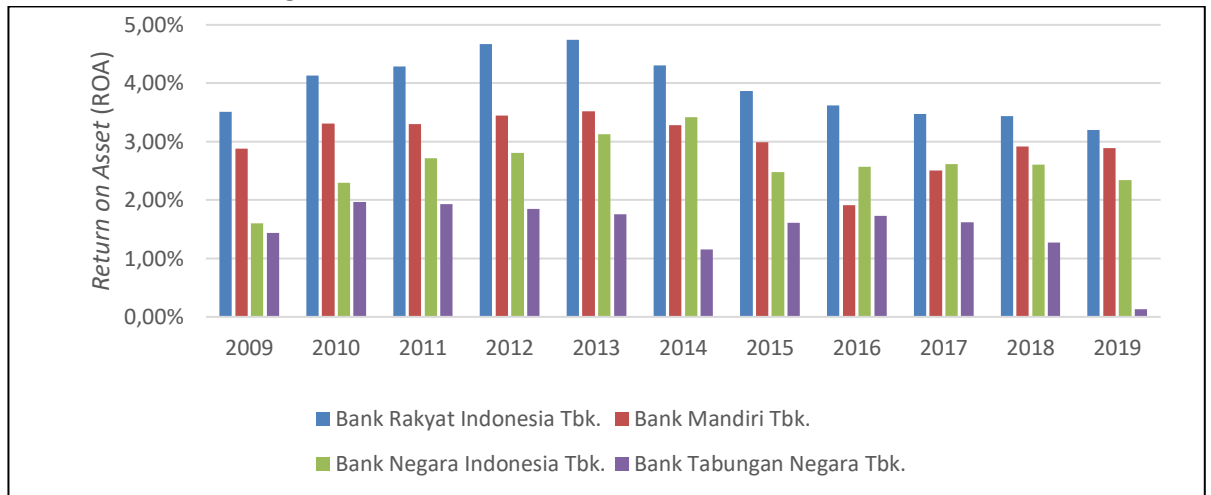
In 2013 when economic growth fell, the cost of writing off loans to all banks increased to 29.5%, which means that as the cost of credit write-offs increased, credit quality also worsened.<sup>1</sup> In addition, the portion of assets owned by state-owned banks increased by 35% or more to third party funds, credit, and the number of national banking assets, this shows that state-owned banks are the dominant contributors to economic growth.<sup>2</sup> However,

<sup>1</sup> Yanita Petriella, "Banking Industry Performance Is Declining, this is the Cause", <https://finansial.bisnis.com/read/20150310/90/410177/kinerja-industri-perbankan-menurun-ini-penyebabnya> (accessed July 10, 2020, 3:00 p.m.)

<sup>2</sup> GRC, "Contribution State-owned Banks Reach 35% in Banking", <https://www.beritasatu.com/ekonomi/137371-kontribusi-bank-bumn-capai-35-di-perbankan> (accessed June 10, 2020, 8:00 p.m.)

starting in 2014, state-owned banks experienced fluctuations in the value of ROA greater than other banks.

**Figure 1** Diagram of banking performance level return on asset (ROA) ratio in 4 state-owned banks registered with OJK in 2009-2019



Source: Annual Financial Statements of each Bank

From Gambar 1, it can be seen that there is a movement of fluctuations experienced by bank employees in the form of ups and downs in the return on assets (ROA) ratio. Bank Rakyat Indonesia Tbk found a decrease in ROA in 2014 to 2019 with an ROA of 3.20%, in contrast to Bank Negara Indonesia Tbk which experienced a decrease in ROA only in 2015, 2018 and 2019. Not only that, Bank Mandiri Tbk and Bank Tabungan Negara Tbk can be seen that the ROA value experienced an ups and downs in 2009 to 2019.

The weakening of the economy in 2013 could encourage certain parties to conduct assessments on the health of banks. Investors are parties who have a need for the health condition of a bank because if the health of a bank is not good, then investors will not want to invest their funds in a bank with consideration of a small security guarantee for the funds invested in the bank.

The factors that can affect profitability consist of internal factors and external factors. Internal factors consist of *Capital Adequacy Ratio (CAR)*, *Non-Performing Loan (NPL)*, *Operating Costs/Operating Income (BOPO)*, *Loan to Deposit Ratio (LDR)*, and external factors consist of *Inflation*, *Interest Rate A, T Value* and *Gross Domestic Product (GDP)*. Of the two factors, there have been several studies that have tested their effect on profitability, but the results of the study still have quite a lot of differences, because of differences from the results of each study, the researcher will examine more deeply the influence of internal factors and external factors on dependent variables in the form of profitability related to the slowdown in economic growth in 2009 -2019.

## LITERATURE REVIEW

### Profitability

A bank is a financial institution that collects funds from the public in the form of deposits and distributes funds to the public in the form of credit and/or other forms in order to improve the living standards of the entire community (Darmawi, 2011). Banks should be companies, where in carrying out their duties, they will still prioritize the profit aspect when carrying out their activities and of course in accordance with applicable regulations in the banking industry. The income earned by the bank can be in the form of credit loans, income from spot and derivative transactions, and *fee-based income*.

Profitability is an aspect that helps companies to measure the assessment of a bank's ability to make a profit, whether related to sales, assets, or profits for personal capital. This profitability analysis is very important for investors who make long-term investments, because investors can predict the potential profit in the form of dividends that he will receive (Sartono, 2012).

*Return on Asset (ROA)* is a measuring tool to see the bank's ability to make a profit by handling the number of assets owned. Investors will invest in a company when the ROA has a high value, because the high ROA indicates that the company has the ability to make a profit (Fahmi, 2013). Bank Indonesia sets a standard for health values with the predicate that banks will be very healthy if the ROA value is more than 1.5%. An ROA value that is below 1.5% or smaller indicates that banks are less productive and efficient in utilizing assets to make a profit.

### Capital Adequacy Ratio (CAR)

*Capital Adequacy Ratio (CAR)* is a measuring instrument that provides information about the ability of banks to maintain the adequacy of a capital and the ability of its management to identify, measure, monitor and control at every risk that has a major effect on the bank's capital (Mudrajad & Suhardjono, 2011). *Capital Adequacy Ratio (CAR)* is a measuring tool that can determine whether or not it is able to reduce losses in the form of a decrease in assets due to risky assets and the adequacy of capital owned (Dendawijaya, 2009). Bank Indonesia sets a standard for health values with the title that banks will be very healthy if the CAR value is more than 12%. A CAR value that is below 12% or smaller indicates that the bank is unable to operate its activities efficiently.

The condition of the bank is said to be good if it has a high CAR. The results showed that CAR had a positive effect on profitability as well as the results of the research conducted (Unisri, 2020) and (Fadjar, 2013). Whereas other studies show CAR has a negative effect on profitability (Pinasti, 2018) and has no effect on profitability (Mawardi, 2005) and (Natalia, 2015).

**H<sub>1</sub>: There is a positive effect of CAR on profitability.**

### Non-Performing Loan (NPL)

*Non-Performing Loan (NPL)* is a measuring tool that has the use of showing how much credit risk a bank has. *Non-performing loans (NPLs)* are measuring instruments that show

that banks are able or not to handle non-performing loans on loans disbursed to the public. Non-performing loans arise due to the inefficiency of the payment of the principal of the loan along with interest, so as to reduce the performance of the bank and result in the inefficiency of a bank(Darmawi, 2011).

Bank Indonesia Circular Letter No.13/24/DPNP of 2011 stipulates that the standard of health value with the predicate of a bank will be very healthy if the NPL value is less than 2%. An NPL value that is above 2% or greater indicates that there will be an increase in credit risk owned by the bank.

The high NPL indicates the poor quality of bank-owned loans, in other words, the number of non-performing loans is increasing. The results showed that NPLs negatively affect profitability as well as the results of the studies carried out(Fadjar, 2013) and (Mawardi, 2005). Meanwhile, other studies have shown that NPLs have a positive effect on profitability(Pinasti, 2018) and have no effect on profitability(Natalia, 2015).

**H<sub>2</sub>: There is a negative influence of NPLs on profitability.**

### **Operating Income Operating Expenses (BOPO)**

Operating Income Operating Costs (BOPO) is a measuring tool to show the company's ability to manage its operations. BOPO is a ratio that functions in assessing the level of efficiency and ability of banks when carrying out production activities. A small BOPO indicates that the operational costs that have been incurred by the bank are efficient. The purpose of operating efficiency is to be able to know whether the bank is not able to carry out operations related to whether a bank principal has been carried out correctly and see that all production factors owned by a bank have been used appropriately and successfully(Mawardi, 2005).

Bank Indonesia Circular Letter No.13/24/DPNP of 2011 Bank Indonesia sets the standard for health value with the predicate that the bank will be very healthy if the BOPO value is between 50% and 75%. The value of BOPO which is above 75% or greater indicates that banks are less able to carry out their production activities and have an impact on the size of the bank's income.

The results showed that BOPO had a negative effect on profitability as well as the results of the research conducted(Pinasti, 2018) and (Natalia, 2015). Meanwhile, other studies have shown that BOPO has a positive effect on profitability(Margaretha & Letty, 2017).

**H<sub>3</sub>: There is a negative influence of BOPO on profitability.**

### **Loan to Deposit Ratio (LDR)**

*Loan to Deposit Ratio* (LDR) is a measuring instrument that assesses the bank's ability to return funds to customers from invested funds in the form of debt received by other debtors(Martono, 2002). The high LDR indicates that the profit obtained by a bank will increase (assuming the credit disbursed by the bank is effective) followed by a bank's performance. (Hutagalung, Djumahir, & Ratnawati, 2013)

Bank Indonesia sets the standard for health values with the predicate that banks will be very healthy if the LDR value is less than 75%. The value of an LDR that is above 75% or greater indicates that the bank is less able to meet its debts to customers. However, an overly low LDR is also bad because it can signal idle bank funds.

*Loan to Deposit Ratio* (LDR) is a ratio that shows the bank's ability to pay off customer withdrawals using the loan that has been given as a source of debt. (Mulyono, 2001) The results showed that LDR had a positive effect on profitability as well as the results of the research conducted (Unisri, 2020). Meanwhile, other studies show that LDR has a negative effect on profitability (Fadjar, 2013) and has no effect on profitability (Natalia, 2015).

**H<sub>4</sub>: There is a positive influence of LDR on profitability.**

### **Inflation**

Inflation is a continuous increase in commodity prices of a general nature (Sukirno, 2011). Inflation is also a situation where purchasing power is getting weaker, and is followed by a decrease in the real value of a country's currency (Abdullah, 2010). Inflation is an increase in the price of commodities and services in the display period which can cause people's purchasing power to decrease. The impact that inflation has on banks depends on rising interest rates and their operating costs. The results showed that inflation had a negative effect on profitability as the results of the research conducted (Dwijayanthy & Naomi, 2009) and (Ally, 2014). Meanwhile, other studies show that inflation has a positive effect on profitability (Athanasoglou, Brissimis, & Delis, 2005) and has no effect on profitability (Zulifah & Susilowibowo, 2014).

**H<sub>5</sub>: There is a negative influence of inflation on profitability.**

### **Interest Rate Aprofit**

Thereference rate is an *interest rate* announced to the public by Bank Indonesia for a certain period that reflects the monetary policy stance. With the aim of strengthening the operating activity framework, Bank Indonesia has set the BI 7-Day (Reverse) Repo Rate to be the new benchmark interest rate policy to replace the BI Rate in 19 A.K. 2016. Interest rates can have an impact on banking developments if interest rates experience an unreasonable increase. However, with the increase in interest rates can increase the interest in savings that people have so that this can also increase the amount of funds obtained by banks. (Pohan, 2008) The results showed that the benchmark interest rate negatively affects profitability as the results of the research conducted (Sahara, 2013) in the study (Cahyani, 2018) conducted. Meanwhile, other studies have shown that the benchmark interest rate has a positive effect on profitability (Kalengkongan, 2013), (Ally, 2014) and has no effect on profitability (Dwijayanthy & Naomi, 2009), (Staikouras & Wood, 2004).

**H<sub>6</sub>: There is a negative influence of thereference interest rate on profitability.**

### **Tvalue ukar**

The exchange rate is *the value* of a currency relative to a foreign currency. The exchange rate is important in taking shopping provisions, because it can change prices from

various countries into similar languages(Ekananda, 2014). The exchange rate can affect a bank, because it is related to financing activities and re-disbursements in the form of rupiah and foreign exchange, so that the income earned depends on the rise and fall of the exchange rate.

The results showed that the exchange rate had a negative effect on profitability as well as the results of the research conducted(Dwijayanthi & Naomi, 2009) and . (Swandayani & Kusumaningias, 2012)While other studies show the exchange rate has a positive effect on profitability(Fadjar, 2013) , (Hasibuan, 2014).

**H7: There is a negative influence of the exchange rate on profitability.**

**Ruto Gross Domestic Product (GDP)**

Gross domestic product is the market price of the overall final goods and services produced by a country through factors of production over a certain period of time (Case & Fair, 2007). GDP is one of the indicators that can be used to measure the growth rate of a country's economy. In addition, GDP can also show economic growth comparisons between countries, provide information related to the economic structure of a country, and can be the basis for formulating government policies.

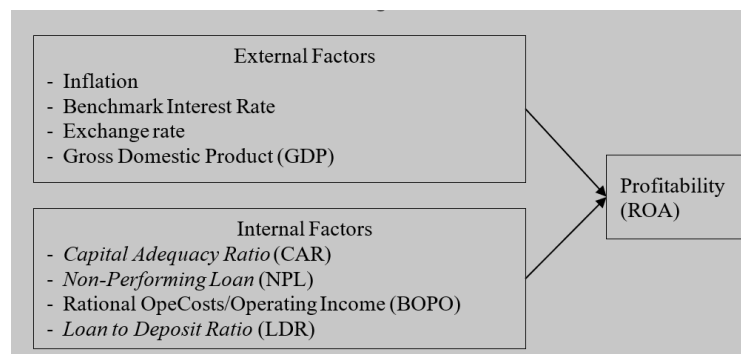
Gross domestic product is the market price of the amount of output in a country that can determine the size of the economic growth rate (Case & Fair, 2007). The rise in the value of GDP may indicate that the income that people have in a country is also increasing. With the increase in income, the opportunity for sources of funds obtained by banks will also increase related to savings made by customers, be it in the form of savings, time deposits, or current accounts. The results showed that GDP has a positive effect on profitability as well as the results of the research conducted(Ally, 2014) , (Sahara, 2013), and (Athanasoglou, Brissimis, & Delis, 2005). Meanwhile, other studies show that GDP has a negative effect on profitability(February & Irawan, 2017) and has no effect on profitability(Cahyani, 2018).

**H8: There is a positive effect of GDP on profitability**

**Frame of Mind**

The relationship between dependent variables and independent variables can be expressed in the framework of thought as follows:

**Draw 2**  
**Frame of Mind**



## RESEARCH METHODS

This research uses a quantitative approach and a method in the form of panel data regression analysis. The purpose of the study was to test the influence of independent variables in the form of *capital adequacy ratio* (CAR), *non-performing loans* (NPLs), *operational costs /perasional income* (BOPO), *loan to deposit ratio* (LDR), inflation, benchmark interest rates, exchange rates and gross domestic product (GDP) on dependent variables, namely *return on assets*. (ROA).

The data used are secondary data in the form of data on inflation rates, benchmark interest rates, exchange rates, and gross domestic product (GDP) sourced from BI for the 2009-2019 period, as well as financial statements for the 2009-2019 period published by state-owned banks in Indonesia and downloaded through the *websites* of each bank .

### Variable Operational Definition

Variable		Operational definition
Internal Factors		
Profitability → <i>Return on Asset</i>	ROA	$ROA = \frac{\text{Laba Sebelum Pajak}}{\text{Rata - Rata Total Assets}} \times 100\%$
Capital → <i>Capital Adequacy Ratio</i>	CAR	$CAR = \frac{\text{modal inti (Tier 1)}}{\text{aktiva tertimbang menurut resiko}} \times 100\%$
Credit Risk → <i>Non- Performing Loan</i>	NPL	$NPL = \frac{\text{Kredit Bermasalah - CKPN Kredit}}{\text{Total Kredit}} \times 100\%$ Based on BI Circular Letter (SE) No. 13/24/DPNP dated October 25, 2011 NPL is useful in measuring the level of credit owned by non-bank third parties to see whether the credit is included in the collectibility group ibag 3, 4, and 5
Operating Efficiency → /Operating Income	BOPO	$BOPO = \frac{\text{Total beban operasional}}{\text{Total pendapatan operasional}} \times 100\%$
→ <i>Liquidity Loan to Deposit Ratio</i>	LDR	$LDR = \frac{\text{Kredit}}{\text{Dana Pihak Ketiga}} \times 100\%$
External factors		
Inflation	INF	inflation value in the form of an annual inflation rate based on the Consument Price Index
Benchmark Interest Rate	SBA	BI Rate used from 2009-2015 BI 7-Day Repo Rate used from 2016-2019
Exchange rate	NT	The USD/IDR exchange rate is in the form of an average middle rate for 1 year

Gross Domestic Product	PDB	the value of GDP by business on the basis of constant prices 2000 for 2009-2012 and constant prices 2010 for 2013-2019.
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### Analysis Methods

The analysis method used in this study is the panel data regression method. The panel data regression method has 3 models, namely *the Common Effect Model*, *the Fixed Effect Model*, and *the Random Effect Model*. The regression of panel data is formulated as follows:

$$ROA_{it} = \alpha + \beta_{1it}CAR + \beta_{2it}NPL + \beta_{3it}BOPO + \beta_{4it}LDR + \beta_{5it}INF + \beta_{6it}INT + \beta_{7it}KURS + \beta_{8it}PDB + \varepsilon_{it}$$

Information:

ROA<sub>it</sub> = Bound variable

a = Konstanta

b<sub>1</sub> – b<sub>8</sub> = Koefisien regresi

X<sub>1</sub> – X<sub>8</sub> = Free variables

E = Error

i = Number of companies

t = Number of periods

## ANALYSIS AND DISCUSSION

### Model Selection

#### Chow test

The *chow test* was carried out to compare whether the model used in this study was a *common effect* model or a *fixed effect* model. In Tabel 1 it can be seen that the value of *the Probability Cross-section Chi-square* is 0.0000 < 5% which indicates H<sub>0</sub> is rejected and means that the *fixed effect* model is the right model to use.

In Tabel 2 it can be seen that the values of *Probability F-Statistic* for the variables CAR, INF, and INT which are 0.3608; 0.6177; and 0.2541 > 5% respectively indicating H<sub>0</sub> are accepted and that means they are accepted and that means CAR, INF, and INT variables can be omitted in this study. Meanwhile, for GDP because *the value* has a negative direction or is contrary to the existing theory, the PDB variable will also be eliminated from this study.

**Table 1 Chow Test Results**

Effects Test	Statistic	Probability	Conclusion
Cross-section F	106,545458	0,0000	Significant
Cross-section Chi-square	105,461915	0,0000	

Source: Eviews 9 data processing results



**Table 2 Wald Estimation and Test Results**

Variable	Coefficient	F-statistik	Prob. F-statistik	Conclusion
CAR	-0,012526	0,859710	0,3608	Insignificant
NPL	-0,215175	7,429231	0,0103	Significant
BOPO	-0,073863	117,2513	0,0000	Significant
LDR	0,015395	11,06138	0,0022	Significant
INF	-0,006778	0,254079	0,6177	Insignificant
INT	0,032534	1,348426	0,2541	Insignificant
COURSE	-0,000130	25,75295	0,0000	Significant
PDB	-0,133461	4,672511	0,0382	Insignificant

Source: Data processing results

### Discussion

At Tabel 3 it can be seen that the probability value of t-statistics shows that the independent variables of NPL, BOPO, LDR, and KURS have an influence on ROA. From the *Adjusted R-squared* column, it can be seen that the resulting value is 0.978615 or 97.86%. This shows that the variation of the dependent variable in the form of ROA can be explained by the variation of independent variables, namely NPL, BOPO, LDR, and exchange rate of 97.86%. While the remaining 2.14% is a variation of other independent variables that can affect ROA but does not fall into this regression equation.

**Table 3 Results of Panel Data Regression Estimation with Fixed Effect Model**

Variabthe	Coefficient	Std. Error	t - Statistik	Prob.	Conclusion
C	8,187184	0,610706	13,40610	0,0000	
NPL	-0,266630	0,080354	3,318185	0,0021	Significant
BOPO	-0,067232	0,006615	10,16433	0,0000	Significant
LDR	0,012639	0,004954	2,551388	0,0151	Significant
COURSE	-0,000110	1.85E-05	5,982086	0,0000	Significant
Adjusted R-squared				0,978615	
F-statistic				282,1132	
Prob. F-statistic				0,000000	

Source: Eviews 9 data processing results

### Effect of Non-Performing Loan (NPL) on Profitability

In this study, NPLs negatively affected profitability. So the hypothesis stating that NPLs have a negative influence on bank profitability is acceptable. If the value of NPLs is

high, the bank's profitability will decrease. *Non-Performing Loan* (NPL) is one of the ratios that describes how much risk a bank has related to the large amount of credit given to customers. If the customer is unable to return the credit received, the bank's financial flow will be disrupted and the amount of profit earned by the bank will also decrease.

The result obtained in this study is that the number of non-performing loans that banks have can affect the receipts obtained by banks. The greater the number of non-performing loans than the total loans owned by the bank, the worse the bank's financial performance. The results of this study are in line with the research results of (Fadjar, 2013), (Hutagalung, Djumahir, & Ratnawati, 2013), (Ally, 2014), (Unisri, 2020), (Mawardi, 2005), (Subandi & Ghozali, 2013), and (Purnomo, Sriwidodo, & Wibowo, 2018).

### **Effect of Operating Costs/Operating Income (BOPO) on Profitability**

In this study, BOPO negatively affected the profitability. Shingga hipotesa stating that BOPO has a negative influence on the profitability of banks is acceptable. If the value of BOPO is high, the bank's profitability will decrease.

Operating Costs/Operating Income (BOPO) is one of the ratios that can see how efficient banks are in managing their operational costs. A good bank is a bank that can reduce operating costs and increase operating income, so it can be said that the bank's income level is affected by the bank's efficiency level.

The result obtained in this study is that the amount of bank operating costs can affect the amount of profit that the bank receives. The greater the amount of operating costs than the total operating income owned by the bank, the worse the bank's financial performance. The results of this study are in line with the research results. (Hutagalung, Djumahir, & Ratnawati, 2013), (Pinasti, 2018), (Unisri, 2020), (Mawardi, 2005), (Natalia, 2015), (Subandi & Ghozali, 2013), (Zulifiah & Susilowibowo, 2014), (Purnomo, Sriwidodo, & Wibowo, 2018), (Wibowo & Syaichu, 2013)

### **Effect of Loan to Deposit Ratio (LDR) on Profitability**

In this study, LDR has a significant value of 0.0151 less than 0.05 and a coefficient value of 0.012639 yang can be interpreted that LDR has a positive effect on profitability. So that the hipotesa stating that LDR has a positive influence on the profitability of banks is acceptable. From the coefficient value, it can be seen that every increase in LDR of 1 unit m will result in an increase in ROA of 0.012639 units. Thus, the higher the value of the LDR, the profitability of the us bank will increase.

*Loan to Deposit Ratio* (LDR) is a ratio that can assess how *liquid* the funds owned by the bank are. The bank will be said to be healthy if the bank's LDR ratio is less than 75% and is able to return the funds that the customer wants to withdraw. The high ability of banks to return funds to customers can reduce the possibility of liquidity risks and an increase in bank profits.

The result obtained in this study is that a high LDR ratio may indicate that the bank's financial performance is good. However, a ratio that is too high can also be considered unhealthy because the funds disbursed in the form of credit are too much, if the credit return

made by the customer does not have obstacles, it can benefit the bank, but if there are obstacles, it will be very detrimental to the bank. Not only that, the LDR ratio that is too small also cannot be said to be healthy because it can be considered that the funds obtained by the bank are not managed properly or there are *idle* funds. So that a good LDR ratio is a ratio that has a value that is not too small and not too high. The results of this study are in line with the research results. (Fadjar, 2013)(Hutagalung, Djumahir, & Ratnawati, 2013)(Pinasti, 2018)(Subandi & Ghozali, 2013)(Purnomo, Sriwidodo, & Wibowo, 2018)

### **The Effect of Exchange Rate on Profitability**

In this study, the exchange rate has a significant value of 0.0000 smaller than 0.05 and a coefficient value of -0.000110 which can be interpreted to mean that the exchange rate has a negative effect on profitabilitas. So hi potesa stating that the exchange rate has a negative influence on the profitability of the bank is acceptable. From the value of the coefficient, it can be seen that every increase in the exchange rate of 1 unit will result in a decrease in ROA of 0.000110 units. With the higher the exchange rate of a currency, the bank's profitability will decrease.

The result obtained in this study is that the high rupiah exchange rate can reduce the financial performance of banks. So that if the currency exchange rate appreciates or depreciates, it will have an impact on bank receipts. The results of this study are in line with the results of the study of and (Dwijayanthi & Naomi, 2009)(Swandayani & Kusumaningtias, 2012) .

### **CONCLUSION**

Based on the results of the data study, the conclusions of this study are *Non-Performing Loan* (NPL) and Operating Costs / Operating Income (BOPO) , Exchange Rate has a negative influence on profitability. *The Loan to Deposit Ratio* (LDR) has a positive and significant influence on profitability. Meanwhile, the variables CAR, Inflation, Acusn Interest Rate, and GDP have no effect on banking profitability.

This research still has many weaknesses, such as there are still other actors who are not included in the study, only using one of the measuring tools in profitability, namely the *return on asset* (ROA) ratio and has a small number of samples, so it is hoped that the next research can add other factors that can affect the profitability of banks, can increase the number of dependent variables or the number of ratios used as a measure of profitability and increase the number of samples studied so that the research results obtained can better describe the impact.

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