



Announcement Of Reduction In BI7DRR Interest Rate For 2019 To 2021 On Abnormal Return And Cumulative Abnormal Return Of Indonesian Banking Share

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ARTICLE INFO

Keywords:

Event Study,
BI7DRR Interest Rate
Reduction,
Abnormal Return,
Cumulative Abnormal Return

ABSTRACT

This study aims to determine the significant positive abnormal return on Indonesian banking stocks during the announcement of the BI7DRR interest rate cut, to determine the difference between average abnormal returns and cumulative abnormal returns in Indonesian banking stocks before and after the announcement of the BI7DRR interest rate cut in 2019 to 2021. The study This is an event study of 10 announcement dates with an event period of 12 days, namely -5, event date, +5. The sample used is 22 banking companies selected using purposive sampling technique. This study used One Sample t-Test, Paired Samples t-Test, Wilcoxon One Sample and Wilcoxon Paired Samples. The results show that firstly, there was a significant positive abnormal return in Indonesian banking stocks when the announcement of the BI7DRR interest rate cut on 17-18 July 2019 (2nd event date) had Event Study, BI7DRR Interest Rate Reduction, *Abnormal Return*, Cumulative Abnormal Return a significant value of 0.006 or 0.6%, 19-20 February 2020 (event date). 1) significant value 0.012 or 1.2%, June 17-18 2020 (2nd event date) significant value 0.014 or 1.4% and July 15-16 2020 (2nd event date) significant value 0.016 or 1.6%. Second, there was no abnormal return on Indonesian banking stocks which was significantly positive when the BI7DRR interest rate cut was announced on 21-22 August 2019, 18-19 September 2019, 23-24 October 2019, 18-19 March 2020, 18-19 November 2020 and 17-18 February 2021. Third, there are differences before and after the announcement of the BI7DRR interest rate cut by showing the results of significant average abnormal returns & cumulative abnormal returns on 18-19 September 2019 a significant value of 0.012 or 1.2%, 19-20 February 2020 significant value is 0.0001 or 0.01% and on 17-18 February 2021 the significant value is 0.013 or 1.3%. Fourth, there is no difference in average abnormal returns & cumulative abnormal returns before and after the announcement of BI7DRR Interest Rate reduction on 17-18 July 2019 significant value of 0.069 or 6.9%, 21-22 August 2019 significant value of 0.115 or 11.5%, 23-24 October 2019 significant value 0.685 or 68.5%, March 18-19 2020 significant value 0.372 or 37.2%, June 17-18 2020 significant value 0.390 or 39%, July 15-16 2020 significant value 0.091 or 9.1%, and 18-19 November 2020 significant value 0.610 or 61%.

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1. Introduction

The global crisis that occurred in 2019 reduced global economic growth. Among them, the tensions in trade relations between the United States and China then spread to Japan, France, Germany, Mexico, Australia, India, Brazil and Argentina. Discussions on Brexit, political unrest and economic reform in Lebanon, Algeria, Mexico and Brazil. Prolonged demonstrations and riots in Hong Kong, Iran, Chile and Iraq. Coupled with the Corona Virus Disease 2019 (Covid-19) Pandemic that occurred in 2020 to 2021, first discovered in the city of Wuhan (China) it spread quickly to all countries including Indonesia and then caused health, economic and financial problems.

Before the Covid-19 pandemic hit Indonesia, the national economy is still in good condition and prospective for investment. Nugroho (2019) said that the 2019 Composite Stock Price Index (JCI) was better than 2018. The previous year, the JCI recorded a negative return of -2.53%. The JCI in early January 2019 touched 6,300, this is a good and interesting achievement for Indonesia, economic growth is at the level of five to five and a half percent. After the virus was discovered in early March 2020, the JCI trend declined to below the 4,000 level. This, of course, cannot be separated from investor sentiment, which saw that the Indonesian government at that time was not serious in dealing with Covid-19, so that when the health crisis occurred and those sentiments existed, investors preferred to withdraw their funds from the capital market. This causes the stock price to decline not only in the financial aspect of the company, but also in the real and fundamental aspects are also affected. Naturally, the performance is not as good as before the pandemic.

Stock transactions in the capital market are strongly influenced by information received by investors. Investors can think rationally about making decisions to minimize risk (Sayudha & Rasmini, 2021). Current, precise, correct and relevant information received by market participants and translated into signals for investment decisions (Candra, 2021). Investors' decisions are indicated by the action of buying and selling shares reflected by changes in share prices. Fluctuating stock prices have an impact on the returns received. According to Lestari (2014) This issue will be answered through an event study.

In order to deal with the slowdown in Indonesia's economic growth due to the global or national crisis, Bank Indonesia (BI) responded by easing monetary policy, one of which was by lowering the Bank Indonesia 7-Day Reverse Repo Rate (BI7DRR) interest rate starting from July 2019 to February 2021. BI has lowered the BI7DRR interest rate 10 (ten) times in the last three years recorded from 250 bps to 3.50% and is the lowest level in history (Bank Indonesia, 2021). This decline is a momentum event from the impact of inflation which is below the target of $3.0\% \pm 1\%$ and is the lowest inflation in the last 20 years.

Changes in policies and macroeconomic conditions such as interest rates, inflation and others can affect the price of shares traded in the market (Noya & Trinugroho, 2017). According to Bernanke & Kuttner (2005), a 25 bps reduction in interest rates will result in a 1% increase in the stock index. Sucor Securities Analyst Hendriko Gani (2020) assessing a reduction in interest rates will provide benefits for all sectors. This is because the policy will reduce the company's capital in expanding its business through credit. The financial sector, especially banking, will benefit more because demand in this sector is highly dependent on interest rates. This study uses event study analysis to examine the information content of an event in order to see the market reaction due to the event. If the announcement of the BI7DRR interest rate cut in 2019 to 2021 contains information, the market will react when the information is received by the market. This information is reflected in the share price in question.

Although this is not the first time and it is not new anymore, research on the announcement of BI7DRR interest rate cuts, but researchers found that there is a lack of studies regarding the announcement of BI7DRR interest rate cuts in 2019 to 2021 on abnormal returns and cumulative abnormal returns of Indonesian banking stocks that will be disclosed. by researchers. Researchers believe this will be an interesting area with BI's decision to conduct monetary easing policy as a form of Central Bank effort to restore the Indonesian economy.

Interest rate BI7DRR as an Instrument for Easing Monetary Policy, Monetary policy is an action taken by the Central Bank to influence the money supply and credit in people's economic activities (Arochman & Wijaya, 2013). The objective of monetary policy is to maintain and maintain the

stability of the value of the Rupiah, one of which is reflected in a low and stable inflation rate. Low and stable inflation is a prerequisite for sustainable economic growth in order to provide benefits for improving people's welfare. On the other hand, high and unstable inflation has a negative impact on the socio-economic conditions of the community (Bank Indonesia, 2022).

The reference interest rate set by the Central Bank is a form of the main policy instrument that influences economic activity with the ultimate goal of achieving inflation (Candra, 2021). The process or transmission from the BI Rate decision to the achievement of the inflation target through various channels and requires time (time lag). The interest rate has a very broad influence, so that it can affect the business world in making decisions (Sayudha & Rasmini, 2021). The BI Rate interest rate or since August 19, 2016 named the BI 7-Day Reverse Repo Rate is a factor that is often considered by investors in investing. The fluctuation of the benchmark interest rate can be taken into account as a factor that can affect the market. According to January (2014) An increase in the benchmark interest rate is bad news that causes stock prices to fall. On the other hand, a decrease in interest rates is good news that causes stock demand to increase. When BI announces changes in the BI7DRR interest rate, investors in the market will respond directly or indirectly to this as a signal that provides new information. (Sustainable, 2014).

Signal Theory, Signal theory or signaling theory was introduced by Arkelof in 1970 in (Candra, 2021) that information has value and in a transaction the parties involved have different levels of information. According to Brigham and Houston in (Suganda, 2020) A signal is an action taken by the company to provide clues to investors about how management views the company's prospects.

Event study is a study that studies the market reaction to an event whose information is published as an announcement (Candra, 2021). Hörnfeldt (2015); Olbrys (2021); Chandra (2021); Fama (1991) in Vithessonthi (2013) said that event study is an appropriate approach to examine market efficiency as well as the effect of an event under the assumption of market efficiency. The faster new information is reflected in the price of a security, the more efficient the market will be. Thus, it will be very difficult for investors to consistently obtain above-normal profit levels by conducting trading transactions on the Stock Exchange. If the announcement contains information, it is expected that the market will react when the announcement is received by the market. This reaction can be measured by using returns as the value of price changes or by using abnormal returns. On the other hand, if it does not contain information, it will not provide abnormal returns to the market (Sustainable, 2014).

Efficient Market Theory, The efficient market theory proposed by Fama (1970) in Stephanus (2018) divided into three: Weak Form Market Efficiency, if asset prices fully reflect knowledge from the past, the market is considered efficient in weak form. Half Strong Form Market Efficiency, if the price of a security accurately reflects all published information, including information from the company's financial statements, the market is said to be semi-strong and efficient. Strong Form Market Efficiency, when stock prices accurately represent all available information, including unpublished information, the market is said to be efficient in the strong form.

Abnormal Return and Cumulative Abnormal Return, Abnormal returns or abnormal return is the difference between the actual return or the level of profit (expected return) (Chandra, 2021). Actual return is the return that occurs at time t which is the difference in the current price relative to the previous price. Expected return is the profit expected by an investor in the future against a number of funds that have been invested. (Romdiani & Kurniawan, 2021). Cumulative Abnormal Return (CAR) is the sum of abnormal returns during the event window, usually calculated over a small window, often only a few days (Awalurrudha & Toro, 2015). The market adjusted model is used in this study because it is considered the best estimator for estimating the return of a security, the market index return at that time. By using this model, it is not necessary to use the estimation period to form the estimation model (Nanda & Adrianto, 2019).

Previous Research and Hypotheses, Previous research Olbrys (2021) shows that the decline in interest rates greatly affects the value of the stock, although the consequences vary depending on the event window. Vithessonthi (2013) found that expected, rather than unexpected, changes in interest rates affect stock prices. In research Sayudha & Rasmini (2021) Regarding the market reaction to the announcement of the BI7DRR reduction in the property and banking sectors, the results of the study

show that the two sectors prove that there is no difference between abnormal returns before and after the announcement of the BI7DRR decline. StudyDuncan (2020)found no evidence that the announcement of quantitative easing policy has a statistically significant effect on the cumulative average abnormal return of financial stocks. This impact is also evident in the market in general as demonstrated by the lack of statistically significant cumulative average abnormal returns in any of the event windows of key quantitative easing announcement dates.

H1:There was a significant positive abnormal return of Indonesian Banking Stocks during the announcement of the BI7DRR interest rate cut in 2019 to 2021.

H2:There are average abnormal returns in Indonesian Banking Stocks before and after the announcement of the 2019 to 2021 BI7DRR interest rate cut.

H3:There is a difference in cumulative abnormal returns of Indonesian Banking Stocks before and after the announcement of the BI7DRR interest rate cut in 2019 to 2021

2. Methods

This research is an event study of 10 announcement dates with an event period of 12 days, namely -5 event date +5. The sample used is 22 banking companies selected using purposive sampling technique. This study used One Sample t-Test, Paired Samples t-Test, Wilcoxon One Sample and Wilcoxon Paired Samples.

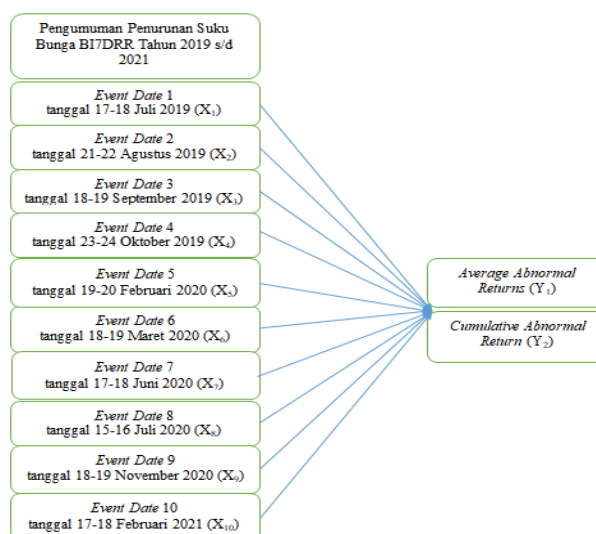
Operasionalisasi Variabel

No.	Keterangan	Pengukuran	Referensi	Skala
Variabel Independen				
1	X: Pengumuman Penurunan Suku Bunga BI7DRR Tahun 2019 s/d 2021	1. Tanggal 17-18 Juli 2019 2. Tanggal 21-22 Agustus 2019 3. Tanggal 18-19 September 2019 4. Tanggal 23-24 Oktober 2019 5. Tanggal 19-20 Februari 2020 6. Tanggal 18-19 Maret 2020 7. Tanggal 17-18 Juni 2020 8. Tanggal 15-16 Juli 2020 9. Tanggal 18-19 November 2020 10. Tanggal 17-18 Februari 2021	(Bank Indonesia, 2019); (Bank Indonesia, 2020); (Bank Indonesia, 2021)	Interval
Variabel Dependen				
1	Y ₁ : Average Abnormal Returns (AAR)	$AAR_{it} = \frac{\sum_{t=1}^N AR_{it}}{N}$	Duncan (2020)	Rasio
2	Y ₂ : Cumulative Abnormal Return (CAR)	$CAR_t = \sum_{t=1}^t AR_{t+1}$	Duncan (2020)	Rasio

Sumber: Data diolah, 2022

2.1 Framework

The framework used inthis research, as follows:



3. Results And Discussion

3.1 Market Reaction to the Announcement of BI7DRR Interest Rate Reduction in 2019 to 2021 is reflected in Abnormal Returns in Indonesian Banking Stocks

The announcement of the BI7DRR interest rate cut in 2019 to 2021 has several benefits that have a positive impact on abnormal returns in Indonesian banking stocks, so this information can be said to be good news, which is responded well by the market. As stated by Ball et al. (1968) in January (2014) the market will respond positively to good news (good news) and respond negatively to bad news (bad news). The response that will be shown by this market is in the form of price changes that will lead to abnormal returns. The abnormal return that will be generated in the announcement of the BI7DRR interest rate cut in 2019 to 2021 is to react positively where the information conveyed is good news, on the other hand react negatively to bad news. The results of hypothesis testing on abnormal returns show that H0 is accepted: there is a significant positive abnormal return on Indonesian banking stocks when the announcement of the BI7DRR interest rate cut on 17-18 July 2019 (2nd event date) has a significant value of 0.006 or 0.6%, 19- February 20, 2020 (1st date event) significant value 0.012 or 1.2%, 17-18 June 2020 (2nd date event) significant value 0.014 or 1.

One-Sample Test Of Abnormal Return (AR)				One-Sample Wilcoxon Signed Rank Test			One-Sample Test Of Abnormal Return (AR)				One-Sample Wilcoxon Signed Rank Test				
Pengumuman Penurunan Suku Bunga BI7DRR Tanggal 17-18 Juli 2019				Pengumuman Penurunan Suku Bunga BI7DRR Tanggal 17-18 Juli 2019			Pengumuman Penurunan Suku Bunga BI7DRR Tanggal 19-20 Februari 2020				Pengumuman Penurunan Suku Bunga BI7DRR Tanggal 19-20 Februari 2020				
Event Windows	Test Value = 0			Kesimpulan	Event Windows	Sig.	Kesimpulan	Event Windows	Test Value = 0			Kesimpulan	Event Windows	Sig.	Kesimpulan
	t	df	Sig. (2-tailed)						t	df	Sig. (2-tailed)				
-1	.071	21	.944	Tidak Signifikan	-5	.860	Tidak Signifikan	-5	-2.609	21	.016	Signifikan	-3	.371	Tidak Signifikan
ED_1	-.411	21	.885	Tidak Signifikan	-4	.935	Tidak Signifikan	-4	-4.176	21	.0004	Signifikan	-2	.884	Tidak Signifikan
2	-2.088	21	.049	Signifikan	-3	.100	Tidak Signifikan	-1	2.880	21	.009	Signifikan	1	.004	Signifikan
4	-.404	21	.690	Tidak Signifikan	-2	.758	Tidak Signifikan	ED_1	2.762	21	.012	Signifikan	4	.001	Signifikan
					ED_2	.006	Signifikan	ED_2	.709	21	.486	Tidak Signifikan			
					1	.028	Signifikan	2	-8.681	21	.000001	Signifikan			
					3	.066	Tidak Signifikan	3	.049	21	.961	Tidak Signifikan			
					5	.329	Tidak Signifikan	5	-4.409	21	.0002	Signifikan			

Sumber: Data diolah, 2022

Sumber: Data diolah, 2022

One-Sample Test Of Abnormal Return (AR)				One-Sample Wilcoxon Signed Rank Test			One-Sample Test Of Abnormal Return (AR)				One-Sample Wilcoxon Signed Rank Test				
Pengumuman Penurunan Suku Bunga BI7DRR Tanggal 17-18 Juni 2020				Pengumuman Penurunan Suku Bunga BI7DRR Tanggal 17-18 Juni 2020			Pengumuman Penurunan Suku Bunga BI7DRR Tanggal 15-16 Juli 2020				Pengumuman Penurunan Suku Bunga BI7DRR Tanggal 15-16 Juli 2020				
Event Windows	Test Value = 0			Kesimpulan	Event Windows	Sig.	Kesimpulan	Event Windows	Test Value = 0			Kesimpulan	Event Windows	Sig.	Kesimpulan
	t	df	Sig. (2-tailed)						t	df	Sig. (2-tailed)				
-5	-1.973	21	.062	Tidak Signifikan	-3	.782	Tidak Signifikan	-5	-.524	21	.608	Tidak Signifikan	-4	.380	Tidak Signifikan
-4	-.574	21	.572	Tidak Signifikan	ED_1	.547	Tidak Signifikan	ED_2	-2.619	21	.016	Signifikan	-3	.605	Tidak Signifikan
-2	-2.337	21	.029	Signifikan	2	.172	Tidak Signifikan	1	-.083	21	.930	Tidak Signifikan	-2	.398	Tidak Signifikan
-1	.543	21	.593	Tidak Signifikan	3	.177	Tidak Signifikan	2	-3.129	21	.005	Signifikan	-1	.057	Tidak Signifikan
ED_2	2.875	21	.014	Signifikan	4	.320	Tidak Signifikan	3	.593	21	.559	Tidak Signifikan	ED_1	.858	Tidak Signifikan
1	-3.036	21	.006	Signifikan								4	.807	Tidak Signifikan	
5	-.828	21	.438	Tidak Signifikan								6	.935	Tidak Signifikan	

Sumber: Data diolah, 2022

Sumber: Data diolah, 2022

3.2 Market Reactions Before and After the Announcement of BI7DRR Interest Rate Cuts for 2019 to 2021 are reflected in Average Abnormal Returns & Cumulative Abnormal Returns on Indonesian Banking Stocks

The results of testing the difference before and after the announcement of the BI7DRR interest rate cut in 2019 to 2021 show the results of significant average abnormal returns and cumulative abnormal returns on 18-19 September 2019 significant value of 0.012 or 1.2%, 19-20 February 2020 significant value 0.0001 or 0.01% and on 17-18 February 2021 the significant value is 0.013 or 1.3%. This means that before and after the announcement of the BI7DRR rate cut, the average abnormal returns and cumulative abnormal returns indicate that the announcement of the BI7DRR rate cut has information content, although not every announcement date.

Paired Samples Test Of AAR & CAR					Paired Samples Test Of AAR & CAR					Test Statistic ^a				
Pengumuman Penurunan Suku Bunga BI7DRR					Pengumuman Penurunan Suku Bunga BI7DRR					Pengumuman Penurunan Suku Bunga BI7DRR				
Tanggal 18-19 September 2019					Tanggal 19-20 Februari 2020					Tanggal 17-18 Februari 2021				
Keterangan		Test Value = 0			Kesimpulan	Keterangan		Test Value = 0			Kesimpulan	Keterangan	AAR_SEBELAH-AAR_SETELAH	CAR_SEBELAH-CAR_SETELAH
		t	df	Sig. (2-tailed)				t	df	Sig. (2-tailed)		Z		
Pair 1	AAR_SEBELAH-AAR_SETELAH	2.741	21	.012	Signifikan	Pair 1	AAR_SEBELAH-AAR_SETELAH	4.753	21	.0001	Signifikan			
Pair 2	CAR_SEBELAH-CAR_SETELAH	2.745	21	.012	Signifikan	Pair 2	CAR_SEBELAH-CAR_SETELAH	4.752	21	.0001	Signifikan			
												Asymp. Sig. (2-tailed)	.013	.013
												Kesimpulan	Signifikan	Signifikan

Sumber: Data diolah, 2022

Sumber: Data diolah, 2022

a. Wilcoxon Signed Ranks Test
b. Based on positive ranks.

4. Conclusion

This study aims to determine the market reaction as measured by abnormal returns and cumulative abnormal returns on Indonesian banking stocks. The results of the research in detail are as follows: There are abnormal returnson Indonesian banking stocks which are significantly positivewhen the BI7DRR interest rate cut was announced on 17-18 July 2019 (2nd event date) significant value 0.006 or 0.6%, 19-20 February 2020 (1st event date) significant 0.012 or 1.2% value, 17-18 June 2020 (2nd event date) a significant value of 0.014 or 1.4% and 15-16 July 2020 (2nd event date) a significant value of 0.016 or 1.6%. There are no abnormal returnson Indonesian banking stocks which are significantly positivewhen the BI7DRR rate cut was announced on 21-22 August 2019, 18-19 September 2019, 23-24 October 2019, 18-19 March 2020, 18-19 November 2020 and 17-18 February 2021. There is a difference before and after the announcement of the BI7DRR interest rate cut by showing the results of significant average abnormal returns & cumulative abnormal returns on the date18-19 September 2019 significant value 0.012 or 1.2%, 19-20 February 2020 significant value 0.0001 or 0.01% and 17-18 February 2021 significant value 0.013 or 1.3%. There is no difference in the average abnormal returns & cumulative abnormal returns before and after the announcement of the BI7DRR Interest Rate cut on 17-18 July 2019 with a significant value of 0.069 or 6.9%,21-22 August 2019significant value 0.115 or 11.5%,23-24 October 2019significant value 0.685 or 68.5%,18-19 March 2020significant value 0.372 or 37.2%, 17-18 June 2020 significant value 0.390 or 39%,15-16 July 2020significant value 0.091 or 9.1%,and 18-19 November 2020significant value 0.610 or 61%.

The results of the test of average abnormal returns and cumulative abnormal returns are not much different before and after the announcement of the BI7DRR interest rate in 2019 to 2021, this could be due to the abnormal return measurement used in this study using the market adjusted model. Based on the abnormal return value at the time, before and after the announcement, it shows that market participants react to the time, before and after the announcement although not in all event windows, so in other words the announcement has information content because the event causes a significant price change. The difference between the measurement of average abnormal returns and cumulative abnormal return shows that there is no significant difference before and after the announcement. This shows that the announcement of the BI7DRR interest rate is considered to have not had a significant overall effect on each announcement date so that market participants are not very responsive after the announcement. On the other hand, it is predictable, considering that the issues surrounding it have been widely discussed before the announcement date has been proven.

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