Proceeding Book

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THEME : *" Unlocking New Marketing Strategies on ASEAN After Covid-19 Pandemic "*

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# Proceeding Book of
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# "Unlocking New Marketing Strategies on ASEAN After Covid-19 Pandemic"

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**The originality of the paper is the author's responsibility**

## FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 3nd International Conference on Business and Banking Innovations (ICOBBI) with the topic "*Unlocking New Marketing Strategies on ASEAN After Covid-19 Pandemic*". This proceeding contains several researches articles from many fields in Business & Marketing, Banking & Sharia Banking, Accounting & Financial Management, Human Resources Management, Operations Management, Investasi, Insurance & Capital Market, Strategic Management, Technology Management, and Information System.

The 3nd International Conference on Business and Banking Innovations was held on 6th – 7th March 2021 by virtual (online) meeting and organized by the Master Management Study Program of STIE PERBANAS Surabaya in Collaboration with three Higher Education Institutions in Indonesia and two Universities from Asia countries. Keynote speakers in this conference were: Prof. Jessa Frida T Festijo (Lyceum of the Philippines University), Prof. Krisda Tanchaisak, Ph.D (Ramkhamhaeng University Thailand) and Burhanudin, Ph.D (Head of Undergraduate Program In Management of STIE Perbanas Surabaya, Indonesia).

I would like to give high appreciation to the Rector of STIE Perbanas Surabaya for his support at this event. Acknowledgments and thank you to all the steering and organizing committees of the ICOBBI for the extra ordinary effort during the conference until this proceeding published. Thank you very much to all presenter and delegates from various Universities. Beside it, I would like to express our gratitude to the three universities, namely Universitas 17 Agustus Surabaya, STIE 66 Kendari, Institut Institut Bisnis dan Keuangan Nitro Makassar which has been the co-host of this event.

Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website https://pascasarjana.perbanas.ac.id.

Chair of the Master Management Study Program
STIE Perbanas Surabaya

**Prof. Dr. Tatik Suryani, M.M.**

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**Operating Management**

# The Effects of Inflation and Economic Growth on the Profitability of Regional Development Banks (BPD) in Indonesia Listed on the Indonesia Stock Exchange

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**ABSTRACT**
This study aims to obtain empirical evidence of determine the effect of Inflation and Economic Growth on the Profitability of Regional Development Banks (BPD) in Indonesia Listed on the Indonesia Stock Exchange.Gaps in research and practical data show that an increase in inflation does not always coincide with a decrease in profitability. The independent variable in the study is Profitability, while the dependent variable are inflation and economic growth. The population used in this study is a regional development bank (BPD) which is already listed on the Indonesian stock exchange. The analytical method used in this research is quantitative descriptive analysis method. The analytical tool used is multiple linear regression analysis. Based on the results of multiple linear regression analysis, it was found that there was an effect of Inflation and Economic Growth on Profitability (ROA) variables. (1) Inflation has a positive effect and significant to ROA as indicated by the value of the regression coefficient of 2,213 significant 0.030, (2) GDP has a positive effect but not significant to ROA as indicated by the value of the regression coefficient of 5,846 significant 1,402.

***Keywords**: Inflation, Economic Growth, Profitability.*

## 1. INTRODUCTION

Banking has a very vital role in achieving national goals related to improving and equitable living standards for the community and supporting the running of the economy, considering its function as an intermediary institution, organizer of payment transactions, as well as a means of transmitting monetary policy.

Banking profitability describes the ability or capability of a bank to manage its business activities in order to generate profits. The problem of profitability or income for the bank is an important problem because the bank's income is the main target that must be achieved because the main objective of the bank is established to make a profit. Therefore, profitability is also one of the benchmarks for the continuity and development of a bank (Hasibuan, 2009: 100).

Increasing profitability is the main goal of commercial banks, including Regional Development Banks (BPD). BPD is part of a commercial bank that is differentiated by ownership which was established under Law No.13 of 1962. In addition to having the objective of obtaining profitability, BPD has a function and role in regional economic development. According to Law No.13 of 1962, BPD works as a regional economic development and moves regional economic development to increase the standard of living of the community and provide financing for regional development.

Tabel 1.1
Financial Performance Indicators for Regional Development Banks throughout Indonesia (in trillion)

| IndiCator | Bank Pembangunan Daerah | | |
|---|---|---|---|
| | 2016 | 2017 | 2018 |
| Asset | Rp.529,19 | Rp. 618,26 | Rp. 649,19 |
| Credit | Rp.334,23 | Rp.367,42 | Rp. 401,53 |
| TPF | Rp.372,60 | Rp. 504,34 | Rp. 517,12 |

Sumber : OJK 2018

The performance of Regional Development Banks throughout Indonesia has shown improvement, both in financial performance and in operational performance. This can be seen from various financial indicators from all BPDs in Indonesia. Until December 2016, BPD assets had reached Rp. 529.19 trillion while as of May 2018, BPD assets had reached Rp. 649.19 trillion or an increase of 5.00% compared to the position in May 2017 which reached Rp. 618.26 trillion or was ranked 5th in national banking structure after BRI, Bank Mandiri, BCA and BNI.

Referring to the Indonesian Banking Statistics (SPI) data from the Financial Services Authority (OJK), BPD credit performance also shows quite good growth. In December 2016, the total credit position of 26 BPDs reached Rp. 334.23 trillion. In May 2018, BPD's credit position reached IDR 401.53 trillion, an increase of 9.28% compared to May 2017's position of IDR 367.42 trillion.

When the performance of Regional Development Banks in Indonesia shows growth, something different can be seen in one of the regional development banks in Indonesia that is listed on the Stock Exchange, namely PT. Banten Regional Development Bank, Tbk. The 2017 financial report shows the value of return on assets of -1.43% with a negative amount, it can be indicated if the condition of the company is negative or loss.

In the banking industry the risk of failure that occurs is usually caused by failure to handle credit portfolios or company management errors that result in financial difficulties and even failure of banking businesses, so that in the end it can harm national economic activities and harm the public as the owner of the funds.

Meanwhile, according to Balanchandher, bank profitability determined by factors that can be controlled by management and factors beyond management's control. The factors that are can be controlled by management are the factors that describe the bank's management policies and decisions itself, such as raising funds, capital management, management liquidity, and cost management. Meanwhile, outside factors management control includes environmental factors and characteristics banks, environmental factors include market structure, regulation, inflation, interest rates, and market growth. Bank characteristic factors includes: company size and ownership.

Based on the description above, it is shown that profitability is an important factor that must be considered by banks in carrying out their business activities. Where based on previous studies there are differences in the factors that determine the profitability of banks. So this study aims to analyze the factors that determine the level of bank profitability, especially Regional Development Banks in Indonesia with the research title "The Effect of Capital Adequacy Ratio, Liquidity, Inflation and Economic Growth on the Profitability of Regional Development Banks in Indonesia which are listed on the Indonesia Stock Exchange."

## 2. LITERATURE

### *Profitability*

In a research study on banking profitability conducted by Gul, et, al (2011), the study was conducted to examine the relationship between bank internal factors and macroeconomic factors with banking profitability in Pakistan. The empirical results show that internal factors and macroeconomic factors in Pakistan have a strong influence on bank profitability. Banks that have more capital are considered safer where these benefits can be seen from higher profitability. Internal factors and macroeconomic factors have a significant impact on the profitability of commercial banks in Pakistan.

Research on the effect of inflation on bank profitability has been carried out by Molyneux & Thornton (1992) using indicators consumer price index (CPI) as a proxy for inflation. The result indicates that inflation has a significant relationship to the level of bank profit in its activities

Inflation is a presentation of the speed of the increase in prices in a certain year, or in other words, a decrease in the value of the prevailing currency (Rivai, 2009: 156). According to Revel (1980) in Haron (1996: 53), inflation can be a factor in variations in bank profitability. This is confirmed by Abduh (2013); Wasiuzzaman (2010), which shows a positive relationship between inflation and profitability. However, the results of this study are inversely proportional to the results of research by Haron and Azmi (2004); Naceur (2003) whose findings show a negative relationship between inflation and profitability.

### *Economic growth*

While economic growth is the development of activities in the economy that causes goods and services produced in society to increase due to increased community income (Sukirno, 2012: 29)

The increase in people's income has resulted in increased consumption and public savings, so that when economic growth occurs, which is marked by an increase in public income, the profitability of banks can also increase due to the existence of savings which encourages banks to increase their allocation of funds through credit.

Research conducted by Alper, et al (2011), this study was conducted to determine the relationship between bank internal factors and macroeconomic factors with the profitability of commercial banks in Turkey. Where the results shown are different from the research results of Gut, et, al (2011), which show that GDP macroeconomic factors have no effect on bank profitability in Turkey.

Other research on bank profitability was conducted by Syafri (2012) who analyzed the relationship between bank internal factors and macroeconomic factors with the profitability of commercial banks in Indonesia. Where this research shows that bank internal factors such as loans and total equity have a positive relationship to bank profitability. This research also uses macroeconomic factors, namely the rate of inflation and economic growth, where the rate of inflation has a negative effect on bank profitability, while economic growth does not affect bank profitability.

Another study was conducted by Gatot (2015) who used a sample of regional development banks. This study aims to analyze the factors that affect the profitability of BPD for the period 2009 to 2013. The empirical results show that the variables of Capital Adequancy Ratio (CAR), BOPO, and Non Performing Loan (NPL) have a negative relationship to the profitability of BPD. While the LDR and NIM variables have a positive relationship to the profitability of BPD.

### *The Influence of Inflation on Profitability*

Theoretically and rationally, the relationship between inflation and profitability is negative. If expected inflation is the same as actual inflation, there will be no negative effect on bank performance. Conversely, unanticipated inflation will have a negative impact on profitability, because interest rate adjustments will be slower, resulting in costs rising faster than income. (Sastrosuwito, 2012). The results of this study are also supported by previous research conducted by Alper (2011), Petria et al. (2013) and Kanwal (2013) who found a negative and insignificant relationship between inflation and profitability. Based on the description supported by the research above, the hypothesis is as follows:

H1: The inflation variable has a negative and significant effect on profitability.

### *The Effect of Economic Growth on Profitability*

Gross Domestic Product (GDP) has many consequences for increasing bank activity. Both an increase in customer deposits and financing and margins have a positive effect on bank profitability. According to the results of previous research conducted by Duraj (2015) and Mustaqh et al. (2014) who found a positive and significant relationship between economic growth and profitability. Based on the description supported by the research above, the hypothesis is as follows:

H2: The economic growth variable has a positive and significant effect on profitability

## 3. RESEARCH METHODS

### *Research design*

This research design provides a flow from preparing research data, testing data, which in turn provides conclusions in accordance with the results obtained, problems, and research hypotheses. The purpose of this study was to analyze the effect of capital adequacy ratios, liquidity, inflation and economic growth on profitability in regional development banks listed on the Indonesian stock exchange by examining research variable indicators obtained through theoretical and empirical studies conducted by researchers. so as to obtain empirical evidence and research results.

Based on these studies, the main problem was formulated, but before statistical testing was carried out, the samples to be used in the study were determined, data sources, and data collection methods. The results of the analysis are then interpreted to answer the existing problems. The final step of this research is to make a conclusion and research suggestions.

### *Population and Research Sample*

The population in this study were all regional development bank financial reports listed on the Indonesian stock exchange 2016-2018.

The sampling technique used in this study was the Saturated Sampling method, in which the entire study population was used as the research sample. This study uses a sample of all Regional Development Bank quarterly financial reports listed on the Indonesia Stock Exchange 2016-2018, namely 3 regional development banks PT Bank Pembangunan Daerah Banten Tbk, PT Bank Pembangunan Daerah Jawa Barat and Banten Tbk, PT Bank Pembangunan Daerah Jawa Timur Tbk.

### *Operational Definition and Variable Measurement*

Profitability is basically profit expressed as a percentage. In this study, in measuring profitability, researchers chose the Return on Asset (ROA) approach, because by using ROA, it takes into account the ability of bank management to earn overall profits. The profitability of a banking company can be measured using the formula:

Return On Asset (ROA) = (Net income) / (Total Assets) x 100%

Inflation is a presetation of the speed at which prices increase in a certain year. Or in other words, there is a decrease in the value of the prevailing currency (Rivai, 2009). Using the Consumer Price Index (CPI) as a benchmark. According to Natsir (2014: 266), the indicator that is often used to measure the inflation rate is the CPI :

INF= (IHK n-IHK n-1)/(IHK n-1) x 100%

Information:

INFn: inflation or deflation over time (month or year)

CPI: Consumer Price Index at time (month or year)

CPI-1: Consumer Price Index at time (month or year)

5. GDP is often regarded as the best measure of economic performance which aims to summarize economic activity in terms of a single monetary value

over a certain period of time. The national income account divides GDP into four groups, namely Consumption (C); Investment (I); Government purchases (G); and net exports (nx) (Mankiw, 2003: 24).

$$Y = C + I + G + NX$$

### *Regression Model*

The analysis technique used in this study is to use multiple linear regression analysis techniques. Multiple linear regression analysis is a way of processing the collected data so that it can provide interpretation. The results of this data processing are used to answer the problems that have been formulated. This analysis is used to show the relationship between the independent variable (X) and the dependent variable (Y). The multiple linear regression formula is searched by equations:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + e$$

Information :

Y = Profitability

a = constant of the regression equation

$\beta_1$ and $\beta_2$ = Regression Coefficient

$X_1$ = Inflation

$X_2$ = Economic Growth

e = Standard error

In managing data in this study, researchers used SPSS version 20.0 For Windows to test hypotheses.

## 4. RESEARCH RESULTS AND DISCUSSION

### *RESEARCH RESULT*

The results of the calculation of Multiple Linear Regression can be formulated the following regression equation:

$Y = -0{,}521 + 2{,}213\ X_1 + 5{,}846\ X2$

From the regression equation above, it can be explained as follows:

a. The constant (a) = -0.521, which means that if the variables INF (X1) and PDB (X2) are equal to zero, it will reduce the ROA value by 0.521.

b. The regression coefficient INF (X1) = 2,213, which means that each addition of one INF unit will increase the ROA by 2,213. Assuming other independent variables GDP remains (constant) or equal to zero.

c. The GDP regression coefficient (X2) = 5,846, which means that every addition of one unit of GDP will increase the ROA by 5,846. Assuming another independent variable INF remains (constant) or equal to zero.

The coefficient values of the independent variables in the equation show positive B values for INF and GDP. INF has a positive coefficient of 2,213, which means that every increase in the INF (X1) variable by 1% while other variables of GDP are considered constant, then ROA (Y) will increase by 2,213. Finally, GDP has a positive coefficient, which is 5,846, meaning that each increase in the GDP variable (X2) is 1%, while other variables INF is considered constant, then ROA (Y) will increase by 5,846.

### *Partial t test results*

Testing is done by comparing the value of t count with t table with a significant level of 5% ($\alpha = 0.05$) and df = 31 obtained t table of 2.039. The results of the partial t test obtained t count and sig for each independent variable are:

a. The sig value of the INF ($X_1$) variable is 0.030 <0.05. while the value of tcount is 2.268> ttable 2.039, then Ho is rejected and Ha is accepted.

b. The sig value of the PDB variable ($X_2$) is 1.402> 0.05. while the value of tcount is 1.402 <ttable 2.039, then Ho is accepted and Ha is rejected..

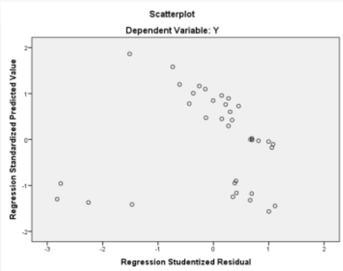
### *Correlation Coefficient of Determination*

Based on calculations using the SPSS program. Obtained an adjusted R square value of 0.623 or 62%, which indicates that all independent variables, namely INF and GDP, have an effect on profitability by 62%. While the remaining 38% are factors other than research.

### *Multicollinearity Test*

Multicollinearity test with VIF, obtained a tolerance value> 0.1, both the first and second independent variables, while the VIF value of the four independent variables is <10, it can be concluded that the regression equation in this study does not experience multicollinearity problems.

### *Heteroscedasticity Test*




Source: Data processed by SPSS

Based on the scatter plot in Figure Heteroscedasticity Test, it can be seen that the dots are spread randomly and are spread above or below the number 0 on the Y axis. So it can be concluded that in this regression model heteroscedasticity does not occur.

### *Autocorrelation Test*

Before doing multiple regression analysis, the regression model should not have autocorrelation problems. In this study, an autocorrelation test was carried out using the Durbin-Watson (D-W) test method. The number of samples and certain independent variables obtained critical values dI (lower limit) and du (upper limit) in the DW distribution table.

From the results of calculations using SPSS, it is known that the DW statistical value is 2.362. Where the value of du (1.587) <DW (2.362) <4-du (2.413), it can be concluded that the value of DW = 2.362 means that there is no autocorrelation. So that before using multiple regression analysis the data does not need to be transformed first.

### *Effect of Inflation on Profitability*

The first hypothesis proposed in this study is that the inflation variable does not have a positive and significant effect on profitability.

Based on the results of data processing, it can be seen that the inflation variable has an effect on profitability with a regression coefficient of 2,213. In addition, the t value of 2.268 is greater than the t table of 2.039 and the significance value of 0.030 is smaller than the significance level of 0.05. This shows that partially the inflation variable has a positive and significant effect on the profitability variable so that it can be concluded that H1 in this study is rejected.

This is evidenced by the results of observations of researchers for three years of observation that the value of inflation fluctuates from year to year, but the fluctuating value of inflation can be said to be not too large. Inflation conditions that are not too high can provide benefits for the company. Because the company can take advantage of the opportunity to take advantage by taking advantage of the increase in market value of assets.

The results of this study are in accordance with the results of research by Hidayanti (2014) and Idrees (2013). It is found that inflation has a positive and significant effect on profitability.

### *Effect of economic growth on profitability*

The second hypothesis proposed in this study is that the economic growth variable has a positive and significant effect on profitability.

Based on the results of data processing, it can be seen that the variable economic growth has an effect on profitability with a regression coefficient of 5.846. In addition, the t value of 1.402 is smaller than the t table of 2.039 and the significance value of 0.171 is greater than the significance level of 0.05. This shows that partially the economic growth variable has a positive and insignificant effect on the profitability variable. So it can be concluded that H2 in this study is rejected.

The results of this study are in accordance with the results of previous studies conducted by Zhang et al (2010) and Ali (2015).

## 5. CONCLUSION AND SUGGESTIONS

Inflation has an influence on profitability because Regional Development Banks in Indonesia tend to benefit when there is an increase or decrease in inflation. However, banks must continue to anticipate inflation because there is a possibility that bank fees may increase faster than bank income so that it can affect bank profitability.

Regional Development Banks should be able to predict future inflation. This can be used as an assumption that forecasting and predicting inflation rates can assist banks in making policies and determining the level of profit sharing, the quantity of financing and the quality of assets.

Economic growth can increase bank profitability by increasing demand for financial transactions, both financing for household and business affairs.

Good economic conditions can be identified through increasing demand for financial services, thereby increasing bank cash flow, profits and non-interest income. However, banks can become very devastated during a weak economy, due to the tendency of some customers to default on their loans.

For this reason, the Regional Development Bank in Indonesia should be able to make the most of it when economic conditions are conducive. Conversely, when economic conditions are in decline, the Regional Development Bank should have an alternative channel of financing by expanding to finance the Micro, Small and Medium Enterprises (MSMEs) sector. Either through the products of the Regional Development Bank itself as well as collaborative programs from the government. MSME sector financing does not require too much capital and has little risk.

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