The Impact of Inflation to Private Banking Profitability

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Abstract: ***There are many factors to determining banking sector profitability. Thus, the purpose of this study was to determine the effect of the macro economy through Rp / $ and inflation factor to the level of national private banking profitability. The specific object of this study was to investigate the influence of external factors (the U.S. dollar exchange rate and the inflation rate) to a level of profitability, ROA.***

Keywords: private banking, profitability, ROA**.**

1. Introduction

Banking sector existence have believed to be a stimulant to wake others while a sector companies from another sectors effort to survive and increase the benefits it receives, a banking sector to drive the economy beginning to survive. In this study, globalization of banking that is reflected to the surface as a perfect competition between national banking and private banking with different standard operating authority as a leading competition. It is more interesting to observe the Bank Indonesia's policy that is banking deregulation about implementer banking authority to determine interest rates on deposits and ignorance Bank Indonesia intervention on a lending private banking to improve performance [3].

Bassicly, a banking institution should have a good performance which can be maintained and generate maximum profits. One of the factors that affect the amount of profit it is the soundness of the banks themselves through their financial information [1]. Banking institutions should be able to define strategic actions to achieve the goal with an excellent performance. The excellent performance of the bank is expected to regain public trust and investor to invest. On the other side the performance of the bank can also be used as a measure of bank health, healthy banks will have the support and trust of the community and be able to produce the optimal profit. The level of corporate profitability including banking industry is affected by U.S. dollar exchange rate and inflation. It is Indicating that banking industry in Indonesia is vulnerable to U.S. dollar exchange rate fluctuation, especially for banks that still have not made anticipatory measures sufficient in the face of changes in circumstances and economic conditions [4].

Profit have dynamic every years to make this information useful in the decision making process in predicting the condition of a banking institution. This analysis can be used for banking customers to consideration in the decision to carry out banking activities on the company's banking operations are believed to be able to run properly.

2. Literature

Definition of bank in accordance UU No. 10 Tahun (UU No. 7 Tahun 1992 completion) Pasal 1 ayat 2 as follow:
"Banking is anything that concerns about the bank, including institutional, business activities, as well as the manner and process in melaksanakn business activities".
"Bank is a business entity which funding from the public on the saving and lending on the loan and or other forms in order to improve the standard of living of the common people".
While under PSAK No. 31 on Accounting Banking, definition of bank as follow:
"Banks are institutions as financial intermediary between parties who have surplus income units with who need funds (deficit units) as well as the institutions that serve expedite payment traffic."

In accordance with the main point of the Bank Indonesia Regulation (PBI) on 27 December 2001, banks are required to publish its financial statements, the financial statements published bank should be prepared based on the statement of financial accounting standards No. 31 which has been established by the Indonesian Accounting Association. In accordance with PSAK No. 31, include a balance sheet, statement of commitments and contingencies, profit and loss account.

Financial performance of a company can be measured by analyzing the company's financial statements. Analysis of the state of the company using financial statements that can be done through financial ratio analysis includes the calculation and interpretation of financial ratios. Financial ratios will be apparent financial indicators that can reveal the position, financial condition and performance has been achieved for a period [2].

3. Method

Research object to be studied is National Private Banking has gone public with the criteria in Indonesia Stock Exchange, did not conduct an active mergers and

acquisitions and financial statements issued during study period. The research method used in this study is causal associative method. Causal Associative method aimed to determine the causal relationship between two or more variables.

This research takes sampling bank listed on the Indonesia Stock Exchange never merge or acquisition during study period from year 2006 (January 1) - 2010 (December 31) through purposive sampling acquired 12 Banks, PT Bank Permata Tbk, PT Bank Niaga Tbk Argo , PT Bank ICB Bumi Putra Tbk, PT Bank Danamon Tbk, PT Bank Central Asia Tbk, PT Bank Kesawan Tbk, PT Bank International Indonesia Tbk, PT Bank Swadesi Tbk, PT Bank Victoria Tbk, PT Bank Mega Tbk, PT OCBC NISP Tbk, PT Bank Panin Tbk.

3.1 Inflation Hypothesis in case of rate is direct impact to Banking Performance

ROA, Inflation and Rate of 2006-2010

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.781	2	.390	.346	.709[b]
	Residual	64.291	57	1.128		
	Total	65.071	59			

a. Dependent Variable: y(roa)

b. Predictors: (Constant), x7(inflasi), x6(kurs dollar)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.352	2.784		.127	.900		
	x6(kurs dollar)	.000	.000	.064	.486	.629	1.000	1.000
	x7(inflasi)	-.019	.028	-.089	-.674	.503	1.000	1.000

a. Dependent Variable: y(roa)

Model Summary R Square

Model	R		Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.110[a]	.012	-.023	1.06203%	.741

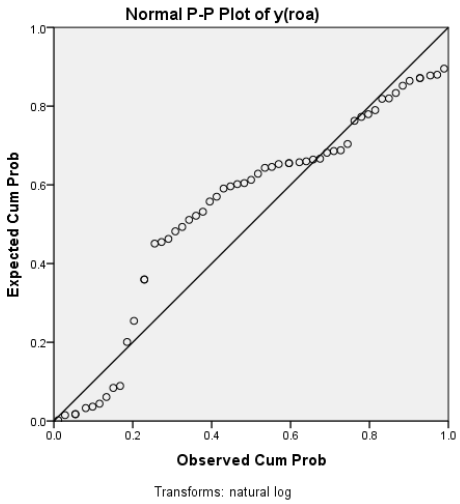
a. Predictors: (Constant), x7(inflation), x6(rate of dollar)

b. Dependent Variable: y(roa)

Variables Entered/ Removed[a]

Model	*Variables Entered*	*Variables Removed*	*Method*
1	x7(inflation), x6(rate of dollar)[b]	.	Enter

a. Dependent Variable: y(roa)
b. All requested variables entered.



3.2 Inflation Hypothesis in case of rate is impact in next year to Banking Performance

ROA of 2006-2010
Inflation and Rate of 2005-2009

Descriptive Statistics

	Mean	*Std. Deviation*	*N*
y(roa)	1.5328%	1.05019%	60
x7(inflation)	9.252740	3.1561383	60

Correlations

		y(roa)	*x7(inflation)*
Pearson Correlation	y(roa)	1.000	-.026
	x7(inflation)	-.026	1.000
Sig. (1-tailed)	y(roa)	.	.423
	x7(inflation)	.423	.
N	y(roa)	60	60
	x7(inflation)	60	60

Variables Entered/Removed[a]

Model	*Variables Entered*	*Variables Removed*	*Method*
1	x7(inflation)[b]	.	Enter

a. Dependent Variable: y(roa)
b. All requested variables entered.

Model Summary[b]

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*	*Change Statistics*	*Durbin-Watson*
					Sig. F Change	
1	.026[a]	.001	-.017	1.05886%	.846	.763

a. Predictors: (Constant), x7(inflation)

b. Dependent Variable: y(roa)

ANOVA[a]

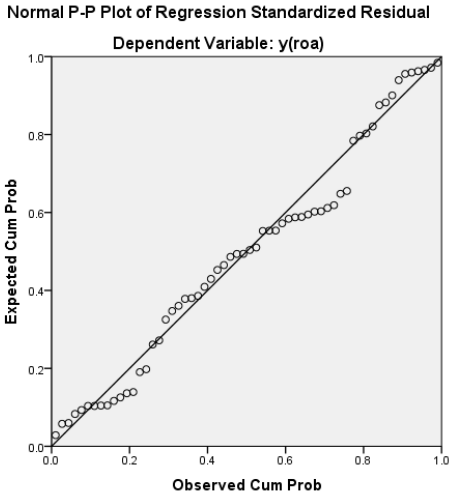
Model		*Sum of Squares*	*df*	*Mean Square*	*F*	*Sig.*
1		.043	1	.043	.038	.846[b]
	Residual	65.029	58	1.121		
	Total	65.071	59			

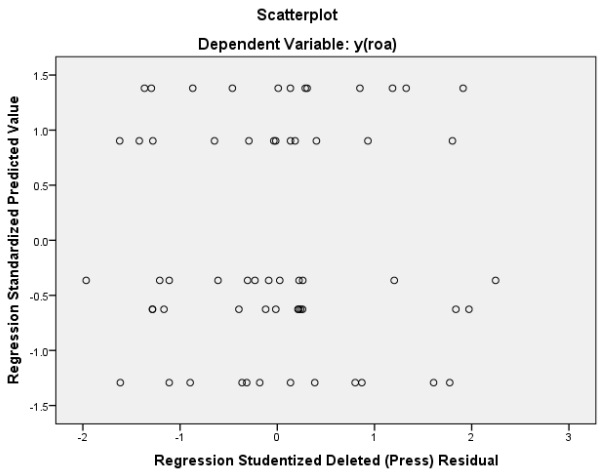
a. Dependent Variable: y(roa)
b. Predictors: (Constant), x7(inflation)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.612	.427		3.778	.000		
	x7(inflation)	-.009	.044	-.026	-.195	.846	1.000	1.000

a. Dependent Variable: y(roa)





3.3 Inflation Hypothesis in case of rate are impact in next year to Banking Performance (only rate)

ROA of 2006-2010

Inflation and Rate of 2005-2009

Descriptive Statistics

	Mean	Std. Deviation	N
y(roa)	1.53283%	1.050193%	60
x6(rate of dollar)	9524.47927	317.594414	60

Correlations

		y(roa)	x6(rate of dollar)
Pearson Correlation	y(roa)	1.000	.044
	x6(rate of dollar)	.044	1.000
Sig. (1-tailed)	y(roa)	.	.369
	x6(rate of dollar)	.369	.
N	y(roa)	60	60
	x6(rate of dollar)	60	60

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	x6(rate of dollar)[b]	.	Enter

a. Dependent Variable: y(roa)

b. All requested variables entered.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.044[a]	.002	-.015	1.058185%	.751

a. Predictors: (Constant), x6(rate of dollar)

b. Dependent Variable: y(roa)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.126	1	.126	.112	.739[b]
	Residual	64.946	58	1.120		
	Total	65.071	59			

a. Dependent Variable: y(roa)

b. Predictors: (Constant), x6(rate of dollar)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.149	4.134		.036	.971		
	x6(rate of dollar)	.000	.000	.044	.335	.739	1.000	1.000

a. Dependent Variable: y(roa)

Collinearity Diagnostics[a]

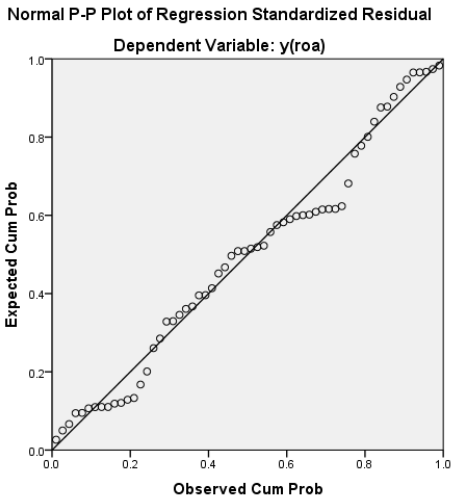
Model	Dimension	Eigenvalue	Condition Index	Variance Proportions	
				(Constant)	x6(rate of dollar)
1	1	1.999	1.000	.00	.00
	2	.001	60.502	1.00	1.00

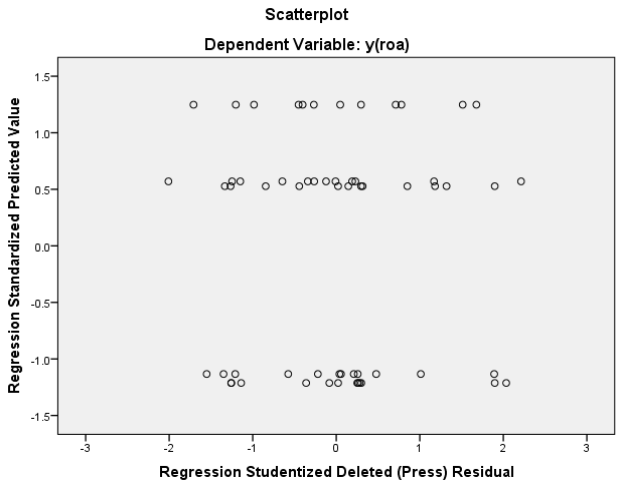
a. Dependent Variable: y(roa)

Residuals Statistics[a]

	Std. Deviation	*N*
Predicted Value	0.046145%	60
Std. Predicted Value	1.000	60
Standard Error of Predicted Value	.029	60
Adjusted Predicted Value	0.059478%	60
Residual	1.049179%	60
Std. Residual	.991	60
Stud. Residual	1.008	60
Deleted Residual	1.085081%	60
Stud. Deleted Residual	1.022	60
Mahal. Distance	.568	60
Cook's Distance	.022	60
Centered Leverage Value	.010	60

a. Dependent Variable: y(roa)





4. Results

Coefficient of Determination

In this study testing the research model used the coefficient of determination. The function of determination is a regression equation with dependent variable that presented the membership of a group. Determination analysis can be used to assess the relationships between variables in different populations or samples. If the higher R2 it will be the better prediction of membership in the group.

R squre adjusted by 0.688 or equal to 68.8%, the value is 68.8% informed that bank profitability can be explained by the exchange rate of the U.S. dollar to rupiah and inflation rate.

Multiple linear regression analysis in this study is an analysis the data used to test hypothesis is to determine whether there is significant influence between independent variables either simultaneously or partially with bank profitability. To determine the extent of correlation seven independent variables simultaneously measured using the value of F count. Rated T count in the regression analysis is used to view a partial extent the relationship of each variable, dependent variable and independent variable.

Partial Regression Analysis

	Beta	*Count T*	*Signification*
Constant		1.446	***0,154***
$	-0,001	-.009	0,993
Inflation	-0,050	-.585	0,561

5. Conclusion

Testing the level of national private banking profitability in the form of Return on Assets (ROA), then the simultaneous testing generated significant value of 0.000 which is smaller than 0.05 (α) so that Ho is rejected (Ha accepted). Thus, we can conclude that the independent variables simultaneously exchange rate of U.S. $ and inflation rates significantly influence the national private banking profitability on the ROA form.

While the partial testing, to the variable U.S. dollar exchange rate, and the inflation rate, obtained significantly greater than 0.05 (a) so that Ho received (Ha rejected). The partial variable $ U.S. dollar exchange rate, and inflation does not have a significant impact to the national private banking profitability in the form of Return on Assets (ROA). Test of beta coefficient was obtained sequences of the most influential independent variables of the CAR, NIM, ROA, NPL, LDR.

6. Recommendation

Results of study concluded that external factors were examined in this study, namely the U.S. dollar exchange rate and the inflation rate does not provide a significant impact on the banking profitability, but banking management should give attention to the three macro external factors which can not be controlled.

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