

Changes in Commercial Banks' Operating Profit in The Indonesian Stock Exchange And The Impact of Macroeconomic Factors (Case Studies of Indonesian Islamic Banks)

Ahmad Raymond Trilaksana¹, Pudji Astuti²
ahmad.raymond@gmail.com¹, pudji_astuty@gmail.com²

Universitas Borobudur^{1,2}

Abstract: The banking world in Indonesia is currently experiencing very significant growth from time to time. Both conventional banks and Islamic banks. Very tight competition between banks in order to retain customers and improve the quality of profits requires that banks must be able to continue to innovate in various fields. The methodology in this research is observational. In addition, an observational study methodology was used. Descriptive qualitative research concentrates on identifying the features or characteristics of certain events examined during the data collection process. Based on this research, it is known that the operational profit reports for Islamic commercial banks in 2019-2020 have decreased by 71%, for 2020-2021 they have continued to decrease by over 100%. In regard to Islamic commercial banks on the Indonesia Stock Exchange, changes in operating profit appear unaffected by inflation. Similarly, national income demonstrates no significant impact on operating profit. However, a low-correlated positive relationship does exist between macroeconomics (inflation and national income) and changes in operating profit for these banks. It's worth noting that neither inflation nor national income exhibit any effect on changes in operating profit for Islamic commercial banks on the Indonesia Stock Exchange.

Keywords: Inflation, National Income, Operating Profit

1. Introduction

The present economics of a nation cannot be separated from the world of finance. The banking sector is of course very important in the economy of a country, one of which is Indonesia. Since banking activities underpin almost all economic activities, it is fair to say that banking in this context plays a significant role in the business world. There are two types of banks in Indonesia, namely the dual banking system where the banking system adopted is conventional banks and Islamic banks. The difference between the conventional and Islamic financial systems' objectives and functions is that those of Islamic finance are a fundamental component of Islamic ideology based on Islamic teachings [27].

Based on OJK 2020 statistical data, which shows that in December 2020, the network of sharia banking offices had grown to 2,929 offices, the development of sharia banking from year to year is quite significant. An increase in the number of sharia offices is accompanied by a rise in the assets held by those offices. Yearly statistical data indicates that the assets of Islamic commercial banks and business units experience growth consistently [12].

Bank success is part of the total bank performance. The success of an Islamic bank's financial operations, marketing strategies, fundraising ability, technological advancements, and human resources all contribute to its overall performance. By performing well, Islamic banks can establish themselves as intermediaries between parties that require funds and those that have excess funds. Moreover, as profit-driven organizations like other financial institutions, it is crucial for Islamic banks to maintain a strong financial performance, particularly in terms of profitability. Profitability refers to the ability of a business to generate profits within a specific timeframe, based on sales, assets, and share capital. There are several ways to evaluate a business's profitability by comparing profits and assets or money with one another [2].

The profitability of Islamic banks in their business activities can be influenced by several factors. The inflation rate and national income are two examples of external factors that have an impact on the macroeconomic situation in sharia business activities. Inflation is the steady increase in prices of goods and services over a given time frame, and it's been proven by research. As the inflation rate rises, a decline in profit growth becomes evident. This defies the notion that heightened inflation reduces people's purchasing power [13].

Several factors influence bank profitability, including rising prices (inflation) and interest rates (exchange rates), which have increased product costs. As happened at the end of 2021 to be exact on 8/11/2021 where all basic necessities experienced a price increase, which was caused by rising world oil prices and the strengthening of the dollar exchange rate against the rupiah [10].

This case shows how Indonesia's economy has fallen due to rising prices of basic necessities. Rising interest rates, rising poverty, rising unemployment, and high inflation rates are all possible consequences of Indonesia's deteriorating economy. As a result, all expenditures for the company's practical and producing costs rise, increasing the chance of bad loans and decreasing the bank's capital sufficiency ratio and revenue. An increase in interest rates causes an increase in government debt interest expenditure which can jeopardize budgetary viability and have an effect on the economy in Indonesia [19].

The business operations of bank financial organizations are inseparable from the economic circumstances of a nation. Economic growth rate, gross domestic product, gross national product, unemployment rate, inflation rate, foreign exchange rate, money supply, and interest rates are all macroeconomic factors. Several indicators that are frequently and commonly used to view and measure macroeconomic conditions include inflation and national income (GDP) [23].

In addition to inflation, Gross Domestic Product (GDP) is a useful measure. GDP is the value of goods or services in a country produced by the factors of production belonging to that country and foreign countries. GDP represents the activities of the people in a nation in producing goods within a certain span of time (Andiana & Amanah, 2019). The connection between GDP and the realm of banking is where GDP is connected to saving. Meanwhile, one of the bank's actions as a mediation in the financial sector is to gather funds from the public and disperse them in the form of investment [20].

Economic action in Indonesia, specifically the macroeconomy, has a significant impact on banking operations. As was the case throughout 2020, when there were substantial fluctuations in macroeconomic circumstances, as evidenced by changes in inflation rates and fluctuating interest rates. Not only that, in the same year banking operating profit experienced a substantial rise, with this it can be inferred that the success of Islamic banking demonstrates a greater development [14].

It is determined that macroeconomic circumstances affect the running profit of Islamic banking. However, the observed phenomenon contradicts the existing theory. This is

demonstrated by the fact that, despite erratic changes in the macroeconomy, such as inflation and GDP, the running profit of Islamic banks has experienced changes/increases within a specific period of time, which may experience a small decline. According to data, the rise in inflation from 2.6 percent to 1.2 percent from 2019 to 2020 had a negative impact on ROA, which decreased from 1.73 percent to 1.40 percent. This directly opposes the theory that says that high inflation rates reduce bank profitability [26].

From the formulation of the problem above, the writer will put forward a hypothesis as a temporary answer which will be tested for truth in further research and data management. The hypothesis to be tested to achieve the research objectives is as follows :

H0 = Inflation has no positive and significant effect on changes in operating profit.

H1 = Inflation has a positive and significant effect on changes in operating profit.

H3 = National Income has no positive and significant effect on changes in operating profit.

H4 = National Income has a positive and significant effect on changes in operating profit.

2. Methodology

The methodology in this research is observational. In addition, an observational study methodology was used. Descriptive qualitative research concentrates on identifying the features or characteristics of certain events examined during the data collection process. Consequently, focus groups and structured and open conversations with informants can be used for data collection (FGD). This study used a methodical literature search on a database of journals concentrating on social science and technology, including EBSCO, IEEE, Science Direct, ProQuest, and SCIMAGO to collect and analyze data.

To avoid topic duplication, 37 journals were found in the journal collection and re-selected. Journals are re-evaluated based on the date of publication, the country or region where the research object was conducted, and a data design strategy based on the application of experimental artificial intelligence. The primary filter involves reading all 22 papers in full.

3. Results and Discussion

3.1 Changes in operational profits of Islamic Commercial Banks on the Indonesia Stock Exchange. Table 1 Data on the operational profit report of Bank Panin Dubai Syariah for 2019 – 2021 (in billions of rupiah).

Table 1. Panin Dubai Syariah Bank Operational Profit Report Period 2019-2021
(Panin Dubai Syariah Bank, 2021)

Month	2019	2020	2021
January	883	-797	1,978
February	-3,275	1,266	2,626
March	4,686	5,707	5,706
Apryl	4,759	1,118	2,587
May	7,867	-9,938	2,663
June	4,889	606	2,732
July	4,457	-1,390	2,864
August	8,108	-4,490	2,813
September	7,957	-1,355	2,846
October	8,978	-3,336	-823,523

November	08,01	3,759	-823,445
December	18,55	5,308	-818,112

Table 1 can be seen that each operating profit in 2019 to 2021 has decreased every year. The change in operating profit in 2019 was 18,550 while in 2020 it was 5,308. In 2019 to 2020 operating profit decreased by 71%. This occurred because there was an operating loss due to decreased revenue and increased operating expenses from the previous year. Then in 2021 its operating profit will be -818,112. from 2020 to 2021 operating profit has experienced a drastic decline which has reached above 100%. This is due to the fact that in 2020 there was an operating profit of around 5,308. However, in 2021 there was a loss of 818,112. Still the same as in the previous year, operating profit experienced a loss due to higher operating expenses.

High operating expenses will result in a decrease in profit, as well as if the value of operating expenses decreases, profit will increase [17]. An increase in inefficient operating expenses will have an impact on operating profit. If the increase in operating expenses occurs continuously in the following year, a greater loss will occur. Profit is the result of deducting costs from income, which is if the income is greater than the cost. Conversely, if the cost is greater than the total income, it is called a loss [18].

3.2 The effect of inflation on changes in operational profits of Islamic Commercial Banks on the Indonesia Stock Exchange in 2019-2021.

The test results above partially obtained that the inflation variable did not affect changes in operational profits of Islamic Commercial Banks. In other words, changes in inflation have no effect on changes in operating profit. This can be seen from the results with $t_{count} < t_{table}$ ($0.9497 < 2.03452$), then H_0 is accepted and H_1 is rejected. this means that inflation has no effect on the operating profit of Islamic commercial banks on the Indonesia Stock Exchange.

The research results show that inflation is a process of rising prices of goods and services within a certain period of time. when inflation increases, there will be a decrease in profit growth. This condition is not in line with the theory that the higher the inflation, the lower the people's purchasing power. This is because the price of the product is getting higher [6]. When people's purchasing power increases, it can affect Islamic banking. Purchasing power increases, followed by an increase in demand for financing, the income or profits of Islamic banking will also increase. But when there is a decrease in people's purchasing power, it will result in a decrease in the Bank's income followed by a decrease in operating profit [16].

As Adiwirman Karim explains, inflation translates to a rise in the overall cost of goods, commodities and services within a designated time frame, typically viewed through a monetary lens. According to Junaidin Zakaria, inflation is an economic condition where the price level and general costs rise. The bank is one of the institutions engaged in the economy so that inflation will certainly affect banking conditions [24].

If we pay attention to the inflation that occurred in 2020 and 2021, the inflation rate will be very low compared to the inflation in the previous year. In 2021 the inflation rate that occurs can be categorized as low and has decreased by (more than 100%) that occurred in Indonesia and at the same time the profit earned by the bank is also lower when compared to the previous year's profit [7]. This low inflation shows that the economic conditions in Indonesia are stable. Even so, the results of the study show that higher inflation has an effect on increasing profits, inflation is still not a good thing for the economy, high inflation causes the economy to be disrupted and the poor will get poorer due to high prices and risk for people who cannot afford to pay their obligations. bank. Therefore the government is obliged to take appropriate action so that inflation can be controlled and the economy can be stable [8].

3.3 The effect of National Income on changes in operational profits of Islamic Commercial Banks on the Indonesia Stock Exchange in 2019-2021

The study examined the correlation between national income (GDP) and operating profit, finding no significant causal link between the two. While GDP is a macroeconomic factor that has an impact on Islamic banks' operational profit, the study found that changes in GDP did not result in corresponding changes in operating profit. The test results showed $t_{count} < t_{table}$ ($0.0620 < 2.03452$), indicating that H_0 was accepted and H_2 was rejected. Thus, it can be concluded that GDP has no effect on changes in operational profit of Islamic commercial banks on the Indonesian Stock Exchange. However, an increase in GDP leads to higher income levels, resulting in improved saving capacity among individuals [25].

3.4 There is a positive and significant macroeconomic relationship to changes in operating profits of Islamic commercial banks on the Indonesian stock exchange in 2019-2021.

This study suggests that the national income and inflation of the macro economy are closely linked to the operating profit of Islamic commercial banks. Further analysis of the correlation between inflation and operating profit (as shown in the table above) reveals a significant positive relationship, with a correlation coefficient of 0.350 and a significant value of $0.036 < 0.05$. Therefore, it can be concluded that inflation has a direct and positive effect on the changes in operating profit of Islamic commercial banks.

After conducting a correlation analysis between the operating profit and national income of Islamic commercial banks, we found a correlation coefficient of 0.339 with a significance value of $0.043 < 0.05$. This suggests that national income and operating profit share a positive and significant relationship.

Macroeconomic relationship and company operating profit. This relationship is shown by the inflation correlation value of 0.350 and national income of 0.339 where the level or degree of closeness of the relationship between the variables studied, namely the macro economy (inflation and national income) When the operating profit of Islamic commercial banks fluctuates between 0.20 - 0.399, it suggests a modest correlation between macroeconomic factors (inflation and national income) and the banks' performance. Though the impact is positive and meaningful, it remains on the lower side of the correlation spectrum [21].

3.5 How big is the macroeconomic influence on the operational profits of Islamic commercial banks on the Indonesian stock exchange in 2019-2021.

The results of the determination coefficient test show that the Adjusted R Square is 0.10 or equal to 10%. This means that variations in macroeconomic variables (Inflation and National Income) (X) can explain the variable Operating Profit (Y) of 10%. While the remaining 90% is explained by other factors or variables outside the independent variables (inflation and national income). Subjects that are not explained in this study such as the BI Rate and exchange rates [4].

3.6 Simultaneous or joint effects of inflation and national income on changes in operational profits of Islamic commercial banks on the Indonesian stock exchange in 2019-2021.

The results of the research above show that the operating profit of Islamic commercial banks is not influenced by the macro economy (inflation and national income). So that it becomes a material consideration for Islamic commercial banks to determine policies and strategies. Inflation and national income are interrelated in a country's economy [3]. Inflation itself is generally an increase in the general price level of goods and services in a certain period. The

escalation of prices in a specific duration is typically referred to as inflation. This hike in prices is considered a monetary phenomenon as the overall value of the currency decreases, making it necessary to pay more money for goods and services [11].

Islamic economists argue that inflation has a detrimental impact on the economy as it hampers prepayment, savings value, and calculation unit functions. The burden of inflation forces people to move away from financial assets and cash. Additionally, inflation can curb the spirit of saving in society, decreasing the property margin to save. Such individuals tend to direct their investments toward non-productive activities such as the accumulation of land, buildings, precious metals, and foreign currency, thereby neglecting productive investments such as agriculture, industry, trade, and transportation. Furthermore, inflation increases the temptation for people to indulge in non-essential and luxury goods, leading to a rise in property margin to consumer.

4. Conclusion

After conducting extensive research and discussions, the authors of this study have arrived at a conclusion. They found that two macroeconomic factors - inflation and national income - do not have a combined effect on the operating profit of Islamic commercial banks. Further analysis revealed that inflation (X1) has no partial effect on operating profit changes in Islamic commercial banks, as the t-test results showed $t_{count} < t_{table}$ ($0.9497 < 2.03452$), leading to the acceptance of H0 and rejection of H1. Similarly, the national income variable (X2) was seen to have no stimulative effect on changes in operating profits of Islamic commercial banks, as per the t-test with $t_{count} < t_{table}$ ($0.0620 < 2.03452$), leading to the acceptance of H3 and rejection of H4. Despite a positive and significant relationship between macroeconomic variables (inflation and national income) and changes in operating profit of Islamic commercial banks, the correlation value was found to be low. Macroeconomic variables (inflation and national income) (X) can explain the operating profit variable (Y) of 10%. The results of the simultaneous test (Test F) obtained by simultaneous inflation and national income variables did not affect changes in operating profit of Islamic commercial banks. It can be seen that $F_{count} < F_{table}$ ($1.866900 < 2.03452$), then H0 is accepted and H_a is rejected.

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