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Interest Rate Policy Moderate The Performance Impact On Banking Stock Price In Indonesia

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ABSTRACT

The stock price is a factor that investors must consider in investing. The stock price is an indicator of the successful management of the company. An increase in share price will reflect an increase in shareholder wealth as an investor. There is a phenomenon in banking stock prices in Indonesia from 2020-2021, where share prices have decreased yearly. This study aimed to investigate the effect of company performance on stock prices by using interest policy as a moderating variable. The method used in this research is panel data regression. The results show that performance positively affects stock prices, and interest policy moderates the relationship between performance and stock prices.

1. Introduction

The banking industry in the financial services sector needs special attention or supervision regarding its performance and health so that a country's economy continues to run smoothly (Pikahulan, 2020). Banks are essential in a country's economic system as financial intermediaries (Aprita, 2021). This critical role keeps the wheels of a country's economy running because banks unite those who have more funds with those who need funds.

The capital market is a source of capital or funding that supports economic business programs that aim to meet the needs of individuals, governments, investors and companies (Karatri et al., 2021). Banks play a role as a payment system, inflation control, monetary authority, and stabilising the Indonesian economy. In capital market activities, stock prices are a critical factor and must be considered by investors because stock prices show issuers' performance (Wardhono et al., 2019). The movement of stock prices is in line with the company's performance; if the company performs better, the profits generated from operations will be greater (Ekawati & Yuniati, 2020). Therefore, each company issuing shares pays close attention to its share price. Too low prices often mean that the company's performance is not good. In 2017-2021 the phenomenon of fluctuations in stock prices in banks on the Indonesia Stock Exchange has become a problem for entrepreneurs, shareholders and potential investors. We can see the wonder of fluctuations in banking prices listed on the IDX from 2017-2021 in the table below:

Fig. 1. The average share price of banking companies on the IDX for 2017-2021

From the data above, we can see that the average price of banking shares on the IDX from 2017-2021 fluctuated, whereas in 2017 the price of banking shares on the IDX was Rp. 1,600, - then in 2018, the share price increased by Rp. 40 from 2017 so that it became Rp.1,640, -, then in 2019 it increased by Rp.768 from 2018 so that it became Rp.2,408, then in 2020, it decreased by Rp.31 from 2019 so that the share price became Rp.2,377, -, and in 2021 again decreased by Rp. 104 from 2020 so that it became Rp. 2,273.

The stock price will affect the business development of the company. Suppose there is no return in the form of profits. In that case, the company's value on its profitability will decrease so that it will threaten that the company's reputation will fall which will cause a loss of trust for investors who will invest their capital (Sari et al., 2021).

Before deciding to invest, investors first assess the company's performance. Performance measurement can be carried out using financial ratios (Kurnila Sari, 2021). Financial ratio analysis is a company analysis instrument aimed at showing changes in the company's financial condition (Tyas, 2020). With this financial ratio analysis, it is possible to identify the strengths and weaknesses of the company in the financial sector. Investors will certainly consider and assess the financial performance, which consists of financial ratios in dropping their shares of stock.

Research conducted by (Chandra & Darmayanti, 2022)showed that the Return On Assets ratio positively affects stock prices. The same research results were also obtained by (Pradanimas & Sucipto, 2022), (Sari et al., 2020), (Almira & Wiagustini, 2020), (Purba & Marlina, 2019), (Putra et al., 2021). However, the opposite result was found by (Susanti & Wirakusuma, 2022), who found that Return On Assets had a negative effect on stock prices.

The Interest rate policy attracts investors to invest in deposits or SBI so that investments in shares will be unrivalled. Bank Indonesia has a policy for determining interest rates called the BI Rate (Machieu & Hippy, 2022). Previous research V stock prices. The same research results were also put forward by (Tripuspitorini, 2021), (Rachmawati, 2019), (Saputra, 2019), (Anisya & Hidayat, 2021). This is because deposits will increase interest expenses and reduce company profitability as a capital market issuer. A decrease in the company's net profit will reduce the company's dividend; besides that the return on investment in the money market is less risky compared to the capital market, so that it will encourage investors to switch from the capital market to the money market. As a result, the demand for stocks and the stock index falls. The results of the opposite study were found by (Yudistira & Adiputra, 2020), stating that interest rates positively affect stock prices.

Given the empirical findings that are not uniform (heterogeneous), we assume that there are opportunities to fill the gaps that exist empirically. So, we strive to fill in the gaps and provide a more comprehensive contribution. The contributions we mean include 1) empirical investigations regarding the effect of performance on stock prices and using interest policy as a moderating variable; 2) comprehensively broadening the literature review, using all banking companies listed on

the Indonesia Stock Exchange, which are expected to contribute knowledge and knowledge to practitioners in the field of finance and academics.

Literature Review

Financial performance

Company performance is an important factor that investors pay attention to when investing their funds (Supriantikasari& Utami, 2019). If the company has better performance, the profit generated from operations will be greater. Performance measurement can be done using financial ratios. Financial ratio analysis is a company analysis instrument that is intended to show changes in the financial condition of the company concerned (Astuti et al., 2021). With this financial ratio analysis, it is possible to identify the strengths and weaknesses of the company in the financial sector. Investors will certainly consider and assess the financial performance which consists of financial ratios in dropping their shares of a stock.

According to the source SEBI No.6/23/DPNP 2004 concerning the Rating System for Commercial Banks, Return on Assets is the ratio that shows the ratio between profit (before tax) and total assets, this ratio shows the level of efficiency of asset management carried out by banks that concerned. ROA is an indicator of a bank's ability to earn a return on a number of assets owned by the bank. ROA can also be obtained by calculating the ratio between profit after tax and total assets (net income divided by total assets) (Andrianto & Sadikin, 2017).

A positive ROA indicates that from the total assets used to operate, the company is able to generate profits for itself. Conversely, a negative ROA indicates that of the total assets used, the company incurs a loss. The greater the ROA, the better the company's performance, because the level of profit achieved by the bank is getting better in terms of asset use (Ali, 2017).

Interest Rate Policy

According to (Kasmir, 2018) bank interest is the price that must be paid to customers (who have deposits) at the price that must be paid by customers to banks (customers who obtain loans). In conventional banking activities, interest rates consist of two types, namely:

1. Deposit interest rates

Is a bonus given by the bank to customers for remuneration for those who have deposited their funds in the bank. Banks offer several additions to customers who keep their funds in the form of deposits. This is intended so that customers increase their deposit funds so that the bank will later benefit.

Example: deposit interest, savings interest, and current account services.

2. Loan interest rates or credit interest rates

Is the interest charged to the customer or the price that must be paid by the borrower to the bank. Loan interest rates are a source of income for banks. To make a profit, the bank will sell at a higher price than the purchase price. That is, lending rates are higher than deposit rates.

In this study researchers used deposit rates from 2017 to 2021.

Stock price

The share price is the money spent to obtain proof of participation or ownership of a company (Sabrina & Lestari P, 2020). In the secondary market or in daily stock trading activities, stock prices fluctuate either in the form of increases or decreases. The formation of share prices occurs because of the demand (demand) and supply (supply) of these shares. This supply and demand occur due to many factors, both specific factors for these shares such as the company's performance and the industry in which the company operates, as well as macro factors such as the country's economic conditions, social and political conditions, as well as rumors that are developing.

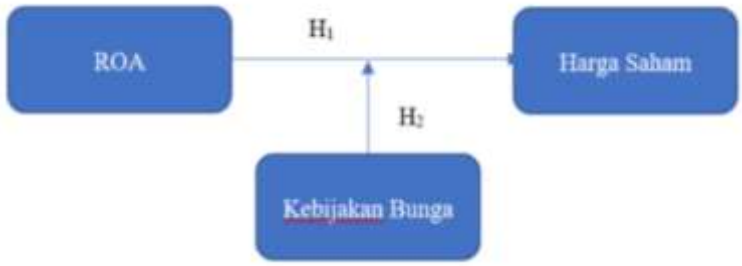

Fig. 2. Conceptual Framework

Hypothesis Development

Referring to the research background and conceptual framework (figure 2), hypothesis was proposed in this study are: ROA has an effect on stock prices and interest rate policy moderates the relationship between ROA and stock prices. Previous research using interest policy as a moderating variable was investigated by (Chikmah & Yuliana, 2020), the results of his research found that interest policy moderates the relationship between ROA and stock prices.

2. Method

Data and Samples

This research was conducted on all banking companies listed on the Indonesia Stock Exchange during the 2017 – 2021 period. The data used in this research is secondary data obtained from the Indonesian Stock Exchange. Quantitative data is taken from the financial statements of banking companies, in the form of company financial statements and balance sheets. A total of 43 companies registered at the end of the 2021 period are defined as the population. The sample was selected using a purposive sampling method. The sampling criteria set are 1) Companies listed in the 2021 period on the IDX; 2) Companies listed consecutively during the 2017-2021 period on the IDX; and 3) Companies listed on the IDX that issue financial reports during the observation period. Temporarily, this criterion was used to obtain the final sample. Based on these criteria, a sample of 41 companies or 205 observations was obtained.

Data Analysis Methods

The analytical method used in this research is regression analysis and moderated regression analysis or MRA. The model used is from multiple linear regression with the following formula:

$Y=a+\beta 1X+e$

$Y=a+\beta 1\text{ROA}+\beta 2\text{KB}+\beta 3\text{ROA*KB}+e$

Information:

a = constant

Y = dependent variable (Share Price)

$X1$ = independent variable (ROA)

KB = moderating variables (Interest rate policy)

$\beta 1,2,3$ = regression coefficient

3. Results and Discussion

Classic assumption test

1) Normality test

The normality test is used to test whether in the regression the independent and dependent variables or both are normally distributed or not. The test used to see the normality of the data is the

Histogram Normality Test. If the resulting significant value is >0.05, the data distribution is said to be normal. However, if the resulting significant value is <0.05 then the data is not normally distributed. After carrying out the normality test with the Histogram Normality Test, the processing results show that the probability value is 0.19 > 0.05. This means that the data is normally distributed and further testing can be done.

2) Multicollinearity Test

Multicollinearity test is performed if the linear regression uses more than one independent variable. If there is only one independent variable, multicollinearity is unlikely, so the test is not necessary. Thus, because this study also used five independent variables, the multicollinearity test was carried out in this study. The multicollinearity test aims to test whether the regression model found a correlation between the independent (independent) variables. A good regression model should not have a correlation between independent variables (Sugiyono, 2017).

The correlation value between the independent variables is normal, where the correlation value is <0.85, so it can be concluded that the independent variables are free from multicollinearity symptoms and can be used in this study.

3) Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another. If the variance from one observation to another is the same, it is called homoscedasticity, and if the variance is different, it is called heteroscedasticity (Sugiyono, 2017).

According to (Basuki, 2017), a good regression model is a regression model that meets the requirements of not having heteroscedasticity.

H_0 : there is no heteroscedasticity in the data distribution

H_1: there is heteroscedasticity in the data distribution.

The guidelines that will be used in drawing conclusions are as follows:

i. If the Probability value < α (5%), then H0 is rejected, which means that there is heteroscedasticity in the data distribution.
ii. If the Probability value > α (5%), then H0 is accepted, which means that there is no heteroscedasticity in the data distribution.

Based on the data that has been processed, it shows that the probability value of the independent variable is 0.82 > 0.05, indicating that there is no heteroscedasticity problem in this study.

Model Selection Test

1) Chow test

The chow test is used to determine which model to choose between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). From the regression results based on the Fixed Effect Model (FEM) using Eviews-10, the results are as follows. For the selection between the CEM or FEM models, if viewed from the Cross-section Chi-square > 0.05 then the model chosen is the common effect model, if the Cross-section Chi-square < 0.05 then the fixed effect model is selected. From the processed data, the Cross-Section Chi-square value is 0.00 <0.05. So it can be concluded that H0 is rejected and H1 is accepted. So it can be stated that the fixed effect model is better to use than the common effect model.

2) Hausman test

The Hausman test is a statistical test to choose between the Random Effect Model (REM) and the Fixed Effect Model (FEM). Based on the results of the Random Effect Model (REM) regression resulting from processing using the Eviews-10 Hausman test, the random cross-section probability value is 0.00 <0.05. then it can be determined that H0 is rejected

and H1 is accepted. So, the Fixed Effect model is better to use than the Random Effect model.

Linear Regression Analysis

This analysis aims to determine the direction of the relationship between the independent variables and the dependent variable whether each independent variable is positively or negatively related and to predict the value of the dependent variable if the value of the independent variable increases or decreases. In this study to see the effect of performance as measured using the ratio of Return on Assets to stock prices. The linear regression formula in this study is:

Stock Price = $\alpha + \beta_1 ROA + e$

Dependent Variable: _Y_HARGA_SAHAM

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1973.337	273.6411	7.211408	0.0000
_X_ROA	24768.69	7495.102	3.304650	0.0011

Stock Price = 1973,34 + 24768,69 ROA

Based on the above equation it can be interpreted:

a. The multiple linear regression equation above is known to have a constant of 1973.34, meaning that if the independent variables are assumed to be constant, then the dependent variable, namely the stock price, is 1973.34.

b. The Return On Assets coefficient is 24768.69 meaning that every increase in ROA by 1 will cause an increase in stock prices by 24768.69. Assuming other variables are constant / fixed.

From the results of data processing in table 1 above, the results of the analysis show that Return On Assets has a probability value of 0.00 <0.05. With a t-statistic value of 3.30. This means that Return On Assets has a significant positive effect on stock prices in banking companies listed on the Indonesia Stock Exchange in 2017-2021. That is, when the company's performance rises, the company's stock price will also increase.

Moderation Test

The moderation test was carried out using Moderated Regression Analysis (MRA). Moderated Regression Analysis (MRA) is used as a panel data regression model equation on the moderating variable, where the regression equation has a multiplication interaction between two or more independent variables. The moderating variable in this study is interest policy by banks which will moderate the relationship between Return On Assets (ROA) and stock prices. The formula used for the moderation test is as follows:

Stock Price =$\alpha + \beta 1 ROA + \beta 2 KB + \beta 3 ROA*KB + e$

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1973.337	273.6411	7.211408	0.0000
_X_ROA	24768.69	7495.102	3.304650	0.0011

From the processing results processed using eviews-10, the interaction value has a value of 0.01 where the value is <0.05, so we can conclude that policies moderate the relationship between performance and stock prices of banking companies in Indonesia.

4. Conclusion

ROA has a positive and significant effect on stock prices. This is evidenced by the t-count value of the ROA variable which is 3.30 with a significance of 0.00 (significant), this indicates that the higher the ROA, the higher the share price of Indonesian banking companies.

The interest policy variable moderates the relationship between ROA and stock prices. This is evidenced by the t value of 2.59 with a significance of 0.01 (significant), meaning that the interest policy variable influences or plays a role in the relationship between the ROA ratio and stock prices.

Suggestion

Further research can be carried out using other samples and adding other variables, using long time series and testing with different models in order to prove this hypothesis again.

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