The Effect of Non-Performing Loans and Loan to Deposit Ratio on Profitability with Inflation as a Moderating Variable in Banking Companies Listed on Indonesia Stock Exchange Period 2018-2022

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ABSTRACT: This study was conducted to test and analyze the effect of Non Performing Loan and Loan to Deposit Ratio as independent variables on Profitability as a dependent variable, as well as the ability of inflation to moderate the relationship between the independent variable and the dependent variable. The research method in this study is quantitative research with regression analysis of panel data using Eviews. The object of research in this study is banking companies listed on the Indonesia Stock Exchange for the 2018-2022 period. The sampling technique used purposive sampling and found 175 observations. The results of this study show that Non-Performing Loans have a negative effect on Profitability and Loan to Deposit Ratio has a positive effect on Profitability. Meanwhile, inflation cannot moderate the relationship between Non-Performing Loans and Loan to Deposit Ratio to Profitability.

KEYWORDS: Loan to Deposit Ratio, Inflation, Non Performing Loan, Profitability.

PRELIMINARY

The success of the banking business depends on the volume of third-party funds collected and properly distributed as loans by the public which at a certain time will return accompanied by loan interest (Al Masud & Hossain, 2020). Profitability is a measure of a company's ability to earn profits (Tulsian, 2018). High profitability is a hallmark of bank health (Alyousufi, 2020). Banks with high profitability show strong fundamentals and are a positive signal related to bank health and show that management is able to carry out asset turnover efficiency well (Haryanto, Aristanto, Assih, Aripin, & Bachtiar, 2021). One ratio that can be used as an indicator of the level of profitability in banking companies is Return On Asset (Psaila, Spiteri, & Grima, 2019).
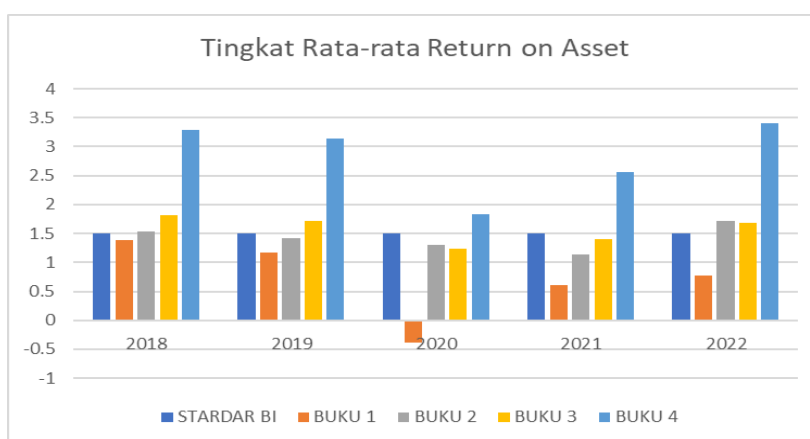

Figure 1. Average Rate of Return on Assets

Based on the figure above, it shows that the profitability of banking sector companies for the 2018-2022 period fluctuates and some companies tend to be below ideal standards. Based on the bank's financial performance report based on business groups reported in the Indonesian banking statistics report, there are 35 banking companies that have profitability below 1.5% of the 40 banks listed on the Indonesia Stock Exchange for the 2018-2022 period. According to the Indonesian banking statistics report, the

performance of BUKU 1, II, and II banks is still inconsistent in maintaining profit growth above the standard of 1.5%, as well as BUKU IV banks which also experienced a significant decline in profitability in 2020.

The low level of bank profitability illustrates that the company's net profit decreased in the current period due to the bank obtaining low interest income (Saleh & Afifa, 2020). As an intermediary institution, if the bank can distribute credit smoothly to the public, it can increase the bank's profits obtained from interest income derived from the credit distributed. Among several banking companies that also experienced a decline in profitability were PT Bank MNC Internasional Tbk, PT Bank Capital Indonesia Tbk, and PT Bank Tabungan Negara Tbk. PT Bank MNC Internasional, Tbk (BABP) experienced a decrease in net profit in 2020 by 47.41% (yoy) from Rp. 30,339 billion to Rp. 15,954 billion. In the same year the company experienced an interest decrease of 9.45% (yoy) from Rp. 1,071 trillion to Rp. 969 billion, but the total assets owned by the company increased 9.85% (yoy) from Rp. 10,607 trillion to Rp. 111,652 trillion.

The same thing happened to other banking companies such as PT Bank Capital Indonesia, Tbk (BACA) which experienced a decline in performance in 2021. The company's net profit for the year fell 43.36 (yoy) from IDR 61.41 billion to IDR 34.79 billion. The decline in the bank's net profit was in line with the company's interest income which decreased 26.40% (yoy) from Rp1.15 trillion to Rp846.72 billion, but the company's total assets increased 10.40% (yoy) from Rp20.22 trillion to Rp22.33 trillion.

Then seen from the financial statements of PT Bank Tabungan Negara, Tbk (BBTN). Reporting from the financial statements of PT Bank Tabungan Negara, Tbk shows that in 2019 the company's performance experienced a slump. This can be seen from the company's net profit for the year which decreased by 88.61% (yoy) from Rp3.6 trillion to Rp411 billion. The decline in the bank's net profit was in line with the company's interest income which decreased 11.18% (yoy) from Rp10.089 trillion to Rp8.961 trillion, but the company's total assets increased 1.74% (yoy) from Rp306 trillion to Rp311 trillion.

An increase in the company's total assets, followed by a decrease in interest income, illustrates that there are unproductive assets that have increased. When credit is distributed to the public later in the refund process and bank interest does not run smoothly, the credit is said to be an unproductive asset. When unproductive assets increase, it will make Non-Performing Loans increase and will reduce company profits.

Non-Performing Loan is one of the most powerful factors affecting the profitability of a bank (Kingu, Macha, &; Gwahula, 2018). Bank Indonesia has determined the bank's Non-Performing Loan standard of 5% (Bank Indonesia Circular Letter No. 6/23/DPNP Year 2004). If a bank's Non-Performing Loan is higher, there will be a decrease in the level of income and ultimately will reduce profitability (Hallunovi & Berdo, 2018). Research by Kingu, Macha and Gwahula (2018) states that there is a negative influence between Non-Performing Loans on profitability. This research is also in line with the research of Akter and Roy (2017) and Petkoviski, Kjosevski and Jovanovski (2018).

In addition to Non-Performing Loans, banks also have other internal factors that affect profitability, namely the Loan to Deposit Ratio. Loan to Deposit Ratio (LDR) is a ratio to measure a bank's ability to meet obligations by dividing total loans against total third party funds (Korri & Baskara, 2019). According to Bank Indonesia Regulation Number 17/11/PBI/2015, the upper limit of the Loan to Deposit Ratio is 92% and the lower limit of the Loan to Deposit Ratio is 78%. The higher Loan to Deposit Ratio to a certain point indicates that banks are able to utilize the funds collected to be redistributed in the form of credit optimally (Putra & Sampurno, 2021). If the bank disburses its credit effectively, the higher the Loan to Deposit Ratio will increase the bank's profit (Suciaty, Haming, & Nur, 2019). Research by Ambarawati and Abundanti (2018), states that the Loan to Deposit Ratio has a positive effect on profitability. This research is also supported by Korri & Baskara (2019).

Inflation is a continuous increase in the price of goods and services in a certain period which results in a decrease in the value of the currency against goods and services (Zulkarnain & Heliyani, 2020). Maintaining inflation stability is one of the important objectives of monetary authorities in a country (Anidiobu, Okolie, & Pleka, 2018). Bank Indonesia as the highest monetary authority in Indonesia stated that the money supply continued to increase from 2009 to 2019 (Ridwan, 2022). The money supply has a positive effect on inflation (Adim, 2021). An increase in the money supply can cause the price level to be higher, the value of money to decrease and make inflation increase (Tien, 2021). If this continues to happen, it will have an impact on the banking sector.

When the central bank raises the benchmark interest rate, it will affect interest rates on loans and bank deposits, when deposit rates increase it will attract customers to keep their money in the bank so that this can reduce the amount of money circulating in the community and can reduce inflation rates (Kemu & Ika, 2016). The results of research conducted by Jufriadi, Imaduddin,

Megawati, & Pramukti (2022), stated that the higher the inflation rate will increase the loan interest rate offered, it will reduce public interest in making loans and will reduce the bank's Loan to Deposit Ratio.

Higher inflation will have a negative impact on the amount of credit disbursed by banks. The results of research conducted by Mousa et al (2021), stated that when inflation increases, the price of goods and services will increase and cause the currency to lose value, this can affect saving and loan patterns in the community and will have an impact on bank operations. Based on the things that have been described, this study reexamines the "Effect of Non-Performing Loans and Loan to Deposit Ratio on Profitability with Inflation as a Moderating Variable" (Case study on Commercial Banks listed on the IDX for the 2018-2022 period).

THEORETICAL BASE

Bad Management Hypothesis

Bad management hypothesis theory states that bad management practices or decisions, inefficiencies, and misaligned incentives can result in negative outcomes for an organization that affect company performance and failure (Asysidiq & Sudiyatno, 2022). Bad management hypothesis theory in this study describes how bad management cannot utilize resources optimally so that the achievement of goals is not as expected. The impact of bad management is a manager's policy error which results in a lack of monitoring process on the credit disbursed caused by weak analysis carried out (Nisa, 2018). The lack of a monitoring process for loans disbursed to the public due to poor analysis can lead to an increase in Non-Performing Loans and will reduce bank profitability.

Anticipated Income Theory

Anticipated Income Theory is a theory developed by H.V. Prochanow in 1940. This theory is motivated by low credit applications to banks which result in excess liquidity and low profits obtained by banks (Kumaralita & Purwanto, 2019). The theory of income anticipation in this study describes that if the bank disburses credit, there are two forms of payment that will be received by the bank, namely principal installments and interest installments. The fulfillment of liquidity needs depends on the flow of principal and interest installment payments on the loans that have been distributed. If this goes smoothly, it will make it easier for banks to predict current assets that can increase bank profits. In this study, revenue anticipation theory assesses how banks can streamline high lending which will increase the Loan to Deposit Ratio and will increase bank profitability.

Keynesian Theory

Keynesian Theory is a theory developed by John Maynard Keynes in 1930. Keynes's theory explains, inflation can run because it is caused by groups of people who want to live more than the limit of their economic ability. This results in people spending more money for consumption than saving in the bank. The withdrawal of money can cause the money supply in the community to increase, which will further cause inflation and inequality. If the gap occurs, inflation will continue. In this study Keynes's theory is used to explain the relationship of inflation with other variables that will affect bank profitability such as Non-Performing Loans and Loan to Deposit Ratio.

Non Performing Loan

In the theory of bad management hypothesis, referring to bad bank management practices can cause inefficiency in disbursing credit, poor risk management, and not being able to manage assets and liabilities properly so that it will affect the quality of credit disbursed and trigger reduced bank revenue. The bad management hypothesis theory in this study explains that failure to channel funds into productive assets will trigger an increase in bad loans or Non-Performing Loans in the banking industry caused by poor management, lack of monitoring process for loans distributed to the public and poor analysis of trusted debtors. The higher the level of Non-Performing Loan, the greater the credit risk borne by the bank. Due to the high level of Non-Performing Loans, banks will be more careful in disbursing credit. The results of this study are supported by research from Wijayani (2023); Laryea et al. (2016); and Bhattarai (2017). So this study proposes the following hypothesis

H1: Non Performing Loan negatively affects Profitability.

Loan to Deposit Ratio

Based on the theory of revenue anticipation, it is explained that banks are expected to provide efficient credit and be balanced with timely repayment so that the bank's operating income increases. The payment schedule is in the form of principal

and interest installments and then also used as a supplier of cash flow or regular flow of funds so that the need for liquidity will be met. In its application, this theory is very efficient to be used in banking business activities. According to the theory of revenue anticipation, banks are encouraged to be more aggressive by boldly providing more promising credit. The results of this study are supported by research from Psaila, Spiteri, & Grima (2019); Do &; Ngo (2020); and Albulescu (2015). Therefore the next hypothesis is:

H2: Loan to Deposti Ratio positive affects Profitability.

Inflation

According to Keynes's theory, inflation can have an effect on non-performing loans on profitability which can be seen from a decrease in the value of the currency, a decrease in income levels, rising prices of goods, rising interest rates, and economic instability. When inflation increases, people will use their wealth to meet expenses due to rising prices of goods, and will make it difficult for people to pay their loans so that they can increase the level of Non-Performing Loans and will affect bank profitability (Rachmawati &; Marwansyah, 2019). Research of Fahlevi (2019); Josephine (2019); and Horobet, Radulescu, Belascu, &; Dita (2021) stated that the high inflation rate has decreased bank profitability. Research by Yuliani, Iswanaji, and Setyawan (2021) states that inflation is able to moderate the influence of Non-Performing Loans on Profitability. Therefore, the third hypothesis in this study is:

H3: Inflation is able to moderate the relationship of Non Performing Loan with Profitability.

According to Keynes's theory, when inflation occurs in a country eating will have an impact on economic instability seen from rising prices of goods, decreasing the value of the currency and leading to rising interest rates by central banks. High interest rates will prevent banks from investing their funds into the rill sector, banks will prefer to place customer deposits into Bank Indonesia rather than channeling funds to the public in the form of credit (Ridwan, 2016). Thus, this will affect the bank's intermediation performance. Therefore the Loan to Deposit Ratio will decrease and will affect the profitability of the bank. Therefore, the fourth hypothesis in this study is:

H4: Inflation is able to moderate the relationship of Loan to Deposit Ratio with Profitability

RESEARCH METHOD

The type of quantitative descriptive research became the design in this study. Data collection in the form of numbers becomes a symbol of an event or event, and analysis is carried out using statistical techniques (Yusuf, 2016). Population is a bank company listed on the Indonesia Stock Exchange in the 2018-2022 period. The population is taken from the source site www.idx.co.id. Sampling using Purposive Sampling Technique. A related method of assigning samples based on certain criteria is called the purposive sampling method (Radjab & Jam'an, 2017). A total of 35 companies became the population and the criteria applied in taking samples are as below: (1) Bank companies that are successively listed on the Indonesia Stock Exchange during the 2018-2022 period. (2) Companies that successively publish financial statements to the public during the period 2018-2022.

The data analysis technique uses panel data regression. Resear'hers utilize EViews with the aim of knowing how the results of the influence of the independent variable on the dependent variable, namely stock return. After multiple regression analysis testing was carried out, the moderating variable, probability financial distress, was regression tested using interaction tests. This test is to understand the presence or absence of the ability of moderating variable to moderate the relationship between the independent variable and the dependent variable. The regression equation used is as below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$
$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 Z + \beta_7 X_1.Z + \beta_8 X_2 Z + \beta_9 X_3.Z + \beta_{10} X_4.Z + \beta_{11} X_5.Z + \varepsilon$$

Information:

Y	: Profitabilitas
α	: Constant
$\beta_1 - \beta_{11}$	: Regression Coefficient
X_1	: Non Performing Loan
X_2	: Loan to Deposit Ratio

Z	: Inflasi
ε	: Standard Error

RESEARCH RESULTS

Descriptive Statistic

This research uses data on the financial statements of bank companies for the 2018-2022 period with 175 observations. Based on descriptive statistical data, information was obtained about the minimum, maximum, mean, and standard deviation values of each variable in the study. The results of descriptive statistical data are presented in the table below:

Table 1. Descriptive Statistic Results

	Maximum	Minimum	Mean	Std. Dev
Profitabilitas	0.047400	-0.147500	0.003087	0.025064
Non Performing Loan	0.222700	0.000000	0.036434	0.028987
Loan to Deposit Ratio	1.631900	0.123500	0.852232	0.250102
Inflasi	0.042100	0.015600	0.028080	0.009317

Normality Test

The results of the normality test conducted with the Jarque-Bera Test stated that the data were normally distributed. Here are the normality test results:
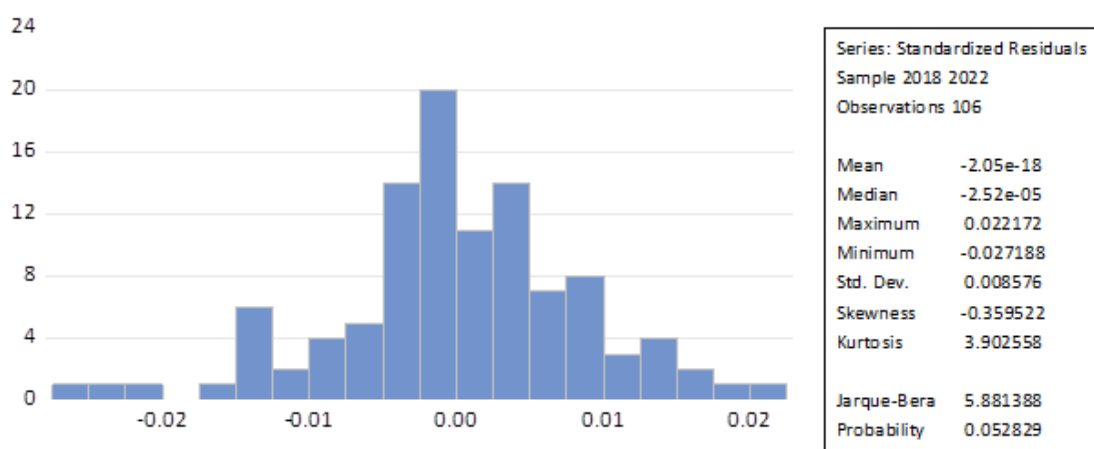

Figure 2. Normality Test Results

Multicollinearity Test

The results of the multicollinearity test conducted showed that there was no multicollinearity in this study. The following are the results of the multicollinearity test:

Table 2. Multicollinearity Test Results

	Y	X1	X2
Y	1.000000	-0.558010	0.092710
X1	-0.558010	1.000000	0.021547
X2	0.092710	0.021547	1.000000

Heteroscedasticity Test

The results of the heteroscedasticity test conducted with the Glejser Test showed that heteroscedasticity did not occur in this study. The following are the results of the heteroscedasticity test:

Table 3. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.008722	0.004330	2.014284	0.0466
X1	-0.028194	0.041072	-0.686469	0.4940
X2	-0.001847	0.004913	-0.375866	0.7078

Autocorrelation Test

The results of the autocorrelation test conducted with the LM Test showed that there was no autocorrelation in this study. Here are the results of the autocorrelation test:

Table 4. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:			
Null hypothesis: No serial correlation at up to 2 lags			
F-statistic	2.856736	Prob. F(2,101)	0.0621
Obs*R-squared	5.675273	Prob. Chi-Square(2)	0.0586

Hypothesis Test

After testing the data analysis requirements is completed, significance testing is carried out with the results of panel data regression using a random effect model as follows:

Table 5. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.004961	0.004952	1.001941	0.3197
X1	-0.219533	0.053418	-4.109731	0.0001
X2	0.013785	0.005474	2.518182	0.0140
R-squared	0.882578	Mean dependent var		0.009179
Adjusted R-squared	0.828759	S.D. dependent var		0.010418
S.E. of regression	0.004311	Akaike info criterion		-7.800557
Sum squared resid	0.001338	Schwarz criterion		-6.946247
Log likelihood	447.4295	Hannan-Quinn criter.		-7.454301
F-statistic	16.39917	Durbin-Watson stat		2.575138
Prob(F-statistic)	0.000000			

Hypothesis Test with Moderating Variable

After testing the first equation hypothesis, testing the second equation hypothesis was carried out with the results of panel data regression using a random effect model with moderating variable as follows:

Table 6. Hypothesis Test Results with Moderation Variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.013553	0.011942	1.134917	0.2603
X1	-0.292070	0.136508	-2.139579	0.0359
X2	-0.000924	0.014413	-0.064082	0.9491
Z	-0.088882	0.420731	-0.211257	0.8333

X1.Z	3.052711	4.251236	0.718076	0.4751
X2.Z	0.238748	0.499807	0.477680	0.6344
R-squared	0.903888	Mean dependent var		0.009179
Adjusted R-squared	0.853742	S.D. dependent var		0.010418
S.E. of regression	0.003984	Akaike info criterion		-7.944211
Sum squared resid	0.001095	Schwarz criterion		-7.014520
Log likelihood	458.0432	Hannan-Quinn criter.		-7.567402
F-statistic	18.02528	Durbin-Watson stat		2.521598
Prob(F-statistic)	0.000000			

DISCUSSION

The Effect of Non Performing Loan on Profitability

Based on the results of testing the effect of Non-Performing Loans on Profitability partially, it is known that the Non-Performing Loan variable has a regression coefficient value of -0.219533. A negative coefficient means that every increase in Non-Performing Loans by 1 will decrease Profitability by 21.95% (provided that other independent variables are constant). The significance value of the Non-Performing Loan variable is $0.0001 < 0.05$ so that it can be concluded that the Non-Performing Loan variable has a negative influence on Profitability. Therefore H1 in this study is accepted.

The results of this study are in line with the theory of Bad Management hypothesis which states that the emergence of non-performing loans is the result of poor bank management. Poor management practices will have an impact on the bank's profit on the quality of credit provided to debtors. This poor management practice is because managers are not competent enough to carry out various credit distribution activities such as credit scoring, assessing collateral to supervising debtors. These factors eventually resulted in an increase in Non-Performing Loans in banking companies.

The results of this study are in line with the results of previous research conducted by Aysegul Berrak Koten (2021), Ekinci R &; Gulden Poyraz (2019), Yuga Raj Bhattarai (2017), Ayrton Psaila, Jonathan Spiteri, &; Simon Grima (2019), Ivan D Trofimov, Nazaria Md, & Jovena Kho Ying Ying (2018), and Hoai Linh Do, Thanh Xuan Ngo, & Quoc Anh Phung (2019) who said that Non-Performing Loans have a significant negative effect on profitability.

The Effect of Loan to Deposit Ratio on Profitability

Based on the results of tests conducted on the effect of Loan to Deposit Ratio on Profitability partially, it is known that the variable Loan to Deposit Ratio has a regression coefficient value of 0.013785. A positive coefficient means that every increase in the Loan to Deposit Ratio of 1 will increase Profitability by 1.37% (provided that other independent variables are constant). The significance value of the variable Loan to Deposit Ratio is $0.0140 < 0.05$ so it can be concluded that the variable Loan to Deposit Ratio has a positive influence on Profitability. Therefore H2 in this study is accepted.

The results of this study are in line with the theory of Anticipated Income Theory proposed by Haslem (1984) which states that banks should channel credit and are expected to be balanced with timely repayment so as to increase bank operating income. The greater the credit distribution, the greater the potential profit of the bank. This indicates that the bank is able to fully distribute third-party funds that have been collected to maximize the credit distributed to the public.

The results of this study are in line with the results of previous research conducted by (Harianto, Aristante, Asih, Aripin, & Bachtiar, 2021) (Haryanto, Aristanto, Assih, Aripin, & Bachtiar, 2021); Do & Ngo (2020); Ambarawati & Abudanti (2018); Paramita & Dana (2019); Putri & Dewi (2017), and Albulescu (2015) who said that Loan to Deposit Ratio have a significant positive effect on profitability.

The Ability of Inflation as a Moderating Variable to Stock Returns

Based on the results of MRA testing conducted on the effect of the Inflation variable in moderating Non-Performing Loans on Profitability, it is known that the Inflation variable has a regression coefficient value of 3.05271. The significance value of the Inflation variable is $0.4751 > 0.05$ so it can be concluded that the Inflation variable has no influence in moderating Non-Performing Loans on Profitability. Therefore H3 in this study was rejected

This research is in line with the Financial Accelerator theory which explains how changes in the economy involve increases and decreases in income there are other factors that are most important in determining the effect of Non-Performing Loans on bank profitability, not just inflation. This theory states that when there is excess demand, caused by increasing national income, production companies usually choose to increase production and capital investment so as to increase profits. If this goes well, the distribution of credit by banks to production companies will run smoothly accompanied by credit payments along with interest. In addition, banks must also consider other factors that will affect Non-Performing Loans to Profitability, one of which is the bank's risk management policy. This research is in line with research conducted by Zulkarnain & Heliyani (2020) which states that Inflation is unable to moderate the influence of Non-Performing Financing on Profitability.

Based on the results of MRA testing conducted on the influence of the Inflation variable in moderating the Loan to Deposit Ratio on Profitability, it is known that the Inflation variable has a regression coefficient value of 0.2387. The significance value of the Inflation variable is $0.6344 > 0.05$ so it can be concluded that the Inflation variable has no influence in moderating the Loan to Deposit Ratio to Profitability. Therefore H4 in this study was rejected.

This research is in line with the Financial Accelerator theory which explains that when there is excess demand, caused by increasing national income, production companies usually choose to increase production and capital funding so as to increase profits. If this goes well, the distribution of credit by banks to production companies will run smoothly accompanied by credit payments along with interest. The results of this study are consistent with research conducted by Astohar (2016) stating the results that inflation is not able to moderate the effect of Loan to Deposit Ratio on Profitability.

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