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THE ROLE OF INFLATION, INTEREST RATES AND STABLE EXCHANGE RATES IS NEEDED FOR BANKING COMPANIES

Syahrul Hidayatulloh
Master of Management Study Program, Prof. Dr. Moestopo University (Beragama), Jakarta.
Jubery Marwan
Postgraduate Program, Prof. Dr. Moestopo University (Beragama), Jakarta.
Mega Zahera Utama
Postgraduate Program, Prof. Dr. Moestopo University (Beragama), Jakarta.

*Correspondence: Syahrulh628@gmail.com

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ABSTRACT

This research aims to determine and analyze the impact of inflation, Bank Indonesia's interest rates, and exchange rates on financial performance based on return on equity in banking companies listed on the Indonesia Stock Exchange. The subjects of this research were the banking companies in Indonesia. The data source uses panel data. The sampling technique used purposive sampling with specific criteria for companies that have undergone audits and market trends that have experienced a decline, totaling twenty seven companies. Before conducting multiple regression analysis, the data underwent prerequisite tests in the form of classical assumption tests. The research results show that: With the increase in interest rates, the net asset value in the banking industry decreases. The higher the interest rate applied, the more it will reduce the amount of bank credit. The impact will reduce profits and equity. When the exchange rate of the rupiah is higher, the tendency for prices to increase affects the rise in commodity prices. Next, production costs rise, leading to a loss of product competitiveness and a decline in company performance, marked by decreasing net profit and equity.

INTRODUCTION

Along with the positive development of the national economy, the capital market also showed quite good performance in 2022. At the end of the year, the market capitalization of IDX stocks reached IDR 9,499 trillion or increased by 15.06% compared to 2021. In addition, growth also occurred in other indicators, such as the average daily trading volume increased by 15.96% to 23.9 billion shares, the average daily transaction value increased by 9.98% to IDR 14.7 trillion, and the average daily trading frequency increased by 0.88% to 1.3 million stock buying and selling transactions that occurred. The Composite Stock Price Index touched a record high of 7,318 on September 13, 2022, but was corrected to 6,850 at the end of 2022, among other things related to the tightening of monetary policy through an increase in Bank Indonesia's benchmark interest rate in response to the hawkish stance of the Central Bank in the United States which has raised interest rates by 425 basis points throughout 2022 (Central Bureau of Statistics of the Republic of Indonesia, 2023).

The importance of financial ratio analysis in assessing bank performance in a number of studies shows that profitability ratios, such as return on assets (ROA) and return on equity (ROE), are important indicators that show how effective bank management is in generating profits from assets and equity owned (Almira & Wiagustini, 2020). The fluctuating economic conditions in Indonesia, especially in recent years, require the banking sector to continue to adapt to change. External factors such as changes in monetary policy, inflation, and global economic conditions have a significant impact on bank financial performance. Therefore, a deep understanding of how these factors affect bank financial ratios is very important (Mahaningrum & Merkusiwati, 2020).

Many factors affect the financial performance of banking, including internal and external factors. These factors are thought to affect profitability, where in this study is about inflation and Bank Indonesia interest rates, SBI is a reference interest rate issued by Bank Indonesia to banking companies in applying credit and debit interest to its customers. As a central bank, Bank Indonesia has one single goal, namely to achieve and maintain the stability of the rupiah. SBI is a policy interest rate that reflects the monetary policy stance set by Bank Indonesia and announced to the public. SBI is an indication of the short-term interest rate desired by Bank Indonesia in an effort to achieve the inflation target (Alim, 2014). This inflation factor is related to SBI in influencing the real national economy in two ways: inflation can reduce economic efficiency, and inflation can affect total output. There are three components that affect the inflation rate: 1) Increase in commodity prices; 2) General in nature; 3). Continuous and this is what causes the economic crisis (Rahardja & Manurung, 2008). This economic crisis also makes the banking system fragile because the rupiah exchange rate has fallen sharply, this condition causes banking institutions to continue to lose and their capital is increasingly depleted which ultimately results in the liquidation of a number of banks. The government's policy to continue to maintain fiscal continuity and Bank Indonesia's commitment to maintaining the stability of the rupiah and strengthening the banking system have a positive impact on the direction of economic development. These factors can affect profitability directly and indirectly. In addition to other external factors related to how much customers can understand the importance of financial technology for themselves in accessing banking. By understanding financial literacy well, the impact of accessibility to banking will increase (Marwan, 2024).

Irwadi's findings (2014) show that inflation and BI Rate, both simultaneously and partially, do not have a significant effect on banking profits (Irwadi, 2014). Increasing interest rates trigger a decrease in the net asset value in the banking industry. The higher the interest rate applied, the lower the amount of bank credit. The impact will reduce profits and its own capital (equity) as well as increases in interest rates and exchange rates. Other support from Alim's research (2014) that; 1) Inflation has a positive and insignificant effect on Return on Assets (ROA); 2) BI Rate has a negative and insignificant effect on Return on Assets (ROA); 3) Inflation and BI Rate together do not have a significant effect on Return on Assets (ROA). This means that the variables of inflation and BI Rate only have a low and insignificant effect on Return on Assets. This is because the operational system of Islamic Banks does not use interest, so the influence of inflation and BI Rate only slightly affects operational risk and credit risk (Alim, 2014).

Meanwhile, Sopiani's (2018) findings in his research that both partially and simultaneously, the variables of operating expenses, operating income and financing to deposit ratio have no effect on return on equity. Profitability in terms of Return on Equity is a very central financial performance in company growth, because this ratio is calculated from net profit or company profit that has been subject to tax deductions from the company's equity. Investors view Return on Equity as an important profitability indicator, the size of Return on Equity depends on the company's ability to generate optimal profits. Issuer companies that generate large profits will further increase the value of Return on

Equity. Thus, ROE is one of the profitability ratios that is widely viewed by prospective investors (Sopiani, 2018).

THEORITICAL FRAMEWORK

Inflation

According to Bank Indonesia (2008) in the inflation targeting framework, inflation is defined as the tendency of prices to increase in general and continuously. Meanwhile, according to Dwi Eko Waluyo (2002) (Waluyo, 2002), inflation is one of the forms of economic diseases that often arise and are experienced in almost all countries. The tendency of price increases in general and occurs continuously. According to Sadono Sukirno (2011:165), inflation is a process of increasing prices that apply in an economy (Sadono, 2011). According to J, Winardi (2012) explains that inflation is a period at a certain time, occurs when the purchasing power of a monetary unit decreases (Winardi, 2012). The definition of inflation can arise if the value of money deposited in circulation is greater than the amount of goods or services offered. Actually, the definition of inflation is more of a continuous increase in the price of goods and services in general and will affect the exchange rate and product of goods/services (Bank Indonesia, 2008).

According to M. Natsir (2014:255) the main factors that cause inflation, inflation can be caused by both the demand side, and the supply side or expectations, namely: 1) The first that causes inflation is the supply factor and the increase in prices (inflation) caused is called cost push inflation or shock inflation. This inflation is caused by an increase in production costs or procurement costs and Inflation due to demand pull (demand full inflation) Inflation due to demand pull is an increase in prices that arise as a result of the interaction between domestic demand and supply in the long term; 2) Inflation is caused by cost push (cost push inflation). Producers must raise prices so that profit income (profit) and production activities can continue in the long term (sustainable); 3) Inflation is caused by excessive expectations in the market. This inflation expectation greatly influences the formation of prices and wages. If economic actors, both individuals, the business world think that the rate of inflation in the previous period will still occur in the future, then economic actors will anticipate to minimize possible losses. Business actors will calculate production costs with price level increases as in the past (Natsir, 2014). Inflation and interest rates do not have a partial effect on credit demand, while the amount of income has a significant effect. The contribution of inflation and interest rates and the amount of income are very decisive for changes in credit demand. Inflationary pressures have caused low debt repayment from debtors. Banks must be careful in this second semester business period (Supriyanti, 2012).

Interest Rate (BI Rate)

According to Yoopi Abimanyu (2004:35) that the BI rate as an interest rate which is the price of financial assets in general, interest rates can be divided into nominal interest rates and real interest rates" (Abimanyu, 2004). According to M. Natsir (2014:104) states that the definition of the BI Rate is as follows: The BI rate is a signal in the form of a number in the transmission of monetary policy that shows the current economic situation, including a picture of the challenges in achieving the inflation target. Meanwhile, Bank Indonesia defines the BI Rate as a policy interest rate that reflects the attitude or stance of monetary policy set by Bank Indonesia and announced to the public. The BI Rate is announced by the Board of Governors of Bank Indonesia at each monthly meeting of the board of governors and is implemented in monetary operations carried out by Bank Indonesia through liquidity management in the money market to achieve the operational targets of monetary policy (Natsir, 2014).

The target of monetary policy is reflected in the development of overnight interbank money market interest rates. Movements in this interest rate are expected to be followed by developments in deposit interest rates, and in turn bank lending rates. By considering other factors in the economy, Bank Indonesia will generally raise the BI Rate if future inflation is expected to exceed the set target,

conversely Bank Indonesia will lower the BI Rate if future inflation is expected to be below the set target. In this study, the BI rate is the application of the interest rate resulting from Bank Indonesia's policy analysis which reflects the attitude or stance (signal) of monetary policy that is set and announced to the public. Bank Indonesia will generally raise the BI Rate if future inflation is expected to exceed the set target, conversely Bank Indonesia will lower the BI Rate if future inflation is expected to be below the set target (BI rate: www.bi.go.id, 2024).

Findings by Erawati & liewelyn (2008) (Erawati & Llewelyn, 2008). With the discovery of short-term interest rate spreads that have a unidirectional and significant movement compared to the long term so that they can be used as a benchmark for inflation expectations, this finding suggests that the government be more careful in making policies related to interest rates (BI) because they are closely related to rising inflation rates, especially in the short term. The higher the interest rate, the higher the inflation rate, this indication is seen from the tight money policy by raising interest rates through open market operations, it will indeed have a positive impact when viewed from the emphasis on the amount of money in circulation, but in this case it will cause problems in the real sector due to public funds being absorbed entirely into banking, so that national production is hampered, so that prices will increase sharply with the scarcity of products on the market (Kasmir, 2015).

Exchange Rate

In line with Bank Indonesia's policy (2008) that the exchange rate is the amount of domestic currency that must be paid to obtain one unit of foreign currency. Understanding the Rupiah Exchange Rate The exchange rate of one currency against another is part of the foreign exchange process. The increase in the exchange rate (appreciation) and the decrease in the exchange rate (depreciation) of one currency against another are part of the foreign exchange process. This statement usually refers to recent changes in the exchange rate. If a currency appreciates, it is said that the currency is strengthening because it can buy more foreign money. Likewise, when a currency depreciates, it is said that the currency is weakening. The exchange rate is a record (quotation) of the market price of a foreign currency in the price of a domestic currency, or a domestic currency in a foreign currency.

The exchange rate describes the exchange rate of one currency to another and is used in various transactions, including international trade transactions, or short-term money rules between countries that cross geographical boundaries or legal boundaries (Karim, 2006). Many countries, especially developing countries, set the value of their currency based on a basket of currencies. The advantage of this system is that it offers stability to a country's currency because currency movements are spread across a basket of currencies. The selection of currencies included in the "basket" is generally determined by their role in financing the trade of a particular country. Different currencies are given different weights depending on their relative role to the country. So a basket of currencies for a country can consist of several different currencies with different weights. Furthermore, Bank Indonesia also implements a fixed exchange rate policy. Where the country announces a certain exchange rate on behalf of its money and maintains this rate by agreeing to sell or buy foreign exchange in unlimited amounts at that rate. The exchange rate is usually fixed or allowed to fluctuate within very narrow limits and vice versa.

Many factors cause the increase in financial performance of banking companies, including capital adequacy, production cost efficiency, ability to manage financial resources, consistent net profit, and good receivables management ability. Empirical evidence shows that what causes financial performance to increase is internal factors that affect Bank profitability such as size, capital, risk management and cost management, while economic factors that need to be considered are inflation, interest rates, exchange rates and output cycles, as well as variables that present large characteristics (Jayanthi et al., 2009). In this

study, the measurement of the exchange rate variable is in line with Bank Indonesia's policy (2008) in taking the policy of implementing the rupiah exchange rate against foreign exchange rates (especially the US Dollar).

Financial Performance (Return On Equity)

Financial performance in this study is proxied by return on equity, which is a ratio to measure the level of net income obtained by the company owner on the invested capital. The higher this ratio, the better because it provides a greater rate of return to shareholders. According to Hery (2016) (Hery, 2016), return on equity is a ratio that shows how much equity contributes to creating net profit. The higher the return on equity, the higher the amount of net profit generated from each rupiah of funds invested in equity. This ratio can also be interpreted as the level obtained by the business owner from the capital that has been issued for the business (Hantono, 2015). The capital that has been issued by the capital owner in the company, the owner will then calculate the profitability of his own capital, how much ratio to get net profit after tax (Kasmir, 2015). When associated with investment, return on equity is used to measure the amount of return on investment of shareholders. The investment figure shows how good the investment management of shareholders is (Jumingan, 2014). The level of return on equity has a positive relationship with stock prices, so the greater the return on equity, the greater the market price, because the large return on equity indicates that the returns that investors will receive will be high, so investors will be interested in buying the shares, and this causes the stock market price to tend to rise.

According to Lukman Syamsuddin (2009), return on equity is a measurement of the income available to company owners (both common shareholders and preferred shareholders) for the capital they invest in the company (Lukman, 2009). The return on equity ratio identifies how much a company is able to make a profit through the use of its equity, so the greater the calculation obtained, the better the company's performance. The return on stock investment is a measurement to show the magnitude of the role of equity when getting net profit. So it can be said, this ratio has a use as a benchmark for how much net profit will be obtained from each fund that has been invested in total equity. Furthermore, a ratio that is influenced by the amount of company debt and also its use as a benchmark in assessing how capable a company is in getting profit for shareholders (Kasmir, 2015). This ratio is also needed to review the extent to which the company utilizes the resources it has to provide profit on its equity. From these several definitions, it can be concluded that return on equity is a ratio whose use can be a benchmark in obtaining profits by comparing the equity or own capital owned with the composition of the company's debt capital.

RESEARCH METHOD

This study uses a quantitative approach with an explanatory research type with the intention of testing hypotheses with several independent variables against the dependent variable. This study was conducted focusing on the banking industry listed on the Indonesia Stock Exchange. The selected population is the entire banking industry totaling 47 companies that have submitted financial reports related to profit after tax and equity (working capital) in the last three years during the period 2020-2022. However, there are 20 companies that have not submitted their complete financial reports and generally the companies are in a loss-making condition, so the sample set is 27 companies for 3 years (n = 81) using a purposive sampling technique. Secondary data was obtained through information from the pages of the Indonesian Central Statistics Agency, Bank Indonesia and the Indonesia Stock Exchange in Jakarta. To meet quality data in multiple regression analysis, all research variables must meet the prerequisite assumptions, namely normally distributed data (Sugiono, 2009).

RESULT AND DISCUSSION

Before knowing the findings, the researcher made a picture of the model equation that had been developed previously as in Figure 1 as follows:

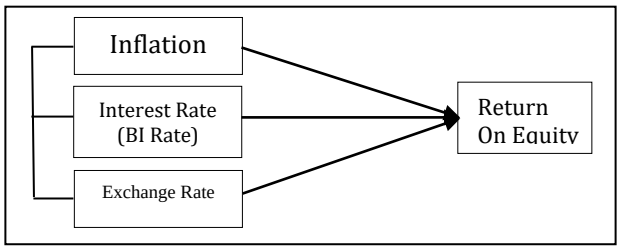

Figure 1. Research Model Equation.

From Figure 1, we can formulate the problem as follows: a) inflation affects return on equity; b) interest rate affects return on equity; c) exchange rate affects return on equity.

The results of the normality test in this study are to determine the level of distribution of the dependent variable and the independent variable is normally distributed or not. In this study, the data normality test uses the one sample kolmogorov-smirnov test. If the significance probability value (Asymp. Sig. (2-tailed) is greater than 0.05, it means that the data is normally distributed, and vice versa. From table 1 below, it is known that the results of the normality test for all variables are normally distributed. (Bank Indonesia, 2023c)

Table 1. Results of the One-Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		81
Normal Parameters[a,b]	Mean	-.1844185
	Std. Deviation	.13940500
Most Extreme Differences	Absolute	.074
	Positive	.074
	Negative	-.069
Test Statistic		.074
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.

From table 1 we can conclude that all variables involved in this study have a normal distribution. In addition to the normality test, another assumption is the multicollinearity test. The results of the multicollinearity test show that the results of the multicollinearity test for each variable have values; a) The inflation variable has a tolerance value of 0.011 or less than one and has a VIF value of 93,097 or above one; b) The interest rate variable has a tolerance value of 0.001 or less than one and a VIF value of 1243,498 or above one; c) The exchange rate variable has a tolerance value of 0.001 or less than one and a VIF value of 717,740 or above one. Thus, the regression model does not find any correlation between independent variables.

Furthermore, another assumption test is the autocorrelation test used to test whether the linear regression model has a correlation between the confounding error in period t and the confounding error in period t-1 (previously). This problem arises because the residual (confounding error) is not free from one observation to another. A good regression model does not have autocorrelation problems. The most widely used test to see the results of the autocorrelation test using the Durbin-Watson assumption (DW test), the dU (upper limit) and dL (lower limit) values can be obtained from the Durbin Watson (DW) statistical table which depends on the number of dependent variables or independent variables (Imam Ghozali, 2018). The results of the autocorrelation test show that the Durbin-Watson value is 1,920, then we see the results of the du and dL tables with samples (k-3) using a significance level of 5% there is a dL value of 1,560 and dU of 1.715. Thus, the decision making for the autocorrelation test is that there is no correlation, either positive or negative, meaning there is no autocorrelation problem.

Furthermore, to find out whether a variable has an effect or not, it can be seen from the results of the multiple regression test. With the help of SPSS. Version 23, we

can see the results of the multiple linear regression test as in table 2 below:

Table 2. Results of Multiple Linear Regression Test

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.909	14.343	-	.273	.786
	Inflasi	-.139	1.148	-.046	-.121	.904
	Suku Bunga	-.484	3.174	.210	.153	.879
	Nilai Tukar	-1.373	1.293	-1.111	-1.061	.292

a. Dependent Variable: Return On Equity
b. Linear Regression through the Origin
Source: Data processed by SPSS Version 23, 2024.

Based on table 2, the results of the multiple regression analysis above can be seen that the constant value is 3.909 and the unstandardized coefficient value of the inflation variable is -0.139, the interest rate variable is 0.484, and the unstandardized coefficient value of the exchange rate variable is -1.373. Thus, the following equation can be calculated:

Y = 3,909 + (-0,139) + (-0,484) + (-1,373) + e.

The results of the multiple regression indicate that: 1) If inflation increases by one unit and the others are considered constant, it can reduce financial performance; 2) If the Bank Indonesia interest rate increases by one unit and the others are considered constant, it can reduce financial performance; 3) If the exchange rate increases by one unit and the others are considered constant, it can reduce financial performance.

Furthermore, to find out whether a variable has an effect or not, we can see from the results of the t-test as in table 2 as follows: 1) The inflation variable does not have a significant effect on financial performance in the banking industry. This indication is caused by the calculated t value of -0.121 which is smaller than the t-table value of 1.67943 and its significance value of 0.904 or greater than its significance value of 0.05; 2) The Bank Indonesia interest rate variable does not have a significant effect on financial performance in the banking industry. This indication is caused by the obtained calculated t value of 0.153 which is smaller than the t-table value of 1.67943 and its significance value of 0.879 which is greater than its significance level of 0.05; 3) The exchange rate variable does not have a significant effect on financial performance in the banking industry. This indication is caused by the acquisition of a calculated t value of -1.061 smaller than the t table value of 1.67943 and its significance value of 0.292 is greater than its significance level of 0.05. (Bank Indonesia, 2023b)

Furthermore, to determine the overall contribution of the influence of inflation, Bank Indonesia interest rates and exchange rates on financial performance proxied by return on equity can be seen from the results of the F test as in table 3 as follows:

Table 3. Simultaneous Statistical Results of F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.291	2	.646	.427	.654[b]
	Residual	113.500	75	1.513		
	Total	114.791	77			

a. Dependent Variable: Return On Equity
b. Predictors: (Constant), Nilai Tukar, Inflasi
Source: Data processed by SPSS Version 23, 2024.

Based on table 3 above, the F count value is 0.427, this value when compared to F table is smaller than the F table value. Furthermore, the significance level value is

0.654 or greater than 0.05. Because the F count value is smaller than the F table value and the significance value is above 0.05, it can be concluded that the variables of inflation, interest rates and exchange rates do not have a significant effect simultaneously on financial performance (ROE) in the banking industry listed on the Indonesia Stock Exchange for the period 2020-2022 (Bank Indonesia, 2023a).

Furthermore, to find out the contribution of the model equation in the research developed, it can be seen from the results of the determination coefficient test as follows; The results of the determination coefficient test (R¬2) show that the value obtained by R-Square is 0.011, this indicates that the amount of contribution of the model equation developed in the research model is 1.1%.

DISCUSSION

As the research results that have been described above, the discussion of the results of this study contains not only the results of statistical tests in brief, but also accompanied by confirmation of previous findings along with the depth of analysis. The results of the discussion are as follows:

1. Inflation Does Not Have a Significant Effect on Return On Equity.

The results of the statistical test show that the calculated t value is -0.121. This value is smaller than the t table value of 1.67943 and its significance value is 0.904 or greater than its significance level of 0.05. This finding indicates that inflation can have a negative impact on financial performance in the Indonesian banking industry. The negative impact is marked by the increase in inflation that applies during that period, thus triggering the emergence of rising commodity prices. With the increase in these prices, many customers will withdraw more money to increase their spending. This condition allows banks to lack working capital.

The inflationary conditions that occurred in the 2020-2022 period for the banking industry provide a negative signal as one of the financial components of the real condition of the banking industry which has a vital urgency in improving its financial performance. This is if the inflation rate is too high in a region, it can have a bad effect on the condition of a company, however, if the inflation rate is too low, it can also result in symptoms of financial errors for a company. The inflation rate that occurs in this period can trigger a decline in financial performance for banking companies. The indication is that the large decrease in net profit is accompanied by a lack of working capital from its own capital structure (equity).

These findings can confirm the findings of Heti Herawati et, al (2023) that there is an influence between inflation and the return on equity of state-owned banking companies listed on the Indonesia Stock Exchange (IDX) in 2013-2018 (Indonesia Stock Exchange, 2023). This means that the tendency for inflation to occur in this period is still within reasonable limits. So that inflation can still increase return on equity. This indication is still a lot of banking industry still get very large net profit after tax with its own capital and able to measure its overall production capacity of the company's funds used. This means that even though inflation occurs, banking companies are still able to earn profit for their own capital owners, which is an indication of the increasing level of return on equity (Herawati et al., 2023).

2. Interest Rates Do Not Have a Significant Effect on Return on Equity

The statistical test results show that the calculated t value of 0.153 is smaller than the t table value of 1.67943 and the significance value of 0.879 is greater than the significance level of 0.05. These findings indicate that in the view of investors, return on equity is an important indicator of profitability, so investors' expectations of government policy (Bank Indonesia) on applicable interest rates are implementing policies that can spur the growth of the banking industry. The increase in interest rates has caused most customers or investors to divert their funds from banks to other instruments (stocks) or other investments. The increase in interest

rates has triggered a decrease in the net asset value of the banking industry. The higher the interest rate imposed by the government (BI), the lower the amount of bank credit will be. This results in decreased profits and its own capital (equity).

This finding is in line with Hermawan et al., (2016), (Hermawan et al., 2016) that interest rates have a negative effect on the performance of conventional stock mutual funds. However, this study is not in line with the study conducted by Purwaningsih et al., (2017), which stated that interest rates affect the performance of conventional stock mutual funds. Investor behavior mostly still uses returns as a measure of investment. This shows that changes in interest rates have a significant influence on investor decisions to invest in stock products (mutual funds) (Purwaningsih et al., 2017).

3. Exchange Rate Has No Significant Effect on Return On Equity.

The results of the statistical test show that the calculated t value of -1.061 is smaller than the t table value of 1.67943 and the significance value of 0.292 is greater than the significance level of 0.05. These findings indicate that the increasing value of the rupiah against the US dollar which continues to occur will have an impact on decreasing investment interest in deposits and savings, and the strengthening of foreign exchange motivates customers/investors to withdraw their funds from the bank. When foreign exchange is higher, it will result in an increase in commodity prices. The rise and fall of the rupiah binds the burden of production which ends in the loss of product competitiveness and a decline in financial performance.

In line with Fahmi (2014) that there are several factors that influence the strengthening of a country's foreign exchange rate, namely; Exports are greater than imports, the balance of payments is in surplus, the balance of growth is in surplus, economic growth is increasing, and the inflation rate is low and vice versa. Knowing the forecast of foreign exchange rate movements is important. The forecast can be done by knowing whether foreign exchange rate fluctuations can be predicted, knowing whether fundamental and technical analysis can be used to predict exchange rate movements. In addition, by knowing the factors that influence exchange rate fluctuations, both technical and fundamental. When the rupiah exchange rate strengthens in stable conditions, it triggers profit growth and its capital in the banking industry will increase, because it is supported by stable economic growth. (Fahmi, 2014)

4. Inflation, Interest Rates and Exchange Rates Have No Significant Effect on Return on Equity.

The results of the statistical test show that the F count value is 0.427, this value when compared to Ftable is smaller than the F table value. Furthermore, the significance level value is 0.654 or greater than 0.05. This finding indicates that the inflation rate, BI Rate and exchange rate simultaneously or partially do not have a significant effect on return on equity. Overall, the combination of high inflation, high interest rate policies, and high unstable exchange rates can create significant pressure on the economy. So that the banking industry cannot take advantage of maximum opportunities and profits. Inflation in relation to interest rates will affect company performance (ROE) because creditors or public customers tend to invest their funds in banks. However, in conditions of high inflation, high interest rates, accompanied by a decline in the rupiah exchange rate against the dollar, these conditions trigger creditors to be reluctant to borrow their capital from banks. Inflation that is too high in a region can have a negative impact on the economic condition of a company, but inflation that is too low can also result in symptoms of financial errors for a company. Likewise, the imposition of high interest rates has an impact on low absorption of credit and bank deposits/savings. Furthermore, the high exchange rate that applies has an impact on decreasing people's

purchasing power. In this condition, customers do not have savings and withdraw their deposits or savings for their primary needs.

This finding is in line with Irwadi (2014) that inflation and BI Rate, both simultaneously and partially, do not significantly affect banking profits. Inflation, interest rates and exchange rates cause a decline in the company's financial performance. Not only banking companies but in all business sectors. Some of the company's capital is obtained through debt and equity. This composition of the company will be better if some of its capital is supported by its own capital. Because the company will concentrate on product innovation. If the price increase that can be enjoyed by the company is higher than the production costs incurred, the company's profitability will increase (Irwadi, 2014).

CONCLUSION

Inflation can have a negative impact on the financial performance of the banking industry, the negative impact is marked by increasing prices that apply in a certain period of time, thus triggering the emergence of rising commodity prices. With the increase in prices, it results in a decrease in consumer purchasing power, because the price range is too high, consumers have to sacrifice other needs in order to obtain their needs.

Another factor is the government's policy (Bank Indonesia) on interest rates. The implementation of interest rate policies by the government (BI) can trigger the growth of the banking industry when the policy benefits the company. Because the company is not too burdened by the high interest rates imposed. The increase in interest rates makes most customers or investors divert their funds from banks to other instruments (stocks) or other investments.

The high exchange rate of the rupiah against the US dollar which continues to occur will have an impact on decreasing investment interest in deposits and savings, and the strengthening of foreign exchange motivates customers/investors to withdraw their funds from the bank. When foreign exchange is higher, it will result in an increase in commodity prices. The decline in the rupiah exchange rate binds the burden of production which ends in the loss of product competitiveness and the decline in financial performance marked by the decline in net profit and equity. So that the banking industry cannot take advantage of maximum opportunities and profits.

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