EFFECT OF GROSS DOMESTIC PRODUCT, LIQUIDITY, SIZE, GROWTH, CAPITAL ADEQUACY RATIO, AND INFLATION ON FINANCIAL PERFORMANCE

Purwohandoko, Sri Setyo Iriani
Department of Management, Faculty of Economics, State University of Surabaya
e-mail: purwohandoko@unesa.ac.id

ABSTRACT
Research on the Gross Domestic Product was measured based on the basis price taken from BPS in 2012-2017, size was measured using a natural log of total assets, Liquidity was measured using the loan to deposite ratio, size was measured using a natural log of total assets, growth was measured using the change in the total assets of previous year, adequacy capital ratio, measured using the total capital divided by risk-weighted assets, and inflation is measured using the consumer price index. The population in this study was all the banks listed on the Stock Exchange. The sample in this research that private banks listed on the Stock Exchange during 2012-2017 and they was published the complete financial reports. This study used multiple linear regression. The result of this study showed that the liquidity and capital adequacy ratio did not affect the financial performance. Gross Domestic Product, Size and growth had a significant positive effect on financial performance. While inflation was a significant negative effect on financial performance.

Keywords: gross domestic product, liquidity, size, growth, capital adequacy ratio, inflation, ROE

INTRODUCTION
The financial performance is the description of the company's financial condition at a particular period concerning aspects of fund raising and distribution of funds, which is usually measured by indicators of capital adequacy, liquidity, and profitability (Jumingan, 2006: 293).ROE is not only to measure the profitability of the company, but also the company's efficiency in managing the company's increased capital. ROE can be interpreted that the company is able to generate a large profit without having to raise modal. The company can be evaluated efficiently if the ROE increased because it does not have to have the capital to raise a substantial profit. According to Bank Indonesia, Circular Letter No. 6/23 / DPNP May 31, 2004 concerning the Rating System for Commercial Banks, the performance of all banks in Indonesia can be measured by using a ratio Return On Equity (ROE). By using return on equity then we can measure by how the performance of a bank in which the bank's performance also affects the economy in Indonesia.

There are several factors that can affect the performance of the bank, among other fundamental factors and technical factors. Fundamental factors are factors related to the condition of the company that is the condition of the organization's management of human resources, the company's financial condition as reflected in the financial performance of the company. While technical analysis simply look at historical price trends in order to predict future price movements, Based on previous studies and has been proven empirically, there are several factors that affect the financial performance bank. This factor include in Gross Domestic Product is liquidity, size, growth, and capital adequacy ratio, and inflation. Of these factors are found different results.

Gross Domestic Product was an important factor that will determine the level of the economy of a country with aggregate consumer spending on goods and services, if the economic conditions of a country was stable, it indicated that the level of people's income increased, thus increasing the level of Return bank lending, so that the performance of the bank also increased.

Liquidity is the bank's ability to fully a wide range of short-term liabilities (debts) with short maturities. With an easier language can be interpreted that the bank's liquidity is the ability of banks to convert assets into cash. Liquid assets are
assets that can be converted into cash quickly. Liquid assets required to fully a bank financial obligations. Based on the previous research there are various research results that liquidity has positive significant effect on the banks performance/ Return on Equity (Al-Tamimi, 2010).

Ferry and Jones (1979), said that the size of the company represented by total assets, total sales, average total sales and average total assets. So, company size is the magnitude of the assets owned by the company. Here it could be interpreted that the size of a bank can be seen from the assets held by the bank were obtained from the total operating profit. Meanwhile, according to Riyanto (2011), a large company whose shares are so widespread, every expansion of the share capital will only have little effect on the possibility of loss or displacement of the dominant control of the company concerned. Conversely, a small company, which shares are distributed only in a small neighborhood, increase the number of shares will have a considerable effect on the possibility of loss of control of the dominant party of the company bersangkut. In variable size of the bank, from the review of previous studies, the result of the bank where the size of a positive significant effect on the performance of banks, And in another study explained that the size of the bank significantly negatively related to the performance of the bank (Bouheni, 2013). While on the other research conducted by Tumin & Said (2010), stating that the size of the bank has no significant effect on the performance of the bank. For the size of the bank if the review of previous studies, the result of the bank where the size of a positive significant effect on the performance of the bank. And in another study explained that the size of the bank significantly related negatively to the performance of the bank (Bouheni, 2013). While on the other research conducted by Tumin & Said (2010), stating that the size of the bank has no significant effect on the performance of the bank.

High-growth companies that require large funding from external parties and the cost of debt is lower than stock issuance costs (Brigham and Gapensky, 1996). The statement is based on the size of the company influences the debt policy through its flexibility. In a study stating that the growth rate of banks positive effect on return on equity.

Capital adequacy ratio is a capital ratio that shows the bank's ability to pretend a fund for business development purposes and to accommodate the possibility of risk of losses from the bank's operations. The greater the ratio, the better capital position. In line with the standards established by the Bank of International Settlements (BIS), all banks in Indonesia are required to provide a minimum capital of 8% of risk weighted assets. In previous studies, capital adequacy ratio (CAR) as well there are three different results.

Broadly inflation can be regarded as continuous price increases resulting purchasing power of masyarakatpun be decreased, it is because the amount of money in the hands of people are not comparable to the rate of price increases that occurred. Inflation is a condition that describes the changes in the price level in an economy. But can not be said that any price increases are inflationary. When the increase only occurs only on one or two items alone can not be called up with inflation. However, if inflation if these goods rise extends (or the result of the increase to other items) can be regarded as inflation. And variable inflation which in previous studies also found different results. Inflation is a positive significant effect on the performance of the bank.

The average value of bank ROE government in 2011 lies in the value of 14.15%, while in private banks the average ROE is at 8.04% figure. Furthermore, in 2012 the government banks has increased, so as occupying 16.04% value, as well as private banks increased to 8.85% .In the next year in 2013 the government bank slightly increased by 12.47% to 16.51%. But in private banks, the value of the performance experienced a substantial drop of 2.93%, so be 5.92%. And in 2014, two groups of banks equally decreased in each group became 14.68% for state banks and private banks became 3.74% .Based on these data, the study chose the type of private banks as the research object because in 2012 up to 2017, The types of banks continued to decline compared with the performance of government banks. Whereas the decline in financial performance of banks...
affect the functioning of banks as intermediary institutions in public funding channel.

The purpose of this study was to analyze the effect of the Gross Domestic Product, liquidity, size, growth, capital adequacy ratio (CAR), and inflation on the financial performance of private banks listed on the Indonesia Stock Exchange 2012-2017 period.

Previous Research

Tumin & Said (2010) has been conducting research on the performance of banks under the title "Performance and Financial Ratios of Commercial Banks in Malaysia and China". In these studies showed that the variable liquidity, credit risk, capital, operating Expanse, and the size shows the results no significant effect on the dependent variable is the performance of the bank.

Next, the research investigated the performance of a number of banks in Ghana. From these studies produced that variable change of total net loans, NPL, credit risk, size, growth, dan total debt to total assets has a significant positive effect on the performance of banks in the country of Ghana.

Al-Tamimi (2010) in the study of factors affecting the performance of Islamic and conventional banks in the United Arab Emirates under the title "Influencing Factor Performance Of The UAE Islamic and Convencional National Bank" provides that financial development, cost and branch no significant effect on the performance of banks. While the concentration and liquidity bank variable positive significant effect on the performance of the bank.

Next, the research conducted by Boahene et al (2012) investigated the performance of a number of banks in Ghana. From these studies produced that variable change of total net loans, NPL, credit risk, size, growth, dan total debt to total assets has a significant positive effect on the performance of banks in the country of Ghana.

In a subsequent study conducted by Bilal et al (2013). In his research on the performance of banks in Pakistan, is used inter alia dependent variable is the size, capital ratio, non-performing loans, debt to total assets, and net interest margin. Among five of the dependent variable, declared that the variable size, capital ratio, net interest margin and a positive significant effect on the performance of the bank. Meanwhile, two other variables, namely non-performing loans, and debt to total assets declared the results did not significantly affect the performance of the bank.

Bouheni (2013) conducted a study entitled "The Effect of European Evidence on Banking Supervision Performance", stating that the size positive significant effect on the performance of the bank. While inflation is a significant negative effect on the performance of the bank.

Greenide, Grosvenor (2010) the title of forecasting non-performing loans in Barbados with the dependent variable of Non Performing Loans (NPL) independent variables as GDP, inflation, bank size n result GDP to NPL negative effect, inflation has a positive effect, and a positive effect on bank size.

Following research by Boahene et al (2012) investigated the performance of a number of banks in Ghana result is of total loans, NPL, Free Master risk, size, growth significantly influence the performance of banks in Ghana.

According to Suresha, et al (2015) inflation was a process not an event and the high and low level of prices, so do not assume that the rate of price inflation means higher prices. Unless the increase is continuous and each influences the other. Meanwhile, according to Nopirin (2000: 25) inflation is a rise in general prices of goods and continuously for a certain period. Changes in the consumer price index (CPI) in one month based on Bank Indonesia, inflation is formulated as follows:

\[
\text{Inflation} = \frac{\text{IHKn} - \text{IHKn-1}}{\text{HKN-1}}
\]

Ayorinde & Aworemi (2014) who conducted the research with the title "The Strategic Decisions that Influenced Post Consolidation Performance of Banks in Nigeria" stated that the capital structure has a significant positive effect on the performance of the bank. While asset profile, operating efficiency, and liquidity significant negative effect on the performance of the bank. Then for credit risk variables declared the results did not significantly affect the performance of the bank. The study was conducted on a bank-bank in Nigeria.

Tomuleasa et al (2014) investigated the performance of banks in Europe under the title "Measuring The Performance Of The European Financial Systemically Important Banks" . From this research explained that inflation has a significant positive effect on the performance of bank. Meanwhile capital adequacy ratio (CAR) has negative effect on the performance of banks in continental Europe.
Furthermore Alshatti (2014) in his research entitled "The Effect of the Liquidity Management on Profitability in the Jordanian Commercial Banks" with the dependent variable investment ratio, net credit facilities, capital ratio, liquidity, and a quick acid ratio. The study get the result that the investment ratio and quick ratio acid expressed a positive significant effect on the performance of the bank. While three other variables include the net credit facilities, capital ratio, and liquidity have a significant negative effect on the performance of the bank.

Haider et al (2015) conducted a study on the banking sector in Pakistan. The study, entitled "Impact of Mergers on Performance on Banking Sector in Pakistan" using variable liquidity, leverage, Capital Adequacy Ratio, and size. The study was conducted in Pakistan. In a study using multiple regression analysis states the results throughout the variable has no significant effect on the performance of the bank.

Research conducted by Anafo et al (2015), entitled "The Impact of Capital Structure on Profitability of Banks Listedon the Ghana Stock Exchange" The Penelitian using bank financial dependent variable measured by ROE (Return On Equity) and while the independent variable STDA, Ldta, size, and growth. Results from these studies are all variables positive significant effect on the performance of the bank, except for the variable growth. In this study, the growth variables did not significantly affect the performance of the bank.

And the next is the study of Rahman et al (2015) conducted on the performance of banks in the country of Bangladesh. In these studies get the result that the variable capital adequacy ratio (CAR), non-performing loans, credit risk, ownership structure of size, liquidity, GDP, and inflation imply that results are not significantly influence the performance of the bank.

Based on this phenomena as well as the average difference between results of previous studies it is interesting to be investigated further by using 6 independent variables that affect the financial performance. This research purposes to analyze the effect of gross domestic product, liquidity, firm size, growth, capital adequacy ratio (car), and inflation on financial performance: the study in private banks listed in Indonesia stock exchange period 2012-2017

Formulation of The Problem

Taken together GDP, Liquidity, firm size, CAR, and the inflation effect on the financial performance of the private individual bank listed on IDX-year period from 2012 to 2017

   b. Firm size has a positive effect on the financial performance of private banks listed on IDX-year period 2012-2017.
   e. Inflation has a positive effect on the financial performance of private banks listed on IDX-year period 2012-2017.

Table 1

<table>
<thead>
<tr>
<th>Variables Research</th>
<th>Proxy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance (Y)</td>
<td>ROE (Return on Equity) = net profit after tax / total equity</td>
</tr>
<tr>
<td>Liquidity (X1)</td>
<td>LDR (Loan to Deposit Ratio) = Ln total assets</td>
</tr>
<tr>
<td>Growth companies (X2)</td>
<td>GROWTH = (Total assets year t - total assets year t-1) / total assets year t-1</td>
</tr>
<tr>
<td>Inflation (X3)</td>
<td>The inflation rate based on CPI value per year (%)</td>
</tr>
<tr>
<td>Gross Domestic Product X4</td>
<td>GDP growth rate per year (%)</td>
</tr>
<tr>
<td>Size X5</td>
<td>measured using the natural log of total assets</td>
</tr>
</tbody>
</table>

Hypotheses

Based on the exposure of the background research gap, the importance of the hypothesis as follows:

H1 : Gross Domestic Product has a significant positive effect on financial performance
H2 : Liquidity positive significant effect on financial performance
H3: Size positive significant effect on financial performance
H4: Growth positive significant effect on financial performance
H5: Capital Adequacy Ratio (CAR) has a significant positive effect on financial performance
H6: Inflation significant negative effect on the company's financial performance

RESEARCH METHODS
This study is a quantitative research using secondary data. Companies that used as a sample in this study is the whole enterprise in the agricultural sector listed on the Indonesia Stock Exchange 2012-2017 period and has a complete set of financial statements. This study uses multiple linear regression model as follows:

\[ Y = a + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e \]

Where:
- \( Y \) = Financial Performance
- \( a \) = Constant
- \( \beta_1 - \beta_5 \) = Independent Variable Regression Coefficient
- \( X_1 \) = Liquidity
- \( X_2 \) = Growth
- \( X_3 \) = Inflation
- \( X_4 \) = GDP
- \( X_5 \) = Firm Size
- \( e \) = Residual

Hypothesis Testing
Effect of Company Liquidity on Financial Performance
Liquidity Liquidity is the ability of banks to meet a wide range of short-term liabilities (debt) with short maturities. It could be interpreted that the bank's liquidity is the ability of banks to convert assets into cash. Liquid assets are assets that can be converted into cash quickly. Liquid assets required to meet financial obligations. Based on previous research there are various research results liquidity positive significant effect on the performance of banks (Return on Equity), which is done by Al-Tamimi.

Effect of Growth
Assets are assets used for operating activities of the company. The greater the assets, expected operating results generated by the company is also greater. The company's growth is the change (growth rate) of the annual total assets. Total assets will change in each period depends on economic conditions both internal and external. The company's growth also affects the company's financial performance. This concurs with Gul et al (2012), Shieh et al (2014), Kariuki and Kamau (2014) and Prabansari & Kusuma (2005) in his research stating that the company's growth has a significant positive impact on financial performance. The cause of this is due to the higher growth of the company.

Effect of Inflation Against The Company's Financial Performance
Inflation is a process and not a high incidence of low level price, so do not assume that a high price level means higher inflation inflation is klaub process of continuous price increases and each influences the other. In relation to the financial performance of inflation has a negative relationship. The higher profitability of a company, the more rapid rate of return on investment.

Effect of GDP Against A Company's Financial Performance
An important factor determined economy of a country is the level of aggregate spending consumer spending for goods and services If the economic conditions of a country is stable, the private consumption is also stable. This means that indicate income levels increase, so the rate of return on bank loans also increased.

Size Firm Against Influence The Company's Financial Performance
Company size (size) does not affect the company's financial performance. This is evidenced by the significant value exceeding 0.05 size which is equal to 0.583. The results of the research within their Zhang (2010), Pontoh (2013), and Suresha et al (2015) which states that company size does not significantly influence the financial performance. According to Pontoh (2013) big companies will give priority to internal
funding. It aims to create a more stable cash flow. In addition, to address business risk, big companies will secure the company's financial performance and do not use debt, that the size of the company does not affect the company's financial performance.

The Scope of Research
This study examines the capital market where capital markets are individuals and organizations that perform activities on an ongoing basis at market modal. Dan this study using whole agricultural sector companies listed on the Indonesia Stock Exchange 2012-2017. We choose this year because of complete financial. And examine the agricultural sector as companies in the agricultural sector is still developing and there is the phenomenon of the increase LTDER which is directly proportional to the increase in ROE. For that we need to investigate what factors are likely to influence the financial performance of companies in the agricultural sector the period 2012-2017.

Sample
The sampling technique used was purposive sampling technique with consideration tertentu. Purposive sampling is done by taking the subject is not based on strata, random, or area but based on their specific purpose. Criteria samples in this study are all companies that have a complete financial report on the agricultural sector listed on the Indonesia Stock Exchange 2012-2017 period.

<table>
<thead>
<tr>
<th>No.</th>
<th>Criteria Sample</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agricultural sector companies listed on the Indonesia Stock Exchange continuously during the period 2012-2017</td>
<td>20</td>
</tr>
<tr>
<td>2</td>
<td>Agricultural sector companies that do not have a full report for the period 2012-2017</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Total Sample</td>
<td>14</td>
</tr>
</tbody>
</table>

Data Source
Secondary data used data sourced from the company's financial report published on the Indonesia Stock Exchange. The data used is the annual financial statements of the company for 6 years starting from the period 2012 to 2017.

Effect of Gross Domestic Product... (Purwohandoko, Sri Setyo Irani)

Hypothesis Test Results
In this case presented the results of hypothesis testing umtuk know the results of $H_1$, $H_2$, and $H_3$. Of the three independent variables on the size of the company (size), growth (growth), and GDP, and inflation there are two variables that are eligible significance of 5% that is variable GDP and inflation. Based on Table 3, it can be seen that the level of significance of firm size (size) is equal to 0.583 and a significance level of growth (growth) of 1.636 and 0.552 firm size and significance value > 0.05 then we can conclude that there is influence between the variables of firm size and growth of the company (growth) on the financial performance of the company. While the significance of a variable rate of inflation of 0.039 and GDP of 0.222 for the variable significance value less than 0.05 and a coefficient of variable inflation of 0.037, it can be concluded there is a positive influence between the variables of inflation on the financial performance of the company. This means that when inflation rises it will be followed by an increase in the banking problem installment payments amounting to 0.037 or 3.7%. Results at Table 3 shows that $R^2$ adjusted value is equal to 0.148. This suggests that the independent variable variasi-jointly able to explain 14.8% of the variation-independent variable, while the remaining 85.2% is explained by other variables outside the model's research, the effect of the level of production, product variability, and ownership structure the company could be expected to affect its financial performance.

1. Test results $H_1$
GDP (Gross Domestic Product) positive significant effect on the capital structure. Regulatory capital and its effect on credit growth, non-performing loans and bank efficiency evidence from Ghana.

2. Test Results $H_2$
Company size (size) does not affect the company's financial performance. This is evidenced by the significant value exceeding 0.05 sizeyang variable that is equal to 0.583 and coefficient -3.926. The results of the research within their Zhang (2010), Pontoh & physical defect (2013), and Suresha et al (2015) which stated that company size did not significantly influence the financial performance. According
Pontoh (2013) big companies will give priority to internal funding. It aims to create a more stable cash flow. In addition, to address business risk, big companies will secure the company's financial performance and do not use debt, that the size of the company does not affect the company's financial performance.

Table 3

<table>
<thead>
<tr>
<th>variables</th>
<th>Coefficients</th>
<th>t-statistic</th>
<th>probability</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>6255</td>
<td>4,345</td>
<td>0000</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>-3.926</td>
<td>-0.552</td>
<td>0.583</td>
<td>1.008</td>
</tr>
<tr>
<td>GROWTH</td>
<td>0.493</td>
<td>1.636</td>
<td>0.108</td>
<td>1.026</td>
</tr>
<tr>
<td>Inflation</td>
<td>0.037</td>
<td>0.039</td>
<td>0.002 *</td>
<td>1.096</td>
</tr>
<tr>
<td>GDP</td>
<td>0.731</td>
<td>0.222</td>
<td>0.002 *</td>
<td>1.380</td>
</tr>
<tr>
<td>f-statistic</td>
<td></td>
<td>4.188</td>
<td>0.010*</td>
<td></td>
</tr>
<tr>
<td>Ad R²</td>
<td></td>
<td></td>
<td></td>
<td>0.148</td>
</tr>
</tbody>
</table>

3. H3 test results

The value of variable significance and growth of the company amounted to 0.108 greater than 0.05. It is evident that growth does not affect the company's financial performance is in line with Zhang (2010), Pontoh (2013), and Gathogo and Ragui (2014) which stated that the company's growth has no significant effect on the company financial performance. The result of Gathogo and Ragui (2014) stated that the growth of investment in developing countries are not as large as in developed countries where the company’s goal is the developed countries to the global market. Accordingly, the company does not require a lot of funds to meet investment growth. Additionally, as companies in Indonesia tend to prefer to use debt rather than investment.

4. The test results H₄

Based on the test results, the significance value less than 0.05 and inflation the coefficient value of 0.037 it is evident that there is a positive influence between the variables of inflation on the financial performance of the company. This proves the rise and fall of inflation will affect the ability of the local economy that also affect the installments them to perbankkan This is consistent with research Gathogo and Ragui (2014), Gul et al (2013), Shieh et al (2014), Tarus et al (2014), Esperanca et al (2003), and Suresha et al (2015) stating that the profitability of a significant negative effect perusahaan. Brigham and Houston (2001) says that companies with a high rate of return on investment will use relatively little debt. So the higher the inflation rate the higher the debt, the company also will not the less the better use of capital own because it is already reserved for re-investment.

Conclusion

Based on the results of research and discussion can be concluded that the size of the company, the company's growth, and inflation and GDP jointly affect the company's financial performance in the agricultural sector which are listed in the Indonesia Stock Exchange (BEI) in the study period 2012-2017. In the partial results of the study are described as follows: the size of the company and the company's growth has no effect on the company's financial performance, the company's growth has no effect on the financial performance, while inflation and GDP has a positive effect on the company's financial performance pertanianyang sectors listed in Indonesia Stock Exchange period 2011-2017.

Theory And Managerial Contribution


Limitation of Research

Thus, what become the limitations of this research and advice for next research are:
1. Causality between GDB, company size, growth, the financial performance of the agricultural sector in the period 2012-2017
2. Using secondary data that are data of the past and has not been tested in the field
3. Using purposive sampling that are conditioned by the criteria as a prerequisite so that research results are still weak in generalizing findings.

This research recommended on the next study for the research model is still low yield 0.148 adjusted $R^2$ so 99.85% influenced variable outside the model of this study, the nex researchers suggested to more independent variables such as, tangibility, non-tax debt, the effect of the level of production, the variability of the product, and the ownership structure of management that affect the company's financial performance or conduct a variation of a proxy other variable. In hope in the future studies using larger sample or a sample from other sectors to the variations that affect the company's financial performance.

REFERENCES


