

Can the market affect non-government banking returns during COVID-19 pandemic?

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ABSTRACT

At the beginning of the era of the Covid-19 pandemic, returns on the capital market became increasingly uncertain, especially for non-government-owned banks in Indonesia. The purpose of this study is to determine the relationship between market movements and returns from non-government banks in Indonesia. The results of the analysis on MEGA and BNGA in the range 5 June 2020 to 30 December 2021 show that the two banks have the same stock return. Empirically, this study finds that stock returns and market returns have unidirectional relationship even though the two banks have different risks.

Keywords: returns; banking; non-government; Covid-19

JEL Classification: G11; G12; G32

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1. Introduction

The development of science and technology provides convenience in all human activities. This is marked by the easier for humans to connect with each other because of access to communication without space and time limitations. This phenomenon is known as globalization which shows the process of integration of various aspects of life in the world. Globalization has changed human life where one of its impacts is in economic sector. The impact of globalization in the economic field allows for linkages and mutual influence between capital markets in the world. This is because the investment in the capital market in a country does not fully originate from that country and the investment moves from one place to another.

The existence of globalization in the economic sector is followed by financial

liberalization. Financial liberalization aims to increase the role of the market by reducing government interference in the provision of financial services. Financial liberalization provides opportunities for the mobility of funds from outside to within the country so as to maintain the stability of foreign exchange volumes and the Rupiah exchange rate (Allo, 2017). Financial liberalization has integrated the Indonesian capital market with global capital markets. According to Endri (2009), the process of financial liberalization in Indonesia has implications for the increasingly integrated Indonesian capital market with foreign capital markets, both regionally and globally. Also, changes in a stock exchange will be transmitted to other country exchanges where the larger exchange will affect the smaller exchange (Mansur, 2005). This causes stock price fluctuations in one stock

exchange to affect stock prices in other stock exchanges. The linkage of a country's stock market is inseparable from global stock exchanges. In general, the larger and more advanced exchanges have a stronger influence on smaller exchanges, besides that stock exchanges that are in the same area can also have an influence because of their geographical which are close together (Mie & Agustina, 2014).

One of the capital market products affected by financial liberalization is shares or proof of ownership. Stocks are also one of the most popular financial market instruments. Issuing shares is one of the company's choices when deciding to fund the company. On the other hand, stocks are an investment instrument that many investors choose because stocks are able to provide an attractive rate of return. The emergence of Covid-19 greatly affected the economy of several companies and also had an impact on stock prices in Indonesia. The impact of Covid-19 was enough to cause losses for several companies in Indonesia and at the same time resulted in a downward trend in stock prices. In addition, during the era of the Covid-19 pandemic, stock market movements became increasingly uncertain, especially for non-government banks in Indonesia. The purpose of this study is to determine the relationship between market movements and returns from non-government banks in Indonesia.

2. Literature review

The performance of private-owned banks has experienced significant growth compared to government-owned banks. Nasser (2003) finds that in the period 1999 to 2001, the performance of private banks did not differ significantly from state-owned banks, particularly in terms of capital adequacy ratio, return on risked assets, return on assets, and loan to deposit ratio. However, empirical evidence also shows that some performance is still different from state-owned banks.

Haryanto (2012) finds that the average non-performing loan from private-owned banks is still below 5%, indicating a healthy condition compared to non-performing loans belonging to state-owned banks. Hertinsyana (2019) finds that there are still differences in the performance of private-owned banks and state-owned banks in the period 2009 to 2018, especially in the loan to deposit ratio and return on assets ratio. In the period from 2014 to 2019, Faroza and Susanti (2021) find that the capital adequacy ratio of private-owned banks is still better than state-owned banks. Asmiyanti et al. (2021) find that financial performance (such as return on assets, return on equity, capital adequacy ratio, and net interest margin) during 2016 to 2019 has no difference between state-owned banks and private-owned banks.

Empirically financial performance is the center of attention and the basis for consideration of investors in the capital market. For example, Koorniaharta and Marsudi (2020) find that the net interest margin in the 2010 to 2019 period had a significant impact on stock returns from national banks. In addition to financial performance, one of the factors that play an important role in determining the return on investment of investors is systematic risk. Systematic risk is a reflection of various factors that cannot be controlled and not only from macroeconomic factors, such as interest rates and currency exchange rates (Indrawan & Raymond, 2019). Empirically, Absari et al. (2012) prove that partially systematic risk has a significant effect on stock returns. Effendi et al. (2017) find that systematic risk and unsystematic risk partially greatly affect stock returns in the capital market. Sartika and Aktarina (2020) find that stock returns from banks listed on LQ-45 on the Indonesia Stock Exchange in the period from 2012 to 2017 are strongly influenced by systematic risk. The same results are found by Nofitasari and Adi (2020) during

period 2017 until 2020 where systematic risk has positive and significant effect on stock returns. Based on the available empirical evidence, the hypothesis of this study is presented below.

Ha: market returns have significant impact on private banking returns

3. Research method

The objects of the study are non-government banks, namely Bank Mega Tbk (MEGA) and PT. Bank CIMB Niaga Tbk (BNGA). The sample used comes from the Indonesia Stock Exchange and ranges from 5 June 2020 to 30 December 2021. The variables of this study are market returns (MR) and stock returns (SR) which is calculated as follows.

$$R_t = (P_t - P_{t-1})/P_{t-1} \quad (1)$$

R_t is the return of period t, P_t is the price in period t, and P_{t-1} is the price in period t-1. To test the hypothesis, the correlation analysis is used at significance of 5%.

$$r = \frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2 \sum(y-\bar{y})^2}} \quad (2)$$

To assist the correlation results, the mean difference test is provided together with stock beta. The stock beta (β) is estimated by capital asset pricing model.

$$\beta = \frac{\sum(x-\bar{x})(y-\bar{y})}{\sum(x-\bar{x})^2} \quad (3)$$

4. Result and discussion

Table 1 presents descriptive statistics from market, MEGA, and BNGA. The results of the analysis show that the stock return from MEGA is lower than BNGA with a mean of 0.0011 and 0.0012 respectively. Furthermore, the stock returns of MEGA and BNGA have a pattern of positive skewness which indicates that these two banks have relatively small returns. The positive value of the kurtosis of the two banks also

confirms that small returns tend to occur more frequently (high peaks).

Table 1. Descriptive statistics

	N	Mean	Skewness	Kurtosis
MR	385	0.0008	-0.13	2.33
SR_MEGA	385	0.0011	3.48	22.57
SR_BNGA	385	0.0012	2.24	12.49

The next step is to conduct the Kolmogorov-Smirnov test to determine whether the data is normally distributed or not. Table 2 presents the results of the normality test which shows that the significance is below 5%. The result indicates that stock returns from MEGA and BNGA are not normally distributed.

Table 2. Tests of normality

	Statistic	df	Sig.
SR_MEGA	0.236	385	0.000
SR_BNGA	0.137	385	0.000

a. Lilliefors Significance Correction

In order to find out the difference between the two returns, a non-parametric different test is performed, namely the Mann-Whitney test. Table 3 shows that the result of Mann-Whitney test provides significance above 5% which can be concluded that stock returns from MEGA and BNGA have no significant difference.

Table 3. Mean difference test

	SR
Mann-Whitney U	73085.500
Z	-0.335
Asymp. Sig. (2-tailed)	0.738

The correlation test is used to test the hypothesis whether market returns have a correlation with each stock return. Table 4 shows that the Pearson Correlation value is 0.111 and is significant at the 5% level. These results indicate that there is a unidirectional relationship between MR and MEGA, although it is still in a relatively low relationship. This result also implies that an increase in MR tends to increase the return value from MEGA.

Table 4. Correlations test of MR and MEGA

	MR	MEGA
MR	1	0.111*
SR_MEGA	0.111*	1

*Correlation is significant at the 0.05 level (2-tailed)

Table 5 shows that the Pearson Correlation value is 0.535 and is significant at the 1% level. These results indicate that there is a unidirectional relationship between MR and BNGA and is in a relatively moderate relationship. This result also implies that an increase in MR tends to increase the value of return from BNGA.

Table 5. Correlations test of MR and BNGA

	MR	BNGA
MR	1	0.535**
SR_MEGA	0.535**	1

**Correlation is significant at the 0.01 level (2-tailed)

Comparison of beta from MEGA and BNGA is needed to assess which stocks have a relatively high risk. Table 6 shows that the beta value of MEGA is 0.333, so it is indicated that every change in the market will increase MEGA's stock return.

Table 6. Stock beta MEGA

	Unstandard Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	0.001	0.002		0.583	0.560
MR	0.333	0.152	0.111	2.187	0.029

Table 7 shows that the beta value of BNGA is 1,300 so it is indicated that any market changes will increase the stock return of BNGA.

Table 7. Stock beta BNGA

	Unstandard Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Constant	0.000	0.001		0.152	0.879
MR	1.300	0.105	0.535	12.382	0.000

Estimation of stock beta shows that BNGA has a higher risk than MEGA so that BNGA shares tend to obtain more optimal profits or vice versa experience significant losses. Based on the analysis

results obtained, this study is consistent with the findings from Absari et al. (2012), Effendi et al. (2017), Sartika and Aktarina (2020), and Nofitasari and Adi (2020) that there is positive relationship between risk and return.

5. Conclusion

The performance of private owned banks is increasing along with the increasing competition in the banking business. This study finds that private owned banks have the same return performance, especially for MEGA and BNGA. Empirically, market returns are proven to have a significant unidirectional relationship with stock market movements and returns from private banks. However, empirical evidence also shows that private owned banks do not share the same risks during the Covid-19 pandemic. Estimation of stock beta shows that the systematic risk of BNGA is higher than MEGA.

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