

The Asymmetric Effect of Interbank Rate and Financial Performance Ratios on Commercial Bank Profitability: Empirical Evidence of Macro-Level Data from Indonesia

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Abstract	<p>This study investigates the asymmetric effects of interbank rates and financial performance ratios on Indonesian commercial bank profitability. The contribution of this study is to provide analyzes that separate the effects of increases and decreases in interbank rates and bank soundness indicators proxied by financial performance ratios on profitability through the Nonlinear Autoregressive Distributed Lag model approach. The data analyzed were monthly data for the period of 2012M01 - 2020M12. Rising interest rates have a greater effect on increasing profits than decreasing interest rates in the long run. Changes in net interest margin have the effect of decreasing profitability when it goes up or down. The increase in efficiency as measured by a decrease in the operating expenses to operating income ratios significantly increases profitability, compared to when they increase. Likewise, a decrease in the loan-to-deposit ratio reduced bank profits. In the short run, increasing interest rates and decreasing loan-to-deposit ratio increase profitability. Commercial banks in their operations should focus more on increasing operational and income efficiency to increase profitability. Also, banks consistently and continuously should meet bank soundness indicators, especially capital adequacy and solvency.</p>
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