ABSTRACT

The national GDP growth found decreased during the period 2012 to 2016. On the other hand, the position of BI rate in 2016 which dropped to the level 4.75% should be able to show the growth of the GDP and affecting the lower bank third parties funds. In addition, OJK says that the banking third parties funds yearly increased by 8.40% in 2016. The more banking third parties funds comes in, the more bank should be able to increase the revenue from interest income. But in fact, ROA actually shows a decline throughout the year 2012 to 2016, which of ROA decreases can also result in a lower ROE.

This research was conducted to determine whether there is a influence of GDP growth, inflation, money market rate, stock market volatility, stock market development, lending/GDP, log of total assets, bank size, credit risk, liquidity, taxation, capitalization, cost efficiency, non-traditional activity, labour productivity, c(3), banking sector development, and competition to EROE and ROE. This study was conducted in 6 commercial banks, 3 state-owned and 3 private banks, which has the largest stock market capitalization of 2016. The data used in this research is a publication of financial statements available on the OJK official website. This study also uses goverment external data and other private companies available on the internet.

Panel data analysis is used in this study. Where the estimation method used in this study is FEM. For hypothesis testing, it's done simultaneously using F-test and partially using t-test.

Based on the results of this study, it was found and concluded that the variable money market rate, stock market volatility, stock market development, concentration 3, banking sector development, and competition affects the EROE and ROE significantly.

For companies especially for the banks, should pay more attention to the effect from taxation or tax factors and credit risk, because the results of this study prove that these variables have a negative affect on EROE, which if the ratio is higher it reflects the poorer company performance from EROE. Besides that, the company should also pay attention to variable cost efficiency and competition in the banking industry that negatively affects ROE.

Keywords: banking, excess return on equity, return on equity