



Effect of Loss on Exchange on Net Income State-Owned Enterprises in Indonesia

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Abstract

The study was conducted to determine the effect of loss on the exchange of net income by using mediating variables in the form of economic activity and the operationalization of companies related to globalization in the context of an open economy, either partially or simultaneously. This study uses a quantitative descriptive approach, with the population being state-owned enterprises listed on the capital market in 2021 and on the Indonesia Stock Exchange for 2018-2021. The sampling technique used Probability Sample with a purposive sampling method. Also, the sampling obtained sample data from 10 companies and 10 data samples due to the limited number of state-owned enterprises in the capital market. Data analysis using SmartPLS4 software with research results that the variable loss on exchange and economic activities and the operations of companies related to global in the context of an open economy affect the net income of state-owned enterprises in the capital market registered in 2021, which are listed in Indonesia Stock Exchange for the period 2018-2021. Thus, H1, H2, and H3 are accepted, which means that there is a significant influence between loss on exchange and economic activity and the operations of companies related to global business in the context of an open economy with net income.

Keywords: *Loss on Exchange; Net Income; State-Owned Enterprises*

Introduction

In the presentation of financial statements, income is one of the company's concerns as a component of the company's going concern. Business operations are a dependent consideration on the company's profits and losses. The real value of the company's profits or losses often comes not only from the proportion of expenses but also from other accounts in carrying out company activities related to foreign countries, namely currency exchange. Today, many companies experience a decline in income due to unpredictable exchange rate fluctuations. Meanwhile, in preventing extreme deterioration, the

company cannot close the company's operational activities related to other countries because these activities include those that support the company's activities in carrying out its business.

Recently, information about a recession in 2023 has been increasingly reported. Initially, it was still related to the ongoing impact of the war between Russia and Ukraine and the multiplier effect of the trade war between China and the US which had occurred some time ago. Almost no economic events do not cause a lasting impact, especially those involving the world's economic centers, namely China and the US, including their allies. Because it involves relations between several countries, international trade has been one of the hardest hit by the war. Gradually, this war affects the inflation rate (Kartono et al., 2021), the nominal value of bank interest rates (Pincheira-Brown et al., 2022), the actual value of the expected value that affects purchasing power (Panda et al., 2022), as well as exchange rates that are sensitive to the company's overall operations (Lee et al., 2020).

The exchange rate can be considered one of the parameters that affect the national income of a country that applies the concept of an open economy. Export and import activities are the main components that are most elastic and sensitive to exchange rate movements. Fluctuations in exchange rates that occur as a result of a transaction greatly affect its impact on income significantly. Not to mention, if the difference in the exchange rate that occurs has a difference in either increase or decrease from certain conditions in the period that is taken into account. As a component of GDP in Indonesia, the exchange rate plays an important role in creating net exports whose accumulated value will affect whether Indonesia's trade balance will be in surplus or deficit. In principle, most of these export and import activities are carried out by companies whose operations are related to cross-country activities.

Literature Review

Currency Exchange is one of the company's considerations in carrying out its operational activities. The company's sustainability depends on the operational activities currently carried out with related parties or business activities related to nature whose commercialization is concentrated abroad or is controlled by foreign organizations. Basically, the weight of the exchange rate is unpredictable or has very high uncertainty so that the company can only accept the risks that will arise in it, adjusting the company's risk appetite to the extent of the opportunity loss that has been determined by the company based on the determination of the upper and lower limits of acceptable losses. by the company. BUMN are state companies that have close relationships with foreign organizations or have business lines controlled by other related parties. The SOEs that have a weight or portion as a moderation that strengthens the influence of currency exchange on the company's net income is as follows:

1. PT PLN

PT PLN (Persero) is a non-Tbk BUMN engaged in the electricity sector. The market is a monopoly so competitors do not exist as a policy from the government through the regulations stipulated in the operation of the electricity business in Indonesia. Looking at the financial statements of PT PLN (Persero) in 2020 it was reported that within one quarter in the period December 2019 to March 2020, PLN declared a loss on the exchange of Rp. 38.88 T due to the weakening of the rupiah against the US dollar. If it is calculated proportionally, it is most likely that the loss that can be suffered by the company is Rp. 156 T while the income is only Rp. 212 T. The significance of the loss from the exchange rate when compared to the income is 74%. This indicates that the operational sensitivity of the company as measured by its financial performance is strongly influenced by the exchange rate which cannot be controlled by the company's movements.

2. PT Pertamina

PT Pertamina (Persero) is a non-Tbk BUMN engaged in the oil and gas sector. Looking at the financial statements of PT Pertamina (Persero) in the semester I - 2020, the company suffered a loss of Rp. 11.13 T, the majority of which was caused by uncontrolled fluctuations in the exchange rate, moreover at that time PT Pertamina (Persero) was assigned to provide subsidies to fuel. which increasingly makes the company's losses even greater. If it is calculated proportionally, likely, the losses that can be suffered by the company until the end of 2020 at that time will reach Rp. 22.26 T, which if measured, significance is indeed smaller than PT PLN (Persero). However, considering that PT Pertamina (Persero) is one of the hopes of the state in boosting state revenue, of course, this figure can be said to be quite material because if the changes in the exchange rate are not too high in fluctuations, the state can still have the opportunity to get higher dividends or boost the company's performance from loss to profit.

3. PT Krakatau Steel

PT Krakatau Steel (Persero), Tbk. or abbreviated as issuer code KRAS is BUMN Tbk. is engaged in steel production with partners who are mostly overseas. The company's transactions with foreign currencies are frequent so financial reports on loss on exchange rate posts are very often the concern of both the Board of Directors and the Board of Commissioners. PT Krakatau Steel (Persero) Tbk. since 2012 shows that the company's losses are increasing over time, driven by increasing interest rates on debt to creditors from abroad. This caused in the period 2012-2020, the company suffered losses which caused an attempt to close the company. However, in 2021 it was reported that the performance in late 2020 showed an extraordinary performance, which at that time the corporate action was considered smooth so that it could save the company's operations. Even though the exchange rate was increasing at that time, the company maintained its operations towards international trade to limit its activities and increase investment abroad, which at that time the rate of return was quite promising for the company.

Based on the three companies above, the role of the exchange rate in the company's operations is very important to maintain the company's financial performance. It is undeniable that the exchange rate is indeed one of the financial parameters that cannot be controlled because it all depends on the market (Sikora et al., 2019), inflation rates (He et al., 2021), local and regional state monetary policies (Montfaucon, 2022).), world commodity prices such as gold (Tanin et al., 2021; Wang & Lee, 2022), world oil (Sarangi et al., 2020), and global conditions (Ito & McCauley, 2020). Moreover, when the world entered the era of the Covid-19 Pandemic, many companies posted soaring losses compared to the previous period (YoY) because, in addition to the highly volatile exchange rate increase, it was also caused by low transactions and increased cost of debt. In addition, the company's investment losses related to dollar transactions are a priority for the consideration of the Directors and Commissioners as a form of company investment which is usually budgeted for a significant amount (Wein et al., 2019). The bookkeeping of these transactions has recently been highlighted because of their declining value as a result of the decline in the value of the investment itself (Sarangi et al., 2020). This has caused many companies to lay off workers as a form of company efficiency where one of the effects of this layoff is the reduced company expenses to pay for human resources and attached facilities provided as a counterbalance to the losses suffered by the company, including the loss of exchange rates.

Fluctuations in the exchange rate against local currencies as an event that cannot be controlled must of course be mitigated through various strategies carried out by companies, including the state on a large scale. Risk mitigation can be carried out by limiting operational activities related to foreign currencies which are classified as non-priority activities. On the other hand, issuing bonds in local currency is important in boosting the company's performance in terms of financing. Bond issuance became widespread during the Covid-19 pandemic because it was expected to make the value of the local currency better against the US dollar. In addition, from an investment perspective, the actual form of impairment can be deferred through several financial instruments such as forward agreements for buying

or selling (Marinakis et al., 2020), futures on exchange rates (Filippou & Taylor, 2021), option on exchange rates, or currency swaps (Montfaucon et al., 2021). Currently, Indonesia has not accommodated the use of all these instruments, but with extraordinary events that greatly affect the company's performance in terms of foreign currency exchange, companies can provide insight to policymakers to make a regulation that regulates the use of the four instruments. At the very least, these instruments can minimize the company's losses due to uncontrollable exchange rate fluctuations so that the company does not lose money, performs with massive efficiency, and closes the company. These three impacts become a domino effect that will gradually affect economic growth and increase macroeconomic problems such as the increasing number of unemployed as a result of layoffs. Therefore, mitigation of exchange rate risk is important to be prioritized by companies with government assistance so that the sustainability of the state as an institutional institution and the company's going concerned broadly can boost the performance of companies and the state. Based on this theory, the first hypothesis can be stated as:

H1: The higher the Loss on Exchange, the lower the Net Income.

Economic activities and the operationalization of global-related companies generate the real value of money depending on the exchange rate prevailing at the time the transaction takes place or what is known as the transaction rate. The rise or fall of the exchange rate depends on the unpredictable global economic conditions so companies only have two choices to continue carrying out these activities or not to carry out these activities at all. The majority of companies choose to continue to carry out these activities even though they have to experience potential loss on the exchange due to carrying out these transactions and have an impact on the company's financial statements, both having a significant and insignificant impact depending how big the portion of economic activity and the company's operations is to the real value in the financial statements. Based on this theory, the second and third hypotheses can be stated as:

H2: Loss on Exchange affects the economic activities and operations of companies related to global.

H3: Economic activities and company operations related to global affect Net Income.

Methods

This study uses a quantitative descriptive approach. The data used in this study is secondary data taken through the official website of the Indonesia Stock Exchange, namely www.idx.co.id. The population in this study are state-owned companies with the status of Tbk in 2021 as many as 10 companies. The sampling technique used purposive sampling technique with 2 criteria, namely:

1. State-owned companies that experience losses due to exchange rate fluctuations in 2020-2021 with a significant foreign exchange loss weight; and
2. State-owned companies that experience profits from exchange rate fluctuations in 2020-2021 with a significant foreign exchange loss weight.

Based on the above criteria, the number of research samples is 10 state-owned companies Tbk. The sample data that can be processed is as much as 30 data (table 1). To analyze the data from this study using SmartPLS4 to get the results of hypothesis testing.

Table 1. Research sample data

| No | Emiten Code | Name of state-owned company |
|----|-------------|---|
| 1 | BMRI | PT Bank Mandiri (Persero) Tbk. |
| 2 | BBRI | PT Bank Rakyat Indonesia (Persero) Tbk. |
| 3 | BBTN | PT Bank Tabungan Negara (Persero) Tbk. |
| 4 | BBNI | PT Bank Negara Indonesia (Persero) Tbk. |
| 5 | ADHI | PT Adhi Karya (Persero) Tbk. |
| 6 | WIKA | PT Wijaya Karya (Persero) Tbk. |
| 7 | PTPP | PT Pembangunan Perumahan (Persero) Tbk. |
| 8 | JSMR | PT Jasa Marga (Persero) Tbk. |
| 9 | GIAA | PT Garuda Indonesia (Persero) Tbk. |
| 10 | KRAS | PT Krakatau Steel (Persero) Tbk. |

Results of data analysis using SmartPLS4 software, the results show that the statistical values contained in table 2 for each variable are as follows:

1. Loss on Exchange which is measured based on the real value and weighted percentage has a coefficient value of 0.023 which means that if there is an increase of 1 value, it will increase Net Income by 1 value.
2. Economic activities and company operations related to global which are measured based on real values and weighted percentages have a coefficient value of 0.023 which means that if there is an increase of 1 value, it will increase Net Income by 1 value.
3. Net Income which is measured based on the real value and weighted percentage has a coefficient value of 0.023 which means that if there is an increase of 1 value, it will increase the Loss on Exchange and global economic activity by 1 value each.

Table 2. Statistic Results

| Name | No. | Type | Missings | Mean | Median | Scale min | Scale max | Observed min | Observed max |
|----------|-----|------|----------|-------|--------|-----------|-----------|--------------|--------------|
| No | 1 | MET | 1 | 5.500 | 6.000 | 1.000 | 10.000 | 1.000 | 10.000 |
| LE_1 | 2 | MET | 1 | 4.400 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| LE_2 | 3 | MET | 1 | 4.000 | 4.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| LE_3 | 4 | MET | 1 | 4.700 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| LE_4 | 5 | MET | 1 | 4.500 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| NI_1 | 6 | MET | 1 | 4.400 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| NI_2 | 7 | MET | 1 | 4.000 | 4.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| NI_3 | 8 | MET | 1 | 4.700 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| NI_4 | 9 | MET | 1 | 4.500 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| KegEko_1 | 10 | MET | 1 | 4.400 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| KegEko_2 | 11 | MET | 1 | 4.000 | 4.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| KegEko_3 | 12 | MET | 1 | 4.700 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |
| KegEko_4 | 13 | MET | 1 | 4.500 | 5.000 | 3.000 | 5.000 | 3.000 | 5.000 |

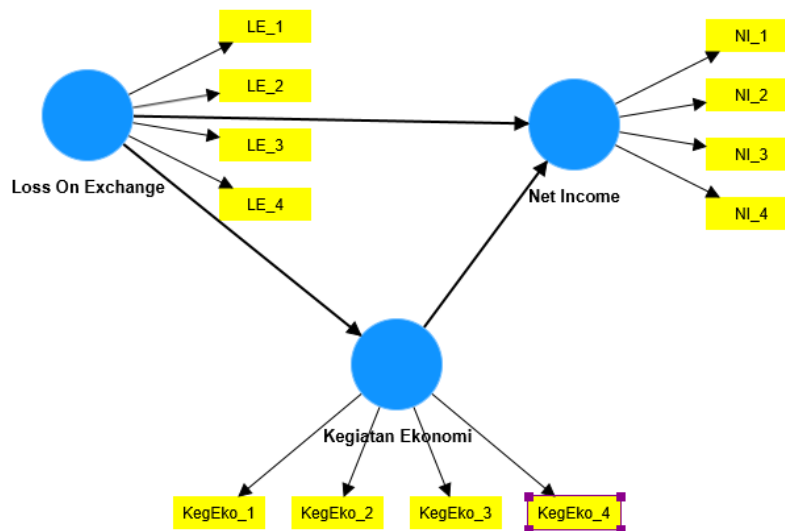
To find out the value of the standard deviation and excess kurtosis can be seen from the values in table 2 below, the results of the data analysis found that the standard deviation value did not reach a weight of 1,000 in the Loss on Exchange research model on Net Income in state-owned companies in the form of Tbk. per the year 2021 listed on the Indonesia Stock Exchange for the period 2018-2021.

Table 3. Results

| Name | max | Observed min | Observed max | Standard deviation | Excess kurtosis | Skewness | Cramér-von Mises p value |
|----------|------|--------------|--------------|--------------------|-----------------|----------|--------------------------|
| No | .000 | 1.000 | 10.000 | 2.872 | -1.200 | 0.000 | 0.911 |
| LE_1 | .000 | 3.000 | 5.000 | 0.800 | -0.665 | -1.001 | 0.002 |
| LE_2 | .000 | 3.000 | 5.000 | 0.894 | -2.129 | 0.000 | 0.019 |
| LE_3 | .000 | 3.000 | 5.000 | 0.640 | 4.765 | -2.277 | 0.000 |
| LE_4 | .000 | 3.000 | 5.000 | 0.671 | 0.571 | -1.179 | 0.001 |
| NI_1 | .000 | 3.000 | 5.000 | 0.800 | -0.665 | -1.001 | 0.002 |
| NI_2 | .000 | 3.000 | 5.000 | 0.894 | -2.129 | 0.000 | 0.019 |
| NI_3 | .000 | 3.000 | 5.000 | 0.640 | 4.765 | -2.277 | 0.000 |
| NI_4 | .000 | 3.000 | 5.000 | 0.671 | 0.571 | -1.179 | 0.001 |
| KegEko_1 | .000 | 3.000 | 5.000 | 0.800 | -0.665 | -1.001 | 0.002 |
| KegEko_2 | .000 | 3.000 | 5.000 | 0.894 | -2.129 | 0.000 | 0.019 |
| KegEko_3 | .000 | 3.000 | 5.000 | 0.640 | 4.765 | -2.277 | 0.000 |
| KegEko_4 | .000 | 3.000 | 5.000 | 0.671 | 0.571 | -1.179 | 0.001 |

To test the hypothesis, we have to look at the comparison between the value of statistics and the value of the table. If the value of statistics > table then Ha will be accepted and if the value of statistics < table then Ha will be rejected. Based on the results of the study it was found that part the influence of each variable (hypothesis testing) was as follows:

1. The higher the Loss on Exchange, the lower the Net Income for state-owned companies in the form of Tbk. per the year 2021 listed on the Indonesia Stock Exchange for the period 2018-2021;
2. Loss on Exchange affects the economic activities and operations of companies that are globally related to state-owned companies in the form of Tbk. as of 2021 which are listed on the Indonesia Stock Exchange for the period 2018-2021; and
3. Economic activities and operations of companies related to global influence on the Net Income of state-owned companies in the form of Tbk. per the year 2021 which are listed on the Indonesia Stock Exchange for the period 2018-2021.



Picture 1. Path Analyst

Conclusion

The results of this study are in line with the research conducted by Sikora et al. (2019) which states that Loss on Exchange has a significant effect on Net Income. The results of this study are in line with the research conducted by Tanin et al. (2021) which states that the economic activities and operations of companies related to globalization have a significant effect on Net Income. The results of this study are in line with the research conducted by Wein et al. (2019) which states that Loss on Exchange has a significant influence on the economic activities and operations of companies related to global affairs.

In updating and explaining in more detail about the economic activities and operations of companies related to global, disclosures in the financial statements are recommended to separate the segmentation of global activities and risk mitigation that have been carried out such as hedging, forwards, futures, or options and their impact on exchange rate fluctuations so that it will it can be seen the impact that occurs periodically and the effectiveness of the use of these instruments in protecting assets against exchange rate fluctuations and can be shown the amount of savings from cost losses in order to assess the company's ability to manage company cash and moderate the decline in net income by carrying out global economic activities.

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