

MACRO STABILITY AND FINANCIAL STRUCTURE AS THE ROOT CAUSES OF PROBLEMATIC FINANCING OF PROFIT-SHARING PRODUCTS OF ISLAMIC BANKS

STABILITAS MAKRO DAN STRUKTUR KEUANGAN SEBAGAI AKAR MASALAH PEMBIAYAAN BERMASALAH PADA PRODUK BAGI HASIL BANK SYARIAH

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ABSTRACT

This study aims to analyze the effect of inflation, capital adequacy and third party funds on problematic financing of production sharing contract products using time series data from January 2015 to December 2021 sourced from the financial services authority (OJK). The research method uses a quantitative approach assisted by the statistical software JASP (Jeffrey's Amazing Statistics Program). The results show that inflation does not have a significant effect, but the capital adequacy variable has a significant negative effect while third party funds have a significant positive effect on problem financing of profit sharing contract products at Islamic banks in Indonesia.

Keywords : Inflation, Capital Adequacy, Third Party Funds, Problematic Financing

ABSTRACT

This study aims to analyze the effect of inflation, capital adequacy and third party funds on problematic financing of production sharing contract products using time series data from January 2015 to December 2021 sourced from the financial services authority (OJK). The research method uses a quantitative approach assisted by the statistical software JASP (Jeffrey's Amazing Statistics Program). The results show that inflation does not have a significant effect, but the capital adequacy variable has a significant negative effect while third party funds have a significant positive effect on problem financing of profit sharing contract products at Islamic banks in Indonesia.

Keywords : Inflasi, Kecukupan Modal, Dana Pihak Ketiga, Pembiayaan Bermasalah

1. INTRODUCTION

The existence of Islamic banking is not just all located not only for the benefit of the Muslim majority community, but more so on the utilization of Islamic banks in addressing the economic problems faced by the community (Destiana, 2018). Islamic banking as an intermediary institution plays a role in mediating between those with large funds and those lacking funds. Furthermore, most banks in Indonesia still rely on providing credit or financing as their primary source of income, especially Islamic banks that rely on financing using profit-sharing contracts as a business activity that provides high levels of profit. However, this certainly also carries a high risk, commonly referred to as credit risk or non-performing financing. If this occurs, it can disrupt the bank's sustainability and level of health, which is assessed by its financial performance. In Islamic banking, the risk of non-performing financing is described by the value of non performing financing (NPF).

Non-performing financing is a form of funding that has been disbursed by a bank to a customer, but the customer is unable to repay the installments agreed upon by the bank and the customer. (Ismail, 2018). Mishkin (2008) argues that providing financing is an obligation for the customer or company receiving it, but it is an asset for the bank. If a bank disburses financing for a specific period, and the customer or company is unable to repay it within the agreed period, the financing is considered non-performing or in default. Therefore, financing

carries a greater risk than other assets. Therefore, the operational activities of Islamic commercial banks in the financing sector, especially those with profit-sharing contracts, are inseparable from the problem of default. The condition of non-performing financing for profit-sharing contract products at Islamic commercial banks in 2021 is depicted in figure 1 below this.

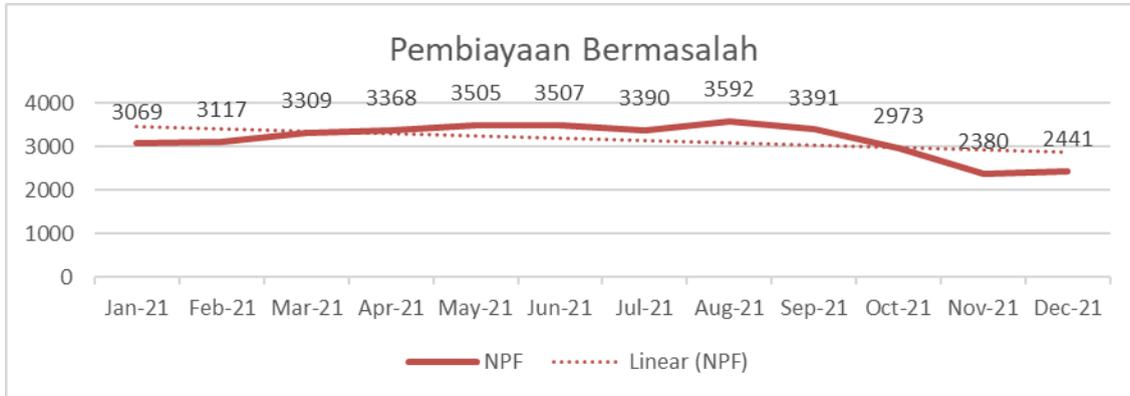


Figure 1
Problematic Financing of Profit Sharing Contract Products (OJK, 2021)

Based on Figure 1.1, it can be seen that problematic financing occurred during the last year in 2021. The highest problematic financing was experienced in August, amounting to 3,592 and the lowest problem financing occurred in November at 2,380. Therefore, in carrying out their business activities, banks need to be more careful and cautious in disbursing funds to the public. However, in banking operations, it is highly unlikely that all disbursed financing will run 100% smoothly without any obstacles. Consequently, banks face few or many problematic financing issues. (Non Performing Financing) (Fahmi, 2011).

The high level of problematic financing experienced by banks can be caused by the condition of customers' income not increasing while the level of expenditure continues to rise, due to the continuous increase in prices of basic necessities continuously. This will make it difficult for loan customers to make payments. This condition is known as inflation, where price changes tend to increase continuously and are not accompanied by increases in income, resulting in customers or debtors having difficulty making payments and causing non-performing loans to increase (Vanni, 2017). Another condition that can cause high or low non-performing loans experienced by banks can be seen from the adequacy of existing capital. This can be seen from the value of Capital Adequacy Ratio (CAR).

Capital Adequacy Ratio (CAR) is a bank capital factor that acts as a ratio in measuring the adequacy of capital owned by the bank to overcome risky assets (Auliani & Syaichu, 2016). Capital Adequacy (Capital Adequacy Ratio) provides an illustration of whether or not the bank is able to anticipate asset depreciation caused by losses on other assets that have risks during the bank's operations. The large amount of capital owned by the bank can cover and anticipate losses that occur due to risks on productive assets. The high value Capital Adequacy Ratio This indicates that the capital in the bank has increased, so it can be used to reduce the occurrence of problematic financing (Wulandari & Utami, 2019). However, if there is a continuous increase in assets continuously from third party funds, it can have a major impact on banking in facing the high risk of problematic financing.

According to Wardiantika & Kusumaningtias (2014), third-party funds are deposits from the public deposited with banks, which can be withdrawn at any time using specific channels. These funds are then managed optimally by banks to support bank operations. Therefore, the greater the number of funds collected from third parties and managed by banks in the form of

financing distribution to the public, the greater the risk of non-performing financing. Anisa (2021) explains that there is a strong correlation between third-party funds and non-performing financing compared to other factors. This is indicated by the increasing flow of assets from third-party funds, which in turn increases the financing risk faced by banks.

Many previous studies have examined the impact of non-performing financing on inflation, Capital Adequacy Ratio (CAR), and Third Party Funds (TPF). For example, Solihatun (2014) analyzed sharia financing in Indonesian Islamic commercial banks, finding that inflation had a significant positive effect on non-performing financing. These findings align with those of Astuti & Harun (2022) and Albra et al. (2018). However, Supriani & Sudarsono (2018) found that high inflation reduced non-performing financing. This contrasts with the findings of Fadhlurrahman et al. (2021) and Sanusi et al. (2019), which found that inflation had no effect on non-performing financing in Indonesian Islamic commercial banks.

Nugrohowati & Bimo (2019) explain that banks with large capital can easily control problematic financing. This is consistent with research by Nihayah & Walyoto (2018). However, Rahmah & Armina (2020) and Sugiharto et al. (2019) found a positive effect of bank capital adequacy on non-performing financing. Furthermore, research by Nurmalasari (2021) found that the greater the amount of third-party funds collected by a bank, the higher the non-performing financing they will face. However, this is inconsistent with research by Sofyan (2020) and Gunawan & Sudaryanto (2016), which found that the amount of third-party funds did not significantly impact non-performing financing in commercial banks. Conventional Public in Indonesia.

Previous research has focused more on non-performing financing, which is influenced by capital adequacy ratio (CAR) and inflation. However, the influence of third-party funds (TPF) on non-performing financing is still lacking, especially in Islamic commercial banks in Indonesia. Furthermore, these studies only discuss non-performing financing in general, and none have addressed non-performing financing under profit-sharing agreements in Islamic commercial banks. Therefore, this study aims to address this issue, and herein lies its uniqueness and novelty. Therefore, the purpose of this study is to analyze non-performing financing under profit-sharing agreements, which are influenced by inflation, capital adequacy ratio (CAR), and third-party funds (TPF) in Islamic commercial banks in Indonesia.

2. LITERATURE REVIEW

2.1. Contract Theory and Information Asymmetry in Sharia Contracts

Al-Suwailem (2006) and Mirakhor & Iqbal (2022), are two figures who expanded the contract theory in the context of sharia, putting forward the argument that sharia banking must be built with incentive compatibility, transparency, and sharia-based risk control. This theory is based on agency theory and developed in the context of Islamic economics to explain how the relationship between banks and customers in the Islamic financial system is regulated in the form of an agreement (contract) based on the principle of trust (trust), transparency, and risk sharing. In the contract *mudharabah* and *musharakah*, the bank acts as the owner of funds (*shahibul maal*) while the customer as the manager (*mudharib*). This creates asymmetric information, as customers have more access to the real conditions of their businesses than banks. When contracts are structured with prudential principles and Sharia values, the risk of asymmetric information can be minimized, and external influences such as inflation do not necessarily lead to problematic financing.

Under Sharia principles, the relationship between a bank and its customers is based more on a partnership contract than a loan. Under this contract, even in the event of economic fluctuations (such as inflation), the customer's responsibility to repay the funds remains binding under Sharia and Islamic civil law (Rosly, 2005). Therefore, inflation does not directly impact a customer's repayment capacity, especially if risk mitigation has been implemented through rigorous financing selection.

2.2. Theory Risk Absorption

In the context of modern banking theory, particularly that developed by Mishkin (2007) and Calomiris & Mason (2004), capital adequacy is seen as one of the main components in risk mitigation or known as Risk Absorption Theory. This theory emphasizes that bank capital is not only a reserve fund, but also a crucial instrument for absorbing the risk of losses arising from financing activities, including non-performing loans. Banks with strong capital tend to have a greater ability to withstand external pressures, such as payment defaults or economic uncertainty. Adequate capital allows banks to absorb losses that may arise from uncollectible financing, thereby reducing the potential for disruption to the bank's overall operational continuity. Furthermore, adequate capital also reduces moral hazard, the tendency of management to take excessive risks due to a perceived sense of protection. With sound capitalization, banks have an incentive to be more cautious and maintain healthy asset quality.

2.3. Financial Intermediation Theory

From the perspective of financial intermediation theory developed by Gurley (1960) and refined by Diamond (1984) and Boyd & Prescott (1986), banks are positioned as the primary intermediaries in the financial system, bridging the gap between those who have funds and those who need them. One of the most crucial forms of funding for banks is Third Party Funds (TPF), which are funds collected from the public in the form of deposits such as savings, checking accounts, and time deposits. An increase in TPF is an indicator of a bank's success in garnering public trust. However, within this theoretical framework, an increase in TPF also brings consequences in the form of increased pressure on banks to immediately disburse these funds in the form of financing. This is done to maintain liquidity efficiency and profit from financing margin differences. With more available funds, banks have the potential to be encouraged to aggressively expand financing, even into business sectors with higher risk profiles.

3. METHODS

This study uses a quantitative approach with the independent variables being inflation, Capital Adequacy as measured by CAR, and Third Party Funds (DPK) and Non-Performing Financing (NPF) as the dependent variables. The research data used are of the following types: times series period from January 2015 to December 2021 obtained through website official Financial Services Authority (OJK) and Bank Indonesia.

The data analysis technique used is multiple regression analysis (OLS) which aims to determine how much influence the inflation variable, Capital Adequacy as measured by CAR, and Third Party Funds (DPK) have on the problematic financing variable of profit sharing contract products in Islamic commercial banks using the following tools: software JASP statistics (Jeffrey's Amazing Statistics Program). Before conducting multiple regression analysis (OLS), descriptive statistics and classical assumption tests will be conducted first. According to Ghozali (2013), classical assumption tests include: normality test, autocorrelation test, multicollinearity test, and heteroscedasticity test (Hidayat & Arfianto, 2017). However, in this study, only normality test and multicollinearity test will be used because the research data only contains data times series and multiple regression analysis. The equation model used in this study can be formulated as follows:

$$NPF = \alpha + \beta_1 INF_1 + \beta_2 CAR_2 + \beta_3 DPK_3 + \varepsilon$$

Information:

- NPF : Troubled Financing
- α : Cash
- β : coefficient of each independent variable

INF : Inflation
 CAR : Capital adequacy
 DPK : Third-party funds
 e : Residual

4. RESULTS AND DISCUSSIONS

4.1. Research result

4.1.1. Descriptive statistical test

Descriptive statistical testing was conducted to examine the variation in the variable data used in the study, both independent and dependent variable data. The results of the descriptive statistical testing are shown in Table 1.1 below.

Table 1
Descriptive Statistics

	Troubled Financing	INF	Capital Adequacy	DPK
Valid	84	84	84	84
Mean	3.057	3.364	18.806	245.828
Std. Deviation	0.364	1.550	3.291	57.612
Minimum	2.380	1.320	14.090	162.817
Maximum	4.141	7.260	25.710	365.421

Source: Processed data (JASP)

The results above can be explained that each variable has 84 observations, the financing variable has an average value of 3,057 and a standard deviation value of 0.364 and a value of 0.364. minimum amounting to 2,380 and the value maximum amounting to 4,141. This shows the average value is greater than the standard deviation value, then the problematic financing variable data is less varied and only spreads around the average value. The inflation variable data has an average value of 3,364 and a standard deviation value of 1,550, and a value of 1,550. minimum amounting to 1,320 and the value maximum amounting to 7,260. This shows that the average value is greater than the standard deviation value, then the inflation data is less varied and only spreads around the average value.

Furthermore, the capital adequacy variable has an average value of 18,806 and a standard deviation value of 3,291 and a value of minimum amounting to 14,090 and the value maximum amounting to 25,710. This is shown If the average value is greater than the standard deviation, then the capital adequacy variable data is less varied and only spreads around the average value. Then, the DPK variable has an average value of 245,828 and a standard deviation value of 57,612, as well as a value of 1,000,000. minimum amounting to 162,817 and the value maximum amounting to 365,421. This is show that the average value is more than the standard deviation value, then the DPK variable data is less varied and only spreads around the average value.

Based on the description above, it can be concluded that the distribution of the data used in the research is good or normal. In addition, Ajija et al., (2011), explained that the data used in the research is good or normal. not enough From 30 observation samples, a normality test needs to be carried out, however, if there are more than 30 observation samples, a normality test is not necessary or can be ignored.

4.1.2. Classical Assumption Test

This test was carried out to see whether the data used in the research had fulfilled the BLUE estimation requirements (Best Linear Unbiase Estimator). However, in this research, not all classical assumption tests were carried out, because this research used data time series with

a multiple regression model. Therefore, testing the classical assumptions only requires normality and multicollinearity tests.

4.1.3. Normality Test

The results of the normality test used in this study were using a histogram distribution. The results are shown in figure 2 below this.

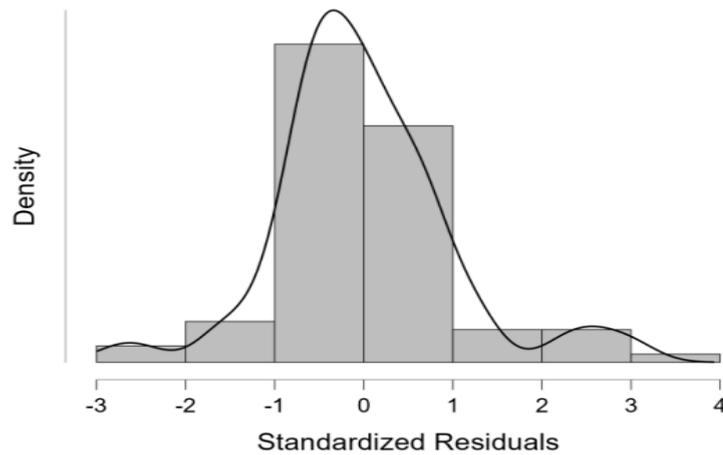


Figure 2. Histogram Distribution

Source: Processed data (JASP)

The results of the normality test above using the histogram distribution obtained a bell-shaped image with values of -3 to 4, and most of the data were at -1 to 1, so the data was considered to be normally distributed.

4.1.4. Multicollinearity Test

This test was conducted to determine the correlation between independent variables in the research regression model. The test results are shown in the table.2 below this.

Table 2
Multicollinearity Test

Coefficients				Collinearity Statistics	
Model		Unstandardized	S.E	Tolerance	VIF
H ₁	(Intercept)	8967.241	1987.696		
	Ln INF	119.598	147.892	0.357	2.800
	Ln CAR	-3366.300	692.725	0.141	7.076
	DPK	0.015	8.306e-4	0.179	5.593

Source: processed data (JASP)

The test results above show that the tolerance value for each independent variable is greater than 0.10 (> 0.10) and the VIF (Variance Inflation Factor) value for each independent variable is less than 10.00 (< 10.00). Therefore, it can be concluded that there is no correlation

between the variables.independentor there are no symptoms of multicollinearity in this research model.

4.2. Multiple Regression Test

Multiple regression testing is conducted to determine the magnitude and direction of the influence of each independent variable on the dependent variable in a study. The results obtained from the multiple regression test are as follows::

4.3. Determinant Test (R^2)

Determinant testing (R^2) was conducted to see the extent of the contribution of the regression model in the research, which is indicated by the Adjusted R^2 value. This can be seen in the table 3 below this.

Table 3
Determinant Test (R^2)

Model Summary – NPF				
Model	R	R^2	Adjusted R^2	RMSE
H ₁	0.959	0.921	0.918	414.015

Source: processed data (JASP)

Test results determine (R^2) in table 1.3 the adjusted R value is obtained of 0.918. This indicates that the independent variables in the research model are able to contribute to the problematic financing variable of profit-sharing contract products in Islamic commercial banks by 91.8% and the remaining 8.2% is found in other variables outside this research model.

4.4. F-Statistic Test

The f-statistic test was conducted to determine the magnitude of the influence of the independent variables on the dependent variable simultaneously. The results are shown in Table 4 below.

Table 4
F-Statistic

Model		Sum of Squares	df	Mean Square	F	P
H ₁	Regression	1.590e+8	3	5.301e+7	309.270	< .001
	Residual	1.371e+7	80	171408.016		
	Total	1.727e+8	83			

Source: processed data (JASP)

The results of the f-statistics in table 1.4 obtained an F value of 309,270 with P (P-Value) smaller than 0.05, so this shows that together the independent variables in the study have a significant positive effect on the problematic financing variable of profit-sharing contract products at Islamic commercial banks in Indonesia.

4.5. t-Statistic Test

The t-statistic test was conducted to determine the effect of the independent variable on the dependent variable individually. The results can be seen in the table.5 below this.

Table 5
t-Statistic

Model		Unstandardized	Standard Error	Standardized	T	P
H ₁	(Intercept)	8967.241	1987.696		4.511	< .001
	INF	119.598	147.892	0.043	0.809	0.421
	CAR	-3366.300	692.725	-0.407	-4.860	< .001
	DPK	0.015	8.306e-4	1.341	18.006	< .001

Source: processed data (JASP)

Based on the regression test shown in table 1.5 above, the coefficient value (Unstandardized) The inflation variable is 119,598 with a P-value of 0.421, less than 0.05. Therefore, inflation does not have a significant positive effect on non-performing financing. Meanwhile, the capital adequacy variable has a coefficient value of -3366,300 with a p-value of 0.001, less than 0.05. Therefore, capital adequacy has a significant negative effect on non-performing financing, and the third party funds (DPK) variable has a coefficient value of 0.015 with a p-value of 0.001, less than 0.05. Therefore, DPK has a significant positive effect on non-performing financing.

DISCUSSIONS

a. The Effect of Inflation on Non-Performing Financing of Profit-Sharing Contract Products at Islamic Commercial Banks in Indonesia

The study found that inflation had no significant effect on non-performing financing of profit-sharing products at Islamic commercial banks in Indonesia from January 2015 to December 2021. This finding aligns with research conducted by Fadhlurrahman et al. (2021) and Sanusi et al. (2019), which found that inflation had no effect on non-performing financing at Islamic commercial banks in Indonesia. These results indicate the absence of a significant positive effect of inflation on non-performing financing of profit-sharing products at Islamic commercial banks. Therefore, it can be concluded that inflation in society does not significantly impact the high rate of non-performing financing of profit-sharing products at Islamic commercial banks.

This finding could be due to customers at Islamic commercial banks having entered into an agreement with the bank to repay the funds provided. Therefore, despite inflation, non-performing financing at Islamic commercial banks does not increase. Furthermore, banks, when providing financing to customers, certainly have certain criteria. Similarly, contract theory and information asymmetry in Islamic contracts explain that the relationship between banks and customers is based more on a partnership contract than a loan. In this contract, even when economic turmoil (such as inflation) occurs, the customer's responsibility for repayment remains binding under Islamic law and Islamic civil law (Rosly, 2005). Therefore, inflation does not directly impact customer repayment capacity, especially if risk mitigation has been implemented through strict financing selection. However, this study's findings differ from those of Solihatun (2014) and Astuti & Harun (2022), which found a significant positive effect of inflation on non-performing financing. Meanwhile, Supriani & Sudarsono (2018) found that high inflation will reduce non-performing financing.

b. The Effect of Capital Adequacy on Problematic Financing of Profit-Sharing Contract Products in Islamic Commercial Banks in Indonesia

The regression results conducted in this study indicate that capital adequacy has a significant negative effect on non-performing financing of profit-sharing products in Islamic commercial banks. This is in line with the explanation by Wulandari & Utami (2019) that a high

capital adequacy ratio (CAR) leads to a higher risk of bankruptcy. Capital Adequacy Ratio This indicates that the bank's capital has increased, allowing it to be used to reduce the occurrence of problem financing. These research findings corroborate those of Nugrohowati & Bimo (2019), who found that banks with substantial capital can more easily control problem financing. Furthermore, Nihayah & Walyoto (2018) found a significant negative effect of capital adequacy on problem financing.

This study shows a significant negative effect of capital adequacy on non-performing financing of profit-sharing products in Islamic commercial banks. This occurs because substantial capital, particularly in the form of CAR, helps banks more easily control and anticipate potential financing risks. Furthermore, Risk Absorption Theory developed by Mishkin (2007) and Calomiris & Mason (2004), emphasizes that bank capital is not only a reserve fund, but also an important instrument to absorb the risk of losses arising from financing activities, including problematic financing.

Islamic banks that have high CAR can be more selective in distributing financing, maintaining the prudential principle, and ensuring that financing is based on profit-sharing agreements such as mudharabah and musharakah. Credit is only given to customers who are truly business and morally worthy. Therefore, the greater the bank's capital, the lower the likelihood of non-performing loans, as the bank is able to anticipate risks earlier and more effectively. Therefore, the greater the capital in the form of CAR, the lower the chance of non-performing loans in Islamic commercial banks. However, the results of this study differ from those of Rahmah & Armina (2020) and Sugiharto et al. (2019), which found a positive effect of bank capital adequacy on non-performing loans.

c. The Influence of Third Party Funds (DPK) on Problematic Financing of Profit Sharing Products in Islamic Commercial Banks in Indonesia

The research results showed that third-party funds (DPK) had a significant positive effect on non-performing financing of profit-sharing products in Islamic commercial banks in Indonesia. This is consistent with Anisa's (2021) statement that there is a strong correlation between third-party funds and non-performing financing compared to other factors. This is indicated by the increasing flow of assets from third-party funds, which increases the financing risk faced by banks. These results align with Nurmallasari's (2021) research, which found that the greater the number of third-party funds collected by banks, the greater the non-performing financing they will face.

This research shows there is a significant positive influence of third-party funds (DPK) on problematic financing of profit-sharing products in Islamic commercial banks. This is due to the large flow of capital from third parties, which encourages banks to further increase their operational activities in the form of financing distribution to customers. This will, in turn, increase the risk of financing provided by banks to customers. Meanwhile, in the financial intermediation theory developed by Gurley (1960) and refined by Diamond (1984) and Boyd & Prescott (1986), banks are positioned as the main intermediaries in the financial system, bridging the gap between fund owners and those in need of funds. One of the most crucial forms of funding for banks is Third Party Funds (DPK), as it can result in increased pressure on banks to immediately disburse these funds in the form of financing. This is done to maintain liquidity efficiency and gain profits from financing margin differences. With more available funds, banks have the potential to be encouraged to aggressively expand financing, even into business sectors with higher risk profiles.

In the context of profit-sharing contracts, such as mudharabah and musyarakah, which do not guarantee fixed returns and are highly dependent on the customer's business results, this pressure can lead to the expansion of financing to sectors or business actors with high risk, which then triggers an increase in non-performing financing. Therefore, the more third-party funds a bank receives, the greater the chance of non-performing financing. However, the

study's findings differ from those of Sofyan (2020) and Gunawan & Sudaryanto (2016), which found that the amount of third-party funds does not significantly impact non-performing financing in commercial banks. Conventional Going Public in Indonesia.

5. CONCLUSIONS

After conducting regression and analysis, it can be concluded that inflation does not have a significant positive effect on non-performing financing of profit-sharing contract products in Islamic commercial banks in Indonesia, because the increase in prices that is not followed by an increase in income is not the main problem that makes it difficult for Islamic bank customers to return the funds that have been given. In addition, customers who have taken out financing have made a contract and will carry it out. Then in providing financing, banks certainly have their own criteria. Meanwhile, capital adequacy has a significant negative effect on non-performing financing of profit-sharing contract products in Islamic commercial banks because a lot of capital flowing in the bank will help the bank in handling non-performing financing and DPK has a significant positive effect on non-performing financing of profit-sharing contract products in Islamic commercial banks, because the large amount of funds collected by the bank means more funds can be distributed to customers in the form of financing, so the risk of non-performing financing is higher.

Non-performing financing is an unavoidable financing risk for banks. The higher the expected rate of return, the greater the risk the bank must bear. However, in this study, capital adequacy and third party funds (DPK) have a significant influence. Therefore, banks must always maintain their capital, especially in the form of CAR. Furthermore, non-performing financing is influenced not only by capital adequacy and third party funds but also by other financial ratios or external factors such as interest rates..

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