The Impact of Macroeconomic Variables, Financing Risks, and Third-Party Funds on Islamic Banking's Profitability

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Article Info:	Abstract
	The aim of this research was to examine the impact of macroeconomic variables, financing risks , and third-party funds on the profitability of Islamic banking. The GDP and inflation are the macroeconomic variables that are taken into effect. Non-performing financing (NPF) is the financial risk that is used. Islamic banks that are registered with the Financial Services Authority (OJK) for the 2019–2020 sample period represent the research population. Purposive sampling was the technique used, and the sample size consisted of fourteen Islamic banks. This study used Eviews 10 to do mutivariate regression analysis as its data analysis tool. The findings showed that the GDP and inflation, two macroeconomic variables, had no impact on the profitability of Islamic banking. Profitability is significantly impacted by third party funds, whereas Islamic banking's profitability is significantly impacted negatively by NPF.

INTRODUCTION

The Covid-19 pandemic is currently having a significant influence on Indonesia's economy as well as the global economy. The epidemic has had an impact on nearly every area, including finance and banking. Munifah (2020) states that all Sharia economic sectors have seen numerous major obstacles since the Covid-19 outbreak, one of which is the rise in problematic funding. Nonetheless, the Financial Services Authority's (OJK) statistics indicates a good trend in the expansion of the Sharia banking sector. The development of

total Islamic banking assets reached IDR 545.4 trillion as of June 2020, finance given (PYD) reached IDR 377.5 trillion-, and third-party funds (DPK) reached IDR 430.2 trillion, according to statistical data on Sharia banking.

Figure 1. Development of Assets, PYD and DPK (Rp Trillion)
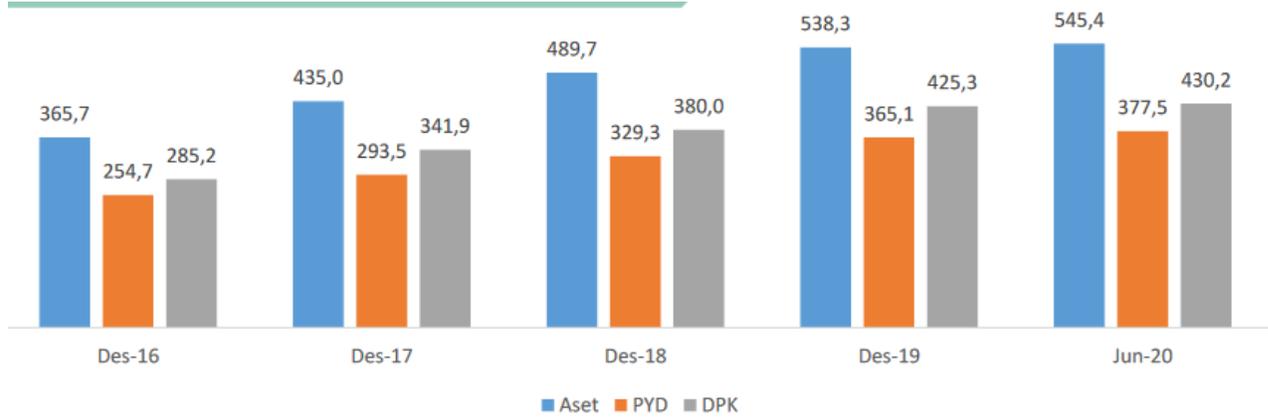
Source: OJK

As of June 2020, asset growth was 9.22% year over year, PYD growth was 10.13% year over year, and DPK growth was 8.99% year over year.

Figure 2. Growth in Assets, PYD, and DPK

	Des-16	Des-17	Des-18	Des-19	Mei-20	Jun-20
Pertumbuhan Aset (yoy)	20,28%	18,97%	12,57%	9,93%	9,53%	9,22%
Pertumbuhan PYD (yoy)	16,41%	15,27%	12,17%	10,89%	10,14%	10,13%
Pertumbuhan DPK (yoy)	20,84%	19,89%	11,14%	11,93%	9,24%	8,99%
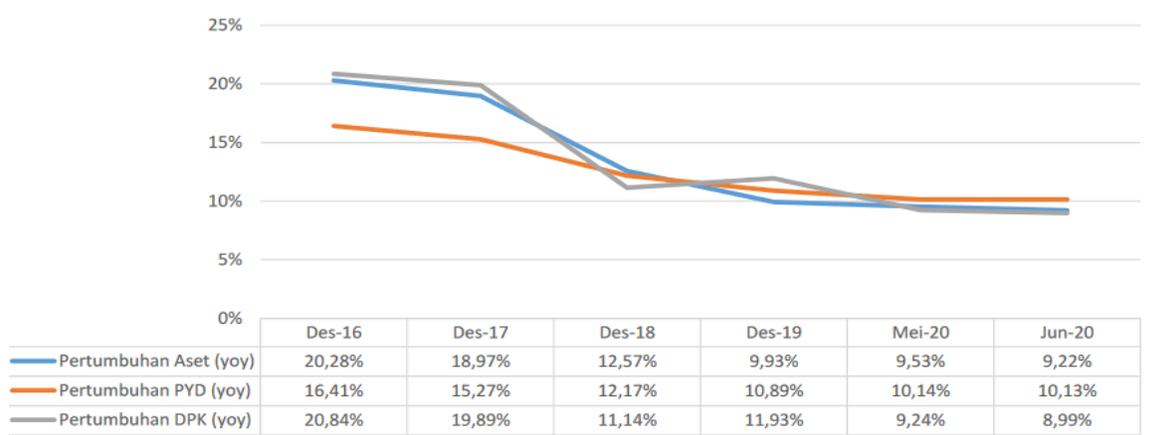
Source : OJK

The market share of Islamic banks is rising as well, reaching 6.18%. Whereas BPRS 2.5 percent, UUS 32.17%, and Islamic commercial banks contributed 65.33% each.

Figure 3. Market share of Islamic banks
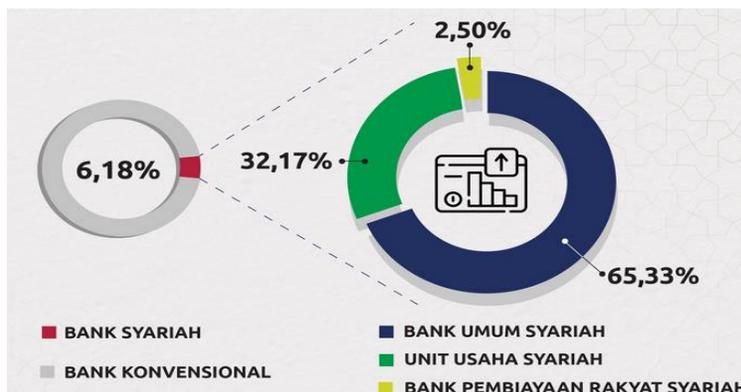
Source: OJK

According to OJK data, with total assets of IDR 356.33 trillion and total deposits of IDR 293.37 trillion, Islamic commercial banks are the largest contributors in the Sharia finance industry. The total assets of UUS and DPK came to IDR 174.45 trillion and IDR 127.95 trillion, respectively. In contrast, the DPK has a value of IDR 8.89 trillion and the BPRS contribution is IDR 13.61 trillion in total assets.

Figure 4. Main Islamic Banking Indicators

Industri Perbankan	Jumlah Institusi	Jumlah Kantor	Aset (dalam triliun rupiah)	PYD (dalam triliun rupiah)	DPK (dalam triliun rupiah)
Bank Umum Syariah	14	1.942	356,33	232,86	293,37
Unit Usaha Syariah	20	390	175,45	134,16	127,95
Bank Pembiayaan Rakyat Syariah	162	626	13,61	10,50	8,89
TOTAL	196	2.958	545,39	377,53	430,21

Source: OJK

This positive trend indicates people's enthusiasm for transactions at Sharia financial institutions. Society has also begun to exercise caution in selecting financial institutions in order to prevent transactions that are prohibited by Islam.

Functioning activity Islamic banking is not immune to the effects of the national economy. Islamic banking functions as institution intermediary finance, or institution intermediation. Macroeconomic variables like GDP and inflation can have an impact on how effectively performance finance banking functions (Hidayatullah & Wahyuni, 2018). Factor macroeconomics, according to Sukirno (2006), includes gross domestic product and product national gross, economic growth, inflation, unemployment rate, foreign exchange rate, , money supply, and interest rates. (Masood et al., 2015) state that Islamic banks

intentionally create benefits that satisfy their partners' financial needs in addition to solely seeking profit. However, macroeconomic conditions are outside Islamic banking's control, and Islamic banks cannot always give the greatest results for their partners. It is important to understand these macroeconomic factors from the perspective of banking partners, in order to predict expected profits.

Significantly, the relationship between profitability and banking is significant since the country's economic state is dependent on the stability and well-being of banking (Albertazzi & Gambacorta, 2009). As a result, analyzing the factors that determine the profitability of the banking sector is critical since the country's economic system is dependent on the banking economic system (Ali, Maamor, Yaacob, & Gill, 2018) . National production, the stock market, interest rates, inflation, and currency rates have a theoretical link that influences bank financial performance (Setyowati, 2019). This research uses gross domestic product (GDP), inflation and interest rates as macroeconomic factors that influence profitability (Ali et al., 2018; Amzal, 2016; Hong & Razak, 2015; Javed & Basheer, 2017; Kusuma, 2016; Sishadiyati & Kirana, 2020).

According to Sodiq (2014) research, GDP has a positive and significant impact on profitability, however the inflation rate has no effect on profitability. According to Hidayatullah & Wahyuni (2018), the inflation variable has a positive and significant effect on profitability, whereas the GDP variable has a negative effect. In his research, Amzal (2016) found that GDP and the inflation rate had a positive and significant effect on the profitability of Islamic banks, whereas interest rates had a large negative effect. Nuril and Suselo (2018) found that inflation has a negative and significant effect on ROA. According to Hong & Razak (2015) research, GDP has a positive and significant influence on ROA, whereas inflation has a negative affect on ROA.

Another critical factor for the banking business is the source of capital. This fund will be handed to the community as a means of financing. The more funding sources received by the bank, the higher the bank's ability to profit (Angraini, 2018). Based on previously presented OJK data, BUS and UUS third party fund (DPK) continued to experience positive growth, although relatively small, during the Covid-19 pandemic, with third party fund (DPK) in 2019 amounted to IDR 425.3 trillion, and third party fund (DPK) as of July 2020 amounted to IDR 430.2 trillion. According to Angraini (2018) research, third-party funds have a good and significant effect on profitability. According to Setiawan & Indriani (2016), third-party funds have a beneficial but modest effect on the profitability of Islamic banks. Meanwhile, Syachfuddin & Rosyidi (2017) discovered that third-party funds have a negative impact on the Islamic banking industry's profitability.

Islamic banking is essentially an extension of regular banking, with Islamic banks providing banking services without the use of usury. Customers who want to conduct usury-free financial transactions in conformity with Islamic Sharia can use this service. Many economic analysts believe Islamic banking is one solution to the current economic crisis. During the 1997/1998 economic crisis, banks that applied the sharia system survived and were little or not damaged by the crisis, proving this opinion to be correct. The recovery period is also shorter than that of conventional banks, as the NPF of Islamic banks was lower after the crisis than that of conventional banks (Amzal, 2016). During the present Covid-19 pandemic, the NPF ratio of Islamic banking is still under control; according to OJK data as of July 2020, the total NPF of BUS is 3.31%, while the NPF of UUS is 3.31%.

rate 3.38%. This is because, during the Covid-19 outbreak, Islamic banking implemented a strategy through a good initiation and selection procedure and maintained as many partners as feasible.

Based on Amzal (2016) research, NPF has a negative and considerable impact on the profitability of Islamic banks. According to Angraini (2018), NPF has a negative and significant effect on ROA. According to Akbar (2018) research, NPF has a negative effect on the ROA of Islamic banks. Similarly, Setiawan & Indriani (2016) discovered that NPF had a negative and considerable impact on the profitability of Islamic banks.

A healthy bank's financial performance reflects its health. Profitability is an indicator of financial performance. Return on Assets (ROA) is a measure that can be used to determine profitability. If the bank's intermediation function runs smoothly, profitability, one of which is ROA, will rise (Nugroho & Bararah, 2018). Profitability is the primary goal of any profit organization. An organization cannot continue for an extended length of time unless it is profitable. As a result, quantifying current and previous profitability, which will subsequently be utilized to anticipate future profitability, is a requirement to assure business continuity (Alareeni & Branson, 2013; Husain et al., 2015). Profitability is an essential factor in the banking business; it also serves as a buffer against macroeconomic shocks (Ali et al., 2018). These profitability parameters serve as the foundation for evaluating and analyzing the aspects that determine Islamic banking profitability.

There has been a lot of research conducted regarding the impact of macroeconomics on profitability. The difference between this research and previous research is that by including the variables of third party funds and financing risk, the population studied is Sharia commercial banks and Sharia Business Units using quarterly financial reports for the 2019 - 2020 period. to comprehend, analyze, and assess the impact of macroeconomic factors, third party funds, and financing risks on Sharia banking profitability.
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LITERATURE REVIEW

Stakeholder Theory

According to Freeman & Reed (1983), a stakeholder is a collection of people or individuals who are characterized as having the ability to affect corporate operations or being impacted by company actions. Owners, shareholders, investors, managers, employees, consumers, business partners, the community, and the government are all examples of firm stakeholders. According to Ulum (2011) in his book, this idea fundamentally asserts that a firm is a cooperative business venture involving stakeholders with varying levels of interest. As a kind of responsibility, managers are expected to be able to carry out actions deemed vital by stakeholders, as well as disseminate information about company activities effectively.

Based on Amilin, Utami, and Wulandari (2008) research, organizational management is expected to carry out actions that have a good influence on the company and report these activities back to stakeholders in accordance with stakeholder theory. According to this theory, all stakeholders have the right to be informed about how organizational activities affect them, even if they choose not to use that information and cannot directly contribute to the organization's survival (Nugroho & Bararah, 2018).

Product Gross Domestic (GDP)

Gross Domestic Product (GDP) is the value of goods and services produced inside a country during a specific time period. According to the interpretation of this statement, what will be calculated in the GDP category are products or output in the form of goods and services in an economy that are produced by inputs or production factors owned by citizens of the country in inquire about or by foreign nationals who live geographically in the area (Sunyoto & Hasanah, 2014).

The value of goods and services generated in a country employing production elements held by residents/state corporations is known as GDP (Sukirno, 2006). GDP only consists of final products and services, i.e. those sold to end consumers. Goods and services acquired to be processed and resold (intermediate goods and services) are not included in GDP to avoid the problem of double counting, which occurs when a product is included more than once (Sodiq, 2014).

Inflation

Inflation is defined as a widespread and continuous rise in the cost of products (Rahardja & Manurung, 2008). Mild inflation (less than 10% per year), moderate inflation (between 10% and 30% per year), heavy inflation (between 30% and 100% per year), and hyperinflation (over 100% per year) are the four types of inflation (Boediono, 2013).

According to Swandayani & Kusumaningtias (2012), price increases for only one or two types of items cannot be considered inflation unless they have an impact on price increases for most other goods. When prices rise, people tend to utilize cash to buy things in order to fulfill their daily necessities; however, a relatively steep price increase may motivate people to withdraw huge amounts of money from banks (rush). People typically save their wealth in the form of fixed assets, the value of which increases year after year, which could influence bank income and, as a result, the bank's ROA (Sodiq, 2014).

Third-party funds

Third Party Funds are bank obligations to residents in rupiah and foreign money, according to Bank Indonesia Regulation No.10/19/PBI/2008. DPK is one of the most significant public-funding sources. Banks can use funds from external parties to invest in positions that create revenue for the bank. Third-party funds can be obtained through current accounts, savings accounts, and deposits. Of course, there are benefits acquired by both the bank and the customer once the bank offers a loan or financing. Profits from profit sharing are included in the bank's cash, providing the bank with additional funds to pay operational expenses (Syachfuddin & Rosyidi, 2017).

Non-Performing Financing (NPF)

Non-Performing Financing (NPF) is a financial ratio used by banks to assess the risk of loss connected with the potential of a debtor failing to repay its loan obligations to the bank (Husaeni & Jayengsari, 2020). Non-Performing Loans (NPL) or Non-Performing Financing (NPF) are problem loans that include loans classed as substandard, questionable, and non-performing, according to the Bank Indonesia Dictionary.

The NPF or NPL is a comparison of problematic credit/financing to total credit/financing provided. The larger this ratio indicates a bank's incapacity to handle its problematic credit/financing, which will, of course, diminish a bank's degree of confidence

and prudence in carrying out its commercial activities, such as distributing financing, in the next period. As a result, the magnitude of the NPF in the prior period can predict bank profitability (Setiawan & Indriani, 2016).

Profitability

The profitability ratio is a ratio used to evaluate a company's ability to generate profits or returns over a specific time period (Kasmir, 2018a). This ratio also indicates the level of efficacy of a company's management as measured by earnings from sales or investment income. Profitability theory is particularly essential as a reference in assessing the amount of profit to determine whether the company has conducted its operation efficiently. The efficiency of a new business can be determined by comparing profits to the assets or capital that generate these profits. Profitability is defined as a company's ability to produce profits based on sales, total assets, and long-term debt. Return On Assets (ROA) represents a frequent indicator for profitability ratios.

ROA is a measure of profitability. This ratio is frequently highlighted in financial report analysis as it can show the company's effectiveness in generating profits. ROA might evaluate a company's ability to earn profits in the past and forecast them for the future. The assets in question include all of the company's assets, which were obtained through its own capital or through foreign capital that the company transformed into company assets that are used in ensuring the company's survival. ROA is defined as the net profit-to-total-assets ratio, which measures the return on total assets after interest and taxes (Brigham & Houston, 2018).

METHODS

Secondary data in the form of Islamic bank quarterly financial reports were used in this study. For the five variables, multiple regression statistics with secondary data are used. This method is used by researchers to determine the impact of GDP, inflation, interest rates, third-party funding, and NPF on the profitability of Islamic banking. This study's population consists of Islamic commercial banks and Sharia business units registered with the Financial Services Authority (OJK) for the 2019-2020 fiscal year.

List of populations used as following:

Table 1 List of Research Populations

No.	Islamic Commercial Bank	No	Sharia Business Unit
1	PT Bank Aceh Syariah	15	PT. Bank Danamon Indonesia, Tbk
2	PT BPD West Nusa Tenggara Syariah	16	PT Bank Permata, Tbk
3	PT Bank Muamalat Indonesia	17	PT Bank Maybank Indonesia, Tbk
4	PT Bank Victoria Syariah	18	PT Bank CIMB Niaga, Tbk
5	PT Bank BRI Syariah	19	PT Bank OCBC NISP, Tbk
6	PT Bank Jabar Banten Syariah	20	PT Bank Sinarmas
7	PT Bank BNI Syariah	21	PT Bank Tabungan Negara (Persero), Tb k
8	PT Bank Syariah Mandiri	22	PT BPD DKI
9	PT Bank Mega Syariah	23	PT BPD Yogyakarta Special Region
10	PT Bank Panin Dubai Syariah	24	PT BPD Central Java
11	PT Bank Syariah Bukopin	25	PT BPD East Java, Tbk
12	PT BCA Syariah	26	PT BPD North Sumatra
13	PT National Sharia Pension Savings Bank	27	PT BPD Jambi

14	PT Maybank Syariah	28	PT BPD West Sumatra
		29	PT BPD Riau and Riau Islands
		30	PT BPD South Sumatra and Bangka Belitung
		31	PT BPD South Kalimantan
		32	PT BPD West Kalimantan
		33	P T BPD East Kalimantan
		34	PT BPD South Sulawesi and West Sulawesi

Source: OJK

Purposive sampling was used, which means that samples were chosen based on the following criteria:

1) Islamic banking, which was active from 2019 to 2020.
2) Islamic banking, which has a quarterly report that contains all the required information and is accessible.
3) The published report data contains all of the information needed for this research.

The number of banks selected can be estimated from the predetermined criteria:

Table 2 Number of Appropriate Islamic Banking Samples Criteria

Criteria	Number of Banks
Islamic banking which was active from 2019 to 2020	34
Islamic banking, which has a quarterly report that contains all the required information and is accessible	14
The published report data contains all the information needed for this research	20
Banking Samples that comply with the Selection Criteria	14

Source: Data processed 2021

Based on Table 2. The following is a list of Islamic banks that complied with the conditions and were designated as samples: 14 banks were chosen that fulfilled the criteria to be utilized as samples:

Table 3 Research Sample

No	Name of Islamic Bank
1	Aceh Sharia Bank
2	Bank Muamalat Indonesia
3	Bank Victoria Syariah
4	BRI Syariah Bank
5	Bank Mega Syariah
6	Bank Panin Dubai Syariah
7	Bukopin Sharia Bank
8	BCA Syariah
9	Sharia National Retirement Savings Bank
10	Maybank Syariah
11	State Savings Bank
12	BPD DKI
13	BPD North Sumatra
14	BPD West Sumatra

Source: Data processed 2021

The dependent variable (Y) represents a variable that is affected by other factors. The dependent variable in this study is profitability as measured by Return On Assets (ROA).

ROA is the net income generated by each unit of asset ownership. This ratio shows how much profit an asset may create. The higher this ratio, the more profitable the company's assets are. ROA is calculated using the following formula:

$$\text{ROA} = \frac{\text{Earning Before Tax}}{\text{Total Assets Average}} \times 100\% \qquad (1)$$

Sukirno (2006) defines GDP as the value of goods and services produced in a country employing production elements held by residents/state corporations. GDP is obtained from the Central Statistics Agency (BPS)..

Inflation, according to Rahardja & Manurung (2008), is a broad and ongoing rise in the price of products. Inflation is calculated by calculating the consumer price index value, which is done using the formula. (Sodiq, 2014)

$$\text{Inflation} = \frac{\text{CPI}_t - \text{CPI}_{t-1}}{CPI_{t-1}} \times 100\% \qquad (2)$$

Third-party funds can be generated through current accounts, savings accounts, and deposits. Based to the research (Setiawan & Indriani, 2016), TPF may be calculated using the deposits to assets ratio and the following formula:

$$\text{Deposit to asset ratio} = \frac{\text{Total TPF}}{\text{Total Assets}} \times 100\% \qquad (3)$$

According to Husaeni & Jayengsari (2020), NPF is a financial ratio used by banks for evaluating the risk of loss related to the potential of a debtor defaulting to pay off its loan obligations to the bank. The formula for calculating Non-Performing Financing (NPF), is:

$$\text{NPF} = \frac{\text{Amount of problematic Financing}}{\text{Total Financing}} \times 100\% \qquad (4)$$

RESULTS

Accurate Panel Data Regression Model Selection

The Chow test determines if the model is a common effect (pooled least square) or a fixed effect. H_0 = Common Effect Model; H_1 = Fixed Effect Model is the hypothesis used in the Chow test. If the probability is greater than 0.05, then H_0 is acceptable, and the approach employed is common effect (pool least square). If the probability is 0.05, however, H_0 is rejected and H_1 is accepted, indicating that the model used is a fixed effect.

Table 4 Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Cross-section fixed effects test

Effects Test	Statistics	df	Prob.
Cross-section F	1.069278	(12.81)	0.3967
Chi-square cross-section	14.410867	12	0.2752

Source: Data processed 2021

According to table 4, the cross-section F probability value is $0.3967 > 0.05$, indicating that H_0 is accepted and H_1 is rejected, indicating that the common effect model is better to the fixed effect model. It means that the Haussman test is unnecessary in this study because the appropriate model is the common effect model.

In this research, the common effect model was applied to estimate panel data based on two tests performed on the two panel data regression models. .

Table 5 Regression Test Results Use *Common Effects Model*

Dependent Variable: LOGROA
Method: Least Squares Panel
Date: 03/08/21 Time: 10:44
Sample (adjusted): 2019Q1 2020Q2
Periods included: 6
Cross-sections included: 12
Total panel (unbalanced) observations: 43

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	4.868136	1.986296	2.450861	0.0190
LOGPDB	0.634160	0.366030	1.732538	0.0913
INF	-0.482141	1.319392	-0.365427	0.7168
DPK	-6.085953	2.481956	-2.452079	0.0189
LOGNPF	-1.578002	0.412403	-3.826362	0.0005
R-squared	0.390065	Mean dependent var		-0.955128
Adjusted R-squared	0.325861	SD dependent var		2.366693
SE of regression	1.943195	Akaike info criterion		4.275489
Sum squared resid	143.4883	Schwarz criterion		4.480279
Log likelihood	-86.92301	Hannan-Quinn criter .		4.351009
F-statistic	6.075432	Durbin-Watson stat		1.889735
Prob(F-statistic)	0.000700			

Source: Data processed 2021

Decisions in the F test is made by comparing probability values. If the p-value is less than 0.05, H_1 is accepted. If the p-value is more than 0.05, H_1 is rejected.

According to table 5 of the regression findings using the CEM approach, the Prob (F-statistic) value is $0.0007 < 0.05$, therefore H_0 is rejected, indicating that the variables GDP, Inflation, DPK, and NPF all influence the profitability of Islamic banking at the same time. The coefficient of determination is 0.390065, which equals 39%. This shows that GDP, inflation, TPF(DPK), and NPF influence 39% of profitability, whereas the remaining 61% is influenced by variables outside the scope of this research.

Gross Domestic Product (GDP) Variable

Based on the results of panel data regression testing, the calculated t value was 1.732538 and the probability value was $0.0913 > 0.05$. As a result, gross domestic income has no effect on Islamic banking profitability.

Inflation Variable

Based on the results of panel data regression testing, the calculated t value was -0.365427 and the probability value was $0.7168 > 0.05$. As a result, the inflation rate has no effect on the profitability of Islamic banking.

Third Party Funds (DPK) Variables

Based on the results of panel data regression testing, the calculated t value was -2.452079 and the probability value was $0.0189 < 0.05$. As a result, TPF has an impact on the profitability of Islamic banking.

Non-Performing Financing (NPF) Variable

Based on the results of panel data regression testing, the calculated t value was -3.826362 and the probability value was $0.0005 < 0.05$. As a result, it has the potential to conclude that NPF has a negative effect on Islamic banking profitability.

Discussion

The Effect of GDP on Islamic Banking Profitability

Based on the results of this research, GDP has no effect on profitability (ROA). These results are consistent with Kusuma (2016) and Syachfuddin & Rosyidi (2017) studies. These results are possible because there are only 5.3 million Islamic banking customers (according to OJK statistics). Based on the small proportion of Islamic banking customers, it can be stated that the Indonesian people's trust in conventional banks remains relatively high when compared to Islamic banking. Increases in income and savings as a result of increased GDP do not inevitably improve people's interest in saving in Islamic banking. As a result, an increase or decrease in GDP has no effect on Islamic banking profitability.

The Effect of Inflation on Islamic Banking Profitability

Based on the results of this research, the inflation rate has no effect on the profitability of Islamic banking. The results of this research are supported by research by Kusuma (2016), who explains that the inflation rate has no effect on the profitability of Islamic banking because people are more likely to trust Islamic banking than conventional banking when inflation is high. This trust among consumers was strengthened by the 1997 economic crisis, during which the inflation rate was quite high, and many conventional banks went bankrupt. As a result, excessively high interest rates were used to compensate for the high inflation rate, resulting in negative spreads, which finally prevented banks from returning public funds. Similarly, according to the findings of Syachfuddin & Rosyidi (2017), inflation has no major impact on the profitability of Islamic banking.

The effect of Third-Party Funds on Islamic Banking Profitability

The results of this research indicate that TPF has an impact on the profitability of Islamic banking. These results are consistent with the findings of Setiawan & Indriani (2016), who discovered that TPF had a considerable favorable effect on profitability. Similarly, Husaeni & Jayengsari (2020) found that there is a simultaneous affect on ROA. TPF is one of the variables that contribute to increased bank profitability. The higher the TPF collected, the higher the profit. Similarly, Setiawan & Indriani (2016) discovered that TPF had a positive and significant effect on profitability. The increasing number of deposits gathered is one component in increasing profitability; consequently, banks must devise tactics to entice the public to entrust and/or invest their funds in Islamic banks.

The effect of Non-Performing Financing on Islamic Banking Profitability

Based on the results of this research, NPF has a considerable negative impact on Islamic banking profitability. The greater a bank's NPF ratio, the greater the bank's problem loans Setiawan & Indriani (2016). The results of this research support Husaeni & Jayengsari (2020) and Setiawan & Indriani (2016) findings that NPF has a negative impact on ROA. An increase in the NPF ratio implies a high level of bank credit risk, which necessitates considerable reserves for writing off receivables, resulting in limited lending capability. And failure to collect it will result in damages.

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