

## Effect of Bank Indonesia Rate on Total Financing of The Islamic Banks for The 2014-2020 Period with Third-Party Funds as a Moderating Variable

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Page: 169-182

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### ABSTRACT

The growth of the Sharia economy in Indonesia is evident in the Global Islamic Economy Indicator ranking, however, the Islamic banks have not aligned with these progressive trends. To address this disparity, policymakers should prioritize the development of the Islamic finance industry as a means of stimulating economic growth. Recognizing the vital role of banking as a financial institution, it becomes essential to provide comprehensive support in advancing Islamic banks and facilitating the efficient movement of capital assets within small communities. Therefore, this study aimed to examine the effect of the Bank Indonesia (BI) Rate on the total financing of Islamic Commercial Banks for 2014-2021, with TPF as a moderating variable. Employing a quantitative method, the data approach involved analyzing the classical assumption test descriptively using secondary data from the BUS annual report published on the official website of the bank during the 2014-2015 period. The results showed that the BI Rate did not significantly affect the total financing of Islamic commercial banks. In contrast, third-party funds with the total financing of Islamic commercial banks indicated a significant relationship. The influence of the BI Rate on Islamic commercial bank financing was moderated by third-party funds.

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**Abstrak:** Pertumbuhan Indonesia dalam peta ekonomi syariah global dapat dilihat pada pemeringkatan Global Islamic Economy Indicator. Namun, bank syariah tidak berkembang sesuai dengan cita-cita para ulama. Pengembangan industri keuangan syariah harus diprioritaskan oleh pengambil kebijakan untuk mendorong pertumbuhan ekonomi. Tujuan penelitian ini adalah untuk menguji pengaruh BI Rate

*terhadap total pembiayaan Bank Umum Syariah periode 2014-2021 dengan DPK sebagai variabel moderasi. Penelitian ini menggunakan metode kuantitatif data sekunder dari laporan tahunan BUS yang dipublikasikan di website resmi bank selama periode 2014-2015. Teknik data yang digunakan dalam penelitian ini adalah analisis deskriptif uji asumsi klasik. Hasil penelitian menunjukkan bahwa BI Rate tidak menunjukkan pengaruh signifikan terhadap total pembiayaan bank umum syariah, sedangkan dana pihak ketiga dengan total pembiayaan bank umum syariah menunjukkan hubungan yang signifikan. Sementara itu, pengaruh BI Rate terhadap pembiayaan bank umum syariah dimoderatori oleh dana pihak ketiga. Perbankan sebagai lembaga keuangan yang sangat dibutuhkan masyarakat harus diberikan dukungan penuh agar masyarakat kecil dapat dengan mudah memperoleh permodalan.*

**Kata kunci:** *BI rate, dana pihak ketiga, total pembiayaan*

## INTRODUCTION

The global Sharia economic growth of Indonesia is evident in its rise from fifth to fourth position in the 2020/2021 Global Islamic Economy Indicator (GIEI) ranking. Indonesia currently holds a spot in the Top 10 across all categories, highlighting remarkable growth, particularly in Halal Food, Pharma & Cosmetics, and Media & Recreation sectors. The global Islamic financial assets attained a value of US\$2.88 trillion in 2019, indicating a substantial 14% rise in comparison to the figure of US\$2.51 trillion from the preceding year. This significant growth indicates a strong rebound following a slowdown in 2018, experiencing a mere 2% development. Estimations suggest that the global Islamic finance industry is expected to continue expanding and reach a value of US\$3.60 trillion by 2024.<sup>1</sup> The phenomenon of banking liquidity remains a widely discussed subject within both the commercial sector and the community. This ongoing discussion arises from its potential to impede economic activities during periods of chronic macroeconomic fluctuations. The instability poses a significant threat to the liquidity position of banks, as these institutions play a crucial role in impacting the value of assets, often leading to a reduction in the liquid state.<sup>2</sup>

Commercial banks and Sharia business units presently hold the lead in the Islamic financing market in Indonesia, with a focus on medium-scale investment. Consequently, it becomes imperative for institutions to swiftly differentiate their functions from conventional practices. Islamic banks are unable to offer a comprehensive financial alternative to conventional institutions due to the moral hazard and adverse selection of the industry.<sup>3</sup> Among the negative impacts, the institutions face limited involvement in regulating Profit and Loss Sharing (PLS), a situation that contradicts the fundamental concept of Islamic banking. In practice, it would be more

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<sup>1</sup> Admin. "Menilik Kinerja Indonesia dibalik Global Islamic Economy Indicator 2022. Last Modified may 9,2022. <https://fossei.org/menilik-kinerja-indonesia-dibalik-global-islamic-economy-indicator-2022/>

<sup>2</sup> Cleopas Njerekai, C Murungu, James Damabaza. Bank Liquidity in Distressed Macroeconomic Conditions : the Case of Zimbabwe. Inproceedings(2020)

<sup>3</sup> Rifqi Muhammad, Ahsin Suluki, Peni Nugraheni. Internal factors and non-performing financing in Indonesian Islamic rural banks. Journal [Cogent Business & Management](#) Volume 7, No 1 (2020)

beneficial for the institution to discontinue replicating the conventional banking model, mainly concentrating on debt-based instruments and markup.<sup>4</sup>

Policymakers hold a crucial role in prioritizing the advancement of the Islamic banking sector to promote economic growth. Providing a favorable environment for the continuous expansion of the Islamic Investment Bank (IIB) significantly contribute to both short and long-term economic advancement. The commitment of the Indonesian government to nurturing Islamic banking remains paramount due to its vital contribution to enhancing economic growth and resilience, particularly in times of crisis.<sup>5</sup> Khaled Elmawazini et al. highlights the distinctive impact of the banks economic growth compared to conventional finance. Income inequality and increase socioeconomic development become possible to address through the application of interest-free loans.<sup>6</sup> This sentiment is mirrored by the findings of Hind Lebdaoui, Joerang Wild, and M. Anwar et al., affirming the substantial contribution of Islamic banking to both short and long-term economic growth.<sup>7</sup> Raditya Sukmana et al. also emphasizes the indispensable role of institutions in effectively transmitting monetary policy. Recognizing the far-reaching impact of policy transmission on the actual economy, policymakers need to maintain a vigilant watch over not only the conventional banking institutions. This recognition stems from the pivotal role Islamic banks have in channeling the effects of monetary policy into the real economy. Therefore, a comprehensive strategy is imperative to seamlessly integrate Islamic banks into the design and execution of monetary policies.<sup>8</sup> Ensuring the effective transmission of monetary policy entails a keen awareness of regulation changes on the entire financing landscape of Islamic banks in the country<sup>1</sup>. Monetary shocks, specifically changes in interest rates, wield direct or indirect implications for Islamic banks. This arises from two core risks, namely interest and asset-liability mismatch problems.<sup>9</sup> From the perspective of the bank, interest rate risk

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<sup>4</sup> Muhamed Zulkhibri. The impact of monetary policy on Islamic bank financing: bank-level evidence from Malaysia. *Journal of Economics, Finance and Administrative Science*, 23 No.46 (2018)

<sup>5</sup> Suhardi Anwar., Junaedi., Salju., Ready Wicaksono & Mispriyanti. Islamic bank contribution to Indonesian economic growth. *International Journal of Islamic and Middle Eastern Finance and Management*, 13 No 3 (2020)

<sup>6</sup> Khaled Elmawazini, Khyiar Abdullah Khyiar, Asiye Aydilek. Types of banking institutions and economic growth. *International Journal of Islamic and Middle Eastern Finance and Management*, 13 No.4 (2020)

<sup>7</sup> Hind Lebdaoui, Joerg Wild. Islamic banking presence and economic growth in Southeast Asia. *International Journal of Islamic and Middle Eastern Finance and Management*, 9 No.4 (2016)

<sup>8</sup> Raditya Sukmana, Salina Kassim. Roles of the Islamic banks in the monetary transmission process in Malaysia. *International Journal of Islamic and Middle Eastern Finance and Management*, 3 No 1 (2010)

<sup>9</sup> Abdu Mohammed Assfaw. Firm-Specific and Macroeconomic Determinants of Banks Liquidity: Empirical Investigation from Ethiopian Private Commercial Banks. [journal of accounting finance and auditing studies \(JAFAS\)](https://doi.org/10.54471/iqtishoduna.v11i2.1932) Vol 5 No 2 (2019)

translates into changes in profit, cash flow, and net worth.<sup>10</sup> Islamic bank financing is expected to exhibit greater resilience to monetary and economic shocks compared to conventional banks. This heightened resilience can be attributed to the foundational principle of Islamic banks, which revolves around the prohibition of interest and uncertainty.<sup>11</sup>

The primary focus of Islamic banking activities revolves around raising and distributing funds within the community.<sup>12</sup> This aligns with the perspective of Hawa & Rosyidi, who stated a significant relationship between third-party funds and both short and long-term financing due to the vital role TPF plays in the banking sector.<sup>13</sup> Consequently, banks need to possess the capability to amass third-party funds to facilitate optimal financing.<sup>14</sup> From 2016 to 2020, Islamic banking showed commendable performance, as its third-party funds experienced a robust year-on-year (yoy) growth of 11.98%. Deposits in both UUS and BPRS segments exhibit considerable expansion, increasing by 12.54% and 12.45% (yoy) respectively. These growth rates surpass the figures of the previous year of 11.34% and 7.34% (yoy).

Figure 1. shows the growth trajectory of Third-Party Funds (TPF) in Islamic banking over the years 2016 to 2020. In 2020, TPF at Islamic Commercial Banks (BUS) experienced a decrease, while the UUS and BPRS segments maintained steady levels. The growth rate of deposits in BUS slowed down to 11.72%, compared to the figure of the previous year of 12.18%. Therefore, this study aimed to examine the effect of the BI Rate on the total financing of Islamic Commercial Banks during the period from 2014 to 2021, with TPF serving as a moderating variable. This objective is based on the assertion of Muhammad Zulkhibri that Islamic bank financing responds to fluctuations in interest rates in the same manner as conventional institutions. The study underscores the necessity of incorporating various econometric specifications to ensure a comprehensive understanding of the subject matter.

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<sup>10</sup> Burak\_Yungucu & Buerhan\_Saiti. The effects of monetary policy on the Islamic financial services industry. *Qualitative Research in Financial Markets* Vol 8 No 3 (2016)

<sup>11</sup> Rosylin\_Mohd Yusof, Farrell Hazsan\_Usman, Akhmad Affandi\_Mahfudz, Ahmad Suki\_Arif. Macroeconomic shocks, fragility and home financing in Malaysia: can rental index be the answer?. *Journal of Islamic Accounting and Business Research*, 9 No 1 (2018)

<sup>12</sup> muhammad Akhyar Adnan & Didi Purwoko. *Analisis Faktor-faktor yang Mempengaruhi Penyaluran Pembiayaan Pada Perbankan Syariah Indonesia Periode 2006-2011*. *Jurnal Akuntansi dan Investasi* 14 No 1 (2013)

<sup>13</sup> [Rusida Delfa Kendi Hawa](#) dan [Suherman Rosyidi](#). Pengaruh Dpk, Imbal Hasil Sbis, Puas, Dan Tingkat Inflasi Terhadap Pembiayaan Bank Syariah Di Indonesia. *Jurnal Ekonomi Syariah Teori Dan Terapan*, 5 No 12 (2019)

<sup>14</sup> Rina Destiana. Analisis Dana Pihak Ketiga dan Risiko Terhadap Pembiayaan Mudharabah dan Musyarakah Pada Bank Syariah di Indonesia. *LOGIKA Jurnal Ilmiah Lemlit Unswagati Cirebon*, 17 No 2 (2016)

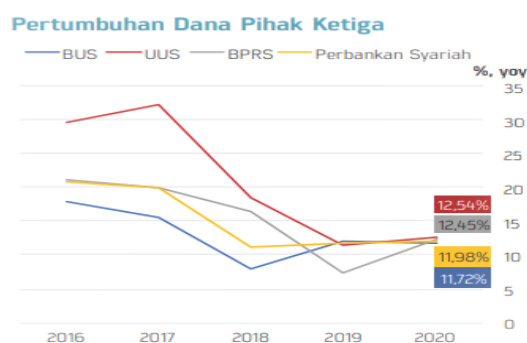


Figure 1. Growth of Third-Party Funds  
Source: Financial Services Authority (OJK)

## METHODS

A secondary data named Panel Information, extracted from the BUS annual report published on the official website of the bank from 2014 to 2015 was employed. Quantitative data analysis was carried out following the guidelines of Arikunto, which outlined the distinctive attributes of the array. The test included (a) the need for clear and detailed elements, such as objectives, subjects, and data sources, (b) the ability to employ populations, (c) the requirement for a well-defined design, and (d) the execution of data analysis after all information had been collected. This approach enhanced the ability of the experts to make observations, with the results obtained from calculated indicators.<sup>15</sup> The study provided a comprehensive understanding of the interrelation between the BI Rate and the Third-Party Fund, representing the independent and dependent variables within this correlation. The data technique used a descriptive array of classical assumptions and hypothesis testing, which consisted of coefficient of determination ( $R^2$ ), T-tests, and Moderate Regression Analysis (MRA). Moderating variables exerted the influence of the explanatory (independent) factor on the dependent. The model for the relationship equation in moderated regression analysis was as follows:

$$Y_i = b_0 + b_1X_{1i} + b_2 M_i + b_3X_{1i} \cdot M_i$$

The population comprised five Islamic Commercial Banks (BUS) registered with the OJK namely:

1. Mandiri Syariah: One of the most prominent in Indonesia and widely recognized by the indigene.
2. BCA Syariah: The bank had positive asset growth, Third Party Funds, and Profit during the pandemic in 2020.
3. BNI Syariah: Ranked as the fourth-largest national financial institution in the country in terms of total assets, loans, and third-party funds.

<sup>15</sup> Suharsimi arikunto. *Prosedur Penelitian (Suatu Pendekatan Praktek)*. (Jakarta: Rineka Cipta, 2006)

4. Aceh Syariah: The bank consistently pursued innovation to enhance the quality of products and services, meeting customer needs while boosting their loyalty, which positively impacted the assets of the company.
5. Bukopin Syariah: Emerged as a promising new Islamic bank with significant growth potential.<sup>16</sup>

## RESULT AND DISCUSSION

### Descriptive Analysis

A normality test was carried out focused on ascertaining the presence of a normal distribution in the residual variables within the regression model. The One-Sample Kolmogorov-Smirnov test was employed for assessing the normality of the data. A significance level greater than 0.05 in the analysis indicated that the normality assumption was satisfied<sup>17</sup>, as shown in Table 1.

Table 1. Descriptive Analysis

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis			
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Std. Error	Statistic		
BI Rate	35	39.50	51.00	90.50	69.6071	3.28373	15.04796	226.441	.371	.501	-	.972
Third-Party Fund Financing	35	110.25	2.34	112.59	38.9912	7.63684	34.99640	1224.748	.697	.501	1.352	.972
	35	28611913.87	2.13	28611916.00	5377661.1517	2229248.93628	10215701.99342	104360567218455.340	1.567	.501	.833	.972

Source: Processed data (2022)

The statistical data presented the minimum, maximum, mean, and standard deviation for all variables from 2014 to 2020. Based on table 1,

a) BI Rate:

The minimum value recorded was 51.00, while the maximum was 90.50. The mean of the BI Rate was 69.6071 with a standard deviation of 15,04796.

b) Third-Party Funds (TPF):

TPF exhibited a minimum value of 2.34 and a maximum figure of 112.59. The mean was 38.9912 with a standard deviation of 34.99640.

c) Bank Financing:

The financing variable showed a minimum value of 2.13 and a maximum figure of 28611916.00. The mean was 5377661.1517 with a standard deviation of 10215701.99342.

Based on the Normality Test Result in Table 2, the significance value of Kolmogorov Smirnov was 0.143 greater than 0.05. This indicated that the data

<sup>16</sup> Novita Sari Simamora & Roni Yuniyanto. 2015. Dirut Bank Bukopin Syariah: Semua Sistem Penting. Diakses pada 12 Oktober 2022 pada web bisnis.com

<sup>17</sup> Imam Ghazali. *Aplikasi Analisis Multivariate dengan Program IBM SPSS 23(VIII)*. (Semarang:Badan Penerbit Universitas Diponegoro, 2006)

concerning BI Rate, TPF, and Financing variables adhered to a normal distribution, satisfying the requirements of the Normality test.

### Multicollinearity Test

Table 3. Multicollinearity Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-7150580.220	10078295.244		-.710	.487		
BI Rate	78169.285	131277.102	.115	.595	.559	.941	1.062
Third-Party Fund	181761.369	56447.296	.623	3.220	.005	.941	1.062

Source: Processed data (2022)

Based on the Multicollinearity Test data in Table 3, the significance value of Kolmogorov Smirnov was 0.143, surpassing the threshold of 0.05. This showed that the data concerning BI Rate, TPF, and Financing variables were normally distributed, effectively satisfying the test standard.

### Heteroscedasticity Test

Table 4. Heteroscedasticity Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	2.572E-9	10078295.244		.000	1.000		
BI Rate	.000	131277.102	.000	.000	1.000	.941	1.062
TPF	.000	56447.296	.000	.000	1.000	.941	1.062

Source: Processed data (2022)

The significance value was determined based on the output provided in Table 4 indicated by Sig. Based on these findings, the BI Rate and TPF significance values were both found to be 1.000, exceeding the 0.05 threshold. Following the decision-making criteria stipulated by the Glacier test, no signs of heteroscedasticity were identified within the regression model.

## Autocorrelation Test

Table 5. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate	Durbin-Watson
1	.605 <sup>a</sup>	.366	.296	8572187.43590	.773

Source: Processed data (2022)

In Table 5, the Asymp value was displayed by Sig. (2-tailed) for the variable BI Rate (X1) and TPF (X2) with a significance value of 0.773. This finding was substantial since the Durbin-Watson (DW) value falling within the range of -2 to +2 indicated the absence of autocorrelation.

## Hypothesis Testing

### Determination Coefficient Test (R<sup>2</sup>)

Table 6. Determination Coefficient Test (R<sup>2</sup>)

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	.605 <sup>a</sup>	.366	.296	8572187.43590

Source: Processed data (2022)

Based on Table 6, the R-Square value was 0.366, equivalent to 36.6%. These results showed the capacity of the independent variables, namely TPF and BI Rate, to elucidate 36.6% of the variations observed in the dependent factors, including Total BUS Financing. However, the remaining 63.4% of the variance was attributed to the influence of other variables.

## T Test

Table 7. T Test Data

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-7150580.220	10078295.244		-.710	.487		
BI Rate	78169.285	131277.102	.115	.595	.559	.941	1.062
DPK	181761.369	56447.296	.623	3.220	.005	.941	1.062

Source: Processed data (2022)

The BI Rate was observed not to exert an influence on financing at Islamic Commercial Banks (BUS). As indicated in Table 7, the significance value (sig) of the BI Rate (X1) variable amounted to 0.559 surpassing the 0.05 threshold, leading to the rejection of H1. Having yielded a value of 0.005, which fell below 0.05, the result substantiated the acceptance of H2, indicating the impact of the TPF variable on financing in Islamic Commercial Banks.



## MRA Test

Table 8. MRA Test

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients Beta		
1 (Constant)	-24969294.814	12704934.98		-1.965	.066
		1			
MRA	-7900.576	3846.309	-1.739	-2.054	.056
BI Rate	341591.299	176254.619	.503	1.938	.069
TPF	693849.765	254667.829	2.377	2.725	.014

Source: Processed data (2022)

Table 8 showed a moderation significance value of 0.56, exceeding the 0.05 threshold. This finding indicated there was no interaction between the TPF (moderation variable) and the BI Rate (independent factor). Consequently, the H3 was rejected, implying that the TPF variable did not enhance Islamic Commercial Bank Financing, thereby indicating the non-functionality as a moderator.

## Discussion

### The Effect of BI Rate on Total Financing

The results indicated that the BI Rate did not exert a significant impact on the total financing of Islamic commercial banks. Aligning with the assertion of Zaini Ibrahim et al. who previously indicated that changes in interest rate instruments did not significantly affect financing. The scheme of Islamic banks was distinctive, relying heavily on business prospects and the integrity of the entrepreneur. In cases where a project bore significant risk and was managed by an inexperienced entrepreneur, the bank held the privilege of receiving a greater portion of profits compared to the share of the customer. The Interest Rate (BI Rate) served as a benchmark for banks in determining both deposit and loan interest. Indonesia Banks defined the BI Rate as a policy interest rate that reflected the monetary policy stance and was publicly announced for transparency. The BI rate also functioned as a government tool for managing economic stability, such as raising the value to curtail money supply and consumption related to bank loans. High-interest rates resulted in greater economic costs for consumption financed through bank loans, and conversely, reduced rates made these activities more affordable.<sup>18</sup>

Islamic banks also refrained from adjusting the PLS ratio based on the interest rate offered by conventional banks. The finding contradicted the prevailing analysis, suggesting that Islamic banking was similar to conventional banking. Sajjad Zaheer observed that in response to monetary policy shocks across various institution sizes, liquidity levels, and types in both conventional and Islamic banks, a distinct pattern emerged. After a monetary contraction

<sup>18</sup> Zaini Ibrahim., Budiono, Nury Effendi&Rudi Kurniawan. Determinants of profit and loss sharing financing in Indonesia", *Journal of Islamic Marketing* Vol. 13 No. 9 (2022)

occurred, smaller conventional banks with liquid balances reduced their loans to a lesser extent than others. In contrast, large conventional institutions maintained their loan levels regardless of liquidity. Although comparable in size to small banks, Islamic financial organizations did not respond to monetary policy shocks in the same manner as larger institutions due to sectoral growth.<sup>19</sup>

### **The Effect of Third-Party Funds on Total Financing**

These results suggested a significant relationship between Third Party Funds and the total financing of Islamic Commercial Banks. An internal factor that influenced the distribution of Islamic bank financing was Third Party Funds (DPK). This finding was in line with the analysis by Nurin Mansyah, suggesting the size of TPF would impact the allocation of funds within Islamic commercial banks. Banks needed a substantial reserve of Third-Party Funds (TPF) to bolster daily operations and boost profits, which enabled financing activities and benefited the banks. TPF stood as a key source of Islamic capital, making it a critical factor for financing disbursement. Promoting the allocation of funds contributed to the growth of Islamic banking and consequently raised the distribution associated with profit sharing.<sup>20</sup>

Demonstrating a commitment to profit sharing, Islamic banks ensured the utilization of customer-invested funds, primarily directing the focus towards efficient allocation through financing distribution. The institutions were required to redistribute the collected TPF to the community in the form of loans since the source of funds originated from the society.<sup>21</sup> The greater the accumulation of Third-Party Funds, the higher the amount of financing directed toward the community. Consequently, a substantial influx of TPF influenced the volume of financing. These results aligned with the outcome of an analysis conducted by Rina Destina, which observed Third Party Funds having a positive effect on mudharabah and musyarakah financing.

TPF was influential on mudharabah financing in Islamic commercial banks, owing to its prominence as a significant funding source employed by banks for loan endeavors. Alteration in TPF generated a considerable impact on financing. The greater the source of funds (savings) available, the more the bank can channel financing, resulting in an escalation under the possession of the bank. The primary objective of banks was profit generation, motivating the

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<sup>19</sup>Abdelaziz Chazi, Lateef A.M. Syed. Risk exposure during the global financial crisis: the case of Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management*, 3 No 4 (2010)

<sup>20</sup> Novia Nurbiaty, Tri Sukirno Putro, Anthony Mayes. Faktor-Faktor Yang Mempengaruhi Penyaluran Pembiayaan Berbasis Bagi Hasil Pada Bank Syariah Mandiri Indonesia Periode 2003-2015. *Jurnal Online Mahasiswa Fakultas Ekonomi Universitas Riau* Vol 2 No 1 (2017)

<sup>21</sup>Uus Ahmad Husaeni. determinan Pembiayaan Pada Bank Pembiayaan Rakyat Syariah di Indonesia. *Esensi*, 7 No 1 (2017)

institution to actively employ the funds rather than allowing them to remain dormant. Banks intended to channel the funds as much as possible to maximize profit. Higher TPF increased profit-sharing-based financing in Islamic banking. The result showed that the hypothesis had been proven.<sup>22</sup>

### **The Effect of BI Rate on Total Financing through Third-Party Funds**

This result indicated that rejected third-party funds moderate the influence of the BI Rate on Islamic commercial bank financing. This aligned with the analysis of Miah, D.M., and Uddin, which underscored the unique features of Islamic banks laying in the risk-sharing activities and contributing to enhanced financial stability. In terms of financial system disruptions, Islamic banks effectively absorbed and mitigated these shocks. Primarily, the asset side of the balance sheet of the bank endured the brunt of the shock. The liability side was affected due to the inherent nature of risk-sharing. This ability equipped Islamic banks to survive through uncertainties and emerge resilient.<sup>23</sup>

Islamic banks consistently upheld a superior capital ratio compared to conventional institutions. This indicated that Islamic banks exhibited the ability to stabilize the capital ratio, even when their size was comparable to the smaller institutions. However, in response to monetary policy shocks, the credit policy tended to weaken the growing significance of Islamic banking. This assumption held that the characteristics of the banks remained relatively unchanged as the sector expanded.<sup>24</sup> Khaled Elmawazini emphasized the role of Islamic banks in promoting economic growth, both before and following the financial crisis, surpassing the efforts of conventional banks.<sup>25</sup> Rosylin Mohd Yusuf also supported this viewpoint, highlighting the role played by Islamic banking in fostering both long and short-term economic growth.<sup>26</sup> Raditya Sukmana et al. further highlighted the essential role of Islamic banks in transmitting monetary

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<sup>22</sup> Wuri Arianti Novi dan Muahram Harjum. Analisis Pengaruh Dana Pihak Ketiga (DPK), Capital Adequacy Ratio (CAR), Non Performing Financing (NPF) dan Return On Asset (ROA) Terhadap Pembiayaan Pada Perbankan Syariah (Studi Kasus Pada Bank Muamalat Indonesia Periode 2001-2011). *Journal Article*, 53 No.9 (2011)

<sup>23</sup> Abdul Rashid, Saba Yousaf, Muhammad Khaleequzzaman Does islamic banking really strengthen financial stability? Empirical evidence from Pakistan. *International Journal of Islamic and Middle Eastern Finance and Management*, 10 No 2 (2017)

<sup>24</sup> Sajjad Zaheer Steven Ongena dan Sweder van Wijnbergen. The transmission of monetary policy through conventional and Islamic banks. *European Banking Center Discussion Paper*. *International Journal of Central Banking*, 9 no 4 (2013)

<sup>25</sup> Khaled Elmawazini, Khiyar Abdullah Khiyar& Asiye Aydilek. Types of banking institutions and economic growth. *International Journal of Islamic and Middle Eastern Finance and Management*, 13 No.4 (2020)

<sup>26</sup> Suhardi Anwar., Junaedi., Salju., Ready Wicaksono & Mispianiti. Islamic bank contribution to Indonesian economic growth. *International Journal of Islamic and Middle Eastern Finance and Management*, 13 No 3 (2020)

policy.<sup>27</sup> Owing to the significant influence of the institution in conveying the impacts of monetary policy to the real economy, policymakers should these regulations during implementation.<sup>28</sup> Policymakers should also ensure the efficient transmission of monetary policy to remain vigilant and not only to conventional banking institutions.

## CONCLUSION

In conclusion, the results showed that the BI rate did not significantly affect total financing at Islamic commercial banks. There was a positive relationship between third Party Funds (TPF) with total Islamic Bank financing. The BI rate on TPF had a significant influence, but the moderated impact on total financing in the 2014-2020 period by third-party funds was rejected. For practitioners, the presence of a Sharia People Financing Bank (BPRS) was required for the community, specifically for small societies with weak economies. This aligned with the objective of Indonesia Bank, which designated BPRS as institutions catering to medium, small, and micro businesses. Therefore, the increase in the number of BPRS and the financing should always be prioritized and wholeheartedly supported to provide accessible business capital to the smaller communities. Islamic banking had indicated a commendable performance, enhancing financing quality through macro and microeconomic factors. This progress aided banks in sustaining their growth and attracting customer investments. In navigating institutional dynamics, Islamic commercial banks should attentively regard certain factors that possess both direct and indirect influences on the third-party fund, treating the variable as a strategic consideration. Furthermore, shareholders of third-party funds should factor in loan concerns and the impact of inflation on borrowing, as both elements would influence the BPR.

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