

## The Effect of the BI Rate on Total Islamic Bank Financing in Indonesia for the 2014-2020 Period with Third Party Funds (TPF) as Moderating Variables

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Page: 167-180

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### ABSTRACT

Indonesia's global sharia economic map growth can be seen in the Global Islamic Economy Indicator ranking. However, Islamic banks did not develop by the ideals of the scholars. Policymakers must prioritize the development of the Islamic finance industry to encourage economic growth. Banking as a financial institution that is very much needed by the community must be given full support so that small communities can quickly obtain capital. The purpose of this study is to examine the effect of the BI Rate on the total financing of Islamic Commercial Banks for 2014-2021, with TPF as a moderating variable. This study uses a quantitative method of secondary data from the BUS annual report published on the bank's official website during the 2014-2015 period. The data technique used in this study is a descriptive analysis of the classical assumption test. 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 showed a significant relationship. Meanwhile, 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

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*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

Indonesia's global sharia economic map growth can be seen in the Global Islamic Economy Indicator ranking. In GIEI 2020/21, Indonesia is in fourth place, an increase from the previous position, which was in the fifth position. Indonesia now occupies the Top 10 in all categories, which has increased in Halal Food, Pharma & Cosmetics and Media & Recreation. Meanwhile, global Islamic financial assets reached US\$2.88 trillion in 2019. This figure increased 14% from the previous year of US\$2.51 trillion, signalling the return of solid growth after previously slowing down in 2018 with a growth range of 2%. The global Islamic finance industry is estimated to continue to grow to US\$3.60 trillion by 2024.<sup>1</sup> The phenomenon of banking liquidity is still a topic of endless debate among banking sector officials and the banking community because it has the tenacity to thwart economic activities in the event of chronic macroeconomic fluctuations. An unstable macroeconomic environment poses a significant threat to the liquidity position of banks because they play an essential

role in deteriorating the value of bank assets, which often reduces bank liquidity.<sup>2</sup>

Currently, Islamic commercial banks and sharia business units are the leaders of the Islamic financing market in Indonesia. However, these entities tend to focus on medium-scale financing. So, the function of Islamic banks must quickly differentiate themselves from conventional banking. Because of the industry's moral hazard and adverse selection, Islamic banks cannot provide a complete financial alternative to conventional finance.<sup>3</sup> In addition, Islamic banks do not develop according to what is aspired by scholars. One of the weaknesses is the low level of participation in the regulation of Profit and Loss Sharing (PLS), which seems contrary to the essential concept of Islamic banking. In practice, it is better if Islamic banks stop replicating the conventional banking model, which mainly concentrates on debt-based

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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/>

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<sup>2</sup> Cleopas Njerekai, C Murungu, James Damabaza. Bank Liquidity in Distressed Macro-Economic 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)

instruments and mark-up models but switches to the PLS model.<sup>4</sup>

Policymakers should prioritize the development of the Islamic banking and finance industry in promoting economic growth. Providing a conducive environment for the continuous growth of the Islamic Investment Bank (IIB) can facilitate economic development in the short and long term. The Indonesian government should continue to promote Islamic banking because of its role in economic growth and resilience in crisis.<sup>5</sup> According to Khaled Elmawazini et al., Islamic finance can encourage economic growth more than conventional finance with a unique system. Using interest-free loans can reduce income inequality and increase socioeconomic development.<sup>6</sup> Hind Lebdaoui, Joerang Wild and M. Anwar et al. show that Islamic banking contributes to economic growth both in the long and short term.<sup>7</sup>

<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 & Mispianiti. 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, Khayar Abdullah Khayar, 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*

Meanwhile, according to Raditya Sukmana et al., Islamic banks are essential in transmitting monetary policy. To ensure the efficient transmission of monetary policy, policymakers need to remain vigilant not only of conventional banking institutions but also of Islamic banking institutions. It is due to the influential role of Islamic banks in transmitting the effects of monetary policy to the real economy. Therefore, policymakers must consider Islamic banks in designing and implementing monetary policies.<sup>8</sup> In addition, to ensure efficient transmission of monetary policy<sup>1</sup>. Changes in monetary policy will affect the total financing of Islamic banks in Indonesia. Monetary shocks, especially changes in interest rates, have direct or indirect effects on Islamic banks. This impact is because there are two main risks: interest risk and asset-liability mismatch problems.<sup>9</sup> From the bank's point of view, interest rate risk is a change in the bank's profit, cash flow, and net worth.<sup>10</sup> 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)* Vol 5 No 2 (2019)

<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)

bank financing is expected to be less vulnerable to monetary economic shocks and more resilient than conventional banks because the structure or concept of Islamic banks is based on the prohibition of interest and uncertainty.<sup>11</sup>

Activities to raise funds and distribute funds to the community are the main focus of Islamic banking activities.<sup>12</sup> It is in line with Hawa & Rosyidi who state that there is a significant relationship between third-party funds and financing in the short and long term. This significant relationship is because third-party funds are the leading funds in banking.<sup>13</sup> Thus, to provide optimal financing, banks must have the ability to collect third party funds.<sup>14</sup> In 2016-2020, Islamic banking showed a reasonably good performance, with the growth of

Islamic banking third party funds at 11.98% (yoy). Growth in deposits occurred in UUS and BPRS at a rate of 12.54% (yoy) and 12.45% (yoy) compared to the previous year's 11.34% (yoy) and 7.34% (yoy).

The growth of TPF in Islamic banking from 2016-2020. In 2020, Third Party Funds at Islamic Commercial Banks (BUS) decreased, while UUS and BPRS did not experience a decrease in third-party funds. In contrast to the growth of deposits in BUS, the growth slowed by 11.72% (yoy) compared to the previous year, which was 12.18% (yoy). This study examines the effect of the BI Rate on the total financing of Islamic Commercial Banks for the period 2014-2021, with TPF as a moderating variable. This objective is based on Muhammad Zulkhibri's argument that the reaction of Islamic bank financing to changes in interest rates is the same as that of conventional banks and is vital for various types of econometric specifications.

## METHODS

This study uses secondary data, namely panel data from the BUS annual report published on the bank's official website during the 2014-2015 period. Data analysis in this study uses a quantitative approach. The reason the author uses a quantitative approach is to consider Arikunto about the general nature of quantitative research, including (a) clarity of elements: objectives, subjects, and data sources are solid and detailed since the study begins, (b) can use samples, (c)

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<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)

clarity of research design, and (d) data analysis is carried out after all data has been collected and strengthens the analysis of researchers in making conclusions, where research results are obtained from the results of calculating research indicators.<sup>15</sup> his study will explain the relationship between the BI Rate variable and the Third Party Fund variable as the independent variable, while the financing variable is the dependent variable. The data technique used in this research is a descriptive analysis of classical assumption and hypothesis testing, which consists of coefficient of determination ( $R^2$ ), T-test and moderate regression analysis (MRA). Moderating variables are variables that strengthen or weaken the influence of the explanatory (independent) variable on the dependent variable. The relationship equation model in the moderated regression analysis is as follows:

$$Y_i = b_0 + b_1X_{1i} + b_2 M_i + b_3X_{1i} * M$$

The sample of this study includes five Islamic Commercial Banks (BUS) registered with the OJK, while the sample of this study includes 5 Islamic banks including:

1. Mandiri Syariah Bank is one of Indonesia's most prominent Islamic banks, which the Indonesian people widely known.
2. BCA Syariah Bank has positive asset growth, Third Party

Funds and Profit amid pandemic challenges during 2020. Profitability up to December 2020 increased.

3. BNI Syariah Bank is listed as the fourth largest national bank in Indonesia in terms of total assets, total loans, and total third-party funds.
4. Aceh Syariah Bank consistently innovates to improve the quality of products and services that can meet customer needs in utilizing banking services to increase customer loyalty, which impacts company assets.

Bukopin Syariah Bank is a new Islamic bank with considerable prospects.<sup>16</sup>

## RESULT AND DISCUSSION

### Descriptive Analysis Result

The normality test of the data was carried out to see whether, in the regression model, the confounding or residual variables had a normal distribution or not. The One-Sample Kolmogorov-Smirnov test approach can be used to test the normality of the data. If the significance of the Kolmogorov-Smirnov test results  $> 0.05$ , then the normality assumption is met.<sup>17</sup> The results of the normality test are shown in Table 1.

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

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

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



Table 1. Descriptive Analysis Result

	N	Range		Minimum	Maximum	Mean	Std. Deviation		Variance	Skewness		Kurtosis	
		Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
BI Rate	35	39.50	51.00	90.50	69.6071	3.28373	15.04796	226.441	.371	.501	-	1.352	.972
Third Party Fund	35	110.25	2.34	112.59	38.9912	7.63684	34.99640	1224.748	.697	.501	-.693		.972
Financing	35	28611913.87	2.13	28611916.00	5377661.1517	2229248.93628	10215701.99342	104360567218455.340	1.567	.501	.833		.972

Source: Processed data (2022)

Statistical data shows all research variables' minimum, maximum, mean, and standard deviation from 2014 to 2020. Based on table 1,

a) BI Rate

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

b) Third-Party Funds

The minimum value of TPF is 2.34, and the maximum value of TPF is 112.59, while the mean of TPF is 38.9912 with a standard deviation of 34.99640.

c) Bank Financing

The minimum value of financing is 2.13, and the maximum value of financing is 28611916.00, while the mean of financing is 5377661.1517 with a standard deviation value of 10215701.99342.

Based on the Normality Test Result in table 2, the significance value of Kolmogorov Smirnov is  $0.143 > 0.05$ . It means that the data on the study's BI Rate, TPF and Financing variables are normally distributed so that the Normality test is fulfilled.

**Multicollinearity Test Result**

Table 3. Multicollinearity Test Result

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 Normality Test Result in table 3, the significance value of Kolmogorov Smirnov is  $0.143 > 0.05$ . The data on the study's

BI Rate, Third Party Fund (TPF) and Financing variables are normally distributed to fulfil the Normality test.

### Heteroscedasticity Test Result

Table 4. Heteroscedasticity Test Result

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 is known based on the output above (Sig). Based on table 4, BI Rate (X1) and TPF (X2) significance values are  $1,000 > 0.05$ . According to the basis

for decision-making in the Glacier test, there are no symptoms of heteroscedasticity in the regression model.

### Autocorrelation Test Result

Table 5. Autocorrelation Test Result

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

Source: Processed data (2022)

Table 5 shows that the Asymp value is known. Sig. (2-tailed) variable BI Rate (X1) and TPF (X2) of

0.773 because the DW value between -2 to +2 means no autocorrelation.

### Hypothesis testing Result

#### Determination Coefficient Test Result (R2)

Table 6. Determination Coefficient Test Result (R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.605 <sup>a</sup>	.366	.296	8572187.43590

Source: Processed data (2022)

Based on table 6, the R-Square value is 0.366 or 36.6%. These results

indicate that the ability of the independent variables, i.e. TPF and

BI Rate, to explain the dependent variable of Total BUS Financing is 36.6%. However, the remaining

63.4% is influenced by other variables.

### T Test Result

Table 7. T Test Result

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)

BI Rate does not influence financing at Islamic Commercial Banks (BUS). Table 7 shows that the significance value (sig) of the BI Rate (X1) variable is  $0.559 > 0.05$ , so it can

be concluded that H1 is rejected. The TPF variable of  $0.005 < 0.05$  means that H2 is accepted. So, the TPF variable affects financing in Islamic Commercial Banks.

### MRA Test Result

Table 8. MRA Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-24969294.814	12704934.98		-1.965	.066
MRA	-7900.576	3846.309		-1.739	.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 shows that the significance of moderation is  $0.56 > 0.05$ . The TPF variable (moderation variable) does not interact with the BI Rate variable (independent variable). Then H3 is rejected, and TPF cannot strengthen Islamic Commercial Bank Financing, which means that the TPF variable is not a moderator.

### Discussion

#### The Effect of BI Rate on Total Financing

The results of this study indicate that the BI Rate does not significantly affect the total financing of Islamic commercial banks. It supports Zaini Ibrahim et al., who stated that the financing is not significant for changes in interest rate instruments. The financing scheme of Islamic banks is distinctive because it relies heavily on business prospects and the honesty of the entrepreneur. If the



project carried out has significant risk and is carried out by an inexperienced entrepreneur, the bank is entitled to a larger share of profits than the customer's share. Interest Rate (BI Rate) Interest rate (BI rate) is the rate set by Bank Indonesia; this rate will be the benchmark for banks in Indonesia to determine the amount of interest on deposits and loan interest. According to Bank Indonesia, the BI Rate is a policy interest rate that reflects the monetary policy stance or stance set by Bank Indonesia and is announced to the public.<sup>45</sup> The interest rate variable (BI rate) is a monetary policy tool used by the government to regulate and control economic stability. If the government wants to reduce the money supply and consumption related to bank loans, the government will increase interest rates. With high-interest rates, the economic costs (opportunity costs) of consumption activities using bank loans will be more expensive, and vice versa.<sup>18</sup>

Islamic banks also do not adjust the PLS ratio as measured by the interest rate offered by conventional banks. It contradicts the study's findings, which state that Islamic banking is no different from conventional banking. According to Sajjad Zaheer, the response to monetary policy shocks across bank sizes, liquidity and types in conventional banks and Islamic

banks, after a monetary contraction occurred, conventional small banks with liquid balances cut their loans less than other small banks. In contrast, large conventional banks maintain their loans regardless of their liquidity position. Although Islamic banks are similar in size to small banks, in response to monetary policy shocks like large banks, Islamic banks will not experience changes because this sector grows.<sup>19</sup>

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

These results suggest a significant relationship between Third Party Funds and the total financing of Islamic Commercial Banks. One of the internal factors that affect the distribution of Islamic bank financing is Third Party Funds (DPK). It follows Nurin Mansyah's research which suggests that the size of TPF will affect the distribution of funds in Islamic commercial banks. If a bank wants to increase profits and run its operations daily, it requires a large TPF. By having a large TPF, the bank will carry out financing, thus benefiting the bank. TPF is one of the largest sources of funds as Islamic capital. It causes TPF to be the main factor for financing disbursement. If people can make people channel their funds to Islamic banks, the growth of Islamic banking will

<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)

<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)

increase, and distribution based on profit sharing will also increase.<sup>20</sup>

In addition, Islamic banks also have a goal which is profit sharing, so that banks will not idle the funds invested by customers. The distribution of financing is a bank's main priority in allocating its funds. Because the source of funds comes from the community, banks must redistribute Third Party Funds (TPF) that have been collected to the community in the form of financing.<sup>21</sup> The greater the Third-Party Funds obtained, the greater the financing that can be channeled to the community, and then a large number of third-party funds can affect the amount of financing. The results of this study follow the results of research conducted by Rina Destina in that Third Party Funds had a positive effect on mudharabah and musyarakah financing.

TPF is very influential on mudharabah financing in Islamic commercial banks because TPF is one of the largest sources in raising funds distributed by banks for financing. So the size of the change in Third Party Funds significantly affects financing. The greater the source of funds (savings) available, the more the bank can channel

financing, so the greater the number of third-party funds owned by the bank will increase. One of the bank's goals is to make a profit so that the bank will not just idle its funds. Banks tend to channel their funds as much as possible to maximize profit. Higher TPF will increase profit-sharing-based financing in Islamic banking. The result shows that the hypothesis has been proven.<sup>22</sup>

Effect of BI Rate on Total Financing through Third Party Funds. The results of this study indicate that rejected third-party funds moderate the influence of the BI Rate on Islamic commercial bank financing. This result is in line with Miah, D.M. and Uddin which reveal that the specialty of Islamic banks is that risk-sharing activities enhance financial stability. Whenever there is a shock to the financial system, Islamic banks can absorb this shock and send it away. The shock will mainly affect the asset side of the bank's balance sheet. However, shocks will be transmitted on the liability side due to the nature of this risk-sharing. This ability will make Islamic banks able to survive in uncertainty.<sup>23</sup>

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<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)

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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*

Islamic banks maintain a capital ratio that is better than conventional banks. It means that in this case, Islamic banks can stabilize the capital ratio, besides that Islamic bank, even though their size is like small banks. However, in response to monetary policy shocks like large banks, the policy credit channel Monetary policy tends to weaken when Islamic banking grows relatively important with the assumption that the characteristics of Islamic banks will not change because this sector grows larger.<sup>24</sup> On the other hand, Khaled Elmawazini said that Islamic banks encourage economic growth more than conventional banks before and after the financial crisis.<sup>25</sup> It supports Rosylin Mohd Yusuf's that Islamic banking contributes to long-term and short-term economic growth.<sup>26</sup> According to Raditya Sukmana et al., Islamic banks are essential in

transmitting monetary policy.<sup>27</sup> Due to the influential role of Islamic banks in transmitting the effects of monetary policy to the real economy, it is, therefore, crucial for policymakers to consider Islamic banks in designing and implementing their monetary policies.<sup>28</sup> Policymakers must ensure the efficient transmission of monetary policy to remain vigilant not only of conventional banking institutions but also of Islamic banking institutions.

## CONCLUSION

The results reveal that the BI rate does not significantly affect total financing at Islamic commercial banks. There is a positive relationship between third Party Funds (TPF) with total Islamic Bank financing. While the BI rate on TPF has a significant influence, the BI rate's influence on total financing in the 2014-2020 period moderated by third-party funds is rejected. For practitioners, the existence of a Sharia People's Financing Bank (BPRS) is needed by the Indonesian people, especially for small communities with weak economies. Such is the purpose of Bank Indonesia, which states that a BPRS is a bank that was established to

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*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 & Mispriyanti. Islamic bank contribution to Indonesian economic growth. *International Journal of Islamic and Middle Eastern Finance and Management*, 13 No 3 (2020)

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<sup>27</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>28</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)

serve medium, small and micro businesses. Therefore, the increase in the number of BPRS in Indonesia and their financing must always be considered and given full support so that the middle and small communities can obtain business capital, which is relatively easy. Islamic banking, its performance is quite good, which improves the quality of financing in terms of macro and micro economic factors so that banks can maintain their extension in attracting customers to invest their funds in Islamic banking.

Some factors have a direct or indirect influence on the third-party fund variable. Islamic commercial banks must pay attention and not rule out because they can be used as strategic considerations to face a competition between banks. In the long term, customers, as owners of third-party funds, need to pay attention to financing problems and borrowing customers to pay attention to inflation because these two things influence the total financing of the BPRS.

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