Factors Affecting Financing Distribution of Sharia Commercial Banks in Indonesia

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Abstract

Purpose – This study aims to analyze the effect of inflation, economic growth, interest rates, asset quality, capital adequacy, and profitability on the distribution of Islamic commercial bank financing in Indonesia (2014 – 2019) partially or simultaneously.

Methodology - In this study, the variables used are financing distribution as measured by FDR, profitability as measured by Bank ROA, inflation, economic growth as measured by GDP, interest rate as measured by the BI Rate or BI7DRR, and capital adequacy as measured by CAR and asset quality measured by the NPF. The quantitative approach used with panel data regression method with the analysis tool Eviews 10.

Findings - The results show that the interest rate and asset quality partially affect the distribution of financing with a significant positive. In contrast, economic growth, inflation, capital adequacy, and profitability do not significantly affect the distribution of BUS financing in Indonesia. Simultaneously, inflation, economic growth, interest rates, capital adequacy, asset quality, and profitability significantly impact the distribution of BUS financing in Indonesia.

Keywords: *Financing Distribution;, Capital Adequacy; Asset Quality; Profitability*

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1.   INTRODUCTION

Being tasked with collecting funds from the public, the Bank is also tasked with distributing financing as an intermediary institution functions. Following what Kasmir (2006) stated, a bank has a definition, namely, a financial institution that focuses on the finance department to collect and distribute funds from the public for the community. According to Ismail (2011), Islamic banks carry out financing to distribute funds collected and then handed over to parties who need funds (not banks) based on Islamic law. The distribution of financing needs to run well because it can impact the Bank's profits. Financing to Deposit Ratio is an instrument to measure bank financing with a function to find out the amount that has been disbursed from integrated Third Party Funds. Kasmir (2015) stated that the Financing to Deposit Ratio (FDR) has a function to determine the comparison between the measurement of the percentage of total financing channelled to the community with the total public funds and private capital used.
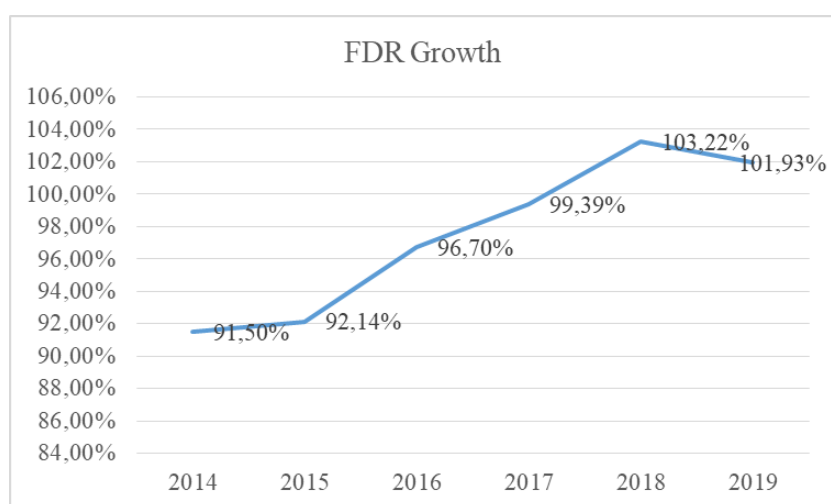

Figure 1. FDR Growth
Source: OJK Sharia Banking Statistics, 2021

An increase in 2014 -2018 means Islamic banks have channelled the funds collected. Siamat (2004) said that Islamic banks in disbursing funds must maintain the principle of prudence, where banks must look at customers' status as fund recipients carefully based on sound financing principles so that income can be obtained optimally.

Various external and internal factors impact the financing distributed by Islamic banking. Inflation is an external factor affecting the Financing to Deposit Ratio. According to Latumaerissa (2011), inflation is an event of a continuous increase in the price of basic goods, in line with the statement of Priyadi et al. (2021), which states that an increase in inflation results in a decrease in income or profit of a bank, which then reduces the distribution of financing when inflation occurs. In addition to inflation, the external factor that influences the distribution of bank financing is economic growth which can be seen in the Gross Domestic Product (GDP). Gross Domestic Product can affect FDR because, according to classical theory, when people make more money, it causes people to spend more, and national income increases (Widayatsari & Anthony., 2012).

Interest rates can also affect the distribution of financing proxied by FDR. The decline in the BI rate can increase the demand for credit at conventional banks by the people of Amaliawati (2013). It makes Islamic bank management consider the BI Rate as a decision to determine the

percentage of profit sharing in financing distribution by Islamic banks to remain competitive with conventional bank interest rates to the public—still interested in applying for financing at Islamic banks. Asset quality must also be considered so Islamic bank assets do not experience losses. Bank risk will be smaller if the quality of assets at the Bank is good.

NPF can show how the state of asset quality in a bank. Based on BI Regulation No: 13/13 /PBI/2011, banks must maintain asset quality in its current state. If the NPF of a bank is high, it indicates that the quality of the Bank's assets is not in a current state because there are many non-performing loans. Bank Indonesia has set a limit for the maximum gross NPF for Islamic banks, which is 5% as a percentage limit in terms of health. The asset quality variable was chosen because when there are many non-performing loans, the Bank's ability to provide new financing will be disrupted.

A bank's capital can be assessed as sufficient or not based on the Capital Adequacy Ratio (CAR), which according to Dendawijaya (2009) Capital adequacy ratio (CAR) is an indicator of a bank's ability to cover a decline in assets due to bank losses from risky assets. According to Fauziah (2017), the Bank has good liquidity if the Capital Adequacy Ratio (CAR) increases. In addition, according to Adawiyah & Azifah (2020), the Bank has a large advantage if the ROA is large. High profits can increase capital so that banks can channel more financing.

Based on the background, researchers are interested in finding out how the distribution of bank financing, especially on inflation, economic growth, interest rates, asset quality, capital adequacy, and profitability, influences the level of significance of financing distribution. The research object chosen by the researcher is Islamic Commercial Banks (BUS) because Islamic Commercial Banks (BUS) have very rapid growth every year. It is one of the factors due to the distribution of financing that brings profits to the Bank. It is necessary to conduct research under "Factors Affecting the Distribution of Islamic Commercial Bank Financing in Indonesia."

2. LITERATURE REVIEW

2.1 Islamic Bank and Financing Distribution

Act. No. 10 of 1998, which contains the definition of Islamic Banking, Sharia Bank is a legal business entity in the form of a bank whose activities or activities are based on profit-sharing following Islamic teachings regarding existing rules. According to Ascarya & Yumanita (2005), Islamic banks are intermediary institutions that offer financial services based on Sharia principles that do not involve interest or usury, avoid speculative activities such as gambling (Maysir), gharar, and fair, and provide financing only for halal companies. This statement aligns with Ismail (2011), where three basic functions are: banks collect public funds.

Islamic banks adhere to wadiah and mudharabah contracts in their deposit products, where wadiah is a deposit. Banks can offer wadiah incentives to clients who open these deposit products. It is distinct from mudharabah, a profit-sharing arrangement based on bank-utilized funds. As intermediaries, banks facilitate financing through muamalah contracts and cooperation (Elnahass et al., 2014). As a company in the financial sector, the Bank also offers financial services that generate fee-based revenue. Islamic banks apply the profit-sharing principle in profit-sharing activities and are tasked with collecting and distributing funds and conducting activities according to the Bank's products (Kasmir, 2015).

Financing is a bank agreement with the borrower in which the borrower is obliged to return the funds and profit-sharing within an agreed period (Kasmir, 2008). According to Ismail (2011), Islamic banks have three main functions: collecting customer funds, distributing, and providing

Islamic bank financial services. Every time there is profit from channelled financing obtained by the Bank and the customer, it must be by the profit-sharing ratio agreement (Antonio, 2001).

Following the statement of Kasmir (2006), financing is the provision of funds based on an agreement between the Bank and the customer, which requires the party receiving the financing fund to return the funds or bills according to the agreed term and period. From the FDR ratio (Financing to Deposit Ratio), Islamic banks' distribution or distribution of financing can be known (Ismal & Haryati, 2013). FDR is a comparison ratio of the total financing volume compared to customer deposit funds or TPF (Third Party Funds). It can be seen how Islamic banks are optimizing in channelling their financing. As per the provisions of Banking Law No. 10 of 1998, credit or financing refers to the provision of bills or money by the terms of a customer loan agreement with a bank or any other entity. Creditors are obligated to repay the loan by providing money by the maturity date of the debt. By Law no. 21 of 2008, financing refers to the provision of bills or funds that are aligned with profit-sharing transactions, which may take the form of mudharabah or musyarakah contracts, leasing transactions in the form of ijarah or IMBT (ijarah Muntahiyya bittamlik), and muamalah transactions in the form of Murabaha receivables, salam, and istishna (Rassool, 2018).

Furthermore, our lending activities are conducted through qardh, while our leasing services are offered as ijarah as part of our multi-service transactions. FDR can measure the distribution of Islamic bank financing by Muhammad's (2005) statement. FDR describes the extent to which third-party funds are channelled to financing. The increase in the FDR ratio shows an increase in the distribution of financing made by banks to the public. The FDR data of banks used as samples can be taken from each of the financial statements of Islamic banks for the period 2014 – 2019. The formula for FDR, according to Kasmir (2015), is as follows:

FDR: Total Volume of Financing / TPF x 100%

It has been noted in previous studies that various factors impact the allocation of funds in Islamic banks. According to (Wong & Eng, 2018), the primary driver behind the rise in financing distribution is the risk associated with financing.

2.2 Inflation

According to Boediono (1999), inflation is a continuous price increase. The price increase impacts the price of most other goods, namely food, beverages, cigarettes, clothing, health, education, recreation, sports, transportation, communications, tobacco, and financial services (Bank of Indonesia). Indonesia, 2017). Inflation has a monetary relationship which can be seen from the increase in the price of goods, which means a decrease in the value of money (Judisseno,2005). Inflation affects the economy of a country, including Indonesia. Inflation can also affect the banking sector in terms of a bank's performance.

According to Madura (2007), inflation increases the price of goods and services. The rate of change in the consumer price index (CPI), which represents the prices of most consumer goods such as necessities, housing, fuel, health, and electricity, is information for measuring inflation. Inflation data in this study is sourced from the official website of Bank Indonesia for 2014 – 2019. According to Gilarso (2004), the inflation formula can be stated as follows:

$$INF_t = \frac{IHK_t - IHK_{t-1}}{IHK_{t-1}} X\ 100\%$$

As per the findings of Priyadi et al. (2021), inflation can potentially lead to a decline in banks' profitability. Consequently, banks may opt to curtail their financing activities during inflationary periods. Furthermore, the consequence of escalated inflation is the reduction in individuals' buying capacity due to mounting fundamental costs. In the event of inflationary pressures, there is a corresponding increase in demand for goods and services within the community. In turn, this can lead to reduced purchasing power and decreased overall consumption levels. The reduction in community satisfaction and consumption needs will consequently affect the distribution of financing. It aligns with the research conducted by Sumaryo et al. (2017), Somantri & Sukmana (2019), Adawiyah & Azifah (2020), and Ichwan & Nafik H.R (2017), which indicates that inflation has a noteworthy impact on lending or financing in Islamic financial institutions. Thus, it can be inferred that a hypothesis has been formulated.

H1= Inflation has a significant effect on the Distribution of Financing for Islamic Commercial Banks in Indonesia

2.3 Economic growth

According to Sukirno (2011), economic growth is a phase of economic activity that increases the goods or services produced by the community, improving the community's welfare. Meanwhile, according to Prasetyo (2009), economic growth is essentially an increase in output and aggregate national income at a certain time, for example, on an annual basis. Economists in the neoclassical era expressed different opinions regarding the theory of economic growth. Joseph Schumpeter's theoretical emphasis on entrepreneurs' role in creating economic growth.

Gross Domestic Product (GDP) can show a country's economic growth condition. It is because GDP reflects developments in an economic activity that causes goods and services to be produced by society. According to Mankiw (2013), GDP or GDP is the market value of goods and services that a country has produced in a certain period. This study obtained GDP data through the official BPS website for 2014 – 2019.

$$GDP \text{ or } GDP = Ln \text{ (Nominal GDP)}$$

Based on a previous study, The Gross Domestic Product (GDP) can impact a government's economic policies, such as FDR's. As per the classical economic theory, an increase in disposable income leads to higher levels of consumer spending, which drives up the national income (Widayatsari & Anthony, 2012). According to (ElMassah et al., 2019), an increase in economic growth leads to a corresponding increase in financing distribution by banks as they seek to maximize profits. This aligns with the research conducted by El-chaarani (2019), ElMassah et al. (2019), Ichwan & Nafik H.R. (2017) and Sumaryo et al. (2017), which concluded that economic growth has a noteworthy impact on financing distribution. Therefore, the hypothesis can be validated.

H2= Economic Growth has a significant effect on the Distribution of Financing for Islamic Commercial Banks in Indonesia

2.4 Interest Rate

According to Sunariyah (2013) statement, the interest rate is the price paid when returning the credit that has been received. The debtor's principal percentage per unit must be returned to the

creditor. According to Keynes' theory, an interest rate is a monetary event. The interest rate is determined by the supply and demand for money determined in the money market. According to a statement by Bank Indonesia (2016), in Indonesia, interest rates refer to the BI 7 Days Reverse Repo Rate (BI7DRR), effective August 19, 2016, replacing the BI Rate that was previously used. The strengthening of the monetary framework means that many central banks practice it, becoming the best international practice for conducting monetary programs.

Indonesia's interest rates are currently at the BI-7 Day Reverse Repo Rate (BI7DRR). By the statement of Bank Indonesia (2016), On August 19, 2016, to replace the BI Rate, changes were made to strengthen the monetary operating framework by implementing the reference interest rate for the new policy of the new interest rate, namely the BI-7 Day Reverse Repo Rate (BI7DRR). The BI-7 Day Reverse Repo Rate (BI7DRR) and BI Rate data were obtained from the official website of the Central Statistics Agency for the period from 2014 to 2019.

As per the official statement of Bank Indonesia (2016), the benchmark interest rates in Indonesia are denoted by the BI-7 Day Reverse Repo Rate (BI7DRR), which was introduced on August 19 2016, replacing the BI Rate. As per the statement made by Amaliawati in 2013, a reduction in the BI rate has the potential to boost the demand for credit from the general public in conventional banks. If Islamic banks establish financing profit-sharing costs that exceed the interest rates established by conventional banks, the public will likely opt to seek financing from conventional banks instead. It could potentially result in a decrease in the number of financing applications received by Islamic banks.

The findings above are consistent with the research conducted by Sumaryo et al. (2017) and ElMassah et al. (2019). According to their studies, interest rates substantially impact financing disbursement. Specifically, an increase in interest rates leads to a decrease in FDR, which indicates financing disbursement in this investigation. The reason for the low demand for financing is due to the high-interest rates, margins, or profit-sharing percentages that are established. The hypothesis is derived from this.

H3= Interest rates have a significant effect on the Distribution of Financing for Islamic Commercial Banks in Indonesia

2.5   Asset Quality

According to Mulyono (1995), asset quality assessment assesses bank assets' state and credit risk management availability. This ratio can show how the quality of financing assets. If the collectibility is not good, it is uncertain, and there are many bad loans from all financing, the Bank faces problems in financing. The quality of a bank's assets can be proxied by the NPF ratio, stated in PBI No: 13/13/PBI/2011. Regarding asset quality assessment, banks must control the quality of assets with current conditions (Bank Indonesia, 2011). A large NPF ratio indicates when many financings are experiencing problems paying off payments.

Asset quality is proxied in this study through Non-Performing Financing (NPF). This ratio can show the percentage number of non-performing financing in a bank. As stated in PBI No. 15/2/PBI/2013, The maximum NPF for Islamic banks is 5%. And if it is more than 5%, it can adversely affect the health of the Bank. In this study, NPF was obtained from the annual financial statements of each sampled Bank. According to Muhammad (2005), the NPF ratio is included in the formula below.

NPF: Non-performing Financing/Total Financing x 100%

A bank's asset quality assessment can be determined by analyzing the Bank's non-performing loan (NPL) ratio. As per Bank Indonesia Regulation No: 13/13/PBI/2011 about asset quality assessment, it is mandatory for banks to uphold the current state of asset quality. A high non-performing loan (NPL) ratio signifies that many loans face payment congestion, indicating that the Bank's asset quality is not current. The escalation of problematic financing may affect the Bank's ability to channel financing, which is a crucial task of the institution (Mahardika, 2015). According to the research conducted by El-chaarani (2019) and Somantri & Sukmana (2019), it was observed that the quality of assets has a significant impact on the level of FDR. The hypothesis was found to be valid based on their findings.

H4= Asset Quality has a significant effect on the Distribution of Islamic Bank Financing in Indonesia

2.6 Capital Adequacy

The minimum capital availability requirements are adjusted from the risk status, a buffer in a financial crisis and other economic problems that disrupt financial system stability (OJK, 2016). The Bank's capital adequacy can be measured using the Capital Adequacy Ratio (Muhammad, 2015).

CAR is a ratio that can show the capital adequacy of a bank. The comparison between the company's capital and the RWA is a way to find a bank's Capital Adequacy Ratio (CAR). The CAR data in this study was obtained from Islamic Banking Statistics issued by the OJK. According to Dendawijaya (2009), the higher the CAR, the stronger the Bank's ability to bear the risk of financing and risky productive assets. Suppose the CAR value meets OJK regulations with an 8 – 11% limit adjusted to the risk profile. In that case, it can be interpreted that the Bank is smooth in terms of financing banking operations so that the Bank distributes its financing optimally with good capital adequacy. The CAR ratio of an Islamic bank is always listed in the financial statements of each Bank. In this study, CAR data was taken from each Bank's financial statements sampled from 2014 – to 2019. According to a book by Wardiah (2013), the formula for CAR is below this.

CAR: Own Capital / ATMR x 100%

A bank's capital adequacy assessment can be derived from its Capital Adequacy Ratio. The Capital Adequacy Ratio (CAR) evaluates the adequacy of a bank's capital in the event of a loss. A high CAR ratio can impact the optimal distribution of financing as banks allocate a portion of their funds to maintain a favourable CAR ratio, aiming to mitigate liquidity risk (ElMassah et al., 2019). In their respective studies, El-chaarani (2019) and ElMassah et al. (2019) have posited that capital adequacy exerts a notable impact on the level of FDR, which serves as a proxy for the distribution of financing in this investigation. As a result, the following hypothesis has been formulated:

H5= The impact of capital adequacy on the allocation of financing for Islamic commercial banks in Indonesia is noteworthy.

2.7 Profitability

Measure the ability to earn profits to enhance Bank's operational business effectiveness. Profitability is the capability of a company to make profits through all the existing capital in the

company (Sutrisno, 2003). A company's profitability can show the company's operational performance within a certain period, where the level of profitability can be measured from the level of sales, assets, and company equity (Madura, 2007).

The Return on Assets (ROA) ratio measures this study's profitability. The ROA of an Islamic bank is always listed in the financial statements of each Bank. In this study, ROA data was taken from each Bank's financial statements sampled from 2014 to 2019. An Islamic bank's profitability can be measured by the Return on Assets ratio, which indicates the profit earned by the Bank from the assets under its management. Enhancing the return on assets (ROA) will result in a corresponding increase in generated profits. It implies that a bank with a proficient ability to utilize its assets to earn profits can achieve qualified effectiveness, as Hery (2014) noted.

The ROA data used in this study is time lag data. The effects of changes due to the independent variable on the dependent variable can be seen after a certain period (Gujarati, 2007). The ROA ratio shows the ability of Islamic banks to use their assets to obtain net or after-tax profits. The formula for ROA can be explained (Handoko, 2008).

ROA: Net profit after tax/total assets x 100%

The Return on Assets (ROA) of Islamic banks may exhibit a correlation with their Financing Distribution Ratio (FDR). It is due to the potential for an increase in profits earned by Islamic banks, which may subsequently lead to an increase in the amount of financing distributed by these banks. This statement aligns with the findings of Adawiyah and Azifah (2020), Somantri and Sukmana (2019), and Buchory (2014), which indicate that a noteworthy return on assets (ROA) has a considerable impact on the allocation of financing for Islamic commercial banks operating in Indonesia. A high Return on Assets (ROA) indicates a correspondingly high level of profitability for the Bank. The significant profits generated will result in capital growth, enabling banks to allocate more financing.

H6= The impact of profitability on the allocation of financing for Islamic commercial banks in Indonesia is noteworthy.

According to Adawiyah and Azifah's (2020) research, ROA and inflation have a simultaneous effect on financing distribution. Similarly, Sumaryo et al. (2017) found that economic growth and inflation significantly affect credit distribution. In their research, Ichwan and Nafik H.R. (2017) expounded that NPF, inflation, and economic growth significantly impact the Financing to Deposit Ratio. Similarly, Sumaryo et al. (2017) found that inflation and interest rates significantly impact credit distribution when they occur simultaneously. According to Buchory's (2014) research, CAR, NPF, and ROA variables collectively exhibit a noteworthy impact on LDR.

H7: Islamic commercial bank financing distribution is significantly impacted by various factors, including inflation, economic growth, interest rates, capital adequacy, asset quality, and profitability.

3. METHODOLOGY

3.1 Research Approach

This study uses a quantitative approach. According to Muslich & Iswati (2017), a quantitative approach is a research that focuses on hypothesis testing and measurable data and can

produce a generally understandable conclusion by theory. This approach is considered effective in measuring the effect of the independent variable on the dependent variable in the sample studied. It is not difficult to test the proposed hypothesis, whether or not it is by the theory. It is the research to be studied because it is appropriate for determining the influence of Inflation, Economic Growth, Interest Rates, Asset Quality, Capital Adequacy, and Profitability on the Distribution of Islamic Commercial Bank Financing in Indonesia (2014 – 2019). The analytical tool used in this study is Eviews 10. Researchers can perform panel data regression to determine the effect between variables. This study uses time lag t-1 data to determine the effect of the independent variable in the previous year on the following year.

3.2   Empirical Model

Panel data regression analysis is a model of analysis used in this study. The analysis is used to find the influence of inflation, economic growth, profitability, capital adequacy, and the quality of assets for the distribution of Sharia commercial bank financing in Indonesia (2014-2019) partially and simultaneously, which can be formulated in the following equation:

$$FDR = \beta 0 + \beta 1 INF_{t-1} + \beta 2 GDP_{t-1} + \beta 3 BIR_{t-1} + \beta 4 NPF_{t-1} + \beta 5 CAR_{t-1} + \beta 6 ROA_{t-1} + e$$

Description:
FDR	: distribution of financing
β_0	: constants
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$	: regression coefficient
INF	: Inflation
GDP	: Economic growth
BIR	: Interest Rate (BI *Rate*)
NPF	: Quality assets (Non-Performing Financing)
CAR	: Capital Adequacy Ratio
ROA	: Profitability (Return on Asset)
t-1	: The time lag
e	: error

3.3   Data Types and Sources

The types and data used in this research come from secondary data, where the information is already available, and secondary data is historical. The data used in this study was obtained through the 2014 – 2019 Islamic banking statistics on the OJK website. Data from the official website of Bank Indonesia regarding inflation, BI Rate/BI7DRR, and GDP were taken from the official BPS website. In addition, the data taken as a sample is obtained from each Bank's financial statements.

3.4   Population and Sample

Population

The population used in this study is Islamic Commercial Banks (BUS), as many as 14 Islamic Commercial Banks. In this study, the sample used was obtained based on the purposive sampling method, which focuses on several considerations and determines certain criteria from 2014 to 2019 to be used as a population.

Sample

This study has a standard for determining the sample to produce a sample as follows:

1. Sharia Commercial Banks registered with OJK
2. Islamic commercial banks that are by the research sample conducted in 2014 – 2019
3. Islamic commercial banks that are not in the research sample conducted in 2014 – 2019
4. Research period 2014 – 2019

The author has determined the sampling technique, so it can be concluded that Islamic commercial banks that meet these criteria include:

1. Mandiri Syariah Bank
2. BRI sharia bank
3. BNI Syariah Bank
4. Bank Muamalat
5. Bank BCA Syariah
6. Bank BTPN Syariah
7. Bukopin Sharia Bank
8. Panin Dubai Sharia Bank
9. BJB Syariah Bank
10. Victoria Sharia Bank
11. Mega Syariah Bank

The author uses data for six years (2014 – 2019). The reason for using the data for six years is that the data is still relevant and sufficient to describe the current condition of the BUS used as the research sample.

3.5   Analysis Techniques

The quantitative approach is applied in this study and uses panel data linear regression analysis techniques. Meanwhile, panel data are time series and cross-section data (Gujarati, 2003). Time series is data from an object that covers several periods. At the same time, the cross-section is the data at a time which includes all the objects studied. According to Baltagi's (2005) statement, panel data is a time series with cross-sectional data. This explanation supports panel data researchers because it provides more informative and extensive data. There are several estimates in the panel data model. According to Widarjono (2018), there are three existing estimation approaches, which are:

1. Common Effect Model

A model that combines time series and cross-section data is considered the simplest model and does not care about or see the differences in time and form in the research subject. So it is considered that the company's data has no different behaviour over several periods. The Pooled Least Square (PLS) or least-squares technique can estimate the panel data model.

2. Fixed Effect Model

The model used to assume the slope between individuals is constant, but the intercept between individuals is different. This model assumes no time effect but focuses on specific effects on individuals. You can use a dummy variable to find out the difference between one object and another.

3. Random Effect Model

According to Widarjono (2018), the random effect model is a model that aims to estimate panel data in which the disturbance variable may have a relationship between time and between individuals, which can be assumed for each research subject to having an unequal intercept. This time the model calculates the error in the cross-section and time series.

In determining the panel data regression method, the following are needed to obtain the right model (Widarjono, 2018):

a. Chow Test (Chow Test)
That is the way of testing which model to use between the Common Effect Model and the Fixed Effect Model. The hypothesis in this test is as follows:

H0: Common Effect Model

H1: Fixed Effect Model

If the cross-section F count results are less than the F table at the confidence level (α) = 0.05, reject H0 and accept H1, which states that the best panel data regression model is the Fixed Effect Model (Widarjono, 2018:372).

b. Hausman Test (Hausman Test)
Statistical tests as a basis for choosing the best model between the Fixed Effect Model and the Random Effect Model. This test is carried out with the following hypothesis:

H0: Random Effect Model (REM)

H1: Fixed Effect Model (FEM)

If the results of the Hausman test show a p-value of less than 0.05, then H0 is rejected but accepts H1

c. Lagrange Multiplier Test (Lagrange Multiplier Test)
That is testing in choosing which model to use Common Effect Model or Random Effect Model. In the LM test, the hypothesis is carried out:

H0: Common Effect

H1: Random Effect Model

If the probability value of Breusch Pagan < alpha, then reject H0 and accept H1 and determine if the Random Effect Model is the best estimate for panel data regression.

4.   RESULTS AND DISCUSSION

4.1   Chow test

A Chow Test is needed to determine the most appropriate model to use between the Common Effect Model and Fixed Effect Model, which results are in Table 4.4.

Table 1. Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.319.397	-9,44	0.0000
Cross-section Chi-square	49.781.296	9	0.0000

Source: Processed Data Eviews 10, 2022

Based on the output of the Chow test results, it is known that the cross-section probability F 0.000 <0.05, so the decision taken is to reject H0, meaning that the suitable model used in this study is the Fixed Effect Model.

4.2   Hausman test

The Hausman test is performed to choose between FEM and REM. The results of the Hausman test are shown in the following table:

Table 2. Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	6	1.0000

Source: Data processed by Eviews 10, 2022

Based on the output of the Hausman test, if the probability of a random cross-section probability is 1,000 > 0.05, then H0 is accepted, which means that the appropriate model used in this study is the Random Effect Model (REM).

4.3   Langrage Multiplier Test

A Lagrange Multiplier Test is needed to determine the correct result between the Common and Random Effect Models. The results are listed in Table 4.6.

Table 3. Langrage Multiplier Test Result

	Cross-section	Time	Both
Breusch-Pagan	21.41714	3.198822	24.61596
	(0.0000)	(0.0737)	(0.0000)

Source: Data processed by Eviews 10, 2022

Based on the output of the LM test results, it can be concluded that H1 is accepted because the P-Value Both shows a value of 0.000 < 0,05 o, the random effect is decided (REM), and the right model is used.

4.4 Hypothesis Testing Results

Panel Data Regression Results

The Random Effects Model is the most appropriate after performing the Chow, Hausman, and Lagrange multiplier tests. REM results are listed in Table 4.7

Table 4. Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.736797	0.170373	4.324.605	0.0001
INF	0.307596	0.441859	0.696141	0.4894
GDP	-8.30E-09	1.48E-08	-0.562228	0.5763
BIR	2.141.268	0.652640	3.280.930	0.0018
NPF	0.732694	0.364520	2.010.022	0.0495
CAR	0.180694	0.184733	0.978137	0.3325
ROA	0.413230	0.594723	0.694828	0.4902
Effects Specification				
			S.D.	Rho
Cross-section random			0.046675	0.4978
Idiosyncratic random			0.046882	0.5022
Weighted Statistics				
R-squared	0.412171	Mean dependent var		0.332966
Adjusted R-squared	0.345624	S.D. dependent var		0.058927
S.E. of regression	0.047668	Sum squared resid		0.120427
F-statistic	6.193.704	Durbin-Watson stat		1.253.283
Prob(F-statistic)	0.000057			
Unweighted Statistics				
R-squared	0.278647	Mean dependent var		0.877617
Sum squared resid	0.246129	Durbin-Watson stat		0.613214

Source: Data processed by Eviews 10, 2022

Based on the estimation results of the model above, when written mathematically, the regression equation is as follows:

FDR = 0.736797 +0.307596INF -8.30E-09GDP + 2.141.268BIRATE+ 0.732694NPF + 0.180694CAR + 0.413230ROA + e

4.4.1 Effect of Inflation on Financing Distribution

After the regression, it was found that the inflation coefficient was 0.307596, which means that if inflation increases by one unit, it can impact decreasing financing distribution by 0.307596. After looking at the probability of inflation, it can be seen that it does not significantly influence the distribution of financing for Islamic commercial banks in Indonesia. It is indicated by the probability value of 0.4894, greater than the significance level of 0.05, so the hypothesis that inflation affects financing distribution is rejected. The increase or decrease in inflation affects decisions or strategies for financing Islamic commercial banks. Islamic banks have prepared large funds reserves in case inflation occurs in the previous year, which could make the public fail to pay. It does not align with Priyadi et al.'s (2021) statement that inflation can decrease a bank's profitability, resulting in bank decisions to reduce their financing distribution when inflation occurs.

The findings indicating that inflation does not significantly impact FDR align with prior research conducted by El-chaarani (2019). The findings of this study indicate that the initial hypothesis, which posits that inflation has a significant impact on the distribution of financing at Islamic Commercial Banks, is not supported. The data above indicates that inflation in the preceding year does not impact the allocation of funds by Islamic commercial banks, by the quantity theory posits that inflation is caused by an excess of currency in circulation, leading to a corresponding increase in the general price level. In light of its effects, inflation is characterized as a manifestation of an excess in the general price level.

4.4.2 Effect of Economic Growth on Financing Distribution

After the regression, it was found that the coefficient of economic growth as a proxy for GDP was -8.30, which means that if economic growth increases by one unit, it can impact decreasing financing distribution by 8.30. From the probability of the regression results, economic growth has no significant effect on the distribution of Sharia commercial bank financing in Indonesia. It is indicated by the probability value of 0.5763, greater than the significance level of 0.05. By knowing these coefficients and probabilities, it can be seen that economic growth has no significant effect on financing distribution. Economic growth in the previous period was not a determinant of bank decisions in distributing financing. This study's findings indicate no statistically significant correlation between economic growth and the distribution of financing. As per Sukirno's (2011) definition, economic growth pertains to the expansion of economic activities that increase goods and services produced by the community, thereby contributing to the enhancement of people's welfare.

Islamic banks were more focused on benefiting the people when growth rose and fell according to the existing sharia maqashid. The classical theory states that when people have more

money, it causes people to shop more, and national income increases (Widayatsari & Anthony., 2012). The results of economic growth do not have a significant effect on financing distribution and are not in line with the research results of Sumaryo et al. (2017), ElMassah et al. (2019), and El-chaarani (2019).

4.4.3   Effect of Interest Rates on Financing Distribution

This study found that the effect of interest rates on financing distribution has a coefficient of 2.141. Suppose the interest rate increases by one unit. The distribution of financing will increase by 2,141. Then the probability result is 0.0018, which is smaller than 5%, and interest rates affect the distribution of financing positively and significantly. The impact of interest rates on financing distribution is positive and significant. When interest rates rise, banks incur higher costs for funding deposit products. It prompts the public to save funds at Islamic banks, thereby enabling these banks to channel more financing from the collected DPK.

The study's findings regarding the impact of interest rates on the distribution of financing, as represented by FDR, align with the research conducted by Sumaryo et al. (2017) and ElMassah et al. (2019). These studies suggest that lending is significantly negatively affected by interest rates. As per the official statement of Bank Indonesia in 2016, it was announced that BI7DRR had replaced the BI Rate. This new reference interest rate applies to all banks operating in Indonesia.

4.4.4   Effect of Asset Quality on Financing Distribution

The NPF variable produces a probability of 0.0495 <0.05, indicating that the NPF significantly affects financing distribution in a positive direction because it has a coefficient of 0.732694. When the NPF increases by one unit, the distribution of Islamic bank financing will increase by 0.732694. When the NPF increases, the Bank will expand its financing distribution to obtain profits covering non-performing financing. Besides that, the average NPF of the BUS sampled is still below 5%, which is 4.5%, which means it is still at a safe limit and does not interfere with financing distribution. The rationale behind this is that an increase in NPF prompts the Bank to broaden its financing distribution to generate profits that offset non-performing financing. In addition, it is noteworthy that the mean NPF observed at the sampled BUS remains below 5%, specifically at 4.5%. The NPF is currently within acceptable thresholds and does not impede funding allocation.

The findings of this study align with prior research indicating that asset quality has a notable impact on the allocation of financing as represented by FDR, as reported by Somantri & Sukmana (2019) and El-chaarani (2019), who found that NPF has a significant influence on FDR. The findings of this study are inconsistent with the assertion made by Muhammad (2005) that an increase in non-performing financing may lead to a decline in profitability. Various factors can impact the allocation of bank financing, leading to potential reductions.

4.4.5   Effect of Capital Adequacy on Financing Distribution

After the Random Effect Model regression, it was found that the effect of capital adequacy on financing distribution has a coefficient of 0.180694, which means that if capital adequacy increases by 1%, the distribution of financing will increase by 1.8%. However, if the probability result is 0.3325, capital adequacy has no significant effect on financing distribution. A high CAR signifies the presence of idle or unused capital. This circumstance results in banks refraining from allocating funds towards financing distribution due to the potential increase in risky assets, as noted

by Meydianawati in 2007. Furthermore, Islamic financial institutions that possess substantial capital adequacy tend to allocate their funds towards non-risky assets to preserve their capital adequacy. These institutions operate on a profit-sharing model in their financing activities.

The findings of this study are consistent with prior research indicating that capital adequacy has no significant impact on the distribution of financing represented by FDR. It aligns with the conclusions drawn by Susilowati (2018) and Buchory (2014), who also observed that CAR did not significantly affect FDR. The findings of this study do not align with the conclusions drawn by ElMassah (2019) and El-chaarani (2019) regarding the Capital Adequacy Ratio (CAR). CAR is a metric used to assess the level of risk associated with a bank's assets in the event of fluctuations in value. When a bank allocates a significant portion of its capital towards safeguarding high-risk assets, the financing segment will likely be impacted. It is worth noting that financing is the asset class with the highest risk level. To impact FDR, which serves as a proxy for the distribution of financing by Islamic banks.

4.4.6 Effect of Profitability on Financing Distribution

This study found that the effect of profitability on financing distribution has a coefficient of 0.413230, which means that if profitability increases by one unit, the distribution of financing will increase by 0.413230 or 41%. However, if the probability result is 0.4902, which is more than 5%, profitability does not significantly affect the distribution of financing. The correlation between a bank's profit and its capital is that the latter is utilized to generate profits, primarily through financing activities. However, the Bank's overall capital may be depleted due to the allocation of profits towards non-performing financing risks and dividend payments to shareholders. Previously, investing funds in SBI with favourable returns and minimal risk as possible.

The study's findings indicate that profitability does not significantly impact financing disbursement as proxied through FDR. These results are consistent with the research conducted by El-chaarani (2019) and ElMassah (2019), who also found no significant relationship between ROA and FDR. Similarly, Susilowati (2018) reported that ROA does not significantly affect the distribution of financing. It implies that fluctuations in bank profitability do not hinder the Bank's ability to channel its financing. While an increase in ROA signifies a rise in profits, it does not impact the Bank's financing activities. It indicates the Bank has demonstrated proficient efficiency in utilizing its assets to generate profits, as Hery (2014) stated. The findings of this study are inconsistent with Muhammad's (2005) assertion that a decline in profitability leads to a reduction in a bank's ability to finance expansion, resulting in a decrease in the rate of financing.

4.4.7 Effect of Inflation, economic growth, interest rates, asset quality, capital adequacy, and profitability on Financing Distribution

F-statistic probability 0.0000057 < 0.05 means accepting H1, so it can be concluded that inflation, economic growth, interest rates, asset quality, capital adequacy, and profitability simultaneously affect the distribution of BUS financing in Indonesia. The results of the F-simultaneous test show that the F-statistical value is 3.947346 with a probability value of F-statistics of 0.0000057 <0.05, meaning that H1 is accepted and H0 is rejected. The distribution of financing may be impacted by a significant simultaneous effect of inflation variables, economic growth, interest rates, asset quality, capital adequacy, and profitability. It demonstrates that increased inflation prompts banks to be discerning in their allocation of financing to mitigate the risk of default. Increased economic growth reduces the distribution of financing as individuals

possess sufficient funds and do not require financial aid. The distribution of financing is impacted by interest rates, as a rise in interest rates can result in a greater distribution of financing to Islamic banks. It is due to decreased demand for loans from conventional banks, whose interest rates are increasing. This finding is consistent with the research conducted by Adawiyah and Azifah (2020), which indicates that both ROA and inflation have a significant simultaneous impact on financing distribution. According to Sumaryo et al.'s (2017) research, lending was significantly impacted by both economic growth and inflation occurring simultaneously. According to the research conducted by Ichwan and Nafik H.R. in 2017, it was discovered that the Financing to Deposit Ratio was significantly impacted by NPF, inflation, and economic growth when considered together.

5. CONCLUSION

In this study, panel data regression analysis was used to find the effect of the independent variable on the dependent variable. After the Chow, Hausman, and Lagrange multiplier tests, the Random Effect Model (REM) was the most suitable model for this study. The results show that the interest rate and asset quality partially positively affect financing distribution. Partially, inflation, economic growth, capital adequacy, and profitability do not significantly affect financing distribution. Simultaneously, inflation, economic growth, interest rates, asset quality, capital adequacy, and profitability significantly affect the financing distribution. This study has several limitations. Specifically, the sample used in this study is limited to Islamic commercial banks in Indonesia. As a result, the findings of this study may not be generalizable to other countries or regions.

Furthermore, the impact of the Covid-19 pandemic in 2020 has resulted in challenges in the allocation of financing, financial performance, and banking conditions. Consequently, there has been a notable alteration in the ratio employed in this research. The authors have excluded the year 2020 from their study due to the potential impact of current circumstances on prior research outcomes.

This research has several implications for Islamic banking. The research findings indicate that macroeconomic factors, including inflation, economic growth, and interest rates, notably impact financing distribution. In devising a financing strategy, Islamic banks may consider macroeconomic conditions to ensure optimal decision-making in allocating funds. Furthermore, to effectively fulfil their intermediary banking role, banks must ensure optimal allocation of their financing resources while also maintaining risk segregation among customers to prevent an escalation of problematic financing, particularly during periods of inflation and economic downturn.

The study's findings suggest to regulators that banks tend to exhibit suboptimal financing behaviour during inflationary periods due to their selective approach to providing financing. It is likely a result of their efforts to avoid problematic financing. It is necessary to establish specific regulations concerning the allocation of financing under certain circumstances, such as inflation, to enable banks to distribute their financing while adhering to predetermined risk thresholds effectively. It is anticipated that additional research will reveal approximately 58.80% of additional variables that may impact the distribution of bank financing. This is due to the R-squared value of 41.2% observed in this study. Researchers suggest that additional variables such as DPK, BOPO, bank size, and leverage can be incorporated to enhance the existing set of variables. Additionally, extending the research period may enhance the quality of the research outcomes.

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