ANALYSIS OF INTERNAL FACTORS ON THE STABILITY OF THE SHARIA BANKING SYSTEM IN INDONESIA

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ABSTRACT

This study aims to analyze the effect of the ratio of non-performing financing commonly referred to as NPF and the ratio of financing to third-party funds received by banks commonly referred to as FDR in the stability of the Sharia banking system in Indonesia. The analysis method used is panel data regression analysis using STATA 15 and the Aggregate Financial Stability Index as a proxy for stability. The results showed that the ratio of non-performing financing has a negative and significant influence on the stability of the Sharia banking system in Indonesia. Meanwhile, the ratio of financing to third-party funds received by banks does not influence the stability of the Sharia banking system in Indonesia. The stability of the Sharia banking system has several implications for the Sharia banking industry, including a funding model based on profit sharing, and product innovation that focuses on strengthening the real sector and sharia. If a crisis occurs, Sharia banking is relatively resistant because it is not speculative and is asset-based.

Keywords: NPF, FDR, Stability of the Sharia Banking System in Indonesia

Introduction

The global financial sector has experienced significant instability in the past year, especially after the failure of *Credit Suisse. Credit Suisse* is a global investment and financial services bank founded and headquartered in Switzerland. The failure of *Credit Suisse* coincided with a similar incident in the United States; the failure of *Credit Suisse* also highlighted the importance of strict regulation in maintaining the stability of the financial system. This caused a loss of trust from depositors which resulted in the stability of the global economic system. This is reminiscent of the crisis that occurred in Indonesia in 2008-2009, the crisis was evidence that the stability of the economic system is influenced by the stability of the financial system (Gunadi et al., 2013). The global financial sector has experienced significant instability in the past year, especially after the failure of *Credit Suisse. Credit Suisse* is a global investment and financial services bank founded and headquartered in Switzerland. The failure of *Credit Suisse* coincided with a similar incident in the United States; the failure of *Credit Suisse* also highlighted the importance of strict regulation in maintaining the stability of the financial system. This caused a loss of trust from depositors which resulted in the stability of the global economic system. This is reminiscent of the crisis that occurred in Indonesia in 2008-2009, the crisis was proof that the stability of the economic system is influenced by the stability of the financial system.

The theory of Intermediation or financial intermediation theory is a theory that discusses one of the functions of banking in a country's economy. This theory also states that banks function as intermediaries connecting parties with excess funds with parties with a lack of funds. *The Theory of Intermediation* highlights the importance of the role of Islamic banks as intermediary institutions in maintaining the stability of the financial system. This study was conducted to determine the role of Islamic banking intermediation in maintaining stability during a financial crisis.

The government has made regulations regarding the stability of the financial system listed in Law Number 9 of 2016 concerning the Prevention and Handling of Financial System Crisis. Financial system stability and the stability of the banking system are two interrelated things. According to (Sadrinata & Rani, 2019) financial system stability is the condition in which the financial system functions effectively and efficiently and can withstand problems coming from within and outside the country. This shows that banking has a very crucial role in maintaining the stability economy in a country. Good economic growth begins with stability good banking system (Nugroho & Nezzim Bararah, 2018). The banking system is said to be stable if banking has carried out its intermediation function well and can maintain its health level.

Table 1. Total Assets and ROA of Islamic Commercial Banks

Year	Total Assets (Trillion Rp)	ROA (%)
2016	365.65	0.94
2017	435.02	1.15
2018	489.69	1.28
2019	350.36	1.73
2020	608.90	1.40

2021	693.80	1.55
2022	802.26	2.00
2023	594.71	1.86

Source: Indonesian Islamic Finance Development Report 2016–2023

Based on the table, it can be seen that the total assets and ROA of Islamic Commercial Banks have experienced fluctuating developments and tend to increase. As is known, *Return on Asset* is a ratio that measures how effective a bank is in generating profits from total assets owned. This can be said that Islamic Commercial Banks have quite good asset quality every year. The study (Rashid et al., 2017) states that Islamic banks have an advantage in achieving stability compared to conventional banks, this is reflected in the increasing ROA of Islamic banking. In this study, the stability of the banking system is influenced by two internal factors, namely the ratio of problematic financing commonly called *Non-Performing Financing* (NPF), and the ratio of financing to third-party funds received by the bank commonly called *the Financing to Deposit Ratio* (FDR), both of these factors are important for the stability of the banking system because these two factors are interrelated. The study conducted by (Nurhasfi Hasnani, 2022) using the panel data regression research method and *the Generalized Method of Moment* (GMM), stated that NPF, FDR, IPI, and inflation significantly affect the financial stability of Islamic Commercial Banks. Meanwhile, research conducted by using the (Wiku & Juniwati Ayuningtyas, 2021) *Error Correction Model (CEM)* method, states that in the long-term inflation and JUB affect the stability of the financial system, while *the BI Rate* and IHSG have a negative effect on the stability of the financial system. Based on the description above, both in theory and research methods, there are differences in the results regarding the influence of the NPF and FDR variables on the stability of the banking system. Therefore, researchers are interested in conducting a study entitled *"Analysis of Internal Factors on the Stability of the Islamic Banking System in Indonesia".*

Literature Review

Banking System Stability

According to (Myirandasari, 2015) the stability of the banking system, can be reflected from the level of health of the bank itself, a bank is said to be healthy if the bank does not experience financial distress. In general, the stability of the banking system can be seen from the health or otherwise of a bank that functions as an intermediary and has good fund mobility, such as the mobilization of funds from customers who save money or business actors who apply for credit to become business capital (Warjiyo, 2006). In general, banking can be said to be stable if it meets the basic requirements, namely it can improve economic performance eliminate imbalances caused by endogenous factors, and is not desired from different banking risks. (Djebali & Zaghdoudi, 2020).

Non-Performing Financing (NPF)

The ratio of non-performing financing in Islamic banking is called *Non-Performing Financing* (NPF). The non-performing financing ratio is used to measure the level of creditor returns (Hanafia & Karim, 2020). Meanwhile, according to (Fatoni & Sidiq, 2019)

NPF, it is a credit ratio that reflects the risk of a credit portfolio, the higher the bank's credit risk profile, it has the overall effect on banking system stability. The higher the NPF value, the worse the quality of financing management, the comparison between problematic financing and financing distributed as a whole (Siregar, 2021). From the various opinions above, it can be concluded that NPF is a problematic financing ratio that must be considered because it has an uncertain nature. The stability of the banking system is also influenced by the ratio of non-performing financing because the bank asset quality approach is also used when measuring the stability of the banking system. This is in line with research conducted by (Ozili, 2019) which states that the creation of banking system stability if banks can anticipate non-performing financing so that banks obtain NPF with a predetermined standard value. So, the hypothesis can be formulated as follows:
H1: NPF has a significant negative influence on the stability of the Islamic banking system in Indonesia

Financing to Deposit Ratio (FDR)

Theory of Financial Intermediation or financial intermediation theory is a theory that discusses one of the functions of banking in a country's economy (Gurley & Shaw, 1955). According to (Kalunda & Elizabeth, 2015) stating that financial intermediation refers to the process of uniting parties who have excess funds and parties who lack funds. This theory is related to the ratio of non-performing financing or NPF, the bank intermediation process involves the distribution of third-party funds which in turn can cause the risk of bad debts. Where banks must be able to assess the borrower's risk accurately. In addition, banks can also reduce the risk of bad debts in their intermediation process through diversification of financing portfolios.

Liability Management Theory

The theory directs banks to manage their sources of funds (liabilities) effectively to ensure that they have sufficient liquidity and reduce financial risk. Islamic banks have an obligation to pay off financing against third-party funds received by the bank or short-term debt as liquidity (Ichwan & Nafik, 2017), this makes liquidity a benchmark for the ability of an Islamic bank to meet its financial obligations. From the statement above, it can be concluded that *Liability Management Theory* and FDR are interrelated in maintaining banking stability by ensuring that banks have sufficient liquidity and manage their credit risk well. Financing to Deposit Ratio (FDR) can be stated as the ability of Islamic banks to channel financing originating from third-party funds to customers, so Islamic bank credit management greatly influences the success of banks in collecting funds from third parties as a benchmark for the influence on bank liquidity (Somantri & Sukmana, 2019). This is reinforced by research (Soekapdjo et al., 2019) that FDR is a reflection of the magnitude of the emergence of problematic financing opportunities. Thus, the following hypothesis can be formulated:
H2 = FDR has a significant negative influence on the stability of the Islamic banking system in Indonesia.

Research Methods

This research was conducted at the World Bank, Bank Indonesia, Financial Services Authority (OJK), and the annual report of Islamic Banking in Indonesia through secondary data. This study examines the stability of the banking system of 10 Islamic banks in Indonesia. The time of this research was conducted from 2016-2023. The population used in this study was 13 Islamic Banking in Indonesia. The sample used by researchers was 10 Islamic Banking in Indonesia. This study used the purposive sampling method. The purposive sampling method is a sampling technique by determining certain criteria (Tenggana et al., 2020). The following are the criteria for Islamic banking samples:

1. BUS is registered with Bank Indonesia and the Financial Services Authority.
2. BUS except Bank Syariah Indonesia, because it was only inaugurated on February 1, 2021.
3. BUS reporting its finances for the period 2016-2023.

The data used in this study are secondary. Secondary data is data obtained directly from existing sources not obtained through intermediary media and recorded by other parties (Khairunnisa, 2019). The research data sources were obtained from the OJK Website which can be accessed via https://www.ojk.go.id/id, BI which can be accessed via www.bi.go.id, the *World Bank Database* which can be accessed via https://data.worldbank.org, and *Federal Reserve Economic Data* (FRED) which can be accessed via https://fred.stlouisfed.org/, as well as journals related to this study. The instrument in this study is panel data regression analysis. To analyze the data, this study uses *STATA 15 Software* and *Microsoft Excel 2021* as tools for regression testing and analyzing data. The data analysis technique applied in this study is panel data regression analysis. Before selecting the data analysis method, this study is required to calculate the stability of the banking system proxied by AFSI. The data analysis methods used include the *Chow test*, *Hausman test*, classical assumption test, and statistical test.

Finding and Analysis

Aggregate Financial Stability Index (AFSI)

Before conducting the Chow test and Hausman test, this study is required to calculate the stability of the banking system as proxied by AFSI. With the following formula:

$$AFSI = \frac{1FDIt}{4} + \frac{3FVIt}{4}$$

So, the weighting is as follows: AFSI = 0.25 FDI + 0.75 FVI ..... (1)

Statistic Descriptive

In this research, descriptive statistical analysis uses the mean value, minimum, maximum, average, and standard deviation. Variables used in this research are the non-performing financing ratio or NPF (X1), ratio financing of third-party funds received by the bank or FDR (X2), and Stability (Y). The results of descriptive statistical analysis in this research are as follows:

Table 2. Descriptive Statistical Analysis

Variable	Obs	Mean	Std. Dev	Min	Max
NPF	80	37,5125	21,18633	1	74
FDR	80	39,9375	22,81036	1	79
SP	80	16,775	9,360535	1	34

Source: STATA 15 *Descriptive Statistical Analysis Output*

The NPF variable or non-performing financing ratio shows value The minimum value is 1, while the maximum value is 74. The average value (mean) is 37.5125 with a standard deviation value of 21.18633. This matter describes the NPF variable as having a low level of data variation but spread evenly (homogeneous).

The FDR variable or financing ratio to third-party funds received by the bank shows that the minimum value is 1, while the value of the maximum is 79. The average value (mean) is 39.9375 with a value standard deviation of 22.81036. This illustrates the variable FDR has a low level of data variation but is spread evenly (homogeneous).

The SP variable or stability of the Islamic banking system shows that the minimum value is 1, while the maximum value is 34. The average value (mean) is 16.775 with a standard deviation value of 9.360535. This matter describes the SP variable as having a low level of data variation but spread evenly (homogeneous).

Chow Test

The *Chow* test is used to select the best regression model between the *Common Effects Model and* with *Fixed Effect Model*. The results of the *Chow* Test in research are as follows following:

Table 3. *Chow* Test Results

Effect Test	Prob.
F (9.68)	2.95
Prob > F	0.0052

Source: STATA 15 *Chow Test Output*

Based on Table 3, the *Chow Test results* obtained a value of (Prob > F) < 0.05, namely 0.0052 < 0.05. Thus, the appropriate temporary regression model used in this study is *the Fixed Effect Model* (FEM).

Hausman Test

The *Hausman* test is used to select the best regression model between the *Fixed Effects Model and* with *Random Effect Model*. The results of the *Hausman* Test in this research are as follows:

Table 4. Hausman Test Results

Chi2(2)	= (bB) ' [(V_b-V_B) ^ (-1)] (bB) = 34.46
Prob > chi2	0.0000

Source: STATA 15 *Hausman Test Output*

Hausman Test in Table 4, the value of Prob> chi2 is greater than the significance value, which is 0.0000> 0.05. Thus, the appropriate regression model used in this study is *the Fixed Effect Model* (FEM). After conducting the *Chow test and Hausman* test, the best model was obtained, namely the Fixed Effect Model (FEM) for panel data regression analysis.

Panel Data Regression Analysis

The analytical method used in this research is regression analysis data panels. The results of panel data regression analysis in this study use the *Fixed Effect Model* (FEM) as a regression estimation model, this aims to know the relationship between independent variables consisting of financing ratios problematic or Non-Performing Financing (NPF), the ratio of financing to third party funds received by the bank or Financing to Deposit Ratio (FDR), on the attachment variable, namely the stability of the sharia banking system. Here are the results *Fixed Effects Model* (FEM) regression:

Table 5. Results of Panel Data Regression Analysis

SP	Coeff.	Std. Err.	t	P>| t |	[95% Conf.	Interval]
NPF	-0.4002121	0.0593565	-6.74	0,000	-0.5186563	-0.281768
FDR	-0.0369535	0.0493858	-0.75	0.457	-0.1355014	0.0615944
_cons	33.26379	2.644288	12.58	0,000	27.98719	38.54038

Source: STATA 15 Output Panel Data Regression Analysis

Based on the results of panel data regression using the Fixed Effect Model (FEM), the results of the panel data regression equation are as follows:

$$SP_{it} = 33{,}26379 - 0{,}4002121\ NPF_{it} - 0{,}0369535 FDR_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots (2)$$

Based on the regression equation above, it can be interpreted as follows:

a. The constant coefficient value is 33.26379. This can be interpreted as if the variable of the non-performing financing ratio or NPF (X1) and the ratio of financing to third-party
b. Funds received by the bank or FDR (X2) are constant, then the stability of the banking system will increase by 33.263%.

c. The regression coefficient value of the non-performing financing ratio or NPF variable (X1) is -0.4002121. This coefficient shows that every 1% increase in NPF will cause a decrease of 40.021% in the stability of the Islamic banking system with the assumption of a non-performing financing ratio.
d. The regression coefficient value of the financing ratio to third-party funds received by the bank or the FDR variable (X2) is -0.0369535. This coefficient shows that a 1% increase in FDR will cause a decrease of 36.953% in the stability of the Islamic banking system with the assumption of a financing ratio to third-party funds received by the bank.

Classical Assumption Test

The normality test aims to test whether the regression model is variable independent and dependent variables have a normal distribution or not. To test whether the data is distributed well or not, it can be analyzed using statistical tests. The results of the normality test in this study are as follows following:

Table 6. Normality Test Results

Skewness/Kurtosis test for Normality					
Variable	Obs	Pr (Skewness)	Pr (Kurtosis)	adj chi2 (2)	Prob > chi2
resid	80	0.9315	0.0878	3.03	0.2203

Source: STATA 15 Output Normality Test

Based on the results of the Normality Test in the table above, shows that the prob value > chi2 is 0.2203 > 0.05, so it can be concluded that the data is normally distributed.

The multicollinearity test aims to find out whether there is a regression model There is a correlation between independent variables as seen from the *Variance Value Inflation Factor* (VIF). If the VIF value < 10 then the regression model is asymptomatic multicollinearity. The results of the multicollinearity test in this study are as follows following:

Table 7. Multicollinearity Test Results

Variable	VIF	1/VIF
NPF	1,04	0.961021
FDR	1,04	0.961021
Mean VIf	1,04	

Source: STATA 15 Output Multicollinearity Test

Based on the results of the Multicollinearity Test in the table above, show that the mean VIF value of 1.04 indicates that the data used in the research model is free from multicollinearity symptoms.

The Heteroscedasticity Test aims to test the existence of non-uniformity in model variations that cause errors to be inconsistent. Here are the results of heteroscedasticity testing with the *BreuschPagan/Cook-Weisberg* test presented in the following table:

Table 8. Heteroscedasticity Test Results

Breusch-Pagan/Cook-Weisberh test for heteroskedasticity	
H0: Constant variance	
Variables: fitted values of X 1	
chi2 (1)	.80
Prob > chi2	= 0.3705

Source: STATA 15 Output Heteroscedasticity Test

Based on the results of the Heteroscedasticity Test in the table above, shows a Prob value > chi2 of 0.3705 > 0.05, meaning that the regression model does not experience symptoms of heteroscedasticity.

The Autocorrelation Test is a test that aims to test whether the model has a correlation between confounding errors in period t and confounding errors in period t-1 (previous). The results of the autocorrelation test in this study are as follows following:

Table 9. Autocorrelation Test Results

Wooldridge test for autocorrelation in panel data	
H0: no first-order autocorrelation	
F (1, 9)	= 4,095
Prob > F	= 0.0737

Source: STATA 15 Output Autocorrelation Test

Based on the results of the Autocorrelation Test in the table above, shows that the Prob> F value is greater than 0.05, namely 0.0737> 0.05. So it can be concluded that the model is free from autocorrelation symptoms. After the model is free from deviations from classical assumptions, it is continued for statistical testing consisting of partial tests (t), simultaneous tests (F), and coefficients of determination (R^2). Based on the calculation of the t table, a value of 1.990 and an F table value of 3.115 are obtained.

Hypothesis Testing

The partial test (t) is used to measure whether there is an influence of variables partially independent (individual) on the dependent variable.

Table 10. Partial Test Results (t)

SP	Coeff.	Std. Err.	t	P>| t |
NPF	-0.4002121	0.0593565	-6.74	0,000
FDR	-0.0369535	0.0493858	-0.75	0.457
_cons	33.26379	2.644288	12.58	0,000

Source: STATA 15 Output Partial Test (t)

The results of the t-test on the NPF variable (X1) obtained a t count greater than the t table, namely 6.74 > 1.990 with a negative direction and a significance value less than alpha, namely 0.000 < 0.05. Thus, H0 is rejected and H1 is accepted. Thus, H0 is rejected and H1 is accepted, which shows that the NPF variable (X1) has a significant negative effect on the

stability of the Islamic banking system in Indonesia.

The results of the t-test on the FDR variable (X2) obtained a t count less than the t table, namely 0.75 < 1.990 with a negative direction, and has a significance value greater than alpha, namely 0.457 > 0.05. Thus, H0 is accepted and H1 is rejected, indicating that the FDR variable (X2) does not influence the stability of the Islamic banking system in Indonesia.

The F test was carried out to determine whether there was a joint influence or not independent variable to the dependent variable.

Table 11. Simultaneous Test Results (F)

Number of obs	= 80
Number of groups	= 10
Obs per group:	
min	= 8
average	= 8.0
max	= 8
F (2.68)	= 26.76
Prob > F	= 0.0000

Source: STATA 15 Output Simultaneous Test (F)

Based on the results of the F Test, the F-calculation value is greater than the F-table value, namely (26.76 > 3.115). In addition, if viewed from the significance value, it is smaller than the alpha value, namely (0.0000 < 0.05), then H0 is rejected and H1 is accepted, which means that the independent variables simultaneously affect the dependent variable. In other words, the NPF and FDR variables together have a significant influence on the stability of the Islamic banking system.

The Determination Coefficient (R2) is used to measure the model's capabilities in variations explained in the dependent variable. Following are the results of the Coefficient of Determination (R^2):

Table 12. Results of the Determination Coefficient (R^2)

R-Square	
Within	0.4404
Between	0.0250
Overall	0.2141

Source: STATA 15 Output Coefficient of Determination (R^2)

Based on the results of the Determination Coefficient (R^2) in *the Fixed Effect Model* (FEM), it can be seen in *the overall R-sq* which is 0.2141 or 21.41%, which means that the ability of the NPF variable and the FDR variable in explaining the stability variable of the Islamic banking system is only 21.41%. While the remaining 78.59% is explained by other variables outside the study.

Discussion

The Influence of NPF on the Stability of the Islamic Banking System in Indonesia

The ratio of non-performing financing in Islamic banking commonly called NPF must receive special attention because a low non-performing financing ratio can indicate good managerial ability and risk control. This study shows that NPF has a negative and significant effect on the stability of the Islamic banking system in Indonesia. This means that if a bank has a fairly high non-performing financing ratio, the stability of the banking system tends to decrease. In line with *Signaling Theory*, this study states that if a bank has a low non-performing financing ratio, it is considered a positive signal about the management and quality of good financing of a bank. The results of this study are supported by research (Ghenimi et al., 2017; Ali & Puah, 2018; Ozili, 2019; Fatoni & Sidiq, 2019) which states that the ratio of non-performing financing has a negative and significant influence on the stability of the Islamic banking system. This can be seen from the disruption of the stability of the Islamic banking system caused by banking institutions that cannot reduce the ratio of non-performing financing when banks increase costs, in other words, banks must be able to overcome non-performing financing to create stability in Islamic banking in Indonesia.

The Influence of FDR on the Stability of the Islamic Banking System in Indonesia

The liquidity risk of Islamic banking can be measured by FDR. High FDR can increase liquidity risk because banks channel more of their funds in the form of financing. The results of the study indicate that this ratio does not affect the stability of the Islamic banking system in Indonesia. This is due to the inability of Islamic banking to channel financing from third parties to customers. This study is not in accordance with *Signaling Theory,* which states that efficient banking management can be shown through the ratio of financing to third-party funds received by the bank or optimal FDR and the bank's ability to manage financing and deposits well, this statement will provide a signal or information to customers regarding the financial health and operational performance of a bank. A high ratio of financing to third-party funds received by the bank will provide a negative signal to stakeholders that the bank is less careful in managing financing and deposits. The results of this study are supported by (Suryani, 2011; Said & Ali, 2016; Habibie, 2017; Rianti et al., 2021) which state that the ratio of financing to third funds received by the bank does not affect the stability of the banking system because the cash flow owned by the bank is in a safe condition and the bank's ability to maintain its liquidity, this happens because each bank has a different way of handling its liquidity risk. Therefore, banking must develop an effective strategy to reduce challenges by maintaining a healthy cash flow, so that banks can overcome liquidity risks well.

This research has several limitations that need to be acknowledged so that the results and implications can be understood more proportionally. First, the research only uses two internal variables, namely the non-performing financing ratio (NPF) and the financing to

third-party funds ratio (FDR), so it does not reflect all the internal factors that can influence the stability of the Sharia banking system. Other important factors such as operational efficiency, level of profitability, capital adequacy (CAR), as well as risk management, and corporate governance have not been included in the analysis model. Second, this research also has not considered the influence of external factors such as macroeconomic conditions (inflation, exchange rate, economic growth), monetary and fiscal policies, or regulations imposed by the relevant authorities. These factors. have great potential to indirectly influence the performance and stability of Islamic banking. Third, this research has not accommodated differences in management strategies and characteristics between Islamic banks, which can cause variations in handling liquidity and financing risks, so generalization of the results needs to be done with caution. Apart from that, the limitations of the data period used are also an important note, because research results that are cross-sectional or limited to a certain time period may not be able to capture long-term dynamics. Lastly, the use of a dominant theoretical approach in Signaling Theory also limits the analytical perspective, while other theories such as agency theory, stakeholder theory, or financial intermediation theory can provide additional perspectives for understanding the relationship between the variables studied. Therefore, further research is needed with a wider range of variables, diverse theoretical approaches, and more comprehensive analytical methods to produce a more comprehensive understanding of the stability of the Islamic banking system in Indonesia.

Conclusion

The ratio of *non-performing financing* in Islamic banking has a negative and significant impact on the stability of the Islamic banking system in Indonesia. This shows that if Islamic banking has a high ratio of non-performing financing, it can cause instability in the banking system. Islamic banking in Indonesia is expected to continue to maintain the ratio of non-performing financing to remain low by being selective in providing financing to customers, and there needs to be a process of assessing customer eligibility and stricter monitoring. Meanwhile, the ratio of financing to third-party funds received by the bank does not have a direct impact on the stability of the Islamic banking system in Indonesia. This is due to the inability of an Islamic bank to channel financing from third parties to customers. Although the ratio of financing to third-party funds received by the bank does not directly affect the stability of the banking system, Islamic banking must maintain the ratio of financing to third-party funds received by the bank within reasonable limits. By improving the strategy of collecting third-party funds to maintain the balance of the ratio, it can also diversify financing products to minimize risk. For further research, it is recommended that a more comprehensive analysis be carried out by including other internal variables such as operational efficiency, risk management, profitability level, and capital adequacy level (CAR). Apart from that, researchers can also consider external factors such as macroeconomic conditions, government regulations, and political stability which may also influence the sharia banking system as a whole. The use of qualitative approaches, comparative studies between countries, and the use of panel data from several periods can also provide deeper and more accurate insight into the determinants of the

stability of the Islamic banking system.

Based on the results of this research, it is recommended that Sharia banking in Indonesia not only focus on managing problematic financing ratios but also pay attention to other internal factors that have the potential to influence the stability of the banking system. One important factor is operational efficiency, where banks need to optimize cost structures and use digital technology to increase productivity and competitiveness. Apart from that, strengthening the capital structure through increasing the capital adequacy ratio (CAR) is also very important in building resilience to economic turmoil. Diversifying financing products and raising funds is another strategy that can be used to reduce concentration risk and expand the market segments served by Islamic banks. On the other hand, the implementation of good corporate governance and integrated risk management will strengthen the bank's internal stability, especially in facing various risks such as credit, liquidity, operational, and market. No less important, external factors such as macroeconomic conditions, fiscal and monetary policies, and exchange rate stability also need to be considered in developing the bank's internal policy strategy. Therefore, Islamic banks need to develop risk monitoring and mitigation systems that are adaptive to national and global economic dynamics. In addition, increasing sharia financial literacy among the public is also an important part of maintaining public trust, strengthening customer loyalty, and supporting stable and sustainable growth in the long term.

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