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The Business Cycle as a Moderator of Financing for Financing Risk of Islamic Commercial Banks in Indonesia

Siklus Bisnis sebagai Pemoderator Pembiayaan terhadap Risiko Pembiayaan Bank Umum Syariah di Indonesia

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ABSTRACT

Islamic banking is undoubtedly faced with several potential financing risks, with the three largest financing contracts (Mudharaba, Musharaka, and Murabaha) that reduce the financial performance of Islamic banks. The potential risk is strengthened if the stability of national economic growth is contracted. Therefore, this research aims to investigate the impact of Mudharaba, Musharaka, and Murabaha financing on Financing Risk moderated by the business cycle and the relationship between Financing Risk and the Financial Performance of Islamic Commercial Banks. The sample of this study was 12 Islamic Commercial Banks in Indonesia during the period 2017-2021. The Data were then analyzed using the technique of Moderated Regression Analysis (MRA). Researchers found that Musharaka financing has a significant positive effect on Financing Risk, Mudharaba and Murabaha Financing has an insignificant effect on Financing Risk, and Financing Risk has a significant negative effect on Financial Performance. The Business Cycle does not moderate the Financing of Mudharaba, Musharakah, and Murabaha on Financing Risk. The results can encourage the Islamic Commercial Bank to evaluate the distribution strategy of Musharaka financing, optimize the distribution of Mudharaba and Murabaha financing, and prepare financing strategies that do not depend on macroeconomic conditions.

Keywords: Financing Risk, Financing, Business Cycle, Financial Performance.

ABSTRAK

Perbankan syariah dengan tiga akad pembiayaan terbesar (Mudharaba, Musharaka, dan Murabaha) dihadapkan pada sejumlah potensi risiko pembiayaan yang menurunkan kinerja keuangan Bank Syariah. Potensi risiko tersebut menguat jika stabilitas pertumbuhan ekonomi nasional juga terganggu atau mengalami kontraksi. Oleh karena itu, penelitian ini hendak mengkaji pengaruh Pembiayaan Mudharaba, Musharaka, dan Murabaha terhadap Risiko Pembayaran dengan dimoderasi oleh Siklus Bisnis, dan sekaligus menguji hubungan antara Risiko Pembayaran dan Kinerja Keuangan Bank Syariah. Sampel penelitian ini adalah 12 Islamic Commercial Bank di Indonesia selama periode 2017-2021. Data tersebut kemudian dianalisis dengan menggunakan teknik Moderated Regression Analysis (MRA). Peneliti menemukan bahwa Pembiayaan Musharaka berpengaruh positif signifikan terhadap Risiko Pembiayaan, Pembiayaan Mudharaba dan Murabaha tidak berpengaruh signifikan terhadap Risiko Pembiayaan, dan Risiko Pembiayaan berpengaruh negatif signifikan terhadap Kinerja Keuangan. Adapun Siklus Bisnis tidak dapat memoderasi Pembiayaan Mudharaba, Musharaka, dan Murabaha terhadap Risiko Pembiayaan. Hasil penelitian ini dapat menjadi evaluasi bagi Islamic Commercial Bank agar dapat mengevaluasi strategi penyaluran pembiayaan Musharaka, mengoptimalkan penyaluran pembiayaan Mudharaba dan Murabaha, dan mempersiapkan strategi pembiayaan yang tidak bergantung pada kondisi makro ekonomi.

Kata Kunci: Risiko Pembiayaan, Pembiayaan, Siklus Bisnis, Kinerja Keuangan.

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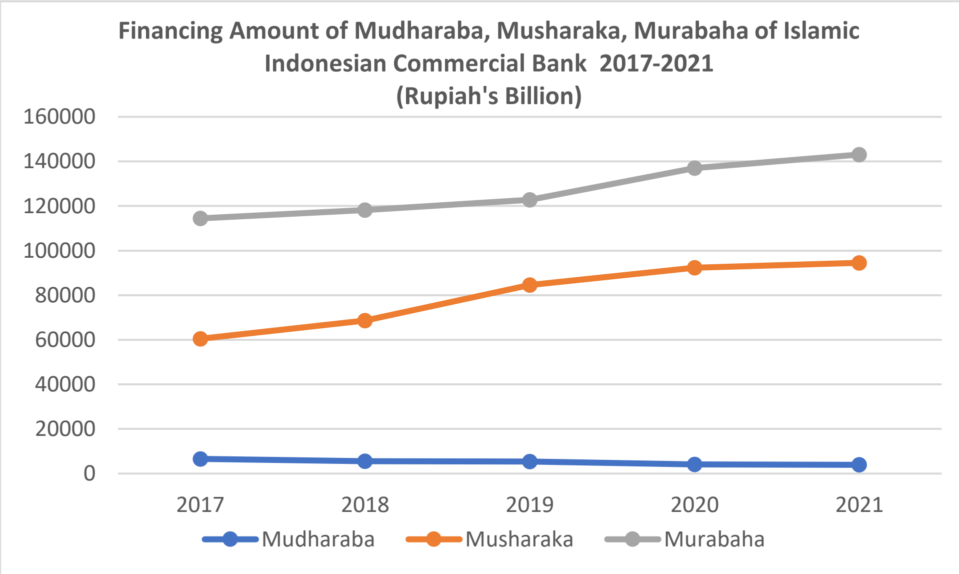
I. INTRODUCTION

Sharia banks in Indonesia will increase their market share to 6.52 percent by September 2021 (Financial Service Authority, 2021). Two contracts dominate the makeup of Islamic banks' funding: debt financing and loss and profit sharing. Financing by Islamic banks has risks that must be handled to prevent losses, particularly losses from third-party funds, which constitute the majority of Islamic banks' funding sources (Aiyubbi et al., 2022; Anik & Prastiwi, 2019; Financial Service Authority, 2021). The low degree of risk associated with Islamic bank funding will promote financial stability, hence boosting public trust in Islamic banks. Future Islamic banking market share and financial performance will unquestionably improve as a result (Mutamimah & Saputri, 2022).

As of September 2021, Sharia bank funding issued totaled 413,31 trillion rupiah, with the top three contracts being Murabaha (46.22%), Musharaka (45.62%), and Mudharaba (2.65%) (Financial Service Authority, 2021). As demonstrated in chart 1, the three contracts from 2017 to 2021 have always outperformed other finance contracts with a very constant growth pattern. This number indicates that the growth stability of the three contracts between 2017 and 2020 is fairly strong. The COVID-19 Pandemic, which affected global and national economic circumstances in 2020 and 2021, does not seem to have had a significant influence on the expansion of the three contracts. Furthermore, Figure 1 demonstrates that Murabaha finance is superior than Mudharaba and Musharaka financing. Murabaha finance tends to predominate due to its lower risks and easier administrative procedures compared to the more complex Mudharaba and Musharaka financing, its low demand, and the lack of contract understanding (Sabrina & Majid, 2020; Suzuki et al., 2020).



Source:(Financial Service Authority, 2022)

Figure 1. Figure of Total Mudharaba, Musharaka and Murabaha Financing in Islamic Commercial Banks 2017-2021

With the three most extensive financing arrangements, Sharia banking confronts various possible dangers, including default and moral hazard (Omer Mustafa, 2020). Non-Performing Financing (NPF) ratio reveals the banking risk profile that characterizes the risk of default by Islamic bank clients (Supriani & Sudarsono, 2018). Risk financing in Islamic banks necessitates skilled management of financial resources in order to provide healthy financial performance (Alarussi & Alhaderi, 2018). Profitability may be used to evaluate one of the financial performances of Islamic banking (Rizvi et al., 2020). The rate of return on assets may be used to determine the profitability of a bank (ROA). The ROA metric represents a bank's net income after subtracting costs (Sahyouni & Wang, 2019). The high ROA indicates that the quality of finance is improving, but the NPF level is low (Supriani & Sudarsono, 2018). It has been objectively shown that Sharia banking has contributed to the development of Indonesia's national financial system and the expansion of the banking sector's assets and liabilities (Rizvi et al., 2020).

The stability of the disbursed financing growth trend and the level of financing risk for Islamic commercial banks are inextricably linked to the stability of the national economy. The stability of the national economy is an external factor that must be monitored in order to avoid losses when the national economy is in turmoil (Booth et al., 1985; Ogunleye, 2001; Umami & Rani, 2021). Economic growth, closely related to the demand for and supply of products and services, will positively correlate with banking financial performance (Al-Harbi, 2020; Alper & Anber, 2011). Macroeconomic conditions repeatedly fluctuate with two sides, namely strengthening or weakening. This repetition pattern is known as the business cycle (Bodie et al., 2014). The business cycle in a country can be seen through the growth of GDP (Gross Domestic Product). A country with GDP growth of 25% of the lowest annual GDP growth is classified as a downturn business cycle. If the business cycle increases by 25% of the highest annual GDP growth, it is classified as a booming business cycle. As for the conditions outside of that, it is classified as a standard business cycle (Enqvist et al., 2014; McQueen & Roley, 1993). GDP can reflect a country's business cycle because its role can increase production, consumption, and spending so that financial transactions will increase (Rahmah & Armina, 2020). In addition, high GDP growth will positively impact people's income and savings. It will positively impact the performance of Islamic banking (Sandika, 2013).

Mudharaba and Murabaha, as modes of Islamic Bank financing contract in Indonesia, have been found to have a relationship with financing risk, while Musharaka does not affect financing risk. Good Corporate Governance can reduce the risk of financing Mudharaba and Murabaha (Mutamimah & Saputri, 2022). Mudharaba financing in Islamic banks in the Middle East, South Asia, and Southeast Asia was found not to affect financing risk, while Murabaha was found to have a negative effect (Warninda et al., 2019). The study also revealed that the proportion of Musharaka, approximately 37%-39%, can increase the risk of Islamic Bank financing to the maximum level. In line with these findings, Murabaha financing in the African region also reduced financing risk (Ijaiya et al., 2021). Another study also confirmed that Musharaka could reduce financing risk, while mudharaba and Murabaha can increase financing risk (Omer Mustafa, 2020). Research on the relationship between Musharaka and Mudharaba to bank stability in six countries (Malaysia, Indonesia, Saudi Arabia, Bahrain, Qatar, and the United Arab Emirates) was also found to be different. The study uses CAMELS variable framework in measuring the stability of Islamic banks and, at the same time, presents the findings that deliberation can suppress the stability of the bank but not for mudharaba (Danlami et al., 2022). The research belongs to Widarjono et al. (2020), furthermore generalizing that the Profit and Loss Sharing (PLS) scheme implemented by SRB (Sharia Rural Banks) in Indonesia can increase financing risks, especially in large banks located in areas outside Java. Turning around to these findings, in addition to SRB, the PLS scheme was also found to suppress the profitability of all Islamic banks in Indonesia (Sutrisno, 2022). However, uniquely, Priyadi et al. (2021) can find the opposite result: in the long term, the PLS of the SRB scheme in Indonesia can reduce financing risks. Furthermore, Hasanah & Septiarini (2020) and Mutamimah & Saputri (2022) examined research on the correlation between financing risk and financial performance. The study results explain that the risk of Islamic Bank Financing in Indonesia is negatively related to financial performance (ROA).

The relationship of external variables in the form of Business Cycles that are proxied through GDP growth was found not to affect the Financing Risk of Islamic Commercial Banks in Indonesia (Purba & Darmawan, 2018; Zannati & Hendryadi, 2019). In line with these findings, the business cycle did not affect bank risk in 95 Commercial Banks in the Southeast Asian region (Tran & Nguyen, 2020). However, the finding of Nosheen & Rashid (2019) reveals different results: Islamic banks in 20 countries have superior credit quality and tend to be more stable than conventional banks in the worst business cycle phase. Hosen & Muhari (2019) further emphasized that the business cycle proxied by GDP affects the risk of SRB (Sharia Rural Banks) financing throughout Indonesia. Ben Bouheni et al. (2022) explore more deeply that the risks of Islamic Bank Financing in the UK and Turkey throughout the Economic Cycle of the 2010-2019 period are countercyclical (reversibility). The previously mentioned studies on financing relationships, business cycles, financial performance, and financing risk have not examined the moderating effect of the business cycle of mudharaba, musharaka, and Murabaha financing on financing risk. Previous research has generally made the Business Cycle a modernization of working capital management to profitability and liquidity (Yahya, 2019), profitability to problem financing (Ben Bouheni et al., 2022), and financial development against financing risk (Tran & Nguyen, 2020). The moderating effect of the business cycle on Islamic Bank financing on Financing Risk (NPF) is offered as a novelty to researchers to see the interaction between macroeconomic conditions on financing and Islamic Bank Financing Risk in Indonesia.

This research is development research from Mutamimah & Saputri (2022), which has contributed to research on Islamic bank Management in Indonesia. The study also examined problematic financing rates with findings that strongly contradict previous studies. The study's results revealed that Mudharaba could reduce financing risk, Musharaka does not affect financing risk, and even Murabaha can increase financing risk. This is contrary to the amount of Murabaha financing that dominates all Islamic Bank financing in Indonesia (Financial Service Authority, 2022). Of course, if Murabaha is the majority of risky financing, then this is very worrying for Islamic Commercial banks in Indonesia, which tend to distribute Murabaha-based financing. Conversely, financing with Mudharaba mode is not so desirable by Islamic banks and tends to be associated with high risk; it turns out that the study was found to reduce the risk of financing. The research by the researcher needs to be continued into a broader analysis by including Business Cycle variables as recommended suggestions. Researchers suspect different results if researchers test Islamic Banks in different periods, especially when there is a COVID-19 pandemic that affects the internal conditions of banks nationwide. In addition, the researcher included Business Cycle variables that are considered external variables of financing risk to see how the interaction of external variables affects the internal condition of Islamic Banking.

This research topic is also urgent to discuss, bearing in mind the findings of the moderating effect of the business cycle, which is proxied through GDP growth, which can help academics, experts, and the government to see findings on the condition of Islamic banking during downturns and booms. Academics and economic experts can formulate recommendations on the governance and response of Islamic banking when the economy worsens or improves. Meanwhile, the government can formulate appropriate regulations for Islamic banking and parties related to Islamic banking in order to maintain national economic stability. These findings will also be helpful for the general public and the government to pay more attention to Islamic banking, especially during deteriorating economic conditions, such as the COVID-19 Pandemic or the threat of an economic recession in 2023. Based on this background, this study aims to explore: a) the impact of Mudharaba, Musharaka, and Murabaha financing on Sharia Banking Financing Risks in 2017-2021, b) the effect of Financing Risk on Sharia Banking Financial Performance in 2017-2021, and c) the ability of the business cycle to moderate the effect of Mudharaba, Musharaka Financing.

II. LITERATURE REVIEW

The Effect of Mudharaba, Musharaka, and Murabaha Financing on Financing Risk

Mudharaba financing is an agreement between a bank and a customer to collaborate on a business project, with the bank serving as a capital provider and the customer serving as a project worker (Warninda et al., 2019). Profits from the Mudharaba contract will be shared in a fixed ratio, while losses will be borne by the Islamic Bank (Fianto et al., 2019). Mudharaba financing is considered to be riskier than Musharaka financing, and the two contracts have a significant impact on non-performing financing (Adzimatinur & Manalu, 2020; Omer Mustafa, 2020; Suzuki et al., 2020). This is contrary to research findings from Warninda et al. (2019) and (Mutamimah & Saputri, 2022), which found no relationship between the two and even a negative effect.

Musharaka financing, like Mudharaba financing, binds Islamic banks and their customers to support capital and collaborate to fund mutually beneficial projects (Warninda et al., 2019). Profits from Musharaka financing are shared according to the agreement, whereas losses are shared according to the proportion of equity participation (Fianto et al., 2019). When the debtor does not provide complete information about the fees and income to be received, profit-loss sharing financing can be detrimental. This condition encourages Islamic banks to carry out strict supervision to create profits for Islamic banks, although on the other hand, it also increases supervision costs (Abdul-rahman & Nor, 2016; Adzimatinur & Manalu, 2020; Sutrisno, 2022). Therefore, in some previous research findings, Musharaka financing positively affects non-performing financing (Abdul-rahman & Nor, 2016; Sutrisno, 2022; Warninda et al., 2019). This result contradicts research findings which state that Musharaka can reduce financing risk (Adzimatinur & Manalu, 2020; Omer Mustafa, 2020).

Murabaha contracts are also known as debt financing. The risk of murabaha arises when the customer is unable to repay the loan. Nevertheless, the bank benefits from the existence of information asymmetry, which encourages the bank to take opportunistic actions (Mutamimah & Saputri, 2022). Murabaha is a short-term financing scheme commonly used by Islamic banks. Islamic banks, through this scheme, reveal the actual costs and benefits of products to customers with the knowledge of both parties (Omer Mustafa, 2020). Murabaha's profit margin is likely to be negotiated with an installment Financing scheme (Fianto et al., 2019). Therefore, Islamic banking prefers Murabaha financing with a more profitable fixed income (Sutrisno, 2022). Even though Murabaha looks more profitable, several studies empirically reveal that this contract increases financing risk. The magnitude of the financing risk arises due to the high default rate from customers or borrowers as specified in the agreement. Therefore, Murabaha financing significantly positively affects financing risk (Azizah & Mukaromah, 2020; Mutamimah & Saputri, 2022; Omer Mustafa, 2020). This contradicts the findings Ijaiya et al. (2021), which reveal that Murabaha contracts can improve Islamic banks' financial performance.

H1: Mudharaba Financing affects the Financing Risk of Islamic Banks

H2: Musharaka Financing affects the Financing Risk of Islamic Banks

H3: Murabaha Financing affects the Financing Risk of Islamic Banks

The Effect of Financing Risk on Financial Performance

The operating income of Sharia banks is derived from disbursed financing. The more financing that is disbursed, the greater the profit potential. Significant financing, on the other hand, can result in significant risk if the precautionary principle is not followed (Schoons, 2016). This financing risk reflects the efficiency with which Islamic banks manage their customers' funds. High financing risk in Islamic Banks indicates an unhealthy financial condition (Mutamimah & Saputri, 2022). The indicator to measure disbursed financing risk is Non-Performing Financing (NPF) (Azizah & Mukaromah, 2020; Mutamimah & Saputri, 2022). The number of non-performing loans in the bank is reflected in NPF. A high NPF in an Islamic bank reduces the possibility of profit sharing from the distributed financing. To reduce risks and increase public trust, Islamic banks will eventually reduce the amount of financing disbursed. This certainly hurts the decline in Islamic Bank Financial Performance (Return on Assets) in the following period (Setiawan & Indriani, 2016). NPF empirically has a significant negative effect on financial performance (Azizah & Mukaromah, 2020; Hasanah & Septiarini, 2020; Mutamimah & Saputri, 2022; Sutrisno, 2022).

H4: Financing Risk affects the Financial Performance of Islamic Banks

The Business Cycle Moderates the Effect of Mudharaba, Musharaka, and Murabaha Financing on Financing Risk

Economic activity largely determines long-term trends in the world of investment and finance. Economic patterns that repeatedly experience periods of expansion and contraction are cyclical, irregular, and occur over a long duration, commonly known as business cycles (Bodie et al., 2014). The motion of the graph of declining output (*downturn*) due to declining economic conditions is commonly known as a recession. The duration of a recession is usually a minimum of half a year in a row. Meanwhile, if the output graph grows well to exceed its general performance, it is commonly referred to as a booming condition (Yahya, 2019). The duration of the business cycle, according to economic experts, can be divided into three: short-term cycle (about 40 months), medium-term cycle (7-11 years), and long-term cycle (48-60 years) (Rahardja & Manurung, 2005). Business cycle trends are usually explained through variations around trends. The indicator used to analyze the business cycle is the growth of Gross Domestic Product (GDP) (Nosheen & Rashid, 2019; Yahya, 2019). GDP growth can reflect macroeconomic conditions, performance, and swings (Ben Bouheni et al., 2022). GDP can reflect the business cycle of a country because its role can increase production, consumption, and expenditure so that financial transactions will increase (Rahmah & Armina, 2020). In addition, high GDP growth will positively impact the increase in income and savings so that a positive impact on the performance of sharia banking (Sandika, 2013).

Yahya (2019) discovered empirically that the business cycle can improve financial performance (ROA) and moderate working capital management on financial performance. Ben Bouheni et al. (2022) revealed that the business cycle during the economic recession impacted decreasing loan and asset returns, further increasing non-performing financing. This finding is in line with the results of Nosheen & Rashid (2019) and Hosen & Muhari (2019). Therefore, the researcher proposes the hypothesis:

H5: The Business Cycle Moderates the Effect of Mudharaba Financing on Financing Risk

H6: The Business Cycle Moderates the Effect of Musharaka Financing on Financing Risk

H7: The Business Cycle Moderates the Effect of Murabaha Financing on Financing Risk

III. RESEARCH METHOD

Population and Sample

This type of research is explanatory research. The population in this study is all Islamic banks in Indonesia. The sampling technique in this study uses a saturated sampling (Sugiyono, 2014:68) which uses the entire population of Sharia commercial banks in Indonesia registered with the Financial Services Authority and published annual financial statements during the 2017-2021 period. Samples in the study amounted to 12 Islamic commercial banks, namely: 1) PT. Bank Aceh Syariah, 2) PT. BPD Nusa Tenggara Barat Syariah, 3) PT. Bank Muamalat Indonesia, 4) PT. Bank Victoria Syariah, 5) PT. Bank Jabar Banten Syariah, 6) PT. Bank Syariah Indonesia, Tbk., 7) PT. Bank Mega Syariah, 8) PT. Bank Panin Dubai Syariah, 9) PT. Bukopin Sharia Bank, 10) PT. BCA Syariah, 11) PT. Bank Aladin Syariah, and 12) PT. Sharia National Pension Savings Bank, Tbk. (Financial Service Authority, 2022). The data in this study amounted to 60 data from 12 Islamic Commercial Banks over five years. Researchers collected secondary data in the form of financial statements of 12 Islamic commercial banks using documentation collection techniques (Arikunto, 2006:187). Researchers took, recorded, and collected data related to the percentage of financing Mudharaba, Musharaka, Murabaha, and Risk Financing (NPF) from the financial statements available on their respective websites. The next researcher also downloaded data related to GDP growth from 2017-2021 as a proxy for the business cycle from the website of the Central Statistics Agency (BPS, 2021). Researchers also complete a literature review related to variables and hypotheses and research results from various literature, such as books, scientific articles, and proceedings.

Variable Operational Definitions

1. Mudharaba Financing

Mudharaba financing in this study is measured through a comparison ratio between the amount of Mudharaba Financing divided by the total amount of financing in that year (Mutamimah & Saputri, 2022). Mudharaba financing is obtained from the annual balance sheet with the formula:

$$\text{Mudharaba Financing} = \frac{\text{Mudharaba Total}}{\text{Financing Total}} \quad (1)$$

2. Musharaka Financing

Musharaka financing in this study is measured through a comparison ratio between the amount of Musharaka Financing divided by the total amount of financing in that year (Mutamimah & Saputri, 2022). Financing is obtained from the annual balance sheet with the formula:

$$\text{Mudharaba Financing} = \frac{\text{Musharaka Total}}{\text{Financing Total}} \quad (2)$$

3. Murabaha Financing

Murabaha financing in this study is measured through the ratio of the comparison between the amount of Murabaha financing divided by the total amount of financing in that year (Mutamimah & Saputri, 2022). Murabaha financing is obtained from the annual balance sheet with the formula:

$$\text{Murabaha Financing} = \frac{\text{Murabaha Total}}{\text{Financing Total}} \quad (3)$$

4. Financing Risk

Financing risk in this study is measured through non-performing financing (NPF) (Mutamimah & Saputri, 2022). Non-Performing Financing is obtained from the annual balance sheet with the formula:

$$\text{Non-Performing Financing} = \frac{\text{Non-Performing Financing}}{\text{Distributed Financing Total}} \times 100\% \quad (4)$$

5. Financial performance

   Financial performance in this study is measured through the Return on Assets proxy (Lisa et al., 2022; Mutamimah & Saputri, 2022). Return on Assets is obtained from the annual balance sheet with the formula:

   $$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Assets Total}} \times 100\% \quad (5)$$

6. Business Cycle

   The business cycle in this study is measured through a proxy for GDP growth (Ben Bouheni et al., 2022; Yahya, 2019). The business cycle for the period 2017-2021 is obtained from the BPS (2021) with the formula:

   $$\text{GDP Growth} = \frac{GDP_t - GDP_{t-1}}{GDPt_{-1}} \times 100\% \quad (6)$$

Data Analysis Technique

Data analysis techniques used in this study are validity, reliability, and Moderated Regression Analysis (MRA). MRA is a statistical analysis that is used to test the role of moderating variables (business cycle) on the dependent variable that can strengthen or weaken the independent variable (Mudharaba, Musharaka, and Murabaha Financing) (Financing Risk). The moderating variable in the form of the business cycle is a novelty in this study which is used to overcome differences in findings before this research (Ben Bouheni et al., 2022; Nosheen & Rashid, 2019; Pham & Nguyen, 2020). The equations in this study are:

$$Fri = \alpha + \beta_1 Mudharabai + \beta 2 Musharakai + \beta 3 Murabahi + \beta 4 MudharabaiBCi + \beta 5 MusharakaiBCi + \beta 6 MurabahaiBCi + \varepsilon \quad (7)$$

$$FPI = \alpha + \beta_1 FRi + \varepsilon \quad (8)$$

Notes:

FR = Financing Risk; FP = Financial Performance; BC = Business Cycles

This study uses panel data from cross-sectional data (data from Islamic Commercial Banks) and time series (2017-2021). This study uses the SmartPLS (Ringle et al., 2015) statistical analysis tool because it can process small data and overcome abnormal or missing data (Abdillah & Hartono, 2015). In this study, data is analyzed using two evaluation models: the outer model evaluation and the inner model evaluation. The results of convergent validity and discriminant validity tests to determine data validity and composite reliability and Cronbach alpha values to determine data reliability can be used to evaluate the outer model using algorithmic calculations. The evaluation of the inner model through bootstrapping can be seen through the results of R-Square and path coefficient to determine the amount of influence, hypothesis testing, and the level of significance between variables.

IV. RESULTS AND DISCUSSION

Descriptive statistics

The results of the description of each variable used in this study can be seen in table 1.

Table 1. Descriptive Statistics

	Minimum	Maximum	Means	Std. Deviation
Mudharaba	0.000	0.898	0.052	0.158
Musharaka	0.000	0.912	0.391	0.289
Murabaha	0.000	1.000	0.519	0.315
Financing Risk	0.000	4.970	1.729	1.678
Financial Performance	-10.770	13.580	1.339	4.377
Business Cycle	-2.070	5.170	3.376	2.777

Table 1 shows that the portion of Mudharaba financing has a minimum value of 0,000 and a maximum value of 0,898 with an average of 0,052 This shows that some Islamic Commercial Banks do not channel Mudharaba financing, and on average, Islamic Commercial Banks distribute Mudharaba funds of 5,2% of the total financing disbursed. The Musharaka financing portion has a minimum value of 0,000 and a maximum value of 0,912, with an average of 0.391. This shows that some Islamic Commercial Banks do not channel Musharaka financing, and on average, Islamic Commercial Banks distribute Musharaka funds of 39.1% of the total financing disbursed. The Murabaha financing portion has a minimum value of 0,000 and a maximum value of 1,000, with an average of 0,519. This shows that some Islamic Commercial Banks do not channel Murabaha financing, and on average, Islamic Commercial Banks distribute Murabaha funds of 51,9% of the total financing disbursed. The three statistical results for each financing show that Islamic Commercial Banks are more dominant in channeling their financing through the Murabaha scheme, then Murabaha, and Mudharaba.

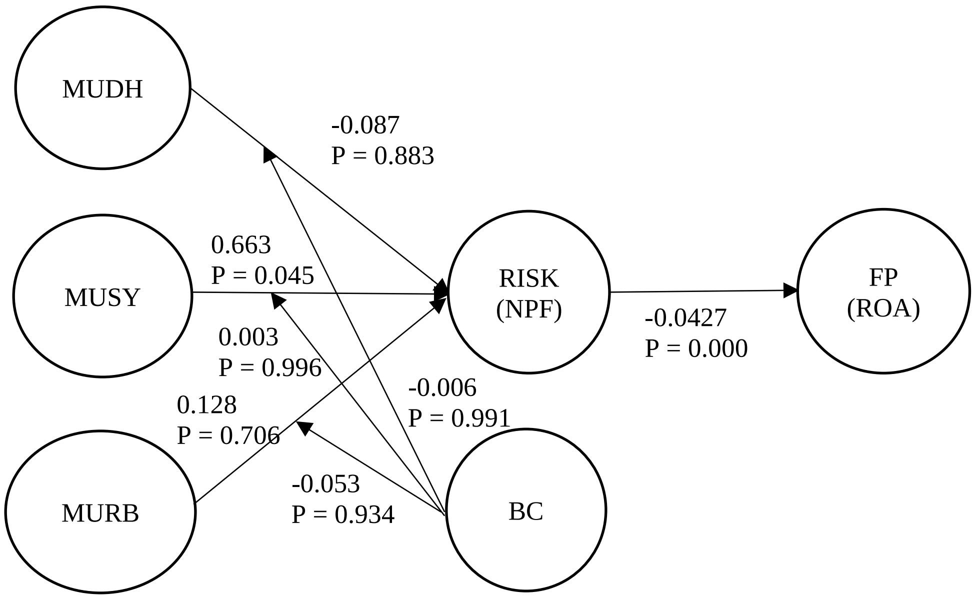
The financing risk proxied by NPF (Non-Performing Financing) has a minimum value of 0.00 and a maximum value of 4,970, averaging 1,729. This shows that the average value of NPF in Islamic Commercial Banks is still within reasonable limits, below 5%. The financial performance proxied by ROA has a minimum value of -10,770 and a maximum value of 13,580, with an average of 1,339. This means that some Islamic Commercial Banks have experienced losses for several years and, on average, still have good financial performance. The business cycle proxied by GDP Growth has a minimum value of -2,070 and a maximum value of 5,170 with an average of 3,376.

Result Analysis

Data research was processed using Moderated Regression Analysis (MRA) analysis with SmartPLS software. The output of the analysis results is presented in table 2.

Table 2. Analysis Results

	Original Sample (O)	Sample Means (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Status
MUDH -> NPF	-0.087	-0.085	0.591	0.147	0.883	Insignificant
MUDH*BC -> NPF	0.006	0.146	0.549	0.011	0.991	Insignificant
MURB -> NPF	0.128	0.137	0.340	0.378	0.706	Insignificant
MURB*BC -> NPF	-0.053	-0.054	0.635	0.083	0.934	Insignificant
MUSY -> NPF	0.663	0.664	0.331	2.006	0.045	Significant
MUSY*BC -> NPF	0.003	-0.007	0.607	0.005	0.996	Insignificant
NPF -> ROA	-0.427	-0.426	0.103	4.133	0.000	Significant



Source: Processed Data (2022)

Figure 2. Analysis Results

Based on table 2 and figure 2, Mudharaba Financing has a negative and insignificant effect on NPF with a coefficient value of -0,087 and a P-Value of 0,883, which is greater than 0,05. Therefore, H1 is rejected. Musharaka financing has a positive and significant effect on NPF with a coefficient value of 0,663 with a P-Value of 0.045, which is less than 0,05. Therefore, H2 is accepted. Murabaha financing has a positive and insignificant effect with a coefficient value of 0,128 and a P value of 0,706, which is greater than 0,05. Therefore, H3 is rejected. NPF has a significant negative effect on ROA with a coefficient value of -0,427 and a P-Value of 0,000, which is less than 0,05. Therefore, H4 is accepted.

As for the Business Cycle cannot moderate the effect of Mudharaba Financing on NPF. This is shown by the coefficient value of -0,006 and the P-Value of 0,991, which is greater than 0,05. Therefore, H5 is rejected. The Business Cycle also cannot moderate the effect of Musharaka Financing on NPF. This is shown through the coefficient value of 0.003 with a P-Value of 0,996. Therefore, H6 is rejected. The Business Cycle also cannot moderate the effect of Murabaha Financing on NPF. This is shown through a coefficient value of -0,053 with a P-Value of 0,934. Therefore, H7 is rejected.

Discussion

The Effect of Mudharaba, Musharaka, and Murabaha Financing on Financing Risk

Mudharaba financing has no significant adverse effect on financing risk. This shows that the Mudharaba financing channeled by Islamic Commercial Banks does not significantly reduce financing risk (NPF). Mudharaba financing at Islamic Commercial Banks is minimal. On average, Islamic Commercial Banks take minimal risk in channeling financing funds under the Mudharaba scheme, given the high risk of Profit-Loss Sharing (PLS)-based financing. The potential high-risk causes several Islamic Commercial Banks to limit the financing funds channeled under the Mudharaba scheme. The small proportion of Mudharaba funds by some Islamic Commercial Banks makes the potential risks found by several previous studies not found in Islamic Commercial Bank Indonesia. This is in line with the finding of Warninda et al. (2019), who did not find a relationship between Mudharaba and NPF in South Asia, the Middle East, and Southeast Asia because of the alleged small proportion of Mudharaba Financing of the total financing disbursed. As for the negative coefficient shown from the analysis results, as seen in table 2, Mudharaba financing schemes can be channeled by some Islamic Commercial Banks to be very selective. Islamic Commercial Bank chooses customers or mudharib with high eligibility to be funded so that channel financing can reduce financing risk (NPF). This finding is also linear with the findings of Mutamimah & Saputri (2022) and contradicts previous findings (Adzimatinur & Manalu, 2020; Omer Mustafa, 2020; Suzuki et al., 2020), which reveals a significant positive relationship between Mudharaba financing and financing risk.

Musharaka financing was found to have a significant positive effect on financing risk. This finding emphasizes that financing with a Musharaka scheme can increase financing risk. This research also further confirms that Profit-Loss Sharing based financing is very high risk. This finding also could be due to Islamic Commercial Banks may experience difficulties in selecting the right partners, accompanied by allegations of high moral hazard from Musharaka partners, so the risk of financing with Musharaka schemes is also high. The findings from this study are in line with the finding of Sutrisno (2022), which revealed that the Profit-Loss Sharing scheme in Indonesia could increase financing risk due to high moral hazard, agency problems, and the preference of Islamic Banks for financing contracts that are Non-Profit Loss Sharing, such as Murabaha. Furthermore, this finding is consistent with Abdul-rahman & Nor (2016), who investigate four barriers to Profit-Loss Sharing-based financing in Malaysia, namely high risk, difficulty in selecting the right partners, demand from customers with low creditworthiness, and a lack of capital security. This finding contradicts previous research findings (Adzimatinur & Manalu, 2020; Omer Mustafa, 2020), which found empirical facts that Musharaka can reduce financing risk.

Murabaha financing has a positive and insignificant effect on financing risk. This shows that the proportion of Murabahah in Islamic Commercial Banks cannot affect financing risk because non-profit-loss sharing financing schemes have a lower risk than profit-loss sharing-based financing. The customers with the potential for high and low defaults suspected by researchers also vary in the distribution of Murabaha financing. This finding is in line with Belkhaoui et al. (2020), which states that Murabaha does not directly affect the financing risk of Islamic banks. Nevertheless, a positive coefficient value in the effect of Murabaha financing on financing risk implies a potential for timely default in a Murabaha contract. In addition, the high distribution of Murabaha funds in the household consumption sector can potentially increase financing risk (Financial Service Authority, 2021; Mutamimah & Saputri, 2022). This contradicts the finding of Ijaiya et al. (2021), which reveals that Murabaha contracts can improve Islamic banks' financial performance.

Effect of Financing Risk on Financial Performance

Financing risk has a significant negative effect on financial performance. This means that the higher the financing risk, the lower the financial performance. Financing risk causes Islamic Commercial Banks to increase costs which cause losses and reduces the amount of income routinely received. Therefore, a low NPF indicates that an Islamic bank is said to be healthy so that it can increase its profits of Islamic banks. Thus, Islamic banks must be able to manage financing risk properly to maximize financial performance. These findings align with previous research findings (Azizah & Mukaromah, 2020; Hasanah & Septiarini, 2020; Lisa et al., 2022; Mutamimah & Saputri, 2022; Sutrisno, 2022), which state a negative relationship between financing risk and financial performance. This finding contradicts the finding of Priyadi et al. (2021), which reveals a positive relationship between financing risk and financial performance.

The Business Cycle Moderates the Effect of Mudharaba, Musharaka, and Murabaha Financing on Financing Risk

The business cycle cannot moderate the effect of Mudharaba, Musharakah, and Murabaha financing on financing risk. This shows that the business cycle proxied by GDP growth cannot moderate the effect of Mudharaba, Musharakah, and Murabaha financing on financing risk. Insignificant GDP growth in the short term cannot moderate the risk of financing Islamic Commercial Banks. Fluctuations in GDP contraction only occurred in 2020 and 2021, the years of the COVID-19 pandemic, while from 2017-2019, it grew little by little. Fluctuations in the business cycle are not expected to affect the behavior of creditors in the Islamic Commercial Bank. The improving economic conditions did not encourage creditors to pay off immediately. Meanwhile, when there is a contraction, creditors can take refuge behind the relaxation of financing returns applied by Islamic Commercial Banks.

National GDP growth during periods of expansion and contraction (recession) does not affect the risk of Islamic Commercial Bank financing. This shows that Islamic Commercial Banks have good resilience in periods of contraction and are not so affected by GDP growth in periods of expansion. The resilience of Islamic Commercial Banks during the contractionary period can be seen from the financial performance of Islamic Commercial Banks during the COVID-19 Pandemic, which still generated profits of 5.08 trillion rupiahs and was able to increase in 2021 (Financial Service Authority, 2022). This finding is in line with Purba & Darmawan (2018), Zannati & Hendryadi (2019), and Tran & Nguyen (2020), who did not find a significant effect between the business cycle proxied by GDP and financing risk. This finding also contradicts the findings of Nosheen & Rashid (2019), Hosen & Muhari (2019), and Ben Bouheni et al. (2022), which state that there is a negative influence between the business cycle and non-performing financing.

Islamic Commercial Banks are intermediary financial institutions with a significant market share and financial assets (Financial Service Authority, 2021, 2022). The financing schemes channeled by Islamic Commercial Banks are very varied, including Mudharaba, Musharaka, and Murabaha. The three financing agreements are the most dominant contracts in the financing schemes carried out by Islamic Commercial Banks (Financial Service Authority, 2021). In this analysis, Musharaka financing was identified as a contract that has dominated over the last five years and shown to enhance financing risk. The Musharaka program is also deemed problematic due to the Islamic Commercial Bank's difficulties in finding the ideal partner, as well as Musharaka partners' charges of severe moral hazard. In the future, the Islamic Commercial Bank may review the Musharaka plan by boosting partner selection and creating a safer approach for financing return. In addition, the research found no substantial influence of Murabaha and Mudharaba financing on financing risk in Islamic commercial banks. This cannot be isolated from the Islamic Commercial Bank's sub-50 percent distribution of the two funding options. They may develop risk-prevention measures by optimizing the distribution of both funding types. As a moderating element, the business cycle cannot enhance or weaken the three financing models against financing risk. Short-term, the economic cycle will have no effect on the financing risk of three Islamic commercial banks. Indonesia's uncertain macroeconomic environment and less disciplined creditor conduct are also thought to be minor contributors in the Islamic Commercial Bank's financing risk cycle. This research may be used by the Islamic Commercial Bank in assessing its own financial performance, so that it is not limited to the Indonesian economic cycle. To promote the image of Islamic Commercial Bank as a source of funding for the Ummah, Islamic Commercial Bank might analyze further its partner or client selection strategy and other internal assessments.

In anticipation of the high risk of financing arising from the financing of the three contracts, the Islamic Commercial Bank should have sought alternative partners or customers and regulated the percentage and risk of disbursed funding in order to mitigate the high risk of financing. This aims to maintain a consistent level of financing risk and enhance the short- and long-term financial performance of Islamic Commercial Banks. In addition, Islamic commercial banks must be cautious while confronting catastrophic economic circumstances. Even though the business cycle was unable to moderate the three contracts on financing risk in this research, Islamic Commercial Banks were nevertheless required to develop alternate ways to cope with unpredictable economic situations.

V. CONCLUSION

It was discovered that Musharaka financing increases financing risk. Meanwhile, Mudharaba and Murabaha financing have no major impact on financing risk. In this research, it was also determined that the economic cycle did not moderate the three financing models (Mudharaba, Musharaka, and Murabaha) against financing risk. In addition, this study verifies earlier research indicating that financing risk might diminish the financial performance of Indonesian Islamic Commercial banks. The fact that Mudharaba financing has a negligible negative impact on financing risk might be read as meaning that Mudharaba financing is not very effective at lowering financing risk. Due to the little amount of Mudharaba monies distributed by Islamic Commercial Banks, this is the case. It was discovered empirically that Musharaka financing has a considerable favorable influence on financing risk. High Musharaka finance might raise the risk of financing. This may be owing to the significant Profit-Loss Sharing risk of Musharaka distributed by Islamic Commercial Banks and the poor quality of partners who do not fulfill the necessary criteria, hence generating a default risk. It was shown that Murabaha Financing had no substantial beneficial influence on financing risk. This demonstrates that substantial Murabaha financing does not raise financing risk much. Murabaha finance does not significantly increase financing risk due to the low risk of non-profit-loss sharing-based financing and the different risk profiles of customers. It was shown that financing risk has a significant negative effect on financial performance. This suggests that the greater the financing risk, the weaker the financial performance. More expenditures are incurred by Islamic Commercial Banks as a consequence of financing risk, resulting in losses and a decline in normal revenue. It was shown that financing risk has a significant negative effect on financial performance. This suggests that the greater the financing risk, the weaker the financial performance. More expenditures are incurred by Islamic Commercial Banks as a consequence of financing risk, resulting in losses and a decline in normal revenue. It was shown that financing risk has a significant negative effect on financial performance. This suggests that the greater the financing risk, the weaker the financial performance. More expenditures are incurred by Islamic Commercial Banks as a consequence of financing risk, resulting in losses and a decline in normal revenue.

As a new moderator in this research, the economic cycle cannot moderate the effect of Mudharaba, Musharaka, and Murabaha Financing on Financing Risk. This demonstrates that the business cycle, a proxy for national GDP growth between expansion and contraction (recession) phases, has no effect on the risk of Islamic Commercial Bank borrowing. Insignificant short-term GDP growth cannot minimize the risk of funding Islamic Commercial Banks. It is not envisaged that business cycle changes would affect the behavior of Islamic Commercial Bank creditors. During economic downturns, Islamic commercial banks exhibit resilient financial performance. During the growth period, the Islamic Commercial Bank's financial performance remained unaffected. The Islamic Commercial Bank may use this research to evaluate its own financial performance, since it is not restricted to the Indonesian business cycle. To promote the image of Islamic Commercial Bank as a source of funding for the Ummah, Islamic Commercial Bank might analyze further its partner or client selection strategy and other internal assessments. In addition, the high risk associated with Musharaka financing may be used as a metric by Islamic commercial banks to better their partner selection and develop safer financing return techniques. Mudharaba and Murabaha financing revealed that there is no substantial impact that may motivate the Islamic Commercial Bank to develop methods to anticipate risks by optimizing the distribution of the two financing types.

Insufficient research has been conducted on the effect of macroeconomic circumstances (business cycle) and financing on financing risk and financial performance. This study is restricted to Islamic Commercial Banks from 2017 to 2021. Future study is anticipated to examine Islamic Business Units, Islamic Non-Banking Financial Institutions, and Islamic Fintech using the same conceptual framework. This is to bolster study results about the effect of macroeconomic factors on Islamic Financial Institutions. In addition, future study might define Islamic Financial Institutions that solely channel Mudharaba, Musharaka, and Murbaha monies as objects for selection. This is intended to resolve the contradictions between prior research. The researcher also proposes that Islamic Commercial Banks might seek alternate ways to locate the appropriate partners or clients and to manage the amount and risk of disbursed credit. In addition, it is predicted that Islamic commercial banks would develop alternate strategy studies to address unpredictable economic situations.

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