

The Impact of Profit-Sharing and Sale-Based Financing on Islamic Bank Stability

Dampak Pembiayaan Bagi Hasil dan Pembiayaan Berbasis Penjualan terhadap Stabilitas Bank Islam

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ABSTRACT

This study analyzes The Effects of Profit Sharing-Based Financing and Trade on the Stability of islamic banks in Indonesia. Bank stability is measured using Return On Aset (ROA) and Capital Adequancy Ratio (CAR) processes. The aim is to analyze the type of financing that contributes the most to the stability of islamic banks. This study uses quantitative methods with Vector Autoregression time series regression analysis on monthly data from January 2016 - June 2023 that obtained from Otoritas Jasa Keuangan (OJK) Islamic Banking Statistics. The results showed that profit sharing financing has a significant positive effect in the short and long term, while trade financing has a significant negative impact in the short term but does not significant effect in the long term on the stability of islamic banks. Based on these findings, it can be concluded that the stability of islamic banks is highly vulnerable to changes in profit sharing financing.

Keywords: Financing, Profit Sharing, Trade, Stability of Islamic Banking, Indonesia.

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ABSTRAK

Penelitian ini menganalisis Pengaruh Pembiayaan Berbasis Bagi Hasil dan Jual Beli terhadap Stabilitas Perbankan Syariah di Indonesia. Stabilitas bank diukur menggunakan proses Return On Aset (ROA) dan Capital Adequancy Ratio (CAR). Tujuannya adalah untuk menganalisis jenis pembiayaan yang memberikan kontribusi paling besar bagi kestabilan perbankan syariah. Penelitian ini menggunakan analisis regresi time series Vector Autoregression pada data bulanan dari Januari 2016 - Juni 2023 yang diperoleh dari Statistik Perbankan Syariah Otoritas Jasa Keuangan. Hasil penelitian menunjukkan pembiayaan bagi hasil berpengaruh positif secara signifikan dalam jangka pendek dan jangka panjang sedangkan pembiayaan jual beli berdampak negatif signifikan dalam jangka pendek, tetapi tidak berpengaruh dalam jangka panjang terhadap stabilitas perbankan syariah. Berdasarkan temuan tersebut, dapat disimpulkan bahwa stabilitas perbankan syariah sangat rentan pada perubahan pembiayaan bagi hasil.

Kata Kunci: Pembiayaan, Bagi Hasil, Jual Beli, Stabilitas Perbankan Syariah, Indonesia.

I. INTRODUCTION

Advancements in the Islamic banking and finance sector have created an intriguing phenomenon, fueled by increasing awareness of Islamic financial products. The Islamic banking and finance industry is characterized as one of the fastest-growing and has expanded worldwide (Mihajat, 2019). Its widespread acceptance across various communities, including Muslims and non-Muslims, indicates that this industry has a significant and positively received global impact (Mihajat, 2019). This success reflects the significant role of Islamic finance as a global force that plays a crucial role in meeting global financial needs while adhering to Sharia principles. According to Statista (2023), the total value of Islamic financial assets worldwide from 2012 to 2021 shows significant growth and is expected to continue to increase until 2026.

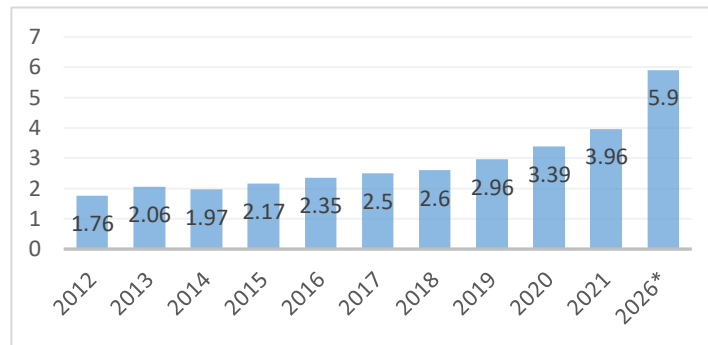


Figure 1. Total Value of Islamic Financial Assets Worldwide 2012-2021 (in trillion US dollars)

Based on the data, in 2021, the total value of the global Islamic financial market assets reached around 3.96 trillion US dollars. It is estimated that the total value of assets for the global Islamic financial market will reach 5.9 trillion US dollars in 2026 (Statista, 2023). This indicates a significant increase in the value of Islamic financial market assets in the coming years. This projection reflects the rapid growth and increasing significance of the Islamic finance industry at the global level. Experts predict that this sector will continue to grow, showing continued interest and support from both Muslims and non-Muslims worldwide (Bitar et al., 2018). This success may reflect the public's confidence in the principles and products of Islamic finance in meeting global financial needs.

According to the Global Islamic Finance Report in Bank Indonesia (2021), Indonesia has successfully ranked top in the Islamic Finance Country Index (IFCI). This success is mainly attributed to the dynamics of the Islamic social finance sector, which is the most active in the world. It is hoped that the achievement in the 2021 IFCI will provide a positive boost for the development of the Sharia financial industry in Indonesia. This situation also indicates the significant contribution of Islamic banking in this country to the global banking and finance industry in supporting economic recovery post-pandemic (Bank Indonesia, 2021). Therefore, Bank Indonesia actively strives to support the development of the Sharia social finance industry, promote FinTech advancement, and support environmentally friendly financing, with the hope of making a positive contribution to achieving the Sustainable Development Goals (Bank Indonesia, 2021).

Additionally, the Islamic economy and finance in Indonesia are increasingly recognized internationally. Despite being in the post-pandemic recovery phase, Indonesia has managed to maintain its third position in the Islamic Finance Development Indicator 2022, affirming its position as one of the best in managing Islamic economics and finance (Otoritas Jasa Keuangan, 2023). With total assets in the Sharia financial industry reaching Rp2,375.84 trillion, a 15.87% increase, higher than the 13.82% year-on-year growth in 2021 (Otoritas Jasa Keuangan, 2023). This drives the empowerment of the Sharia economic ecosystem and strengthens Sharia finance in supporting national economic resilience. Therefore, the stability of Islamic banks needs to be maintained to continue contributing to the economy (Masrizal et al., 2023).

Based on the research by Demirgüç-Kunt & Huizinga (2010); Al-Banna (2017); Al-Banna & Nurdany (2022), measuring stability in the banking sector is done using the ROA and CAR processes. In Al-Banna (2017) research, stability testing of Islamic banks and the dynamics of Islamic bank behavior are explained in relation to macroeconomic variables such as GDP, inflation rate, exchange rate, and interest rate level. The research findings indicate that Islamic banks respond sensitively to interest rate fluctuations. However, Islamic banks prohibit the use of interest in their practices.

Nevertheless, in practice, Islamic banks still use interest rates as a reference for determining prices Al-Banna (2017).

Another study conducted by Athari et al. (2023) discusses the country risk factors affecting the stability of the banking sector. The country risk factors included in this study are political, economic, and financial risks, state income, country risk level, and specific variables of the banking sector. This research emphasizes the importance of understanding and mitigating political, economic, and financial risks in the country as an effort to improve banking sector stability and avoid the implementation of extreme policies by banks in managing risks. The findings of this study indicate that these country risk factors contribute to banking stability.

In the research by Bitar et al. (2018), Islamic banks impose a prohibition on excessive risk-taking that is inconsistent with Sharia principles and require risk assessment as a risk reduction measure. This risk reduction provides clarity in resource allocation with the goal of achieving stability (Bitar et al., 2018). The uniqueness of Islamic banking lies in the profit-and-loss sharing (PLS) financing paradigm, primarily based on mudharabah and musyarakah financing, which not only reduces related risks but also encourages active contributions from all parties involved (Chong & Liu, 2009; Bitar et al., 2018). Additionally, the use of products that promote more risk-sharing compared to other products, such as murabahah, the most widely used form of Islamic finance, also needs to be supported to play a role in reducing risks and adhering to Sharia financial principles ((Azmat et al., 2015; Bitar et al., 2018; Yanikkaya et al., 2018). By applying these Sharia principles, Islamic banks can create a more stable financial system and have a positive impact on economic growth and societal well-being (Bitar et al., 2018; Athari et al., 2023). Economic growth slowdown has the potential to increase risks that can lead to a decrease in financing and profits for Islamic banks, resulting in uncontrolled instability in the financial system (Nastiti & Kasri, 2019).

Furthermore, in the Otoritas Jasa Keuangan (2022), it is explained that most of the financing in Islamic banking is conducted through profit-sharing financing (mudharabah and musyarakah) and trade-based financing (murabahah), which collectively play a significant role in providing for various projects and economic activities. According to the Otoritas Jasa Keuangan (2022), the growth of Islamic bank financing is dominated by profit-sharing financing and trade-based financing, contributing up to 95% of total financing, with profit-sharing financing contributing 39% and trade-based financing contributing 56%. However, it is important to note that with the large amount of financing issued by Islamic banks, stability in Islamic banking must be ensured to continue supporting economic growth in Indonesia without facing excessive risks. This stability is a key element in maintaining the health of Islamic banking.

According to Hasibuan (2019), one way to assess the health or financial performance of a bank is through profitability analysis. Profitability provides an indication of how successful a bank is in achieving profit. Return On Assets (ROA) can be understood as one of the profitability ratios used to assess a bank's performance (Hasibuan, 2019). In the study by Sari et al. (2021), mudharabah and murabahah financing have a positive influence on profitability (ROA), where an increase in each of these financings leads to an increase in the profitability achieved by Islamic banks. This success is due to the high public interest in murabahah financing and the existence of a margin that can be effectively calculated, thus managing the risk. Furthermore, musyarakah financing has a negative impact on profitability (ROA), as an increase in musyarakah financing can lead to a decrease in the profitability of Islamic banks (Sari et al. 2021).

However, the study has a limitation in that it only examines profitability (ROA) to assess banking performance. Nevertheless, according to Firdausi, (2016), Return on Assets (ROA) and Capital Adequacy Ratio (CAR) are important indicators in assessing banking performance. Furthermore, in another study, it is stated that ROA and CAR are included in the view to measure the level of stability of a bank (Al-Banna, 2017). Based on these studies, it is explained that stability measurement in the banking sector is done using ROA and CAR.

Therefore, further research is needed to measure the financing in Islamic banking and its impact on the stability of Islamic banking in Indonesia. This study aims to understand the types of financing that contribute significantly to the stability of Islamic banking. Additionally, this study is conducted to analyze the impact of profit-sharing financing and trade-based financing on the stability of Islamic banking in Indonesia, as well as to analyze the short-term and long-term effects of these financings on the stability of Islamic banking in Indonesia.

II. LITERATURE REVIEW

Theory of Islamic Banking Stability

In general, banking stability is indicated by the condition of a healthy banking system and the effective intermediation function of banks in mobilizing funds from the public to be channeled in the form of credit and financing to the business sector (Warjiyo, 2006). According to Ma'isyah & Mawardi (2015), the financial intermediation function bridges between those with excess funds and those in need of funds. Maintaining stability in the banking sector is their own responsibility. This involves monitoring and regularly evaluating the overall performance of banks. Good bank performance indicates that the banking sector is stable, while poor performance can indicate instability in the banking sector (Sri Setiawati, 2020).

Based on Stewart et al. (2021), banking stability is defined as a stable condition in which the banking sector efficiently performs its main economic functions, including resource allocation, risk distribution, and payment settlement. Additionally, De Haan & Oosterloo (2006) define banking stability as the smooth functioning of key elements that make up the financial system within the bank. The key elements, according to Athari et al. (2023), are Return On Assets (ROA) and Capital Adequacy Ratio (CAR). ROA and CAR in the study by Al-Banna (2017) are indicators used to measure the stability of a bank using Z-score. In this study, Z-score is the dependent variable defined according to Demirgüç-Kunt & Huizinga (2010) as $((ROA_{it} + CAR_{it}) / SDROA_{ip})$, where ROA is the ratio of net income to total assets and CAR is the ratio of capital to risk-weighted assets of bank *i* in year *t*. SDROA is the standard deviation of ROA over the entire sample period *p*. SDROA is a measurement of how much a variable fluctuates or changes during a specific period of time. A higher SDROA indicates greater profit fluctuations. Z-score indicates bank stability, where a higher Z-score implies a lower probability of bankruptcy (Al-Banna, 2017). According to Altman (2000), Z-score is considered to be in the crisis zone if it is less than 1.81, in the gray zone if between 1.81 and 2.99, and in the safe zone if the score is above 2.99. The banking system is considered stable if there is no excessive bankruptcy (Yunita, 2022).

$$Z - score_{it} = \frac{ROA_{it} + CAR_{it}}{SDROA_{ip}}$$

According to Hasibuan (2019), Return On Asset (ROA) is one of the profitability ratios that can be used to assess the performance of a bank. ROA reflects the extent to which a bank is able to generate profit, where ROA is used to measure how efficiently a bank generates profit from its total assets (Hasibuan, 2019). An increase in ROA means that the bank can generate a significant profit from its assets (Kurniasari, 2017).

According to Kuncoro (2002), the Capital Adequacy Ratio (CAR) reflects the extent to which a bank is able to maintain sufficient capital to control risks that can affect the bank's performance in achieving profitability. Sufficient capital availability will impact a company's performance because the company can carry out activities that can increase profitability without worrying about risks that may arise due to the support of adequate capital reserves. The higher the value of a bank's CAR, the better its ability to bear the risk of its financing and productive assets (Firdausi, 2016). In other words, adequate CAR can help a bank to continue its operations without significant disruptions due to high financing risks. According to Al-Banna (2017), CAR indicates the extent to which a bank has capital reserves that can be used to protect itself from potential losses arising from default loans. Additionally, CAR can also be used as an important measure to assess the stability and reliability of a bank.

According to Demirgüç-Kunt & Huizinga (2010), ROA and CAR are benchmarks for banking stability. According to Ajizah & Widarjono (2023), banking stability is a condition in which all economic mechanisms such as pricing, fund allocation, and risk management operate effectively, and certainly support economic growth. Good banking stability also provides benefits and protection from negative impacts and helps maintain and strengthen the overall financial system.

Meanwhile, Islamic banks operate in accordance with the principles of Islamic law and do not charge or pay interest to customers (Ma'isyah & Mawardi, 2015). The compensation received by Islamic banks and given to customers depends on the type (contract) agreed upon between the parties (Ismail, 2017). All agreements in Islamic banking must also comply with the principles stipulated in Sharia (Agza & Darwanto, 2017). Therefore, it can be concluded that all banking activities conducted by Islamic banks do not depend on interest rates, but rather on the income obtained through profit sharing

or margins. According to Mukti & Suprayogi (2019); Qoshid et al. (2021), compared to other financial institutions such as conventional banks, the actions taken by Islamic banks involve only the removal of elements of interest, usury, and prohibitions set in Islamic Sharia.

Profit Sharing Financing

The practice of Islamic banking heavily relies on the profit-sharing financial structure, which is a unique characteristic of Islamic banking itself (Chong & Liu, 2009; Yanikkaya et al., 2018). This profit-sharing structure can balance the income generated through additional market strength (Yanikkaya et al., 2018). In other words, this structure can optimize revenue by utilizing the potential and advantages it holds in the market. The main foundation of Islamic finance in the profit-loss sharing (PLS) structure lies in the concept of mudharabah and musyarakah financing (Chong & Liu, 2009; Seho et al., 2020).

Mudharabah is a form of contract between the two parties, where one party provides capital and the other party is responsible for managing it for business purposes, and the profits obtained are shared according to the agreed profit-sharing ratio at the time of the contract (Seho et al., 2020; Rosida & Yazid, 2022). In mudharabah financing in Islamic banking, the bank provides full capital (100%) or acts as the shahibul maal, while the customer provides the project or business along with its management or acts as the mudharib, the fund manager (Anjani & Hasmarani, 2016). Based on the Fatwa DSN No: 07/DSN-MUI/IV/2000, all losses arising from mudharabah are borne by the Islamic bank as the capital provider, except in situations where there are intentional errors, negligence, or violations of the agreement committed by the mudharib (fund manager). According to Anjani & Hasmarani, (2016), there are three pillars of mudharabah contract, namely the contracting parties (capital owner/ shahibul maal and fund manager/ mudharib), the object of the contract (amount of capital, type of work, and profit distribution), and the contract (offer and acceptance).

Furthermore, according to PSAK No. 106, musyarakah is defined as a cooperative agreement between two or more parties in a specific venture where capital is contributed by each party according to the agreement, with profits distributed as agreed upon and losses based on the amount of each party's contribution. According to Rosida & Yazid (2022), it is stated that profits are based on mutual agreement while losses are based on the proportion of contributed capital. In musyarakah financing in Islamic banking, the bank contributes capital to customers who already have some capital. This contributed capital must be used according to the agreed-upon purpose. Therefore, this capital must not be misused for personal interests or lent to others without permission from the partner (Sari et al., 2021).

Trade Financing

Furthermore, there are other financing contracts allowed in Islam but not entirely based on PLS (Profit and Loss Sharing) principles (Chong & Liu, 2009). For example, financing contracts based on murabahah (Seho et al., 2020). Trade-based products, such as murabahah, are the most common and widely used choice in utilizing the Islamic financial system, especially those focusing on purchase and resale, which are generally offered to customers (Azmat et al., 2015; Chong & Liu, 2009).

In the structure of Islamic banking financing, there are two tendencies between debt-based and partnership-based (Seho et al., 2020). In murabahah financing, it is included in the debt-based financing structure because this structure depends on financing based on a trade contract (Fianto et al., 2018). According to Fatwa DSN No. 04/DSN-MUI/IX/2000, murabahah is a type of trade contract for goods, where income consists of the initial sale price plus the agreed-upon profit by the buyer. The profit obtained by the Islamic Bank in this context is the margin agreed upon by both parties. In this context, the seller and the buyer can negotiate the amount of profit, which eventually reaches a mutual agreement. In this process, the seller must also clearly disclose the cost price of the goods purchased plus the desired profit amount. In the implementation of the contract in murabahah financing according to Rosida & Yazid (2022), the bank purchases goods according to the specifications desired by the customer, which are then sold to the customer with an agreed-upon markup. Murabahah is a form of sale transaction where the profit from the cost price becomes the income from the sale of goods, in accordance with the principles of Islamic Shariah (Sari et al., 2021).

Hypothesis Development

Based on the theory of stability in Shariah banking financing that has been explained earlier, it will be included in this study with the formation of several independent variables, namely Profit-Loss Sharing Financing (X1), and Murabahah Financing (X2). These independent variables will be tested to determine the significance of their influence on the dependent variable, which is Islamic Banking

Stability in Indonesia (Y).

Islamic banking is known for its profit-loss sharing (PLS) financing, which is mostly presented in the concepts of mudharabah and musyarakah in Islamic contract concepts (Chong & Liu, 2009). In addition, there are other financing contracts allowed in Islam but not entirely based on PLS principles, such as murabahah financing, which is the most commonly used in Islamic finance, especially focusing on trade transactions (Chong & Liu, 2009; Azmat et al., 2015).

According to Seho et al. (2020); Rosida & Yazid (2022), mudharabah and musyarakah financing are classified as profit-sharing financing, while murabahah financing is classified as trade financing. In profit-sharing financing, both the bank and the customer share the profits and risks of a project or business. Thus, profitability is influenced by the value of profit-sharing financing. Additionally, in murabahah financing, which is a trade contract, the Islamic bank purchases an item or asset at the customer's request and then sells it to the customer at a predetermined price, including the return and profit margin on the trade financing provided to the customer (Seho et al. 2020; Rosida & Yazid 2022). The bank expects returns and profit margins from the trade financing provided to customers, which then become the profit of the Islamic bank.

In this financing context, the larger the financing provided by the bank for fund disbursement, the higher the profitability the bank will obtain because the bank's income will increase (Chalifah & Sodik, 2017). According to Slamet & Yulianto, (2014), if profit-sharing financing and trade financing increase, this will also increase the ROA obtained by the Islamic bank. On the other hand, CAR also plays an important role in financing because CAR reflects the bank's readiness to bear the risk of losses that may arise from financing in Islamic banking (Firdausi, 2016). Therefore, financial institutions such as Islamic banks need to maintain their stability by using these ROA and CAR measurements.

Thus, paying attention to financing regarding the stability of Islamic banking is an important step in maintaining the health of the national financial system and supporting sustainable economic growth (Heniwati, 2019; Rosida & Yazid, 2022).. Based on the explanations provided earlier, the author formulates hypotheses for this research as follows:

H1 = Profit-Loss Sharing Financing significantly influences the stability of Islamic banking in Indonesia.

H2 = Trade Financing significantly influences the stability of Islamic banking in Indonesia.

III. RESEARCH METHODS

This research employs a quantitative method to test previously formulated research hypotheses. The quantitative method is used in research involving a specific population or sample by collecting data, which is then analyzed quantitatively or statistically (Sugiyono, 2021). In this study, the quantitative method is utilized to analyze the extent of the influence of Mudharabah, Musyarakah, and Murabahah Financing on the Stability of Islamic banks in Indonesia. The sample is drawn from the OJK Islamic Banking Statistics as it is deemed to represent all Islamic banks in Indonesia. The total observations in this study consist of 90 time series data, including Mudharabah, Musyarakah, Murabahah, ROA, and CAR variables, from January 2016 to June 2023. In this context, the author will apply the Vector Autoregression (VAR) time series regression analysis method to examine the influence of Mudharabah, Musyarakah, and Murabahah Financing on the Stability of Islamic banks in Indonesia.

VAR is highly relevant for analyzing the impact of Islamic financing models, such as mudharabah, musyarakah, and murabahah, on the stability of Islamic banks in Indonesia. By using VAR, we can evaluate the impact of Islamic financing on the stability of Islamic banks and measure how much influence each type of financing has on stability changes. Time series analysis is conducted using STATA 17 with the VAR model defined as follows:

$$\Delta IBS_t = \beta_0 + \beta_1 \Delta \text{Bagi Hasil}_{t-1} + \beta_2 \Delta \text{Jual Beli}_{t-1} + \varepsilon_t$$

If there is cointegration in the VAR results, the Vector Error Correction Model (VECM) will be used as follows:

$$\Delta IBS_t = \beta_0 + \Pi_1 \text{Bagi Hasil}_{t-1} + \beta_1 \Delta \text{Bagi Hasil}_{t-1} + \Pi_2 \text{Jual Beli}_{t-1} + \beta_2 \Delta \text{Jual Beli}_{t-1} + \varepsilon_t$$

With the following explanation:

IBS	: <i>Islamic Bank Stability</i>
β_0	: Constant
β_{1-3}	: Coefficient Matrix
Δ	: Vector
Bagi Hasil	: Total disbursement of mudharabah and musyarakah financing
Jual Beli	: Total disbursement of murabahah financing
Π	: Cointegration Matrix
ε	: Error
t	: Time unit

This research uses time series data, which aligns with the assumptions for the VAR/VECM analysis method. The steps taken involve testing the stationarity of the data. If the data is stationary at the level/first difference and the data is not cointegrated, the VAR analysis method will be used. However, if the data shows stationarity in the difference and cointegration among its variables, the VECM analysis method will be applied (Al-Banna, 2017).

IV. RESULTS AND DISCUSSION

Analysis Result

In this study, we employ VAR/VECM analysis. Before delving into the VAR/VECM section, we need to conduct several systematic tests, including stationarity test, determination of lag length, and cointegration test.

Table 1. Results of Stationarity Test

Variable Name	Stationarity Test	First Differenece
IBS	Not Stationary	1% Crit Value
Bagi Hasil	Not Stationary	1% Crit Value
Jual Beli	Not Stationary	1% Crit Value

The stationarity test above indicates that the time series data is stationary at the first difference level for all variables. The next step is the optimal lag test used to support model testing, while the cointegration test is used to assess whether there is a long-term relationship between variables and to determine whether the model to be used is VECM or VAR. The next test is the optimal lag test preceded by the VAR test, then using the 'varsoc' syntax in STATA to determine the lag length. The results of the optimal lag will be shown in the table below:

Table 2. Result of Lag Length Determination

LR	FPE	AIC	HQIC	SBIC
	4.8e+13	40.0145	40.0492*	40.1007*
5.0173	5.6e+13	40.1673	40.306	40.5121
14.845	5.8e+13	40.2044	40.4471	40.8079
35.777	4.7e+13	39.9952	40.342	40.8573
23.991*	4.4e+13*	39.9248*	40.3755	41.0455

Therefore, the optimum lag occurs at lag 4, as seen from several criteria such as the smallest values of FPE (Final Prediction Error), AIC (Akaike Information), HQIC (Hannan-Quinn Information), and SBIC (Schwartz Bayesian Information). Next is the cointegration test, where we utilize the Johansen Cointegration Test to assess the long-term relationship between variables and determine whether VECM or VAR model is more appropriate.

Table 3. Cointegration Test Results

Rank	Trace Statistic	5% Critical
0	56.1559	29.68
1	23.2124	15.41
2	8.0219	3.76

It can be concluded that rank 3 is identified because the value of the Trace Statistic exceeds the Critical Value at all rank levels. This indicates the presence of 3 cointegration vectors in the model. In this situation, the data passes the cointegration testing process because there is strong evidence of cointegration among these variables. This indicates that the dependent variables collectively impact the independent variables in the long run. Therefore, in this model, Vector Error Correction Model (VECM)

estimation can be conducted.

After confirming the cointegration in the data, the next step is to perform Vector Error Correction Model (VECM). In testing the VECM model, an optimal lag of 4 is used. In VECM analysis, there is a requirement that must be met, namely, the value of ECT_{t-1} , indicated by the symbol Ce_1 in the first equation, must have a negative value and a significant $P > |z|$ value. The results of the VECM test show that this condition is met, with a coefficient of -0.8766784 and a significance level of 0.000. Therefore, the interpretation of the VECM model will be conducted next. The following are the VECM results that include coefficients and significance levels of variables X (Profit and Loss Sharing and Trade Financing) on variable Y (Islamic Bank Stability).

Table 4. Coefficients and Significance in the Short Term

Variabel	Coefficients	$P > z $
BagiHasil	0.0002653	0.004
JualBeli	-0.0002996	0.000

Table 5. Coefficients and Significance in the Long Term

Variabel	Coefficients	$P > z $
BagiHasil	0.0004486	0.019
JualBeli	-0.0004786	0.000

The results above indicate that all variables have a significant impact, as seen from the statistical values below the significance level of 5%, with the explanation that the Profit and Loss Sharing financing has a positive influence, while the trade financing has a negative influence on banking stability in the short term. Furthermore, the results of the long-term relationship indicate that the Profit and Loss Sharing financing has a positive influence, while the trade financing has a negative influence on long-term banking stability.

Then, two additional analyses will be conducted on this VECM analysis, namely Impulse Response Function and Variance Decomposition.

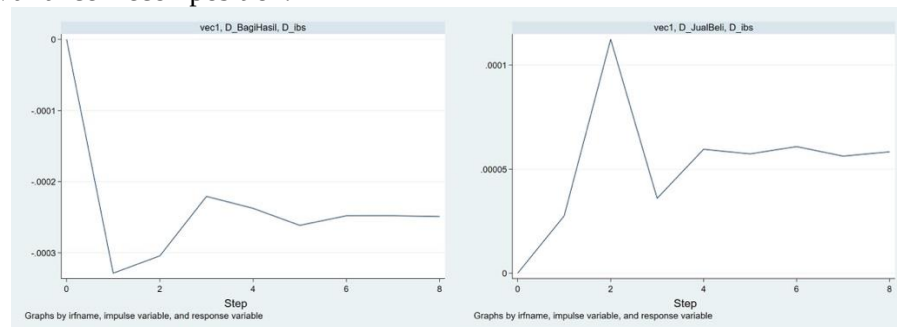


Figure 2. IRF Results

Figure 3 shows the response of Islamic Bank Stability to a one standard deviation increase in Profit and Loss Sharing and Trade Financing variables. The Z-score value reflecting Islamic Bank Stability shows a negative response to one standard deviation of Profit and Loss Sharing financing throughout the study period. This indicates that if there is a fluctuation in Profit and Loss Sharing financing, bank stability will decrease drastically and stabilize at a negative level in the long term. When responding to the rate of change of one standard deviation of Trade Financing, the Z-score remains stable at a positive level until the end of the study period.

Table 6. VD Results

Step	IBS	BagiHasil	JualBeli
0	0	0	0
1	1	0	0
2	0.855561	0.142478	0.001961
3	0.776393	0.194205	0.029403
4	0.759727	0.212232	0.028041
5	0.742026	0.22723	0.030743
6	0.718336	0.249078	0.32585
7	0.703139	0.262135	0.34726
8	0.691209	0.273052	0.035739

Variance Decomposition (VD) provides information about which variables have the most

influence on the dependent variable. Based on the above results, over time, the changes in Islamic Bank Stability towards itself are decreasing. In addition, the influence of Profit and Loss Sharing financing is increasing from 14% to 27%. Meanwhile, the influence of trade financing tends to remain constant at 3%. This indicates that over time, the stability of Islamic banks increasingly depends on Profit and Loss Sharing financing rather than trade financing, due to the continuously increasing value of the influence of Profit and Loss Sharing financing. Additionally, the decrease in the influence of Islamic Bank Stability towards itself has dropped drastically from 85% to 69%.

DISCUSSION

The Influence of Profit and Loss Sharing Financing on Islamic Banking Stability

The positive VECM coefficient in the short term on profit and loss sharing financing indicates that fluctuations in this financing in the short term can contribute positively to the stability of Islamic banking in Indonesia. Islamic banks are known for financing based on Sharia principles, namely profit-loss sharing, where profits are shared between the bank and customers based on an agreed ratio (Salman, 2022). Islamic banks implement *mudharabah* and *musyarakah* contracts in profit and loss sharing financing. As explained by Slamet & Yulianto, (2014), *mudharabah* and *musyarakah* financing are forms of profit and loss sharing. This is in line with Iqbal & Mirakhor, (2008), who explain that profit-sharing-based banking stability is more effective in Islamic banking, including *mudharabah* and *musyarakah*, which are forms of partnership-based financing, namely the relationship between the capital provider (*shahibul maal*) and the manager (*mudharib*) (Seho et al., 2020). This creates greater involvement from both parties in the success of the financed project or business because profits and losses are based on agreements made at the beginning of the contract (Chong & Liu, 2009). Thus, this is in line with efforts to increase financing provided by Islamic banks to the general public, with the aim of promoting economic growth and contributing to financial system stability (Nastiti & Kasri, 2019).

In profit-sharing financing, the party providing funds and the party managing the funds must cooperate well to achieve maximum results. This creates a strong dynamic of cooperation, where the bank and the customer have an incentive to ensure the smooth operation of the project or business to achieve bank stability (Chong & Liu, 2009; Nastiti & Kasri, 2019). In profit-sharing financing, the bank and the customer share profits and losses according to their agreement (Rosida & Yazid, 2022). This also creates an initiative for both parties to maintain the performance of their projects or businesses as best as possible. The bank and the customer also need to ensure that their capital is managed and used effectively by the manager (Chong & Liu, 2009). This intensive supervision is used to maintain a balance between risk and reward, preserve stability, and minimize the potential mismatch between the bank's and the customer's objectives (Otoritas Jasa Keuangan, 2017; Tekdogan & Atasoy, 2021). With good cooperation and supervision between the bank and the customer, the aim is to achieve positive results that can ultimately influence bank stability (Chong & Liu, 2009; Nastiti & Kasri, 2019).

Furthermore, profit-sharing financing is a form of financing that is not dependent on interest rates because the profit-sharing determined refers to the ratio or percentage agreed upon between the bank and the customer. This financing concept emphasizes more on the principle of sharing profits and risks among the parties involved, thus reflecting the spirit of justice in Islamic economics (Rosida & Yazid, 2022). Islamic banks can also adjust profit-sharing based on market conditions and the customer's business performance. The absence of interest rate influence makes profit-sharing financing more flexible and less dependent because there is no interest mechanism affecting it, as in *murabahah* financing. This can create stability in bank financial management. By not depending on interest rates, *mudharabah* and *musyarakah* financing in Islamic banks support banking stability by providing flexibility, active involvement, and a fairer risk distribution (Heniwati, 2019; Salman, 2022; Slamet & Yulianto, 2014).

With these two types of financing, *mudharabah* and *musyarakah*, the bank invests in various projects or businesses, reducing concentration risk. This means that if one project or business encounters difficulties or losses, the impact will not be significant, indicating that the bank is not entirely dependent on the performance of one project or business alone (Masruroh, 2018). The bank can also balance out fluctuations or losses that may occur in one or several other projects and can help the bank maintain a healthy financial performance. Consequently, this will impact the bank's operational continuity, strengthening its stability (Ayusaleha & Laila, 2022).

Over time, the influence of profit-sharing financing on the stability of Islamic banking, as indicated by the positive VECM coefficient in the long term, is similar to the short term. This may be due to the effective spread of mudharabah and musyarakah financing, creating a balanced and stable condition (Chong & Liu, 2009; Nastiti & Kasri, 2019). The spread of profit-sharing financing, including mudharabah and musyarakah financing, can help protect banks from certain risks and enhance their ability to address long-term economic challenges. By identifying and managing risks effectively, banks can also minimize the negative impact that may arise from fluctuations or uncertainties in financing (Fatoni, 2021). This continuity can create positive stability in Islamic banking.

Additionally, in profit-sharing financing, profits and losses are shared based on the agreement between the bank and the customer. This financing does not impose a fixed interest rate on the principal loan. Products with a fixed interest rate can sometimes be sensitive to banks if there are fluctuations in interest rates in the market (Al-Banna, 2017). Profit-sharing financing provides independence from the interest rate structure, so banks are not bound to pay fixed interest (Chong & Liu, 2009). Instead, profit and loss sharing depend more on the actual results of the funded project or business (Kurniasari, 2015). With the success of the project or business, the bank can receive greater profits, which will contribute positively to the total income of the bank, thereby enhancing banking stability.

The IRF results show that fluctuations in profit-sharing financing lead to a decrease in Islamic banking stability. This indicates that Islamic banking stability is highly vulnerable to changes in profit-sharing financing. This is supported by the VD results, which indicate that the influence of profit-sharing financing on Islamic banking stability has been increasing over time, meaning that the dependence of banking stability on profit-sharing financing is strengthening compared to trade financing, which tends to be constant at 3%. Therefore, Islamic banks must continue to diversify their financing and conduct regular monitoring and evaluation of their performance (Chong & Liu, 2009; Masrurroh, 2018; Ayusaleha & Laila, 2022). Consequently, banks can identify improvement potentials and take necessary actions to enhance their resilience to market changes and maintain stability, even when relying on profit-sharing financing (Ayusaleha & Laila, 2022).

The Influence of Trade Financing on Islamic Banking Stability

The negative VECM coefficients in the short and long term indicate that murabahah financing has a negative impact on Islamic banking stability. As shown by the positive IRF results, fluctuations in murabahah financing do not significantly affect the stability of Islamic banks. This is supported by the VD results, which show a constant value of around 3% over time. Thus, it can be said that murabahah financing does not contribute significantly to the stability of Islamic banking in Indonesia.

In the structure of Islamic banking financing, there are two tendencies between debt-based and partnership-based financing (Seho et al., 2020). Murabahah financing is included in the debt-based financing structure because it relies on financing based on a sale and purchase contract (Fianto et al., 2018; Seho et al., 2020). This is due to murabahah financing involving a sale and purchase transaction with the addition of profit on the cost price (markup) (Rahman & Rochmanika, 2012; Rosida & Yazid, 2022). The markup here is still influenced by interest rates, where Islamic banks tend to mimic or benchmark in determining their margin percentage (Al-Banna, 2017).

In the debt-based financing structure, Islamic banks face challenges related to fluctuations in interest rates and the fixed nature of the markup set at the beginning of the contract (Maikabara et al., 2020; Rahman & Rochmanika, 2012). Dependency on this structure can have a negative impact on the stability of Islamic banks in the short term. When interest rates rise, Islamic banks may incur valuation losses due to the fixed markup obligation, which can lead to mismatch with market conditions. On the other hand, if interest rates fall, Islamic banks may lose potential profits that could be gained from higher markups. Thus, the murabahah structure, which is still debt-based, causes Islamic banks to be more affected by interest rate fluctuations, which can harm their stability (Chong & Liu, 2009). These losses are mainly caused by the lack of flexibility in adjusting the markup during the financing period.

For example, if the current interest rate is 7%, the Islamic bank will follow this rate. This is due to concerns that if the interest rate is too high, people will prefer conventional banks, and if it is too low, Islamic banks may not maximize profits. In murabahah financing, if the customer has agreed to a 7% rate, that rate will be maintained in the following months. Unlike conventional banks with floating rates, where customers pay based on the prevailing interest rate for that period, Islamic banks are not allowed to use this feature. Islamic banks must adhere to the agreed-upon interest rate at the time of the contract. For example, if the interest rate next month rises to 10%, the Islamic bank will incur a valuation loss of -3%, which is considered

a loss for the bank. In conclusion, indirectly, Islamic banks still apply the concept of Time Value of Money (TVM), where the value of money is influenced by time and dependence on external factors such as interest rates, which are risky and detrimental to Islamic banks (Al-Banna, 2017; Suharto, 2018).

As explained by Al-Banna (2017); Saeed et al. (2023); Seho et al. (2020), Shariah banks operating under a dual banking system conduct their business in compliance with regulations and rules that are no different from conventional banks. In this regard, Shariah banks use interest rates as a reference to determine margins so that they can compete directly with conventional banks (Chong & Liu, 2009). Therefore, the dependence of Shariah banks on conventional interest rates in determining the margin for murabahah financing can have a negative impact on bank stability. Indirectly, it can be concluded that Shariah banks still use the concept of Time Value of Money (TVM) in their operations and financing, meaning that they consider changes in value over time (Suharto, 2018). Therefore, murabahah financing can pose problems for Shariah banking stability because it still tends to be debt-based and is also influenced by changes in interest rates (Seho et al., 2020; Saeed et al., 2023).

Based on the previous explanation, in the long run, the value of VD for murabahah financing tends to remain constant at 3%. This indicates that over time, the stability of Islamic banks is not fully influenced by murabahah financing, but increasingly depends on profit-sharing financing because the value of the impact of profit-sharing financing continues to increase. This is because murabahah financing is included in the debt-based financing structure, which is still influenced by conventional interest rates (Chong & Liu, 2009).

V. CONCLUSION

This study aims to test the stability of Islamic banks in Indonesia using VAR/VECM analysis. The research reveals the influence of profit sharing financing and trade financing on the stability of Islamic banks in Indonesia. The researchs objective is to analyze the types of financing that contribute the most to the stability of Islamic banks. Additionally, the study aims to analyze the impact of profit-sharing and trade financing on the stability of Islamic banks in Indonesia, both in the short and long term.

The research results indicate that profit sharing financing has a positive and significant impact on the stability of Islamic banks in Indonesia, both in the short and long term. This is because profit sharing financing is based on a partnership (cooperation) between the bank and the customer. Profit-sharing financing is not dependent on interest rates but on the agreed-upon ratio or percentage between the bank and the customer. Profit sharing financing can create balanced and stable conditions because profits and losses are shared based on the agreement between the bank and the customer. However, profit sharing financing is also highly vulnerable to fluctuations that can significantly affect the stability of Islamic banks.

On the other hand, trade financing (murabahah) has a negative impact on the stability of Islamic banks, both in the short and long term. This is because murabahah financing is included in the debt-based financing structure, which is still influenced by interest rates. Murabahah financing involves trade financing with the addition of profit to the cost price (markup). This markup tends to be mimicked/benchmarked by Islamic banks in determining their margin percentage. However, murabahah financing does not significantly impact the stability of Islamic banks when experiencing fluctuations.

Therefore, considering that profit sharing financing is a determinant factor for the stability of Islamic banks in Indonesia, it is important for policymakers to continue efforts to manage and maintain profit-sharing financing to ensure the stability of banks. Similarly, trade financing also plays a crucial role in supporting the stability of Islamic banks, and efforts are needed to ensure this stability.

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Conceptualization, methodology, software, validation, formal analysis, investigation, resources, data curation, writing – original draft preparation, writing – review and editing, visualization: C.P
Supervision, I.A

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INFORMED CONSENT STATEMENT

Not applicable (The studies not involving humans)

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available on request from the corresponding author [CAP].

CONFLICTS OF INTEREST

The authors declare no conflicts of interest

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