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The Influence of Macro Indicators on *Non-Performing Financing* at Muamalat Bank Indonesia

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Abstract

This study aims to determine how the effect of the inflation rate and BI rate on Non-Performing Financing at Muamalat Bank Indonesia. This research uses a descriptive method of verification with a type of quantitative research. The source of data in the study is secondary data with data on the Inflation rate and NPF starting from January 2012 to December 2021 per quarter. Based on the results of the study, it was concluded that the research data was declared normally distributed, free from the problems of classical assumptions (multicollinearity, heteroscedasticity, autocorrelation). And the results of the t test (partially) show that the inflation variable does not have a significant effect on Non-Performing Financing (NPF).

Keywords: *Inflation, Non Performing Financing (NPF).*

Pengaruh Indikator Makro terhadap Pembiayaan Bermasalah di Muamalat Bank Indonesia

Abstrak

Penelitian ini bertujuan untuk mengetahui bagaimana pengaruh tingkat Inflasi dan BI rate terhadap Non Performing Financing pada Bank Muamalat Indonesia. Penelitian ini menggunakan metode deskriptif verifikatif dengan jenis penelitian kuantitatif. Data dalam penelitian adalah data sekunder yakni data tingkat Inflasi dan BI rate, NPF yang datanya dimulai dari bulan Januari 2012 sampai dengan Desember 2021 per Triwulan. Berdasarkan hasil hasil uji statistic terhadap data dan instrumen bahwa data penelitian dinyatakan berdistribusi normal, terbebas dari masalah asumsi klasik (multikolinieritas, heteroskedastisitas, autokorelasi). Berdasarkan hasil uji t (secara parsial) menunjukkan bahwa variabel inflasi tidak berpengaruh secara signifikan terhadap Non Performing Financing (NPF). Sedangkan BI rate berpenaruh secara signifikan. Akan tetapi variable inflasi dan BI rate secara simultan berpengaruh secara signifikan.

Kata kunci: *Inflasi, Non Performing Financing (NPF).*

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A. Introduction

The banking world in Indonesia has changed a lot from time to time. Factors that influence the existence of banking are not only influenced by internal factors, but also influenced by external factors which include, the needs of the Indonesian people for capital in the business sector, as a security of assets owned and as a place to invest or invest. In Law Number 10 of 1998 concerning banking, the Bank is mentioned as a business entity that collects funds from the public in the form of deposits and distributes them to the public in the form of credit and or other forms in order to improve the standard of living of the community.[1] Banking institutions have an important role in the economic growth of a country. This is in line with Kasmir's statement (2014), which states that banking institutions are the heart of a country's economy. Which means, the existence of banking institutions is needed both for the government and the community.[2] Therefore, good performance supervision by banking regulators is needed.

Banks in their operational activities are divided into two, namely conventional banks and Islamic banks. Islamic banks are bank financial institutions that are operationally different from conventional banks. According to Law Number 21 of 2008 article 1 paragraph 1 concerning banking, sharia banking is everything concerning Sharia Banks and Sharia Business Units, including institutions, business activities, and ways and processes in carrying out their business activities.[3] One of the characteristics that distinguishes Islamic banks from conventional banks is that interest is not applied to customers, but replaced with profit sharing and other rewards in accordance with applicable contracts. This basic concept is applied based on the contents of the Qur'an which prohibits riba in muamalah. Therefore, in Islamic banks the interest system is not applied because interest is included in usury. As Allah SWT says. It is stated in Surah Al-Imran verse 130 about the prohibition of riba in Islam.

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[1] https://www.ojk.go.id
[2] Kasmir, *Banking Basics-Revised Edition 2014,* (Jakarta: Rajawali Pers, 2016), p.2
[3] https://www.ojk.go.id

يَٰٓأَيُّهَا ٱلَّذِينَ ءَامَنُواْ لَا تَأۡكُلُواْ ٱلرِّبَوٰٓاْ أَضۡعَٰفٗا مُّضَٰعَفَةٗۖ وَٱتَّقُواْ ٱللَّهَ لَعَلَّكُمۡ تُفۡلِحُونَ

" O believers, do not eat riba multiplied and fear Allah so that you may be fortunate".[4]

Banking institutions in Indonesia are currently experiencing quite good development although the development is a little late when compared to other Muslim countries, even so Islamic banking in Indonesia will continue to grow. If in the period 1992-1998 there was only one Sharia Bank unit, then in December 2011 the number of Islamic banks has increased to 35 units, consisting of 11 Sharia Commercial Banks and 24 Sharia Business Units and the number of Sharia People's Financing Banks has reached 155 units in 2011. It was recorded that in December 2020 the number of BUS had reached 14 units, UUS 20 units and BPRS 163 units.

Table 1

Development of Sharia Banking

YEAR	BUS	UUS	BPRS
2011	11	24	155
2012	11	24	158
2013	11	23	163
2014	12	22	163
2015	12	22	163
2016	13	21	166
2017	13	21	167
2018	14	20	167
2019	14	20	164
2020	14	20	163

Source: Financial Services Authority, Sharia Banking Statistics, Data processed

Muamalat Bank Indonesia is the first Islamic bank established in Indonesia in 1991 and began operating in 1992. In addition, Bank Muamalat

[4] *Al Qur'an & Terjemahan Kemenag, 2022*

Indonesia is also the first bank to carry out its business activities based on sharia principles. Muamalat Bank Indonesia was established on the idea of the Indonesian Ulema Council (MUI), the Indonesian Muslim Scholars Association (ICMI) and Muslim businessmen supported by the Government of the Republic of Indonesia.[5] Based on its function, BMI has the same main function as conventional banks, namely collecting and distributing funds to the public. One of the services provided by Bank Muamalat Indonesia is financing product services . Financing carried out by bank Muamalat Indonesia is part of funding activities or disbursement of funds that result in changes in the amount and composition of capital and bank loans.[6]

Financing is one of the main activities of banks which is the main source of bank income. There are two financing patterns currently carried out by Bank Muamalat in the distribution of financing, namely financing with the principle of buying and selling and financing with the principle of profit sharing. The contracts that are widely used in buying and selling financing are *murabahah, salam* and *istishna* while the profit sharing principle is *mudharabah* and *musharakah*. In its activities, if the bank is unable to disburse credit, while the funds collected from public deposits are more, it will cause high risks for the bank.[7] Therefore, Bank Muamalat must have efforts made to minimize and also countermeasures if there are risks arising from the financing provided. One of the indicators used by Islamic banks, including bank muamalat, to measure the level of problem financing at banks is using the NPF *(Non Performing Financing) ratio*.

Problematic financing is the financing risk that occurs due to the customer's failure to fulfill its obligations. According to Bank Indonesia Regulation No. 6/10/PBI/2004, it is stated that, financing that is included in the category of special attention, less lancer, doubtful and bad is called NPF Gross, while financing that falls into the category of less lancer, doubtful, and The crash is called NPF Netto. Indonesian bank has set the NPF ratio to be less

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[5] https://www.bankmuamalat.co.id *M*
[6] Andri Seomitra, *Sharia Banks and Financial Institutions,* (Jakarta: Kencana, 2009)
[7] Cashmere, *Banking Management,* (Jakarta: PT. RajaGrafindo Persada, 2012), p. 80

than 5% (five percent) of total loans.[8] The higher the NPF level at bank muamalat, the higher the level of risk that must be borne by bank muamalat. This problematic financing can affect the performance and public assessment of the bank concerned. The following is the development of *the Non-Performing Financing* ratio at Bank Muamalat Indonesia for the 2011-2020 period.

Table 2

Development of *Non Performing Financing Ratio*

Period 2012-2021

(in percent)

Year	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
NPF	2,60	2,09	4,69	6,55	7,11	3,83	4,43	3,87	5,22	4,81

Source: Bank Muamalat's Financial Statements processed

From table 1.2 above, it can be seen that the NPF ratio during the period of 2011 to 2021 experienced fluctuating developments. In 2012 and 2013 the NPF value was in the range of 2%, namely 2.60%, 2.09%. Then in 2014, 2015 to 2016 the NPF value increased by 4.69%, 6.55% to 7.11% this condition shows that the NPF value has increased relatively high until the average figure reaches above 5% which in this condition can be said that the health level of Bank Muamalat Indonesia is at an unhealthy level. Furthermore, in 2017, 2018, 2019 to 2020 the NPF value decreased again and increased by 3.83%, 4.43%, 3.87% to 5.22% and finally in 2021 the average NPF rate decreased to 4.81%. Although the amount of non-performing financing (NPF) is still within the threshold of control, this fluctuating growth must also be considered and Followed up specifically as an effort to manage company risk. In addition, when viewed from the total non-performing financing portfolio of 1.3 trillion compared to the total portfolio of 28 trillion, this is a fairly large number and a concern for Bank Muamalat Indonesia.[9]

[8] Bank Indonesia Regulation No. 17/11/PBI/2015 Article 11 (2) Amendments to Bank Indonesia Regulation No. 15/15/PBI/2013.
[9] Yep. Gifari Bachmid, *Implications of Restriction Policy and Its Impact on the Value of Non-Performing Financing Ratio at PT. Bank Muamalat Indonesia, Regional Tbk Sulawesi, Maluku, Papua,*: Thesis FEBI IAIN Gorontalo, 2021), p. 17

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Problematic financing can occur due to factors that influence it. Basically, there are many factors that can affect the occurrence of *Non-Performing Financing* both from internal factors, namely factors directly related to bank performance and external company factors related to economic conditions and factors caused by customers who make the financing itself. On the internal side, it can be seen from the management of the distribution of funds from investor customers or debtors, the determination of the level of reward from investors (*Equivalent Rate)* and financial ratios such as *the Capital Adequacy Ratio (CAR),* the Quality of Productive Assets (KAP), *the Financing to Deposit Ratio (FDR)* and the ratio of Operating Expenses to Operating Income (BOPO). Meanwhile, external factors can be seen from macroeconomic factors such as fuel prices, exchange rates, interest rates and inflation. Because if fuel prices, exchange rates, interest rates (BI *Rate*) *and* inflation continue to increase, it indicates that economic conditions are bad and unstable.

According to Mahmoedin (2002), indications *of Non-Performing Financing* can be seen from *account attitudes,* financial *statement attitudes, business activites attitudes,* customer *attitudes,* and macroeconomic *attitudes*. From this statement, it shows that there is a relationship between the consequences of *Non-Performing Financing* with macroeconomic variables and activity variables bank operations.[10] In this study, the variables used only focus on two variables, namely inflation and interest rates (BI *Rate*). Both variables are used to describe macroeconomic variables where these variables have an influence on the variables of bank operational activities, namely the level of non-performing financing at Muamalat bank Indonesia.

Inflation is a general and continuous increase in the prices of goods and services that results in people's economic conditions becoming in an unbalanced position between income and expenditure. In addition, when inflation occurs, people tend to be less interested in saving funds in banks or other financial institutions and prefer to spend their funds for living needs. This results in the customer's ability to return their financing installments

[10] Mahmoedin, *Tracking Non-Performing Loans,* (Jakarta: Pustaka Sinar Harapan, 2002), p. 20

which are running smoothly and even jammed, so it is feared that the percentage of problematic financing will increase.

This is supported by Vikky's research (2017), which states that inflation has a significant influence on NPF.[11] The same results are shown in Yuliana's research (2017), that inflation has a positive and significant influence on *Non-Performing Financing* (NPF).[12] However, there are differences in the results of research conducted by Arfan (2016) which states that inflation has no effect on NPF.[13] The same result was done by Tiffany (2018), that inflation has no effect on NPF.[14]

In addition to inflation, BI *Rate* policy is thought to have an influence on NPF. Bank Indonesia explains the definition of the BI *Rate*, which is the policy rate that reflects the monetary policy *stance* set by Bank Indonesia and announced to the public. The movement of this benchmark interest rate generally followed by an increase in rates Deposit interest and in turn bank lending rates also increased. Although Bank Muamalat in its operations does not use interest rates, Bank Muamalat still uses interest rates as a *benchmark* in determining the margin level in Islamic financing, both those based on the principle of buying and selling and profit sharing.

In Evi's research (2018), it shows that the BI *Rate* or interest rate has a significant effect on NPF *(Non Performing Financing).*[15] In addition, the results of research conducted by Amalia (2020), which shows that the BI *Rate* has a significant positive effect on NPF *(Non Performing Financing).*[16] However, the results are different in Dwi's (2016) study, which states that the BI *Rate* has no effect on NPF.[17] Similarly, Setiawan I (2021) revealed that inflation and the BI

[11] Vikky Riannasari, 2017. *Factors Affecting NPF (Non Performing Financing) Based on Financing Group at BPRS (Sharia People's Crediting Bank) in Indonesia Year 2009-2016,* Yogyakarta: p. 52
[12] Yuliana Ester Manafe, 2017. *The Effect of Inflation on Non-Performing Financing (NPF) of PT. Bank Syariah Mandiri in Indonesia,* p. 63
[13] Muhammad Arfan Harahap, *Factors affecting Non-Performing Financing in Sharia Banks,* Thesis UIN North Sumatra, 2016, p. 119
[14] Timothy Arsya Tiffany, *Pengaruh CAR, BOPO, FDR, SBIS dan Inflasi terhadap Risiko Pembiayaan Bermasalah pada Bank Umum Syariah Di Indonesia Periode Tahun 2012-2016,*Yogyakarta, 2018, h. 144
[15] Evi Setianingsih, *The Influence of Non-Performing Financing Factors on PT. Bank BRI Syariah Tbk. Year 2012-2018, Lampung.* 2020, p. 62
[16] Amalia Sekawanti Bahar, *The Effect of GDP, Inflation, BI Rate and Total Financing on Non-Performing Financing at BPRS in Indonesia*, Palembang, 2020.
[17] Frida Dwi Rustika, *Effects of Inflation, Reference Interest Rate (BI Rate), Rupiah Exchange Rate and Gross Dosmestic Product (GDP) on Non-Performing Financing of Islamic Banking,* Yogyakarta, 2016, p. 64

rate affect NPF, but Salsabila (2023) revealed that inflation and the BI rate have a negative effect

The following is the development of inflation and interest rates (BI *Rate*) from 2012 to 2021.

Table 3

Inflation and Interest Rate (BI *Rate*)

Period 2012-2021

Year	Inflation (%)	Interest rate (%)
2012	3,79	6,00
2013	4,30	5,75
2014	8,38	7,50
2015	8,36	7,75
2016	3,35	7,50
2017	3,02	4,75
2018	3,61	4,25
2019	3,13	6,00
2020	2,72	5,00
2021	1,68	3,75

Source: Bank Indonesia and Central Bureau of Statistics

Based on table 1.3, it can be seen that inflation data shows that in the range of 2012 to 2021 experienced fluctuating changes. Where in 2012 the inflation rate was still at 3.79% however, in 2013 it rose to 4.30% which then rose again in 2014 and 2015 by 8.38% and 8.36. Furthermore, from 2016 to 2020, the inflation value continued to change up and down, which in the end in 2021 managed to decrease at a value of 1.68% and this figure was the lowest value from previous years. This fluctuating inflation rate condition can affect the development of the Indonesian banking industry, including Islamic banking, especially in the distribution of financing.

Similar to inflation, interest rates above also experience fluctuating developments. Seen in 2012 where the interest rate was at 6.00% then fell in

2013 to 5.75% and increased in 2014-2015 namely 7.50% and 7.75%. Then it fell again in 2016-2018 namely 7.50%, 4.75%, 4.25% and in 2018 it increased to 6.00% and then decreased again in 2020-2021 to 5.00% and 3.75%. Interest rate movements like this will affect economic movements in the real sector business world and of course will also affect the financial sector, both capital markets and banks.

Based on several literature reviews and research *gap findings from* the results of the above research, it is interesting to conduct research related to the effect of inflation and interest rates on problem financing or NPF. The formulation of the problem to be studied is: "Does the inflation rate and interest rate (BI *Rate*) affect either partially or simultaneously on *Non-Performing Financing* at Bank Muamalat Indonesia.

B. Research Methods

a. Data Types and Sources

The source of data used in this study is secondary data. obtained by reading, learning and understanding through other media sourced from books, notes, literature and in the form of company publication reports and so on. The main data used in this study are the results of financial statements that have been published by related institutions, such as OJK and Bank Muamalat through the www.ojk.go.id and *www.bankmuamalat.co.id* websites as well as other supporting reports such as inflation data published by Bank Indonesia and BPS.

b. Data Collection Techniques

The data collection technique in this study is by digging and exploring secondary data from the official website of the relevant agency, especially data on inflation, interest rates (BI rate) and problematic financing, each data from 2012-2021.

c. Data Analysis Techniques

The analysis technique that will be used in this study is to use multiple linear regression analysis techniques *(multiplier linear regression method),* to obtain a comprehensive picture of the influence of independent variables on dependent variables. Multiple linear regression analysis is typically used to predict the effect of two or more independent variables on one dependent variable.

To determine the influence of the variables studied, both partially and simultaneously. The form of the equation is as follows:

$$\boxed{Y = a + b_1X_1 + b_2X_2 + e}$$

Information:

Y = *Non Performing Financing*
a = Constanta
b1, b2, = Regression coefficient to be assessed
X1 = Inflation
X2 = Interest Rate (BI *Rate*)
e = standar *error*

C. Results & Discussion

a. Data Description Analysis

Descriptive analysis aims to describe the variables to be studied. In this case, the variables used consist of Inflation, Interest Rate (BI *Rate*) and *Non Performing Financing* (NPF).

Table 4

Descriptive Statistics of Bank Muamalat Indonesia

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
INFLATION	40	1.42	8.40	4.4683	1.87914
BI RATE	40	3.75	7.75	5.9500	1.19588
NPF	40	1.65	7.23	4.3108	1.53496
Valid N (listwise)	40				

Source: SPSS 21.0 processed data

Based on table 4 above, it is known that the lowest NPF level obtained by Bank Muamalat Indonesia is 1.65% and the highest NPF level is 7.23% with an average NPF of 4.3108 or 4.31%. Meanwhile, the lowest inflation rate at

Bank Muamalat Indonesia is 1.42% and the highest inflation rate is 8.40 and the lowest rate of BI *Rate* is 1.65% while the highest rate is 7.23%. This shows that there is a large variation or difference between the lowest and highest values of the *Non-Performing Financing,* Inflation and Interest Rate (BI *Rate*) variables with a total of 40 dates.

Uji Hipotesis

Coefficient of Determination Test

The coefficient of determination (R2) test aims to measure how far the model is able to explain the variation of the dependent variable. The value of the coefficient of determination ranges between zero and one. The value of money is close to one means the independent variable (X) provides almost all the information needed to predict the variation of the dependent variable (Y).

Table 5

Coefficient of Determination Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.679[a]	.460	.431	1.27987

a. Predictors: (Constant), BI RATE, INFLASI

Source: Data processed SPSS 21, 2022

From the output above in table 5, we get an *Adjusted R Square value* (coefficient of determination) of 0.431 which means that 43.1% of the NPF level is influenced by independent variables (inflation and interest rates). While the remaining 56.9% is influenced by other factors both internal (such as; *equivalent rent, CAR, KAP, FDR, BOPO),* AND EXTERNAL (SUCH AS; EXCHANGE RATE, FUEL PRICE).

Simultaneous hypothesis test (F test)

The F test is performed to see how the independent variables affect the dependent variable simultaneously or simultaneously. The basis for decision making in the F test is if the value of sig. < 0.05 or the value of

Fcalculate > Ftable, there is an influence between the independent variables and the dependent variable simultaneously.

Table 6

F Test Results

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	51.730	2	25.865	15.790	.000[b]
	Residual	60.608	37	1.638		
	Total	112.338	39			

a. Dependent Variable: NPF

b. Predictors: (Constant), BI RATE, INFLASI

Source: Data processed SPSS 21, 2022

F_{tabel} : k ; n-k = 2 ; 40-2 = 2 ; 38 = 3,23

Based on the output above, the Fcalculate value is 15.790 and the Ftable is 3.23 with a significance value of 0.000. Then the value of Fcalculate > Ftable is 15.790 > 3.23 and the value of sig. < 0.05 which is 0.000 < 0.05. Thus, it can be concluded that independent variables (inflation and interest rates) simultaneously affect Non-Performing Financing variables *.*

Partial Hypothesis Test (t Test)

The t-test is used to see if each of the independent variables has an individual influence on the dependent variable. Based on the basis of decision making in the t test is if the value of sig. < 0.05 or tcalculate > ttable, there is an influence between the independent variable (X) and the dependent variable (Y).

Table 7

T Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.796	.666		2.695	.011		
	INFLATION	.199	.170	.190	1.167	.251	.552	1.811
	BI RATE	.492	.149	.537	3.305	.002	.552	1.811

a. Dependent Variable: NPF

Source: Data processed SPSS 21, 2022

From the *output* above, it can be seen that the value of the coefficient of inflation is 0.199 and the value of the BI Rate coefficient is 0.492 which can be interpreted that the influence of inflation is smaller than the influence of the BI *Rate* on *Non-Performing Financing.* This happens because the inflation that occurred in the study year was classified as mild inflation, which at this level inflation does not interfere with the community's economy. While the BI *Rate* is influential because Bank Muamalat, which is one of the Islamic banks in Indonesia, uses interest rates as a reference to be able to compete with conventional banks and indeed this interest rate is the most often used model by Islamic banks to determine prices in Islamic financing.

b. Multiple linear regression analysis.

Multiple linear regression analysis is used to reduce the effect of two or more independent variables on one dependent variable. The regression equation can be seen from the table of coefficient test results at SPSS 21 output against independent variables, namely inflation and interest rate (BI *rate*) against NPF shown in the following table:

Table 8

Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.796	.666		2.695	.011
	INFLATION	.199	.170	.190	1.167	.251
	BI RATE	.492	.149	.537	3.305	.002

a. Dependent Variable: NPF

Source: Data processed SPSS 21, 2022

Based on table 4.10 the *coefficients* interpreted are the values in column B, the first row shows the constant (a) and the next row shows the constant of the independent variable. By looking at table 4.7 above, the multiple linear regression equation is obtained as follows:

$$\mathbf{Y = a + B_1X_1 + B_2X_2 + e}$$

$$\mathbf{NPF = 1{,}796 + 0{,}199\ Inflasi + 0{,}492\ BI\ Rate + 0{,}666}$$

The above equation can be described as follows:

1. The constant is 1.796 which means that if Inflation (X1) and BI *Rate* (X2) are constant, then Bank Muamalat has an NPF of 1.796.
2. The regression coefficient of Inflation is 0.199 which means every increase of 1 point (1%) in Inflation will increase NPF by 0.199 assuming the other independent variable is constant.
3. The BI Rate regression coefficient is 0.492 which means that every 1 point (1%) increase in the BI *Rate* will increase the NPF by 0.492 assuming the other independent variables are constant.
4. The Standard Error of 0.666 indicates that the confounding variable is random that is influenced by other variables that are not studied.

c. The effect of inflation on Non-Performing Financing (NPF) at PT. Bank Muamalat Indonesia.

At a low and stable level, inflation has a positive effect on the economy. Consumers will find it easier to plan consumption and be moved to save because purchasing power will not be eroded by a stable inflation rate. Low inflation is generally accompanied by low interest rates, thus encouraging businesses to invest in increasing production which ultimately encourages economic growth. Conversely, high inflation creates uncertainty, thereby reducing incentives for investment and consumption and eroding the competitiveness of domestic exports. High inflation is also a social problem because its direct impact can be felt by low-income people. The lower class is the most vulnerable group to inflation because their wage movements are relatively slow and will affect their ability to pay installments to banks. Thus, it will pose a financing risk or known as Non-Performing Financing at the bank concerned.

When viewed from the data used, it is likely that inflation does not affect Non-Performing Financing because of its insignificant growth. The significant inflation growth only occurred in 2014 and 2015 at 8.38% and 8.36% then fell in 2016 to 3.35%. Previously, in 2016 in March and June, the inflation rate was still high which was caused by a 2-time increase in fuel and onions as well as an increase in foodstuffs and finished food in June 2016. Reported by Detikfinance, mentioned by the Head of BPS Suryamin (Thursday, 02/01/2014) that the increase in inflation in 2014 and 2015 was caused by the increase in subsidized fuel prices where fuel contributed to inflation of 1.17% in 2014 and 1.04% in 2015, thus triggering price increases in several other commodities.

Inflation can be said to be less influential and disrupt the economic condition of the community to fulfill their obligations in paying installments when the inflation rate is still at a safe and controlled limit or commonly known as mild inflation. This is in line with the opinion of Boediono (1985), which states that mild inflation is inflation that is not so worrying and disrupts the state of the economy, because prices increase still reasonably and last briefly or short term. The inflation criterion is below 10% per year.[18] This is in accordance with the data used in this study, where inflation data is still below 10%. Thus, inflation does not affect *Non-Performing Financing* or problem financing. In addition, Gregory (2006), also mentioned that changes in the inflation rate that increases in the short term do not directly discourage people's desire to follow the development of needs or reduce consumption.[19]

The results of this study are relevant to research conducted by Arfan Harahap (2016) which states that inflation does not affect *Non-Performing Financing* because the inflation rate studied is short-term inflation. The same result was done by Tiffany (2018), which states that the inflation rate is below 10% which is still able to be overcome by debtors in paying their obligations to the bank.

d. The Effect of Interest Rate (BI Rate) on Non-Performing Financing at PT. Bank Muamalat Indonesia.

The BI *Rate* is defined by Bank Indonesia as the policy rate that reflects the monetary policy *stance* set by Bank Indonesia. It is expected that the BI *Rate* can be implemented in the money market in the form of liquidity management in order to achieve the operational objectives of monetary policy. The operational objective can be reflected in the Overnight Bank Money Market (INTERBANK O/N) interest rate. Movements in interbank rates are expected to be followed by movements in lending rates, savings rates and deposit rates (Bank Indonesia, 2013).

An increase in interest rates (BI *Rate*) followed by an increase in lending rates can cause an increase in non-performing loans because the interest burden that must be borne by customers/debtors will be heavier. As explained, the BI *rate* in Islamic banking acts as a comparison and *benchmark* To

[18] Boediono, *Economic Growth Theory,* (Yogyakarta: BPFE Publishers, 2005)
[19] N. Gregory Mankiw, *Makroekonomi,* (Jakarta: Erlangga, 2006), h. 268

determine prices in sharia financing both based on the principle of buying and selling and profit sharing. Islamic banks use this model to determine prices in sharia financing both those with the principle of buying and selling (*Murabahah*) and those with the principle of profit sharing (*Mudharabah, Musyarakah*) because the competitors of Islamic banks are conventional banks where when the BI *rate* rises, there will be an increase in the competitiveness of Islamic banks where the profit sharing ratio of Islamic banks *(profit / loss sharing)* which is expected to be able to compete with conventional bank loan interest rates. In addition, Islamic banks also want to get *floating customers*.

Although Islamic banks do not recognize an interest system in their operational activities, both Islamic banks and conventional banks will face competition in the banking industry as business institutions. As a country that uses *a dual banking system* , variable interest rates are indirectly used by Islamic banking actors in Indonesia as a *benchmark* in determining the equivalent of profit sharing and margin levels in buying and selling contracts. Therefore, changes in interest rates will also indirectly and macro affect the level of profitability of Islamic banks and the level of non-performing financing (NPF).[20]

The results of the analysis of the effect of Interest Rate (BI *Rate*) on *Non-Performing Financing* at Bank Muamalat have a positive and significant influence, relevant to the results of research conducted by Ria (2015), Arfan (2016) and Indri &; Heri (2018) which states that interest rates can affect NPF due to competition between Islamic banks and conventional banks. Where, when interest rates rise and affect lending rates at conventional banks, customers will switch to Islamic bank loans that are cheaper than conventional banks and this will open up the potential for high problematic financing at Indonesian muamalat banks due to high fund distribution.

[20] Zafirah Assegaf, dkk, *Analisis Pengaruh Variabel Makro Ekonomi Terhadap Kinerja Keuangan Bank Syariah Di Indonesia (Periode Tahun 2007-2013)*, (Media Ekonomi, Agustus 2014), vol. 2, h. 16

D. Conclusion

Based on the results of data analysis regarding the effect of inflation and interest rates (BI *Rate*) on *Non-Performing Financing* at Bank Muamalat Indonesia in 2012-2021, it can be concluded that:

a. Variable Inflation (X1) does not have a significant effect on *Non-Performing Financing* (Y). This is based on the test results of SPSS version 21.0.
b. Variable Interest Rate (BI *Rate*) (X2) has a positive and significant effect on *Non-Performing Financing* (Y) at Bank Muamalat Indonesia. This is based on the test results of SPSS version 21.0.
c. Inflation (X2) and Interest Rate (X2) variables have a significant effect simultaneously on Non-Performing *Financing* (Y) at Bank Muamalat Indonesia. These results are obtained from the SPSS test version 21.0.

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