DETERMINANTS OF MUDHARABAH FINANCING IN INDONESIA (PARTIAL ADJUSMENT MODEL APPROACH)

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ABSTRAK

Penelitian ini dilakukan untuk mengetahui pengaruh *Capital Adequacy Ratio* (CAR), *Return On Asset* (ROA), tingkat bagi hasil, tingkat inflasi, dan nilai tukar terhadap pembiayaan *mudharabah* pada Bank Umum Syariah di Indonesia baik secara parsial ataupun simultan. Jenis data yang digunakan adalah data *time series* dimana periode waktunya dari tahun Januari 2017 sampai Oktober 2019. Metode analisis data yang digunakan untuk melihat pengaruh variabel independen terhadap variabel dependen yaitu metode *Partial Adjustment Model* (PAM) dengan menggunakan *Eviews* 7 serta melakukan uji asumsi klasik. Secara simultan hasil penelitian ini menunjukkan bahwa variabel *Capital Adequacy Ratio* (CAR), *Return On Asset* (ROA), tingkat bagi hasil, tingkat inflasi, dan nilai tukar berpengaruh terhadap pembiayaan *mudharabah* Bank Umum Syariah di Indonesia. Selanjutnya secara parsial dalam jangka panjang dan jangka pendek didapatkan hasil bahwa variabel *Capital Adequacy Ratio* (CAR) berpengaruh negatif signifikan terhadap pembiayaan *mudharabah* Bank Umum Syariah di Indonesia, variabel *Return On Asset* (ROA), tingkat bagi hasil, dan nilai tukar berpengaruh positif dan signifikan terhadap pembiayaan *mudharabah* Bank Umum Syariah di Indonesia, sedangkan variabel tingkat inflasi berpengaruh tidak signifikan terhadap pembiayaan *mudharabah* Bank Umum Syariah di Indonesia.

Kata kunci : PAM, Pembiayaan *Mudharabah*, CAR, ROA, Tingkat Bagi Hasil, Tingkat Inflasi, dan Nilai Tukar.

ABSTRACT

This research was conducted to determine the effect of Capital Adequacy Ratio (CAR), Return On Assets (ROA), profit sharing, inflation, and exchange rate on mudharabah financing at Islamic commercial banks in Indonesia, either partially or simultaneously. The type of data used is time series data where the time period is from January 2017 to October 2019. The data analysis method used to see the effect of the independent variable on the dependent variable is Partial Adjusment Model (PAM) method using Eviews 7 and performs a classis assumption test. Simultaneously the results of this study indicate that the variable Capital Adequacy Ratio (CAR), Return On Assets (ROA), profit sharing, inflation, and exchange rate affect the mudharabah financing of Islamic banks in Indonesia. Furthermore, partially in the long term and short term the results show that the Capital Adequacy Ratio (CAR) has a significant negative effect on mudharabah financing of Islamic banks in Indonesia, the Return On Assets (ROA) veriable the, the profit sharing, and the exchange rate have a possitive and significant effect on mudharabah financing of Islamic banks in Indonesia, while the inflation variable has no significant effect on mudharabah financing for sharia commercial banks in Indonesia

Keywords : PAM, Mudharabah Financing, CAR, ROA, Profit Sharing, Inflation and Exchange Rate.

INTRODUCTION

The very rapid development of the world economy cannot be separated from the role of banking. The majority of sectors in the economy, whether individuals, institutions or groups involved in financial activities, always need a banking role. Banking institutions have an important role, namely as an intermediary institution to unite these two different interests.

Conventional banks and Islamic ones basically have the same function, namely as an intermediary institution, but in their operations the two banks have differences. Conventional banks run their business using the interest system, while Islamic banks are not guided by the interest rate system because the operational system run by Islamic banks is guided by the profit sharing principle (Ningsih, 2017). Islamic banking is an alternative for the community because with the existence of Islamic banking, people can use banking services that are in accordance with Islamic principles. In addition, the establishment of sharia repair is based on a philosophy that prohibits of usury in financial and non-financial activities (Mokoagow and Misbach, 2015).

This development is inseparable from the role of financing distribution provided by Islamic banking and also the role of the community (Hassan & Cebeci, 2012; Aris et al, 2013; Abdullayeva et al, 2019). *Mudharabah* agreement has its own "added value" available in Islamic banking. This is because *mudharabah* financing is the main icon of Islamic banking with a profit sharing system that is in accordance with the basic principles of Islamic banking, so it is expected to be a means of driving the economy through productive business activities and can create jobs (Giannini, 2013).

However, the amount of *mudharabah* financing for Islamic commercial banks in Indonesia is always smaller than the amount of *murabahah* financing for Islamic commercial banks in Indonesia, which is a financing based on the buying and selling principle where the contract is more inclined towards consumptive behavior. This can be seen from the financing data for the last 10 months of 2019 in Islamic Commercial Banks, which are as follows:

Figure 1. Comparison of Mudharabah Financing and Islamic Commercial Bank Murabahah Financing in Indonesia
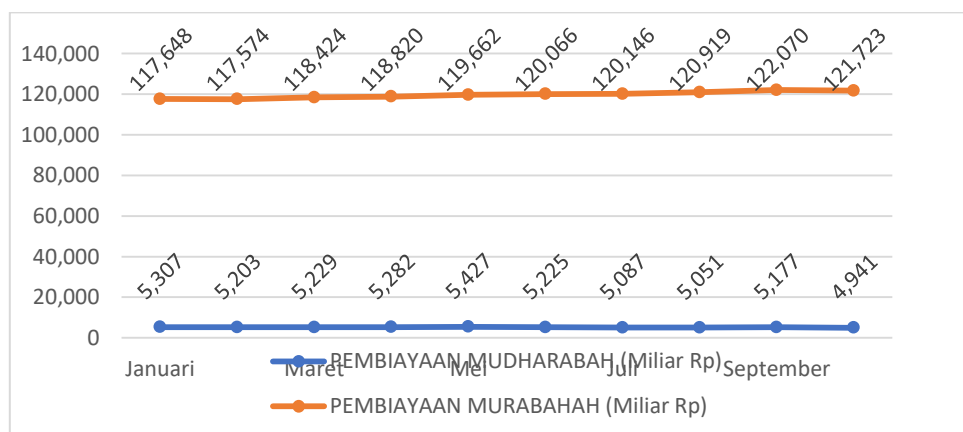
Source: OJK (2019)

Based on figure 1 above, it can be seen that there is a significant difference between *mudharabah* financing and *murabahah* financing at Islamic Commercial Banks in Indonesia. The average distribution of *mudharabah*

financing in Sharia Commercial Banks that occurred during the ten months, from January to October, was only 4.338 percent of the *murabahah* financing of Islamic Commercial Banks.

In this regard, many studies have concluded that there are several factors that influence *mudharabah* financing, such as bank specific factors (Giannini, 2013; Harfiah et al, 2016; Ningsih, 2017; Amelia & Fauziah, 2017; Husaeni, 2017; Hanifatusa'idah & Mawardi, 2019). In addition, the profit sharing rate factor also has an influence on the fluctuation of *mudharabah* financing in Islamic banking. This arises because *mudharabah* financing is expected to be a solution to prohibiting transactions based on the interest system. Apart from that, the profit sharing system is also considered capable of creating a healthy and fair investment climate. In a profit sharing system, all parties share profits and losses so that there is a balance between the two parties (Arifin, 2019).

In addition, external factors also have an influence on financing in Islamic banking, such as inflation, exchange rates (Haryati, 2009; Widiastuty, 2017; Mugiharjo et al, 2019). An increase in the inflation rate will increase the deposit interest rate, so that the deposit rate in conventional banking will be more attractive when compared to the return in Islamic banking. This shows that inflation has a very large effect on the financial performance of Islamic banking. Exchange rates that fluctuate will affect banking conditions, if the exchange rate of foreign currency (US $) against the rupiah increases, the public will tend to withdraw their money and convert it into (US $).

As for previous research that has been carried out such as Adebola et al, (2011) showed that the interest rate has a negative effect, the production index and the stock market index have a positive effect, while industrial production and the exchange rate do not have a significant effect on Islamic bank financing in Malaysia. Ali et al, (2012) concluded that the Rate of Return (ROR) variable has a significant positive effect on *mudharabah* deposit investment in Malaysia, while the Gross Domestic Product (GDP) variable and the inflation rate have no significant effect on *mudharabah* deposit investment in Malaysia. Suryanto (2015) showed that fair value has a significant effect on the value problem of *mudharabah* agency in Islamic financial institutions. Jasmin et al, (2018) concluded that there are three, namely, firstly, it shows that the implementation of *mudharabah* financing is not in accordance with the implementation of sharia, the requirements, because there are still gaps in the income sharing system which cause the *mudharabah* financing contract to not be continued. The second result is that a head or leader has more information than an agent because the agent has limited information, especially in terms of cooperation instruments (*mudarabah* financing), while a head or leader is more about the data on the cooperation instrument. The last result is optimizing the implementation of *mudharabah* financing by improving the governance of *mudharabah* financing.

The difference between this study and previous research is the partial adjustment model (PAM) method chosen to analyze *mudharabah* financing in Indonesia.

LITERATURE REVIEW

Islamic Bank

Islamic banks are intermediary institutions and financial service providers that work on the basis of Islamic ethics and value systems, especially free from usury (the interest system), free from speculative unproductive such as *maysir* (gambling), free from *gharar* (things are

not clear), have the principle of justice, and only finance halal business activities.

According to Rusby (2017), Islamic Bank is a financial intermediary institution that operates without interest, because Islamic banks are operating systems and their products are developed based on the Al-Qur'an and Al-Hadith. Meanwhile, according to Muhamad (2016), seen from the main operational functions of Islamic banks, there are three main types of functions related to community economic activities, namely: the function of collecting funds (funding), function of channeling funds (financing), and services (services).

Definition of Financing

Meanwhile, based on Law No. 21 of 2008 concerning Islamic Banking, it states that "Financing is the provision of funds or claims which are the equivalent in the form of:

a. Profit sharing transactions in the form of *mudharabah* and *musyarakah*;

b. Leasing transactions in the form of ijarah or leasing transactions in the form of *ijarah muntahiya bittamlik*;

c. Sale and purchase transactions in the form of *murabahah, salam* and *istishna* receivables;

d. Lending and borrowing transactions in the form of qardh receivables; and

e. Service leasing transactions in the form of *Ijarah* for multi-service transactions.

According to Rusby (2017), financing is funding or providing capital by a financing institution to customers such as Islamic banks. In broad terms, financing is funding or providing capital by banks to support planned investments, whether individual or group investments. According to Arif (2017), financing is the provision of capital from one party to

another to support a planned business, either individually or in groups.

Mudharabah Financing

According to Hidayat (2016), literally *mudharabah* by means of walking the earth. This is because fund owners and fund managers in general cannot be separated from the business carried out with the aim of seeking profit on earth and developing their assets. The word mudaraba comes from the language of the *Iraqi* population, while the inhabitants of the *Hijaz* usually call it the word *al-qiradh* which means dividing, this is because the owner of the capital hands over his assets to the manager. As for Sanrego et al, (2015), argues literally that mudaraba comes from the word "*al-dharb fi al-ard*" which means traveling, then technically mudharabah is a profit partnership in which one party (*rabbul maal*) is the provider of funds and the other party as a provider of funds labor provider (*mudharib*).

Financing with the profit sharing principle is used as a collaborative effort that aims to obtain goods and services, where the level of bank profit is determined by the amount of operating profit in accordance with the profit sharing principle determined at the beginning of the contract or agreement (Arif, 2017).

RESEARCH METHOD

Object of Research

The research objects used in this study are the following variables: *Mudharab*ah financing in rupiah units, Capital Adequacy Ratio (CAR) in percent (%), Return On Asset (ROA) in percent (%), profit sharing rates with unit percent (%), the inflation rate is in percent (%), and the exchange rate is in rupiah units. The time period used in this study is from January 2017 to October 2019 or monthly data editions obtained from the

publications of Bank Indonesia (BI), the Financial Services Authority (OJK), and the Central Statistics Agency (BPS).

Type of Data

The data used in this research is time series data with secondary data and is included in the ratio data category. Time series data referred to in this study are data for the period January 2017 to October 2019 which uses monthly data obtained from the Central Statistics Agency (BPS), Bank Indonesia (BI) and the Financial Services Authority (OJK). Therefore, the data used in this study are called secondary data.

Classic Assumption Test

The data analysis technique used is partial adjustment regression model. The partial adjustment model analysis technique can be said to be valid if the classical assumptions are fulfilled. The classical assumption tests carried out in this study are normality test, autocorrelation test, heteroscedasticity test, multicollinearity test (Basuki & Yuliadi, 2015).

Teknik Analisis Data Analisis Statistik Deskriptif

Descriptive statistics aim to test and explain the characteristics of the observed sample, the results of descriptive statistical tests are usually in the form of a table that at least contains the names of the observed variables, the mean, standard deviation, maximum and minimum which is then followed by an explanation in the form of a narrative that explains the contents of the table.

Data Analysis

This study uses the Partial Adjustment Model (PAM) analysis method to answer the problems in the study. The Partial Adjustment Model (PAM) method can determine parameters in the short and long term. The Partial

Adjustment Model (PAM) can be derived from a single square cost function. Therefore, the first step that must be taken is to form a functional relationship between the independent variable and the dependent variable (Basuki, 2019).

In this study, the variable *mudharabah* financing (PMt) is assumed to be influenced by the capital adequacy ratio (CARt), return on assets (ROAt), profit sharing rate (BGHt), inflation rate (INFt), and exchange rate (NTt) or written:

$$LOG(PM) : f (CAR, ROA, BGH, INF, LOG(NT)) \dots\dots\dots\dots\dots(1.1)$$

$$LOG(PM_t^*) = \beta_0 + \beta_1 CAR_t + \beta_2 ROA_t + \beta_3 BGH_t + \beta_4 INF_t + LOG(\beta_5 NT_t) + \varepsilon_t \dots\dots\dots\dots\dots(1.2)$$

$$LOG(PM_t) = \delta (LOG(PM_t^*)) + (1 - \delta) (LOG(PM_{t-i})) \dots\dots\dots\dots(1.3)$$

The substitution of equation (1.2) to equation (1.3), the Partial Adjustment Model (PAM) for *mudharabah* financing at Islamic Commercial Banks in Indonesia can be written as follows:

$$LOG(PM_t) = \delta (\beta_0 + \beta_1 CAR_t + \beta_2 ROA_t + \beta_3 BGH_t + \beta_4 INF_t + LOG(\beta_5 NT_t) + \varepsilon_t) + (1 - \delta) LOG(PM_{t-i}) \dots\dots\dots\dots(1.4)$$

$$LOG(PM_t) = \delta\beta_0 + \delta\beta_1 CAR_t + \delta\beta_2 ROA_t + \delta\beta_3 BGH_t + \delta\beta_4 INF_t + \delta LOG(\beta_5 NT_t) + \delta\varepsilon_t + (1 - \delta) LOG(PM_{t-i}) \dots\dots\dots\dots(1.5)$$

$$LOG(PM_t) = \alpha_0 + \alpha_1 CAR_t + \alpha_2 ROA_t + \alpha_3 BGH_t + \alpha_4 INF_t + \alpha_5 LOG(NT_t) + \alpha_6 LOG(PM_{t-1}) + \mu_t \dots\dots\dots\dots(1.6)$$

Equation (1.6) which will be used to observe the factors that influence *mudharabah* financing at Islamic Commercial Banks in Indonesia in the short term. The length of the long-term regression coefficient for the intercept

(constant) CAR_t, ROA_t, BGH_t, INF_t, NT_t calculated from the regression equation is:

$c_0 = \alpha_0/(1-\alpha_7)$ – Long-term intercept coefficient (constant)

$c_1 = \alpha_1/(1-\alpha_7)$ – Long run coefficient of *capital adequacy ratio* (CAR)

$c_2 = \alpha_2/(1-\alpha_7)$ – Long run coefficient of *return on asset* (ROA)

$c_3 = \alpha_3/(1-\alpha_7)$ – Long run coefficient of profit sharing rate

$c_4 = \alpha_4/(1-\alpha_7)$ – Long run coefficient of inflation

$c_5 = \alpha_5/(1-\alpha_7)$ – Long run coefficient of exchange rate

Based on the long-term regression coefficient for the intercept (constant), the long-term regression coefficient for *mudharabah* financing at Islamic Commercial Banks in Indonesia is obtained using the PAM model, these models include:

$LOG(PM_t) = c_0 + c_1CAR_t + c_2ROA_t + c_3BGH_t + c_4INF_t + c_5LOG(NT_t) + \mu_t$.......(1.7)

RESULT AND DISCUSSION

Classic Assumption Test

1. Normality Test. Based on the results of the normality test for *mudharabah* financing at Islamic Commercial Banks in Indonesia, the Jarque Bera (JB) probability value is obtained of 0.520334 where the value is greater than α (5%), it can be concluded that the residual is normally distributed.

2. Autocorrelation Test. Based on the results of the Lagrange Multiplier (LM) test of *mudharabah* financing at Islamic Commercial Banks in Indonesia, the probability value of chisquared (2) is 0.7489 where the value is greater than α (5%). From this value, it can be concluded that the above model does not contain autocorrelation.

3. Heteroscedasticity Test. Based on the results of the heteroscedasticity test in the White test of *mudharabah* financing at Islamic Commercial Banks in Indonesia, the Chi-squared probability value (22) from Obs * R-squared is 0.8228 where the value is greater than α (5%). From this value, it can be concluded that the above model passed the heteroscedasticity test.

4. Multicollinearity Test. Based on the multicollinearity test of *mudharabah* financing at Islamic Commercial Banks in Indonesia. The results show that the values of R21> R22, R23, R24, R25, R26, it can be concluded that the model does not find multicollinearity or a multicollinearity disease

RESULT

Data Analysis Test

The results of data processing based on the Partial Adjustment Model (PAM) method are as follows:

Table 1. Result of Partial Adjusment Model (PAM)

Variable	Coefficient	Prob.
C	1,488935	0,7051
CAR	-0,029920	0,0019
ROA	0,074230	0,0064
BGH	0,792214	0,0044
INF	0,018165	0,3572
LOG(NT)	0,954715	0,0107
LOG(PM(-1))	0,630639	0,0000
R-squared	0,970039	

Adjusted R-squared	0,963125
F-statistic	140,2975
Prob(F-statistic)	0,000000
Durbin-Watson stat	1,716535

Source : Data Processed (2021)

Based on table 1. above the Partial Adjustment Model (PAM) regression equation in the short term can be formulated as follows:

$LOG(PM_t) = \beta_0 + \beta_1 CAR_t + \beta_2 ROA_t + \beta_3 BGH_t + \beta_4 INF_t + \beta_5 LOG(NT_t) + \beta_6 LOG(PM_{t-1}) + \mu_t$

$LOG(PM_t) = 1,488935 + (-0,029920)*CAR_t + 0,074230*ROA_t + 0,792214*BGH_t + 0,018165*INF_t + 0,954715*LOG(NT_t) + 0,630639*LOG(PM_{t-1}) + \mu_t$

From the above equation it can be interpreted as follows:

$\beta_0 = 1,488935$ means that if the variables CAR, ROA, BGH, INF, and NT are assumed to be cateris paribus (the independent variable is considered constant or zero), then the value of *mudharabah* financing is equal to 1,488935.

$\beta_1 = -0,029920$ means that every increase in Capital Adequacy Ratio (CAR) of 100 units, it will reduce *mudharaba*h financing by 2.9920, assuming other variables are considered constant.

$\beta_2 = 0,074230$ means that for each increase in Return On Asset (ROA) of 100 units, *mudharabah* financing will increase by 7.4230, assuming other variables are considered constant.

$\beta_3 = 0,792214$ means that every increase in the profit sharing rate of 100 units, then the *mudharabah* financing will increase by 79.2214 assuming other variables are considered constant.

$\beta_4 = 0,018165$ means that for every increase in the inflation rate of 100 units, the *mudharabah* financing will increase by 1.8165 assuming other variables are considered constant.

$\beta_5 = 0,954715$ means that every 100 units increase in the exchange rate, the *mudharabah* financing will increase by 95.4715, assuming other variables are considered constant.

$\beta_6 = 0,630639$, adjustment coefficient of 1 - 0.630639 or 0.369361 means that the difference in expected *mudharabah* financing is 0.369361 percent with the reality within 1 year.

The coefficient obtained from the above equation is in the short term, while the coefficient in the long term is obtained by dividing the coefficient in the short term by the adjustment coefficient. So that we get the equation in the long run, which is as follows:

$LOG(PM_t) = 4,0311104854 - 0,0810047623 CAR_t + 0,2009687 ROA_t + 2,1448230864 BGH_t + 0,049179529 INF_t + 2,5847747867 log(NT_t) + \mu_t$

Then get the coefficients in the short run and the coefficients in the long run in table 2 below:

Table 2. Results of Short Run and Long Run Coefficients

Variables	Coefficients	
	Short Run	Long Run
CAR	-0,029920	-0,0810047623
ROA	0,074230	0,2009687
BGH	0,792214	2,1448230864
INF	0,018165	0,049179529
LOG(NT)	0,954715	2,5847747867
LOG(PM(-1))	0,630639	
C	1,488935	4,0311104854
Coefficient of Adjustment	0,369361	

Source : Data Processed (2021)

Based on the results in table 2. above, it can be interpreted as follows:

a. The relationship between CAR (capital adequacy ratio) and *mudharabah* financing is negatively related, meaning that the higher the CAR (capital adequacy ratio) value, the *mudharabah* financing will decrease. The coefficient value in the short term is -0.029920, meaning that if the CAR (capital adequacy ratio) increases by 1 percent, *mudharabah* financing will decrease by 0.029920 percent. Meanwhile, in the long term the coefficient value increases to 0.0810047623 percent. This shows that the long-term capital adequacy ratio (CAR) of 0.0810047623 is greater than the short-term capital adequacy ratio (CAR) of 0.029920.

b. The relationship between ROA (return on assets) and *mudharabah* financing is positively related, meaning that the higher the ROA (return on assets), the *mudharabah* financing will increase. The coefficient value in the short term is 0.074230, meaning that if the ROA (return on assets) is increased by 1 percent, *mudharabah* financing will increase by 0.074230 percent. Meanwhile, in the long term the

coefficient value increases to 0.2009687 percent. This shows that the long-term ROA (return on assets) elasticity of 0.2009687 is greater than the short-term ROA (return on assets) elasticity of 0.074230.

c. The relationship between BGH (profit sharing rate) and *mudharabah* financing is positively related, meaning that the higher the BGH (profit sharing rate), the higher the *mudharabah* financing will be. The coefficient in the short term is 0.792214, meaning that if the BGH (profit sharing rate) is increased by 1 percent, the *mudharabah* financing will increase by 0.792214 percent. Meanwhile, in the long term the coefficient value increases to 2.1448230864 percent. This shows that the long-term elasticity of BGH (profit sharing rate) is 2.1448230864 greater than the short-term BGH elasticity (profit sharing rate) of 0.792214.

d. The relationship between INF (inflation rate) and *mudharabah* financing has no relationship, both in the short and long term.

e. The relationship between NT (exchange rate) and *mudharabah* financing is positively related,

meaning that the higher the NT (exchange rate), the higher the *mudharabah* financing will be. The coefficient value in the short term is 0.954715, meaning that if the NT (exchange rate) is increased by 1 percent, the *mudharabah* financing will increase by 0.954715 percent. Meanwhile, in the long term the coefficient value increases to 2.5847747867 percent. This shows that the long-term NT (exchange rate) elasticity of 2.5847747867 is greater than the short-term NT (exchange rate) elasticity of 0.954715.

f. The adjustment coefficient value in this model is 1-0.630639, namely 0.369361, which means that the difference between the expected *mudharabah* financing and the actual 36.9361 percent can be adjusted.

Hypothesis Testing

Coefficient of Determination (R^2)

The results of data processing show that the Adjusted R-squared value in table 1. above is 0.963125, where this value is close to 1.From these results it is concluded that the independent variables in this model are capital adequacy ratio, return on assets, profit sharing rates. , the inflation rate and the exchange rate are able to explain the dependent variable, namely *mudharabah* financing of 96.3125 percent and the remaining 3.6875 percent which is explained by other variables outside the model.

F Test

The results of data processing show that the probability value of F-statistic in table 1. above is 0.000000, where the value is smaller than α (5%). From these results, it can be concluded that there is a joint or simultaneous influence on all independent variables, namely the capital adequacy ratio, return on assets, profit sharing rates, inflation rates, and exchange rates on the dependent variable, namely *mudharabah* financing.

T Test

Based on table 1. above, it can be seen that the Capital Adequacy Ratio (CAR) variable has a probability value of 0.0019 where this value is smaller than α (5%) with a coefficient value of -0.029920. From this value, it can be concluded that the CAR variable has a negative and significant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia, so that H0 is rejected or Ha is accepted.

The Return On Asset (ROA) variable has a probability value of 0.0064 where this value is smaller than α (5%) with a coefficient value of 0.074230. From this value, it can be concluded that the ROA variable has a positive and significant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia, so that H0 fails to be rejected.

Profit sharing rate variable has a probability value of 0.0044 where this value is smaller than α (5%) with a coefficient value of 0.792214. From this value, it can be concluded that the profit sharing rate variable has a positive and significant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia, so that H0 fails to be rejected. Based on table 1. above, it can be seen that the inflation rate variable has a probability value of 0.3572 where this value is greater than α (5%) with a coefficient value of 0.018165. From this value, it can be concluded that the inflation rate variable has a positive and insignificant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia, so that H0 is rejected or Ha is accepted.

Exchange rate variable has a probability value of 0.0107 where this value is smaller than α (5%) with a

coefficient value of 0.954715. From this value it can be concluded that the exchange rate variable has a positive and significant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia, so that H0 fails to be rejected.

Discussion

Variable Capital Adequacy Ratio (CAR) has a significant negative effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia. These results are not in accordance with the theory which states that if the value of the Capital Adequacy Ratio (CAR) is higher, the distribution of financing provided will also be higher (Hariyani, 2010). The results of this study are supported by research conducted by Amelia & Fauziah (2017) which states that the Capital Adequacy Ratio (CAR) has a significant negative effect on *mudharabah* financing, besides that there is other suitable research conducted by Ningsih (2017) which states that the Capital Adequacy Ratio (CAR) has a significant negative effect on *mudharabah* financing at Islamic commercial banks in Indonesia.

The results of this study are not in accordance with the theory because Islamic bank capital basically comes from own funds (first party funds), loan funds from parties outside the bank (second party funds), and public funds (third party funds) (Kuncoro & Suhardjono, 2002). In terms of providing *mudharabah* financing, Islamic banks may still focus on third party funds (DPK), while the Capital Adequacy Ratio (CAR) tends to be used for the construction of bank facilities, such as adding office networks (fixed assets).

As it is known, the number of Islamic commercial bank office networks in Indonesia continues to increase from 2017 to quarter 1 to 2019 quarter 2. This proves that the Capital Adequacy Ratio (CAR) of Islamic commercial banks in Indonesia is used to build bank facilities. The establishment of a new Islamic Bank branch office has an impact on the low ratio of bank financing. This is because Islamic banking is still in the process of building a market and this state can only be effective for a long period of time.

Variable Return on Assets (ROA) has a positive and significant effect on mudharabah financing at Islamic Commercial Banks in Indonesia. These results are in accordance with the research conducted by Giannini (2013) which states that Return On Assets (ROA) has a positive effect on *mudharabah* financing at Islamic commercial banks in Indonesia. In addition, there is other supporting research conducted by Hanifatusa'idah & Mawardi (2019), the results of this study state that Return On Asset (ROA) has a positive effect on *mudharabah* financing in Islamic commercial banks in Indonesia.

Based on the theory of *at-tammlik* (ownership) in Islam which states that the owner has absolute authority over the property owned, and the owner can freely use it to make transactions, investments or other things, such as buying and selling, grants, *ijarah*, *mudaraba*, and others (Djuwaini, 2007). From this it can be concluded that the profits obtained by the bank belong to the bank absolutely and the bank is free to use it for various types of transactions so this is a good thing to apply in financing because it can reduce the risk of maturity mismatch (bank failure to pay short-term obligations or liabilities) to customers as a result. from distribution of financing using customer funds. If the bank in its financing uses funds from the profits obtained, if there is a loss, the loss is absolutely borne by the bank. Therefore, the return on assets (ROA) increases, so the financing channeled by banks will also increase.

Variable profit sharing rate variable has a positive and significant effect on *mudharabah* financing at Islamic

Commercial Banks in Indonesia. These results are in accordance with the theory which states that the higher the level of profit sharing provided by Islamic banking, the distribution of *mudharabah* financing for Islamic commercial banks will also increase. The results of this study are also in line with research conducted by Andraeny (2011) which states that the profit sharing rate has a positive effect on *mudharabah* financing and Giannini (2013) also states that the profit sharing rate has a positive effect on mudharabah financing.

The higher the profit sharing rate, the higher the profit sharing based financing. This will result in a large number of profits that will be obtained by the bank, so that the bank will increase the amount of profit sharing based financing offered even though it will provide a high tendency (Andraeny, 2011). In addition, the level of profit sharing is also a consideration for customers due to a rational society wherein investing their funds they still consider the percentage of profit sharing provided by banks. Thus, if the profit sharing rate increases, the distributed *mudharabah* financing will increase.

Variable rate of inflation has a positive and insignificant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia. These results are not in accordance with the theory which states that the higher the inflation rate, the lower the mudharabah financing will be (Widiastuty, 2017). However, there is research that supports the results of this study, which was conducted by Amelia & Fauziah (2017) which states that inflation has no effect on mudharabah financing. In addition, there is research conducted by Widiastuty (2017) which states that the inflation rate has no effect on the volume of profit-sharing based financing.

The inflation rate that does not have a significant effect on *mudharabah* financing at Islamic commercial banks in Indonesia shows that customer consideration in taking financing is not from macroeconomic factors, but society's consideration is the level of profit sharing provided by banks. This is in accordance with the results of this study which show that the profit sharing rate has an effect on *mudharabah* financing at Islamic commercial banks in Indonesia from January 2017 to October 2019.

In addition, the inflation rate does not have a significant effect on mudharabah financing because inflation in Indonesia is still classified as low inflation, which is below the number 10 (Amelia & Fauziah, 2017). So it can be said that the inflation that occurs is still on a reasonable or safe scale (Widiastuty, 2017). This is because since July 1, 2005, Bank Indonesia in implementing monetary policy adopted a framework called the Inflation Targeting Framework (ITF) with the use of interest rates as an operational target. The objective of Bank Indonesia monetary policy is to achieve and maintain the stability of the rupiah value. These objectives are stated in Law no. 23 of 1999 concerning Bank Indonesia, as amended by Law no. 3 of 2004 and Law no. 6 of 2009 in article 7.

Building on the experience of the global financial crisis in 2008/2009, Bank Indonesia strengthened the ITF framework to become a Flexible ITF. In implementing the flexible ITF framework, Bank Indonesia implemented a policy mix in order to maintain internal and external balance. Simultaneously with the implementation of the flexible ITF, Bank Indonesia made the BI 7-day (Reverse) Repo Rate (BI7DRR) as a policy interest rate that represented a signal for monetary policy response in controlling inflation according to its target.

Variable of exchange rate has a positive and significant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia. These results are in accordance with the theory which states that the higher the exchange rate, the higher the financing in Islamic banks. There is research that supports the results of this study, which was conducted by Amelia & Fauziah (2017) which states that exchange rates have a positive effect on *mudharabah* financing.

A stronger exchange rate against the dollar means that the exchange rate is depreciating. The weakening of the exchange rate is caused by too much money in circulation, this will increase public demand which will have an impact on increasing the amount of company production. So that to increase the production cost, the company will apply for financing in Islamic banking (Amelia & Fauziah, 2017).

CONCLUSIONS

Based on the results of the previous analysis, it can be concluded as follows : The variable Capital Adequacy Ratio (CAR) has a negative and significant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia, but in the long run the coefficient value has an increasing trend. This shows that the long-term elasticity of the capital adequacy ratio (CAR) is greater than the short-term elasticity of the capital adequacy ratio (CAR). The variable Return on Assets (ROA) has a positive and significant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia, but in the long run the coefficient value has an increasing trend. This shows that the long-run elasticity of Return On Assets (ROA) is greater than the short-term elasticity of Return On Assets (ROA). The profit sharing rate variable has a positive and significant effect on *mudharabah* financing at Islamic

Commercial Banks in Indonesia, but in the long run the coefficient value has an increasing trend. This shows that the elasticity of the long-term profit sharing rate is greater than the elasticity of the short-term profit sharing rate. The variable rate of inflation has no significant effect on *mudharabah* financing at Islamic Commercial Banks in Indonesia. The exchange rate variable has a positive and significant effect on mudharabah financing at Islamic Commercial Banks in Indonesia, but in the long run the coefficient value has an increasing trend. This shows that the long-term exchange rate elasticity is greater than the short-term exchange rate elasticity.

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