

EFFECT OF THE FINANCING OF SHARIA BANKS ON THE INFLATION IN INDONESIA

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ABSTRACT: Inflation is a challenge for all sectors of the economy, one of which is the Islamic financial system. The purpose of this study is to see the effects of financing on inflation in Indonesia which is divided into four independent variables, namely financing based on rupiah currency, business line, not business and the type of contract used. The data used was inflation data from the Central Bureau of Statistics 2014-2016, and data on the development of financing issued by the Financial Services Authority 2014-2016. The research method used was a quantitative research method with a multiple regression analysis technique. The results showed that general financing in Islamic banking can affect inflation. Each variable has a negative influence so that when the financing is disbursed, moving up will reduce inflation because the existing Islamic bank financing is more oriented to the real sector and is more resilient to the crisis compared to conventional bank financing.

Keywords: Financing of Sharia Banking, Inflation

1. INTRODUCTION

Sharia Banking is a financial institution that is expected to move the real sector, generally financing, spread across various sectors of business or community economy. The majority of Islamic bank financing is channelled into the services sector, trade, industry and agriculture compared with other sectors. The reason for this is because of the slow turnover of funds in this sector and the high risk of bad loans (Wibowo, 2007, Fitri, 2015). In particular, there are several factors that affect the bank's business in the allocation of funds in the form of financing. The factors include economic conditions (inflation, Gross Domestic Product and foreign exchange rates), internal conditions of the bank's financing (financial ratios, credit risk and bank capital) or non-financial

conditions (services and network coverage). Common problems faced by sharia banking are inflation. Inflation is one cause of high financing in Sharia Banks (Juda, Agung, 2001). The economic condition that always attracts the attention of banks in channelling financing is inflation. When inflation is high, then the value of money will fall. This situation results in people preferring to use money speculation, among others, by buying fixed assets such as land and buildings. This will hurt the bank because customers potentially withdraw their money from the banks, reducing the funds coming into the banking system which can lead to reduced bank liquidity, thereby reducing financing (Zakki, 2009). In general, there are six causes of inflation, one of which is due to rising production costs and the economic crisis. The financing of sharia banking that is clearer and is in accordance with the economic condition is expected to have an impact on the decrease of inflation. Based on the above background, a research question can be as follows: if there is an effect of financing on inflation in Indonesia, and whether higher financing growth can reduce inflation.

2. LITERATURE REVIEW

2.1. Causes and Effects of Inflation

Causes of inflation include the rising price of imported goods, the addition of excessive money supply followed by the addition of production and supply of goods, as well as the political and economic turmoil as a result of a government that is less than responsible. Inflation due to imports occurs when imported goods are rising in price and have an important role in spending activities in companies. An example of this is the rise in oil prices (Sukirno, 2004). The inflation in banking is felt directly by savers, creditors and debtors who become producers. The inflationary impact for these savers causes the customers to be reluctant to save, because the value of the currency is declining. Savings do

generate interest, but if inflation is above the interest, what happens is that the value of the currency decreases. If the customer is reluctant to save, then the business and investment will be difficult to develop, as the business world needs funds that are kept by the community in financial institutions such as banks and banks channel customer funds back to the community in the form of credit and financing. The impact of inflation on debtors or those that lend money to banks is advantageous because at the time of repayment of debt to creditors, the value of money is lower than at the time of borrowing, but vice versa for the creditor or party (Huda, 2008; Priatmadja, 2015; Mishkin 2001; Waluyo, 2003; BPS, 2017).

2.2. Financing

In Law Number 10 of 1998, states that financing based on the sharia principles of the provision of money or equivalent claims based on agreements between banks and other parties requires the party financed to refund the money exchange for a profit or profit sharing (Law No. 10/1998 on Amendment to Law Number 7 of 1992 Concerning Banking). The term financing means 'I Believe, I Trust, I Believe, I Trust' in sharia banking. Meaningful financing means a financing institution (sharia bank) such as a shibul mall that puts trust in the customer to carry out the mandate given. The funds should be used correctly, fairly and must be accompanied by clear and mutually beneficial ties and conditions for both parties (Rivai, 2008). In relation to financing in sharia banking, the technical term is referred to as productive assets. Productive assets are investments in sharia bank funds, either in the form of rupiah or foreign currency, which can come in the form of financing, accounts receivable, qard, securities, placements, equity, temporary capital, commitments and contingencies on administrative accounts and wadiah certificates (Rivai et al 2001, Ansori, 2010, Antonio, 2004; Saekhu, 2015).

2.5. Previous Research

Mulyadianata (2012) in his research entitled "Influential Factors in the Distribution of Credit" (Case Study at PT Bank Lampung) used financial ratios (Loan Deposit Ratio, Rate of Return on Loans Ratio, Bed Debt Ratio), Credit Risk (PPAP) and Share as independent variables concluded that the independent variables affect the lending of PT. Bank Lampung.

Priatmadja (2015) in their thesis the "Influence of Inflation on Financing Problems Aqad and Sector of Economics at Sharia Bank X ". Their research was on the influence of the NPF type of financing aqad at Sharia Bank X. The data used in this research was collected from March 2004 to February 2007, including inflation data, NPF per akad in Bank X, and other data sourced from the Indonesian Central Bank Bureau of Statistics. In the research, it can be seen that there are differences in the effects of inflation on the financing of Sharia Bank X. The effect that occurs is statistically significant or not significant to the NPF depending on each financing contract. This research is slightly different because in this research, the researcher does not see the effects of inflation, but the effects of the financing channelled towards inflation in Indonesia. It is expected to prove that financing in sharia banking in general has been well distributed and is able to move the productive sector. The researcher clearly divided the financing in to several dependent variables according to the data obtained from the Financial Services Authority report.

3. RESEARCH METHODS

This research study used quantitative methods. Quantitative methods can be interpreted as methods based on the philosophy of positivism. The population shows all types of sets consisting of the people, events or objects being examined. The sample consists of several members selected from the population (Wibisono, 2006). The technique of collecting the data in this research is a literature review (Library Research), which is a data collecting method done by collecting and reviewing the literature related to the problem discussed in order to get better clarity in the effort of preparing the theoretical base used as a step in the problem solving. The literature can be in the form of books, newspapers or magazines, the internet and other sources that can be made *acua* in this study. The type of data used in this study consists of secondary data. In this study, we also conducted a literature study by studying books libraries, literature, journals, theses, and other sources closely related to other research. The data analysis technique used in this study was multiple regression. Multiple regression analysis techniques are used to develop a model and to explain the relationship between

the dependent variable and the independent variables (Santoso Singgih, 2010).

4. RESULT AND DISCUSSION

4.1. Research Hypothesis

Ho: There is no effect between sharia bank financing and inflation

Ha: There is an influence between sharia bank financing and inflation

4.2. Coefficient Analysis

The test used to interpret the coefficients of the independent variable parameters was by using Unstandardised Coefficients and Standardised Coefficients.

Table 1. Coefficients

Modelling	Unstandardised Coefficients		
	B	T	Sig
(Constant)	25,756	8,024	,000
Rupiah Currency	-,072	-1,709	,097
Business field and not business field	-,029	-,879	,386
Type Aqad	-,034	-769	,286

Source: Data processed

There is a constant of 25.756; this means that if the Rupiah (X1) Field of business and not the business field (X2) Type of Agreement (X3) value is 0, then inflation (Y ') is 25.756. The coefficient of the variable regression of Rupiah currency (X1) is -, 072, which means that if other independent variables are of a fixed value and financing in rupiah currency increases by 1%, then inflation (Y ') will decrease equal to - 072. The coefficient of the negative value indicates a negative relationship with a significant value, 097> 0.05 which means that the increase in financing in rupiah currency will be able to reduce inflation. It indicates that the financing channelled by Islamic banks in rupiah can reduce inflation because the real sector can move and increase people's purchasing power. Financing using the rupiah currency is considered to be more appropriate, especially if the payment is also with rupiah, because it will be able to provide certainty of the payment value, and can strengthen the rupiah exchange rate.

The regression coefficient of business and non-business variables (X2) is - 029, which means that if the other independent variables are fixed and financing in the field

of business and non-business field increases by 1%, then inflation (Y ') will decrease by - , 029. The coefficient of a negative value with a significant value, 386> 0,05 means that there is a negative relationship between the financing of the business field and not business field with inflation. The increase in financing in the rupiah currency further decreases inflation. It shows that financing channelled by sharia banks can reduce inflation because the real sector can move and can increase people's purchasing power. If we look at the data of OJK financing in the field of business, it is the financing in the sectors of household businesses such as agriculture, processing services, accommodation and consumption and other provisions. Non-business is intended for financing property such as houses, apartments and others where the applied price is fixed and unaffected by changes in the interest rate. The margin provisions imposed by sharia banks can drive economic movements and indirectly suppress inflation.

The regression coefficient of the variable of the type of akad (X3) is - 034 which means that if the other independent variables are of a fixed value and financing of the contract type increases by 1%, then inflation (Y ') will decrease equal to - 029. The coefficient of a negative value means that there is a negative relationship between financing based on contract type with inflation with a significant value of .286> 0,05 which means that the increase of financing based on contract type can decrease inflation. It shows that financing channelled by sharia banks is based on contract type which can decrease inflation because the real sector can move and can increase people's purchasing power. This is especially so for mudharaba contracts. The distribution of financing using this contract turns out to have a smaller NPF than other contracts with an average of 0.1, which means that if this contract can be optimised then it will drive more of the real sector and indirectly can suppress inflation.

Based on the above three variables, it indicates that each variable between financing and inflation has a partially negative relationship, because when the value is higher, the inflation financing decreases.

4.3. Test of Regression Coefficient Together (Test F)

Table 2. Anova

		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	64,963	2	32,482	23,372	,000 ^b
	Residual	45,862	33	1,390		
	Total	110,825	35			

Source: Data processed

Based on the above table, it can be seen that the value of the F arithmetic of 23.372 with a significant level of more than 5%, while the value of the F table of 2.52, because $F_{\text{arithmetic}} > F_{\text{table}}$ ($23.372 > 2.52$) and H_0 rejected, There is an influence between financing based on rupiah currency, the business field, the non-business field and the type of contract to inflation although this is only partially. Current conditions in general are that the rate of inflation is very influential on economic conditions especially in banking activities. This will cause the central bank to raise interest rates deposits, in order to control the rate of inflation. Banks have been forced to raise their lending rates so then the banks do not experience a negative spread, which is where the deposit interest rate is higher than the interest rate on the loan. The relationship with sharia banking is due to the sharia bank using the going rate pricing method, which refers to the market interest rate as a reference (benchmark), caused by competition between conventional banks and sharia banks (Muhammad, 2005). Based on the results of the research, it can be explained that high inflation can be lowered if Islamic banks can channel more financing. It shows that the existing financing in Islamic banks can suppress inflation. Although sharia banks in Indonesia still channel financing to the micro sector due to the limited capital that they have, it has little effect on inflationary decline. If the financing is optimised, it will have more impact especially on the decrease of inflation. According to the authors, there are several things that cause inflation to fall when financing is sharia-based: Financing in sharia banking is more oriented towards the productive sectors. Sharia banking in Indonesia is more cautious in channelling financing. Financing in sharia banking is safer from

the crisis because it does not use interest rates.

5. CONCLUSION

Based on the results of research that has been done, it can be concluded that together, all of the variables can affect inflation. Each variable relationship has a negative meaning which indicates that the financing channelled by sharia banking can reduce inflation. The result proves that financing in Islamic banking has been distributed proportionally in order to mobilise the productive sectors, so as a result, the quantity and quality of sharia banking financing needs to be continuously improved. However, the current problem is that the existing financing in Islamic banking is still in the micro-sector, due to the insufficient capital of sharia banks. It should be encouraged to all parties to save their funds in Islamic banks and indirectly, sharia banks can be more flexible in channelling financing to the more productive macro sector and can thus suppress inflation.

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