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The Influence of CAR, FDR, Inflation, GDP, *Mudharabah* Financing, and *Musyarakah* Financing on NPF of Islamic Commercial Banks in Indonesia

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Abstract: Islamic finance in Indonesia has shown significant development. The development of Islamic finance will increase the growth of Islamic banks and further gives more positive impacts. However, with the development of Islamic banks, financing risks cannot be avoided because the strategic function of banks is to distribute funds to the public for the sustainability of the country's economy and the welfare of the community. This study aims to determine the effect of Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), inflation, Gross Domestic Product (GDP), Mudharabah financing, and Musyarakah financing on the financing risk of Islamic commercial banks in Indonesia for the period of 2015-2021. In contrast to the previous study, this research also sheds light on the zakat instrument as one of the GDP variables. This research is quantitative using multiple linear regressions. The sampling technique used is a purposive sampling technique with eight Islamic commercial banks, out of 14 as the population, taken as the sample. The results of this study indicate that CAR, FDR, and inflation have a significant negative effect on Non-Performing Financing (NPF). While, GDP and Mudharabah financing have a significant positive effect on NPF.

Keywords: *CAR, FDR, Inflation, GDP, Mudharabah Financing, Musyarakah Financing, and NPF.*

JEL Classification: *E2, E31*, and *G32*.

Introduction

Islamic financial institutions in Indonesia show remarkable development in the recent years. This progress can be seen from the Islamic banking statistics released by the Financial Services Authority (OJK), where Islamic banking is shown to have an improved performance considering its institutional and performance development (Sugiyanto, 2020). In the global market, in terms of the Islamic finance industry, Indonesia's position has also improved and received acknowledgment from other countries, such as the Gulf Cooperation Council (GCC) which is a political and economic alliance of six Middle Eastern countries consisting of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE (Asmara, 2019). According to the report presented by ICD Thomas Reutres in 2017, Indonesia had total global Islamic financial assets up to US$81 billion, which increased from the ninth position in the previous year. This increase was primarily encouraged by the improvement of Islamic financial sectors, particularly the development of *sukuk* (Sharia-compliant bond-like instruments) and Non-Bank Financial Industry or IKNB (Asmara, 2019).

Islamic banks give an essential contribution to the national development. Islamic banks collect funds from the community and distribute them through several financing products (Purnamasari & Ramayanti, 2019). The public's trust and confidence are essential for the functioning of the banking sector and the economy as a whole (Hidayat & Al-Khalifa, 2018). Financing products are generally issued by the related authority to support particular activities, whether organized individually or collectively (Nadya et al., 2020). In its process, the Islamic bank will apply various methods adjusted to the target of activities (Aulia & Syaichu, 2016).

However, high-risk and careless financing will pose a serious threat to a bank that causes losses (Purnamasari & Musdholifah, 2016). If this condition happens, the bank's development will also be in danger. It will also affect the soundness level, which is measured through the banking's financial

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performance index (Budiman et al., 2018). In this case, the primary risk that Islamic bank will encounter is loss, which is commonly calculated through the Non-Performing Financing ratio (NPF) (Laksono, 2021).

The NPF situation in Islamic banking becomes a major concern as it may fluctuate and poses uncertainty toward the possible risks. This concern is reasonable since Islamic banking is based on the profit-sharing concept in its financing activity. In addition, Islamic banking is performed under certain principles, where all transactions must be done in real economic transactions and involve tangible assets (Beck et al., 2014). Therefore, when the crisis happens in the real sector, Islamic banking will be alerted more quickly and gives signals that indicate the inevitable Non-Performing Financing (Halim et al., 2017).

Several banks stated that small liquidity is to maintain the quality of Non-Performing Financing (NPF), which means that when problem financing increases, it will reduce the bank's ability to channel financing or decrease liquidity. Still, several Islamic banks have also experienced an increase in problem financing accompanied by an increase in the level of bank liquidity (Nuraeni et al., 2021).

The NPF ratio is an indicator that is used to assess a bank's performance on Non-Performing Financing management (Purnamasari & Musdholifah, 2016). When a banking sector shows an increasing NPF, it will also possess a worsening assessment of its financial position. It is because they also have poor performance in terms of asset quality (Nastiti & Kasri, 2019). Unfortunately, a bank with a bad financial condition will leave a bad impression on its customers. These customers are less confident entrusting their money to such a bank. Figure 1 shows the NPF score of Islamic commercial banks period 2015-2021.

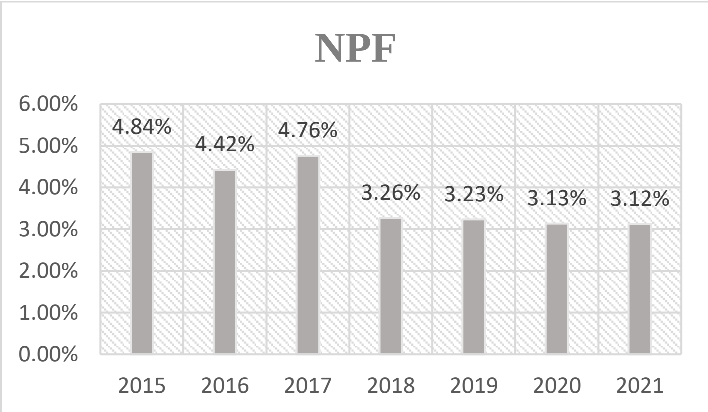

Figure 1. Non-Performing Financing Islamic Commercial Banks
Source: SPS (2022).

As illustrated in Figure 1, the highest development of the NPF ratio in 2015-2021 happened in 2015, reaching up to 4.84%, while the best financing management of Islamic commercial banks was in 2021, with a score of 3.12%. Meanwhile, according to the Circular Letter of Bank Indonesia No. 9/24/Dpbs/2007, it is stipulated that the maximum rate of NPF for Islamic banks is 5% (Purnamasari & Ramayanti, 2019). As regulated in the Regulation of Bank Indonesia No.8/21/PBI/2006 concerning Asset Quality Assessment for Commercial Banks conducting Business Activities Based on Sharia Principles, Article 9 Paragraph 2, financing consists of current, substandard, doubtful, and non-performing (Nugraha & Setiawan, 2018). It is likely to become a significant problem that affects Islamic banks' performance and could result in the suspension of banking operations if Non-Performing Financing surpasses their maximum rate.

In developing countries, failure in the financing sector may be caused by various factors, including the bank's internal condition that involves the customers and the bank's external condition (Aulia & Syaichu, 2016). Therefore, this study investigates the influence of CAR, FDR, Inflation, GDP, *Mudharabah*, and *Musyarakah* Financing on the NPF ratio of Islamic commercial banks in Indonesia during 2015-2021 period.

In contrast to previous research, this study added a zakat instrument to the GDP variable. Because Islamic macro theory is characterized by *falah* parameters, namely welfare with the addition of zakat instruments and based on a social moral system.

Literature Review

The broad definition of financing is "financing or spending is funds issued by certain parties to encourage activities that have been prepared to be carried out either individually or collectively"(Nadya et al., 2020). In financing activities, Islamic banks use various techniques and methods depending on activities and objectives. The banks may have *Mudharabah, Musyarakah,* or *Murabahah* contracts. The mechanism of Islamic banking, based on the principle of business partners, is interest-free. Therefore, the issue of paying interest to the depositor or charging interest does not arise (Aulia & Syaichu, 2016). Financing can be considered problematic when it's unable to handle the risk it causes. Financing risk is the risk of loss caused by the inability and reluctance of the borrower to repay the loan in full at maturity or later (Purnamasari & Musdholifah, 2016).

Financing risks that occur in the banks can cause losses. Therefore, risk mitigation is necessary. The risks are inevitable, considering that the strategic function of banking is to distribute funds to people who need it to improve their welfare and sustain the country. These financing risks can occur if the banks easily give loans or invest to take profits from their excess liquidity so that financing assessments became inaccurate to calculate and prevent possible risks for the businesses they are financing (Aulia & Syaichu, 2016).

The first variable affecting the risks of financing in Islamic commercial banks is the Capital Adequacy Ratio (CAR). CAR is the ratio that shows how many bank assets containing risk (loans, investments, securities, claims on other banks) are financed from the bank's capital funds in addition to obtaining funds from other sources outside the bank, such as public funds, loans (debt), and others. CAR is a capital adequacy ratio that accommodates a bank's possible risk of losses. The higher the CAR, the better the bank's ability to mitigate the risk of each risk-weighted credit/earning asset (Rahmani, 2017). A high number of CAR indicates that the bank can finance operational activities and contribute to profitability (Kuncoro, 2002). When the CAR of Islamic commercial banks increases, they will feel secure to distribute their financing. However, this makes Islamic Commercial Banks will be more relaxed regarding financing distribution (Asnaini, 2014). If this condition occurs, the financing risk caused by the distribution of funds to ineligible customers will rise and if not paid, the NPF will increase.

The second variable affecting the risks of financing in Islamic commercial banks is the Financing to Deposit Ratio (FDR). FDR compares the financing provided by banks and financing from third-party funds successfully mobilized by banks. So, the higher the FDR of a bank, the higher number of third-party funds absorbed into the bank's financing. High financing can gradually reduce the quality of the financing. The higher number of financing issued, the higher the risk of problematic financing occurrence and vice versa (Haifa & Wibowo, 2015). The maximum FDR allowed by Bank Indonesia is 110%. The higher the disbursement of funds distributed from the bank's financing, the higher the risk of Non-Performing Financing, which will result in an increase in NPF (Suhartatik, 2013).

The third factor affecting Islamic commercial bank's financing risk is the inflation variable. Inflation is generally defined as an increase in the price of goods and services as a result of a greater amount of money (demand) than the number of goods or services available (supply); resulting in decreasing value of money (Mutamimah & Chasanah, 2012). Inflation is a symptom of an increase in general goods prices that occur continuously within a certain period. Rising prices will reduce people's purchasing ability, and the income from selling products and services will decrease. Companies and households whose capital is obtained from the bank's financing will struggle to pay the loan (Asmara, 2019). Economic conditions are the main source of systematic risk that describes loan growth and decline. A decline in the price of assets held as collateral will also decrease and result in financing growth. In this case, the government needs to identify economic factors (Lin et al., 2016). Inflation affects transaction activities in financial institutions, especially banks. It will affect costs and income in real terms. When an inflation happens, the government will issue a monetary policy by increasing the BI 7-day Repo Rate, which will increase the BI interest rate and be followed by an increase in bank loan interest rates (Nadya et al., 2020).

The fourth factor is the Gross Domestic Product (GDP) variable. GDP is defined as income, spending/investment, government spending, and difference (Firdaus, 2016). Gross Domestic Product (GDP) measures all goods and services produced in a country in a certain period. GDP is an indicator of economic growth which is an important measure in giving pictures of the economic ecosystem, including the performance of economic actors who provide goods and services, such as the banking industry. The correlation between GDP and Non-Performing Financing in recession conditions is that as the GDP decreases, so do the sales and company income, it will affect the company's ability to repay its loans (Mutamimah & Chasanah, 2012). This will lead to an increase in outstanding non-current loans (Popita, 2013).

Agency Theory

The Agency theory is a foundation for analyzing the relationship between the principal and the agents (Lidyah, 2018). This theory arises as a result of the transfer of authority from the shareholders (*head*) to the manager (*specialist*) in running the company's operations (Hidayati & Diyanty, 2018). Additionally, this hypothesis proposes that agency relationships develop whenever one or more principals appoint agents on their behalf. The agents will provide services, whereas the principals will delegate their authority in decision-making to their agents. The separation of ownership and control in large corporations causes problems in the alignment of interests between shareholders and management, which leads to agency problems (Santasyacitta, 2020). When the agents, namely Islamic banks, offer loans and investments to consumers in various portfolios, which will result in significant financing risk, the relationship between the agency theory and financing risk is evident. This circumstance demonstrates that the bank's financing management is not carried out in a professional manner and shows that the bank's financing is not sound. In this situation, the bank must give potential loan receivers extra oversight. Given that financing is a risky asset owned by the bank, the bank shall provide applicable regulations to prevent high-risk financing.

Islamic Macroeconomic Theory

Macroeconomics is the science of economics that studies economic performance as a whole or in the aggregate. Concerning Islamic teaching, this study refers to the science that focuses on various subjects related to macroeconomic regulation in terms of management and processing based on Islamic principles (Didi & Kusuma, 2018).

Macroeconomic indicators include national income, also known as GDP, which explains the value of products and services produced by a nation. GDP includes income, spending/investment, government expenditure, and differences. GDP is the market value of all final goods and services produced in an economy during a given period (Mankiw, 2003).

GDP in Islam is characterized by *falah* parameters, namely welfare, with the addition of zakat instruments and based on a socio-moral system. In Islamic economics, there are various approaches for calculating national income, including (Huda et al., 2008):

a. National income must be able to measure the distribution of individual households' income since welfare is a vital matter in Islamic economics. In this case, Islamic economics is more concerned with basic needs rather than luxury goods.
b. National income must be able to measure production in the suburban sector; in Islamic economics, income distribution must be achieved.
c. National income must be able to measure welfare since effective needs or basic needs for goods and services are the percentages of total consumption. Measurement of household consumption will contribute to welfare.
d. Calculation of national income as a measure of social welfare. According to Islamic economics, zakat, similar to taxes, are another source of government wealth (another income of a country). Specifically, zakat helps alleviate poverty.

Methods

This study is quantitative research with the type of explanatory-causal study. The researcher uses a correlative study that tests the hypotheses. The test is required to analyze how independent variables of this study, consisting of Capital Adequacy Ratio (CAR), Financing to Deposit Ratio (FDR), Inflation, Gross Domestic Product (GDP), *Mudharabah* financing, and *Musyarakah* financing, influence dependent variable, namely Non-Performing Financing (NPF). This study uses secondary data in the form of numbers. Data is gathered from a variety of sources, including financial statements, data on Inflation as well as GDP released by the Central Bureau of Statistics Indonesia (BPS) and National Zakat Agency (BAZNAS RI), where this data is calculated quarterly during 2015-2021. Meanwhile, the statistical test method used in this study is multiple regression analysis. The multiple linear regression model in this study is formulated as below:

$$NPF = a + b_1CAR + b_2FDR + b_3Inflation + b_4GDP + b_5Mudharabah\_Financing + b_1Musyarakah\_Financing + e \quad (1)$$

Results and Discussion

Classical Assumption Test

Table 1. Kolmogorov-Smirnov Test for Normality

	Unstandardized Residual
Asymp. Sig. (2-tailed)	.200[c]

The result of the Kolmogorov-Smirnov test (see Table 1) shows the significance of *Asymp. Sig. (2-tailed)* is 0.200, where this result was higher than the significance of 0.05. It can be said that the residual value distribution is typical.

Table 2. Autocorrelation Test

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.791	.626	.502	.88608	1.779

The result of the Autocorrelation test (see Table 2) shows that the Durbin-Watson value is 2,172. Based on the test criteria for the autocorrelation test, the Durbin-Watson value lay between 1.55 and 2.46. It can be concluded that there is no autocorrelation indication.

Table 3. Heteroscedasticity Test

Variable	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
CAR	.016	.104	.099	.151	.882
FDR	-.035	.070	-.369	-.502	.622
Inflation	.188	.149	.602	1.261	.223
GDP	.266	.444	.149	.600	.556
Mudharabah Financing	.960	1.809	.274	.531	.602
Musyarakah Financing	4.041	8.727	.202	.463	.649

According to the heteroscedasticity test (see Table 3), it was found that the significant values of CAR, FDR, inflation, GDP, *Mudharabah* Financing, and *Musyarakah* Financing were greater than 0.05. It can be concluded that there is no indication of heteroscedasticity.

Table 4. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
CAR	.259	3.862
FDR	.210	4.770
Inflation	.218	4.589
GDP	.757	1.322
Mudharabah Financing	.235	4.261
Musyarakah Financing	.200	5.007

The multicollinearity test shows (see Table 4) that all variables have a Tolerance value of more than 0.10, and the VIF value of all variables is less than 10. It indicates that this regression model does not have multicollinearity.

Multiple Linear Regression Analysis Test

Table 5. Multiple Regression Analysis Test

Model	Unstandardized Coefficients	Standardized Coefficients	
	B	t	Sig.
(Constant)	-11.168	-68	.946
CAR	-1.046	-5.218	.000
FDR	-.483	-3.581	.002
Inflation	-.922	-3.198	.005
GDP	1.893	2.203	.041
Mudharabah Financing	7.617	2.176	.043
Musyarakah Financing	-1.308	-.077	.939

The result of the regression model in Table 5 explains that:

a. The obtained constant value was -11.168; it indicates that if CAR, FDR, Inflation, GDP, *Mudharabah* Financing, and *Musyakarah* Financing have 0 value, the NPF value will reach -11.168.
b. The CAR regression coefficient was -1.046; if CAR increases by 1 unit, NPF will decrease as many as 1.046 units. The coefficient is negative when there is a negative relationship between CAR and NPF, indicating that the more CAR increases, the more NPF will decrease.
c. FDR regression coefficient was -0.483; if FDR increases by 1 unit, NPF will decrease by as many as 0.483 units. The coefficient is negative when FDR and NPF have a negative relationship. The more FDR increases, the more NPF will decrease.
d. The inflation regression coefficient was -0.922, meaning that if Inflation increases by 1 unit, NPF will decrease by 0.922 units. The coefficient is negative if the relationship between Inflation and NPF is negative. The higher the Inflation, the lower the NPF value will be.
e. The GDP regression coefficient was 1.893; it indicates that if GDP increases by 1 unit, NPF will increase as many as 1.893 units. As the coefficient is positive, there is a positive correlation between GDP and NPF. The higher GDP, the higher the NPF value will be.
f. The regression coefficient of *Mudharabah* Financing was 7.617; it shows that if *Mudharabah* financing increases by 1 unit, NPF will also increase as many as 7.617 units. The coefficient is positive; it indicates a positive relationship between *Mudharabah* financing and NPF. The more *Mudharabah* financing increases, the higher the NPF value is.
g. *Musyarakah* financing regression coefficient was -1.308; if *Musyarakah* financing has an increase of 1 unit, the NPF value will decrease as many as 1.308 units. Since the coefficient is negative, there is a negative correlation between *Musyakarah* financing and NPF. The higher *Musyarakah* Financing, the lower the NPF value will be.

Significant Test of Individual Parameter (t-Test)

The t-test observes the influence of each independent variable on the dependent variable. The result of the t-test can be seen in Table 6.

Table 6. t-Test

Variable	Standardized Coefficients	
	t	Sig.
CAR	-5.218	.000
FDR	-3.581	.002
Inflation	-3.198	.005
GDP	2.203	.041
Mudharabah Financing	2.176	.043
Musyarakah Financing	-.077	.939

With reference to the partial test depicted in Table 5, it is discovered that:

a. The significance value of CAR was 0.000; lower than 0.05, whereas the t_{count} value was 5.218; higher than the value of t_{table} of 2.100. It is evident that H_0 is rejected. It means that CAR has a significant negative influence on the NPF variable.
b. FDR had a significance value of 0.002, lower than 0.05. The t_{count} was 3.581, higher than the t_{table} value of 2.100. It can be concluded that H_0 is rejected, where the NPF variable is significantly negatively impacted by FDR.
c. Inflation had a significance value of 0.005, lower than 0.05. The t_{count} was 3.198, higher than the t_{table} value of 2.100. It proves that H_0 is rejected. It implies that the NPF variable is significantly negatively impacted by inflation.
d. GPD had a significance value of 0.041, lower than 0.05. The t_{count} was 2.203, higher than the t_{table} value of 2.100. H0 is, in a sense, rejected. In other words, GDP has a significant positive impact on the NPF variable.
e. The significance value of *Mudharabah* financing was 0.043, lower than 0.05. The t_{count} was 2.176, higher than the t_{table} value of 2.100. H0 is, so to speak, rejected. In other words, *Mudharabah* financing has a significant positive impact on the NPF variable.
f. The significance value of *Musyarakah* financing was 0.939, higher than 0.05. The tc_{ount} was -0.77, lower than the t_{table} value of 2.100. It means that H_0 is accepted, where *Musyarakah* financing has no significant negative effect on the NPF variable.

Simultaneous Significance Test (F-Test)

The F-test is used to investigate the influence of the independent variable simultaneously on the dependent variable. Table 7 shows a description of the test's results.

Table 7. F-Test

Mode	Sum of Squares	df	Mean Square	F	Sig.
Regression	23.688	6	3.948	5.028	.003
Residual	14.132	18	.785		
Total	37.820	24			

The result of the F-test obtained a f_{count} of 5.208. This result is higher than the f_{table} value of 2.599 and significance at 0.003 (lower than 0.05). It is evident that NPF is significantly impacted simultaneously by CAR, FDR, Inflation, GDP, *Mudharabah* Financing, and *Musyarakah* Financing.

Determination (R^2)

The Determination Coefficient (R^2) is used to observe the percentage of the independent variable against the dependent variable. The result of the determination coefficient can be seen in Table 8.

Table 8. Determination Coefficient Test

R	R Square	Adjusted R Square	Std. Error of the Estimate
.791	.626	.502	.88608

From the Determination Coefficient test, the obtained R Square value was 0.626, or equal to 62.6%. This number demonstrates that these variables of CAR, FDR, Inflation, GDP, *Mudharabah* financing, and *Musyarakah* financing contributed 62.6% of the total to the dependent variable, with the remaining 37.4% being influenced by the other variables.

Influence of Capital Adequacy Ratio on Non-Performing Financing

This study reveals that CAR has a significant negative influence on NPF. This result is corroborated by studies by Purnamasari and Ramayanti (2019) and Santosa et al. (2020) which found that CAR significantly negatively impacted NPF. In other words, the bank's capacity to manage high-risk Non-Performing Financing increases with increasing CAR (Asnaini, 2014). CAR is a measure of the market capitalization of a bank that aims to maintain business continuity in the long term. It is considered that having enough capital resources is crucial to balance reliance on third-party funding (Marisya, 2019). High-risk financing is vulnerable to Non-Performing Financing if it lacks adequate capital. Consequently, this study comes to the conclusion that the risk of Non-Performing Financing that a bank may encounter decreases with increasing CAR value. It will be easier for a bank to cover assets with risky liabilities when it has lots of Non-Performing Financing cases, but the bank also has considerable capital resources.

Influence of Financing to Deposit Ratio on Non-Performing Financing

This study found that FDR has a significant negative influence on NPF. This finding is supported by another research conducted by Nahar et al. (2020) which found that FDR had a significant negative impact on NPF. The FDR ratio compares the funding given by the bank with the third-party money that the bank successfully distributes (Sugiyanto, 2020). FDR is the third-party funding representing the number of deposits used to provide funds. These funds can later be used to measure the liquidity level of Islamic banks by comparing the number of loans made to the number of deposits held (Komariah, 2016). However, the increase in FDR does not automatically raise NPF. FDR can either intensify or reduce NPF. This study discovered that, due to their ambiguous relationship, FDR significantly negatively impacted NPF. Uncertainty in third-party financing compared to the increase in financing payments can also negatively affect the relationship between FDR and NPF. Moreover, macroeconomic factors other than the liquidity ratio, such as the debtor factor, may increase Non-Performing Financing.

Influence of Inflation on Non-Performing Financing

This study found that Inflation has a significant negative influence on NPF. This result is supported by several similar studies by Amelia (2019) and Istan and Fahlevi (2020) which argued that Inflation significantly-negatively impacted NPF. The primary factor driving systematic risk, which indicates the expansion and consistency of credit, is the status of the economy. In the event of a downturn, the price of the collateralized asset may also fall, thereby encouraging funding growth. This case demonstrates how the reduction in the financing risk of Islamic commercial banks will depend on how sensitive the inflation rate is. Inflation will be reduced when the supply of commodities meets demand, and the economy will remain stagnant. In this situation, an entrepreneur who receives financing from the bank will have difficulty paying the principal loan. In other words, the NPF of Islamic commercial banks will rise when Inflation declines. Hence, Islamic commercial banks will decrease money distribution in the real sector when the bank experiences high-risk financing.

Influence of Gross Domestic Product on Non-Performing Financing

This study found that GDP has a significant positive impact on NPF. This result is supported by several preliminary studies, including studies by Effendi et al. (2017) and Istan and Fahlevi (2020) which stated that GDP significantly and positively affected NPF. GDP itself is a comparison between financing provided by the bank and the third-party funds that are successfully distributed (Santosa et al., 2020). GDP is used to measure Islamic-based financial institutions and is a comparison ratio between financing and third-party funds (DPK) (Sari & Amran, 2019). GDP reflects the output produced in the economy. A rise in GDP in a given industry denotes the development of that industry's commercial activities. This business movement will increase the demand for funding. Yet, the risk of Non-Performing Financing will increase as disbursed funds increase. If GDP increases, people's income also increases. However, it does not reduce the Non-Performing Financing rate. This condition happens due to the tendency of consumptive behavior among the Indonesian community. Their earnings will therefore be distributed more toward meeting their consumption demands than toward making their financing payments.

Influence of Mudharabah Financing on Non-Performing Financing

This study reveals that *Mudharabah* Financing has a significant positive impact on NPF. *Mudharabah* is a distinctive contract between the capital owner and the entrepreneur, whose capital comes from the first and develops the workforce from the second. This capital will be merged to generate profit that will be distributed as a percentage. If the project generates profits, the profits will be shared by both parties under the agreement between the two involved parties. The owner of the capital only receives the capital stock if there is a loss (deficit). Therefore, this study concludes that the higher *the Mudharabah* financing, the higher NPF is. The owner of the capital must bear any losses, no matter how big or small, if the project fails and the principal capital is lost.

Influence of Musyarakah Financing on Non-Performing Financing

According to this study, *Musyarakah* Financing has no significant negative impact on NPF. *Musyarakah* is a cooperation agreement between the bank and the customer that the numbers of capital are determined under a particular agreement (Fatimah & Diana, 2021). Under proper Sharia guidelines, the merged capital will be used to manage several business projects. Profits earned will be divided based on the agreed-upon ratio (*nisba*) stipulated in the contract. This study comes to the conclusion that NPF decreases as *Musyarakah* Financing increases. In other words, both parties who provided the capital will be responsible for any losses, no matter how great or small, if the project fails and the principal capital is lost. Due to the fact that both parties are responsible for the capital, this condition will minimize the risk of NPF.

Conclusion

Many causes, including macroeconomic conditions and internal factors of the bank, might contribute to Non-Performing Financing issues. As such, this study aims to evaluate how the CAR, FDR, Inflation, GDP, *Mudharabah* Financing, and *Musyarakah* Financing impacted the NPF of Islamic commercial banks in Indonesia from 2015 to 2021. The results of this study showed that CAR, FDR, and Inflation have a significant negative effect on NPF. On the contrary, GDP and *Mudharabah* Financing have a significant positive impact on NPF. Meanwhile, *Musyarakah* Financing has no significant negative influence on NPF.

The GDP and *Mudharabah* Financing had the largest influence on financing risk in this study. Therefore, Islamic commercial banks are expected to be more aware of managing their capital and distributing their funds to minimize the risks. By comparing the provided funds to the number of deposits and capital retained alongside people's income, the NPF ratio can be reduced. Whether or not an Islamic bank has adequate strength to deal with the financing risk will affect economic stability.

The researcher of this study expects that further studies will include additional objects, namely UUS and BPRS, in the study. Also, further studies may use different samples aside from BUS, such as UUS and BPRS, and adds to the recent research period. In short, other further studies relevant to this study are expected to use and add different variables that may affect NPF apart from the bank's internal factors (CAR, FDR, *Mudharabah*, and *Musyarakah*) and the bank's external factors (Inflation and GDP). For example, the future researcher may use the debtor as the variable (excluding the bank's internal and external factors), or they may enhance the independent variables to *Murabahah*, *Istisna*, and *Salam* Financing. The root cause underlying Non-Performing Financing in Islamic Commercial Banks, whether it is due to the bank's poor operational system or other contributing elements, is expected to be identified with a more thorough analysis in the future.

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