SUMMARY

RAHMAT BUDIMAN. Analysis of Financing Risk and Its Determinants in Indonesian Islamic Banking. Supervised by NOER AZAM ACHSANI and RIFKI ISMAL.

One of the main problems of Islamic banking in Indonesia today is a high financing risk reflected in the Non-Performing Financing (NPF) ratio of Islamic Commercial Banks (BUS) per June 2016 at 5.68%, almost twice of the Non-Performing Loan (NPL) ratio of the Conventional Commercial Bank (BUK), which was 2.95%. This study aims to identify and examine factors affecting the NPF ratio of Islamic banking both macroeconomic factors coming from external bank and bank-specific factors coming from internal. This research uses panel data regression methods on a monthly basis from eleven Islamic commercial banks representing 68.39% share of Indonesian Islamic banking. Two periods data are examined, i.e December 2011-June 2016 (no specific restriction on economic performance) and February 2013-January 2015 (restriction on economic performance). Some recommendations based on the estimation results are also discussed in this study for both Islamic banking industry as well as for the relevant authorities.

This study uses NPF ratio (NPF) as the dependent variable and the independent variables are Industrial Production Index (IPI) as a proxy of the Gross Domestic Product, Real Sales Index (IPR), the difference between the BI Rate and inflation (BIREAL), the exchange rate of Rupiah against the US Dollar (EXR), the annual growth of financing (GFINY), the ratio of financing to total assets (FINTA), the Capital Adequacy Ratio (CAR), Return on Assets ratio (ROA), the ratio of loan loss provision to total financing (CKPN), and the concentration of financing in the real estate sector (REFIN).

The results show that for the two periods, NPF ratio significantly influenced by internal factors. Whilst, for a general time period (no specific restrictions on economic performance), NPF is significantly influenced by variables GFINY NPF, CKPN, and REFIN, whereas for periods of declining economic performance, NPF is influenced by variables CAR, ROA, CPKN, and REFIN.

Based on these results, this research proposes recommendation for Islamic banking and related authorities to be able to lower the NPF ratio and keep it at a low level. For Islamic banking, this research recommends to: i) do internal consolidation and enhance the effectiveness of financing risk management, ii) focus on handling non-performing financing, iii) continue financing business selectively, iv) improve efficiency, and v) increase capital capacity. In addition, the related authorities, especially Otoritas Jasa Keuangan and Bank Indonesia, need to take action by setting policies that can reduce the NPF ratio of Islamic banking directly or through it’s determinants.

Keywords: financing risk, fixed effect model, Islamic banking, panel data regression, random effects model.