



## THE EFFECT OF FINANCING RESTRUCTURATION POLICIES ON FINANCIAL AND FINANCING STABILITY OF SHARIA BANKING IN INDONESIA

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### Abstract

The purpose of this study is to analyze the effect of financing restructuring policies on the financial and credit stability of Islamic banks. The research period is from September 2018 to December 2020, using panel data from six Islamic banks in Indonesia. Based on chow, hausman, and lagrange multiplier tests, the random effect model was selected as the best estimation model. The findings show that inflation rate, bank size, and financing restructuring policy all have a negative and significant impact on financial stability. Meanwhile, GDP has a positive and significant effect on financial stability. In addition, credit stability shows that inflation and loan restructuring has a positive and significant impact on NPF.

**Keywords:** Sharia Banking Stability, Credit Stability, Financing Restructuring.

### Abstrak

Tujuan dari penelitian ini adalah untuk menganalisis pengaruh kebijakan restrukturisasi pembiayaan terhadap stabilitas keuangan dan kredit bank syariah. Periode penelitian selama September 2018 hingga Desember 2020, dengan memakai data panel dari enam bank syariah di Indonesia. Berdasarkan uji *chow*, *hausman*, dan *lagrange multiplier* maka terpilih model *random effect* sebagai model estimasi terbaik. Temuan menunjukkan bahwa tingkat inflasi, ukuran bank, dan kebijakan restrukturisasi pembiayaan semuanya berdampak negatif dan signifikan terhadap stabilitas keuangan. Sementara itu, PDB memiliki pengaruh positif dan signifikan terhadap stabilitas keuangan. Selain itu, stabilitas kredit menunjukkan bahwa *inflasi* dan restrukturisasi pembiayaan memiliki dampak positif dan signifikan pada NPF.



**Kata Kunci:** Stabilitas Perbankan Syariah, Stabilitas Kredit, Restrukturisasi Pembiayaan

## Introduction

Operations of the financial system are crucial to achieving economic stability in the trend of economic globalization. Amri & Gultom (2022) and Claessens (1999) asserts that bank restructuring strives to control and enhance governance to assure system security, build solid finances, and be able to manage appropriate risk management. In his study Waxman (1998) found that if a bank shows signs of being unable to pay more than 20% of all deposits, restructuring is frequently undertaken. The first Islamic bank, Bank Muamalat Indonesia, was founded in 1992, marking the beginning of the Islamic banking sector's journey. This Islamic bank's foundation has proven to be resistant to the 1997–1998 financial crisis. Then, during the reform phase, the government.

Early in 2020, the Covid 19 virus pandemic swept throughout Indonesia, affecting nearly all economic sectors, including the banking industry, especially Islamic banking. Therefore, the Financial Services Authority (OJK) issued a policy through regulation Number 11/POJK.03/2020 to foresee the impact on the banking sector. For credit or financing restructuring throughout the Covid 19 period, the regulation offers guidelines. Even so, the impact of the decline caused by Covid 19, Islamic banking is somewhat better than the impact decline in conventional banking (Zakiah & Solehah, 2022).

To relieve debtors, the financial restructuring program will offer assistance in the form of installment payments. The volume of credit or finance used to complete the reorganization. As of May 10, 2021, restructured credit and finance totaled 778.20 trillion. Financial restructuring is beneficial, according to several research including Denizer et al (2007), Isik & Hassan (2002) and Zhao et al (2010).

According to Fasa et al (2021) who used a qualitative approach to examine restructuring policies in Indonesia, loan restructuring necessitates high capital and liquidity, therefore banks with low capital will struggle. Similarly to this, Wahyudi & Arbay (2021) study the effect of loan restructuring on bank credit quality using a qualitative descriptive technique. The outcomes demonstrated that credit quality performed better following the implementation of loan restructuring. In contrast to other earlier studies, this one will use a quantitative technique to examine how financing restructuring affects the stability of Islamic banks.



## Literature Review

### 1. Sharia Banking Stability

There is currently no globally accepted definition of what constitutes a stable financial system. However, there are many definitions of financial stability from different sources, including academics and central banks. a definition of the stability of the financial system. Despite economic unrest, the financial system is effective at managing funding sources, dispersing risks, and settling payment systems, according to (Deutsche Bundesbank, 2003).

Schinasi (2006) defined financial system stability as the control of the financial system's risk exposure and resilience to economic volatility. Law No. 9 of 2016 About the Prevention and Handling of the Financial System Crisis (UU-PPKSK) defines financial system stability as the condition of a financial system that can function effectively and efficiently and be resilient to upheaval. The Z-score is the kind of stability measurement that is suitable for use at the individual level.

The Z-score, which indicates that the value of assets may be lower than the value of debt, has a negative link with the bankruptcy of the financial industry, which is why this measurement is very well-liked by researchers. The Z-score is a popular indicator among researchers since it has a negative correlation with the financial industry's insolvency and indicates that the value of assets may be less than the value of debt. The financial industry's likelihood of bankruptcy is lower when the Z-score is high (World Bank, 2016);(Ramdani et al., 2021). The Z-score serves as a stand-in for total banking risk. The Z-score describes the probability of bank bankruptcy by combining the size of the bank's profitability, leverage, and profit volatility. This is the rationale behind (Čihák & Hesse, 2010) adoption of the Z-score model to gauge bank stability. The Z-score is also used in studies by Laeven et al (2014) and Isshaq et al (2012) to gauge the degree of bank stability. Z-score can be formulated by:

$$Z - score = \frac{ROA + CAR}{\sigma_{ROA}}$$

According to the formula, the Return on Assets (ROA) of the bank throughout the observation period is to see the bank's capacity to create profits, and the Z-score is an index that represents the level of banking stability. In contrast to Risk-Weighted Assets, which indicate the degree of bank leverage, the Capital Adequacy Ratio (CAR) represents bank capital. While  $\sigma_{ROA}$  is the ROA volatility level as measured by the ROA standard deviation. As a result, it is possible to determine the Z-score values, which serve as a gauge of Islamic banking soundness.



However, several studies agree that bad loans can show the resilience of the financial system, for example (Vogiazas & Nikolaidou, 2011). The results of their studies conclude that an increase in bad loans can affect bank capital so that it can be categorized as systemic risk. The majority of studies include Sukmana & Setianto (2018), Morgan & Zhang (2017), and Danish et al (2017) exploring bank stability through credit risk channels by using Non-Performing Loan (NPL) or Non-Performing Financing (NPF) proxies.

A financial ratio called NPF is used to assess credit risk. NPF demonstrates the degree to which Islamic banks are capable of managing issue funding. The high ratio indicates that the bank has a high financing risk. The collectibility of financing provided by Islamic banks can change, improve or worsen. If collectibility deteriorates, it means that the financing condition has changed from current to non-current. Meanwhile, collectability from non-current has worsened to become non-performing due to the increasing frequency of unpaid installments in arrears. The failure or incapacity of borrowers to repay loans obtained from Islamic banks combined with yields before the deadline creates a risk known as financing risk or default risk (Fatoni & Utami, 2019).

## **2. The Influence of Financing Restructuring Policy on Islamic Banking Financial Stability and Credit**

Credit restructuring, according to Gilson et al (1990) is a transaction that converts an existing credit contract into a new contract. Out of Court Debt Restructuring, a World Bank Study Book by Garrido (2012), argues that in some circumstances, problem debt settlement through restructuring has proven to be more successful than settlement through conventional insolvency procedures. According to Garrido (2012) research, restructuring agreements between debtors and creditors are contractual arrangements that need to be backed up by norms or principles and call for the participation of appropriate authorities (regulators) through regulations. The Financial Services Authority (OJK) released Regulation No. 11/ POJK.03/ 2020 in March 2020, which oversees national economic stimulation as a countercyclical remedy for the consequences of the spread of.

In his study Rose (1994) and Amri & Ramadhi (2021) examined 730 commercial banks operating in the United States between the 1980 and 1990 financial crises. The OLS approach reveals that restructured banks enjoy greater, more reliable, and growing profitability. Osoro (2014) investigated how financial restructuring affected Kenyan commercial banks' overall financial performance. For this study, a



sample of 11 commercial banks that had stock listings on the Nairobi Securities Exchange (NSE) between 2008 and 2013 was used. According to research, financial restructuring significantly and favorably affects the financial performance of Kenya's commercial banks. In contrast Ahamed & Mallick (2015) discovered a causal relationship between credit restructuring and bank stability in India between 1992 and 2012. The financial institutions involved in the restructuring.

Several control variables that are also utilized in other research on the stability of Islamic banks are used in this study. Liquidity is closely related to capital structure and company value. The higher the value of the company's liquidity, the higher the value of the company (Guntarto & Nugroho, 2020). The first is Islamic banking's liquidity utilizing the financing-to-deposit ratio (FDR). When a bank's capacity to match the terms of its assets and liabilities is compromised, liquidity risk develops. Such risk is brought on by a discrepancy between the periods on the two sides of the balance sheet, which may result in either too much cash for investing or too little cash for financing. A bank's capacity to maintain a diverse portfolio and to enter or depart as necessary is adversely impacted by a lack of liquidity. Liquidity risk has been identified as a factor affecting banking stability in numerous research, including Čihák & Hesse (2010) and Shahid & Abbas (2012).

This study also includes macroeconomic conditions in the research variables, namely (GDP) and inflation. GDP is one indicator when analyzing economic developments that occur in a country. GDP shows the extent to which the economy can generate additional income for the community in a certain period. According to Todaro & Smith (2008), GDP is an indicator of economic growth that measures the total final output of goods and services that a country can produce, both by residents and non-residents, regardless of whether the output can then be allocated to domestic or foreign markets. country. Several studies such as Mat Rahim & Zakaria (2013) and Fatoni & Sidiq (2019) The findings research show that economic expansion significantly and favorably affects the stability of Islamic banks. Meanwhile, inflation is defined as a general and continuous increase in the prices of a country's economy. Inflation can be used as an indicator of price stability because its relationship is always associated with monetary aggregates.

Inflation at a high level certainly has an impact on decreasing real income for the community so that it can reduce people's living standards, this also has a negative impact on economic performance as a whole from the real sector and in the financial sector. The larger the loan, which is followed by an increase in inflation, the will make it



difficult is to return the loan in a timely manner so it will increase the NPF (Haryanto & Kurniawan, 2018). The stability of Islamic banks tends to be negatively impacted by high inflation rates, which makes theoretical sense. According to the findings of earlier research, there is a connection between inflation and financial stability (Akram & Eitrheim, 2008).

## Research Method

Based on panel data, this study employs a quantitative methodology. Islamic Commercial Banks (BUS) in Indonesia, however, make up the study's sample. A sample of six of the largest BUS banks in Indonesia is generated using the sampling technique's purposive sampling method, including Bank Muamalat Indonesia (BMI), Bank Panin Dubai Sharia, Bank Negara Indonesia (BNI), Bank Mega Syariah, Bank Rakyat Indonesia (BRI), and Bank Syariah Mandiri (BSM). The sort of data used in this study, however, is secondary data, namely data that was collected in quarterly intervals between September 2018 and December 2020. This data comes from published reports of Islamic banks, Bank Indonesia (BI), the Financial Services Authority (OJK), and Central Agency on Statistics (BPS). Furthermore, the general model specifications in this study are as follows:

### Model 1

$$\ln ZS_{it} = \beta_0 + \beta_1 dREST_{1it} + \beta_2 FDR_{2it} + \beta_3 \ln SIZE_{3it} + \beta_4 INF_{4it} + \beta_5 \ln GDP_{5it} + \varepsilon_{it}$$

Description:

InZS	: Z-Score BUS in natural logarithmic form
dREST	: Dummy financing restructuring policy, the period before implementing the policy is worth 0, and implementing the policy is worth 1
FDR	: Financing Deposit Ratio BUS
InSIZE	: Size (asset) BUS in natural logarithmic form
INF	: Inflation
InGDP	: GDP in natural logarithmic form
$\beta_0$	: Intercept
$\varepsilon$	: Error Variables



**Model 2**

$$NPF_{it} = \beta_0 + \beta_1 dREST_{1it} + \beta_2 FDR_{2it} + \beta_3 \ln SIZE_{3it} + \beta_4 INF_{4it} + \beta_5 GDP_{5it} + \varepsilon_{it}$$

Description:

NPF	: Non-Performing Financing BUS
dREST	: Dummy financing restructuring policy, the period before implementing the policy is worth 0, and implementing the policy is worth 1
FDR	: Financing Deposit Ratio BUS
lnSIZE	: Size (asset) BUS in natural logarithmic form
INF	: Inflation
lnGDP	: GDP in natural logarithmic form
$\beta_0$	: Intercept
$\varepsilon$	: Error Variables

Panel data, as defined by Baltagi (2008) Baltagi, is information gathered from a number of people during the observation period. Panel data regression is a type of regression where time series and cross-sectional data are both included. Some of the issues that typically arise when performing time series and cross-section regressions are addressed by this regression. Data accessibility, heteroscedasticity, and autocorrelation are the issues that are present. Efficiency in regression is a further justification for employing this regression (Sriyana, 2014)

**Result and Discussion**

The fixed effect, Common effect, and Random effect models are the three alternatives provided by panel data regression. A model must be selected from the three options in order to receive the optimal model. In order to select a model, one can utilize the Hausman, Chow, and Lagrange Multiplier (LM) tests. The results of the test for choosing the best model are as follows:

**Chow Test**

To decide which of the common effect model and the fixed effect model is the best, this study uses the Chow test. The chow test's findings are as follows:

- $H_0$  : the common effect is the best model  
 $H_\alpha$  : the fixed effect is the best model



When choosing between common effect and fixed effect estimates, the p-value can be used to determine which estimate is the best. If the p-value is significant ( $\leq 5\%$ ), the fixed effect estimate is the one to use. If the p-value is less than ( $\geq 5\%$ ) the common effect model is the appropriate one. Based on the results of the Chow Model 1 test, it shows a probability value of  $0.0000 < \alpha 5\%$ , so the results are significant, so they reject  $H_0$  or accept  $H_a$ . Thus, the appropriate model is the fixed effect estimation model. Given that the Chow Model 2 test had a probability value of  $0.0000 < \alpha 5\%$ , the findings are significant, rejecting  $H_0$  or accepting  $H$ . As a result, the fixed effect estimation model is the proper one.

### Hausman Test

This study employs the Hausman test to decide between the fixed effect and random effect estimation models and which model is the best. The following statement represents the Hausman test's hypothesis:

$H_0$  : The ideal model is random effects

$H_\alpha$  : The fixed effect is the ideal model

If the p-value is significant ( $\leq 5\%$ ), then the fixed effect is the best model to use when doing the selection test to determine which estimate of the fixed effect and the random effect is the best estimate. The correct model is a random effect if the p-value is less than ( $\geq 5\%$ ) and not significant. The Hausman model 1 test rejects  $H_a$  or fails to reject  $H_0$  since it yields a probability value of  $1.0000 > \alpha 5\%$ . Random impact estimation is, thus, the appropriate model. Based on the findings of the Hausman model 2 test,  $H_a$  is rejected or  $H_0$  is not rejected with a probability value of  $1.0000 > \alpha 5\%$ . The random effect estimation model is therefore the appropriate one.

### Lagrange Multiplier (LM) Test

This study used the Lagrange Multiplier test using the following hypotheses to determine which model, amongst the random effect and common effects estimating models, is the best:

$H_0$  : the common effect is the best model

$H_\alpha$  : the random effect is the best model

The p-value can be used to determine if a random effect model is the best estimate when comparing common effects with random effects, as long as it is significant ( $\leq 5\%$ ). The common effect is the appropriate model if the p-value is not significant ( $\geq 5\%$ ). According to the results of the LM model 1





test, the probability value is  $0.0000 < \alpha 5\%$ , indicating that the results are significant and therefore  $H_0$  or  $H_a$  should be rejected. Therefore, the random effect estimation model is the appropriate one. Based on the result, the findings of the LM model 2 test have a probability value of  $0.0000 < \alpha 5\%$ , which means that they are significant and either reject  $H_0$  or accept  $H_a$ . Therefore, the random effect estimation model is the appropriate one.

### Estimation of Random Effect Models 1 and 2

**Table 1. Estimation of Random Effect Model 1**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-49.26743	30.12337	-1.635522	0.1078
DREST	-1.602263	0.727140	-2.203514	0.0318
FDR	-0.003590	0.003007	-1.194153	0.2376
LNSIZE	-0.272920	0.150323	-1.815562	0.0750
INF	-0.045537	0.020380	-2.234410	0.0296
LNGDP	22.30702	11.26878	1.979541	0.0529

Source: data processed (2022)

Based on Table 1 the results of random effect estimation model 1, it can be seen that the financing restructuring variable (DREST) has a coefficient sign that is not as expected. Reject  $H_0$  or accept  $H_a$  because the financing restructuring variable has a coefficient value of -1.602263 and a probability value of  $0.0318 < \alpha 5\%$ . This indicates that, in terms of statistics, the finance restructuring variable has a negative and significant impact on the stability of Islamic banking, as measured by the Z-Score (InZS). This suggests that, at a significance level of 5%, the implementation of financial restructuring in each period will result in a 1.602263 reduction in the stability of Islamic banking (InZS). Credit restructuring can reduce bank interest income, as the bank changes the interest rate on the loan. This can affect the financial performance of the bank, especially if done in large numbers. The results of this study are in line with the research by Bawa & Basu (2020) and Rachmadi & Suyono (2021), where credit restructuring can decrease bank revenue and lead to a decline in bank performance.

With a coefficient value of -0.003590 and a probability of  $0.2376 > \alpha 10\%$ , the Financing to Deposit Ratio (FDR) variable follows, failing to reject either  $H_0$  or  $H_a$ . The stability of Islamic banks (InZS) in Indonesia is thus shown statistically to be unaffected by FDR. Reject  $H_0$  or accept  $H_a$  since the bank size variable (InSIZE) has a coefficient value of -0.272920 and a probability value of  $0.0750 < \alpha 10\%$ . This indicates that statistical evidence



suggests that the variable bank size (LnSIZE) has a detrimental impact on the stability of Islamic banking, as measured by the Z-Score (LnZS). This suggests that at a significance level of 10%, an increase in bank assets over each period will result in a 0.272920 reduction in the stability of Islamic banking (LnZS).

The results of this study show a difference from the theory. The total assets of both Islamic and conventional banks, which are used as proxies for the size of the banks, have a significant negative effect on the stability of both systems. This means that the larger the size of the Islamic and conventional banks, the lower the level of stability in both banking systems. The results of this study are consistent with the research by Wahid & Dar (2016), who found that the size of Islamic and conventional banks has a significant negative impact on the stability of Islamic and conventional banks in Malaysia. Similarly Ghenimi et al (2017) found that bank size has a significant negative impact on the stability of Islamic banking in MENA (Middle East and North Africa). The findings of this study also support the research conducted by Čihák & Hesse (2010) that instability occurs in large Islamic banks, while smaller Islamic banks exhibit stability.

The coefficient sign for the macroeconomic variable inflation (INF) is consistent with expectations. Accepting  $H_a$  or rejecting  $H_0$  depends on the inflation variable's coefficient value, which is -0.045537 with a probability of  $0.0296 < \alpha 5\%$ . This suggests that the inflation variable (INF), according to statistics, has a negative and considerable impact on the stability of Islamic banking (LnZS). This suggests that at a significance level of 5%, an increase in inflation (INF) of 1% will cause the stability of Islamic banks (LnZS) to decline by 0.045537 percentage points. The results of this study are consistent with previous research that has demonstrated a relationship between inflation and financial stability. Akram & Eitrheim (2008) showed a trade-off between inflation and financial stability. General price volatility can cause an increase in interest rates, which in turn lowers bank stability. Fatoni & Sidiq (2019) found a negative effect of inflation on bank stability in their research.

Consequently, the coefficient sign of the Gross Domestic Product (LnGDP) variable, which captures the level of economic growth, is in accordance with predictions. Reject  $H_0$  or accept  $H_a$  since the coefficient value of the Gross Domestic Product (LnGDP) variable is 22.30702 with a probability of  $0.0529 < \alpha 10\%$ . The stability of Islamic banking in Indonesia is thus positively and significantly impacted by the variable Gross Domestic Product (LnGDP), according to statistics. According to this, at a significance level of 10%, an increase in the gross domestic product (LnGDP) by 1 percent will result in a 22.30702% increase in the stability of Islamic banks



(InZS). Theoretically, GDP growth indicates positive performance of an economy in both the real and financial sectors. Therefore, GDP growth using constant prices will affect bank stability. The results of this study are consistent with empirical research conducted by Mat Rahim & Zakaria (2013), which found that GDP growth has a positive effect on bank stability.

Meanwhile, the probability value (F-statistic) is  $0.000000 < \alpha = 5\%$  so the result rejects  $H_0$  or accepts  $H_a$ . It follows that the variables of finance restructuring, FDR, bank size, inflation, and GDP together (simultaneously) have a major impact on the stability of Islamic banking, as indicated by the Z-Score. The estimation findings for model 2, in which NPF serves as a stand-in for the stability of Islamic banking from the perspective of credit, are shown in the table below:

**Table 2. Estimation of Random Effect Model 2**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	295.6787	112.6066	2.625766	0.0112
DREST	6.799951	2.736623	2.484796	0.0161
FDR	-0.073067	0.011190	-6.529800	0.0000
LNSIZE	-2.457317	0.481392	-5.104604	0.0000
INF	0.184627	0.076703	2.407040	0.0195
LNGDP	-92.25036	41.92974	-2.200118	0.0321

Source: data processed (2022)

Reject  $H_0$  or accept  $H_a$  based on the findings of the random effect model 2 estimation since the financing restructuring variable (DREST) has a coefficient value of 6.799951 and a probability value of  $0.0161 < \alpha 5\%$ . This indicates that statistical evidence suggests that the finance restructuring variable has a favorable and significant impact on the stability of Islamic banking, as represented by the NPF. The NPF will rise by 6.799951 at a significance level of 5% as a result of the implementation of financial restructuring in each period, according to this. In general, credit restructuring should aim to reduce the risk of bad debts by providing more affordable payment alternatives to borrowers facing financial difficulties.

However, if credit restructuring is done without proper strategies or only provides short-term assistance, it can lead to long-term problems and even increase the risk of bad debts. Therefore, credit restructuring should be done carefully and considering various factors, including the borrower's ability to repay the restructured credit. Reject  $H_0$  or accept  $H_a$  by using the FDR, which has a coefficient value of -0.073067 and a probability value of  $0.0000 < \alpha 1\%$ . The stability of Islamic banking, as represented by the NPF,



is thus significantly and negatively impacted by the FDR variable, according to statistics.

According to this, a rise in FDR throughout each period will result in a 0.073067 reduction in NPF at a 1% significance level. The results of the research indicate that the financing provided by Islamic banks to each of their customers is of good quality so that the expansion of financing carried out by Islamic banks can increase the bank's return and reduce the level of non-performing financing (NPF). A good quality loan-to-deposit ratio (FDR) can contribute to the increase in banking profits through credit expansion, resulting in a decrease in NPF. The negative relationship between FDR and NPF is consistent with the results of the research conducted by Poetry & Sanrego (2011) in Indonesia.

Reject  $H_0$  or accept  $H_a$  since the bank size variable ( $\ln SIZE$ ) has a probability value of  $0.0000 < \alpha 1\%$  and a coefficient value of  $-2.457317$ . This suggests that, as evidenced by statistics, the NPF's proxy for Islamic banking stability, the variable bank size, has a negative and severe impact. This suggests that, at a significance level of 1%, a rise in bank size throughout each period will result in a decrease in NPF of  $-2.457317$ . Additionally, the results of this study are consistent with the findings of Tehulu & Olana (2014) that larger banks may have more resources to conduct better credit risk assessments. With a larger credit team and more sophisticated risk analysis software, larger banks can make more accurate credit decisions and minimize credit risk. However, larger banks may also have a larger and more varied credit portfolio, which can increase overall credit risk if their credit portfolio is not well diversified or if they do not carefully monitor their credit portfolio. Furthermore, larger banks may be more vulnerable to systemic risk, where problems in one sector can affect other sectors. Due to the size of larger banks, credit problems in one part of their portfolio can spread to the entire bank and even to the financial system as a whole.

Accept  $H_0$  or reject  $H_0$  if you want to account for the macroeconomic variable inflation (INF), which has a coefficient value of 0.184627 and a probability of  $0.0185 < \alpha 5\%$ . In other words, statistical evidence suggests that the inflation variable (INF) has a favorable and significant impact on the NPF of Islamic banking. This suggests that at a significance level of 5%, an increase in inflation (INF) of 1% will raise the stability of the NPF by 0.0184627%. The results of this research are in line with the findings of Babouček & Jančar (2005) conducted in the Czech Republic, and the research by Fatoni & Utami (2019) in Indonesia. When inflation is high, credit risk can increase for various reasons. Firstly, high inflation tends to be accompanied by higher interest rates. This increase in interest rates can



raise the cost of borrowing and reduce the ability of borrowers to repay their loans. Secondly, high inflation can affect the financial health of banks and other financial institutions, as it increases the risk of business failures and decreases the value of assets. Thirdly, high inflation can cause price instability and lead to volatility in financial and economic markets.

Accept  $H_0$  or reject  $H_0$  based on the fact that the Gross Domestic Product (lnGDP) variable has a coefficient value of -92.25036 and a probability of  $0.0321 < \alpha 5\%$ . This indicates that statistical evidence indicates that the variable Gross Domestic Product (lnGDP) has a considerable negative impact on the NPF of Islamic banking in Indonesia. This suggests that at a significance level of 5%, a 1% increase in GDP will result in a 92.25036% reduction in NPF. The results of this research are in line with the study by Chaibi & Ftiti (2015) that stable and high economic growth reflected in the increase in GDP can have a positive impact on the banking sector. Strong economic growth can increase the income and loan repayment ability of borrowers, thus reducing the likelihood of non-performing financing.

The result rejects  $H_0$  or accepts  $H_a$  since the probability value (F-statistic) is  $0.000016 < \alpha = 5\%$ . The stability of Islamic banking, as measured by NPF, is thus significantly influenced by the variables of financing restructuring, FDR, bank size, inflation, and GDP when considered collectively (simultaneously). The next stage is to conduct a diagnostic test, which verifies the validity of both models by putting the conventional premises to the test. Correlation test-based multicollinearity testing is one of them. According to the findings of the two models' correlation tests, there is no multicollinearity between the independent variables when the correlation coefficient of the independent variables is less than 0.85, which means that there is no multicollinearity issue. Model 1 displays a probability value of  $0.621691 > 0.05$  when the Jarque-Bera method is used to assess the data's normality, whereas Model 2 shows a probability value of  $0.1847561 > 0.05$ , indicating that the model is free of issues with data normality.

## Conclusion

Almost all economic sectors including the sharia banking sector have been affected by the COVID-19 pandemic. Therefore, the OJK issued a countercyclical policy to reduce the impact resulting in a downturn in the banking sector. The policy regulates the determination of asset quality and credit or financing restructuring policies. The results of the study used 2-panel data models with the Random Effects Model as the best estimation model. Model 1 of financial stability shows that financing restructuring



policies, bank size, and inflation has a negative and significant effect on the financial stability of Islamic banking in Indonesia. Meanwhile, GDP has a positive and significant influence on the financial stability of Islamic banking in Indonesia. Furthermore, model 2 of credit stability shows that financing restructuring and inflation have a positive and significant effect on the NPF of Islamic banking. Meanwhile, FDR, bank size, and GDP have a negative and significant effect on the NPF of Islamic banking in Indonesia.

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