
ISLAMIC FINANCING STRUCTURE AND BANK PROFITABILITY: THE MODERATING ROLE OF INFLATION IN INDONESIAN ISLAMIC BANKS

Fajar Ardiansyah

UIN Mahmud Yunus Batusangkar, Indonesia

Email: fajarardiansyah169@gmail.com

Abstract

The increase in financing distribution in Islamic Commercial Banks in Indonesia is not always consistently followed by an increase in profitability. This phenomenon indicates a discrepancy with the financial intermediation theory. In addition, fluctuations in inflation as a macroeconomic factor may also influence this study examines the relationship between financing activities and the profitability of Islamic banks. Its main objective is to investigate the effects of Murabahah, Musyarakah, and Ijarah financing on the profitability of Islamic commercial banks, while also assessing the moderating role of inflation during the 2020–2024 period. The research employs a quantitative correlational design, utilizing monthly panel data obtained from the Financial Services Authority (OJK) and Bank Indonesia (BI). A saturated sampling approach is used, encompassing all Islamic commercial banks as the study sample. Data analysis is conducted through panel data regression using EViews software, with the moderating influence of inflation evaluated via Moderated Regression Analysis (MRA). The results indicate that Murabahah and Musyarakah financing have a significant effect on the profitability of Islamic commercial banks, whereas Ijarah financing does not demonstrate a significant impact. Furthermore, controlled inflation enhances the effect of Murabahah financing on profitability, while uncontrolled inflation diminishes the influence of Musyarakah financing and does not moderate the relationship between Ijarah financing and profitability. These findings highlight that the effectiveness of Islamic financing in improving and profitability. These results suggest that the effectiveness of Islamic financing in enhancing bank profitability is affected by the state of inflation, whether it is stable or unstable. Consequently, Islamic banks are encouraged to optimize their financing portfolio strategies and reinforce risk management practices in order to better respond to changing economic conditions.

Keywords: *Financing, Murabahah, Musyarakah, Ijarah, Inflation.*

A. INTRODUCTION

The development of the global Islamic financial industry has shown an increasingly significant trend over the last two decades. The Islamic financial system is considered an alternative financial system that is more stable and equitable because it emphasizes profit-sharing principles, the prohibition of *riba* (interest), and a direct connection with real economic activities. Within this framework, Islamic banks play a strategic role as financial intermediaries, not only collecting funds from the public but also channeling them through various financing instruments that comply with Islamic principles. The performance of Islamic banks in carrying out this intermediation function is generally measured through profitability, which indicates the bank's capacity to produce profits. Generates earnings through its operational activities (Ascarya, 2015).

Profitability indicates the capacity of bank management to produce income over a designated timeframe. This measure is frequently utilized to gauge a firm's ability to generate profits and to assess management effectiveness in earning revenue from banking activities (Sari & Sulaeman, 2021). A sufficient degree of profitability can be seen in the increase of profits

earned by the bank (Edriyanti, 2020). In Islamic Commercial Banks, profitability is typically assessed through the Return on Assets (ROA) ratio. In theory, enhanced bank performance correlates with an elevated ROA, signifying greater financial profits (Febriyanti et al., 2024). The profitability of banking institutions is influenced by internal and external factors. Internally, financial activities are crucial, encompassing profit distribution, sales-related, and lease-related financing methods like *musyarakah*, *murabahah*, and *ijarah* agreements utilized in Islamic Commercial Banks. Additionally, the profitability of Islamic banks is affected by the market's demand and supply for Sharia-compliant financial products. As public interest in Islamic financing rises because of heightened demand for Sharia-compliant financial services, banks have more chances to improve their profits (Rivai et al., 2007).

According to financial intermediation theory, bank profitability is affected by various internal as well as external influences. Internal elements mainly pertain to the structure and allocation of funds supplied by banks, while external elements are linked to broader economic conditions like inflation, economic expansion, and the resilience of the financial system. In Islamic banking, the financing structure holds significant importance due to the distinct features of Islamic financing instruments compared to the credit methods employed in traditional banking. Typically, Islamic finance products are divided into sale-based financing, profit-and-loss sharing financing, and leasing-based financing options. Among these categories, *murabahah*, *musyarakah*, and *ijarah* contracts are the most widely implemented in Islamic banking operations. These financing instruments operate as the primary sources related to revenue for Islamic banking institutions and, at the same time, contribute to determining the level of bank profitability (Belkhaoui et al., 2020).

Murabahah financing is among the most frequently implemented contracts in Islamic banking operations. This financing scheme involves a transaction in which the bank transparently informs the customer of the original purchase price of the asset as well as the profit margin that has been mutually agreed upon by both parties. This contract is categorized as a natural certainty contract, as the required rate of profit is predetermined (Resyarahma, 2021). Theoretically, an increase in *murabahah* financing is expected to enhance the bank's margin income and potentially improve the profit performance of Islamic banking institutions nevertheless, empirical studies show mixed results. Some studies indicate that *murabahah* financing positively affects Islamic bank profitability (Sari & Maharani, 2022). Conversely, other studies suggest that *murabahah* financing does not always significantly affect profitability due to financing risks and operational efficiency factors (Lubis et al., 2024).

In addition to *murabahah*, *musyarakah* financing also holds a significant role in the Islamic banking system. This type of financing is based on a partnership contract in which the bank furnishes capital, whereas the customer contributes both capital and expertise to the business activity. The profits and potential losses arising from the partnership are distributed between the parties according to the proportion of capital that has been mutually agreed upon. Unlike debt-based financing, *musyarakah* follows the profit-and-loss sharing principle, which aligns with Islamic principles (Rahman & Nor, 2021). According to profit-and-loss sharing theory, profits and losses must be distributed between the bank and the customer according to their capital contributions. If the financed business is successful, this system can increase bank profitability. However, the higher risk associated with business performance can also affect profitability stability if the business incurs losses (Ascarya, 2015). Some studies show that *musyarakah* financing can increase bank profitability when the financed projects are successful (Belkhaoui et al., 2020). However, other studies indicate that *musyarakah* financing does not significantly affect profitability due to high financing risks and income uncertainty (Afrizal et al., 2023).

Another type of financing is *ijarah*, which is a leasing contract between the customer and the bank that allows the customer to utilize an asset for a specific period, with the

possibility of full ownership being transferred based on the agreement between both parties (Zahrah & Dyarini, 2023). In Islamic banking practice, *ijarah* provides a relatively stable source of income for banks because the rental payments are predetermined at the beginning of the contract. Income derived from these rental fees becomes one of the profit sources for Islamic banks and has the potential to increase bank profitability. However, empirical studies indicate that *ijarah* financing does not always make a significant contribution to the profitability of Islamic banks, mainly because its volume is relatively smaller compared to *murabahah* and *musyarakah* financing (Indrayanti et al., 2023). A study conducted by Zahrah and Dyarini (2023) the findings indicated that *ijarah* financing did not have a significant impact on the profitability of Islamic Commercial Banks during the 2016–2022 period. However, this result contrasts with the study conducted by Anggraeni and Wirman (2022), which reported that *ijarah* financing significantly influenced the profitability of Islamic Commercial Banks.

In addition to internal factors related to the financing structure, the profitability of Islamic banks is also influenced by external factors, particularly macroeconomic conditions. One of the key macroeconomic indicators affecting banking performance is inflation. Inflation refers to a sustained increase in the general the cost of goods and services, which can influence daily living costs and potentially weaken overall economic conditions. Inflation is generally categorized into two components: core inflation and non-core inflation. When inflation rises to a high level, it can create economic difficulties for a country and increase the cost of living for the public (Arumingtyas & Muliati, 2019). From a banking perspective, inflation can affect a bank’s financial performance through rising operational costs and changes in demand for financing products. High inflation tends to reduce people's purchasing power, which in turn may decrease the demand for financing and negatively impact bank profitability (Mishkin, 2007). However, in the Islamic banking system, the profit-sharing mechanism allows banks to adjust their income according to the performance of customers’ businesses. This mechanism makes Islamic banks relatively better able to adjust to changes in macroeconomic conditions. Based on data sourced from the Financial Services Authority (OJK) and Bank Indonesia (BI) during the period 2020–2024, the development of *murabahah*, *musyarakah*, and *ijarah* financing, profitability, and inflation is presented as follows.

Table 1. *Murabahah, Musyarakah, and Ijarah* Financing, Along with Profitability and Inflation in Islamic Commercial Banking (2020-2024).

Variable	Period				
	2020	2021	2022	2023	2024
Murabahah Financing	136.990	144.180	183.286	191.795	193.580
Musyarakah Financing	92.279	95.986	121.389	154.152	187.203
Ijarah Financing	2.720	2.024	2.813	4.039	5.579
Profitability	1.40	1.55	1.69	1.88	2.00
Inflation	1.68	1.87	5.51	2.61	1.57

Source: OJK dan BI

Empirically, the Islamic banking industry in Indonesia has demonstrated considerable growth in recent years, particularly in the expansion of financing distribution. Data published by the Financial Services Authority (OJK) show that the value of *murabahah*, *musyarakah*, and *ijarah* financing in Islamic Commercial Banks continued to increase throughout the 2020–2024 period. Nevertheless, this growth in financing has not always been followed by a consistent rise in bank profitability. In fact, several Islamic banks in Indonesia recorded a decline in net profit in 2024 even though the volume of financing distributed had increased. This situation presents an interesting empirical phenomenon because, from a theoretical perspective, a higher level of financing is expected to contribute to improved bank profitability.

In addition, macroeconomic data indicate that inflation in Indonesia during the period 2020–2024 experienced relatively significant fluctuations. In 2022, inflation increased to 5.51 percent before declining again in the following year. Theoretically, an increase in inflation should reduce people's purchasing power and lead to a decline in the demand for financing. However, in practice, Islamic bank financing continued to increase despite fluctuations in inflation. This phenomenon indicates a discrepancy between macroeconomic theory and the empirical conditions within the Islamic banking industry. Conversely, previous research investigating the impact of Islamic financing on bank profitability has produced mixed and inconsistent results. These discrepancies identify a research gap that necessitates further investigation study, particularly regarding factors that may strengthen or weaken the the association between Islamic financing and bank profitability. In response to these empirical observations and inconsistencies in earlier findings, this study re-examines the impact of Murabahah, Musyarakah, and Ijarah financing on the profitability of Islamic commercial banks incorporating inflation as a moderating variable. The inclusion of inflation is critical because macroeconomic conditions can affect the efficiency of financing in generating bank profits.

Based on this context and rationale of the research questions addressed in this study are: (a) What is the partial impact of Murabahah, musyarakah, and Ijarah financing on the profitability of Islamic commercial banks? (b) How implement Murabahah, Musyarakah, and Ijarah financing influence profitability when inflation is considered as a moderating variable? Accordingly, this study aims to offer theoretical contributions by expanding the literature on the determinants of profitability in Islamic banking and practical contributions by offering insights for Islamic bank management to develop more effective financing strategies in response to evolving economic conditions.

B. LITERATURE REVIEW

1. Conceptual Framework and Research Hypotheses

The conceptual framework represents a conceptual model that explains how theories are related to the various aspects that have been identified in the study. In other words, the conceptual framework illustrates the relationship between the variables examined in this research. The conceptual framework used in this study is presented as follows:

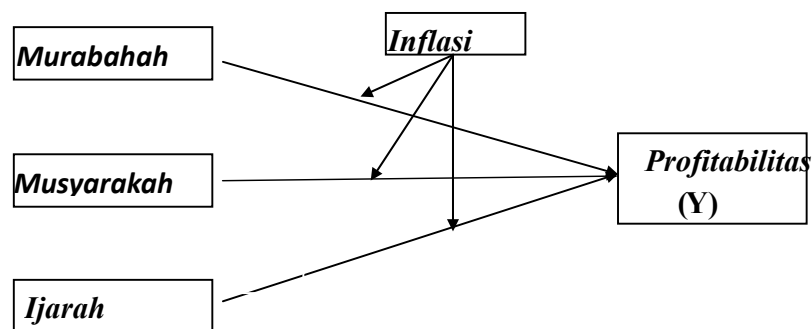


Figure 1. Research Conceptual Framework

A hypothesis is a provisional statement that will be empirically tested through research. The hypotheses formulated in this study are as follows:

- a. H01: Murabahah financing has no significant impact on the profitability of Islamic commercial banks between 2020 and 2024.
- b. Ha1: Murabahah financing exerts a significant effect on the profitability of Islamic commercial banks between 2020 and 2024.
- c. H02: Musyarakah financing does not have a significant impact on the profitability of Islamic commercial banks during the 2020–2024 period.

- d. Ha2: Musyarakah financing has a significant effect on the profitability of Islamic commercial banks during the 2020–2024 period.
- e. H03: Ijarah financing does not have a significant impact on the profitability of Islamic commercial banks during the 2020–2024 period.
- f. Ha3: Ijarah financing has a significant effect on the profitability of Islamic commercial banks during the 2020–2024 period.
- g. H04: Murabahah financing does not have a significant effect on profitability when inflation is considered as a moderating variable in Islamic commercial banks during the 2020–2024 period.
- h. Ha4: Murabahah financing has a significant impact on profitability with inflation acting as a moderating variable in Islamic commercial banks during the 2020–2024 period.
- i. H05: Musyarakah financing does not have a significant effect on profitability when inflation is treated as a moderating variable in Islamic commercial banks during the 2020–2024 period.
- j. Ha5: Musyarakah financing has a significant impact on profitability with inflation serving as a moderating variable in Islamic commercial banks during the 2020–2024 period.
- k. H06: Ijarah financing does not significantly affect profitability with inflation as a moderating variable in Islamic Commercial Banks during the 2020–2024 period.
- l. Ha6: Ijarah financing significantly influences profitability with inflation as a moderating variable in Islamic Commercial Banks during the 2020–2024 period.

C. METHOD

This study utilizes a quantitative correlational design to assess the influence of murabahah, musyarakah, and ijarah financing on the profitability of Islamic Commercial Banks, with inflation included as a moderating variable for the 2020–2024 period. The research employs monthly panel data collected sourced from the Financial Services Authority (OJK) and Bank Indonesia (BI). Panel data integrate both time series and cross-sectional dimensions, allowing the simultaneous analysis of differences across banks and over time (Creswell, 2014; Baltagi, 2021). The study adopts a saturated sampling approach, encompassing the entire population of Islamic commercial banks serving as the research sample. The data were collected processed using EViews software, beginning with classical assumption tests including normality, autocorrelation, multicollinearity, and heteroskedasticity to confirm the validity of the regression model (Gujarati & Porter, 2009). The primary analysis was carried out through panel data regression, utilizing the optimal model identified through the Chow test, Hausman test, and Lagrange Multiplier test (Richarda et al., 2024). Additionally, the moderating effect of inflation was assessed employing Moderated Regression Analysis (MRA) to examine whether inflation amplifies or diminishes the influence of financing on profitability. Hypotheses were tested partially using the t-test, and the coefficient of determination (R^2) was employed to determine the extent to which the model explains the data (Ghozali, 2018).

D. RESEULT AND DISCUSSION

1. Classical Assumption Test

To ensure the validity of the regression model, a normality test was conducted as one of the classical assumption tests. The results of this test are presented in the following figure.

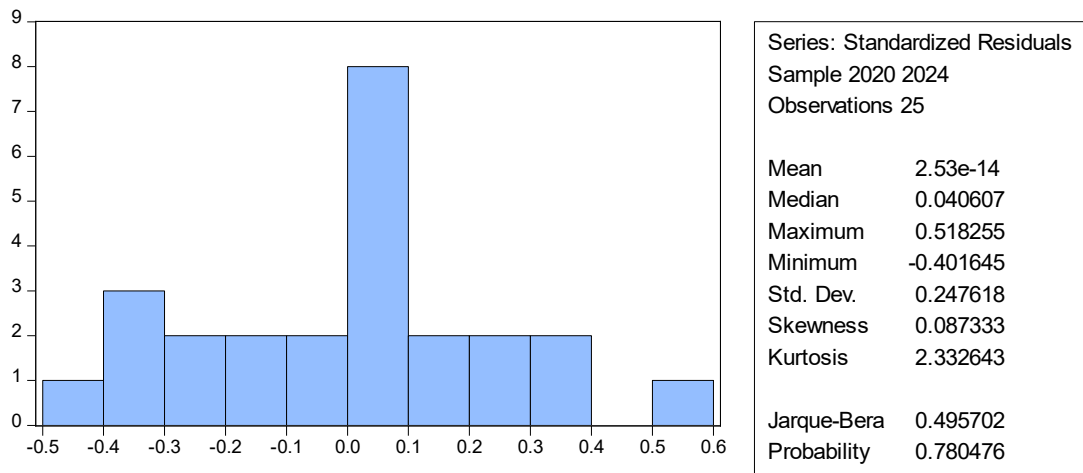


Figure 2: Results of the Normality Test

Source: EViews 13 Output Results

From the data presented in figure 2, the normality test results indicate that the data in this study are normally distributed, as evidenced by a probability value of 0.780, exceeding the significance threshold of 0.05. Therefore, the regression model satisfies the normality assumption and is appropriate for subsequent analysis.

Table 2. Results of the Heteroskedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.847248	0.742855	5.179001	0.0000
X1	4.64E-05	0.000101	0.461434	0.6463
X2	0.346118	0.095114	3.638995	0.5676
X3	0.045019	0.076258	0.590346	0.5573
Z	-0.032590	0.051435	-0.654554	0.5325

Source: EViews 13 Output Results

As presented in Table 2, the heteroskedasticity test using the Glejser method reveals that the probability values for all variables are greater than 0.05. Consequently, the panel data regression model is free from heteroskedasticity

Table 3. Results of the Autocorrelation Test

R-squared	0.401473	Mean dependent var	1.724400
Adjusted R-squared	0.315970	S.D. dependent var	0.320066
S.E. of regression	0.264714	Akaike info criterion	0.325316
Sum squared resid	1.471547	Schwarz criterion	0.520336
Log likelihood	-0.066444	Hannan-Quinn criter.	0.379406
F-statistic	4.695387	Durbin-Watson stat	1.873015
Prob(F-statistic)	0.011620		

Source: EViews 13 Output Results

According to Table 3, the Durbin-Watson (DW) test for autocorrelation produces a DW statistic of 1.873, with $4 - dU = 2.312$ and $4 - dL = 2.521$. Since the DW value falls within the range $dU < DW < 4 - dU$ ($1.688 < 1.873 < 2.312$), it can be concluded that no autocorrelation exists in the panel data regression model.

2. Analysis of Panel Data Regression and Moderated Regression (MRA)

To examine the relationships among variables and test the moderating effect proposed in this study, panel data regression analysis and Moderated Regression Analysis (MRA) were conducted using the Common Effect Model (CEM). The results of these analyses are presented in the following table.

Table 4. Results of Panel Data Regression Analysis and MRA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.12894	30.96781	2.746870	0.0034
X1	11.65821	3.640190	3.202637	0.0043
X2	10.65355	3.394270	3.138688	0.0050
X3	1.108802	0.913735	1.213484	0.2384
X1*Z	3.970808	1.466522	2.707636	0.0132
X2*Z	-4.114767	1.641030	-2.507429	0.0204
X3*Z	0.026571	0.255902	0.103834	0.9183

Source: EViews 13 Output Results

According to Table 4, the panel data regression and Moderated Regression Analysis (MRA) based on the Common Effect Model (CEM) generate the following regression equations for the panel data model and MRA:

$$Y = \alpha + \beta X1 + \beta X2 + \beta X3 + \varepsilon$$

$$= 23.128 + 11.658X1 + 10.653X2 + 1.108X3$$

$$Y = \alpha + \beta X1*Z + \beta X2*Z + \beta X3*Z + \varepsilon$$

$$= 1.456 + 3.970X1*Z + -4.114X2*Z + 0.0267X3*Z$$

According to the regression equation presented above, it is evident that explained as follows:

- The constant value is 23.128, indicating that if the independent variables (murabahah, musyarakah, and ijarah financing) are equal to zero, the profitability would be 23.128 or 23.12%
- The coefficient for murabahah financing is 11.658 and is positively associated, indicating that each 1% rise in murabahah financing, profitability will increase by 11.65%. This suggests that an increase in murabahah financing can directly contribute to higher profitability in Islamic Commercial Banks, which has important implications for strategies or policies related to murabahah financing.
- The coefficient for musyarakah financing is 10.653 and positive, implying that for each 1% rise in musyarakah financing, profitability will increase by 10.65%. These results confirm that musyarakah financing is also a contributing factor in enhancing the profit levels of Islamic commercial banks.
- The coefficient of ijarah financing is -1.108, indicating a negative relationship. This indicates that a 1% growth in ijarah financing is associated with a 1.10% decrease in profitability. These findings suggest that, despite being a core product of Islamic banks, an increase in ijarah financing volume does not necessarily result in higher profitability.
- The coefficient for murabahah financing with inflation as a moderating variable is 3.970, indicating a positive relationship. This suggests that inflation enhances the influence of Murabahah financing on profitability, meaning that a 1% increase in the interaction between murabahah financing and inflation can potentially raise profitability by 3.97%. These results imply that under conditions of controlled higher inflation, murabahah financing exerts a stronger influence on the profitability of Islamic Commercial Banks.

- f. The coefficient for musyarakah financing with inflation as a moderating variable is -4.114, indicating a negative relationship. The results show that a 1% increase in the interaction between musyarakah financing and inflation could lead to a 4.11% decrease in profitability. This finding suggests that inflation may weaken the impact of Musyarakah financing on the profitability of Islamic commercial banks. Practically, when inflation rises, musyarakah financing becomes less effective in enhancing profitability, potentially due to higher operational costs, market volatility, or pressure on profit margins.
- g. The coefficient for ijarah financing with inflation as a moderating variable is 0.026, indicating a positive but insignificant effect. This suggests that a 1% increase in the interaction between ijarah financing and inflation leads to only a 0.02% change in profitability, which is practically negligible. These findings confirm that inflation does not significantly strengthen or weaken the influence of Ijarah financing on Islamic banks' financial performance.

3. t-Test

To determine the partial effect of each independent variable on profitability, a t-test was conducted for every regression coefficient in the model. The results of the hypothesis testing are presented in the following table.

Table 5. t-Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	23.12894	30.96781	2.746870	0.0034
X1	11.65821	3.640190	3.202637	0.0043
X2	10.65355	3.394270	3.138688	0.0050
X3	1.108802	0.913735	1.213484	0.2384
X1*Z	3.970808	1.466522	2.707636	0.0132
X2*Z	-4.114767	1.641030	-2.507429	0.0204
X3*Z	0.026571	0.255902	0.103834	0.9183

Source: EViews 13 Output Results

The first test shows that murabahah financing has a significant effect on the profitability of Islamic Commercial Banks, with a significance value of $0.004 < 0.05$ and a t-statistic of $3.202 > t$ -table value of 1.672. Consequently, H_{01} is rejected and H_{a1} is accepted. The second test indicates that musyarakah financing significantly according to the test results, Musyarakah financing positively affects the profitability of Islamic commercial banks, with a significance of $0.005 (< 0.05)$ and t-statistic of $3.138 (> 1.672)$, leading to the rejection of H_{02} and confirmation of H_{a2} . Meanwhile, Ijarah financing shows no significant effect on profitability, as reflected by a significance of $0.238 (> 0.05)$ and t-statistic of $1.213 (< 1.672)$, thus H_{03} is accepted and H_{a3} is rejected.

Based on the moderated regression results, Murabahah financing moderated by inflation significantly affects profitability (significance = $0.013 < 0.05$; $t = 2.707 > 1.672$), leading to the rejection of H_{04} and confirmation of H_{a4} . Musyarakah financing with inflation as a moderator also shows a significant effect (significance = $0.020 < 0.05$; $t = -2.507 < 1.672$), resulting in the rejection of H_{05} and acceptance of H_{a5} . In contrast, Ijarah financing moderated by inflation does not significantly affect profitability (significance = $0.918 > 0.05$; $t = 0.103 < 1.672$), hence H_{06} is accepted and H_{a6} is rejected.

4. Coefficient of Determination Test (R²)

To measure the extent to which the independent variables explain variations in the dependent variable, the coefficient of determination (R²) test was performed. The results are presented in the following table.

Table 6. Results from the R² Test

R-squared	0.401473	Mean dependent var	1.724400
Adjusted R-squared	0.315970	S.D. dependent var	0.320066
S.E. of regression	0.264714	Akaike info criterion	0.325316
Sum squared resid	1.471547	Schwarz criterion	0.520336
Log likelihood	-0.066444	Hannan-Quinn criter.	0.379406

Source: EVIEWS 13 Output Results

According to the coefficient of determination (R²) for the panel data regression using the Common Effect Model (CEM), 40.1% (R² = 0.401) of the variation in the dependent variable is explained by the independent variables, whereas the remaining 59.9% is affected by other unexamined factors, indicating that the model has a relatively limited ability to explain the dependent variable.

The first hypothesis demonstrates that murabahah financing has a significant effect on the profitability of Islamic Commercial Banks during the 2020–2024 period. This indicates that the disbursement of murabahah financing contributes to increasing the profitability of Islamic banks, as this financing follows the principles of fixed income and cash flow stabilization, where profits are agreed upon in advance, making revenue streams more predictable and stable (Suyanto, 2014). This result is consistent with the findings of Mirandha (2021) and Rohmatun et al. (2023), which also report a significant relationship between murabahah financing and Islamic bank profitability. Additionally, murabahah financing has a relatively simple procedural structure, which reduces operational costs and credit risk compared to profit-and-loss sharing financing, thereby enhancing profit margins. As an innovation, the digitalization of murabahah financing and the implementation of big data-based credit scoring can broaden market reach and improve operational efficiency, positioning murabahah as a sustainable source of income that supports the profitability of Islamic banks.

According to the second hypothesis, Musyarakah financing significantly influences the profitability of Islamic commercial banks from 2020 to 2024, with higher volumes of Musyarakah financing being associated with greater profitability. This finding aligns with the studies of Mirandha (2021) and Zahrah & Dyarini (2023), which also found a significant relationship between musyarakah financing and the financial performance of Islamic banks in Indonesia. The result is consistent with the profit-and-loss sharing theory, which posits that the risks and returns of a business partnership are distributed proportionally according to the agreed-upon ratio (El Gamal, 2006). Consequently, an increase in musyarakah financing allows banks to earn higher profit-sharing income and enhance working capital, thereby improving profitability. Moreover, musyarakah financing generally entails moderate credit risk, as both capital and losses are shared between the bank and its business partner according to prior agreements, preventing the bank from bearing the full business risk (Putri & Mulyasari, 2022). For potential development, the adoption of machine learning-based risk assessment models and the enhancement of financial literacy among business partners can strengthen the quality of musyarakah portfolios, expand Islamic financial inclusion, and sustainably increase musyarakah's contribution to the profitability of Islamic banks.

The third hypothesis indicates that ijarah financing does not significantly influence the profitability of Islamic commercial banks during the 2020–2024 period. This suggests that variations in the level of ijarah financing do not directly lead to an increase in bank profits. This result is consistent with the findings of Fikri and Fil (2024), who reported that the

contribution of *ijarah* to profitability is relatively limited. Theoretically, under the Islamic leasing (*ijarah*) concept, revenue is generated through *ujrah* (rent), which is fixed and stable, resulting in lower profit potential compared to margin-based or profit-and-loss sharing financing (Khalid, 2019). As a result, cash flows from *ijarah* financing have a limited impact on Return on Assets (ROA). Nevertheless, the adoption of productive digital-based *ijarah* models and more efficient asset management has the potential to increase the contribution of this financing type to the profitability of Islamic banks in the future.

The fourth hypothesis indicates that *murabahah* financing, with inflation as a moderating variable significantly influences the profitability of Islamic commercial banks in Indonesia during 2020–2024, and the results demonstrate that inflation strengthens the association between *Murabahah* financing and profitability., suggesting that controlled and predictable inflation, often associated with seasonal fluctuations, enhances the effect of *murabahah* financing on bank profits. This result is consistent with Destia (2021), which reported that *murabahah* financing significantly affects profitability when moderated by inflation in Indonesian Islamic banks. Theoretically, under the markup pricing mechanism of *murabahah* contracts, banks earn profits from predetermined sales margins. During periods of moderate inflation, when commodity prices rise, the transaction value of *murabahah* financing also increases, potentially boosting bank profits (Iqbal & Mirakhor, 2013). However, from a practical perspective, relatively high or unstable inflation can raise production costs and input prices, compress profit margins, and reduce consumer purchasing power, which in turn lowers the income of business partners and diminishes the bank's share of profits. Conceptually, uncontrolled or high inflation can also weaken the influence of *Musyarakah* financing on profitability. Therefore, a managerial implication, Islamic banks should strengthen risk management, carefully select business sectors resilient to inflationary pressures, and consider broader macroeconomic conditions when allocating financing to maintain stable profitability.

The fifth hypothesis indicates that *musyarakah* financing, under the moderation of inflation, has an adverse effect on the profitability of Islamic commercial banks during the 2020–2024 period. This finding suggests that inflation reduces the contribution of *musyarakah* financing to improving ROA. The result aligns with the studies of Kiki et al. (2024) and Puspita et al. (2021), which reported that *musyarakah* financing tends to have a negative relationship with Islamic bank profitability. Theoretically, under the profit-and-loss sharing principle, returns from *musyarakah* financing depend on the performance of business partners, meaning that changes in economic conditions, such as inflation, can influence the profits earned by the bank (Iqbal & Mirakhor, 2013). When inflation increases, production costs and input prices rise, compressing profit margins and reducing consumer purchasing power. As a result, the revenues of business partners decline, which subsequently reduces the bank's share of profit. Conceptually, this indicates that inflation can weaken the role of *Musyarakah* financing in determining profitability. From a practical perspective, Islamic banks should strengthen risk management for *musyarakah* financing by selecting business sectors that are more resilient to inflation and by incorporating macroeconomic analysis into financing allocation to maintain stable profitability.

The sixth hypothesis indicates that *ijarah* financing, with inflation as a moderating variable, does not have a significant effect on the profitability of Islamic Commercial Banks during the 2020–2024 period. This suggests that inflation neither strengthens nor weakens the relationship between *ijarah* financing and ROA. This finding is consistent with Abdur Rauf (2020), who reported that *ijarah* financing does not significantly impact profitability even when influenced by macroeconomic factors. Theoretically, under the asset-based financing framework, *ijarah* generates revenue in the form of *ujrah* (lease payments), which remain fixed throughout the contract period, so fluctuations in inflation do not directly affect the bank's income (Iqbal & Mirakhor, 2013). Moreover, the medium- to long-term nature of *ijarah*

contracts ensures that revenues remain relatively stable, as they are predetermined at the inception of the contract. Consequently, inflation generally does not moderate the relationship between ijarah financing and profitability. Nonetheless, conceptually, Islamic banks can enhance the contribution of ijarah financing to profitability by adjusting lease rates in new contracts and optimizing ijarah financing toward productive assets with stable demand, thereby maximizing potential fixed income over the long term.

E. CONCLUSION

The findings of this study on Islamic commercial banks in Indonesia for the 2020–2024 period indicate that *Murabahah* and *Musyarakah* financing significantly affect profitability, while Ijarah financing shows no significant effect. Moreover, inflation, as a moderating factor, enhances the influence of *Murabahah* financing on profitability, often reflecting predictable seasonal inflation patterns, while uncontrolled inflation can diminish the impact of *musyarakah* financing. Inflation, however, does not moderate the relationship between ijarah financing and profitability. These findings suggest that the effectiveness of different Islamic financing contracts is influenced by their sensitivity to inflation. Practically, this implies that Islamic banks should optimize their financing portfolios in a manner that is adaptive and sustainable amid economic fluctuations, while simultaneously strengthening risk management under both controlled and uncontrolled inflation conditions.

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