

# ANALYSIS OF THE IMPACT MACROECONOMIC INDICATORS ON ISLAMIC BANKS PROFITABILITY IN INDONESIA

PERIOD 2012-2015

(Case Study of Islamic Commercial Banks and Islamic Business Units in Indonesia,  
Period 2012-2015)

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## ABSTRACT

This study aims to analyze the impact of macroeconomics variable on Islamic banking profitability in Indonesia which is measured by Return On Assets (ROA). The variables of macroeconomic in this study include inflation, exchange rate, and gross domestic product. This research used secondary monthly data from 2012-2015, and analyze using multiple regression model. The research findings was indicate, through 3 independent variables used, there were 1 variables that significantly influence to performance of Islamic bank. That is exchange rate. While the variable of inflation and gross domestic product was not significantly influence to the performance of Islamic bank.

**Keywords:** *Islamic Bank Performance, Return On Asset (ROA), Exchange Rate, Inflation, GDP.*

## INTISARI

*Penelitian ini bertujuan untuk menganalisis pengaruh variabel makroekonomi terhadap profitabilitas perbankan syariah di Indonesia yang diukur dengan Return On Asset (ROA). Variabel makroekonomi dalam penelitian ini termasuk inflasi, gross domestic product, dan nilai tukar, dengan menggunakan data bulanan dari tahun 2012-2015 dengan menggunakan model regresi berganda. Hasil penelitian ini menunjukkan bahwa dari 3 variabel independen, ada 1 variabel yang mempunyai pengaruh signifikan terhadap kinerja perbankan syariah, yaitu nilai tukar. Variabel tingkat inflasi dan gross domestic product tidak mempunyai pengaruh signifikan terhadap kinerja bank syariah di Indonesia.*

**Kata Kunci:** *Kinerja Bank Syariah, Return On Asset (ROA), Nilai Tukar, Inflasi, Produk domestik bruto.*

## **INTRODUCTION**

Banking stability is a very important issue in the current economic times, due to the 1997 economic crisis and the global crisis in 2008, the crisis serves as proof of the economic stability of a country that is affected by the stability of the financial system (Simorangkir, 2004). Banking is one part of the financial system. One of the functions of banks is as an intermediary institution. According to Law 10 of 2008 on banking, Bank is a business entity that collects funds from the public in the form of deposits and distribute to the public in the form of savings and the distribution of funds to the public in the form of credit or other forms to improve people's lives. where banks as inter-party financial institutions that have excess funds with the parties who need funds. (Mishkin, 2001).

One of the characteristics of a good financial system, including the banking system, is that the financial system is in a condition where it can absorb shock from financial disturbances and real economic disturbances. This serves to provide supplies and a sense of security and increase confidence in the product as a whole, A good financial system will encourage the creation of financial system stability.

The stability of the banking system and the macroeconomic variables are two interrelated and determining aspects of each other. The stability of the banking system, in general, is reflected in the sound banking condition and the intermediary function of the banking system, whether the banking performance (in this case the sharia bank) influenced by the internal conditions of bank management and external economics such as macro conditions

According to (Basurto & P.Padilla, 2007) a strong and good financial system is a major factor for macroeconomic stability, in terms of supporting savings and the efficiency of resource allocation in investment opportunities. According to Bank Indonesia, the stability of the financial system can be defined through several approaches: (I) A stable financial system able to allocate resources and be able to absorb the Shock that occurs (II) A stable financial system is a financial system capable of performing the intermediary function, Implementing payments and distributing risks properly if there is economic disturbance and (III) Financial system stability is the conditions under which price fixing, allocation of funds, and risk processing function well and support economic growth

Indonesia adheres to the dual Banking system (Islamic Banking and Conventional Banking). According to Bank Indonesia Law No.10/1998, Islamic Banks or Islamic Banks are banks conducting business based on sharia principles, namely the rules of an agreement

under Islamic law between the Bank and other parties to deposit funds or financing business activities.

Islamic banks as one intermediary institution have a strategic function of collecting funds from units of the economy that have *surplus units* with other units that suffer from lack of funds *deficit units*. The activities of banks to raise funds called the finding activity. While the activities of channeling funds to the community by the bank called the activities of financing or lending(Sударsono, 2003)

In Islamic banks, the services provided to customers adapted to Islamic principles in accordance with Islamic law. Sharia principles as applied by Islamic banks is financing based on the principle of profit sharing (*Mudharabah*), financing based on principle of capital participation (*Musharakah*), principle of selling goods to obtain profit (*Murabahah*), or financing of capital goods based on principle of the lease without option (*Ijarah*), or with the option of transfer the ownership of the leased goods from the bank by another party (*Ijarah wa Iqtina*).

According to Antonio (2001), Islamic banks are not tailored with interest rate system. Hence, the profit is derived from profit sharing system with businesses that use the funds of Islamic banks as well as investments of Islamic banks themselves. Characteristics of the operational principles of sharia banks is to use a profit-sharing system, it is different to the interest system (Yuliadi, 2001).In general, Islamic banks are financial institutions whose main business is providing financing and other services in traffic in payments as well as money circulation which operates in accordance with the principles of Islamic Sharia (Yuliadi, 2001)

The presence of sharia banking in the world gets great enthusiasm from all over the world. This is evidenced by the rapid development of Islamic Banks in each country that occurs not only in the Islamic State. Western countries are beginning to apply sharia banking as one of their banking systems, such as the UK and Australia (Kurniati, 2012)

The development of sharia financial industry in Indonesia began in 1991 the establishment of the first Sharia Bank (BUS) in Indonesia, namely Bank Muamalat Indonesia, It shows the needs of the public will the presence of financial institutions that can provide financial services in accordance with sharia (Bank Indonesia, 2002).Islamic banks are emerging as the solution of the wishes of Muslims in Indonesia who want to release from usury as used by conventional banks(Rivai & Ismail, 2013). Not only that, sharia banks also

appear as a solution to the weakness of resilience or stability that occurs in conventional banking in the face of crisis shocks. This is because sharia banks are pointed out by some experts have better resistance to crises than conventional banks. This is because the distribution of benefits and risk sharing takes place fairly (Faiz, 2010)

The important role of sharia banking can be measured from the institutional development and how much financing is channeled. In general, sharia banking business consists of Sharia Commercial Bank (BUS), Sharia Business Unit (UUS), and Sharia Rural Bank (BPRS). The number of banks continuing to conduct business based on sharia principles continues to grow in line with the operation of new sharia Banks.

Islamic banks have proven their performance as a financial institution that can survive in the midst of global crisis so that Islamic banks can survive until now, research conducted by (Boumediene & Caby, 2009) found that Islamic banks are more resistant to flare subprime mortgage crisis.

Profitability is the level of the bank's ability to increase profits. Profitability level can be measured using Return On Asset (ROA) ratio. Is a ratio to measure the ability of management in managing assets to generate profits. Rasio ini is one element in measuring the soundness of banks (CAMEL) of Bank Indonesia. In the business activities of banks that encourage the economy, high ROA ratio shows the Bank has distributed credit and earn income.

Identification of macro variables that can affect the profitability of banks needs to know to get the maximum performance. ROA is important for the bank because to measure the effectiveness of the company in generating profits by utilizing the owned, ROA is the ratio between profit after tax to total assets. the performance of the company the better, because the rate of return (return) is greater (Husnan, 1998)

According to Haron (1996), divides the determinants of bank profitability into two, namely internal factors and external factors. the internal factor determinant consists of several variables such as fundraisers, capital management, liquidity management and cost management, all internal variables are deemed to be controlled by bank management, while external variables are factors considered under the control of bank management. Among the external variables are discussed much is competition, regulation, market share, ownership, the amount of money in circulation, inflation, interest rates.

Therefore, the objectives to be achieved in this research are to know the effect of inflation, the exchange rate, and the gross domestic product to the profitability of sharia banking in Indonesia period 2012 to 2015 which is proxied through Return On Asset (ROA).

## **RESEARCH OBJECTIVES**

1. To determine the effect of inflation on the profitability of Islamic banking as measured with ROA.
2. To determine the effect of exchange rate on the profitability of Islamic banking as measured with ROA.
3. To determine the effect of gross domestic product on the profitability of Islamic banking as measured with ROA.

## **TEORITICAL FRAMEWORK**

### **Exchange Rate**

the exchange rate is a value indicating the amount of domestic currency required to earn one unit of foreign currency (Sukirno, 2002). Meanwhile, according to (Triyono, 2008) exchange rate is the exchange between two different currencies, which is a comparison of the value or price between the two currencies.

The exchange rate of a currency affects the economy if the currency exchange rate is appreciated or depreciated. Fluctuations in exchange rate changes are the focus of the foreign exchange market. Trade between the State where each State has its own currency means that the ratio of the value of a currency to another currency, which is called the exchange rate or foreign currency.

The exchange rate system can be classified according to how much the exchange rate is controlled by the government, the category of exchange rate system according to (Madura, 2008) is as follows:.

1. The fixed exchange rate system is a monetary system where the exchange rate is made constant or only allowed to fluctuate within very narrow limits. If the exchange rate starts to move too sharply then the government can intervene to maintain within the limits in question.
2. The floating exchange rate system In this system, the floating exchange rate is a monetary system in which exchange rate is allowed to follow market forces without

intervention from the government, within this system multinational companies need to submit substantial resources to measure and manage foreign exchange risk.

3. The floating exchange rate is under control A monetary system in which the exchange rate is allowed to fluctuate indefinitely, but the central bank may intervene to influence the movements of the exchange rate. The ups and downs of currency exchange rates can occur in various ways, it can be done officially by the government of a country that embraces managed floating exchange rate system.

### **Inflation Rate**

One important indicator to maintain the economic stability of a country by keeping macro variables one by keeping the inflation rate in the country in order to keep the balance, High inflation rate is usually associated with overheated economic conditions, the economic condition is experiencing demand over products that exceed their supply capacity, so prices tend to increase.

According to Tandelilin (2010), inflation is a tendency in increasing the price of the product as a whole, resulting in a decrease in the purchasing power of money. Inflation is the increase of prices in general and continuously related to market mechanism which can be caused by various factors, increased publicity, excess liquidity on the market that triggers consumption or even speculation, or includes the consequences of non-current distribution of goods.

Inflation is the process of an event that is used as an indicator to see the rate of change and is assumed to occur if the process of price increase takes place continuously, theoretically, inflation rises in the price of goods in general and continuously. Thus, inflation cannot be said when the increase occurs only in small groups of goods and price changes that occur only once (Yuliadi 2008).

Inflation is measured by the rate of inflation that is the rate of change from the general price level. The perspectives are as follows (Karim, 2008: 136)

$$\text{Rate of inflation} = \frac{\text{pricelevel1} - \text{pricelevel-1}}{\text{pricelevel-1}} \times 100$$

### **Gross Domestic Product**

Gross domestic product (GDP) is the monetary value of all finished goods and services produced within a given country in a given period, gross domestic product (GDP) is usually calculated on an annual basis and includes all private and public consumption, government investment and export financing minus imports.

Gross domestic product (GDP) is a macroeconomic indicator that also affects bank profitability. If GDP rises it will be followed by an increase in people's income so that the ability to save (saving) will also increase, this saving increase will affect the profitability of the bank (Sukirno, 2003: 54)

The measure of the success of a country can be seen from the growth of gross domestic product (GDP). GDP that grows sustainably means that the economy is able to produce a larger and aggregate product through the optimal use of resources. This means that by increasing the GDP unemployment rate decreases and the level of prosperity is getting better. Without the support of banking, it is almost certain that the goal of achieving this prosperity is impossible.

Gross domestic product (GDP) is the number of final goods and services produced by the entire community of a country in a certain period. Gross domestic product or GDP in this study is GDP over constant prices. The formula used to find GDP is as follows (Sahara, 2013:5)

$$\text{GDP} = \frac{\text{GDP} - \text{GDP}_{X-1}}{\text{GDP}_{X-1}} \times 100\%$$

## **RESEARCH METHODOLOGY**

This research aims to examine the effect of macroeconomics variable such as inflation, exchange rate, and gross domestic product, (independent variable) to the performance of Islamic Bank in Indonesia using the Return on Assets (ROA) (dependent variable). Based on how to obtain the data, the type of data in this research are secondary monthly time series data starting January 2012 until December 2015 from Badan Pusat Statistik (BPS), Financial service authority (OJK), and Bank Indonesia, and this research is using Multiple Linear Regression analysis.

## **RESEARCH FINDINGS**

### **A. Classical Assumption Test**

This test is intended to detect the presence or absence of autocorrelation, heteroskedasticity, and multicollinearity in the estimation, because if there is a deviation of the classical assumption then the estimation of the equation model is done to be invalid and disrupt the conclusion of the analysis.

## 1. Heteroskedasticity Test.

Heteroskedasticity is a detection to see if the interference variable is not constant. The heteroskedasticity test aims to test whether in the regression model there is a variance inequality of the residual one observation to another fixed observation,, it is called homoskedasticity and if the variant is not constant or changing it is called heteroskedasticity. A good regression model is a homoskedasticity or there is no heteroskedasticity (Gujarati, 2007).

The way to find out whether or not the symptoms of heteroskedasticity in this study to test with *Harvey* test If the probability  $\text{Obs} * \text{R-squared} > 0.05$  then the model there is no heteroskedasticity, and if the probability  $\text{Obs} * \text{R-squared} < 0.05$  then the model is confirmed there is heteroskedasticity.

### Heteroskedasticity Test Result

Heteroskedasticity Test: Harvey

F-statistic	0.852104	Prob. F(3,44)	0.4730
Obs*R-squared	2.635581	Prob. Chi-Square(3)	0.4513
Scaled explained SS	2.871639	Prob. Chi-Square(3)	0.4118

Source: Secondary Data Processed

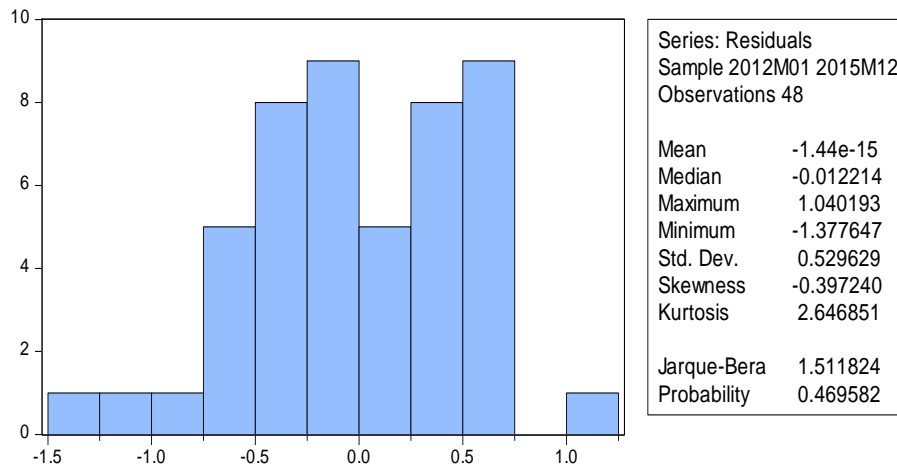
From table above shows heteroskedasticity test by using *Harvey Test*. we can see that the probability value of  $\text{Obs} * \text{R-squared}$  is 0.4513 or greater than 0.05. Then it can be concluded that data in this research variable there is no heteroskedasticity.

## 2. Normality Test.

This test is to know whether the variables used in the study are either distributed or not. The normality test referred to in the classical assumption of the OLS approach is the residual (data) formed by a normally distributed regression model. To test the assumption of test normality by *Jarque Berra*. If the *Jarque Berra* probability test is greater than 0.05, then the data is good and distributed normally, but if it is less than 0.05 then the data is not good and not normally distributed.



## Normality Test Result



Source: Secondary Data Processed

Based on the results of the normality table above shows that the probability value is  $0.469582 > 0.05$  so it can be said that the probability value of this model is not significant, while based on normality test results can be seen from the probability value jargue-bera (JB), if the probability  $> 0.05$ , then the model in normal state, based on this parameter is known that the value of probability value at JB is 0.469582 greater than the value of 0.05 Thus It can be concluded that the regression model meets the assumption of normality.

### 3. Multicollinearity Test.

Multicollinearity test aims to determine whether there is a relationship between independent variables. The multicollinearity test aims to test whether the regression model finds a correlation between the independent variables. The multicollinearity test is used to detect the presence or absence of relationships between some or all of the independent variables in the regression model. Multicollinearity is a state in which one or more independent variables are expressed as linear conditions with other variables.

A good regression model should not be a correlation between independent variables. The results of this test can be seen from the Variance Inflation Factor (VIF) with the VIF equation =  $1 / \text{tolerance}$ . If VIF is less than 10 then there is no multicollinearity.

## Multicollinearity Test Result

### Variance Inflation Factors

Variable	Coefficient	Uncentered	Centered
	Variance	VIF	VIF
EXCHANGE RATE	4.41E-09	107.6535	1.175315
INFLATION	0.015192	1.639729	1.043925
GDP	4.84E-32	66.08175	1.222891

Based on table above we can see the results of multicollinearity test in Centered VIF table column. VIF values for Exchange Rate, Inflation and Gross domestic product variables are 1.175315, 1.043925, and 1.222891 means that the Centered VIF value of the three variables is no greater than 10. Then it can be it is said that there is no Multicollinearity in the independent variable.

Based on the classical assumption of linear regression with OLS, a good linear regression model is free from multicollinearity. Thus the above model has been free from the existence of Multikolinearitas.

#### 4. Autocorrelation Test

The autocorrelation test aims to test whether in a linear regression model there is a correlation between the confounding error in period  $t$  with an error in period  $t-1$  (previous). The correlation test aims to determine whether there is a correlation between the members of a series of observed data by time time series or cross-section.

Autocorrelation is a situation where there is a correlation between residual of this year with an error rate of the previous year. To determine the presence or absence of autocorrelation in the model, it can be seen from the statistical value Durbin-Watson

### Autocorrelation Test Result

Variable	Coefficient	t-Statistic	Prob
AR(1)	0.884490	7.736300	0,0000
SIGMASQ	0.106698	6.598689	0,0000
Durbin-Watson stat			1.934746

Based on the above table, the authors perform healing of interference by using AR test (1) on the data. And the table above shows the correlation test results that have been improved by using the AR model (1) there is a DW value is 1.934746 . From this model, it is known that  $k=3$ ;  $n=48$ . Then we can determine the value of  $dU$  and  $dL$  from Durbin-Watson table which is known that the value of  $dU$  is 1.62 and  $dL$  1.45, and  $4-dU$  is 2.38, since the value of Durbin-Watson statistic is between  $dU$  and  $4-dU$ , then in this data is free of autocorrelation problems or in other words there is no autocorrelation from the data.

## B. The Result of Regression Estimation

### The Result of Regression Estimation

Variables	Regression		
	Coefficient	T-Test	Prob
Constanta	4.822.034	3.939.483	0.0003
Kurs	-0.000332	-4.999.152	0.0000
Inflation	0.054156	0.439384	0.6625
GDP	0.000214	0.972719	0.3360
R-Squared	0.441813		
F-Statistic	11.60886		
Prob F-stat	0.00001		

Dependent Variable : ROA

Source : Secondary Data Processed.

This research using multiple linear regression analysis. The model of this research is :

$$Y_t = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + e$$

Where :

$$Y_t = \text{ROA}$$

$$\alpha = \text{Constanta}$$

$$X_{1t} = \text{Kurs}$$

$$X_{2t} = \text{Inflation}$$

$$X_{3t} = \text{GDP}$$

$$e = \text{Error Term}$$

$$Y_t = 4.822.034 - 0.000332X_{1t} + 0.054156X_{2t} + 0.000214X_{3t} + e$$

Based on the estimation of regression, the dependent variables in this study is Return On Asset (ROA), and the independent variables are Inflation, Exchange Rate, and Gross domestic product. Based on the table 4.6 It can be seen that Exchange rate (Kurs) significantly affecting the Return On Asset (ROA) in Islamic Banks in 2012-2015. While Inflation rate and Gross domestic product are not significantly affecting the Return On Asset (ROA) in Islamic Banks in 2012-2015.

### 1. F-test

F-test is used to determine the effect of independent variables on the dependent variable simultaneously together. According to Ghazali, (2013) the F test essentially aims to show whether all independent or independent variables included in the model have a reciprocal effect on the dependent or dependent variable. Test F is done by using significance value of Test F in this research is done using Eviews-7. Here is a table of F-test values.

#### f-Test : Kurs, Inflation, GDP to Roa

F-Statistic	11.60886
Prob F-stat	0.00001

Dependent Variable : ROA

Source : Secondary Data Processed

The explanation of the f-test results in table above, where the results of the F test in this study has a result of 11.60886 with (Prob F-stat) of 0.00001 results can explain that Prob F-stat smaller than the level of significance 0.05, so it can be concluded that the estimated regression model is feasible to be used to explain the effect of the independent variable (Inflation, Exchange Rate, and Gross domestic product) on the dependent variable Return On Assets (ROA).

### 2. t-Test

The t-Test in multiple linear regression is intended to test whether the parameters (regression coefficients and constants) suspected to estimate the equations multiple linear regression models are appropriate parameters or not, the parameters are able to express the behavior of independent variables in influencing the dependent

variable. t-Test in this research use Eviews-7 program. The result of multiple linear regression outputs in table 4.4 above is as follows

**t-Test : Kurs, Inflation, GDP to Roa**

Variables	Regression		
	Coefficient	T-Test	Prob
Constanta	4.822.034	3.939.483	0.0003
Kurs	-0.000332	-4.999.152	0.0000
Inflation	0.054156	0.439384	0.6625
GDP	0.000214	0.972719	0.3360

Dependent Variable : ROA

a. Constanta

Based on the result of regression in table 4.8, the constant value is 4.822.034. That is, if all independent variables are Exchange rate, Inflation rate, Gross domestic product are considered to be constant, then the amount of ROA is 4.822.034 .

b. Exchange rate (Kurs)

Variable Exchange rate shows t-statistic of -4.999.152 with probability coefficient of 0.0000 then the meaning of the variable Exchange rate has a negative and significant effect on ROA because the probability value is less than 0.05.

c. Inflation Rate

Inflation variable shows t-statistic of 0.439384 with probability coefficient of 0.6625 then the meaning of Inflation variable has the positive and not significant effect on ROA because of probability value greater than 0,05.

d. Gross domestic product

Gross domestic product variable shows t-statistic value 0.972719 with the robability coefficient of 0.3360 hence the meaning of variable Gross domestic product have the positive and not significant effect to ROA, because of probability value greater than 0,05.

**3. Determination Coefficient Test (R<sup>2</sup>)**

Determination Coefficient Test R<sup>2</sup> is used to measure how much variation of the dependent variable can be explained by the independent variable. The value of the

coefficient of determination can be measured by the value of R-Square or Adjusted R-Square. When the coefficient of determination value = 0 (Adjusted  $R^2 = 0$ ), the variation of the related variables cannot be explained by the independent variable. While if  $R^2 = 1$ , then the variation of the dependent variable as a whole can be explained by the independent variable.

Determination Coefficient ( $R^2$ ) essentially measures how far the model's ability to explain variations of dependent variables. The coefficient of determination is between zero and one. The small value of  $R^2$  means that the ability of the dependent variables is very limited. A value close to one means the dependent variables provide almost all the information needed to predict the variation of the dependent variable (Ghazali, 2013: 97)

Based on the results of regression in table 4.7 above can be seen that the value of determination coefficient test for the regression model between the Exchange rate, Inflation, Gross domestic product of ROA of 0.441813 or amounted to 44.18% ROA influenced by variable Exchange rate, Inflation and GDP. While 55.82% ROA explained by variable outside research variable ( $100\% - 44.18\% = 55,82\%$ ).

## DISCUSSION

### The Accumulation of Independent Variable influence on Dependent Variables

Variables	Coefficient	Probability
Constanta	4.822.034	0.0003
Kurs	-0.000332	0.0000
Inflation	0.054156	0.6625
GDP	0.000214	0.3360

#### 1. The Influence of Exchange rate (kurs) on Return on Assets (ROA).

Test results show that the Exchange rate (kurs) has a negative direction and has a significant effect on sharia banking ROA because it has a probability of 0.0000 which means it is below  $\alpha$  of 0.05. The regression coefficient value of Exchange rate of -0.000332 which means that if there is an increase 1 rupiah then the profitability of sharia bank ROA will decrease around -0.000332 percent. Therefore, the regression results are in accordance with the hypotheses in this study.

From the test results means there is a negative and significant influence on exchange rate variables to profitability of sharia banks in Indonesia period 2012-2015. This result is in accordance with research conducted by Desi Marilyn and Rohmawati (2012) stating that the exchange rate will determine the return on real investment. A declining currency will clearly reduce the purchasing power of the income and capital gains derived from any type of investment. This decrease in investment will affect the bank's operational activities. With the decline in investment, demand for financing in Islamic banks will also decline. And for the next will affect the financial ratios of banks, one of which profitability ratios are represented by ROA (Sukirno, 2006: 38).

This study is supported by other research conducted by several researchers, among others: Dwijayanthi and Naomi (2009) state that any impact of exchange rate on profitability, where the bank identifies if exchange rate appreciation or depreciation, it will impact on the obligations abroad. bank currency at maturity. As a result, bank profitability will change if in such case, the bank does not hedge. This result is also supported by Samuelson's (2006) argument. The exchange rate is important because during the economic crisis there is generally an increase in the dollar, thus causing foreign debt to be unable to pay, so the bank will have difficulty in making payments.

## **2. The Influence of Inflation rate on Return on Assets (ROA).**

Test results show that Inflation has a positive direction and does not have a significant effect on sharia banking ROA because it has a probability of 0.6625 which means is above  $\alpha$  of 0.05. The value of the inflation coefficient is 0.054156 which means that if there is an increase of 1% inflation, Return on Assets (ROA) will rise about 0.054156%, assuming other variables are constant. Therefore, the regression results are not in accordance with the hypothesis in this study. The results of this study in accordance with research conducted by some researchers, among others:

Suryanto and Kesuma (2012), inflation does not affect the Return on Assets. The high rate of inflation will lower the Return on Assets, while low inflation will cause economic growth to slow. This indicates that although inflation has increased, corporate profits have not decreased significantly and vice versa. If inflation rises, corporate earnings do not experience a significant decline and vice versa.

The results of this test show that inflation does not significantly affect the profitability of sharia banks in Indonesia period 2012-2015 because the value of significance is greater than the value of alpha, which is 0.05. This result is in

accordance with research conducted by Anto and Wibowo (2012) stating that the inflation rate that occurred in Indonesia has no effect in increasing or decreasing the profitability of sharia banks. This is also supported by Rosanna (2007) who said that at the time of high inflation, the public believes more in sharia banks in comparison with conventional banking. The belief of the community is also due to historical experience during the economic crisis of 1997, during which time the inflation rate in Indonesia was very high and ultimately resulted in many conventional banks that went bankrupt due to applying the high rate of interest to offset the rate of inflation and to withdraw customers to keep placing their funds so as to result in a negative spread and in the end the bank can not refund the public funds that have been saved and the interest.

### **3. The Influence of GDP on Return on Assets (ROA)**

The test results show that the Gross domestic product has a positive direction and not significant effect on sharia banking ROA because it has a probability of 0.3360 which means it is above  $\alpha$  of 0.05. The regression coefficient value GDP of 0.000214 which means that if there is an increase of GDP of 1 percent then the profitability of sharia bank ROA will increase by 0.000214 percent. Therefore, the regression results are not in accordance with the hypotheses in this study.

GDP measures the value of goods and services produced in a country's territory without distinction of citizenship in any given year. So that higher GDP growth rates will indicate the high growth rate of consumption of citizens in the country, which will affect the increase in consumption demand levels such as companies (Sudarsana, 2007)

Basically, GDP will increase the level of consumption and investment that will improve the performance of the company. However, due to the influence of this increase in GDP only affect the consumption of the company's products directly.

Increased demand will increase the number of corporate profits from an increase in the number of sales, which will also impact on increasing the company's stock price. The results of this study in accordance with research conducted by some researchers, among others: Perdana (2014) which states that the results achieved in this study indicate that inflation has no effect on the company's ROA, interest rates have a negative effect on corporate ROA, and GDP has no influence on the company's ROA.



## CONCLUSION

Based on the analysis that has been done, can be obtained the following conclusion:

1. Test results show that the exchange rate (kurs) has negative and significant effect influence on the Return on Assets in Islamic banks. These results can show that a negative relationship between Exchange rate and ROA. The results of this study indicate that the higher the exchange rate of foreign currency will encourage the increase ROA. Foreign exchange investment is one option to attract the public because in addition to providing benefits when experiencing appreciation, will also provide benefits because it is safer than the effects of inflation. The increase in the exchange rate will result in the community more interested in saving the money in rupiah so that the number of deposits in rupiah will increase. If the amount of deposits increases then the funds disbursed will also increase and ROA will also increase. The results of this study is the Exchange will affect the decision of the community in terms of saving. When the rupiah appreciates, people tend to choose to keep their money in rupiah. This is because the community will benefit from the strengthening of the rupiah exchange rate. Conversely, if the rupiah depreciates, then the public will tend to choose to save money in the form of foreign exchange to avoid the effects of inflation.
2. Test results show that Inflation has a positive and does not have a significant effect on the Return on Assets in Islamic banks. The results of this study in accordance with research conducted by some researchers, among others: Suryanto and Kesuma (2012), inflation does not affect the Return on Assets. The high rate of inflation will lower the Return on Assets, while low inflation will cause economic growth to slow. This indicates that although inflation has increased, corporate profits have not decreased significantly and vice versa. If inflation rises, corporate earnings do not experience a significant decline and vice versa.
3. Test results show that the Gross domestic product has a positive and not significant influence on the Return on Assets in Islamic banks. The linkage of Gross Domestic Product to the banking world is where GDP is associated with savings. If GDP rises, it will be followed by an increase in people's income so that the ability to save (saving) also increases. If the savings rate is high then the economy will have a large capital stock and a high level of output so that the level of profitability is also high. If the savings rate is low, the economy will have a small capital stock and a low level of output. Based on the

description shows that GDP has a positive effect on the profitability of a company. Influence is not significant means that the variable GDP does not directly affect the profitability of sharia banks in Indonesia. The results of this study are supported by the results of research from Adi Stiawan (2009) who examines that there is no effect of GDP with the profitability of sharia banks in Indonesia and t arithmetic positive value. The results of this study also supported by research Sahara (2013) who examines that GDP has a positive effect on the profitability of Islamic Banking in Indonesia.

## **RECOMMENDATION**

In accordance with the results obtained, then proposed some suggestions as follows:

1. In this study Sharia bank management should consider macroeconomics variable movements, such as inflation, interest rate (BI rate), money supply, and exchange rate due to bank's financial performance especially profitability of sharia bank also influenced by external factors.
2. In terms of asset management, sharia banks are expected to continue to improve bank management performance in generating overall profit. This performance improvement is expected for sharia banks to gain public trust that allows sharia banks to raise more capital from the community.
3. In the field of banking, Bank Indonesia should formulate policies that are expansive to the existence of Islamic banks in Indonesia in order to compete with other financial institutions in the financial system and national banking.
4. For further research, it is advisable to multiply the research sample. In addition, researchers can further develop other variables such as economic growth variables. This is because economic growth variables reflect an increase in economic activity undertaken by economic actors. Where the increase in economic activity will affect the increase in the volume of activities undertaken by banks in providing financial services to the community. This can ultimately increase the profitability of sharia banks.

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