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Original Article

Islamic Bank Financing and Price Stability in Indonesia: Assessing the Role of Interest Rates as a Potential Constraint

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Abstract: Today, a country maintains price stability to achieve economic stability. Price stability is essential for achieving overall economic stability in a country. Ensuring price stability requires reforms in regulatory and legal institutions responsible for fiscal and monetary policy. However, it can also be undermined by economic vulnerabilities resulting from flawed domestic financial policymaking. This study analyses the effects of various Islamic banking financing schemes—namely *murabahah*, *mudharabah*, *musyarakah*, *istishna'*, *qardh*, and *ijarah*—on price stability in Indonesia. Additionally, it examines the moderating role of interest rates on the relationship between Islamic financing schemes and price stability. The study employs monthly time series data from January 2009 to March 2024 (a total of 183 months). The findings reveal that interest rates, *qardh* financing, and *ijarah* financing negatively affect price stability. In contrast, *musyarakah* financing contributes positively to price stability, while *murabahah* and *mudharabah* financing show no significant impact on price stability. Further, the results from the second model indicate that the moderation of interest rates enhances the stabilizing effect of *murabahah* financing. However, interest rate moderation weakens the stability effect of *musyarakah*, *istishna'*, and *ijarah* financing. Therefore, it is imperative for Bank Indonesia, as the policymaker, to carefully design and implement policies that effectively maintain price stability, especially considering its tendency to fluctuate significantly in Indonesia.

Keywords: Price Stability; Interest Rate; Islamic Bank Financing; ARDL Approach

1. Introduction

In general, a country will maintain price stability to realize the country's economic stability. Price stability requires reform of the regulatory and legal bodies that issue the underlying fiscal and monetary policies, but price stability can also be undermined by economic vulnerabilities caused by wrong policy making in the domestic financial system (Montiel & Servén, 2006). Price stability is also a priority for optimal monetary policy (Özdemir & Tüzüntürk, 2009), as the main target of monetary policy is to maintain price stability (Bank Indonesia, 2024). From the perspective of monetary policy, price stability can be measured through low and stable inflation variables (Bank Indonesia, 2024). Table 1.1 describes Indonesian inflation before the existence of Islamic banking and the inflation rate after the 1997/1998 monetary crisis after the establishment of a dual banking system in accordance with Law Number 10 of 1998 concerning banking. In 1990 Indonesia's inflation ranged from 9.92 percent and continued to fluctuate, until the monetary crisis

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began at the end of 1997 making Indonesia's inflation began to increase by 1.13 percent. The peak of inflation occurred in 1998 where inflation was at the level of 77.60 percent, where this inflation was categorized as severe inflation. When the crisis occurred, only Bank Muamalat was able to survive, and contributed to inflation stability even though it was still very small (Rusliani, 2018). The steps taken by Bank Indonesia by raising interest rates to create inflation stability after the 1997/1998 monetary crisis, made Bank Muamalat more widely known because customers began to look for other alternatives by switching to Islamic banking rather than conventional banking when interest rates were getting higher, due to policies taken by Bank Indonesia (Muhri et al., 2022).

Table 1. Indonesia's Inflation Development In 2000-2022

Year	Inflation (%)	Year	Inflation (%)	Year	Inflation (%)
1990	9.92	2001	12.55	2012	4,30
1991	9.98	2002	10.03	2013	8,38
1992	5.04	2003	5.06	2014	8,36
1993	10.18	2004	6,40	2015	3,35
1994	9.64	2005	17,11	2016	3,02
1995	8.98	2006	6,60	2017	3,61
1996	6.04	2007	6,59	2018	3,13
1997	11.05	2008	11,06	2019	2,72
1998	77.60	2009	2,78	2020	1,68
1999	2.01	2010	6,96	2021	1,87
2000	9.4	2011	3,79	2022	5,51

The frequency of customers who switched from conventional banks to Muamalat banks had quite an effect on the monetary crisis in Indonesia, so that the crisis could be handled immediately, where inflation fell to 2.01 percent. During the crisis period, Islamic banking also had a positive effect as shown in the small distribution of non-performing finance (NPF)/problematic financing and smooth operational activities and no negative spread. In fact, Islamic banking can contribute funds to the production sector with a range of funds Loan to Deposit Ratio (LDR) of 113-117 percent (Wasiaturrahma, 2022; Suhel, 2011; Muttaqien, 2008). Since the early 2000s, the Islamic financial system has taken center stage in its contribution to the Indonesian economy. From 2013 to 2015, the Islamic banking sector controlled most Islamic financial assets in Indonesia (Suriani et al., 2021).

Furthermore, Table 1 illustrates Indonesia's inflation fluctuations after the financial crisis starting from 2000 to 2022. Inflation stability in Indonesia has experienced turmoil during the 2008 global economic crisis and the Covid-19 pandemic. In 2008 there was a global economic crisis in Indonesia which made inflation of 11.06 percent and the Covid-19 pandemic in 2020 inflation was 1.68 percent, this is the lowest inflation over the past 10 years. This was due to a decrease in people's purchasing power and the implementation of rules to limit people's movement to reduce the spread of Covid-19 (Bank Indonesia, 2024; Amalin & Panorama, 2020). Then, inflation experienced a slight increase of 0.19 percent in 2021, because the Covid-19 pandemic began to be overcome. Indonesia's inflation also began to show stability in 2022, where inflation increased by 3.64 percent. However, inflation instability in 2008 was not as severe as inflation in previous years, despite the high costs incurred for rescue and the impact of the global financial crisis, because since 2005 bank Indonesia as the monetary authority has implemented a full inflation targeting system, the aim is to control inflation at a lower level (Ascarya, 2012).

The most important part of a country's economic development is maintaining inflation stability in order to create a positive climate for economic and business activities (Bawono et al., 2021). The importance of maintaining stable inflation is also conveyed by Bank Indonesia, that low and stable inflation is a requirement for economic growth, because high and unstable inflation will have a negative impact such as a decrease in production, investment, and consumption. Bank Indonesia also stated that inflation stability is an important point in maintaining financial system stability, by taking the BI 7-Day Reverse Repo Rate (BI7DRR) policy on August 19, 2016, as a policy interest rate, and early warning monetary policy response in controlling inflation in order to create financial stability. Dirgantari & Barnas (2022) concluded that the BI Rate as a reference interest rate by Bank Indonesia can be used as a guideline in overall financial operations, in order to achieve the target. Interest rates are also a reference for banks in Indonesia to determine the amount of deposit interest and loan interest in banking transactions (Ajib et al., 2022). This provision is also strengthened by Law No. 4 of 2023 concerning the development and strengthening of the financial sector which regulates the strengthening of supervisory and regulatory relationships between institutions in the financial sector to realize financial system stability. The financial stability system requires an intermediary institution to realize inflation stability, namely banking. Banking has an important aspect in carrying out its function as an intermediary institution, namely in organizing public savings to be channeled in the form of credit and other financing to the business world (Warjiyo, 2006).

In Indonesia, according to Law Number 10 of 1998 concerning banking, conventional banks run dual banking systems, namely conventional banking systems and Islamic banking systems. Where the conventional system uses a fiat money system, fractional reserve banking and interest rate instruments, while the Islamic system uses full bodied / fully backed money, 100 percent reserve banking system and profit-sharing concept (Syarifuddin & Sakti, 2021). This research will focus on intermediary institutions, namely Islamic banking, where Islamic banking has unique characteristics and is very different from conventional banking. Islamic banking in its operations focuses on the principles of justice; profits are shared fairly, partnership; business partners synergize with each other, transparency; regular financial reports to investors, and universal; there are no differences in society (Financial Services Authority, 2024). Islamic banking has grown rapidly and has become a core financial center in today's world economy, especially in the last three decades (Lingga, 2022). The development of Islamic banking in Indonesia until 2023 according to Islamic banking statistics has reached 583 units for operational headquarters and 1,810 units for sub-branch offices or Islamic service units when compared to 2000 the head office was only 84 units, the operational head office was only 28 units and the sub-branch office was 8 units, so the development is quite rapid. The amount of banking assets in Islamic commercial banks and Islamic business units in 2003 was only Rp7,858,918, - with only 94 branch office networks and 116 operational headquarters / branch offices, then in 2008 when the global financial crisis occurred, Islamic banking assets increased to Rp49,555,122, - and until 2023 Islamic banking had assets of Rp1,236,078,000. Although, Islamic banks have not been operating for too long when compared to conventional banks, Islamic banks can prove that the management and utilization of their assets is running effectively (Maulidar & Majid, 2020).

Some of the financing products that have been introduced by Islamic banking since 2003 are musyarakah financing, mudharabah financing, murabahah receivables, salam receivables, istishna' receivables and others, then further increased with the existence of ijarah and qardh in 2007 (Islamic Banking Statistics 2003 & 2007, 2024). Islamic banking applies an asset and production-based system or profit sharing which can be found in musyarakah and mudharabah financing (Sasana & Ramdani, 2020), while murabahah, istishna, salam and ijarah as buying and selling (Financial Services Authority, 2024), and qardh which is included in the provision of services (Syarifuddin & Ali, 2021).

The movement of financing in Islamic commercial banks and Islamic business units, since 2005 mudharabah financing amounted to Rp3,124 billion, musyarakah amounted to Rp1,898 billion, murabahah amounted to Rp9,487, istishna amounted to Rp282 billion, ijarah amounted to Rp316 billion, qardh amounted to Rp125 billion, while salam did not exist. Then, it continues to grow every year as indicated by the increasing movement of the graph, until in 2008 when the global economic crisis occurred, the state of financing in Islamic commercial banks and Islamic business units continued to increase significantly. In 2008 there was an increase in mudharabah financing of Rp3,081 billion, musyarakah of Rp5,513 billion, murabahah of Rp12,999 billion, istishna of Rp87 billion, ijarah of Rp449 billion, qardh of Rp834 billion rupiah and salam no funds. Financing at Islamic commercial banks and Islamic business units continues to increase significantly every year, despite the Covid-19 pandemic in 2020, which has a significant impact on ijarah financing, where in 2019 ijarah financing amounted to IDR 10,589 billion, then in 2020 it decreased by IDR 1,954 billion and in 2021 it decreased further by IDR 1,727 billion. In other financing, there was a decrease in mudharabah financing, where in 2019 mudharabah financing amounted to IDR 13,779 billion, then decreased to IDR 11,854 billion and decreased again in 2021 by IDR 1,669 billion. However, this did not last long, the financing of Islamic commercial banks and Islamic business units increased again after the Covid 19 pandemic ended. In 2023, mudharabah financing amounted to Rp2,252 billion, musyarakah amounted to Rp278,161 billion, murabahah amounted to Rp248,600 billion, istishna' amounted to Rp3,915, ijarah amounted to Rp9,642, qardh amounted to Rp15,866 billion and salam had no funds.

In mudharabah financing, funds increased by Rp18,715 million, musyarakah increased by Rp73,314 million, murabahah increased by Rp674,177 million, istishna increased by Rp22,839 million, qardh increased by Rp33,642 million, and others by Rp17,988 million, while the decline occurred in salam financing by Rp52 million and decreased by Rp1,298 million. In the following year there were fluctuations in Islamic rural bank financing, except for musyarakah and murabahah financing which increased every year. When there was a covid 19 pademic in 2020, all financing increased when compared to 2019, except for salam financing which had no funds at all since 2017. In 2020, the calculated funds owned by Islamic rural bank financing, namely mudharabah financing increased by IDR 20,045 million, musyarakah financing increased by IDR 430,949 million, murabahah increased by IDR 190,727 million, istishna IDR 5,248 million, ijarah IDR 11,810 million, qardh IDR 45,822 million and others IDR 33,579 million. Furthermore, until now, the data for 2023 shows that the financing of Islamic rural banks has increased significantly. Mudharabah, musyarakah, murabahah, istishna, ijarah, qardh and other financing have funds of Rp200,783 million, Rp4,351,862 million, Rp10,239,542 million, Rp159,306 million, Rp209,821 million, Rp481,575 million, and Rp1,419,752, while salam financing has no funds at all.

This study uses one of the macro variables, namely interest rates as a control variable proxied by the BI rate, which is a moderating variable. The BI rate is a policy interest rate that describes the monetary policy decisions set by Bank Indonesia and announced to the public (Bank Indonesia, 2024). The BI rate functions as an intermediation variable between banks and the profit-sharing ratio for Islamic banking (Hidayati, 2014). The issues and debates that arise about

Islamic banking financing schemes and price stability in Indonesia and Bank Indonesia's policies are very interesting to discuss. Banking is one of the main institutions that mobilize domestic savings, for example in the form of financing for economic activities. Unstable economic conditions can be seen from price stability through inflation variables (Yunita, 2022). Several studies related to this research have been conducted previously regarding Islamic banking financing and its contribution to price stability using inflation variables (Bawono et al., 2021; Setiawan et al., 2022; Winarto & Beik, 2024; Yunita, 2022) through real sector business activities. Boyd et al. (2001) state that Inflation and the banking sector have a negative relationship that is nonlinear when inflation increases. Research conducted by (Apriyana et al., 2023) in the period 2018-2022 states that Islamic financing statistically does not affect inflation. Maski et al. (2018) stated in the period January 2012 to May 2016 using the ARDL model stated that the mudharabah financing variable cannot be used to stabilize inflation in both the short and long term, while the musyarakah variable can only stabilize inflation in the short term. However, in contrast to research conducted by Kismawadi et al. (2023); Safitri & Kurnia, (2022) that mudharabah and murabahah financing have a negative relationship with inflation in the long term. Mubarok et al. (2020) conducted research for the period January 2004 to December 2019 with the VECM model resulting in musyarakah financing responding positively and negatively to inflation variables and research conducted by Yanti & Khotimah (2022) also stated that bank financing influences inflation which has the potential to reduce profit margins. Afkar & Purwanto, (2021) examined murabahah, istishna', and ijarah financing before and during the covid 19 pandemic using the paired-sample t-test model with the 2019-2020 period, which showed that there was inflation instability during pademic covid 19, but isthisna financing responded positively to inflation, on the other hand, ijarah financing decreased during covid 19.

Furthermore, research conducted by Elfaki, (2023) used the autoregressive distributed lag (ARDL) model to test the validity of the Environmental Kuznets Curve (EKC) hypothesis with industrialization on CO2 emissions acting as moderation and using data for the period 1983-2018, and the variables used were CO2 emissions, energy consumption, industrialization, economic growth, and financial development in Indonesia in the long and short term in three separate models. This study used 3 models, and the last model used moderation, which showed that industrialization as a moderating factor of economic growth showed a significant negative impact on CO2, while economic growth squared positively with CO2 emissions, which did not validate the EKC hypothesis. Research using ARDL with moderating variables was also conducted by Chen et al. (2019) in Paskistan, Gill (2019) in Malaysia. Rjoub et al. (2021) in Turkey, which discusses the Environmental Kuznets Curve (EKC).

Based on the results of several previous studies and literature studies, it can be concluded that the difference in the interest rate system of Bank Indonesia, which uses a conventional system, and Islamic banks that use a sharia system is cotradictory. Islamic banks until now still make Bank Indonesia interest rates as a policy in decision making. The role of Bank Indonesia interest rates in Islamic bank financing can realize price stability or inhibit price stability. In previous studies, no one has made the interest rate variable a moderating variable between Islamic banking schemes and price stability. In this study using murabahah, mudharabah, musyarakah, isthisna', qardh and ijarah financing, while salam financing is not used because most of the data does not have funds. This study will also add a research period from January 2009 to March 2024, and no one has examined using the Autoregressive Distributed Lag (ARDL) model by adding moderation variables. Price stability in this study will be proxied through the inflation variable and interest rates proxied through the BI Rate variable. Therefore, this study aims to fill the gap of previous research and wants to see the Islamic banking financing scheme and price stability and whether interest rates can be an obstacle?

This research wants to identify the Islamic banking financing scheme on murabahah, mudharabah, musyarakah, istishna', qardh, and ijarah on price stability in Indonesia and whether interest rates can be an obstacle. Based on the background described above, the problems studied in this study can be identified as follows: 1. What is the effect of Islamic banking financing schemes on murabahah, mudharabah, musyarakah, istishna', qardh, and ijarah on price stability in Indonesia in the long term and short term? 2. Does interest rate moderate the effect of murabahah, mudharabah, musyarakah, istishna', qardh, and ijarah Islamic financing schemes on price stability? This study has the following objectives: 1. Test and analyze the effect of murabahah, mudharabah, musyarakah, istishna', qardh, and ijarah Islamic banking financing schemes on price stability in Indonesia in the long term and short term. 2. Test and analyze whether interest rates moderate murabahah, mudharabah, musyarakah, istishna', qardh, and ijarah Islamic financing schemes on price stability in Indonesia.

2. Materials and Methods

This study employs a quantitative descriptive approach. Data in quantitative research can be measured and analyzed using statistical tests. The clarification technique is used to explain the placement of the studied variables and the relationships between one variable and several others (Muzakki, 2016). The statistical analysis in this study is conducted using EViews 12, with the model constructed as illustrated in the following Figure:

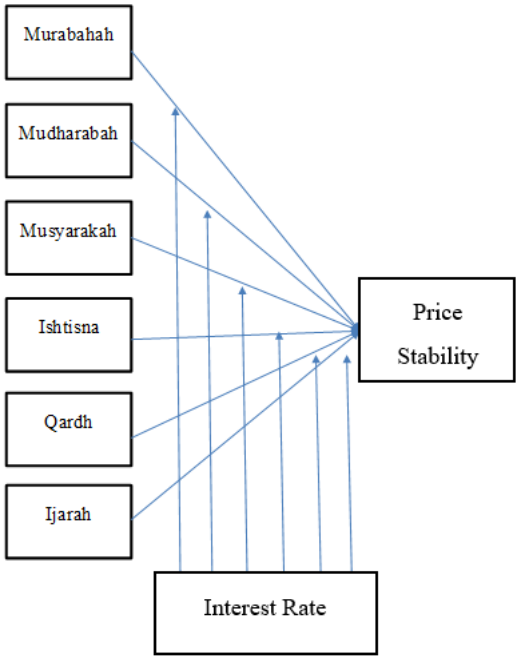


Figure 1. Research Framework

There are several hypotheses proposed in this study, the hypothesis as follows:
H1 : Murabaha financing has a positive effect on price stability
H2 : Mudharabah financing has a negative effect on price stability
H3 : Musharakah financing has a negative effect on price stability
H4 : Financing isthisna' has a negative effect on price stability
H5 : Qardh financing has a negative effect on price stability
H6 : Ijarah financing has a negative effect on price stability
H7 : Interest rate moderates the relationship between murabaha financing and price stability
H8 : Interest rate moderates the relationship between mudharabah financing and price stability
H9 : Interest rates moderate the relationship between mursyarakah financing and price stability
H10 : Interest rate moderates the relationship between isthisna' financing and price stability
H11 : Interest rate moderates the relationship between qardh financing and price stability
H12 : Interest rate moderates the relationship between ijarah financing and price stability

Equation 1: The effect of Islamic banking schemes on murabahah, mudharabah, musyarakah, istishna', salam, qard, and ijarah on price stability in Indonesia without the moderating variable of interest rates.

$$INF_t = a_\circ + b_1 BIRT_t + c_1 MUR_t + c_2 MUD_t + c_3 MUS_t + c_4 ISH_t + c_6 QAR_t + c_7 IJA_t + +\mu_t$$

Equation 2: The effect of Islamic banking schemes on murabahah, mudharabah, musyarakah, istishna', salam, qard, and ijarah on price stability in Indonesia with the moderating variable of interest rates.

$$INF_t = b_0 + d_1 BIRT_t + c_1 MUR_t + c_2 MUD_t + c_3 MUS_t + c_4 ISH_t + c_5 SAL_t + c_6 QAR_t + c_7 IJA_t + q_1 (BIRT * MUR_t) + q_6 (BIRT * QAR_t)$$

Where, INF: inflation, LMUR: logarithm of murabahah, LMUD: logarithm of mudharabah, LMUS: logarithm of musyarakah, LISH: logarithm of istishna, LQAR: logarithm of qardh, LIJA: logarithm of ijarah BIRT: interest rates, BIRT*LMUR: the moderating role of interest rates on murabahah financing, BIRT*LMUD: the moderating role of interest rates on mudharabah financing, BIRT*LMUS: moderating role of interest rates on musyarakah financing, BIRT*LISH: moderating role of interest rates on ishtisna' financing, BIRT*LQAR: moderating role of interest rates on qardh financing BIRT*LIJA: moderating role of interest rates on ijarah financing, a_0, b_0: constant or intercept, t: year, μ: error term. *: interaction. The tests carried out are stationarity test, lagoptimal test, classical assumption test, model stability test.

3. Results and Discussion

3.1. Data test

3.1.1 Stationarity Test

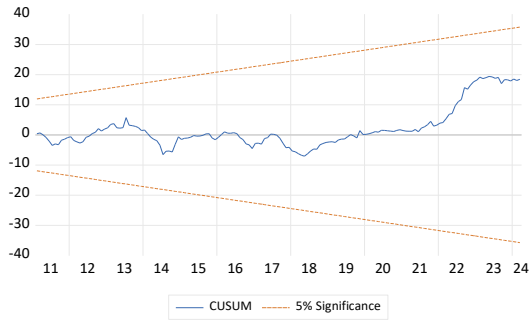
In the data stationarity test, the variables of inflation, BI Rate, mudharabah, musyarakah, murabahah, ishtisna, ijarah qardh, will use the Augmented Dickey-Fuller Test (ADF). Stationarity test results that show differences in stationarity in each research variable. The results found the logarithm of murabahah (LMUR), logarithm qardh (LQAR), logarithm ijarah (LIJA), stationary at level I (0), inflation (INF) and BI Rate (BIRT) BI Rate moderation logarithm murabahah (BIRT*LMUR), BI Rate moderation logarithm mudharabah (BIRT*LMUD), BI Rate moderation logarithm musyarkah (BIRT*LMUS), BI Rate moderated logarithm ishtisna (BIRT*LISH), BI Rate moderated logarithm qardh (BIRT*LQAR), BI Rate moderated logarithm ijarah (BIRT*LIJA), stationary at first different I(1), while other variables such as logarithm musyarakah (LMUS), logarithm mudharabah (LMUD), logarithm ishtisna (LISH) stationary at second different I(2).

3.1.2. Cointegration Test (Bound Test Cointegration)

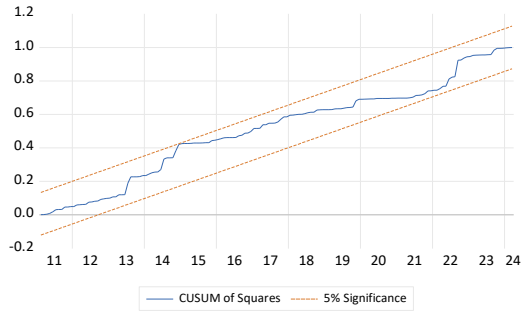
After conducting the stationarity test and optimal lag test, to produce the best estimate, it is necessary to conduct a cointegration test using the Bound Test. This cointegration test is to see the long-term relationship between the dependent variable and the independent variable. The cointegration test results show an F-statistic value of 4.1376 in Model 1 with lower bound and upper bound values of 3.021 and 4.35 at the 1 percent confidence level. Model 2 shows an F-statistic value of 3.9449 with a lower bound and upper bound value of -1 at the 1 percent confidence level. It can be concluded that Model 1 and Model 2 are not cointegrated. In this study, the classical assumption test was not carried out, because many cross-section data and time series data have a large number of observations, there is no need to test classical assumptions (Gujarati & Porter, 2009).

3.1.3. Model Stability Test

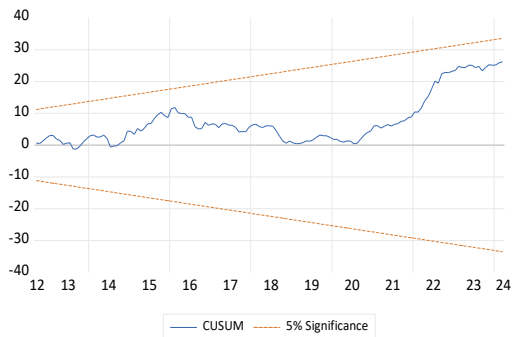
This study conducted a model stability test by looking at the cumulative sum of recursive residuals (CUSUM) and cumulative sum of recursive residual squares (CUSUMQ) test graphs for the stability of the selected ARDL model, illustrated in Figure 1.1 As seen in the figure, the CUSUM and CUSUMQ statistical plots remain within the 5 percent significance level of the critical boundaries. It can therefore be concluded that model 1 and model 2 used for estimation are stable.



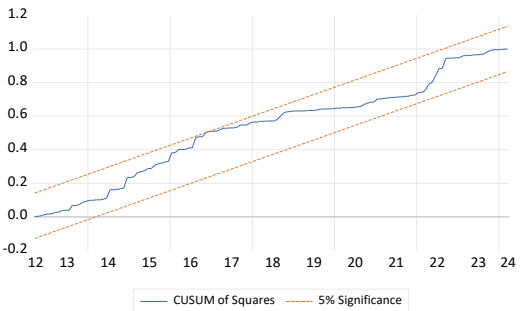
Model 1. CUSUM



Model 1. CUSUM Q



Model 2. CUSUM



Model 2. CUSUM Q

3.2. ARDL Estimation

Table 4. ARDL Estimation Results on Price Stability in Indonesia Without Interest Rate Moderation.

Variable	Coef.	t-Stat	Prob.
INF(-1)	1.183849	15.49812	0.000***
INF(-2)	-0.498725	-4.24446	0.000***
INF(-3)	0.251959	2.158854	0.0324**
INF(-4)	-0.101604	-1.350838	0.1787
BIRT	0.501617	1.964636	0.0512*
BIRT(-1)	-0.66869	-1.675001	0.0959*
BIRT(-2)	0.660221	1.663727	0.0981*
BIRT(-3)	-0.576303	-2.399838	0.0176*
LMUR	0.337872	0.446965	0.6555
LMUD	1.428529	1.179549	0.2399
LMUD(-1)	-0.841762	-0.502417	0.6161
LMUD(-2)	-1.834588	-1.49025	0.1381
LMUS	-3.965319	-1.794738	0.075*
LMUS(-1)	3.146944	1.522434	0.1299
LISH	0.192727	0.333903	0.7389
LQAR	1.658662	2.057658	0.0412**
LQAR(-1)	-1.804719	-2.199202	0.0293**
LIJA	1.084307	2.396696	0.0177**
C	8.427355	1.273856	0.2046
R-Squared: 0.935124; Adj R-Squared: 0.927825; F-statistic: 128.1237; Prob (F-stat): 0.000000			

Table 5. ARDL Estimation Results on Price Stability in Indonesia with Interest Rate Moderation.

Variabel	Coef.	t-Stat	Prob.
INF(-1)	0.805806	16.30219	0.0000***
BIRT	19.51681	2.250988	0.0260**
LMUR	18.53043	1.907144	0.0586*
LMUR(-1)	4.253175	0.469482	0.6395
LMUR(-2)	-3.223426	-0.732027	0.4654
LMUD	7.020001	1.769895	0.0789*
LMUD(-1)	0.079589	0.046128	0.9633
LMUD(-2)	-2.751781	-1.885678	0.0614*
LMUS	6.955090	0.72664	0.4687
LMUS(-1)	-20.88643	-2.637477	0.0093***
LMUS(-2)	3.714322	0.945253	0.3462
LMUS(-3)	-0.446345	-0.204531	0.8382
LISH	-19.76055	-2.003765	0.0470**
LISH(-1)	22.41229	2.602024	0.0103**
LQAR	-1.706492	-0.610604	0.5425
LQAR(-1)	-0.050784	-0.019475	0.9845
LIJA	-12.91243	-1.934105	0.0551*
LIJA(-1)	10.54091	1.395369	0.1651
LIJA(-2)	-5.435198	-1.422228	0.1572
LIJA(-3)	-0.062433	-0.029266	0.9767
LIJA(-4)	0.966039	0.470238	0.6389
LIJA(-5)	-0.088959	-0.060626	0.9517

BIRTLMUR	-3.092833	-1.940995	0.0543*
BIRTLMUR(-1)	-0.679017	-0.584305	0.5600
BIRTLMUD	-1.146753	-1.603314	0.1111
BIRTLMUS	-2.078470	-1.260701	0.2095
BIRTLMUS(-1)	4.357835	3.150371	0.0020***
BIRTLMUS(-2)	-0.679607	-1.604105	0.1110
BIRTLISH	3.086401	1.949767	0.0532*
BIRTLISH(-1)	-3.261123	-2.355729	0.0199**
BIRTLQAR	0.569002	1.290119	0.1992
BIRTLQAR(-1)	-0.264899	-0.62924	0.5302
BIRTLIJA	2.764352	2.539918	0.0122**
BIRTLIJA(-1)	-1.822301	-1.487604	0.1391
BIRTLIJA(-2)	0.885914	1.674514	0.0963*
BIRTLIJA(-3)	-0.021258	-0.429383	0.6683
BIRTLIJA(-4)	0.005678	0.123149	0.9022
BIRTLIJA(-5)	-0.022418	-0.794555	0.4282
C	-89.82110	-1.83128	0.0692*
R-Squared: 0.945329; Adj R-Squared: 0.930383; F-statistic: 63.24955; Prob (F-stat): 0.000000			

In Model 1 the estimation results using ARDL the effect of Islamic banking financing schemes on murabahah, mudharabah, musyarakah, istishna, salam, qard, and ijarah on price stability are shown in Table 4.4 with a coefficient of determination of 0.935124. This shows that the murabahah, mudharabah, musyarakah, istishna, qardh, and ijarah variables can explain price stability in Indonesia by 93.51 percent, while the remaining 6.49 percent is explained by other variables not in the model. Then, simultaneously the murabahah, mudharabah, musyarakah, istishna, salam, qard, and ijarah variables affect price stability in Indonesia, which is displayed by the F-statistic probability value of 0.000000 percent with a confidence level of 1 percent. This is also evidenced by the F hypothesis test which states that the F-table value is 2.06 < F-statistic of 128.1237. Hypothesis H1 is accepted that there is a significant influence between the independent variables on the dependent variable simultaneously. The results of this study are in line with research conducted by A & Aimon, (2022) Maski et al., (2018), Ponziani, (2020), Nainggolan, (2023), Winarto & Beik, (2024), Bawono et al., (2021) which states that there is an effect of interest rates, murabahah, mudharabah, musyarakah, istishna, qardh, and ijarah on price stability, where productivity carried out by Islamic banking financing can affect price stability, Setiawan et al., (2022) emphasized that Islamic banking has contributed to reducing inflation and maintaining price stability.

Also, the research results found that the BI rate has a positive effect on inflation, this is indicated by the probability value at lag value 0 of 0.051, at a confidence level of 10 percent which has a coefficient of 0.501617. So when there is an increase in BI rate by 1 percent inflation increases by 0.501617 percent. Based on the t-test to see the effect partially, the t-statistic value of 1.964636 is greater than the t-table value of 1.65361, the decision is obtained to reject H0 accept H1. From this estimation result, we can conclude that any increase in interest rates can disrupt price stability, ceteris paribus. These results from this study are in line with research conducted by (Kezia et al., 2020), (Elvina et al., 2021), (A & Aimon, 2022), Sari & Nurjannah, (2023) which states that when interest rates increase, the cost of capital also increases, which influences increasing higher production costs. So to compensate for the increased production costs, the price of goods will be raised which causes inflation to increase, making market price stability decrease. An increase in interest rates also causes lending rates in the real sector to increase, which results in an increase in the interest burden of credit, to cover this burden, investors will adjust the selling price of their products to maintain the expected level of profit, which causes inflation (Subiyakto & Purnama). This is also reinforced by the concept of Gibson's paradox which states that there is a positive correlation between interest rates and inflation.

This study also found that murabaha financing has no effect on inflation. This is evident from the probability value at lag value 0 of 0.6555, at a confidence level of 5 percent. Based on the t-test to see the partial effect, the t-statistic value of 0.446965 is smaller than the t-table value of 1.97361, the decision to accept H0 is obtained. So it can be stated that murabaha financing has no effect on price stability, ceteris paribus. So it can be concluded that murabaha financing cannot stabilize prices. The research results are not in line with the research conducted by Bawono et al. (2021) and Yahya & Rahman (2021). This study also found that mudharabah financing has no effect on inflation, as evidenced by the probability value of mudharabah financing of 0.2399 at a 5 percent confidence level. Based on the t test to see the partial effect, the t-statistic value of 1.179549 is smaller than the t-table value of 1.9736, the decision to accept H0 is

obtained. So it can be concluded that mudharabah financing has no effect on price stability, ceteris paribus. The results are not in accordance with research conducted by Se & Adirestuty, (2018), Kismawadi et al., (2023), Safitri & Kurnia, (2022). However, the absence of the effect of murabahah financing and mudharabah financing on inflation is in accordance with research conducted by Maski et al., (2018), Kismawadi et al., (2023), Safitri & Kurnia, (2022). However, the absence of the effect of murabahah financing and mudharabah financing on inflation is in accordance with research conducted by Maski et al., (2018) and Apriyana et al., (2023) who argue that statistically Islamic financing does not affect inflation, supported by Saekhu's research, (2015) which states that the scale of Islamic banks is still small, so the influence caused is also still very small. This is evidenced by the average total assets of Islamic banks when compared to conventional banks based on data from the Financial Services Authority in May 2024 is an Islamic bank of 593,487 billion rupiah, while conventional banks are 11,217,207 billion rupiah.

Meanwhile, musyarakah financing has a negative effect on inflation, as evidenced by the probability value of 0.0746, at a significance level of 10 percent which has a coefficient value of -3.9653. So every increase in musyarakah financing by 1 billion rupiah reduces inflation by 3.9653 percent. Based on the t-test to see the partial effect, the t-statistic value of -1.794738 is greater than the t-table value of -1.65361, the decision to reject H0 accepts H1. So it can be concluded that musyarakah financing can stabilize prices, ceteris paribus. This research is in line with the research of Maski et al., (2018) which is supported by Adela's research, (2018) which states that musyarakah financing has 3 types of return rates, namely the return rate of depositors' musyarakah, the return rate of bank's musyarakah, and the return rate of investors' musyarakah. Musyarakah financing is more efficient and flexible in influencing economic activity, the productivity generated by musyarakah financing can maintain price stability and market equilibrium. Based on data from the Financial Services Authority, musyarakah financing has the most funds amounting to IDR 382,954 billion. Ishtisna' financing was found to have no effect on price stability. This is evidenced by the probability value of 0.7389 at the 5 percent significance level.

Based on the t-test to see the partial effect, the t-statistic value of 0.333903 is smaller than the t-table value of 1.9736, the decision to accept H0 is obtained. So it can be concluded that isthisna' financing cannot maintain price stability ceteris paribus. The results of this study are not in line with the research of Afkar & Purwanto, (2021), Selim (2020). These results are explained in the research of Riani et al., (2023) which states that isthisna 'financing has several obstacles in carrying it out, namely high financing risk, the existence of alternative contracts, the risk of developer failure, Islamic bank business strategies, and inadequate profits, as well as the level of trust of customers and developers. This opinion is reinforced by (Yanti, 2020) which states that istishna financing income in each year 2015 to 2018 in 14 commercial Islamic banks, experienced a very significant decline, thus affecting the profitability generated by Islamic commercial banks. This research is also supported by Devyane et al., (2022) and Andriani & Sari, (2021) which state that the allocation of isthisna' financing is the least because it is less attractive to customers, istishna financing is only in the form of ordering manufactured products and the level of marketing is also still lacking, and isthisna' financing has no significant effect on the return of assets (ROA) of Islamic banking.

Furthermore, qardh financing is found to have a positive effect on inflation, as evidenced by the probability value at lag 0 of 0.0412, with a confidence level of 5 percent which has a coefficient value of 1.658662. When qardh financing increases by 1 billion rupiah it increases inflation by 1.658662 percent. Based on the t test to see the partial effect, the t-statistic value of 2.057658 is greater than the t-table value of 1.9736, the decision to reject H0 accepts H1. So it can be concluded that qardh financing disrupts price stability. This is in accordance with research conducted by Selim, (2018) and Dirgantari & Barnas (2022), during the 1997-1998 monetary crisis, gold prices increased and inflation, to meet their needs the community sold gold, because the increasing volume of gold qardh sales made inflation soar. When the application of qardh financing in the form of qardh al-hasan is implemented, it is usually done for expansionary monetary policy, this can lead to higher inflation rates. Ijarah financing is found to have a positive effect on inflation, as evidenced by a probability value of 0.0177, at a 5 percent confidence level, which has a coefficient value of 1.084307. When ijarah financing increases by 1 billion rupiah inflation increases by 1.084307 percent. Based on the t-test, the t-statistic value of 2.396696 is greater than the t-table value of 1.9736, the decision to reject H0 accepts H1. So it can be concluded that ijarah financing disrupts price stability. This result is in accordance with research conducted by Afkar & Purwanto (2021), when the covid-19 lease decreases, there is no demand for prices to decrease. Supported by Bustami's research, (2017) which states that in Indonesia the application of ijarah is in the Al-Ijarah Muntahiya Bi al Tamlik (IMBT) product, which is basically a combination of leasing and buying and selling, if there is an increase in demand for IMBT products, the price of goods will also increase, in accordance with the law of demand, an increase in demand for an item will increase the price.

In Model 2, the estimation results using ARDL which test the role of interest rates in moderating the effect of murabahah, mudharabah, musyarakah, istishna', qard, and ijarah Islamic financing schemes on price stability are shown in Table 1.2 with a coefficient of determination of 0.945329. So it can be interpreted that the proportion of murabahah, mudharabah, musyarakah, istishna', salam, qard, and ijarah Islamic financing can explain price stability in Indonesia by 94.53 percent while the other 5.47 percent is explained by other variables outside the model. Simultaneously, interest rates moderate financing. murabahah, mudharabah, musyarakah, istishna', salam, qard, and

ijarah on price stability with an F-statistic probability value of 0.0000, which can be concluded to have an effect with a 1 percent confidence level. This is also evidenced by the F hypothesis test which states that the F-table value is 1.81 < F-statistic of 128.1237.

This study shows that interest rate as a moderating variable has a probability value of 0.026 > 0.05, which means that BI Rate has a positive effect on inflation and is significant. So it can be concluded that interest rates disrupt price stability, ceteris paribus. Furthermore, this study found that murabaha financing has a positive effect on inflation, which means that murabaha financing can disrupt price stability. Evidenced by the probability value at lag value 0 of 0.0586 at a confidence level of 10 percent with a coefficient value of 18.53043. Meanwhile, when murabaha financing is moderated by BI Rate at lag value 0, it produces a coefficient value of -3.092833 with a probability value of 0.0543 at a confidence level of 10 percent. These results explain that BI Rate moderation on murabaha financing has a negative effect on inflation and is significant. The coefficient shows that when the BI Rate increases by 1 percent, the effect of murabaha financing on inflation will decrease by 3.092833 percent, which means that an increase in the BI Rate can weaken the relationship between murabaha financing and inflation. Based on the t-test, the t-statistic value of -1.940995 is greater than the t-table value of -1.65387, the decision to reject H0 accepts H1. These estimation results interpret that interest rate moderation on murabaha financing can stabilize prices ceteris paribus. The results of this study are in line with the research of Cahya & Mubarokah, (2023), (Dwijayanty (2017), Kismawadi et al., (2023) & Šeho et al., (2020) reinforced by the research of Perdana et al., (2020) & Rasyidah & Azizuddin, (2022) which states that the Bank considers the BI interest rate when setting profit sharing. If the BI rate is high with the same profit sharing system, the bank will lose money, thereby reducing the murabaha financing facility. The high BI interest rate causes murabaha financing to decline. If murabaha financing decreases, the surge in demand for goods will also decrease, this is able to stabilize prices.

This study found that mudharabah financing has a positive effect on inflation, as evidenced by the probability value at lag 0 of 0.0789 at a 10 percent confidence level with a coefficient value of 7.020001. Meanwhile, when mudharabah financing is moderated by BI Rate, it has no effect on inflation. Based on the t-test, the t-statistic value of -1.603314 is smaller than the t-table value of -1.65387, H0 is accepted. These estimation results interpret that interest rate moderation on mudharabah financing has no effect on price stability ceteris paribus. This result is not in accordance with the research conducted by Kismawadi et al., (2023), Aminullah et al., (2021) & Widyastuti, (2019), but in line with the research of Rohmi & Fahlevi, (2022) & (N et al., 2016) which argue that the benchmark interest rate aims for price stability, however, an increase or decrease in the benchmark interest rate does not directly impact the increase or decrease in the real value of profit sharing received by the public when saving money or applying for financing at Islamic banks. The direct impact of an increase or decrease in the benchmark interest rate will greatly impact conventional banks. Therefore, Islamic bank customers will be careful in their transactions when the benchmark interest rate is increased or decreased by the government. This study found that musyarakah financing has a negative effect on inflation, which means that musyarakah financing can realize price stability. Proven by the probability value at lag value 1 of 0.0093 at a confidence level of 1 percent with a coefficient value of -20.88643. Meanwhile, when musyarakah financing is moderated by BI Rate at lag value 1, it produces a coefficient value of 4.357835 with a probability value of 0.0020 at the 1 percent confidence level. These results explain that BI Rate moderation on mursyarakah financing has a positive and significant effect on inflation. The coefficient shows that when BI Rate increases by 1 percent, the effect of musyarakah financing on inflation will increase by 4.35783 percent, which means that an increase in BI Rate can strengthen the relationship between murabaha financing and inflation. Based on the t-test, the t-statistic value of 3.150371 is greater than the t-table value of 2.34862, the decision to reject H0 accepts H1. These estimation results interpret that interest rate moderation in musyarakah financing can weaken price stability ceteris paribus. These estimation results are not in line with the research of Priyanto et al. (2016) & Hafizh et al. (2020).

Fluctuations in inflation and interest rates are macroeconomic indicators that have an important role in the distribution of Islamic banking financing (Sakti & Harun, 2013), because the distribution of funds for musharakah financing in Islamic financial institutions is still relatively small (Hidayah et al., 2021). The interest rate set by Bank Indonesia as an instrument of monetary policy will indirectly have an impact on the distribution of financing by Islamic banks. An increase in interest rates will affect the performance of third-party fundraising in Islamic banks because when interest rates rise, it can increase the risk of moving funds from Islamic banks to conventional banks (Kasri & Kassim, 2009). This will result in less musyarakah financing funds, resulting in less capital that can be provided to the mudharib, which reduces productivity. If this happens, there will be a scarcity of goods and cause inflation. Inflation increases over a long period of time resulting in a lack of price stability. However, musyarakah financing can also be developed on a large scale, because musyarakah financing is usually proposed by entrepreneurs and businesspeople who want to develop their business, which can have more than one shahibul mal and mudharib, and shahibul mal / investors can participate in musyarakah financing transactions. The large-scale business sector has a higher sensitivity to interest rates. This is because the proposed financing request is relatively large and has a long maturity period so that high interest rates will increase the burden on the company, especially in the future, to reduce this burden, the company will

look for alternatives to stabilize it. In general, companies will increase the price of output goods, which leads to inflation and price instability (Mubarok et al., 2020).

This study found that ishtisna' financing has a negative effect on inflation, which means that isthisna' financing can realize price stability. Proven by the probability value at lag value 0 of 0.0470 at 5 percent confidence level with a coefficient value of -19.76055. Meanwhile, when ishtisna financing is moderated by BI Rate at lag value 0, it produces a coefficient value of 3.086401 with a probability value of 0.0532, at a confidence level of 10 percent. These results explain that BI Rate moderation on ishtisna financing has a positive and significant effect on inflation. The coefficient shows that when BI Rate increases by 1 percent, the effect of ishtinsa financing on inflation will increase by 3.086401 percent, which means that an increase in BI Rate can strengthen the relationship between ishtisna financing and inflation. Based on the t-test, the t-statistic value of 1.949767 is greater than the t-table value of 1.65387, the decision to reject H0 accepts H1. These estimation results interpret that interest rate moderation in isthisna' financing can weaken price stability ceteris paribus. This is in accordance with the research of Hasanah & Septiarini (2020), Hasmawati & Mohamad (2019) Yusof et al., (2015), because in principle istishna' is a sale and purchase contract between customers and banks as producers who act as traders. The customer charges the producer to provide the goods according to the customer's wishes and sell them to the customer. This is in line with research conducted by (Kismawadi et al., 2023), (Ardiansyah et al., 2019), (Sudarsono & Shidiqie, 2022) & (Sudarsono, 2017) that consumptive financing has a unidirectional relationship with inflation, which means in reducing price stability.

Qardh financing has no effect on inflation, which means that qardh financing cannot realize price stability. Proven by a probability value of 0.5425 at a 5 percent confidence level. Similarly, when qardh financing is moderated by BI Rate, it has no effect on inflation, as evidenced by a probability value of 0.1992, at a 5 percent confidence level. These results explain that BI Rate moderation on qardh financing has no effect on inflation and is significant. Based on the t-test, the t-statistic value of 1.290119 is smaller than the t-table value of 1.97402, the decision to accept H0 is obtained. These estimation results interpret that interest rate moderation on qardh financing has no effect on price stability ceteris paribus. The results of this estimation are in accordance with the research of Dirgantari & Barnas, (2022), this is because qardh financing is a loan given to customers that has provisions and requirements in its implementation, after the time the goods will be returned intact in accordance with the contract at the beginning (Falikhatun et al., 2015).

Ijarah financing has a negative effect on inflation, which means that ijarah financing can realize price stability. Evidenced by a probability value of 0.0551 at a 10 percent confidence level. Meanwhile, when ijarah financing is moderated by BI Rate, it influences inflation, as evidenced by a probability value of 0.0122, at a 5 percent confidence level with a coefficient value of 2.764352. The coefficient shows that when BI Rate increases by 1 percent, the effect of ijarah financing on inflation will increase by 2.764352, which means that an increase in BI Rate can strengthen the relationship between ijarah financing and inflation. These results explain that BI Rate moderation on ijarah financing affects inflation and is significant. Based on the t-test, the t-statistic value of 2.539918 is greater than the t-table value of 1.97402, the decision to accept H1, reject H0 is obtained. These estimation results interpret that interest rate moderation on ijarah financing can weaken price stability ceteris paribus. The research results are in line with Yusuf & Isa's (2021) research. Ijarah that people know is a renting activity by the owner of the rental object and the tenant who gets a return on the object offered. Islamic banks will get profits that depend on the number of customers who use ijarah contracts. Ijarah products in buying and selling can weaken price stability, if they continue to be implemented without any applicable provisions. This can also lead to demand pull inflation as there is a potential for demand to increase, without being matched by available products.

4. Conclusions

This study focuses on Islamic banking financing schemes on murabahah, mudharabah, musyarakah, istishna', qardh, and ijarah on price stability in Indonesia and the moderating relationship of interest rates on Islamic banking financing on price stability in Indonesia. This study proves that interest rates, qardh financing, ijarah financing affect price stability. In contrast, musyarakah financing can realize price stability. Murabahah, mudharabah financing cannot realize price stability. This inteprets that Islamic bank financing with the musyarakah system is an important point in increasing Islamic bank financing. Then, this study indicates that the moderation of interest rates on murabahah financing can stabilize prices. However, moderation of interest rates on musyrakah, ishtisna, ijarah financing weakens price stability. Meanwhile, interest rates on mudharabah and qardh financing have no effect on price stability. By looking at the limitations that exist in this study, it is hoped that further research can consider several elements, namely the suggestions given by the researcher. Price stability in Indonesia tends to be very volatile, Bank Indonesia as a policy maker, must be precise in making policies to maintain price stability in Indonesia. Islamic banks are still small-scale with minimal assets, lacking a place in the financial sector. Bank Indonesia as a policy maker, must focus more on the growth of Islamic banks in Indonesia.

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