

THE EFFECT OF EXCHANGE RATES, MONEY SUPPLY, AND INFLATION ON ISLAMIC BANKING FINANCING IN SUMATRA, INDONESIA

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Abstract

*This study aims to analyze the partial and simultaneous effects of exchange rates, money supply, and inflation on Islamic banking financing across five provinces in Sumatra — Aceh, North Sumatra, West Sumatra, Riau, and South Sumatra — over the period January 2021 to December 2025. Using a quantitative, causal-associative design and balanced panel data, the research employs multiple linear regression with the Fixed Effects Model in EViews 12, utilizing *t*-tests for partial effects and *F*-tests for simultaneous effects. The results show that, individually, all three variables — exchange rate ($t = 2.404$; $p = 0.001$), money supply ($t = 5.938$; $p = 0.000$), and inflation ($t = 2.131$; $p = 0.005$) — have a positive and significant impact on total financing. For Murabahah financing, only money supply is significant ($t = 5.106$; $p = 0.000$), while exchange rate and inflation are not. Similarly, for Mudharabah financing, only money supply shows a significant positive effect ($t = 5.248$; $p = 0.000$), with exchange rate and inflation statistically insignificant. Simultaneously, the three variables jointly influence all three financing measures ($p < 0.001$). The findings indicate that systemic liquidity, measured by money supply, is the primary macroeconomic driver of Islamic financing in Sumatra, while exchange rate and inflation play secondary, aggregate-level roles. Maintaining ample liquidity alongside stable prices and exchange rates remains key to supporting sustainable Islamic financing growth in the region.*

Keywords: Exchange Rate, Money Supply, Inflation, Islamic Banking Financing, Murabahah, Mudharabah, Panel Data, Macroeconomic Determinants, Sumatra, Indonesia.

INTRODUCTION

The global expansion of Islamic finance in recent decades has positioned it as a vital alternative to conventional banking, particularly in Muslim-majority nations such as Indonesia. As the country with the world's largest Muslim population, Indonesia possesses immense potential for the growth and development of a robust Islamic financial system. Islamic banking plays a critical role in supporting real-sector economic activity by channeling funds to productive ventures through contracts that comply with Sharia principles, such as *Murabahah* (cost-plus sale) and *Mudharabah* (profit-sharing partnership) (Ahmadi & Saputri, 2025). Unlike conventional banking, which relies heavily on interest-based transactions, Islamic banking operates on the basis of risk-sharing, transparency, and ethical investment, making it theoretically more resilient to certain types of macroeconomic volatility (Azwar et al., 2024).

Despite its rapid growth, the expansion of Islamic banking financing in Indonesia has exhibited considerable fluctuation over the 2021–2025 period. Data published by the Financial Services Authority (OJK) reveals that financing growth peaked at 20.10% in 2022 before decelerating to approximately 8.40% by 2025. This instability raises important questions about the external factors that influence Islamic banks' ability to extend financing. While internal factors such as capital adequacy, management quality, and operational efficiency are clearly important, external macroeconomic conditions—specifically exchange rate movements, money supply fluctuations, and inflationary pressures—may also exert significant influence. These variables shape the broader economic environment in which Islamic banks and their clients operate, affecting investment decisions, business profitability, and credit risk (Rahmayanti et al., 2023).

The link between macroeconomic conditions and Islamic banking financing is theoretically complex. Exchange rate volatility impacts the cost of imported inputs, the competitiveness of export-oriented businesses, and the overall level of economic uncertainty, all of which may alter the demand for and supply of Islamic financing (Bawono et al., 2021). Money supply growth reflects the degree of liquidity in the economy; an expanding money supply typically lowers borrowing costs and encourages investment, thereby boosting financing activity (Afrianto, 2025). Inflation, meanwhile, erodes purchasing power, distorts price signals, and increases business risk, potentially discouraging both investment and financing (Arianti & Abdullah, 2021). Importantly, because Islamic financing products differ structurally from conventional loans—particularly profit-sharing contracts such as *Mudharabah*—they may respond to macroeconomic conditions in distinctive ways that existing research has not fully explored (Fakhrunnas, 2020).

This study focuses specifically on five provinces in the island of Sumatra: Aceh, North Sumatra, West Sumatra, Riau, and South Sumatra. These provinces were selected because they represent the most developed Islamic banking markets in Sumatra, possess complete and consistent data records over the study period, and reflect diverse economic structures ranging from resource-rich regions to commercial and service-oriented urban centers. The period from January 2021 through December 2025 was chosen to capture the most recent trends in Islamic banking development alongside significant macroeconomic shifts (Ritonga et al., 2025).

The primary objective of this research is to empirically examine the partial and simultaneous effects of exchange rates, money supply, and inflation on total Islamic banking financing, *Murabahah* financing, and *Mudharabah* financing in Sumatra. By distinguishing between the two dominant financing contracts, this study seeks to determine whether different Islamic financing instruments respond uniformly or distinctively to macroeconomic conditions. The findings will assist policymakers, banking practitioners, and academic researchers in understanding how macroeconomic stability influences Islamic banking development and which policy measures might best support sustainable financing growth (Kurniawan et al., 2025).

LITERATURE REVIEW

2.1 Theoretical Foundations

Three core macroeconomic variables form the conceptual framework of this study: exchange rates, money supply, and inflation. An exchange rate represents the price of one currency expressed in terms of another. Fluctuations in the rupiah–US dollar exchange rate alter the cost of imported goods and services, the profitability of export-oriented firms, and the general level of economic uncertainty. According to purchasing power parity theory, sustained differences in inflation rates between countries drive long-term exchange rate movements, while short-term fluctuations are influenced by interest rate differentials, capital flows, and market expectations (Terayana & Triaryati, 2018). In the context of a developing economy such as Indonesia, exchange rate depreciation is generally expected to increase business costs, raise uncertainty, and thereby constrain financing activity (Riwana et al., 2024).

Money supply—measured in this study by the broad money aggregate M2—represents the total stock of liquidity circulating in the economy. According to classical monetary theory, expansion of the money supply, when not matched by equivalent growth in real output, tends to lower interest rates and stimulate aggregate demand. Under normal conditions, greater liquidity should translate into more abundant funding for Islamic banks, increasing their capacity to extend financing. However, excessive money creation may

also fuel inflation, creating a trade-off between liquidity provision and price stability that complicates the relationship between money supply and financing (Ulfa & Fisabilillah, 2024; Sinaga et al., 2025).

Inflation refers to a sustained increase in the general price level, which erodes real incomes, distorts relative prices, and increases economic risk. Demand-pull inflation arises when aggregate spending exceeds productive capacity, while cost-push inflation originates from rising production costs. In the context of Islamic banking, inflation is particularly relevant because it alters the real value of both financing repayments and profit-sharing margins over time. Because Islamic contracts prohibit fixed interest rates, inflation risk must be absorbed through adjustments to profit-sharing ratios or *Murabahah* markups, which may affect both the willingness of banks to extend financing and the ability of clients to repay (Arianti & Abdullah, 2021).

Islamic banking theory provides additional perspective on these relationships. *Murabahah* is a sale-based contract in which the bank purchases an asset on behalf of the client and resells it at an agreed markup. Because the markup is determined upfront, *Murabahah* resembles a fixed-price transaction and therefore shares some characteristics with conventional fixed-rate lending, potentially making it relatively sensitive to cost and price fluctuations (Marzuki, 2024). *Mudharabah*, by contrast, is a pure profit-sharing arrangement in which the bank provides all capital and the client manages operations; returns depend entirely on actual business performance. This structure implies that *Mudharabah* financing should be driven primarily by real-sector profitability rather than by price-level or exchange rate movements (Hutagalung, 2022).

2.2 Empirical Review

Existing research yields mixed evidence regarding the impact of macroeconomic variables on Islamic banking financing. Ritonga et al. (2025) examined macroeconomic determinants of *Murabahah* financing in Indonesia and found that in the long run, inflation and the BI policy rate negatively affect *Murabahah* volumes, while exchange rates exert a positive influence. In the short run, however, no variable displayed a statistically significant effect. This suggests that price-level effects operate with a lag and that *Murabahah* may be relatively insulated from temporary macroeconomic shocks (Bawono et al., 2022).

Lestari and Arfiansyah (2025) approached the issue indirectly by examining non-performing financing (NPF) as a measure of financing risk. Their results showed that inflation, the BI rate, and economic growth all reduce NPF, implying that moderate macroeconomic expansion improves repayment capacity and supports financing quality. This suggests that macroeconomic influences may operate indirectly through risk channels rather than directly through financing volumes. Similarly, Rahmayanti et al. (2023) found in a long-term analysis that inflation reduces Islamic banking financing, while liquidity measures such as third-party funds increase it.

Bawono et al. (2021) compared the effects of inflation, interest rates, and exchange rates across several Islamic financing contracts. They reported that inflation and interest rates had no significant effect on total financing, *Mudharabah*, or *Murabahah*, while exchange rates displayed contract-specific effects—negative for *Musharakah* but positive for *Murabahah*. These differences reinforce the importance of distinguishing between financing types rather than relying solely on aggregate figures. Siata (2025), however, found that inflation, interest rates, and exchange rates all significantly affect Islamic financing extended to micro, small, and medium enterprises in Jakarta, suggesting that results may vary by region and client segment.

Fakhrunnas et al. (2023) further observed that macroeconomic impacts can be asymmetric, meaning that increases and decreases in inflation or exchange rates do not produce equal responses in Islamic

financing. This finding cautions against assuming linear relationships and highlights the value of examining different financing contracts separately, as each may possess unique sensitivity to macroeconomic conditions. Winarto and Beik (2024) also confirmed that Islamic monetary instruments and financing interact with inflation and growth in complex ways, with liquidity often emerging as the strongest driver.

Collectively, the literature indicates that macroeconomic effects on Islamic financing are neither uniform nor fully understood. Exchange rates, money supply, and inflation appear to influence financing, but the direction, magnitude, and significance of these effects vary across studies, time periods, and financing contracts (Bawono et al., 2022; Nurhikmah et al., 2025). Few studies have explicitly compared *Murabahah* and *Mudharabah* responses using consistent methodology, and none have focused specifically on the Sumatra region during the post-pandemic 2021–2025 period. This research gap provides the principal motivation for the present study.

2.3 Conceptual Framework and Hypotheses

Drawing from theory and prior research, this study proposes that exchange rates, money supply, and inflation collectively shape Islamic banking financing conditions. Exchange rate movements alter costs and uncertainty; money supply determines systemic liquidity; and inflation influences purchasing power, costs, and risk. These effects may differ between *Murabahah* and *Mudharabah* because of their distinct contractual structures and risk profiles (Oria & Oria, 2025). Accordingly, the following hypotheses are formulated:

H₁: Exchange rate, money supply, and inflation each partially influence total Islamic banking financing in Sumatra.

H₂: Exchange rate, money supply, and inflation each partially influence *Murabahah* financing.

H₃: Exchange rate, money supply, and inflation each partially influence *Mudharabah* financing.

H₄: Exchange rate, money supply, and inflation jointly and simultaneously influence total financing, *Murabahah*, and *Mudharabah*.

METHOD

3.1 Research Design

This study employs a quantitative causal-associative design to examine relationships between independent macroeconomic variables and dependent financing variables. Panel data techniques are used to combine cross-sectional information from five provinces with time-series observations spanning January 2021 through December 2025, yielding a balanced panel dataset of 300 observations (5 provinces × 60 months). This approach allows for improved estimation efficiency, greater statistical power, and the ability to control for unobserved province-specific characteristics (Creswell & Inoue, 2024).

Table 3.2 Variable Definitions

Variable	Symbol	Definition and Measurement
Exchange Rate	X ₁	Monthly average midpoint rate of Indonesian rupiah against US dollar, published by Bank Indonesia
Money Supply	X ₂	Broad money (M2) in trillion rupiah, comprising currency in circulation plus demand, time, and savings deposits
Inflation	X ₃	Monthly year-on-year change in the Consumer Price Index, expressed as a percentage
Total Financing	Y ₁	Aggregate outstanding Islamic banking financing in billion rupiah
<i>Murabahah</i> Financing	Y ₂	Outstanding financing extended under cost-plus sale contracts, in billion rupiah
<i>Mudharabah</i> Financing	Y ₃	Outstanding financing extended under profit-sharing contracts, in billion rupiah

Source: Compiled from Bank Indonesia, BPS, and OJK (processed by the Author, 2026)

3.3 Data Sources

All data are obtained from authoritative public sources: Islamic banking financing statistics from the Financial Services Authority (OJK); exchange rate and money supply data from Bank Indonesia; and inflation data from the Central Bureau of Statistics (BPS). These sources ensure consistency, reliability, and comparability across provinces and over time (Bank Indonesia, 2025; BPS, 2025; OJK, 2025).

3.4 Analytical Methods

Data processing and statistical estimation are performed using EViews 12 software. The analytical sequence proceeds as follows:

Descriptive Statistics – Mean, median, minimum, maximum, standard deviation, skewness, kurtosis, and Jarque–Bera normality statistics are computed to characterize each variable’s distribution.

Panel Model Selection – Three panel regression specifications are evaluated: Common Effects Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM). The Chow test compares CEM against FEM; the Hausman test compares REM against FEM. Based on both tests, the Fixed Effects Model is selected as the most appropriate specification for all three dependent variables, accounting for time-invariant heterogeneity across provinces (Hair et al., 2024).

Classical Assumption Testing – Normality of residuals is examined using the Jarque–Bera test; multicollinearity is assessed via correlation coefficients; heteroskedasticity is evaluated using the Glejser test; and autocorrelation is diagnosed using the Durbin–Watson statistic. Cross-sectional dependence is also tested using Breusch–Pagan LM, Pesaran scaled LM, and Pesaran CD tests.

Hypothesis Testing – Partial effects are evaluated using the t-test against a critical t-value of 1.968 at the 5% significance level. Simultaneous effects are evaluated using the F-test against an F-critical value of approximately 2.65. The coefficient of determination (Adjusted R²) measures the proportion of variation in the dependent variable explained by each model (Ritonga et al., 2025).

Regression Equations:

$$Y_{1it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}$$

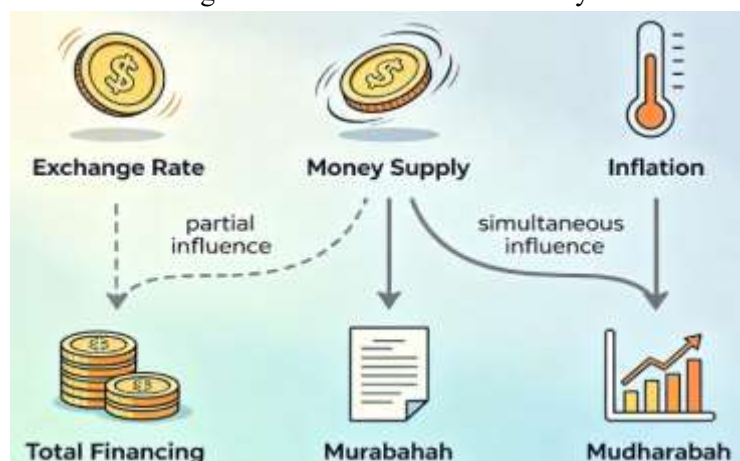
$$Y_{2it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}$$

$$Y_{3it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}$$

Where: Y₁=Total Financing; Y₂=Murabahah; Y₃=Mudharabah; X₁=Exchange Rate; X₂=Money Supply; X₃=Inflation; α=constant; β=coefficients; i=province; t=month; ε=error term.

The framework below illustrates the flow of influence examined in this study, moving systematically from the independent variables at the top to the dependent variables at the bottom through two distinct pathways. At the upper level, three macroeconomic factors — Exchange Rate, Money Supply, and Inflation — are identified as the driving forces. These external economic conditions are hypothesized to shape financing activity both individually and collectively, forming the foundation of the research model (Nurhikmah et al., 2025).

Figure 2.1 Framework of the Study



Source: Compiled by the Author, 2026

As shown in the diagram, arrows extend downward from each macroeconomic variable representing partial effects, while combined arrows indicate their simultaneous influence. These pathways converge toward three financing outcomes: Total Financing, Murabahah Financing, and Mudharabah Financing. The arrows demonstrate that changes in exchange rates, money supply, and inflation are expected to alter financing volumes. By comparing results across both pathways and all financing types, this study reveals which macroeconomic conditions matter most and which financing contracts are most sensitive to economic change (Nurhikmah et al., 2025).

RESULTS AND DISCUSSION

4.1 Descriptive Statistics

Summary statistics for the 300-observation sample are presented. The average exchange rate stood at Rp15,138.90 per US dollar, ranging from Rp13,900 to Rp16,962, indicating moderate but meaningful volatility. Money supply averaged Rp8,193.34 trillion, expanding from Rp6,827 trillion to Rp10,345 trillion over the period—a growth trend consistent with broader monetary policy developments in Indonesia (Setyohadi et al., 2026). Average inflation was 1.57%, remaining relatively subdued with a maximum of 5.51% and minimum near zero, reflecting generally stable price conditions.

Total financing averaged Rp8,130.73 billion per province, with wide variation from Rp2,285 billion to Rp39,000 billion, consistent with substantial differences in economic size and Islamic banking penetration across Sumatra. *Murabahah* financing averaged Rp6,158.44 billion—markedly larger than *Mudharabah* at Rp1,538.13 billion—confirming that cost-plus financing dominates Islamic banking activity in the region, a pattern consistent with national trends documented in prior research (Ritonga et al., 2025).

4.2 Model Selection and Specification

The Chow test yields p-values below 0.001 for all three models, strongly rejecting the Common Effects Model in favor of Fixed Effects. The Hausman test produces p-values of 0.002–0.0023, similarly rejecting the Random Effects assumption. Consequently, Fixed Effects Model estimates are used throughout the analysis. Adjusted R^2 values exceed 0.99 for all three models, indicating exceptionally strong explanatory

power, with province-specific fixed effects capturing structural differences across regions (Bawono et al., 2022).

4.3 Total Financing Model Results

Estimated Equation:

$$Y_1 = 7,010.17 + 0.249X_1 + 1.387X_2 + 1.811X_3$$

Exchange rate, money supply, and inflation all display positive and statistically significant coefficients at the 5% level. A one-unit rupiah depreciation is associated with a Rp0.249 billion increase in total financing ($t=2.404$, $p=0.0015$). Money supply expansion exerts a substantially larger effect: each Rp1 trillion increase in M2 raises financing by Rp1.387 billion ($t=5.938$, $p<0.001$). Inflation also shows a significant positive coefficient: each percentage point increase in inflation corresponds to a Rp1.811 billion rise in financing ($t=2.131$, $p=0.0058$). The F-statistic of 7,454.62 ($p<0.001$) confirms that the three variables jointly influence total financing.

These results indicate that all three macroeconomic factors contribute to aggregate financing growth. The positive exchange rate coefficient suggests that depreciation may increase financing demand—potentially because businesses require additional working capital to cover rising imported input costs or because nominal financing values rise alongside price increases. The dominant money supply effect aligns with liquidity theory and recent empirical findings (Afrianto, 2025; Winarto & Beik, 2024): greater systemic liquidity directly enhances banks' capacity to lend. The positive inflation coefficient is more surprising but may reflect nominal value expansion and increased financing demand in an environment of rising prices, consistent with the mechanism described by Arianti and Abdullah (2021).

4.4 Murabahah Financing Model Results

Estimated Equation:

$$Y_2 = 7,133.82 + 0.232X_1 + 1.195X_2 + 0.848X_3$$

Money supply emerges as the sole statistically significant determinant of *Murabahah* financing ($t=5.106$, $p<0.001$). Exchange rate carries a positive coefficient but falls short of statistical significance ($t=2.301$, $p=0.1946$). Inflation likewise shows a positive but insignificant coefficient ($t=0.061$, $p=0.9512$). The F-statistic of 4,315.57 ($p<0.001$) confirms joint significance despite the lack of partial significance for two variables.

The dominance of money supply suggests that *Murabahah* financing is primarily liquidity-driven. The insignificance of exchange rates and inflation implies that despite cost-plus pricing structures, *Murabahah* volumes in Sumatra are not materially constrained by exchange rate movements or moderate inflation. This may reflect the domestic orientation of most financed businesses, limited reliance on imported goods in the underlying transactions, and generally stable inflation during the study period. These findings accord with Bawono et al. (2021), who similarly found inflation and exchange rates insignificant for Sharia-compliant financing, and with Ritonga et al. (2025), who noted that price-level effects operate with a lag and may be obscured in short-term data.

4.5 *Mudharabah* Financing Model Results

Estimated Equation:

$$Y_3 = 2,332.93 + 0.048X_1 + 0.385X_2 + 1.065X_3$$

Mirroring the *Murabahah* pattern, money supply alone is statistically significant ($t=5.248$, $p<0.001$). Exchange rate displays a positive but insignificant coefficient ($t=0.852$, $p=0.3946$). Inflation also carries a positive coefficient that does not reach significance ($t=0.245$, $p=0.8063$). Joint significance is confirmed by $F=4,064.62$ ($p<0.001$).

The identical pattern across both contract types is striking and theoretically meaningful. In *Mudharabah*, where returns depend entirely on actual business performance, one might expect macroeconomic conditions—especially inflation—to strongly influence outcomes. The absence of significant exchange rate and inflation effects supports the interpretation that profit-sharing financing is driven primarily by real-sector profitability and bank liquidity rather than by price-level or currency fluctuations, consistent with the theoretical perspective of Hutagalung (2022) and empirical results reported by Lestari and Arfiansyah (2025). As emphasized by Fakhrunnas (2020), internal factors such as deposit mobilization and client quality appear more decisive than external macroeconomic conditions for profit-sharing financing.

4.6 Cross-Model Comparison and Interpretation

Several key patterns emerge across the three models:

1. Money supply is uniformly positive and significant across all specifications, establishing liquidity as the primary macroeconomic driver of Islamic financing in Sumatra (Afrianto, 2025; Sinaga et al., 2025).
2. Exchange rate and inflation are significant only in the aggregate model, losing significance when examined separately by contract type. This suggests that their effects operate broadly across the financing ecosystem rather than through specific contract mechanisms (Bawono et al., 2021).
3. Both *Murabahah* and *Mudharabah* appear remarkably insulated from exchange rate and inflation fluctuations, consistent with the region's predominantly domestic-oriented economy and the relatively stable macroeconomic environment observed during the study period.
4. Nominal versus real effects: The positive coefficients for inflation and exchange rates may partly reflect nominal value expansion rather than real increases in financing volume. As prices and the exchange rate rise, the rupiah value of financing transactions naturally increases, which could explain the positive signs without implying greater real economic activity (Riwana et al., 2024).

The results suggest that Islamic banking financing in Sumatra is fundamentally liquidity-driven. When liquidity is abundant, financing expands; when it tightens, financing contracts. Beyond liquidity, exchange rate and inflation effects are weaker and statistically inconsistent, particularly at the individual contract level. This resilience may stem from the region's limited exposure to international trade, the

domestic orientation of most businesses, and the stability of inflation—averaging only 1.57%—throughout the period (Rahmayanti et al., 2023).

Table 4.1 Summary of Regression Estimation Results

No	Variable	Indicator	Total Financing (Y ₁)	Murabahah Financing (Y ₂)	Mudharabah Financing (Y ₃)
1	Exchange Rate (X ₁)	Coefficient	0.249	0.232	0.048
		t-statistic	2.404	2.301	0.852
		Probability	0.0015	0.1946	0.3946
		Significance	✓ Significant	✗ Not Significant	✗ Not Significant
2	Money Supply (X ₂)	Coefficient	1.387	1.195	0.385
		t-statistic	5.938	5.106	5.248
		Probability	0.0000	0.0000	0.0000
		Significance	✓ Significant	✓ Significant	✓ Significant
3	Inflation (X ₃)	Coefficient	1.811	0.848	1.065
		t-statistic	2.131	0.061	0.245
		Probability	0.0058	0.9512	0.8063
		Significance	✓ Significant	✗ Not Significant	✗ Not Significant
4	Constant	Coefficient	7,010.17	7,133.82	2,332.93
5	Simultaneous Test	F-statistic	7,454.62	4,315.57	4,064.62
		Probability	0.0000	0.0000	0.0000
		Significance	✓ Significant	✓ Significant	✓ Significant
6	Model Fit	Adjusted R ²	0.99+	0.99+	0.99+

Note: ✓ = Significant at $\alpha = 5\%$ ($p < 0.05$); ✗ = Not Significant at $\alpha = 5\%$ ($p \geq 0.05$)

Source: Processed data using EViews 12, 2026 (Secondary data from OJK, Bank Indonesia, and BPS)

Table 4.1 summarizes regression results across all three models for direct comparison. Coefficients show direction of influence, while t-statistics and p-values indicate significance at the 5% level. Consistently, only Money Supply shows positive and significant effects across all financing types. Exchange Rate and Inflation are significant only for Total Financing but become insignificant when examined separately for Murabahah and Mudharabah. Jointly, all three variables influence every financing measure, confirming that while liquidity drives growth, broader macroeconomic stability remains important (Ritonga et al., 2025).

CONCLUSION

5.1 Conclusion

This study investigates the partial and simultaneous effects of exchange rates, money supply, and inflation on total, *Murabahah*, and *Mudharabah* Islamic banking financing across five Sumatran provinces from January 2021 through December 2025. Based on balanced panel data and Fixed Effects Model estimation, the following conclusions may be drawn:

1. Total Financing: Exchange rate, money supply, and inflation each exert a positive and statistically significant partial effect on total financing. Jointly, the three variables strongly influence aggregate financing levels.

2. Murabahah Financing: Only money supply displays a statistically significant partial effect. Exchange rate and inflation carry positive coefficients that do not reach statistical significance. The three variables remain jointly significant.
3. Mudharabah Financing: Results mirror those for *Murabahah*. Again, only money supply is significant partially; exchange rate and inflation are not. The three variables are jointly significant.
4. Uniform Pattern: Across both contract types, liquidity measured by money supply stands out as the consistent and dominant macroeconomic determinant. Exchange rate and inflation effects are observable only in aggregate and appear too weak or indirect to influence individual contract volumes significantly.

These findings imply that Islamic banking financing in Sumatra responds primarily to domestic liquidity conditions rather than to exchange rate movements or inflation. The relative insensitivity of both *Murabahah* and *Mudharabah* to exchange rates and inflation suggests that most financing supports domestic-oriented businesses that are insulated from international price shocks and that the moderate, stable inflation observed during the period did not materially disrupt profitability or repayment capacity (Ahmadi & Saputri, 2025; Oria & Oria, 2025).

5.2 Policy Implications

- **Prioritize Liquidity Management:** Monetary authorities and Islamic bank managers should focus on ensuring adequate liquidity as the most direct and effective means of supporting financing growth. Policies that deepen deposit mobilization, improve liquidity management, and facilitate efficient funds allocation will yield the greatest impact
- **Maintain Macroeconomic Stability:** Although exchange rate and inflation effects were not statistically significant at the contract level, their aggregate significance and potential long-term impacts argue for continued commitment to exchange rate stability and low, predictable inflation. These conditions create a conducive environment for all forms of financing.
- **Strengthen Profit-Sharing Financing Infrastructure:** The finding that *Mudharabah* responds identically to *Murabahah* suggests that its development is currently constrained by liquidity and internal capacity rather than by macroeconomic conditions. Expanding profit-sharing financing requires improved governance, transparency, and risk-management frameworks alongside adequate funding.
- **Regional Perspective:** The Sumatra region's relative insulation from external price shocks should not be taken for granted. As businesses become more integrated into global markets, exchange rate and inflation sensitivity may increase. Islamic banks should prepare by developing risk-mitigation tools and by monitoring macroeconomic trends comprehensively.

5.3 Limitations and Future Research

This study is subject to several limitations that suggest directions for future work. The analysis is confined to five provinces in Sumatra; extending coverage to other regions would improve generalizability. The study period captures relatively low inflation; examining higher-inflation episodes might reveal stronger inflation

effects. Additionally, incorporating variables such as economic growth, policy interest rates, and internal bank characteristics—including non-performing financing ratios and deposit volumes—would provide deeper insight into the full range of determinants. Finally, applying dynamic panel methods or cointegration techniques could distinguish short-run responses from long-run equilibrium relationships, offering richer understanding of how Islamic financing evolves alongside the macroeconomy.

The conclusion should provide a clear summary of the main findings of the research and how those findings answer the research questions. Convey the important points that readers should remember. Also, provide suggestions for future research, suggesting areas that need further research or alternative methodologies that could be applied.

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