THE EFFECT OF *EXCHANGE RATE* ON *NON PERFORMING FINANCING* IN SHARIA BANK IN INDONESIA

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ABSTRACT

Non-performing financing is one of the bank's performance functions, because: a high NPF (Non Performing Financing) ratio is an indicator of failure bank in managing a business. This study aims to analyze and test how much influence Exchang Rate has on NPF (Non-Performing Financing) in Islamic Commercial Banks in Indonesia Indonesia. This research uses quantitative research. Population in This research is the annual financial report data of Islamic Banks in Indonesia registered with Bank Indonesia (BI) obtained from publication data from each each Sharia Commercial Bank website in 2015-2020. Research sample determined with use method purposive sampling and in earn as many as 14 samples. The analytical technique used in this research is descriptive statistical analysis, classical assumption test (normality test, multicollinearity test, test heteroscedasticity, test autocorrelation), and analysis regression linear multiple with IBM program help SPSS Statistics 25. Results study this state that Inflation is not take effect Significant to NPF.

Keywords: Non-Performing Financing, Exchange Rate, Sharia Commercial Banks

PRELIMINARY

Non-Performing Financing is one of the indicators of whether or not a bank is healthy (Muhammad, 2005) The reason for the occurrence of non-performing financing no miss from factor economy monetary nor factor internal bank sharia itself. Just like conventional banking, the performance rate of Islamic banking even still stressed financing problem or Non Performing Financing (NPF). Notes from the Financial Services Authority (OJK), Islamic banking NPF ratio per July 2016 was in the position of 4.7 %. On an annual basis, the NPF ratio of Islamic banking only down thin from position as big as 4,89 % _ on July 2015. Already so, pile financing problem in banking sharia still more tall compared to non- performing loans (NPLs) of conventional banks which amounted to 3.18 % as of July 2016. The Deputy Commissioner for Banking Supervision of the OJK assessed that the high Sharia banking NPF sourced from the trade sector which reached Rp 2.29 trillion as

of July 2016. NPF in the trade sector increased by 43.77 % by annual. by total, score financing problem banking sharia reach Rp 10 ,81 trillion or go on 8.36% from Rp 9.98 trillion in July 2015.

Under normal conditions, a high NPF figure from a commercial bank is one indicator that is often used to predict prospects the viability of the *bank* . According to the opinion poll carried out by consultants Bozz dan Hamilton against cause of bankruptcy 200 international banks in 1987, it turns out that credit problems occupy ranking first, that is as big as 61%. Results survey the the more strengthened with the fact that the main source of the banking crisis in the country as well as in other countries in 1997, due to low NPF figures very big. (Maidalena, 2014)

Non-Performing Financing (NPF) is one of the key indicators to assess performance function bank, because NPF which tall is indicator fail a bank in managing the banking business which will have an effect on performance banks, among others, the problems caused by a high NPF are liquidity (inability to pay third parties), Profitability (financing uncollectible), Solvency (Reduced capital). Because it's so important NPF ratio for banks, the Financial Services Authority (OJK) as the governing body and overseeing financial services including banking in Indonesia will call bank sharia which have ratio financing problem or NPF tall. Step this conducted for guard ratio so that no touching number on 5 %. According to (Rustam, 2013) mentioned one of the causes of financing Non-performing loans are assessed from the credit aspect due to the different business and industry cycles decrease. In addition, the cause of credit failure is assessed from external factors due to: because activity economy macro, activity political, policy government which is at beyond the reach of the bank for estimated.

Another variable that affects the NPF is the value of the exchange rate, the exchange rate (*Exchange rate*) between two countries is the price level agreed upon by both residents countries to trade with each other. (N. Gregory Mankiv, 2007) For a country with a A strong economic system is to have stable exchange rate stability and no easy susceptible with volatile market money world. Theory elasticity say that score swap is price from currency foreign for maintain a country's international

balance of payments to stay at the equilibrium level. (Irham Fahmi, 2014) The exchange rate is the same as the ratio between the rate the general price prevailing in the two countries, which is a weighted average (*weggted average*) from whole product which generated second country. Party banking is the party that has the most significant influence or impact risk from exchange rate changes.

Bank Indonesia circular letter No. 13/24/DPNP on October 11, 2011 also mentions external factors with parameters or indicators of change economic conditions, technological or regulatory changes that affect the value swap, cycle effort debtor and impact on ability debtor in repay the loan. (Bank Indonesia Circular, 2011) An increase or decrease in the exchange rate gives impact to ability power buy public so that results production tend will no absorbed, condition this will influence ability debtor for pay its obligations to the bank. Some studies show that currency values or exchange rates also affect the NPF. Exchange rate is the price of one currency in terms of another money. (Sukirno, 2002) Where (Mutamimah, M., & Chasanah, 2012) the results of the study stated that exchange rate take effect positive no significant to NPF. Different with study which conducted by (Umi Uswatun Hasanah, 2017) Value swap Exchange rate take effect negative and significant to financing problem (*Non Performing Financing*) Islamic banking .

The risk of non-performing financing is often associated with the risk of default . This risk refers to on potency loss faced bank when financing which given to debtor congested. Where debtor no capable fulfill the obligation to return the capital provided by the bank. Apart from taking capital, this risk also includes the inability of the debtor to submit a portion of profit which should be obtained by bank which has agreed at the beginning. Remember importance role credit banking in control monetary and economic activities in particular Bank Sharia General and features from the Islamic Banking sector in which they operate as well as the expansion that fast from institution banking sharia in Indonesia there is desire strong for conducting research on the NPF of Islamic banking in Indonesia, the researcher interested in researching further, therefore the author intends to examines

the extent of the role of Islamic banks, in this case Islamic Commercial Banks for guard ratio financing problem so that no touching figure 5%

Based on the problems that occur, namely the slowdown in growth Islamic bank financing, which is also accompanied by an increase in the financing ratio problem as well as *research gap* study before Among researcher which one with others, the researchers are very interested in conducting research regarding the Exchange Rate Against *Non-Performing Financing* at Islamic Sharia Banks in Indonesia.

LITERATURE REVIEW

Exchange rate

Exchange rate is the price in country of eye foreign money or foreign currency The selling exchange rate is the ratio of the exchange rate of one currency to another country with foreign currency if the bank is going to sell it or people who will buy it. The purchase exchange rate (rate) is the exchange rate currency of a country with the currency of a foreign country if the bank will buy it or Public which will sell it. (Malay Hasibuan, 2009)

Exchange rate is the price in exchange and in exchange Among 2 kinds of eyes different money, there is a comparison value or the price between the two currencies. This comparison of values is called rate/exchange rates. Score swap real is score swap nominal which already corrected by relative prices, namely domestic prices compared to at foreign prices. The nature of the foreign exchange rate depends on the nature of market. If the sale and purchase of foreign exchange transactions can be carried out freely in market, the foreign exchange rate will fluctuate according to changes Request and offers (Widyawati, 2013) . In banking sharia score swap will determine payback results investation real. Eye money which decrease by clear will reduce power buy from income and profit capital which got from type investation whatever. Decrease investation this will influence activity operational bank. With the decline in investment, the demand for financing in Islamic banks will also decrease and will subsequently affect financial ratios bank. (Desi Marilin, 2011) .

Non Performing Financing (NPF)

Non-performing financing is the number of non-performing loans and possibly uncollectible. The greater the NPF value, the more bad performance bank sharia the, with existence financing problems reflected in the NPF can result in missed opportunities for get income from financing which given so that influence acquisition profit. Giving financing based on principle sharia by bank contain risk failure or congestion the payment, so that affect the health of the bank. Given that the financingsourced from public funds stored in banks, the risks faced bank could take effect also on security the public funds. (Khaerul Umam, 2013)

Table 1. NPF Assessment

Rating	Criteria	Information
1.	NPF 2%	**Very Healthy**
2.	NPF 2% - 5%	**Healthy**
3.	NPF 5% - 8%	**Enough Healthy**
4.	NPF 8% - 12%	**Not enough Healthy**
5.	**NPF > 12%**	**Not Healthy**

Source: www.bi.go.id

RESEARCH METHODOLOGY

The type of research used is quantitative research. Data type used in this study is secondary data, with a period of start from year 2015 – 2020. As for source collection data obtained from Bank Indonesia, the Financial Services Authority, internet, journals, articles that have been published, study before, and literature – literature which related with this research.

Population in this study are Islamic Commercial Banks in Indonesia which are registered in Bank Indonesia and included in the statistical data of the Financial Services Authority (OJK) which totaling 14 Sharia Commercial Banks. The sampling technique carried out is based on the *purposive sampling* Among others: The bank has presented financial statements for the period under study, the bank has the ratios

required in this study, from these characteristics all the population was selected as the research sample.

The Independent Variable (X) in this study is the exchange rate is the price of the rupiah against the currencies of other countries, as follows is formula for measure level Exchange rate, as following :

$$\text{EXCHANGE} = \frac{\text{Price Level t-price level-1}}{\text{Price level t-1}} \times 100\%$$

Variable (Y) Variable dependent that is variable which influenced by variable other. The dependent variable in this study is *Non Performing Financing* (Y) i.e. the ratio between non-performing financing and total financing that is distributed by bank sharia, following is formula for measure level NPF, as follows

$$\text{NPF} = \frac{\text{Non-performing Financing}}{\text{Total}} \times 100\%$$

Data Analysis Techniques

1. **Classic assumption test**

    Normality test Normality test in This research was conducted with *Kolmogorov-Smirnov* to find out data which distributed normal, with criteria testing as the following: If the probability of the Z value of the KS test is significant < 0.05, then the data distributed abnormal. If the probability of the Z value of the KS test of significance > 0.05, then the data distributed normal

    Heteroscedasticity Test for knowing there is whether or not heroscedasticity in something model multiple linear regression is to look at the scatterplot graph or the value of prediction variable bound that is SRESID with residual error namely ZPRED. If no there is pattern certain and no spread in on and in lower number zero on axis y, so no occur heteroscedasticity.

    Autocorrelation test for knowing there is or whether or not autocorrelation

in the regression model is to use test Durbin-Watson (DW tests).

2. **Simple Linear Regression Analysis**

Analysis regression simple in study this used for knowing the effect of *Exchange Rate Inflation* on *Non-Performing Financing* (problematic financing) Islamic banking in Indonesia.

$$Y = a + bX$$

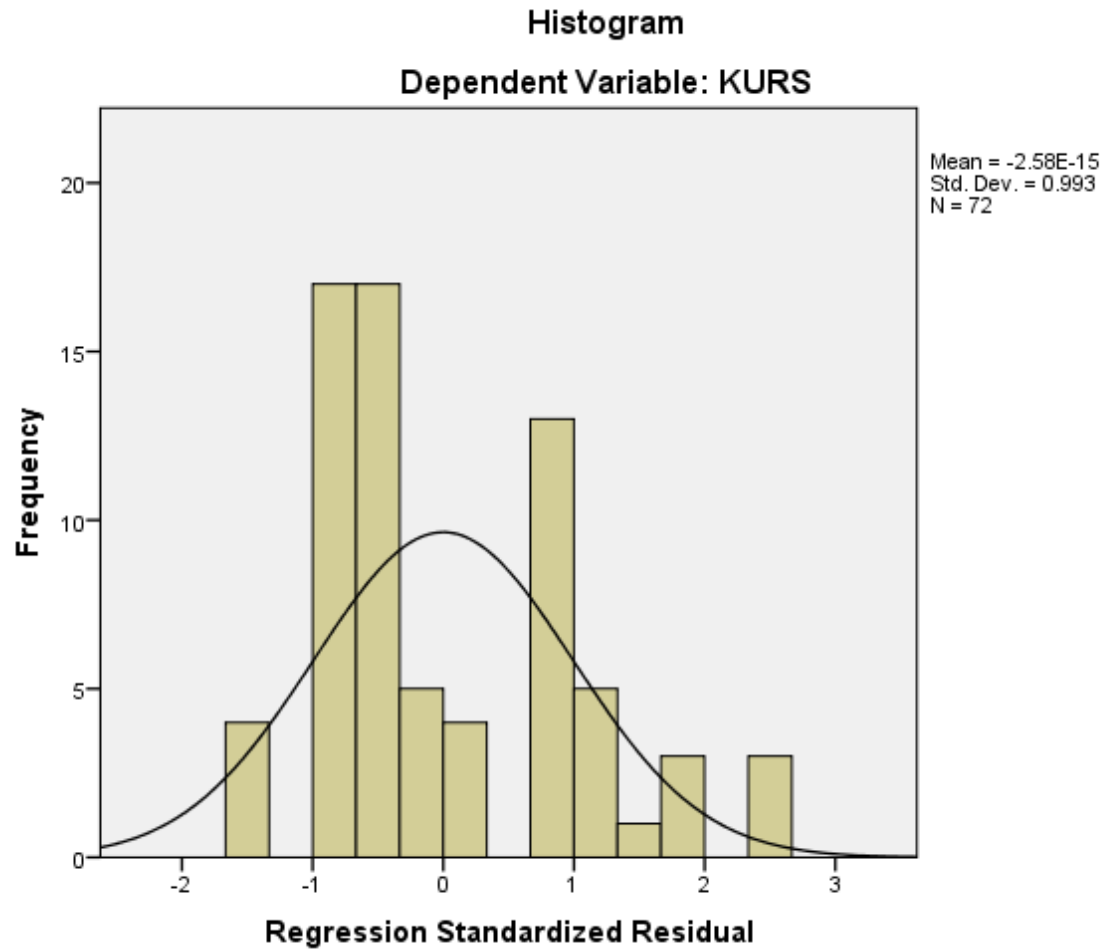Y = Non Performing Financing (NPF)

a. = constant

X = Exchange Rate

b = Coefficient regression linear each variable
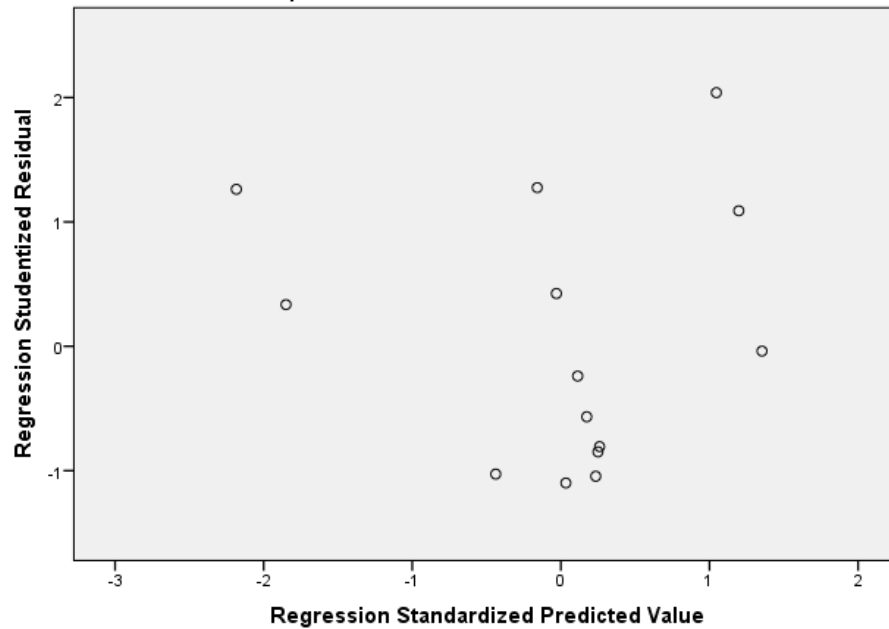
RESULTS AND DISCUSSION

Classic assumption test

Normality test

Histogram
Dependent Variable: KURS

Mean = -2.58E-15
Std. Dev. = 0.993
N = 72

Conditions: normal sloping line, neither left nor right

Conclusion: **data is normally distributed**

HETEROSCEDASTICITY TEST

Provisions: The dots do not form a certain pattern on line 0, there is no heteroscedasticity

Conclusion : There is no heteroscedasticity

AUTOCORRELATION TEST

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.576 [a]	.331	.322	.623	1,949

a. Predictors: (Constant), NPF

b. Dependent Variable: EXCHANGE

Provisions: If the Durbin Watson value lies between d_u to (4-d_u) then there is no autocorrelation

Conclusion: the Durbin Watson value at the output is 1.949 while the Durbin-Watson value in the Durbin-Watson table is at K=2 and N=72 which is 1.6715 . Value $(4-d_u)$ = 4 – 1.6715 = 2.32

So the Durbin-Watson value of 1.949 is between 1.6715 - 2.32 so it can be concluded that there is no autocorrelation problem.

REGRESSION TEST RESULTS

ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13,470	1	13,470	34,689	.000 [b]
	Residual	27,182	70	.388		
	Total	40,653	71			

a. Dependent Variable: EXCHANGE

b. Predictors: (Constant), NPF

Note: sig value < 0.05 then the exchange rate has an effect on the NPF

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.576 [a]	.331	.322	.623	1,949

a. Predictors: (Constant), NPF

b. Dependent Variable: EXCHANGE

The R-Square value of 0.331 means that the exchange rate variable has an effect of 33.1 % , the rest is influenced by other variables not examined in this study.

Exchange rate is a comparison of the value of a country's currency with foreign currencies or comparison of exchange rates between countries country. The Bank

Indonesia exchange rate (kus standart = tax rate) is the exchange rate that set Bank Indonesia on exchange currency in Jakarta. Based on the partial test results the effect of the exchange rate on NPF value significance 0.000 < 0.05 . This means that the exchange rate has an effect negative and significant to the NPF, it can be concluded that H $_1$ received.

The results of this study state that the Exchange Rate has a negative effect and significant to the NPF, so the higher the rupiah exchange rate against dollar, the higher the level of non-performing financing in the bank General Sharia, but the effect is not significant. When more tall score swap rupiah to dollars so debtor or companies engaged in importing will be affected by the changesthe exchange rate and greatly affects the smooth running of the customer's businessif effort the run using imported materials. Thing this will influence height level financing problem in banking sharia.

Results study this support results study from study previously conducted by (Syahmiruddin Pane, 2011) concluded that based on the results of the discussion or hypothesis testing using the t test shows that the Rupiah exchange rate against the US Dollar has an effect on financing problem (*Non Performing financing*) on banking sharia.

CONCLUSION

Exchange Rate / Rupiah Exchange Rate has a negative influence and significant to *Non Performing Financing* (NPF) at Bank Sharia General. If the higher the rupiah exchange rate against dollars, the debtor or company engaged in the importers will be affected by changes in the exchange rate and very take effect on smoothness effort customer if effort the run use ingredient import. Thing this will affect the high level of non-performing financing in bankssharia.

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