CAN NON-PERFORMING FINANCING REDUCE BANK ASSET? EVIDENCE FROM ISLAMIC RURAL BANK IN INDONESIA DURING COVID-19

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Article history:		Abstract:
		This study investigates the variables that affect Islamic Rural Banks assets in 2020 during the covid-19 pandemic. This study uses panel data of Islamic Rural Banks in Indonesia. The data is in the form of quarterly data for 2020 on 128 Islamic banks in Indonesia. This study uses NPF, FDR, OER and GRDP. Based on the results of panel data regression with the Fixed Effect (FE) model, it can be concluded that the NPF variable has a negative and significant effect. Likewise, the FDR variable has a negative and significant effect. OER variable has no effect. PRDB has a positive and significant impact on the assets of Islamic Rural Bank. Thus, the reduced assets of Islamic Rural Bank during the covid-19 pandemic can be affected by NPF .

INTRODUCTION

Islamic Rural Bank is an important institution in the Indonesian economy today. IRB plays a very important role in financing MSMEs in Indonesia (Widarjono & Rudatin, 2021). The function of Islamic Rural Bank as banks in general is to bridge the need for funds to those who need funds. Until now, the financing disbursed by Islamic Rural Bank to the community is increasing. The development of Islamic Rural Bank financing distributed to the public, especially those based on commercial contracts such as *murabahah* and cooperation contracts such as *mudharabah* and *musyarakah* can be seen in Table 1.

In Table 1. shows that the financing disbursed by Islamic Rural Bank from year to year is increasing. For example, *murabahah* financing in 2016 amounted to Rp. 4,819,687 million, increasing steadily to Rp. 7,731,572 million in 2020. This indicates that Islamic Rural Banks are in demand by the public, especially MSMEs in terms of business financing.

Table 1. Development of Islamic Rural Banks Financing

year	Types of Financing (Billions)		
	Murabaha	**Mudharabah**	**Musharakah**
2016	4,819,687	167,955	736,020
2017	5,964,912	147,294	791,256
2018	6,485,575	169,578	780,929
2019	7,380,506	204.606	941,690
2020	7,731,572	264,819	1,299,987

Source: Data Processed, SPS OJK (2021)

Financing distributed to the public has an important role in increasing the profitability of Islamic Rural Bank (CY Katili & R D. Kadir, 2021). Financing has an influence on the asset growth of Islamic Rural Bank (Pertiwi, 2021). However, losses often occur due to non-performing financing (NPF). Therefore, Islamic Islamic Rural Bank must anticipate these losses. Losses caused by non-performing financing that reduce the profitability of Islamic Rural Bank can result in a decrease in their assets.

Djuwita & Mohammad (2015) explain that internal banking variables such as non-performing financing have an effect on reducing the assets of Islamic Rural Banks. This can be exacerbated if macroeconomic conditions are unstable,

such as inflation which results in the community being unable to return financing which in turn can reduce the assets of the Islamic Rural Bank (Harahap et al., 2019).

Sharia BPRs must be able to mitigate the risk of reduced assets caused by increased non-performing financing. Problem financing at Islamic Rural Bank is a major issue. Until now, the average non-performing financing of Islamic Rural Bank is still above 8%. This shows that NPF is the main risk, particularly with regard to the profitability and assets of Islamic Rural Bank (Kadir, 2021; RDKadir, 2019).

Until now, including during the Covid-19 pandemic since 2020, the number of non-performing financing in Islamic Rural Banks has increased. According to Islamic Banking Statistics (SPS) by the Financial Services Authority (OJK) shows an increase in bad loans experienced by Sharia BPRs in Indonesia during the Covid-19 pandemic. Islamic Rural Bank NPF in 2019 was 7.05% and increased in 2020 by 8.5% (OJK, 2020). Research by Fikri et al., (2021) shows that there was a reduction in Islamic Rural Bank assets due to the increase in the value of non-performing financing during the covid-19 pandemic.

Based on the above, this research will re-examine the macroeconomic and micro variables of Islamic Rural Bank that can affect the total assets. More specifically, whether non-performing financing can affect the total assets owned by Islamic Rural Bank during the covid-19 pandemic.

METHOD

This research is a quantitative research. This study follows previous research that examined the variables that affect the total assets of Islamic banks (Djuwita & Mohammad, 2015; Fikri et al., 2021; Harahap et al., 2019; Syafrida & Abror, 2011) especially during the COVID-19 pandemic. Analysis using panel data regression with the model:

$$Asset_{it} = \beta_0 + \beta_1 NPF_{it} + \beta_2 FDR_{it} + \beta_3 BOPO_{it} + \beta_4 Ln\_PDRB_{it} + e_{it}$$

Analysis of panel data regression model selection using common effect (CE), fixed effect (FE), and random effect (FE). The choice of model between CE and FE uses the Chow test and the selection of the FE and RE model uses the Hausman-test.

This study uses bank internal variables such as NPF, FDR, and BOPO. The macro variables used are regional economic growth as a proxy for GRDP. Macroeconomic data is taken from the Badan Pusat Statistik (BPS) and internal bank data is taken from the Banking Publication Report published by the Financial Services Authority (OJK). This research data is quarterly data for 2020 at the time of the COVID-19 pandemic throughout Islamic Rural Banks in Indonesia.

According to Fikri et al., (2021) & Sudrajat (2015) the NPF variable that measures financing risk or the level of non-performing financing can have a negative and significant effect on the total assets of Islamic Rural Bank in Indonesia. The FDR variable as described by (Djuwita & Mohammad, 2015; Syafrida & Abror, 2011) has a negative and significant effect on the assets of Islamic Rural Bank. This means that if more financing is channeled to third parties, there will be a risk of reducing the assets of the Sharia BPR.

Operational Eficeincy Ratio (OER) measures the level of efficiency in the use of funds in banks (Widarjono et al., 2020). A high OER ratio will reduce bank efficiency so that it does not bring profits to the bank (Firmansyah, 2014). So that the hypothesis proposed in this study is that OER can have a negative effect on the total assets of Islamic Rural Bank.

In this study using economic growth using the Provincial GRDP. Widarjono et al. (2020) explains that there are differences in the factors that affect Sharia BPR caused by economic growth (GRDP). Economic growth will have a positive effect on increasing the total assets owned by Sharia BPRs. Where the increasing economic growth will allow customers to return the financing they get from BPR Syariah which will ultimately increase assets.

Table 2. Description of Variables and Hypotheses

Variable	Description	Hypothesis
Dependent Variable		
Asset	Total assets with natural logarithm (*ln*) measure the assets of Sharia BPR.	
Independent Variable		
NPF	Non-performing financing (%) financing measures financing risk.	(-)
FDR	The financing to deposit ratio measures the amount of financing disbursed compared to capital.	(-)
OER	Operational Efeiciency Ratio (OER) measures the level of efficiency in the use of funds at the bank.	(-)
GDP	GRDP is the regional economic growth rate.	(+)

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RESULT AND DISCUSSION

Based on Table 1. it can be seen that the highest total assets of Islamic Rural Banks is Rp. 1.333 billion and the lowest is Rp. 347 billion. As for other variables such as the highest NPF is 48% and the lowest is 0.01%. This shows that NPF is still a major problem for Islamic Rural Banks, especially during the COVID-19 pandemic that occurred in 2020. The maximum FDR value is 654% and the minimum is 0.79% and the average is 89%.

Table 3. Descriptive Statistics

Variable	NPF	GDP	FDR	BOPO	Asset
mean	9.141250	2.91E+08	95.29484	83.91541	95252002
median	6.585000	2.65E+08	89.55500	86.06000	43019332
Maximum	48.61000	7.23E+08	646.2000	704.4700	1.33E+09
Minimum	0.01	9872452.	0.790000	-3092000	3478991.
Std. Dev.	7.842228	2.20E+08	44.49282	146.2964	1.69E+08
Observations	512	512	512	512	512

Source: _Data processed Eviews 10 (2021)_

The selection of the panel data model in this study shows that the best model is to use Fixed Effect (FE). The results of the regression using the FE model can be seen in Table 4.

Table 4. Fixed Effect Regression Results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	7.750886	2.805609	2.762639	0.0060
NPF	-0.006223	0.001229	-5.062381	0.0000*
FDR	-0.000369	0.000186	-1.981057	0.0483*
BOPO	2.19E-05	3.34E-05	0.654233	0.5134
LN_GDP	0.525627	0.147461	3.564528	0.0004*

R-squared	0.994102	Mean dependent var	17.65160
Adjusted R-squared	0.992068	SD dependent var	1.124040
SE of regression	0.100109	Akaike info criterion	-1.547653
Sum squared resid	3.808251	Schwarz criterion	-0.454960
Likelihood logs	528.1991	Hannan-Quinn Criter.	-1.119317
F-statistics	488.8793	Durbin-Watson stat	1.624690
Prob(F-statistic)	0.000000		

Note : *are statistically significant at = 5%

Based on Table 4. it can be seen that the prob. NPF of 0.00 (< 0.05) and t-stat of -5.062. Where if the value of the NPF increases by one unit it will reduce the assets of the Islamic Rural Bank by 5,062. Thus the NPF variable has a negative and significant effect on the total assets of Islamic Rural Bank during the covid-19 pandemic.

The FDR variable has a negative and significant effect on the assets of Islamic Rural Bank where prob. of 0.048 (< 0.05) and t-stat of -1.981. Where if the FDR variable increases by one unit, it will decrease the assets of the Sharia BPR by 1,981. The BOPO variable has no influence on the assets of Islamic Rural Banks during the covid-19 pandemic. Furthermore, the GRDP variable has a positive influence on the growth of Islamic Rural Bank assets. Where is the prob. GRDP of 0.00 (< 0.005) and t-stat of 3.56. If the GRDP variable increases by one unit, it will increase the assets of the Islamic Rural Bank by 3.56.

DISCUSSION

The NPF variable has a negative and significant effect on Islamic Rural Bank assets in 2020 during the covid-19 pandemic. These results are in accordance with the research of Fikri et al., (2021) & Sudrajat (2015) which explain that non-performing financing or NPF will reduce assets owned by Islamic Rural Banks. Especially during the COVID-19 pandemic where economic growth slowed, resulting in an increase in problematic financing.

The FDR variable has a negative and significant effect in accordance with previous studies by Djuwita & Mohammad (2015) and Syafrida & Abror (2011). FDR shows the level of financing disbursed by Islamic Rural Bank compared to funds deposited by Islamic Rural Bank. In 2020, during the COVID-19 pandemic, the FDR of Sharia BPRs was still very high. This means that Islamic Rural Banks do not withhold financing distribution despite the economic crisis caused by the COVID-19 pandemic. Disbursement of financing that exceeds the bank's capital capacity will lead to financing risk which in the end the bank will use assets to overcome these losses.

Economic growth represented by GRDP has a positive and significant effect. This is in accordance with the hypothesis that if economic growth increases, banking assets will also increase. During this pandemic, we can see that economic growth in Indonesia is experiencing a slowdown. Thus, the increase in BPR Syariah assets during this pandemic also slowed down.

These results have implications for the management of Islamic Rural Bank. Where during the COVID-19 pandemic, it is necessary to control the financing channeled to the public so as not to increase problematic financing. The use of assets to cover financing risk will have an impact on reducing the assets of Islamic Rural Bank. During the pandemic, economic growth slowed down, thereby adding to non-performing financing which in turn reduced the assets of Islamic Rural Banks.

CONCLUSION

Based on the results and discussion above, it can be concluded that the NPF, FDR, and GRDP variables affect Islamic Rural Bank assets in 2020 during the covid-19 pandemic. The BOPO variable does not affect the assets of Islamic Rural Bank. These results may have implications for the management of Islamic Rural Banks, especially during the COVID-19 pandemic. During the COVID-19 pandemic, Islamic Rural Banks remained expansive as seen from the high value of FDR, which in turn increased non-performing financing for Islamic Rural Banks.

This study experienced limitations during the observation period. Further research should be able to use a longer observation period both before and during the Covid-19 pandemic or when the Covid-19 pandemic has ended. Furthermore, the variables used are still very few, which allows other variables to still affect the decline in Islamic Rural Bank assets, especially during the covid-19 pandemic.

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