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Factors Affecting Non-Performing Financing in Islamic Rural Banks: A Case Study of selected in East Java Province

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Abstract

The global economy is currently facing the challenge of inflation, which has led to economic crises in developed and developing countries, including Indonesia. As a result, Indonesia's economic growth fell to 5.05% in 2023, with the lowest contribution coming from the region with the highest growth in the financial services sector, namely Java. This has led to high NPF rates in Java, with the province with the highest NPF rate being East Java. This study aims to analyze the significance of the influence of Financing to Deposit Ratio, Operational Costs to Operational Income, Capital Adequacy Ratio, Gross Domestic Product, and BI-Rate on Non-Performing Financing at Islamic Rural Banks in East Java for the 2020–2023 period. The sample in this study were 22 (twenty-two) Islamic Rural Banks in East Java, which were selected using a purposive sampling technique. The analysis model used in this study is a panel data regression analysis model. The results of proving the hypothesis and discussion show that Financing to Deposit Ratio partially has a positive but not significant effect on Non Performing Financing, Operational Costs to Operational Income and Gross Domestic Product partially has a positive and significant effect on Non-Performing Financing, Capital Adequacy Ratio partially has a negative significant on Non Performing Financing, and BI-Rate partially has a negative but not significant effect on Non-Performing Financing at Islamic Rural Banks in East Java for the 2020–2023 period.

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INTRODUCTION

The global economy is facing challenges in the form of inflationary turmoil, especially in the United States and in various European countries, this was stated by the President of the Institute for International Monetary Affairs, Hiroshi Watanabe. This inflationary turmoil was triggered by the war between Russia and Ukraine. Russia and Ukraine are the world's sources of energy and food commodities. When these two countries go to war, it has a negative impact on world trade due to the spike in energy and food commodity prices (Widianto, 2022). The price spike become an inflationary turmoil in the world economy which makes the US tighten monetary policy. As a result, inflation increased, interest rates grew, local currencies weakened, and led to an economic crisis (Perwitasari, 2022). The economic crisis caused the economic growth rate to be restrained, resulting in an economic recession (Gusmeri, 2022). The impact on developed countries will be similar to that experienced during previous global recessions. Meanwhile, developing countries will also experience a sharp decline in 2023 (Guénette et al., 2022).

The global recession has affected developing countries, and Indonesia is one of the developing countries that has been impacted. The global economic recession caused Indonesia economic growth in 2023 to decline to 5.05% from 5.31% in the previous year. The economic crisis in Indonesia in 2023 can be seen from the economic decline in every region of Indonesia. Based on data from the Central Statistics Agency (BPS), the 3 (three) regions with the highest economic growth are Maluku & Papua, Sulawesi, and Bali & Nusa Tenggara. Although these 3 (three) regions have the highest growth, in terms of contribution, they contribute very little. Looking at the other 3 (three) regions, namely Java, Sumatra, and Kalimantan, these regions contribute significantly despite having low economic growth. The respective contributions of the three regions are 57.05%, 22.01%, and 8.49%. Java contributes the largest share to Indonesia's economic growth, reaching 57.05% of 100%. This is highly inconsistent with Java's economic growth rate, which only reached 4.96%. Indonesia's economic growth has been in the spotlight because it has occurred for 4 (four) consecutive years 2020–2023. The main sources of growth on Java Island are information and communication, trade, and financial and insurance services, with the financial services sector contributing the most. Java is the only region with a major source of growth in the financial services sector, which has the highest contribution. This proves that the development of financial services on the island of Java is superior to that of other regions.

According to OJK, the financial services industry in Indonesia consists of the banking industry, capital markets, insurance, financing institutions, pensions funds, and other financial services industries. According to Ceysa et al. (2024), of these sectors, the banking industry is a very important sector in economic growth. Based on its principles, the banking industry is divided into 2 (two), namely banks with conventional principles and banks with sharia principles (Hery, 2019).

Islamic banks are institutions that channel funds, provide financing, and raise funds from the wider community. Islamic bank institutions are divided into 2 (two), namely Islamic Commercial Banks (BUS) and Islamic Rural Banks (BPRS). In its operating, the and Islamic Rural Banks (BPRS) has the task of being at the regional level or specifically for the district (Fauziyah et al., 2019). Islamic Rural Banks (BPRS) hold a very important role in the economy by targeting Micro, Small, and Medium Enterprises (UMKM) to become the object of credit or financing from Islamic Rural Banks (BPRS) (Arinda et al., 2022). Micro, Small, and Medium Enterprises (UMKM) play a very important role in the Indonesian economy. This is evidenced by UMKM that have managed to survive amid the current challenging global economic conditions and provide significant employment opportunities for job seekers. Therefore, Micro, Small, and Medium Enterprises (UMKM) are able to absorb labor, which directly impacts the reduction of unemployment rates and simultaneously addresses poverty. This has prompted the government to continue supporting UMKM in building the economy through empowerment and the disbursement of credit to UMKM.

Based on the result of the banking survey conducted by Bank Indonesia, it shows that there was an increase in credit or financing distribution in 2023. The increase reached up to 96.1% in 2023, on the other hand in the previous year it only reached 86.3%. Credit or financing in 2021 reached 87.0%, which increased form 2020 was only 25.4% (Bank Indonesia). The increase in financing distribution must be accompanied by a strict financing distribution policy. This is because every distribution of financing is inseparable from financing risk (Mufarida et al., 2022). Financing risk can occur due to the failure of third parties to pay their debts beyond the agreed time

(Hanggraeni, 2019). This is shown by the development of Non-Performing Financing (NPF) at Islamic Rural Banks (BPRS) in Java Island which can be seen in Figure 1.

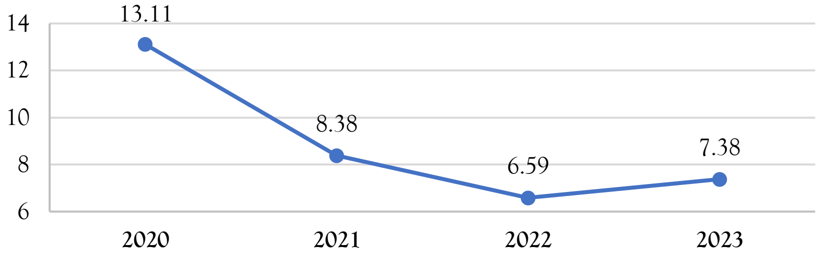

Figure 1. Developmeny of NPF at Islamic Rural Banks in Java (in percent)
Source: Sharia Banking Statistic, 2020-2023, Processed

Based on Figure 1., it can be seen that in 2020 – 2023 the level of Non-Performing Financing (NPF) at Islamic Rural Banks (BPRS) tends to decrease. The highest Non-Performing Financing (NPF) occurred in 2020, which amounted to 13.11%. Based on SEOJK Number 28/SEOJK.03/2019 concerning the Health Level Assessment System for Islamic Rural Banks (BPRS) have good level of Non-Performing Financing (NPF) if they an NPF ratio of < 7% . However, in reality the level of Non-Performing Financing (NPF) ratio of Islamic Rural Banks (BPRS) IN Java Island for the period 2020 – 2023 has an average Non-Performing Financing (NPF) of > 7%.

In Figure 1., a graph of the development of Non-Performing Financing (NPF) of Islamic Rural Banks (BPRS) in Java Island 2020 – 2023 period. The following is a detailed explanation of the development of Non-Performing Financing (NPF) for each province at the Islamic Rural Banks (BPRS) in Java Island during 2020 – 2023 period which presented in the form of table 1.

Table 1. Details of NPF Development in Each Province at BPRS in Java Islang (in percent)

Year	Jakarta	West Java	Banten	Central Java	Yogyakarta	East Java
2020	42.54	5.75	10.61	4.93	6.64	8.20
2021	10.15	5.24	15.33	4.03	5.38	10.14
2022	5.99	4.14	7.59	4.11	6.64	11.05
2023	7.26	4.95	5.76	7.59	7.91	10.79
Mean	**16.49**	**5.02**	**9.82**	**5.17**	**6.64**	**10.05**

Source: Sharia Banking Statistic, 2020-2023, Processed

Based on table 1., it shown that Non-Performing Financing (NPF) for each province at the Islamic Rural Banks (BPRS) on the Island of Java 2020 – 2023 period experienced different Non-Performing Financing (NPF) trends. The highest average level of Non-Performing Financing (NPF) was in Jakarta and East Java Provinces. East Java provinces. East Java Province has a high Non-Performing Financing (NPF) during 2020 – 2023 period. The development of Non-Performing Financing (NPF) in East Java Province can be seen in Figure 2.

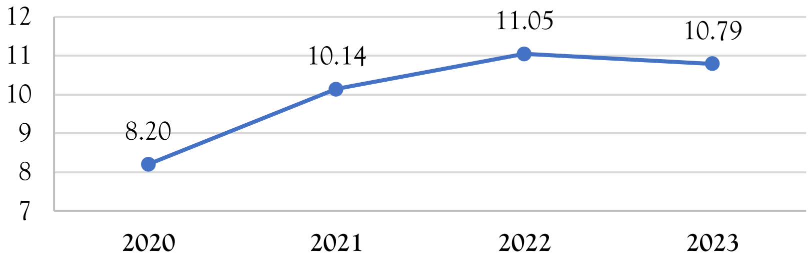

Figure 2. Development of NPF BPRS East Java Province (in percent)
Source: Sharia Banking Statistic, 2020-2023, Processed

Based on Figure 2., it can be seen that in 2020–2023 East Java Province has Non-Performing Financing (NPF) level that tends to increase. The highest increase occurred in 2022 which reached Non-Performing Financing (NPF) of 11.05%. The high level of Non-Performing Financing (NPF) can cause a decline not only in one bank, but all banks and affect economic growth. So it is important to know the factors that influence Non-Performing Financing (NPF) to identify the right operations in overcoming problems in problematic financing. These factors are bank-specific factors such as internal bank and macroeconomic factors that influence Non-Performing Financing (NPF) (Msomi, 2022).

The first internal bank factor that affects Non-Performing Financing (NPF) is the Financing to Deposit Ratio (FDR). If the Financing to Deposit Ratio (FDR) is high, it is likely that the amount of financing provided will increase. The more financing provided will result in risks to the distribution of funds. There is a deadline for returning the loan, so the loan that has been distributed will become non-performing (Retnowati & Jayanto, 2020). Thus, although banks have strong revenues, sufficient capital, and good assets, if liquidity is not maintained properly, it will pose a risk (Sam'ani et al., 2023). The research result of Yulianti et al. (2022), Fauzukhaq et al. (2020), Prastyo & Anwar (2021), Arinda et al. (2022), Lestari et al. (2023), Putra & Syaichu (2021), and Kuswahariani et al. (2020) state that the Financing to Deposit Ratio (FDR) has a significant effect on Non-Performing Financing (NPF).

The second internal factor that affects Non-Performing Financing (NPF) is Operating Costs to Operating Income (BOPO). The ratio of Operating Costs to Operating Income (BOPO) shows level of efficiency of activities in bank operations (Rustam, 2023). The high ratio of Operating Costs to Operating Income (BOPO) indicates the more inefficient the bank, causing a high Non-Performing Financing (NPF) ratio (Retnowati & Jayanto, 2020). The inefficiency of the bank will cause non-smooth activities in the distribution of financing so that it has an impact on the high Non-Performing Financing (NPF) (Ramadhani & Wafaretta, 2023). The research result of Lestari et al. (2023), Fatimah & Izzaty (2022), Shonhadji (2020), Putra & Syaichu (2021), Nugrohowati & Bimo (2019), and Ramadhani & Wafaretta (2023) state that the Operating Costs to Operating Income (BOPO)) has a significant effect on Non-Performing Financing (NPF).

The third internal bank factor that affect Non-Performing Financing (NPF) is Capital Adequacy Ratio (CAR). The Capital Adequacy Ratio (CAR). Ratio show the adequacy of capital in financing all bank assets that contain risk, one of which is credit or financing risk (Suprayitno & Hardiani, 2021). The occurrence of financing risk has causes, one of which is caused by insufficient bank capital (Fitriani et al., 2023). This is related to the statement from Lestari et al. (2023) which states that the Capital Adequacy Ratio (CAR) ratio is a risk absorber for losses faced by banks. The research result of Msomi (2022), Shonhadji (2020), Ratugfirli & Sugiyanto (2020), Fitri & Sriyana (2023), Muhammad (2019), Kuswahariani et al. (2020), Muhammad et al. (2020), Ramadhani & Wafaretta (2023), Arinda et al. (2022), Purwaningtyas & Hartono (2020), Sholehah et al. (2021), Yulianti et al. (2022), Fauzukhaq et al. (2020), and Nugrohowati & Bimo (2019) state that Capital Adequacy Ratio (CAR) has a significant effect on Non-Performing Financing (NPF).

Apart from internal banks, there are macroeconomic factors that affect Non-Performing Financing (NPF), namely Gross Domestic Product (GDP). Hasyim (2017) explains that Gross Domestic Product (GDP) measures the total income earned by all individuals. So that people's income affects the ability to pay debts to bank. Zulaikah & Malik (2023) also state that income is always accompanied by economic growth or Gross Domestic Product (GDP), the high level of income reflects the high amount of goods and services produced so that it indicates the level of prosperity of the people which has an impact on the ability of the people to manage income to pay debts. The research result of Yulianti et al. (2022), Muhammad (2019), Prastyo & Anwar (2021), and Kuswahariani et al. (2020) state that Gross Domestic Product (GDP) has a significant effect on Non-Performing Financing (NPF).

The next macroeconomic factors that affect Non-Performing Financing (NPF) is the BI-Rate. According to Prastiwi (2021) states that Islamic banks in determining the profit-sharing ratio cannot be separated from interest rates at conventional banks. Conventional banks make the BI-Rate a reference for interest rates at conventional banks are used as a reference by the Assets Liabilities Committee (ALCO) of Islamic banks in determining margins and ratio in Islamic bank financing. Therefore, BI-Rate plays an important role in the distribution of financing. The research result of Shonhadji (2020), Yulianti et al. (2022), Nugrohowati & Bimo (2019), Ratugfirli & Sugiyanto (2020), and Fauzukhaq et al. (2020) state that BI-Rate has a significant effect on Non-Performing Financing (NPF).

The theories used in this study are 3 (three) theories, namely the Intermediation theory explained by Jhon Gurley (1956) that the theory discusses the banking function, namely banking which is the dominant contributor to the economy in a country by becoming an intermediary of funds from 2 (two) parties, namely parties with excess funds and parties with insufficient funds (Manda & Hendriyani, 2020). This theory underlines the influence of Financing to Deposit Ratio (FDR) and Capital Adequacy Ratio (CAR) on Non-Performing Financing (NPF).

The efficiency theory explains the input and output of the firm in bank, where deposits are the input and credit are the output (Kurnia, 2004). According to Diallo (2018), bank efficiency can reduce credit constraints and increase industry growth during times of crisis. This suggests that efficiency in banking is crucial in mitigating the negative impact of the financial crisis on the growth of financing dependent industries. This theory underlines the influence of Financing to Deposit Ratio (FDR) and Operating Costs to Operating Income (BOPO) on Non-Performing Financing (NPF).

Keynes theory explains that economic activity can be determined by aggregate demand by controlling inflation and BI-Rate. So, when the Indonesian government issues a monetary policy that causes the inflation rate to stabilize by lowering BI-Rate to maintain economic stability and people's purchasing power (Fatimah & Izzaty, 2022). Keynes theory states that macroeconomic conditions have an impact on long-term financing activities. So that if financing payment are current, it will reduce the risk of Non-Performing Financing (NPF) (Fitriani et al., 2023). This theory underlines the influence of Gross Domestic Product (GDP) and BI-Rate on Non-Performing Financing (NPF).

Figure 3. explains simultaneously and partially through the hypothesis if the influence of each variable on Non-Performing Financing (NPF). The following is a picture description of the framework in this study.

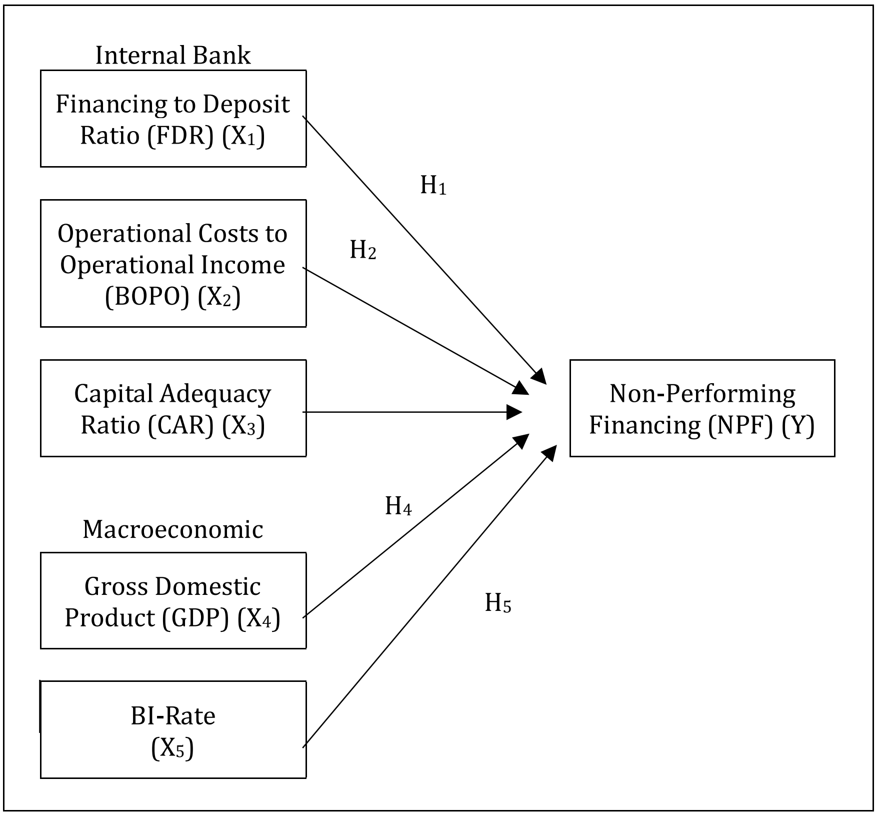

Figure 3. Research Framework

Hypothesis Formulation

Hypothesis 1	:	Financing to Deposit Ratio partially have a significant effect on Non-Performing Financing,
Hypothesis 2	:	Operational Costs to Operational Income partially have a significant effect on Non-Performing Financing,
Hypothesis 3	:	Capital Adequacy Ratio partially have a significant effect on Non-Performing Financing,
Hypothesis 4	:	Gross Domestic Product partially have a significant effect on Non-Performing Financing,
Hypothesis 5	:	BI-Rate partially have a significant effect on Non-Performing Financing.

METHOD

The data used in this study based on the source is secondary data obtained from the publication of the annual financial statements of Islamic Rural Banks (BPRS) and sharia banking statistic on the Financial Services Authority (OJK) website. Based on the time taken, this study uses panel data. The data based on its nature is quantitative data with a ratio Financing to Deposit Ratio (FDR), Operational Costs to Operational Income (BOPO), Capital Adequacy Ratio (CAR), Gross Domestic Product, and BI-Rate. The data that had been collected from the annual report were then processed using e-views 12 statistic program before being interpreted.The variables were measured using the following ratios:

Table 2. Operating definition and measureemnt

No	Operating Definition	Measurement	Scale
1	Non-Performing Financing (NPF) The ratio of the amount of non-performing financing to total financing.	$\mathrm{NPF} = \frac{\text{Bad Financing}}{\text{Total Financing}}$ Source: SEOJK No. 30/SEOJK. 03/2021	RATIO
2	Financing to Deposit Ratio (FDR) The ratio of total financing to total non-bank third party funds.	$\mathrm{FDR} = \frac{\text{Total Financing}}{\text{Total TPF NonBank}}$ Source: SEOJK No. 30/SEOJK. 03/2021	RATIO
3	Operational Costs to Operational Income (BOPO) The ratio of operating costs to operating income.	$\mathrm{BOPO} = \frac{\text{Operational Costs}}{\text{Operational Income}}$ Source: SEOJK No. 11/SEOJK. 03/2022	RATIO
4	Capital Adequacy Ratio (CAR) The ratio of the banks capital to Risk Weighted Assets (RWA).	$\mathrm{CAR} = \frac{\text{Banks Capital}}{\text{Risk Weighted Assets}}$ Source SEOJK No. 11/SEOJK. 03/2022	RATIO
5	Gross Domestic Product (GDP) An indicator used to measure a country economic growth rate.	$\mathrm{GDPr} = \frac{\mathrm{GDPt} + \mathrm{GDPt} - 1}{\mathrm{GDPt} - 1}$ Source: Jawangga (2018)	RATIO

6	BI-Rate The interest rate by Bank Indonesia (BI) to serve as a reference for financial institutions in determining the amount of interest rates to be offered to customers.	Source: Bank Indonesia (www.bi.go.id)	RATIO

RESULT AND DISCUSSION

The first step in this research is descriptive statistical analysis. The data in this study amounted to 88 (eight eight) data for 2020 – 2023 period. With 5 (five) independent variable and 1 (one) dependent variable. Based on descriptive statistical analysis, the following are the results of descriptive statistical calculations:

Tabel 2. Statistic Deskriptif

	NPF	FDR	BOPO	CAR	GDP	BI-RATE
Mean	10.84068	92.66761	166.9874	32.39898	3.225000	4.687500
Median	7.125000	90.07000	86.94500	30.15500	5.015000	4.625000
Maximum	90.21000	230.9900	5525.210	198.5300	5.040000	6.000000
Minimum	0.130000	37.06000	28.09000	-105.5100	-2.170000	3.500000
Std. Dev.	12.72940	27.33662	584.1422	35.40100	3.132674	1.086919
Observations	88	88	88	88	88	88

Source: Processed data, 2024

From the data above, it can be seen that the average value of the NPF is 10.84 with a standard deviation value of 12.72. The average value of FDR was 92.66 with a standard deviation of 27.33. The average value of BOPO was is 166.98 with a standard deviation of 584.14. The average value of CAR was 32.39 with a standard deviation of 35.40. The average value of GDP is 3.22 with a standard deviation of 3.13. The average value of BI-Rate was 4.68 with a standard deviation of 1.08. The standard deviation value of NPF, BOPO, and CAR which is greater than the mean value indicates that the data is more spread out from the mean value. While the standard deviation value on FDR, GDP, and BI-Rate is smaller than the mean value indicating that the data is increasingly clustered around the mean value. The existence of a standard deviation value that is greater than the mean value, causes the data not to be normally distributed. So, it is necessary to do outlier to normalize the data (Santoso, 2017). After that, panel data regression analysis was conducted on 80 (eighty) data by conducting the chow test, hausman test, and lagrange multiplier test. The three models, the model chosen between the common effect model, fixed effect model, and random effect model, then after testing the most appropriate model is the random effect model. Furthermore, the classical assumption test is analyzed by conducting a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. From the results that have been carried out, the observational data has no constraints on the classical assumption test, here are the result.

From the results of the normality, it is known that the prob value is 0.945379 > 0.05, it can be concluded that the data is normally distributed.

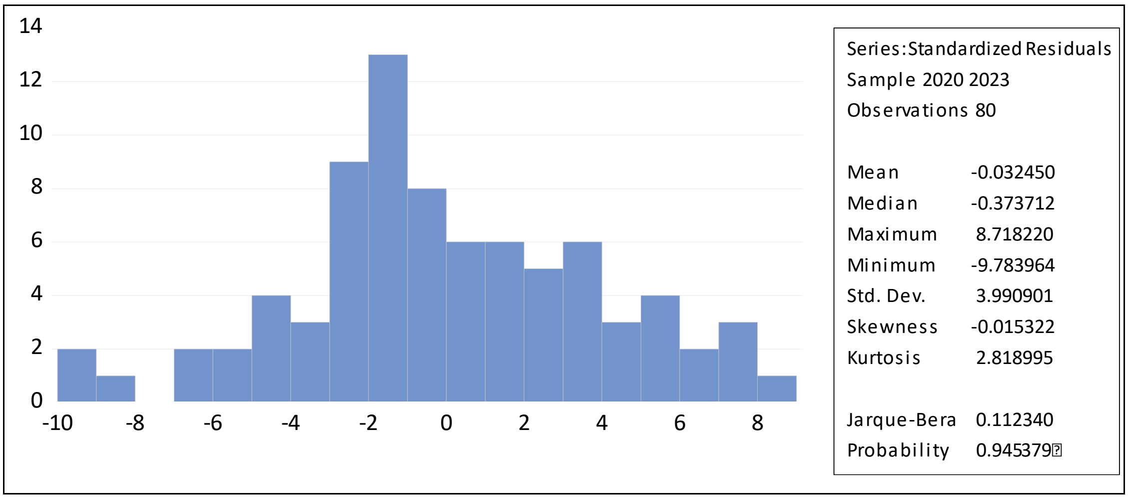

Figure 4. Normality Test
Source: Processed data, 2024

After that, the multicollinearity test is used to test whether there is a correlation between the independent variables with criterion that if the correlation value between variables has a value below 0.9, the regression model doesn't occur multicollinearity. A good regression model shouldn't have a correlation between the independent variables.

Table 4. Multicollinearity Test

	FDR	BOPO	CAR	GDP	BI-RATE
FDR	1.000000	-0.030984	-0.10164	-0.02307	0.105516
BOPO	-0.030984	1.000000	-0.32268	0.081044	0.069485
CAR	-0.101638	-0.322679	1.000000	-0.02425	0.044781
GDP	-0.02307	0.081044	-0.02425	1.000000	0.486223
BI-RATE	0.105516	0.069485	0.044781	0.486223	1.000000

Source: Processed data, 2024

From the results shown in the table, the correlation value between independent variables is not more than 0.9, so there is no multicollinearity problem.

Tabel 5. Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.797320	1.403534	1.280568	0.2043
FDR	-0.004653	0.009500	-0.489808	0.6257
BOPO	0.003748	0.003024	1.239485	0.2191
CAR	-0.005029	0.009306	-0.540353	0.5906
GDP	-0.006916	0.082659	-0.083675	0.9335
BI-RATE	0.353376	0.242107	1.459586	0.1486

Source: Processed data, 2024

With the test results obtained the prob value of each independent variable > 0.05, it can be concluded that there is no heteroskedasticity problem.

Tabel 6. Autocorrelation Test

Weighted Statistics			
Root MSE	3.405086	R-squared	0.847178
Mean dependent var	5.836706	Adjusted R-squared	0.836852
S.D. dependent var	9.001702	S.E. of regression	3.540440
Sum squared resid	927.5689	F-statistic	82.04488
Durbin-Watson stat	**1.613472**	Prob(F-statistic)	0.000000

Source: Processed data, 2024

From the results of the Durbin Watson value -2 < 1.613472 < 2, there is no autocorrelation problem. The next stage is to test the hypothesis with the following table showing the result of the hypothesis testing:

Table 7. F Test

Weighted Statistics			
Root MSE	3.405086	R-squared	0.847178
Mean dependent var	5.836706	Adjusted R-squared	0.836852
S.D. dependent var	9.001702	S.E. of regression	3.540440
Sum squared resid	927.5689	F-statistic	82.04488
Durbin-Watson stat	1.613472	**Prob(F-statistic)**	**0.000000**

Source: Processed data, 2024

From the results of the prob F value 0.000000 < 0.05. Therefore, the conclusion obtained is that together the five independent variables in this study, FDR, BOPO, CAR, GDP, and BI-Rate simultaneously have a significant effect on NPF.

Table 8. t-Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.359772	2.551875	-0.140983	0.8883
FDR	0.014496	0.017485	0.829042	0.4097
BOPO	0.095956	0.005603	17.12520	0.0000
CAR	-0.083065	0.017194	-4.831195	0.0000
GDP	0.338130	0.144857	2.334233	0.0223
BI-*RATE*	-0.062036	0.425415	-0.145825	0.8845

Source: Processed data, 2024

Based on the provision of t-table, the t-table value was obtained at 1.99254. And based on the table 9, the effects of each variable were found as follows:

1) Financing to Deposit Ratio (FDR) had a significance value of 0.4097 > 0.05, with the t-statistic being less than the t-table at 0.829042 < 1.99254, and a positive coefficient value at 0.014496. It means that partially Financing to Deposit Ratio (FDR) had no effect on Non-Performing Financing (NPF). This is because Islamic Rural Banks (BPRS) has a high and declining FDR for 4 (four) years in a row. The bank has tried to reduce the FDR every year, but even though the total

financing has decreased, the value of NPF remains high or increases. Thus, FDR is unable to suppress the rate of NPF. The result of this study contradict the theory because banks are able to distribute financing by doing 5C + S, namely character, capacity, capital, condition, collateral, and according to sharia in selecting financing (Fatimah & Izzaty, 2022).

2) Operational Costs to Operational Income (BOPO) had a significance value of 0.0000 < 0.05, with the t-statistic being greater than the t-table at 17.12520 > 1.99254, and a positive coefficient value at 0.095956. It means that partially Operational Costs to Operational Income (BOPO) positively and significantly affected Non-Performing Financing (NPF). This happens because the ratio of BOPO of Islamic Rural Banks (BPRS) in East Java Province for the period 2020 - 2023 is high or is ranked 5 (five) because it has BOPO > 100%. The high ratio BOPO also causes the higher NPF ratio. The results of this study are in line with the theory of efficiency because BOPO affect NPF. This is in line with the results of research showing that the Islamic People's Financing Bank (BPRS) has high BOPO, so that the BPRS is inefficient in managing its operating costs. High operating costs are caused because banks cannot manage customer information in the financing process, if the information about the customer is not appropriate or inaccurate then the costs incurred to process the information will be greater.
3) Capital Adequacy Ratio (CAR) had a significance value of 0.0000 < 0.05, with the t-statistic being greater than the t-table at -4.831195 > 1.99254, and a negative coefficient value at -0.083065 It means that partially Capital Adequacy Ratio (CAR) negatively and significantly affected Non-Performing Financing (NPF), meaning that an increase in the CAR will reduce NPF. The result of this study indicate that it is in line with the theory of intermediation because intermediating between the two parties, namely those who need funds and those who have excess funds, can be done by lending or financing. Lending or financing in large amounts requires a credit expansion plan supported by capital (Siringoringo, 2012). If the customer is not current in paying installments, it will hamper the bank's operational activities. In that case, in line with the results of research showing that the BPRS has a high CAR, where capital is very important to anticipate the risk of bad credit due to customers unable to pay installments.
4) Gross Domestic Product (GDP) had a significance value of 0.0223 < 0.05, with the t-statistic being greater than the t-table at 2.334233 > 1.99254, and a positive coefficient value at 0.338130. It means that partially Gross Domestic Product (GDP) positively and significantly affected Non-Performing Financing (NPF). Mutamimah & Chasanah (2012) stated that an increase in GDP will increase people income. Although people income increase, this doesn't reduce the level of NPF in banks. This happens because Indonesian people tend to be consumptive, so most of their income is spent on their consumption needs rather than paying financing installments. Between GDP and NPF, the movements are in sync. In 2020 – 2023, GDP and NPF experienced an upward trend. The result of this study are in line with Keynes theory because it explains that aggregate demand can be measured as the sum of household, corporate, and government spending. When there is an increase or decrease in GDP, it will affect consumers in making decisions so that it has an impact on reducing or increasing spending (Jahan et al., 2014). This is in line with the research results that the increasing GDP growth will encourage banks to increase the volume of financing because it utilizes the increase in GDP which is indicated by an increase in aggregate demand use to increased public income, so that customers will be interested in applying for financing when the economy is growing, and cause the NPF rate to increase.
5) BI-Rate had a significance value of 0.8845 > 0.05, with the t-statistic being less than the t-table at -0.145825 < 1.99254, and a negative coefficient value at -0.062036. It means that partially BI-Rate had no effect on Non-Performing Financing (NPF). This happens because the BPRS uses a margin system which is a step to anticipate an increase in the BI-Rate. When there is a continuous increase in the BI-Rate, the BPRS doesn't experience real losses. Islamic banks can control the BI-Rate by easing liquidity in the distribution of funds when BI-Rate decreases. Conversely, if BI-Rate increases, bank will tighten liquidity in the distribution of funds (Bareut, 2024). The results of this study contradict Keynesian theory because BI interest rates have no effect on non-performing financing (NPF). Keynesian theory explains that economic activity can be determined by aggregate demand by controlling inflation and BI interest rates. Therefore, when the government implements monetary policies that cause stable inflation by lowering BI interest rates to maintain economic stability and increase people's purchasing power (Fatimah & Izzaty, 2022).

CONCLUSSION AND RECOMMENDATION

The result of this research show that Financing to Deposit Ratio (FDR) had no effect on Non-Performing Financing (NPF), Operational Costs to Operational Income (BOPO) positively and significantly affected on Non-Performing Financing (NPF), Capital Adequacy Ratio (CAR) negatively and significantly affected on Non-Performing Financing (NPF), Gross Domestic Product (GDP) positively and significantly affected on Non-Performing Financing (NPF), and BI-Rate had no effect on Non-Performing Financing (NPF). This research has limitations such as contradictions between the theory and the results of the study, the relatively short research period (2020–2023), which makes it impossible to measure long-term effects, and the limited scope of the study, which was only conducted on Sharia Rural Banks (BPRS) in East Java Province due to time constraints. Therefore, future researchers are recommended to examine Islamic Rural Banks (BPRS) widely such as Islamic Rural Banks (BPRS) in Indonesia and increase the research period to provide a long-term effect.

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