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ANALYSIS OF THE INFLUENCE OF INTERNAL FACTORS AND EXTERNAL FACTORS ON THE STABILITY OF ISLAMIC COMMERCIAL BANKS IN INDONESIA BEFORE AND DURING THE COVID-19 PANDEMIC

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Abstract: *This research compares the stability of Sharia Commercial Banks before and during the COVID-19 pandemic, by looking at the impact of internal and external factors. 10 banks that met the criteria were included in the purposive sample used to select the sample for this research. The data obtained comes from the World Bank, Central Statistics Agency, and the official website of each Sharia Commercial Bank. This research includes internal variables such as CAR, NPF, and ISR and external factors consisting of inflation, GDP growth, and bank competition. As an analysis tool, Stata software is used to perform panel data regression and t-test data analysis. Based on the tests that have been carried out, the best model chosen is FEM with CAR, ISR and competition results having a significant positive influence, NPF and Inflation having an insignificant negative influence and GDP growth having an insignificant positive influence. The Wilcoxon Signed Rank Test was used because the research data was not normally distributed. As a result, the stability of Sharia Commercial Banks before and during the COVID-19 pandemic was no different.*

Keywords: *Stability, Capital Adequacy Ratio, Non-Performing Financing, Islamic Social Responsibility, Inflation, GDP Growth, Bank Competition.*

Abstrak: Penelitian ini membandingkan stabilitas Bank Umum Syariah sebelum dan saat pandemi COVID-19, dengan melihat dampak dari faktor internal dan faktor eksternal. 10 Bank yang sesuai dengan kriteria dimasukkan dalam sampel purposif yang digunakan untuk pemilihan sampel penelitian ini. Data yang diperoleh berasal dari Bank Dunia, Badan Pusat Statistik, dan situs web resmi masing-masing Bank Umum Syariah. Penelitian ini mencakup variabel internal seperti CAR, NPF, dan ISR dan faktor eksternal terdiri dari inflasi, pertumbuhan PDB, dan persaingan bank. Sebagai alat analisis, software Stata digunakan untuk melakukan regresi data panel dan analisis data uji-t. Berdasarkan pengujian yang telah dilakukan, model terbaik yang dipilih adalah FEM dengan hasil CAR, ISR dan persaingan memiliki pengaruh positif signifikan, NPF dan Inflasi memiliki pengaruh negatif yang tidak signifikan dan pertumbuhan PDB memiliki pengaruh positif tidak signifikan. Wilcoxon Signed Rank Test digunakan karena data penelitian tidak berdistribusi normal. Hasilnya, stabilitas Bank Umum Syariah sebelum dan selama pandemi COVID-19 tidak memiliki perbedaan.

Kata Kunci: Stabilitas, Capital Adequacy Ratio, Non – Performing Financing, Islamic Social Responsibility, Inflasi, Pertumbuhan PDB, Persaingan Bank.

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1. INTRODUCTION

The COVID-19 pandemic is causing a health and economic crisis, including in Indonesia. A Public Activity Restriction (PPKM) policy has been put in place by the government as a measure to stop the spread of the COVID-19 virus. Indonesia's economy has been severely affected by the PPKM policy, one of the impacts is a decrease in GDP growth and an increase in Indonesia's inflation rate in 2022.

Figure 1. GDP Growth and Inflation

Before the COVID-19 pandemic in 2017, GDP growth was around 5% with the inflation rate above 2%. Whereas, in 2019 the inflation rate declined and GDP growth fell dramatically to - 2.10%. In 2022, GDP growth picked up as a result of increased commodity exports and fiscal policies responsive to the pandemic, although complex global challenges and the ongoing impact of COVID-19 could slow the economic recovery. Inflation also recorded a significant increase reaching 5.51% in the same year. During the pandemic, GoI emphasized the importance of the health sector, real sector, and banking. Bank Indonesia emphasized that the stability of the financial system is critical to maintaining economic stability. Banks play an important role in maintaining economic stability and enhancing financial system resilience (Li et al., 2023).

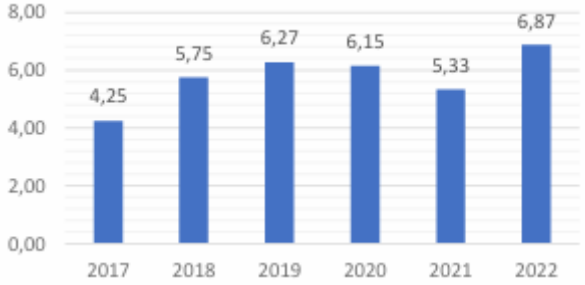

Figure 2. Stability of Islamic Commercial Banks

Based on the figure above, stability experienced a consistent increase every year from 2017 to 2019, reflecting positive progress in its performance. However, the consequences of the COVID-19 pandemic in 2020 resulted in a significant decline in stability, which continued into 2021. In 2022, there was a marked improvement in the stability of Islamic Commercial Banks, indicating continued fluctuations. According to Minister of Finance Sri Mulyani Indrawati (2020) in Bisnis.com, the performance of Islamic banking in Indonesia shows strong stability, even expanding faster than conventional banking during the COVID 19 pandemic. This superior resilience of Islamic banking has been proven both during the pandemic and in the 2008 global

financial crisis, attracting investors and customers to increase the stability and market share of Islamic banks relative to conventional banks. Research by (Ali et al., 2020) confirms that Islamic banks can increase the stability of the banking sector without sacrificing profitability, with stability realized from both sides, both assets and liabilities of the bank.

Although the stability of Islamic Commercial Banks has increased, customer and investor interest in Islamic banking is still low. Data from OJK notes that the market share of Islamic banking is only around 7.09%, while conventional banking dominates with a market share of 92.91%. Conventional banking clearly has a significant advantage over Islamic banking. To increase Market Share, it is important to maintain and improve stability as the main attraction of BUS. In-depth research is needed on the factors that affect BUS stability, both inhibiting and supporting, because banking stability can play an important role in maintaining overall economic stability.

2. LITERATURE REVIEW

Financial Intermediation Theory

In financial intermediation theory, banks raise funds from deposits to provide loans to support economic investment (Diamond & Dybvig, 1983). Financial institutions regulate the collection and investment of funds in a capitalist economy, acting as the center of economic growth by acquiring funds from consumers and channeling them to firms (Gorton & Winton, 2014). This theory oversees the intermediation process in various sectors of the economy, with efficient supervision to smooth activities, reduce market risk, and improve financial performance. In Indonesia, financial intermediation theory supports the role of banks in maintaining economic and banking stability (Ketaren & Haryanto, 2020).

This research provides solutions for the Islamic banking industry in Indonesia through analyzing the stability of Islamic Commercial Banks (BUS) before and during the COVID-19 pandemic. The approach used combines internal factors, consisting of Capital Adequacy Ratio (CAR), Non-Performing Financing (NPF), and Islamic Social Responsibility (ISR), as well as external factors, consisting of Gross Domestic Product (GDP) growth, and the level of industry competition. The data analysis used is a panel data regression model and Wilcoxon Signed Rank Test, which allows researchers to comprehensively compare changes in BUS stability in two different periods. This approach not only fills the literature gap related to Islamic banking stability in Indonesia before and during the pandemic, but also offers solutions for the banking industry in understanding the factors that affect the stability of Islamic banks. Thus, this study provides data-driven guidance for Islamic banks to strengthen their financial stability, as well as prepare better strategies in facing potential economic crises in the future.

Competition Stability Theory

Competition stability theory states that high competition among banks can increase stability. Low competition tends to result in higher interest rates, potentially exacerbating the moral hazard problem by increasing credit risk in banks (Go'zal

Adhamovna, 2016). Healthy competition encourages banks to be more efficient and optimal in using resources, so they are more careful in choosing financing options and investment. This can help banks avoid decisions that cause instability (Novita, 2015).

Stakeholder Theory

Stakeholders are groups that can influence or be affected by organizational goals (Freeman, 2010). This theory states that the relationship between businesses and various parties such as customers, suppliers, employees, investors, communities, and other entities is very important in the context of capitalism. The main focus of this theory is on value creation for all stakeholders, not just shareholders. By taking into account the interests of all relevant parties such as customers, employees, and the general public, the company can build long-term value and enhance its reputation, which in turn will strengthen the stability of the company over time (Khémiri & Alsulami, 2023).

Stability

According to (Financial Services Authority, 2017), a stable financial system refers to a financial system that is robust and must withstand various economic shocks in order to continue to function as a financial intermediary to carry out payments, and distribute risk effectively. Financial systems can experience instability due to various causes and fluctuations. These are usually caused by a combination of market failures, which can stem from structural or behavioral factors, both external (international) and internal (domestic). These market failures can lead to risks inherent in financial system activities, including credit risk, liquidity risk, market risk, and operational risk. Bank stability is measured using Z - score. According to the World Bank, the Z - Score Index reflects the probability of payment failure of a country's banking system. A higher Z score indicates increased bank solvency and vice versa (Kabir & Worthington, 2017). Better bank stability is indicated by higher Z scores (Mercieca et al., 2007). Better bank stability and lower probability of bankruptcy are indicated by higher Z scores (Dutta & Saha, 2021). Z-Score Formula:

$$Z = (ROA + \frac{E}{A})\sigma ROA$$

Sumber: (Kabir & Worthington, 2017)

Capital Adequacy Ratio (CAR)

CAR is a measure of the strength of bank capital in bearing the risk of losses that may occur. The focus is on ensuring financial stability and the importance of financial institutions both at national and international levels in managing the risks associated with banking activities. The use of the minimum capital adequacy ratio is expected to increase the stability and efficiency of the financial system by reducing the risk of financial failure in the banking sector (Bateni et al., 2014). The higher the CAR value, the more capital the bank has, the more capable the bank is to handle the risk of losses that may occur. Total capital is divided by risk-weighted assets (RWA) to calculate CAR. CAR formula:

$$CAR = \frac{Modal}{ATMR}$$

Non-Performing Financing (NPF)

NPF is the percentage of non-current financing in Islamic banks. This non-current financing is a burden for banks because it can damage their profitability. This happens because losses arising from non-current financing reduce the income that banks generate from financing activities. Banks have to allocate additional funds to compensate for the anticipated losses due to non-performing financing. Islamic banks with high NPF rates can have a negative impact on the economy as a whole (Ari et al., 1990). NPF Formula:

$$NPF = \frac{Non-performing\ financing\ (substandard, doubtful, and\ loss)}{Total\ loans}\ x\ 100\%$$

Islamic Social Responsibility (ISR)

Social responsibility encompasses all aspects of a company's responsibility to society. It involves management measures that respond to social issues and ensure corporate behavior conforms to social norms, values and expectations. The concept of social responsiveness emphasizes the importance of not only responding to current social pressures, but also considering the company's long-term role in a dynamic social system. As a result, companies need to take an "anticipatory" and "preventive" approach in carrying out their social responsibilities (Carroll, 1979). In research regarding the development of CSR based on the Qur'an, the Islamic Corporate Social Responsibility (ICSR) model includes economic, legal, ethical, and philanthropic responsibilities that are aligned with Islamic values. Islam supports initiatives that aim to improve the welfare of society (Khurshid et al., 2014). According to (Yusuf, 2016), the concept of CSR derived from Islamic principles becomes a more important obligation, especially for companies established based on Islamic values such as Islamic financial institutions. ISR Formula:

$$ISR = \frac{Number\ of\ disclosures\ fulfilled)}{Total\ score}\ x\ 100\%$$

Gross Domestic Product (GDP) Growth

According to the World Bank, GDP growth is the average annual growth rate. The total value of goods and services produced in a country, measured in adjusted local currency over a period of time. GDP represents the total income of all economic output generated within the country, regardless of ownership or nationality. Although workers from this country who work abroad are not included in the calculation of GDP. Formula:

$$GDP = \frac{GDPt - GDPt - 1}{GDPt}\ x\ 100\%$$

Inflation

Bank Indonesia Inflation explains that inflation occurs when there is a general increase in prices for goods and services. The increase is sustained over a period of time. The causes can be manifold and the price increase is not limited to just one or two goods, but can affect other goods widely. Conversely, deflation is the opposite of

inflation. To achieve sustainable economic growth, it is important to maintain price stability by keeping inflation low and stable. The stability of the Rupiah exchange rate, which reflects the consistency of the currency against foreign currencies, is also an important factor in achieving this goal. Inflation Formula:

$$\text{Inflasi}=\frac{IHK_n - IHK_{n-1}}{IHK_n} \times 100\%$$

Competition Competition in the banking industry concerns the ability of banks to set prices above marginal cost, while disruptions in the functioning of banking can hinder the financing of economic development projects (Church & Ware, 2000). The Lerner Index is used to measure the level of competition in an industry. According to (Soedarmono et al., 2013) in general, the Lerner index has a range of values between 0 and 1. The value of this index reaches 0 in conditions of perfect competition and reaches 1 in conditions of perfect monopoly. Lerner Index Formula:

$$Lerner\ Index\ = \frac{TR - TC}{TR}$$

The framework is a conceptual model of how theory relates to various factors that have been identified as important problems (Sudaryana & Agusiady, 2022). This study was conducted to determine the effect of internal factors and external factors on BUS stability, and differences in BUS stability before and during the COVID-19 pandemic. Then the framework in this study is described as follows:

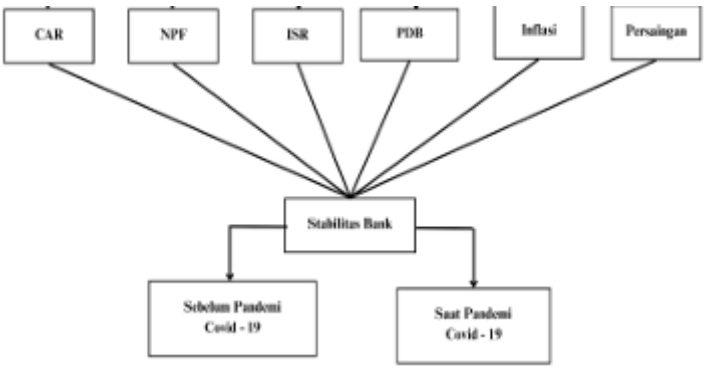

Figure 3. Research Model

3. RESEARCH METHODS

This study uses a quantitative approach as its research methodology. Gay, Mills, & Airasian (2009) explain that in this method, data is collected and analyzed in the form of numbers to describe, explain, predict, or control the variables and phenomena being studied. Quantitative research focuses on measuring and analyzing cause-and-effect relationships between various variables, not on the process. This study uses a purposive sampling method to select Islamic Commercial Banks (BUS) in Indonesia that have complete financial reports and do not conduct mergers or acquisitions during the

2017-2022 period, with the aim of ensuring that the sample used accurately represents the BUS population. The analytical tool used in this research is panel data regression with Stata software, which was chosen because it can process time-series and cross-sectional data simultaneously, providing more efficient and accurate results. In addition, the Wilcoxon Signed Rank Test is used to compare BUS stability before and during the pandemic, which allows researchers to overcome data that is not normally distributed, so that the results obtained are more valid and reliable in explaining differences in stability between the two periods.

Research Population and Sample

Research subjects are identified as part of a population, and a sample is a small portion of the population processed through certain steps to represent the entire population. (Ma'ruf Abdullah, 2015). To ensure that the sample fairly represents the population as a whole over sampling is done (Ipa Hafsiah Yakin, 2023). The method used to collect samples for this study is called purposive sampling. Indonesian Islamic Commercial Banks use the following criteria when selecting samples, the process is not random. The sample selection criteria for Indonesian Islamic commercial banks are as follows:

1. Bank Umum Syariah yang telah terdaftar di Otoritas Jasa Keuangan (OJK).
2. Bank Umum Syariah yang menerbitkan laporan keuangan antara tahun 2017 dan 2022.
3. Bank Umum Syariah yang tidak melakukan akuisisi antara tahun 2017 dan 2022 atau tidak melakukan merger.

The following are the Islamic Commercial Banks that meet the criteria:

Table 1. Islamic Bank in Indonesia

No	Nama Bank
1	Bank Aceh Syariah
2	Bank Central Asia Syariah
3	Bank Jabar Banten Syariah
4	Bank Mega Syariah
5	Bank Muamalat Indonesia
6	Bank NTB Syariah
7	Bank Panin Dubai Syariah
8	Bank Syariah Bukopin
9	Bank Tabungan Pensiunan Nasional Syariah
10	Bank Victoria Syariah

Data panel regression

Cross-sectional and time series data are combined into panel data. Additional terminology for panel data includes merged data, which combines cross-sectional and time series data, micro panel data, longitudinal data, event history analysis, and cohort analysis. All these terms refer to the observation of changes over time of cross-sectional units such as individuals, firms, or countries. The set of behaviors that cross-sectional units of data can observe over time is known as panel data (Gujarati, 2004). Here is the panel data regression equation:

$$Z - Scoreit = \alpha i + CARit + NPFit + ISRit + Pertumbuhan\ PDBit - Inflasiit + Persainganit + \varepsilon it$$

Keterangan :
Z – Score = Stabilitas
α = Konstanta
CAR = Capital Adequacy Ratio
NPF = Non – Performing Financing
ISR = Islamic Social Responsibility
GDP = Pertumbuhan Pendapatan Domestik Bruto
Inflation= Inflation level
B = Regression Coefficient
E = Error term regresi data panel
T = Period
I = Islamic Banks

Regression model estimation

There are three main ways to estimate regression models including the Common Effect Model, Fixed Effect Model and Random Effect Model. To determine the best model, chow and hausman tests are conducted. Panel data poses a number of difficulties in the estimation and inference process. Because these data have cross-sectional and temporal dimensions, important issues that arise are autocorrelation in time series data which requires special management and heteroscedasticity in cross sectional data. There are also other issues, such as cross-correlation between different units at the same time (Gujarati, 2004).

4. RESULTS AND DISCUSSION

Data Panel Regression

Table 2. Chow Test

F (9, 44) = 20.71
Prob > F = 0.0000

The most suitable regression model among CEM and FEM is FEM because the Chow Test results yield Prob > F = 0.0000, which indicates that the significance α < 0.05, rejecting H0 and accepting H1.

Table 3. Hausman Test

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 9.78
Prob>chi2 = 0.0443

Prob > chi2 = 0.0443 < 0.05 is the result of the Hausman test. Therefore, H0 is rejected and H1 is accepted, which indicates that FEM is chosen over REM. Then there is no need to do the Lagrange Multiplier (LM) test because FEM is the best model.

Table 4. Fixed Effect Model (FEM)

Variabel	*Coefficient*	Std. err.	t	p > t	[95% conf.	interval]
CAR	8.485849	.9259449	9.16	0.000	6.6197	10.35197
NPF	-.0525494	.0606471	-0.87	0.391	-.17477	.0696767
ISR	5.076984	2.372821	2.14	0.038	.294877	9.859091
Pertumbuhan PDB	.058082	.0730925	0.79	0.431	-.08922	.2053901
Inflasi	-.061116	.146401	-0.42	0.678	-.35616	.2339357
Persaingan	1.557432	.5037416	3.09	0.003	.54220	2.572656
_cons	-1.520255	2.02009	-0.75	0.456	-5.5914	2.550969

The Fixed Effect Model (FEM) equation using the table results above is as follows:

$$Z - Score_{it} = -1.5203 + 8.4858\, CAR_{it} - 0.0525\, NPF_{it} + 5.0770\, ISR_{it} + 0.058082\, PDB_{it} - 0.0611 Inflasi_{it} + 1.5774\, Persaingan_{it}$$

After analyzing the data in Table 4, three factors out of six independent factors seen in relation to stability (Y) have a significant impact. Variable X1 (CAR) is proven to have a significant positive effect with a sig. value of 0.0000 <0.05. In contrast, X2 (NPF) and X5 (Inflation) show no significant influence on Y with sig. respectively 0.391 > 0.05 and 0.678 > 0.05. Variable X4 (GDP Growth) is also insignificant in its influence with sig. 0.431 > 0.05. Meanwhile, variable X6 (Competition) is proven to have a significant positive effect with sig. 0.003 < 0.05. These results indicate that Ho is rejected and Ha is accepted for X1, X3, and X6, while Ho is accepted and Ha is rejected for X2, X4, and X5.

Based on Table 4 shows that Prob 0.000 <0.05, which leads to the conclusion that Ho is rejected while Ha is accepted. The variables X1 (CAR), X2 (NPF), X3 (ISR), X4 (GDP Growth), X5 (Inflation), and X6 (Lerner Index) simultaneously have a significant effect on variable Y (Islamic Commercial Bank Stability).

Table 5. Coefficient of Determination (R^2)

Within	= 0.7248
Between	= 0.6944
Overall	= 0.5727

The coefficient of determination (R^2) obtained from the above findings is equivalent to 57.27%, or 0.5727. Thus, variables X1 (CAR), X2 (NPF), X3 (ISR), X4 (GDP Growth), X5 (Inflation), and X6 (Lerner Index) are able to explain 57.27% of the variation in variable Y (Islamic Commercial Bank Stability) and 42.73 is explained by external variables.

Table 6. Uji Normalitas Skewness dan Kurtosis

Variabel	Observasi	*Skewness*	*Kurtosis*	*Joint test* Adj. chi2	Prob>chi2
Sebelum Covid - 19	30	0.0060	0.0077	11.60	0.0030
Selama Covid - 19	30	0.0020	0.1346	9.71	0.0078

The data is not normally distributed, as indicated by the skewness and kurtosis normality test results, which show that the Prob > chi2 values for the variables before and during the COVID-19 pandemic are 0.0030 and 0.0078, respectively. This finding can be concluded if the p-value <0.05 then Ha is rejected while H0 is accepted. If the

data is not normally distributed, a non-parametric method called the Wilcoxon Signed Rank Test is used for the next step, which is the difference test.

Table 7. Wilcoxon Signed Rank Test

z = -1.306
Prob > z = 0.1915
Exact prob = 0.1981

With a P value > 0.05 and Prob > z = 0.1915 in the Wilcoxon signed rank test, H0 is accepted while Ha is rejected. This indicates that the stability of Islamic Commercial Banks has no change or difference in the study period, namely before and during the COVID-19 pandemic.

Discussion

The results of the panel data regression test show a significant positive relationship between CAR and the stability of Islamic Commercial Banks. These results indicate that as CAR increases, stability will also increase. This finding is in line with previous research, each unit increase in CAR has the potential to increase banking stability and has a good and significant impact on the stability of Islamic banks (Anggraini et al., 2023). Banks with high CAR tend to show strong performance, signaling good financial condition (Ketaren & Haryanto, 2020). In emerging economies, the impact of CAR on stability is positive and significant, with increased capital possibly hindering access for new entrants, increasing profits, and reducing risk for existing banks (Tran et al., 2022). Similar findings were also reported in a study by (Andi et al., 2023).

NPF has a negative but insignificant effect on the stability of Islamic Commercial Banks, based on the results of the panel data regression test. This means that, although the effect is not statistically significant, bank stability tends to decrease when the level of NPF increases. Despite having a low negative impact, NPF does not significantly affect the stability of Islamic Commercial Banks. Therefore, although an increase in NPF can reduce banking stability, banks must still pay attention to risks in financing (Anggraini et al., 2023). Other research shows that NPF significantly impairs the ability of Islamic Commercial Banks to maintain their financial stability. Another study found that non-performing financing can reduce the profitability of Islamic banks due to the high default rate of customers, which has a negative impact on the financial stability of the bank (Hasnani, 2022). The increase in financing, especially in working capital and investment, is the largest contributor to risk for Islamic banks, which is likely to reduce their stability (Taufiqi Lutfi Mustofa et al., 2023) This result is in line with the findings of the study (Az Zahra & Miranti, 2023).

The stability of Islamic Commercial Banks is proven to be significantly positively influenced by ISR, in accordance with the results of the panel data regression test. According to this study, bank stability will increase with an increase in ISR. This shows that financial stability and CSR have a strong positive relationship (Ramzan et al., 2021). Bank investment in CSR activities not only improves client relationships but also strengthens financial stability and reduces financial risk (Cahyaningrum & Muharam, 2023).

GDP growth has a positive but insignificant impact on the stability of Islamic Commercial Banks. Thus, when GDP grows at a relatively faster rate, it will cause Islamic Commercial Banks in general to become more stable. This finding is in line with the research findings (Tantri et al., 2017), the study concluded that the stability of Islamic Commercial Banks is not significantly affected by GDP. A study shows similar results, where GDP growth does not have a significant impact on banking stability, because the focus is more on the intermediary financial services sector (Taufiqi Lutfi Mustofa et al., 2023). In general, an increase in GDP only impacts the overall economic stability of the country, with Islamic banks benefiting from increased transactions and income from sources outside of their operations.

The panel data regression test results show that the stability of Islamic Commercial Banks (Y) is negatively but insignificantly affected by inflation (X5). This means that even if inflation increases, the stability of Islamic commercial banks tends to decrease although the impact is not significant. As inflation increases, the value of the currency will depreciate, which can reduce the benefits for people in saving money in the bank as the value of their money will fall. This could discourage people from saving, especially if bank interest rates are not high enough to keep up with the high inflation rate. As a result, the amount of funds collected by banks will be reduced, which can disrupt the intermediation function of banks (Yudaruddin, 2017). During the COVID-19 pandemic, this study found that the stability of Islamic banking is significantly and negatively affected by inflation (Fatoni, 2022). As they operate on a profit-sharing basis, Islamic commercial banks are less vulnerable to inflation. The operational characteristics of Islamic Commercial Banks are different from Conventional Banks (Sadrinata & Rani, 2019). In the Islamic banking system, fund management tends to be more stable and less affected by fluctuations in inflation.

Based on the panel data regression test results, it was found that the level of competition in the Islamic commercial bank industry (X6) showed a significant increase in bank stability (Y). This indicates that bank stability tends to increase as the level of competition among Islamic Commercial Banks increases. High competition in the banking industry contributes positively to bank stability because it increases interbank dependence (Firdaus et al., 2023). Banks with a majority market usually have a fairly high level of stability. In addition, banks more often experience rapid growth and have high capital adequacy ratios, which reflect efficiency in resource management, economies of scale and low-cost, high-return manufacturing processes (Syahyunan et al., 2017).

The results of the Wilcoxon Signed Rank Test show that the stability of Islamic Commercial Banks shows almost unchanged stability before and after the COVID-19 Pandemic. Research results are in line with previous research, which states that the government has successfully implemented effective economic policies in managing the impact of the pandemic. During the pandemic, the government encouraged economic growth through increased public spending, which had a positive impact on the stability of the Islamic banking sector (Hamda & Sudarmawan, 2023). While Islamic commercial banks experienced a shock in August 2020 due to the pandemic, they

managed to recover in October 2020 after experiencing a downturn (Viphindrartin et al., 2022). While there are variations among banks with smaller total assets, in general banks managed to maintain the value of their assets during the pandemic, despite a decline in the amount of assets used for financing (Firdaus et al., 2023) The Government of Indonesia, through the Ministry of Finance, implemented various fiscal and monetary policies with Bank Indonesia and local governments to help the economy recover after the COVID-19 pandemic. These policies include accelerating government spending, relaxing income tax, and optimizing monetary policy and digitizing payment systems. These policies succeeded in strengthening the stability of Islamic commercial banks in 2022 compared to previous years (Pratiwi, 2022).

5. CONCLUSION

CAR, ISR, and interbank competition show a consistent influence in improving stability, although NPF, GDP growth, and inflation do not show a significant influence partially. This study found that these factors have a significant impact on bank stability simultaneously, for Islamic Commercial Banks during the period 2017-2022. Suggestions for Islamic Commercial Banks, banks maintain the quality of financing provided and increase capital as a risk mitigation effort amid economic pressures. Future research is recommended to expand the sample and time span of the study, as well as using a more holistic competitive index such as the Herfindahl-Hirschman Index (HHI) to understand competitive dynamics in more depth.

This study provides theoretical implications by enriching the literature on Islamic banking stability, especially in Indonesia, through testing internal variables such as CAR, NPF, and ISR, as well as external variables such as inflation, GDP, and competition. The results of the study which show a significant effect of CAR, ISR, and competition on BUS stability support the theory of financial intermediation and competitive stability, which states that healthy competition can increase bank stability. This study also strengthens the concept that social responsibility (ISR) plays an important role in maintaining banking stability, especially in crisis situations such as a pandemic.

In terms of managerial implications, the findings of this study provide practical guidance for the management of Islamic Commercial Banks to focus on increasing the Capital Adequacy Ratio (CAR) and Islamic Social Responsibility (ISR) as strategies in maintaining long-term financial stability. Bank management also needs to consider the importance of creating a healthy competitive environment, as well-managed competition has been shown to contribute positively to banking stability. By paying attention to these factors, Islamic banks can better prepare themselves to face future economic crises and strengthen competitiveness in the banking industry.

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