ABSTRACT

The allocation of mudharabah financing, which operates on the principle of profit loss sharing, has been minimal in practice within Islamic banking. However, financing based on profit loss sharing, particularly mudharabah financing, has the potential to stimulate the real sector. This is hindered by the high financing risks associated with mudharabah due to Moral hazard issues in Islamic Banks (BUS) and Sharia Business Units (UUS).

This study adopts a quantitative approach using the Error Correction Model (ECM) method, focusing on examining indications of Moral hazard by analyzing the impact and relationships of external and internal variables such as Gross domestic product (GDP), inflation, the return on murabahah financing compared to mudharabah financing (RM_FM), and the allocation of murabahah financing versus mudharabah financing (MM_MPLS) on Non-Performing Financing (NPF). Secondary data from Sharia Banking Statistics (SPS) for the period 2015-2019 and Indonesia's Economic and Financial Statistics (SEKI) for the period 2015-2019 were utilized in this research.

The findings reveal that in Islamic Banks (BUS), all independent variables—GDP, inflation, RM_FM, and MM_MPLS do not exert short-term effects on NPF. In the long run, only MM_MPLS exhibits a negative impact on NPF, indicating no signs of Moral hazard. GDP, inflation, and RM_FM show no long-term influence on NPF.

The Findings in Sharia Business Units (UUS), the short-term analysis indicates that GDP, inflation, RM_FM, and MM_MPLS have no influence on NPF. In the long term, GDP shows no effect on NPF, inflation has a significant positive effect on NPF which does not represent an indication of moral hazard. MM_MPLS negatively affects NPF, indicating no indication of Moral hazard, while RM_FM positively impacts NPF, suggesting signs of Moral hazard in UUS.

Keywords: Islamic Banking, Agency Relationship, Moral hazard, Non-Performing Financing