

Monetary Transmission Through the Profit-Sharing Financing Channel in Indonesia

Zaini Ibrahim*

Faculty of Islamic Economics and Business, State Islamic University Sultan Maulana Hasanuddin
Banten, Indonesia
zaini.ibrahim@uinbanten.ac.id

Anita

Faculty of Islamic Economics and Business, State Islamic University Sultan Maulana Hasanuddin
Banten, Indonesia
anita.febi@uinbanten.ac.id

Ratu Fhathunnida

Faculty of Islamic Economics and Business, State Islamic University Sultan Maulana Hasanuddin
Banten, Indonesia
rt.fhathunnida@uinbanten.ac.id

**Corresponding author*

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Abstract

Profit-sharing financing (PSF) is a leading product of Islamic banking that serves as a stabilizer for the real and monetary sectors, with an average growth rate of 22.05% during the 2009-2024 period. When viewed as an Islamic monetary instrument, this PSF's performance still needs to be tested for its contribution to Indonesia's inflation-targeting framework (ITF). This research aimed to identify the monetary transmission channel through the PSF instrument to encourage economic growth and to stabilize inflation in Indonesia. This study employed a quantitative Structural Vector Autoregression (SVAR) approach to analyze time-series data from 2009:1 to 2024:6. The results indicate that the PSF instrument cannot yet be relied upon to promote economic growth in Indonesia reliably. Likewise, inflation did not respond significantly to shocks to the PSF instrument. Instead, inflation responds more to changes in interest rates in the Interbank Money Market (PUAB). Thus, this article has revealed new findings: monetary transmission through the PSF channel affects only the growth of the Islamic financial sector and has not had a significant impact on the real sector. The implications of these findings encourage monetary authorities to accelerate PSF through regulatory improvements, especially by setting upper and lower limits on PSF yields, establishing minimum share capital for the *musharakah* scheme, and limiting portions or margins of the *murabahah* scheme.

Keywords: Monetary Transmission; Profit-sharing Financing; Islamic Banking; Economic Growth; Inflation Targeting

Abstrak

Profit-sharing financing (PSF) merupakan produk unggulan perbankan Islam yang berperan sebagai stabilisator sektor riil dan moneter, dimana selama periode 2009-2024 rata-rata pertumbuhannya mencapai 22.05%. Jika dilihat fungsinya sebagai salah satu instrumen moneter Islam, performa PSF ini masih perlu diuji kontribusinya dalam dimensi inflation targeting framework (ITF) yang berlaku di Indonesia. Penelitian ini bertujuan untuk mengidentifikasi jalur transmisi moneter yang dilalui

instrumen PSF dalam rangka mendorong pertumbuhan ekonomi dan pengendalian inflasi di Indonesia. Studi ini menggunakan pendekatan kuantitatif Structural Vector Autoregression (SVAR) melalui pengujian data time series periode 2009:1 – 2024:6. Hasilnya menunjukkan bahwa instrumen PSF belum bisa diandalkan dalam mendorong pertumbuhan ekonomi Indonesia. Demikian juga shock instrumen PSF tidak direspon signifikan oleh inflasi. Inflasi lebih merespon perubahan suku bunga di pasar uang antar bank. Dengan demikian, artikel ini berhasil mengungkap temuan baru bahwa transmisi moneter melalui jalur PSF hanya berdampak pada pertumbuhan sektor keuangan Islam dan belum berdampak signifikan pada sektor riil. Implikasi dari temuan ini mendorong otoritas moneter untuk melakukan akselerasi PSF melalui perbaikan regulasi terutama penetapan batas atas dan batas bawah terhadap imbal hasil PSF; minimum share capital untuk pembiayaan masyarakat; pembatasan porsi pembiayaan murabahah; atau pembatasan marjin murabahah.

Kata kunci: Transmisi Moneter; Pembiayaan Bagi Hasil; Perbankan Islam; Pertumbuhan Ekonomi; Target Inflasi

INTRODUCTION

The Monetary Transmission Mechanism (MTM) is a process through which policy rate changes affect various financial instruments before ultimately influencing the real sector through output growth and price adjustments. In simple terms, MTM explains the interaction between the central bank and the financial industry, ultimately affecting the real sector. Two channels affected by policy rate changes are the interest rate channel and the banking credit channel.

The presence of Islamic banking for over three decades has made the financial system more colorful and complex. It is increasingly colorful because Islamic banking offers an interest-free investment scheme, providing alternative options for the public. It is increasingly complex because the interest-free scheme requires the central bank to be more careful to avoid violating Sharia principles in its monetary governance. The distinction between Islamic and conventional banking lies in the profit-sharing scheme, specifically profit-sharing financing (PSF). This article is compiled as discussion material on the actual role and contribution of the profit-sharing financing scheme in the monetary transmission mechanism, particularly in promoting economic growth and controlling inflation in Indonesia.

Indonesia employs the Inflation Targeting Framework (ITF) in its monetary governance, with economic growth and inflation as the primary targets of monetary policy, using a combination of conventional and/or Islamic monetary instruments. Among empirical studies, Bernanke and Blinder's (1988) study became a milestone in research on the influence of monetary policy on economic growth. They stated that economic growth would be achieved if the central bank increased the money supply by contracting banking reserves. Furthermore, the study by Ben Jedidia & Hamza (2023) stated that interest rates are one of the instruments that link the monetary and real sectors. Meanwhile, the authors' review of recent studies shows two opposing groups. Most studies find that the benchmark interest rate policy affects Islamic banking financing (Boukhatem & Djelassi, 2022; Hamza & Saadaoui, 2018; Harun et al., 2024; Kismawadi et al., 2023; Rafay & Farid, 2019). Meanwhile, a few

studies conclude that policy rate changes have no impact on Islamic banking financing (Caporale et al., 2020; Ibrahim et al., 2021; Zulkhibri & Sukmana, 2017).

Other studies reveal that Islamic bank financing is influenced by macroeconomic variables, especially inflation, exchange rates, and global oil prices. (Kismawadi et al., 2023; Prabheesh & Eki Rahman, 2019), as well as banking characteristic variables, such as total assets, liquidity, and capital (Zulkhibri, 2018; Ibrahim et al., 2021; Rafay & Farid, 2019), and Islamic financing rates (Zulkhibri & Sukmana, 2017).

The following question arises: Why is it so important to research a theme that has been widely discussed? In the authors' view, most previous studies have examined Islamic monetary instruments that are relatively immune to information asymmetry, such as debt-based financing. However, it remains unclear whether the monetary transmission mechanism through the profit-sharing financing (PSF) channel also contributes to achieving inflation targets and economic growth. The selection of the PSF variable in this study is based on the consideration that this product shows the positioning of Islamic banking in today's modern financial system. Unlike other types of financing, PSF is unique because it can encourage the productive sector. After all, a return on the investment must be shared between the banks and the clients (Yaya et al., 2021). PSF also contributes to maintaining a balanced economy, as the allocation of financing depends on the nature of the business activities being conducted (Ben Jedidia & Hamza, 2024). Furthermore, PSF helps improve financial management discipline due to its impact on the profits that will be shared (Suzuki & Miah, 2022).

This study focuses on Indonesia for three key reasons. First, Indonesia possesses significant potential due to having the largest Muslim population and serving as a barometer for PSF Development in other countries (Fianto et al., 2018). Second, Indonesia pioneered a groundbreaking reform of its financial system by successfully integrating Islamic and conventional banking systems, setting a remarkable precedent for others to follow (Anwar et al., 2020). Third, from 2009 to 2024, PSF exhibited an impressive average growth rate of 22.05%, as illustrated in Table 1. In comparison, economic growth and inflation during this period showed greater variability, with average annual rates of only 3.13% and 3.94%, respectively. This significant difference underscores the strong performance of PSF relative to broader economic indicators, highlighting its continued relevance in today's market (Ibrahim & Fajri, 2024). Given these conditions, a thorough investigation into the monetary transmission mechanism via the PSF instrument in Indonesia is warranted.

Table 1. The Growth of Profit-Sharing Financing, Economic Growth and Inflation in Indonesia (in %)

Year	Growth of PSF	Economic Growth*	Inflation
2009	24.92	1.48	2.78
2010	36.72	4.34	6.96
2011	25.52	4.15	3.79
2012	35.98	4.23	4.30
2013	34.79	6.19	8.38
2014	19.14	4.75	8.36
2015	20.04	4.79	3.35
2016	23.83	4.07	3.02
2017	26.32	4.34	3.61
2018	22.46	4.41	3.13
2019	17.68	4.06	2.72
2020	8.89	-9.94	1.68
2021	5.54	8.42	1.87
2022	18.9	1.28	5.51
2023	23.99	2.59	2.58
2024**	8.01	0.91	1.07
Average	22.05	3.13	3.94

*: Using Proxy of Industrial Production Index (IPI); **: June 2024

Source: (BPS-Statistics Indonesia, 2024; Ceicdata.com, 2024; OJK, 2024), processed

This article aims to fill a gap in the literature by examining the contribution of profit-sharing financing to monetary management within a dual banking system. The objectives of this study are to identify and explain monetary transmission through the PSF channel to support controlled economic growth and inflation. The insights gained from this study are poised to significantly improve the Development of more effective PSF policies and practices.

The objectives of this research are developed into two main questions: First, how does the transmission of monetary policy through the PSF instrument promote economic growth? Second, how does the transmission of monetary policy through the PSF instrument help control inflation? Understanding these dynamics is crucial for enhancing economic stability and fostering sustainable growth.

LITERATURE REVIEW

Monetary Transmission Mechanism in the Dual Banking System

Changes in policy rates in the Monetary Transmission Mechanism (MTM) affect the productive sector through various channels, including loan interest rates, bank credit volumes, asset prices, and exchange rates (Warjiyo & Juhro, 2022). Monetary transmission through the interest rate channel occurs when the central bank contracts monetary policy by raising the policy rate. This step leads to higher loan interest rates, increasing the cost of capital. Consequently, credit demand decreases, investment declines, and economic output falls, often accompanied by an increase in

inflation (Prabheesh & Eki Rahman, 2019). If the credit channel is utilized, a monetary contraction policy causes bank loans to decrease in response to the reduced bank reserves. As a result, bank credit to investors also declines, leading to a decrease in national output and an increase in the prices of goods and services (Juhro & Lyke, 2019). Meanwhile, if the asset price channel is used, a monetary contraction policy can cause stock prices to fall further. This decline in stock prices reduces people's wealth. Therefore, the community will suppress consumption, leading to a decline in aggregate demand and a reduction in output, which in turn encourages price increases. Finally, if the transmission occurs through the exchange rate channel, a monetary contraction causes domestic interest rates to become relatively more expensive than interest rates in other countries. This policy encourages capital inflows and strengthens the exchange rate, making export products relatively more expensive than competing products. The outcome is decreased aggregate demand and increased prices (Kismawadi, 2023).

In the dual banking system context, Islamic banking performs the same function as conventional banks; this similarity stems from the principle of monetary policy, which operates as a one-signal policy. Both Conventional and Islamic monetary transmission operate through policies aimed at achieving monetary policy targets, namely economic growth and inflation control. Juhro & Lyke (2019) explained that the one signal policy issued by the central bank would impact the real sector through both Islamic and conventional monetary transmission channels: specifically, the interest rate channel, money supply channel, financing channel, exchange rate channel, asset price channel, and expectation channel. The interest rate channel also applies to the Islamic monetary transmission mechanism. An increase in interest rate instruments affects the level of profit sharing in the Islamic financial market, which in turn impacts the performance of the real sector, namely economic growth and inflation through income and substitution effects, as well as changes in the cost of capital for investment. Meanwhile, achieving price stability through the money supply channel begins with an increase in the central bank's policy rate. An increase in interest rates and market returns follows. The consequence of this rate increase is an increase in the flow of money into the Interbank Money Market (PUAB) and the Islamic Interbank Money Market (IPUAS), thereby suppressing the amount of money circulating in the community. A decrease in the amount of money circulating will reduce inflation and increase people's purchasing power, thereby boosting aggregate demand (Marpaung et al., 2023). The monetary transmission mechanism through the financing channel can affect economic growth and inflation when profit sharing increases. The increase in the benchmark interest rate encourages the migration of public savings from Islamic banking to conventional banks. A lack of liquidity weakens Islamic banks' ability to provide financing. This weakening also causes the real sector's aggregate supply and price levels to decline. Meanwhile, the monetary transmission mechanism through the exchange rate channel occurs when an increase in the policy rate widens the return differential between sharia investments, thereby

encouraging capital inflows. This condition leads to an increase in the domestic currency exchange rate, putting pressure on economic growth and on the prices of goods by decreasing exports. The asset price channel can also be part of the monetary transmission mechanism, in which a higher policy rate affects returns in the money market and decreases asset prices, such as property and land. A decrease in asset prices will reduce consumption and investment, thus weakening economic activity and decreasing aggregate demand. Finally, the expectation channel operates because the increase in profit sharing on Islamic banking deposits and financing products offsets the increase in the policy rate, thereby lowering public price expectations. A decrease in inflation expectations will reduce consumption and investment, ultimately slowing economic growth and lowering aggregate prices.

Bank-Lending Channel Theory and Profit-Sharing Financing

The banking sector contributes to economic activities through two main channels: the balance-sheet channel (BSC) and the bank-lending channel (BLC). The BSC highlights how monetary policy affects the borrower's balance sheet, while the BLC focuses on the impact of monetary policy on the credit supply provided by the banking system (Bernanke & Blinder, 1988; Al Fathan & Arundina, 2019; Ibrahim et al., 2021). Equilibrium in the money market (liquidity of money/LM) is achieved when it aligns with the motive transaction, which is influenced by changes in interest rates and income levels. Conversely, equilibrium in the goods market is no longer solely dependent on investment and savings (IS) but also incorporates credit and commodity (CC) factors. The distinction between the IS and CC elements lies in the significant influence of the bank reserve variable (R)

How does monetary policy impact the money supply and economic growth using the CC and LM models? Bernanke & Blinder (1988) state, as in Al Fathan & Arundina (2019) and Ibrahim et al. (2021), The bank reserve rate is determined as a monetary instrument. If the central bank targets an increase in the money supply and economic growth, then the policy is to contract bank reserves. This policy will have a positive impact on credit supply and a negative impact on bond interest rates, thereby encouraging economic growth.

The financial sector Development requires Islamic banking to play a greater role in supporting economic growth and controlling inflation. Financing channeled through Islamic banking, whether for working capital, investment, or consumption, has positively impacted economic growth. (Rofik et al., 2025). In Islamic banking, profit-sharing financing (PSF) is divided into mudarabah and musharakah schemes (Badaj & Radi, 2018). Mudarabah is a business cooperation agreement between two parties in which the first party provides 100 percent of the capital to the second party to run a halal business. Mudarabah products are further divided into two variants, namely mudarabah muthlaqah and mudarabah muqayyadah. In mudarabah muthlaqah, customers are free to manage the financed business as long as it adheres to Islamic principles. Meanwhile, in mudarabah muqayyadah, customers' rights are limited by the capital owner, encompassing restrictions on the type of business, time,

place of business, and so on. *Mudarabah muqayyadah* is categorized into two types: on-balance and off-balance. It is considered on-balance sheet if the bank is actively involved in the *mudarabah* transaction. In contrast, it is off-balance sheet if the bank merely acts as an arranger, receiving only an arranger's fee (Kismawadi et al., 2023).

Another PSF product is *musharakah*, a joint venture cooperation between two or more parties that own capital to finance a business. The profits or risks faced will be divided according to the agreed-upon ratio and each party's capital contribution. Another variant of the *musharakah* scheme is called *musharakah mutanaqishah*, a financing arrangement in which one party's share gradually decreases until it finally reaches zero. When one party's share of the funds reaches zero, ownership transfers to the other party. In this scheme, Islamic banks and customers pool their funds to finance a project, and the bank then gradually reduces its capital until it reaches zero (Roziq et al., 2024).

The low absorption of PSF is attributed to the high risk and low trust of banks in customers. This condition is the trigger, as the distribution of PSF does not significantly affect the intermediation costs of Islamic banking (Robiatun et al., 2024). A study by Abbas & Arizah (2019) stated that one product that is not marketable is *mudarabah* financing. The high-risk characteristics inherent in *mudarabah* are among the factors contributing to the low profitability of Islamic banks. However, similar conditions do not occur for *musharakah* products, which tend to be more profitable for Islamic banking.

Another challenge in implementing profit-sharing financing is the problem of moral hazard and asymmetric information. In addition, the customer culture accustomed to the fixed cost scheme forces Islamic banks to reduce PSF and increase non-PSF (Wicaksono et al., 2024). Another inhibiting factor is the underdevelopment of the liquidity market, especially bonds, so banks still rely on public savings to distribute PSF (Othman et al., 2023). Other inhibiting factors include weak demand due to low trust in business partners, coupled with limited Islamic bank personnel who master the financial and *fiqh* aspects of PSF, so banks are more careful in distributing PSF, especially when monitoring (Yaya et al., 2021).

However, Ben Jedidia & Hamza (2023) Research revealed that PSF products limit the creation of money within the monetary system. This finding also strengthens other studies that conclude profit-sharing instruments are positively related to profitability and economic growth (Ibrahim & Fajri, 2024).

Effect of Inflation on Economic Growth

Inflation serves as a key indicator of shifting purchasing power, profoundly influencing consumption, savings, investment, and overall economic growth. When inflation runs high, it typically signals a troubling decline in economic activity, highlighting the urgent need for effective measures to stabilize the economy and protect our financial Wellbeing (Caporale et al., 2020). On the other hand, inflation that continues to rise in the current period weakens bank credit channels, including

profit-sharing financing. Kismawadi (2023) explained that when inflation increases, the real value of the returns generated by the mudarabah project can decrease. This shows that income from mudarabah financing is lower than the initial investment. This condition then reduces aggregate demand, indicating a slowdown in the wheels of the economy. It is important to note that the study by Mensi et al. (2020) found that inflation positively affects economic growth. However, the authors agree with the theory that the inflation rate is detrimental to economic growth.

H1: Inflation negatively affects economic growth

Effect of Interbank Interest Rate on Economic Growth

The number of transactions occurring in the Interbank Money Market (PUAB) reflects the resilience of banking liquidity and the systemic risk of the financial sector. The lending and borrowing traffic among banks reflects the high interconnection that can cause significant systemic risks for the banking sector (Harun et al., 2024). A higher PUAB interest rate typically indicates reduced banking liquidity. It will have consequences, leading to a stagnation in the need for funds for investment in the real sector, thereby disrupting economic growth. The study by Rofik et al. (2025) explains that changes in interest rate instruments affect economic growth on both the demand and supply sides. In certain circumstances, an increase in interest rates can negatively impact business and consumer confidence. It affects investment decisions, thereby constraining economic growth. In this study, the authors hypothesize that increasing interest rates in the interbank money market negatively impact economic growth.

H2: Interbank interest rate negatively affects economic growth

Effect of Islamic Interbank Rate on Economic Growth

A similar function of PUAB is the Islamic Interbank Money Market (PUAS). The difference lies in the contract and compliance with Sharia principles. Suppose an Islamic bank with excess liquidity wants to invest in PUAS. In that case, it will issue an Interbank Mudarabah Investment Certificate (SIMA) to be used as a short-term investment in PUAS under a mudarabah contract (BI, 2020). If Islamic banking invests significantly in the PUAS, it will impact its ability to channel financing. In their paper, Azad et al. (2020) explain that minimal provision of financing will increase the cost of funds, thereby reducing the profit margin of banks that provide financing. The low supply of financing slows economic growth. Ultimately, the increase in yields in PUAS, if not appropriately managed, has the potential to suppress economic growth (Marpaung et al., 2023). In this study, the authors hypothesize that the increase in PUAS yields negatively affects economic growth.

H3: Islamic interbank rate negatively affects economic growth.

Effect of Profit-Sharing Financing on Economic Growth

Schumpeter, in his theory, states that one of the factors driving economic growth is the availability of abundant funds, which Islamic banking can provide (Shah

et al., 2020). The majority of previous studies have shown that Islamic financing, both in the short and long term, has a positive impact on economic growth (Boukhatem & Moussa, 2018; Caporale et al., 2020; Kismawadi, 2023; Mensi et al., 2020; Shah et al., 2020; Siddique et al., 2020). This is further supported by the studies of Chowdhury et al. (2018) and Ibrahim & Fajri (2024), which find a one-way causal relationship from the PSF instrument to economic growth. In this study, the authors agree that increasing PSF will encourage economic growth.

H4: Profit-sharing financing positively affects economic growth.

Effect of Islamic Financing Rate on Economic Growth

The relationship between the Islamic financing rate (IFR) and linear economic growth with a framework for interest rate variables. The increase in IFR indicates a higher installment burden customers must meet, which is an indicator of the increasing business risk. This condition can lead to a decline in business and consumer confidence and affect investment decisions (Khusnia & Wardana, 2024). The study of (Suzuki & Miah, 2022) concluded that monetary transmission through banking credit channels is more influenced by changes in the IFR than the BI rate. On the contrary, Ibrahim & Fajri (2024) determined that changes in the IFR did not significantly increase the amount of money in circulation, so they did not impact economic growth. In this study, an increase in the IFR is hypothesized to affect economic growth negatively.

H5: Islamic financing rate negatively affects economic growth.

Effect of Credit Investment on Economic Growth

The authors again use the profit-sharing financing framework for the investment credit channel. The availability of investment credit drives a country's economic growth engine. The easier access to investment credit, the easier it will be to achieve economic growth (Caporale & Helmi, 2018). Based on this framework, a hypothesis regarding the relationship between investment credit and economic growth is formulated.

H6: Credit investment positively affects economic growth.

Effect of Credit Investment Rate on Economic Growth

The authors also use the BI rate framework for the investment-interest-rate channel. Suppose the signaling policy aims to reduce the community's money supply by increasing the BI rate. In that case, it will be followed by a rise in bank interest rates for both the consumptive and productive sectors. The increase in interest rates adds a burden on customers, leading to a decline in demand for investment funds. Previous studies on monetary transmission through the interest rate channel found that interest rate instruments significantly influence the expansion of Islamic financing and, in turn, drive economic growth (Hamza & Saadaoui, 2018; Rafay & Farid, 2019; Rofik et al., 2025; Shah et al., 2020). Therefore, in this study, the authors

hope that changes in investment credit interest rates will also negatively affect economic growth.

H7: Credit investment rate negatively affects economic growth.

Effect of Economic Growth on Inflation

This study also investigates monetary transmission while maintaining price stability for goods and services. The previous description explained that rising inflation negatively affects economic growth. However, economic growth does not directly impact inflation in the opposite condition. An economic situation that shows positive economic growth will be balanced by a pro-growth monetary policy, such as monetary expansion through a decrease in the benchmark interest rate. This policy lowers loan interest rates, thereby reducing capital costs. Such a decrease makes the real sector more efficient and drives down prices (Romer, 2019). Few studies have examined the effect of prior periods of economic growth on the current year's inflation rate. However, in this study, the authors hypothesize that the previous period of economic growth will negatively affect the current inflation rate.

H8: Economic growth negatively affects inflation.

Effect of Interbank Interest Rate on Inflation

In their theory, Bernanke & Gertler (1989) explain that changes in policy rates affect real sector activity through asset pricing channels. The monetary contraction policy, which involves raising interest rates in the money market, will lead to a decrease in stock prices, thereby worsening the decline in people's wealth. The community will respond to this condition by reducing its consumption so that there is a decrease in aggregate demand, reducing the amount of output, and driving up prices (Hamza & Saadaoui, 2018). Therefore, in this study, the increase in interest rates in the interbank money market is suspected to affect inflation negatively.

H9: Interbank interest rate negatively affects inflation.

Effect of Islamic Interbank Rate on Inflation

The effect of yields in the Islamic Interbank Money Market (PUAS) on inflation can follow the PUAB transmission channel. An increase in transactions in PUAB will be followed by an increase in transaction volume in PUAS. The impact encourages people to prefer short-term instruments that provide maximum returns rather than saving their money in Islamic banking (Ben Jedidia & Hamza, 2024). The increase in yields in PUAS functions to absorb money in circulation, which is intended to overcome high inflation. Therefore, in this study, the authors hypothesize that increases in PUAS yields negatively affect the inflation rate.

H10: Islamic interbank rate negatively affects inflation.

Effect of Profit-Sharing Financing on Inflation

Monetary transmission through credit expansion channels can lead to economic disequilibrium when the real sector's output does not match the funds

available. This condition can lead to inflationary increases (Bougatef et al., 2020). Meanwhile, an increase in profit-sharing financing will not necessarily lead to higher inflation. Inflation can be kept relatively under control because profit-sharing financing promotes a balance between the monetary and real sectors. Additionally, loan disbursements depend on the progress of the businesses being financed. Thus, in this study, the authors suspect that profit-sharing financing reduces inflation. This means that the greater the profit-sharing financing, the greater the adverse impact on the inflation rate.

H11: Profit-sharing financing negatively affects inflation.

Effect of Islamic Financing Rate on Inflation

The monetary transmission mechanism, as explained by Bernanke & Blinder (1988) It has not yet included the Islamic Financing Rate (IFR) as a tool for controlling inflation. However, Warjiyo & Juhro (2022) noted that countries adopting a dual monetary system include IFR as part of Islamic monetary instruments, aiming to maintain a low and stable inflation control framework. However, literature studies discussing the effect of IFR on inflation remain highly debated. The conclusion of Khusnia & Wardana (2024) states that IFR more effectively controls monetary transmission through credit channels than the BI rate. On the other hand, Ibrahim & Fajri (2024) explain that the IFR instrument does not significantly impact monetary transmission by controlling the amount of money in circulation. In this study, the authors expect IFR to negatively affect the inflation rate.

H12: Islamic financing rate negatively affects inflation.

Effect of Credit Investment on Inflation

A common channel within the inflation control framework is through banking credit. In conditions of high inflation, the central bank limits the amount of money in circulation, for example, by increasing the minimum reserve ratio. The bank's ability to channel credit is reduced when the reserve ratio is increased. By reducing the amount of money in circulation, inflation is expected to be controlled. In this study, the authors suspect that increasing investment credit negatively affects inflation.

H13: Credit investment negatively affects inflation.

Effect of Credit Investment Rate on Inflation

The monetary transmission mechanism through the interest rate channel to offset price increases can be achieved by shifting public consumption into bank savings. For savings to increase, an unpopular policy in the form of an increase in the policy rate must be implemented. Previous studies on monetary transmission via the interest rate channel indicate that when the central bank increases interest rates, Islamic financing tends to respond more strongly than conventional bank credit. (Shah et al., 2020). Conversely, another opinion suggests that interest rate instrument shocks are met with a greater response from conventional bank credit

than Islamic financing (Caporale et al., 2020). In this study, the authors hypothesize that changes in investment credit interest rates will negatively affect inflation.

H14: Credit investment rate negatively affects inflation.

RESEARCH METHOD

This study will examine the dynamic interactions between eight endogenous variables as follows: The industrial production index (IPI) serves as a measure for assessing economic growth, monthly inflation (INF), Interbank Money Market interest rate (PUAB), Islamic Interbank Money Market yield (PUAS), Islamic financing rate (IFR), amount of investment credit (INV), and investment credit interest rate (RINV). All variables are arranged into the following basic model: $X = (IPI, INF, PUAB, PUAS, LNPSF, IFR, LNINV, RINV)$. The variables tested consist of time series data spanning from January 2009 to June 2024. The sample period begins in 2009 to exclude the direct effects of the United States' subprime mortgage crisis in 2008. Data on banking variables are obtained from the Financial Services Authority (OJK). Macroeconomic data are sourced from Bank Indonesia (BI) and the Central Statistics Agency (BPS), while CEIC, accessible at www.ceicdata.com, provides Industrial Production Index (IPI) data.

The basic model has been further developed into the Structural Vector Autoregression (SVAR) model, as demonstrated by Prabheesh & Eki Rahman (2019). Economists frequently use the SVAR method to analyze monetary policy mechanisms because it facilitates feedback between variables, enabling them to reach a minimum restriction value. Besides that, the SVAR method has at least four advantages. First, as a forecasting tool, it extrapolates present and future values from past data on a variable. Second, it includes a data description with impulse response functions that track each variable's current and future responses to shocks in other variables. Third, there is structural inference via Forecast Error Variance Decomposition (FEVD), which predicts each variable's percentage contribution to variance from a particular change. Fourth, as a policy tool, the Granger Causality Test can determine the causal relationship between variables (Sims, 1980; Sims & Zha, 2006; Aysan et al., 2018; Ibrahim et al., 2021).

Several statistical test procedures must be taken to obtain valid data. The first is the unit root test, which determines whether the data are stationary. For time-series data, stationarity is one of the main requirements of the econometric model. Data are considered stationary if the tested data remain constant in mean, variance, and autocovariance. Thus, the time series model is more stable with stationary data. If, on the other hand, the data are not stationary, their validity and stability are reconsidered, as regression results from non-stationary data can lead to spurious results. Spurious regression is indicated by a high R^2 value, even though there is no significant relationship between the dependent and independent variables. This study uses the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. In this

test, a data set is considered not to contain a unit root if the p-value is less than 5% ($p < 0.05$). In other words, the data to be tested are considered stationary.

Second, determine the optimum lag length. In SVAR analysis, determining the lag length is an essential step because a lag that is too long reduces degrees of freedom, while one that is too short can lead to specification errors. A standard indicator of lag length is the Akaike Information Criterion (AIC), with the lowest AIC indicating the selected lag length. In addition to considering the minimum AIC value, the number of insignificant variables is also a factor in determining the optimal lag length. In this situation, the longer the lag, the more variables will be lost, so long observations are needed.

Third, conduct a stability test. The SVAR model's stability needs to be tested before further analysis. The SVAR model is declared stable if its roots have moduli less than 1. Suppose the SVAR estimation results are unstable. In that case, the values of the IRF (Impulse Response Function) and FEVD (Forecasting Error of Variance Decomposition) produced can be spurious. Another way to perform the stability test is to compute the roots of the characteristic polynomial. The applicable criterion is that if all the roots of the polynomial function lie on the unit circle, then the SVAR model is considered stable. Ultimately, the IRF and FEVD values produced have been considered valid.

Fourth, conduct a cointegration test on the SVAR model. The goal is to determine whether a long-term equilibrium exists. If there is cointegration, there will be similarity in the movements and stability of the relationship between the variables in the model. The cointegration test used in this study is Johansen's Cointegration Test. The qualification is that if the p-value is less than 0.05, then cointegration occurs, thereby indicating the presence of long-term equilibrium in the tested model.

After validating the data through the four steps outlined, the next step is to conduct an analysis using a Structural VAR (Sims & Zha, 2006; Aysan et al., 2018; Ibrahim et al., 2021). The general model of the SVAR function is written as follows:

$$AX_t = C + A_1X_{t-1} + \dots + A_pX_{t-p} + Be_t \quad (1)$$

Equation (1) explains where the X variable indicates the number of $n \times 1$ variables tested. C is an $n \times 1$ constant vector; A is an $n \times n$ matrix describing the correlation of similar variables; A_i for $i = 1 \dots, p$ is an $n \times n$ matrix parameter; p indicates the order of the VAR model; and e is an $n \times 1$ vector of structural shocks, where $E(e) \sim (0, I_n)$.

By multiplying equation (1) by A^{-1} and ignoring constants, equation (1) reduces to:

$$X_t = \Gamma_t X_{t-1} + \dots + \Gamma_p X_{t-p} + u_t \quad (2)$$

Where $\Gamma_t = A^{-1}A_i$. Moreover, u is the reduced form of the error. Based on equations (1) and (2), the relationship between the structural form and the reduced form of the error can be written as:

$$u_t = A^{-1}Be_t; \text{ or, } Au_t = Be_t \quad (3)$$

Equation (3) is referred to as the A-B model and serves as the basis for estimation in this paper. (Amisano & Giannini, 2012; Ibrahim et al., 2021). The SVAR analysis begins by creating matrices A and B from the eight variables as follows:

$$\begin{bmatrix} 1 & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ a_{21} & 1 & 0 & 0 & 0 & 0 & 0 & 0 \\ a_{31} & a_{32} & 1 & 0 & 0 & 0 & 0 & 0 \\ a_{41} & a_{42} & a_{43} & 1 & 0 & 0 & 0 & 0 \\ a_{51} & a_{52} & a_{53} & a_{54} & 1 & 0 & 0 & 0 \\ a_{61} & a_{62} & a_{63} & a_{64} & a_{65} & 1 & 0 & 0 \\ a_{71} & a_{72} & a_{73} & a_{74} & a_{75} & a_{76} & 1 & 0 \\ a_{81} & a_{82} & a_{83} & a_{84} & a_{85} & a_{86} & a_{87} & 1 \end{bmatrix} \begin{bmatrix} \mu_t^{IPI} \\ \mu_t^{INF} \\ \mu_t^{PUAB} \\ \mu_t^{PUAS} \\ \mu_t^{LNPSF} \\ \mu_t^{IFR} \\ \mu_t^{LNINV} \\ \mu_t^{RINV} \end{bmatrix} = \begin{bmatrix} b_{11} & 0 & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & b_{22} & 0 & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & b_{33} & 0 & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & b_{44} & 0 & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & b_{55} & 0 & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & b_{66} & 0 & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & b_{77} & 0 \\ 0 & 0 & 0 & 0 & 0 & 0 & 0 & b_{88} \end{bmatrix} \begin{bmatrix} e_t^{IPI} \\ e_t^{INF} \\ e_t^{PUAB} \\ e_t^{PUAS} \\ e_t^{LNPSF} \\ e_t^{IFR} \\ e_t^{LNINV} \\ e_t^{RINV} \end{bmatrix} \quad (4)$$

The first row represents the economic growth response (IPI) to several shocks, including inflation (INF) and various monetary instruments, both Islamic and conventional. This interaction builds upon studies conducted by Al Fathan & Arundina (2019), Anwar et al. (2020), Caporale et al. (2020), Chowdhury et al. (2018), Kismawadi (2023), Mensi et al. (2020). According to the hypothesis, IPI will respond negatively to shocks caused by INF, PUAB, PUAS, IFR, and RINV. On the other hand, IPI will respond positively to shocks in PSF and INV.

The second row shows the inflation response (INF) to shocks in economic growth and monetary instruments. Previous studies have stated that changes in conventional instruments tend to drive inflation, while Islamic monetary instruments do not directly impact changes in consumer purchasing power (Mensi et al., 2020). In this study, the authors expect inflation to respond negatively to shocks caused by the IPI, PUAB, PUAS, PSF, IFR, INV, and RINV variables.

The third row illustrates how monetary policy reacts, highlighting that shocks to monetary policy typically influence banking-specific variables such as LNPSF, IFR, LNINV, and RINV. The authors propose that if the PUAB instrument directly responds to the LNPSF and IFR shocks, the perspective of Caporale et al. (2020) should be taken into account, as it presents Islamic financing as a potential alternative for transmitting monetary policy.

The fourth row focuses on testing the PUAS instrument's response to a shock to inflation and PUAB. Theoretically, the PUAS instrument should react positively to rising inflation and remain unaffected by changes in the PUAB instrument. However, previous studies show the opposite: changes in interest rates in the money market and in inflation are not significantly reflected in the PUAS instrument. In this article, the authors hypothesize that shocks from conventional monetary instruments will have no impact on Islamic monetary instruments.

The fifth row summarizes the findings of Rafay & Farid (2019), who found that interest rates hurt Islamic financing. Additionally, the research conducted by Khusnia and Wardana (2024) asserts that an increase in the Islamic Financing Rate (IFR) will also elicit a negative response from the Islamic financing market. In contrast, the paper by Ibrahim & Fajri (2024) concludes that the IPI and the IFR do not significantly affect Islamic bank financing in either the short or long term. In this paper, the

authors expect that changes will not affect profit-sharing financing (LNPSF) in PUAB and that it will react negatively to a shock in the IFR.

In the sixth row, the authors analyze the IFR response to PUAB and PUAS shocks. No specific studies have tested the Islamic response to shocks in conventional or Islamic monetary instruments. For example, Khusnia & Wardana (2024) concluded that changes in policy rates had no impact on Islamic financing. In line with this opinion, the authors also suspect that IFR does not respond to shocks from changes in PUAB instruments. However, IFR is expected to respond positively to changes in the PUAS instrument.

In the seventh row, the authors focus on testing the responses of investment sector credit (LNINV) to an inflation shock, credit interest (RINV), and the Interbank Money Market (PUAB). Previous studies found that shocks to conventional variables have little effect on credit amounts (Shah et al., 2020). However, some also state the opposite: the credit of conventional banks is very responsive to changes in interest rate instruments (Caporale et al., 2020). The authors assume that INF and PUAB shocks will affect the amount of credit investment.

Finally, the eighth row explains the response of investment interest rates (RINV) to changes in inflation, PUAB, and PUAS. Theoretically, the authors assume that interest rates on credit will rise with inflation.

In line with that, increases in money market interest rates are expected to raise investment interest rates. However, the authors suggest that there will be no significant response from credit interest rates to changes in yields in the Islamic money market.

RESULTS AND DISCUSSION

Results

Unit Root Test

In time series analysis, data stationarity is essential because models that use non-stationary data can produce spurious results. The authors use the Augmented Dickey-Fuller (ADF) method to test data stationarity.

The criteria used are that if the t-statistic value is smaller than the MacKinnon critical value or the probability value is less than 5%, then the variable is said to be stationary. The results of the unit root test on the eight endogenous variables are presented in Table 2. The results show two stationary variables at the level, namely IPI and RINV; one stationary variable at the second difference level, namely LNINV; and the remaining five are stationary at the first difference level. If the stationarity assumption is not fulfilled at the zero degree, all variables will be tested for integration at the first-difference level. If one of the variables is stationary at the first difference level, then all variables must be stationary at the first difference level. Data are considered stationary if the absolute value of the ADF statistic is smaller than its critical value.

Table 2. Unit Root Test Results

Variables	Level	1st Difference	2nd Difference
IPI	-4.498***	---	---
INF	-1.929	-12.915***	---
PUAB	-0.805	-6.672***	---
PUAS	-1.036	-14.637***	---
LNPSF	-0.683	-11.061***	---
IFR	-1.029	-15.916***	---
LNINV	7.081	-1.805	-9.260***
RINV	-3.408***	---	---

Note: *** denotes significance at 1%

Source: Eviews' output

Table 3 shows that all variables have ADF values below the MacKinnon critical value at the 1% significance level. This result indicates that all variables are stationary and suitable for the following procedure.

Table 3. Unit Root Test at First Difference

Variables	1st Difference
IPI	-13.114***
INF	-12.878***
PUAB	-6.655***
PUAS	-14.601***
LNPSF	-11.032***
IFR	-15.904***
LNINV	-19.467***
RINV	-9.811***

Note: *** denotes significance at 1%

Source: Eviews' output

Optimum Lag Determination

The results of lag selection, as indicated by the minimum Akaike Information Criterion (AIC) value in Table 4, suggest that four lags are required in this study. All endogenous variables respond quickly to changes in other variables within 4 months of the shock.

Table 4. Lag Order Selection Criteria

Lag	LogL	LR	FPE	AIC	SIC	HQ
0	-538.8341	NA	6.66e-08	6.178916	6.322471*	6.237136*
1	-436.3960	194.4588	4.32e-08	5.744587	7.036580	6.268569
2	-358.5939	140.6590	3.71e-08	5.588632	8.029064	6.578376
3	-301.3349	98.34315	4.05e-08	5.664802	9.253671	7.120308
4	-225.9864	122.6010	3.63e-08*	5.536569*	10.27388	7.457838
5	-167.0232	90.61006*	3.97e-08	5.593483	11.47923	7.980513
6	-126.8455	58.11013	5.47e-08	5.862661	12.89685	8.715453

Lag	LogL	LR	FPE	AIC	SIC	HQ
7	-97.15318	40.26080	8.65e-08	6.250318	14.43294	9.568873
8	-32.42913	81.91066	9.47e-08	6.242137	15.57320	10.02645

Source: EvIEWS' output

Model Stability Test

The SVAR model is declared stable if the IRF and FEVD are considered valid, i.e., if all its roots have a modulus less than 1. Table 5 shows that all roots have moduli less than 1, indicating that the eight endogenous variables are stable.

Table 5. Modulus Stability Test

Root	Modulus
0.337422 + 0.765926i	0.836956
0.337422 - 0.765926i	0.836956
-0.620585 - 0.552405i	0.830829
-0.620585 + 0.552405i	0.830829
0.280665 + 0.720196i	0.772952
0.280665 - 0.720196i	0.772952
-0.388421 - 0.642101i	0.750443
-0.388421 + 0.642101i	0.750443
-0.493200 - 0.523965i	0.719573
-0.493200 + 0.523965i	0.719573
0.013506 + 0.706183i	0.706312
0.013506 - 0.706183i	0.706312
0.197774 + 0.676560i	0.704875
0.197774 - 0.676560i	0.704875
0.696851 + 0.068917i	0.700250
0.696851 - 0.068917i	0.700250
-0.230737 + 0.652361i	0.691964
-0.230737 - 0.652361i	0.691964
-0.670577 - 0.143262i	0.685709
-0.670577 + 0.143262i	0.685709
-0.477374 + 0.479920i	0.676912
-0.477374 - 0.479920i	0.676912
-0.648270	0.648270
-0.506043 + 0.387587i	0.637419
-0.506043 - 0.387587i	0.637419
0.326660 - 0.500956i	0.598050
0.326660 + 0.500956i	0.598050
0.035247 - 0.575003i	0.576083
0.035247 + 0.575003i	0.576083
0.554728	0.554728

Root	Modulus
0.039966 - 0.045402i	0.060487
0.039966 + 0.045402i	0.060487

Source: Eviews' output

Granger Causality Test

Table 6 presents the Granger Causality test results, explaining the causal relationships among the endogenous variables. Several findings can be used to answer this research question. First, there is a one-way relationship from the IFR and the LNINV to INF, with significance levels of 1% and 5%, respectively. This indicates that the one-way relationship between IFR and INF is stronger than the relationship between LNINV and INF. Second, there is a causal relationship between RINV and INF, wherein INF influences RINV and vice versa. However, the causality from INF to RINV is stronger, as it has a significance level of 5%, compared to the 10% significance level of RINV to INF. Third, a two-way causal relationship also occurs between PUAB and IPUAB. However, the causality of PUAB to PUAS is stronger than vice versa. Indicated by a significance figure of 1% compared to 5%. Fourth, there is a two-way causal relationship between LNPS and PUAB, and the causalities of both are at the same significance level, namely 5%. The fifth finding is that the PUAB interest rate and PUAS yield are both significant drivers of changes in investment interest rates (RINV), as evidenced by the 1% significance level. Sixth, changes in profit-sharing financing (LNPSF) simultaneously induce one-way causality towards IFR and RINV, each at the 10% significance level.

Table 6. Granger Causality Result

Null Hypothesis	Obs	F-Statistic	Probability
IFR does not Granger-cause INF	182	3.65197	0.0070***
LNINV does not Granger-cause INF	182	2.78622	0.0282**
RINV does not Granger-cause INF	182	2.01051	0.0951*
INF does not Granger-cause RINV	182	2.71712	0.0314**
PUAS does not Granger-cause PUAB	182	3.37255	0.0110**
PUAB does not Granger-cause PUAS	182	4.26750	0.0026***
LNPSF does not Granger-cause PUAB	182	3.41717	0.0102**
PUAB does not Granger-cause LNPSF	182	2.60207	0.0377**
PUAB does not Granger-cause RINV	182	5.56385	0.0003***
PUAS does not Granger-cause RINV	182	3.46626	0.0094***
LNPSF does not Granger-cause IFR	182	2.22622	0.0681*
LNPSF does not Granger-cause RINV	182	2.20909	0.0700*

Note: ***/**/* denote significance at 1%, 5% and 10% level respectively

Source: Eviews' output

Cointegration Test

Non-stationary variables can establish a long-term relationship within a Structural VAR model. To test for this relationship, an integration test is needed (Engle & Granger, 1987; Ibrahim et al., 2021; Marpaung et al., 2023). This test requires that the Trace Statistic or Max-Eigen Statistic be smaller than the critical value to conclude that there is no cointegration, i.e., no long-term relationship between the variables. Conversely, if the Trace Statistic or Max-Eigen Statistic exceeds the critical value, it indicates cointegration, signifying a long-term relationship among the endogenous variables. The cointegration test output in Table 7 shows that the Trace Statistic value = 227.43 > the 5% critical value = 159.52, and the Max-Eigen Statistic value = 68.85 > the 5% critical value = 52.36. These results demonstrate a long-term relationship among the eight endogenous variables.

Table 7. Cointegration Test Result

Included observations: 181 after adjustments

Series: IPI INF PUAB PUAS LNPSF IFR LNINV RINV

Lags interval (in first differences): 1 to 4

Unrestricted Cointegration Rank Test (Trace)

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.316401	227.4336	159.5297	0.0000
At most 1 *	0.256389	158.5842	125.6154	0.0001
At most 2 *	0.159338	104.9653	95.75366	0.0100
At most 3 *	0.138000	73.55004	69.81889	0.0244
At most 4	0.115264	46.67151	47.85613	0.0643
At most 5	0.077609	24.50517	29.79707	0.1799
At most 6	0.042265	9.882878	15.49471	0.2898
At most 7	0.011353	2.066633	3.841465	0.1506

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level

*denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.316401	68.84945	52.36261	0.0005
At most 1 *	0.256389	53.61884	46.23142	0.0069
At most 2	0.159338	31.41529	40.07757	0.3360
At most 3	0.138000	26.87853	33.87687	0.2699
At most 4	0.115264	22.16633	27.58434	0.2120
At most 5	0.077609	14.62230	21.13162	0.3162
At most 6	0.042265	7.816245	14.26460	0.3977
At most 7	0.011353	2.066633	3.841465	0.1506

*denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

Source: Eviews' output

Structural VAR Analysis

Referring to Table 8, which displays the SVAR matrix, several significant matrix coefficients are at the 1% and 10% levels. The coefficient $a_{21} = 0.0111$ indicates that inflation (INF) responds positively to the shock from economic growth (IPI) at the 10% significance level. This result shows that all government policies aimed at achieving 1% economic growth will lead to an inflation rate of 0.011%. For example, when the government agrees to a 1% increase in labour wages, it will encourage aggregate consumption and economic growth by 0.011%.

Table 8. Matrix of SVAR

A =	1	0	0	0	0	0	0	0
	0.0111*	1	0	0	0	0	0	0
	0.0071	-0.0176	1	0	0	0	0	0
	0.0030	0.0028	-0.9941***	1	0	0	0	0
	0.0018	0.0046	0.0869***	-0.3379***	1	0	0	0
	-0.0097	-0.4843***	-0.2089	0.5376	-1.4363*	1	0	0
	-0.0000	-0.0151***	-0.0045	-0.0051	0.0101	0.0014	1	0
	-0.0011	-0.0087	-0.0235	-0.0050	0.0132	-0.0038	-0.0900	1
B =	5.4947	0	0	0	0	0	0	0
	0	0.4312	0	0	0	0	0	0
	0	0	0.4062	0	0	0	0	0
	0	0	0	0.6777	0	0	0	0
	0	0	0	0	0.0864	0	0	0
	0	0	0	0	0	0.8785	0	0
	0	0	0	0	0	0	0.0257	0
	0	0	0	0	0	0	0	0.0734

Note: ***/**/* indicate the significance levels at 1%, 5%, and 10%, respectively.

Source: Eviews' output

Furthermore, the shock to the INF is responded to by the Islamic Financing Rate (IFR) ($a_{62} = -0.4843$) and investment credit (LNINV) ($a_{72} = -0.0151$). IFR responds negatively to the inflation shock with a 1% significance level. It means that when there is an economic contraction where inflation increases by 1%, Islamic banking responds by lowering the Islamic Financing Rate by 0.48% in the following period. This decision was taken to improve the economy from the aggregate supply side. The IFR response to inflation shocks also proves the dynamics of the real sector that have an impact on Islamic banking, and this also emphasizes the high-risk PSF profile, as stated by Yaya et al. (2021), that PFS is vulnerable to internal risks in the form of information asymmetry and external risks in the form of rising inflation. The same condition holds for the LNINV, which responds negatively to INF shocks at the 1% significance level. This means that if inflation rises above the target, the investment amount will be reduced. A 1% increase in the price of goods and services can reduce the investment amount by 0.015%. The shock in the Interbank Money Market (PUAB), as indicated by the coefficient $a_{43} = -0.9941$, will negatively impact the yield on the Islamic Interbank Money Market (PUAS). In other words, the PUAS responds

negatively to the PUAB shock at the 1% significance level. This shows that when the PUAB interest rate increases by 1%, the monetary authority lowers the yield on PUAS by 0.99%.

Next, the shock in the PUAB was responded to positively by profit-sharing financing (LNPSF) as indicated by the coefficient $a_{53} = 0.0869$. The LNPSF reacted positively to the shock in PUAB interest rates at the 1% significance level. This means that a 1% increase in interest rates in the money market will prompt Islamic banking to increase profit-sharing financing by 0.087%. Meanwhile, conventional banks showed relatively no significant response to the PUAB shock, as evidenced by the weak response of the LNINV variable. This result also shows that conventional banks prefer to perform intermediary functions rather than engage in short-term transactions in the money market.

If the PUAB shock is responded to positively by LNPSF, then conversely, the shock caused by transactions in the PUAS is responded to negatively by LNPSF ($a_{54} = -0.3379$). The significance level in this relationship is extreme, namely 1%. This condition occurs when the yield offered in PUAS increases by 1%, and Islamic banking responds by reducing profit-sharing financing (PSF) by 0.34%.

Another causal relationship is shown by the coefficient figure $a_{65} = -1.4363$. This figure shows that the IFR responds negatively to the LNPSF shock at the 10% significance level. The decision to lower the IFR amid rising profit-sharing financing reflects Islamic banks' efforts to remain competitive with conventional banks.

Impulse Response Function (IRF)

IRF analysis is carried out to explain the interaction between the IPI variable and seven other endogenous variables, followed by the interaction of the INF variable with the remaining seven endogenous variables. Figure 1 and Table 9 display the IPI variable's impulse response function (IRF) to the shock from the seven other endogenous variables. The first analysis examines the leftmost IRF image, namely the response of economic growth (IPI) to the shock induced by the previous period's IPI. The negative response appeared briefly in the first two periods. This condition is common because the characteristics of time-series data indicate that current-period data are always influenced by the outcomes of the previous period. After that, the IPI response returned to being positive and tended to approach and merge with the horizon line until the end of the observation period. The illustration shown in Figure 1 is confirmed by Table 9, which shows that the IPI response to the previous period's IPI shock initially reached 5.49% and then fluctuated below 1% in the next period.

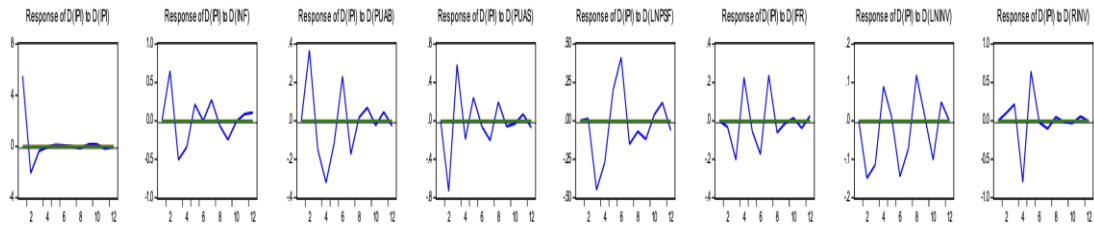


Figure 1. Curves of Impulse Response Function of IPI

Source: Eviews' output

Table 9. Impulse Response Function of IPI

Period	D(IPI)	D(INF)	D(PUAB)	D(PUAS)	D(LNPSF)	D(IFR)	D(LNINV)	D(RINV)
Response of D(IPI):								
1	5.494722	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
2	-2.104526	0.647670	0.367251	-0.734759	0.011035	-0.034726	-0.150312	0.101368
3	-0.376518	-0.513919	-0.149278	0.584149	-0.451782	-0.204915	-0.114810	0.214469
4	-0.071279	-0.344940	-0.323530	-0.196133	-0.273831	0.224709	0.089136	-0.801948
5	0.100709	0.215741	-0.117508	0.242805	0.198832	-0.057684	0.009176	0.640661
6	0.063480	-0.005151	0.229936	-0.061670	0.411276	-0.174265	-0.145773	-0.026633
7	-0.034336	0.269139	-0.176575	-0.203450	-0.152368	0.234951	-0.072941	-0.107350
8	-0.169709	-0.058287	0.014714	0.196507	-0.070011	-0.061700	0.118325	0.050655
9	0.163878	-0.247367	0.069266	-0.058028	-0.121047	-0.013734	0.011547	-0.016605
10	0.155160	-0.011645	-0.025598	-0.031321	0.038067	0.011897	-0.101524	-0.029896
11	-0.175125	0.080001	0.044886	0.069367	0.116561	-0.039011	0.047855	0.051038
12	-0.010246	0.105521	-0.028322	-0.072215	-0.063744	0.023680	-0.001979	-0.009891

Source: Eviews' output

Furthermore, the second curve illustrates the IPI's response to the inflationary shock. The IPI's response tends to fluctuate above the horizon line throughout the period. This situation remains within a reasonable range, given that the IPI variable measures the growth of industrial output, whose dynamics are certainly affected by market price fluctuations. As shown in Table 9, the IPI response to the INF shock was highest in the second period at 0.65% and lowest in the third period at -0.51%. According to Rofik et al. (2025) These results indicate that inflationary changes negatively affect economic growth under the dual monetary system regime. This study also strengthens the conclusion of the research conducted by Mensi et al. (2020), which states that inflation positively impacts economic growth as long as the Development of the financial sector is running normally.

The third curve explains the other IPI responses. IPI responds firmly to every shock in the Interbank Money Market (PUAB) from interest rate changes. Similar to the IPI response to inflation shocks, IPI shows sharp fluctuations in PUAB shocks at the beginning of the period, from positive to negative. In the next period, fluctuations tend to be flat, approaching the horizon line. This illustration is reinforced by the

impulse response function, which shows that the IPI response to changes in the PUAB variable is highest in the second period at 0.37%, then drops sharply to a negative response of -0.32% in the fourth period.

Meanwhile, the fourth curve presents a different scenario compared to the previous three. Initially, the IPI responds negatively to the PUAS shock, with a -0.73% response. However, in the third period, there is a positive response of 0.58%. The IPI's reactions to shocks in both PUAB and PUAS align with various studies that suggest the Development of the financial system—reflected by the growth of transactions in PUAB and PUAS—can stimulate economic growth in countries that implement a dual banking system (Boukhatem & Moussa, 2018; Rofik et al., 2025; Tabash, 2018).

Furthermore, the fifth curve illustrates the relationship between the IPI and the LNPSF. At the beginning of the period, the IPI's response to the LNPSF shock was relatively stable, remaining close to the horizon line. However, in the third period, the response showed an adverse reaction, dropping sharply below the horizon line. Following this decline, it rebounded above the line—the fluctuations in the values presented in Table 9 support this observation. The IPI response to the LNPSF shock reached its lowest point at -0.45% before gradually rising to a maximum of 0.41% in the sixth period.

A response almost the same as the fifth curve was shown by the IPI response to the Islamic Financing Rate (IFR) shock in the sixth curve. The IPI response to the IFR movement fluctuated at the beginning, through the seventh period, and then stabilized around the horizon line. The lowest negative response occurred at 0.20% (period 3) and the highest at 0.23% (period 7).

The fifth and sixth curves illustrate the role of Islamic monetary instruments in supporting economic growth, reflecting the opinions of Caporale & Helmi (2018), Shah et al. (2020), and Kismawadi, (2023). Nevertheless, this stands in stark contrast to the findings of Ibrahim & Fajri (2024), which assert that there is no correlation between Islamic banking financing and economic growth.

The final interpretation focuses on the seventh and eighth curves, which describe the IPI response to shocks from the LNINV and the investment credit interest rate (RINV). The IPI's reaction to the LNINV shock exhibits significant fluctuations. Notably, since the second period, the IPI has consistently responded negatively to the LNINV shock, with the lowest value recorded at -0.15% in period 2 and the highest at 0.18% in period 8. In contrast, the IPI response to the RINV shock, as seen in the eighth curve, shows a distinct pattern. A sharp response was observed during the fourth period, which continued to rise in the fifth period. However, the following period remains relatively flat, hovering around the baseline. The reactions shown by the seventh and eighth curves further strengthen the results of studies by Caporale & Helmi (2018) and Mensi et al. (2020), which states a strong relationship between economic growth and investment variables.

The following analysis focuses on the interaction between the INF and the remaining seven endogenous variables, as reflected in Figure 2 and Table 10. Figure 2 displays the impulse response function (IRF) of the INF variable to shocks from the other seven endogenous variables. Table 10 reinforces the INF response to shocks from other variables.

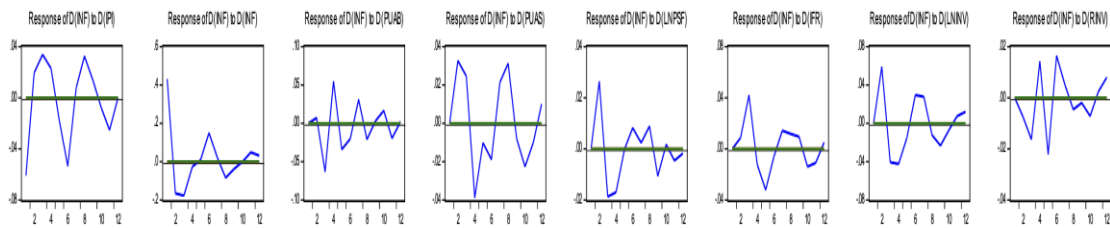


Figure 2. Curves of the Impulse Response Function of INF

Source: Eviews' output

Table 10. Impulse Response Function of INF

Period	D(IPI)	D(INF)	D(PUAB)	D(PUAS)	D(LNPSF)	D(IFR)	D(LNINV)	D(RINV)
Response of D(INF):								
1	-0.061021	0.431199	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
2	0.019444	-0.165818	0.007133	0.032712	0.026399	0.008477	0.058874	-0.007564
3	0.033748	-0.177368	-0.063606	0.024568	-0.018764	0.042130	-0.040670	-0.016487
4	0.022936	-0.027906	0.054487	-0.038973	-0.017054	-0.012322	-0.042591	0.014156
5	-0.018063	0.008536	-0.034280	-0.010249	-0.000419	-0.032570	-0.015134	-0.022178
6	-0.053759	0.148928	-0.020978	-0.018928	0.008141	-0.006261	0.029057	0.016368
7	0.007810	0.018933	0.030711	0.021271	0.002212	0.013985	0.027655	0.004953
8	0.032505	-0.086406	-0.021389	0.031090	0.008793	0.011307	-0.012547	-0.004576
9	0.013725	-0.038938	0.002476	-0.007929	-0.010796	0.009260	-0.023249	-0.002035
10	-0.007838	-0.001754	0.015996	-0.022727	0.001560	-0.013948	-0.007056	-0.007322
11	-0.025376	0.047067	-0.020188	-0.010244	-0.004616	-0.011262	0.007385	0.002318
12	-0.000262	0.030787	0.002109	0.010055	-0.001826	0.004910	0.011830	0.008017

Source: Eviews' output

The first analysis examines the leftmost IRF image, namely the INF response to IPI-triggered shocks. A negative response appears at the beginning of the period, increases towards the horizon line, and then rebounds in the fourth period. Until the 12th period, the INF response to the IPI shock still fluctuates. Compared with the IRF value in Table 10, the first period has the lowest INF response to the IPI shock, at -0.06%. Meanwhile, the highest response was 0.034%.

The second curve illustrates the INF response to the previous period's INF shock. The response shown by the INF at the beginning of the period fell sharply away from the horizon line until the fourth period. Then it rebounded and increased again until the seventh period. It fell negatively again in the 8th to 10th periods, and the remaining two periods were above the horizon line. Table 10 shows the INF response

to the previous period's INF shock, with a maximum of 0.43% at the beginning and reaching a minimum value of -0.18% in the third period.

The third curve illustrates the other INF responses. The INF responded firmly to every shock of interest rate changes in the PUAB. If observed closely, the INF response to the PUAB shock was not too far from the horizon line. This means the response remains momentary, since transactions in the PUAB are short-term. The minimum INF response occurred in the third period, reaching 0.06%. This means that a 1% increase in interest rates in the money market will be met with a 0.06% decrease in inflation. On the other hand, the maximum INF response to PUAB occurred in the fourth period at 0.05%. This indicates that if the short-term money market interest rate increases by 1%, inflation will rise by 0.05%.

Meanwhile, the fourth curve shows a different response from INF to the shock in the Islamic Interbank Money Market (PUAS). At the beginning of the period, there was a positive response of up to 0.033% in the second period; it then reduced to -0.039% in the fourth period.

Furthermore, the fifth curve illustrates the INF response to the shock from profit-sharing financing (LNPSF). At the beginning of the period, the INF responded positively to the shock from LNPSF. A slightly extreme response occurred from the second to the third period, during which the INF showed a negative response and reached its lowest level of -0.018%. The dynamics of the inflation response, which remain below 0.1%, indicate that the PSF's role in controlling inflation is not yet optimal.

The same pattern is observed in the sixth curve, which shows the INF response to the Islamic Financing Rate (IFR) shock. The INF response to the movement of the IFR tends to fluctuate from the beginning of the period until the ninth period. Furthermore, the fluctuation is relatively flat until the end of the period because it is approaching the horizon line. The highest positive response occurred in the third period, reaching 0.042%, while the lowest was -0.032% in period 5.

The last interpretation is shown by the seventh and eighth curves, which are the INF response to the shock of the amount of credit (LNINV) and the investment credit interest rate (RINV). The INF response to the LNINV shock is similar to the PSF shock. This situation shows that monetary transmission through credit and financing channels impacts economic activity by increasing the amount of money in circulation. For example, a positive response to inflation was observed in the second period, with a rate of 0.059%. This means that when investment credit grows by 1%, the inflation ratio will be in 0.059%. In the fourth period, when there was a negative response to inflation following the investment credit shock, the ideal conditions are explained: a 1% investment growth rate suppresses inflation by 0.042%. This condition arises because investment credit can affect aggregate supply, thereby keeping the inflation rate low. This finding successfully answers the doubts of Prabheesh & Eki Rahman (2019), who stated that bank credit channels are relatively less effective in influencing inflation. The eighth curve explains the INF response to the RINV shock. The negative

response occurred in the fifth period and rose sharply in the sixth. The following period fluctuated but remained close to the horizon line. Forecast Error Variance Decomposition (FEVD)

Table 11. Forecast Error Variance Decomposition of IPI and INF

Period	S.E.	D(IPI)	D(INF)	D(PUAB)	D(PUAS)	D(LNPSF)	D(IFR)	D(LNINV)	D(RINV)
Variance Decomposition of D(IPI):									
1	5.494722	100.0000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
2	5.979082	96.84354	1.173379	0.377274	1.510153	0.000341	0.003373	0.063200	0.028743
3	6.068286	94.40225	1.856364	0.426778	2.392729	0.554607	0.117304	0.097152	0.152815
4	6.153685	91.81367	2.119404	0.691428	2.428363	0.737334	0.247413	0.115455	1.846931
5	6.200861	90.44832	2.208327	0.716859	2.544879	0.828975	0.252316	0.113924	2.886396
6	6.223575	89.79973	2.192306	0.848136	2.536156	1.259639	0.328883	0.167957	2.867197
7	6.242942	89.24644	2.364579	0.922879	2.626647	1.311403	0.468482	0.180567	2.879003
8	6.250651	89.10017	2.367446	0.921159	2.719007	1.320716	0.477071	0.215956	2.878474
9	6.259560	88.91525	2.516881	0.930783	2.719866	1.354354	0.476195	0.215682	2.870989
10	6.262646	88.88904	2.514747	0.931537	2.719688	1.356715	0.476087	0.241749	2.870440
11	6.267745	88.82252	2.526949	0.935151	2.727513	1.389093	0.479187	0.247186	2.872402
12	6.269499	88.77311	2.553864	0.936668	2.739255	1.398653	0.480345	0.247057	2.871044
Variance Decomposition of D(INF):									
1	0.435496	1.963298	98.03670	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
2	0.472169	1.839752	95.73224	0.022820	0.479964	0.312589	0.032234	1.554739	0.025660
3	0.514046	1.983211	92.67504	1.550311	0.633372	0.396975	0.698886	1.937691	0.124517
4	0.522009	2.116217	90.15513	2.592884	1.171611	0.491687	0.733444	2.544741	0.194291
5	0.525313	2.207911	89.05075	2.986207	1.194978	0.485583	1.108662	2.595819	0.370095
6	0.550491	2.964254	88.41043	2.864515	1.206390	0.464054	1.022507	2.642424	0.425423
7	0.553032	2.957013	87.71682	3.146621	1.343266	0.461398	1.077078	2.868258	0.429543
8	0.562294	3.194571	87.21226	3.188509	1.605096	0.470776	1.082324	2.824336	0.422131
9	0.564531	3.228411	86.99826	3.165216	1.612129	0.503623	1.100668	2.971603	0.420091
10	0.565538	3.236141	86.68986	3.233965	1.767890	0.502593	1.157585	2.976604	0.435359
11	0.568694	3.399435	86.41528	3.324184	1.780766	0.503618	1.183988	2.960522	0.432202
12	0.569822	3.386002	86.36517	3.312398	1.804856	0.502652	1.186726	2.991906	0.450286

Source: Eviews' output

Table 11 shows the predicted variation of IPI and INF if there are changes in conventional and Islamic monetary instruments. In general, the contribution of the seven endogenous variables to industrial output growth (IPI) is relatively small, at most 3%. The credit interest rate variable makes the maximum contribution in the fifth period, reaching 2.88%. In the same period, the IPI variable itself accounts for 90.45%, and the remaining 9.55% is divided among six other variables. Compared with Islamic monetary instruments, conventional monetary instruments are more dominant in driving economic growth. In the fifth period, the contribution of RINV to

IPI reached 2.88%, higher than that of the PUAS and IFR instruments, which were 2.54% and 0.25%, respectively. This result is unsurprising, given that conventional banking capitalization is a larger, more significant driver of growth. Although still low, the contribution of profit-sharing financing to economic growth suggests that Islamic banking's intermediation function is driving the real sector.

On the other hand, the contribution of the seven endogenous variables to inflation variation (INF) is relatively low, at less than 4%. If we look deeper, changes in signal rate policies that affect Islamic monetary instruments, especially PUAS, LNPSF, and IFR, have a relatively small effect on inflation variation, at less than 1%. Meanwhile, the impact caused by conventional instrument shocks, especially PUAB, on inflation is greater, at 3.31%.

Discussion

In this discussion space, the authors explain the path Islamic monetary instruments follow to achieve two primary targets: encouraging economic growth and maintaining price stability. One path to maintaining economic balance is through the money supply channel. If the central bank sets a policy to suppress inflation, it reduces the money supply using interest rate instruments. Warjiyo & Juhro (2022) stated that in countries dominated by conventional banking, policy rate changes also affect profit-sharing returns in the Islamic banking system. The increase in the policy rate directly impacts the interest rate increase in the Interbank Money Market (PUAB). An increase in yields in the Islamic Interbank Money Market (PUAS) will also follow.

In Indonesia, Bank Indonesia's move to boost money circulation by raising the BI rate directly affects the Interbank Money Market (PUAB) interest rate. This situation encourages PUAS investors to shift their investment portfolios to PUAB. This is evidenced by the PUAS coefficient in the SVAR matrix, where a 1% increase in PUAB interest rates reduces PUAS yields by 0.99%. The decline in yields in PUAS has prompted Islamic banking to shift its investments toward profit-sharing financing (PSF). This condition is evidenced by the PSF variable's negative response to the PUAS variable's shock: when the yield applicable in PUAS decreases by 1%, PSF increases by 0.34%. However, the transmission through this PSF instrument does not continue economic growth.

In the authors' notes, at least four reasons are given for why the PSF instrument has not fully contributed to economic growth. First, Islamic banking's market share remains significantly lower than that of conventional banks. In Indonesia, the market share of Islamic banking has only reached 6.18%, and the average PSF ratio to total credit is just 1.36% (OJK, 2024). According to Al Fathan & Arundina (2019) Low asset volume is a fundamental weakness because, in the event of an internal or external shock, banks with small assets are more likely to fail than those with significant assets. Smaller banks often face challenges in achieving economies of scale and in product differentiation and technology Development (Ibrahim & Fajri, 2024).

The second reason is the incomplete institutional instruments that support the PSF. A study by Boukhatem & Moussa (2018) stated that the weak Islamic banking infrastructure acts as a barrier to greater contributions to the country's economy. To date, the necessary supporting institutions to create a common market for Islamic banking have not been established. Islamic banks must collaborate to provide data on debtors' business reputations, help evaluate financing proposals, audit the financial statements of business partners that are often suspicious, and train debtors to prepare feasible investment proposals. With a solid infrastructure, Islamic banking is expected to manage liquidity and risk efficiently.

A study by Warninda et al. (2019) identified a significant barrier to the Development of PSF as the lack of long-term Equity instruments in the Islamic capital market. In contrast, Malaysia's experience demonstrates that its government has successfully developed a dynamic and efficient stock market, fostering further incentives and innovations in the creation of PSF instruments.

However, the Islamic stock market in Indonesia has not developed adequately, primarily because few companies offer attractive Islamic financial instruments. Research by Al Fathan & Arundina (2019) indicates that transactions in the Islamic stock market have not substantially contributed to Indonesia's economic growth. Currently, only four Islamic banks are actively seeking investors in the capital market: Bank Aladin Syariah, Bank Syariah Indonesia, Bank BTPN Syariah, and Bank Panin Dubai Syariah.

Regarding regulation, the experiences of other central banks can serve as valuable references. For example, the Central Bank of Iran imposes upper and lower limits on Profit Sharing Fund (PSF) yields, which vary by loan term, risk level, and the type of contract between the bank and the client. Meanwhile, Sudan has a more advanced approach. The Bank of Sudan establishes a minimum share capital requirement of 20% for customers seeking a *musharakah* contract. Additionally, it creates a special account for each financing transaction to enhance monitoring of customer activities. The Bank of Sudan also formulates regulations to limit the *murabahah* scheme; for instance, it restricts *murabahah* deals to 30% of the total financing and sets a maximum *murabahah* margin of 10%, or adjusts it according to the inflation rate. To mitigate moral hazard, they actively recruit entrepreneurial individuals who possess a deeper understanding of the characteristics of the PSF (Ibrahim & Fajri, 2024).

In addition to the two arguments above, a third reason is that Islamic banking practices have not been able to separate themselves from conventional banks. (Chowdhury et al., 2018). Islamic banking follows mainstream policies by channeling financing to large-scale industries. 81.32% of Islamic banking financing is channeled to the large industrial sector. At the same time, the micro, small, and medium enterprise (MSME) segment, which contributes significantly to Indonesia's GDP, receives only 18.68% of Islamic bank financing (OJK, 2024). This is ironic because the MSME sector contributes 60% to Indonesia's GDP (BPS-Statistics Indonesia, 2024).

Regarding inflation control, the authors' SVAR matrix does not capture the dynamic interaction between PSF and inflation. The SVAR matrix captures only the negative response of the Islamic financing rate to the inflation shock. It is also supported by the forecast error variance decomposition (FEVD), which shows that the variance of PSF to inflation is relatively low, at less than 1%. In comparison, the PUAB instrument's variance-to-inflation ratio is much larger, at 3.31%. These results indicate that inflation control is more effectively implemented through the interest rate channel than through the financing channel.

There are several reasons why the PSF instrument has not been effective in controlling inflation. First, the success of PSF relies heavily on trust. Robiatun et al. (2024) have indicated that there is a direct correlation between contracts and trust; without a foundation of trust, the costs of implementing contracts increase. Rofik et al. (2025) emphasized that trust is a crucial element for customers using PSF. Banks also face the risk of moral hazard when customer partners may attempt to inflate operational costs. To reduce these risks, banks must invest additional resources to monitor projects financed through PSF closely (Ibrahim et al., 2021). This need for extra oversight is one reason why this type of financing is often considered "inefficient" (Hassan & Aliyu, 2018). Furthermore, Suzuki & Miah (2022) noted that low levels of customer commitment present a significant challenge in PSF. An agreement not only binds the parties but also involves God.

The second reason is that most PSF customers also have credit with conventional banks. As a result, they often do not consider the differences in interest rates between conventional and Islamic financing when applying for PSF. A study by Aysan et al. (2018) found that customers of Islamic banks are more likely to respond to changes in interest rates. For Muslim customers, the moral responsibility to adhere to Islamic principles (*homo Islamicus*) is often insufficient to justify losses incurred from their religious preferences, leading them to adopt a more pragmatic approach focused on maximizing returns (*homo economicus*). This pragmatism contributes to the high moral hazard associated with the PSF scheme. Furthermore, findings from Saeed et al. (2023) suggest that religious considerations do not always significantly influence customers' decisions to select Islamic banks. Traditional customers with a strong religious identity tend to favor Islamic banks. In contrast, for urban customers, religiosity is not a primary factor in their preferences. This indicates that the Muslim market in Indonesia is heterogeneous, necessitating that Islamic banks implement different strategies for different customer segments.

CONCLUSION

This study was designed to identify and explain the monetary transmission mechanism that promotes economic growth and controls inflation through the PSF channel. The authors reached two key conclusions: First, the monetary transmission mechanism in the dual banking ecosystem begins with the dynamic interaction between the conventional (PUAB) and Islamic (PUAS) money markets. This dynamic

is evident in Islamic banking through an increase in the volume of profit-sharing financing (PSF). Unfortunately, this increase in PSF is limited to the financial sector and does not translate into an increase in the real sector, as the PSF response is 0.34% to a PUAS shock of 1%. Second, the role of Islamic monetary instruments in controlling inflation has not been realized in practice. So far, the authors have found that inflation responds more strongly to shocks driven by PUAB than to shocks driven by PSF instruments, because the inflation response to increases in PSF remains weak, at under 0.1%.

These results suggest that enhancing the productivity of PSF instruments could serve as a monetary transmission channel in Indonesia. First, because the current volume of PSF remains minimal, it is essential to accelerate funding through cost-effective sources by encouraging the allocation of government expenditure to Islamic banking. Additional measures include improving collaboration in digital services by partnering with e-commerce platforms and offering cost-effective, flexible, and high-quality services through shared service mechanisms. Second, regulatory evaluations can be strengthened by emulating Sudan's experience, such as setting a minimum shareholder in the *musharakah* scheme at 20%, limiting *murabahah* financing to 30%, or limiting the *murabahah* margin to 10%. Third, the central bank should implement rigorous controls to prevent Islamic banks from over-investing in the Islamic money market. Lastly, for future research, it is recommended that the model incorporate institutional and regulatory instruments, as well as global conditions, thereby making the study of PSF transmission to Indonesian economic growth and inflation more comprehensive.

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