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Factors Affecting the Profitability of Islamic Commercial Banks in Indonesia from 2015 to 2019

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ABSTRACT

Profitability of Islamic commercial banks in Indonesia is one of the important aspects in assessing the performance and sustainability of sharia-based financial institutions. One of the indicators used to measure the level of profitability is Return On Asset (ROA). ROA is the ratio between profit after tax to total assets. This ratio reflects the ability of bank management to use its investment resources to increase revenue. This study was conducted to analyze the factors affecting the profitability of Islamic Commercial Banks in Indonesia from 2015 to 2019. The research sample consists of quarterly data on economic growth and inflation from 2015 to 2019, as well as quarterly financial reports from 11 Islamic Commercial Banks in Indonesia that meet the criteria for complete annual financial reports during the period of 2015-2019, totaling 220 data points. The analytical technique used to interpret and analyze the data in this study is the Generalized Least Squares (GLS) panel data regression, operated using Eviews 9.0 software. In a partial analysis, the capital variable has a positive and significant effect on the profitability variable. The liquidity variable has a positive and significant effect on the profitability variable. The bank size variable has a positive and significant effect on the profitability variable. The inflation variable has a positive but not significant effect on the profitability variable. The economic growth variable has a positive and significant effect on the profitability variable.

Keywords: Profitability, Liquidity, Capital, Bank Size, Inflation, Economic Growth

1. INTRODUCTION

Profitability of Islamic commercial banks in Indonesia is one of the important aspects in assessing the performance and sustainability of sharia-based financial institutions. In recent years, the Islamic banking industry in Indonesia has experienced significant growth,

driven by increasing public awareness of Islamic finance and the need for financial products that comply with sharia principles. However, despite its promising growth, the profitability of Islamic banks still faces various challenges, including intense competition with conventional and other Islamic banks, as well as internal and external factors that affect their financial performance.

Table 1. Country Ranking of Islamic Financial Institutions by Assets

Rank	Country	Asset ($M)
1	Malaysia	$ 423,28
2	Arab Saudi	$ 338,11
3	Iran	$ 323,3
4	UEA	$ 140,29
5	Kuwait	$ 92,4
6	Qatar	$ 81,03
7	Bahrain	$ 64,64
8	Turki	$ 51,16
9	Indonesia	$ 35,63
10	Bangladesh	$ 18,94

When viewed from the ranking of assets of Islamic financial institutions, Indonesia is ranked 9th with assets of $ 35.63 million. When compared to other ASEAN countries, namely Malaysia which is ranked first with assets of $ 423.28 million, the assets of Islamic institutions in Indonesia are still inferior to the assets of Islamic institutions in Malaysia. Some people are concerned that the 2015 Asean Economic Community (AEC) agreement is a threat because potential domestic markets will be taken by competitors from other countries. Such concerns are not unreasonable if we are able to demonstrate high competitiveness. Meanwhile, when compared to conventional banking, the market share of Islamic banking is still low. The low market share also affects the low level of profitability of Islamic banking. Therefore, Islamic Commercial Banks in Indonesia are required to improve business performance and maintain banking system stability in the face of competition from domestic and foreign banks, both from conventional banking and Islamic banking itself. This is because the health and sustainability of bank profitability is vital in maintaining the stability of the banking system.

One of the indicators used to measure the level of profitability is Return On Asset (ROA). ROA is the ratio between profit after tax to total assets. This ratio reflects the ability of bank management to use its investment resources to increase revenue. Determinants that affect profitability are divided into two categories: internal and external. Internal determinants resulting from bank management decisions and policies can affect the bank's operational activities including profitability. Bank-specific characteristics are internal determinants or internal factors that primarily influence the object of management decisions and policies, such as capital adequacy, credit risk, liquidity, bank size, and expense management. While external determinants are factors that are considered beyond the control of bank management, such as competition, regulation, bank concentration, market share, capital scarcity, money circulation, bank size inflation and economic growth.

The ratio of earnings before taxes (EBT) or profit before taxes (ROA) to total assets is known as ROA.

ROA is a ratio that displays the return on all of the company's assets. Since Bank Indonesia, the central bank, bases a bank's value on its assets—the majority of which are gathered from

the general public and referred to as Third Party Funds (TPF)—ROA is one of the ratios that serves as a gauge of the degree of profitability in the banking sector (Handayani et al., 2024). Based on the above background, this research focuses on analyzing the factors that affect the profitability of Islamic Commercial Banks in Indonesia in 2015-2019 when these Islamic banks have not merged into Bank Syariah Indonesia, with a variable approach to capital, liquidity, bank size, inflation and economic growth.

2. LITERATURE REVIEW

Profitability

Experts define profitability as a company's management's capacity to generate a certain amount of profit. According to profitability theory, financial performance can serve as a valuable benchmark for gauging a company's profitability and operational efficiency. The ability of a company's management to increase earnings from sales, total assets, and long-term debt is known as profitability. Profitability may also be defined as a company's capacity to generate revenue by optimizing and maximizing its resources in order to help it reach the targeted profit and efficiency levels more quickly. The profitability ratio's usefulness as an indicator can be used to evaluate a company's ability to generate profits. A company's profitability is correlated with how well its financial performance is described. Consequently, financial performance can be defined as an examination or analysis that shows the degree to which an organization, corporation, or business is doing its activities (Munawar & Sulaeman, 2022).

Capital

For farmers to satisfy their daily necessities, boost output, and increase agricultural yields, capital is essential. The need for seeds, compost, and other planting-related supplies may be met with adequate funding, which is also anticipated to produce typical outcomes (Fadlan, Lubis, et al., 2024). Capital is part of the funds that banks can use in their daily activities. An important thing related to the problem of funds is how to carry out fund management activities. Fund management is the process of managing the collection and allocation of public funds and capital funds to obtain Islamic bank objectives effectively and efficiently. The higher the amount of capital injected, the customer will be more confident and will place more deposits in the bank. With more deposits placed, the bank has more capital to manage in order to generate higher profitability

Liquidity

Liquidity is the bank's ability to pay its obligations when they come due and this feature affects the level of liquidity risk associated with operations. The liquidity ratio is measured as financing to total deposits and short-term funding. This ratio shows the relationship between liquidity management and bank performance. Profit is expected to be higher when more deposits are channeled into financing. This ratio states how far the bank's ability to repay withdrawals made by depositors by relying on financing provided as liquidity. The higher the ratio indicates the lower the liquidity capability of the bank concerned. This is because the amount of funds required for financing is getting bigger (Widyakto & Wahyudi, 2021).

Bank Size

Another important bank characteristic is the size of the company (bank size). Company size is a scale where the size of the company can be classified in various ways, including total assets, log size, stock market value, and others. Basically, company size is

only divided into 3 categories, namely large firms, medium firms and small firms. In general, the larger the size of the bank, the higher its profitability. This is because large bank size allows for economies of scale that will reduce the cost of collecting and processing information. In addition, economies of scope can also result in diversified financing products and accessibility to capital markets. However, this is not the case for small banks. For banks that are too large, the size effect can be negative due to bureaucracy and other reasons. The bank size ratio is obtained from the natural logarithm of the bank's total assets (Basnawati, 2022).

Inflation

Inflation is the presentation of the rate at which prices rise in a given year. Or in other words, a decline in the value of the prevailing currency. Inflation can be a factor in variations in bank profitability. An increase in the price of one or two goods cannot be called inflation, unless the increase in the price of these goods can cause an increase in the price of most other goods. In addition, a one-off, temporary or seasonal increase in prices, albeit a large percentage, cannot be termed inflation (Rangkuty et al., 2020).

In the case of Islamic banks, inflation may affect performance positively if a larger portion of the Islamic bank's profits arise from direct investment, shareholding and or other trading activities (murabahah). Inflation may have a negative influence on bank profitability if wages and other costs (overhead) grow faster than the rate of inflation. It is also supported by the statement that inflation may be a variation factor on the profitability of Islamic banks as they do not charge fixed fees on their deposits or financing. Inflation can have a positive impact assuming wages and other costs grow faster than the inflation rate (Rusiadi et al., 2020).

Economic Growth

Economic growth is a key indicator in macroeconomics that affects the profitability of Islamic Commercial Banks. Economic growth, which is calculated using Gross Domestic Product (GDP), has many consequences for increasing bank activity. Both increases in customer deposits and financing and margins have a positive influence on bank profitability. GDP is often considered the best measure of economic performance. The purpose of GDP is to summarize economic activity in a single monetary value over a period of time. The national income items of GDP are divided into four groups namely Consumption (C); Investment (I); Government purchases (G); and Net exports (nx) (Efendi, 2019). The course of industrialization determines how industrial progress affects the reduction of poverty and inequality. The salaries of those living in poverty can be positively impacted by industries that use domestic resources and labor-intensive technology, as well as those that rely significantly on unskilled labor. For example, during Taiwan's early industrialization period, poverty and inequality decreased as the demand for unskilled labor increased more quickly than that for skilled labor. Taiwan's export and manufacturing landscape underwent a significant change as industrialization advanced, with a higher need for trained labor. The impact of this shift on income distribution was lessened, though, because Taiwan had already made large investments in human capital by this time. The trajectory has been similar in South Korea (Fadlan, Pane, et al., 2024).

3. RESEARCH METHOD

Quantitative research, which sought to ascertain the link between two or more variables, was the methodology used in this study. A hypothesis that explains, predicts, and

regulates a symptom can be developed in this study (Sugiyono, 2016). In this study, the population (unit of analysis) is all Islamic Commercial Banks in Indonesia. In determining the sample size, there is a minimum ratio of 5 respondents for each respondent for each parameter in the study, or 10 respondents for each 1 parameter, or 15 respondents for each 1 parameter. Based on the rule of thumb in SEM, this study used a ratio of respondents to parameters totaling 5: 1. The size of the research sample taken from this study is the quarterly financial statements of 14 Islamic Commercial Banks in Indonesia in 2015 - 2019. So that the number of samples used in this study amounted to 280 data. This study uses panel data analysis techniques to analyze the factors that influence the internal and external profitability of Islamic Commercial Banks in Indonesia in 2011-2015. There are several stages in analyzing panel data, namely: (1) descriptive statistical analysis; (2) stationarity test; (3) cointegration test; (4) panel data regression model estimation; (5) Tests for Cross-Sectional Dependence; (6) classical assumption test; (7) regression equation analysis; and (8) hypothesis testing.

4. RESULTS AND ANALYSIS

4.1 RESULTS

Descriptive Statistical Analysis

Based on the results of descriptive statistical analysis, Table 4.1. The following will show the characteristics of the sample used in the study.

Table 2. Descriptive Statistics Results

	BZ	CAR	FDR	GRWTH	INF	ROA
Mean	29,43671	26,43223	103,101	5,682500	5,885167	1,004682
Median	29,27739	16,90000	94,14000	5,765000	5,770000	1,110000
Maximum	31,88478	163,7700	345,0600	6,500000	8,600000	6,930000
Minimum	26,46754	10,74000	21,17000	4,670000	3,726667	-20,13000
Std. Dev.	1,327383	23,10357	38,19469	0,667114	1,456547	2,378736
Skewness	0,246645	2,908099	3,183527	-0,161826	0,279654	-5,355568
Kurtosis	2,178204	13,17482	16,16410	1,477090	1,841481	44,83289
Observations	220	220	220	220	220	220

The table above shows that observations at Islamic Commercial Banks in the period 2015 to 2019 so that N in this study were 220. Based on the data obtained, it is known that the average value of the liquidity variable (FDR) is 103.101, with a standard deviation of 38.19469. While the maximum and minimum values are 345.06 and 21.17. Statistically, the average value of the profitability variable (ROA) is 1.004682 with a standard deviation of 2.378736, while the maximum and minimum values are 6.93 and -20.13. For the bank size variable (BZ), the average value is 29.43671 with a standard deviation of 1.327383, while the maximum and minimum values are 31.88478 and 26.46754. Statistically, the average value of the capital variable (CAR) is 26.43223, with a standard deviation of 23.10357, and the maximum and minimum values are 163.77 and 10.74.

For statistics, the average value of the economic growth variable (GRWTH) is 5.682500 with a standard deviation of 0.667114 while the maximum and minimum values are 6.50 and 4.67. Statistically, the average value of the inflation variable (INF) is 5.885167, with a standard deviation of 1.456547 and the maximum and minimum values are 8.60 and 3.72.

Stationarity Test

To find out whether the data is stationary or not, one of them is by using unit root tests. Stationary data is needed so that the estimation results are not skewed. Data is said to be stationary if the Prob value is smaller than 5%. The results of the unit root tests can be seen in table 3 :

Table 3. Stationarity Test Results

Variable	Prob-Levin, Lin &Chu
ROA	0.0041*[a]
CAR	0.0000
FDR	0.0141
BZ	0.0000
INF	0.0000*[b]
GRWTH	0.0000*[a]

From the stationarity test results in the table above, it is obtained that all data on profitability variables (ROA), capital (CAR), liquidity (FDR), bank size (BZ), inflation (INF), and economic growth (GRWTH) have a P-value below 0.05%. So from these results it can be concluded that each data of this research variable is stationary.

Cointegration Test

The cointegration test on panel data is used to test whether there is a long-term relationship or not between the dependent variable and the independent variable under study. To find out whether the data is cointegrated or not, one of them uses the Pedroni test and the Kao test. From the Pedroni test results, it is found that overall of the seven statistical tests tested, three statistical tests namely Panel v-Statistic, Panel rho-Statistic, and Group rho-Statistic are not significant because they are greater than 5%. While the Panel PP-Statistic, Panel ADF-Statistic, Group PP-Statistic and Group ADF- Statistic have significant cointegration coefficients with a 5% significance reference. Thus, the null hypothesis of "no cointegration" is rejected, which means that there is a long-term relationship between the dependent variable and the independent variable under study.

Panel Data Regression Model Estimation

Panel data regression in this study uses three approaches to estimate it, namely the common effect model approach, fixed effect model and random effect model. To determine the most appropriate model approach in panel data regression, three tests are used. First, the F statistical test (Chow test) to choose between the common effect model and the fixed effect model. Second, the Hausman test to choose between the fixed effect model and the random effect model. Third, the Lagrange Multiplier (LM) test to select the common effect model and the random effect model.

Tests for Cross-Sectional Dependence

To test for cross-sectional dependence using Breusch-Pagan LM, Pesaran scaled LM, Bias- corrected scaled LM and Pesaran CD. From the cross-sectional dependence test results. above obtained Breusch-Pagan LM value (129.7184) > chi-square (73.31) and P-value (0.00) < 5%. Meanwhile, the P-value of Pesaran scaled LM, Bias-corrected scaled LM and Pesaran CD is less than 5%. Thus, the null hypothesis stating "no cross-sectional dependence (correlation) in residuals" is rejected. Thus, the test results indicate that a good estimator uses a heteroscedastic structure with correlation between equations. For this reason, the weighting procedure taken is Cross Section SUR.

Classical Assumption Test

In the classical assumption test on Generalized Least Square estimation, only multicollinearity and normality tests are carried out. To see whether there is a multicollinearity problem, the correlation matrix is used to determine the correlation coefficient between the independent variables.

Table 4. Multicollinearity Test Results

	CAR	FDR	BZ	INF	GRWTH
CAR	1.000000	0.351253	-0.588321	-0.084976	0.276721
FDR	0.351253	1.000000	-0.196136	-0.038248	0.001003
BZ	-0.588321	-0.196136	1.000000	0.104461	-0.238732
INF	-0.084976	-0.038248	0.104461	1.000000	-0.457481
GRWTH	0.276721	0.001003	-0.238732	-0.457481	1.000000

From the multicollinearity test results, it was found that there was no correlation coefficient value greater than 0.8. This proves that the data does not occur multicollinearity problems. Meanwhile, for normality testing using the Jarque- Bera test. This test measures the skewness and kurtosis of the data and is compared to if the data is normal.

Normality Test Results

From the normality test results, the Jarque-Bera value (0.529511) < Chi Square (11.07) is obtained, which indicates that the research data is normally distributed.

Regression Equation Analysis

This study uses Eviews 9 as a tool to process and analyze panel data. The data studied are the dependent variable profitability (Y) and the independent variables, namely capital (X1), liquidity (X2), bank size (X3), inflation (X4) and economic growth (X5). The data was

obtained from quarterly financial reports of 11 eligible Islamic Commercial Banks in Indonesia in 2015-2019 totaling 220, as well as quarterly data from inflation and economic growth in 2015-2019.

After conducting a series of panel data regression tests, this study used the Fixed Effect model with Cross Section SUR. The regression equation model that can be written from these results in the form of a standard form regression equation is as follows:

$$Yi,t = -137.1604 + 0.04X1t + 0.01X2t + 4.1217\ X3t + 0.07X4t + 2.4955\ X5t + \varepsilon i,t$$

The panel data regression equation above can be analyzed as follows:

a. The constant value α (-137,1604) states that if the independent variables (capital, liquidity, bank size, inflation and economic growth) are equal to zero then the value of ROA is -137,1604.

b. The coefficient value of β1 (0.04) states that there is a unidirectional relationship between the capital variable (X1) on ROA of 0.04. This means that if the capital increases by 1 unit with the assumption that the other independent variables are considered constant, the ROA value is 0.04.

c. The coefficient value β2 (0.01) states that there is a unidirectional relationship between the liquidity variable (X2) on ROA of 0.01. This means that if liquidity increases by 1 unit with the assumption that the other independent variables are considered constant, the ROA value will be 0.01.

d. The coefficient value of β3 (4.1217) states that there is a unidirectional relationship between the bank size variable (X3) on ROA of 4.1217. This means that if the bank size increases by 1 unit with the assumption that the other independent variables are considered constant, the ROA value is 4.1217.

e. The coefficient value of β4 (0.07) states that there is a unidirectional relationship between the inflation variable (X4) on ROA of 0.07. This means that if inflation increases by 1 unit with the assumption that the other independent variables are considered constant, then the value of ROA is 0.07.

f. The coefficient value of β5 (2.4955) states that there is a unidirectional relationship between the economic growth variable (X5) on ROA of 2.4955. This means that if economic growth increases by 1 unit with the assumption that the other independent variables are considered constant, the ROA value is 2.4955.

Research Hypothesis Testing

1. F Test

From the results of the F test, it was found that the calculated F value was 120.7230, which means that the Fcount value> from the Ftable value (2.256). In addition, the P-value (0.0000) < 0.05. This proves that simultaneously or together the independent variables, namely capital (X1), liquidity (X2), bank size (X3), inflation (X4) and economic growth (X5) have a significant effect on the dependent variable profitability (Y).

2. T Test

From the t test results in Table 5. above, the results are summarized in Table 5 as follows:

Table 5. T Test Result

Variable	Coefficient	t-Statistics	Prob.

CAR (X1)	0,04	8,21	0,00
FDR (X2)	0,01	3,29	0,00
BZ (X3)	4,12	30,49	0,00
INF (X4)	0,07	1,39	0,17
GRWTH (X5)	2,50	18,27	0,00

Based on Table 5, it can be concluded that:

a. The coefficient value of the capital variable (X1) is 0.04 with t count 8.21 and significance 0.00. These results indicate that the capital variable (X1) has a positive and significant effect on profitability (Y). This is indicated by the coefficient value of 0.04 with the value of t count = 8.21 > t table = 1.97 and the significance value is 0.00 < 0.05 significance level.

b. The coefficient value of the liquidity variable (X2) is 0.01 with t count 3.29 and significance 0.00. These results indicate that the liquidity variable (X2) has a positive and significant effect on profitability (Y). This is indicated by the coefficient value of 0.01 with the value of t count = 3.29 > t table = 1.97 and the significance value is 0.00 < 0.05 significance level.

c. The coefficient value of the bank size variable (X3) is 4.12 with t count 30.49 and significance 0.00. These results indicate that the bank size variable (X3) has a positive and significant effect on profitability (Y). This is indicated by the coefficient value of 4.12 with the t value = 30.49 > t table = 1.97 and the significance value is 0.00 < 0.05 significance level.

d. The coefficient value of the inflation variable (X4) is 0.07 with t count 1.39 and significance 0.17. These results indicate that the inflation variable (X4) has a positive and insignificant effect on profitability (Y). This is indicated by the coefficient value of 0.07 with the t value = 1.39 < t table = 1.97 and the significance value is 0.17 > 0.05.

e. The coefficient value of the economic growth variable (X5) is 2.50 with a t-statistic of 18.27 and a significance of 0.00. These results indicate that the economic growth variable (X5) has a positive and significant effect on profitability (Y). This is indicated by the value of t count = 18.27 > t table = 1.97 and the significance value is 0.00 < 0.05 significance level.

Coefficient of Determination

The coefficient of determination indicates the percentage of variation in the dependent variable that can be explained by the independent variables used in the model. The coefficient of determination has an adjusted R square of 0.891. This means that 89% of profitability can be explained by the independent variables, which are capital, liquidity, bank size, inflation, and economic growth. The remaining 11% (100% - 89%) is explained by other variables outside the model that are not addressed in this study.

4.2 ANALYSIS

From the analysis of the data conducted, it can be seen that the variables of capital, liquidity, bank size, inflation, and economic growth simultaneously or collectively have a significant effect on the profitability variable. This is indicated by a significance level that is much smaller than 0.05 (0.00 < 0.05) and an F value that is greater than the F table value (120.7230 > 2.256). The coefficient of determination in this study is 0.891, meaning that 89% of profitability can be explained by the independent variables of capital, liquidity, bank size, inflation, and economic growth. The remaining 11% (100% - 89%) is explained by other variables outside the model that are not addressed in this study. The following is a discussion based on the hypotheses proposed in this research:

a. Hypothesis 1

The first hypothesis proposed in this study is that the capital variable has a positive and significant impact on profitability. Based on the data processing results, it can be seen that the capital variable influences profitability with a regression coefficient of 0.04. Additionally, the calculated t value is greater than the t table value, specifically (8.21) > (1.97), and the significance value is 0.00, which is less than the significance level of 0.05. This indicates that, in a partial analysis, the capital variable has a positive and significant effect on the profitability variable. Therefore, it can be concluded that H1 in this study is accepted. The results of this study are consistent with previous research conducted by Ubaidillah (2023).

The average capital ratio of Islamic Commercial Banks in Indonesia is 26.43%. According to the Financial Services Authority Regulation Number 21/POJK.03/2014 regarding the Minimum Capital Requirement for Islamic Commercial Banks, the minimum capital provision is set at a minimum of 8%. This indicates that the average Islamic Commercial Bank in Indonesia maintains a high minimum capital level. A higher capital ratio results in lower external costs required, thereby increasing profitability. Banks with sufficient capital will incur lower costs when facing financial difficulties. This represents an advantage that ultimately translates into higher profitability. Therefore, Islamic Commercial Banks must pay attention to their capital adequacy to ensure the continuity of bank operations and to reduce operational costs to enhance profitability.

Additionally, there are Islamic Commercial Banks in Indonesia that receive capital injections from their parent companies. In 2019, three Islamic Commercial Banks received capital injections from their parent companies: Bank Syariah Mandiri (IDR 500 billion), BRI Syariah (IDR 500 billion), and Bank Syariah Bukopin (IDR 350 billion). The greater the amount of injected capital, the more confidence customers will have, leading them to place more deposits in the bank. With an increase in deposits, the bank has more capital to manage in order to generate higher profitability.

b. Hypothesis 2

The second hypothesis proposed in this study is that the liquidity variable has a positive and significant effect on profitability. Based on the data processing results, it can be determined that the liquidity variable influences profitability with a regression coefficient of 0.01. Additionally, the calculated t value is greater than the t table value, specifically (3.29) > (1.97), and the significance value is 0.00, which is less than the significance level of 0.05. This indicates that, in a partial analysis, the liquidity variable has a positive and significant effect on the profitability variable. Therefore, it can be concluded that H2 in this study is accepted.

The results of this study are consistent with previous research conducted by Anuraga et al. (2023). The average liquidity ratio of Islamic Commercial Banks in Indonesia is 103.10%. This indicates that the amount of financing provided by Islamic Commercial Banks is higher than the total deposits they hold. If all other factors are held constant, the larger the deposits allocated to financing, the higher the profit that will be obtained. Therefore, funds that are deposits from customers of Islamic Commercial Banks should be channeled into real and productive financing to enhance profitability. This way, the risk of mismatch between fund collection and fund distribution will not occur. When banks increase their financing, problems may arise due to the high costs associated with financing requirements. This can lead to negative impacts on profitability. Therefore, Islamic Commercial Banks must also

consider the cost aspects incurred when providing financing to avoid reducing the profits that will be earned.

c. Hypothesis 3

The third hypothesis proposed in this study is that the bank size variable has a positive and significant effect on profitability. Based on the data processing results, it can be determined that the bank size variable influences profitability with a regression coefficient of 4.12. This indicates that, in a partial analysis, the bank size variable has a positive and significant effect on the profitability variable. Additionally, the calculated t value is greater than the t table value, specifically (30.49) > (1.97), and the significance value is 0.00, which is less than the significance level of 0.05. This shows that, in a partial analysis, the bank size variable positively and significantly affects the profitability variable. Therefore, it can be concluded that H3 in this study is accepted.

The results of this study are consistent with previous research conducted by Elena & Nurwahidin (2022). Larger banks are expected to reduce the costs associated with gathering and processing information. Furthermore, in an economic context, they can offer a diversified range of financing products and better accessibility to capital markets, which are not available to smaller banks. Larger banks are assumed to benefit from economies of scale, enabling them to produce their output or services at a lower and more efficient cost than smaller banks.

Thus, Islamic Commercial Banks in Indonesia should focus more on developing their bank size, particularly in terms of bank assets, to enhance profitability. According to the Financial Services Authority Circular Number 16/POJK.03/2014 regarding the Assessment of Asset Quality for Islamic Commercial Banks and Sharia Business Units, the assets of Islamic Commercial Banks and Sharia Business Units consist of productive and non-productive assets.

Productive assets refer to the bank's investments, both in local currency and foreign currency, aimed at generating income, including financing, sharia securities, placements with Bank Indonesia and the government, receivables from sharia securities purchased with a commitment to sell back (reverse repurchase agreements), acceptance receivables, derivative receivables, equity investments, placements in other banks, administrative account transactions, and other forms of fund provision that can be equated with these. Non-productive assets, on the other hand, are bank assets other than productive assets that have potential losses, such as repossessed collateral, abandoned properties, and inter-office accounts and suspense accounts.

d. Hypothesis 4

The fourth hypothesis proposed in this study is that the inflation variable has a positive and significant effect on profitability. Based on the data processing results, it can be determined that the inflation variable influences profitability with a regression coefficient of 0.07. Additionally, the calculated t value is less than the t table value, specifically (1.39) < (1.97), and the significance value is 0.17, which is greater than the significance level of 0.05. This indicates that, in a partial analysis, the inflation variable has a positive but not significant effect on the profitability variable. Therefore, it can be concluded that H4 in this study is rejected.

Inflation does not have an impact on profitability because Islamic Commercial Banks in Indonesia tend not to gain profits during periods of rising or falling inflation. However, banks must still anticipate inflation because there is a possibility that bank costs may increase more rapidly than bank revenues, which could affect profitability (Innayah et al., 2023). Therefore, Islamic Commercial Banks should possess the ability to predict future inflation.

This is because it is assumed that forecasting and predicting inflation rates can assist banks in making decisions regarding profit-sharing rates, the quantity of financing, and asset quality.

e. Hypothesis 5

The fifth hypothesis proposed in this study is that the economic growth variable has a positive and significant effect on profitability. Based on the data processing results, it can be determined that the economic growth variable influences profitability with a regression coefficient of 2.50. Additionally, the calculated t value is greater than the t table value, specifically (18.27) > (1.97), and the significance value is 0.00, which is less than the significance level of 0.05. This indicates that, in a partial analysis, the economic growth variable has a positive and significant effect on the profitability variable. Therefore, it can be concluded that H5 in this study is accepted.

The results of this study are consistent with previous research conducted by Perwira & Wahyudi (2022). Economic growth can enhance bank profitability by increasing the demand for financial transactions, both for household financing and business purposes. A strong economic condition is characterized by high demand for financial services, leading to increased cash flow for banks, profits, and non-interest income. On the other hand, banks can suffer greatly during weak economic periods, as some customers tend to default on their loans.

Therefore, Islamic Commercial Banks in Indonesia should maximize their opportunities during favorable economic conditions. Conversely, when the economy is declining, Islamic Commercial Banks can consider alternative financing channels by expanding into financing for Small and Medium Enterprises (SMEs). This can be done through products offered by the banks themselves or through government cooperation programs. Financing for the SME sector does not require excessive capital and carries lower risks. However, the SME sector can contribute significantly to economic growth in Indonesia. According to data from the Ministry of Trade, the contribution of SMEs to Indonesia's Gross Domestic Product (GDP) was estimated at 59% in 2019, with a GDP of IDR 11,540 trillion in that year.

5. CONCLUSION

Based on the results of the hypothesis testing, the following is a brief summary of the hypothesis test results and conclusions drawn from the proposed hypotheses:

a. The Effect of Capital on Profitability

Based on the data processing results, it can be determined that the capital variable influences profitability with a regression coefficient of 0.04. Additionally, the calculated t value is greater than the t table value, specifically (8.21) > (1.97), and the significance value is 0.00 < 0.05. This indicates that, in a partial analysis, the capital variable has a positive and significant effect on the profitability variable. Therefore, it can be concluded that H1 in this study is accepted.

b. The Effect of Liquidity on Profitability

Based on the data processing results, it can be determined that the liquidity variable influences profitability with a regression coefficient of 0.01. Additionally, the calculated t value is greater than the t table value, specifically (3.29) > (1.97), and the significance value is 0.00 < 0.05. This indicates that, in a partial analysis, the liquidity variable has a positive

and significant effect on the profitability variable. Therefore, it can be concluded that H2 in this study is accepted.

c. The Effect of Bank Size on Profitability

The third hypothesis proposed in this study is that the bank size variable has a positive and significant effect on profitability. Based on the data processing results, it can be determined that the bank size variable influences profitability with a regression coefficient of 4.12. This indicates that, in a partial analysis, the bank size variable has a positive and significant effect on the profitability variable. Additionally, the calculated t value is greater than the t table value, specifically (30.49) > (1.97), and the significance value is 0.00 < 0.05. This shows that, in a partial analysis, the bank size variable has a positive and significant effect on the profitability variable. Therefore, it can be concluded that H3 in this study is accepted.

d. The Effect of Inflation on Profitability

The fourth hypothesis proposed in this study is that the inflation variable has a positive and significant effect on profitability. Based on the data processing results, it can be determined that the inflation variable influences profitability with a regression coefficient of 0.07. Additionally, the calculated t value is less than the t table value, specifically (1.39) < (1.97), and the significance value is 0.17 > 0.05. This indicates that, in a partial analysis, the inflation variable has a positive but not significant effect on the profitability variable. Therefore, it can be concluded that H4 in this study is rejected.

e. The Effect of Economic Growth on Profitability

The fifth hypothesis proposed in this study is that the economic growth variable has a positive and significant effect on profitability. Based on the data processing results, it can be determined that the economic growth variable influences profitability with a regression coefficient of 2.50. Additionally, the calculated t value is greater than the t table value, specifically (18.27) > (1.97), and the significance value is 0.00 < 0.05. This indicates that, in a partial analysis, the economic growth variable has a positive and significant effect on the profitability variable. Therefore, it can be concluded that H5 in this study is accepted.

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