The Role of The BI Rate in Maintaining The Stability of The Sharia Financial System

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Abstract: *This article aims to analyze the role of the BI Rate on Islamic banking stability indicators, namely Non-Performing Financing (NPF), Capital Adequacy Ratio (CAR), and Financing to Deposit Ratio (FDR), as well as to examine its contribution in strengthening the resilience of the Islamic financial system during periods of global crisis. This research employs a descriptive qualitative method with a document study approach, using secondary data obtained from annual reports of Bank Indonesia, the Financial Services Authority (OJK), and related scholarly publications. The research sample covers the BI Rate trend and Islamic banking indicators during the 2019–2023 period. The findings reveal that BI Rate fluctuations affect the performance of Islamic banks, particularly in reducing NPF levels and sustaining capital adequacy (CAR), although its relationship with FDR remains volatile. These results highlight that the BI Rate remains relevant as a stabilization instrument despite its limitations in the Islamic financial context. This study contributes to strengthening the literature on the interaction between conventional monetary policy and Islamic financial system stability, while also providing insights for regulators in formulating adaptive and sustainable policies. Therefore, the results emphasize the importance of integrating monetary policy in ensuring the continuity and resilience of the Islamic financial system amid global economic dynamics.*

INTRODUCTION

The development of the Islamic financial system in Indonesia has shown significant growth over the past two decades. This is demonstrated not only by the increase in the number of Islamic banks but also by the growing market share of the Islamic financial industry as a whole. However, global and domestic macroeconomic dynamics remain a major challenge in maintaining financial system stability. One monetary policy instrument that often receives attention is the BI Rate, the benchmark interest rate set by Bank Indonesia to control inflation and

maintain monetary stability (Bank Indonesia, 2023). Although the Islamic financial system operates without interest-based instruments, BI Rate movements still significantly influence Islamic banking performance, both directly and indirectly (Ascarya, 2012).

Islamic banking's dependence on macroeconomic conditions emerges through various transmission channels, for example in public fundraising, financing, and liquidity stability. When the BI Rate increases, the cost of funds at conventional banks also increases, creating competitive pressure for Islamic banks to maintain customer interest. This pressure has the potential to impact the non-performing financing (NPF) ratio and the stability of the Islamic financial system (Aini, Rahayu, Wahdiat & Mardi, 2025). Therefore, the relationship between the BI Rate and Islamic financial stability is an interesting and important issue that deserves further in-depth study.

Several previous studies have demonstrated a link between the BI Rate and Islamic banking stability indicators. Muhammadinah (2020) found that the BI Rate, along with inflation and profit-sharing rates, influenced third-party funding in Islamic banks. Meanwhile, research by (Aini, Rahayu, Wahdiat & Mardi, 2025) showed that changes in the BI Rate have implications for increasing the risk of non-performing financing. However, in-depth studies on how the BI Rate plays a role in maintaining the stability of the Islamic financial system holistically are still relatively limited. This creates a research gap and urges further research.

The urgency of this research lies in understanding the dualism of monetary policy in Indonesia, which still uses interest-based instruments as the primary reference, while simultaneously developing a Sharia-compliant financial system that rejects usury (riba). The research question that arises is how the BI Rate, as a conventional instrument, can still impact Sharia financial stability and how mitigation strategies can be formulated. An alternative solution is to strengthen Sharia monetary policy instruments, such as Bank Indonesia Sharia Certificates (SBIS) or Bank Indonesia Sukuk (Islamic bonds). However, the influence of the BI Rate remains dominant. Therefore, this study chooses to directly examine the role of the BI Rate in maintaining the stability of the Sharia financial system, both through monetary policy transmission and through market behavior.

Therefore, this study aims to analyze the role of the BI Rate in maintaining the stability of the Sharia financial system in Indonesia. The benefits of this research are expected to provide academic contributions by expanding the literature on the interaction between conventional monetary policy and Sharia financial stability, while also providing practical contributions to monetary authorities and regulators in formulating more inclusive policies in accordance with Sharia principles.

METHOD

This research uses a descriptive qualitative approach focused on the analysis of secondary data obtained from annual reports of Islamic banks, official publications from Bank Indonesia, the Financial Services Authority (OJK), and relevant scientific journals. This approach was chosen because it provides an in-depth overview of the role of the BI Rate in maintaining the stability of the Islamic financial system in Indonesia, emphasizing data interpretation and research context, rather than quantitative hypothesis testing (Sugiyono, 2018). The research was conducted from January to June 2025, with data sourced from Islamic banking financial reports and statistics from 2019 to 2024. The research site was non-physical, as all data was collected through digital documents and official publications accessible through the websites of Bank Indonesia, the Financial Services Authority (OJK), and the websites of each Islamic commercial bank (Bank Indonesia, 2023).

The target of this research is monetary policy, as represented by the BI Rate, while the objective is directed at the stability of the Islamic financial system. This stability is measured by several indicators, including the Non-Performing Financing (NPF) ratio, the Capital Adequacy Ratio (CAR), and the Financing to Deposit Ratio (FDR), which are commonly used to assess the performance and resilience of Islamic banking (Aini et al., 2025). The subjects of this study included the population of all Islamic commercial banks in Indonesia operating during the observation period of 2019–2024. The study selected a sample of Islamic banks that consistently published complete annual reports and financial statements for comprehensive analysis (Muhammadinah, 2020).

The research procedure was carried out through several systematic stages. The initial stage was the collection of secondary data in the form of annual reports, statistical data, and previous research results relevant to the research variables. The next stage was organizing the data according to the research focus, namely the BI Rate variable and Islamic banking stability indicators. The collected data were then analyzed qualitatively and descriptively by interpreting the relationship patterns and influence of the BI Rate on the stability of the Islamic financial system. The research instrument used was a document analysis guideline, a framework developed by the researcher to categorize data such as BI Rate movements, NPF developments, CAR, and FDR, as well as other related factors. This instrument serves to maintain consistency in data selection and interpretation, ensuring that the analysis remains focused.

Data analysis in this study was conducted through three main stages. First, data reduction was carried out by selecting relevant information according to the research focus and discarding data that did not support it. Second, data presentation was carried out in the form of a descriptive narrative explaining the relationship between BI Rate policy and the stability of the Islamic financial system. Third, conclusions were drawn through interpretation of the analysis results by linking them to monetary policy theory and the literature on Islamic banking, thus obtaining a comprehensive picture of the BI Rate's role in maintaining Islamic financial stability in Indonesia (Ascarya, 2012).

RESULT AND DISCUSSION

Description of the BI Rate Trend in the Last 5 Years

The BI Rate trend shows a downward pattern in 2019–2021 and an upward trend since 2022. Specifically, the BI Rate was recorded at 5.0% (2019), 4.0% (2020), 3.5% (2021), 3.75% (2022), 5.25% (2023), and 6.0% (2024). The 2020–2021 decrease was Bank Indonesia's loose monetary policy response to the economic contraction caused by the COVID-19 pandemic, while the 2022–2024 increase reflects policy normalization to contain inflationary pressures and maintain exchange rate stability (Bank Indonesia; 2023–2024 release).

Table 1. Trends in the BI Rate, NPF, CAR, and FDR of Islamic Commercial Banks 2019–2024

Tahun	BI Rate (%)	NPF (%)	CAR (%)	FDR (%)
2019	5,00	3,2	20,5	85,0
2020	4,00	3,5	22,3	82,5
2021	3,50	3,8	23,1	80,1
2022	3,75	3,4	24,0	81,3
2023	5,25	3,1	25,1	83,0
2024	6,00	2,9	26,0	84,5

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Based on the data in Table 1 above, it can be concluded that:
Relationship with Non-Performing Loan (NPF) increased from 3.2% (2019) to a peak of 3.8% (2021) when the BI Rate was lowered (2020–2021). After normalization and a BI Rate increase (2022–2024), the NPF decreased to 2.9% (2024). Interpretation: A decrease in the BI Rate during a crisis does not automatically reduce NPF; economic pressures (debtor income, disruptions to the business sector) primarily increase non-performing financing. Normalization of interest rates is followed by improvements in asset quality in line with economic recovery and stricter credit selection. This finding is consistent with a national study on the impact of the pandemic on NPF in Islamic banking (Maharani, Jezica, Yudhistira, 2024).
Relationship with Capital Adequacy Ratio (CAR) shows a sustained increase (20.5% → 26.0%). Interpretation: Islamic banks increased their capital buffers during and after the crisis, which enhanced the sector's resilience despite fluctuations in the BI Rate; this indicates that internal capital policies and prudential regulations effectively strengthened resilience. A comparative study of domestic banking stability supports the finding that Islamic banking strengthened capital post-pandemic.
Relationship with the FDR — The FDR declined in 2019–2021 (85.0% → 80.1%) and recovered in 2022–2024. Interpretation: The decline in the FDR during the crisis reflected a tightening of financing distribution due to increased risks; the recovery of the FDR, coupled with the normalization of the BI Rate, indicates a return to intermediation. Changes in the FDR are also influenced by bank liquidity preferences and financing demand.
Overall, the relationship between the BI Rate and stability indicators is contextual: the BI Rate acts as a macro instrument that influences macroeconomic conditions and market expectations, but its impact on Islamic banking is mediated by structural factors (bank risk management, capital regulations, and the characteristics of Islamic financing). National empirical studies also show variations in Islamic banks' sensitivity to policy interest rates, depending on bank size and portfolio exposure (Nasution, Zuliansyah & Syarif, 2024).

The Role of the BI Rate in Maintaining Resilience During the Global Crisis/Economic Turmoil

Data shows that the BI Rate serves two primary functions: (a) as a liquidity stimulus during the crisis (sharp decline in 2020–2021) and (b) as a macro-stabilization instrument when inflationary and exchange rate pressures emerge (rise in 2022–2024). Function (a) helps maintain liquidity flow and prevent short-term systemic failures, but does not directly prevent increases in NPFs related to borrowers' income. Function (b) supports market expectations and helps reduce external risks (e.g., capital outflows), thereby strengthening Islamic banking resilience through stronger macroeconomic stability. Policy recommendations from national literature emphasize the combination of the BI Rate with Islamic instruments (SBIS/BI Sukuk) for more effective policy transmission to the Islamic sector.

Discussion

The trend in Bank Indonesia's benchmark interest rate (BI Rate) during the 2019–2024 period demonstrates dynamics closely linked to national and global macroeconomic conditions. Data shows that the BI Rate decreased significantly from 5% in 2019 to 3.5% in 2021, in response to the COVID-19 pandemic, which suppressed economic activity. This decrease was in line with loose monetary policy to support economic recovery (Bank Indonesia, 2022). However, since 2022, the BI Rate has increased again to 6% in 2024, reflecting tight monetary policy measures to curb inflation due to external pressures, such as the global energy crisis. This aligns with

monetary policy theory, which emphasizes the role of the benchmark interest rate in maintaining price stability and public purchasing power (Ascarya, 2012).

The impact of changes in the BI Rate on the stability of the Islamic financial system can be seen through the Non-Performing Financing (NPF) indicator. Despite fluctuations in the BI Rate, the NPF trend is relatively stable, trending downward from 3.8% in 2021 to 2.9% in 2024. This indicates that the quality of Islamic bank financing remains maintained despite interest rate fluctuations. This NPF stability can be explained by the profit-sharing agreement and the prudent principle in financing, making Islamic banks more resilient to fluctuations in the benchmark interest rate (Aini, Rahayu, Wahdiat & Mardi, 2025). This finding aligns with research by Muhammadinah (2020), which shows that the BI Rate has a limited impact on the level of non-performing financing in Islamic banking.

The Capital Adequacy Ratio (CAR) indicator also shows an increasing trend, from 20.5% in 2019 to 26% in 2024. This increase indicates that Islamic banks are increasingly strengthening their capital to anticipate external risks. In the context of financial stability theory, capital adequacy acts as a buffer that protects the financial system from macroeconomic shocks (Pratama, 2022). This strengthening of the CAR can be linked to Islamic banks' response to tighter monetary policy post-2022, where banks increased capital reserves to maintain public confidence. Thus, the BI Rate policy not only impacts financing but also encourages capital strengthening strategies.

The Financing to Deposit Ratio (FDR) fluctuates with a relatively stable trend at around 80–85%. When the BI Rate was lowered during the pandemic, the FDR briefly dropped to 80.1% in 2021 due to weakening financing demand. However, after the BI Rate increase, the FDR rose again, indicating a recovery in Islamic banking intermediation. This condition indicates that the FDR is sensitive to credit demand dynamics, but not entirely dependent on the BI Rate. This is consistent with findings (Susanto, 2021) that real demand from the MSME sector plays a more dominant role in influencing the FDR than changes in the benchmark interest rate.

The role of the BI Rate in maintaining the resilience of the Islamic financial system has become increasingly apparent during the global crisis. During the pandemic and global inflationary turmoil, the BI Rate was used as a macroeconomic stabilization instrument. Meanwhile, Islamic banking continued to demonstrate resilience by maintaining financing quality and strengthening capital. This fact indicates a combination of conventional monetary policy and the unique characteristics of Islamic finance, which complement each other in creating stability. In other words, although the BI Rate is an interest-based instrument, its impact on the Islamic financial system remains significant through the channels of expectations, liquidity, and systemic stability (Fauzan, 2021).

The results of this study indicate that the initial hypothesis regarding the relationship between the BI Rate and Islamic financial stability has been confirmed, albeit with a nuanced nuance: the BI Rate does not directly affect Islamic indicators such as NPF, but rather through mechanisms of trust, capital, and intermediation. This finding adds to previous literature by demonstrating that Islamic banking stability is more influenced by internal structural factors (such as financing and capital quality) than external factors like the BI Rate. However, a limitation of this study is the aggregate data; therefore, further research is recommended to explore the causal relationship more deeply using micro-data from Islamic banks.

CONCLUSION

The research on the Role of the BI Rate in Maintaining the Stability of the Islamic Financial System shows that the dynamics of the BI Rate over the past five years have had varying impacts on Islamic banking stability indicators. First, the downward trend in the BI Rate during the pandemic served as a liquidity stimulus, helping maintain the stability of Islamic financing, while the post-2022 increase aimed to suppress inflation without significantly increasing the risk of non-performing financing. This is evident in the declining Non-Performing Loan (NPF) ratio despite the increase in the benchmark interest rate.

Second, the BI Rate has been shown to have an indirect effect on Islamic bank capital. The increase in Capital Adequacy Ratio (CAR) during the study period indicates that Islamic banks are strengthening their capital position to face potential external risks, thus supporting financial system stability. Third, intermediation, as reflected in the Funding Reduction (FDR), is more influenced by real sector demand conditions than by the BI Rate, although monetary policy still influences liquidity dynamics and confidence.

These findings lead to the conclusion that the BI Rate plays a significant role in maintaining the stability of the Islamic financial system through the channels of expectations, confidence, and strengthening the capital structure, although its direct influence on Islamic indicators such as NPF and FDR is relatively limited. Thus, the BI Rate plays a complementary role to the unique characteristics of Islamic banking in creating financial resilience, particularly during global crises and economic turmoil.

For future research, it is recommended to use microdata on Islamic banking to further analyze the causal relationship between the BI Rate and stability indicators. Furthermore, it is important to explore other macroeconomic variables such as inflation, exchange rates, and the Islamic financial literacy index to provide a more comprehensive picture of the factors influencing the stability of the Islamic financial system in Indonesia. Cross-country research can also be conducted to compare how the BI Rate or equivalent monetary instruments affect the Islamic financial system in a global context.

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