ABSTRACT

Observed Islamic bank financing is an equilibrium outcome of both demand and supply, so its response to Sharia macroprudential policy does not always move in the direction of the policy. This study analyzes the response of Islamic bank financing supply to the Sharia Macroprudential Liquidity Buffer (Sharia PLM) and the Sharia Macroprudential Intermediation Ratio (Sharia RIM), along with other supply-side factors, namely third-party funds (DPK) and the equivalent profit-sharing rate (MBH), which is treated as an endogenous variable. Using quarterly panel data on Sharia Commercial Banks and Sharia Business Units for 2019Q1–2025Q4 (33 entities, 850 observations in the estimation), the study applies fixed-effects Two-Stage Least Squares with bank-clustered standard errors, using the working capital loan interest rate, real GDP, and the Consumer Confidence Index as instruments for MBH. The results show that DPK has a significant positive effect (a 1 percent increase is associated with an increase of about 0.70 percent in financing supply), Sharia PLM has a significant negative effect (a one-percentage-point increase in the threshold is associated with a decrease of about 7.45 percent), and Sharia RIM has a significant positive effect (financing supply is about 7.96 percent higher under the 84–94 percent target range than under the 80–92 percent range), in line with theoretical predictions. MBH and the moderating effect of DPK on both policy instruments are not significant, and no structural break is detected during the COVID-19 pandemic at the 5 percent level. The diagnostic tests do not confirm the endogeneity of MBH ($p = 0.595$), indicate weak instruments (Kleibergen-Paap $F = 7.41$), and place instrument exogeneity just above the acceptance boundary (Hansen J, $p = 0.051$), so the MBH coefficient should be interpreted as indicative only. A comparison OLS-FE estimation yields similar conclusions for MBH, DPK, and Sharia PLM, while the significance of Sharia RIM weakens from the 1 percent to the 5 percent level.

Keywords: *Islamic bank financing supply, Sharia macroprudential policy, Sharia PLM, Sharia RIM, equivalent profit-sharing rate, Two-Stage Least Squares*