



Moderating Role Of Inflation In Macroprudential Policy And Banking Risk: Indonesian Sharia Banks

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Abstract

This paper investigates the moderation effect of macroeconomic policy on the effectiveness of macroprudential and risk management in a Sharia bank. Macroprudential policies are increasingly being used; developing countries use them the most, especially those related to foreign exchange, but several studies state that this policy will help the country's level of financial stability, which will ultimately improve the economy. Apart from that, several countries have revealed that macroprudential policy will be more effectively implemented when the government implements a tight monetary policy. We took data from 2010 to 2024 we tried to examine the effect of macroprudential to risk management when the government implements tight monetary policy using Moderation Regression Analysis to capture the conditional effect and the conditional interaction. From this research, we can conclude that ~~hat~~ the implementation of macroprudential policy in sharia banking has a significant influence on risk management through managing financing risk and liquidity risk, while the magnitude of the influence of implementing macroprudential policy on risk management will depend on macroeconomic policy, namely the inflation rate, but only affects liquidity risk management and does not affect financing risk management. Directly, the inflation rate also has an influence on liquidity risk in Islamic banking. In other words, the intermediation function of Sharia banking can run optimally due to the effectiveness of implementing macroprudential policies, so that banks are able to carry out their functions well.

Keywords: *Macroprudential Policy, Liquidity Risk, Financing Risk, Islamic Banks.*

INTRODUCTION

Banking constitutes the largest proportion of the financial services industry. Banking operational processes are greatly influenced by economic conditions and policies issued by the government, both in reducing inflation and changes in central bank interest rate policies. Banks are an industry that is used as an object to control economic conditions, one of which is through monetary operations carried out by the central bank.

Islamic banks have a different business concept that makes their corporate governance more difficult than conventional banks (Nomran et al., 2020). Currently, the development of Islamic banks in Indonesia still needs to be improved, especially in terms of public understanding. The lack of business model diversification and the emergence of digital banks that bring convenience to customers have created greater challenges for the development of Islamic banks, especially during the current pandemic. Banks face a variety of risks in their operations, including macroeconomic and regulatory, political, legal, and infrastructure factors. The challenges in managing this business relate to how risk management can be done prudently through Sharia banking.

The function of a bank is that of an intermediary organization that collects funds and then transfers them in the form of credit or loans. One of the challenges facing Islamic banks is how to achieve liquidity levels while financial instruments still need to be improved, or the necessary financial resources to carry out their functions. They are intermediaries but can be accessed at a

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high cost. For this reason, the risk management process in Islamic banking has become more complex, both predictable and unpredictable, which, if not managed properly, can harm the revenue and profit of the bank capital.

As a regulator, Indonesia's central bank has set minimum policies that Shariah banks must follow regarding risk management so that banking operations can be conducted consistently, consistent and prudent according to Shariah principles. Bank Indonesia and the Financial Services Authority have introduced stimulus measures during the pandemic to maintain the stability of the financial services sector, including through a financial restructuring policy due to the Default rates increasing during the economic downturn in Indonesia. In addition, Bank Indonesia also issued a policy to adjust the macroprudential intermediate rate (MIR) to minimize the impact of increased risks on the national economy.

Banks are an industry that has high risks. Therefore, banks are obliged to manage the risks they face. Due to the bank's function as an intermediary institution, if this risk is not managed properly, it will impact the banking industry. This impact will be even greater, especially in Sharia banking, where this industry has yet to be able to develop further, one of which is due to its business model. For this reason, the government, in this case, issued a macroprudential policy aimed at increasing the role of banking as an intermediation institution.

Macroprudential policy is a policy issued by Bank Indonesia that is used to maintain financial system stability by limiting systemic risk. Financial stability plays an important role in maintaining economic stability. A financial system that is not functioning properly will reduce the effectiveness of monetary policy, disrupt the smooth running of economic activities, and can result in slowing growth and even economic contraction (<http://www.bi.go.id>).

The macroprudential intermediate rate (MIR) is a policy designed to mitigate the risks and costs associated with systemic crises (Galati and Richhild, 2011) and serves as a tool for maintaining economic stability. This policy was implemented for Sharia banking services in October 2018 in response to the economic crisis. According to Bank Indonesia, the Macroprudential Intermediation Ratio (MIR) is utilized to manage the banking intermediation function in alignment with institutional capacity and objectives. "Wicked problems" are regarded as detrimental, as they inflict significant harm on societies and contribute to social, political, and economic instability (Nel Sanders, 2024).

Wijayanti et al. (2020) indicate that Indonesia has been utilizing macroprudential instruments since 2011. This policy has effectively mitigated banking risks, specifically in terms of liquidity and financing. As previously mentioned, the central bank's decision to implement macroprudential policies aimed to enhance the role of banks as intermediary institutions. Banks serve at least three primary functions: they accept deposits, provide credit to customers, and lend funds to borrowers, while also generating income from interest and associated fees. Additionally, banks play a crucial role in risk management. Early proponents of Keynesian economic theory posited that government revenue and expenditure could be leveraged to regulate fiscal policy (Onyele et al., 2024).

There is a policy on the level of compliance with the macroprudential intermediary ratio (MIR) that each bank must comply with to show that the level of bank intermediation is operating optimally, as announced in 2022. The intermediate macroprudential ratio (RIM) range is from 84 to 94%. If the bank is unable to comply with the above regulations, there will be a deterrent in the form of higher MIR Shariah Reserves or Minimum Legal Reserves (RR).

The macroprudential intermediation ratio (MIR) describes how a bank's intermediation function can operate optimally from a bank risk management perspective. This relates to how banks manage capital mobilization and capital distribution risks, specifically liquidity risk and funding risk. Looking at Figure 1, we see that while the level of credit risk represented by the MFN ratio has

decreased over the past five years, the liquidity risk represented by the mismatch ratio. In the short term, this is a sharp increase and a very sharp decrease. Liquidity capacity, but the bank's intermediary function is not operating optimally, as shown by the annual decline in the FDR ratio. This decrease in the FDR ratio indicates that capital mobilization is greater than capital distribution in the form of grants. This situation not only appeared during the pandemic but began to gradually decrease from 2018 to 2024.

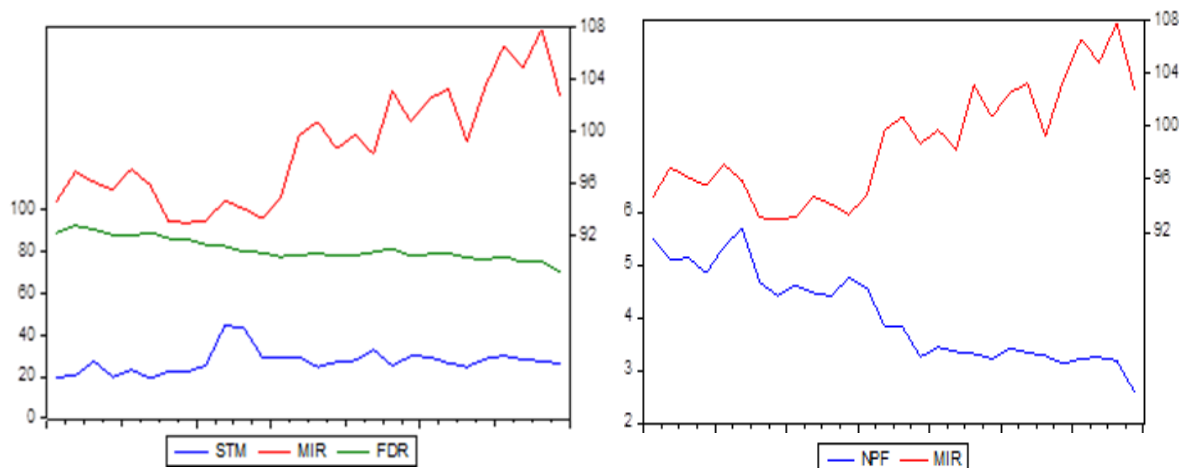


Figure 1. Liquidity Risk, Financing, and MIR Ratio in Sharia Banks

In line with the conditions in Figure 1, macroprudential policy actions have contributed to the decline in credit growth in Asia (Zhang et al., 2016). Apart from that, macroprudential policy is increasingly being used. Developing countries use it the most, especially those related to foreign exchange (Beck et al., 2020), so it can be concluded that macroprudential policy also has a relationship with macroeconomic policies issued by the government. Previous empirical studies on macroprudential policy have largely examined its direct relationship to banking stability, liquidity, or financing outcomes. However, there is little empirical evidence on how the effectiveness of macroprudential policy varies across macroeconomic conditions, particularly in inflationary environments. In line with this, only a few studies have examined the relationship between the effectiveness of macroprudential policy and risk management, where this relationship is moderated by macroeconomic policy. For this reason, this research aims to see whether macroeconomic policies have an influence on the relationship between the effectiveness of macroprudential policies on risk management, especially in Islamic banking, which still has a small capital.

LITERATURE REVIEW

Macroprudential Policy and Macroeconomic Policy

Banking functions as an intermediary institution pursuing one goal, one of which is financial stability. The banking industry can contribute to the economy so that any risk that occurs in banking can have a systemic impact or have a systemic impact (Wijoyo, 2015). For this reason, Bank Indonesia carries out macroprudential regulation and supervision by issuing the macroprudential intermediate rate (MIR) policy. This ratio helps monitor the management of banking intermediation functions according to capacity and economic growth goals while still ensuring the principle of prudence. The range of MIR depends on macroeconomic conditions and the financial system. If the financial system is too high, BI will lower the upper limit of the MIR.

Conversely, in the event of slow economic growth, Bank Indonesia (BI) will raise the lower bound of the macroprudential intermediate rate (MIR) (Wijayanti et al., 2020). Numerous studies

have examined the impact of risk management within the banking sector on the effectiveness of MIR policies (Meuleman & Vennet, 2020; Altunbas et al., 2018; Zhang et al., 2018; Mirzaei & Samet, 2022; Ely et al., 2021). It is established that macroprudential policy tools typically move in the opposite direction of monetary policy interest rates, which can lead to a reduction in the bad debt ratio (Wijayanti et al., 2020). Furthermore, the implementation of macroprudential policy tools has proven effective in decreasing the bad debt ratio, thereby influencing entrepreneurial intentions (Rohandi et al., 2025).

Furthermore, according to Wijayanti et al. (2020), the impact of macroprudential policy tools on reducing the bad debt ratio will be more pronounced in banks with large assets. This is due to good risk mitigation management. In other words, a good risk management process at a bank can reduce the bank's risk exposure and reduce the effectiveness of macroprudential intermediate rate (MIR) policies. However, other research indicates that the macroprudential intermediate rate (MIR) policy does not affect lending levels to IDX-listed banks (Rosdiana et al., 2021), as debtors only look at credit interest rates (Panuntun, 2018). Meanwhile, Utami and Restu (2020) argue that tightening macroprudential policies significantly reduces the bad debt ratio and vice versa. Additionally, it has no significant influence on LDR.

The main task of the banking industry is to maximize profits, minimize risks, and ensure sufficient liquidity (Zainul Arifin, 2002). Activities carried out within the framework of Shariah banking must not violate Shariah principles; This is also what makes risk management activities in Sharia banks have different characteristics compared to conventional banks. To ensure the availability of liquidity, the Shariah banking industry needs an instrument or tools that can be used in its management. Meeting the bank's liquidity needs is one of the key tasks of bank management. Besides the ability to maximize profits, it is equally important to minimize the risks that will arise. Ensuring liquidity needs are met effectively and efficiently in the conduct of banking activities is one way to mitigate liquidity risk.

Ratios that can be used to measure a bank's liquidity risk are the funds-to-deposit ratio (FDR) and the short-term spread ratio (STM). STM is used to visualize short-term liquidity risk, where the higher the ratio value, the more capable a bank is of managing its liquidity risk. There are five levels of assessment of STM rate, namely very strong (rate > 25%), strong (rate 20% < STM 25%), fair (ratio 15% < STM 20%), and weak (ratio 10% < STM 20%). STM 15%) and very low (rate 10%). FDR is a comparison between disbursed funds and received funds. The higher the FDR ratio of an Islamic bank, the more optimal its intermediary function. Indonesia's central bank sets the FDR ratio at 80-100%.

NPF is a ratio used to demonstrate a bank's management ability to manage problem financial risks. The higher the MFN ratio, the poorer the bank's risk management level. According to Greening and Bratanovic (2011), credit risk, also known as counterparty risk, is the debtor's inability to repay the principal according to the agreed-upon agreement.

Developing countries use a variety of macroprudential policies, including those related to foreign exchange (Beck et al., 2020). In recent years, policymakers have generally relied on macroprudential policies to overcome financial stability problems (Akinci et al., 2018). Macroprudential policies are more effective when they complement monetary policy by increasing monetary tightening rather than acting in the opposite direction (Bruno et al., 2017).

Monetary policy shocks have a broader impact on the economy (Kim et al., 2022). However, research by Richter (2019) shows that central banks are increasingly relying on macroprudential measures to manage the financial cycle. However, the impact of such measures on the basic objectives of monetary policy, namely stabilizing output and inflation, remains undetected.

Central banks in emerging markets are often reluctant to raise interest rates in the face of a credit boom driven by capital inflows and use reserve requirements as an additional tool. For both

instruments, policy tightening has led to credit deterioration. However, unlike interest rate shocks, positive shocks to reserve requirements lead to a fall in the exchange rate, an increase in the current account, and an increase in prices. The different effects highlight the role of reserve requirement policy as a complement rather than a substitute for interest rate policy. The results support the distribution of bank credit as a key transmission mechanism of reserve requirement policy (Glocker, 2015).

Macroprudential policies are increasingly used. Developing countries are the ones that use it the most, especially in terms of currency. Developed countries are using more borrower-oriented policies. Its use is often associated with lower credit growth, especially household credit. This effect is smaller in more developed and open economies. Although macroprudential policies can dampen the financial cycle, they suddenly become less effective (Beck et al., 2020).

Macroprudential Policy and Risk Management

In case of slow economic growth, BI will increase the lower bound of MIR (Wijayanti et al., 2020). Several studies have been conducted on the influence of risk management in the banking industry on the effectiveness of macroprudential intermediate rate (MIR) policies (Meuleman & Vennet, 2020; Altunbas et al., 2018; Zhang et al., 2018; Mirzaei & Samet, 2022; Ely et al., 2021). It is known that macroprudential policy tools move in the opposite direction to monetary policy interest rates, so the bad debt ratio can decrease (Wijayanti et al., 2020). The implementation of macroprudential policy tools is effective in reducing the bad debt ratio. Several studies have been conducted on the influence of bank risk management on the effectiveness of macroprudential intermediate rate (MIR) policies (Meuleman & Vennet, 2020; Altunbas et al., 2018; Zhang et al., 2018; Mirzaei & Samet, 2022; Ely et al., 2021; Benbouzid et al., 2022; Apergis et al., 2022). It is known that macroprudential policy tools oppose interest rate monetary policy, so the bad debt ratio can decrease (Wijayanti et al., 2020). The implementation of macroprudential policy tools is effective in reducing the bad debt ratio.

Furthermore, several previous studies (Wijayanti et al., 2020; Kumar et al., 2022; Carreras et al., 2018) indicate that the impact of macroprudential policy tools in reducing the Bad debt ratio will be more obvious in banks with large assets. Because management is about good risk mitigation. In other words, a good risk management process can reduce bank risk levels and the effectiveness of macroprudential intermediate rate (MIR) policies. Macroprudential policies have also been successful in protecting the economy from the volatility of cross-border capital flows (Aysan et al., 2015). However, macroprudential policy will be more effective when it complements monetary policy by increasing monetary tightening (Bruno et al., 2017; Lee et al., 2015).

Another opinion is explained by Claessens et al. (2013) how macroprudential policy can limit bank vulnerability. Debt policy is very effective in minimizing bank risks. Policies should be used first, during expansionary phases, and not when the cycle is turning. Policies must be selected, adjusted, and adapted to the country's circumstances.

RESEARCH METHOD

This section presents the model of our research, data description, sources, and the moderation regression test.

Research Model

According to our previous empirical literature review, the Research Framework in this research is as follows:

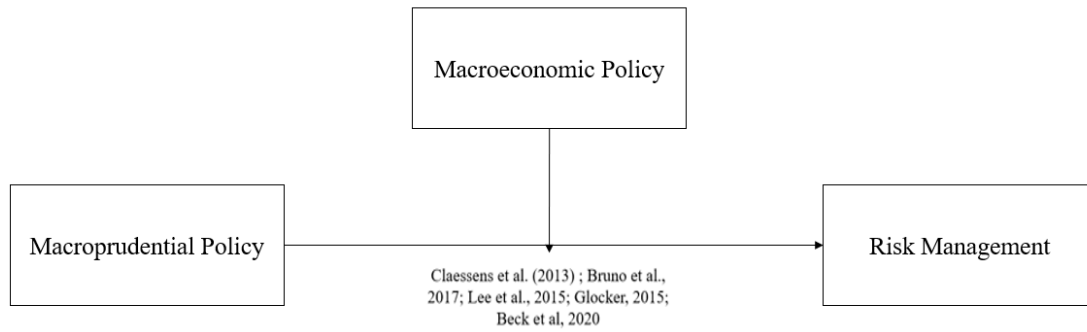


Figure 2. Research Framework

This study uses a moderated regression approach, as this method plays a crucial role in social science theory research (Hayes, 2022). The data used are time series data taken from the Islamic banking industry report issued by Bank Indonesia in the form of Islamic banking statistics from 2010 to 2024. This study uses the PROCESS statistical data processing tool, which can generate data with constant error variance (residual) across all observations using the Huber-White sandwich estimator (Hayes, 2022), specifically for intertemporal data, to avoid data stationarity issues.

Moderation Regression Model.

This model is written in the following form:

$$FDR_{it} = \alpha_0 + \alpha_1 RIM_{it} + \alpha_2 Inflation_{it} + \alpha_3 RIM * Inflation_{it} + \epsilon_{it} \tag{1}$$

$$NPL_{it} = \alpha_0 + \alpha_1 RIM_{it} + \alpha_2 Inflation_{it} + \alpha_3 RIM * Inflation_{it} + \epsilon_{it} \tag{2}$$

$i = 1, 2, \dots, N$ and $t = 1, 2, \dots, N$

Data Description and Sources

In this research, we use data from 2010-2024 from data and for the operational variable, as seen in table 3 for the Operational Variable:

Table 3. Operational Variable

Variable	Definition	Scale
Macroeprudential Policy (X)	Macroeprudential instruments aim to regulate the banking intermediation function so that it is in line with capacity and economic growth targets while still paying attention to the principle of prudence. $MIR = \frac{Loan + Securities\ Owned}{Deposit + Securities\ Issued} \times 100\%$	Ratio
Risk Management (Y)	The non-performing financing ratio (NPF) is used as a measure of the level of credit or financing failure by the bank as the creditor $NPF = \frac{Total\ non - performing\ financing}{Total\ financing} \times 100\%$ The bank's ability to repay withdrawals made by depositors relies on the financing provided as a source of liquidity (FDR).	Ratio

Variable	Definition	Scale
	$FDR = \frac{\text{Total Financing}}{\text{Total third party funds}} \times 100\%$	
Macroeconomic Policy (W)	IHK CPI is the overall basic costs required by consumers in their daily activities (Fahmi, 2019)	Ratio
	$\text{Inflation} = \frac{IHK\ t2 - IHK\ t1}{IHK\ t1} \times 100\%$	

All data variables taken from Sharia Banking Statistics Indonesia Financial Services Authority form 2010-2024. The Descriptive Statistics are seen in the table:

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPF	180	2,22	6,17	3,8016	0,98316
FDR	180	68,98	104,83	86,7976	9,46176
RIM	180	89,92	107,82	100,0949	4,30817
Inflation	180	1,32	8,79	4,3015	1,87423

From the table above, we can conclude that, in descriptive statistics, the standard deviation value NPF is 0.98316, which is lower than the average value, which is 3.8016. FDR is 9,46176, which is lower than the average value, which is 86,7976. RIM is 4,30817, which is lower than the average value, which is 100,0949. And Inflation is 1,87423, which is lower than the average value, which is 4,3015. This shows that the data is homogeneous, where the variable has a low level of deviation.

Moderation Test

To examine the moderating effect of macroeconomic policy on the relationship between the effectiveness of macroprudential policy and risk management, a moderated regression analysis approach was employed. This analysis, utilizing the PROCESS statistical data processing tool (Tahar et al., 2025), is detailed in the table below.

Table 4. Summary Model

Variable	R	R-sq	MSE	F(HC0)	df1	df2	p
NPF	,6903	,4765	,5160	35,5335	3,0000	152,0000	,0000
FDR	,7504	,5631	39,8846	147,9539	3,0000	152,0000	,0000

If you look at Table 4, it is known that the moderating impact of macroeconomic policy on the influence of macroprudential policy on sharia banking risk management, especially on financing risk management, has an R2 value of 0.4765 or 47.65% while the remaining 52.35% is influenced by other variables. outside this research. Meanwhile, the impact of macroeconomic policy moderation on the influence of macroprudential policy on Islamic banking risk management, especially on liquidity risk management, has an R2 value of 0.5631 or 56.31%, while the remaining 43.69% is influenced by other variables outside this research model.

From the explanation above, it can be concluded that the size of the impact of macroeconomic policy, in this case changes in inflation, has a large influence on the impact of macroprudential policy on liquidity risk management compared to financing risk management.

Table 5. Regression Model

	coef	se(HCO)	t	p	LLCI	ULCI
Y = NPF						
constant	13,7068	4,0427	3,3905	,0009	5,7196	21,6940
RIM	-,1019	,0392	-2,6007	,0102	-,1793	-,0245
Inflation	1,2289	,7866	1,5624	,1203	-,3251	2,7829
Int_1	-,0116	,0076	-1,5284	,1285	-,0266	,0034
Y = FDR						
Constant	144,8188	17,3881	8,3286	,0000	110,4651	179,1724
RIM	-,7166	,1723	-4,1586	,0001	-1,0571	-,3762
Inflation	-19,3719	2,9865	-6,4864	,0000	25,2724	-13,4714
Int_1	,2254	,0297	7,5793	,0000	,1666	,2842

From the table above, we can conclude that macroprudential policies have a significant influence on risk management in Sharia banking, especially on financing risk management. This can be seen from the significance value of $p = 0.0102$, which is smaller than the value of $\alpha = 0.05$. Meanwhile, the constant value is -0.1019 , where for every 1-point increase in macroprudential policy, in this case the RIM ratio, non-performing loans will decrease by -0.1019 points. Macroeconomic policies, in this case seen from the inflation rate, do not have a significant influence on the management of sharia banking risk management, especially on financing risk management. This can be seen from the significance value of $p = 0.1203$, which is greater than the value of $\alpha = 0.05$.

Meanwhile, in the moderation regression model for managing liquidity risk management or financing to deposit ratio of sharia banking from 2010 - 2024, looking at the conditional effects, it is known that macroprudential policy has a significant influence on risk management in sharia banking, especially on liquidity risk management. This can be seen from the significance value of $p = 0.0001$, which is smaller than the value of $\alpha = 0.05$. Meanwhile, the constant value is -0.7166 , where for every 1-point increase in macroprudential policy, in this case the RIM ratio, the financing to deposit ratio will decrease by -0.7166 points. It is also known that macroeconomic policies represented by the inflation rate have a significant influence on Islamic banking risk management, in this case, liquidity management. Every time there is an increase of 1-point in macroeconomic policy, as represented by the inflation rate, liquidity risk management will decrease by 19.3719 points.

Table 6. Conditional Effect Model

	R2-chng	F(HCO)	df1	df2	p
Y= NPF					
X*W	,0095	2,3359	1,0000	152,0000	,1285
Y = FDR					
X*W	,0387	57,4457	1,0000	152,0000	,0000

It can be seen from Table 6 in the moderation regression of the non-performing loan model, $X*W$ has a value of $p = 0.1285$, which has a value greater than $\alpha = 0.05$, so it can be concluded that it does not have a significant influence, with an R2-chng value of 0.0095 . Meanwhile, the XW value has a value of $p = 0.0000$, which is smaller than the value of $\alpha = 0.05$, so it can be concluded that the inflation rate moderates the influence of macroprudential policy on risk management in Islamic banking.

FINDINGS AND DISCUSSION

Macroprudential Policy and Risk Management

It can be concluded that the effectiveness of macroprudential policy has a significant influence on the management of sharia banking risk during 2010 - 2024, both managing liquidity risk and financing risk.

This is consistent with research conducted by Several studies have been conducted regarding the influence of bank risk management on the effectiveness of macroprudential intermediate rate (MIR) policies (Meuleman & Vennet, 2020; Altunbas et al., 2018; Zhang et al., 2018; Mirzaei & Samet, 2022; Ely et al., 2021; Benbouzid et al., 2022; Apergis et al., 2022). It is known that macroprudential policy tools oppose interest rate monetary policy, so the bad debt ratio can decrease (Wijayanti et al., 2020); The implementation of macroprudential policy tools is effective in reducing the bad debt ratio. In this study, macroprudential policy instruments were effective in reducing the NPL ratio in the Islamic banking sector without any impact on the prevailing inflation rate.

Furthermore, several previous studies (Wijayanti et al., 2020; Kumar et al., 2022; Carreras et al., 2018) have shown that the impact of macroprudential policy tools in reducing the bad debt ratio will be more pronounced in banks with high interest rates. price. assets because management is very good at minimizing risks. In other words, a good risk management process can reduce bank risk levels and the effectiveness of macroprudential intermediate rate (MIR) policies. In other words, macroprudential policies implemented in the banking sector in accordance with Sharia law have the potential to reduce the level of financial risk.

However, these results contradict research conducted, stating that tightening macroprudential policy significantly reduces the NPL ratio and vice versa. Apart from that, it has no significant effect on LDR. Macroprudential policies implemented in Sharia banking have a significant influence on banking liquidity risk management through the financing-to-deposit ratio (FDR). According to Bank Indonesia, the Macroprudential Intermediation Ratio (RIM) is an instrument used in managing the banking intermediation function so that it is in line with capacity and economic growth targets while maintaining the precautionary principle. In other words, this policy has a good influence on sharia banking.

According to Wijayanti et al. (2020), Indonesia has implemented macroprudential instruments since 2011; in addition to implementing this policy also reduces the level of banking risk both in terms of liquidity risk and financing risk. As previously discussed, the decision taken by the central bank to issue macroprudential instrument policies was to optimize the role of banks as intermediary institutions. The results of this research are in line with research conducted that the implementation of macroprudential policies has the effect of reducing the level of liquidity risk in sharia banking.

The macroprudential intermediation ratio (MIR) describes how the bank intermediation function can operate optimally. From a banking risk management perspective, this relates to how banks manage capital mobilization and capital distribution risks, specifically liquidity risk and funding risk. In other words, the intermediary function of the Islamic banking system can operate optimally through the effective implementation of macroprudential policies, so that banks can perform their functions well. From 2010 to 2024, the central bank and authorities, specifically Bank Indonesia and the Financial Services Authority, issued effective policies to help manage banking risk management. Sharia banking and support banking functions should function well.

Moderating Role Of Inflation In Macroprudential Policy And Banking Risk

Likewise, with macroeconomic policy, in this case, the inflation rate has an influence on liquidity risk management, but does not have a significant influence on the management of sharia

banking financing. Apart from that, the size of the influence of the implementation of macroprudential policies on risk management does not depend on the macroeconomic policies made by the government, in this case, through the inflation rate. However, the inflation rate moderates the influence of macroprudential policy on risk management in Islamic banking. Where the size of the influence of the implementation of macroprudential policy on risk management, in this case through liquidity risk management, will depend on the inflation rate.

The inflation rate will moderate the relationship between the application of macroprudential policy and the management of risk in Sharia banking. It will have an influence when the inflation rate is above 4.0595, whereas if the value is smaller than the inflation rate, then the inflation rate will not affect the relationship between the application of macroprudential and management of Sharia banking risks.

CONCLUSIONS

These results indicate that macroprudential policy plays a role in risk management in Indonesian Islamic banking during the 2010–2024 period. Macroprudential policy has an impact on the management of liquidity risk and financing risk, which supports the depiction of banking stability. Conversely, macroeconomic conditions, specifically the inflation rate, exhibit an asymmetric effect, with inflation directly influencing liquidity risk management but not significantly impacting financing risk.

Furthermore, the effectiveness of macroprudential policy is independent of macroeconomic policy. This is evident from the inflation rate, which does not moderate the relationship between macroprudential policy and financing risk management. This suggests that financing risk in Islamic banks is influenced by regulatory mechanisms rather than macroeconomic fluctuations. However, inflation moderates the relationship between macroprudential policy and liquidity risk management. The extent of the influence of macroprudential policy on liquidity risk management in Islamic banking will depend on inflation movements; the impact will emerge when inflation exceeds a critical threshold.

The effectiveness of macroprudential policy in Islamic banking is specific, as macroprudential policy supports financing risk management. However, macroprudential policies for managing liquidity risk are strengthened or weakened by inflationary conditions. This suggests that macroeconomic policies are crucial in evaluating the effectiveness of risk management in banking.

LIMITATION & FURTHER RESEARCH

This study focuses only on inflation as the moderating variable and is limited to Indonesia's Islamic banking sector. Broader macroeconomic indicators and cross-country comparisons could enrich the findings. In addition, although using a sample period of 2010–2024, this analysis does not distinguish between crisis and non-crisis conditions, this causes the conclusions of this study to have to be interpreted within these contextual and methodological In addition, although using a sample period of 2010–2024, this analysis does not distinguish between crisis and non-crisis conditions, this causes the conclusions of this study to have to be interpreted within these contextual and methodological limitations.

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