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Examining The Determinants Of Inflation, GCG And NPF In The Context Of Increasing Profitability

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Abstract:

Competition of business is so tight, however the development of Islamic Commercial Banks the longer shows that the positive trend can not be separated from the role of Good Corporate Governance who are important in providing regulates the company's own operational system. This study aims to analyze and examine the factors that influence the Return on Asset at Islamic Commercial Banks in 2018-2022 period. These factors include inflation, GCG and NPF. The method of research is using the quantitative and regression analysis, the sample is Islamic Commercial Banks which are consistently publish quarterly financial reports period 2018-2022 with a total of 12 companies. Researcher collected the data by saturation sampling method, and it is analyzed with EViews 10. Analysis was carried out by several tests such as classic assumption test, feasibility analysis model, panel regression analysis and coefficient of determination test. Based on research, ROA of Islamic banks is influenced by GCG and NPF, while the inflation does not have an influence on Islamic Commercial Banks period 2018-2022. Thus, every bank must show good financial performance in order to obtain higher profitability. The benefit of research in banking is to be able to assess a company's ability to earn profits from the assets used.

***Keywords**: Inflation, GCG, NPF, Islamic Commercial Banks*

1. Introduction

Islamic Commercial Banks are currently one of the factors supporting economic activity and making it easier for all transaction activities to be carried out anytime and anywhere to be faster and more efficient. This convenience is one of the comforts that customers want to get. Islamic banks in Indonesia are able to target market share appropriately so as to support the progress of Islamic Commercial Banks to develop rapidly and even experience intense competition (Wira et al., 2018). The growth of Islamic Commercial Bank (BUS) assets cannot be separated from the influence of profitability as an indicator in measuring the performance of an Islamic bank. If profitability shows a high ratio, it indicates good performance in the bank. If the performance of Islamic banking is low, it will have an impact on customer and investor confidence, so that an optimal focus is needed to consistently improve performance (Cristian et al., 2020).

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Measurement of financial results can be analyzed through financial reports which are the basis for determining financial performance measurements. The availability of information on the financial statements of Islamic banks can comprehensively see the condition of an Islamic banking based on the facts including also the shortcomings and advantages of the reports described. Through the value of ROA, it shows the level of effectiveness of an institution in generating investment profits to be used as assets. Bank Indonesia sees ROA more than ROE to determine the success of banking, the greater the ROA value, the greater the percentage of profit earned by the bank. It is important for banks to be able to maintain the stability of their profitability value, because it can indirectly show that the Islamic bank can manage its business in accordance with the provisions and regulations and sound banking principles (Natasya, 2021).

Table 1. ROA Value of Banking Sub-Sector Companies on the IDX 2018-2022 Period

No.	**Bank Name**	***Return on Assets***				
		2018	**2019**	**2020**	**2021**	**2022**
1	Bank Mega Syariah	0,93%	2,33%	1,74%	4,08%	2,59%
2	Bank Syariah Indonesia	0,91%	1,44%	1,38%	1,61%	1,98%
3	Bank Aceh Syariah	2,38%	1,99%	1,06%	1,87%	2%
4	Muamalat Bank	0,08%	0,05%	0,03%	0,02%	0,09%
5	Bank NTB Syariah	0,57%	2,56%	1,74%	1,56%	1,98%
6	Bank Victoria Syariah	0,32%	0,05%	0,16%	0,71%	0,45%
7	Bank BJB Syariah	0,54%	0,60%	0,41%	0,96%	1,41%
8	Panin Dubai Syariah Bank	0,26%	0,25%	0,06%	-6,72%	1,79%
9	Bank Bukopin Syariah	0,02%	0,04%	0,04%	-5,48%	-1,27%
10	BCA Syariah Bank	1,20%	1,20%	1,10%	1,12%	1,33%
11	BTPN Syariah Bank	12,37%	13,58%	7,16%	10,72%	11,4%
12	Aladin Syariah Bank	-6,86%	11,15%	6,19%	-8,81%	-10,85%

Source: Annual *Report*

If the better the financial condition of Islamic banking, the better the performance and health. In the calculation of profitability using ROA, it will be seen the effectiveness of management work in the use of assets in order to obtain profit. ROA is also important in order to evaluate the effectiveness and efficiency of company management in managing all company assets. Development of ROA owned by BUS illustrates the inconsistent conditions of each period (Rahmadania, 2021).

The main element that affects the profit of Islamic financial institutions is *inflation*. High *inflation has an* impact on reducing the level of profit earned by a company so that people's desire to put funds or investment has decreased (Supardi, 2016). Inflation also affects ROA because when inflation occurs which exceeds the receipt of investment returns, the investment may be canceled, and vice versa. In general, inflation is a comprehensive decline in the value of money and economic growth can be disrupted. For Islamic banking, high inflation is a negative signal because raw materials have increased so that prices are getting higher and the value of money is decreasing (Antasari

& Akbar, 2019). Research conducted (Fadillah & Paramita, 2021), inflation has a significant negative effect on BUS *Return on Assets*, meaning that if inflation increases, profitability will decrease.

Table 2. Inflation Rate for the 2018-2022 Period

Year	Inflation Rate (%)
2018	3,13%
2019	2,72%
2020	1,68%
2021	1,87%
2022	4,35%

Source: Bank Indonesia, 2022

Based on inflation data, a high spike in 2022 will certainly affect Islamic banks as financial intermediary institutions. Of course, this situation is very detrimental to banks because their activities in channeling will be hampered. So, the government must maintain economic stability so that it does not trigger a decrease in profit for Islamic banking.

On the other hand, aspects of *Good Corporate Governance* in Islamic banking also have implications for the level of profitability. This is carried out by Islamic banks because it is the basis for being able to get the goals that have been set and also grow the value of the company in the future period. Good management in business institutions provides certainty in asset management that is carried out carefully according to ethics, namely full fairness, professionalism, responsibility and accountability and transparency that is carried out properly. This is applied so that the trust of customers and investors in the ability to earn banking profits (Surepno & Minoto, 2018). GCG evaluation is an indicator in assessing the performance generated by banks in the application of existing GCG principles. Through GCG, banks are required to be able to operate with the principle of honesty, because this is related to the realization of existing risk management (Zahrawani & Sholikhah, 2021).

The next factor related to profitability is *Non Performing Financing* (NPF). According to the opinion (Swandewi & Purnawati, 2021), NPF is a financial ratio to assess the risks inherent in banking and also the quality of managing these risks. Financing risk arises due to the failure of the debtor to fulfill his obligations to the bank as a provider of financing. The impact of this risk is that the bank's financial condition deteriorates so that *Return on Asset* will be disrupted (Sudirman, 2013). If analyzed, the acquisition of low NPF indicates that the financing risk in Islamic banks will be small.

However, if bad debts are high, it indicates that the quality of the bank is not healthy, which in turn will affect the level of profitability.

Table 3. NPF Rate of Islamic Commercial Banks for the Period 2018-2022

Year	NPF rate (%)
2018	3,26%
2019	3,23%
2020	3,13%
2021	2,59%
2022	2,35%

Source: Islamic Banking Statistics, 2022

The NPF ratio is able to describe the managerial ability to anticipate bad debts (defaults). Based on the data above, NPF BUS for the period 2018-2022 is categorized as good. Islamic banking must be able to keep the NPF percentage below 5% as required by Bank Indonesia regulations (Dwihandayani, 2017). The higher the NPF value> 5%, meaning that the bank is unhealthy, while the NPF ratio < 5%, then the profit has a high chance of being obtained. In this ratio, the qualifications of bad financing are (M), doubtful (D) and substandard (KL).

The purpose of this study is to analyze the effect of inflation, *Good Corporate Governance* (GCG) and *Non Performing Financing* (NPF) on ROA at Islamic Commercial Banks in Indonesia for the period 2018-2022.

2. Theoretical Background

Inflation

According to Dr. Tandelilin (2017), inflation is the tendency of product prices to rise across the board. The level of real investment income is reduced due to high inflation. Conversely, if inflation declines, it can be a positive signal for investors as real income and purchasing power risk decline. Companies eventually find it difficult to produce goods due to high production costs, so consumers cannot afford to buy, causing sales to decline and affecting stock *returns*. A decrease in company income will be responded negatively by the market to stock prices and cause the stock market to be sluggish (Setyaningrum & Muljono, 2016).

For individuals, society and economic activity as a whole, inflation can have adverse consequences. Based on the statement of (Marhen & Yusra, 2016), inflation is a prolonged increase in prices that can affect the government, entrepreneurs and individuals. For investors, inflation is a negative signal in the capital market because it increases the company's costs. The company's profitability will decrease if there is an increase in production costs higher than the profit enjoyed by the company. Investors do not want to invest in the company if the profit earned is small, causing the stock price to decline (Andriyani & Armereo, 2016).

Good Corporate Governance (GCG)

In order to provide direction and control of the business, it is done by analyzing *Good Corporate Governance*. *GCG* assessment must refer to the 5 basic principles that have been determined and this applies to Islamic Commercial Banks and Islamic Business Units (Ali, 2006). Among the principles are transparency, accountability, responsibility, professionalism and fairness. *Good Corporate Governance* is the rules and standards of organizations in the economic field that regulate the behavior of companies, directors, managers and their accountability to investors. GCG evaluation is an indicator in assessing the performance generated by banks in the application of existing GCG principles. Through GCG, it is required that banks operate with the principle of honesty, because this is related to the realization of existing risk management.

Table 3. *Good Corporate Governance* (GCG) Rating Criteria

GCG Composite Scale	Predicate	Rating
< 1,5	Very good	1
1,5 - 2,5	Good	2
2,5 - 3,5	Good enough	3
3,5 - 4,5	Less Good	4
> 4,5	Not good	5

Source: BI Circular Letter No.12/13/DPbS

***Non Performing Financing* (NPF)**

This ratio is a way of calculating how much percentage of the risk of non-performing financing in an Islamic bank when there are customers who fail to pay installments on time. The high percentage of non-performing financing is one of the reasons why banking institutions find it difficult to carry out redistribution. The impact of this risk is that the bank's financial condition deteriorates so that liquidity will be disrupted and the bank has difficulty financing obligations (Swandewi & Purnawati, 2021). The measurement of financing risk is analyzed through the NPF value for Islamic banking, where this ratio describes the managerial ability to anticipate bad debts (defaults). Islamic banking must be able to keep the NPF percentage below 5% as required by Bank Indonesia (Dwihandayani, 2017). If the higher NPF value > 5%, it means that the bank is not healthy, while the NPF ratio < 5%, then the profit has a high chance of being obtained. In this ratio, there are qualifications including bad (M), doubtful (D) and substandard (KL) financing.

Return on Asset (ROA)

Assessment of *earnings* is very important for Islamic banking as a benchmark or parameter in order to assess the health level in relation to the bank's ability to earn profits. The ratio that describes net income after deducting tax expenses and compared to total assets is called *Return on Asset*. Based on the opinion of (Subramanyam & Wild, 2012), through ROA will be illustrated performance based on banking operations. If a large and positive value is produced on ROA, it indicates that the company can generate optimal profits. Likewise, if a small and negative ROA is produced, it indicates that the company is unable to generate optimal profits. Based on the opinion of (Cahya & Riwoe, 2018), the ratio whose position is important is ROA, because it is a reference for measuring the company's operational effectiveness.

Effect of Inflation on ROA

ROA and inflation have a negative relationship, meaning that when the inflation rate in a country is stable, an investor tends to invest (Marhen & Yusra, 2016). The price of goods in general will not increase by a significant amount when the stability of the inflation rate is created. The real return on investment is reduced due to high inflation.

Conversely, if inflation declines, it can be a positive signal for investors as real income and purchasing power risk decline. The inflation rate can have both negative and positive effects depending on the degree of inflation. Whereas low inflation results in very sluggish economic growth and ultimately sluggish stock prices and declining ROA. Meanwhile, high inflation can drop the company's profit. In line with the research results (Komalasari & Manda, 2021; Nasirudin & Saibil, 2023) that inflation has a significant negative effect on the *Return on Asset of* Islamic Commercial Banks.
H1: Inflation has an influence on the ROA of Islamic Commercial Banks

Effect of GCG on ROA
The increasing performance of Islamic banks through the achievement of profitability is inseparable from the implementation of good corporate governance (*Good Corporate Governance*) because good GCG can strengthen in achieving profitability. GCG is important to realize the improvement of company performance, including Islamic banking. In addition, the implementation of good governance is a determining factor for the health of Islamic banks, the better and stronger the governance mechanism, the performance of Islamic banks will increase. Theoretically, the implementation of GCG can improve banking performance, reduce financial risk and can increase investor confidence so that it has an impact on improving the financial performance of banks. Research conducted by (Kusumawardhany & Shanti, 2021; Saputra et al., 1875) states that the implementation of GCG has a significant effect on the company's financial performance as measured by ROA.
H2 : GCG has an influence on the ROA of Islamic Commercial Banks.

Effect of NPF on ROA
Non-performance financing (NPF) shows the management capability of banks to handle non-performing financing. In running a business, Islamic banking is also faced with various risks, especially related to the aspect of non-performing financing, so a strategy is needed in managing the NPF level so that it does not reach an alarming condition. The occurrence of non-performing financing is due to the failure of the customer to make debt payments and profit sharing based on the agreed time agreement. A good NPF level is below 5%, a small NPF level indicates a low risk faced by the bank, but if the greater this ratio, the worse the quality of bank loans, resulting in a greater amount of non-performing financing and an impact on the amount of costs incurred, so that performance decreases. Referring to research results Ch, 2017; Izzah et al., 2019) that NPF has a significant positive impact on ROA.
H3 : NPF has an influence on the ROA of Islamic Commercial Banks

3. Methodology

In this research, the author uses quantitative methods with regression analysis to explore the correlation between variables. This study applies a quantitative descriptive approach where the data source is secondary data in the form of financial reports of Islamic Commercial Banks whose consistent financial reports are published in 2018-2022. Data is collected through the process of observation and documentation on manufacturing companies. This research also uses a literature study approach, namely by observing, reviewing and quoting directly from journal articles and books relevant to the research which will be used as a theoretical basis. The total sample in this research is 12 Islamic Commercial Banks by applying the saturated sampling method. Among the Islamic Commercial Banks in this research are BMS, BAS, BSI, BM, NTB Syariah, BVS, BJB Syariah, BPDS, Bukopin Syariah, BCAS and BTPN Syariah and Aladin Syariah Bank.

There are 2 variables in this study, namely the independent variable and the dependent variable.

a) *Independent* Variable
   The independent variables are Inflation (X1), *Good Corporate Governance* (X2) and *Non Performance Financing* (X3).
b) *Dependent* Variable
   The dependent variable is *Return on Asset* (Y).

After all data is obtained, it is then analyzed using EViews 10 using the classical assumption test, model feasibility analysis and panel regression analysis as well as the coefficient of determination test

4. Empirical Findings/Result

Descriptive Statistical Analysis

In this study, descriptive statistics show the maximum, minimum, *mean* and standard deviation values.

Table 4. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	48	0.020	2.250	0.8741	0.5661
Inflation	48	2.720	8.380	5.2337	2.4892
GCG	48	1.100	2.650	1.7288	0.4200
NPF	48	0.040	4.970	2.3484	1.4626
Valid N (listwise)	48				

Source: EViews 10 Data Processing (2023)

Referring to table 4, ROA has a standard deviation of 0.56% with a *mean* value of 0.87%, so the *mean* value is greater than the standard deviation, it is concluded that the results are quite good. The minimum value of Inflation is 2.72%, which means that the increase in inflation is not good provides prosperity and profit for shareholders and Islamic banking identifies unfavorable results. The minimum value of GCG is 1.1%, which means that the management of Islamic banking operations is able to provide very good profits. The minimum NPF value of 0.04% indicates that Islamic Commercial Banks are very effective in minimizing existing financing risks.

Classical Assumption Test

Normality Test

If the acquisition of α < probability, it can be said that the data is well distributed (normal). Conversely, when α> probability indicates that the data is not normally distributed. With an α score of 0.05

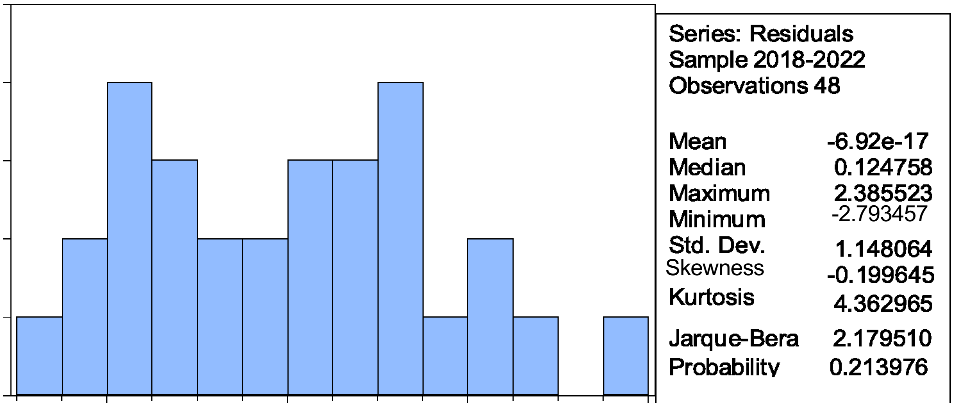

Figure 1. Normality Test

Based on Figure 1, the Probability Jarque-Bera (JB) value is 0.213976 where the JB value> alpha, which is 0.05 (0.213976> 0.05), it is concluded that the data is normally distributed and considered feasible to conduct panel regression tests.

Multicollinearity Test

The independent variables are declared free of multicollinearity if the VIF score measurement limit with a Tolerance of 10 and 0.10. In the regression equation, multicollinearity problems are not found if VIF < 10 and Tolerance > 10.

Table 5. Multicollinearity Test Results

Variables	Coefficient Variance	Uncentered VIF	Centered VIF
Inflation	0.000689	1.561018	1.327471
GCG	1.000000	2.232883	1.022358
NPF	0.009066	2.461920	2.356973
C	0.121386	2.251700	NA

Source: EViews 10 Data Processing (2023)

Based on table 5, Inflation produces VIF 1.327471 < 10.00 with VIF for GCG 1.012358 < 10.00. While NPF has a VIF value of 2.356973 < 10.00. So, in this research multicollinearity is not found.

Heteroscedasticity Test

The goodness of the regression model is seen from the presence or absence of heteroscedasticity. This study uses the Glejser test, where the significance score is less than 5% (0.05), then heteroscedasticity is not found.

Table 6. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.079846	0.466079	2.316875	0.0225
Inflati	3.145549	1.590046	1.978275	0.0565
GCG	5.82E-05	0.006087	0.009560	0.8734
NPF	-0.002238	0.009463	-0.236460	0.7245

Source: EViews 10 Data Processing (2023)

Based on table 6, the probability of Inflation (X1) 0.0565 > 0.05 and GCG (X2) 0.8734 > 0.05 and NPF (X3) 0.7245 > 0.05. Based on these results, it is concluded that heteroscedasticity problem does not exist in this data.

Autocorrelation Test

In this study, the authors used the LM Test and Durbin-Watson in order to test for autocorrelation. When the F-count > 0.05, it indicates that no autocorrelation is formed. It is said that there is no autocorrelation when D-W < (4-dU) and > (dU),

Table 7. Breusch-Godfrey

Serial Correlation LM Test Results:				
F-statistic	1.317174 3	Prob. F(2,19)		0.2913 0
Obs*R-	.531242	Prob. Chi-Square(2)		.1541
Variable	Coefficient	Std.	Errort-Statistic	Prob.
C	0.004728	0.0274650	.172147	0.8651
Inflation	0.014231	0.0335940	.423614	0.6766
GCG	5.293669	6.818759	0.077634	0.9389
NPF	-5.629785	1.212308-0	.465540	0.6468
R-squared	0.601767	Mean dependent var		0.879708
Adjusted R-squared	0.524238	S.D. dependent var		1.693409
S.E. of regression	0.392540	Akaike info criterion		45.85331
Sum squared resid	6.992119	Schwarz criterion		1.632479
Log likelihood	-18.48729	Hannan-Quinn criter.		1.600097
F-statistic	7.592705	Durbin-Watson stat		1.472164
Prob(F-statistic)	0.968205			

Source: EViews 10 Data Processing (2023)

Based on table 7, the acquisition of the prob value. Obs*R-squared is 0.1541, so it is higher than 0.05, it can be said that autocorrelation is not formed.

Model Feasibility Analysis Results

Chow Test

The Chow Test is a panel data test in order to determine the best model to use. If the prob score is <0.05, the best estimation is *fixed effect* and if the prob score is >0.05, the best estimation is *common effect.*

Table 8. *Chow-Test* Results

Redundant Fixed Effects Tests			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.808288	(5,39)	0.0016
Cross-section	23.051072	5	0.0003

Source: EViews 10 Data Processing (2023)

Based on table 8, the probability of 0.0003 < (α = 0.05) is obtained, so the conclusion is that in this model it is better to use *fixed effects* and continue with the Hausman test.

Hausman Test Results
In determining the model to be used in panel data regression, this test aims to compare the *random effect* model with the *fixed effect.*

Table 9. _Hausman-Test_ Results Correlated Random Effects - Hausman _Test_

Test Summary	Chi-Sq. Statistic Chi-Sq. d.f.	Prob.
Cross-section random	0.730439	30.0060

Source: EViews 10 Data Processing (2023)
Based on table 9, the probability value is 0.0060 and smaller than ($\alpha = 0.05$), indicating that a *fixed effect* model will be used, then the panel is analyzed.

Panel Regression Analysis

The purpose of this analysis is to determine the impact of *Inflation* (X_1), GCG (X_2) and NPF (X_3) on *Return on Asset* (Y).

Table 10. _Fixed Effect_ Panel Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.330936	0.321137	8.832455	0.0001
Inflation	-1.035604	1.408784	-1.061004	0.6704
GCG	0.103671	0.002660	1.380100	0.0220
NPF	0.235288	0.004897	5.205916	0.0001

Dependent Variable: Y_ROA
Source: EViews 10 Data Processing (2023)

The following regression equation is based on table 10:

$$Y = \alpha + \beta 1.X1 + \beta 2.X2 + \beta 3.X3 + e$$

$$ROA = 1.330 - 1.035 \text{ Inflation} + 0.103 \text{ GCG} + 0.235 \text{ NPF} + e$$

Based on the panel regression equation it is concluded:

a. *Return on Asset* has a constant value of 1.330, meaning that Inflation (X_1), GCG (X_2) and NPF (X_3) are zero, then the ROA value is 1.330.
b. *Inflation* (X_1) obtained a regression coefficient of -1.035, meaning that if Inflation (X_1) rises 1% based on the assumption that GCG (X_2) and NPF (X_3) are zero, so ROA will decrease by -1.035. It is concluded that a negative ROA indicates the impact on company profits decreases.
c. *Good Corporate Governance* (X_2) obtained a regression coefficient of 0.103, meaning that if GCG (X_2) increases by 1% based on the assumption that Inflation (X_1) and NPF (X_3) are zero, then ROA increases by 0.103. It can be concluded that GCG which has a positive value affects the Company's ROA.
d. *Non Performance Financing* (X_3) has a regression coefficient of 0.235, meaning that if NPF (X_3) increases by 1% based on the assumption that Inflation (X_1) and GCG (X_2) are zero, so that the company's ROA increases by 0.235.

Simultaneous Test (F Test)
If the significance is <0.05, then Ho is rejected, meaning that the independent and dependent variables have a significant effect. If the significance value is> 0.05, then

Ho is accepted, so it can be stated that the independent and dependent variables have no effect.

Table 11. F Test Results

F-statistic	52.27740
Prob(F-statistic)	0.000000

Source: EViews 10 Data Processing (2023)

Based on table 11, the F_{count} value is 52.27740 and probability 0.00000 <0.05. These results prove that Inflation (X_1), GCG (X_2) and NPF (X_3) affect ROA (Y) with positive significance.

Partial Hypothesis Test (t-test)

If the resulting probability <0.05, it will be stated that there is a significant implication of the *independent variable* to the *dependent variable*. If the resulting probability > 0.05, it is said that it will not have a significant effect.

Table 12. T-test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.330936	0.321137	8.832455	0.0001
Inflation	-1.035604	1.408784	-1.061004	0.6704
GCG	0.103671	0.002660	1.380100	0.0220
NPF	0.235288	0.004897	5.205916	0.0001

Dependent Variable: Y_ROA
Source: EViews 10 Data Processing (2023)

Based on table 12, the conclusions obtained are:

a. **Effect of Inflation on ROA**
Inflation obtained a probability value of 0.6704> 0.05. Signaling there is no significant positive implication given to firm value. Signaling Ho is approved but H_1 is rejected.

b. **Effect of GCG on ROA**
Return on equity gets a probability value of 0.0220 <0.05. Partially, ROA obtained a positive significant effect from GCG*,* indicating Ho is rejected but H_2 is approved.

c. **Effect of NPF on ROA**
NPF produces a probability of 0.0001> 0.05. Signaling, partially said NPF has a significant positive influence on the company's ROA. Furthermore, it is concluded that Ho is rejected but H_3 is approved.

Test Coefficient of Determination (R)^2

The value of the coefficient of determination (R^2) is between 0-1. The independent variable is able to explain the dependent variable if the determinant score (R^2) obtained is small. Conversely, all information is given to predict the *dependent variable* by the *independent variable* when the determinant score (R^2) is obtained large and close to 1.

Table 10. Test Results of the Coefficient of Determination (R)^2

R-squared	0.652246

Adjusted R-squared	0.639056

Source: EViews 10 Data Processing (2023)

Based on table 10, the *R-squared* score is 0.639056 or 63.9%. This indicates that the contribution of Inflation (X_1), GCG (X_2) and NPF (X_3) to the ROA of Islamic Commercial Banks is 63.9% and the remaining 36.1% is determined by various other variables but not analyzed in this research.

5. Discussion

The Effect of Inflation on the ROA of Islamic Commercial Banks

Based on data analysis, the probability value is 0.67054 > 0.05, meaning that inflation does not have a significant impact on the ROA of Islamic Commercial Banks. It also indicates that investors and Islamic banks are not maximally and effectively earning profits. A decrease in company income will be responded negatively by investors to ROA. (Setyaningrum & Muljono, 2016). The inflation rate can have a negative influence and low inflation has an impact on economic growth very slowly and ultimately stock prices also move slowly and ROA decreases. Meanwhile, high inflation can bring down the profitability of Islamic banking. This is in line with the results of research conducted (Komalasari & Manda, 2021; Nasirudin & Saibil, 2023) stated that inflation has a significant negative effect on the *Return on Assets of* Islamic Commercial Banks.

The Effect of *Good Corporate Governance* on ROA of Islamic Commercial Banks

Based on the results of the analysis, it shows that there is a significant impact obtained by the company's value from ROE, as evidenced by the probability value of 0.0220 <0.05. This means that the company's ROA is strongly influenced by effective GCG. Good GCG can strengthen in achieving profitability. GCG is a fundamental aspect in order to realize an increase in Islamic banking profits. In addition, the implementation of good governance is a determining factor for the health of Islamic banks, the better and stronger the governance mechanism, the performance of Islamic banks will also increase. Theoretically, the implementation of GCG can improve banking performance, reduce financial risk and be able to increase investor confidence so that it has an impact on improving the financial performance of banks. Research conducted (Kusumawardhany & Shanti, 2021; Saputra et al., 1875) stated that the implementation of GCG has a significant positive effect on financial performance as measured by ROA.

The Effect of *Non Performance Financing* on ROA of Islamic Commercial Banks

Based on the results of data analysis, it shows that there is a significant impact of NPF on the company's ROA as evidenced by the probability of 0.0001 <0.05, indicating that the Islamic banking ROA will increase if the NPF value is getting smaller. From the results of this study, NPF is one of the factors driving the increase in Islamic bank profits. In accordance with the view of signaling theory, the financial statements contain information on increasing profitability which is an effort to give investors a positive signal regarding the company's performance and business prospects for growth in the future. A good NPF amount is below 5%, the small NPF level indicates the low risk faced by Islamic banking, but if the greater this ratio, the worse the quality of bank loans, resulting in a greater amount of non-performing financing and an impact on the amount of costs incurred, so that performance decreases. Referring to the research results (Ch, 2017; Izzah et al., 2019) that NPF has a significant positive impact on ROA

6. Conclusions

Based on the results of research and discussion, inflation has a significant negative effect on the ROA of Islamic Commercial Banks. While GCG and NPF have a positive and significant effect on the ROA of Islamic Commercial Banks for the period 2018-2022. Effective implementation of GCG and minimizing existing risks will increase profits in Islamic banking. High GCG values and low NPF tend to provide high profits. Inflation, GCG and NPF have an Adjusted R Square value of 63.9% and the remaining 36.1% is influenced by other variables. The results of this study are expected to contribute to the development of science as well as input for the management of Islamic Commercial Banks to focus more on implementing GCG to the maximum and also Islamic banks are expected to be more selective in providing financing to customers

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