

An Analysis of The Effect of Macroeconomic Variables on the Profitability of Sharia Commercial Banks in Indonesia, with GDP as an Intervening Variable (2010–2024)

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Abstract

This research is motivated by the profitability dynamics of Sharia Commercial Banks (BUS) in Indonesia, which have increased despite a slowdown in asset growth and changes in macroeconomic conditions. The study aimed to analyze the effects of Foreign Direct Investment (FDI), money supply, and exchange rates on ICB profitability, with Gross Domestic Product (GDP) serving as an intervening variable. The method used is a quantitative approach, employing time-series data from 2010 to 2024 and analyzing it using path analysis via stepwise regression. The results indicate that the influence of macroeconomic variables on profitability is not entirely direct but operates indirectly through GDP. FDI and the exchange rate have significantly affected profitability, both directly and indirectly, whereas the money supply has not. These findings confirm that GDP is the primary transmission channel linking macroeconomic variables and Islamic banking profitability. Implicitly, this study suggests that Islamic banking performance is highly dependent on real-sector dynamics and macroeconomic stability.

Keywords: Profitability, Foreign Direct Investment, Money Supply, Exchange Rate, Gross Domestic Product.

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INTRODUCTION

Indonesian sharia finance has shown strong growth. According to the National Committee for Sharia Economy and Finance (KNEKS), the total assets of sharia finance reached approximately Rp 967 trillion by mid-2025, with an annual growth rate of 7.8 percent. Aggregately, the national sharia finance assets grew by 12.8 percent, far exceeding the national financial industry average of 4.7 percent. This shows that Sharia Commercial Banks (BUS) continue to play a crucial strategic role in maintaining the integrity of Indonesia's national financial system and promoting a Sharia-based economy (KNEKS, 2025).

Bank profitability, which is usually measured by Return on Assets (ROA), serves as a key performance indicator that reflects operational efficiency and business sustainability (Collins, 2022; Yousaf & Dey, 2022; S & Jogish, 2023). However (Gavrikova et al., 2020) Their research shows that a higher ROA does not always indicate stronger fundamentals, as this can be driven by cost efficiency, changes in asset structure, or short-term gains. (Hajiyeva et al., 2026) Also emphasize that an increase in profitability should be interpreted with caution unless accompanied by sustainable expansion of business capacity. Thus, the ROA analysis must integrate asset development to measure a bank's long-term sustainability accurately.

Data from the Financial Services Authority (OJK) revealed a fluctuating but generally increasing trend in BUS's ROA: 1.40 percent in 2020, rising to 2.00 percent in 2022, slightly decreasing in 2023, and peaking at 2.07 percent in 2024. Although this indicates better asset management efficiency amid economic volatility, this profitability is not matched by proportional asset growth. Although the nominal total assets increased from Rp

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401.49 trillion (2021) to Rp 609.92 trillion (2024), the asset growth rate consistently slowed down—decreasing from 19.26 percent in 2022 to 13.56 percent in 2023, and further to 12.17 percent in 2024.

The difference between rising ROA and slowing asset growth is a crucial phenomenon. From a sustainable banking performance perspective, an increase in profitability should be accompanied by adequate asset growth, given that assets are the primary drivers of revenue and expansion for BUS. (Aisyah & Roziqin, 2025) Research shows that a slowdown in asset growth signals a decline in expansion capacity, which threatens long-term financial performance. As a result, the increase in ROA amidst the slowdown in assets raises an important academic question: does this profitability reflect strong fundamentals, or is it merely a byproduct of temporary adjustments? Addressing this requires an investigation into the underlying macroeconomic factors.

As an institution that operates based on Sharia principles and focuses on real economic activities, BUS is greatly influenced by macroeconomic conditions (D'Souza & R, 2024), where the movement of real economic activities is reflected through Gross Domestic Product (GDP) (Kung'u mwangi, 2013). GDP growth reflects the levels of production, consumption, and investment occurring in the national economy (Lusiana et al., 2022). World Bank data indicates that after contracting during the pandemic, Indonesia's economic growth reached 5.31 percent in 2022, then slowed to 5.04 percent in 2023 and 5.03 percent in 2024. This slowdown reflects a phase of national economic adjustment amid global pressures and a more cautious monetary policy.

GDP plays a crucial role in mediating how broader macroeconomic factors can affect banking performance (Ademe, 2024). When GDP growth slows, real sector activity weakens, reducing financing demand and slowing asset growth, although short-term operational efficiency maintains high profitability (Pertiwi et al., 2023).

In this framework, GDP serves as a transmission channel for macroeconomic variables such as Foreign Direct Investment (FDI), the money supply, and exchange rates. FDI stimulates capital accumulation and production (Udeh et al., 2025). The money supply determines liquidity and investment (Eltayeb Elfaki et al., 2021), and exchange rates alter trade competitiveness (Hidayat et al., 2024). These variables indirectly affect banking performance by first shaping real economic activity reflected in GDP.

Previous empirical studies have reported diverse findings regarding the macroeconomic impact on bank profitability. Most prioritize GDP along with inflation and interest rates as direct determinants of profitability (Almaqtari et al., 2019; Gazi et al., 2024; Elseoud et al., 2020; Jaapar et al., 2025), or completely ignore GDP (Mubarak et al., 2024).

Research that explicitly uses GDP as an intermediate variable between macroeconomic indicators and the ROA of Islamic Commercial Banks remains very limited. Therefore, incorporating GDP as a mediator is the main novelty of this study, offering a more comprehensive mechanism to understand how macroeconomic variables are transmitted to bank profitability. Based on this premise, this study aims to analyze the impact of FDI, the money supply, and exchange rates on the profitability of Indonesian Islamic banks from 2010 to 2024, with GDP as the mediating variable. This research is expected to significantly deepen the empirical understanding of the macroeconomic influence on Islamic banking performance.

Literature Review

Our study's literature review focuses on the relationship between macroeconomic factors and Islamic banks' profitability, with GDP as a mediating variable. This strategy is predicated on the idea that macroeconomic dynamics, which initially determine actual economic conditions before being reflected in banks' financial performance, have a substantial impact on Islamic banking success in addition to internal considerations.

Theoretical Framework of Macroeconomic Variables and Profitability

This study is grounded in the Macroeconomic Theory of Banking Performance, which argues that bank profitability and performance are determined not only by internal managerial factors but also by external macroeconomic conditions (Athanasoglou et al., 2008). The theory suggests that economic growth, investment activity, monetary conditions, and exchange rate stability shape the operating environment of banks and ultimately affect their financial performance (Borio et al., 2017). As financial intermediaries, banks are closely connected to the real sector; therefore, macroeconomic conditions may influence banking activities and, consequently, their financial performance.

Within this perspective, favorable macroeconomic conditions generally encourage higher economic activity, stronger demand for financing, improved repayment capacity, and better asset quality, all of which

contribute to higher profitability. Conversely, economic instability may reduce financing opportunities and increase financial risks faced by banking institutions (Olalere et al., 2017). Consequently, understanding banking profitability requires examining the broader macroeconomic environment in which banks operate.

Measure banking profitability through ROA, which reflects a bank's capabilities in managing its total assets to generate profit. ROA is regarded as a comprehensive performance indicator because it reflects both operational efficiency and the quality of asset management without being influenced by the funding structure (Akbar & Nugraha, 2025). In the context of Syariah banking, profitability, too, reflects the intermediation function's success, which is based on Sharia principles and oriented toward the real sector (Miranti, 2018). Theoretically, banking profitability is highly sensitive to macroeconomic conditions. Variables such as Foreign Direct Investment (FDI), money supply (MS), and exchange rates influence production, consumption, and investment activities in the economy. These economic activities are subsequently reflected in GDP growth, which serves as the primary indicator of the national economy's health (Egbunike & Okerekeoti, 2018a; Kung'u mwangi, 2013). Thus, GDP functions as a transmission channel bridging the Impact of Macroeconomic Variables on Banking Profitability (Meidi & Tannia, 2025).

FDI is conceptually viewed as a source of external financing that not only increases capital accumulation but also promotes the transfer of technology, managerial knowledge, and productivity gains (Udeh et al., 2025). Increase in productivity contributes to output expansion and GDP growth, which in turn creates new business opportunities for the banking sector (Dewi & Sudarmawan, 2022; Yunizar & Sukmana, 2020). From an Islamic banking perspective, FDI-driven economic growth has the potential to increase demand for productive financing and improve the quality of financing assets (Hartini et al., 2024).

The money supply (MS) reflects the level of liquidity in the economy and serves as a key instrument of monetary policy (Deleidi & Levrero, 2019). An increase in the money supply can theoretically stimulate consumption and investment, thereby accelerating economic growth. However, if an increase in output does not balance monetary expansion, an increase in M2 has the potential to trigger inflation and reduce the efficiency of banking intermediation (Dona et al., 2022). Therefore, the impact of M2 on banking profitability is indirect and highly dependent on its ability to drive stable economic growth.

The exchange rate is another macroeconomic variable with far-reaching implications for an open economy. Exchange rate fluctuations affect the competitiveness of exports and imports, foreign capital flows, and domestic price stability (Asteriou et al., 2016; Demir & Razmi, 2022). In the short term, exchange rate depreciation tends to dampen economic growth due to rising import costs, whereas in the long term it can stimulate output growth through increased export competitiveness, as explained within the framework of the J-curve effect (Razzaque et al., 2017).

Synthesis of Previous Research Findings

The empirical literature presents mixed results regarding the direct impact of macroeconomic variables on banking profitability. Several studies have found that FDI positively impacts corporate and banking profitability, particularly in developing countries, through increased efficiency and economies of scale (Jehan et al., 2023). However, other findings suggest that FDI does not always have a significant impact on ROA, as observed in Thailand's banking sector (Boonkuntinat & Wongpunya, 2019). These differing results indicate that the impact of FDI is highly contextual and depends on industry structure and domestic economic conditions.

Empirical findings regarding JUB also reveal inconsistencies. Some studies have found that an increase in JUB negatively affects the profitability of Islamic banks because excess liquidity is not channeled productively (Koniah et al., 2023; Utami & Sihotang, 2024). Conversely, other studies show that JUB has no significant partial effect on profitability, but becomes significant when analyzed alongside other macroeconomic variables (Aulia & Nur Aisyah, 2023). This pattern suggests that JUB does not operate in isolation but rather through broader macroeconomic mechanisms. Research on exchange rates and banking profitability has also yielded mixed results. Some studies found a positive and significant effect of exchange rates on the ROA of Islamic banks (Husen & Fahlevi, 2024; Sabrina et al., 2021), while other studies have found no significant effect or even a negative one (Egbunike & Okerekeoti, 2018b; Khusnul et al., 2024). These differences confirm that the impact of exchange rates on profitability is heavily influenced by the structure of a bank's assets and liabilities, as well as its foreign exchange exposure.

In the context of GDP, empirical findings also reveal inconsistencies. Some studies have found that GDP growth positively impacts corporate and banking profitability (Egbunike & Okerekeoti, n.d.), while other

studies show a negative relationship due to increased competition and declining profit margins when the economy grows rapidly (Tan & Floros, n.d.). These mixed results indicate that the relationship between GDP and profitability is nonlinear and highly context-dependent.

Research Position and Research Gap

Most previous studies have analyzed the direct effects of macroeconomic variables on banking profitability. This approach has not fully captured the macroeconomic transmission mechanism, particularly how variables such as FDI, JUB, and the exchange rate first influence real economic activity before affecting banking profitability. Studies that explicitly treat GDP as a mediating variable remain relatively limited, especially in the context of Islamic banking in Indonesia.

Additionally, the literature's inconsistent empirical findings underscore the need for a more rigorous analytical approach to explain correlations among variables. This study attempts to explain how macroeconomic dynamics affect Islamic banks' profitability through the channel of economic growth, rather than solely through direct effects, using GDP as an intervening variable.

Relationship of Literature to the Research Conceptual Framework

We determined that FDI, JUB, and the exchange rate are macroeconomic factors that affect GDP growth based on a review of the literature. Additionally, GDP serves as a mediating factor that shapes the impact of these macroeconomic factors on BUS profitability, as measured by ROA. In addition to correcting discrepancies in earlier research results, this conceptual framework enables a more thorough empirical investigation of indirect interactions among variables. As a result, this literature review highlights the study's contribution to expanding our understanding of Islamic banking and macroeconomic dynamics in Indonesia, while also providing a strong theoretical and empirical foundation for formulating research hypotheses.

METHODS

This study employs a quantitative research method. According to Arikunto (2006: 12), quantitative research is research that makes extensive use of numbers, from data collection and interpretation to the statistical presentation of the results. The data used consists of secondary data drawn from historical reports on the financial ratios of Sharia Commercial Banks published during the research period. The research approach used is a descriptive approach, in which this study attempts to explain whether there is a connection between independent and dependent variables using statistical tests within a path analysis framework (Creswell, 2011).

The Indonesian Islamic banking sector, operating in an open economic system and influenced by both domestic and international macroeconomic factors, serves as the research context. It is believed that macroeconomic factors such as exchange rates, the money supply (MS), and foreign direct investment (FDI) affect real economic activity, as measured by GDP, before affecting Islamic banks' profitability. To explain the transmission channel of macroeconomic influences on ROA, this study uses GDP as a mediating variable. The target population we selected consists of all buses operating in Indonesia.

We used Indonesian economic data from 2010 to 2024, focusing on the interaction between macroeconomic variables and the performance of the Islamic banking industry. This observation period was chosen to capture economic dynamics before, during, and after the post-pandemic recovery phase, thereby enabling a more comprehensive analysis of structural economic changes. We have approximately 60 data points.

The Financial Services Authority (OJK), Bank Indonesia (BI), the Central Statistics Agency (BPS), the Ministry of Investment and Downstreaming/Investment Coordinating Board (Kemeninveshil/BKPM), and the World Bank are the official sources of all the data used. The ROA ratio found in Islamic Banking Statistics is used to gauge BUS profitability. Official reports from Bank Indonesia, the Central Statistics Agency, the Ministry of Investment, the Investment Coordinating Board, and the World Bank provided information on FDI, money supply (M2), GDP, and the IDR-to-USD exchange rate.

ROA, computed as net income divided by total assets, is used to gauge profitability. ROA is employed because it shows how well management uses all available resources to produce profit, independent of the capital structure (Setyowati & Sugiharto, 2022).

The value of realized foreign direct investment in Indonesian rupiah is used to calculate foreign direct investment (FDI). To ensure consistency in the analysis, the data published in USD are converted to Indonesian Rupiah (IDR). The State Budget Exchange Rate is utilized instead of the spot rate in compliance with Indonesia's investment reporting regulations. The State Budget Law (APBN), issued by the Ministry of Finance of the Republic of Indonesia (Kemenkeu), uses macroeconomic assumptions to determine the APBN exchange rate. A variable describes capital inflows that support domestic economic activity.

The money supply (MS) is approximated using M2, which includes currency, demand deposits, and quasi-money. This variable reflects the level of liquidity in the economy (Suseno, 2002). The exchange rate is calculated based on the Indonesian rupiah's exchange rate against the U.S. dollar (IDR/USD). This variable represents the economy's external stability and exposure to foreign exchange risk (Arifin, 2018). Gross Domestic Product (GDP) is used as an intervening variable, measured as Indonesia's real GDP. GDP reflects the level of national economic activity, which serves as a transmission channel between macroeconomic variables and BUS profitability. We use path analysis with a stepwise regression approach to test direct and indirect relationships. The model consists of two equations:

- Model 1: The effect of macroeconomic variables on GDP:

$$GDP_t = \alpha + \beta_1 FDI_t + \beta_2 JUB_t + \beta_3 NT_t + \varepsilon_t$$

- Model 2: The impact of macroeconomic variables and GDP on ROA:

$$ROA_t = \alpha + \beta_1 FDI_t + \beta_2 JUB_t + \beta_3 NT_t + \beta_4 GDP_t + \varepsilon_t$$

Early stages of the study involved assessing conventional assumptions, including normality, multicollinearity, heteroscedasticity, and autocorrelation, to confirm that the regression model met the necessary fundamental assumptions. The R^2 (coefficient of determination) was used to assess a model's ability to explain variance in the dependent variable after it was determined to meet the traditional assumptions.

Next, Partial tests were conducted using t-tests to assess the significance and effects of various independent variables on each dependent variable, covering Models 1 and 2. The analysis then continued with path analysis using stepwise regression for Model 1, followed by Model 2. The regression coefficients from both models were used to calculate direct and indirect effects within a mediation framework. To find out the indirect effect, the Sobel test was used.

RESULT

Test Classical Assumptions

Early stages of the study involved assessing conventional assumptions, including normality, multicollinearity, heteroscedasticity, and autocorrelation, to confirm that the regression model met the necessary fundamental assumptions.

Normality Test

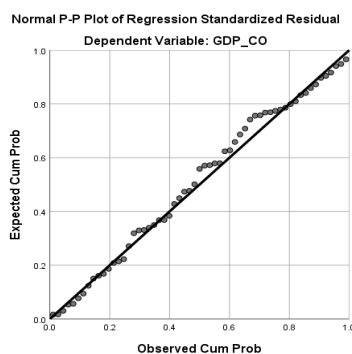


Figure 1. Normality test model 1

As shown in Figures 1 and 2, the p-plot results indicate that the residuals of both models are normally distributed, as the data points follow the diagonal line; thus, Models 1 and 2 pass the normality test.

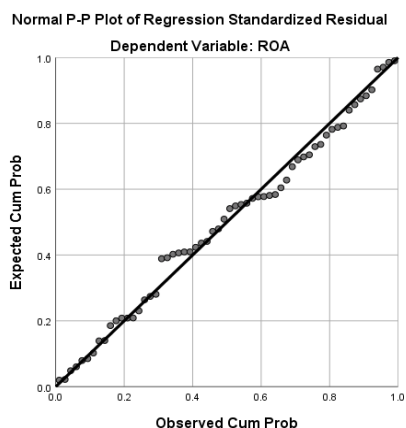


Figure 2. Normality test model 2

Multicollinearity Test

Table 1. Multicollinearity Test Model 1

Model	<i>Collinearity statistics</i>	
	Tolerance	VIF
FDI	0,936	1,068
JUB	0,983	1,017
NT	0,927	1,078

Table 2. Multicollinearity Test Model 2

Model	<i>Collinearity statistics</i>	
	Tolerance	VIF
FDI	0,168	5,965
JUB	0,653	1,531
NT	0,103	9,670
GDP	0,113	8,888

Table 1 shows that all independent variables in Model 1 have VIF values less than 10 and tolerance values greater than 0.10. This suggests that multicollinearity is not a problem for the regression model. Additionally, Table 2 shows that Model 2's VIF value is likewise below the crucial threshold of 10; hence, it may be concluded that our regression model lacks multicollinearity.

Heteroscedasticity Test

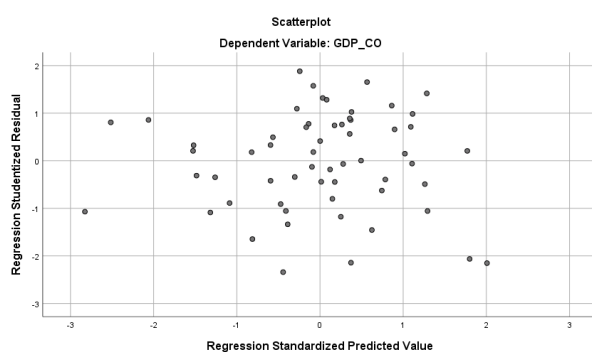


Figure 3. Heteroscedasticity Test Model 1

Additionally, the heteroscedasticity test findings, as displayed in Figures 3 and 4, indicate dispersed, unpatterned dots around the zero line. Hence, it may be concluded that our regression model does not exhibit heteroscedasticity.

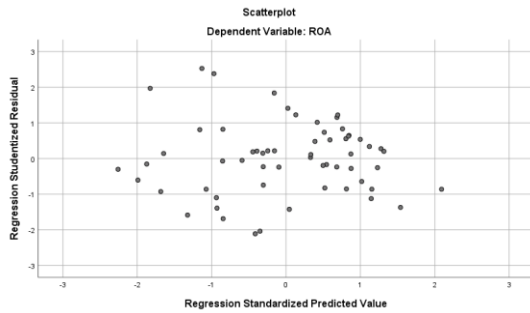


Figure 4. Heteroscedasticity Test Model 2

Autocorrelation Test

Table 3. Autocorrelation test model 1

Model	<i>Durbin-Watson</i>
1	1,394

According to Table 3, the Durbin-Watson statistic for Model 1 is 1.394. Since this value falls within the range of -2 to $+2$, it may be concluded that our regression model lacks autocorrelation.

Table 4. Autocorrelation test model 2

Model	<i>Durbin-Watson</i>
1	1,105

Additionally, Model 2's Durbin-Watson value in Table 4 is 1.105, which likewise lies between -2 and $+2$. Therefore, it may be said that there is no autocorrelation in Model 2.

Model Fit Test

Coefficient of Determination (R-squared)

Table 5. R-squared model 1

Model	R square
1	0,325

Table 5 shows that Model 1's R-squared value is 0.325. This shows that 32.5% of the fluctuation in GDP can be attributed to FDI, JUB, and the currency rate. In the meantime, factors not included in the research model account for an additional 67.5%.

Table 6. R-squared model 2

Model	R square
1	0,571

According to Table 6 for Model 2, the R-squared value is 0.571. This shows that 57.1% of the variation in ROA is explained by the variables FDI, JUB, exchange rate, and GDP. In the meantime, factors not covered by the research model account for an additional 42.9%.

Path Analysis

The results of the analysis in Model 1 on the effect of macroeconomic variables on GDP, based on Table 7, yield the following regression equation:

$$GDP = 1,690 + 0,056 - 0,001 + 0,276$$

FDI is positively and significantly impacted, as indicated by the FDI coefficient of 0.056 and the significance level of 0.012 (<0.05). The conclusion is that GDP will rise by 0.056% for every 1% increase in FDI. The money supply has no discernible impact on GDP, as indicated by the M1 variable's coefficient of -0.001 and significance value of 0.390 (>0.05). The Exchange Rate variable, on the other hand, has a coefficient of 0.276 and a significance level of 0.001 (<0.05), indicating a positive and substantial impact on GDP.

Table 7. Regression test model 1

Model	Unstd coefficients B	Std coefficient Beta	Sig.
(Constant)	1,690		0,00
FDI	0,056	0,297	0,012
JUB	-0,001	-0,097	0,390
NT	0,276	0,416	0,001

Table 8. Regression test model 2

Model	Unstd coefficients B	Std coefficient Beta	Sig.
(Constant)	-43,914		,000
FDI	-0,230	-0,385	0,080
JUB	0,012	0,117	0,291
NT	-4,448	-1,683	0,00
GDP	6,117	2,235	0,00

The results of the analysis of Model 2 on the influence of macroeconomic variables and GDP on ROA, based on Table 8, yield the following regression equation:

$$ROA = -43,914 - 0,230 + 0,012 - 4,448 + 6,117.$$

FDI has a substantial negative impact on ROA at the 10% significance threshold, according to the FDI coefficient of -0.230 and a significance level of 0.080. With a coefficient of 0.012 and a significance level of 0.291, the M1 variable shows that the money supply has no discernible impact on ROA. With a coefficient of -4.448 and a significance level of 0.000 (<0.01), ROA is significantly and negatively impacted by the exchange rate variable. Conversely, with a coefficient of 6.117 and a significance level of 0.000 (<0.01), GDP has a significant positive effect on ROA. A route analysis diagram was then created to show the direction and strength of the links between variables based on the estimated results for Models 1 and 2.

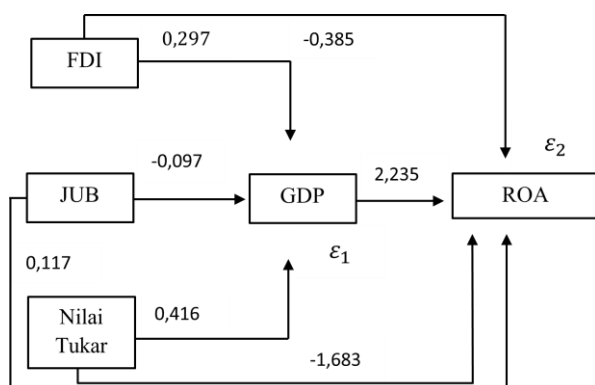


Figure 5. Path diagram model

Hypothesis Testing

T-Test

The objective of this test is to determine whether each independent variable has a meaningful impact on the dependent variable. A t-test with significance levels of 0.05 and 0.10 was used. If the p-value > 0.10 or the critical t-value $>$ the computed t-value, it shows that there is no significant relationship between the independent and dependent variables, and the null hypothesis (H_0) is adopted. On the other hand, if the

computed t-value is $>$ the critical t-value or the p-value ≤ 0.10 , suggesting a significant effect, the alternative hypothesis (H_a) is adopted. Without mediating variables, this study investigated the direct effects of FDI, Money Supply (MS), and Exchange Rate (ER) on profitability (ROA) using a t-test.

Table 9. T-test

Model	Unstd coefficients B	Std coefficient Beta	Sig.
(Constant)	-43,914		,000
FDI	-0,230	-0,385	0,080
JUB	0,012	0,117	0,291
NT	-4,448	-1,683	0,00
GDP	6,117	2,235	0,00

As shown in Table 9, the estimation results show that the Foreign Direct Investment (FDI) variable has a regression coefficient of -0.230 and is statistically significant at the 0.080 level. This significance value indicates that FDI has a negative and significant effect on ROA at the 10% significance level. This indicates that a 1% increase in FDI will reduce ROA by 0.230%, assuming that all other variables remain constant. Therefore, H1 in this study is accepted.

The JUB variable has a significance level of 0.291, a t-value of 1.067, and a regression coefficient of 0.012. JUB does not significantly affect ROA when the significance threshold is set to 0.05 or higher. Although the coefficient is positive, indicating that an increase in JUB tends to enhance ROA, this effect is not statistically significant enough to account for variations in Islamic Commercial Banks' profitability. As a result, this study rejects H2.

Additionally, the Exchange Rate (ER) variable has a significance level of 0.000, a regression coefficient of -4.448, and a t-value of -6.132. At a 5% significance level, these figures show that the Exchange Rate has a negative and significant impact on ROA. This means that if all other factors remain constant, ROA will decrease by 4.448% for every 1% increase in the exchange rate. Thus, H3 in this investigation is approved.

Sobel Test

To determine whether GDP acts as a mediating variable in the relationship between macroeconomic variables and ROA, a mediation analysis was conducted using the Sobel test. The proposed hypothesis was accepted if the p-value was less than 0.05, indicating that mediation occurred. Next, using GDP as the mediating variable, we analyzed the indirect effects of each independent variable on ROA. To determine the magnitude of the effect, we multiplied the path coefficient from the independent variable to GDP by the path coefficient from GDP to ROA ($a \times b$), as shown in the path analysis diagram in Figure 5.

Table 10. Sobel test results and path coefficients

Variabel	P-Value	Path Coefficient
Effect of FDI on ROA through GDP	0,015	0,664
Effect of JUB on ROA through GDP	0,321	-0,217
Effect of NT on ROA through GDP	0,001	0,930

According to the Sobel test in Table 10, the indirect effect of FDI on ROA via GDP has a p-value of 0.015 and a path coefficient of 0.664. Therefore, H4 in this study is accepted. Conversely, the indirect effect of Money Supply on ROA through GDP has a p-value of 0.321 and a path coefficient of -0.217. Therefore, H5 in this study is rejected. Meanwhile, the indirect effect of the exchange rate on ROA through GDP has a p-value of 0.001 and a path coefficient of 0.930. Therefore, H6 in this study is accepted.

DISCUSSION

The study's findings show that there is a transmission mechanism involving real economic activity rather than a direct correlation between macroeconomic factors and the profitability of Commercial Islamic Banks (BUS). A vital component in this scenario that connects macroeconomic variables with profitability. The findings suggest that external economic factors significantly influence the success of Islamic banks.

Theoretically, these results are consistent with the characteristics of Islamic banking, which is rooted in the real sector. Variables such as FDI, money supply, and exchange rates first affect production, consumption,

and investment activities, which are then reflected in GDP growth before impacting profitability. Thus, the relationship formed is indirect, with GDP serving as the primary transmission channel.

FDI affects profitability at high tolerance levels; however, when GDP is included as a mediating variable, this effect becomes clearer. These findings suggest that foreign investment serves more as a driver of economic growth than as a direct factor improving bank performance. This is understandable because FDI generally flows into the real sector, so its impact on the banking sector is only felt when economic activity increases. Theoretically, FDI brings technology transfer, operational efficiency, and expansion of economic activity, which in turn increases demand for financing, the provision of more innovative financial products and services, access to international distribution networks, and improvements in the quality of BUS assets. Thus, the relationship between FDI and profitability is indirect, mediated by increased economic activity.

On the other hand, the money supply does not show a strong impact on profitability. This indicates that increased liquidity is not always accompanied by increased productive economic activity. Without effective transmission to the real sector, and given Islamic banking's low market share in the national financial system, liquidity tends not to have a significant impact on banking performance. Thus, increased liquidity is not always optimally absorbed by Islamic banks to drive profitability.

The exchange rate shows a stronger influence on profitability, both directly and through GDP. This reflects that exchange rate stability plays a crucial role in maintaining banking performance, as exchange rate fluctuations not only affect broader economic activity—including customers' ability to meet their financing obligations—but also banks' operational risks and costs.

Overall, this study makes a theoretical contribution by demonstrating that a mediation approach using GDP can more comprehensively explain the relationship between macroeconomics and profitability. These findings reinforce the notion that path analysis is more relevant than a direct approach for understanding the dynamics of macroeconomic effects on Islamic banking.

The results of this study reveal a consistent pattern and explain inconsistencies in previous research. In the context of FDI, these findings support studies indicating that FDI influences profitability with a high degree of tolerance. However, by incorporating GDP as a mediating variable, this influence becomes clearer, thereby explaining the discrepancies in previous studies. Regarding the money supply variable, the findings of this study are consistent with previous research indicating that money supply has no significant partial effect on profitability. This reinforces the view that high liquidity does not automatically improve banking performance unless accompanied by an increase in productive economic activity.

Meanwhile, the significant impact of exchange rates on profitability is consistent with most previous studies, which emphasize the importance of exchange rate stability in the banking sector. However, this study provides additional insight: this impact also occurs indirectly through GDP, thereby enriching the interpretation of this relationship. Thus, our study not only confirms previous findings but also clarifies discrepancies in results through the mediation approach employed.

The findings of this study have important implications for the management of Sharia Commercial Banks and policymakers in formulating strategies that are more adaptive to macroeconomic dynamics. For Sharia Commercial Bank (SCB) management, improving profitability cannot rely solely on internal efficiency; it must be aligned with real economic conditions, as reflected in GDP movements. This indicates that financing strategies should be more directed toward productive sectors that make a tangible contribution to economic growth, thereby generating sustainable demand for financing while strengthening the quality of banking assets.

In the context of FDI impacts, BUS management needs to enhance its analytical capabilities in sectors likely to attract FDI inflows. This approach allows BUS to serve not only as a financing provider but also as an institution that proactively identifies economic growth opportunities. By leveraging the momentum of FDI inflows, BUS can direct financing toward expanding sectors, thereby not only increasing the volume of financing but also improving asset quality through enhanced corporate governance. Additionally, integration with the FDI-driven business ecosystem opens opportunities for revenue diversification through global networks, including strengthening fee-based income and enhancing BUS's reputation both globally and domestically.

Although the money supply has not yet shown a significant impact, the main implication for Islamic banks is to strengthen their strategies for more effective and sustainable fund mobilization and distribution. The low market share of Islamic finance indicates that the Islamic sector has not fully absorbed domestic liquidity. Therefore, Islamic banks need to develop strategies to expand their customer base through digital channels and more targeted market segmentation. Strengthening technology-based services, using social media with creative content, collaborating with relevant influencers, and adopting community-oriented educational approaches can

help increase market penetration. Thus, the increase in liquidity is not merely aggregate but is truly converted into productive intermediation activities.

On the other hand, the significant impact of exchange rates underscores the need to strengthen macroeconomic risk management, particularly amid external volatility. In the short term, Islamic banks need to control their exposure to exchange rate risk by managing foreign exchange positions and using Sharia-compliant hedging instruments. Furthermore, risk management should not be purely defensive but must also be integrated into financing strategies. In the long term, exchange rate fluctuations can be leveraged as opportunities by directing financing toward sectors that benefit from exchange rate dynamics, such as export and import-substitution sectors. This approach enables BUS not only to mitigate risks but also to optimize profitability opportunities arising from changes in economic conditions reflected in exchange rate volatility.

For policymakers, the results of this study indicate that policies oriented toward stability and the quality of economic growth have a more effective impact on banking sector performance compared to policies that focus solely on liquidity expansion. Control over the money supply must be balanced with efforts to encourage productive economic activity so that monetary policy transmission functions optimally. Thus, synergy between macroeconomic stability, economic growth, and financial sector policies is key to maintaining the sustainability of Islamic banking profitability.

This study has several limitations. First, the variables used remain limited to a few key macroeconomic indicators, so they do not fully capture the complexity of the factors influencing the profitability of Islamic banking. Other variables, such as inflation, interest rates, and internal bank factors, have not been included in the model. Second, the analysis method still relies on stepwise regression, so it is not yet capable of capturing the dynamics of long-term relationships in greater depth. The use of more complex methods could yield more comprehensive results. Third, given the study's limited duration, the findings should be interpreted with caution in the context of long-term economic changes. Therefore, future research is recommended to include a wider range of variables, employ more advanced analytical methods, and test the model in different contexts. Additionally, exploring other mediating or moderating variables is crucial to enriching our understanding of the connection between macroeconomic variables and the profitability of Islamic banking.

CONCLUSIONS

This analysis demonstrates that there is a process involving actual economic activity rather than a direct relationship between macroeconomic variables and the profitability of Sharia Commercial Banks (BUS) in Indonesia. In this regard, GDP has been shown to be an important mediating factor linking the effects of exchange rates, the money supply, and foreign direct investment (FDI) to profitability. These results demonstrate that economic growth dynamics have a major impact on Islamic banking performance in addition to internal financial conditions. Conceptually, this study contributes by demonstrating that a mediation approach using GDP can explain the relationship among macroeconomic factors and profitability more comprehensively than a direct approach. This also addresses inconsistencies in previous research, which often yielded mixed results when the role of mediating variables was not considered. Thus, this study reinforces the understanding that the Islamic banking sector is closely linked to the real sector as its operational foundation.

In conclusion, these findings indicate that the stability and quality of economic growth are key factors in maintaining the sustainability of Islamic banking profitability; thus, synergy is required between macroeconomic policies and banking intermediation strategies oriented toward in-depth analysis of macroeconomic conditions—particularly in the productive sector—as well as long-term and sustainable strategies.

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