

THE EFFECTS OF MACROECONOMIC VARIABLES ON PROFIT-SHARING YIELD PRICING

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Abstract

This research analyzes the influence of macroeconomic variables such as Bank Indonesia rate, exchange rates, and inflation rate on pricing the profit-sharing yield for fundraising product in Indonesian Islamic banking. It uses a multiple regression to analyze the influence, and it also uses financial ratio and the profit-sharing yield from the previous period as control variables for this research. The analysis result shows that macroeconomic variables have significant influences on the pricing for profit-sharing yield in Islamic banking.

Keyword: BI rate, exchange rate, profit-sharing yield, inflation rate, interest rate

JEL classification: E40, G21, Z12

Abstrak

Penelitian ini menganalisis pengaruh variabel makroekonomi seperti tingkat bunga Bank Indonesia, nilai tukar, dan tingkat inflasi pada penentuan marjin bagi hasil produk penghimpunan pada perbankan syariah di Indonesia. Penelitian ini menggunakan regresi berganda untuk menganalisis pengaruh tersebut, serta menggunakan rasio keuangan dan marjin bagi hasil deposito periode sebelumnya sebagai variabel kontrol dalam penelitian ini. Hasil penelitian menunjukkan bahwa variabel makroekonomi memiliki pengaruh yang signifikan dalam penentuan marjin bagi hasil produk penghimpunan di perbankan syariah.

Kata Kunci: Tingkat bunga BI, Nilai tukar, Marjin bagi hasil, Tingkat Inflasi, Tingkat bunga

JEL classification: E40, G21, Z12

INTRODUCTION

After nearly four decades of their establishment, Islamic banks have managed to position themselves as financial institutions not only playing important role in resource mobilization, resource allocation and utilization but are actively involved in the process of implementing government monetary policy. Apart from offering almost all traditional banking facilities, Islamic banks also facilitate domestic and international trades. The first Islamic bank, pioneered by Mit Ghamr Local Saving Bank, was established in 1963 in a provincial rural center in the Nile Delta (Egypt). At present, there are

more than 200 interest-free institutions operating in 40 nations worldwide and providing services that are compatible to those services offered by conventional banks. In 1985 this system mobilized the estimated of USD5 billion funds which currently have increased to USD 80 billion. Western conventional based financial institutions such as Citibank, JP Morgan, Deutsche Bank, ABN Amro and American Express have started introducing interest-free products to customers. Similarly, multinational corporations such as General Motors, IBM and Dewoo Corporation have begun to use interest-free services. In Indonesia, the development of Islamic economics thought

had been started in 1970s. The significant development of Islamic economics practice in Indonesia was with the established the first Islamic banking in Indonesia –Bank Muamalat Indonesia- in 1992.

The market share of Islamic banking in Indonesia is still very little if we compare with the national banking share, where it is still below 5% of national banking shares. The depositor of Islamic banking is only three million people, if we compare with the potential depositor that exceeds 100 million people. With this condition we can see that there are still a lot of Muslim in Indonesia who does not interact with Islamic banking.

The development of Islamic banking industry in Indonesia has a good prospect: *first*, majority of Indonesian citizen is Muslim that give a potential market for the development of Islamic financial institution include Islamic banking industry. *Second*, the development of university that taught Islamic economics either in Islamic university or conventional university has been very good. *Third*, MUI instruction about the prohibition of banking interest gives a significant effect to the Islamic banking growth. After MUI instruction there were significance movements of saving from conventional banking to Islamic banking.

According to Yuslam Fauzi (2005), there are several challenges that faced by Islamic banking industry, such as: *first*, the depositor change from religion oriented to return oriented that have a similar expecta-

tion with conventional depositor. Since depositors are motivated by returns, it is important for Islamic banks management to understand the extent that profit sharing yield on deposits influence their customers' decision to deposit.; *second*, limited network and information technology in Islamic banking industry; *third*, the difficulties finding a good borrower; *fourth*, the high risk of real sector business, it makes difficult to find a bankable borrower; *fifth*, the high pricing competition in banking industry include Islamic banking and conventional banking; *sixth*, the limitation of capital adequacy ratio (CAR), it makes Islamic banking must strengthen the capital formation; *seven*, the limitation of human resources.

Although some empirical research have found that people who patronize Islamic banks look for monetary rewards, this is not necessarily true for all cases. In 1984, Kuwait Finance House did not distribute any profit to their depositors, but there was no evidence of massive withdrawal of deposits. Similarly, Islamic banks in Sudan never reward their current account holders, but a bulk of their funds is supplied through these facilities. As institutions whose foundations are based on religious doctrines, it is paramount for Islamic banks management to believe there are other factors that dominate the economic behavior of Muslims. (Haron and Ahmad, 2000).

Table 1. Islamic Banking Network

	2005	2006	2007	2008	2009	2010	Sept'11
Islamic Banking							
Islamic Commercial Banking	3	3	3	5	6	11	11
Islamic Banking Unit	19	20	26	27	25	23	23
Islamic Rural Bank	92	105	114	131	138	150	154
Number of Office							
Islamic Commercial Banking	304	349	401	581	711	1.215	1349
Islamic Banking Unit	154	183	196	241	287	262	300
Islamic Rural Bank	92	105	185	202	225	286	362

Source: Islamic Banking Statistics, Bank Indonesia

According to Haron and Ahmad (2000) there are two principle of depositor's behavior: First principle has an effect on the depositors' behavior and their decision-making process. The choice of action is based not only on the immediate financial returns but also on those returns in the hereafter. Therefore, the decision to place deposits with Islamic banks is not because of a profit motive but rather to gain the blessing of Allah. One of the ways to gain this blessing is to support any program that will improve Muslim communities. Since Islamic banks operate on an interest-free basis and their establishment is designed to improve Muslim communities, Muslims who support these banks are therefore considered people who achieve salvation.

In the case of the second principle that involves wealth, Islam has given a clear guideline to be followed by Muslims. In Islam, wealth is a bounty from Allah and is a tool that may be used for good and evil. Poverty is, in some instances, associated with disbelief and riches are considered a gift from Allah. Wealth itself is considered as an important means by which man can pave the way for the attainment of his ultimate objective. All persons are exhorted to work to earn a living and to accumulate wealth. Accumulating wealth is considered among the highest blessings bestowed on man and everyone is encouraged to strive for wealth.

In operational, Islamic banking and conventional banking offered the similar product either in fundraising product or financing product. There are a lot of agreements that can be used in Islamic banking deposit product such as *wadi'ah*, *mudharabah*, *murabahah*, *musyarakah*, etc. Every product that offered by Islamic banking will give a profit sharing, the difference with conventional banking that give an interest rate.

In *Wadi'ah*, a bank is deemed as a keeper and trustee of funds. A person deposits funds in the bank and the bank guarantees refund of the entire amount of the

deposit, or any part of the outstanding amount, when the depositor demands it. The depositor, at the bank's discretion, may be rewarded with *bonuses* as a form of appreciation for the use of funds by the bank. *Mudharabah* is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The capital investment comes from the first partner, who is called the *shahibul-maal*, while the management and work is the exclusive responsibility of the other party, who is called the *mudharib*. The *Mudharabah* (profit sharing) is a contract, with one party providing 100 percent of the capital and the other party providing its specialist knowledge to invest the capital and manage the investment project. Profits generated are shared between the parties according to a pre-agreed ratio. Compared to *Musyarakah*, in a *Mudharabah* only the lender of the money (*shahibul maal*) may incur a loss.

Musyarakah is a relationship between two parties or more that contribute capital to a business and divide the net profit and loss pro rata. This is often used in investment projects, letters of credit, and the purchase or real estate or property. In the case of real estate or property, the bank assesses an imputed rent and will share it as agreed in advance. All providers of capital are entitled to participate in management, but not necessarily required to do so. The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by each partner strictly in proportion to respective capital contributions, this concept is distinct from fixed-income investing

The pricing of profit sharing yield is very important to measure the profit sharing that will receive by depositor. There are several things that can be used to determinant of time deposit profit sharing yield such as macroeconomics variable: interest rate yield (BI rate), exchange rate, inflation rate. The purpose of this study is to highlight the strength of the relationship be-

tween the macroeconomics variable as a determinant of profit sharing yield deposits in Islamic banking. This study will also include the control variable such as profitability ratio (ROA) and previous profit sharing yield in Islamic banking.

METHODS

This research uses a quantitative research that was focused on the empirical study using an econometrics approach. Data that has been used in this research is secondary data, i.e. the data that is taken from institution. Data that used in this research are the Islamic banking statistics and Indonesia banking statistics that are published by Bank of Indonesia as a main source and also from the other source such as books, journal, internet, etc.

Analysis methods are the way to get a result from the research either using a theoretical studies or empirical studies, so the result can be used as a determinant of policy making decision. This research uses an empirical research using multiple regression with the ordinary least square estimator. The model of ordinary least square that used in this research is:

$$Y_{t+1} = \alpha_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 Y_t + \varepsilon_t \quad (1)$$

Where;

Y_{t+1} is current profit sharing deposit's yield

X_{1t} is previous BI rate

X_{2t} is previous inflation rate

X_{3t} is previous exchange rate (rupiah to USD)

X_{4t} is previous profitability ratio (ROA)

Y_t is previous profit sharing deposit's yield

The coefficient of β_1 is the short run multiplier that explained the changes of Y value as implication of changes in X value. If the changes of X value are similar with the previous change, so $(\beta_0 + \beta_1)$ are the average changes of Y to the next period or it called by *intermediate multiplier*. After regression with ordinary least square to see

whether this model is good or bad, we must see the goodness of fit from the model. The goodness of fit from the model can be seen by t-statistics, F-statistics, determination coefficient (R^2).

After testing the goodness of fit testing from the model, we must test the classical assumption to prove that there are no violations to classical assumption in the model. The classical assumption that we are going to test are homoscedasticity, no autocorrelation, and no multicollinearity.

RESULTS

Empirical result from multiple regressions in this model using least square method is shown in Table 2. From Table 2, we can infer that BI rate shows a positive effect on profit sharing yields of deposits. It means that if BI rate increases, it will increase the profit sharing yields of deposits in Islamic banking. The coefficient value suggests that if BI rate increases by 1%, profit sharing yields of deposit in Islamic banking increases by 0,37 percent. Inflation rate variable give the negative effect where an increasing in inflation rate will decrease the profit sharing yields of deposits. The coefficient value suggests that if inflation rate increases by 1%, profit sharing yields of deposits decreases by 0,067 percent. Exchange rate variable give the positive impact on profit sharing yields of deposits in Islamic banking. The coefficient suggests that if exchange rate (depreciation of rupiah) increases by 1%, profit sharing yields of deposits increases by 0,000232 percent.

For the control variable profitability ratio (ROA) and lag of profit sharing yield of deposits give the positive effect on current profit sharing yield of deposits. Coefficients of profitability index suggests that if profitability ratio (ROA) increases by 1%, profit sharing yields of deposits increases by 0,49 percent. Lag of profit sharing yields of deposit coefficient suggests that if there is a one percent of depreciation, profit sharing yields of deposits increases by 0,30 percent.

Table 2. Estimation Result

		BI rate	Infl	Exch	ROA	Dep_t
Coefficient	-0.221491	0.366502	-0.067796	0.000232	0.494318	0.300282
SE	0.733180	0.075858	0.026986	7.62E-05	0.238307	0.108930
t-stat	(-0.302097)	4.831419	-2.512289	3.040256	2.074294	2.756658
F-stat	41.07551					
R ²	0.791809					
Adj R ²	0.772532					

Source: calculated data

F statistics give the result 41.07551 at 5% level; it means that all the independent variable (BI rate, inflation rate and exchange rate) and control variable (profitability index and previous profit sharing yield of deposit) influence the profit sharing yield of deposits in Islamic banking. The adjusted determination coefficient (adjusted R²) give the result 0.772532 shown that this variable can explain the model for 77.25%, and 22.75% are explain by the variable outside the model. The classical assumption tests show that there are no heterocedasticity, multicollinearity and autocorrelation in this model. Therefore this model passes the classical assumption tests.

BI rate variable has a significant result at 5%; this is shown that if Bank of Indonesia change the BI rates it will response by Islamic banking by changing the profit sharing yields deposit to his depositor. It means that profit sharing yields of deposit still can't independence from the interest rate. This result is similar with the result from Al Arif (2010) that shown a significant relationship between conventional banking interest rate and profit sharing yields of deposit. The difference with this research is proxy about interest rate, if previous research used proxy using conventional banking interest rate, this research using BI rate as a proxy for interest rate.

According to Hasan (1994) in economic terms, there is absolutely no difference between profit sharing and interest rate banking. Under perfect competition, lending must take place at the equilibrium

interest rate. This is the price of credit. It is determined by the yield from investments on the demand side of the savings market, and the public's individual income and consumption decisions on the supply side. The market interest rate will be the price at which savers agree to supply the same amount of credit that investors agree to borrow. The banks act only as intermediaries between savers and borrowers; they have no control over the market interest rate. In particular, this means that banks cannot change anything by switching from an interest-based lending rate to a profit-sharing based lending rate. A conventional "non-Islamic" bank fulfills its role of intermediating between savers and investors by attracting savings deposits at a particular interest rate. It then lends out these deposits at a slightly higher rate to investors; the difference between lending and borrowing rates pays for the banks' costs. Income above banking cost, which is not paid to depositors, becomes profit for the bank. However, competition between banks will tend to bring the lending and borrowing rates closer together, squeezing bank profits to zero in the ideal case of a perfectly competitive market.

The same result had been shown by Romansyah (2009) that measure the relationship between SBI and profit sharing yields of deposit in three Islamic banking (Bank Muamalat Indonesia, Bank Syariah Mandiri, and BNI Syariah). This study shown if SBI increase one percent it will make 0.331% increasing in profit sharing

yields of Bank Muamalat Indonesia, and 0.221% increasing in profit sharing yields of Bank Syariah Mandiri, and also a decline 0.043% in profit sharing yields of BNI Syariah.

The similar result had been shown by Mawardi (2008) who had study about the influence factor of *mudharabah muthlaqah* time saving deposits profit sharing yields in Islamic banking unit. The results shown the dominant factor that determinant of profit sharing yields of *mudharabah muthlaqah* deposit in Islamic banking unit at Bank X is conventional banking interest rate deposit.

Haron and Shanmugam (1995) in their work try to link the rates of profit to Islamic bank's deposits. Using the Pearson Correlation and First Order Autoregressive model, they find a strong negative relationship between the two variables. Similarly, their finding indicates that there is a positive linear relationship between deposits of conventional and Islamic banking.

Study from Haron and Ahmad (2000) that used adaptive expectation model to measure the effects of rate of profit declared by Islamic banks on the level of deposits placed by their customers presents the relationship between the level of interest-free investments deposits and the rates of profit declared on these deposits and interest rates of fixed deposit facilities available at conventional banks. Each one percent increase in rate of profit given to the interest-free deposits is seen to boost the total amount of this deposit by 71 million Ringgit. Interestingly, rates of interest of conventional banks have negative relationship with deposits with Islamic banks. An increase of one percent in the interest rate of the conventional banks would reduce the level of interest-free investment deposits by 65 million Ringgit.

The study from Haron and Ahmad (2000) provides evidence regarding the relationship between the amount of deposits placed in the Islamic banking system in

Malaysia and returns given to these deposits. The findings confirmed that customers who place their deposits at saving and investment account facilities are guided by the profit motive. The existence of the utility maximization theory among the Muslim customers is further confirmed by the negative relationship between the interest rate of conventional banks and the amount deposited in interest-free deposit facilities. Therefore the findings of this study are consistent with the earlier research conducted in Sudan, Jordan, Malaysia and Singapore.

Although some empirical research have found that people who patronise Islamic banks look for monetary rewards, this is not necessarily true for all cases. In 1984, Kuwait Finance House did not distribute any profit to their depositors, but there was no evidence of massive withdrawal of deposits. Similarly, Islamic banks in Sudan never reward their current account holders, but a bulk of their funds is supplied through these facilities. As institutions whose foundations are based on religious doctrines, it is paramount for Islamic banks management to believe there are other factors that dominate the economic behaviour of Muslims. These principles comprise the belief in the day of Judgement and the life in the hereafter, the Islamic concept of riches, and the Islamic concept of success. All of these principles are expected not only to have a significant impact on the decision-making process of Muslims, but also to have an influence on their perceptions of Islamic banks. (Haron and Ahmad: 2000)

Inflation rate has also a significance result with profit sharing yields of deposit. It's shown that price stability as one factor that influence Islamic banking profit sharing yields of deposit decision. The higher inflation rate, it will make the lower of profit sharing yields of deposit decision that offered by Islamic banking to his depositor.

Furthermore, exchange rate rupiah to US dollar has a significant relationship with profit sharing yields of deposit in Islamic banking. The implication of this result is more depreciate rupiah to US dollar will make an increasing in profit sharing yields of deposit. The result shown Islamic banking will increase the profit sharing yields of deposit if the value of rupiah to US dollar more depreciates. This decision had been done by Islamic banking to absorb the depositor fund as the result for the depreciation of rupiah to dollar. At the other side, rupiah depreciation gives a positive implication to the export increasing. Because the depreciation, the domestic commodity value will cheaper than the foreign commodity value.

For the control variable such as profitability ratio that measured by return on asset (ROA) and previous profit sharing yields of deposits give the significant result. It means if profit of Islamic banking is rising, so the profit sharing yields of deposit will also be rising. This result shows the stability of profit sharing system, because the fluctuation of profit sharing for the depositor is effected by the fluctuation of Islamic banking profit. The previous profit sharing yields of deposit show the positive relationship with current profit sharing yields of deposit. Implication from this result, if the previous profit sharing yields deposits had shown an increasing trend, so the profit sharing yields of Islamic banking deposit in the next period will also be increasing.

The study about influence factor of profit and loss sharing margin in Islamic banking from Vustamy (2006) presents the significant factors that influence profit and loss sharing margin in Islamic banking is the income growth of bank, Bank Indonesia (BI) rate, and finance to deposit ratio (FDR). Otherwise, depositor fund and 12 months saving deposit doesn't influence the profit and loss sharing margin in Islamic banking.

Prakasa (2003) who had study about influence factor of depositor profit sharing income using *mudharabah muqayyadah* conclude that investor (*shahibul maal*) as a fund's owner that want to invest his money in bank must always to see the funding and fundraising movement in banking to calculate his income in term of using *mudharabah muqayyadah on balance sheet*.

A study from Hasan (2010) about profit rates the depositors are getting in Islamic banks gives the impression that, but for their commitment to faith, the believers might choose conventional banks if risk factor were taken into consideration. The suggestion is to ensure fairness in the division of profit between the banks and the depositors that seems currently missing in the mixed *mudharabah* contracts. The paper suggests for consideration a policy variable the maximum enhancement over the rate of return the banks get on total investment. Moreover, Islamic banks and conventional banks involved in Islamic finance may be required to publish in their periodic financial statements profit rates the banks earn on their equity side by side the rates allowed on deposits to improve information and transparency. How free are the negotiations between banks and the depositors, especially the smaller ones, may also have to be looked into. The use of standard contract forms that the depositors have no option but to sign looks patently is not Islamic. Finally, the paper has as a minor point demonstrated that even if we use *musyarakah* contract on the asset side of the financing operations, the rate of return a bank would earn on investment of deposits in business will not be the same as the depositors will eventually receive from the bank, it would invariably be smaller

In conventional banking, according to Edmister (1982) that conventional bankers have learned that deposit pricing can be used to shape the kind of customer base each bank can best serve. Changing deposit prices affect not only spread between bank

loan rates and deposit interest rates but also customer balances and deposit mix decisions, which in turn, influence both bank growth and profit margins. As Rose (1991) points out, deposit pricing is best used to protect and increase bank profitability, rather than to simply add more customers and to take market share away from competitors. Indeed, when new deposit plans are introduced, its biggest appeal and greatest chance for success lies with those customers who already hold deposits with the bank. And even those customers the bank already has will not automatically pay higher prices for deposit services. They will pay no more for a deposit than the sum total of its benefits to them and will go elsewhere when the value of those benefits falls below the deposit's price or if a competitor offers a significantly better package of services (Haron and Ahmad: 2000)

Unlike conventional bank customers who have the privilege to know the exact amount of returns that they will receive from their deposits, no Islamic banking customers will have this information. Therefore, while it is likely that conventional bank customers make decisions based on existing information, the decision to deposit made by Islamic banking customers is based on historical facts and assumption of the future. If the assumptions of Islamic banking customers are rational in their decision making process and governed by the utility maximization theory, there is a great possibility that the amount of deposits at Islamic banking is influenced heavily by the rate of returns declared by them and also the existing rates of deposits of conventional bank

Two important elements emerge from this overview according to Haron and Ahmad (2000). First, conventional banking acknowledge that those who are willing to part with their funds must be rewarded. Second the recognition that different types of deposits carry different amount of returns or rewards. Therefore, if the man-

agement of Islamic banking belief that the attitude of depositors in Islamic banking are indifferent to those of conventional banking, the same rates of return will be rewarded with rates of conventional banking. There are several serious repercussions if the management of Islamic banking belief that depositors at Islamic banking possess similar attitudes to those at the conventional banking. The interest rate will continue to have an influence on the operations of Islamic banking as long as this thought remains in the mind of their management.

The first principle has an effect on the depositors' behavior and their decision-making process. The choice of action is based not only on the immediate financial returns but also on those returns in the hereafter. Therefore, the decision to place deposits with Islamic banks is not because of a profit motive but rather to gain the blessing of Allah. One of the ways to gain this blessing is to support any program that will improve Muslim communities. Since Islamic banks operate on an interest-free basis and their establishment is designed to improve Muslim communities, Muslims who support these banks are therefore considered people who achieve salvation as indicated in Qur'an surah At-Taubah Verse 20. In the case of the second principle that involves wealth, Islam has given a clear guideline to be followed by Moslems. In Islam, wealth is a bounty from Allah and is a tool that may be used for good and evil. Poverty is, in some instances, associated with disbelief and riches are considered a gift from Allah. Wealth itself is considered as an important means by which man can pave the way for the attainment of his ultimate objective. All persons are exhorted to work to earn a living and to accumulate wealth. Accumulating wealth is considered among the highest blessings bestowed on man and everyone is had a right to strive for wealth, this can be found in Qur'an surah Al-Jumuah Verse 10.

Hasan (2010) has shown that the current use of *mudharabah* contracts in Islamic banking is beset with confusion and ambiguities. Even a cursory look at the prevalent profit sharing schemes (for example as in Pakistan), especially on how the ratios are settled and weights assigned to different categories of deposits with reference to amount and time period involved, needs scrutiny and control. A Sharia issue involved in the matter seems to be this: if a one month deposit were not withdrawn after the expiry of its tenure but is renewed as investment -principal + profit earned- for another month, will such renewal not attract Islamic injunctions against interest. The bankers' response to the query at the INCEIF organized seminar referred to earlier was that the reinvestment of principal plus profit is under a new contract and therefore the question is out of place. However, renewal under interest finance is under a de facto new contract too; renewal requires the consent of the depositor and the rate of interest may be varied.

Empirical analysis from Bashir (2000) gave some light on the relationship between banking characteristics and performance measure in Islamic banks. First, the Islamic banks profitability measures respond positively to the increases in capital and loan ratios. It indicates that adequate capital ratios and loan portfolios play an empirical role in explaining the performance of Islamic banks. Second, the results also indicate the importance of customer and short-term funding, non-interest earning assets, and overhead in promoting banks' profit. The counter intuitive finding about the association between performance and overhead suggested that high profits earned by banks may be appropriated in terms of higher wages and salaries. Expense behavior appears to be holding in the Islamic banking market. Third, foreign ownership seems to have contributed significantly to Islamic banks' profitability. In

particular, foreign capital appears to have motivated the operation of Islamic banks in many low-income countries.

Fourth, the result suggested that the tax factors are much more important in the determination of bank performance. The inverse and statistically significant effects of taxes indicate that financial repression is distorting the performance of Islamic banks. Fifth, favorable macroeconomic environment seems to stimulate higher profits. Higher GDP per capita and higher inflation rates seem to have a strong positive impact on the performance measure.

CONCLUSION

The pricing of profit sharing yields are important to find the percentage return that will be distributed to depositor. Variables that can be used as determinants in profit sharing yields are macroeconomic variables such as Bank Indonesia rate, exchange rate, and inflation rate. To control the model we used profitability ratio (ROA) and the lag of profit sharing yields.

This study give the result that BI rate, inflation rate, and exchange rate are as a determinant in profit sharing yields of deposits pricing in Islamic banking. BI rate has a positive effect on profit sharing yields of deposits. It means that if BI rate increase it will the profit sharing yields of deposits. Inflation rate has a negative effect to profit sharing yields of deposits which means that if inflation rate increase it will decrease profit sharing yields of deposits in Islamic banking. The exchange rate variable has a positive impact on the yield pricing For the control variable such as profitability ratio and lag of profit sharing yields of deposits give the significant result. This studys give the general conclusion that variable macroeconomics such as BI rate, inflation rate and exchange rate have a significant effect to profit sharing yields of deposits in Indonesia Islamic banking industry.

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