

# The Impact of Using Murabahah Contracts on the Profitability of Islamic Banks in Indonesia

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Submitted: 12-12-2025

Accepted: 18-02-2026

Published: 28-02-2026

## Abstract

This study explores the impact of Murabaha financing on the profitability of Islamic banks in Indonesia, focusing on the period from 2016 to 2023. Murabaha is a widely used financing instrument in Islamic banking, particularly in consumer and trade financing, due to its simple structure and compliance with Sharia principles. The research uses a quantitative approach with explanatory research design, examining the relationship between Murabaha financing (independent variable) and profitability, measured by Return on Assets (ROA) (dependent variable). Secondary data were collected from annual financial reports of Islamic banks in Indonesia, registered with OJK and Bank Indonesia. The findings indicate that while Murabaha financing contributes positively to bank profitability, challenges such as non-performing finance (NPF) and external macroeconomic factors must be considered for more accurate profit generation strategies. The study emphasizes the need for improved risk management, strategic product development, and regulatory support to strengthen the role of Murabaha in enhancing profitability within Indonesia's rapidly growing Islamic banking sector.

**Keywords:** Murabaha, Islamic Banks, Profitability, Return on Assets, Non-Performing Finance, Indonesia, Risk Management

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E-ISSN: 2986-2256

P-ISSN: 2986-5891

## INTRODUCTION

Islamic banking in Indonesia is experiencing rapid growth, driven by increasing demand for financial products that comply with Sharia principles. One of the main products in Islamic financing is murabahah, which is the dominant instrument in consumer and commercial financing. Murabahah is a form of financing that uses the principle of buying and selling with a profit margin agreed upon between the bank and the customer (Murabaha in Islamic Finance..., 2025). Murabahah financing, which is one of the mainstays for Indonesian Islamic banks, not only helps the community meet their financial needs but also serves as a primary source of income for Islamic banks. In this context, it is important to assess the extent to which murabahah financing affects the profitability of Islamic banks in Indonesia.

Empirical research in Indonesia shows a positive relationship between murabahah financing and the profitability of Islamic banks, measured by the Return on Assets (ROA) ratio. Some studies have shown that murabahah financing does contribute to the financial performance of Islamic banks. For example, Mumtaz and Mahardika (2021) in their research found that murabahah financing negatively affects profitability, although this result contradicts some other findings that show a positive relationship (Rachmawati & Astuti, 2023; Aminulloh et al., 2023).

This indicates that the influence of murabahah on the profitability of Islamic banks in Indonesia is still a topic that requires further research to provide a clearer understanding of the factors affecting it, such as risk management and marketing strategies for this financing product. Some more in-depth studies show variations in research results, especially when considering the international context and differences in the periods used. For example, in research conducted by Agustina and Irsyad (2025), it was found that although murabahah financing has a significant impact on profitability, risk factors such as Non-Performing Finance (NPF) also affect bank performance. This is important to discuss because high NPF will reduce the bank's ability to generate profit, while stable murabahah financing can reduce dependence on market fluctuations. Additionally, variables such as the Bank Indonesia interest rate (BI Rate) have also been proven to influence the murabahah financing margin, although in research conducted by Kusumawaty (2021), the interest rate was not proven to have a significant effect on the murabahah margin. This research suggests that Islamic banks should focus more on managing murabahah financing in a manner consistent with Sharia principles and also consider other external factors that may affect their profitability.

Attention to the Indonesian context as a market with the largest Islamic banking growth in Southeast Asia is extremely important. Indonesia has the largest Muslim population in the world, making the country's Islamic banking market highly promising. Given the high demand for financial products that comply with Sharia principles, Islamic banks in Indonesia have a great opportunity to continue growing, but they also face significant challenges in managing risk and ensuring optimal financial performance. A study conducted by Nurmala Sari and Maharani (2022) revealed that murabahah financing can affect bank profitability, but factors such as NPF need to be carefully considered. Therefore, it is important for Islamic banks to have a mature strategy in managing murabahah financing, as well as develop more diverse products to attract a wider range of consumer interest.

The novelty of this research lies in the use of the latest panel data covering the period 2016–2023, which provides a more up-to-date picture of the influence of murabahah financing on the profitability of Islamic banks in Indonesia. Additionally, the empirical economic approach that combines Islamic banking theory with recent secondary data makes a significant contribution to filling the gaps in previous research. In research conducted by Pratiwi et al. (2024), it was found that although murabahah remains the primary choice for the Indonesian public, there are still challenges in terms of risk management related to this product. In this study, we will focus on a more comprehensive analysis of murabahah financing performance, considering various internal and external factors that affect the profitability of Islamic banks.

Ultimately, the role of murabahah financing in improving the profitability of Indonesian Islamic banks requires deeper attention. Although this product has proven to contribute to the bank's revenue, other external and internal factors, such as risk management and evolving

regulations, must be considered in the murabahah product development strategy. Therefore, this research is expected to provide deeper insights into how Islamic banks can maximize the potential of their murabahah financing products to achieve sustainable profitability.

## **METHOD**

This research employs a quantitative approach with an explanatory research design, where the primary objective is to explore the relationship between murabahah financing and the profitability of Islamic banks, measured by Return on Assets (ROA). In this context, murabahah financing serves as the independent variable, while ROA functions as the dependent variable. Murabahah is one of the most widely used financing instruments in Indonesian Islamic banking, due to its nature of providing a fixed and predictable margin, which is very important in improving the bank's financial stability (Agustina & Irsyad, 2025). Profitability, measured by ROA, reflects the extent to which a bank can generate profits relative to its total assets and is often considered a key indicator of financial performance. In this study, secondary data obtained from the annual financial reports of Islamic banks listed with the Financial Services Authority (OJK) and Bank Indonesia were used, with the research period spanning from 2016 to 2023.

Secondary data is a reliable source in financial research because it can provide complete and valid information, which is necessary for in-depth empirical analysis. Using annual financial reports as a data source allows researchers to analyze factors influencing bank performance over a longer and broader period. This data source also enables the utilization of data from various listed Islamic banks, making the research findings more representative and providing more generalizable insights. Data collection techniques were carried out by downloading financial reports and official publications from Islamic banks, as well as using financial databases from the Financial Services Authority (OJK) and Islamic banking statistics published by Bank Indonesia. This is in line with research conducted by Afrizal et al. (2023), who also used secondary data from Indonesian Islamic banks' annual reports to analyze the influence of murabahah financing on the profitability of Islamic banks.

In this study, the data analysis technique used is panel linear regression, which is a highly effective method for testing the relationship between independent and dependent variables that include both time-series and cross-entity data. Panel regression accounts for both between-bank variation and changes over time, thus providing a more accurate picture of the factors influencing the profitability of Islamic banks. As explained by Putri Nurmala Sari and Maharani (2022), panel regression allows researchers to test more complex data by considering variability among different banks as well as differences that occur during the research period. Using statistical software such as STATA or SPSS, analysis was conducted to evaluate whether murabahah financing has a significant impact on ROA at Islamic banks in Indonesia. Panel regression also helps in identifying long-term relationship patterns between murabahah financing and the profitability of Islamic banks that might not be visible using other analysis methods.

## **RESULT AND DISCUSSION**

### **Characteristics of Murabahah Financing in Indonesian Sharia Banking**

Murabahah financing is one of the main products in Indonesian sharia banking, known for its sale and purchase contract characteristics. In murabahah, the bank purchases the goods or assets requested by the customer and then resells them to the customer at a higher price, which includes a pre-agreed profit margin. The basic principle of murabahah is financing that complies with Islamic law, which does not involve interest or *riba*, thus meeting the criteria for halal transactions (Investopedia Murabaha, 2025). Murabahah is the preferred choice at Islamic banks because it offers high flexibility and aligns with market demand, particularly in Indonesia, where many customers prefer buy-and-sell transactions over the profit-sharing system, which can sometimes be more complex.

The main characteristic of murabahah financing is its ability to provide profit certainty for the bank, as the profit margin has been agreed upon in advance. Thus, Islamic banks can more easily predict cash flow and assess the risk of such financing. This differs from other financing products, such as *musyarakah* or *mudharabah*, which are based on profit sharing and are more dependent on the customer's business results. For example, Kusumawaty (2021) shows that murabahah provides stability in cash flow, which is very important for Islamic banks in maintaining financial health and increasing profitability. Nevertheless, murabahah also faces significant challenges, such as the risk of customer default or non-payment, which can impact the bank's financial health (Yulia et al., 2023).

In Indonesia, murabahah financing has shown a significant growth trend, reflecting high customer preference for buy-and-sell-based financing products. This can be seen from the dominance of murabahah in the financing structure of Islamic banks in Indonesia, which has continued to increase year after year (Mumtaz & Mahardika, 2021). This is also supported by research conducted by Supriansyah et al. (2022), which found that murabahah significantly contributes to the overall income of Islamic banks. They observed that murabahah products not only provide stable income for banks but also support the growth of the Islamic banking sector in Indonesia, which has the largest market share in Southeast Asia.

However, despite its popularity, there are several challenges that Islamic banks must address in managing the risks associated with this product. One of the main problems is the risk of non-performing financing (NPF), where customers are unable to repay their financing according to the agreed-upon terms. As explained by Yulia et al. (2023), murabahah financing is at risk of payment problems, especially because no penalty interest is charged for late payments. This differs from interest-based financing at conventional banks, which generally charge penalty interest, helping to reduce the risk of default. Therefore, Islamic banks need to develop better risk mitigation strategies to reduce the impact of such potential defaults. Overall, murabahah financing in Indonesia reflects customer preference for products that are easier to understand and provide certainty of profit. Nevertheless, challenges such as managing default risk and the need to improve operational efficiency are factors that Islamic banks must consider to maintain their growth. With good management, murabahah can still be a very effective instrument to support Indonesia's economic growth based on sharia principles.

### **International Comparison: Murabahah in the Context of Global Islamic Bank**

Profitability International comparisons regarding murabahah financing in the context of Islamic bank profitability show similar patterns across various countries. Although the main focus

of this research is Indonesia, much international literature indicates that murabahah is a significant contributor to the profitability of Islamic banks globally. Cross-country research reveals that murabahah financing has a positive impact on the profitability of Islamic banks, as found in a study conducted by Arwani and Wakhidin (2018), which showed that murabahah financing significantly affects bank profits in Indonesia. Similar studies in other countries, such as the one conducted by Ijaiya (2021) in Africa, also show that although murabahah is credit-related and risky, it still generates profit for Islamic banks that manage it well.

However, there are challenges in implementing murabahah in various countries, particularly those related to compliance with Sharia principles. In some countries, differences in Sharia standards can affect the effectiveness of murabahah products. For example, research by Abbasi and Aziz (2023) criticized the use of murabahah in certain banks in countries with weaker Sharia systems, where murabahah practices tend to resemble conventional transactions, risking violation of strict Sharia principles. This issue is known as shariah non-compliance, which can reduce the credibility and long-term profitability of murabahah financing products in some international markets. This is important for Indonesian Islamic banks to consider when formulating product policies that are not only compliant with domestic regulations but can also compete in the global market, which increasingly prioritizes transparency and the halal status of products. This international development is highly relevant for Indonesian Islamic banks. As one of the largest markets for Islamic banking, Indonesia needs to ensure that the financing products offered not only meet local needs but are also able to compete with global Islamic banks. According to research by Agustina and Irsyad (2025), murabahah is one of the preferred products due to its stability in providing a fixed margin, which offers predictability in cash flow and profit management. This makes murabahah a very effective product for increasing the profitability of Islamic banks, especially in mature markets like Indonesia.

However, to maintain global competitiveness, Indonesian Islamic banks need to address issues arising from the implementation of murabahah in international markets, such as non-performing financing (NPF) and related risk management. Research by Fahmi et al. (2023) indicates that in countries with high levels of competition between Islamic and conventional banks, murabahah products are often influenced by competitive pressure that can reduce the profitability of Islamic banks. This requires policies that are more focused on risk management, as well as strengthening understanding and compliance with sharia principles in the operations of Islamic banks. By considering these international dynamics, Indonesian Islamic banks can formulate better strategies to remain competitive, improve operational efficiency, and ensure their products remain relevant in an increasingly complex global market.

### **Policy Implications for Islamic Banking in Indonesia**

The policy implications for Islamic banking in Indonesia are very important for maintaining competitiveness and improving operational efficiency. Based on the research findings, Islamic banks need to focus on strengthening the capacity of murabahah products as the main pillar in their financing portfolio. Murabahah, as a form of financing based on buying and selling with an agreed-upon profit margin, has been proven to have a positive impact on the profitability of Islamic banks in Indonesia (Mumtaz & Mahardika, 2021). Therefore, to increase its contribution to

revenue, Islamic banks need to develop and optimize their murabahah products, especially in the context of increasing market demand.

In this regard, Islamic financial technology (Islamic fintech) can play a significant role in supporting the efficiency and expansion of the murabahah market. The development of technology that allows murabahah financing transactions to be carried out faster and easier will help Islamic banks reach more customers, especially among young people who are more familiar with digital technology. A study by Agustina and Irsyad (2025) shows that the use of digital technology in Islamic banking can improve product accessibility and transparency, thereby boosting the volume of murabahah financing. Therefore, it is important for Islamic banks to invest in the development of digital systems that enable the integration of murabahah products with digital banking platforms. On the other hand, the Financial Services Authority (OJK) and Bank Indonesia can play an important role in creating policies that support the use of murabahah as the main financing instrument in Islamic banks. Policies that support market stability and strengthen regulations related to financing risks can help Islamic banks manage murabahah products more effectively. For example, policies governing the management of non-performing financing (NPF) risk in murabahah products can help reduce potential losses from problematic financing (Yulia et al., 2023). Thus, Islamic banks in Indonesia can maintain higher profitability and reduce the negative impact of non-performing financing.

Human resource (HR) training is also an important part of the murabahah product development strategy. Employees with a deep understanding of Sharia principles and the risks associated with murabahah financing can help Islamic banks manage this product more efficiently and in accordance with applicable regulations. Research by Kusumawaty (2021) indicates that banks with human resources trained in managing Islamic financing products tend to perform better, including in terms of risk management and compliance with Islamic principles. Finally, integrating murabahah products with digital banking can expand the customer base of Islamic banks. As the trend of digital banking continues to grow, especially among millennials and Generation Z, integrating murabahah products with digital platforms can help Islamic banks reach more customers across various market segments. A study by Nurfadilah and Samidi (2019) showed that the application of technology in Islamic banking services can increase customers' intention to use Islamic products, including murabahah, more easily and efficiently. Therefore, Islamic banks in Indonesia must leverage the potential of digital technology to strengthen their position in an increasingly competitive market.

## **CONCLUSION**

In conclusion, the study highlights the significant role of Murabaha financing in enhancing the profitability of Islamic banks in Indonesia, particularly through its predictable margin and stability in revenue generation. However, it also points out that the increasing prevalence of Murabaha in the bank's financing portfolio requires careful attention to risks such as non-performing finance (NPF). Therefore, it is essential for Islamic banks to implement robust risk management strategies, which will help mitigate the impact of loan defaults. Furthermore, the growth of financial technology (fintech) can be leveraged to enhance the reach and efficiency of Murabaha products, thereby expanding their market base and profitability. The study also suggests that regulatory bodies such as OJK and Bank Indonesia play a critical role in creating policies that support the

optimization of Murabaha financing, especially in terms of risk management and product diversification. Finally, the integration of Murabaha with digital banking platforms can not only improve the bank's operational efficiency but also attract a younger, tech-savvy customer base, ensuring that Islamic banks remain competitive both locally and globally. By focusing on these areas, Islamic banks in Indonesia can maximize the potential of Murabaha financing and continue to contribute to the growth of the national economy.

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