ABSTRACT

Basel II deems liquidity risk to be a crucial risk to maintain a bank’s stability, especially in a crisis. In addition, regulators also stress the importance of maintaining adequate banking liquidity to support monetary stability achievement. The more funds available, the higher the probability for banks to be able to fulfill their commitments, and the potential for “run” risk will lessen. This study examines the relationship between the risk of funding liquidity in banks and bank risk. It focuses on whether banks’ funding liquidity risk impacts the probability of increasing the risk of banks. In addition, the study also takes into consideration three things that may impact the bank risk related to funding liquidity risk: banks’ size, banks’ capital buffer, and the COVID-19 Pandemic sub-period. The sample data used for this study is quarterly data from Indonesia's conventional bank from the year of 2018 to 2022. The study concludes that in Indonesia, the risk of funding liquidity in banks does increase banks’ risk. The higher the capital buffer, in response to the reduction in the risk of funding liquidity of banks, actually leads to banks’ risk. The size of the bank negatively influences the bank’s risk in response to the decreasing risk of funding liquidity. In addition, during the COVID-19 Pandemic, bank risk remains unaffected by the decrease in funding liquidity risk.

Keywords: funding liquidity, bank risk, bank size, bank capital buffer, pandemic sub-periode, Indonesia conventional bank