International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

The Trade-Off Between Credit Distribution And Liquidity Stability: Empirical Evidence From State-Owned And Foreign Banks In Indonesia

Silvia Goiyo[1], Dr. Herlina Rasjid, SE.,MM[2], Dewi Indrayani Hamin,SE.,MM[3]

[123]Management Study Program, Faculty of Economics and Business, Universitas Negeri Gorontalo, Indonesia.

silvia_s1manajemen@mahasiswa.ung.ac.id, lina_rasjid@ung.ac.id, dewiung@ung.ac.id

Abstract

This study examines the effect of credit distribution on liquidity in state-owned and foreign banks registered with the Financial Services Authority (OJK) in Indonesia during 2021–2025. Banks perform an intermediary function by channeling funds to borrowers while maintaining sufficient liquidity to meet withdrawal demands and short-term obligations. Balancing these activities is therefore essential to banking stability. This research applies a quantitative explanatory approach using secondary data obtained from the annual financial statements of 12 banks, consisting of four state-owned banks and eight foreign banks. The five-year observation period produces 60 bank-year observations. Credit distribution is measured using Total Credit, the Loan to Deposit Ratio (LDR), and Non-Performing Loans (NPL), while liquidity is measured using the Loan to Asset Ratio (LAR), Cash Ratio, and Current Ratio. The data are analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results indicate that credit distribution has a negative and statistically significant effect on bank liquidity, with a path coefficient of −0.927, a t-statistic of 11.762, and a p-value below 0.001. The model obtains an R-square value of 0.859, indicating that credit distribution explains 85.9% of the variation in liquidity in the proposed model. The measurement results further show that LAR contributes significantly to the liquidity construct, whereas the Cash Ratio and Current Ratio do not demonstrate statistically significant contributions. These findings suggest that greater credit allocation is associated with lower liquidity, reflecting the potential reduction in funds readily available to meet short-term obligations. Accordingly, banks should balance lending expansion with prudent credit risk management and adequate liquidity reserves. The findings represent the pooled sample and do not establish differences between state-owned and foreign banks for the banking institutions and period under investigation.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

Keywords: Credit Distribution; Bank Liquidity; State-Owned Banks; Foreign Banks; PLS-SEM.

INTRODUCTION

The banking sector plays a fundamental role in maintaining financial stability and supporting economic growth through its financial intermediation function. Banks collect funds from surplus economic units and redistribute them to deficit economic units through lending activities. This process facilitates consumption, investment, and business expansion while contributing to the efficient allocation of financial resources. However, banking operations involve a fundamental challenge: banks must simultaneously generate income from productive assets and maintain sufficient liquidity to meet their financial obligations. Consequently, the relationship between credit distribution and liquidity stability becomes an important issue in banking management, particularly when economic conditions and financial market dynamics are constantly changing (Kasmir, 2018; Horváth et al., 2014).

Liquidity is one of the most important indicators of banking soundness because it reflects a bank's ability to meet short-term financial obligations, including customer withdrawals and maturing liabilities. Unlike non-financial companies, banks operate with a distinctive financial structure in which deposits may be withdrawn relatively quickly, while loans generally have longer maturities and cannot immediately be converted into cash. This condition creates a maturity mismatch between assets and liabilities. Horváth et al. (2014) explain that banks perform liquidity and maturity transformation by providing liquid funding while investing in less liquid assets. Although this transformation supports economic activity, it also exposes banks to liquidity risk when unexpected withdrawals exceed available liquid resources.

Credit distribution represents one of the primary activities through which banks generate interest income and perform their intermediation function. By extending loans to individuals and businesses, banks allocate financial resources to productive and consumption-related activities. Nevertheless, lending decisions involve consequences for the composition of bank assets and the availability of liquid funds. A substantial proportion of financial resources allocated to loans may reduce the funds immediately available to satisfy short-term obligations. Therefore, banks must carefully evaluate the relationship between lending expansion, funding availability, and liquidity management to ensure that their pursuit of profitability does not undermine operational stability (Kasmir, 2018; Ismail, 2018).

This relationship illustrates the trade-off between credit distribution and liquidity stability. On one hand, increasing lending activities can improve interest income, strengthen financial intermediation, and support economic development. On the other

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

hand, excessive credit expansion may increase liquidity pressure because loans cannot always be converted into cash immediately. Furthermore, deteriorating credit quality may disrupt expected repayment flows and reduce the availability of funds for operational requirements. Consequently, the optimal lending strategy requires banks to balance the benefits of credit expansion against the potential costs associated with liquidity risk. This trade-off is particularly relevant when banks face uncertain economic conditions and changes in customer funding behavior.

The Indonesian banking industry provides an important setting for examining this relationship because banks operate under different ownership structures and institutional characteristics. State-owned banks (Bank BUMN) play a strategic role in supporting national economic development and implementing government-related financial priorities. Their operations are generally characterized by extensive domestic banking activities and significant participation in financing economic sectors. In contrast, foreign banks operate within international banking networks and may be influenced by cross-border funding conditions, global financial strategies, and decisions made by their parent institutions. These differences may produce variations in lending policies, funding structures, and liquidity management practices. Therefore, examining both banking groups provides a relevant perspective on the relationship between credit distribution and liquidity in Indonesia.

The development of banking liquidity in Indonesia during 2021–2025 also demonstrates the importance of this issue. The period covers the recovery of economic activities following the COVID-19 pandemic, during which lending demand and banking funding conditions gradually changed. Based on the data presented in the research document, the national Loan to Deposit Ratio (LDR) increased from 77.10% in 2021 to 80.42% in 2022, 83.66% in 2023, and 86.50% in 2024. In the early period of 2025, the ratio reached approximately 87.77%. This upward movement indicates that a growing proportion of third-party funds was allocated to credit, reflecting the strengthening of banking intermediation alongside changing liquidity conditions (OJK, 2023).

Differences between state-owned and foreign banks are also evident in their LDR developments. During 2021–2025, the average LDR of state-owned banks increased from 89.05% in 2021 to 92.23% in 2025. Meanwhile, foreign banks recorded a lower increase, from 75.34% to 76.95% over the same period. This difference indicates that state-owned banks allocated a relatively larger proportion of their third-party funds to lending activities compared with foreign banks. Although a higher LDR may indicate stronger intermediation, it may also suggest greater pressure on available funding when lending growth is not supported by sufficient deposit growth and liquid asset management. These contrasting developments highlight the importance of investigating liquidity conditions across different banking ownership structures.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

The regulatory environment further emphasizes the importance of maintaining adequate liquidity while conducting lending activities. Indonesian banking institutions are required to implement prudential banking principles in their operations, including the management of funding and credit risks. Law No. 10 of 1998 concerning Banking, particularly Article 29, establishes the importance of conducting banking activities in accordance with sound banking principles. In addition, the Financial Services Authority (Otoritas Jasa Keuangan/OJK) supervises banking operations through applicable prudential regulations and liquidity-related requirements. These regulatory arrangements demonstrate that liquidity management is not merely an internal managerial consideration but also an essential component of maintaining public confidence and financial system stability.

Previous empirical studies have examined the relationship between lending activities and bank liquidity, although their findings indicate different perspectives. Hackethal et al. (2010), in their discussion of bank liquidity creation, explain that banking activities, including lending, can contribute to the creation of liquidity within the financial system. This perspective suggests that credit expansion does not necessarily produce a negative liquidity outcome because banks perform an important role in transforming financial resources into economic opportunities. However, the relationship also depends on how banks manage their assets, liabilities, and funding sources. Therefore, credit distribution should not be evaluated independently of the broader financial structure of banking institutions.

In contrast, other studies emphasize the potential negative consequences of lending activities for bank liquidity. Cornett et al. (2011) demonstrate that financial institutions experienced significant changes in lending behavior and liquidity management during the global financial crisis. Their findings highlight the importance of maintaining liquid resources when financial market conditions become uncertain. Similarly, Ivashina and Scharfstein (2010) found that banks substantially reduced lending during the 2008 financial crisis as funding pressures intensified. These findings indicate that liquidity constraints can influence lending decisions and demonstrate the interconnected relationship between credit supply and banking liquidity. The differences between these perspectives suggest that the relationship is complex and requires further empirical investigation.

Research concerning the Indonesian banking industry also provides relevant evidence regarding this relationship. Arieffianto et al. (2022) highlight the importance of credit distribution and third-party funds in determining banking liquidity dynamics in Indonesia. Their findings suggest that intermediation activities and funding structures are closely associated with liquidity conditions. Furthermore, Murtini and Sisnuhadi (2018) discuss the implications of liquidity and financing risks for banking performance,

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

emphasizing the importance of managing financial risks associated with banking operations. These studies provide a theoretical and empirical foundation for understanding why lending activities must be considered alongside liquidity management, particularly in emerging banking markets.

Despite the growing body of literature, several issues remain relevant for further examination. Previous research has generally investigated liquidity creation, lending behavior, financial crisis conditions, or banking performance using different institutional settings and measurement approaches. The findings do not establish a universally consistent relationship between credit distribution and liquidity. Moreover, differences in ownership structures, funding characteristics, and business strategies may influence how banks respond to lending expansion. Consequently, examining state-owned and foreign banks within the same national banking environment can provide additional empirical evidence concerning the trade-off between credit distribution and liquidity stability.

Another important consideration concerns the measurement of both research variables. Credit distribution cannot be adequately represented by a single financial indicator because its characteristics involve lending volume, the proportion of loans relative to deposits, and credit quality. Accordingly, this study uses Total Credit, Loan to Deposit Ratio (LDR), and Non-Performing Loan (NPL) to represent credit distribution. Meanwhile, liquidity is examined through Loan to Asset Ratio (LAR), Cash Ratio, and Current Ratio. These indicators provide complementary perspectives on the allocation of assets toward lending activities and the availability of financial resources to meet short-term obligations. Their combined application allows the relationship between credit distribution and liquidity to be examined through several dimensions of banking financial conditions.

Based on these considerations, this study addresses the empirical gap by examining the effect of credit distribution on liquidity in state-owned and foreign banks operating in Indonesia during the 2021–2025 period. Using a quantitative approach, secondary data from published bank financial statements are analyzed through purposive sampling, involving 12 banks consisting of four state-owned banks and eight foreign banks, with a total of 60 observations. The study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) to examine the relationship between the research constructs. By incorporating different ownership structures and multiple financial indicators, this research seeks to provide a more comprehensive understanding of how lending activities are associated with liquidity conditions in Indonesian banking institutions.

Therefore, the primary objective of this study is to empirically investigate the effect of credit distribution on liquidity stability in state-owned and foreign banks in Indonesia. More specifically, this research seeks to determine whether the expansion of lending

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

activities is associated with changes in banks' liquidity conditions during the 2021–2025 observation period. The findings are expected to contribute to the literature on banking intermediation and liquidity management, particularly regarding the trade-off between productive asset allocation and the maintenance of liquid resources. Practically, the results may provide insights for banking management in formulating lending strategies that consider funding availability, credit quality, and liquidity requirements. Ultimately, maintaining an appropriate balance between credit expansion and liquidity stability is essential for supporting sustainable banking operations and preserving public confidence in the financial system.

OBJECTIVES

This study aims to examine the trade-off between credit distribution and liquidity stability in state-owned and foreign banks in Indonesia. Specifically, this study seeks to:

1. Analyze the relationship between credit distribution and liquidity stability in the Indonesian banking sector during the 2021–2025 period.
2. Examine the influence of credit distribution on bank liquidity stability, using Total Credit, Loan-to-Deposit Ratio (LDR), and Non-Performing Loans (NPL) as indicators of credit distribution, as well as Loan-to-Asset Ratio (LAR), Cash Ratio, and Current Ratio as indicators of liquidity.
3. Compare the characteristics of credit distribution and liquidity stability between state-owned banks and foreign banks in Indonesia.
4. Provide empirical evidence regarding the trade-off between lending activities and liquidity management, thereby contributing to a better understanding of how bank ownership characteristics relate to the balance between credit expansion and liquidity maintenance.

METHODOLOGY

This study employs a quantitative explanatory research design to examine the relationship between credit distribution and liquidity stability in state-owned and foreign banks operating in Indonesia. The research covers the 2021–2025 period and uses secondary data obtained from banks' published financial statements and OJK banking statistics published for the corresponding observation years annually. The data are analyzed at the bank-year level to assess the association between lending activities and liquidity conditions over time.

The study applies purposive sampling to select banks that meet the research criteria and provide the financial information required to calculate all research indicators throughout the observation period. The final sample consists of 12 banks, comprising four state-owned banks and eight foreign banks. With five years of observations for each

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

bank, the dataset contains 60 bank-year observations. This sample structure enables the study to examine the two ownership groups within a consistent period.

Credit distribution is treated as the independent construct and is assessed using three indicators: Total Credit, Loan-to-Deposit Ratio (LDR), and Non-Performing Loans (NPL). Liquidity stability is treated as the dependent construct and is measured using the Loan-to-Asset Ratio (LAR), Cash Ratio, and Current Ratio. These indicators are derived from the banks' financial statement data using the operational definitions applied in the research.

The collected data are organized and examined using Partial Least Squares Structural Equation Modeling (PLS-SEM). The analysis evaluates the measurement model and the structural relationship between credit distribution and liquidity stability. The measurement assessment considers the suitability of the indicators in representing their respective constructs, while the structural assessment examines the direction, magnitude, and statistical significance of the relationship. The analysis is intended to determine whether credit distribution is associated with changes in liquidity stability and to provide empirical evidence for comparing the lending–liquidity trade-off between state-owned and foreign banks in Indonesia.

DISCUSSION

1. The Effect of Credit Distribution on Banking Liquidity

The findings demonstrate that credit distribution has a negative and statistically significant effect on banking liquidity among state-owned and foreign banks in Indonesia during the 2021–2025 period. The SEM-PLS analysis produces a path coefficient of −0.927, a t-statistic of 11.762, and a p-value of 0.000. Since the t-statistic exceeds the critical value of 1.96 and the p-value is below the 0.05 significance level, the proposed hypothesis is accepted. The negative coefficient indicates an inverse relationship between the two constructs: an increase in credit distribution is associated with a decrease in the liquidity construct measured in this study. These findings provide empirical support for the existence of a trade-off between lending activities and liquidity management in the sampled banks.

The negative relationship can be explained by the fundamental operational activities of banks. Banks collect funds from depositors and redistribute a portion of these funds as loans to individuals and businesses. Although lending generates interest income and supports economic activities, the funds allocated to loans cannot always be immediately converted into cash when depositors withdraw their funds or other short-term obligations become due. Consequently, an increase in credit allocation may reduce the proportion of funds readily available to meet immediate financial obligations. This

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

condition highlights the importance of maintaining a balance between credit expansion and liquid asset availability.

The result is consistent with Cornett et al. (2011), who found that banks facing liquidity pressures adjusted their asset holdings and reduced lending activities. Their research emphasizes that the availability of stable funding and the liquidity of bank assets influence lending capacity. Banks with more stable sources of financing were better positioned to continue lending, while banks holding more illiquid assets faced greater pressure to adjust their lending activities. This supports the argument that lending decisions cannot be separated from liquidity risk management.

Similarly, Ivashina and Scharfstein (2010) demonstrated that funding pressures during the 2008 financial crisis affected banks' lending behavior. Their findings show that banks with better access to deposit financing reduced lending less than banks that depended more heavily on short-term debt. Although their research focuses on a financial crisis in a different economic setting, it illustrates how funding structure and liquidity conditions can influence the capacity of banks to provide credit. Therefore, the negative relationship identified in this study is consistent with the broader understanding that lending activities and liquidity availability are closely interconnected.

2. Credit Distribution, Total Credit, LDR, and NPL

Credit distribution in this study is represented by three indicators: Total Credit, Loan-to-Deposit Ratio (LDR), and Non-Performing Loans (NPL). These indicators describe different dimensions of lending activity. Total Credit represents the scale of loans distributed by banks, LDR reflects the proportion of third-party funds allocated to lending, and NPL indicates the quality of the loan portfolio. The measurement results show that all three indicators contribute significantly to the credit distribution construct. Total Credit has the highest outer weight, at 0.633, indicating that it provides the strongest contribution among the three indicators in forming the construct within the estimated model.

The contribution of Total Credit suggests that the scale of lending is an important dimension in understanding the relationship between credit distribution and liquidity. When banks increase the volume of loans, a greater proportion of their resources may be committed to earning assets. However, the growth of credit should not be evaluated solely in terms of its contribution to income. Banks also need to consider the availability of funds, the maturity structure of their assets, and the possibility that borrowers may not repay their obligations on schedule. Therefore, credit growth requires adequate funding and liquidity planning.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

LDR provides another important perspective because it connects lending activities with third-party funds. A higher LDR generally indicates that a larger proportion of collected funds has been allocated to loans. The descriptive data illustrate variations in lending intensity across the sampled banks. For example, the average LDR of Bank ANZ Indonesia during 2021–2025 was reported at 101.21%, while Bank Mandiri recorded an average of 99.44%. These figures indicate that the two banks had relatively high lending ratios during the observation period. Nevertheless, an LDR above 100% does not automatically mean that a bank is unable to meet its obligations. Its liquidity position also depends on other funding sources, liquid assets, and cash-flow management

NPL represents the credit risk dimension of the construct. When borrowers fail to make principal or interest payments according to the agreed schedule, the expected cash inflows of a bank may be delayed or reduced. This can create additional pressure on liquidity, particularly when the bank must continue meeting deposit withdrawals and other financial obligations. The descriptive results show that the average NPL across the sampled banks declined from 1.93% in 2021 to 1.17% in 2025. Although this indicates a decline in the industry's average NPL within the selected sample, differences remain among individual banks. Therefore, the quality of credit portfolios remains an important consideration in assessing the relationship between lending activities and liquidity.

These findings reinforce the importance of managing both the quantity and quality of loans. An increase in credit distribution may support bank income, but weak credit screening and inadequate monitoring can increase the possibility of non-performing loans. Banks should therefore ensure that credit expansion is accompanied by appropriate borrower assessment, repayment monitoring, and risk mitigation measures.

3. Liquidity Indicators and Their Measurement Implications

Liquidity in this study is represented by Loan-to-Asset Ratio (LAR), Cash Ratio, and Current Ratio. Each indicator captures a different aspect of the bank's financial position. LAR describes the proportion of total assets allocated to loans, while Cash Ratio and Current Ratio provide information about the bank's capacity to meet short-term obligations using the relevant asset components defined in the study's operational measurements.

The measurement results indicate that LAR contributes significantly to the liquidity construct, with an outer weight of −1.053, a t-statistic of 9.710, and a p-value of 0.000. In contrast, Cash Ratio has an outer weight of 0.088 with a p-value of 0.698, while Current Ratio has an outer weight of −0.157 with a p-value of 0.493. These two indicators do not demonstrate statistically significant contributions to the formation of the liquidity construct in the estimated measurement model.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

The significant contribution of LAR requires careful interpretation. A higher proportion of loans relative to total assets indicates that a larger share of bank assets is allocated to credit. However, loans are generally less immediately available than cash or other highly liquid assets. Consequently, an increase in LAR should not automatically be interpreted as an improvement in a bank's ability to meet short-term obligations. In the context of this study, the negative relationship between credit distribution and liquidity should be understood in light of the indicators and their operational definitions rather than assuming that all liquidity ratios move in exactly the same direction or magnitude.

The non-significant results for Cash Ratio and Current Ratio also require consideration. These findings do not mean that cash availability and short-term payment capacity are unimportant to banking operations. Instead, they indicate that these indicators did not make statistically significant contributions to the liquidity construct under the estimated model. The study also identifies multicollinearity concerns, with VIF values of 17.532 for Cash Ratio and 16.644 for Current Ratio, both exceeding the recommended threshold of 5 for the formative measurement assessment applied in the thesis. This suggests a relatively high degree of overlap between the two indicators.

Hair et al. (2022) explain that the evaluation of formative measurement models should consider indicator relevance, collinearity, and the significance of outer weights. An indicator that is not statistically significant does not necessarily have to be removed if it has a strong theoretical justification and contributes to the content validity of the construct. Nevertheless, its retention should be supported by transparent reporting and appropriate measurement evaluation. Accordingly, Cash Ratio and Current Ratio remain conceptually relevant to liquidity management, even though their estimated contributions are not statistically significant in this study.

4. Theoretical Interpretation: Financial Intermediation and the Lending–Liquidity Trade-Off

The findings can be interpreted through the financial intermediation function of banks. Banks act as intermediaries between parties with surplus funds and parties requiring financing. In performing this function, banks transform funds collected from depositors into loans and other financial assets. This process supports economic activities but also creates a potential mismatch between the liquidity and maturity characteristics of bank assets and liabilities.

Diamond and Dybvig (1983) explain that banks provide depositors with access to funds while investing deposits in assets that may not be immediately liquid. This arrangement enables banks to perform an important economic function, but it also exposes them to liquidity pressures when withdrawals exceed the funds readily available. In this regard, the negative relationship found in this study reflects a fundamental

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

characteristic of banking operations: funds allocated to loans may not be available immediately to meet short-term obligations.

Horváth et al. (2014) also demonstrate that banking activities involve a relationship between liquidity creation and financial stability. Their study identifies interactions between bank capital and liquidity creation, showing that expanding one dimension of banking activity may involve trade-offs with another. Although their research focuses on Czech banks and examines capital and liquidity creation, it provides a relevant theoretical perspective for understanding why banks must balance asset allocation, funding, and liquidity management.

The trade-off identified in this study does not imply that banks should avoid expanding credit. Credit distribution remains an essential function of banks and an important source of interest income. Rather, the findings indicate that credit expansion should be conducted alongside adequate liquidity planning. Banks need to ensure that their lending strategies are supported by stable funding sources, sufficient liquid assets, and effective risk management. In this way, banks can continue performing their intermediation function without overlooking their obligations to depositors and other creditors.

5. Comparison with Previous Studies and Implications for Bank Management

The findings are broadly consistent with Cornett et al. (2011), who emphasize the relationship between asset liquidity, funding stability, and credit supply. They are also comparable with Ivashina and Scharfstein (2010), who demonstrate that funding constraints can affect banks' ability to maintain lending activities. In addition, Magdalena et al. (2024) examine the relationship between distributed loans, non-performing loans, and bank liquidity in Indonesia. These studies provide relevant points of comparison because they highlight the importance of managing lending volume, credit quality, and funding conditions together.

The present study contributes to this discussion by examining a sample consisting of four state-owned banks and eight foreign banks operating in Indonesia over five years, resulting in 60 bank-year observations. The analysis provides evidence of a significant negative relationship between credit distribution and liquidity across the combined sample. However, because the estimated structural model tests the relationship for the pooled sample, the result should not be interpreted as proof that the magnitude of the relationship is identical for state-owned and foreign banks. A separate multi-group analysis would be required to establish whether ownership category significantly changes the relationship.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

From a managerial perspective, the findings suggest several important considerations. First, banks should align credit expansion with the availability and stability of funding sources, particularly third-party funds. Second, banks need to maintain an adequate proportion of liquid assets to respond to withdrawals and short-term obligations. Third, credit quality should remain a priority because non-performing loans may delay cash inflows and increase liquidity pressure. Finally, lending and liquidity decisions should be evaluated together rather than treated as separate management functions.

Overall, the study confirms that credit distribution has a negative and significant relationship with banking liquidity in the selected state-owned and foreign banks during 2021–2025. The R-Square value of 0.859 indicates that the credit distribution construct explains 85.9% of the variation in the liquidity construct within the estimated model, while the remaining 14.1% is associated with factors outside the model. This result indicates strong explanatory power within the research model, although it does not establish that credit distribution is the only determinant of bank liquidity. Other factors, such as third-party funds, capital adequacy, asset composition, credit quality, and macroeconomic conditions, may also influence liquidity. Future research may incorporate these variables and apply a multi-group approach to examine differences between state-owned and foreign banks more specifically.

CONCLUSION

This study concludes that credit distribution has a negative and statistically significant effect on bank liquidity among state-owned and foreign banks listed with the Financial Services Authority (OJK) during the 2021–2025 period. The PLS-SEM analysis shows a path coefficient of −0.927, a t-statistic of 11.762, and a p-value of less than 0.001. These findings indicate that an increase in credit distribution is associated with a decrease in bank liquidity. The model also produces an R-square value of 0.859, suggesting that credit distribution explains 85.9% of the variation in bank liquidity within the research model.

The findings imply that banks need to maintain a balance between expanding credit distribution and ensuring sufficient liquidity to meet their short-term obligations. Although lending is an important source of bank income, excessive allocation of funds to credit may reduce the availability of liquid assets. Therefore, banks should strengthen credit risk management, monitor the quality of their loan portfolios, and maintain adequate liquid asset reserves to support operational stability.

Furthermore, the measurement model indicates that not all liquidity indicators contribute significantly to the construction of the liquidity variable. The Loan to Asset Ratio (LAR) demonstrates a significant contribution, whereas the Cash Ratio and Current Ratio do not show statistically significant contributions in this model. These results suggest that

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

the interpretation of bank liquidity should consider the characteristics and suitability of the indicators used.

Overall, this study highlights the importance of prudent credit distribution policies in maintaining bank liquidity. Future research is encouraged to include additional variables, extend the observation period, and apply comparative analysis to examine whether the relationship between credit distribution and liquidity differs between state-owned and foreign banks. Such approaches may provide a more comprehensive understanding of the factors influencing banking liquidity.

REFERENCES

Agung, A., Puteri, A., & Rahyuda, H. (2024). Pengaruh likuiditas dan risiko kredit terhadap profitabilitas dengan kecukupan modal sebagai variabel mediasi. Buletin Studi Ekonomi, 29(1), 50–61.

Cornett, M. M., McNutt, J. J., Strahan, P. E., & Tehranian, H. (2011). Liquidity risk management and credit supply in the financial crisis. Journal of Financial Economics, 101(2), 297–312.

Diamond, D. W., & Dybvig, P. H. (1983). Bank runs, deposit insurance, and liquidity. *Journal of Political Economy, 91*(3), 401–419.

Hackethal, A., Rauch, C., Steffen, S., & Tyrell, M. (2010). Determinants of bank liquidity creation. SSRN Electronic Journal.

Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2022). *A primer on partial least squares structural equation modeling (PLS-SEM)* (3rd ed.). SAGE Publications.

Horváth, R., Seidler, J., & Weill, L. (2014). Bank capital and liquidity creation: Granger-causality evidence. Journal of Financial Services Research, 45(3), 341–361.

Ismail. (2018). Manajemen perbankan: Dari teori menuju aplikasi. Kencana Prenadamedia Group.

Ivashina, V., & Scharfstein, D. (2010). Bank lending during the financial crisis of 2008. Journal of Financial Economics, 97(3), 319–338. https://doi.org/10.1016/j.jfineco.2009.12.001

Kasmir. (2018). Manajemen perbankan (14th ed.). PT RajaGrafindo Persada.

Magdalena, A., Sahala, B. M., Hasibuan, D. H., & Adidah, L. (2024). Pengaruh kredit yang disalurkan dan kredit bermasalah terhadap likuiditas bank: Studi kasus perbankan yang terdaftar di BEI, Bank BCA, BNI, BRI, CIMB Niaga dan Mandiri. *Jurnal Ekonomi Bisnis, Manajemen dan Akuntansi (JEBMA), 4*, 59–78.

Murtini, U., & Sisnuhadi. (2018). Effect of liquidity and financing risk on bank performance. Prosiding Business and Economics Conference in Utilizing of Modern Technology, 499–517.

Otoritas Jasa Keuangan. (2023). Statistik perbankan Indonesia. Otoritas Jasa Keuangan.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

Republik Indonesia. (1998). Undang-Undang Republik Indonesia Nomor 10 Tahun 1998 tentang Perubahan atas Undang-Undang Nomor 7 Tahun 1992 tentang Perbankan.

Copyright at authors some right reserved this work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.