ABSTRACT

Liquidity creation has been getting much more attention from researchers in the past decades, especially since the establishment of the 1988 capital accord and the 2008 Global Financial Crisis (GFC). Furthermore, the financial intermediary function of banks that allows them to get capital from the surplus unites and transfers it to deficit units, makes banks vulnerable to certain risk. Hence, considering the soundness of bank to counter crisis is crucial. This study attempts to examine the impact of bank soundness, determinates by capital adequacy, asset quality, management efficiency, earning ability, liquidity, and sensitivity to market risk, to the creation of liquidity of banks in two proxies: (1) Assets and (2) Loans. In addition, this study uses 31 commercial banks across Asia-Pacific region as the basis data.

The results shows that capital adequacy has a significant-positive impact on the proxy of assets, but turns negative-non-significant on the loan proxy. Furthermore, asset quality has positive impact to liquidity creation, but not in a significant way in both proxies. The management efficiency, determined by two indicators has a negative effect in the first indicator of other operating income ratio, but turns oppositely in the second indicator of non-interest expense ratio. Earning ability has a positive and significant effect to liquidity creation in both proxies, while LCR has a same effect but only significant in asset proxy. Finally, NSFR and Sensitivity to market risk have negative effect to liquidity creation in both proxies.