



**THE RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY OF  
BANKS IN MALAYSIA AND INDONESIA**

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## ABSTRACT

The aim of this paper is to examine the relationship between liquidity and profitability of banks in Malaysia and Indonesia. Total of 20 local commercial banks were used in this study. 8 of them from Malaysia and 12 from Indonesia. This paper uses the secondary information of 8 Malaysia local commercial banks and 12 Indonesia local commercial banks for the period of 9 years from 2010 to 2018. Finding shows that there are no existent of causal relationship between liquidity and profitability of banks in Malaysia and Indonesia. The movement of liquidity and profitability are in one direction but not significant. Result of theory testing dependent on connection between independent and dependent variables are completely in accordance with the theory of financial intermediaries which according to the finding is not line up with theory as the relationship for both liquidity and profitability of banks is insignificant. Thus, both variables were found to be not affecting each other.

performance

## 1.1 BACKGROUND OF STUDY

In financial crisis, liquidity is a key factor in determining the survival of a bank. The lack of liquidity can lead to a bank's failure, even if it is profitable. The relationship between liquidity and profitability is a complex one, and it is not always clear how they are related. This paper aims to explore the relationship between liquidity and profitability of banks in Malaysia and Indonesia. The study uses secondary data from 20 local commercial banks (8 from Malaysia and 12 from Indonesia) for the period of 9 years (2010-2018). The findings show that there is no significant causal relationship between liquidity and profitability of banks in Malaysia and Indonesia. The movement of liquidity and profitability are in one direction but not significant. The result of theory testing dependent on connection between independent and dependent variables are completely in accordance with the theory of financial intermediaries which according to the finding is not line up with theory as the relationship for both liquidity and profitability of banks is insignificant. Thus, both variables were found to be not affecting each other.