

THE IMPACT OF CHANGES IN BANK INDONESIA'S INTEREST RATE POLICY ON THE LIQUIDITY OF CONVENTIONAL COMMERCIAL BANKS

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ABSTRACT

This study aims to examine the impact of Bank Indonesia's interest rate policy on customer savings decisions regarding choosing savings products in conventional banks, as well as its effect on the liquidity of these banks. The research utilizes a literature review method with a qualitative descriptive approach. The results and discussion indicate that the offered interest rates by conventional banks significantly influence customer behavior in selecting savings products. Changes in interest rates can affect customers' inclination to save in banks and consequently impact the liquidity of conventional banks. Other factors that influence customer decisions include product promotions, service quality, and customer preferences. While changes in Bank Indonesia's interest rate policy can affect customer loyalty to banks, customer preferences in choosing savings products are also influenced by other non-interest rate-related factors. This study provides an in-depth understanding of the impact of interest rate changes on the liquidity of conventional banks, offering valuable insights for Bank Indonesia and conventional banks in formulating effective policies to maintain financial sector stability and foster sustainable economic growth.

Keywords: Conventional Commercial Banks, Rate Policy, Bank Indonesia

INTRODUCTION

Bank Indonesia (BI) is the central bank of Indonesia. As a financial intermediary institution, banks are the lifeblood of the economy throughout the country (Putra Mada & Denny Arfinto, 2015). In developing the banking industry in Indonesia, banks are expected to be able to properly mobilize public savings funds. The funds received by the bank from the community,

which are excess funds, are then channeled back to the people in need. This aims to ensure the wheels of the economy run well.

In the context of the modern economy, interest rate policy implemented by the central bank has a very important role in regulating and regulating influencing a country's financial condition (Wibowo et al., 2017). This interest rate policy not only impacts the banking sector, but also has far-reaching implications for overall economic stability. In Indonesia, Bank Indonesia (BI) as the central bank is responsible for formulating and implementing monetary policy to achieve sustainable price and financial stability.

The impact of changes in BI interest rate policy on conventional commercial banks can be seen in two main areas: customer decisions in choosing savings products and liquidity. Conventional commercial banks can be significantly affected by changes in BI's interest rate policy. This is because commercial banks charge interest on the money they borrow and lend. Commercial banks have to pay more to borrow money when BI raises interest rates. The amount of money available for lending by commercial banks may decrease as a result. Further increases in interest rates can have a significant impact on bank liquidity. This is due to the necessity of banks to borrow at higher interest rates. This increase could lead to a decrease in the bank's ability to meet its short-term obligations, due to such higher borrowing costs.

On the other hand, when BI lowers interest rates, commercial banks can borrow money at lower costs. The amount of money available to be lent by commercial banks may increase as a result. Further reductions in interest rates may not have a major impact on bank liquidity. The reason for this is because banks are already borrowing at the lowest possible interest rates. For example, they have taken advantage of low interest rate conditions to get loans at a cheaper cost.

One important aspect of interest rate policy is its impact on the liquidity of conventional commercial banks. The liquidity of conventional commercial banks is a key factor in maintaining financial sector stability and providing support for overall economic growth (Yeniwati, 2020). With sufficient liquidity, conventional commercial banks can meet people's financing needs,

expand access to credit, and facilitate financial transactions needed in various economic activities (Yesi Hendriani Supartoyo, 2017).

In this context, changes in Bank Indonesia's interest rate policy have the potential to affect the liquidity of conventional commercial banks. Changes in central bank interest rates can impact various aspects of a bank's operations, including bank funding costs, credit requests from customers, as well as the level of investment and risk taken by conventional commercial banks. Therefore, it is important to understand in depth how changes in interest rates can affect the liquidity of conventional commercial banks and their implications for financial system stability. The impact of changes in BI interest rate policy on conventional commercial banks can be seen in two main areas: customer decisions in choosing savings products and liquidity.

The impact of changes in Bank Indonesia's interest rates on the liquidity of conventional commercial banks is a complex issue. The impact depends on a variety of factors, including existing interest rates, economic conditions, and the behavior of banks and other financial institutions.

Using a theoretical approach, this study will investigate the relationship between changes in Bank Indonesia's interest rate policy and the liquidity of conventional commercial banks. In this case, the research focus will be given to related theoretical concepts, such as monetary policy transmission, customer decisions in choosing financial products, the effect of interest rates on liquidity, and the mechanism of influence of interest rate policy on the liquidity of conventional commercial banks. (Adina Astasia & Faeni, 2021).

Careful theoretical analysis will provide a deep understanding of the impact of changes in Bank Indonesia's interest rate policy on the liquidity of conventional commercial banks. In addition, this study will also identify other factors that can influence the relationship between interest rate policy and liquidity of conventional commercial banks, such as macroprudential policy, global financial market conditions, and banking regulation.

This research is expected to contribute to the development of knowledge on the relationship between Bank Indonesia's interest rate policy and the liquidity of conventional commercial banks. In addition, the results of this study are expected to provide important insights for Bank Indonesia in formulating more effective monetary policy, as well as for conventional

commercial banks in managing their liquidity to support financial sector stability and sustainable economic growth.

In accordance with the information provided, the main problems to be discussed in this study are:

1. How will changes in Bank Indonesia's interest rate policy affect customer decisions in choosing savings products at conventional commercial banks?
2. Does Bank Indonesia's interest rate policy affect the liquidity of conventional commercial banks?

RESEARCH METHOD

This research adopts a literature study method with a qualitative descriptive approach. This approach was chosen to enable researchers to extract rich and in-depth data from various relevant literature sources, such as relevant journals, research reports, as well as various sources of information that can be accessed both through print and online media. In conducting the analysis, the researcher will develop a comprehensive conceptual framework by combining different findings and perspectives from the various sources. The descriptive qualitative approach is used to describe in detail and in depth the impact of Bank Indonesia's interest rate policy changes on the liquidity of conventional commercial banks, identify factors that affect liquidity, and analyse changes and patterns that occur in banks' responses to interest rate changes. Thus, this study is expected to provide valuable insights and significant contributions in understanding the relationship between interest rate policy and liquidity of conventional commercial banks.

RESULTS AND DISCUSSION

Effect of Changes in Bank Indonesia Interest Rate Policy on Customer Decisions in Choosing Savings Products

In an effort to encourage customers to save at the bank, various strategies have been implemented. One of them is by setting interest rates by banks. The interest rates offered by banks have a significant influence on the behavior of bank customers. The interest given by the bank to customers is

an important factor that attracts the public to save their money in the bank. In the context of Islamic banking, the principle applied is different, namely using a profit-sharing system instead of interest. This is one of the main differences between Islamic banks and conventional banks. In conventional banks, the interest rate set has the aim of attracting customers to participate in saving activities at the bank. However, fluctuations in interest rates are a challenge for conventional banks. Interest rate volatility can affect customers' interest in saving, as they tend to be more attracted to banks that are able to provide greater rewards or profits.

When deposit interest rates are high, this will encourage customers to keep their funds in the bank in the hope of getting a greater return. Conversely, when interest rates are low, customer interest in saving tends to decrease. High interest rates may also encourage investors to keep their funds in banks rather than invest in production sectors or industries that carry a higher level of risk. For banks, higher customer interest in saving indicates a higher level of trust in the bank. In this case, higher customer trust will have a positive impact on the bank in terms of increasing public fund collection. This in turn will increase the bank's ability to finance its operations, especially through lending to the public.

In addition to the interest rate set by the bank, there are other factors that need to be considered to attract customer interest, namely the bank's efforts in promoting its products. Through promotional activities, banks can introduce their products to customers, so that they can have a better understanding of the products offered by the bank. Promotion is important for every company, including in the banking industry, because no matter how good the product is, if it is not known by customers, then the product will not succeed in the market.

Service quality also has a close relationship with customer satisfaction. Quality service can encourage customers to form strong relationships with the company. In the long run, this allows companies to understand well the expectations and needs of their customers. Thus, companies can increase customer satisfaction by providing a pleasant experience and minimizing a less pleasant experience.

Customer service is an important aspect for banks in an effort to provide satisfaction to customers, so that customers still trust the bank and avoid switching to other banks. Understanding of quality service can only be achieved through the customer's point of view, so banks need to formulate quality service through the customer's perspective. Banks also need to pay attention to the presence of various banking services in Indonesia that compete in providing quality services to each of their customers. For the progress of the bank, it is important to pay attention to customer demand for a product or service to be offered, one of which is by improving the quality of service. Customers can make decisions on a product or service, and one of the factors that can influence these decisions is the improvement of the quality of services provided.

Changes in Bank Indonesia's interest rate policy have an influence on customer decisions in choosing savings products, with several factors that need to be considered, namely:

1. The interest rates offered by conventional banks can affect customer loyalty. When conventional bank interest rates change, this can influence the customer's decision whether to keep their savings at the bank or look for alternatives that offer higher interest rates (Kaspul Anwar, 2018).
2. Customer preferences in choosing conventional banking services are more influenced by other factors that are not directly related to the product, such as the quality of services provided by the bank. Although interest rates have an influence, customers also consider a satisfactory service experience before deciding to choose a savings product (Pratiwi AR et al., 2022).
3. Interest rates also affect mudharabah deposit products offered by Islamic banks. Changes in interest rates can affect the level of profit or profit sharing given to customers in mudharabah deposit products.
4. Interest rates have a positive and significant influence on deposit products offered by PT Bank Rakyat Indonesia. The customer's decision in choosing a savings product is influenced by the interest rate offered by the bank.
5. The customer's decision in choosing a banking product is influenced by several factors such as the quality of services provided by the bank, the

level of customer trust in the bank, and the image of the bank. Although interest rates have an influence, other factors also play a role in customer decisions.

Although interest rates have an influence, it is important to remember that other factors such as service quality, bank reputation, and the location of bank offices/branches can also influence customer decisions in choosing savings products at conventional commercial banks. The Customer considers all these aspects before making a final decision.

Factors Influencing the Decision

There are several factors that influence customer decisions in choosing savings products at conventional commercial banks. Here are the factors that play a role in making such decisions:

- a) Interest rates: The interest rates offered by banks play an important role in influencing customer preferences (Rohmadi, 2016). One of the main sources of income for conventional banks is the profit from the difference between the interest received from loans given and the interest paid on customer deposits. Therefore, interest rates are a factor that has an influence on customer decisions in choosing savings products at conventional commercial banks.
- b) Quality of service: The quality of service provided by banks also has a significant influence. Customers will choose a bank that provides good service, is quick to respond, efficient, and friendly to customers.
- c) Bank reputation: Bank reputation is an important consideration factor in choosing savings products. Customers will prefer banks that have a good reputation and are considered trustworthy. (Saputra et al., 2017)
- d) Product features and benefits: The features and benefits offered by savings products also influence customer decisions. Customers will consider whether the savings product has features that suit their needs and financial goals.
- e) Fees and rates: Customers will also consider the fees and rates associated with savings products. Fees such as administration fees, cash withdrawals, or transfers can influence customer decisions.

- f) Trust and security: Trust and security are important factors in choosing a savings product. Customers want to keep their funds in a bank that is considered safe and reliable.
- g) Promotions and special offers: Promotions and special offers from banks can also influence customer decisions. Customers can be attracted by promotional interest or bonuses offered by the bank.

Customer decisions in choosing savings products in conventional commercial banks are influenced by several important factors. The interest rate offered by the bank is one of the main factors considered by customers, because it can affect the level of profit obtained from their savings. The administration fee charged by the bank is also an important consideration, as customers tend to look for savings products with affordable administration fees. Additional features such as debit cards, electronic banking services, and loyalty programs can also be a determining factor in choosing a savings product. Each customer has different preferences in choosing a savings product, and the above factors can have different levels of importance for each individual. Therefore, banks need to understand customer preferences and provide savings products that suit their needs and provide competitive added value to attract customers.

Liquidity Concept

Liquidity is the ability of an entity to fulfill all its obligations that must be paid quickly in a short period of time. A company is considered to have liquidity if it has assets that can be easily converted into a means of payment that is greater than its total liabilities (Arya Darmawan, 2016). Liquidity refers to the ability of a company to meet its financial obligations in the short term (Uly Dewi, 2016). This reflects how easily the company can repay debts or meet other payment obligations using available resources. Liquidity also serves as an indicator in showing the extent to which a company can quickly convert assets into cash to meet immediate financial needs.

Liquidity functions:

- 1) Liquidity can be used as a tool to analyze and interpret the short-term financial position of a company.
- 2) Liquidity can be a trigger for a company to pay off its debts.

- 3) Liquidity can be used in anticipation of funds if the company needs them (DEWI FITRIANA et al., 2016).
- 4) Liquidity can be used to determine the success of a small and medium enterprise (SME).
- 5) Liquidity can help companies achieve liquidity in crisis situations.
- 6) Liquidity can be used to determine the extent to which a company can obtain credit.

There are three types of liquidity to understand:

a. Asset Liquidity:

Asset liquidity describes how easily and quickly an asset can be converted into cash without experiencing a significant decrease in value. The easier an asset can be converted into cash, the more liquid it becomes. Examples are cash, time deposits, or securities that can be traded easily.

b. Market Liquidity:

Market liquidity reflects the ability to buy or sell a financial asset quickly without significantly affecting the market price. The higher the market liquidity, the easier one can make transactions without affecting the price. Market liquidity is affected by trading volume, market depth, and trading activity on the asset.

c. Funding Liquidity:

Funding liquidity refers to the ability of an enterprise to obtain the necessary funds to meet financial obligations. This involves a company's access to adequate sources of funds, whether through loans, share capital, or internal funding. Funding liquidity is important so that the company has enough funds to meet maturing payment obligations (Czelleng, 2020).

Overall, liquidity is the ability of a company to meet financial obligations in the short term. There are three types of liquidity, namely asset liquidity which describes the ease of converting assets into cash, market liquidity which reflects the ease of making transactions without affecting prices, and funding liquidity related to the company's ability to obtain the necessary funds.

The Importance of Liquidity for Conventional Commercial Banks

The following are points that explain the reasons why liquidity is important for conventional banks:

- 1) Liquidity as a measure of a bank's ability: Liquidity reflects a bank's ability to meet its financial obligations in a timely manner. This is important so that banks can pay customers who withdraw funds or pay off overdue credits (Ibnudin, 2016).
- 2) Liquidity management to minimize risk: Liquidity management is a crucial factor in banking to reduce possible risks. By managing liquidity well, banks can avoid situations where they do not have enough funds to meet their financial obligations.
- 3) The importance of liquidity for the health of the bank: Adequate liquidity is an important condition to maintain the health of a bank. By having sufficient liquidity, banks can maintain smooth operations, maintain customer trust, and protect their reputation in the market.
- 4) Liquidity management as an important function: Liquidity management is one of the main functions in a bank. It involves managing liquidity resources, monitoring cash flow, and careful planning to ensure the bank has enough funds to meet its financial needs.
- 5) Impact of excessive liquidity: While adequate liquidity is important, excessive liquidity can also be a problem. This can happen due to weak infrastructure in payment systems and interbank money markets. Excess liquidity can disrupt the management of bank funds and reduce its operational efficiency.
- 6) Liquidity risk as a significant risk: Liquidity risk is a risk faced by conventional banks. This is associated with the inability of banks to meet their financial obligations due to lack of liquidity. These risks can affect the stability of the bank and require an effective risk management strategy (Bani & Yaya, 2016).

Overall, liquidity has an important role for conventional banks. Adequate liquidity helps banks meet financial obligations, manage risks, maintain bank health, and ensure smooth operations. However, it is also necessary to be aware of excessive liquidity and the risks associated with lack of liquidity. Effective liquidity management is key in maintaining the stability and success of conventional banks.

Effect of Bank Indonesia's Interest Rate Policy on Liquidity

The potential impact of Bank Indonesia's interest rate policy on conventional bank liquidity includes:

- 1) Fluctuations in interest rates can affect a bank's profitability, which in turn can affect its liquidity.
- 2) Policy interest rates may affect customer behavior when repaying loans, which may affect the risk of non-performing loans.
- 3) Policy interest rates are used by traditional banks as a reference when setting their own interest rates, which may affect their ability to attract customers.
- 4) Prime rates may also influence customer behavior when choosing between traditional and Islamic banks.

Bank Indonesia's interest rate policy has a significant impact on the liquidity of conventional commercial banks. Changes in interest rates applied by Bank Indonesia may affect the availability and cost of funds accessible to these banks.

In addition, the BI rate policy also has an impact on public behavior in making financing payments, which in turn affects the risk of bad loans. When BI interest rates are raised, conventional commercial banks tend to face increased borrowing costs, which in turn can reduce the availability of funds that can be used to finance operational activities and lending. In this situation, the liquidity of conventional commercial banks can be affected by the potential decrease in customer deposits and a decrease in funds available to invest.

Conversely, when BI interest rates are lowered, conventional commercial banks may experience a decrease in borrowing costs. This can increase their liquidity by encouraging increased customer deposits and greater availability of funds for lending. Low interest rates can also encourage conventional commercial banks to offer more attractive savings products to attract customers and strengthen their liquidity.

In addition, changes in BI interest rates can also affect customer behavior. Higher interest rates can encourage customers to save more at conventional commercial banks to earn higher returns. Conversely, low

interest rates can reduce customers' interest in saving at the bank and are more inclined to look for investment alternatives that provide higher returns.

Liquidity risk is the risk faced by banks when they are unable to meet their maturing payment obligations. Bank Indonesia Regulation (PBI) No.11/25/2009 states that liquidity risk applies to Islamic and conventional banks (Amalinda Harahap et al., 2022).

Bank Indonesia's interest rate policy has a significant influence on the liquidity of conventional commercial banks. Changes in interest rates can affect the availability and cost of funds, as well as customer behavior regarding saving decisions. Conventional commercial banks need to pay attention to changes in interest rate policy in managing their liquidity in order to maintain an optimal balance in banking operations

CONCLUSION

The conclusion of the factors that influence customer decisions in choosing savings products in conventional commercial banks is that interest rates, quality of service, bank reputation, product features and benefits, fees and rates, trust and security, and promotions and special offers have an important role. The interest rate offered by the bank has a significant influence on customer interest in saving. In addition, service quality, bank reputation, and customer trust also play an important role in maintaining customer satisfaction.

Other factors such as product features and benefits, fees and rates, as well as promotions and special offers also influence customers' decisions in choosing savings products. It is important for banks to understand customer preferences and provide products that suit their needs and provide competitive added value.

In addition, Bank Indonesia's interest rate policy also has a significant impact on the liquidity of conventional commercial banks. Changes in interest rates can affect the availability and cost of funds accessible to these banks. Conventional commercial banks need to pay attention to these interest rate policies in managing their liquidity in order to maintain optimal operational balance.

In liquidity management, both in conventional and Islamic banks, it is necessary to do it effectively to reduce liquidity risk and maintain the health of the entity. All of these factors have an important role in maintaining customer trust, meeting financial needs, and achieving success in the banking industry.

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