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UNDERSTANDING THE DYNAMICS OF LIQUIDITY AND INFLATION ON ISLAMIC BANK PROFITABILITY IN INDONESIA

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Abstract :

This study investigates the impact of liquidity ratios on the profitability of Islamic banks in Indonesia, with inflation introduced as a moderating variable. Using a quantitative explanatory research design, the study analyzes secondary data from 11 Islamic banks over the 2021 to 2023 period. The liquidity indicators include the Cash Ratio, Quick Ratio, and Current Ratio, while Return on Assets (ROA) is used as a proxy for profitability. Inflation data is obtained from the national consumer price index. Multiple linear regression with interaction terms is employed to assess both direct and moderating effects. The classical assumption tests confirm that the model is free from normality violations, multicollinearity, autocorrelation, and heteroskedasticity. The regression results reveal that the Quick Ratio has a significant positive effect on profitability, while the Current Ratio has a significant negative impact. The Cash Ratio shows no significant influence on ROA. Inflation does not affect ROA directly but moderates the relationship between liquidity and profitability in two out of three indicators. The interaction between Quick Ratio and inflation is negative, while the interaction between Current Ratio and inflation is positive. These findings highlight the importance of adaptive liquidity strategies under varying macroeconomic conditions.

Keywords : *Islamic banking, liquidity ratio, inflation, ROA, profitability*

Abstrak :

Penelitian ini mengkaji pengaruh rasio likuiditas terhadap profitabilitas bank syariah di Indonesia dengan inflasi sebagai variabel moderasi. Dengan menggunakan desain penelitian kuantitatif eksplanatori, penelitian ini menganalisis data sekunder dari 11 bank syariah selama periode 2021 hingga 2023. Indikator likuiditas yang digunakan adalah Cash Ratio, Quick Ratio, dan Current Ratio, sementara Return on Assets (ROA) dijadikan proksi untuk profitabilitas. Data inflasi diperoleh dari indeks harga konsumen nasional. Analisis dilakukan dengan regresi linear berganda yang mencakup interaksi untuk mengevaluasi efek langsung dan efek moderasi. Uji asumsi klasik menunjukkan bahwa model bebas dari pelanggaran normalitas, multikolinearitas, autokorelasi, dan heteroskedastisitas. Hasil regresi menunjukkan bahwa Quick Ratio berpengaruh positif signifikan terhadap profitabilitas, sementara Current Ratio berpengaruh negatif signifikan. Cash Ratio tidak menunjukkan pengaruh signifikan terhadap ROA. Inflasi tidak berpengaruh langsung terhadap

ROA, namun memoderasi hubungan antara rasio likuiditas dan profitabilitas pada dua dari tiga indikator. Interaksi antara Quick Ratio dan inflasi bersifat negatif, sedangkan interaksi antara Current Ratio dan inflasi bersifat positif. Temuan ini menegaskan pentingnya strategi likuiditas yang adaptif dalam menghadapi kondisi makroekonomi yang dinamis.
Kata Kunci: *perbankan syariah, rasio likuiditas, inflasi, ROA, profitabilitas*

INTRODUCTION

The performance of the banking sector in Indonesia is closely tied to both internal financial indicators and broader macroeconomic dynamics. Among these, liquidity and inflation stand out as key variables influencing bank profitability. While banks are expected to maintain adequate liquidity levels to ensure solvency and stability, the relationship between liquidity and profitability remains contested in both theory and empirical evidence.

Liquidity, often measured through multiple indicators such as the Cash Ratio (CR), Quick Ratio (QR), and Current Ratio (CurrR), reflects a bank's ability to meet short-term obligations. However, the effect of these liquidity measures on profitability is not uniform across contexts. Several studies highlight a negative relationship between liquidity and profitability in Islamic banking, suggesting that excess liquid assets may represent underutilized resources that could otherwise be deployed more productively (Handri et al., 2024; Nabawi & Marlina, 2023). This view is echoed by O. V Subhiantara & Yuniati (2021) and Ferayani & Julia Dewi (2023), who found that higher current ratios may reflect inefficiencies in resource allocation. Conversely, Soesetio et al. (2022) and Titik Purwaningtyas et al. (2023)found that specific liquidity indicators, such as the liquid ratio and cash ratio, positively influence the profitability of small banks and state-owned commercial banks, indicating a complex and potentially nonlinear relationship.

In addition to internal factors, external macroeconomic conditions, particularly inflation, can play a moderating role in shaping bank performance. Inflation may either erode profitability by increasing operational costs and credit risk or, in some cases, enhance it if banks successfully adjust interest margins in response to inflationary pressures. Previous research provides mixed findings: Priskila & Nurhasanah (2021) and Purba et al. (2023) show that inflation has an insignificant or weakly positive effect on bank profitability, while Rahayu (2021) and GOTAMI et al. (2023)emphasize its indirect effects on financial performance through credit risk and net profit margins.

More importantly, the literature suggests that inflation may moderate the effect of financial ratios on profitability. As shown by Makmur et al. (2024) and Debora Cornelia Antang et al. (2023) , inflation can reduce the predictive power of financial indicators such as liquidity or capital adequacy, especially in volatile economic environments. In this regard, treating inflation as a moderating variable provides a deeper understanding of how macroeconomic shocks interact with internal bank metrics to influence profitability. In this context, this study aims to analyze the effect of liquidity, as measured by the cash ratio, quick ratio, and current ratio, on the profitability of Islamic banks in

Indonesia, while also examining the moderating role of inflation in this relationship. Given the inconsistent empirical evidence and the growing importance of adaptive financial strategies amid macroeconomic uncertainty, this research is both timely and relevant.

Specifically, the study seeks to answer the following questions: (1) To what extent do liquidity ratios affect the profitability of Islamic banks in Indonesia? and (2) Does inflation moderate the relationship between liquidity and profitability? By focusing on the interaction between internal and external variables over the 2021–2023 period, this study provides practical insights for Islamic bank management and policy recommendations for regulators aiming to support the stability and resilience of the banking sector under inflationary pressures.

This study adopts a quantitative explanatory research design and applies multiple linear regression with interaction terms to examine the moderating role of inflation. The empirical analysis focuses on Islamic banks listed on the Indonesia Stock Exchange (IDX) that have consistently published complete financial statements for the 2021 to 2023 period. Theoretically, this study contributes to the refinement of the structure–performance hypothesis by accounting for external economic shocks. Practically, it offers valuable insights for bank managers in maintaining profitability under inflationary conditions and informs policymakers in developing strategies to safeguard banking sector stability. The paper is organized into five sections: Section 1 introduces the research background and objectives; Section 2 presents the literature review and hypotheses; Section 3 outlines the research methodology; Section 4 discusses the empirical findings; and Section 5 concludes the study with implications and recommendations.

Theoretical Review and Hypothesis Development

The theoretical review in this study focuses on the relationship between liquidity, profitability, and inflation within the Indonesian banking sector. Liquidity, measured by ratios such as the Current Ratio (CR), is an important indicator in assessing a bank's ability to meet its short-term obligations. This ratio has been extensively studied in the literature regarding bank performance, where some studies show a significant negative, positive, or insignificant effect of liquidity on bank profitability, depending on the type of bank and the study period.

Liquidity and Profitability

Liquidity is one of the essential indicators in evaluating a bank's short-term financial health. It represents the ability to fulfill short-term obligations using assets that are either in cash or quickly convertible to cash. Three commonly used liquidity indicators include the Cash Ratio, Quick Ratio, and Current Ratio.

Cash Ratio specifically measures the extent to which cash and cash equivalents can cover current liabilities. A high cash ratio indicates strong immediate liquidity but may also imply underutilized assets that could have been invested for higher returns. According to Fatah Nur Abdul Aziz et al.

(2024), this ratio reflects the firm's ability to settle short-term liabilities solely using cash or highly liquid bank deposits. Nurismalatri & Artika (2022) note that an optimal cash ratio balances liquidity with return-generating potential. However, in empirical studies, the cash ratio has shown varying impacts. For instance, Titik Purwaningtyas et al. (2023) reported that high cash ratios were linked with strong liquidity but not necessarily with increasing profitability, depending on asset deployment strategy. Based on the theoretical and empirical evidence presented, the following hypothesis is proposed:

H1: Cash Ratio has a significant negative effect on Return on Assets (ROA).

Quick Ratio, also known as the acid test ratio, excludes inventory from current assets and focuses on the most liquid components such as cash and receivables. This makes it a more conservative measure of liquidity compared to the current ratio. Ramadhani et al. (2021) highlight that a quick ratio above 1.5 is considered industry-standard for healthy liquidity. However, empirical findings are mixed. Sari et al. (2022) found that the quick ratio did not significantly influence ROA in the pharmaceutical sector, while Ferayani & Julia Dewi (2023) found that quick ratios have a negative effect on profit growth due to inefficient allocation of liquid assets. In light of these findings, the following hypothesis is formulated:

H2: Quick Ratio has a significant effect on Return on Assets (ROA).

Current Ratio is the most common measure of liquidity and assesses a firm's capacity to pay short-term obligations with all current assets. Sarina et al. (2020) state that it provides an overall picture of working capital position. However, a high current ratio can also indicate idle resources that are not optimally invested. Pradnyanita Sukmayanti & Triaryati (2018) argue that excess current assets may negatively affect profitability due to their non-productive nature. This is supported by Handri et al. (2024), who found that in Islamic banks, a high current ratio negatively impacted stock prices, reflecting inefficient resource use. Similar conclusions were drawn by O. V Subhiantara & Yuniati (2021) and Ferayani & Julia Dewi (2023), who documented a significant negative relationship between CR and profitability. Accordingly, the following hypothesis is established:

H3: Current Ratio has a significant negative effect on Return on Assets (ROA).

Empirical studies also provide diverse insights. Soesetio et al. (2022) found that a higher liquid ratio positively affected profitability in small banks, suggesting that better liquidity management enhances earning potential. However, Sari et al. (2022) observed no significant impact of current or quick ratios on profitability in pharmaceutical companies. Meanwhile, Isayas (2022) concluded that liquidity positively affects profitability in Ethiopian banks, reinforcing the significance of adequate liquidity policies in sustaining financial performance. These mixed findings suggest that the impact of liquidity on profitability is not uniform and may vary depending on a bank's size, strategy, and macroeconomic context.

Inflation and Bank Profitability

Inflation is a critical macroeconomic variable that influences the

financial performance of banking institutions. In the context of banking, inflation affects both revenues and costs: it may increase interest income from loans due to higher lending rates, but it can also raise operational expenses and reduce the real value of financial assets. Therefore, the net effect of inflation on profitability remains theoretically ambiguous, depending on how banks respond to changing price levels.

Although inflation is widely acknowledged to influence bank profitability, empirical findings remain inconclusive. On one hand, studies by Tan & Floros (2012) demonstrated a significant positive relationship between inflation and bank profitability in Iran and China, respectively. These studies suggested that banks might benefit from inflation through better interest spread management. On the other hand, research in Indonesia offers mixed or insignificant results. For example, Purba et al. (2023) and Priskila & Nurhasanah (2021) found that inflation did not significantly affect the Return on Assets (ROA) in both conventional and Islamic banks. Soesetio et al. (2022) supported this conclusion by showing that inflation had no meaningful effect on small bank profitability in Indonesia.

Other studies further reveal the contextual nature of this relationship. GOTAMI et al. (2023) observed that inflation did not significantly affect profitability in the banking sector, despite contributing to overall financial performance variance. Similarly, Isayas (2022) reported a negative but statistically insignificant impact of inflation on bank profitability in Ethiopia. Contrarily, Rahayu (2021) found a significant positive impact of inflation on stock returns in Indonesian foreign exchange banks, indicating that inflation's effect may depend on the financial metric used.

These diverse findings suggest that the impact of inflation on bank profitability is not uniform and may vary based on institutional structure, inflation expectations, monetary policy, and local economic conditions. Based on the preceding theoretical and empirical insights, this study postulates the following hypothesis:

H4: Inflation has a significant effect on Return on Assets (ROA).

The Role of Inflation as a Moderating Variable

In financial research, a moderating variable is one that influences the strength or direction of the relationship between independent and dependent variables. Inflation, as a dynamic macroeconomic factor, can moderate the relationship between internal financial metrics, such as liquidity, and bank profitability. Rather than exerting a simple linear effect, inflation may amplify or weaken the influence of liquidity ratios depending on macroeconomic conditions and bank-specific policies.

Several empirical studies underscore the importance of inflation as a contextual force. Sugito et al. (2018) found that inflation significantly moderated the relationship between profitability and stock returns, illustrating how macroeconomic instability can reshape financial outcomes. Similarly, adi et al. (2022) observed that inflation moderated the effect of interest rates on Indonesia's GDP growth. In West Africa, Ehigiamusoe et al. (2019) concluded

that inflation weakened the positive influence of financial development on economic growth when it crossed a critical threshold.

In banking-specific studies, Budyastuti & Supriatiningsih (2023) reported that inflation significantly moderated the relationship between interest rates and stock prices, although it did not influence the connection between liquidity and market value. O. V Subhiantara & Yuniati (2021) also noted the lack of a significant moderating role of inflation between liquidity and profitability in the Indonesian banking sector. Nonetheless, these findings do not diminish the theoretical justification for investigating inflation's role as a moderator, particularly in emerging markets like Indonesia, where inflation fluctuations are common and may influence financial decisions.

Therefore, we argue that inflation plays a potentially critical role in altering how liquidity affects bank profitability. It is important to examine whether inflation changes the strength or direction of the relationship between different liquidity ratios and financial performance. To assess the potential contextual role of inflation in shaping internal financial dynamics, this study proposes the following moderation hypotheses:

H5: Inflation moderates the relationship between Cash Ratio and Return on Assets (ROA).

H6: Inflation moderates the relationship between Quick Ratio and Return on Assets (ROA).

H7: Inflation moderates the relationship between Current Ratio and Return on Assets (ROA).

RESEARCH METHOD

The dataset comprises 128 observations derived from the financial statements of 11 Islamic banks operating in Indonesia. The variables analyzed include liquidity indicators (Quick Ratio, Current Ratio, Cash Ratio), macroeconomic factors (Inflation), profitability (Return on Assets/ROA), and interaction terms between each liquidity ratio and inflation. The summary statistics are presented in Table 2.

Table 2. Descriptive Statistics of Research Variables

Variable	N	Mean	Std. Dev	Min	Median	Max
ROA	128	2.1433	2.8078	-1.27	1.600	11.57
Inflation	128	3.2035	1.5999	1.33	2.640	5.95
Cash Ratio	128	5.3282	14.7464	0.26	0.840	114.11
Quick Ratio	128	44.7969	129.8551	1.01	3.090	505.47
Current Ratio	128	49.1714	141.4223	1.13	3.530	577.18
CashRatio × Inflation	128	15.5969	38.0519	0.35	2.775	238.79
QuickRatio × Inflation	128	143.6160	471.3001	1.39	8.950	2747.85
CurrentRatio × Inflation	128	158.4027	516.5162	1.60	10.650	2998.54

The average Return on Assets (ROA) is 2.14%, with values ranging from -1.27% to 11.57%. The negative minimum suggests that some banks incurred losses, while the positive maximum highlights strong profitability in

others. A standard deviation of 2.81% points to notable differences in performance, potentially driven by disparities in efficiency, cost control, and risk exposure.

The Quick Ratio has a mean value of 44.80, with a wide range from 1.01 to 505.47 and a high standard deviation of 129.86. Despite the high mean, the median is only 3.09, suggesting a right-skewed distribution where a few banks report extremely high liquidity levels. This reflects substantial variation in short-term asset management strategies across institutions. The Current Ratio exhibits similar characteristics, with a mean of 49.17 and a maximum value of 577.18. The median value of 3.53 again indicates that most banks maintain more conservative liquidity levels, while a few institutions report excessively high current assets relative to liabilities. Although a high current ratio indicates strong liquidity, overly conservative asset allocation may lead to inefficiencies in resource utilization. The Cash Ratio, which reflects a bank's capacity to meet short-term obligations using only cash and equivalents, averages 5.33, ranging from 0.26 to 114.11. This wide dispersion, along with a standard deviation of 14.75, suggests inconsistent cash management practices. Excessively high cash ratios may imply idle resources and missed opportunities for return generation.

Inflation, measured by the national consumer price index (CPI), has a mean of 3.20% and a relatively low standard deviation of 1.60. This indicates moderate and stable inflation throughout the study period, reflecting consistent monetary conditions in Indonesia. Lastly, the interaction terms (QuickRatio × Inflation, CurrentRatio × Inflation, and CashRatio × Inflation) were constructed to capture the potential moderating effects of inflation on the relationship between liquidity and profitability. These variables display high standard deviations and extreme maximum values, suggesting that inflation amplifies the heterogeneity in liquidity management across banks.

FINDINGS AND DISCUSSION

To ensure the robustness and validity of the regression model, several classical assumption tests were conducted, including assessments for normality, autocorrelation, heteroskedasticity, and multicollinearity. The Kolmogorov–Smirnov test showed that the residuals are normally distributed, with a p-value greater than 0.05. The Durbin–Watson statistic was 2.217, which falls within the acceptable range of 1.5 to 2.5, indicating no autocorrelation. The Glejser test results indicated that the absolute residuals were not significantly affected by the independent variables, suggesting the absence of heteroskedasticity. Furthermore, multicollinearity was not detected, as all variance inflation factors (VIFs) were within acceptable limits.

Table 3 presents the results of the moderated regression analysis using Return on Assets (ROA) as the dependent variable. The model includes liquidity indicators (Cash Ratio, Quick Ratio, and Current Ratio), inflation as a macroeconomic factor, and three interaction terms to capture inflation's moderating effect.

Table 3. Results of Moderated Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Constant	1.3753	0.211	6.526	0.000
Cash Ratio	-0.0484	0.032	-1.503	0.135
Quick Ratio	0.4548	0.093	4.875	0.000
Current Ratio	-0.3987	0.085	-4.698	0.000
Inflation	-0.0120	0.063	-0.191	0.849
Cash Ratio × Inflation	0.0038	0.015	0.244	0.808
Quick Ratio × Inflation	-0.0908	0.034	-2.668	0.009
Current Ratio × Inflation	0.0838	0.031	2.688	0.008
R-squared	0.888			
Adjusted R-squared	0.882			
F-statistic	136.2			
Prob (F-statistic)	0.000			
Durbin-Watson	2.787			

Based on the estimation results in Table 3, the regression model can be written as follows:

$$\begin{aligned} \text{ROA} = {} & 1.3753 - 0.0484 \cdot \text{CR} + 0.4548 \cdot \text{QR} - 0.3987 \cdot \text{CurrR} - 0.0120 \\ & \cdot \text{Inflation} + 0.0038 \cdot (\text{CR} \times \text{Inflation}) - 0.0908 \cdot (\text{QR} \times \text{Inflation}) \\ & + 0.0838 \cdot (\text{CurrR} \times \text{Inflation}) + e \end{aligned}$$

Discussion

Overview of the Model Performance

The moderated regression model demonstrates strong explanatory power with an R-squared of 0.888 and an adjusted R-squared of 0.882. This indicates that approximately 88.8% of the variation in the Return on Assets (ROA) of Islamic banks in Indonesia can be explained by the selected liquidity indicators, inflation, and their interaction terms. The F-statistic value of 136.2, with a significance level of 0.000, confirms the model's robustness and overall validity. Additionally, the Durbin-Watson statistic of 2.787 suggests no issue of autocorrelation, further reinforcing the reliability of the regression results.

Effect of Liquidity Ratios on Profitability

The Cash Ratio, while negative in coefficient (-0.0484), is not statistically significant (p-value = 0.135), leading to the rejection of Hypothesis 1 (H1). Although high levels of cash suggest greater immediate solvency, the absence of a significant relationship indicates that mere cash availability does not guarantee profitability, supporting the views of Titik Purwaningtyas et al. (2023) and Nurismalatri & Artika (2022) that liquidity should be balanced with income-generating activities.

The effect of individual liquidity ratios on profitability yields mixed results. The Quick Ratio exerts a positive and statistically significant effect on ROA (coefficient = 0.4548, p-value = 0.000), supporting Hypothesis 2 (H2). This suggests that Islamic banks maintaining higher levels of readily liquid assets

are better positioned to generate profits. This finding aligns with Soesetio et al. (2022), who found a similar relationship in small banks, reinforcing the strategic value of maintaining liquid assets to meet immediate obligations.

In contrast, the Current Ratio demonstrates a significant negative effect on ROA (coefficient = -0.3987, p-value = 0.000), thereby supporting Hypothesis 3 (H3). This suggests that excess current assets, while indicating high liquidity, may reflect suboptimal resource allocation. The result concurs with Handri et al. (2024) and O. V Subhiantara & Yuniati (2021), who argued that excessive liquidity could imply missed investment opportunities and operational inefficiencies.

Inflation as a Direct and Moderating Variable

Inflation, as a macroeconomic indicator, does not exhibit a direct significant effect on profitability (coefficient = -0.0120, p-value = 0.849), which leads to the rejection of Hypothesis 4 (H4). This result is in line with Purba et al. (2023) and Priskila & Nurhasanah (2021), who observed that inflation had no direct impact on Islamic banks' profitability. Such findings imply that stable inflation during the study period may have been effectively absorbed by internal financial adjustments within banks.

The interaction between Cash Ratio and Inflation is not statistically significant (coefficient = 0.0038, p-value = 0.808), leading to the rejection of Hypothesis 5 (H5). This underscores the limited moderating influence of inflation on cash holdings, possibly due to the dual nature of cash as both a stabilizing and underproductive asset.

However, the moderating role of inflation yields more insightful findings. The interaction term between Quick Ratio and Inflation is negative and statistically significant (coefficient = -0.0908, p-value = 0.009), supporting Hypothesis 6 (H6). This indicates that the positive effect of the Quick Ratio on profitability weakens during periods of inflation. Inflationary pressures may reduce the real value of liquid assets or increase operational costs, thereby diminishing the benefit of holding quick assets.

Conversely, the interaction between Current Ratio and Inflation shows a positive and significant coefficient (0.0838, p-value = 0.008), supporting Hypothesis 7 (H7). This finding suggests that under inflationary conditions, higher current assets may serve as a buffer, offering greater flexibility and resilience. This aligns with the theoretical framework proposed by Sugito et al. (2018), who emphasized the context-sensitive role of inflation in reshaping financial relationships.

Alignment with Prior Research and Practical Implications

These findings contribute to the ongoing discourse on liquidity-profitability dynamics by demonstrating that the effects of internal financial metrics are not only ratio-specific but also contingent upon macroeconomic contexts. While the direct influence of inflation is negligible, its role as a moderator is evident, particularly in amplifying or dampening the effectiveness of specific liquidity strategies.

The outcomes support the contextual financial theory that emphasizes

dynamic interdependence between internal banking performance metrics and external economic shocks. Practically, this suggests that Islamic bank managers should regularly re-evaluate liquidity strategies under shifting macroeconomic climates. Regulators may also consider flexible policy guidelines that accommodate inflation-induced financial volatility, rather than enforcing rigid liquidity benchmarks.

In summary, this study refines the understanding of how liquidity affects Islamic bank profitability and provides empirical evidence that inflation moderates these effects in nuanced ways. The findings advocate for adaptive liquidity management practices that are responsive to macroeconomic signals, particularly inflation, to sustain profitability and financial health in an increasingly complex economic environment.

CONCLUSION

This study investigates the influence of liquidity ratios, specifically the cash ratio, quick ratio, and current ratio, on the profitability of Islamic banks in Indonesia, while also examining the moderating role of inflation during the period from 2021 to 2023. By applying moderated multiple linear regression, the analysis provides comprehensive empirical evidence on how internal financial health and external macroeconomic conditions interact in shaping bank performance.

The findings reveal that the quick ratio has a positive and significant impact on return on assets, highlighting the importance of maintaining sufficient liquid assets to support profitability. In contrast, the current ratio negatively influences profitability, suggesting that excessive current assets may reflect inefficiencies in asset utilization. The cash ratio, although negatively associated with profitability, does not exert a statistically significant effect, indicating that cash alone may not be a strong driver of financial performance.

Inflation does not exhibit a direct impact on bank profitability. However, it plays a significant moderating role in certain relationships. Specifically, inflation weakens the positive effect of the quick ratio on profitability while enhancing the positive influence of the current ratio. This reflects the adaptive nature of liquidity strategies under inflationary pressure. The moderating effect of inflation on the cash ratio, however, remains insignificant.

These results contribute to the growing body of literature emphasizing the contextual nature of financial indicators. They suggest that profitability in Islamic banking is influenced not only by the structure of liquidity but also by the way external economic conditions such as inflation shape these internal dynamics. From a managerial perspective, Islamic bank executives are advised to adopt flexible liquidity policies that are responsive to macroeconomic trends, particularly inflation volatility. Policymakers, in turn, may consider revising static liquidity regulations in favor of frameworks that accommodate economic fluctuations without compromising financial stability.

Overall, this study advances the understanding of the relationship

between liquidity and profitability in Islamic banking. It reinforces the importance of incorporating macroeconomic moderation in financial performance models and lays the foundation for future research exploring other macroeconomic variables, including interest rate volatility, exchange rate fluctuation, or monetary policy shifts, as potential moderators in the banking sector.

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