Title: A Balance Sheet Approach on Determinants of the Funding Volatility of Banks in Indonesia

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Abstract: A sound banking liquidity management is vital for both banking practices as well as banking authority because a presence of liquidity mismatch of bank has more likely resulted in weakening depositors' confidence toward the financial condition of banks, leading to banking panic. A sound liquidity management is essential for an effective monetary policy since it provides a basis for the stability of banking and financial system. For this reason, this study aims at investigating determinants affecting the change in funding volatility of Indonesian banks. Incorporating the monetary and banking variables, estimation using an error correction model(ECM), this study concludes that the change in the real interest rate, the Jakarta stock price index, capital-to-asset ratio and a number of bank significantly contribute to the change in funding volatility of banking during the period under review. The policy implication of lowering the risks of funding volatility of Indonesian banks is to sustain the low level of interest rate and increasing bank capitals. Policy efforts of encouraging unsound banks to merge is best option since liquidating banks cause the funding volatility of banks to raise.

Key Words: Funding volatility of banks, banking liquidity and error correction model.

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