

Factors Affecting Bank Stability in Indonesia

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ABSTRACT

This research aims to analyze the factors affecting bank stability in Indonesia. The data used in this research is secondary data on the banking sector sourced from the financial reports of companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2023. The research sample was selected using the purposive sampling method, resulting in 35 companies that are suitable for the research. The data analysis used for hypothesis testing is panel data regression analysis using the Eviews 9 program. The results of the study show that bank size and the economic cycle affect bank stability. This indicates that the larger the bank size, the more stable the bank can be in obtaining income. For the economic cycle variable, if GDP growth contributes to bank stability, it indicates management's ability to manage risk effectively. Strict supervision and effective risk management are key to the stability of the banking system. Various factors, both internal and external, such as risk management and business strategy, significantly influence bank stability. And external (like economic cycles and government policies). By effectively managing assets and adapting to economic conditions, banks can enhance their stability and contribute to the overall stability of the financial system.

INTRODUCTION

Banks play an important role in economic development. In other words, the intermediary role of banks is said to be a driver of economic growth. Bank and financial stability are essential for a healthy and prosperous economy to withstand shocks and financial crises (Mabkhot & Al-Wesabi, 2022). The opacity of financial statements occurs due to various factors, such as asymmetric information between bank managers and stakeholders, economic policy uncertainty, and bank assets that are not fully observed. Disclosure of information in financial reports that does not correspond to the actual value of bank assets affects the stability of banks and the economy as a whole. This hurts the stability of banks and the economy as a whole (Dang & Huynh, 2024). After the 2008 financial crisis, bank boards of directors in the ASEAN region were tasked with strengthening governance and maintaining bank stability (Nguyen & Dang, 2020). The role of the audit committee can influence bank stability by supervising internal audit processes to identify and prevent financial risks and regulatory violations. Asymmetric information between management and shareholders can encourage excessive risk-taking, making the role of the board of directors in managing risk and the effectiveness of the audit committee crucial.

Bank size is one of the factors that can affect bank stability. Regulators and governments can conduct careful monitoring and assessment to influence the relationship between bank size and stability, ensuring the measures are implemented effectively (Narain et al., 2020). The Indonesian government, through the Deposit Insurance Corporation, strives to prevent small banks from collapsing due to financial crises, which could cause a domino effect and undermine consumer confidence. Bank stability in Indonesia is one of the critical factors in ensuring global economic stability.

This study extends the research conducted by Dang & Huynh, (2024) which revealed that bank opacity affects financial stability in developing countries, particularly in Vietnam. The results show that loan share, market power, diversification, and uncertainty adversely affect bank stability. This study also

found a positive influence between opacity, bank size, and the economic cycle. The novelty of this study lies in the addition of the audit committee variable, as taken from Badran & Chamoun. The audit committee is said to influence bank stability. This shows that a smaller audit committee size can contribute positively to bank stability.

Opacity

Opacity occurs as a result of contagious speculation, which can lead to a financial crisis (Tran et al., 2022). In this case, opacity affects bank stability because the lack of coordination between stakeholders negatively impacts the incentives of bank managers (Dang & Huynh, 2024). The impact of poor incentives for bank managers increases the probability of failure, thereby reducing bank stability. According to research conducted by (Dai et al., 2019) Since the 2007-2008 financial crisis, many observers have linked the crisis to the opacity of financial reports. Bank assets are not fully observable by shareholders and regulators. This indicates that quarterly accounting reports are noisy signals of actual accounting values. The formula used in this study measures the proportion of total assets allocated to cover potential losses from non-performing loans. A higher Loan Loss Provision/Total Asset ratio indicates that the institution can allocate more reserves against potential credit losses relative to the size of its total assets, which may indicate a more cautious approach to credit risk management.

Audit Committee

The board of directors plays a crucial role in the internal governance of banks. The audit committee's important role for stakeholders is to supervise the quality of financial reporting and disclosure, thereby impacting the bank's stability. The second role is a voluntary supervisory mechanism used in situations of high agency costs to enhance the quality of information flow to shareholders, thereby improving performance. Banks must have effective governance mechanisms to reduce risk and maintain bank stability (Marie et al., 2021). The size of the audit committee can influence company decisions, and members with varying expertise can perform effective oversight.

Bank Size

Bank size is a concern for financial institutions in ensuring financial stability. There is empirical evidence that large banks play a role in triggering financial crises in several countries. There is some debate in the world regarding regulatory restrictions on bank size and their impact on financial crises. In this case, large banks cannot avoid additional capital costs. In addition, regulatory bodies may also impose subsidy reductions on banks that are too large (Raz et al., 2022). Although bank size affects bank stability, bank management can diversify and manage risk better. Bank size is measured using total assets, which describe the size and capabilities of banks in the banking industry. Banks with larger assets usually can offer more financial products and services.

Loan Share

Based on research conducted by (Bucher et al., 2019) The loan share is a loan that can generate a certain amount of internal funds in the future, even when financial conditions deteriorate. Loan share affects bank stability. This is because a larger loan share will increase the internal funds available in the future, ease financial constraints, and maintain bank stability, ensuring safety. Additionally, a larger loan share can increase bank profitability, which in turn will enhance bank stability. The measurement uses the proportion of bank assets consisting of net loans. The ratio is calculated by dividing total loans by total assets and multiplying by one hundred to obtain a percentage. This ratio indicates how much of the bank's assets are allocated to loans to customers and businesses.

Market Power

Market power is the ability of a company or group of companies to influence market prices and other market conditions in the banking industry. When market power exists, bank managers can pursue

goals other than maximizing profits (Papadopoulos, 2019). There is a trend that contradicts both the theory and the empirical evidence supporting the “competition-stability” view, refuting the traditional relationship between competition and bank stability. Market power affects bank stability. This is because large banks will use their market power to increase efficiency and competitiveness, thereby providing benefits to customers. The measurement involves taking the amount of credit or loans provided by a bank, summing the total loans provided by all banks in the banking industry, and then multiplying this total by one hundred to obtain a percentage value.

Diversification

Diversification is a strategy to spread assets, activities, or operations across various areas to increase stability. In the face of increasingly fierce international and domestic competition, banks must choose to diversify. Diversification is a determining factor for bank stability, as it can reduce risk by allocating investments across various assets or different lines of business. According to portfolio theory, diversification can reduce bank risk by adding assets that do not have a high correlation with current assets (Tran et al., 2023). Diversification affects bank stability. This is because banks that are diversified in a more concentrated system are expected to be more stable than those that are specialized. The measurement involves dividing the non-interest income ratio by operating income and then multiplying the result by one hundred to obtain a percentage value. This ratio is a bank financial analysis tool that can help investors and analysts understand the bank's income structure and potential stability.

Economic Cycle

The economic cycle, particularly in terms of economic growth, strengthens bank stability. The economic cycle is an activity characterized by periods of growth and decline. Stakeholders believe that an increase in the economic cycle, achieved through the efficient use of financial resources, positively impacts financial stability in risk management (Ijaz et al., 2020). Efforts made to maintain bank stability include banks implementing policies to mitigate systemic risks associated with the economic cycle. The economic cycle can predict whether an economic situation in a country can reduce risk by describing the upward and downward trends of Gross Domestic Product (GDP).

Uncertainty

Uncertainty is a situation where the outcome, impact, or decision is unknown or cannot be predicted with certainty. This can affect the demand and supply of banking products, thereby predicting the level of risk that can slow down economic activity by limiting capital expenditure (Bakhouché et al., 2022). Uncertainty affects bank stability, especially during events that shake the global economy, such as the COVID-19 pandemic in 2020. Uncertainty can affect future economic policies. The measurement used is the spread of asset shocks, defined as the difference between total assets this year and total assets the previous year.

Bank Stability

Economic fluctuations and instability indirectly reduce GDP and affect financial health. In stable economic conditions, banks tend to experience healthy growth and can provide loans to businesses and individuals with lower risk. However, in situations of instability, banks experience a decline. Rising unemployment and economic uncertainty can lead to increased credit risk because debtors have difficulty meeting their credit obligations (Alaeddin et al., 2019). Overall, economic stability has a direct impact on bank stability. Banks can consider economic conditions when planning strategies, and regulators can create frameworks that support financial system stability. The formula used is the Z-score to assess a company's financial health (Rupeika-Apoga et al., 2018). The Z-score is a reliable and efficient method for evaluating and monitoring bank stability. Z-score measurement requires less data input and is easy for stakeholders with limited resources to implement, even with limited access to extensive financial information.

Hypothesis Development

With the research results above, the conceptual framework is as follows:

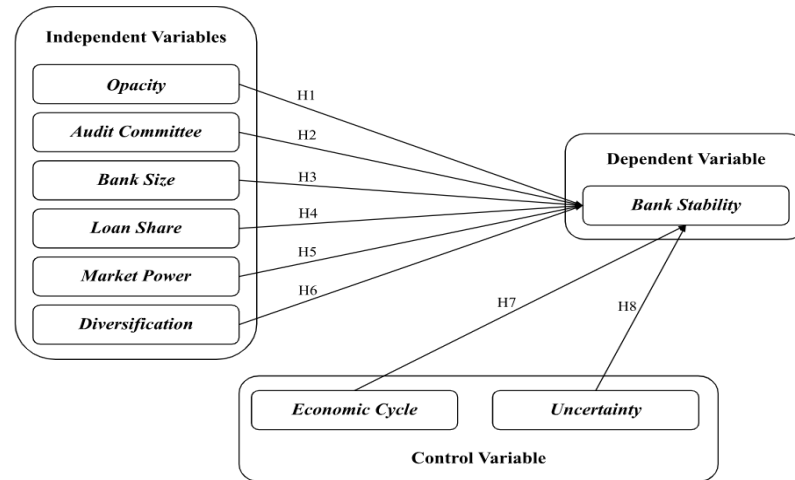


Figure 1. Conceptual Framework

Source: Data Processed, 2024

From this framework, a hypothesis can be formulated:

The Influence of Opacity on Bank Stability

According to (Tran et al., 2022) Opacity has a significant positive effect on increasing bank stability. In contrast to previous studies, opacity has a significant adverse effect on bank stability (Atoi, Ngozi, 2019). Bank management uses proactive accounting strategies by reducing Loan Loss Provisions, thereby increasing bank stability. Opacity has a significant adverse effect on bank stability (Yin, 2019). This is because the increased probability of bank failure can negatively impact bank manager incentives, which in turn can reduce bank stability.

H₁: Opacity affects Bank Stability

The Influence of Audit Committees on Bank Stability

Audit committees have a negative and significant effect on bank stability (Q. K. Nguyen & Dang, 2020). The larger the audit committee, the greater the potential for inefficiency in decision-making and governance processes, which can hinder oversight effectiveness and reduce bank stability. According to research (Haddad et al., 2021) Audit committees have a significant positive effect on bank stability, which helps increase bank profitability. Based on the above research, it can be said that the larger the audit committee, the greater the increase in bank profitability, thereby enhancing bank stability. The size of the audit committee has a significant positive effect on bank stability in India (Gupta & Mahakud, 2021). Based on the above research, it can be said that the larger the size of the audit committee, the greater the improvement in bank performance and the provision of additional oversight resources to be reported to top management and to fulfill quality financial reporting to avoid the lack of restatement of financial reports, thereby increasing bank stability.

H₂: Audit Committee affects Bank Stability

The Influence of Bank Size on Bank Stability

Bank size has a significant positive effect on bank stability (Marie et al., 2021). This is because larger banks can generate greater revenues and have easier and cheaper access to capital than smaller banks, thereby increasing bank stability. Bank size has a significant adverse effect on bank stability.

(Ghenimi et al., 2017). This is because larger banks can increase the risk of failure, thereby reducing bank stability. In line with previous studies, bank size has a significant adverse effect on bank stability. (Rizvi et al., 2020). This shows that larger banks have greater operational complexity, which makes it difficult for management to oversee activities and supervision, thereby effectively reducing bank stability.

H₃: Bank Size affects Bank Stability

The Influence of Loan Share on Bank Stability

Loan share has a significant positive effect on bank stability (D. T. Nguyen & Le, 2022). This is because the greater the bank's profitability in providing loans, the greater the bank's stability. This is in line with the results of research. (Ozili, 2018). Loans granted (loan share) have a significant positive effect on bank stability because loans granted (loan share) can reduce the risk of failure and increase income, thereby increasing bank stability. (Phan et al., 2021).

H₄: Loan Share affects Bank Stability

The Influence of Market Power on Bank Stability

Market power has a significant adverse effect on bank stability (Danisman & Demirel, 2019). Banks with strong market power cause banks to behave more cautiously, thereby threatening bank stability. According to (Herwald et al., 2024) There is a positive influence between market power and bank stability. This explains that market power can improve banking conditions in terms of profitability and bank capitalization, thereby increasing bank stability. Another study found positive results between market power and bank stability. (Obeid, 2023). This proves that the relationship between concentration in the banking sector and bank stability in Arab countries follows the “stability-concentration” hypothesis, namely that large banks tend to manage assets and capital more efficiently than small banks, thereby increasing bank stability.

H₅: Market Power affects Bank Stability

The Influence of Diversification on Bank Stability

Diversification has a significant positive effect on bank stability (Shim, 2019). This shows that diversification can increase banking profitability and save capital, thereby increasing bank stability. Another study found positive results regarding the relationship between diversification and bank stability. (Adem, 2022). This explains that bank diversification has a quadratic relationship with financial stability, and diversification increases financial stability during crisis and non-crisis periods. According to (Akhter et al., 2023) There is a positive influence between diversification and bank stability. This explains that diversification over a more extended period can only yield marginal benefits through additional efforts, which ultimately lead to increased risk and, consequently, enhance bank stability. Based on the discussion above, the following hypothesis is proposed:

H₆: Diversification affects Bank Stability

The Influence of the Economic Cycle on Bank Stability

The economic cycle has a significant negative impact on bank stability, which leads to increased volatility (Clichici, 2016). This is because there is high demand for credit in sectors that are growing rapidly in the short term, so banks need to be careful in managing risk to maintain long-term stability and avoid a decline in bank stability. According to (Rupeika-Apoga et al., 2018), GDP growth rates have a significant positive effect on bank stability. In line with research conducted by Vo et al. (), GDP growth rates have a significant positive effect on bank stability. This is because increased credit demand boosts profitability, allowing banks to absorb bad credit risks and enhance stability.

H₇: Economic Cycle affects Bank Stability

The Influence of Uncertainty on Bank Stability

Uncertainty has a significant negative effect on bank stability. This is because conventional banks have a negative impact on uncertainty, which can reduce bank stability. (Bilgin et al., 2021). In line with previous studies, uncertainty has a significant negative effect on bank stability. (Phan et al., 2021). However, these results are not in line with the results of a study. (Juelsrud & Larsen, 2023) This states that uncertainty has a significant positive effect on bank stability.

H₈: Uncertainty affects Bank Stability

RESEARCH METHOD

Each variable is measured to assess the impact of the independent variable on the dependent variable, with measurements:

Table 1. Definition of Operational Variables

Variable Types	Variable Name	Symbol	Definition of Operational Variables	Reference
Dependent Variable	<i>Bank Stability</i>	Sability	$Z - Score = \frac{ROA + \frac{Equity}{Assets}}{sdROA}$	(Dang & Huynh, 2024)
	<i>Opacity</i>	Opacity	<i>Loan Loss Provision/Total Assets</i>	(Gana et al., 2024)
	<i>Audit Committee</i>	ACS	Jumlah komite audit dalam perusahaan	(Q. K. Nguyen & Dang, 2020)
	<i>Bank Size</i>	BS	<i>Natural logarithm of total assets</i>	(Dang & Huynh, 2024)
Independent Variable	<i>Loan Share</i>	LS	<i>Net loans/total assets (%)</i>	(Dang & Huynh, 2024)
	<i>Market Power</i>	MP	Jumlah kredit yang diberikan oleh masing-masing bank/ Total pinjaman yang diberikan oleh industri perbankan	(Muchtar et al., 2023)
	<i>Diversification</i>	DV	<i>Non-interest income/operating income (%)</i>	(Dang & Huynh, 2024)
Control Variable	<i>Economic Cycle</i>	EC	Tingkat pertumbuhan GDP (%)	(Dang & Huynh, 2024)
	<i>Uncertainty</i>	UNC	Ketidakpastian bank, dihitung dengan penyebaran asset shocks	(Dang & Huynh, 2024)

Source: Data Processed, 2024

The research uses secondary data obtained indirectly or from third parties through reliable published sources. The data was obtained from conventional banking, financial, and annual reports on the Indonesia Stock Exchange website (www.idx.co.id) and from the Central Statistics Agency (www.bps.go.id) for the period 2019-2023. The criteria underlying the selection of data as research samples are as follows: 1) Banking companies listed on the IDX in 2019-2023. 2) Banking companies that use the Rupiah currency in their financial reports. 3) Banking companies consistently issue financial reports and annual reports on December 31 for the 2019-2023 period.

The results of the Chow and Hausman tests show a cross-section probability value of Chi-square <0.05, leading to the rejection of the null hypothesis (H₀) and indicating that the model used is the Fixed Effect Model (FEM). The results of the analysis in the F test show that the probability value of the F-statistic is < 0.05, indicating that the independent variables simultaneously influence the dependent variables, making the regression model suitable for use. Based on the goodness-of-fit test results, an adjusted R-squared value of 0.669388 was obtained. This means that the independent variables consisting of opacity, audit committee (ACS), bank size (BS), loans granted (LS), market power (MP), diversification (DV), economic cycle (EC), and uncertainty (UNC) can explain 66.9388% of the variation in the dependent variable, with the remaining 33.0612% explained by other variables not included in this model.

RESULTS AND DISCUSSION

Descriptive statistics explain data characteristics. Data characteristics used in the study include the minimum, maximum, mean, median, and standard deviation values. Descriptive statistics can be seen in the following table:

Table 2. Descriptive Statistics

Variable	N	Mean	Min.	Max.	Standard Deviation
<i>Stability</i>	175	9,394266	-1,566400	30,41730	4,828236
<i>Opacity</i>	175	0,025391	0,000100	0,461100	0,043162
<i>ACS</i>	175	3,728324	2,000000	8,000000	1,321185
<i>BS</i>	175	13,70366	12,12090	15,33730	0,771602
<i>LS</i>	175	0,555106	0,000600	0,966900	0,141476
<i>MP</i>	175	0,929075	0,002700	8,376900	1,798642
<i>DV</i>	175	0,177275	0,007800	0,997100	0,17669
<i>EC</i>	175	0,032542	-0,020700	0,053100	0,028077
<i>UN</i>	175	18962,84	-13604,55	266933,6	45267,91

Source: Data Processed, 2024

A Partial Test (T-Test) is conducted to see whether each independent variable has a significant influence on the dependent variable. The decision-making criteria are: if $\text{sig.t} < 0.05$, H_0 is rejected; if $\text{sig.t} > 0.05$, H_0 is accepted. The results of the regression t-test can be seen in the following table:

Table 3. T-Test Results

Independent Variable	Dependent Variable		
	<i>Bank Stability</i>		
	Coefficient	Probability	Conclusion
Constants	-55.56058	0.0147	-
<i>Opacity</i>	4.408892	0.4901	Not Significant
<i>Audit Committee</i>	0.504070	0.3192	Not Significant
<i>Bank Size</i>	4.646129	0.0052	Positive Significant
<i>Loan Share</i>	-3.704367	0.1834	Not Significant
<i>Market Power</i>	0.545368	0.4566	Not Significant
<i>Diversification</i>	0.480031	0.8444	Not Significant
<i>Economic Cycle</i>	21.09808	0.0101	Positive Significant
<i>Uncertainty</i>	3.833406	0.8009	Not Significant

Source: Data Processed, 2024

Multiple Regression Equation:

$$\text{Stability} = -55.56058 + 4.408892\text{OPC} + 0.504070\text{ACS} + 4.646129\text{BS} - 3.704367\text{LS} + 0.545368\text{MP} + 0.480031\text{DV} + 21.09808\text{EC} + 3.83E-06\text{UNC}$$

H₁: Opacity does not affect Bank Stability

Based on the regression test results, the analysis indicates no effect between the opacity variable and the bank stability variable, with a probability value of 0.4901 and a coefficient value of 4.408892. This aligns with the research by Zhang & Wang (2023) The statement indicates that bank opacity does not affect bank stability. The lack of monitoring of bank opacity in both low- and high-income banks may not directly affect bank stability. The results of this study are not in line with the research by Dang & Huynh (2024) The statement indicates that bank opacity has a significant positive effect on bank stability. This suggests that bank management uses proactive accounting strategies, such as increasing Loan Loss Provisions, to enhance bank stability.

H₂: Audit Committee does not affect Bank Stability

Based on the regression test results, the analysis indicates no effect between the audit committee size variable and the bank stability variable, with a probability value of 0.3192 and a coefficient value of

0.504070. These results are in line with the research by Marie et al (2021)The statement indicates that audit committees do not affect bank stability. Effectively monitoring bank risk management by enforcing compliance with applicable regulations ensures that bank stability is maintained. The results of this study are not in line with the results of studies by (Q. K. Nguyen & Dang, 2020) and (Badran & Chamoun, 2024)The statement indicates that audit committees have a negative and significant effect on bank stability. A larger audit committee can lead to inefficiencies in the decision-making process and governance, potentially hampering the effectiveness of the supervisory function and thereby reducing bank stability.

H₃: Bank Size affects Bank Stability

Based on the regression test results, the analysis indicates a positive influence between the bank size and stability variables, with a probability value of 0.0052 and a coefficient of 4.646129. These results are in line with the findings of Marie et al (2021) and Dang & Huynh (2024), who stated that bank size has a significant positive effect on bank stability. This is because larger banks can generate greater income and have easier and cheaper access to capital than smaller banks, thereby increasing bank stability. The results of this study are not in line with the results of research by Gupta & Mahakud (2020)The statement indicates that bank size does not affect bank stability. This is because bank size, whether small or large, does not affect the size of bank income.

H₄: Loan Share does not affect Bank Stability

Based on the regression test results, the analysis indicates no effect between the variable of loans granted (loan share) and the variable of bank stability, with a probability value of 0.1834 and a coefficient value of -3.704367. The results of this study are in line with Muhri et al (2022)The statement indicates that the loan share does not affect bank stability. This is because banks with low or high loan levels were not affected by the instability that occurred during the COVID-19 pandemic and showed high profitability. The results of this study are not in line with Q. K. Nguyen & Dang (2020) and the results of research by D. T. Nguyen & Le (2022)The statement indicates that the loan share has a positive effect on bank stability. This means that the greater the bank's profitability in providing credit, the greater the bank's stability.

H₅: Market Power does not affect Bank Stability

Based on the regression test results, the analysis indicates no effect between the market power variable and the bank stability variable, with a probability value of 0.4566 and a coefficient value of 0.545368. This result is in line with the research conducted by Q. K. Nguyen & Dang (2020)The statement indicates that market power does not affect bank stability. This is because banks with low or high market power tend to be stronger in facing risk management challenges, so that bank stability is maintained. The results of this study are not in line with Herwald et al (2024), who state that market power has a positive effect on bank stability. This is because market power can enhance the portfolio by increasing bank stability.

H₆: Diversification does not affect Bank Stability

Based on the regression test results, the analysis indicates no effect between the diversification variable and the bank stability variable, with a probability value of 0.480031 and a coefficient value of 0.8444. These results are in line with Octavianus & Fachrudin (2022), who state that diversification does not affect bank stability. The diversification of bank business towards technology, while it has the potential to maintain income stability, does not directly guarantee the overall stability of the financial system. This result is not in line with the research conducted by Shim (2019)The statement indicates that diversification has a positive effect on bank stability. This shows that diversification can increase banking profitability and save capital, thereby increasing bank stability.

H₇: Economic Cycle affects Bank Stability

Based on the regression test results, the analysis indicates that the economic cycle variable positively affects the bank stability variable, with a probability value of 0.4566 and a coefficient value of 0.545368. This result is in line with research conducted by Dang & Huynh (2024) and Q. K. Nguyen & Dang (2020). The statement indicates that the economic cycle has a positive effect on bank stability. This is reinforced by research by Vo et al (2021). The statement indicates that the GDP growth rate has a positive effect on bank stability. This is because a higher GDP growth rate can increase bank income. These results are not in line with the research by Yitayaw et al (2023). The statement indicates that the GDP level does not affect bank stability. This is because economic conditions that influence fluctuations, such as risk management and substantial capital, help maintain bank financial stability.

H₈: Uncertainty does not affect Bank Stability

Based on the regression test results, the analysis indicates no effect between the uncertainty variable and the bank stability variable, with a probability value of 0.8009 and a coefficient value of 3.836706. These results are in line with the research conducted by Yitayaw et al (2023). The statement indicates that uncertainty does not affect bank stability. This is because uncertainty, such as asset shocks, does not always hurt bank stability. In some cases, asset shocks can increase banking productivity, encourage loan offerings and bank income, which ultimately does not have a significant impact on bank stability. These results are not in line with the research by Danisman & Demirel (2019) and Dang & Huynh (2024), which found that uncertainty hurts bank stability. This is because conventional banks have a negative impact on uncertainty, which can reduce bank stability.

CONCLUSION

This study aims to examine whether the independent variables of 37 conventional banks on the Indonesia Stock Exchange over five years (2019-2023), namely opacity, audit committee, bank size, loan share, market power, diversification, economic cycle, and uncertainty, affect bank stability. Based on the analysis and discussion, the conclusions of this study are as follows. Opacity does not affect bank stability. Audit committees do not affect bank stability. Bank size has a positive effect on bank stability. Loan shares do not affect bank stability. Market power does not affect bank stability. Diversification does not affect bank stability. The economic cycle has a positive effect on bank stability. Uncertainty does not affect bank stability.

Based on the results obtained, it can be concluded that both the bank size and economic cycle variables have a positive effect on bank stability. Thus, the managerial implications of this study can provide benefits for several parties as follows. For Management to improve bank stability in Indonesia, banks are expected to increase assets that can affect bank stability. In this case, an increase in bank size can reflect management's risk management. For example, by providing credit and increasing savings and deposits through high interest rates, the public becomes interested in investing money in banks. In addition, the economic cycle can affect bank stability. This is because the GDP growth rate can basically affect asset quality, and regulatory policies in monitoring economic developments can affect bank stability. For example, during times of economic uncertainty and declining GDP growth, banks offer loans to the public at low interest rates to continue operating, make a profit, and maintain stability.

Investors need to choose large banks because they have good management practices that enhance their stability. This is because investors can assess the risks and potential returns on their investments. Investors can also analyze economic uncertainties when investing their money. Based on the analysis and limitations of this study, the following recommendations are made for future studies to cover a longer period and include more industrial sectors. Subsequent research could add independent variables such as banking liquidity, measured using the loan-to-deposit ratio, as in the study by Farkhodjon & Dsc (, which has a positive effect on bank stability. This indicates that a bank uses most of its deposits to fund loans,

which can cause liquidity problems in the event of sudden withdrawals or if the quality of loans deteriorates.

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