



Implementation Liquidity and Bankrupt Effect Inflation

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ABSTRACT

The purpose in this paper is to see whether the implementation of liquidity, and Inflation with the impact of bankrupt banks in various literatures in the paper with the findings of the corresponding results. Research with qualitative methods by examining literature from papers related to the implementation of liquidity and the effects of bankrupt banks with inflation. Literature comes from existing journals from google scholar, and others. The gap in this paper as a form of contribution to research with the existence of overarching policies, as well as information for the community or customers, is expected to be used in the future by other research to develop as a result of research. In future papers by other researchers, it is hoped that there will be gaps or other variables that can be used by other researchers for other research results in the future

INTRODUCTION

The lack of liquidity of an economy can have a significant impact on inflation. According to (Yellen, 2016) Market liquidity is enhanced by central banks increasing the money supply or offering loans at low interest rates. As a result, there may be an increase in consumer spending and business investment, which could lead to higher inflation. As a result, the inflation rate tends to be positively affected by high liquidity (Mishkin, 2007). However, too much liquidity coming into an economy without appropriate economic growth can lead to too much inflation, which can be bad for the economy. When banks or large corporations experience financial difficulties, this may happen in times of liquidity crisis (Toporowski, 2019). The tendency of central banks to increase money printing and lower interest rates in an effort to overcome this crisis can lead to a spike in inflation.

The bankruptcy of large companies can result in increased unemployment and economic instability (Suryawan et al., 2021):(Petrushkevich, 2017). Governments and central banks often deliver economic stimulus packages or bail out institutions that are on the verge of failure to prevent a worsening of the crisis. This action can lead to a significant increase in liquidity, which can then lead to inflation. To manage liquidity and stop inflation in the face of these difficulties, central banks must take prudent action (Galí, 2015). According to (Dvořák, 2014) to stop inflation, they must have strong policy tools, such as the ability to raise interest rates or reduce the money supply. A balance between adequate liquidity and controlled inflation can be maintained through appropriate monetary policy (Debata & Mahakud, 2018).

According to (Khan et al., 2021) Liquidity and inflation are two closely interrelated elements in a country's economy. Low liquidity levels can hinder economic growth by reducing the availability of funds for investment and consumption. Conversely, high levels of liquidity can boost economic growth, but if not offset by appropriate growth in the production of goods and services, it can lead to adverse inflation. Banks are the main link in managing liquidity in the market. When banks have sufficient liquidity, they tend to lend more to consumers and businesses, which drives economic growth (Abbas et al., 2021). However, if banks experience a liquidity crisis, they can become less inclined to lend, which can slow economic growth and lead to a decline in economic activity.

Through the use of monetary policy, central banks play an important role in managing liquidity (Ansari & Sensarma, 2021). By changing interest rates, buying or releasing government bonds, or requiring banks to maintain reserves at a certain level, they have the ability to influence liquidity levels. The choice of central bank can have a big impact on inflation, when the economy is already performing well, interest rate cuts by central banks can encourage lending and investment, which can result in inflation (Setaiesh et al., 2019). Uncertainty in the economy can result from the bankruptcy of a business or a large financial institution. Large liquidity from the state or central bank may be needed to try to bail out a company that is about to go bankrupt. If there is no corresponding economic growth, this can lead to inflation (Kyriakos, 2013).

Changes in supply and demand can have an impact on inflation in addition to the variables mentioned earlier. High demand, or demand-side, can push prices up when the pace of economic expansion outstrips current production capacity (Farida et al., 2021). Conversely, cost-driven inflation can also occur when the flow of goods and services is disrupted, as can happen when natural disasters or supply problems occur. Because of its dependence on the export of raw materials like coal and oil, experiences liquidity problems. The cost of these products can vary greatly, and changes in export prices may have an impact on tax collection. Government revenues are declining due to falling commodity prices, which may have an impact on liquidity, the government should be more diversified and the non-consumer sector should be strengthened to cope with this (Batdelger et al., 2018).

Regarding liquidity management, interest rates are crucial. The difficulty lies in maintaining a balance between promoting economic growth and preventing rising inflation. The impact of interest rates and monetary policy on inflation must be considered. Capital flows can be affected by changes in the external environment, such as rising global interest rates or trade tensions. Since economic stability and liquidity are affected by uncertainty, inflation can also be affected. Those are the problems that exist with regard to this topic in this case. The purpose in this paper is to see whether the implementation of liquidity, and Inflation with the impact of bankrupt banks in various literatures in the paper with the findings of the corresponding results.

LITERATURE REVIEW

Liquiditas

When a company has liquidity, it means that it can use its current assets to pay its short-term debts. This is an important component in financial management because it ensures the business has enough cash or assets that can be quickly turned into cash to pay off its debts. The application of liquidity can be seen in the financial statements, such as the current ratio which assesses the company's ability to pay off short-term debt with current assets (Suryaman & Sugiyanto, 2022).

The ability of a company to pay its short-term liabilities with its current assets makes liquidity a very important financial component. This guarantees that the business will have enough cash or easily convertible assets to pay off its debts. The use of liquidity is evident in financial statements, such as current ratios, which assess a company's ability to settle short-term debt with current assets. A company has sufficient liquid assets to pay off its debts, for example if the current ratio is 2: 1, meaning that its current assets are twice as large as its current liabilities (Nidhi & Tyagi, 2018). Some liquidity ratios commonly used in finance, among others, Current Ratio, This ratio assesses a company's ability to settle its short-term liabilities with its current assets. The calculation formula is the multiplication between current assets and liabilities, Quick ratio, Also called the acid test ratio, this ratio measures a company's ability to settle its short-term liabilities with the most liquid assets. Calculated by subtracting inventory from current assets, then dividing the proceeds By current liabilities, the cash ratio measures a company's ability to settle its direct liabilities entirely with available

cash and cash equivalents. This is determined by dividing cash and cash equivalents by current liabilities (Ghasemi & bin Ab Razak, 2016).

Bankrupt Effect Inflation

The potential for inflation to cause business bankruptcy is referred to as bankruptcy effect inflation. The performance of micro, small and medium enterprises (MSMEs) may suffer due to rising prices of goods and services related to inflation (Indayani & Adelia, 2019; Sulistiyono et al., 2021). If inflation is not controlled properly, this can also lead to an inflationary process in tax and debt revenues (Kafabih et al., 2021).

The number of MSME players in a region can be affected by inflation, the higher the inflation rate, the fewer the number of MSME actors (Sulistiyono et al., 2021). It is important for the business world to control inflation and maintain its efforts to improve the welfare and economy of the country (Wusko & Alfiantoro, 2022). The adverse impact of inflation on potential business bankruptcy is referred to as the bankruptcy effect. The impact is an increase in the price of goods and services that can harm the performance of micro, small and medium enterprises (MSMEs) (Smets et al., 2018). If inflation is not controlled properly, this can also cause an inflationary process in tax revenues and debt. The population of MSME actors in an area may decrease due to the high inflation rate. To improve the welfare and economy of the country, businesses must keep their doors open and control inflation (Meysami et al., 2022; Stettler, 2017).

METHODOLOGY

Research with qualitative methods by examining literature from papers related to the implementation of liquidity and the effects of bankrupt banks with inflation. Literature comes from existing journals from Google Scholar, and others.

RESULT

The result of this study is an implementation of the variables used from dozens of papers from existing international journals, starting with the study of (Cultrera & Brédart, 2016) shows that indicators such as profitability and liquidity are effective predictors of bankruptcy for small and medium-sized enterprises (SMEs) in Belgium, indicating a good level of prediction accuracy. The subsequent study of (Ghenimi et al., 2017) with findings of a better understanding to bank managers regarding banking risk and became the basis for current regulatory initiatives aimed at improving the integration of liquidity and credit risk management. The next study from (Negro et al., 2017) with research results When the nominal interest rate reaches the zero limit, what is the impact of government intervention that provides liquidity in exchange for illiquid private securities.

Furthermore a study from (Pham Vo Ninh et al., 2018) Default prediction models, which combine market-based factors with macroeconomic fundamentals, appear to perform much worse than models that combine accounting factors with macroeconomic indicators. Subsequent studies from (Lukason & Camacho-Miñano, 2019) with stakeholder findings should be aware that in the event of reporting delays, this could be due to increased risk of

bankruptcy or substandard performance, and as a result, lending to such companies should be done with caution. Studies from (Agustia et al., 2020) with findings in the paper there is no correlation between profit management and bankruptcy risk, whereas bankruptcy risk is significantly reduced in companies that use one of two common business strategies: cost leadership or differentiation.

Furthermore (Sarikov & Kuprianov, 2020) studies of other macroeconomic factors affect bankruptcy rates, there is a negative correlation between the number of company failures and the total reserves held by depository institutions and the performance of the US corporate sector as a whole. Studies from (Anwar & Javed, 2020) with research findings in solvency (DAR) and inflation papers have a significant negative influence on financial difficulties, while liquidity (Cash Ratio) has a significant positive influence. Financial distress (ROE) is not significantly affected by profitability, helping financial policymakers in the chemical sector to stabilize businesses that are experiencing difficulties.

The study from (Nuraini et al., 2021) with findings of Debt to Asset Ratio (DAR) is not significant, but this has a significant influence on the effect of Financial Performance on Return on Equity (ROE). This results in a model that can identify bankruptcies without relying on specific financial indicators. The impact of non-financial variables such as those related to good corporate governance (Board of Commissioners and Directors), market information (Market Book), R&D, and macro factors (Interest and Exchange Rate) should also be anticipated. The study from (Gniadkowska-Szymańska, 2022) states in the findings that there is a statistically significant relationship between stock liquidity and the risk of corporate bankruptcy, reinforced by several separate evaluations conducted using various measures describing liquidity based on data obtained for the markets of the Polish, German and Baltic countries.

Studies from (Motoc & Alexandru, 2022) with the results of research on the ability of companies to pay off short-term obligations, and their significance comes from the ability to cover the supply of goods and services necessary for financial activity. Lack of liquidity is the first indication of a downturn and the emergence of financial problems that can eventually result in bankruptcy declaration. Studies from (Poliakov & Zayukov, 2023) with the results of the study basically no correlation between the lack of profitability of Ukrainian companies and the decrease in the number of court cases that decided to declare them bankrupt. On the contrary, the losses of Ukrainian businesses are closely related to their liquidity. Studies from (Oktavian & Handoyo, 2023) with findings of financial hardship indicators are positively influenced by profitability and liquidity. Leverage adversely affects financial distress indicators, while inflation has no impact. By paying attention to the company's financial ratios and Indonesia's inflation, this research can help investors and company management in making decisions. It can also advance knowledge in the field of financial studies by increasing the causality of financial difficulties. The use of additional independent variables such as corporate governance and corporate social responsibility disclosure, which can provide results that more accurately reflect the company's qualitative capabilities, is suggested for future research.

DISCUSSION

From the results of research found from various papers from the literature, there are various results that can open up opportunities for other researchers to continue in future research, with various existing results such as no correlation and significant between liquidity and bank growth with inflation, and there are also studies with significant results and correlation between liquidity and bank bankruptcy but not correlation with inflation.

The gap in this paper as a form of contribution to research with the existence of overarching policies, as well as information for the community or customers, is expected to be used in the future by other research to develop as a result of research.

CONCLUSION AND RECOMMENDATION

In future papers by other researchers, it is hoped that there will be gaps or other variables that can be used by other researchers for other research results in the future.

FURTHER STUDY

This research still has limitations, so it is necessary to carry out further research related to the topic of Implementation of Liquidity and Bankrupt Effect Inflation in order to perfect this research and increase insight for readers.

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