

When Cash is King: Liquidity Hoarding and Financial Performance under Uncertainty

Ms.Miftahul Hadila Fauzana

University of Gadjah Mada, Indonesia

Abstract

In a highly volatile and unpredictable global financial environment, banks often face the strategic challenge of balancing liquidity management with the pursuit of stable financial performance. This study investigates the relationship between liquidity hoarding—a precautionary strategy in which banks retain excess liquid assets—and bank financial performance, while considering the moderating role of macroeconomic uncertainty. Drawing from behavioral finance and the strategic contingency perspective, liquidity hoarding is conceptualized not only as a rational response to perceived risk but also as a dynamic resource that banks mobilize in uncertain times. A moderated model is developed to assess whether the effectiveness of liquidity hoarding is contingent upon the intensity of external uncertainty. Using panel data from commercial banks across ASEAN countries and employing fixed-effects regression, the findings reveal a contingent relationship: liquidity hoarding is negatively associated with financial performance during periods of low uncertainty, but positively associated during periods of high uncertainty. These results contribute to a nuanced understanding of liquidity strategy effectiveness under varying external contexts and offer practical insights into how banks can calibrate their liquidity posture in response to dynamic uncertainty levels

Keywords: liquidity hoarding, financial performance, uncertainty