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Research Article

The Effect of Third-Party Funds on Profitability with Market Risk and Inflation as Moderating Variables

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Abstract: The profitability of Village Credit Institutions (LPDs) is influenced by their ability to collect and manage Third-Party Funds (TPF) optimally. However, economic dynamics such as market risk and inflation may weaken the effect of TPF on profitability. This study aims to examine the effect of Third-Party Funds on profitability with market risk and inflation as moderating variables. The research was conducted on LPDs operating in Denpasar City during the 2021–2023 period using 92 financial report observations obtained through purposive sampling. Profitability is measured using Return on Assets (ROA), market risk is proxied by the Net Interest Margin (NIM), and inflation is proxied by the Consumer Price Index (CPI). This study employs a quantitative approach using the Moderated Regression Analysis (MRA) technique. The results show that Third-Party Funds have a positive and significant effect on profitability. Market risk significantly weakens the relationship between Third-Party Funds and profitability, while inflation is not proven to be a moderating variable in this relationship.

Keywords: Inflation, Market Risk, Profitability, Third-Party Funds

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1. Introduction

Progress in the economic sector is one of the main focuses that must be pursued by every country. Economic development in Indonesia, particularly in rural areas of Bali, plays a crucial role in supporting the national economy and promoting equitable development. The government emphasizes national development in the economic sector with the aim of creating a more balanced economic structure. This balance is reflected in the concept of the Development Trilogy, which consists of national stability, equitable development, and economic growth (Yanti et al., 2015). If this development trilogy is successfully implemented, its impact will be felt by all levels of society, enabling the realization of national stability, equitable development, and optimal economic growth. This, in turn, will improve the welfare of the people, especially those living in rural areas. In Bali Province, there are social institutions that play a role in driving regional economic growth.

Desa Pakraman (customary villages) is one of the social organizations that contribute to economic development in Bali. In order to improve the welfare of Desa Pakraman communities, a financial institution capable of supporting and developing the local economy is necessary (Kurniawan et al., 2022). The Provincial Government of Bali established an institution to assist the economic development of Desa Pakraman, which is now known as the Village Credit Institution (LPD) (Putri et al., 2020). The Village Credit Institution, or LPD, was first established in 1984. According to the Decree of the Governor of Bali Province No. 3 of 2007, the LPD is a financial institution that functions in managing the finances of Desa Pakraman. LPDs carry out various financial activities such as collecting funds from the community in the form of daily savings and deposits, and providing loans to village residents (Pradnyasari et al., 2021). In its operations, LPDs are guided by the Village Credit Institution Empowerment Body (LPLPD) and are supervised by the regional government through the Governor Regulation of Bali. Regulatory support and supervision from the governing bodies are crucial to maintaining the stability and accountability of LPD management.

The existence of LPDs demonstrates that these institutions are part of the economic system with legal status as special financial enterprises, which operate exclusively within the boundaries of Desa Pakraman. In conducting its operations, the LPD adheres to local customary rules (awig-awig) that emphasize kinship values and the spirit of mutual cooperation among residents (Yanti et al., 2015). According to a study by Widiastuti et al. (2022), the main activities of LPDs include collecting public funds in the form of savings and deposits, providing loans exclusively to village residents, obtaining loans from other financial institutions, and depositing excess liquidity funds in the Bali Regional Development Bank. The primary focus of LPDs is to support village economic growth, create business opportunities for the community, and contribute to government programs aimed at reducing poverty levels.

Table 1. Distribution of LPD in Denpasar City in 2023

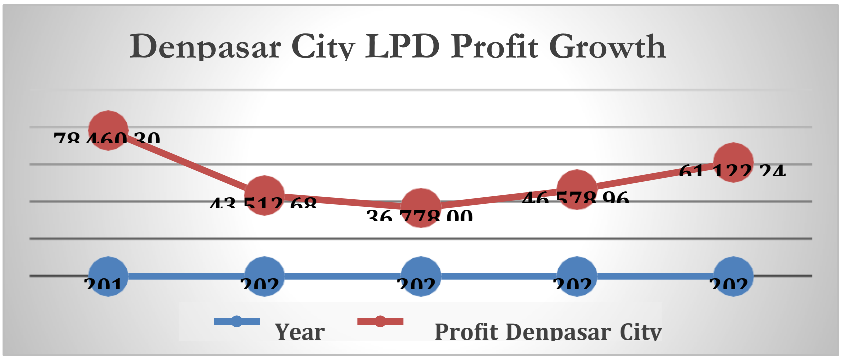
No	**Subdistrict**	**Number of LPD**
1	Denpasar Barat	2
2	Denpasar Selatan	11
3	Denpasar Timur	12
4	Denpasar Utara	10
Amount		**35**

Source: Research Data, 2025

The financial sector continues to face persistent challenges, particularly in maintaining profitability amid ever-changing economic dynamics. Profitability reflects an institution's ability to generate profit from its capital. In other words, profitability serves as an indicator that measures the extent to which a Village Credit Institution (LPD) can increase its revenue in relation to its sales, total assets, or owners' equity (Widiyanti, 2022). The level of profitability of an institution represents the ratio between the profit earned and the capital assets used to generate that profit.

In the banking industry, profitability is generally measured using Return on Assets (ROA) and Return on Equity (ROE). ROA evaluates how effectively the LPD can generate income from its operations, while ROE focuses on the level of profit gained from the owner's investment in the business (Yanti et al., 2015). This study uses ROA as the indicator of profitability because it reflects the effectiveness of LPDs in utilizing their assets to generate income. ROA also illustrates the extent to which LPD management is capable of managing its assets to improve revenue (Sehany et al., 2022). The primary goal of LPD operations is to achieve optimal profitability. The higher an LPD's ROA, the greater the profit generated, indicating effective asset utilization and a stronger financial position for the institution (Setyarini, 2021).

According to Saptati D.I. (2024) in *Media Keuangan*, Indonesia's financial sector has demonstrated considerable resilience to various economic challenges, including the global financial crisis and the COVID-19 pandemic. The pandemic placed significant pressure on the profitability of LPDs due to the rise in non-performing loans and the decline in credit demand. Financial reports from LPDs in Denpasar City for the 2021–2023 period show signs of recovery as the economy began to rebound from the pandemic. This recovery has been driven by increased economic activity, the easing of mobility restrictions, and the success of the national vaccination program.



Source: Processed data, 2025 (LPD Financial Report)

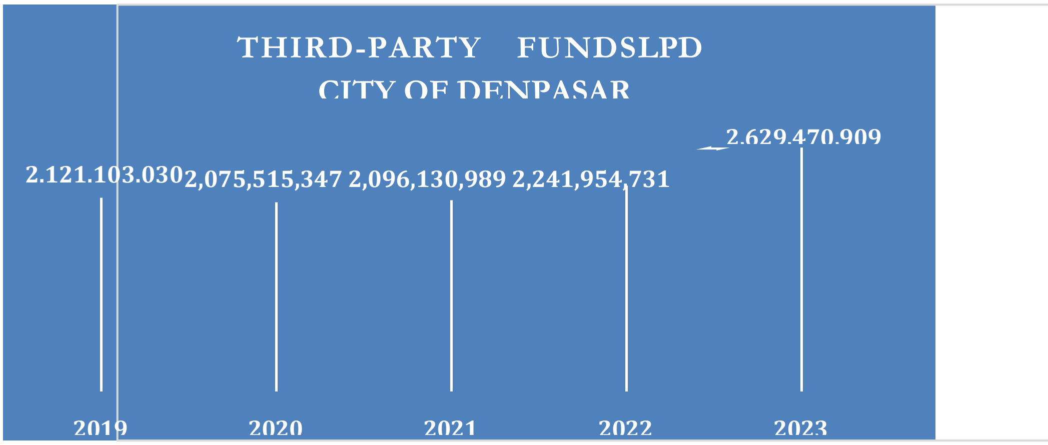
Figure 1. Indonesian Banking Profit Growth

Figure 1 illustrates the fluctuations in profit earned from 2019 to 2023. According to Ricard (2021), the decline in 2020 was caused by the impact of COVID-19, which significantly reduced consumer spending and household income, resulting in a decreased number of loan applications and savings in that year. In 2021, profits began to recover as lending activities increased, leading to higher interest income, while interest expenses on third-party funds remained low. This trend continued in 2022 and 2023, indicating signs of economic recovery in the post-COVID-19 period.

The decline and increase in profit were influenced by several factors, one of which is third-party funds (Dana Pihak Ketiga/DPK). If Village Credit Institutions (LPDs) are able to collect DPK at a low interest cost and allocate them efficiently as credit that yields high interest, profitability will improve (Kaban et al., 2023). The funds collected from the public, referred to as DPK in this study, are sourced from residents of the Desa Pakraman (Yuni et al., 2022). These funds play a crucial role in supporting LPD operations and serve as a key indicator of the institution's ability to finance its activities using community-based resources. The greater the amount of DPK collected, the higher the LPD's capacity to provide credit to the community. This enhanced lending ability directly contributes to increased income for the LPD (Pradnyasari et al., 2021).

According to a report published by Atnews, I Made Mangku Pastika, former Governor of Bali, stated that the success of LPDs lies not only in the amount of funds collected but also in effective and accountable financial management. He emphasized that "sound financial management is the key for LPDs to grow and benefit indigenous communities." This highlights that while DPK plays a significant role in supporting profitability, stable financial performance can only be achieved through optimal fund management. Poor management of DPK increases the risk of losses and can threaten the sustainability of LPDs in the future (Artaya, 2021). This underlines the importance of appropriate strategies in collecting and managing DPK to support the profitability of LPDs. Proper financial management is expected to help LPDs maintain financial stability, enhance community trust, and continue contributing to the development of a locally rooted economy in Bali.

In recent years, LPDs in Bali have faced significant challenges, especially during the COVID-19 pandemic, which affected various economic sectors. As reported by Atnews, Artaya explained that the pandemic reduced economic activity and weakened customers' ability to fulfill their loan obligations. This situation potentially impacted LPD profitability, as their primary source of income comes from lending to indigenous communities. Despite these challenges, LPDs were able to maintain their performance thanks to the strong trust of the community in the institution (Artaya, 2021). Third-party funds (DPK), largely sourced from the local community, became a key factor in maintaining LPD financial stability during difficult times (Suputra et al., 2018). During the 2019–2023 period, DPK in Denpasar City's LPDs fluctuated, reflecting economic dynamics. This is illustrated in Figure 2.



Source: Processed data, 2025 (LPD Financial Report)

Figure 2. Third Party Fund Growth

Figure 2 illustrates the growth of Third-Party Funds (DPK) in Village Credit Institutions (LPDs) in Denpasar City, showing changes from 2019 to 2023. In 2020, DPK decreased from IDR 2,121,103,030 to IDR 2,075,515,347, a decline of 2.15 percent. This decline was most likely caused by the economic uncertainty and reduced financial activity among the public due to the COVID-19 pandemic. In 2021, DPK increased again by 0.99 percent to IDR 2,096,130,989, as the economy began to recover and public trust improved. A more significant growth occurred in 2022, where DPK rose by 6.96 percent to IDR 2,241,954,731, reflecting a more stable economic recovery along with increased business and investment activity. The peak of DPK growth occurred in 2023, with a sharp increase of 17.28 percent to IDR 2,629,470,909. This increase indicates growing public trust in depositing their funds in LPDs, supported by stronger economic recovery and rising incomes. Overall, despite the initial decline during the early phase of the pandemic, the trend of DPK in Denpasar City's

LPDs shows a positive recovery and increasingly strong growth in recent years (Adnyana et al., 2023).

A study by Yuni et al. (2022) found that DPK had a positive and significant effect on profitability in LPDs across Ubud District for the period 2019–2021, as higher amounts of DPK received were directly associated with increased profitability. Higher profitability reflects a stronger financial condition, characterized by increased profit levels and operational efficiency. This positive and significant relationship occurs because most DPK collected—whether from savings, demand deposits, or time deposits—was well managed and effectively utilized. These findings are supported by studies conducted by Yanti et al. (2015), Widiastuti et al. (2022), Putri et al. (2020), and Kurniawan et al. (2022), which also concluded that DPK has a positive and significant effect on profitability.

However, research by Pradnyasari et al. (2021) concluded otherwise: DPK had no effect on profitability. The study argued that an increase in DPK does not necessarily result in higher profits for LPDs. If the increase in DPK is not followed by effective credit distribution, it could lead to losses or declining profitability. This may occur due to the accumulation of idle funds that are not fully utilized to generate income. These findings are consistent with those of Sondakh et al. (2021), Astutiningsih et al. (2019), Annisa et al. (2023), Sehany et al. (2022), and Rini et al. (2021), who also found that DPK has no significant effect on profitability.

The inconsistent results regarding the effect of DPK on profitability indicate the presence of a research gap. This research gap can be addressed using contingency theory by introducing moderating variables to account for the conditional nature of the relationship between DPK and profitability. Profitability may also be influenced by external factors such as market risk and inflation. According to POJK Regulation No. 18/POJK.03/2016, market risk is the risk arising from changes in market conditions (Yulio et al., 2024). One measure of market risk is the interest rate spread, calculated as the difference between lending and deposit interest rates, or the difference between total interest income and interest expenses. This spread is known as the Net Interest Margin (NIM). A higher NIM is generally associated with a higher Return on Assets (ROA). NIM is calculated by comparing net interest income with average earning assets (Jahrotunnupus et al., 2021).

Haryono (2022), in a press release by Bank Indonesia, noted that in 2022, the global interest rate hikes followed by Bank Indonesia created pressure on banks to adjust their cost of funds. Contingency theory explains that market risk acts as a moderating variable that influences the strength or direction of the relationship between DPK and profitability. When When market risk is low (high NIM), TPF can be managed more efficiently, thereby supporting increased profitability (Sukma et al., 2019). Conversely, when market risk is high (low NIM), the cost of funds rises and profit margins narrow, weakening the effect of TPF on profitability (Sari et al., 2021). Mosey's (2018) study also found a positive and significant effect on profitability, showing that higher NIM is associated with lower market risk and thus higher profitability.

In addition to market risk, the relationship between DPK and profitability is also influenced by inflation. Inflation is a macroeconomic factor that can affect LPD profitability. It is defined as a general and continuous increase in prices that occurs due to market mechanisms, which may be triggered by rising consumption, excess liquidity in the market, speculative activity, or uneven goods distribution (Hendiarto et al., 2024). High inflation can affect public purchasing power, savings behavior, and credit demand (Tërstena et al., 2023). In this study, inflation in Denpasar City is measured using the general Consumer Price Index (CPI). The selection of this CPI group is considered the most relevant, as price changes in basic necessities directly affect purchasing power. As the economic and social center of Bali Province, Denpasar plays a strategic role in trade, tourism, and the creative industries, making price fluctuations in essential goods potentially impactful on saving and borrowing behavior at LPDs. These conditions ultimately affect the profitability of LPDs in the region.

High inflation can affect interest rates and the attractiveness of savings, thereby influencing DPK. During periods of high inflation, LPDs may face challenges in credit distribution due to reduced demand and increased default risk, which ultimately weakens the positive impact of DPK on profitability (Widiasti et al., 2022). In low or stable inflation conditions, LPDs have greater opportunities to manage DPK optimally to support productive activities, thus strengthening the relationship between DPK and profitability (Wicaksono et al., 2022). A study by Pradnyani (2023) showed that inflation has a negative effect on profitability, meaning that as inflation increases, bank profitability tends to decline. This is because people are more likely to use their money for daily necessities rather than save it in banks, thereby affecting bank profitability and eroding the real value of existing savings.

This study aims to fill the gap in the literature by empirically analyzing the "Effect of Third-Party Funds on Profitability with Market Risk and Inflation as Moderating Variables." The findings are expected to offer practical insights for LPDs in Denpasar City to address dynamic economic challenges and maximize the potential of DPK in improving profitability. This study not only contributes theoretically but also provides practical implications for LPD management in navigating uncertain market conditions.

2. RESEARCH METHODS

This study employs two data collection methods: the documentation method and the non-participant observation method. The documentation method is used to obtain secondary data relevant to the research. This method is chosen because financial statement data and inflation data are officially documented, which facilitates the researcher in acquiring accurate and research-appropriate information.

The non-participant observation method is a data collection technique conducted by directly observing the operational activities of Village Credit Institutions (LPDs) without the researcher's involvement in these activities. In this method, the researcher acts solely as an observer, recording relevant information related to the management practices of third-party funds implemented by LPDs in response to market risk and inflation.

The population of this study includes all Village Credit Institutions (LPDs) operating in Denpasar City during the 2021–2023 period. The sample in this study is a subset of the population, consisting of LPDs operating in Denpasar City during the same period. A total of 35 LPDs over 3 years results in 105 samples. However, 9 samples were excluded due to losses incurred during the study period (2021–2023), and 4 samples were identified as outliers. Therefore, the final sample used in this study consists of 92 data observations.

The dependent variable in this study is profitability. Profitability refers to the ratio that reflects the LPD's ability to generate profit through the resources it possesses, such as cash, sales activity, number of employees, equity, and others (Krisniari et al., 2021). One measure of profitability used in this study is Return on Assets (ROA).

The independent variable is third-party funds. Third-party funds are a crucial source of capital for LPDs to increase the volume of loans that can be disbursed to customary communities within their operational areas. These funds may consist of savings such as deposits and time deposits (Anggari et al., 2020).

The moderating variables in this study are market risk and inflation. Market risk arises from fluctuations in market variables within the portfolios held by LPDs, which may lead to potential losses. One of the key factors affecting market risk is the interest rate (Komalasari et al., 2021), which is calculated as the absolute difference between interest income and interest expense, divided by the average productive assets. In the context of LPDs, this metric is referred to as the Net Interest Margin (NIM).

Inflation is also a moderating variable in this study. In general, inflation is defined as a process of a sustained and overall increase in the prices of goods over a certain period. Inflation typically occurs when the rate of price increase in the current period exceeds that of the previous period (Sehany et al., 2022).

3. RESULTS AND DISCUSSION

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Average	Std. Deviation
ROA	92	0.002	0.051	0.022	0.011
DPK	92	Rp. 1,575,398	Rp. 350,489,119	Rp. 70,257,679	Rp. 72,456,784
NIM	92	0.020	0.136	0.050	0.022
INFLATION	92	0.020	0.060	0.037	0.020
Valid N (listwise)	92				

Source: Research Data, 2025

Descriptive statistical analysis is used to evaluate the data with the aim of providing an overview or summary of the research data obtained. Based on Table 2. it can be explained that the profitability variable proxied by ROA has a sample size of 92 observations. The minimum ROA value is 0.002 (0.2 percent) and the maximum value is 0.051 (5.1 percent) with an average of 0.022 (2.2 percent). This indicates that during the observation period, the average LPD was able to generate a net profit of 2.2 percent of the assets managed. The standard deviation value of ROA of 0.011 (1.1 percent) is relatively smaller than the average value indicating that the distribution of ROA data between LPDs tends to be homogeneous.

The DPK variable reflects the funds successfully collected by LPD from the community, both in the form of savings and deposits. Based on the results of descriptive statistics, the number of observation samples was 92 data. The minimum DPK value was IDR 1,575,398,000 and the maximum DPK value reached IDR 350,489,119,000 with an average value of IDR 70,257,679.170 and a standard deviation of IDR 72,456,784.790. The DPK standard deviation value which is greater than the average indicates that the distribution of DPK data between LPDs is heterogeneous, which means that there is a large difference in the amount of funds successfully collected.

The market risk variable proxied by NIM is a financial ratio that describes the efficiency of LPD in generating net interest income from all productive assets owned. Based on the results of descriptive statistics, the number of observation samples is 92 data. The value minimum NIM of 0.020 (2 percent) and maximum NIM value reaches 0.136 (13.6 percent) with an average value of 0.050 (5 percent) and a standard deviation of 0.022 (2.2 percent). The standard deviation value of NIM which is close to or almost half of the average value indicates that there is moderate variation in the management of net interest margin. Because the variation is still quite significant (moderate variation), the NIM variable tends to be heterogeneous.

The inflation variable is an external variable that can affect macroeconomic conditions and have an impact on the operations of LPD financial institutions. Based on the results of descriptive statistics with a sample of 92 data, the minimum inflation value was recorded at 0.020 (2 percent) and the maximum value was 0.060 (6 percent) with an average value of 0.037 (3.7 percent) and a standard deviation of 0.020 (2 percent). The relatively small standard deviation value of inflation and close to the average value indicates that the distribution of inflation data during the observation period is homogeneous, which means that the variation in inflation between years is not too large and tends to be stable.

Table 3. Results of Determination Coefficient Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.893	0.798	0.786	0.31739

Source: Research Data, 2025

The determination coefficient test aims to determine the extent to which the independent variable is able to explain the variations that occur in the dependent variable. This value is shown through the Adjusted R Square.

Based on Table abpve, the magnitude of the influence of the independent variables on the dependent variables indicated by the total determination value (Adjusted R Square) of 0.786 means that the variation of the variables is able to explain 78.6 percent of the variation in the profitability variables, while the remaining 21.4 percent is explained by other factors or variables that are not included in the research model.

Table 4. Model Feasibility Test Resultt

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	34.182	5	6.836	67.865	0.000[b]
Residual	8.663	86	0.101		
Total	42.845	91			

Source: Research Data, 2025

The model feasibility test is used to assess whether the regression model built is appropriate and can be used in this study. The test is carried out through Analysis of Variance (ANOVA). If the significance value is less than 0.05, then the model is considered feasible to use.

Based on Table above, the Sig. value is 0.000. The F test results show that the significance or p value is 0.000 ≤ 0.05, so the resulting regression model is feasible to predict the relationship between the independent variables in this study and the dependent variable.

Table 5. t-Test Results

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)	0.770	0.892	–	0.863	0.391
DPK	0.122	0.052	0.249	2.373	0.020
NIM	0.473	0.802	0.379	0.590	0.557
INFLATION	0.313	0.332	0.598	0.945	0.347
DPK*NIM	-0.096	0.048	-1.255	-2.004	0.048
DPK*INFLATION	-0.016	0.019	-0.555	-0.882	0.380

Based on the results obtained from the MRA test which have been presented in Table 5, the form of the MRA analysis equation in this study is as follows:

$$\mathbf{Y = 0.770 + 0.122\,(DPK) + 0.473\,(NIM) + 0.313(INFLATION) - 0.096(DPK.NIM) - 0.016(DPK.\ INFLATION) + \varepsilon}$$

Y is the dependent variable, namely profitability, while DPK is the independent variable. Market risk proxied by NIM and inflation is a moderating variable. The constant value (∝) of 0.770 indicates that if the variables DPK (X), NIM (Z1), and inflation (Z2), and their interactions are zero, then the dependent variable (ROA) is 0.770. This value reflects the basic condition of ROA without the influence of the three variables. Furthermore, the regression coefficient value of DPK (X) of 0.122 indicates that every increase in DPK by one unit (in the scale used), will increase ROA by 0.122 assuming NIM, inflation, and their interactions remain constant. The regression coefficient value of market risk proxied by NIM (Z1) of 0.473 indicates that if NIM increases by one unit, it will increase ROA by 0.473, assuming other variables remain constant. The inflation regression coefficient value (Z2) of 0.313 indicates that a one-unit increase in inflation will increase ROA by 0.313 assuming that other variables remain constant. The interaction coefficient value of DPK*NIM (X ∗ Z1) of -0.096 indicates that the interaction of DPK and NIM has a negative impact on ROA, namely that every one-unit increase in the interaction of DPK and NIM will decrease ROA by 0.096 assuming that other variables remain constant. The interaction coefficient value of DPK*Inflation (X ∗ Z2) of -0.016 indicates that every one-unit increase in the interaction between DPK and inflation will decrease ROA by 0.016 assuming that other variables remain constant.

To test the significance of the influence of each independent and moderating variable on profitability, a partial test (t-test) was conducted. Using a significance level (alpha) of 0.05 and degrees of freedom (df) of 91 (n – k = 92 - 1) with a t-table value of 114.268. Simultaneously, variables consisting of DPK, Market Risk, Inflation, and their interactions have a significant effect on LPD profitability in Denpasar City for the period 2021-2023. This means that the model is suitable for use to explain the factors that influence profitability.

The first hypothesis states that DPK has an effect on profitability. Profitability in this study is proxied by ROA. Based on the results of the analysis in Table above, it is known that the coefficient value of the DPK variable is positive at 0.122 with a significance level of 0.020 which is smaller than the significance level of 0.05. This shows that DPK has a positive and significant effect on profitability. The greater the amount of DPK successfully collected by LPD, the greater the level of profitability that can be achieved. The increase in DPK that is managed effectively contributes to LPD's ability to distribute productive credit which in ultimately increasing interest income and profits, it is concluded that the first hypothesis (H1) in this study is accepted.

The results of this study are in line with those conducted by Yuni et al. (2022), Yanti et al. (2015), and Widiastuti et al. (2022) which stated that DPK has a positive and significant effect on profitability. The results of previous studies explain that the greater the public funds collected by LPD, the greater the capacity of the institution to distribute credit and earn interest income, thus encouraging increased profitability. This positive effect is generally achieved when DPK is managed well and the collection costs remain low.

The second hypothesis states that market risk weakens the influence of DPK on profitability. Market risk in this study is proxied by NIM. Based on the results of the interaction analysis in Table above, it is known that the interaction coefficient value between DPK and market risk (DPK * NIM) is negative at -0.096 with a significance level of 0.048 which is smaller than the real level of 0.05 (0.048 <0.05). This shows that market risk significantly weakens the positive influence of DPK on profitability. This means that when market risk increases, the influence of DPK on ROA becomes weak. LPDs tend to be careful in distributing credit due to increasing market uncertainty, so that the potential for DPK to generate profits cannot be maximized, so it is concluded that the second hypothesis (H2) in this study is accepted.

The results of this study are in line with the concept put forward by Sari et al. (2021) and supported by POJK No.18/POJK.03/2016 which states that market risk can create financial instability because it has the potential to reduce credit interest and increase the cost of funds. When market risk (NIM) is high, LPDs are faced with pressure to adjust interest rates on deposits and loans and face uncertainty in liquidity and credit demand. As a result, DPK which should be used to generate profits is not fully channeled productively.

The third hypothesis states that inflation weakens the influence of DPK on profitability. In this study, inflation is used as a moderating variable which is assumed to reduce the effectiveness of DPK in generating profitability. Based on the results of the interaction analysis in Table above, it is known that the interaction coefficient value between DPK and inflation (DPK*Inflation) has a negative value of
-0.016 with a significance value of 0.380. This value is far above the significance limit of 0.05 (0.380 > 0.05), which means that the interaction is not significant. Because the significance value is greater than 0.05, there is no empirical evidence that inflation weakens the influence of DPK on profitability in this study, so it is concluded that the third hypothesis (H3) is rejected.

This fact shows that the limitation of DPK is not caused by inflation, but most likely by other factors, such as low community income or preference for saving money outside formal institutions. In conditions of low inflation, people should have a greater opportunity to save, but because DPK remains low, it can be concluded that the limitation of DPK in LPD is more caused by internal structural factors of the community, not by inflationary pressures. This makes inflation not have a significant role as a moderating variable. On the other hand, because the amount of DPK collected is also small, its influence on profitability is also limited, so it is not sensitive enough to changes in inflation.

The findings of this study provide theoretical contributions by strengthening the theory of intermediation, that the greater the DPK collected, the higher the profitability of LPD. The results of the study also broaden the understanding of contingency theory by showing that market risk (NIM) significantly weakens the relationship between DPK and Profitability, confirming that the effectiveness of financial intermediation is highly dependent on external conditions. Conditions such as inflation are not proven as moderation because it shows the influence of external factors depending on the local context such as the economic characteristics of the Denpasar community.

This study provides practical implications for LPDs and regulators. For LPDs, increasing DPK needs to be accompanied by strengthening public trust, efficiency in credit distribution, and management of market risk through good risk management. For LPLPDs or local governments, these findings are an important basis for designing policies for coaching, supervision, and training related to risk management and financial governance so that LPDs remain resilient in facing market dynamics, even though inflation has not proven to be a significant factor

4. CONCLUSION AND SUGGESTIONS

Based on the results of data analysis and the discussion presented in this study, it can be concluded that third-party funds have a positive and significant effect on profitability. This implies that the greater the amount of third-party funds (DPK) collected by the Village Credit Institutions (LPD), the higher the level of profitability that can be achieved. Market risk weakens the influence of third-party funds on profitability. This indicates that when market risk increases, the effect of DPK on Return on Assets (ROA) becomes weaker. Inflation does not moderate the effect of third-party funds on profitability. This finding suggests that changes in inflation do not have a tangible impact in strengthening or weakening the influence of third-party funds on profitability. It implies that the limitation in DPK is more likely caused by other factors, such as low community income, rather than inflation.

Based on these findings, several suggestions can be provided for relevant stakeholders. For LPDs in Denpasar City, it is recommended to continue optimizing the collection of DPK to improve profitability. Emphasis on building public trust, improving service quality, and managing funds efficiently is essential. Given that market risk can weaken the influence of DPK, LPDs should enhance their risk management by monitoring the Net Interest Margin (NIM) and adjusting interest rate policies periodically to maintain profitability. For the Association of LPDs (LPLPD) and local governments, it is expected that they will support effective DPK management while maintaining market stability through risk management training, fund supervision, and continuous monitoring of inflation, even though inflation was not found to moderate the effect of DPK on profitability in this study. Future researchers are advised to consider additional variables that may influence LPD profitability, as the independent and moderating variables used in this study are still limited in explaining profitability comprehensively. Future studies are also encouraged to use alternative proxies for measuring profitability, market risk, and inflation to produce more robust and relevant results.

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