

Monetary policy and financial conditions in Indonesia

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Deskripsi Lengkap: <https://lib.ui.ac.id/detail?id=20498148&lokasi=lokal>

Abstrak

ABSTRACT

We develop a financial condition index (FCI) and examine the effects of monetary policy on financial conditions in Indonesia. We show that our FCI tracks financial conditions quite well because it captures key financial events (the Asian financial crisis of 1997 - 1998, the Indonesian banking crisis, and the global financial crisis and its aftermath). A unique feature of our FCI is that it is quarterly and thus offers near real-time development in financial conditions. We also show that monetary policy shapes the FCI. A contractionary monetary policy leads to unfavourable financial conditions during the first two quarters, followed by favourable financial conditions for nearly three quarters. This finding is robust to an alternative identification strategy. Our findings highlight the critical role of the monetary authority in shaping financial conditions in Indonesia.