

The effects of exchange rate and interest rate shocks on bank lending in Indonesia

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Abstrak

Krugman used the Bernanke-Gertler model to explain the Asian Crisis. This model implies that macroeconomic shocks can decrease credit creation by reducing firms' creditworthiness or by eroding bank capital. Foreign banks in Indonesia should be less likely to restrict credit following macroeconomic shocks than domestic banks because they employed better risk management practices, they were less vulnerable to disintermediation, and their customers were largely hedged. Thus foreign banks were used as the control group. We found that interest and exchange rate shocks reduced bank capital and bank lending more greatly in domestic banks than in foreign banks. This indicates that the crisis curtailed the loan supply in Indonesia, forcing firms to reduce spending and output.