ABSTRACT

Bank lending has a big role in the economy as well as supporting economic growth. Bank lending needs to be controlled to avoid procyclical behavior that can have a negative impact on the economy. To avoid this procyclical behavior, the authority takes policy steps to maintain bank lending through microprudential and macroprudential policies. Osiński et al (2013) stated that in practice microprudential and macroprudential policies may have some friction due to differences in focus.

This study aims to investigate the impact of microprudential and macroprudential policies on lending. In addition, this study also analyzes the impact of monetary policy, bank characteristics, and the COVID-19 crisis on bank lending. By using the System GMM Estimator, this study proves that each macroprudential and microprudential policy is effective on bank lending. This is proven through empirical results showing that microprudential and macroprudential policies are countercyclical. This result was also supported by the continued growth in lending during COVID-19.

Keywords: *microprudential policies, macroprudential policies, bank lending, GMM Estimator*