ABSTRACT

The paper examines empirical evidence for a bank-lending channel in Indonesia. Observer use a panel of bank balance sheet data to estimate the response of bank lending to changes in monetary policy between 2007 and 2017. In particular, this paper segregate banks according bank size, bank liquidity and its capitalization to test whether lending responses differ depending on the strength of a bank. The method used in this study is Generalized Moments of Method (GMM).

The result shows that bank lending channel exists in Indonesia and consistent with the bank lending channel hypothesis. Bank size, bank liquidity and capitalization have significant effect to bank's loan supply. But, bank liquidity and capitalization show the counterintuitive result.

Keywords: monetary policy, bank lending channel