Quantitative Easing, liquidity and Banking Growth; Evidence from Indonesian Banking System

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ABSTRACT

Quantitative easing (QE) is an unconventional monetary policy issued by the central bank to provide economic stimulus in expecting growth of aggregate demand as well as amplifying inflation. This policy typically involves purchasing large-scale financial assets from the open market and it is expected to reduce interest rates and the term structure of the yield which is supposed to have an impact on increasing the distribution of credit to the business (Bowman, Cai, Davies, & Kamin, (2015), Christensen and Krogstrup, (2019). Central banks in developed countries have already utilized the QE policy after the financial crisis hit their countries to ensure financial stability and economic growth. The covid 19 pandemic forced Indonesia Central Bank (BI) to implement a QE policy in early April 2020. The total amount of quantitative easing during this year was IDR 694.87 trillion (in the year 2020) and IDR 505.14 trillion was flooded in the year 2021 (Kebijakan Moneter, 2020). The program was conducted by injection the public fund into the banking system; by purchasing large-scale financial assets such as government bonds as well as other marketable credit securities. Additionally, the BI also reduces the minimum bank reserve that boosts the availability of current account balance to be disbursed in the credit market.

Keywords: Indonesian Banks; Lending Growth; Liquidity; Pandemic; Quantitative Easing