Regional Dimensions of Monetary Policy in Indonesia

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Monetary policy is structurally designed to address national economic policy objectives, but regions exhibit different economic structures and characteristics. As a consequence, monetary policies may have asymmetric effects across regions and can have important distributional implications for regions. This dissertation focuses on the important role of geography in regional financial markets and the impact of national monetary policies on regional economic growth. A meta-analysis shows that the differential responses to monetary policy actions are primarily caused by regional differences in the sectoral composition and financial structure of economies. This evidence is convincingly supported by a primary empirical analysis on the regional impact of monetary policy in Indonesia. It is furthermore shown that bank loan interest rates vary substantially across regions. These differences are partly explained by regional differences in risk factors, operating costs, economies of scale, and market concentration, but are also partly caused by the geographical segmentation of the Indonesian loan markets.

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