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The long-term effects of bank recapitalization: Evidence from Indonesia

Summary

“Do government-sponsored bank recapitalization programs spur lending and reduce risk? This paper assesses the impact of Indonesia’s bank recapitalization program on lending and bank risk following the Asian financial crisis of 1997. Using unique bank-level data, difference-in-differences estimates suggest that recapitalization increased lending (and more so for larger banks), but also boosted bank risk in the long term. Results remain robust to considerations of (1) bank-level differences in political connections, business group affiliation, ownership type, and (2) changes in macroeconomic conditions, capital requirements, accounting regulations, and public credit registry availability.” (Poczter)

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