

Central Bank Transparency and The Cost of Banking Crisis

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Abstract

Several studies have examined the affect of quality of the government institution and the level of corruption on the cost of crisis. Rather than watch the goverment, we concern on the role of central bank quality institution to predict the cost of crisis. We then include the central bank transparency, government owned on banking sector, corruption and some macroeconomic indicator to predict the cost of crisis that consist of banking loss and economic loss. Using sample of 13 crisis countries during 1997 – 2006, we find that some governance indicators like political stability, rule of law and control of corruption have a strong relationship with the central bank transparency. Then, we find that central bank transparency, government ownership on banking sector, corruption, and monetary indicator affect the deterioration on the bank lending during the crisis. If the fiscal indicator and geographic location added to the model, it can predict the deceleration economic growth during the crisis period.

Key words: central bank transparency, government owned bank, corruption, cost of crisis