

Abstract

The study investigated the market structure of Indonesia's banking industry and determined whether is any difference in the performance of banks in Indonesia in the period before and after the global financial crisis. This study specifically measures the degree of competition of the banking system in Indonesia by using the H-statistics. Various studies on the degree of competition were reviewed. This study employs a widely used nonstructural methodology put forward by Panzar and Rosse (1987) —the H-statistic—and drawn upon a comprehensive annual data from the various issues of the Foreign and State Banks annual reports from 2003 to 2012. Data processed by the modeling panel data with fixed effect model as the best model used. Based on the reported H-statistic, it can be concluded that Indonesia's banks are working in a monopolistically competitive market. Deposits or funds are the most important input. The coefficient for the level of funding is a major contributor of elasticity. Different test results with chow test indicates that there are differences in the performance of banks in Indonesia in the period before and after the global financial crisis.

This study only uses two types of banks making it less describing the structure of the banking market as a whole. Future studies are advised to use the data of all banks. To provide a more comprehensive cross-country studies also suggested that the crisis can include variables as independent variables.

Keywords: market structure, banking, competition, global financial crisis, H-statistic, monopolistically competitive market, chow test



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