ABSTRACT

SUTARDJO. Analysis of Market Structure and Efficiency of Indonesian Banking in the Consolidation Period. Under the direction of ARIEF DARYANTO, BUSTANUL ARIFIN, D.S. PRIYARSONO.

Primarily, there are three objectives of this dissertation. They are to investigate evidence of market structure of Indonesian banking, to analyze the cost efficiency and economies of scale of banking industry, and to analyse of market structure and efficiency relationship as well as the influence of market structure variables to efficiency in the Indonesian banking market. The Herfindahl-Hirschman and CR4 indices indicated decreasing trend and low level of market concentration. The test of market competition by using Panzar-Rosse approach indicating a monopolistic competition behaviors among banks. In addition, the market for interest-based income is found more competitive than that of for fee-based income. The study also suggest that in the changing market structure especially during the consolidation period, the responsiveness of revenue to input price changes seems lower. On the other hand, the result of efficiency analysis by using panel data Stochastic Frontier Approach (SFA) indicate that the level of efficiency was in average 0.5330. The Foreign Bank (Bank Asing) followed by the Joint Venture Bank (Bank Campuran) had the highest level of efficiency as compared to other group of banks. Analysis also showed that banks with asset sized 1 trillion to 10 trillion has the highest efficiency level. It is also interesting to show that there was improved efficiency amongst the recapitalization banks. The results further indicate increasing scale economies was experienced by Indonesian banking during 1999-2009. The study show that market structure variables including size, market share and ownership status all have significant influenced to efficiency.

Key words: Market Structure, Bank Consolidation, Market Concentration, Efficiency, Economies of Scale.