ABSTRACT

The amount of reserves in banks that exceeds the amount of bad loans will be a problem because it will burden the banks, and make their operational costs even bigger. Large operating costs will worsen banking efficiency. Therefore, in carrying out their business, banks need to manage their assets and liabilities, so that banks can maintain their liquidity and earn business profits. This study looks at banking efficiency from the intermediation function approach. The purpose of this study was to analyze the efficiency of the intermediation function of financial institutions and consumer surplus of funds in the funds market in Indonesia. The Autoregressive Distributed Lag (ARDL) model with the PMG estimator is used to analyze efficiency, loan interest rates, and consumer surplus of funds using panel data from conventional banks during the 2000 – 2019 observation period.

The results showed that the three models proved valid for estimating EFI, Interest and Consumer Surplus of Funds. All independent variables used in the three models also statistically significantly affect EFI, Interest and Consumer Surplus of Funds. All independent variables in each model have cointegration and long-term relationship to EFI, Interest, and Consumer Surplus of Funds.

Keywords: Intermediation Function Efficiency (EFI), Loan Interest Rate, Consumer Surplus of Funds (CS_L), Ratio of Operating Costs to Intermediation Income (BOPI).