

ABSTRACT

The purpose of the research is to analyze the effect of foreign penetration on the competition level of the Indonesian banking industry after the establishment of the Indonesian Banking Architecture (API) during 2005 to 2016. The approach which used in this research is to measure the level of banking competition is the non-structural approach of Panzar-Rosse with panel data regression method. The analysis used two-stage approaches. First, identified the market structure of Indonesian banking and analyze the influence of foreign ownership in Indonesian banking industry. Second, identifying foreign channels which entry in influencing the competitive level of Indonesian banking industry. The object of this research are 28 conventional banks consisting of four groups of banks, namely 4 state banks, 5 foreign banks, 10 mixed banks, and 9 national private banks (busn) foreign exchange. The first equation of estimation uses interest income as the dependent variable, and variable interest expenses, personnel expenses, other operating expenses, credits, demand deposits, time deposits and other operating income as independent variables. Meanwhile, the second equation of estimation uses H-Statistic (PRH) variable as dependent variable and penetration, concentration, liquidity, capitalization, bank size, efficiency, riskness and profitability as independent variables.

The results showed that in the first equation which divided the estimation into three groups of banks, which are national banks, foreign banks and groups of all banks, the banking industry of Indonesia included in the monopolistic market structure with the H-Statistic value of each bank group is 0.97093, 0.93872 and 0.94216. Based on these result is known that the competition level of the banking industry is highest in the national bank groups. In the second equation, it is found that penetration has a significant positive effect on the level of banking competition (PRH). As the capitalization dan efficiency have a significant positive effect on the banking competition level. Meanwhile, liquidity, bank size, riskness and profitability have a significant positive effect on the Indonesian banking competition level.

Keywords: foreign penetration, banking competition, panzar-rosse model