

ABSTRACT

This research aims to analyze the degree of competition in the Indonesian banking industry that especially in the competition of credit distribution and the effect of implementing the transparency policy of prime lending rate to the quantity of lending and the level of competition. In the Indonesian banking industry has highly concentrated lending market structure, this highly concentrated market indicates that some of the banks have higher monopoly power. Owning higher producer power, indicating the financial institution have higher potential for collusion. The Business Competition Supervisory Commission revealed that there is conjecture tacit collusin in national banking industry. Collusion action can trigger performance inefficiency of financial institution and causing loss in economy, considering credit is widely used by society. Through the implementation of the prime lending rate transparency policy, central bank of Indonesia improving the good governance and promoting healthy competition in Indonesian Banking industry. This research uses data with pre- and post- transparency policy of prime lending rate in between year 2007 to 2017. This research uses New Empirical Industrial Organization approach and Bresnahan-Lau model which uses structural equation for estimating the monopoly power (unobserve variable). The method uses in this research is using Two Stage Least Square. The result show that although the Indonesian banking industry has a relatively high concentration level, but the competition faced by each bank is fairly competitive and the conjecture of the tacit collusion activities is not proven. This result is also show that the implementation of the transparency policy of prime lending rate get good response from the public, especially the borrowers but the application of the transparency policy of prime lending rate considered not able influence the level of competition.

Keyword : monopoly power, degree of competition, the transparency policy of prime lending rate, Two Stage Least Square