

## **ABSTRACT**

*This study focusing on interbank contagion effect problem and potential of systemic risk phenomenon in Indonesia banking industry in period 2002-2012. In this case in order to understand the contagion effect and systemic risk potential there are few analysis to test the contagion existence, there are :tracking on interbank contagion pattern, measuring the impact of interbank contagion effect on banking industry, measuring respond period of interbank contagion effect.*

*Vector Autoregression are the method that selected in this study to analyze the contagion effect on sample that consist of bank that had 8,9 trillion rupiah minimum total asset in 2011(Indonesian top ten biggest bank on asset). The reason why those ten are being chosen is those ten held 63% of total banking industry asset in Indonesia. In order to describe the interbank contagion effect, composite index being used. The index being composed by three variable which are current account in other bank divided by third-party funds ,the difference between fair value of financial asset divided by total asset, difference between foreign exchange transaction divided by total asset. In this VAR Analysis model there are three method that had selected which are: Granger causality test, VAR analysis, impulse respond function (IRF).*

*From the Granger causality test result showing us that there be found a pattern of interbank contagion effect between few bank. For the result of VAR analysis showing us that the impact of contagion effect in Indonesian bank not big enough. For the result of the IRF analysis showing us that the respond come out in first or second period. From those three analysis we may conclude that the systemic risk in indonesia is exists but the impact is not big enough.*

*Keyword: contagion effect, systemic risk, Vector Autoregression (VAR), current account in other bank, third-party funds, difference between foreign exchange transaction divided, total asset, the difference between fair value of financial asset..*