

## **ABSTRACT**

*This research aims to analyze comparison profit efficiency of banking industry in Indonesia, especially of state banks and private banks. Efficiency is a parameter for measuring banking performance. There were 13 banks used as samples of this research and they were divided into two groups of banks, state banks (4 out of 13) and private banks (9 out of 13).*

*This Research used Stochastic Frontier Approach (SFA) methods to measure the efficiency of Indonesian banking in state banks and private banks. The result of SFA that appeared was in the form of a score between 0-1. The closer it was to 1 meant that the bank was more efficient. Variables were chosen based on the intermediation approach. Input variables in this research are savings, deposits, interbank liabilities and other operational expenses, and the output variables are loans, interbank assets, SBI and other operating income. In order to know the difference of efficiency level of each bank, we used independent sample t- test.*

*The analysis results using stochastic frontier approaches showed that the average efficiency of state banks during 2006-2008 was 0.85259109, while the average efficiency of private banks was 0.66681410. This means that the private banks are better than the state banks. On state banks, variables which give positive and significant impact to income are savings, deposits, and other operational costs, while interbank liabilities ratio does not give any significance and give negative impact to profit. On private banks, the variable that gives positive and significant impact is SBI, whereas the variable which gives only positive effect and does not give any significance is interbank assets, while loans and other operational income give negative effect and do not give any significance to profit. The findings of t- test analysis showed that there was any difference in efficiency level between state bank and private bank.*

*Keywords: Efficiency, SFA, state bank, private bank*