

## ABSTRACT

Primarily, this thesis aims to analyze the cost efficiency of banks industry in Indonesia. Efficiency is a theoretical parameter can be used as a base of performance measurement in a bank. There are two approaches in measuring banks efficiency; they are traditional approach and frontier approach.

This study used parametric approach, stochastic frontier analysis approach, to measure bank cost efficiency. The grade of cost efficiency shown in this study was in percentage, closer to 100% means a bank acts more efficient. Cost efficiency analysis by comparing a group of banks provides a view of efficiency level of banks group in Indonesia. Consequently, by knowing the position of efficiency level of a bank compared to its bank rival in one group of banks, we can state appropriate supervision strategy and business strategy. Sampling technique used in the study was purposive sampling. There were 22 banks as the sample divided into 3 groups of banks; they were 3 State-owned Banks (BUMN), 17 Foreign Exchange Private-owned Banks (BUSN), and 2 non- Foreign Exchange Private-owned Banks (BUSN). Analysis technique used in this study was equation single model, cross section model and panel model. In order to know the difference of cost efficiency level of each group banks, Anova analysis was used.

The result of the analysis, Cross Section Stochastic Frontier Analysis, revealed that the grade of Indonesian banks efficiency was nearly 100%. After 4 years being analyzed using Cross Section SFA model, started from the year of 2004 until 2006, Non- Foreign Exchange Private-owned Banks (BUSN) had the highest grade of efficiency, followed by Foreign Exchange Private-owned Banks (BUSN) and State-owned Banks got the lowest. Anova analysis also showed that there was a difference of efficiency level between each banks group in 2004 and 2005. However, in the year of 2006 and 2007, there was no efficiency level difference between each banks group. The result of frontier analysis using panel data approach revealed that the average bank efficiency was 62.58%. The result of the analysis also showed that during the year of 2004 until 2007 Non- Foreign Exchange Private-owned Banks (BUSN) achieved the highest efficiency meanwhile Foreign Exchange Private-owned Banks (BUSN) and State-owned Banks (BUMN) gained the lowest efficiency. The result of bank efficiency comparison based on the tested bank group using Anova analysis showed that there was a significant difference ( $p < 0.05$ ).

**Key words:** Cost Efficiency, Group of Banks, Stochastic Frontier Analysis (SFA)