

ASSESSING PROFIT EFFICIENCY OF ISLAMIC BANKS IN INDONESIA: AN INTERMEDIATION APPROACH

Title	ASSESSING PROFIT EFFICIENCY OF ISLAMIC BANKS IN INDONESIA: AN INTERMEDIATION APPROACH
Author Order	3 of 3
Accreditation	
Abstract	<p>Islamic banking industry has been growing more rapidly. Beside, the increasing number of Islamic banks force the Indonesian banking sector to be more competitive, which results in better performance and higher efficiency of the Islamic banking Industry. This study investigates the profit efficiency of Islamic banks in Indonesia. The Stochastic Frontier Approach (SFA) was adopted to evaluate monthly data released by full-fledged Islamic banks and Islamic window banks in Indonesia. The period of observation was March 2003 until March 2009. The efficiency of Islamic banks was assessed by employing the intermediation approach. Hypotheses concerning the relationships of the input and output variables were posited and tested. The result of the study indicated those full-fledged banks are more efficient in generating profit than their counterpart, Islamic window banks. The finding of this study highlights crucial information regarding the efficiency of Islamic banks in developing country. Islamic banks should continuously increase the amount of third party fund and financing volume and make it more efficient in generating profit. In addition, Islamic bank efficiency may have a great influence on the Indonesian government policy, which is expected to be in favor of the industrial sector instead of the monetary sector.</p>
Publisher Name	STIE Perbanas Surabaya
Publish Date	2011-10-07
Publish Year	2011
Doi	DOI: 10.14414/jebav.v14i1.21
Citation	
Source	Journal of Economics, Business, & Accountancy Ventura
Source Issue	Vol 14, No 1 (2011): April 2011
Source Page	
Url	https://journal.perbanas.ac.id/index.php/jebav/article/view/21/15
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