



THE ANALYSIS OF INTEREST RATE EXPOSURE TO BANKS IN INDONESIA USING THE VALUE-AT-RISK METHOD

ABSTRACT

The purpose of this research is to analyze the interest rate exposure to banks in Indonesia. Previous researches had proven that the fluctuation of interest rate had posed bank to a substantial loss. In measuring the potential loss of banks, this research employed the Value-at-Risk method. However, different to most previous researches, this research had done based on the economic perspective.

Samples in this research are Indonesia state banks that are joined in determining the Jakarta Interbank Offered Rate (JIBOR). There are four banks considered fulfill the requirements during the observation period, which are Bank Mandiri, Bank Negara Indonesia (BNI), Bank Rakyat Indonesia (BRI), and Bank Tabungan Negara (BTN). Bank's portfolio that used as basis on measuring the interest rate exposure is based on bank's Annual Report from 2005 to 2007.

The research finds that during 2005 to 2007 the interest rate risk of Bank Mandiri, BNI, and BRI are increased, while the interest rate risk of BTN fluctuates. Quantitatively, the potential loss of each bank accounted less than 1% of each bank's equity. In addition, this research also finds that during 2005 to 2007, each bank has typical gap management.

Keywords: *fluctuation of interest rate, interest rate exposure, Jakarta Interbank Offered Rate (JIBOR), potential loss, value-at-risk*