ABSTRACT

For the developing countries, financial liberalization means expecting to gain the productivity spillover in the banking industry through a wider global exposure. However, does the expectation eventually occur in the case of Indonesia? This paper aims to address the question by investigating the impact of foreign bank penetration on performance of domestic banks in Indonesia using random effect model from 2011 to 2018. Through an examination of 29 domestic banks in Indonesia, the result reveals a clear evidence that the foreign bank penetration does affect the profitability of domestic banks in a positive direction. This means that the domestic banks in Indonesia are able to capture the productivity spillover brought by multinational banks. Therefore, the decision by policymakers to bring up the banking industry to the international level has led the domestic banks to improve their performance.

Keywords: Foreign, Bank, Financial Economics, Random Effect.