LINKAGES BETWEEN BANK COMPETITION AND FINANCIAL STABILITY:
A COMPARATIVE STUDY OF SHARIA VS CONVENTIONAL BANKING IN
INDONESIA

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ABSTRACT
The banking sector is one of the most critical sectors that supports a country’s economy. In Indonesia, the development of banking has undergone significant changes, as evidenced by the shift from the conventional system to the dual banking system and then the Sharia system. The large number of commercial banks and bank offices suggests high competition in Indonesia. Consequently, banks must reduce costs and streamline their operational activities to remain competitive. This study uses the Generalized Method of Moment to analyze the relationship between bank competition and financial stability in Indonesia, both for conventional and Islamic banks. The results show a positive relationship between the level of competition in the banking industry and the stability of banks, indicating that an increase in competition will result in greater stability. These findings suggest that Islamic banking has the potential to expand its market share by improving its level of soundness and retaining customer loyalty. Additionally, banking authorities should re-evaluate their performance and regulations.

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Keywords: bank competition, financial stability, banking sector.

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