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Natural Disaster and Local Bank Non-Performing Loan: Case of Nias Tsunami 2004

Rayenda Brahmana

Faculty of Economics and Business, Universiti Malaysia Sarawak

Chin hong Puah

Faculty of Economics and Business, Universiti Malaysia Sarawak

Michael Chai

Faculty of Economics and Business, Universiti Malaysia Sarawak

Abstract

There is dilemma of Indonesia government to give fund relief in assisting the non—performing credit of natural disaster-affected area. This is due to the argument that natural disaster may not have any impact on banking performance of those affected areas. The fund relief is accused as another moral hazard from government. Hence, this research aims to investigate the effects of natural disaster on the local bank non-performing loan. We use event study and pair t-test to examine the effects of Nias tsunami on Indonesian banking sector. The study is motivated by the hypothesis that there are impacts towards the Indonesian banking institution before and after the natural disaster happens in 2004. The results show that there are increment in the good and under-supervision credit rating, while the other credit rating has decrement after the event. This might be due to the regulation the restriction of loan borrowing to mitigate the crisis hit towards the banking profitability. The NPL of local bank is also significantly different between before and after the tsunami. Using event study approach, the results shows also the significant impact of Aceh Tsunami on local bank non-performing loan.

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Contact: Rayenda Brahmana - raye_brahm@yahoo.com, Chin hong Puah - chpuah@unimas.my, Michael Chai - yan_choi0327@hotmail.com

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