

ABSTRACT

Maufirotul Jannah, 2018. Financial Deepening Analysis of Economic Growth in Indonesia. Under the guidance of Rifai Afin, S.E.M.Sc.

This study has an objective to measure how much the effect of financial sector to the economic growth in Indonesia by using financial deepening indicators as a picture of the financial sector and GDP as a picture of economic growth. In addition to looking at the relationship between financial deepening and growth, this study also looks at the relationship of other variables to economic growth such as variables of openness, interest rate, inflation, government expenditure/GDP, and crisis dummy. The research approach that used is quantitative. Data that used are time series data for the period of 1989-2016 obtained from World Bank website. Regression model that used is Error Correction Model (ECM).

The results of the study show that financial deepening has a positive and significant effect on economic growth both in the long term and short term. Meanwhile, for the variables of interest rate, government expenditure/GDP and crisis dummy in the long term have a significant effect on economic growth. In the short term, variables of inflation, government expenditure/GDP and crisis dummy have a significant effect on economic growth.

Keywords: Financial Deepening, Economic Growth, ECM