ABSTRACT

This paper examined the effect of financial deepening on economic growth in Indonesia in short and long-run over the period from 1980 to 2019 using Error Correction Model (ECM) approach. Financial deepening is measured by broad money to GDP ratio (M2/GDP), financial institutions depth index, and financial market depth index. The data are time series and secondary data from Badan Pusat Statistik (BPS), World Bank (World Development Indicator) and International Monetary Fund (IMF).

The results show that broad money to GDP ratio (M2/GDP), financial institutions depth index, and financial market depth index have positive and significant effect on economic growth in the long-run. In the short-run, only broad money to GDP ratio (M2/GDP) has positive and significant effect on economic growth.

This implies that financial deepening can stimulate economic growth in Indonesia in both short and long-run. Therefore, this study support supply-leading hypothesis.

Keywords: *Financial deepening, economic growth, supply-leading hypothesis, Error Correction Model*