

ABSTRACT

This paper intends to identify the relationship between financial inclusion and financial system stability in Indonesia - whether the higher level of financial inclusion tends to enforce or endanger financial stability. Using the Index of Financial Inclusion (IFI) by Sarma, this study assesses financial inclusion according to accessibility, availability, and usability dimensions. At the same time, financial stability was measured by Financial System Stability Index (FSSI) proposed by Gunadi. Eventually, this research follows previous studies and includes three macroeconomic variables to separate the impact of financial inclusion on financial system stability in Indonesia. The analysis is based on time series data from 2012Q1 to 2020Q4. The findings revealed positive and significant links between financial inclusion and financial system stability. However, income inequality found negative and significant impact on financial system stability. Meanwhile, economic growth and financial integration has an insignificant effect towards financial system stability.

Keywords: Financial Inclusion, Financial System Stability, OLS, economic development

