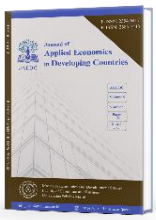

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ANALYSIS OF THE INFLUENCE OF FINANCIAL DEVELOPMENT AND FINANCIAL INCLUSION ON ECONOMIC GROWTH

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ABSTRACT

The objective of this research is to analyze the influence of financial development, represented by credit/GRDP and MSME/GRDP credit, and financial inclusion, represented by the number of bank branches per 100,000 adult population and third-party funds per GRDP, on economic growth in 33 Indonesian provinces during the 2013-2017 period. The data in this study used 33 provinces in Indonesia. The method of analysis is the panel data method. The data panel is a combination of time series data and cross-sections. The cross-sectional data is processed by observing the same object in a different way and at different times. This study found that financial development had a significant positive effect based on credit / GRDP variables. meanwhile, the SMEs / GDP credit proceeds were found to be insignificant in economic growth. Financial inclusion has a negative and significant effect based on a variable number of offices. Bank branches per 100,000 adult population and DPK / GRDP at current prices. At the same time, the control variables collected were significant and positive capital, while the labor force was not significant.

1. INTRODUCTION

Every country in the world strives for the welfare of its people. To achieve this prosperity, a country focuses on economic development. An important indicator in economic development is economic growth. In most countries, economic growth is a crucial topic for policymakers focused on the welfare of their citizens. Therefore, economic growth illustrates the economy's ability and condition in achieving better development over time. As defined by (Sukirno, 2000), a country's economic development can be quantitatively measured through annual comparisons, known as economic growth.

Economic growth is a key indicator of economic development and is a primary goal for many countries, including Indonesia. As a developing country, Indonesia continues to pursue economic development by enhancing economic growth, which is expected to improve social welfare. Figure 1 in the next page shows that Indonesia's economic growth over the past five years has been fluctuating.

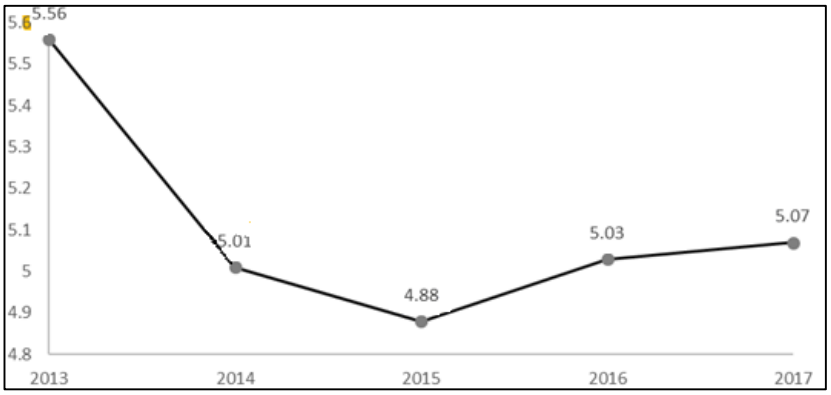

Figure 1. Economic Growth in Indonesia in 2013-2017
Source: BPS, 2017

Indonesia's economic growth in 2013 was quite high at 5.56 percent. Then in 2014, Indonesia experienced a slowdown in economic growth down to 5.01 percent and in 2015 again experienced a slowdown of 4.88 percent. The slowdown was caused by external factors regarding the policies of the United States of America in raising their interest rates, which created some pressure on world currencies, including Indonesia. In 2016 economic growth in Indonesia was 5.03 percent and in 2017 it reached 5.07 percent. These figures indicate economic growth.

Levine (1997) found the results of the relationship between the development of the financial sector and economic growth. This is because the financial sector is able to mobilize finance from capital owners and manage risks that can trigger capital accumulation to be allocated to the productive sector. This can increase technological progress and productive sector efficiency with various innovations so as to create a positive contribution to economic growth.

Beck et al. (1997) show that good financial sector development will accelerate economic growth because several factors that can hinder the growth of small companies will be eliminated. This shows that development in the financial sector has a distributive effect because it is able to eliminate factors that can hinder the growth of these small companies. In addition, the important role of the financial sector in developing economic growth has also been suggested by other empirical studies. Baroroh (2012) and Jedidia et al. (2014), both found that financial development from a credit perspective also had a strong influence on economic growth with different research objects.

In 2008 the world has experienced a global crisis. The financial sector is the main concern in overcoming the impact of the crisis. New problems have been discovered considering that the global crisis has shaken the economy. Financial deepening is considered to be still ineffective in maintaining the stability of the financial sector so that the economy is affected by the crisis. This is because there are marginal or rural communities who still have low incomes who experience limitations in accessing financial services organized by financial institutions. The focus in the financial deepening system is still on providing mobilization to the productive sector. Therefore,

The phenomenon of financial inclusion in Indonesia in recent years is interesting to discuss because of the Indonesian government's incessant implementation of a financial inclusion system. Several empirical studies have proven the link between financial inclusion, economic growth and financial development. Demirgüç-Kunt & Klapper (2012) said that financial inclusion in financial development can reduce income disparities and as an effort to accelerate economic growth. This is because with the implementation of a financial inclusion system, access to financial services for the community will increase and will be followed by the ownership of formal banking accounts for groups of people who do not obtain or do not use financial services.

From the background above, it is known that it is very important that economic growth is driven by the financial sector. Better economic growth will increase economic development. In the financial sector there is also a system which is a development of a financial deepening strategy, namely a financial inclusion system. Financial inclusion has recently become a major policy issue in various countries, including Indonesia.

Various researchers have conducted empirical research related to financial development, financial inclusion and economic growth. Many have proven the effect of financial development on economic growth or financial inclusion has an effect on economic growth. Therefore, at the time of writing this thesis examines the relationship between financial development (financial development), financial inclusion and economic growth so as to find empirical results when all three are applied in Indonesia. The title that will be displayed in writing this thesis is "Analysis of the Effects of Financial Development, Financial Inclusion and Economic Growth: Studies on the State of Indonesia in 2013-2017".

2. RESEARCH METHODS

In conducting research to determine the effect of financial development and financial inclusion on economic growth, a data analysis method was devised. The panel data method, which combines time series and cross-sectional data, was chosen due to its ability to provide more informative data, control for individual heterogeneity, and detect dynamic effects that pure time series or cross-sectional data cannot. This method allows for a more nuanced analysis of financial development and inclusion's impact on economic growth across different provinces and over time. Researchers used data from 33 provinces in Indonesia. The object of research in this study is economic growth using the GDRP per capita variable, capital accumulation and labor control variables, financial development with credit/GDRP and SMES/GDRP credit variables and financial inclusion using the variable Number of bank branches per 100,000 adult population. The model for doing the proof refers to Levine (1997) function,

$$GDRPit = \alpha + \beta 1 KREit + \beta 2(KRESMEs)it + \beta 3(KC)it + \beta 4(DPK)it + \beta 5K + \beta 6L + \varepsilon t$$

Where as:

GDRP	= Gross Domestic Regional Product
KRE	= Credit / GDRP
KRESMEs	= SMEs Credit / GDRP
KC	= KC per 100.0000 population
DPK	= DPK per 100.000 population
K	= Capital accumulation
L	= Labor

The method used in analyzing this research is the panel data method which is a combination of time series and cross section data. The cross section data is processed by observing repeatedly on the same object and at different times. The use of the panel data analysis method has the advantage of being able to provide informative data and can measure and detect effects that cannot be observed in time series and cross section data properly. The advantages of panel data were also written by Baltagi in Gujarati et al. (2019) who said that panel data has several advantages as follows: 1) The heterogeneity of an individual in the data can be calculated explicitly by using panel data; 2) The resulting data will be more informative with the combination of cross section and time series data; 3) This cross-sectional study was carried out repeatedly, so the use of panel data is very appropriate for use as a study of dynamic adjustment; 4) The influence of a data that cannot be observed by pure cross section and time series data is well detected by panel data measurements; 5) Complex models can be studied using panel data; and 6) Bias from individual data aggregation that may arise can be minimized by using panel data.

The panel data equation can be formulated using the following model:

$$Yit = \beta 0 + \beta 1\ Xit + \mu it$$

Pooled least squares combine time series data with cross-sectional data, using Ordinary Least Squares (OLS) as the estimation method. This method is known as the common effect estimation model and does not account for individual or time dimensions (Gujarati & Porter, 2009). The equation of the model in pooled least squares (PLS) analysis is:

$$Y_{it} = \alpha + \beta X_{it} + \mu_{it}; \; i= 1,2,....,N; \; t = 1,2,.....,T$$

The Fixed Effect Model (FEM) approach addresses the limitations of pooled assumptions by assuming a constant slope coefficient for individuals and a constant intercept over time, while allowing the intercept to vary across cross-sectional data (Wooldridge, 2010). The fixed effect model (FEM) approach is also commonly referred to as the least square dummy variable (LSDV) approach. The equation of this fixed effect model approach is as follows:

$$Y_{it} = \alpha + \beta 1 X1_{it} + \beta 2 \; X2_{it} + \beta 3 \; X3_{it} + e_i + \mu_{it}$$

Random Effect Models (REM) assume constant slope results but allow the intercept to vary randomly between time and individuals. This approach uses residuals, permitting relationships between time and objects, which are included in the error term of each individual. This model, known as the error component model, is used to address the limitations of the Fixed Effect Model (FEM). The assumption here is that combined errors and individual errors are uncorrelated, and unobserved individual effects are not correlated with regressors (Baltagi, 2008).

Next, the model selection test will be continued. See whether the FEM or CEM model is suitable using the Chow test and Hausman test to see which FEM or REM model is suitable for use. After that, the Classical Assumption test was carried out, namely the multicollinearity test, heteroscedasticity test and autocorrelation test. The final stage is the Statistical Test, namely the t-statistical/partial test, the F test and the Determination Test (R^2).

3. RESULTS AND DISCUSSION

3.1. RESULTS

Descriptive Statistics

Statistical description of variables can be obtained from descriptive statistical analysis by informing the average, minimum value, maximum value, standard deviation of each variable used. Descriptive statistics on the variables used can be seen in the following table:

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Means	std. Deviation
GDRP	165	10396.76	157637.3	37021.48	29155.17
K	165	5026.49	704826.8	87316.54	131342.4
L	165	59,407	79,569	67,115	3.929792
DEP	165	12,229	129,491	29.81861	18.39177
KRESMES	165	4.119	75.47	9.597539	6.024213
KC	165	1,022	7,616	2.499539	1.179643
KRE	165	7,671	103,754	24,311	14.74789

Source: Processed data, 2017

From the table 1 it can be learned that the minimum economic growth value (GDRP) is 10396.76, namely in the Province of East Nusa Tenggara (NTT) in 2013. The maximum value of economic growth (GDRP) is 157637.3 in DKI Jakarta Province in 2017. The mean value of GDRP shows a result of 37021.48, while standard deviation value is 29155.17.

This value shows the distribution or distribution of data from economic growth. Based on these data it can be shown that economic growth data has a homogeneous distribution, because the mean value is greater than the standard deviation value. capital accumulation has a minimum value of 5026.49 in North Maluku Province in 2013. The maximum capital accumulation is 704826.8 in DKI Jakarta province in 2017. The mean value of capital accumulation shows a result of 87316.54 while the standard deviation value shows a result of 131342. 4 because the mean value is smaller than the standard deviation value of the data distribution of capital accumulation. The distribution of capital accumulation is heterogeneous. The workforce has a minimum value of 59,407, namely the province of North Sulawesi in 2013. The maximum value of the workforce is 79,569, namely the Province of Papua in 2015. The mean value of the workforce shows the result of 67,115, while the standard deviation value shows the value of 3.929792. These results show the distribution or distribution of data from a homogeneous workforce. The credit/GDRP ratio is a variable from the aspect of financial development (financial development) having a minimum value of 13.99487, namely Riau province in 2013. The maximum credit/GDRP value is 234.7672, namely Bengkulu province in 2017. The mean value of credit/GDRP shows the result of 37.97094, while the standard deviation value shows the result 28.89353 which is the distribution or distribution of data from credit/GDRP. Based on the above data, the credit ratio/GDRP data has a distribution which is a variable from the aspect of financial development (financial development) having a minimum value of 4,119, namely Riau Province in 2013. The maximum value of SMES/GDRP credit is 75.47 in Maluku province in 2014. The mean value of SMES credit /GDRP shows a result of 9.597539, while the standard deviation value shows a result of 6. 024213 which is the distribution or distribution of data from SMES/GDRP credits. SMES/GDRP credit ratio data has a homogeneous distribution.

Estimation Model Selection

To test the hypothesis in this study, the panel data estimation model was tested using three processing methods, namely Ordinary Least Square (Pooled OLS), Fixed Effect Model (FEM) and Random Effect Model (REM). In determining the best model to be used, there are several ways, namely the Chow test, Hausman test and Lagrangian Multiplier (LM) test. Following are the details and explanations of the model selection test along with the regression results carried out in the study.

Table 2. Chow Test Model Selection Test Results

Effect Test	Statistics	Probability
Cross-Section F	326.06	0.0000

Source: Processed data, 2017

The results from the table 2 above shows that Chow Test value is (Prob > F) 0.00000 <0.05. The results of the Chow test show that the rejection of H0 and H1 is accepted so that in this study the Fixed Effect Model (FEM) is the best model chosen.

Table 3. Hausman Test Model Selection Test Results

Effect Test	Chi-Square Statistics	Probability
Cross-Section F	293.89	0.0000

Source: Processed data, 2017

Hausman test results from the table 3 above show that at a significance level of 5%, the p value <α. So in this study, the results of the Hausman test were 0.0000 <0.05, which means that the test results accepted H1. These results prove that the best and selected model is the fixed effect model (FEM). With these results, this study did not carry out the LM test because the best model for research uses FEM.

T Test

Based on the model selection tests conducted, the best and selected model is the fixed effect model (FEM) with the White Period Robust Standard Error method. With this model, it can be determined whether the individual variables are significant or not by looking at their t-statistic values.

Table 5. T test

Variable	t-statistics	p >|t|	Information
K	4.17	0.000 < 0.10	Significant positive effect
L	1.36	0.182 > 0.10	No significant effect
KRE	3.45	0.002 < 0.10	Significant positive effect
KRE-SMES	1.16	0.256 >0.10	No significant effect
KC	-2..41	0.022 <0.10	Significant negative effect
DPK	-4.92	0.000 < 0.10	Significant negative effect

Source: Processed data, 2017

Finally from the table 5 of T test shows that, the negative and significant effect of the number of bank branches per 100,000 adult population on economic growth may indicate that an increase in bank branches does not necessarily translate to improved economic performance. This could be due to inefficiencies in the banking sector or other barriers preventing effective utilization of financial services by the population.

F test

The F test can see the effect of the significance of the independent variables jointly on the dependent variable. The value of the f-statistic on these results can determine the significance of the effect of the independent variables together on the dependent variable. Based on the probability value F if (prob > F) < α (significance level) then the independent variables together significantly influence the dependent variable. Results The probability value of the F test is 0.0000 (0.0001 <0.1) which means that the variables of capital accumulation, labor, aspects of financial development with the variable credit/GDRP, SMES/GDRP credit and aspects of financial inclusion with the variable number of branch offices/100,000 residents as the dimension of access and the amount of DPK/GDRP as the dimension of sharing has significantly influenced growth.

Determination Coefficient Test (R^2)

The results of the coefficient of determination R^2 in this study showed 0.683. These results can be interpreted that the ability of the control variables, namely the accumulation of capital and labor variables, the financial development aspect with the credit/GDRP variable, SMES/GDRP credit and the financial inclusion aspect with the variable number of branch offices/100,000 residents as an access dimension and the number of DPK/GDRP as dimensions of use can explain economic growth of 68.3%. The remainder of the coefficient of determination, which is equal to 31.7%, is an explanation of other variables that are not included in the research model.

3.2. DISCUSSION

Panel data is a method in research. Researchers use the fixed effect model with the White Period Robust Standard Error method. The results of the panel data regression are in table 6 in the next page.

Table 6. Fixed Effect Model Regression Results

Variable	Coefficient	t-Statistics	Probability
cons	40365.51	4,020	0.000
K	0.153873	4,170	0.000
L	134.5149	1,360	0.182
KRE	14.72716	3,450	0.002
KRESMES	9.321984	1,160	0.256
KC	-4683.265	-2,410	0.022
DPK	-582.8883	-4,920	0.000
R-Sq	0.6831		
F-statistics	20.57		
prob > F	0.000		

Source: Processed data, 2017

The regression equation obtained by the model is as follows:

GDRP: 40365.51 + 0.154K + 134.515L +14.727KRE + 9.322KRESMES
- 4683.265KC - 582.888DPK

Effect of Financial Development

Financial Development is an important aspect in influencing economic growth. As Levine (1997) which show that financial development is a good predictor of economic growth in the long term. In addition, according to Spratt (2009) Financial Development can trigger economic growth in several ways including its impact on capital accumulation and technological progress.

The role of financial development (financial development) leads to two conditions, namely financial deepening and financial deepening (Fry, 1995). The development of financial deepening is very important to be carried out in efforts to increase financial development. The process of financial deepening can show how a country is able to increase the role and activities of financial services from the financial sector towards economic growth. The results of this study show a positive effect on all variables, namely the credit/GDRP ratio and the SMES/GDRP credit ratio. However, there are different results with a significant effect where the SMES credit sector does not have a significant effect on economic growth. The significant positive effect of financial development is the same as research by Zhang et al. (2012) that the financial development indicators used are positively related to economic growth. The depth and size of the financial sector can spur economic growth. The development of financial intermediation in China after the entry into the WTO has positively influenced China's economic growth. Research by Buhaerah (2017) is in accordance with the results of this study by saying that there is a significant influence of financial development on economic growth.

Effect of credit/GDRP ratio

The results of the credit/GDRP ratio have a significant and positive effect on Indonesia's economic growth. The variable coefficient value produced in this regression is 14,727 with a probability of 0.002. These results indicate that for every 1 percent increase in the credit/GDRP ratio, economic growth will experience an increase of 14.727 percent. These results are consistent with the hypothesis that credit ratios and GDRP significantly affect economic growth.

These results are supported by Jedidia et al. (2014) previous research, which examined the country of Tunisia saying that credit per GDRP has an effect on long-term economic growth and there is a causal relationship (causality) between the two. Credit provided by banks can stimulate economic growth. Credit which is a source of financing for the real sector will develop the sector to be more productive. So that the response of credit supply to the sector to be more productive will generate or trigger an increase in economic growth.

Effect of SMES/GDRP Credit

The result of the SMES/GDRP credit ratio has no significant and positive effect. the variable coefficient produced in this regression is 9.322 with a probability of 0.256. These results indicate that for every 1 percent increase in the SMES/GDRP credit ratio, economic growth does not necessarily increase by 9,322 percent. These results do not support the hypothesis that even though the SMES and GDRP credit ratios affect economic growth positively and not significantly. However, research by Uremadu (2012) support the results of research and find SMES credit in Nigeria, even though it is positive, but not significant. This.happens, because of unclear or ineffective government policies, the problem of collateral security by banks where banks will not get bad credit problems and inadequate technology. unarticulated government policies, problems of collateral security required by banks, poor development of indigenous technology, and high loan interest rates. So that in this case SMEs credit is not able to make a significant contribution.

The Effect of Financial Inclusion

Financial inclusion is a system that is in the spotlight after the global crisis in developed or developing countries. The financial inclusion system is a financial deepening service aimed at all levels of society in providing easy access to formal financial services and utilizing financial services and with various aspects that can enhance financial development (financial development). So that with easy access will increase economic growth. However, this study found a negative effect on all financial inclusion variables but significantly affected the dependent variable, namely economic growth. These results are not the same as the hypothesis that predicts economic growth is positively influenced by financial inclusion. Nkwede's (2015) is the same as the results of this study by finding financial inclusion to have a significant negative effect in Nigeria in 1981-2013. The study explained that the results of research in that country were due to rural areas, the availability and use of deposit financial services through rural bank branches were less accessible to the adult population in the area. In addition, small businesses are also less able to access bank loans.

Effect Ratio Number of Bank Branches/100,000 Population

The number of bank branch offices/ 100,000 residents has a significant but negative effect on Indonesia's economic growth. The variable coefficient value produced in this regression is -4683.265 with a probability of 0.022. This result can be interpreted as an inverse comparison between the number of bank branches/100,000 population and economic growth. Thus, for every decrease in the ratio of the number of bank branch offices/100,000 population by 1 percent, economic growth can increase by 4683,265 percent. The results of this study are not in accordance with the hypothesis which presumes that the number of bank branches per 100,000 residents has a positive effect on economic growth. This result is supported by previous research, namely Barnini et al. (2021) which said the number of bank branches had a negative effect on economic growth in Italy in 2006-2013. In his research, it is said that an increase in the number of bank branches requires financing and human physical capital. In addition, it also requires a control strategy and avoids adverse risks.

In this case, an increase in the number of bank branch offices will bring effectiveness and efficiency to the banking system as an intermediary institution. However, if the bank does not carry out its functions properly, it will result in the return received by the bank not being comparable to the provision of a new branch office. This will hamper the intermediary function of formal financial institutions thereby hindering economic growth.

The Effect of the Ratio of Third Party Funds (DPK) / GDRP Current Prices

The results show that the DPK/GDRP current price has a significant and negative effect. The variable coefficient resulting from the regression is -582,888 and the probability is 0.000. This result means that there is an inverse comparison between DPK/GDRP at current prices and economic growth in Indonesia. Thus, for every decrease in the ratio of DPK/GDRP, the applicable price is 1 percent, it will increase economic growth by 582,888 percent. The regression results above are in accordance with previous research, namely Baroroh (2012) which said that third party funds had a negative and significant impact on the region of Java. This result was due to the policy of placing third party funds which stimulated the growth of third party funds which contributed to an increase in foreign currency savings and did not contribute to an increase in public savings so that the funds raised were not allocated to the credit sector and resulted in hampered economic growth.

The Effect of Capital Accumulation

Capital accumulation has a significant positive effect. The variable coefficient value in this regression is 0.154 and the probability is 0.000. These results are supported by research Putra (2016) who found results in his research that capital accumulation has a significant positive effect. Large domestic and foreign investments with physical and non-physical capital will have a positive impact on economic growth in Indonesia. In the long term, increased capital accumulation by the government will play an important role in increasing economic growth.

Labor Influence

Labor results have a positive influence and not significant. The variable coefficient produced in this regression is 134,515 with a probability of 0,182. This result is not like the hypothesis which was formed that labor influences significantly. These results are consistent with research by Astuti et al. (2017) who found that workforce had no significant effect on Pelalawan in 2006-2015. This result is not significant because the workforce with low education has a greater number than the number of highly educated apes. So that the output generated in increasing economic growth is less supportive in increasing economic growth.

4. CONCLUSION

The purpose of doing this is to examine the effect of Financial Development and financial inclusion on economic growth in 33 provinces in Indonesia for the 2013-2017 period. The method used is panel data regression which refers to Levine's model (1997). The conclusion is that financial development analysis has a significant positive effect on economic growth in the province of Indonesia. These results are obtained from the regression of the credit / GDRP variable which has a significant and positive effect. The next variable is SMEs / GDRP credit which has a positive and insignificant effect on economic growth in Indonesia.

The results of the analysis of financial inclusion show results that are significant and have a negative effect on economic growth in the province of Indonesia. These results were obtained from research results using the variable number of bank branch offices/100,000 adult population as a dimension of access and the variable third party funds/GDRP valid price as a dimension of use which has a negative and significant effect.

The control variable of capital accumulation has a positive effect on the dependent variable. growth. Indonesian economy. These variables can play an important role in economic growth. The next variable is the labor variable with a proxy for the percentage of labor which shows the result that this variable has no significant effect.

Based on the findings, policymakers should focus on enhancing the efficiency of financial institutions and ensuring that the expansion of financial services is accompanied by measures to improve financial literacy and access. Policies aimed at supporting MSMEs through better access to credit can stimulate economic growth, while addressing barriers that limit the effectiveness of financial inclusion initiatives.

On MSME loans, the government needs to make policies so that credit allocated properly so that it has a significant effect on growth economy. Suggestions for the government regarding financial inclusion variables in their presence a significant number of branch offices required the creation of a strategy that could provide efficiency for the creation of bank branch offices in rural areas or areas that are less accessible to financial services. Not only build branch offices but also make strategies that can make branch offices more efficient so that the intermediary function can be carried out properly and not hinder economic growth.

Third party funds / GRDP which have a significant but negative effect on suggestions for The government needs policies that can equalize the allocation of party funds third so that it can become a source of credit financing that is evenly distributed and can be has a positive effect on economic growth. In addition, the government needs pay attention to the direction in which the contribution of third party funds. It is hoped that the contribution can triggering an increase in domestic non-forex deposits.On the control variable, the suggestion for the government is to increase resources human beings by facilitating society to obtain education and the ability to increase good output and produce good output support and promote economic growth. So labor make a significant impact. Meanwhile capital accumulation needs to be mobilized in allocate savings and investment funds to sectors that are even more productive become a reliable indicator of its role in increasing growth economy.

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