

Does Financial Development Reduce Poverty? Empirical Evidence from Indonesia

By: [Abd Majid, MS](#) (Abd Majid, M. Shabri)^[1]; [Dewi, S](#) (Dewi, Sovia)^[2]; [Aliasuddin](#) (Aliasuddin)^[1]; [Kassim, SH](#) (Kassim, Salina H.)^[3]

[View Web of Science ResearcherID and ORCID](#)

JOURNAL OF THE KNOWLEDGE ECONOMY

Volume: 10 Issue: 3 Pages: 1019-1036

DOI: 10.1007/s13132-017-0509-6

Published: SEP 2019

Document Type: Article

Abstract

This paper contributes to the literature by providing empirical evidence on the relationship between financial development, economic growth, and poverty in Indonesia in the period of 1980-2014. This issue is of importance for developing economies such as Indonesia given the high rate of poverty in the country despite the rapid growth of the financial sector. The Autoregressive distributed lag (ARDL) approach to cointegration is used to examine the long-run relationship between the financial sector development and poverty, while the Granger causality based on the VECM approach is used to ascertain the direction of the causal relationship between the variables. In arriving at robust findings, we investigated two models, each using different indicators of financial sector growth, namely money supply (M2), and ratio of domestic credit to private sector to gross domestic product. The study finds that there was a long-run relationship between the financial sector, economic growth, and poverty in Indonesia, while in the short run, a bi-directional causal relationship exists between the financial sector and poverty. Based on these findings, it is recommended that in efforts to reduce poverty, the government should focus on facilitating the channelling of funds from the financial sector into specific segment of the population to ensure fair accessibility of credit, especially to the low-income group in Indonesia.

Keywords

Author Keywords: Financial development; Poverty alleviation; Multivariate causality; ARDL; VECM; Indonesia

KeyWords Plus: ECONOMIC-GROWTH; INEQUALITY; CAUSALITY; NEXUS

Author Information

Reprint Address: Abd Majid, MS (reprint author)

+ Syiah Kuala Univ, Fac Econ & Business, Banda Aceh, Indonesia.

Addresses:

+ [1] Syiah Kuala Univ, Fac Econ & Business, Banda Aceh, Indonesia

[2] Reg Dev Planning Board BAPPEDA, Padang, West Sumatra, Indonesia

+ [3] IUM, Inst Islamic Banking & Finance IIBF, Kuala Lumpur, Malaysia

E-mail Addresses: mshabri@unsyiah.ac.id

Publisher

SPRINGER, 233 SPRING ST, NEW YORK, NY 10013 USA

Categories / Classification

Research Areas: Business & Economics

Web of Science Categories: Economics

[See more data fields](#)

Citation Network

In Web of Science Core Collection

1

Times Cited

[Create Citation Alert](#)

All Times Cited Counts

[1 in All Databases](#)

[See more counts](#)

47

Cited References

[View Related Records](#)

Most recently cited by:

Dawood, Taufiq Carnegie; Pratama, Hasta; Masbar, Raja; et al.

[DOES FINANCIAL INCLUSION ALLEVIATE HOUSEHOLD POVERTY? EMPIRICAL EVIDENCE FROM INDONESIA.](#)
ECONOMICS & SOCIOLOGY (2019)

[View All](#)

Use in Web of Science

Web of Science Usage Count

6

Last 180 Days

7

Since 2013

[Learn more](#)

This record is from:

Web of Science Core Collection
- Emerging Sources Citation Index

Suggest a correction

If you would like to improve the quality of the data in this record, please [suggest a correction](#).

Cited References: 47

Showing 30 of 47 [View All in Cited References page](#)

(from Web of Science Core Collection)

- Long-run relationship between Islamic stock returns and macroeconomic variables An application of the autoregressive distributed lag model** Times Cited: 16

By: Abd Majid, M.; Yusof, Rosylin
HUMANOMICS Volume: 25 Issue: 2 Pages: 127-+ Published: 2009
- Modeling Causality Between Financial Deepening and Poverty Reduction in Egypt** Times Cited: 9

By: Abosedra, Salah; Shahbaz, Muhammad; Nawaz, Kishwar
SOCIAL INDICATORS RESEARCH Volume: 126 Issue: 3 Pages: 955-969 Published: APR 2016

3. **Factors for Increasing the Competitiveness of Small and Medium-Sized Enterprises (SMEs) In Bulgaria** Times Cited: 19
 By: Ahmedova, Sibel
 WORLD CONFERENCE ON TECHNOLOGY, INNOVATION AND ENTREPRENEURSHIP Pages: 1104-1112 Published: 2015

4. **An Econometric Analysis of the Relationship Between Millennium Development Goals, Economic Growth and Financial Development in South Africa** Times Cited: 2
 By: Akinboade, Oludele Akinloye; Kinfack, Emilie Chanceline
 SOCIAL INDICATORS RESEARCH Volume: 118 Issue: 2 Pages: 775-795 Published: SEP 2014

5. Title: [not available] Times Cited: 1
 By: [Anonymous].
 Financial sector development: a pre-requisite for growth and poverty reduction? Published: 2004
 Publisher: Department for International Development, Policy Division, London

6. Title: [not available] Times Cited: 4
 By: [Anonymous].
 Laporan Pencapaian Tujuan Pembangunan Milenium di Indonesia Tahun 2013 Published: 2014
 Publisher: Bappenas, Jakarta

7. Title: [not available] Times Cited: 1
 By: [Anonymous].
 ANN REP 2012 2013 Published: 2013
 Publisher: PT Aksara Buana, Jakarta

8. **Financial sector development, economic growth and poverty reduction: a literature review** Times Cited: 1
 Group Author(s): Asian Development Bank-ADB
 WORKING PAPER SERIES Volume: 173 Published: 2009

9. **Financial development and poverty alleviation: time series evidence from Pakistan.** Times Cited: 8
 By: Azra; Dilawar Khan; Ejaz Ahmad; et al.
 World Applied Sciences Journal Volume: 18 Issue: 11 Pages: 1576-1581 Published: 2012

10. Title: [not available] Times Cited: 789
 By: Banerjee, A; Dolado, JJ; Galbraith, JW.
 Co-integration, Error Correction and the Econometric Analysis of Non Stationary Data Published: 1993
 Publisher: Oxford University Press, Oxford

11. Title: [not available] Times Cited: 1
 Group Author(s): Bank Indonesia
 Statistik Ekonomi dan Keuangan Indonesia Published: 2015
 Accessed in March 27, 2015, from Accessed 25 June 2015.

12. **Finance, inequality and the poor** Times Cited: 389
 By: Beck, Thorsten; Demirgüç-Kunt, Asli; Levine, Ross
 JOURNAL OF ECONOMIC GROWTH Volume: 12 Issue: 1 Pages: 27-49 Published: MAR 2007

13. **Financial development and inequality: Brazil 1985-1994** Times Cited: 14
 By: Bittencourt, Manoel
 ECONOMIC CHANGE AND RESTRUCTURING Volume: 43 Issue: 2 Pages: 113-130 Published: MAY 2010

14. Title: [not available] Times Cited: 1
 Group Author(s): Central Statistics Agency of Indonesia-Biro Pusat Statistik
 Statistik Indonesia Published: 2008
 Publisher: BPS, Jakarta

15. **Stress-testing Africa's recent growth and poverty performance** Times Cited: 7
 By: Devarajan, Shantayanan; Go, Delfin S.; Maliszewska, Maryla; et al.
 JOURNAL OF POLICY MODELING Volume: 37 Issue: 4 Pages: 521-547 Published: JUL-AUG 2015

16. **Financial Development and the "Growth-Inequality-Poverty" Triangle** Times Cited: 7
 By: Dhryfi, Abdelhafidh
 JOURNAL OF THE KNOWLEDGE ECONOMY Volume: 6 Issue: 4 Pages: 1163-1176 Published: DEC 2015

17. **Can Informal Firms Hurt Registered SMEs' Access to Credit?** Times Cited: 13
 By: Distinguin, Isabelle; Rugemintwari, Clovis; Tacneng, Ruth
 WORLD DEVELOPMENT Volume: 84 Pages: 18-40 Published: AUG 2016

18. **How development of finance contributes to poverty alleviation and growth: A time series application for Pakistan** Times Cited: 5
 By: Ellahi, Nazima
 AFRICAN JOURNAL OF BUSINESS MANAGEMENT Volume: 5 Issue: 30 Pages: 12138-12143 Published: NOV 30 2011

19. **Harrod-Domar growth model** Times Cited: 3
By: Eltis, W.
The New Palgrave: A Dictionary of Economics Volume: 4 Pages: 602-604 Published: 1987
20. **Finance and Poverty Reduction in China: An Empirical Investigation** Times Cited: 12
By: Ho, S.; Odhiambo, N. M.
International Business & Economics Research Journal Volume: 10 Issue: 8 Pages: 103-113 Published: 2011
21. **Financial development, growth and poverty: how close are the links?** Times Cited: 24
By: Honohan, P.
Financial Development and Economic Growth Pages: 1-37 Published: 2004
Publisher: Palgrave Macmillan, London
22. **Does financial development contribute to poverty reduction?** Times Cited: 62
By: Jalilian, H; Kirkpatrick, C
JOURNAL OF DEVELOPMENT STUDIES Volume: 41 Issue: 4 Pages: 636-656 Published: MAY 2005
23. **Financial Reform and Economic Development in China** Times Cited: 122
By: Laurenceson, J; Chai, JCH
FINANCIAL REFORM AND ECONOMIC DEVELOPMENT IN CHINA Book Series: Advances in Chinese Economic Studies Pages: 1-159 Published: 2003
Publisher: EDWARD ELGAR PUBLISHING LTD, GLENSANDA HOUSE, MONTPELLIER PARADE, CHELTENHAM GL50 1UA, GLOS, ENGLAND
24. **Does financial development matter for economic growth in Malaysia? An ARDL bound testing approach** Times Cited: 13
By: Majid, M. S. A.
Journal of Economic Cooperation Volume: 29 Issue: 1 Pages: 61-82 Published: 2008
25. **Does financial development cause economic growth in the ASEAN-4 countries?** Times Cited: 7
By: Majid, M. S. A.; Mahrizal.
Savings and Development Volume: 31 Issue: 4 Pages: 369-398 Published: 2007
26. Title: [not available] Times Cited: 1
By: Maryanto, B.
Analisis perkembangan sektor keuangan, pertumbuhan ekonomi dan kemiskinan di Indonesia pendekatan: kausalitas dalam VECM Published: 2013
Thesis
Publisher: Universitas Indonesia
27. **Microfinance and Poverty Reduction: A Review and Synthesis of Empirical Evidence** Times Cited: 7
By: Miled, Kamel Bel Hadj; Ben Rejeb, Jalel-Eddine
WORLD CONFERENCE ON TECHNOLOGY, INNOVATION AND ENTREPRENEURSHIP Pages: 705-712 Published: 2015
28. **The pattern of growth and poverty reduction in China** Times Cited: 59
By: Montalvo, Jose G.; Ravallion, Martin
JOURNAL OF COMPARATIVE ECONOMICS Volume: 38 Issue: 1 Pages: 2-16 Published: MAR 2010
29. **The saving and investment nexus for China: evidence for cointegration tests** Times Cited: 42
By: Narayan, P.K.
Appl. Econ. Volume: 37 Pages: 1979-1990 Published: 2005
30. **Prilaku penawaran kredit bank di Indonesia: kasus pasar oligopoli periode Januari 2001-Juli 2005** Times Cited: 1
By: Nuryakin, C; Warjiyo, P.
Buletin Ekonomi Moneter dan Perbankan Volume: 9 Issue: 2 Pages: 21-55 Published: 2006

Showing 30 of 47 [View All in Cited References page](#)

