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DYNAMICS OF FINANCIAL DEVELOPMENT, ECONOMIC GROWTH, AND POVERTY ALLEVIATION: THE INDONESIAN EXPERIENCE

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Abstract

Although the poverty rate in Indonesia has been declining in the last several years, the rate of poverty decline is slowing down. In order to achieve its poverty reduction target within the stipulated time period, the government has stepped up efforts to enhance the contribution of the financial sector towards poverty reduction. This study aims to empirically explore the interlinkages between financial sector development and poverty reduction in Indonesia. Focusing on annual data covering the period from 1980 to 2015, the study adopts the Autoregressive Distributed Lag (ARDL) cointegration approach to examine the long-run relationship between the variables. The study found that there is a long-run relationship between financial development, economic growth, and poverty reduction in Indonesia. It also documented a unidirectional causality running from the financial sector to poverty reduction and a bidirectional causality between economic growth and poverty reduction. Therefore, policies to ensure the conducive growth of the financial sector would go a long way in promoting the economy, creating employment opportunities, and consequently accelerating poverty eradication.

Keywords

Author Keywords: [Financial sector](#); [economic growth](#); [income inequality](#); [poverty alleviation](#); [ARDL](#); [Indonesia](#)

KeyWords Plus: [SOUTH-AFRICA](#); [REDUCTION](#); [INEQUALITY](#); [NEXUS](#); [COINTEGRATION](#); [CAUSALITY](#); [COUNTRIES](#); [MALAYSIA](#); [MODELS](#)

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