ABSTRACT

This study aims to analyze the effect and causal relationship between Domestic Investment, Foreign Direct Investment and budget deficit to the Indonesian economic growth on the first quarter of 2007 to the fourth quarter of 2016. The method of this study is the Vector Error Correction Model (VECM) which is used to analyze the impact of investmend and budget deficit on economic growth. Also, the Granger Causality test to identifies the direction of causality between variables. Secondary data is the data that is used in this study.

The result of the VECM analysis shows that domestic investment and budget deficit have a significant negative impact to the economic growth in this period on three periode of the short and the long term. Then FDI have a positif impact to economic growth on two period. While the result of the Granger causality test shows that the domestic investment and budget deficit have a bivariate causality relationship to the economic growth. However, the FDI has a unidirectional causality relationship which comes from an increased FDI that will encourage the economic growth.

Keywords: *Domestic Investment, Foreign direct investment, budget deficit, economic growth, VECM, Granger Causality*