

## **ABSTRACT**

*This study is aimed at examining the causality relationships between both Islamic and conventional financial development (dual banking system) with the economic growth in the Indonesia. Using quarterly data (2007.1-2016.4), this paper used Vector Error Correction Model (VECM) to uncover the long-run and short-run relationships between Islamic and conventional financial development and economic growth.*

*The results show that there is a significant positive relationship between Islamic finance and economic growth in the long-run. However, there is no evidence on the short-run relationships between them. The conventional finance relationships with economic growth in Indonesia appears to be a bi-directional relationships. Conventional finance has a significant relationship with economic growth, both in the long-run and short-run.*

Keyword: economic growth, *dual banking system*, causality, VECM