ABSTRACT

The development finance is one of the indicators to prepare for deeper financial integration. ASEAN financial integration planned for 2020 is expected to be prepared to prosper various ASEAN countries. This study aims to look at the effect of financial development on economic growth Indonesia, Malaysia, Philippines and Thailand. Financial development is measured using three variables: the ratio of money supply to GDP, the ratio of loans to GDP, and the ratio of bank loans to total deposits. In addition this study discusses the relevant factors that affect economic growth. This study uses a dynamic panel model with General Method of Moment method for estimating dynamic panel data 4 countries in 1981- 2013. The results show that economic growth is influenced by economic growth one year earlier, the economic growth in the previous two years, government spending, the ratio of investment to GDP, and financial development. This study found that there is a negative relationship between financial development to economic growth, so it is indicated that the financial development adversely affect the economic growth of developing countries.

Keywords: Financial Development, ASEAN, the dynamic panel, General Method of Moment.