

ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) become the backbone of Indonesian economy and has together accounted for about 60 percent of Indonesia's Gross Domestic Product (GDP). It also has attracted the government concern on policy-making for the last decade. MSMEs take role in increasing the economic growth and development, therefore the government support on bank credit program as MSMEs capital funding is important and is expected to boost and support the society's enthusiasm in running MSMEs. This research analyse the relationship between outstanding of MSMEs credits with the economic growth in Indonesia. This research uses panel data of 34 provinces in Indonesia within the time period of 6 years from 2013-2018. The regression model of this research is panel data regression using fixed effect estimation model approach. The main result of this research shows that there is a statistically significant negative relationship between the outstanding of MSMEs credit and the economic growth as every additional 1% of outstanding of credits given to MSMEs will decrease the economic growth which may be the indication of overheated economy caused by the rising level of inflation and the ineffectiveness of the credit execution.

Keywords:MSMEs, Outstanding, Government Support, Bank Credit, Credit rate, Economic growth, Labour force, Human Development Index, Government Expenditure, GRDP, GDP, Panel Data, Instrumental Variable