CHAPTER I

INTRODUCTION

A. Background

Development in various fields in supporting the economic development of a State is never separated from the role of government. In the development process, financing will increase along with the achievement of the development objectives. According to Aron (2017), Indonesia's competitiveness rankings rose to position 36 according to the World Economic Forum (WEF) report. In a report entitled Global Competitiveness Index 2017-2018 edition, Indonesia's competitiveness has risen 5 ranks from last year's position rank 41. The increase in rank occurred by a relatively strong improvement in infrastructure and macroeconomics.

Salvatore and ET Dowling. D (1997) in Pasaribu (2012) said that economic development is basically defined as a process in which real GDP and per capita real income increase over a period of time continuously through increases in per capita productivity. According to Pasaribu (2012), economic development of a country, on the one hand, requires a relatively large fund. While on the other hand, the mobilization of funds to finance the construction faces obstacles. The main problem is the difficulty in capital formation, both derived from government revenues, exports of goods abroad and from the public through the instruments of tax as well instruments of financial institutions. In general, the mobilization of capital from the community can be the deployment from within the country and the mobilization of capital sourced from abroad. This classification is based on a source of capital that can be used in development.

Atmadja (2008) in Zulham (2017) explained that Indonesia is a third world country. Prior to the monetary crisis in Southeast Asia, Indonesia had a high rate of economic growth. This was in line with the economic development strategy that was reserved by the government at that time, which placed the target of high economic growth as the target of national development priority. Indonesia's economic growth since the late 1970s had always been positive, as well as relatively low per capita income levels, causing relatively high economic growth targets were not sufficiently financed by their own capital but must be supported with foreign capital assistance. The government which initially became the main motor of development continues to increase its foreign debt in order to be used to finance the national economic development in order to achieve the target of high economic growth rate, without accompanying the mobilization of capital in the country. This indicated a positive correlation between the success of economic development at the macro level and the increase in the amount of government foreign debt (growth with indebtedness).

Deployment of capital sourced from abroad commonly called with foreign debt is no longer something new in a country's economy, moreover developing countries like Indonesia. Since the pre-reform era of the old order and the new order, Indonesia has known and used the instrument of foreign debt as one source of financing the needs of the state. Moreover, when the government budget deficit becomes more visible in terms of expenditure that swells every year.

Foreign debt is the commitment of developed countries to fill the resource gaps in the macroeconomics of developing countries. The effectiveness of foreign debt utilization is designed to bridge the savings/investment gap and balance of payments imbalance in developing countries and place it as a pathway to help developing countries work on self-sustaining development (Manoppo, 2007).

Table 1,1
Indonesia Government Expenditure and Revenue (Billion Rupiah)

Period	Revenue	Expenditure
1996	55,987	60,027
1997	64,715	67,945
1998	72,931	203,531
1999	22,345	34,474
2000	111,064	354,578
2001	184,737	345,605
2002	214,713	377,248
2003	248,47	427,226
2004	278,208	565,07
2005	351,974	699,099
2006	425,053	752,373
2007	492,011	989,494
2008	609,228	1.000,844
2009	651,955	1.126,146
2010	743,326	1.320,751
2011	878,685	1.548,310
2012	1.016,237	1.726,191
2013	1.016,237	1.876,873
2014	1.246,107	1.984,150

Source: Bank Indonesia

From the table above, it shows how the exceeding of expenditure to revenue leads to the increasing of foreign debt in Indonesia. Since the period of 1996 until 2014, the revenue and expenditure of Indonesia government are fluctuating but the trend is increasing from year to year. It shows from the table that all the amount of expenditure is bigger than the amount of revenue. This case is one of the cause of taking fund from foreign debt.

According to Saleh (2008), foreign debt itself is done because government revenue derived from taxes and other receipts is not sufficient to finance government expenditures, both for public expenditure and personnel expenditure. Thus the loan becomes one of the factors determining the fiscal (fiscal sustainability) continuity of a State budget. With the use of loans as a tool to cover the budget deficit of the government, this will have implications on the balance of payments which then also has implications on the performance of the government expenditure. In the government of Indonesia, this will be closely related to the extent to which the government's ability in fiscal management in the Budget of State Revenue and Expenditure (APBN) as possible.

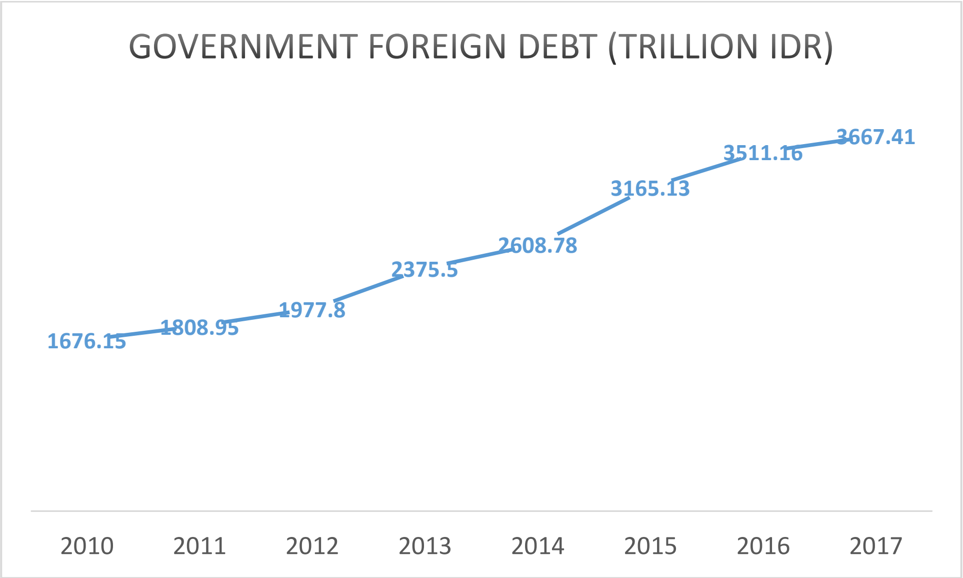
Described in several economic conversations, the Indonesian economy is improving or it can be said to be still in a good level compared to other countries in the last 2 years although government expenditure continues to increase. In an Indonesia 2017 update report at Australia National University (ANU) with the theme of Survey of Recent Development (The Effectiveness of Policy Reform in Decentralized Indonesia), Raden Pardede as a speaker explained that the Indonesian economy in 2017 is still quite good, although most of the data obtained indicate a weakening of growth from domestic demand, while macro stability and financial stability are still intact. An indication of macro stability is called intact awake is based on strong BOP, low CAD, some trade surplus that makes the accumulated reserves and exchange rates stable. Inflation in 2017 also continues to fall and low. Interest rate and government bond yield also decreased but still attractive. Despite the weakening domestic demand, domestic demand data remained slightly improved from the previous year. He said that in 2017 GDP growth will continue to decline due to steadily declining consumption, investment declines more, government consumption declines, export-import also declined. The decline in investment, in this case, is the comparison of the value of the previous period of disagreement is very high. Although the results of the survey data say that government consumption is declining, expenditures for infrastructure continue to increase from year to year. The decline in GDP growth this year is not matched by good fiscal policy quality. Raden Pardede also explained that income from the tax sector (% GDP) is still relatively small and declining. Even income from the tax sector is lower than the expenditure figure. The bloated spending figures are still dominated by high spending on infrastructure and subsidy financing. Moreover, the new policy to subsidize premium rice.

News of the Indonesian economy was also presented by Thomas Lembong as the Head of the Investment Coordinating Board in an economic conversation that, in terms of government foreign debt, Indonesia is still much better than other countries in the world such as Malaysia, China, USA, etc. Rising foreign debt of the government itself is mostly from infrastructure and sub-infrastructure expenditures. However, some additional figures from other sectors, namely the increase in the portion for education by 10%, for the health of 54% of all sectors are still below the

117% rate for infrastructure. In addition to these improvements, the government has also compensated with a decrease in the share of energy subsidies.

Macro stability cannot be separated from fiscal and monetary roles in an economy. The government's foreign debt is also said to be very safe by Finance Minister Sri Mulyani in an Economic Challenges' economic conversation that the foreign debt of the Indonesian government is still low compared to other countries in the world. Sri Mulyani explained that Indonesia's foreign debt is 27% -28% of GDP which is still below 30%. In fact, the foreign debts of other countries in the world can reach more than 100% of GDP. In addition, the deficit reached 2,4% -2,5% but with the growth of Indonesia's economy which reached 5%, this means that Indonesia's economy still has the ability to pay debts and interest. Sri Mulyani also added that the increase of government external debt is largely dominated by the infrastructure sector, but the allocation of spending on infrastructure also provides a quick reciprocity to spur Indonesia's economic growth. The measure for debt taken by the government is for the welfare of the people.

Different from the above statement, Bank Indonesia as the country's economic stabilizer states that Indonesia's economic condition in 2017 was very surprising. Slow economic growth, fiscal deficit, low credit growth followed by a rise in non-performing loans, Indonesia's competitiveness declined from 37 to 41 from 138 countries, and one of the most important was the increase in foreign debt (Kompas, November 2016). October 2017 Indonesia's foreign debt amounted to the US $ 341,5 billion, grew 48% from the previous period. From the public sector (government and central bank), foreign debt rose by 8,4% but this increase was lower than the previous period's increase of 85%. While for the private sector rose 1,3% higher than the previous month. For the ratio of debt to GDP reaches 34%. This month's figure was also dominated by long-term debt of 86,3% of total foreign debt and grew 3,9% more than the previous month's 3,7%. For short-term debt rose by 10,6% less than the previous month's 12,6% (Kompas, Desember 2017).



Source: Bank Indonesia

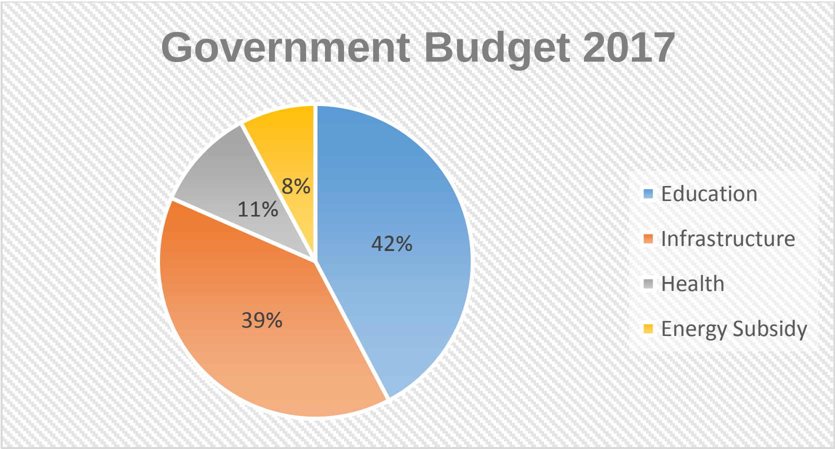
Figure 1.1

Government Foreign Debt Development

The explanation above is supported by the fact based on the graph in figure 1.1. It is stated that the amount of government foreign debt keeps increasing from year to year since the period of 2010 until 2017. The highest number is in the updated period of 2017 that is 3667,41 trillion IDR.

In addition, several sources of economic news reported that Indonesia's foreign debt continued to increase each month in 2017, the rise was dominated by public sector external debt. As of March 2017, central government debt reached 3651,04 trillion IDR and increased by 16,37 trillion IDR in April 2017 at 3667,41 trillion IDR. Then, in the second quarter of 2017, Indonesia's foreign debt reached the US $ 335,3 billion or around 4.483,9 trillion IDR. The amount is dominated by public sector external debt (government and central bank) of US $ 170,3 billion. While private debt in the second quarter of 2017 recorded the US $ 165 billion. In July 2017, the government's foreign debt increased 9,2% to the US $ 174.3 billion and was higher than the previous month. Continue towards August 2017, the government's foreign debt and central bank or public reach 51,5% ie the US $ 174,9 billion. In September 2017, the foreign debt of the government and central bank reached the US $ 172,37 billion. As of October 2017, Indonesia's foreign debt amounted to the US $ 341,5 billion and is still dominated by the public sector (government and central bank).

Some other facts that support the government's foreign debt continue to increase are that government spending has swelled from before 2017, in 2016 State revenues are still smaller than the State expenditure of 1750 Trillion IDR and 2020 Trillion IDR for State expenditure. Large expenditures are due to infrastructure that will increase the amount of government debt. Each year, the government prints an average debt of 2,5% of the state budget for the last 3 years. Indonesia's foreign debt position reaches 27% of GDP, exactly what the Minister of Finance has said and it is estimated that around the US $ 907 or 13 million IDR of debt per individual in Indonesia bear the burden of the country's debt.



Source: Kementrian Keuangan RI

Figure 1.2

Government Budget 2017

Based on the above diagram, government expenditures for the process of economic development of education recorded 42% of total government expenditure or spelled out 416,1 Trillion IDR, this figure occupies the highest position in government spending in 2017. The second position is occupied by the infrastructure sector which is 39% of total government expenditure or approximately 387,3 Trillion IDR. The next position is the health sector which is 11% of total government expenditures or calculated 104,0 T IDR. The last is the share of government spending for energy subsidies that is 8% or somewhat 77, 3 Trillion IDR. Improving the quality of the allocation of government spending aims to spur improvements in Indonesia's economic development process.

Recent economic report stated that in the last 3 years Indonesia foreign debt is increasing significantly. But the economic growth as one of main objectives of borrowing money from abroad is said stagnant in the number of 5%. By the calculation of GDP Indonesian economic rises 8,74% annually in the period of 2005-2017, while government debt total in the same period also rises 14,81% per year. State budget of 2018 estimates that government foreign debt will catch 4.772 trillion IDR. If it is being accumulated with private debt, the total of debt is about 7.000 trillion IDR. From the ministry of finance data, February 2018 government foreign debt from obligation is about 3.257,26 trillion IDR or 80,73% of total debt for government (Damhuri, 2018).

Based on the economic report named wartapilihan, if the government's foreign debt continues to rise due to the swelling of government spending from the infrastructure and education sectors, then the debt will remain up from time to time. Because the field of infrastructure and education is an important part of a State's economy to support economic growth and will continue to increase its quantity. While this is done for better economic growth, this means the same thing as what the government is gouging to dig a hole in a hole. Indeed government debt is still very safe that is below 30% even still far below the regulations in the applicable Law that is under 60% of GDP, but accumulating debt is also not a good solution. Moreover, Indonesia does not have large foreign exchange reserves as a safety to pay debts, especially short term. Indonesia currently has foreign exchange reserves of US $ 123 billion as of April 2017. In addition, the current state assets, also relatively small, only about 4000 trillion IDR. Likewise with the assets of state-owned companies that reached 3800 trillion IDR, on the other hand also still has a debt of nearly 2000 trillion IDR.

A previous study with the same topic about determinants of government foreign debt was done by Al-Fawwaz (2016) entitled "Determinants of External Debt in Jordan: An Empirical Study (1990-2014)". The analysis method which is used in this research is Error Correction Model (ECM). The independent variables used in this study are trade openness, terms of trade, exchange rate, and gross domestic product per capita. While external debt is variable dependent on this research. Long-term analysis results show that trade openness has a significant and positive influence on external debt. While GDP per capita has a negative and significant influence on external debt variables in the long term. In the long run, the exchange rate variable has a negative and insignificant effect on the government's foreign debt. In the short-term analysis, all independent variables in the study did not significantly influence external debt except the GDP per capita variables that had a negative and significant influence on the 5% level in lag 2.

Other researcher with the same topic was done by Yogi (2017) entitled "Analysis of Factors Affecting Indonesia's Foreign Debt". This research used Multiple Linear Regression. The results of this study indicate that budget deficit and GDP have a positive and significant impact on government external debt. While government expenditures have a negative and significant effect on the government's external debt. The rupiah exchange rate against the dollar has a positive but insignificant effect on the government's external debt.

Research related with the topic entitled “Analysis of Factors Affecting Indonesia's Foreign Debt” was done by Harahap (2008). The results of this study indicate that domestic income has a negative and significant effect on Indonesia's foreign debt. While the government spending, budget deficit, and foreign debt of the previous year (ULNt-1) have a positive and significant impact on Indonesia's foreign debt.

Based on the above description and previous research, the variables that are used in this research including Indonesia rupiah exchange rate against United State dollar, government expenditure, economic growth denoted by GDP, and government revenue. This research would like to anticipate and minimize the government's foreign debt which continues to increase from year to year, the author is interested to know what factors affect the foreign debt of the Indonesian government. This research also needs to be done to see how far the position of Indonesian government foreign debt influenced by these factors. Therefore, the author takes the title **"Analysis of The Determinants of Government Foreign Debt in Indonesia Period 2005:Q1-2017:Q4”.**

B. Research Limitation

In order for the writing of this thesis does not deviate and floating from the originally planned purpose so as to facilitate obtaining the necessary data and information, the authors set the boundaries as follows:

1. The object of research in the analysis of factors affecting Indonesia government foreign debt is limited only from the first quarter of 2005 to the fourth quarter of 2017 through the Multiple Linear Regression analysis.
2. This research uses two types of variables, namely dependent variable, and independent variables. Indonesian government foreign debt as the variable dependent, while exchange rate against US dollar, government expenditure, government revenue and economic growth as the independent variables.

C. Problem Statement

Based on the background and research limitation description then there is some formulation of problems that can be taken as a basis for reviewing this research, among others:

1. Does the rupiah exchange rate against the US dollar influence the foreign debt of the Indonesian government in the period of 2005:Q1-2017:Q4?
2. Does the rupiah government expenditure influence the foreign debt of the Indonesian government in the period of 2005:Q1-2017:Q4?
3. Does the economic growth influence the foreign debt of the Indonesian government in the period of 2005:Q1-2017:Q4?
4. Does the government revenue influence the foreign debt of the Indonesian government in the period of 2005:Q1-2017:Q4?

D. Research Objectives

This research has several objectives, among others:

1. To determine the influence of rupiah exchange rate against US dollar on Indonesia government foreign debt in the period of research.

2. To determine the influence of government expenditure on Indonesia government foreign debt in the period of research.
3. To determine the influence of economic growth on Indonesia government foreign debt in the period of research.
4. To determine the influence of government revenue on Indonesia government foreign debt in the period of research.

E. Research Benefits

This research seeks to provide benefits to several parties. Among others:

1. This research is expected to help facilitate further researchers in reviewing related topics.
2. This research is expected to help provide references and insights on related topics.
3. This research is expected to be taken into consideration in reviewing the decision taken by the government and policy maker to make economic policy on the related topic.
4. This research is expected to assist the government in assessing what factors affect Indonesia's foreign debt, thus the factors can be reconsidered in order to help reduce the possibility of rising Indonesia's foreign debt levels in the future.