

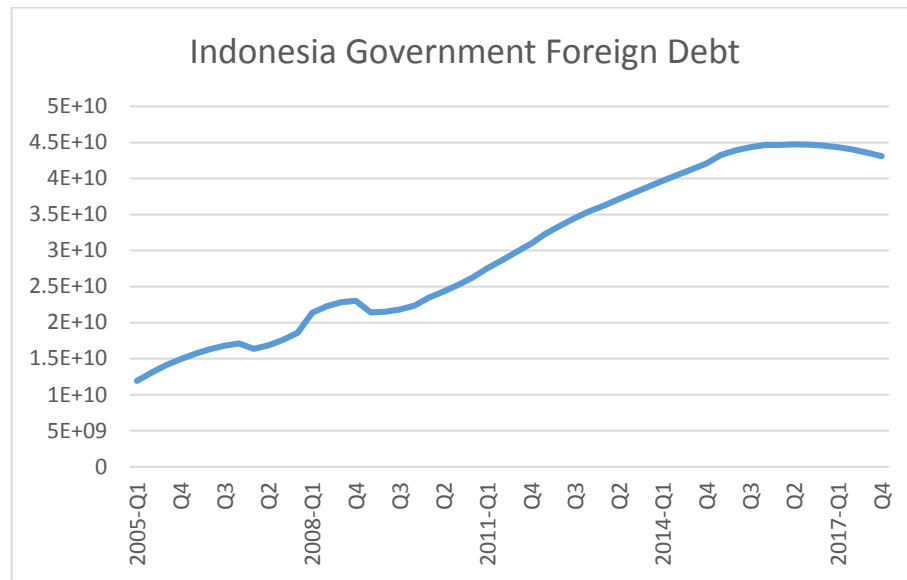
## **CHAPTER IV**

### **GENERAL DESCRIPTION**

#### **A. Research Variable Overview**

##### **1. Indonesian Government Foreign Debt Overview.**

The stability of the country's economy one of them can be seen from how big the foreign debt of the State. High government financing aims to improve the welfare of its population to make the government must give more energy to get the capital development of the State. Therefore, when state revenues obtained from various sectors do not meet, then the government seeks additional capital through debt, both domestic and foreign debt. A country's foreign debt is divided into private, government, and central bank foreign debt. The foreign debt analyzed in this study is the government's external debt consisting of program loans and project loans. In this case, the government's foreign debt taken for analysis is the government's external debt by creditors. It includes the government's foreign debt on a bilateral and multilateral basis.



Source: BI Monthly Foreign Debt Statistic

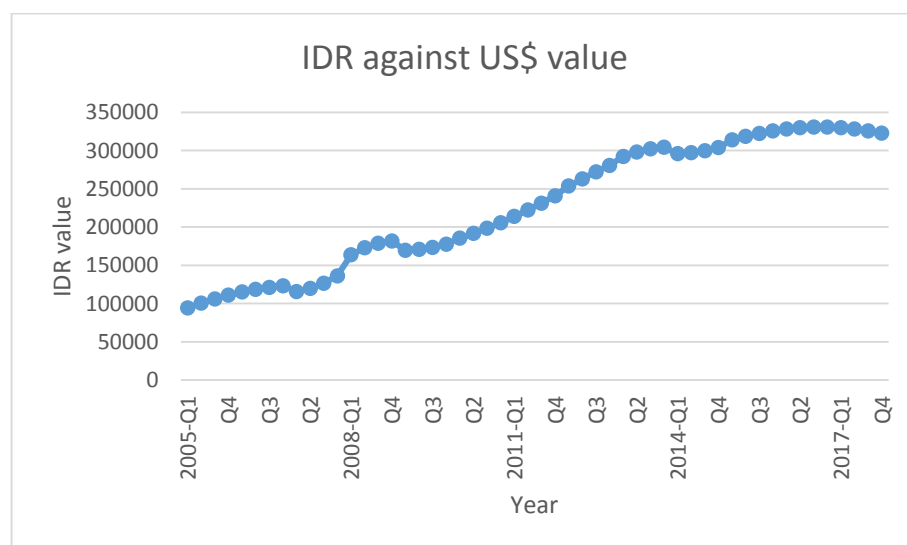
**Figure 4.1 Indonesian Government Foreign Debt**

The graph above shows the Indonesian government's foreign debt during the research period from the first quarter of 2005 to the fourth quarter of 2017. Indonesia's foreign debt continues to fluctuate from year to year. In 2011, the government's foreign debt stood at 63.021 trillion IDR. Quoted in a highest position that is 63,021 Trillion IDR. Reported in (Kompasiana, 2014).

Indonesia's foreign debt reached the highest position in the last quarter of 2017 due to high total of government expenditure which is spent more on infrastructure. Government makes better the state budget in order to be more efficient. This study also covers the year of crisis experienced by the global economy including Indonesia in 2007-2008, this is what helped trigger the increase of government foreign debt next year.

## 2. Indonesian Rupiah Exchange Rate Toward US\$ Overview.

In an international trade or international relationship, the exchange rate becomes the price of a currency for another currency. The exchange rate itself will continue to fluctuate depending on the economic conditions of the State and the State in which the State has a major influence on the global economy. In this case, the rupiah exchange rate continues to fluctuate against the USD as a country whose currency is used as a price reference by various countries in the trade or international relations.



Source: BI Monthly Foreign Debt Statistic

**Figure 4.2 Indonesian Rupiah Exchange Rate against USD**

The graph above shows the rupiah exchange rate against USD in the period of research that is quarter 1 2005 to quarter 4 2017. The value of rupiah continues to rise from year to year, meaning that rupiah exchange rate continues to depreciate against USD. The depreciation here means that the rupiah exchange rate continues to weaken over time against the USD. Based on the chart above, the exchange rate

has the lowest value against USD is when the third quarter of 2015 is 14,657 IDR per 1 USD. Quoted in Finance (2015) that the rupiah continues to depreciate as Indonesia enters the global financial crisis in 2007 due to the subprime mortgage crisis in the US, the rupiah exchange rate has been in the range of 9.000-10,000 IDR. The weakening of the rupiah actually occurred after the financial crisis ended and the western currency began to recover. Around 2009, the US dollar was in the range of 11,800 IDR to above 12.000 IDR. But because of Indonesia's strong economic growth in 2010-2012, the rupiah could return to power. The US dollar also fell to 8.500 IDR. Unfortunately, Indonesia's oil dependency (BBM) must import in large quantities every year. The government also continues to provide subsidies to the public so that fuel consumption remains high. The high imports prompted Indonesia's trade balance to become a deficit, a bigger stake than a pole or imports more than exports. As a result the US dollar slowly continues to climb up to penetrate the range of 12.000 IDR more.

### 3. Indonesian Government Expenditure Overview.

In increasing the amount of foreign debt, the increasing role on the side of government spending is also one of the things that must be considered. High government expenditure itself can actually be avoided if the government can control the magnitude of the country's income so that the lack of capital or financing can be reduced.



Source: BI Monthly Indonesia Financial Economic Statistic

**Figure 4.3 Indonesian Government Expenditure**

The graph above is the amount of Indonesian government spending in the period of research that is the first quarter of 2005 until the fourth quarter of 2017. The amount of government expenditure continues to increase from year to year to reach the highest amount in the fourth quarter of 2016 ie 330714,8203 M IDR. This increase occurred due to the number of improving the quality of government spending to raise the percentage of economic growth. Therefore, government financing reaches the highest value in education sector followed by infrastructure sector.

#### 4. Indonesian Economic Growth Overview.

Economic growth is one of the indicators in the economy as a measure of the success or failure of a State to develop and maintain the stability of its economy, especially developing countries such as Indonesia. Increasing the quality and

quantity of sectors in the economy is one way to achieve the target of economic growth rate every year. When the government is unable to provide sufficient capital to finance such expenditures, the role of external debt plays an important role.



Source: BI Monthly Indonesia Financial Economic Statistic

**Figure 4.4 Indonesia Economic Growth denoted by GDP**

The graph above is the amount of GDP Indonesia in the period of research that is quarter 1 2005 to fourth quarter 2017. The amount of GDP continues to increase from year to year to reach the highest amount in the third quarter of 2017 of 2.552.216 billion IDR. From this increasing amount of GDP, Indonesia's economic growth until the end of 2017 reached 5,06% which missed the government's target on the draft state revenue and expenditure budget. But that figure is the highest since 2014. Increased economic growth is achieved based on quality improvement from various sectors. Mentioned in some news media of Indonesia economy that there is growth in the

industry sector that is 0,91% from processing sector, construction sector equal to 0,67%, trade 0,59%, and agriculture 0,9% (Hapsari, 2017). In addition, the contribution of domestic economic business is one of which there is a shift in consumption of Indonesian people who originally consumptive buying clothes, electronic equipment, mobile phones, now turn to the spending in utilizing tourism and eat at restaurants (Melani, 2017).

#### 5. Indonesian Government Revenue Overview.

Government revenue is as the source of capital to fulfill the state needs. The plan of government revenue has been planned a year before. A developing country like Indonesia is still included into lower-income compared to another countries. As the increasing of expenditure from time to time, government tries to increase the revenue to stabilize the current account. The additional amount can be obtained from tax revenue such tax amnesty policy which has been doing by government recently.



Source: BI Monthly Indonesia Financial Economic Statistic

**Figure 4.5 Indonesia Government Revenue**

The graph above is the amount of Indonesian government revenue in the period of research that is the first quarter of 2005 until the fourth quarter of 2017. The amount of government revenue keeps fluctuating from year to year but the trend continues to increase reaching the highest amount in the third quarter of 2016 ie 4.468.524,0630 M IDR. This highest level occurred due to the number of improving the quality of government spending to raise the percentage of economic growth. Therefore, government financing reaches the highest value in education sector followed by infrastructure sector.

Government stated that tax amnesty as a new policy to increase the government revenue has important role. If the state budget expected to rise, then society should fulfill the obligation to pay the text and follow how tax amnesty being applied in Indonesia Fajriah (2016). The trend of government revenue based on the graph above in the last 2 years is going down. The cause of this condition is occurred since US spent their spending on financing their war since 10 years ago. Beside that, Europe also facing high spending on social activities. While, China facing high number of investations which enter into their country. From this condition faced by the most global influencing country in the world, the effect is Indonesia commodities demand started to decrease. Kalimantan and Sumatera society's revenue also start going down as well the tax (Fajriah, 2016).