

# THE EFFECT OF FOREIGN DEBT, FOREIGN INVESTMENT AND INFLATION ON INDONESIA'S ECONOMIC GROWTH

Safrina<sup>1</sup>, Jariah Abubakar<sup>2</sup>

<sup>1</sup>Student at Development Economics Program, Faculty of Economics and Business, Universitas Malikussaleh

<sup>2</sup>Faculty of Economics and Business, Universitas Malikussaleh

Corresponding Emails: [jariah@unimal.ac.id](mailto:jariah@unimal.ac.id)

## Abstract

The purpose of this study is to analyze foreign debt, foreign investment and inflation in Indonesia's economic growth using multiple linear regression analysis. The scope of this research spans 32 years (1990-2021). The regression tool in this study used evIEWS-9 software. The results showed that the foreign debt variable had a positive and significant effect on the condition of Indonesia's economic growth, the foreign investment variable had a positive and significant effect on Indonesia's economic growth and the inflation variable had no effect and was not significant on Indonesia's economy growth.

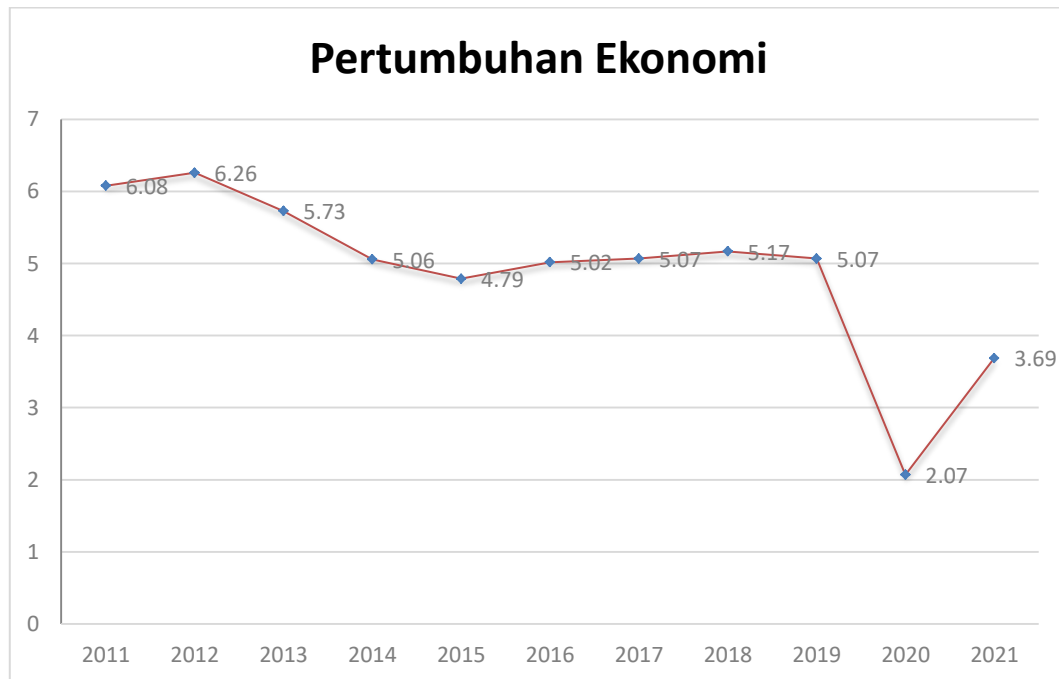
**Keywords:** *Foreign Debt, Foreign Investment, Inflation, Economic Growth*

## 1. INTRODUCTION

Economic growth theory is an indicator to see economic performance, both at the national and regional (regional) levels. According to Sukma (2019) economic growth is defined as a process in which the production capacity of an economy increases over time to produce a greater level of output or income. The long-term economic growth of a country is not only supported by an increase in the stock of physical capital and the number of workers, but also by an increase in the quality of human capital which has a strong influence on improving the quality of the workforce and the utilization of technological advances. Economic growth can increase the supply of resources needed for the development of a country. Increasing resources together with the proper allocation of resources and the wider distribution of opportunities and employment opportunities can promote better human development. This also applies vice versa, human development encourages increased economic growth (Arsyad, 2015).

According to Simanungkalit (2020) in Indonesia the problem of economic growth is a long-term economic problem, and this problem is an important phenomenon that needs to be addressed. Basically, economic growth is defined as a process of growing output per capita in the long term. Foreign debt in the short term can cover the state budget deficit, and this is far better than printing new money on the grounds of preventing inflation. Funding that has been allocated can be seen in physical terms such as the construction of roads in cities and villages in Indonesia, the construction of public facilities, and so on. But in the long run.

Countries also often experience the problem of saving investment gap which is a phenomenon where a country experiences a gap in investment savings. In the development economics literature, it is said that if a country experiences a savings-investment gap, then the country needs net capital inflows to close the gap between savings and investment so that foreign debt often occurs as a result of this gap. For more details, described in the following image:



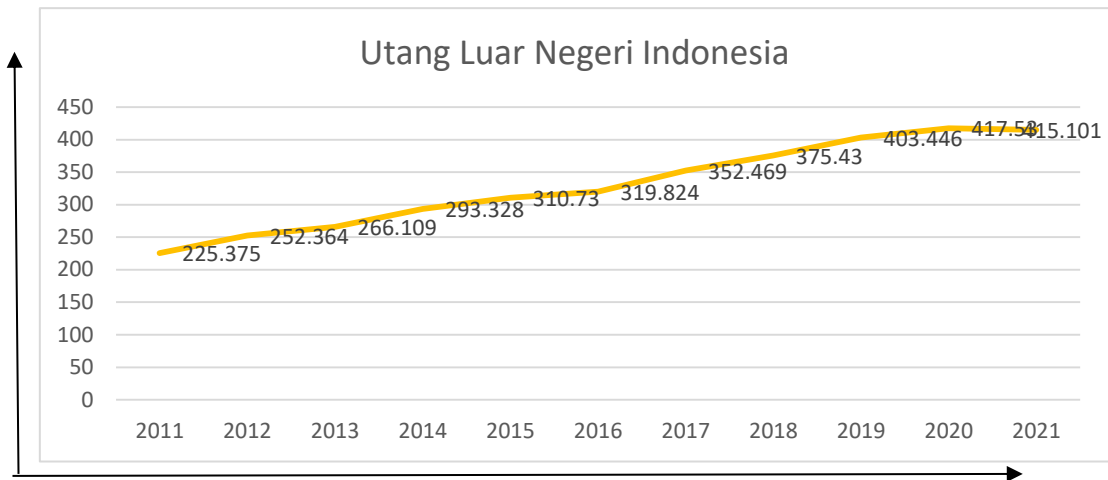
**Figure 1**

Based on Figure 1.1 it can be seen that the movement of economic growth in Indonesia in the last 10 years has fluctuated, this is caused by imbalances and shocks that occur in the economy, causing financial performance to become unstable. Economic growth can show the amount of production within a certain time span of goods and services. By looking at and analyzing growth rates from year to year, a country can assess whether economic control has been effective or not in accordance with its objectives. However, in 2020 the Indonesian economy experienced a contraction. Based on BPS data (2021) where the economic growth of the State of Indonesia in 2020 decreased drastically due to the COVID-19 pandemic, so it can be said that Indonesia is trapped in an economic downturn. The decline in economic growth in 2020 was 2.07% from the previous year of 5.07%.

Dewi (2020) states that foreign debt is a source of financing for the government budget. Foreign debt is also used to finance state spending so that it can support economic activities, especially productive activities which in turn will support economic growth. Putra & Sulasmiyati (2018) argues that most developing countries take advantage of foreign debt to support their development, although not a few countries are actually caught in a foreign debt trap. Thus the capacity of the state in paying off its foreign debt in the future it is absolutely necessary to take into account before deciding to accept debt assistance from abroad. Foreign debt as a source of state revenue, the budget is seen as a balance budget. But this foreign debt is not without problems, the greater foreign debt burden has consequences for the budget burden with the payment of principal and debt interest also increasing (Prameswari, 2019).

According to Mankiw (2007) government debt has a simple relationship with government deficits, an increase in government debt at any given time is the same as a budget deficit. Government foreign debt tends to increase every year. Government debt clearly does not lead to self-sufficiency or government debt is not a vitamin that becomes a catalyst for increasing capital as a driving force for development, but instead creates an increasingly severe dependency. That is, if there is an increase in the ratio of foreign debt to GDP by 1%, it will increase economic growth by 4.589% assuming other factors remain constant (*ceteris paribus*).

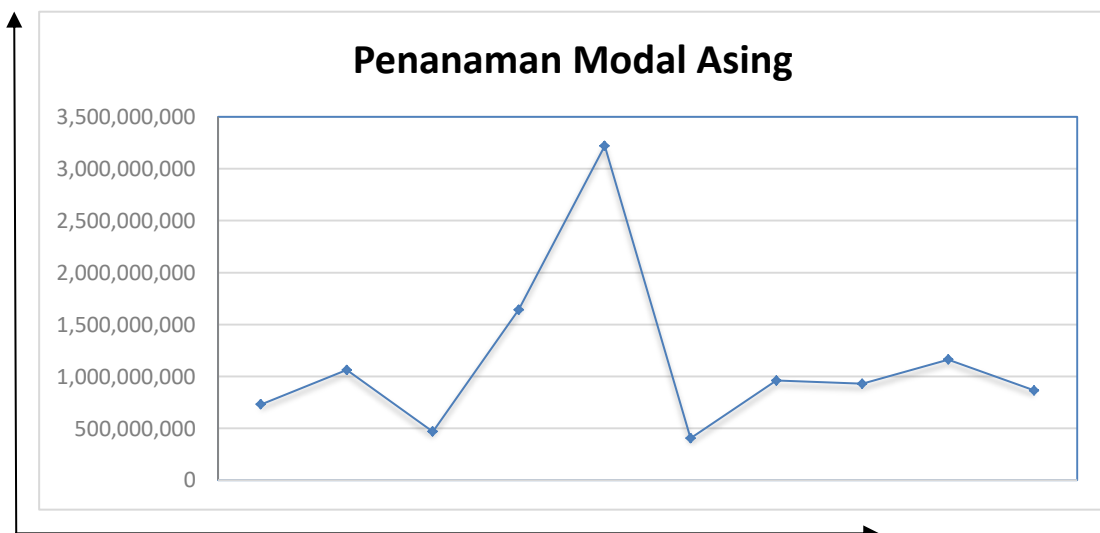
Following the movement of foreign debt in 2011-2021 can be seen in the following figure.



**Figure 2**

Based on the picture above, it is known that Indonesia's foreign debt continues to increase every year and causes economic growth to decline. In 2020 foreign debt has increased drastically by 417.530 billion rupiah. This increase has increased frequently with the Covid-19 pandemic that is currently hitting Indonesia which has resulted in Indonesia experiencing difficulties in managing the economy. However, in 2021 foreign debt will decrease by 415.101 billion rupiahs which will improve economic growth. The increase in foreign debt illustrates that the Indonesian government is always experiencing an increase in the need to meet the national development budget.

Then one of the other sources of foreign funding is Foreign Investment (PMA). Foreign investment can be interpreted as a placement of capital or money in the hope of getting a certain profit on the invested capital or money. The following is a picture of the movement in the value of Foreign Investment in Indonesia for the 2011-2020 periode.

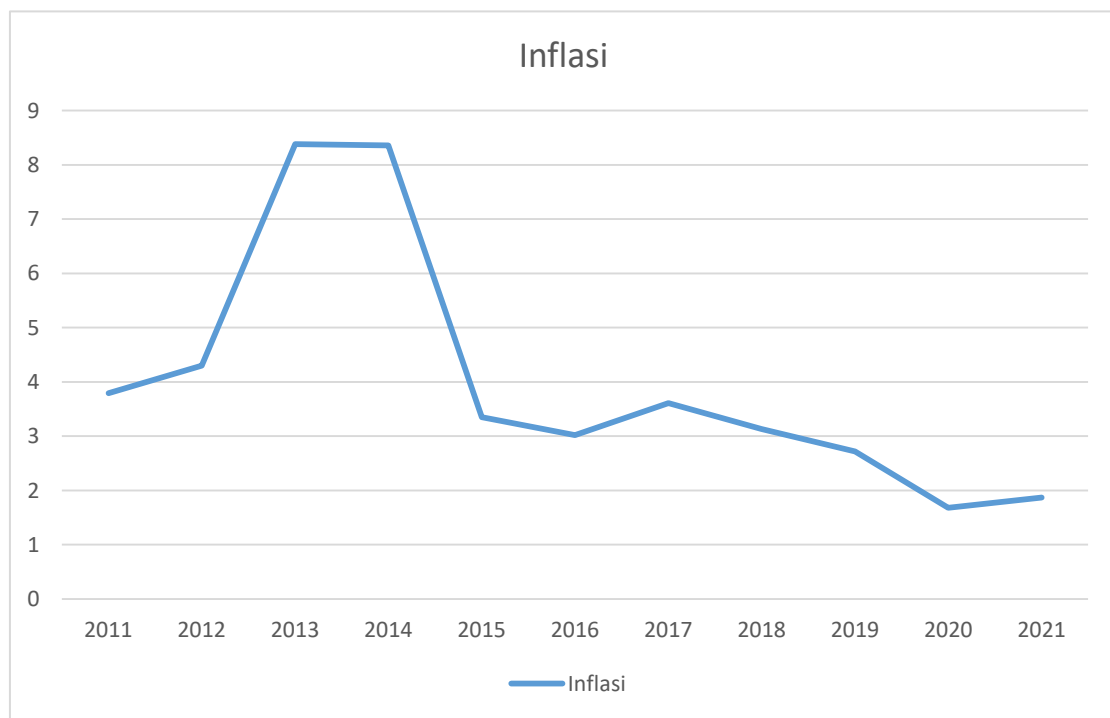


**Figure 3**

Based on the picture above, it is known that Foreign Investment (PMA) has fluctuated from year to year. The foreign investment figure was at its lowest point in 2013 and 2016, namely Rp. 404.8 billion then experienced an increase in the following year which caused economic growth to become unstable. This is in line with the theory put forward by Harrod-

Domar in Hussain & Haque (2016) which states that foreign investment has a large share in economic growth in developing countries. These conditions affect the employment and general welfare of host countries and serve as an important source of economic growth. Inflation and economic growth are issues that are widely discussed. It is generally known that inflation has a negative effect on economic growth, so inflation is an indicator that can show economic instability for a country. However, the problem that arises is whether inflation is a continuous bad influence on the country's economy.

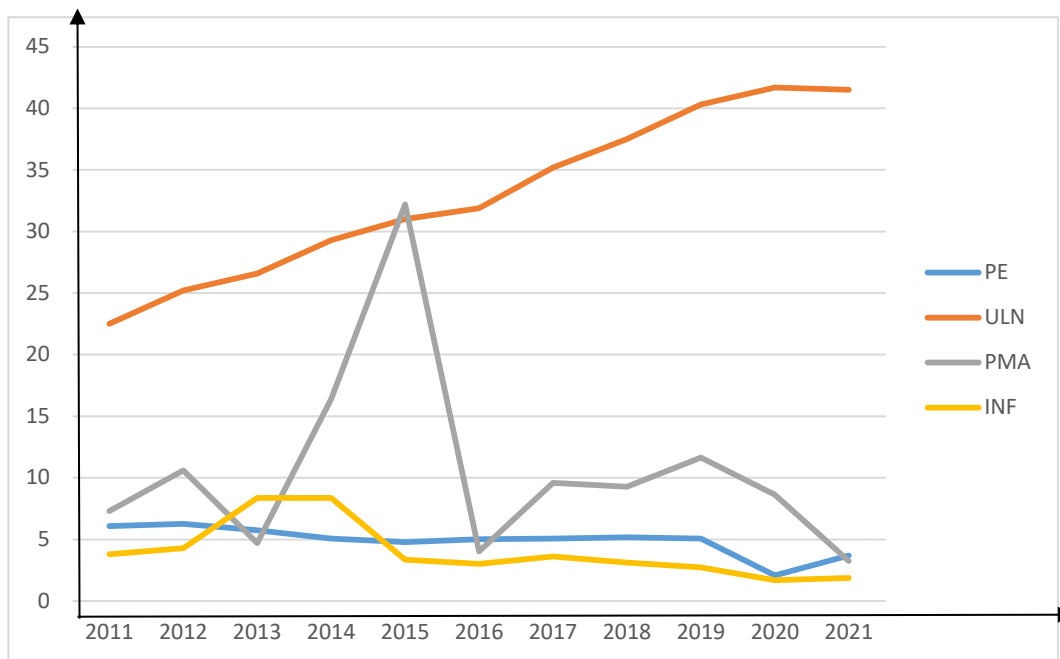
The relationship between inflation and economic growth is positive in the short term. Based on research that proves that in the long term, the relationship between inflation and economic growth is negative. According to Burdekin (2019) the inflation rate that can reduce economic growth is at the 3% stage for developing countries, while it is 8% for industrial countries. Inflation has a negative effect on economic growth in the long run, between 15% and 30%. So, the relationship between inflation and economic growth shows the economic development of a country based on a certain time. That is, if inflation increases, economic growth will decrease (Mubarik, 2015). Conversely, if inflation decreases, economic growth increases. Furthermore, the movement of the inflation value can be seen in the following figure:



Source: Badan Pusat Statistik Indonesia dalam angka, (2022)

**Figure 4**

Based on Figure 1.4 above, it is explained that inflation in Indonesia has also fluctuated, where in 2013-2014 inflation experienced a high enough increase so that it could reduce economic growth. In 2015-2021, inflation movements experienced fluctuations which resulted in instability in economic growth in Indonesia. This is in accordance with the theory presented by Fischer where inflation increases, economic growth decreases (Boediono, 2015). Overall, the pattern of changes in economic growth, foreign debt, foreign investment and inflation can be seen as follows:



Based on graph 1.5 it can be seen that in general, the value of economic growth shows a negative direction where there are fluctuations every year. The increase and decrease that occurred was supported by foreign investment which also experienced fluctuations which resulted in stagnant economic growth. This is due to the foreign debt which also experienced instability. The interesting thing from this graph is from 2014 to 2020. In 2020 economic growth decreased drastically by 2.07% from the previous 5.07%, followed by a decrease in foreign investment which was at level 9, foreign debt and inflation were also at level 2 due to the outbreak of the covid-19. , after the government carried out restoration of the dangers of covid-19, recovery from the economic side, from 2020 to 2021 economic growth will increase again but foreign investment, inflation will decrease. While foreign debt has increased drastically, this has also become a phenomenon where economic growth has experienced instability in the last 10 years.

When viewed carefully from the graph, the increase in foreign investment in 2015 was 2% accompanied by economic growth which decreased by 4.79% in that year and foreign debt also decreased, namely at a level below 10. This means that foreign investment in 2015 cannot boost the economy of a developing country very well. This is inversely proportional to Arsyad's statement (2015) where investment that occurs in one area can increase economic growth. This means that there is economic instability caused by the management of these foreign companies in their own hands. Then the increase in inflation in 2014 was caused by foreign debt which also experienced an increase in that year. And of course the increase impact growth declining economy. This is in accordance with the theory put forward by Putong which says that inflation can have bad consequences because continuous price increases may be unaffordable by the public. When there is inflation, people have to spend more money to get the goods they want. So that increased inflation results in decreased economic growth (Putong, 2013).

Economic growth in developing countries such as Indonesia, the source of financing for economic growth that is often used is foreign debt or what is called external debt. An instrument that is very common and is accepted as the best alternative choice to accelerate infrastructure development in developing countries is foreign debt. Indonesia's economic growth achieved is also inseparable from the influence of inflation. Inflation is a condition that describes an increase in the price level of general goods in society and occurs continuously or continuously. This occurs because inflation at a level that is too high will complicate the

business process in general, because it causes production costs to increase thereby reducing the competitiveness of business actors and causing a decrease in productivity levels. This is also consistent with research by Asnawi et al (2020) discussing the differences between economic growth and foreign investment and domestic investment between provinces in Indonesia using the panel regression analysis method with the fixed effect model and the polar model. The results of his research show that government investment and domestic investment have a positive and significant effect on the economic growth of provinces in Indonesia. Based on the background explanation above, it can be seen that foreign debt, foreign investment, and inflation have indications of economic growth in Indonesia, so the authors are interested in conducting research with the title "The Effects of Foreign Debt, Foreign Investment and Inflation on Indonesia's Economic Growth".

## 2. RESEARCH METHODS

### Economic Growth

Economic growth is a process of increasing output per capita in the long term long. The emphasis is on three aspects, namely: process, output per capita and long term. Economic growth is a process, not a snapshot of the economy at one time. Here we look at the dynamic aspects of an economy, namely how an economy develops or changes over time. The pressure is on the change or development itself (Adisasmita, 2013). Economic growth is a process which means changes that occur continuously, efforts to increase per capita income, increase in per capita income must continue in the long term and finally improve the institutional system in all fields (eg economic, political, legal, social and cultural). This system can be viewed from two aspects, namely: aspects of improvement in the field of organization (institutions) and improvements in the field of regulations, both formal and informal (Arsyad, 2012).

Economic growth is a process in which there is an increase in real gross national product or real national income. So the economy is said to grow or develop when there is real output growth. Another definition of economic growth is that Economic growth occurs when there is an increase in per capita output. Economic growth describes an increase in living standards measured by real output per person (Boediono, 2012). According to Todaro (2018) an economy can be said to experience growth economy if the quantity of goods and services increases. The amount of goods and services in a country's economy can be interpreted as the value of the Gross Domestic Product (GDP).

This GDP value is used to measure the percentage of a country's economic growth. Changes in the value of GDP will show changes in the total quantity of goods and services produced during a certain period. In addition to GDP, a country's GNP (Gross National Product) and National Income are also known. The definition of GDP is all added value generated by various sectors or business fields conduct business activities in a domestic or aggregate. Economic growth requires the provision and allocation of factors of production efficiently. Capital as one of the factors of production for financing national development basically comes from two sources, namely domestic capital sources and foreign capital sources. Sources of domestic capital are in the form of savings that are created and accumulated by saving current consumption or increasing revenue from both the government and private sectors. Meanwhile, sources of capital from abroad are in the form of grants, foreign debt and foreign investment (PMA). Based on the description above, it can be concluded that economic growth is an active action effort that must be carried out by a country in order to increase per capita income. Thus, the participation of the community, government participate actively in the process of development and economic growth.



## Foreign debt

Foreign debt can be explained through national income. According to Basri in Wibowo (2012) Foreign debt is a source of development financing, foreign debt is also needed to cover 3 deficits, namely the investment gap, budget deficit and current account deficit. According to Todaro (2000) foreign debt is the total of all loans officially in the form of cash or other forms of assets. In addition, to flow funds from developed countries to developing countries to realize development to distribute income. Judging from the obligation to repay, foreign debt has 2 forms of grants and foreign loans. Even though these two forms have different repayment terms, both of them have a close relationship between the form of lending and giving (Wibowo, 2012). Debtor countries will find it easier to provide funds free of charge to countries that have strong and long-standing ties in terms of debts and credit. Security and politics are also sometimes a factor in the consideration of granting funds by creditor countries. Not all of these loans are given in the form of money, but in the form of the provision of certain experts or in the form of goods.

Foreign loans are all loans that give rise to obligations to repay foreign parties, both in foreign currency and in Rupiah. Included in the definition of foreign loans are domestic loans that give rise to obligations to repay foreign parties. Outside loans. Indonesia is divided into 2 major groups, namely foreign loans received by the Government (public debt) and foreign loans received by the private sector (private debt). Judging from the source of funds, foreign loans are divided into multilateral loans, bilateral loans and indicated loans. Meanwhile, in terms of loan terms, it is divided into concessional loans, semi-concessionary loans and commercial loans. In addition to foreign loans, there are also receipts in the form of grants.

## Foreign investment

Foreign Investment (PMA) is a form of investment by way of building, totally buying or acquiring a company. Investment in Indonesia is determined through Law no. 25 of 2007 concerning Foreign Investment (PMA). Foreign Investment in this Law is the activity of investing to do business in the territory of the Republic of Indonesia carried out by foreign investors, either using wholly foreign capital or cooperating with domestic investors (Article 1 of Law No. 25 of 2007 concerning Investment Capital). The definition of foreign capital in the law is as follows (Jufrida, 2016):

1. Foreign payment instruments that are not part of Indonesia's foreign exchange assets, which are approved by the government are used to finance companies in Indonesia.
2. Equipment for companies, including new inventions from foreigners and materials, imported from outside into Indonesian territory, as long as these tools are not financed from Indonesia's foreign exchange wealth.
3. The part of the company's profit based on this law that is allowed to be transferred, but used to finance companies in Indonesia.

Foreign investment (PMA) or foreign investment, namely capital flow activities obtained from outside parties engaged in the field of foreign investment. The United Nations Conference on Trade and Development (UNCTAD) defines foreign investment as investment carried out by companies within the country against companies in other countries for the purpose of managing company operations in that country (Fadilah, 2017). According to Ma'ruf & Wihastuti (2016) the theory of endogenous growth explains that investment in physical capital and human capital plays a role in determining long-term economic growth. The government's contribution to economic growth can be explained through its influence in changing consumption or spending for public investment and revenue from taxes. The conclusion is that this theory also considers the existence of infrastructure, laws and regulations, political stability, government policies, bureaucracy, and international exchange bases as important factors that also influence economic growth.

### **Inflation**

Inflation can be defined as an increase in the price level of goods and services total in a certain time. Another understanding of inflation is that it leads to all prices to make them rise and last for quite a long time. The rising prices of a number of goods cannot be said to be inflation, but when the overall increase in (or results in) the overall price of other goods (Septiatin et al, 2016). Inflation is defined as an increase in the money supply or an increase in liquidity in an economy. This definition refers to the general symptoms caused by an increase in the money supply which is thought to have caused an increase in prices. In further developments, inflation is defined as a general increase in prices in an economy that takes place continuously (Supriyanto, 2007).

### **Population and Sample**

#### **a. Date Type**

Determination in this study, the authors use quantitative data in the form of secondary data, namely data obtained from indirect sources consisting of documentation data and official archives, books and research results in the form of reports and so on. The secondary data used is time series data, namely data on foreign debt, foreign investment, inflation and economic growth in 1990-2021 in Indonesia. Time series data is data that is arranged based on time sequence or data collected from time to time.

#### **b. Data Source**

The source of data used in this study is secondary data, namely data that has been processed into information in the form of published data from the Central Bureau of Statistics. Then the data sources are also seen in terms of written data such as books, scientific writing, archives, personal documents and official documents.

## **3. DATA PROCESSING**

The data that the authors use in this study are secondary data in the form of time series data over a period of 31 years from 1990-2021. To obtain data on foreign debt, foreign investment, inflation and economic growth, in this study the authors used data collection techniques or methods in the form of a documentation system and library research.

## **4. RESULTS AND DISCUSSION**

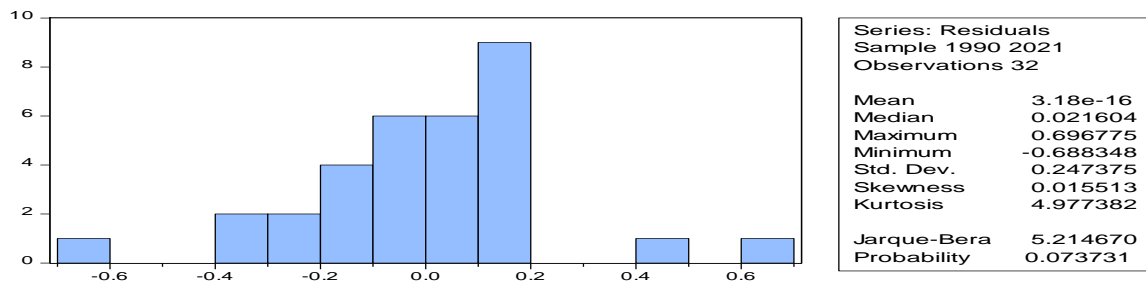
### **Selecting a Regression Model**

The analytical model used in this study is the regression analysis model multiple linear (Multiple Regression Model). Multiple linear regression analysis is used to determine the relationship between two or more explanatory variables and response variables. The multiple linear regression analysis model in this study used the EvIEWS 10 program with the Ordinary Least Squares (OLS) method procedure to determine the influence of one independent variable on the dependent variable. To calculate the multiple linear regression equation through the Ordinary Least Square (OLS) model, the data must meet the basic assumptions, namely the normality test and the classical assumption test (multicollinearity test, heteroscedasticity test, autocorrelation test).

### **Normality test**

The normality test aims to test whether the confounding or residual variables in the regression model have a normal distribution or not. The basis for decision making is based on probability  $> 0.05$  then the population is normally distributed and if the probability  $< 0.05$  then the population is not normally distributed.





Source: (Data processed, 2022)

**Figure 4**

Based on the table above, the results of the normality test show that the probability value is above 0.05, namely  $0.073731 > 0.05$ , which means that the test is normally distributed.

### Multicollinearity Test

Multicollinearity test which aims to test whether the regression model found a correlation between independent (independent) variables. The analytical tool used is Correlation Matrix analysis. To detect whether there is multicollinearity in the regression is in the following way (Sugiyono, 2016):

1. If the Variance coefficient value is  $> 0.80$ , then the data has multicollinearity
2. If the coefficient of variance is  $< 0.80$ , then the data does not have multicollinearity.

**Table 4.2 Multicollinearity Test Results**

Variables	Coefficient Variances	Uncentered VIF	Centered VIF
C	0.656194	309.9323	NA
LNULN	0.023164	324.4315	1.694212
LNPMA	0.000253	9.688674	1.081730
LNINF	0.005770	10.26978	1.568033

Source: Processed data (2022)

The table above shows that between the independent variables, namely the LnULN variable, the LNPMA variable and the LNINF variable in this study there is no relationship between the independent variables because the value of each variable  $< 0.8$  and that means that in this study there was no or free from multicollinearity disturbances.

### Heteroscedasticity Test

The heteroscedasticity test aims to assess whether there is an unequal variance of the residuals for all observations in the linear regression model. The heteroscedasticity test in this study compared the probability value of Obs\*R-squared whether it was greater than  $\alpha = 5\%$ . If the probability value is  $> 0.05$  then there is no heteroscedasticity.

**Table 4.3 Heteroscedasticity Test Result**

	0.155		
F-statistic	910	Prob. F(3,28)	0.9250
	0.525	Prob. Chi-	
Obs*R-squared	765	Square(3)	0.9132
Scaled explained	0.602	Prob. Chi-	
SS	222	Square(3)	0.8959

Source: Processed data (2022)

Based on the table above, the results of the heteroscedasticity test show that the probability value Obs\*R-squared is greater than alpha 0.05, so it can be concluded that in this

study there were no heteroscedasticity disorders.

### Statistic test

To determine the level of significance of each regression coefficient of the independent variable on the dependent variable, statistical tests such as the coefficient of determination test, t-test, and F-test can be used.

### Correlation Coefficient (R)

The correlation coefficient is used to see how big the relationship between the dependent variable and the independent variable is. The results can be seen in the table below

**Table 4.4 Correlation Coefficient Test Results (R) and Determination (R2)**

R-squared	0.870831	Mean dependent var	1.394200
Adjusted R-squared	0.838538	SD dependent var	0.303127
SE of regression	0.720255	Akaike info criterion	0.262429
Sum squared resid	6.225206	Schwarz criterion	0.445646
Likelihood logs	0.198861	Hannan-Quinn criter.	0.323160
F-statistics	4.681095	Durbin-Watson stat	1.252185
Prob(F-statistics)	0.008989		

Based on the table above, it is known that the value of the correlation coefficient is 0.915553. Which means that the relationship that occurs between the variables of foreign debt, foreign investment and inflation on economic growth is 87.08%. So it can be concluded that the relationship between foreign debt, foreign investment and inflation on economic growth is very strong.

### Coefficient of Determination (R2)

The coefficient of determination can describe how much variation of the dependent variable can be explained by the independent variable. So if the coefficient value of R2 is between 0 and 1 ( $0 \leq R2 \leq 1$ ). If the value is 1, the regression line can explain 100% of the variance in the Y variable. Conversely, if it has a value of 0, the regression model cannot explain the slightest variance in the Y variable. Thus, whether a regression equation is good or bad depends on its Adjusted R-squareds has a value of zero or one.

From table 4.4 above, it can be concluded that the Adjusted R-squared value in this study is 0.838538, this means that the influence or ability of the independent variable with the dependent variable in this study is 83.85% while the other 16.15% is influenced by variables outside the study.

### Partial Regression Coefficient Test (t test)

The t test is used to see the significance of the effect of the individual independent variables on the dependent variable by assuming the other independent variables are constant. The t test uses the following hypothesis:

$H_0 : \beta_1 = 0$

$H_a : \beta_1 \neq 0$

**Table 4.5 Partial Regression Coefficient Test (t test)**

Variabel Bebas	t-Statistik	t-Tabel	Alpha	Prob	Ket
LnULN	2.467040	2,048	0,05	0.0200	Signifikan
LnPMA	3.626033	2,048	0,05	0.0011	Signifikan
LnINF	0.836306	2,048	0,05	0.4101	Tidak Signifikan

Source: Data (Processed), 2022

Based on the table above, it can be concluded that the tcount value of LnULN (foreign debt), which is 2.467040, is greater than 2.048. This shows that the external debt variable has a significant and significant effect on economic growth. The tcount value of LnPMA (Foreign Investment) is 3.626033 which is greater than 2.048, meaning that FDI has an influence and is significant on economic growth, or a probability value smaller than alpha 0.05. The LnINF variable (inflation) is 0.836306 which is less than 2.048, meaning that the inflation variable has no effect and is not significant on economic growth. Or the probability value is greater than alpha 0.05.

### **Simultaneous Regression Coefficient Test (F Test)**

The F test is used to determine whether the independent variables are statistically significant in influencing the dependent variable. The hypothesis used is as follows:

$H_0 : \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0$

$H_a$  : not all slope coefficient simultaneously is zero

This test can also be done by looking at the calculated F probability. If the probability  $F < 0.05$  then  $H_0$  is rejected and  $H_a$  is accepted, which means that the independent variables simultaneously affect the dependent variable. Conversely, if the probability of  $F \geq 0.05$  then failed to reject  $H_0$  which means that the independent variables simultaneously have no effect on the dependent variable.

**Table 4.6 Simultaneous Regression Coefficient Test (F Test)**

<b>F-Statistics</b>	<b>F-Table</b>	<b>Alpha</b>	<b>Prob</b>	<b>Ket</b>
4.681095	2.95	0.05	0.008989	Significant

Based on the table it can be seen that the Fhitug value = 4.681095 while the Ftable value is 2.95 from an alpha of 0.05. Then the value of  $F_{count} > F_{table}$  is  $4.681095 > 2.95$  so, it can be concluded that simultaneously or together the independent variables have a significant influence on the dependent variable.

### **Discussion**

In this study the regression model used is multiple regression analysis. The following is the relationship of the independent variables to the dependent variable based on the results of the test.

### **Effect of Foreign Debt on Economic Growth**

The results of this study are in accordance with Mankiw's theory which states that if there is an increase in the ratio of foreign debt to GDP by 1%, it will increase economic growth by 4.589% assuming other factors remain constant (*ceteris paribus*). The author's research also has similarities with the Sona & Haryanti (2022) panel which states that foreign debt has an effect on economic growth. However, the results of the author's research are inversely proportional to the research of Anwar and Nabila (2021) with the results of their research that foreign debt has a negative and insignificant impact on economic growth. Which means that the negative impact of foreign debt on economic growth is due to the emergence of an economic crisis that is increasingly widespread and deepening. In this way, the government will be burdened with paying foreign debts so that only a small portion of the APBN is used for development. Interest installments on foreign debt are increasingly burdening the Indonesian economy because the Indonesian government's foreign debt always increases from year to year.

### **Effect of Foreign Investment on Economic Growth**

The results of the author's research are inversely proportional to the research of Andriani et al, (2021) which states that foreign investment partially has no effect on economic growth. According to Andriani et al, (2021) that long-term foreign investment has no effect on economic growth. However, the results of the author's research are in accordance with the theory of Todaro & Smith (2011) which states that foreign investment can fill the gap between the supply of savings, foreign exchange reserves, government revenues, and managerial expertise in the

recipient country with the level of supply needed to achieve the targets. economic growth and development targets. Thus, incoming foreign investment will encourage economic growth. The greater the incoming foreign capital, the higher the economic growth it produces. The results of the author's research are also in accordance with the research of Rizky et al, (2016) which states that foreign investment has an effect on economic growth in Indonesia. This is also in accordance with the research of Jariah et al, (2022) which states that investment has an effect on the GRDP of North Sumatra Province.

### Effect of Inflation on Economic Growth

The results of the author's research are inversely proportional to the theory of Iskandar Putong which says inflation can have bad consequences because continuous price increases may not be affordable by the public. When there is inflation, people have to spend more money to get the goods they want. Whereas at that time there was a cycle in which the company also experienced sluggishness so that it had a direct impact on decreasing company and labor income. However, in the author's research, inflation has no effect on economic growth, meaning that inflation that occurs in Indonesia is not inflation that occurs in the long term. Continuously. This is in accordance with the research of Andriani et al, (2021) with the results in this study indicating that the inflation rate has no significant effect on economic growth in terms of GRDP. This is also in accordance with the research of Rofii et al, (2017) which states that inflation has no effect on economic growth in East Java.

## 5. CONCLUSIONS

### Conclusion

Based on the results of the research and discussion in the previous chapter, the following conclusions can be drawn:

1. The Foreign Debt Variable partially has a positive and significant effect on Indonesia's Economic Growth, because  $T\text{-count} > T\text{-table}$  or  $2.467040 > 2.048$ .
2. The foreign investment variable partially has a positive and significant effect on Indonesia's economic growth, because  $T\text{-count} > T\text{-table}$  or  $3.626033 > 2.048$ .
3. The inflation variable partially has no effect and is not significant on Indonesia's economic growth, because  $T\text{-count} < T\text{-table}$  or  $0.836306 < 2.048$ .
4. Simultaneously all the independent variables namely foreign debt, foreign investment and inflation affect Indonesian foreign investment, because  $F\text{-count} > F\text{-table}$  or  $4.681095 > 2.95$ .

### Suggestion

From the conclusions above, the researcher provides several suggestions, including the following:

1. The results of this study can be used as material for consideration for the government to be more careful in determining policies in order to be able to reduce the debt that occurs so that foreign debt does not have a negative impact on the Indonesian economy.
2. It is hoped that investors can also pay attention to the capital that will be invested to expand the network in a country for good economic growth.
3. It is expected to broaden knowledge and insight regarding the effect of foreign debt, foreign investment and inflation on Indonesia's economic growth.
4. It is hoped that future researchers will add other variables or add years of observation and other methods of analyzing data so that they can contribute to the addition of academic literature.

## REFERENCES

- Arsyad, L. (2015). Development Economics Second Edition. Yogyakarta: STIM YKPN Publisher and Printing Unit.
- Asnawi, Irfan, & Ramadhani, MFC (2020). Gaps in Economic Growth from Foreign Investment and Domestic Investment Between Provinces in Indonesia. Electronic Journal of Education, Social Economy and Technology, 6250(1), 34–38
- Asteriou, D. &. (2011). Applied Econometrics, Second Edition. China: Palgrave Macmillan.
- Aziz, M.d. (2015). Da'wah for Community Empowerment: Paradigm of Methodological Action. Jakarta: Islamic Boarding School Library.
- Basuki, A.d. (2014). Introduction to Economic Theory. Yogyakarta: Matan. Boediono, A.d. (2015). Introduction to economic theory. Yogyakarta: BPFE
- Budiman, A. (2012). Third World Development Theory. Jakarta: PT. Main Library Gramedia.
- Creswell, JW (2014). Research Design: Qualitative, Quantitative and Mixed Methods Approach (Fourth Edition). SAGE Publications Inc.
- Ghazali, I. (2014). Multivariate Analysis Application with SPSS Program. Semarang: Diponegoro University Agency
- Gujarati, DN (2009). Basic Econometrics. New York: McGraw-Hill.
- Harjanto, T. (2014). Unemployment and National Development. Journal of Economics, Vo.2, No.2.
- Hasibuan, M. (2010). Human Resource Management. Jakarta: PT. Script Earth. Hasyim, A. (2016). Macro economics. Jakarta: Prenadamedia Group.
- Hayashi, F. (2000). Econometrics-Princeton . UniversityPress
- Jariah., Khairani, F., Safwadi, I. (2022). The Effect of Inequality of Income, Investment and Unemployment on GDP in North Sumatra Province in 2005-2020. Unimal Regional Journal of Economics, Volume 5 no 2 A
- Jhingan, M. (2014). Development Economics and Planning. Jakarta: Rajawali Press. Kuncoro, M. (2012). Theory and Applications to Business and Economics. Yogyakarta: YKPN.
- Letarisky, M. (2014). Macroeconomic Fundamental Influence on Investment *Foreigners in Indonesia*. Malang: Brawijaya University.
- Listyaningsih. (2014). Development Administration. Yogyakarta: Science Graha. Mankiw. (2014). Introduction to macroeconomics. Jakarta: Selemba Empat.
- Nanga, M. (2015). Macroeconomics: Theory, Problems, and Policy, Edition. Jakarta: PT. Grafindo Persada.

*THE EFFECT OF FOREIGN DEBT, FOREIGN INVESTMENT AND INFLATION ON INDONESIA'S ECONOMIC GROWTH*

*Safrina, Jariah Abubakar*

---

- Nuraulian, N. (2017). Analysis of the Influence of Hospitality and Tourism on Labor Absorption in the City of Bandar Lampung. Thesis. UIN Raden Intan Lampung.
- Nyoman, M.d. (2015). The Effect of Regional Original Income and Balancing Funds on Unemployment Rates Through Indirect Expenditures in Regencies/Cities in the Province of Bali. Unpad EP Journal, 1328-1356.
- Pujoalwanto, B. (2014). Indonesian Economy: Historical, Theoretical and Empirical Review. Yogyakarta: Science Graha.
- Purnama, I. (2014). Intermediate financial Accounting. Jakarta: Earth characters.
- Puspawjaya, A.d. (2016). Village financial management. Bogor: Pusdiklatwas BPKP.
- Rahardja, A. (2013). Economic Development Theories. Yogyakarta: Science Graha.
- Samuelson, P.d. (2014). Macroeconomic Science. Jakarta: PT. Educational Media.
- Saputra, I. (2014). The Effectiveness of Village Fund Allocation Management in Lambean Village, Kintamani District, Bangli Regency in 2009-2014. Journal of the Department of Economic Education, Vol.6 No. 1.
- Sari, I.d. (2015). Economic Analysis of Village Fund Policy on Village Poverty in Tulungagung District. Journal of Development Economics, vol 15 no 1
- Shuida, IN (2016). Village Development Assistance Book: Planning - Budgeting - Implementation - Procurement of Goods and Services - Reporting - Guidance and Supervision. In Kemenkopmk.
- Siagian, SP (2015). Human Resource Management. Jakarta: PT. Script Earth. Sjafrizal. (2016). Regional Development Planning in the Era of Autonomy. Jakarta: Rajawali Press