The Role Of Government Expenditure, Investment And Exchange In Affecting Economic Growth In Indonesia

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Abstract: One of the benchmarks for the progress or failure of a country's economy is economic growth as seen from the value of its gross domestic product. This study aims to analyze the effect of Government Expenditure, Investment and Exchange Rate on Indonesia's Economic Growth in 1990 - 2020. The data used is secondary data using the Error Correction Model (ECM) analysis method. The findings in this study are the variables of Government Expenditure and Investment have a significant positive effect on economic growth in the long term, while in the short term it has no significant effect. The exchange rate variable in the long term and short term has a significant but negative effect on economic growth in Indonesia.

Keywords: Economic Growth, Government Expenditure, Investment, Exchange Rate, ECM

1. Introduction

A process of change from a country's economic conditions on an ongoing basis to a better economy in a certain period is the definition of economic growth. Economic growth is also defined as one of the goals to be achieved in the development process of each country, both developed and developing countries. One of the many developing countries in the world is Indonesia, the Indonesian government continues to make various efforts to improve the economy through various strategies and policies carried out. One clear evidence of efforts to improve the economy in a country is illustrated in the achievement of increasing economic growth from time to time so rapidly and steadily (Lastri & Anis, 2020).

One of the indicators in measuring the success of a country's development is economic growth. At this time there are many countries that are trying and trying to increase the rate of economic growth of their countries through the availability of capital goods, human resources and technology as well as on increasing output on an ongoing basis. The economic growth of a country can be seen, one of which is the value of GDP (Gross Domestic Product), the following is the development of GDP and Indonesia's economic growth rate from 1990 to 2020.
Based on Figure 1 above, it can be seen that the value of Gross Domestic Product (GDP) which is one of the benchmarks in the economy in Indonesia shows an unstable condition and fluctuates every year but tends to increase. The condition of GDP that tends to rise can occur because it is influenced by several macroeconomic aspects. In an effort to achieve the expected and sustainable economic growth every year, it requires good cooperation from all parties in a country so that economic growth, especially in Indonesia, continues to rise and as expected.

Based on Figure 2 above, it can be seen that, in Indonesia, the rate of economic growth from 1990 to 2020 experienced unstable and fluctuating development. In 1994 the Indonesian government succeeded in increasing the rate of economic growth by 7.54% from 1990-1993 which experienced a decline. The condition of the Indonesian economy in the 1997 period experienced a monetary crisis and resulted in a slump and created a very sharp
decline in the rate of Indonesia’s economic growth, namely -13.13% in 1998. Entering the 2000s, the Indonesian economy can be said to be recovering and rising from downturn and increasing every year. However, in 2008 due to the phenomenon of the economic crisis in the United States and this will have an impact on Indonesia so that in 2009 the rate of economic growth was 4.58%. And in 2019 due to the Covid-19 pandemic that hit globally including Indonesia, this also had an impact on the side of economic growth in Indonesia which affected the rate of economic growth and fell to 2.07%.

On the other hand, in achieving a sustainable and as expected economic growth, in this case the role that can be taken by the government, especially the Indonesian government, one of which is through the realization of economic growth by making expenditures that are expected to be able and can encourage and spur Indonesia's economic growth. (Prasanti et al., 2021) Development is one of the many expenditures carried out in a process of change towards improving economic growth for the better and covering the entire system of layers within a country such as economic conditions, politics, infrastructure, education, defense, culture and existing institutions. These efforts are one form of the government's efforts in spurring economic growth and equitable development.

In addition to government spending, it is also known in one of the theories described by Harrod-Domar regarding savings and investment, where in the theory it is explained that an activity or investment activity that is in a country is one of the factors that are considered important and has a role that can provide effect on economic growth. Investment is considered to have a relationship with the size of a country’s income and has a positive effect (Kurniawan, 2016). Therefore, with the existence of an investment in a country’s economy and the easier the process of making investments, then this will also have an impact on the increasing number of investment activities that will be carried out in the country and this means that the higher income will be obtained by the country.

In addition, it is known that one way to realize an increase in Indonesia's economic growth rate on an ongoing basis is to pay attention to the exchange rate variable or the exchange rate because In an open economy, the exchange rate is one of the important variables. (Sukirno, 2011) defines the exchange rate as a comparison of the value of the currency in a country with other countries. The more stable the exchange rate of a country, the faster the process of increasing the country’s national output, this indicates that the opportunities for growth and progress of the country's economy will be better in the future.

The purpose of this study is to see whether or not the variables of government expenditure, investment and exchange rate have an effect on economic growth in Indonesia. Do these 3 components have an influence on economic growth or vice versa.

Therefore, to conduct this research, ECM (Error Correction Model) analysis was used.

2. Literature Review

Economic growth

A process in the economy of a country that results in an increase in the value of goods and services and the level of prosperity of the people in a country increases. So it can be said that, if the level of economic growth is high, the output obtained will also be high or increase, namely Economic Growth. This can also have an impact on the community who participate in increasing community welfare (Ardiansyah, 2017).
In an open economy model, it is explained that there are 4 factors that affect aggregate demand, namely household consumption (C), investment (I), government expenditure (G) and export-import (XM). In government spending that has a direct and indirect effect on aggregate demand, this expenditure is carried out through household consumption, investment and in export-import spending, and can have an effect on other variables through regulations made by the government in a country in the form of regulations made.

**Government Expenditure**

The theoretical basis for government spending can be found from the point of balance of national income, namely \( Y = C + I + G + (XM) \) this is the legitimacy of the Keynesian view of government intervention in the relevance of an economy. From the above equation, it can be concluded that any increase or decrease in government spending will have an impact on national income. Therefore, in the process of making policies or decisions regarding government spending rules, it requires a lot of consideration (Dumairy, 2006).

According to (Mangkoesoebroto, 2002) in any country there will be a process of government intervention in the economy, one of which is government spending. Government spending is also defined as an indicator that can be used to see the magnitude of an activity carried out by the government and financed by the government itself. In essence, government spending is divided into two parts, namely consumptive and non-consumptive government spending. What is meant by consumptive government expenditures are routine expenditures issued to meet needs such as paying employee salaries or personnel expenditures, depreciation and goods expenditures. Meanwhile, non-consumptive expenditure is an expenditure made with the intention of the development process in the form of investment (project) both in the form of physical and non-physical.

**Investation**

One of the driving factors in efforts to increase the rate of economic growth of a country is investment. (Djames, nd). Sources of investment in a country's economy are obtained from various things, namely from national income, interest rates and income from interest rates, because the higher the income earned, the higher and greater will be saved. According to Harrod-domar, investment is important for an economic growth in a country. Because an investment will have an impact on increasing the stock of capital goods, which will also be followed by an increase in output in a country. The source of domestic funds for the investment needs of a country comes from the part of the national income that is saved (Mandala Manurung, 2001).

On the other hand, investment in a country's economy will have an impact on increasing the income obtained by a country, both in the form of government revenue taxes and other forms. Overall, these activities are very much in line with efforts to increase the rate of economic growth. In short, investment can be summed up as a business with the intention of increasing the volume of GDP and if a situation stagnates in investment growth which as a whole ultimately affects the GDP growth rate. This means that it will also affect the economic growth of a country.
Exchange rate

The exchange rate is an agreement between the two countries regarding the price level in conducting a trading activity (Mankiw, 2007). In an open economy, one of the important variables is the exchange rate. The exchange rate is defined as the amount of domestic money needed in obtaining 1 unit of foreign currency of another country. Exchange rate affects other variables, among others, interest rate variables, balance of payments, price levels and other transactions.

Mundell-Fleming theory, it is stated that there is a negative relationship between the exchange rate variable and the economic growth of a country. When there is a change in demand and supply for goods or services in a trade caused by an increase in the exchange rate, it will have an impact on low exports. This will also have an impact on decreasing output and lead to the impact of the value of Gross Domestic Product (GDP).

3. Methods

This study uses secondary time series data in the time span from 1990-2020 obtained from the World Bank, BPS, and Financial Notes by considering the availability of existing data. The method used is using technical methods of data analysis using the Eviews 10 program using Error Correction Model (ECM) analysis which aims to determine and analyze the effect of short-term and long-term relationships between inflation, government spending and exchange rates on economic growth in Indonesia in the 1990s until 2020.

In this study, the basic model is arranged systematically as follows:

\[ PDB = f(PP_t, INV_t, Kurs_t) \] ................................................... (1)

Where:
- GDP = Economic growth rate/year
- PP_t = Government Expenditure/year
- INV_t = Investment/ year
- Exchange rate t = exchange rate of rupiah against dollar/year

So that the equation in the long-term model is obtained as follows:

\[ PDB_t = \alpha_0 + \beta_1 PP_t + \beta_2 INV_t + \beta_3 Kurs_t + \epsilon_t \] ........................................... (2)

Where:
- GDP = Economic growth rate/year
- PP_t = Government Expenditure/year
- INV_t = Investment/ year
- Exchange rate t = exchange rate of rupiah against dollar/year
- \( \epsilon_t \) = error term

\[ D(PDB_t) = \alpha_0 + \beta_1 D(PP_t) + \beta_2 D(INV_t) + \beta_3 D(Kurs_t) + \beta_4 ECT + \epsilon_t \] ....... (3)

Where:
- \( D(GDP_t) \) = Economic growth rate/year which is differentiated at first difference
D(PP\ t\ ) = Government expenditure/year which is differentiated on the first difference
D(INV\ t\ ) = Investment/year differentiated on first difference
D(Exchange\ rate\ t\ ) = Rupiah exchange rate against the dollar/year which is differentiated on the first difference
ECT = Error Correction Term

The main and first step before analyzing using the Error Correction Model (ECM) estimation needs to be done and ensure the data used in the study is in a stationary state or not. Therefore, it is necessary to carry out root testing on the unit with the aim of knowing and seeing and ensuring at the level whether the data is stationary.

1. Stationary Test

First, there is a stationary test, which aims to see and find out whether the data taken and used is in a stationary state or not. Before using the Error Correction Model (ECM) analysis, a data must meet the requirements where the data to be used must not be in a level-level stationary state.

This study uses a stationary test, namely the Augmented Dickey-Fuller (ADF) test by looking at the comparison of the absolute value of the calculated ADF with the table ADF using the critical value popularized by Mc-Kinnon Cointegration Degree Test (Widarjono, 2018) . In the estimation results of this study, it shows that the existing variables, at the level of testing the absolute value of the ADF count, are all more than 5% and at the first difference level, the absolute value of the ADF count is stationary because it is below 5%. Therefore, it can be continued to the next stage, namely the cointegration test.

2. Cointegration Test

The second stage is a cointegration test, which is a follow-up test of the stationary degree test that sees whether there is a long-term relationship between the independent variable and the dependent variable. In this study, the method used in this test is the Johansen system test because it is considered that the results are more accurate and this study also used the Engle-Granger test. On the other hand, in the long-term equation, it is necessary to regress to get the residual result which is commonly known as ECT. In this case, the ECT must be in a stationary state at the level and indicates that the variables can be said to be cointegrated. After all the existing variables are cointegrated, it can be tested at the next stage, namely the Error Correction Model (ECM) test stage.

3. ECM Test

Third, there is the ECM test, in the use of this ECM test model, the goal is to see the balance point or short-term to long-term imbalances. In determining whether the ECM model used in the study is valid, it can be seen from the significant Error Correction Term (ECT) value or not. The steps in testing using the ECM model are first starting with a unit root test, then testing the degree of integration and then continuing with a cointegration test with a view to knowing whether there is a long-term relationship.

4. Classic assumption test
   a. Normality test
One of the tests in the classical assumption test is the normality test, this normality test is carried out with the intention of knowing whether the variables in this regression model study have been distributed or distributed normally. If the variables are normally distributed, the result is called unbiased or BLUE. In this study, normality testing uses the Jarque-Berra (JB) test with a limit value of 10% (Widarjono, 2018).

b. Multicollinearity Test
Multicollinearity test in the classical assumption is intended to determine whether the regression model in this study has a high correlation between the independent variables. If there is a high correlation between the independent variables, it means that there is an indication of a multicollinear phenomenon in the study.

c. Heteroscedasticity Test
The heteroscedasticity testing stage has the purpose of seeing and testing the presence or absence of heteroscedasticity problems in the research regression model. In carrying out heteroscedasticity testing, it is assisted by using the support of the Breusch-Pagan test. The standard value of Obs*R-Squared used is 5%.

d. Autocorrelation Test
The autocorrelation test is part of one of the classical assumption tests where this test is carried out to see if there is a correlation in the regression model that exists between one observation and another. In autocracy test assisted by the Durbin-Watson test (D-W Test), which is intended to see whether or not there is a significant serial correlation occurs in the research regression model.

4. Results and Discussion

Research result
1. Stationarity Test
The first stage that must be started when doing a data analysis in a study, especially this research, is to carry out a stationarity test of data. The unit roots test is carried out with the aim of obtaining results whether the data used in this study has problems in the unit roots or is free from problems.

In determining whether the data in this study has an indication of a unit root problem or not, the ADF test is carried out with the help of the E-views 10 software program with the aim of knowing the level of stationarity of the variable data on Government Expenditures, Investments and Exchange Rates. Based on the test results, the results are shown in the table below.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Unit Roots Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level</td>
</tr>
<tr>
<td></td>
<td>ADF</td>
</tr>
<tr>
<td>GDP</td>
<td>-0.34233</td>
</tr>
<tr>
<td>PP</td>
<td>-1.28955</td>
</tr>
</tbody>
</table>
In this study using the Augmented Dickey-Fuller (ADF) test with a degree of confidence of 5 percent. It can be seen from table 1 that the estimation results show that there are four variables namely GDP, Government Expenditure (PP), Investment (INV) and the Exchange Rate which are stated at non-stationary levels, this is because the probability value at a level is greater than the level of confidence of 5 percent or 0.05. Because the four variables in this study are not stationary at the level level, therefore this research requires a roots test again, namely at the first difference level. It can be seen in the table above, the estimation results show that the four variables in this study are stated to be stationary where the ADF statistical value has a value that is smaller than the critical value for all variables. It can be concluded that from the estimation results the four variables at the level of confidence of 1%, 5% and 10% are stationary.

2. Cointegration Test

Table 2. Cointegration Test Results

<table>
<thead>
<tr>
<th>Hypothesized No. of CE(s)</th>
<th>Eigenvaue</th>
<th>Trace Statistics</th>
<th>Critical Value</th>
<th>Prob.**</th>
</tr>
</thead>
<tbody>
<tr>
<td>None *</td>
<td>0.582473</td>
<td>62.09828</td>
<td>47.85613</td>
<td>0.0013</td>
</tr>
<tr>
<td>At most 1 *</td>
<td>0.492331</td>
<td>37.64290</td>
<td>29.79707</td>
<td>0.0051</td>
</tr>
<tr>
<td>At most 2 *</td>
<td>0.307004</td>
<td>18.66100</td>
<td>15.49471</td>
<td>0.0161</td>
</tr>
<tr>
<td>At most 3 *</td>
<td>0.258984</td>
<td>8.392512</td>
<td>3.841466</td>
<td>0.0038</td>
</tr>
</tbody>
</table>

Trace test indicates 4 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Based on the estimation results of Johansen's test in table 2, we can see the comparison of the trace statistic value with the critical value with a significance level of 5%. The table shows that the trace statistic value is greater than the critical value, namely the trace statistic value of 62.09828 with a critical value of 47.85613 at 5% alpha. This means that the variables of Government Expenditure, Investment and Exchange Rate show the existence of cointegration which means that each of these variables has a long-term relationship.
Table 3. above shows the estimation results of the ECM model in the long term, where it can be seen that the results show that the three variables namely Government Expenditures, Investments and Exchange Rates in the long run have a significant influence on economic growth in Indonesia. This can be seen from the probability value which is below or less than 0.05. So it can be explained that the variables of Government Expenditure, Investment and Exchange Rate together affect Economic Growth in Indonesia significantly in the long term.

Table 4. Residual Cointegration Test Results

At this stage, a significant residual cointegration test is carried out at the level which means that the model used is cointegrated. Because after doing the stationary test using Augmented Dickey Fuller before. Therefore, it can be concluded that the requirements for
conducting the test using the ECM method have been fulfilled which are cointegrated at the levels that can be seen in table 4 where the probability value is 0.0418 or less than 0.05.

a. **Short-Term Model Error Correction**

**Table 5. Short-term Estimation Results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.089610</td>
<td>0.053060</td>
<td>1.688833</td>
<td>0.1037</td>
</tr>
<tr>
<td>D_INV</td>
<td>0.019173</td>
<td>0.026194</td>
<td>0.731982</td>
<td>0.4710</td>
</tr>
<tr>
<td>D_COURSE</td>
<td>-0.394834</td>
<td>0.183156</td>
<td>-2.155723</td>
<td>0.0409</td>
</tr>
<tr>
<td>D_PP</td>
<td>0.151324</td>
<td>0.323903</td>
<td>0.467190</td>
<td>0.6444</td>
</tr>
<tr>
<td>RESID01_ ECT(-1)</td>
<td>-0.366050</td>
<td>0.140510</td>
<td>-2.605141</td>
<td>0.0152</td>
</tr>
</tbody>
</table>

R-squared: 0.281571
Adjusted R-squared: 0.166622
SE of regression: 0.200191
Likelihood logs: 8.421173
F-statistics: 2.449535
Prob(F-statistic): 0.072427

*Source: Processed data, Eviews*

It can be seen in table 5 shows the results of the calculation of ECM estimates in the short term. Based on the table, it can be seen that the results show that the exchange rate variable has a significant effect on economic growth in Indonesia in the short term. While the Government Expenditure and Investment variables have no significant effect because the probability value shows a number above 0.05, which is 0.6444 for the Government Expenditure variable and also 0.4710 for the Investment variable. The results of the R-Squared in table 5 show that together these variables have an effect on economic growth as seen from GDP of 0.281571 or 28.1 percent. This means that there are still around 71.9 percent of the influence of other variables on economic growth in Indonesia that are not contained in this study.

4. **Classic assumption test**

   a. **Autocorrelation Test**

**Table 6. Long-term Autocorrelation Test Results**

Breusch-Godfrey Serial Correlation LM Test:

<table>
<thead>
<tr>
<th>F-statistics</th>
<th>Prob. F( 4.23)</th>
<th>0.0752</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obs*R-squared</td>
<td>9.252115</td>
<td>0.0551</td>
</tr>
</tbody>
</table>

*Source: Processed data, Eviews*
Based on the estimation results in table 6. above, the autocorrelation test in this study using the Breusch-Godfrey Serial Correlation LM Test showed the results of the Chi-Square probability value of 0.0551 and the Obs*R-Squared value of 9.252115 which was greater than alpha 0.05. Therefore, the results can be concluded that the research in this model assumes non-autocorrelation is fulfilled or H0 is accepted. This also means that this long-term model does not have autocorrelation.

**Table 7. Short-term Autocorrelation Test Results**

Breusch-Godfrey Serial Correlation LM Test:

<table>
<thead>
<tr>
<th></th>
<th>Long-term</th>
<th>Short-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistics</td>
<td>0.531411</td>
<td>0.5948</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>1.325060</td>
<td>0.5155</td>
</tr>
</tbody>
</table>

*Source: Processed data, Eviews*

It can be seen in table 7. The above shows the results of the short-term autocorrelation test. In testing this study using the Breusch-Godfrey Serial Correlation LM Test. From the test results, the probability value of Chi-Square is 0.5155 with an Obs*R-Squared value of 1.325060 which means it is greater than alpha 0.05. Therefore, it can be concluded that in the model chosen in this study, the non-autocorrelation assumption is fulfilled or H0 is accepted. This also means that in this short-term model there is no indication of autocorrelation.

**b. Normality test**

**Table 8. Normality Test Results**

<table>
<thead>
<tr>
<th></th>
<th>Long-term</th>
<th>Short-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jarque-Berra Prob</td>
<td>3.858176</td>
<td>138.5704</td>
</tr>
<tr>
<td>Jarque-Berra Prob</td>
<td>0.145281</td>
<td>0.00000</td>
</tr>
</tbody>
</table>

*Source: Processed data, Eviews*

Based on table 8 above, the results of the normality test in the long-term and short-term models show that the probability value obtained for each variable is 0.145281 for the long term and 0.0000 in the short term. This means that in the long term the data used in this ECM model has been distributed or distributed normally. However, in the short term it does not pass because it is smaller than the significance level value of 0.05.

**c. Multicollinearity Test**

**Table 9. Multicollinearity Test Results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Long-term</th>
<th>Short-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>PP</td>
<td>6.838613</td>
<td>1.511902</td>
</tr>
<tr>
<td>INV</td>
<td>1.734285</td>
<td>1.206445</td>
</tr>
</tbody>
</table>
The results of the multicollinearity test shown in table 9 mean that the test was carried out using the multicollinearity model by looking at the results of the Variance Inflation Factor (VIF). The results show that the long-term and short-term VIF values obtained from each variable have a VIF value of less than 10. So this means that in the regression equation this ECM model has been free from the problem of multicollinearity, both in the long term and in the short term.

d. Heteroscedasticity Test

Table 10. Heteroscedasticity Test Results

<table>
<thead>
<tr>
<th>Heteroscedasticity Test</th>
<th>Long-term</th>
<th>Short-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obs*R-Squared</td>
<td>Prob Chi-Squared</td>
<td>Obs*R-Squared</td>
</tr>
<tr>
<td>2.423282</td>
<td>0.4893</td>
<td>8.948893</td>
</tr>
</tbody>
</table>

Based on the results of the heteroscedasticity test in table 10 above, in this study using the Breusch-Pagan-Godfrey test, the results showed that in this test both in the long term and in the short term the Prob value was shown. Chi-Squared are 0.4893 and 0.0624, this means that the value is greater than the 0.05 significance level. so that in the long-term and short-term regression equations, H0 is accepted because this means that the model used does not experience heteroscedasticity.

DISCUSSION

Government Spending and Economic Growth

Results of the estimation calculation from the Error Correction Model (ECM), it can be seen that in the long term the variable Government Expenditure has a significant positive effect on Economic Growth in Indonesia, which is 1.193111. This means that every one billion rupiah increase will increase Economic Growth by 1.193111 billion rupiah. On the other hand, in the short term the Government Expenditure variable has no significant effect. This is because the probability value is 0.6444, which means that this value exceeds the level of confidence of 0.05. The effect of the variable Government Expenditure on Economic Growth in Indonesia is only 0.151324. This means that the Government Expenditure variable has no significant effect on the rate of economic growth in Indonesia, but the effect is positive.

Research is in line with the research conducted by (Najmuddin, 2017) in his research entitled The Impact of Government Expenditure on Banten Economic Growth. government spending has a positive influence on economic growth in Banten. In addition, there is a study conducted by (Sari et al., 2016) on "The Influence of Investment, Labor and Government Expenditure on Economic Growth in Indonesia" which simultaneously shows that government expenditure variables have a significant positive effect on Economic Growth in Indonesia. In another study (Suparno, 2015) showed the results of the variable government
spending in the education and health sectors had a positive but not significant effect on economic growth in East Kalimantan.

Investment and Economic Growth

Based on the output results of the above estimation, it is obtained that the investment variable is proven in the long term to have a positive and significant impact and influence on Economic Growth in Indonesia for the period 1990-2020. The magnitude of the influence of the Investment variable is 0.078355, this means that every 1 billion rupiah increase in the investment value will have an effect on an increase in Economic Growth of 0.078355 billion. In addition, on the short-term side there is no significant effect of the Investment variable. This happens because the probability value exceeds the level of confidence level of 0.05, which is 0.4710. The effect of the Investment variable on Economic Growth in Indonesia in 1990-2020 is only 0.019173. This means that there is no significant effect of the Investment variable on the rate of Economic Growth in Indonesia but the effect is positive.

This is in line with the research conducted by (Nguyen & Nguyen, 2021) entitled The Impact of Investments on Economics Growth: Evidence from Vietnam, the results of his research show that public investment in the long term has an influence on economic growth in Vietnam. In addition, in his research (Fatkhur Muttakin, 2017) in his research entitled "The Influence of Education and Investment Levels on Economic Growth" this research uses multiple linear regression data analysis methods for the 2000-2015 observation period. The results of his research indicate that the investment variable does not significantly affect the rate of economic growth and is positive. Other research from (Sutawijaya, 2010) shows that private investment and government investment have a positive impact on economic growth in Indonesia.

Exchange Rates and Economic Growth

Calculations performed using the Error Correction Model (ECM) got result that the exchange rate variable is proven in the long term to have a negative and significant effect on Economic Growth in Indonesia for the period 1990-2020. The value of the effect of the exchange rate is -0.966602. This indicates that every 1 percent increase in the exchange rate will reduce the magnitude of economic growth by -0.966602 percent. In addition, on the short-term side, the exchange rate variable has a significant but negative effect, namely -0.394834. This means that every 1 percent increase in the exchange rate will reduce Economic Growth by -0.394834 percent. Therefore, it can be concluded that in this study the exchange rate variable during the period 1990 to 2020 in the long and short term has a negative and significant influence on Economic Growth in Indonesia.

The results of this study are in line with (Pridayanti, 2012) which takes the topic of "The Effect of Exports, Imports, and Exchange Rates on Economic Growth in Indonesia for the Period 2002-2012". In this study using a model with the OLS (Ordinary Least Square) method, which is estimated using the EViews version 4.1 program, it can be concluded that the exchange rate variable has a negative effect with a coefficient of -0.00070722532 on economic growth in Indonesia. In addition, in a study conducted by (Wiriani & Mukarrahma, 2020) entitled "The Effect of Inflation and Exchange Rates on Indonesia's Economic
Growth" which uses the multiple linear regression equation analysis method and the data used is time series data for 2008-2019, the results show that the exchange rate has an insignificant and negative effect on economic growth in Indonesia with the coefficient of determination test results of 49.29% which means that the inflation and exchange rate variables can describe economic growth in Indonesia.

5. Conclusions and Recommendations

Based on the results and discussion above, several conclusions can be drawn as follows:

a. First, the long-term Government Expenditure variable has a positive and significant impact on Economic Growth in Indonesia for the period 1990-2020. Meanwhile, in the short term, the Government Expenditure variable does not have a significant and positive effect on Economic Growth in Indonesia.

b. Second, the investment variable in the long term has a positive and significant influence on Economic Growth in Indonesia in 1990-2020. Meanwhile, in the short term, the investment variable has no significant effect. This can happen because of other factors not included in this study that affect economic growth in Indonesia.

c. Third, the exchange rate variable both in the long term and in the short term has a negative influence on Economic Growth in Indonesia for the 1990-2020 research period. This indicates that any increase in the exchange rate will have an impact on a decline in Economic Growth in Indonesia.

Based on the results of this study, the following suggestions can be given:

1. One indicator of the progress of a country's economy is economic growth. Therefore, the government is advised to be more active in efforts to participate in encouraging factors that influence economic growth.

2. Optimizing government spending is also given more attention so that it is in line with sustainable development by optimizing spending as efficiently as possible.

3. Increasing investment on a regular basis can be one of the indicators driving increased economic growth in Indonesia, therefore the important role of all levels is needed to encourage increased investment.

4. In this model, it is relatively simple, therefore, research is advised to choose other variables so that the estimation results become more precise and as expected.

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References


